

China Economy

Sharp deterioration of industrial profit amid lockdowns

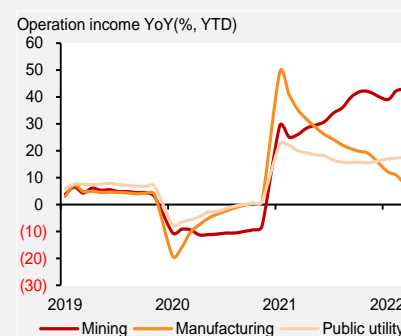
Total profit growth of China's mining, manufacturing and public utility industries slowed sharply from 8.5% YoY in 1Q22 to 3.5% YoY in 4M22. In April, profits in mining rose 141.5% YoY and those in manufacturing and public utility respectively dropped 22.5% and 26.3% YoY due to economic collapse amid lockdowns. By sectors, energy, non-ferrous metals and consumer staples maintained strong or stable profit growth amid high commodity inflation. But most manufacturing industries experienced sharp deterioration of earnings because of weakening demand and soaring material costs. We expect industrial profits to remain weak in 2Q22 and gradually improve in 2H22. We revise down our forecast for the industrial profit growth in 2022 from 10% to 6%. In the stock market, most sectors will see downward revisions of their 2Q-3Q earnings in next few months. But stock prices may have already gradually priced in this factor.

- Profit growth in commodity sector remained strong amid inflation effect.** Operation income of coal mining, petroleum & natural gas, non-ferrous metal ores and non-ferrous metal smelting & pressing respectively grew 64.1%, 46.8%, 23.1% and 21.4% YoY in 4M22, compared to the YoY growth of 60.8%, 46.6%, 24.4% and 24.4% in 1Q22. Their pre-tax profit growth reached 199.3%, 138%, 62.9% and 40.3% YoY in 4M22, versus the corresponding growth of 189%, 151.1%, 74.8% and 52.9% YoY in 1Q22. Dampened by supply chain disruptions and low capacity investment, high commodity inflation has lasted longer than expected. Commodity inflation may remain high in 3Q22 and gradually decline in the medium term. Income & profit growth in commodity sector should follow a similar pattern.
- Profits in consumer staples maintained relatively steady growth amid stable demand.** Operation income in food, liquor, beverage & tea and tobacco product increased 7.4%, 9.3% and 9% in 4M22, versus the corresponding growth of 8.7%, 13.3% and 10.1% in 1Q22. Their profit growth reached 10.8%, 20.9% and 7.9% in 4M22, compared to 13.3%, 25.6% and 9.4% in 1Q22. Looking forward, demand for consumer staples should remain stable as those sectors have pricing power in face of rising material costs. Profits in consumer staples could remain stable growth in the future.
- Profits in most manufacturing sectors deteriorated due to weakening demand and rising material costs.** The lockdowns amid Covid-zero policy has disrupted supply chains and hurt demand & confidence. Operation income in furniture, ferrous metal smelting & pressing, general purpose machinery, automobile and other transport equipment dropped 0.5%, 1.2%, 3%, 8.8% and 0.1% YoY in 4M22 after rising 3.2%, 2.1%, 2.7%, 0.9% and 2.2% YoY in 1Q22. Pre-tax profit in paper & paper products, petroleum & coal processing, medicines, ferrous metal smelting & pressing, metal products, general purpose machinery, automobile and other transport equipment respectively dropped 49.5%, 29.4%, 13.7%, 55.7%, 8%, 24%, 33.4% and 13.3% YoY in 4M22.
- Industrial profit growth may remain weak in 2Q22 and gradually resume in 2H22.** We expect Covid-zero policy to remain till the 20th Party Congress. It will continue to restrain the recovery speed of economy and point to a gradual improvement of corporate earnings in the second half year. We revise down our forecast for the industrial profit growth in 2022 from 10% to 6%. In the stock market, most sectors will see downward revisions of their 2Q-3Q earnings in the next few months. But stock prices may have already priced in this factor.

