China Musings

China reopening playbook (Part 2): Multiple policy pivots to drive further gains

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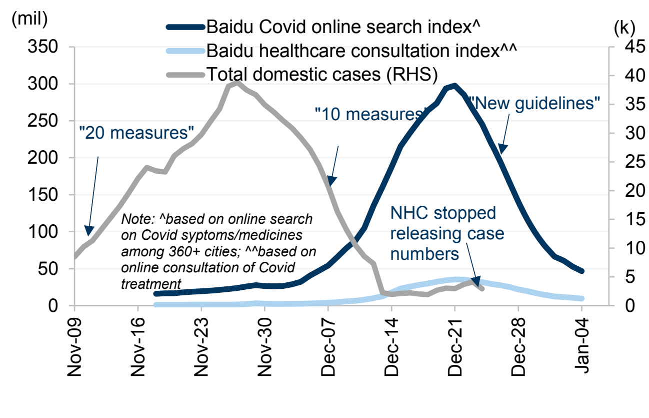
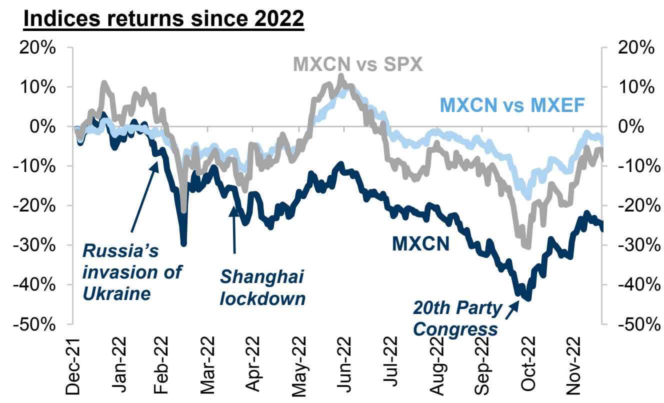
1. **Many surprises in 2022, including the latest pivot in Zero Covid Policy (ZCP)**. Chinese stocks had an extremely volatile year in 2022, registering an intra-year trading range of 47%, the 2nd highest in the past decade. Geopolitical shocks, rising global rates, and concerns about China's Zero Covid Policy, housing market conditions, political configuration, and ADR delisting risk at one point (on Oct 31) drove MSCI China to an 11-year low, prompting investor debates about the investability of Chinese assets. The investment narrative has however swiftly changed post the 20th National Party Congress, most notably on China's ZCP approach, with policy focus shifting from stringent Covid testing, isolation, quarantine, and mobility measures to effectively full-reopening and herd immunity in an accelerated fashion. As a result, reported Covid cases surged to all-time highs in late November, and some survey data at the provincial/local government levels indicated as high as 60% of the respondents have already tested Covid positive by end-22. Despite the outbreak, **Chinese stocks have staged a strong recovery in the past 2 months**, with MSCI China rallying 29% in November (the best monthly return since July 1999) and 46% since the local trough, led by Internet and Developers which have gained 80% and 73% respectively in the past 9 weeks. The historic rebound pared the 2022 index losses to 24% (MXEF/APJ: -22%/-20%), and the upward momentum has extended into 2023, with the index gaining 8% in the first trading week of the new year, the best start since 1995.

Exhibit 1: Covid cases may have peaked in mid/late December



Source: Baidu

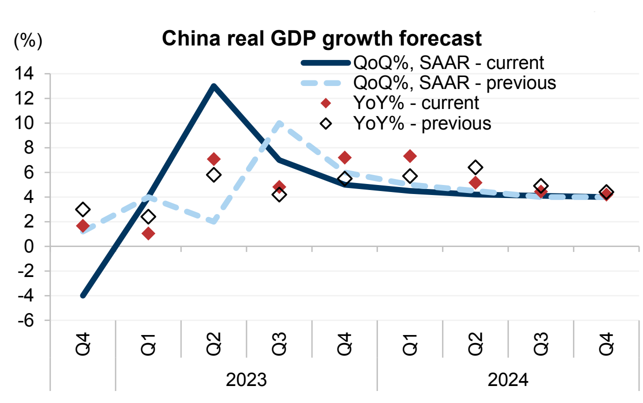
Exhibit 2: Chinese stocks ended 2022 down 24%, but with significant intra-year volatlility



Source: MSCI, Bloomberg, Goldman Sachs Global Investment Research

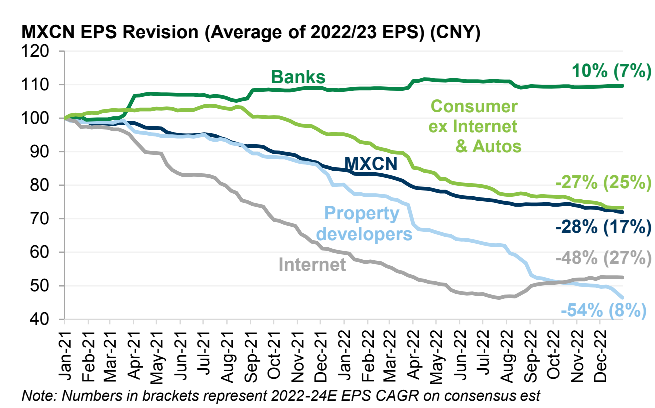
2. **The U-turn in Covid policy is consequential to growth and equity returns**. First, our economists recently **raised their 2023 full-year GDP growth forecast from 4.5% to 5.2%** on the back of the earlier-than-expected reopening timetable, with 2Q23 sequential annualized growth potentially reaching 13% on their projections assuming a significant part of the reopening disruptions would occur in 4Q22/1Q23 (or before the Chinese New Year holidays, which take place from January 21 to 27). The growth impulse will be predominately led by a recovery in consumption demand where Chinese households have accumulated roughly Rmb2tn of excess savings in the past year. Second, the stronger economic growth prospects for 2023 have prompted us to **revise up our earnings forecasts to 13% from 8%**, putting our 2023 EPS growth estimate on par with consensus. Third, equity valuations and investor sentiment should also benefit from **a more pro-growth policy orientation**, partly reflected by the sharp Covid policy pivot but more broadly by concrete policy loosening actions and market-friendly government rhetoric centering on the digital economy, the housing market, and to a lesser extent, the private economy (more details below).

