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Macro Strategy

Impact of Renminbi depreciation; stocks with positive and negative impact

- **Macro:** It is a pro-growth signal with boost for exports and more flexibility for domestic policy. It is negative for importers & foreign currency borrowers and positive for exporters & foreign currency asset holders.
- **Strategy**: The downside in stocks should be much less than the two previous depreciation cycles as A/H share markets have been 14 months into bear market. The impact on A shares should be less than on H shares.
- **Banking & Insurance:** An 8.5% depreciation would boost pre-tax profit of ICBC and BOC by 0.34% and 1.28%. The balance sheet effect is limited. The impact on listed insurers' book value is <1% for every 5% depreciation.
- **Technology:** Positive for tech stocks with RMB cost & USD revenue like AAC Tech, BYDE, FIT Hon Teng, Goertek, Luxshare, TK Group, Innolight, Sunway, Willsemi, Maxscend & Xiaomi and negative for those with USD debt/cost and RMB revenue like Sunny Optical and Q-tech.
- **Software & IT services**: Neutral to positive to the sector with SenseTime (20 HK), Hikvision (002415 CH) and Dahua (002236 CH) benefiting most.
- **Internet:** Limited impact on Internet sector since most are domestic players. Tencent, NetEase and Alibaba have low international exposure, at 8%/10%/7% of total rev, while YY/Mobvista's overseas exposure were >50%.
- **Renewables:** Mixed impacts on oil sector, higher cost and lower margins for gas sector and positive for wind & solar power equipment manufacturers like Goldwind's (2208 HK) & Longji Green Energy (601012 SH).
- **Capital goods:** Positive for those with overseas revenue and most materials procured in China. Zhejiang Dingli (603338 CH) & Weichai Power (2338 HK / 000338 CH) have 38% and 42% of revenues from the overseas.
- **Auto:** Positive for automakers with growing export business like Great Wall Motor (2333 HK/BUY, 601633 CH/BUY), Geely (175 HK/HOLD), NIO (NIO US/BUY) and Xpeng (XPEV US/BUY, 9868 HK/BUY). Negative for major foreign-brand joint ventures like BMW Brilliance (Brilliance (1114 HK/NR)) and Beijing Benz (BAIC (1958 HK/NR)).
- **Healthcare:** Positive for leading CXO companies such as WuXi AppTec (603259 CH, BUY, TP RMB188.64), WuXi Bio (2269 HK, BUY, TP HK$146.12) and Pharmaron (300759 CH/3759 HK, NR), made more than 75% of their 2021 revenue from foreign clients.
- **Consumer discretionary:** Limited impact to Dairy & Breweries with majority of raw milk sourced locally and limited overseas business. For Budweiser, a 5% change in RMB would only lead to <0.5% change in PBT. Smoore derives 70% revenue from overseas but they hedge their exposure, net foreign gain/ loss represented <1% of net profits in 2021.
- **Consumer staples:** Positive for the consumer discretionary space, with the following ranking: Textiles (e.g. Regina Miracle, Stella, Shenzhou) > Small home appliance (e.g. Vesync, JS Global, Supor) > Large home appliances (e.g. Haier, Midea) > Sportswear > Catering.

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Implications of the recent RMB depreciation

1. The renminbi depreciation was much later than the capital outflow, asset market correction and economic deterioration, which we have seen since March. This indicates the strong renminbi in the past several weeks may have been partially due to the official support as the policymaker was worried that renminbi depreciation may exacerbate the capital outflow and stock market slump and hoped that the strong renminbi could facilitate renminbi internationalization to escape possible sanctions from the US. But the strong renminbi would reduce the competitiveness of China's exports and limit the room of domestic policy loosening. As China's economy further deteriorated in April, the strong-renminbi orientation becomes unsustainable.

2. The renminbi depreciation is the pro-growth signal from the policymaker as more exchange rate flexibility will create more space for domestic policy loosening. But Chinese stocks fell sharply on Monday as the abrupt depreciation of renminbi may have been one of the triggers. Other triggers include the sharp drop of US stocks last Friday, a rebounding of new Covid-cases in Shanghai and rising risk of an epidemic outbreak in Beijing. Some investors may consider the abrupt depreciation of renminbi as a sign of further deterioration in economic fundamentals or policy management.