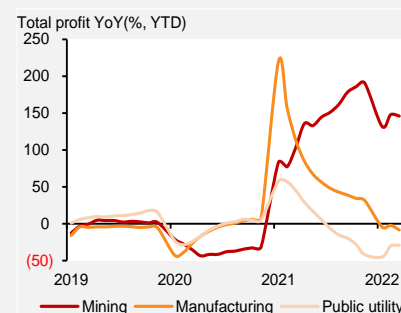
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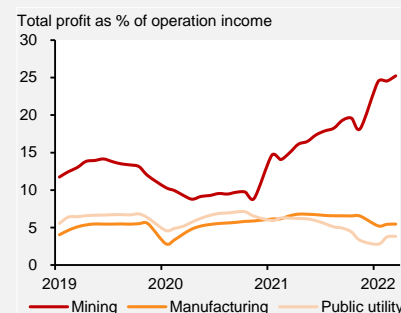
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Source: NBS, CMBIGM



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Source: NBS, CMBIGM

Figure 1: Operation income growth of China's industries

	YoY(%)						2/3Y CAGR(%)			
	2019	2020	2021	2M22	1Q22	4M22	2021	2M22	1Q22	4M22
Mining	4.8	(10.6)	36.0	39.0	42.2	43.0	10.3	17.2	17.3	17.7
Coal	3.9	(12.0)	44.6	55.1	60.8	64.1	12.8	22.4	22.1	23.1
Petroleum & Natural Gas	1.8	(20.9)	33.3	41.4	46.6	46.8	2.7	12.5	14.0	14.1
Ferrous Metal Ores	13.1	7.1	48.3	(9.8)	(10.3)	(12.2)	26.0	11.6	11.6	11.6
Non-ferrous Metal Ores	(1.8)	(3.1)	15.3	23.5	24.4	23.1	5.7	10.9	10.9	11.3
Non-metal Minerals	6.4	(1.6)	11.3	11.9	11.0	7.7	4.7	7.5	8.2	7.7
Manufacturing	4.3	(1.2)	22.1	12.4	11.0	7.5	9.8	10.7	9.6	9.3
Agricultural product processing	4.5	2.4	14.0	2.5	3.7	3.5	8.0	7.1	7.0	7.4
Food	7.0	2.4	9.7	10.0	8.7	7.4	6.0	7.2	7.3	7.1
Liquor, Beverage & Tea	6.9	(3.5)	13.4	16.8	13.3	9.3	4.6	7.9	7.6	6.6
Tobacco	8.3	5.1	7.1	9.1	10.1	9.0	6.1	12.5	10.2	9.1
Textile	0.9	(10.5)	12.8	13.7	9.4	7.5	0.5	3.2	1.0	1.8
Textile Apparel	1.5	(13.5)	9.0	12.2	9.3	8.1	(2.9)	(0.7)	(0.9)	(0.0)
Leather, Furs & Related Products	4.2	(16.3)	8.5	12.9	10.8	7.9	(4.7)	(0.6)	0.4	0.5
Timbers, Wood & Rattan Products	0.7	(7.2)	13.0	6.7	7.4	5.2	2.4	5.6	6.1	5.5
Furniture	4.4	(9.2)	18.0	6.9	3.2	(0.5)	3.5	3.6	3.3	3.1
Paper & Paper Products	(3.6)	(5.0)	18.0	4.7	4.5	2.3	5.9	5.9	4.6	4.9
Recording Media Printing	1.1	(6.5)	12.7	6.3	3.8	0.9	2.7	3.5	2.0	2.6
Cultural, Educational & Sports Goods	4.5	(7.5)	17.8	14.7	11.1	4.2	4.4	6.6	5.6	4.3
Petroleum & Coal Processing	3.0	(13.6)	32.6	24.2	24.5	23.4	7.0	10.3	10.7	11.0
Chemical Materials & Products	(0.6)	(6.9)	32.8	27.7	24.1	20.7	11.2	13.8	12.7	12.7
Medicines	8.4	1.6	24.4	2.3	5.5	4.1	12.4	8.8	8.7	8.1
Chemical Fibres	4.0	(13.8)	33.3	14.6	14.9	11.2	7.2	6.8	6.4	6.5
Rubber & Plastic Products	2.6	(4.0)	17.1	5.5	3.8	1.2	6.0	7.1	5.6	5.7
Non-metallic Mineral Products	12.5	(2.0)	16.8	9.5	9.4	6.1	7.0	8.5	8.1	7.6
Ferrous Metal Smelting & Pressing	8.5	1.2	40.7	3.6	2.1	(1.2)	19.3	11.9	11.1	11.5
Non-ferrous Metal Smelting & Pressing	7.6	1.5	35.8	26.4	24.4	21.4	17.4	17.4	17.0	17.8
Metal Products	5.5	(1.8)	27.7	12.2	10.7	7.3	12.0	11.4	9.5	10.0
General Purpose Machinery	3.5	0.8	20.3	5.9	2.7	(3.0)	10.1	8.6	6.0	5.4
Special Purpose Machinery	6.7	5.2	17.4	9.0	4.7	0.3	11.1	11.7	8.6	8.4
Automobile	(4.2)	0.5	11.3	6.5	0.9	(8.8)	5.8	9.2	6.1	3.1
Other transport equipment	8.0	(1.6)	14.0	2.9	2.2	(0.1)	5.9	5.5	4.8	4.6
Electrical Machinery & Equip	5.5	0.4	27.5	25.2	23.9	20.3	13.1	17.2	15.0	15.3
Computers, Telecom Equip & Electron	5.4	7.4	16.3	8.5	9.5	7.0	11.8	13.0	12.2	11.4
Instruments & Meters	7.4	2.1	18.9	10.3	7.4	2.7	10.2	10.9	7.4	7.2
Public utility	7.1	(0.6)	15.7	16.9	17.2	17.6	7.2	9.8	10.2	10.0
Power	5.9	0.4	14.2	15.6	16.0	16.5	7.1	9.4	10.0	9.8
Gas	16.6	(9.2)	27.1	26.6	26.2	27.1	7.4	11.6	10.9	10.8
Water	9.4	4.1	16.6	7.8	8.6	6.5	10.2	9.9	10.1	9.5