Exhibit 3: We cut our GDP growth forecast for 2022 from 3.0% to 2.6% but raised it for 2023 from 4.5% to 5.2%, mainly to reflect the earlier-than-expected reopening



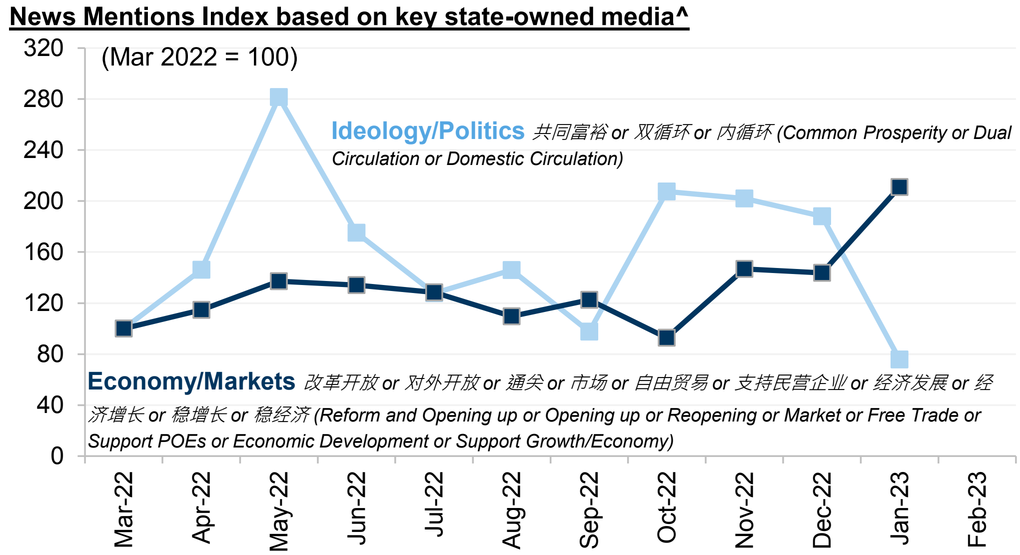
Source: Goldman Sachs Global Investment Research

Exhibit 4: Consensus earnings have stabilized in recent months, led by TMT



Source: FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 5: Policy tone and rhetoric appears to have turned more pro-growth post the Party Congress

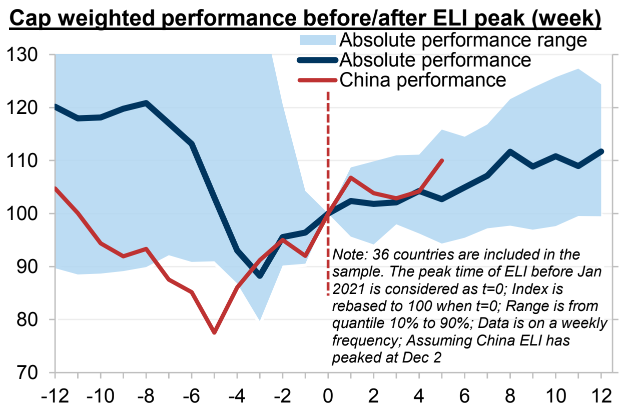


^based on % of news articles with keywords (title and lead paragraph only) in all news articles from People's Daily, China Daily, Xinhua, Cankao Xiaoxi and Global Times

Source: Factiva, Goldman Sachs Global Investment Research

3. As noted in our Reopening Playbook (Part 1), **equities are a forward-looking asset class** and could **trade well before actual Covid cases and/or disruptions peak**, as evidenced by the reopening recoveries from 36 equity markets globally in the past 2.5 years. Specifically, we note that these equity markets typically bottom about one month before Covid-related disruptions peak, and the positive market momentum usually extends for 3-4 months post the policy inflection point, generating 11% reopening gains during that 6-7 month period. This trading pattern is consistent with our recent global marketing feedback which suggests that equity investors are willing to look through the potential near term disruptions (rising Covid and death cases, and the related growth drags) as long as the path towards reopening is clearly communicated to the market and the actual casualty rate is relatively well contained. In terms of sequencing, we believe **the Chinese reopening journey could be broadly divided into 4 main phases—** removal of local restrictions (e.g. lockdown measures), inter/intra-provincial mobility normalization, lifting of border restrictions between China/HK/Macau, and international travel reopening—with the first 2 stages more or less completed or in process and the latter two phases kicking off soon as per the government's stated schedule.

Exhibit 6: Equity markets are forward-looking: They usually pre-trade the actual reopening approximately 1 month in advance



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

Exhibit 7: Stage 1 and 2 of the reopening process is largely completed/in motion, and stages 3 and 4 should be kicking off soon

Stage 1 Lifting of lockdown measures		*Stage 2* Inter/intra-provincial mobility normalization		*Stage 3* China/HK/Macau border reopening		*Stage 4* International travel reopenning	
Key Beneficiaries	Perf since Nov	Key Beneficiaries	Perf since Nov	Key Beneficiaries	Perf since Nov	Key Beneficiaries	Perf since Nov
Hotels Restaurants & Leisure	56%	Airlines	32%	Macau Casinos & Gaming^	65%	Airlines	32%
Specialty Retail	65%	Transportation Infrastructure	35%	HK Retail^^	23%	Transportation Infrastructure	35%
Textiles Apparel & Luxury Goods	65%	Hotels Restaurants & Leisure	56%				
Beverages	41%	Internet & Direct Marketing Retail	64%				
Pharmaceuticals	19%	Air Freight & Logistics	54%				
		Health Care Providers & Services	41%				

Note: based on MSCI China GICS sub-industry, except: ^based on MSCI HK GICS sub-industry; ^^based on Wind HK local retail index

