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China Equity Strategy | Asia Pacific

3Q23 Earnings Interim Review: Broad Disappointment So Far

Key Takeaways

- Interim review based on results for 31% of MSCI China (by index weight); 100% of A-shares have finished reporting.
- 3Q earnings delivery worsened QoQ; MSCI China will show a notably deteriorated set of results if this trend continues into the final cut.
- Only onshore-based Utilities and Consumer Discretionary companies posted net beats; remaining sectors all delivered net misses, both onshore and offshore.
- Consensus earnings estimates revision breadth staying negative; downward cut re-acceleration likely though Nov.

For MSCI China, reported earnings missed consensus by number of companies (-35%), and were in line if measured by weighted surprise (-3%). (Exhibit 1, Exhibit 2). **For A shares** (MSCI China A Onshore), earnings delivery missed consensus by both number of companies (-33%) and weighted surprise (-8%).

In revenue terms, MSCI China reported revenue missed consensus by number of companies (-31%) and was in line if measured by weighted surprise (-2%). A-shares revenue delivery was similar with reported revenue missing consensus by number of companies (-29%) while being in-line if measured by weighted surprise (-3%). The size of the net miss by number of companies worsened vs. 2Q23 (-23%).

Sector observations: Consumer Staples, Financials, IT and Materials posted double misses by both number of companies and weighted surprise for MSCI China and A-shares. Real Estate's results have further deteriorated vs. 2Q23 for both onshore and offshore listed Chinese equities. Only A-share listed Utilities and Consumer Discretionary companies have delivered net earnings beats so far in 3Q23.

Consensus earnings will likely decline further: Both A-shares and reported MSCI China will record 9 consecutive quarters of earnings result misses if the final result follows a similar pattern to the interim cut. Downward earnings revisions could reaccelerate as a result and last well through Nov. Disappointing Oct PMI suggests that the deflationary pressure still lingers and may weigh on 4Q corporates earnings. We now believe that the chance of another quarterly miss in 4Q23 has risen, implying a prolonged earnings cut cycle into 1Q24. For an earlier equity market recovery than that, we believe meaningful step-up of policy easing, productive US/China relationship restoration, more transparent and committed Huijin purchase of stocks, and housing market stabilization would help restoring investor confidence, before corporate fundamentals/earnings finally bottom out and catch up, which should be no earlier than 2023 year-end.

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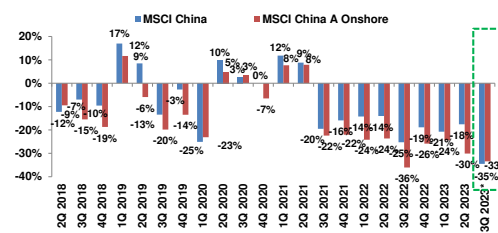
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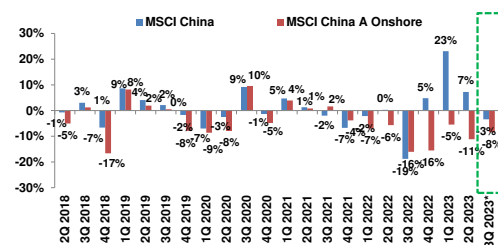
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Exhibit 1 : History of China equity market quarterly earnings surprises by number of companies (MSCI China and A-share) – 3Q23 earnings delivery for both indices missed consensus the most since 2018



Source: MSCI, Bloomberg, Morgan Stanley Research. Data as of October 31, 2023. *Data is based on Interim review for MSCI China and final cut for MSCI China A Onshore.

Exhibit 2 : History of China equity market quarterly earnings surprises by weighted surprise (MSCI China and A-share) – A shares delivered net miss for 3Q23 consensus earnings, while MSCI China was in-line



Source: MSCI, Bloomberg, Morgan Stanley Research. Data as of October 31, 2023. *Data is based on Interim review for MSCI China and final cut for MSCI China A Onshore.

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MSCI China Earnings Surprises – 3Q23 Interim Review: Notable Miss By Number Of Companies

Note: As of October 31, 2023, 609 companies in MSCI China had reported 3Q23 results. Our analysis of MSCI China earnings surprises is based on constituent companies that have reasonable quality data for consensus estimates, comprising 452 companies in MSCI China, representing 60% of the index by number of companies and 31% by market cap/index weight.

Key observations

1) At the aggregate index level, reported earnings fell short of consensus earnings forecasts significantly by number of companies (-35%), but were in line if measured by weighted surprise (-3%) (Exhibit 4): Based on 31% of index weight reported so far, the degree of net miss by number of companies increased vs. 2Q23 (-18%). The net beat by weighted surprise reduced meaningfully vs. 2Q23 (+7%).

2) Sectors with earnings beats: None.

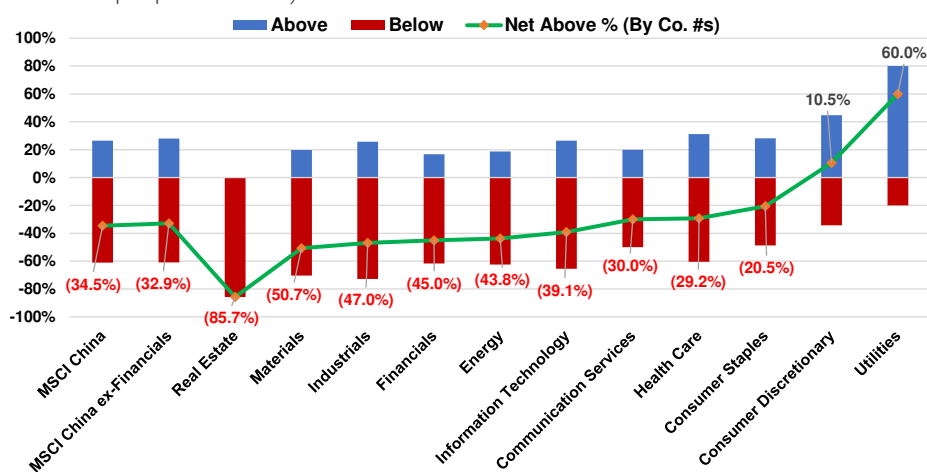
3) Sectors with earnings misses: Out of the sectors with no less than 30% of sector market cap reported so far, Consumer Staples, Financials, IT and Materials, are the sectors with double misses. Energy and Industrials missed by one of the measures.

- With 48% of sector market cap reported so far, Consumer Staples has posted a double miss. Key drags were Muyuan Foods, Haitian, and Tsingtao Brewery (on weak sales with a profit miss).
- With 91% of sector market cap reported so far, Energy has missed consensus earnings by number of companies. The results were in line if measured by weighted surprise. Main drags included Jereh (due to FX impact and revenue mix change), Shaanxi Coal (on ASP pressure and surge in SG&A), and Yankuang (domestic ASPs recorded declines across regions).
- With 68% of sector market cap reported so far, Financials has missed consensus earnings by number of companies and weighted surprise. We saw large pressure on fees and commissions, while investment income varied widely among brokers. Banks generally reported weaker than expected revenue in 3Q23 on NIM and fee pressure. Main drags were China Life (suffered from equity market fluctuations), New China Life Insurance (net loss was caused by equity fluctuations), and ICBC (on higher-than-expected NIM pressure).
- With 45% of sector market cap reported so far, Industrials has delivered mixed results by posting a net beat by weighted surprise and net miss by number of companies. The divergence was driven by a beat by WeiChai Power (thanks to stronger-than-expected gross margin expansion), but with weakness generally elsewhere in the sector. Main drags were CRRC, Sany Heavy Industry (on continued weak domestic excavator demand and overseas demand slowdown), and Shanghai Electric (driven by production suspension, transportation and shipment delays).
- With 45% of sector market cap reported so far, IT has posted a double miss by both number of companies and weighted surprise. Main drags were BOE

Technology, Silan Micro (due to competition, capacity loss of product mix adjustment and fixed cost increase), and iFlytek (on pending government-related spending and ongoing inputs to its Spark AI Model).