Source: NBS, CMBIGM

Figure 2: Total profit growth of China's industries

	YoY(%)						2/3Y CAGR(%)			
	2019	2020	2021	2M22	1Q22	4M22	2021	2M22	1Q22	4M22
Mining	1.7	(31.5)	190.7	132.0	147.8	145.9	41.1	49.6	47.1	47.9
Coal	(2.4)	(21.1)	212.7	155.3	189.0	199.3	57.1	61.7	57.9	61.1
Petroleum & Natural Gas	1.8	(83.2)	584.7	156.7	151.1	138.0	7.3	31.3	33.4	31.6
Ferrous Metal Ores	396.5	74.9	113.5	15.5	17.4	9.5	93.2	85.4	75.4	65.4
Non-ferrous Metal Ores	(28.8)	14.7	44.5	49.0	74.8	62.9	28.7	34.7	31.1	30.6
Non-metal Minerals	6.1	4.2	23.3	30.5	29.4	16.7	13.3	17.7	17.4	14.4
Manufacturing	(5.2)	7.6	31.6	(4.2)	(2.1)	(8.3)	19.0	20.6	15.5	12.8
Agricultural product processing	3.9	5.9	(9.2)	(29.4)	(22.9)	(10.2)	(1.9)	1.7	3.4	7.9
Food	9.1	6.4	(0.1)	12.3	13.3	10.8	3.1	7.9	7.8	7.1
Liquor, Beverage & Tea	10.2	8.9	24.1	32.5	25.6	20.9	16.3	19.8	17.1	15.3
Tobacco	1.3	25.4	3.3	9.1	9.4	7.9	13.8	22.2	18.6	15.8
Textile	(10.9)	7.9	4.1	13.1	14.0	1.0	6.0	3.7	(0.7)	(1.9)
Textile Apparel	(9.8)	(21.3)	14.4	5.0	10.9	1.9	(5.1)	(4.6)	(3.5)	(2.9)
Leather, Furs & Related Products	(1.9)	(20.7)	1.5	(2.7)	3.9	1.6	(10.3)	(7.6)	(4.3)	(5.2)
Timbers, Wood & Rattan Products	(6.2)	(8.8)	13.1	1.6	3.7	(0.8)	1.6	(3.0)	(1.0)	(1.9)
Furniture	10.8	(11.1)	0.9	(15.2)	0.4	2.9	(5.3)	(5.1)	(3.3)	(0.9)
Paper & Paper Products	(9.1)	21.2	6.9	(57.7)	(49.3)	(49.5)	13.8	(2.4)	0.6	0.7
Recording Media Printing	4.1	(5.7)	(0.4)	(11.2)	(7.3)	(11.9)	(3.1)	(1.7)	(5.3)	(4.2)
Cultural, Educational & Sports Goods	9.9	(9.2)	19.2	10.5	7.1	0.8	4.0	1.3	1.9	(0.6)
Petroleum & Coal Processing	(42.5)	(26.5)	224.2	(39.6)	(29.8)	(29.4)	54.4	(146.5)	(185.1)	(192.8)
Chemical Materials & Products	(25.6)	20.9	87.8	27.3	18.4	14.8	50.7	36.8	31.6	30.5
Medicines	5.9	12.8	77.9	(17.6)	(8.9)	(13.7)	41.7	12.8	13.2	12.9
Chemical Fibres	(19.8)	(15.1)	149.2	(32.7)	(54.9)	(53.6)	45.5	10.6	5.9	11.3
Rubber & Plastic Products	12.0	24.4	(2.9)	(31.8)	(29.6)	(30.9)	9.9	8.7	5.3	3.7
Non-metallic Mineral Products	7.5	2.7	14.3	5.2	11.0	2.9	8.3	7.4	7.4	5.2
Ferrous Metal Smelting & Pressing	(37.6)	(7.5)	75.5	(56.5)	(49.7)	(55.7)	27.4	1.9	2.8	(3.3)
Non-ferrous Metal Smelting & Pressing	1.2	20.3	115.9	63.8	52.9	40.3	61.2	96.0	82.7	69.8
Metal Products	5.9	4.1	28.7	(0.6)	0.0	(8.0)	15.7	12.7	9.7	8.5
General Purpose Machinery	3.7	13.0	8.3	(15.7)	(17.0)	(24.0)	10.6	10.0	2.9	1.6
Special Purpose Machinery	12.9	24.4	10.2	4.0	4.8	(0.8)	17.1	32.6	18.9	19.5
Automobile	(15.9)	4.0	1.9	(9.9)	(11.9)	(33.4)	2.9	69.0	18.1	(6.3)
Other transport equipment	11.9	(1.5)	(15.9)	(34.7)	(15.3)	(13.3)	(9.0)	(0.6)	(0.8)	(2.5)
Electrical Machinery & Equipment	10.8	6.0	12.2	5.7	10.4	7.7	9.1	21.3	16.0	15.6
Computers, Telecom Equip & Electronic Products	3.1	17.2	38.9	(7.3)	2.8	(2.9)	27.6	93.3	29.7	27.6
Instruments & Meters	5.9	11.6	11.0	(14.9)	(7.4)	(11.8)	11.3	20.9	9.3	9.1
Public utility	15.4	4.9	(41.9)	(45.3)	(30.3)	(29.3)	(21.9)	(12.9)	(7.9)	(8.1)
Power	19.0	3.4	(57.1)	(49.1)	(35.2)	(33.0)	(33.4)	(16.0)	(12.2)	(11.8)
Gas	0.6	7.7	18.4	(32.0)	(14.6)	(16.6)	12.9	(2.2)	11.3	8.1
Water	5.6	16.5	4.8	(25.7)	(5.0)	(17.0)	10.5	3.0	10.9	4.4