3. The PBOC will continue to monitor possible effects of renminbi depreciation on financial markets. The central bank announced on Monday night to lower the RRR for foreign currency deposits from 9% to 8%. The policy move would increase US dollar liquidity by US$10bn in China's forex market. More importantly, the PBOC sent a signal to the market that it would not let renminbi depreciate too rapidly to cause financial market instability. After experiencing the interaction of renminbi depreciation and stock market collapse in 2H15, the central bank are very wary of risk contagion between the financial markets.

4. The Sino-US divergence in economic fundamentals and monetary policies may further expand in 2Q22, paving the way for further depreciation of renminbi against US dollar ahead. We expect US$/RMB spot rates may reach 6.9 at end-2022 and 6.75 at end-2023, respectively.

The impact of renninbi depreciation on stock market

1. Capital outflow and stock volatility may increase in early stage of depreciation as it evokes investors' concern about exchange rate risk in future. But things will change in late stage as renminbi assets become cheaper and stronger policy easing improves economic prospect after the depreciation. In the medium to long term, capital flows, exchange rates and stock market performance are all driven by the economic prospect especially for large economies.

2. In the current cycle, stock market dropped first, then economy slumped and finally renminbi depreciated. The negative impact of renminbi depreciation on A share shock market in the current cycle should be much smaller than in 2H15.

3. Renminbi depreciation is negative for Chinese importers (mining & agricultural processing) and foreign-currency borrowers (airline companies) and positive for the exporters (furniture, garments, footwear, cultural, sport & recreation goods, textile product) and foreign-currency asset holders.

Figure 1: Impact of 8% Depreciation of RMB on Industrial Operation Income Due to Foreign Trade Business

Assumption: 60% of net exports is settled by US dollar and there is no price transmission from exchange rate changes.

Source: Wind, CMBIGM estimates

HK Market Strategy

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How profit margins of sectors change when RMB depreciated?

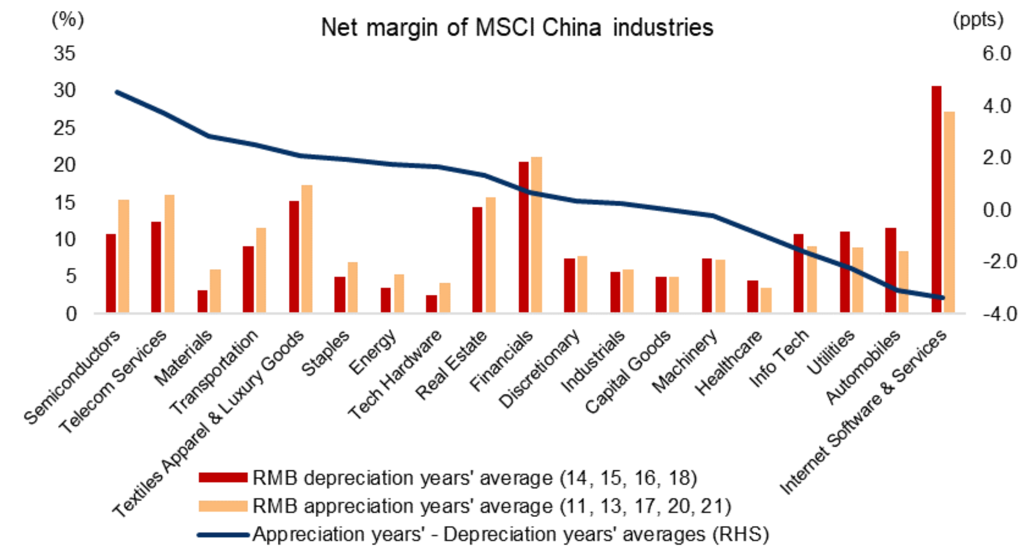
In the following, we reviewed earnings and price changes of China / HK stocks by industries during the last two RMB depreciation cycles. While we acknowledge that earnings and stock prices are affected by multiple factors, and it is never easy, if not impossible, to single out the impact of one factor (RMB depreciation in this case), historical pattern might still shed some light on the future.