- With 76% of sector market cap reported so far, Materials has missed consensus by both number of companies and weighted surprise. Key drags included CMOC (on excessive tax expenses), Ganfeng Lithium (on Likely Lithium Conversion Losses and Weak Investment Income), Zijin (on lower margins), and Wanhua (dragged down by lower non-operating income, higher finance cost, and a higher tax rate).

Exhibit 3: MSCI China sector-level earnings surprises for 3Q23 by number of companies – Significant net miss at the aggregate level, with no sector posting a net beat by number of companies (out of the sectors with no less than 30% of sector market cap reported so far)



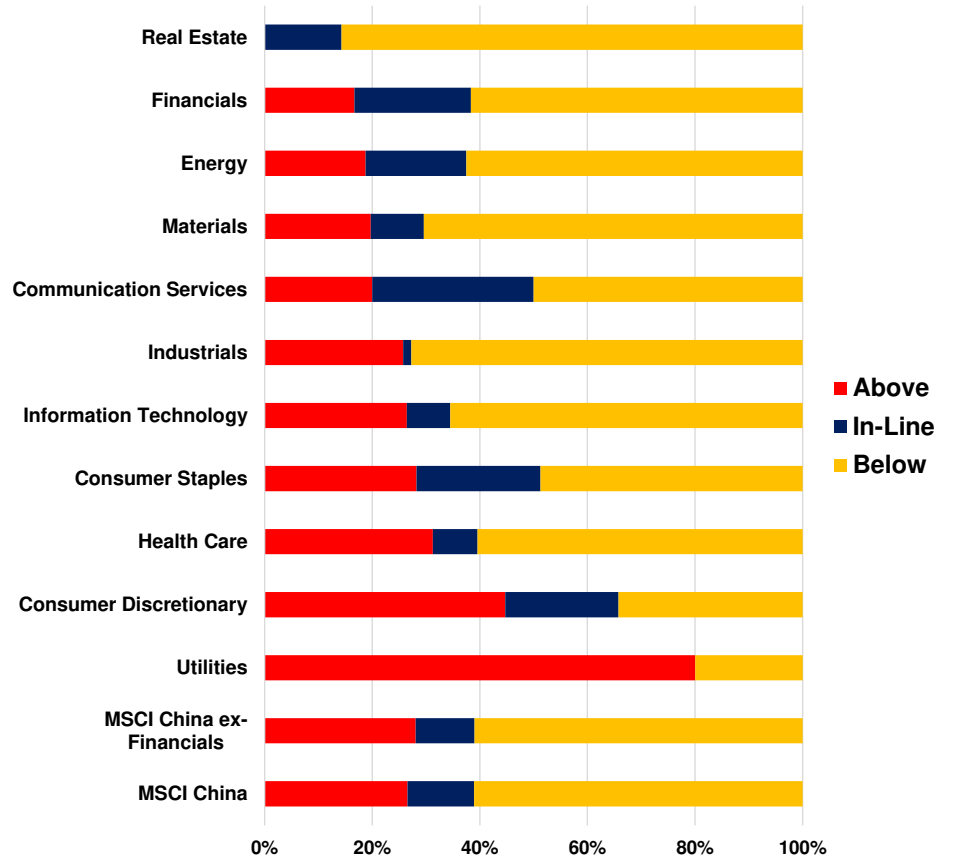
Source: MSCI, Bloomberg, Morgan Stanley Research. Data as of October 31, 2023. Utilities and Consumer Discretionary have both less than 30% of sector market cap reported so far.

Exhibit 4: MSCI China detailed sector- and industry-level 3Q23 earnings – Notable net miss by number of companies and in-line if measured by weighted surprise so far

Sector/ Industry Group	Earnings			Surprise Ratios				
	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China	452	60%	31%	27%	12%	61%	(34.5%)	(2.9%)
China ex-Financials	392	59%	24%	28%	11%	61%	(32.9%)	2.6%
Communication Services	10	38%	1%	20%	30%	50%	(30.0%)	(12.2%)
Media & Entertainment	9	38%	1%	22%	22%	56%	(33.3%)	(15.9%)
Telecommunication Services	1	50%	23%	0%	100%	0%	0.0%	(2.9%)
Consumer Discretionary	38	54%	16%	45%	21%	34%	10.5%	25.3%
Automobiles & Components	19	68%	47%	47%	16%	37%	10.5%	44.9%
Consumer Durables & Apparel	8	57%	5%	38%	38%	25%	12.5%	2.6%
Consumer Services	7	47%	25%	71%	0%	29%	42.9%	4.4%
Consumer Discretionary Distribution & Retail	4	29%	2%	0%	50%	50%	(50.0%)	(4.5%)
Consumer Staples	39	67%	48%	28%	23%	49%	(20.5%)	(7.5%)
Consumer Staples Distribution & Retail	3	50%	7%	0%	33%	67%	(66.7%)	(19.3%)
Food Beverage & Tobacco	34	71%	54%	32%	21%	47%	(14.7%)	(7.3%)
Household & Personal Products	2	50%	17%	0%	50%	50%	(50.0%)	(4.5%)
Energy	16	67%	91%	19%	19%	63%	(43.8%)	(0.1%)
Coal & Consumable Fuels	8	62%	88%	0%	13%	88%	(87.5%)	(16.2%)
Integrated Oil & Gas	4	80%	99%	75%	25%	0%	75.0%	12.7%
Oil & Gas Exploration & Production	3	75%	51%	0%	33%	67%	(66.7%)	(34.2%)
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	1	50%	53%	0%	0%	100%	(100.0%)	(11.9%)
Financials	60	63%	68%	17%	22%	62%	(45.0%)	(13.3%)
Banks	33	94%	85%	27%	33%	39%	(12.1%)	(2.8%)
Financial Services	20	43%	69%	5%	10%	85%	(80.0%)	(21.3%)
Insurance	7	54%	28%	0%	0%	100%	(100.0%)	(77.1%)
Health Care	48	59%	26%	31%	8%	60%	(29.2%)	(1.7%)
Industrials	66	57%	45%	26%	2%	73%	(47.0%)	15.8%
Capital Goods	53	63%	62%	19%	2%	79%	(60.4%)	18.5%
Commercial & Professional Services	2	67%	29%	100%	0%	0%	100.0%	18.7%
Transportation	11	39%	16%	45%	0%	55%	(9.1%)	(2.0%)
Information Technology	87	73%	45%	26%	8%	66%	(39.1%)	(21.0%)
Semiconductors & Semiconductor Equipment	42	86%	68%	21%	7%	71%	(50.0%)	(35.3%)
Software & Services	11	58%	45%	27%	0%	73%	(45.5%)	(34.2%)
Technology Hardware & Equipment	34	65%	34%	32%	12%	56%	(23.5%)	(3.6%)
Materials	71	66%	76%	20%	10%	70%	(50.7%)	(16.2%)
Chemicals	42	79%	87%	17%	12%	71%	(54.8%)	(32.7%)
Construction Materials	7	88%	100%	14%	0%	86%	(71.4%)	13.6%
Metals & Mining	22	50%	68%	27%	9%	64%	(36.4%)	(12.6%)
Others	0	0%	0%	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	7	26%	6%	0%	14%	86%	(85.7%)	(112.1%)
Utilities	10	34%	26%	80%	0%	20%	60.0%	57.1%

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023. For a given sector/industry group, "Market Cap Wtd Surprise (%)" is calculated as sum of products of stock level earnings beat / miss % and index weight of the stock in MSCI China divided by % of market cap reported within the given sector/industry group.