Source: MSCI, FactSet, Wind, Goldman Sachs Global Investment Research

4. The speed of reopening has surprised investors on the upside, but the substantial gains have also left them pondering **to what extent the full reopening growth impulse is already discounted in equity prices**. We attempt to answer this question from the following approaches. First, mapping our economists' latest 2023 GDP growth forecasts (a full-reopening scenario) onto equity earnings and valuations, we note that it would point to **15% further index upside from current levels**; Second, applying the cross-country reopening equity beta (with respect to GS China Effective Lockdown Index, a mobility/traffic measure) to Chinese stocks, we estimate that **the market could rise by another 20% if ELI normalizes**. Third, while our Reopening Beneficiaries portfolio, comprising mostly Consumer Cyclicals and consumer-facing names, has rallied 46% since November, it has just performed in-line with the aggregate index, implying **more broad-based re-rating outside of Consumer equities is also underway**.

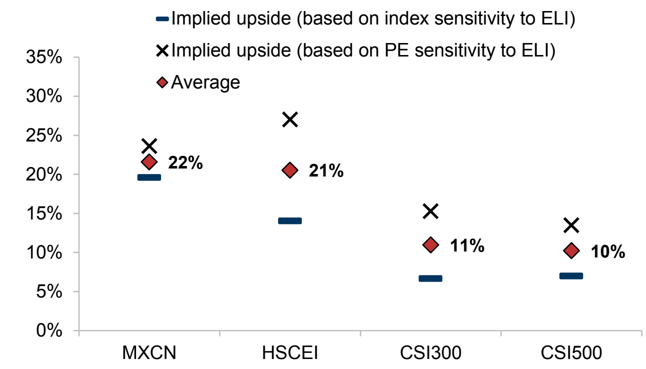
Exhibit 8: Reopening boost could translate into 15% incremental index upside via the earnings and valuation channels

Impact of China reopening on MXCN EPSg/fPE/Index upside

Scenario		2023 China real GDP growth	2023 MXCN EPSg	2023 MXCN fPE	MXCN Index upside
Current Baseline	***Effective reopening with control***	**5.2%**	**13%**	**12.0x**	**+15%**
Previous Baseline	*Buy time for preparation*	4.5%	8%	11.0x	+1%

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

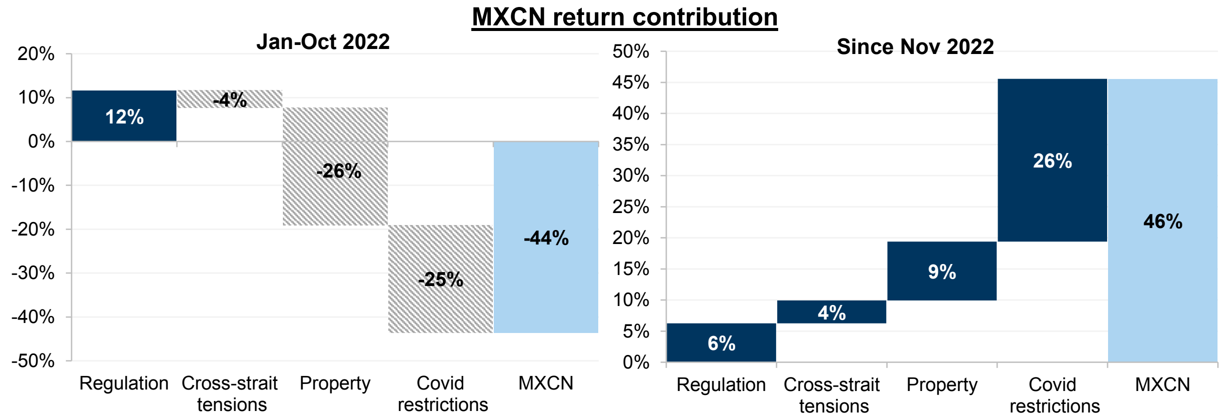
Exhibit 9: Activity normalization could boost equity prices and valuations by 20% per our economists' Effective Lockdown Index



Source: Bloomberg, Goldman Sachs Global Investment Research

5. Multiple policy pivots are at work. Why are we expecting further upside to Chinese stocks despite the 46% market rally? Our explanations are as follows: a) the starting point of the recovery is low in both price and valuation terms, with MSCI China index PE reaching 8.1x on Oct 31 (-1.6 sd, the lowest since the GFC). The rally has propelled the index PE to 11x (-0.4 s.d.), roughly on par with its trailing 5-year average but still 7% below where it started 2022; b) the arguably **aggressive housing policy measures** focusing on stimulating demand, delivery of pre-sold properties, and developers' financing needs in the past several months have effectively backstopped the downward spiral and reduced the left tail risks in equity valuations, in our view; c) the **domestic regulation cycle** targeting the Internet sector has eased into a supportive territory per our POE Regulation Proxy, consistent with the recent acceleration of Banhao approvals and resumption of capital market activities for Fintech companies, likely benefiting TMT equities; d) **investor concerns revolving around cross-strait and US/China relations** appear to have moderated temporarily after the inaugural face-to-face meeting between President Xi and President Biden in Bali on Nov 14, with KWEB gaining 16% since the PCAOB confirmed its ability to inspect the audit papers of US-listed Chinese companies on Dec 15 and the MSCI Taiwan Index also rallying 14% from its recent lows and outperforming Korea by 8pp post the G20 Summit. Using specific equity market portfolios and indicators to proxy the above macro and policy factors, we estimate that **"reopening" has been responsible for around 26pp of the 46% rally** since last November. Overall, these (improving) factors have also led us to raise our index PE target from 11.2x to 12x per our top-down PE model.