In Fig. 2, we compare net profit margins of MSCI China sectors during years when RMB depreciated vs. years when RMB appreciated (by 2% or more). The sectors are ranked by their difference in net margins in RMB depreciation / appreciation years, so that those on the left had lower margins when RMB depreciated.

For some sectors, the difference in margins in RMB depreciation / appreciation years are in line with theoretical fundamentals, e.g. Transportation (incl. Airlines) and Materials (incl. Steel) had lower margins when RMB depreciated, as the former had a large proportion of USD debt, and the latter imported some raw materials such as iron ore.

However, some differences might not be easily explained by currency moves, e.g. we might have expected Telecom Services & Utilities to have relatively stable margins regardless of RMB movements, but in fact they did not, and this suggests that other factors might be at play, for instance coal price fluctuations affect margins of Utilities.

Figure 2: MSCI China sectors' net margins during RMB appreciation years and RMB depreciation years



Source: Bloomberg, CMBIGM

Which sectors outperformed when RMB depreciated?

In Fig. 3, we looked at the price changes of each sector in A-shares and HK markets during the last two RMB depreciation cycles, with focus on relative performances, i.e. which sectors outperform / underperform the broad market.

When RMB depreciated, Industrials, Consumer Discretionary, Telecom tended to Underperform; Financials and Real Estate Outperformed only in A-shares, but their H-shares largely market-performed, as offshore investors might be more wary of these RMB-asset-heavy stocks during RMB depreciation.

Figure 3: HK & A-shares sector performance during RMB depreciation periods

A-shares market

Absolute return	CSI 300	Materials	Energy	Real Estate	Financials	Industrials	Telecom	Discretionary	Staples	Info Tech	Healthcare	Utilities
30 Mar 2018 - 30 Oct 2018 (RMB -9.8%)	-16%	-23%	-5%	-20%	-7%	-20%	-28%	-24%	-15%	-32%	-16%	-9%
31 Jul 2015 - 30 Dec 2016 (RMB -10.7%	-13%	-16%	-22%	9%	-4%	-27%	-17%	-18%	9%	-21%	0%	-33%
Relative return (vs. CSI 300)		**Materials**	**Energy**	**Real Estate**	**Financials**	**Industrials**	**Telecom**	**Discretionary**	**Staples**	**Info Tech**	**Healthcare**	**Utilities**
30 Mar 2018 - 30 Oct 2018 (RMB -9.8%)		-9%	9%	-6%	8%	-5%	-14%	-10%	-1%	-17%	-2%	5%
31 Jul 2015 - 30 Dec 2016 (RMB -10.7%)		-5%	-12%	19%	6%	-16%	-7%	-7%	20%	-10%	11%	-22%

HK market

Absolute return	HSCI	Materials	Energy	Property	Financials	Industrials	Telecom	Discretionary	Staples	Info Tech	Healthcare	Utilities
30 Mar 2018 - 30 Oct 2018 (RMB -9.8%)	-14%	-23%	7%	-15%	-11%	-20%	2%	-22%	-13%	-27%	-18%	-5%
31 Jul 2015 - 30 Dec 2016 (RMB -10.7%	-11%	6%	-11%	-10%	-13%	-16%	-18%	-13%	-18%	21%	-6%	-17%
Relative return (vs. HSCI)		**Materials**	**Energy**	**Property**	**Financials**	**Industrials**	**Telecom**	**Discretionary**	**Staples**	**Info Tech**	**Healthcare**	**Utilities**
30 Mar 2018 - 30 Oct 2018 (RMB -9.8%)		-9%	21%	-1%	3%	-6%	16%	-8%	1%	-13%	-3%	9%
31 Jul 2015 - 30 Dec 2016 (RMB -10.7%)		17%	0%	0%	-3%	-5%	-8%	-3%	-7%	31%	4%	-6%

Source: Bloomberg, CMBIGM

How sensitive is each sector to RMB movement?

