China A50 is at the beginning of a rising trend

Since the beginning of the the Year of the Loong, the A-share market has continued to fluctuate and rise, and the Shanghai Stock Exchange has also reached the 3000 point mark, but the overall valuation of A-shares is still in the global depression. How to improve the quality and investment value of listed companies, enhance the valuation of A-shares, has become an important focus and concern of the capital market. A50 also break up through the previous channel.

On March 15th, the China Securities Regulatory Commission (CSRC) launched a heavyweight new policy, including 6 out of 18 regulatory opinions on listed companies related to market value management, emphasizing the need to promote listed companies to strengthen market value management and enhance investment value. Specific measures include: researching the inclusion of market value management of listed companies in the internal and external assessment and evaluation system, and encouraging listed companies to actively attract long-term institutional investors.

"This helps to promote the awareness of shareholder returns in listed companies, more fully convey their intrinsic value, and thus drive up valuations. From the perspective of market structure, both blue chip stocks and technology growth stocks will benefit." Lu Haochuan, senior analyst at Shenwan Hongyuan Strategy, told First Financial Times that valuation is the discount of investors' expected future cash flows of a company and a quantitative reflection of the fundamentals of a listed company. It includes two categories: the value of the company itself and whether the company has conveyed its value to investors.

Taking a comprehensive view of stock market valuations in major regions around the world, the overall valuation of A-shares is still in a global slump, with valuations of blue chip and large cap stocks lower than the market average. The valuation of companies with good profitability in A-shares is also significantly lower than that of mature international markets.

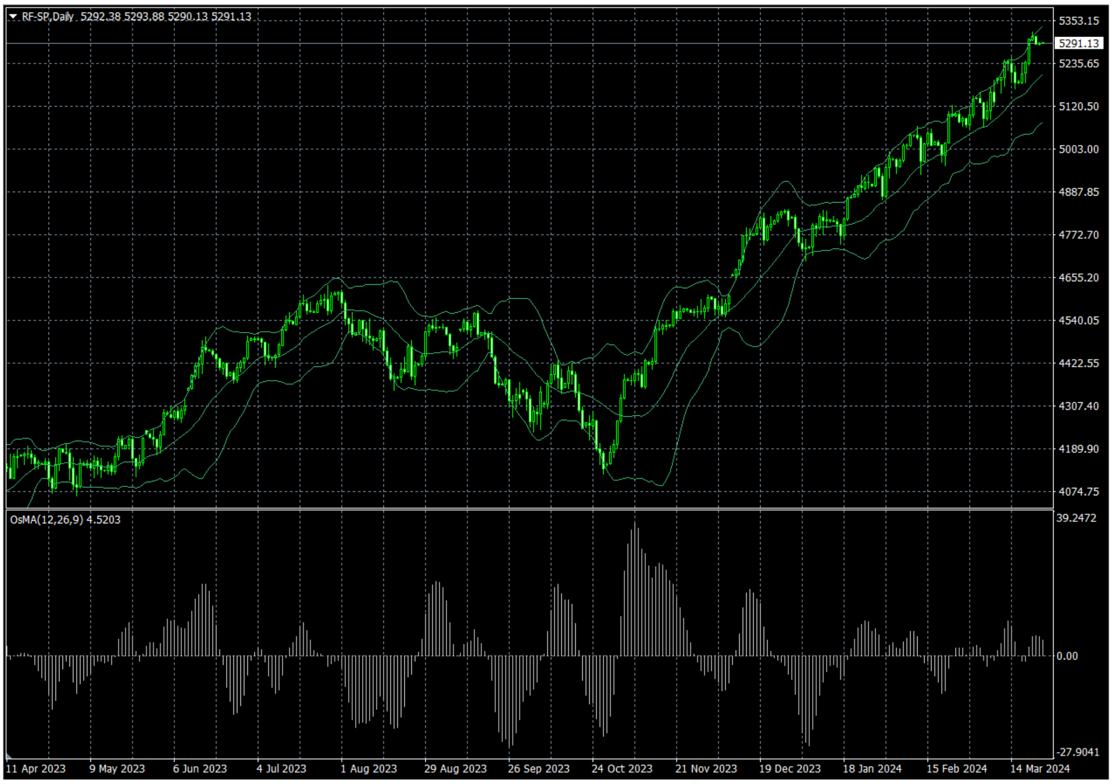
Several interviewees believe that as the market gradually matures and becomes rational, the valuation of A-share blue chip stocks and high-tech growth stocks will increase, but patience is needed. To promote the restructuring of A-share valuation, it is necessary to build a "Chinese characteristic valuation system" that covers all listed companies. The recent series of heavyweight policies launched by regulatory authorities have laid a good foundation. By strictly controlling the listing process, improving the quality of listed companies, cracking down on financial fraud, gradually optimizing delisting policies, strengthening information disclosure, and other methods, listed companies are encouraged to increase their investment value and consciously return to investors, creating a better market ecosystem, and promoting more resonance between the investment and asset sides.