Source: NBS, CMBIGM

Figure 3: Gross margin ratio of China's industries

(%)	2018	2019	2020	2021	1Q22	4M22
Mining	28.1	27.2	25.9	34.6	38.7	39.0
Coal	28.8	27.5	29.6	38.3	39.7	40.1
Petroleum & Natural Gas	39.2	37.8	23.4	38.0	52.7	53.0
Ferrous Metal Ores	17.3	20.8	21.3	25.4	21.7	22.4
Non-ferrous Metal Ores	23.8	22.6	28.6	31.4	33.4	33.4
Non-metal Minerals	21.7	23.1	24.3	26.5	25.4	25.3
Manufacturing	15.9	15.7	16.0	16.0	15.3	15.0
Agricultural product processing	10.4	9.9	9.7	8.7	8.3	8.3
Food	21.6	22.5	22.6	21.3	21.1	20.9
Liquor, Beverage & Tea	31.0	32.7	34.2	31.8	35.6	34.2
Tobacco	64.2	65.9	68.6	69.9	73.5	73.0
Textile	10.9	11.4	12.4	12.2	10.9	10.6
Textile Apparel	15.2	15.0	14.9	15.0	14.8	14.4
Leather, Furs, Down & Related Products	13.5	13.9	13.8	13.6	13.4	13.2
Timbers, Wood, Bamboo & Rattan Products	12.0	11.3	10.9	10.6	9.4	9.3
Furniture	16.6	17.4	17.0	16.9	16.1	15.9
Paper & Paper Products	13.7	13.8	15.2	14.2	11.9	11.9
Printing, Reproduction of Recording Media	16.1	16.8	16.6	16.1	15.1	15.1
Cultural, Educational & Sports Goods	13.1	13.8	13.8	13.8	13.0	13.0
Petroleum, Coal & Other Fuel Processing	18.7	15.8	16.8	18.7	17.3	16.8
Chemical Materials & Products	16.8	16.2	17.0	18.4	17.2	17.0
Medicines	41.6	43.5	43.1	46.7	42.4	42.1
Chemical Fibres	9.7	9.0	8.9	11.6	7.9	7.5
Rubber & Plastic Products	14.1	14.9	17.0	15.8	14.3	14.2
Non-metallic Mineral Products	17.9	18.0	17.9	17.7	16.0	16.0
Ferrous Metal Smelting & Pressing	11.1	8.1	7.8	8.4	6.1	6.0
Non-ferrous Metal Smelting & Pressing	6.7	6.3	6.9	8.1	8.0	8.0
Metal Products	12.4	12.9	12.8	12.5	11.6	11.4
General Purpose Machinery	17.3	17.7	18.5	17.9	16.9	16.8
Special Purpose Machinery	18.9	20.9	21.8	21.0	20.9	20.9
Automobile	15.9	15.6	15.4	14.6	14.0	13.3
Other transport equipment	15.5	15.6	15.7	15.0	14.0	13.7
Electrical Machinery & Equipment	15.9	16.2	15.9	14.7	13.2	13.1
Computers, Telecom Equip & Other Electronic Products	12.3	12.7	13.1	14.0	12.6	12.5
Instruments & Meters	22.2	24.4	25.2	25.2	23.4	23.2
Public utility	10.5	11.8	12.3	8.3	8.4	8.7
Power	9.4	10.9	11.4	6.8	7.6	7.9
Gas	13.9	13.1	14.0	12.4	9.0	9.1
Water	27.3	26.9	26.5	25.8	23.9	24.5