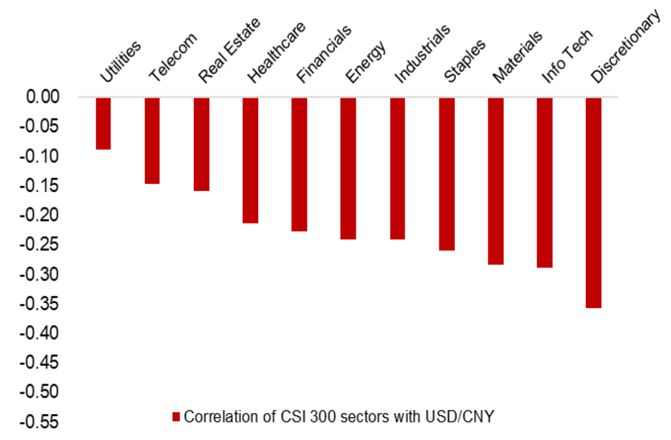
In Fig 4-5, we showed each sectors' correlation with USD/CNY movement using monthly data in the past ten years.

- Every major sector had a negative correlation to USD/CNY. While one may not conclude that RMB depreciation leads to stock price declines, it seems obvious that RMB depreciation does not bode well for any sector (although some exporters might benefit from a weaker RMB).
- Compared to H-shares, A-shares have significantly lower correlations with RMB movements, because A-shares are priced in RMB and H-shares in HKD, and theoretically H-shares' prices in HKD should reflect the currency gains/losses of its underlying assets (RMB).
- Utilities, Telecom and Healthcare sectors had lower correlation with RMB. We believe this is partly due to their stable and domestic-biased business nature, and partly because they are low-beta stocks. When RMB depreciated significantly, China / HK stocks tended to fall, and these low-beta, defensive sectors typically drop less than other sectors. Similarly, Info Tech sector has a higher correlation to RMB, primarily because of its high-beta nature rather than its earnings' sensitivity to RMB movements (which should be low).

Based on the above empirical evidence, we expect this round of potential RMB depreciation would:

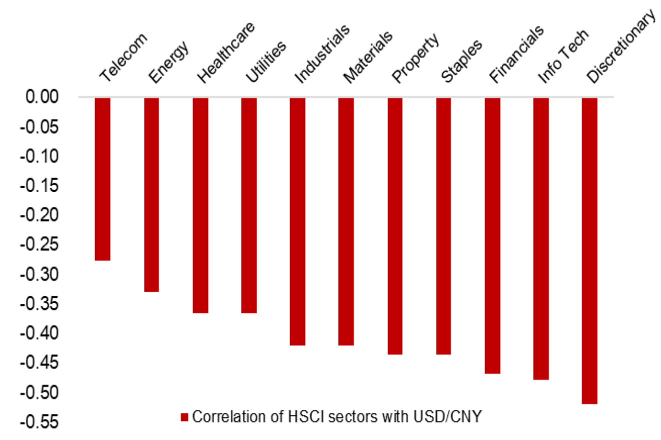
- Bode ill for every major sector to various extent in both China / HK markets. **But this time the downside in stock prices should be much less than the two previous depreciation cycles** due to difference in valuations and market phase. In the previous two cycles, A- / H-shares were only 1 to 2 months into bear market, but now they are already 14 months into bear market.
- Have less impact on A-shares' prices than H-shares, but total returns (including RMB losses for offshore investors) may be similar in A- / H-shares.

Figure 4: A-shares sector correlation with USD/CNY



Source: Bloomberg, CMBIGM; 10-year monthly data

Figure 5: HK sector correlation with USD/CNY



Source: Bloomberg, CMBIGM; 10-year monthly data

Banking & Insurance

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Banking

Volatility in FX market has limited impacts on banks. At the end of 2021, net FX exposure on banking sector is only 1.61% of total asset. Generally, regional banks hold limit FX assets and liabilities. Most FX business are conducted by large banks. BOC and ICBC are the banks which hold the most FX assets among domestic banks.