Exhibit 5: MSCI China 3Q23 earnings surprises by sector measured by number of companies



Source: MSCI, Bloomberg, Morgan Stanley Research. Data as of October 31, 2023

MSCI China Revenue Surprises – 3Q23 Interim Review: Significant Net Miss by Number of Companies

Note: As of October 31, 2023, 609 companies in MSCI China have reported 3Q23 results. Our analysis of MSCI China revenue surprises is based on non-financial constituent companies that have reasonable quality data for consensus estimates, comprising 262 companies in MSCI China, representing 40% of the index by number of companies and 15% by market cap/index weight.

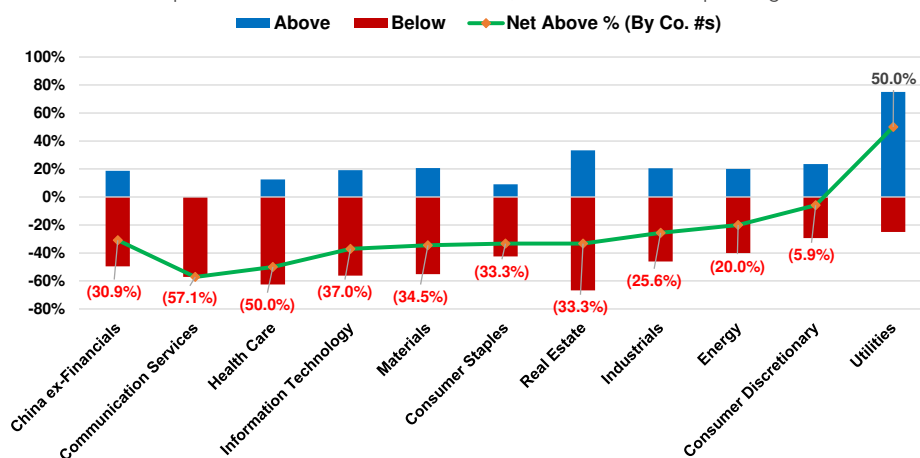
Key observations

1) At the aggregate index level, reported revenue has missed consensus by number of companies (-31%) so far: The net miss increased vs. 2Q23 at -16%. If measured by weighted surprise, reported revenue has been in line with consensus (-2%) in 3Q23. (Exhibit 7). We will keep watching to see if this trend continues into the final cut.

2) Sector-level beats: Out of the sectors with no less than 20% of sector market cap reported so far, no sector posted a beat.

3) Sector-level misses: Out of the sectors with no less than 20% of sector market cap reported so far, IT and Healthcare have posted a double miss. Consumer Staples, Industrials, Materials, and Energy have missed by one of the measures.

Exhibit 6: MSCI China sector-level (ex-financials) revenue surprises for 3Q23 by number of companies – Wider net miss than 2Q23 with no sector posting a beat so far



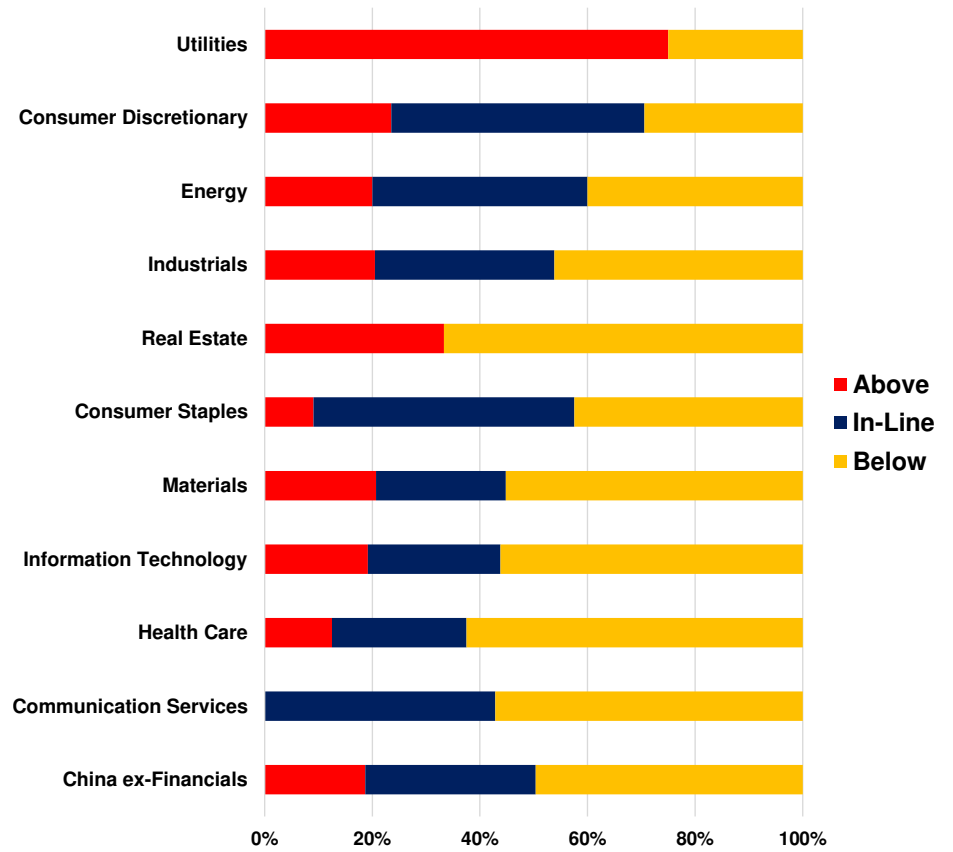
Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023.

Exhibit 7: MSCI China: Detailed sector and industry-level (ex-financials) 3Q23 revenue – notable net miss by number of companies and in-line if measured by weighted surprise so far

Revenue				Surprise Ratios				
Sector/ Industry Group	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China ex-Financials	262	40%	15%	19%	32%	50%	(30.9%)	(2.1%)
Communication Services	7	27%	1%	0%	43%	57%	(57.1%)	(6.8%)
Media & Entertainment	7	29%	1%	0%	43%	57%	(57.1%)	(6.8%)
Telecommunication Services	0	0%	0%	-	-	-	-	-
Consumer Discretionary	34	48%	16%	24%	47%	29%	(5.9%)	(0.3%)
Automobiles & Components	17	61%	47%	29%	35%	35%	(5.9%)	(0.4%)
Consumer Durables & Apparel	7	50%	5%	14%	57%	29%	(14.3%)	1.9%
Consumer Services	7	47%	25%	29%	57%	14%	14.3%	(0.3%)
Consumer Discretionary Distribution & Retail	3	21%	1%	0%	67%	33%	(33.3%)	(0.8%)
Consumer Staples	33	57%	45%	9%	48%	42%	(33.3%)	(3.2%)
Consumer Staples Distribution & Retail	3	50%	7%	0%	0%	100%	(100.0%)	(11.2%)
Food Beverage & Tobacco	28	58%	51%	11%	50%	39%	(28.6%)	(3.1%)
Household & Personal Products	2	50%	17%	0%	100%	0%	0.0%	(0.5%)
Energy	5	21%	56%	20%	40%	40%	(20.0%)	1.9%
Coal & Consumable Fuels	1	8%	0%	0%	100%	0%	0.0%	-
Integrated Oil & Gas	2	40%	99%	50%	50%	0%	50.0%	3.3%
Oil & Gas Exploration & Production	2	50%	41%	0%	0%	100%	(100.0%)	(23.9%)
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	0	0%	0%	-	-	-	-	-
Health Care	32	39%	23%	13%	25%	63%	(50.0%)	(6.3%)
Industrials	39	34%	29%	21%	33%	46%	(25.6%)	(2.2%)
Capital Goods	26	31%	37%	19%	31%	50%	(30.8%)	(1.7%)
Commercial & Professional Services	1	33%	15%	0%	100%	0%	0.0%	(4.0%)
Transportation	12	43%	16%	25%	33%	42%	(16.7%)	(4.0%)
Information Technology	73	61%	37%	19%	25%	56%	(37.0%)	(8.9%)
Semiconductors & Semiconductor Equipment	35	71%	58%	23%	26%	51%	(28.6%)	(8.1%)
Software & Services	12	63%	46%	0%	17%	83%	(83.3%)	(11.0%)
Technology Hardware & Equipment	26	50%	25%	23%	27%	50%	(26.9%)	(8.9%)
Materials	29	27%	24%	21%	24%	55%	(34.5%)	(0.6%)
Chemicals	22	42%	47%	18%	32%	50%	(31.8%)	(5.3%)
Construction Materials	3	38%	64%	67%	0%	33%	33.3%	14.4%
Metals & Mining	4	9%	2%	0%	0%	100%	(100.0%)	(31.9%)
Others	0	0%	0%	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	6	22%	6%	33%	0%	67%	(33.3%)	(8.7%)
Utilities	4	14%	14%	75%	0%	25%	50.0%	21.8%

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023. For a given sector/industry group, "Market Cap Wtd Surprise (%)" is calculated as sum of products of stock level earnings beat / miss % and index weight of the stock in MSCI China divided by % of market cap reported within the given sector/industry group.