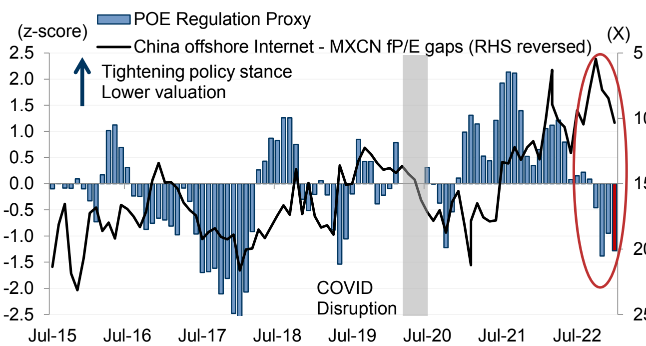
Exhibit 10: The pivot in Covid policy could be responsible for around 26pp of the 46% market rally since November per our return attribution analysis



Note: each proxied by performance of POE vs SOE Developers; MSCI Taiwan vs MSCI Korea; GS Reopening Beneficiaries; China Regulation Barometer(GSSRCNRG, reversed); return contribution calculated by multiplying MXCN weekly returns (in 2022) sensitivity and the delta of each proxy, with residual propotionally distributed to each proxy

Source: MSCI, FactSet, Goldman Sachs Global Investment Research

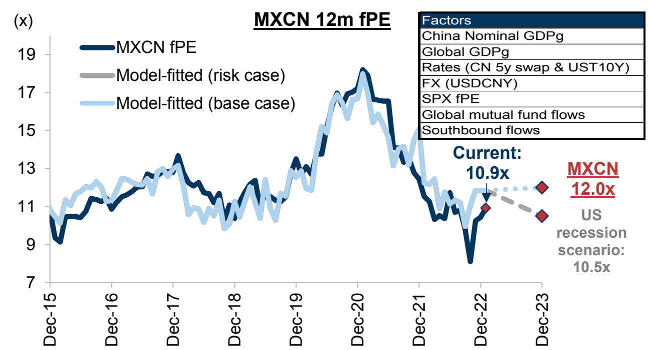
Exhibit 11: An improving regulation cycle should be supportive to China TMT's valuations when other macro concerns moderate



Note: POE Regulation Proxy reflects the text-mining results of news among POE-heavy sectors. Data points during Mar-Jun 2020 have been removed due to COVID disruptions. Red bar shows the preliminary reading as of early Jan 2023.

Source: MSCI, FactSet, Factiva, Goldman Sachs Global Investment Research

Exhibit 12: Our top-down modeling suggests China should trade at around 12x fP/E by end-2023

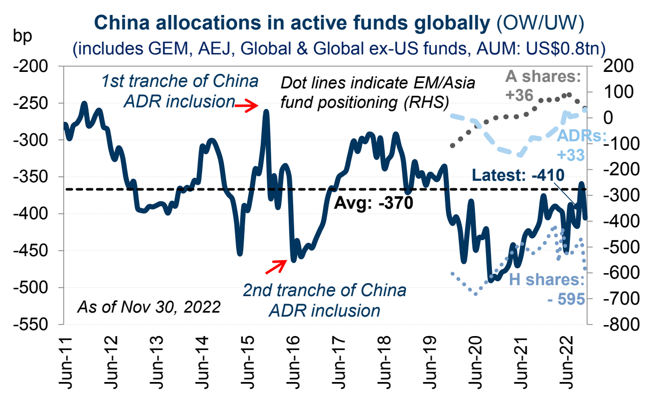


Source: Bloomberg, FactSet, Goldman Sachs Global Investment Research

6. While structural headwinds stemming from a likely prolonged housing market downturn, the aging population, US-China tensions, and geopolitical overhangs remain valid, they don't disqualify our view that **China looks well positioned across the growth, policy, and inflation cycles in a global context in 2023** as we have emphasized in the past months. Importantly, with index valuations around 10% below our macro-driven target, mutual fund mandates still meaningfully trailing benchmark weights on their China allocations, and hedge funds just starting to increase risks on China after cutting exposures by more than 50% since early 2021, the reopening excitement in conjunction with other policy pivots could catalyze further positioning normalization flows into Chinese stocks and usher in an asymmetric supply/demand dynamic to the upside, at least tactically. Put differently, the prevailing market backdrop leads us to believe that the downside risk of maintaining underweight or shorting Chinese stocks is meaningfully higher than going long. As such, we **reiterate our Overweight recommendation** on Chinese equities (both A and Offshore), and **raise our 12m target for MSCI China from 70 to 80**, factoring in a stronger 2023 EPS

growth prospect and a higher PE target multiple.

Exhibit 13: Mutual funds' underweight gaps on Chinese stocks widened in Nov amid the strong market rally

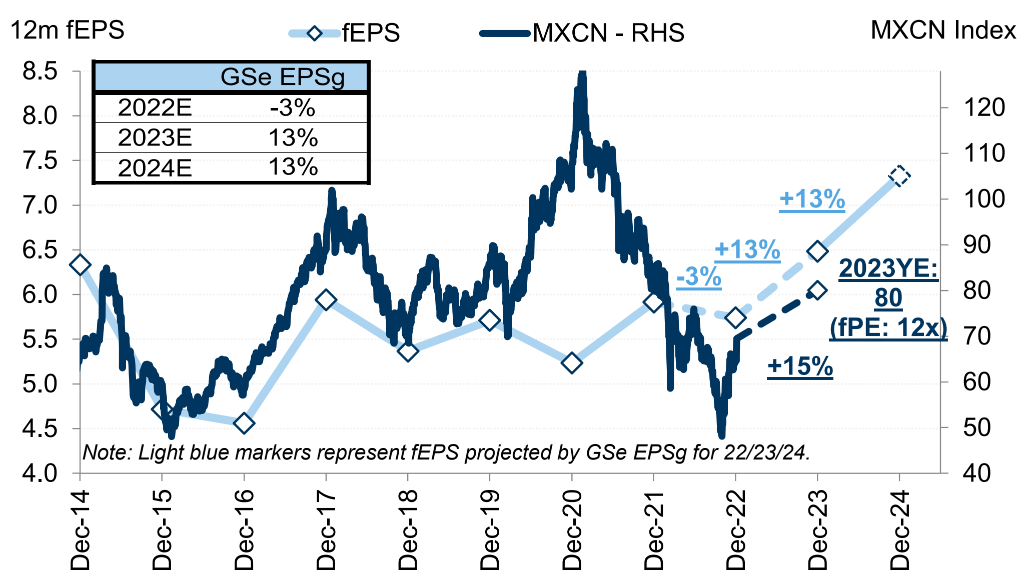


Source: EPFR, FactSet, MSCI, Goldman Sachs Global Investment Research

Exhibit 14: Hedge funds' exposures to China have risen since Nov

Source: Goldman Sachs Prime Services

Exhibit 15: We forecast MSCI China to reach 80 by end-23, implying 15% potential upside from current levels