As the end of 2021, ICBC did a sensitivity analysis and it shows that pre-tax profit will change RMB 210mn if CNY/USD changes 1%. The RMB 210mn is equivalent to 0.04% of its pre-tax profit. For BOC, the banks with the most FX assets and global networks, as the end of 2021, pre-tax profit will change RMB 424mn if CNY/USD changes 1%, equivalent to 0.15% of pre-tax profit. Under the assumption of RMB depreciates 8.5% towards USD in FY22, the impacts on pre-tax profit of ICBC and BOC is +0.34% and +1.28%。

In conclusion, on the balance sheet perspective, RMB depreciation will have limited impact on banks. On asset quality level, the impact depends on the borrowers' cash flow, and it is difficult to estimate from banks side.

Insurance

Unlike international peers, listed Chinese insurers have minimal exposures to FX volatility. As of end-2021, the overseas investment of China insurance sector was only around 2% of total insurance AUM. Meanwhile, listed Chinese insurers' HK subsidiaries and overseas operations accounted for less than 5% of their total revenue, and these operations are asset-liability matched on FX front as well. Therefore, Chinese insurers will see limited impact from RMB depreciation. We estimate that for every 5% depreciation of RMB, the impact on listed Chinese insurers' book value will be less than 1%.

Technology

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In evaluating the impact of Rmb depreciation, we examine the currency and cost exposure of companies under our coverage. We believe net exporters benefit given increasing competitiveness and exchange gains from US$ denominated currencies, while net importers lose on increasing costs. Companies with US$ denominated net debts will also suffer from exchanges losses.

Tech stocks with positive impact: RMB cost and USD revenue
Most stocks in this bucket are those with revenues denominated in US$ and cost with high RMB exposure (e.g. production site in China, or raw materials from China). With Rmb depreciation, these stocks will gain competitive advantage against their peers. Examples are tech names such as **AAC Tech, BYDE, FIT Hon Teng, Goertek, Luxshare, TK Group, Innolight, Sunway, Willsemi and Maxscend,** as well as brand such as **Xiaomi**.

Tech stocks with negative impact: USD debt/cost and RMB revenue
Companies with high sales exposure to RMB and raw materials priced in US$ will fall into this bucket. Examples include **Sunny Optical and Q-tech**, whose products are sold to domestic customers and their key components (70-80% of COGS) are mainly priced in US$, including image sensor, handset lenses and VCM.

Figure 6: Impact of RMB depreciation on our coverage

Company	Ticker	Impact	2021 Sales Exposure PRC	2021 Sales Exposure Overseas	Comment
Xiaomi	1810 HK	Positive	50%	50%	• 50% revenue denominated in US$, while most production is in China.
AAC Tech	2018 HK	Positive	48%	52%	• 48% revenue denominated in US$, while most production is in China.
Sunny Optical	2382 HK	Negative	77%	23%	• Vehicle lens: Benefit with majority of sales from overseas customers. • Handset camera module: higher cost pressure in VCM/CMOS imported from overseas suppliers. • Handset camera lens: higher cost pressure in raw materials from overseas suppliers, but slightly offset by high sales exposure to Samsung • Net FX loss expected due to RMB depreciation of its USD600mn bond
BYDE	285 HK	Positive	46% (w/ HK)	54%	• 54% revenue denominated in US$, while majority of production is done in China.
Q-tech	1478 HK	Negative	95% (w/ HK)	5%	• 90%+ revenue in RMB, and majority of production is done in China. • Handset camera module: higher cost pressure in VCM/CMOS imported from overseas suppliers.
FIT Hon Teng	6088 HK	Positive	22%	73%	• 73% revenue denominated in US$, while majority of production is done in China.
Tongda	698 HK	Negative	88%	12%	• Negative Impact by RMB depreciation due to reporting currency in HKD.
TK Group	2283 HK	Positive	36%	64%	• 64% revenue denominated in US$, while most production is in China.
Goertek	002241 CN	Positive	10%	90%	• 90% revenue denominated in US$, while most production is in China.
Luxshare	002475 CN	Positive	8%	92%	• 92% revenue denominated in US$, while most production is in China.
ZTE (H)	763 HK	Limited	68%	32%	• Limited impact as ZTE have managed its foreign currency risk by investing in value-protection derivatives. Overseas revenue accounted for 32% in FY21.
Innolight	300308 CH	Positive	25%	75%	• Positive impact from RMB depreciation with 75% of FY21 sales from overseas customers.
SCC	002916 CH	Neutral	69%	31%	• Some positive impact from RMB depreciation with 31% of FY21 sales from overseas customers.
Shengyi Tech	600183 CH	Neutral	84%	16%	• Limited impact as 16% of FY20 revenue denominated outside China.
China Tower	788 HK	Neutral	100%	0%	• Limited impact as the majority of sales are domestic.
Sunway	300136 CH	Positive	27%	73%	• Positive impact from RMB depreciation with 73% of FY20 sales from overseas customers.
Razer	1337 HK	Limited	10%	90%	• Limited impact as reporting currency is in USD.
Willsemi	603501 CH	Positive	16%	84%	• Positive impact from RMB depreciation with 84% of FY21 sales from overseas customers.
GalaxyCore	688728 CH	Neutral	90%	10%	• Limited impact as the majority of FY20 sales are domestic.
Maxscend	300782 CH	Positive	19%	81%	• Positive impact from RMB depreciation with 81% of FY20 sales from overseas customers.