Exhibit 8: MSCI China 3Q23 revenue surprise by sector measured by number of companies



Source: MSCI, Bloomberg, Morgan Stanley Research. Data as of October 31, 2023.

A-share Earnings Surprises – 3Q23 Final Cut: The Second Largest Net Miss since 2018

Note: We use constituents of MSCI China A Onshore Index as a proxy for the A-share stock universe. As of October 31, 2023, all A-share companies have reported 3Q23 results. Our analysis of A-share earnings surprises is based on A-share listed companies that have reasonable quality data for consensus estimates, comprising 515 companies of the MSCI China A Onshore Index, representing 65% of the index by number of companies and 81% by market cap/index weight.

Key observations

1) At the aggregate index level, reported earnings fell short of consensus earnings forecasts significantly by both number of companies (-33%) and weighted surprise (-8%) (Exhibit 10): 3Q23 saw the second largest earnings net miss by number of companies since we started tracking earnings surprises in 2018 (3Q22 saw the biggest earnings net miss by number of companies at -36%). If measured by weighted surprise, this is a marginally better set of results than 2Q23 at -11%.

2) Sectors with earnings beats: Only two sectors, namely Utilities and Consumer Discretionary, posted a net beat by both number of companies and weighted surprise.

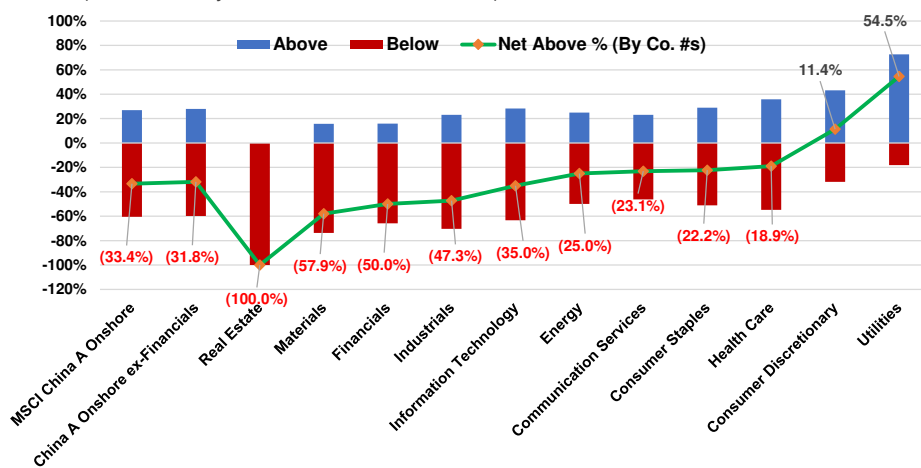
- l Utilities posted a decisive beat by both number of companies and weighted surprise, the key contributors are Huaneng Power and Yangtze Power.
- l Consumer Discretionary beat consensus earnings by both measures. At sub-segments level, Auto (e.g., [BYD Company Limited](#); Great Wall Motor Company Limited and Chongqing Changan Automobile) and Consumer Services (e.g., BTG Hotels Group Co Ltd and [Songcheng Performance Development Co Ltd](#)) delivered net beat earnings results.

3) Sectors with earnings misses: 7 sectors out of 11 missed consensus earnings by both number of companies and weighted surprise. Two sectors, namely Healthcare and Industrials, missed by number of companies only.

- l Communication Service missed consensus earnings by both number of companies and weighted surprise. Key drags were [G-bits Network Technology](#), Kunlun Tech and [Perfect World](#).
- l Consumer Staples and all its sub-segments missed consensus earnings on both counts. The main contributors were Muyuan Foods, Yuan Longping High-tech Agricultural, Bright Dairy and Wens Foodstuff.
- l Energy missed consensus earnings in 3Q by number of companies and the results were barely in line if measured by weighted surprise. [Shaanxi Coal Industry](#) was the biggest drag due to the ongoing decline in coal prices. [Yankuang Energy](#) also disappointed.
- l Financials missed consensus earnings on both counts, led by Insurance. For [Insurance](#), led by [China Life](#) and New China life, the disappointing earnings were a result of equity market weakness. For [banks](#), notable NIM and fee

- income pressures continued to weigh on PPOP growth. **Brokers**, led by China Industrial Securities and Shenwan Hongyuan Securities, were largely pressured by declining brokerage fees and lower commission rates.
- Healthcare missed consensus earnings by number of companies while the results came in-line if measured by weighted surprise. Key drags were **Dian Diagnostics Group**, Beijing WanTai and Porton Pharma.
- Industrials missed by number of companies, led by Capital Goods. Main drags included Farasis Energy, Zhejiang Chint Electrics, **Shanghai Electric** (the net losses was mainly driven by production suspension, transportation and shipment delays brought on by COVID-19) and **Ming Yang Smart Energy**. For Transportation, **Shanghai International Airport** and **STO Express** (sustained earnings pressure for STO amid intensified industry competition) also had disappointing earnings readings.
- IT posted a double miss by both number of companies and weighted surprise. Major contributors to the miss included **VeriSilicon Microelectronics Shanghai** (3Q23 earnings was loss making due to license revenue volatility), **Wuhan Jingce Electronic Group Co Ltd** (price competition and softer demand might have negatively impacted capex sentiment), **Suzhou Novosense Microelectronics Co Ltd** (the pricing environment remains challenging for Greater China analog players) and Sanan Optoelectronics.
- Materials missed on both counts notably. Key drags are **Ganfeng Lithium** (on likely lithium conversion losses and weak investment income), **Shenzhen Dynanonic Co Ltd** (on inventory loss and pricing pressure from downstream customers), **CMOC Group** and Qinghai Salt Lake.
- Real Estate posted a double miss. Key contributors to the miss were **Poly Developments and Holdings Group**, Overseas Chinese Town and Greenland holdings. Major property developers' sales recovery was weaker than expectations, thus more policy stimulus could be key to sustaining the recovery.