Source: MSCI, FactSet, Goldman Sachs Global Investment Research

7. As we wrote in our 2023 Outlook report: "***We like the tactical case for the Offshore market in 1H23*** *considering the possibility that the market may pre-trade the potential catalysts of reopening, likely more clarity of ADR delisting risks by end-22 or early 2023, and higher flow and sentiment sensitivity to the Fed hiking cycle (ends in May per GS expectation). However, we'd look to take profit on Offshore equities if the recovery materializes and rotate to the A-share market given its more compelling strategic investment case*". These views/arguments remain valid (and have been reinforced by the accelerated reopening timetable) as we believe Offshore equities offer a more favorable reopening beta to investors (lower relative valuations, deeper underperformance, light positioning from foreign investors, and higher index representation from Internet and Consumer Cyclicals) but the A-share market boasts a stronger strategic investment case

for international investors underpinned by its size, liquidity, diversification, and alpha generation appeal. Thematically, the A-share market also appears more favorably exposed to long-term policy and development trends under the new Party leadership, namely Common Prosperity and Little Giants, and could benefit more than H shares/ADRs from the developing structural trends of asset reallocation flows from property to equities and financialization of housing savings. While it might be premature to make the shift (given a higher MSCI China target), we do recognize that long-term policy and geopolitical trends could cap the normalized profitability and re-rating potential for Offshore stocks.

Exhibit 16: Chinese A shares look better positioned than Offshore equities from a macro and policy perspective

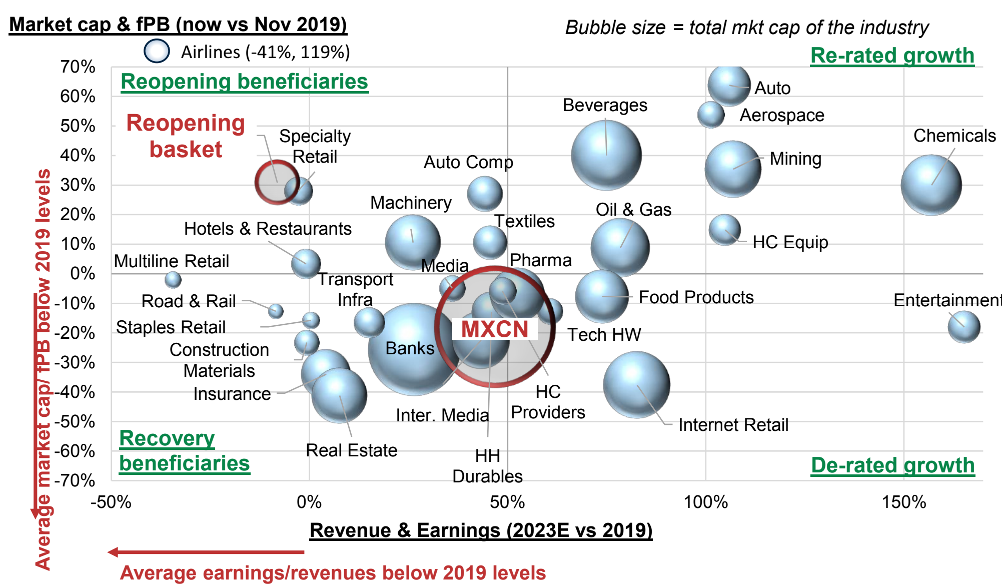
		China Offshore	China A shares
Cyclical Factors	Valuation (NTM PE)	**10.9x** ✓	11.6x
	South/Northbound flows in past 3m (US$ bn)	**18** ✓	8
	Mutual fund positioning	**UW 562bp**	OW 36bp
	Index % from ADRs (lower delisting risk)	**8%**	0%
	Correlation with regulation tightening*	**-38%**	9%
	Sensitivity to Covid policy relaxation* (ELI lower by 10)	**9%**	5%
Strategic Factors	Correlation with US-CN tensions*	-7%	**-1%**
	Correlation with macro policy easing^	28%	**51%**
	Correlation with MSCI World	46%	**26%**
	% of foreign ownership	14%	**4%**
	% market cap of stocks in Little Giant Universe	9%	**100%**
	% market cap of stocks in GS Common Prosperity Universe	55%	**86%**
	% market cap in SOEs	27%	**45%**

Note: Cffshore China proxied by MXCN while China A shares proxied by CSI300 index;
Market that is more favorably positioned in each factor is highlighted in green & checkbox;
** Numbers represent return correlation with each index. (POE) Regulation intensity is proxied by GSSRCNRG index. Covid policy relaxation is proxied by GS Effective Lockdown index. ADR delisting probability is proxied by GSSRADRD index; US-CN relationship is proxied by GSSRUSCN index*

Source: Bloomberg, Wind, FactSet, Goldman Sachs Global Investment Research

8. From Reopening to Recovery and Regulation. Top down, we'd emphasize a two-pronged approach–a heavy consumer tilt to monetize the tactical reopening upside, and strategic exposures to areas that are favorably linked with long-term policy goals–to position in Chinese equities across the market, sector, and thematic dimensions. This underpins our **continued OW stance on Consumer Services, Durables, Healthcare Services, Online Retailing, and Semi,** sectorally. That said, with a number of consumer-facing sectors already trading above-midcycle valuations post the recent upsurge, we'd focus on subsectors and names where fundamental recovery potential remains significant. Specifically, we **refresh our Reopening Beneficiaries portfolio** to include Consumer Cyclicals where consensus 2023 revenues and earnings are still meaningfully below their 2019 pre-Covid levels or valuations are below historical averages or still at reasonable levels. Outside of Consumer, the improvement in growth momentum could drive **recovery and re-rating opportunities** in areas where both fundamentals and valuations are still suppressed relative to historical ranges, such as **Construction/Property Cyclicals and select and Financials** (GS Buy-rated names in Exhibit 20). Lastly, the inflection of the regulation cycle should bode well for Internet stocks, especially those that could disproportionately benefit from potential Southbound inclusion and the reduction of ADR delisting risks.