Source: Company data, CMBIGM

Software & IT Services

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- The depreciation of RMB is neutral to positive to the software and IT services sector.
- There are two types of companies that will benefit from RMB depreciation, including 1) Companies that derive considerable amount of overseas revenue while most of the cost is incurred in RMB and 2) Companies with large chunk of cash or financial assets denominated in USD/ HKD. Among our coverage, SenseTime (20 HK), Hikvision (002415 CH) and Dahua (002236 CH) would benefit most.
- For asset-light pure software companies that conduct business mainly in China, the impact would be neutral.
- **Hikvision (002415 CH, BUY) :**1) Hikvision derived 27% of revenue from overseas business in FY21. 2) For every 5% depreciation of RMB, net profit will be up 0.1%. Impact is not significant as the company has undergone import substitution that all of its camera SoC are sourced domestically.

- **Dahua (002236 CH, HOLD):** 1) Dahua derived 41% of revenue from overseas business in FY21. 2) The procurement of its raw materials are largely settled in RMB, impact to net profit is positive.
- **SenseTime (20 HK, BUY): 1)** SenseTime derived 12% of revenue from overseas business in FY21. 2) Although SenseTime is a software company that hardware procurement will not affect cost of sales much, most of its cash and cash equivalents are denominated in USD/HKD. 3) RMB depreciation will result in book value enhancement.

Internet

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- We expect RMB depreciation to pose limited and manageable financial impact on Internet sector, since majority of internet names are domestic players. Some companies with overseas revenue might see slight benefit from RMB depreciation (e.g. Tencent, NetEase, Alibaba, YY, Mobvista), while offsetting by price discount for US/HK listing. By companies, Tencent, NetEase and Alibaba have relatively low international exposure, at 8%/10%/7% of total rev, while YY/Mobvista's overseas exposure were >50%. The pullback is more driven by sentiment than fundamentals, in our view.

Figure 7: Overseas exposure for key internet companies (by revenue)

Company	Overseas business	Overseas (% of rev)
Tencent	Game, Cloud	8%
Alibaba	International retail & wholesale	7%
NetEase	Game	10%
JOYY	Bigo	89%
Mobvista	Online ads	65%
PDD	*Domestic player	
Meituan	*Domestic player	
Baidu	*Domestic player	
Bilibili	*Domestic player	

Source: Company data, CMBIGM estimates

Renewables

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Oil: The impacts will be mixed

- On one hand, due to the depreciation of RMB, companies may gain certain exchange rate losses for borrowings repaid in US dollars. On the other, the upstream crude oil settlement income of the three companies will benefit from RMB devaluation simultaneously, meaning that more money will be received. Moreover, the upstream oil extraction revenue will increase.
- However, considering that the global oil price stays at a higher price of over USD100/barrel due to the Russian-Ukraine conflicts, RMB depreciation will increase the three companies' oil imports costs once their inventories go low. The higher costs may negatively affect the earnings further. Moreover, RMB depreciation may potentially enhance future M&A expenses.