Exhibit 9: MSCI China A Onshore sector-level earnings surprises for 3Q23 by number of companies – Only 2 sectors out of 11 have posted a net beat



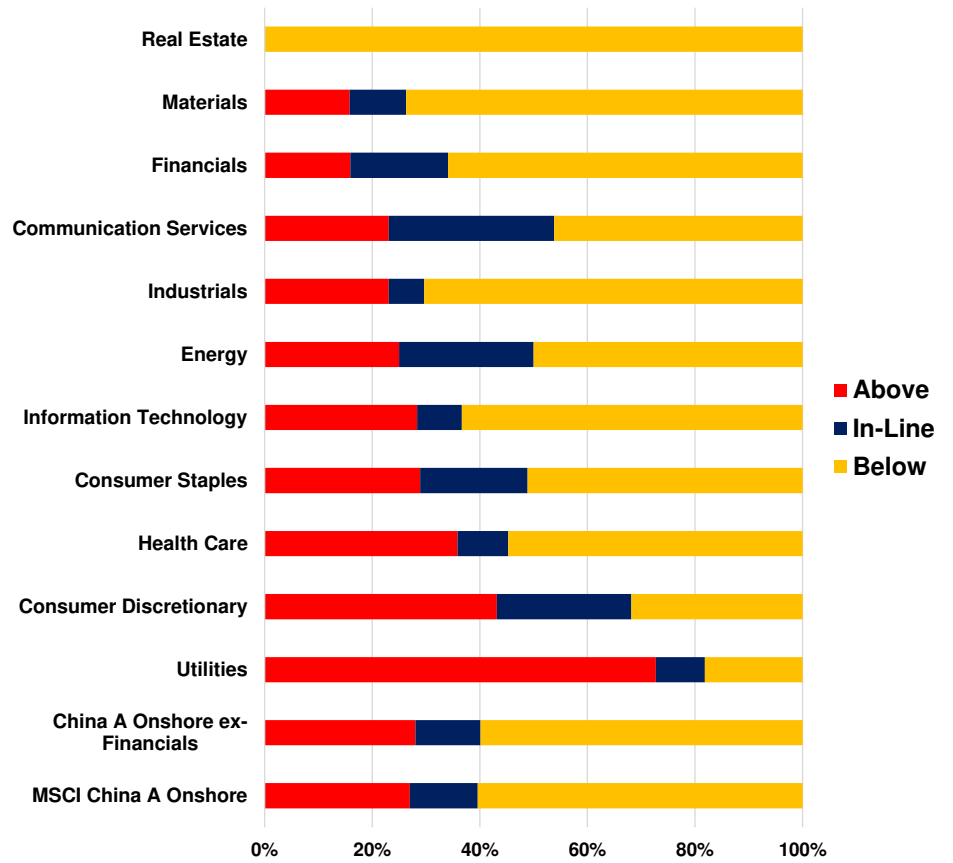
Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023.

Exhibit 10: MSCI China A Onshore detailed sector- and industry-level 3Q23 earnings – Major miss by both number of companies and weighted surprise

Sector/ Industry Group	Earnings			Surprise Ratios				
	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China	515	65%	81%	27%	13%	60%	(33.4%)	(8.4%)
China ex-Financials	471	66%	81%	28%	12%	60%	(31.8%)	(8.2%)
Communication Services	13	62%	80%	23%	31%	46%	(23.1%)	(8.5%)
Media & Entertainment	10	56%	68%	20%	20%	60%	(40.0%)	(16.7%)
Telecommunication Services	3	100%	100%	33%	67%	0%	33.3%	0.6%
Consumer Discretionary	44	79%	88%	43%	25%	32%	11.4%	19.7%
Automobiles & Components	21	75%	87%	48%	14%	38%	9.5%	34.6%
Consumer Durables & Apparel	14	88%	93%	36%	43%	21%	14.3%	0.9%
Consumer Services	4	100%	100%	75%	0%	25%	50.0%	16.6%
Consumer Discretionary Distribution & Retail	5	63%	85%	20%	40%	40%	(20.0%)	(9.8%)
Consumer Staples	45	85%	95%	29%	20%	51%	(22.2%)	(7.8%)
Consumer Staples Distribution & Retail	6	100%	100%	0%	33%	67%	(66.7%)	(28.4%)
Food Beverage & Tobacco	35	81%	95%	34%	17%	49%	(14.3%)	(7.2%)
Household & Personal Products	4	100%	100%	25%	25%	50%	(25.0%)	(10.5%)
Energy	12	57%	78%	25%	25%	50%	(25.0%)	(4.3%)
Coal & Consumable Fuels	5	50%	73%	0%	20%	80%	(80.0%)	(14.3%)
Integrated Oil & Gas	2	67%	88%	50%	50%	0%	50.0%	5.4%
Oil & Gas Exploration & Production	4	80%	92%	50%	25%	25%	25.0%	6.4%
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	1	33%	39%	0%	0%	100%	(100.0%)	(11.9%)
Financials	44	52%	82%	16%	18%	66%	(50.0%)	(9.1%)
Banks	25	81%	96%	28%	28%	44%	(16.0%)	3.7%
Financial Services	15	31%	56%	0%	7%	93%	(93.3%)	(33.2%)
Insurance	4	80%	94%	0%	0%	100%	(100.0%)	(24.8%)
Health Care	53	64%	80%	36%	9%	55%	(18.9%)	2.3%
Industrials	91	60%	74%	23%	7%	70%	(47.3%)	(2.9%)
Capital Goods	73	58%	73%	16%	7%	77%	(60.3%)	(6.6%)
Commercial & Professional Services	3	75%	77%	67%	0%	33%	33.3%	18.7%
Transportation	15	68%	77%	47%	7%	47%	0.0%	11.7%
Information Technology	120	74%	83%	28%	8%	63%	(35.0%)	(21.8%)
Semiconductors & Semiconductor Equipment	53	85%	89%	23%	11%	66%	(43.4%)	(32.2%)
Software & Services	19	66%	74%	21%	5%	74%	(52.6%)	(41.9%)
Technology Hardware & Equipment	48	68%	81%	38%	6%	56%	(18.8%)	(6.3%)
Materials	76	60%	72%	16%	11%	74%	(57.9%)	(20.2%)
Chemicals	48	73%	85%	15%	10%	75%	(60.4%)	(27.7%)
Construction Materials	6	86%	93%	0%	0%	100%	(100.0%)	(28.0%)
Metals & Mining	22	43%	55%	23%	14%	64%	(40.9%)	(3.6%)
Others	0	0%	0%	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	6	40%	67%	0%	0%	100%	(100.0%)	(98.6%)
Utilities	11	48%	79%	73%	9%	18%	54.5%	20.1%

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023. For a given sector/industry group, "Market Cap Wtd Surprise (%)" is calculated as sum of products of stock level earnings beat / miss % and index weight of the stock in MSCI China divided by % of market cap reported within the given sector/industry group.

Exhibit 11: MSCI China A Onshore 3Q23 earnings surprises by sector, measured by number of companies



Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023.

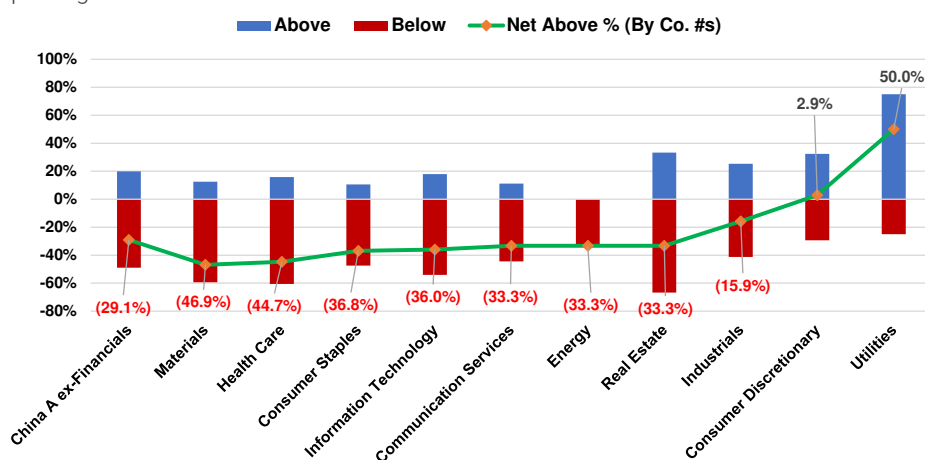
A-share Revenue Surprises – 3Q23 Final Cut: The Second Largest Net Miss since 2018

Note: We use constituents of MSCI China A Onshore Index as a proxy for the A-share stock universe. As of October 31, 2023, all A-share companies have reported 3Q23 results. Our analysis of A-share revenue surprises is based on non-Financial A-share listed companies that have reasonable quality data for consensus estimates, composed of 327 non-Financial companies of MSCI Onshore A-share Index representing 46% of the index by number of companies and 52% by market cap/index weight.