Exhibit 17: A number of consumer-facing sectors are already trading above 2019 valuation levels, suggesting further gains should be driven by fundamental recovery as opposed to multiple expansion



Source: FactSet, Goldman Sachs Global Investment Research

Exhibit 18: We refresh our Reopening Beneficiaries portfolio by adding 12 consumer-related names

		Selected industries	*Either < -50%*		*OR Either < -20%*					*Top 30*	*>5mn*				*<30x*			*Not Sell-Rated*
Ticker	Name	GICS Sub-industry	Stock performance correlation with Effective Lockdown Index		Earning revision during Covid-19 outbreak		New additions	Price	Currency	Listed mkt cap (US$bn)	6M ADVT (US$mn)	23E EPSg (%)	22-24E EPS CAGR (%)	23E PEG (X)	23E P/E (X)	24E P/E (X)	23E P/B (X)	GS Ratings
			Feb 2020-now	Mar 2022-now	Jan-Apr 2020	Mar 2022-now												
Reopening beneficiaries																		
601888 CG	China Tourism Group Duty Free	Specialty Retail	-65%	-74%	-53%	-48%		225.9	CNY	64.2	298	84	55	1.2	36	27	9.7	B*
2020 HK	ANTA Sports	Textiles Apparel	-48%	-4%	-23%	-15%		107.9	HKD	37.5	79	22	23	1.1	26	21	6.1	B
27 HK	Galaxy Entertainment	Hotels Restaurants & Leisure	-50%	7%	-70%	NM		52.9	HKD	29.6	59	-	-	0.4	36	18	3.3	B
1928 HK	Sands China	Hotels Restaurants & Leisure	-33%	1%	-86%	NM		27.8	HKD	28.8	65	-	-	0.2	179	18	-	B*
TCOM UW	Trip.com	Hotels Restaurants & Leisure	-62%	-38%	NM	-72%		38.3	USD	24.6	149	647	242	0.6	35	22	1.4	B
YUMC UN	Yum China	Hotels Restaurants & Leisure	-71%	-44%	-39%	-29%		58.0	USD	24.3	109	83	45	2.0	30	26	3.1	B
291 HK	CR Beer	Beverages	-60%	-63%	-28%	-4%		58.2	HKD	24.2	61	23	24	1.3	31	25	5.4	B*
2313 HK	Shenzhou Int'l	Textiles Apparel	-58%	31%	-16%	-27%	√	92.5	HKD	17.8	49	18	24	0.7	22	17	3.6	B
601111 CG	Air China	Airlines	16%	-42%	NM	NM		11.1	CNY	16.0	74	-	-	0.2	43	15	5.0	N
002027 CS	Focus Media	Media	-65%	-31%	-35%	-57%		7.4	CNY	15.5	91	62	41	1.0	22	18	4.4	B
HTHT UW	H World	Hotels Restaurants & Leisure	-68%	-39%	-77%	NM		44.9	USD	14.4	49	-	-	0.5	48	25	8.7	B
881 HK	Zhongsheng	Specialty Retail	-57%	9%	-5%	-18%	√	46.8	HKD	14.4	23	21	19	0.6	10	8	1.8	B*
000963 CS	Huadong Medicine	Health Care Providers	-27%	-71%	-8%	-20%	√	48.1	CNY	12.3	72	20	21	1.2	26	21	3.9	N
601021 CG	Spring Airlines	Airlines	-53%	-71%	-62%	NM		63.4	CNY	9.0	33	-	-	0.4	36	20	4.4	N
300979 CS	Huali Industrial	Textiles Apparel	-63%	14%	-	-4%	√	57.1	CNY	9.0	18	18	19	0.9	17	14	4.2	NC
600115 CG	China Eastern Airlines	Airlines	-37%	-23%	-140%	-		5.5	CNY	9.0	23	-	-	-	-	20	4.9	B
600754 CG	Jin Jiang Int'l Hotels	Hotels Restaurants & Leisure	-32%	-59%	-59%	-88%		57.9	CNY	7.7	43	841	260	1.0	36	26	3.4	B
168 HK	Tsingtao Brewery	Beverages	-57%	-71%	-10%	6%	√	80.4	HKD	6.7	30	15	15	1.6	25	21	3.5	B
000069 CS	Overseas Chinese Town	Hotels Restaurants & Leisure	-46%	46%	-1%	-77%	√	5.6	CNY	6.6	42	20	13	1.9	11	11	0.5	N
780 HK	Tongcheng Travel	Hotels Restaurants & Leisure	-58%	-50%	-42%	-65%		19.8	HKD	5.7	10	151	84	0.8	27	20	2.3	B
3998 HK	Bosideng Int'l	Textiles Apparel & Luxury Goods	-24%	-63%	-17%	-12%	√	3.8	HKD	5.4	12	19	19	0.7	13	11	2.6	N
603885 CG	Juneyao Airlines	Airlines	-16%	-54%	NM	NM		16.3	CNY	5.3	25	-	-	0.3	39	16	3.4	NC
603882 CG	Kingmed Diagnostics	Health Care Providers	-62%	8%	1%	59%	√	76.7	CNY	5.2	36	-20	-7	2.1	15	14	3.2	B
300012 CS	Centre Testing	Professional Services	-71%	-47%	-8%	-4%	√	23.3	CNY	5.2	20	25	24	1.5	34	28	6.2	B
300413 CS	Mango Excellent Media	Entertainment	-56%	-4%	0%	-24%	√	33.3	CNY	5.0	48	19	17	1.6	25	22	2.9	N
300144 CS	Songcheng Performance	Hotels Restaurants & Leisure	-54%	-11%	-41%	-90%		14.7	CNY	4.9	53	623	227	0.9	43	29	4.6	B
600859 CG	Wangfujing	Multiline Retail	-59%	-58%	-33%	-53%		28.8	CNY	4.6	70	52	45	0.9	33	24	1.6	NC
880 HK	SJM Holdings	Hotels Restaurants & Leisure	-47%	17%	NM	-	√	4.8	HKD	4.4	13	-	-	-	-	15	2.0	B
600655 CG	Shanghai Yuyuan Tourist Mart	Specialty Retail	-54%	27%	-9%	-34%	√	7.7	CNY	4.4	10	20	17	0.5	7	6	0.8	NC
002739 CS	Wanda Film	Entertainment	-41%	-9%	-57%	-137%		14.1	CNY	4.3	47	-	-	1.6	27	23	3.3	NC
Average			-49%	-26%	-37%	-37%		-	-	14	57	132	58	1.0	33	19	3.8	-
Median			-55%	-34%	-33%	-28%		-	-	9	47	22	24	0.9	28	20	3.4	-