Gas: Higher cost, lower dollar margins and companies' earnings

- City gas operators' (2688 HK, 348 HK, 1193 HK) business largely focuses on China market, thus the RMB depreciation has limited impacts on revenue. However, RMB depreciation may lead to higher upstream imports cost, thus, gas costs for gas companies will climb, which may minimize the companies' earnings.

Wind Power: Positive for wind power machines and components manufacturers, while limited impacts on wind power operators

- Wind power operators suffer limited impacts on the RMB depreciation, as their business mainly focuses on China, and their oversea business only occupies a small proportion. For instance, China Longyuan (916 HK) has oversea business for only 1.9% in 2021. Therefore, the RMB depreciation may have limited impact on the company's results.
- On the wind power machine manufacturers' side, Goldwind's (2208 HK) oversea sales revenue accounted for around 12% in the year 2021. The RMB depreciation may positively affect companies' oversea revenue. In the future, Goldwind plans to expand the oversea business, and the benefits of RMB depreciation will be further extended.

Solar Power: RMB depreciation may benefit solar companies

- Longji Green Energy (601012 SH) has around 42% overseas revenue in Asia-Pacific, the Americas, European, and Africa areas in 2020. The RMB depreciation will raise the company's revenue. On the cost side, as the raw silicon price maintains high recently, the RMB depreciation may also increase the cost of silicon wafer and silicon module production. For reference, by the end of 2020, if RMB/USD is up/down 4%, other factors remain unchanged, net profits will increase/ decrease by RMB195mn.
- Previously the Auxin Solar Tariff Petition and previous silicon wafer price war placed a strain on the China solar manufacturing industry. However, thanks to the solar industry price rebound and the solid solar application demand in Europe due to the Russian-Ukraine conflict, the RMB depreciation may positively affect the solar companies' earnings in general.

Capital goods

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In terms of P&L impact, the depreciation of RMB is positive to the Chinese machinery sector as a whole, given that most of the companies generate revenue from the overseas (largely settled in USD & EUR) while majority of the raw materials and components are procured in China. This will help improve margin or offer room to reduce price to boost export volume.

- **Zhejiang Dingli (603338 CH)** generated 38% of revenue from export in 1H21. We believe it will benefit most from the depreciation of RMB.
- **Weichai Power (2338 HK / 000338 CH)** generated 42% of revenue from the overseas, as Weichai owns 45.2% interest in **KION Group (KGX GR)** which is located in Germany. We estimate the attributable overseas revenue is <30%. Weichai will benefit from the translation gains from the depreciation of RMB against EUR.

Figure 8: Selected companies' overseas revenue contribution

Company	Ticker	Rating	% of overseas revenue	Year
Weichai Power	2338 HK / 000338 CH	BUY / HOLD	42%*	2021
Zhejiang Dingli	603338 CH	BUY	38%	1H21
SANY Heavy	600031 CH	HOLD	24%	2021
SANY International	631 HK	BUY	21%	2021
Jiangsu Hengli	601100 CH	HOLD	13%	2021
Sinotruk	3808 HK	HOLD	13%	2021
Lonking	3339 HK	BUY	11%	2021
Zoomlion	1157 HK / 000157 CH	BUY / HOLD	9%	2021
Zhejiang Jingsheng	300316 CH	BUY	1%	1H21

*Weichai owns 45.2% interest in KION (KGX GR), the major source of overseas revenue. We estimate Weichai's attributable overseas revenue accounted for <30% of total revenue.
Source: Company data, CMBIGM

Auto

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- For auto sector, we believe RMB/USD depreciation could benefit Chinese automakers with growing export business, such as Great Wall Motor (2333 HK/BUY, 601633 CH/BUY), Geely (175 HK/HOLD), and leading NEV start-ups, including NIO (NIO US/BUY) and Xpeng (XPEV US/BUY, 9868 HK/BUY). On the other hand, RMB depreciation may depress the profitability of major foreign-brand joint ventures with relatively lower auto-part localization rate, such as BMW Brilliance (Brilliance (1114 HK/NR)) and Beijing Benz (BAIC (1958 HK/NR)).