The valuations of A-share large cap stocks and blue chip stocks are at a global low

The current overall valuation of A-shares is in a global slump, and the valuations of blue chip and large cap stocks are also lower than the market average.

On March 14th, data showed that the overall P/E ratios (excluding negative values) of major global stock markets ranked from high to low in India (25.4 times), the United States (20.5 times), France (16.7 times), the United Kingdom (16.2 times), Japan (15.5 times), Chinese A-shares (13.7 times), South Korea (11.4 times), and Chinese Hong Kong stocks (8.0 times). The P/E ratios of A-shares are not only lower than emerging markets such as India, but also lower than mature markets such as the United States, Japan, France, and the United Kingdom.

Comparing the valuations of major global indices, as of March 15th, the P/E ratios of the CSI 300, S&P 500, Nikkei 225, and Nifty 50 indices were 12 times, 25 times, 24 times, and 23 times respectively, with P/B ratios of 1.4 times, 4.2 times, 2.1 times, and 3.1 times, respectively. From this perspective, the valuation of the Shanghai and Shenzhen 300 Index is also at a low level.



The development experience of major mature global markets shows that blue chip and large cap stocks have stable development, standardized information disclosure, clear profit models, and usually higher valuations. However, this pattern has not been evident in the A-share market.

From the valuation of blue chip stocks, the Shanghai and Shenzhen 300 Index, representing A-share blue chip stocks, has a stock market earnings ratio of 11.1 times, which is 19% lower than the overall P/E ratio of A-share (13.7 times); The Dow Jones Industrial Average and the S&P 500 Index, representing blue chip stocks in the US, have stock market earnings ratios of 25.4 times and 24.5 times, respectively, which are 24% and 20% higher than the overall P/E ratio of the US stock market (20.5 times).

From the perspective of liquidity and activity, the development experience of major mature markets around the world shows that blue chip companies usually have better liquidity compared to other stocks due to their strong performance growth certainty, low risk of

thunderstorms, rich derivative products, and sufficient market research. This pattern has not been shown in the A-share market.
Taking March 14th as an example, in the global representative blue chip index, the trading volume of constituent stocks of the S&P 500 index (USA), Nikkei 225 index (Japan), and Hang Seng index (Hong Kong) accounted for 69%, 65%, and 59% of the local market, respectively. The trading volume of the Indian Mumbai SENSEX 30 index, which has only 30 constituent stocks, also accounted for 29% of the Mumbai exchange. However, the trading volume of A-share Shanghai and Shenzhen 300 Index constituent stocks only accounts for 26% of A-share.

Regarding the reasons for the above phenomenon, Tian Lihui, Dean of the Financial Development Research Institute of Nankai University, told First Financial reporters that this is due to the differences in concepts caused by investor structure issues, speculation problems caused by investor risk preferences, and market structures caused by professional institution professionalism issues.

From three aspects, Lu Haochuan specifically analyzed that firstly, it is related to the structure of A-share investors, mainly due to the large number of retail investors and short maturities. Therefore, more long-term investors should be introduced and long-term principles should be practiced; Secondly, the delisting channels are not smooth, which has a significant bottoming effect on the valuation of underperforming stocks; Thirdly, the subsequent growth potential of advantageous leading enterprises is relatively insufficient, while overseas large cap stocks often still have outstanding growth potential.

Xun Yugen, Chief Economist and Director of Research Institute at Haitong Securities, recently released a research report stating that the undervaluation of A-shares is due to investors' concerns about the decline in China's economic transition period growth rate.

Referring to the development experience of the United States, if the profitability of enterprises can be improved through industrial transformation and upgrading, the valuation center of China may not necessarily shift downwards. Compared to the valuation of industries in China and the United States, there is currently a gap in the valuation of information technology and optional consumption in China compared to the United States. Whether China can support economic prosperity and growth through industrial upgrading similar to the United States in the future will be the key to whether the technology+consumer industry in A-shares, especially in A-shares, can be re evaluated.

"There is room for improvement, but patience is needed"

So, do A-share large cap stocks, blue chip stocks, and high-tech growth stocks have a trend of value return and room for improvement, and what difficult problems need to be solved?

"There is definitely room for improvement, but patience is needed." Lu Haochuan believes that firstly, stock valuation depends on investors' judgment of the economic outlook, so it is necessary to patiently wait for confidence to recover; Secondly, blue chip stocks should demonstrate advantages over small and medium-sized targets, such as more stable and resilient business performance, predictable and lucrative dividend returns, etc; Furthermore, it is necessary to establish smooth delisting channels and eliminate the hidden valuation bottom of underperforming and junk stocks.

Tian Lihui also believes that A-share large cap stocks and blue chip stocks have room for valuation improvement, as these stocks are often leading companies in the industry with stable profitability and good fundamentals, making them the first choice for long-term value investment. With the improvement of market openness and the acceleration of internationalization, the valuation of A-share blue chip large cap stocks and blue chip stocks is expected to align with the international market and achieve a return to value. Moreover, the policy level is actively supporting the development of blue chip stocks.