*Note: Prices as of Jan 5; 23E PEG = 23E PE / 24E EPS growth. Valuations are based on IBES consensus. "NM" indicates companies with earnings revised down from a positive number to a negative one. GS rating: B=Buy, N=Neutral, NC=Not Covered. * indicates Asia Pacific Conviction List.*

Source: FactSet, IBES, Goldman Sachs Global Investment Research

Exhibit 19: We removed the following 12 stocks from our Reopening Beneficiaries portfolio as they no long meet the screening criteria

Ticker	Name	GICS Sub-industry	Stock performance correlation with Effective Lockdown Index		Earning revision during Covid-19 outbreak		Price	Currency	Listed mkt cap (US$bn)	6M ADVT (US$mn)	23E EPSg (%)	22-24E EPS CAGR (%)	23E PEG (X)	23E P/E (X)	24E P/E (X)	23E P/B (X)
			Feb 2020-now	Mar 2022-now	Jan-Apr 2020	Mar 2022-now										
Stocks removed from Reopening Beneficiaries portfolio																
600009 CG	Shanghai Int'l Airport	Transportation Infrastructure	-7%	-22%	-56%	NM	58.3	CNY	21.1	118	-	-	0.8	77	39	3.6
600763 CG	Topchoice Medical	Health Care Providers & Services	-61%	-39%	2%	-35%	151.1	CNY	7.0	102	22	25	2.0	58	45	11.2
1128 HK	Wynn Macau	Hotels Restaurants & Leisure	-32%	3%	NM	-	9.4	HKD	6.3	16	-	-	-	-	39	-
9922 HK	Jiumaojiu Int'l	Hotels Restaurants & Leisure	-57%	-33%	-61%	-51%	23.3	HKD	4.3	31	156	91	1.0	41	29	7.3
000516 CS	Xi'an Int'l Medical Investment	Health Care Providers & Services	-46%	-63%	-	NM	12.4	CNY	4.1	39	-	-	1.2	825	103	5.9
600258 CG	BTG Hotels	Hotels Restaurants & Leisure	-37%	8%	-84%	NM	24.6	CNY	4.0	38	-	-	0.7	32	22	2.4
002568 CS	Bairun	Beverages	-61%	-52%	8%	-57%	37.4	CNY	3.9	48	52	37	2.3	56	45	8.5
300251 CS	Beijing Enlight Media	Entertainment	-54%	-41%	-38%	-81%	9.2	CNY	3.7	21	36	27	1.4	26	22	2.6
600977 CG	China Film	Entertainment	-45%	-9%	-65%	-87%	13.3	CNY	3.6	28	668	191	2.6	27	24	2.0
002867 CS	Chow Tai Seng Jewelry	Textiles Apparel & Luxury Goods	-67%	-28%	-10%	-25%	15.3	CNY	2.4	10	18	15	0.9	11	10	2.3
000089 CS	Shenzhen Airport	Transportation Infrastructure	-46%	-14%	-65%	NM	7.9	CNY	2.3	12	-	-	0.4	393	37	1.5
000869 CS	Changyu Pioneer Wine	Beverages	-70%	-51%	-9%	-51%	30.5	CNY	2.0	7	18	19	1.8	34	28	1.9
Average			-49%	-28%	-38%	-55%	-	-	5	39	138	58	1.4	144	37	4.5
Median			-50%	-30%	-47%	-51%	-	-	4	29	36	27	1.2	41	33	2.6

Note: Prices as of Jan 5; 23E PEG = 23E PE / 24E EPS growth. Valuations are based on IBES consensus. "NM" indicates companies with earnings revised down from a positive number to a negative one.

Source: FactSet, IBES, Goldman Sachs Global Investment Research

Exhibit 20: A list of Construction/Property Cyclicals and select and Financials that could benefit from the improvement in growth momentum