Key observations

- 1) At the aggregate index level, reported revenue has missed consensus notably by number of companies:** If measured by weighted surprise, reported revenue was in line with consensus. The size of net miss (-29%) in 3Q23 is marginally worse than 3Q22 (vs. -27% in 3Q22). Overall this is a worse set of results than 3Q22, implying aggregate demand remains weak.
- 2) Sector-level beats:** Only Utilities beat consensus revenue estimates measured by both number of companies and weighted surprise.
- 3) Sector-level in-line:** Consumer Discretionary posted in-line on both counts.
- 4) Sector-level misses:** Real Estate, Healthcare, Materials and Information Technology missed consensus revenue by both number of companies and weighted surprise. Communication Service, Energy, Consumer Staples and Industrials miss by one of the measures.

Exhibit 12: MSCI China A Onshore sector-level (ex-financials) revenue surprises for 3Q23 by number of companies – Notable net miss at the index level with only 1 sector posting a net beat



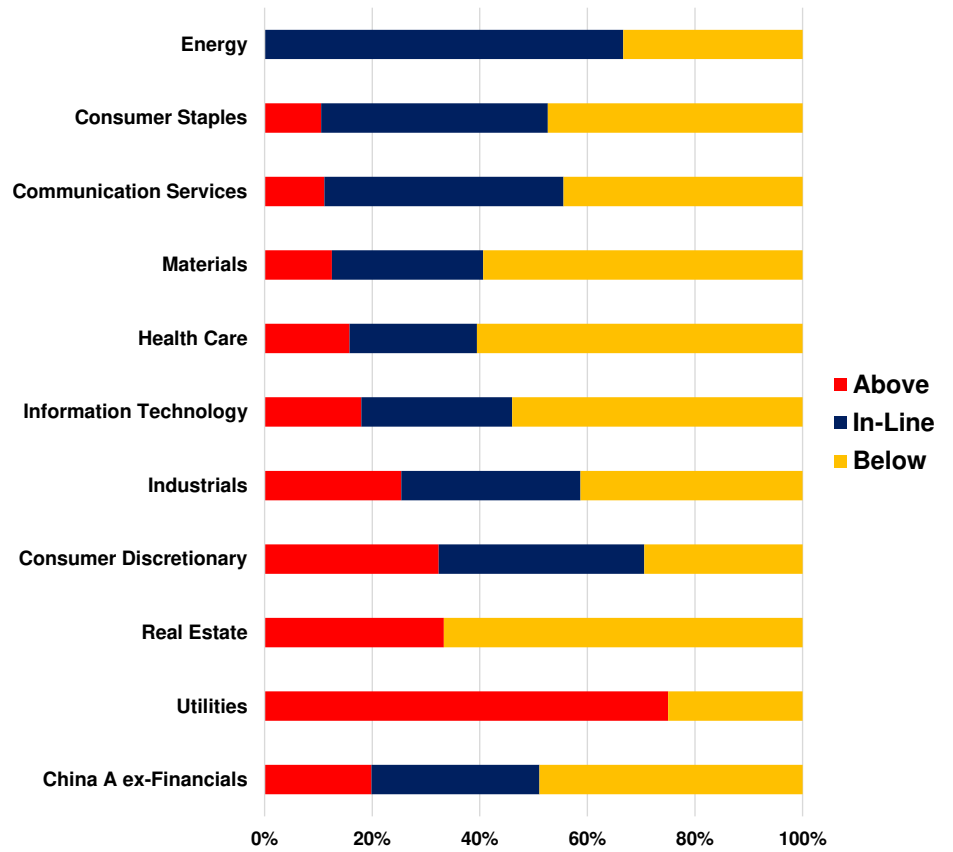
Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023.

Exhibit 13: MSCI China A Onshore detailed sector- and industry-level (ex-financials) 3Q23 revenue – Reported revenue has missed consensus by number of companies notably but in-line if measured by weighted surprise

Sector/ Industry Group	Revenue			Surprise Ratios				
	# of Cos. Reported	% of Cos. Reported	% Mkt Cap reported	Above	In-Line	Below	Net +ve	Market Cap Wtd Surprise (%)
China A ex-Financials	327	46%	52%	20%	31%	49%	(29.1%)	(3.0%)
Communication Services	9	43%	38%	11%	44%	44%	(33.3%)	(3.2%)
Media & Entertainment	9	50%	61%	11%	44%	44%	(33.3%)	(3.2%)
Telecommunication Services	0	0%	0%	-	-	-	-	-
Consumer Discretionary	34	61%	78%	32%	38%	29%	2.9%	2.1%
Automobiles & Components	15	54%	77%	47%	20%	33%	13.3%	4.4%
Consumer Durables & Apparel	14	88%	93%	21%	50%	29%	(7.1%)	(1.0%)
Consumer Services	4	100%	100%	25%	50%	25%	0.0%	(2.5%)
Consumer Discretionary Distribution & Retail	1	13%	52%	0%	100%	0%	0.0%	(0.7%)
Consumer Staples	38	72%	89%	11%	42%	47%	(36.8%)	(2.6%)
Consumer Staples Distribution & Retail	5	83%	87%	0%	0%	100%	(100.0%)	(10.3%)
Food Beverage & Tobacco	29	67%	88%	14%	48%	38%	(24.1%)	(2.4%)
Household & Personal Products	4	100%	100%	0%	50%	50%	(50.0%)	(3.4%)
Energy	3	14%	23%	0%	67%	33%	(33.3%)	(0.9%)
Coal & Consumable Fuels	1	10%	29%	0%	100%	0%	0.0%	3.2%
Integrated Oil & Gas	0	0%	0%	-	-	-	-	-
Oil & Gas Exploration & Production	2	40%	57%	0%	50%	50%	(50.0%)	(8.4%)
Oil & Gas Refining & Marketing	0	-	-	-	-	-	-	-
Others	0	0%	0%	-	-	-	-	-
Health Care	38	46%	67%	16%	24%	61%	(44.7%)	(6.3%)
Industrials	63	41%	52%	25%	33%	41%	(15.9%)	0.2%
Capital Goods	45	36%	46%	27%	29%	44%	(17.8%)	(5.2%)
Commercial & Professional Services	2	50%	41%	0%	50%	50%	(50.0%)	(4.0%)
Transportation	16	73%	82%	25%	44%	31%	(6.3%)	14.0%
Information Technology	100	62%	74%	18%	28%	54%	(36.0%)	(6.7%)
Semiconductors & Semiconductor Equipment	43	69%	73%	23%	23%	53%	(30.2%)	(7.7%)
Software & Services	18	62%	73%	0%	28%	72%	(72.2%)	(10.5%)
Technology Hardware & Equipment	39	55%	74%	21%	33%	46%	(25.6%)	(4.7%)
Materials	32	25%	39%	13%	28%	59%	(46.9%)	(9.8%)
Chemicals	25	38%	52%	16%	28%	56%	(40.0%)	(7.6%)
Construction Materials	2	29%	21%	0%	50%	50%	(50.0%)	(27.6%)
Metals & Mining	5	10%	27%	0%	20%	80%	(80.0%)	(13.4%)
Others	0	0%	0%	-	-	-	-	-
Paper & Forest Products	0	0%	0%	-	-	-	-	-
Real Estate	6	40%	51%	33%	0%	67%	(33.3%)	(8.7%)
Utilities	4	17%	48%	75%	0%	25%	50.0%	21.8%

Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023. For a given sector/industry group, "Market Cap Wtd Surprise (%)" is calculated as sum of products of stock level revenue beat / miss % and index weight of the stock in MSCI China A Onshore divided by % of market cap reported within the given sector/industry group.