Healthcare

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- In China Healthcare industry, CXO sector heavily relies on foreign clients to generate revenue.
- Leading China-based CXO companies, such as WuXi AppTec (603259 CH, BUY, TP RMB188.64), WuXi Bio (2269 HK, BUY, TP HK$146.12) and Pharmaron (300759 CH/3759 HK, NR), made more than 75% of their 2021 revenue from foreign clients.
- RMB appreciation in 2021 had negative impact on China-based CXO's income. According to WuXi AppTec, its revenue growth in 2021 would increase by 2.1 ppts to 40.6% YoY under constant currency.
- On the contrary, RMB depreciation will boost the overall growth of Chinese CXO sector in 2022, in our view.

Consumer Staples

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- We do not see much impact to Dairy as majority of raw milk is sourced locally and when they do not have meaningful overseas business. Breweries source similarly except for company like Budweiser which has sales, purchases, debt, royalties denominated in currency other than RMB. Despite that, we estimate a 5% change in RMB would only lead to <0.5% change in PBT.
- Smoore derives c70% revenue from overseas. But since they hedge their exposure, net foreign gain/ loss represented <1% of net profits in 2021.
- CTGDF source luxury merchandises overseas so exposure is more meaningful. They also have liabilities denominated in USD/ HKD. Post-tax forex loss for 2021 was about RMB277mn, ~2.8% of 2021 net profits.

Consumer Discretionary

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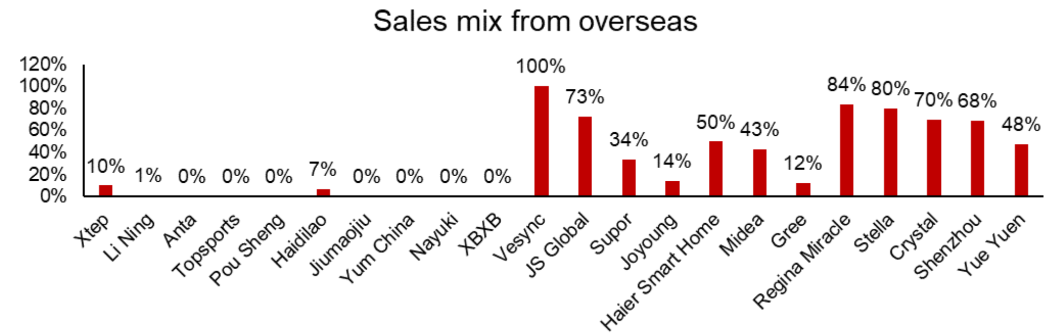
- We believe the RMB depreciation is in general positive for the consumer discretionary space, with the following ranking: Textiles (e.g. Regina Miracle, Stella, Shenzhou) > Small home appliance (e.g. Vesync, JS Global, Supor) > Large home appliances (e.g. Haier, Midea) > Sportswear > Catering.
- For textiles, we estimate 70% of sector sales are from overseas in USD and about 80% of costs are in RMB, therefore this sector should benefit the most. Based on our estimates, 1% depreciation of RMB vs USD, the net profit can be boosted by 1-2%.

CNYUSD had dropped by 3% YTD, this may have helped about 6% of net profit, assuming 50% of the raw material costs are locked in and hedged already.

- For small appliances, about 55% of sector sales are from oversea in USD and around 70% of costs are in RMB. Hence, based on our estimates, 1% depreciation of RMB vs USD, net profit can be boosted by 0.5-1.0%.
- Also, for large home appliances, we estimated 35% of sales are from overseas in USD and about 85% of cost are in RMB, hence, 1% depreciation of RMB vs USD, net profit can be boosted by 0%-0.5%.
- For Sportswear and Catering, sales from overseas and costs (in USD) are very minimal.

Fig 9: Sales mix from overseas, by sectors (last filings)



*Weichai owns 45.2% interest in KION (KGX GR), the major source of overseas revenue. We estimate Weichai's attributable overseas revenue accounted for <30% of total revenue.
Source: Company data, CMBIGM

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