"To achieve a valuation return for blue chip stocks, it is necessary to optimize the market system, strictly prevent market manipulation and insider trading, and provide strong support for the development of blue chip stocks. It is necessary to optimize the investor structure, promote the professionalization of institutional investors, and improve the maturity of the market. It is necessary to strengthen investor education, improve investment knowledge and skills, and establish the correct value investment concept." said Tian Lihui.

In addition to large cap stocks and blue chip stocks, how to tap into the true investment value of China's high-tech growth stocks has also attracted market attention.

According to Lu Haochuan's analysis, overseas blue chip stocks are generally high-tech growth stocks, such as Nvidia, Google, Microsoft, etc. Chinese technology stocks, while pursuing growth, do not attach enough importance to profit and cash flow, which is changing.

"Although there are differences in the valuation levels of high-tech growth stocks or related sectors both domestically and internationally, with the rapid development of the domestic high-tech industry and increased policy support, this gap is gradually narrowing," said Tian Lihui.

How to build a "Chinese characteristic valuation system"?

From a broader perspective, whether it is the valuation improvement of large cap blue chip stocks or high-tech growth stocks, what urgently needs to be addressed is the issue of value discovery and re evaluation of the overall A-share market.

"The current value of A-shares urgently needs to be explored, and promoting the reconstruction of A-share valuation is to build a 'Chinese characteristic valuation system'. To this end, the first step is to establish an evaluation system suitable for Chinese characteristic enterprises." Xun Yugen said in a research report.

Xun Yugen proposed three evaluation directions that can be referenced. Firstly, business continuity: under the background of the great power game, the significance of sustainable operation of state-owned enterprises is prominent, and the enterprise value of central state-owned enterprises should consider the value of sustainable operation; The complete industrial chain in our country is demonstrating its important value. The second is the dividend ratio: With China's dividend system focusing on guiding listed companies to actively distribute dividends, the stability of A-share dividends will continue to improve; With the continuous development of the industry, more industry enterprises have entered a mature period, and the dividend willingness of A-share listed companies will gradually improve; The third is research investment: China's economic growth needs new impetus from industrial structure transformation and upgrading. With the accelerated development of new quality productivity, market entities that focus on key core technologies are expected to reassess their growth potential.

Some industry insiders have also elaborated on the connotation of the "Chinese characteristic valuation system", stating that on the one hand, the connotation of the "Chinese characteristic valuation system" should be expanded from the value re evaluation of traditional state-owned enterprises to the value mining and re evaluation of new economy enterprises represented by science and technology innovation board companies. On the other hand, state-owned enterprises, especially central state-owned enterprises, are stabilizers and ballast stones of the capital market. With the introduction of a series of policy measures by the China Securities Regulatory Commission and the optimization of the assessment methods by the State owned Assets Supervision and Administration

Commission, central state-owned enterprises are actively practicing social responsibility in the capital market, continuously providing better returns to investors through professional integration, cash dividends, and other methods.

In Tian Lihui's view, the "Chinese characteristic valuation system" is to establish a set of valuation standards and methods for listed companies that are in line with China's national conditions in the context of China's economic development stage, industrial structure, market characteristics, and policy environment. This system not only considers traditional financial indicators and market performance, but also fully combines factors such as China's institutional advantages, development potential, and the competitive situation of specific industries, so as to more comprehensively and accurately reflect the true value of Chinese listed companies.

So, what is the practical path for the "Chinese characteristic valuation system" and how can it solve the problem of value discovery and re evaluation of the entire A-share market?

"On the implementation path, it is still necessary to work together from multiple parties, urging listed companies to cultivate their internal skills and tell the story of China well. It is also necessary to guide investors to pay attention to the many differences between the capital markets of China and the West, and to value the unique advantages of high-quality assets in China," said Lu Haochuan.

Xun Yugen believes that the construction and development of a "Chinese characteristic valuation system" also relies on the active participation of the capital market. Specifically, it may be possible to refer to the development experience of the ESG system. In the early stages of developing a special evaluation system, different enterprises are scored based on the three evaluation indicators mentioned above. Then, higher scoring enterprises are further

selected to develop a special evaluation index system, such as the 100 index, 200 index, 500 index, etc., and corresponding ETFs are implemented on this basis; At the policy level, guidance for the entry of long-term funds into the market can be further increased by setting hard standards and strengthening information disclosure. Ultimately achieving a virtuous cycle between the development of a "Chinese characteristic valuation system" and the active capital market.
In terms of improving the valuation of A-shares, Lu Haochuan believes that it is necessary to focus on improving the quality of listed companies and strictly controlling their listing. Based on this, gradually optimize delisting policies, eliminate some poorly performing listed companies, reward good companies and punish fraudulent companies in the valuation system, and form a positive cycle between the enterprise and investment sides.

As a conclusion, China A50 will follow the China Shanghai index and A-Share trends, in 1-2 years time, it will maintain a general upside trend.