		Selected industries^	Growth below MXCN for either one		<0 for either one				>1bn	>5mn							B
Ticker	Name	GICS Sub-industry	Revenue (2023E vs 2019	Earnings (2023E vs 2019)	Market cap (now vs Nov 2019)	fPB (now vs Nov 2019)	Price	Currency	Listed mkt cap (US$bn)	6M ADVT (US$mn)	23E EPSg (%)	22-24E EPS CAGR (%)	23E PEG (X)	23E P/E (X)	24E P/E (X)	23E P/B (X)	GS Ratings
Recovery beneficiaries																	
939 HK	CCB	Banks	23%	27%	-20%	-40%	5.0	HKD	153.6	124	5	7	0.4	3	3	0.4	B
000333 CS	Midea	Household Durables	37%	33%	4%	-28%	54.9	CNY	55.9	188	12	12	0.9	11	10	2.4	B*
601166 CG	Industrial Bank	Banks	37%	58%	-2%	-31%	18.1	CNY	54.7	147	14	13	0.3	4	3	0.5	B
2318 HK	Ping An Insurance	Insurance	4%	-13%	-37%	-50%	55.4	HKD	52.8	185	28	23	0.4	6	5	0.9	B
1398 HK	ICBC	Banks	26%	22%	-26%	-43%	4.1	HKD	46.0	78	5	6	0.5	3	3	0.4	B
000001 CS	Ping An Bank	Banks	45%	82%	9%	-31%	14.5	CNY	40.9	190	21	18	0.3	5	5	0.7	B
BIDU UW	Baidu	Interactive Media & Services	28%	23%	16%	-19%	132.5	USD	37.6	335	8	13	0.8	14	12	1.2	B
1109 HK	CR Land	Real Estate Mgmt & Develop.	70%	33%	12%	-25%	37.8	HKD	34.5	50	7	9	0.8	8	7	0.9	B
688 HK	COLI	Real Estate Mgmt & Develop.	52%	-13%	-16%	-33%	22.0	HKD	30.8	61	5	6	0.7	6	5	0.5	B*
600048 CG	Poly Develop.	Real Estate Mgmt & Develop.	49%	4%	16%	-17%	16.4	CNY	28.5	192	5	6	0.9	7	6	0.8	B
000651 CS	Gree	Household Durables	9%	21%	-43%	-49%	34.2	CNY	28.0	167	11	10	0.8	7	6	1.5	B
2628 HK	China Life Insurance	Insurance	16%	-17%	-29%	-47%	13.9	HKD	13.3	40	36	25	0.4	7	6	0.6	B
000338 CS	Weichai Power	Machinery	13%	-41%	-6%	-42%	10.7	CNY	10.6	46	42	42	0.3	14	10	1.2	B
002032 CS	Zhejiang Supor	Household Durables	16%	22%	-30%	-39%	50.2	CNY	5.9	10	13	13	1.4	18	16	4.5	B
3808 HK	Sinotruk	Machinery	10%	-1%	-10%	-30%	11.9	HKD	4.2	6	43	30	0.4	7	6	0.7	B
002508 CS	Robam	Household Durables	50%	34%	2%	-33%	29.7	CNY	4.1	31	14	14	0.9	13	11	2.5	B
3323 HK	CN National Building Material	Construction Materials	1%	5%	6%	-31%	6.8	HKD	4.0	18	26	24	0.2	4	3	0.4	B*
425 HK	Minth Group	Auto Components	54%	18%	-18%	-32%	21.8	HKD	3.2	5	26	26	0.4	11	9	1.2	B
603218 CG	Riyue Heavy Industry	Machinery	91%	37%	128%	-13%	21.0	CNY	3.1	36	165	87	0.7	22	17	2.1	B*
1339 HK	People's Insurance	Insurance	23%	26%	-14%	-37%	2.7	HKD	3.0	9	8	10	0.3	4	3	0.4	B
Average			33%	18%	-3%	-33%	-	-	31	96	25	20	0.6	9	7	1.2	-
Median			27%	22%	-8%	-32%	-	-	28	56	13	13	0.4	7	6	0.9	-

*Note: Prices as of Jan 5; 23E PEG = 23E PE / 24E EPS growth. Valuations are based on IBSE consensus. ^ Selected industries include ones with 2019-23E revenue/earnings growth below MXCN, excluding direct reopening beneficiaries. For every sub-industry, we keep no more than 4 stocks. GS rating: B=Buy. * indicates Asia Pacific Conviction List.*

Source: FactSet, IBES, Goldman Sachs Global Investment Research

Appendix

Exhibit 21: Key differences between Covid policies in the "20 measures", "10 measures" and the latest guidelines

Key dimension for comparison	20 measures (11 Nov 2022)	10 measures (7 Dec 2022)	New guidelines (26 Dec 2022)
Quarantine requirement for Covid cases	Centralized quarantine and treatment	Asymptomatic cases and cases with mild symptoms can choose home quarantine for recovery if they meet certain conditions, although the option for centralized quarantine and treatment is also available.	Removing the quarantine requirements for Covid cases
Quarantine time for close-contact of Covid cases or inbound travelers	Centralized quarantine for 5 days + home quarantine for 3 days	Close contacts of Covid cases can choose home quarantine if they meet certain conditions, and the restrictions will be lifted upon negative PCR test results on the fifth day of quarantine. The option for centralized quarantine and treatment is also available.	Close contacts will no longer be identified and traced. The requirements of frequent testing and centralized quarantine for inbound travelers will be abandoned. Inbound travelers will be allowed to enter the community immediately upon health declaration (a de facto "0+0" regime).
The classification of risk districts	Applying the high/low-risk district classification nationwide	Applying the high/low-risk district classification nationwide	Abandoning the risk district classification system
Criteria for the risk-level downgrading	No local case over 5 consecutive days for downgrading from high- to low-risk districts	No local case over 5 consecutive days for downgrading from high- to low-risk districts (lockdowns should be lifted timely once the criteria is met)	Abandoning the risk district classification system
Guidelines for international flights	Removing the "circuit breaker" mechanism for international flights*	Removing the "circuit breaker" mechanism for international flights	Removing various restrictions for international flights
Treatments for close contacts of close contacts	Close contacts of close contacts will no longer be identified and traced	Close contacts of close contacts will no longer be identified and traced	Close contacts of close contacts will no longer be identified and traced
Cross-regional travel	Requiring two PCR tests in three days	No requirement for negative PCR results or green health code	No requirement for negative PCR results or green health code

*This mechanism requires airline companies to temporarily ban specific routes into China for one-to-two weeks, depending on how many Covid cases were identified among passengers of the specific flights.

Source: Government websites, data compiled by Goldman Sachs Global Investment Research

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Reg AC

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