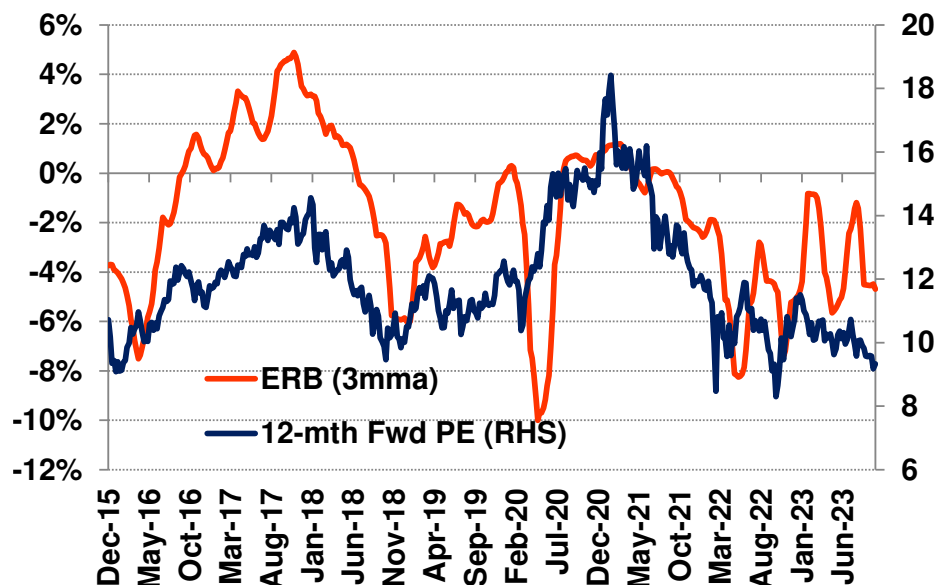
Exhibit 14: MSCI China A Onshore 3Q23 revenue surprise by sector, measured by number of companies



Source: MSCI, Bloomberg, RIMES, Factset, Morgan Stanley Research. Data as of October 31, 2023.

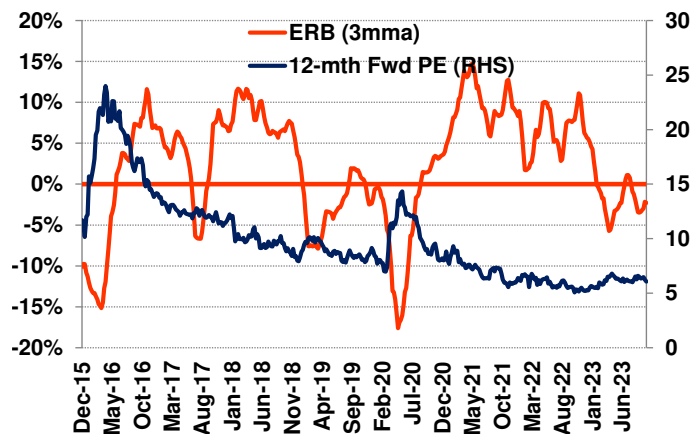
Earnings Estimate Revision Breadth – Long-term Trends

Exhibit 15: MSCI China earnings estimate revision breadth (ERB) vs. 12-month P/E trend – Consensus earnings estimate revision breadth continued its downward trend, but overall has stabilized since the end of September.



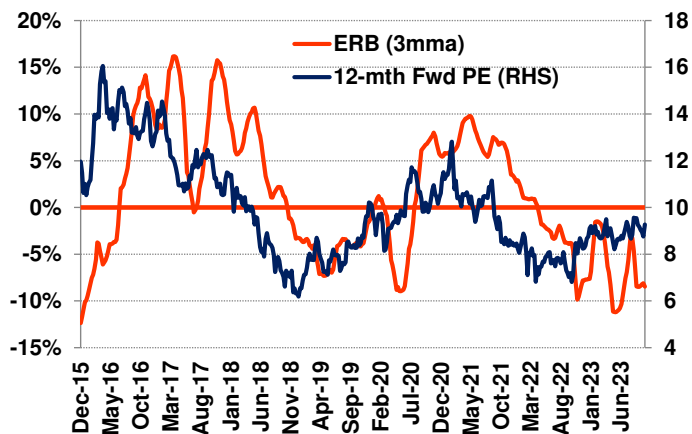
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 16: Energy – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



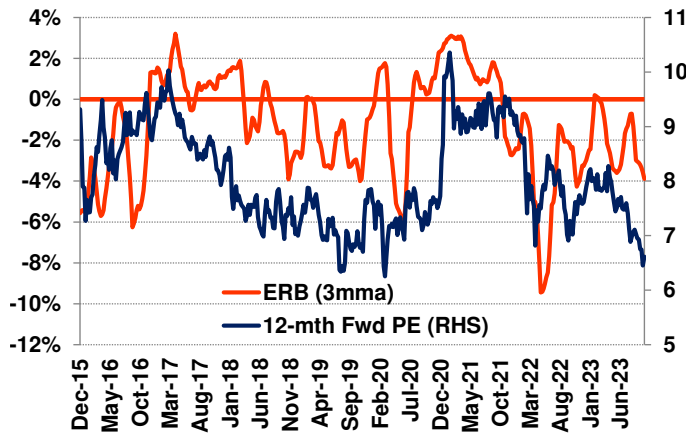
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 17: Materials – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



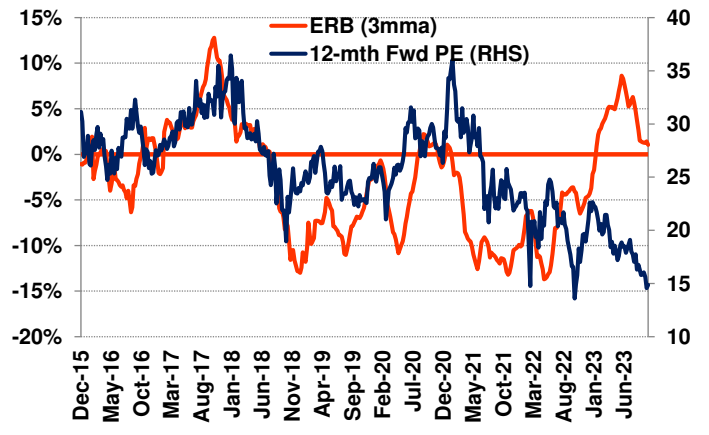
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 18: Capital Goods – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



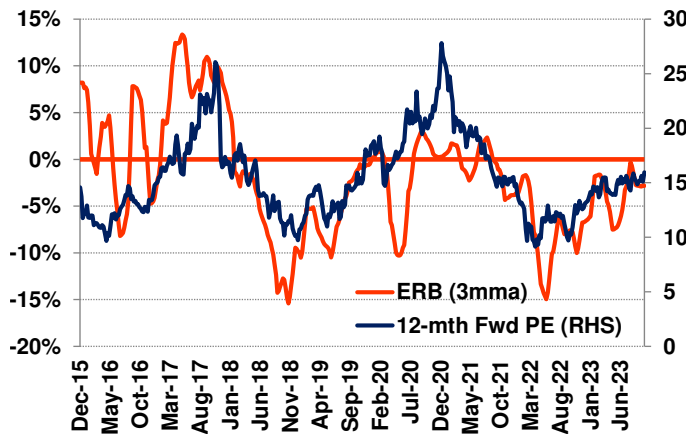
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 19: Media & Entertainment – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