Source: NBS, CMBIGM

Figure 4: Total profit to operation income ratio of China's industries

(%)	2018	2019	2020	2021	1Q22	4M22
Mining	11.5	11.4	9.2	18.2	24.5	25.2
Coal	11.7	11.4	11.1	21.3	25.0	26.3
Petroleum & Natural Gas	18.7	18.5	3.9	18.5	35.5	34.8
Ferrous Metal Ores	2.2	6.2	9.6	13.3	17.1	17.2
Non-ferrous Metal Ores	11.3	9.0	13.3	16.6	21.5	21.4
Non-metal Minerals	7.9	8.7	9.3	10.7	8.7	9.0
Manufacturing	6.1	5.6	5.9	6.5	5.4	5.5
Agricultural product processing	4.4	4.0	4.2	3.5	2.8	3.1
Food	8.3	8.8	9.1	7.8	8.3	8.2
Liquor, Beverage & Tea	13.5	14.5	16.3	16.5	16.6	15.9
Tobacco	8.8	8.3	10.1	9.7	14.9	14.7
Textile	4.5	4.2	4.9	4.7	3.3	3.3
Textile Apparel	5.8	5.5	4.7	5.2	4.1	4.3
Leather, Furs, Down & Related Products	5.9	5.9	5.5	5.2	4.7	4.7
Timbers, Wood, Bamboo & Rattan Products	5.2	4.4	4.1	4.1	3.2	3.2
Furniture	6.0	6.5	6.1	5.4	3.9	4.3
Paper & Paper Products	5.5	5.1	6.4	5.9	3.5	3.6
Printing, Reproduction of Recording Media	6.6	6.6	6.4	5.8	4.2	4.5
Cultural, Educational & Sports Goods	5.3	5.3	5.2	5.4	4.0	4.1
Petroleum, Coal & Other Fuel Processing	4.7	2.6	2.1	4.8	4.1	4.0
Chemical Materials & Products	7.1	5.3	6.7	9.7	9.2	9.6
Medicines	12.8	13.0	14.1	21.4	15.4	15.6
Chemical Fibres	4.7	3.6	3.3	6.1	2.5	2.9
Rubber & Plastic Products	5.0	5.4	6.8	5.9	4.2	4.3
Non-metallic Mineral Products	8.8	8.5	8.5	8.4	6.6	7.0
Ferrous Metal Smelting & Pressing	6.0	3.8	3.4	4.4	2.0	2.3
Non-ferrous Metal Smelting & Pressing	2.7	2.2	2.7	4.5	4.8	4.8
Metal Products	4.6	4.6	4.6	4.8	3.5	3.6
General Purpose Machinery	6.6	6.4	7.1	6.7	5.1	5.2
Special Purpose Machinery	6.8	7.5	8.6	8.1	7.4	7.7
Automobile	7.3	6.3	6.2	6.1	5.4	4.5
Other transport equipment	5.7	5.5	5.5	4.1	3.3	3.6
Electrical Machinery & Equip	5.8	5.9	5.9	5.3	4.4	4.6
Computers, Telecom Equip & Electronics	4.4	4.4	4.9	5.9	4.2	4.2
Instruments & Meters	9.5	9.7	10.7	10.5	7.0	7.7
Public utility	5.7	6.2	6.4	3.3	3.7	3.8
Power	5.2	5.9	6.0	2.3	3.4	3.5
Gas	7.9	6.8	7.7	7.3	5.1	5.1
Water	10.6	10.6	11.5	10.8	6.1	6.9

Source: NBS, CMBIGM

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