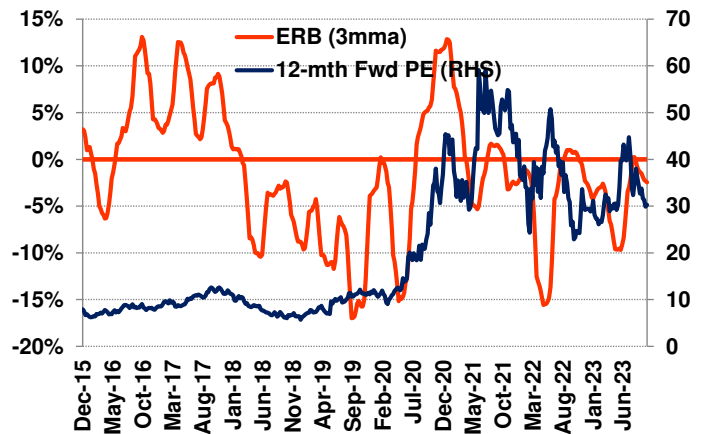
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 20: Tech Hardware – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



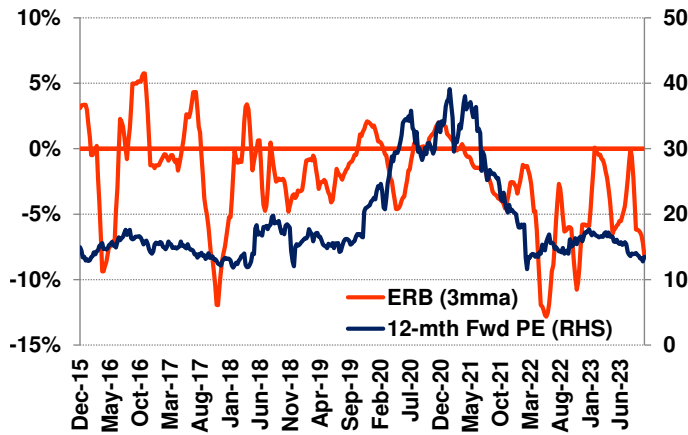
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 21: Auto – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



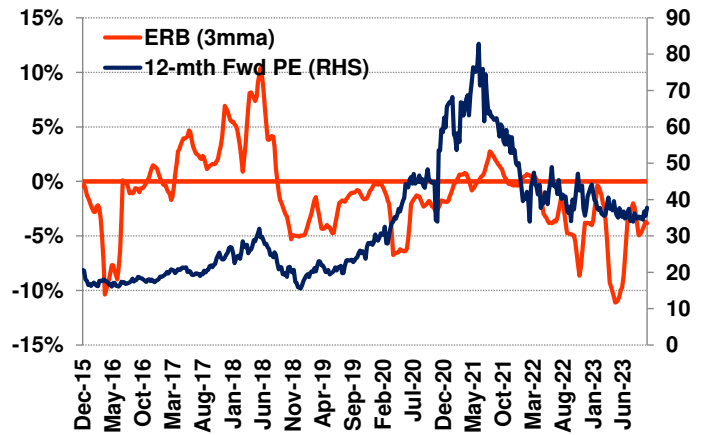
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 22: Healthcare – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



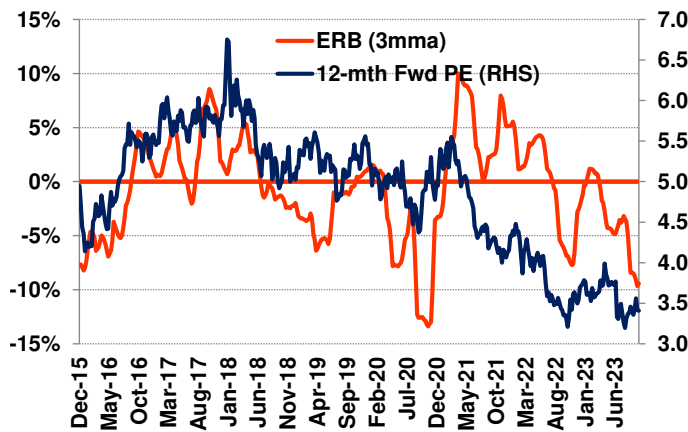
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 23: Pharma – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



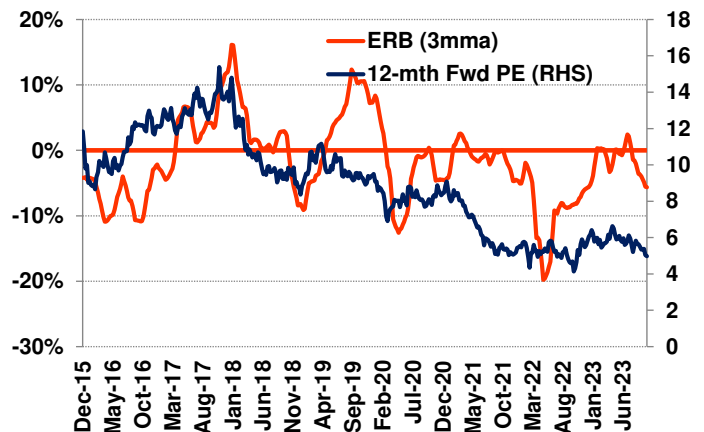
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 24: Banks – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



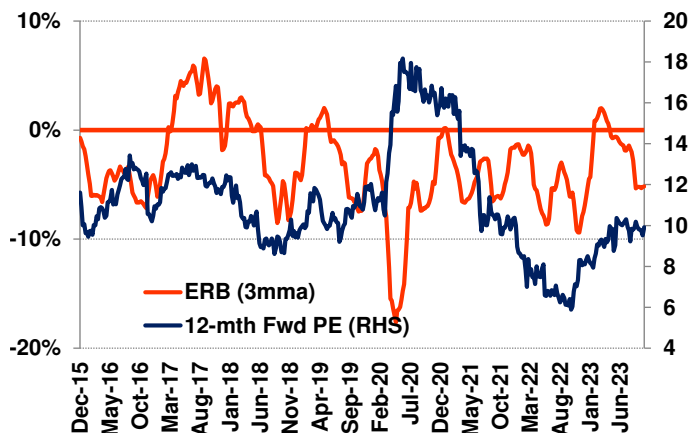
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 25: Insurance – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



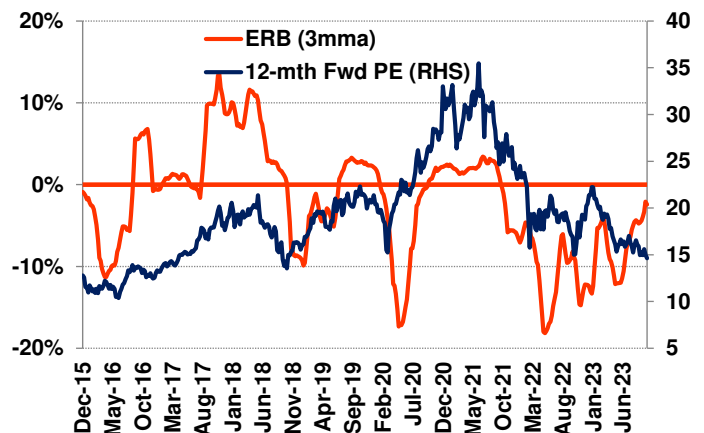
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 26: Transportation – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



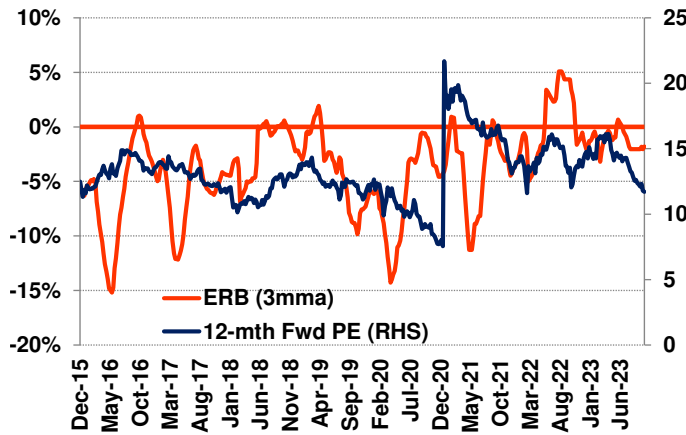
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 27: Consumer Durables – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



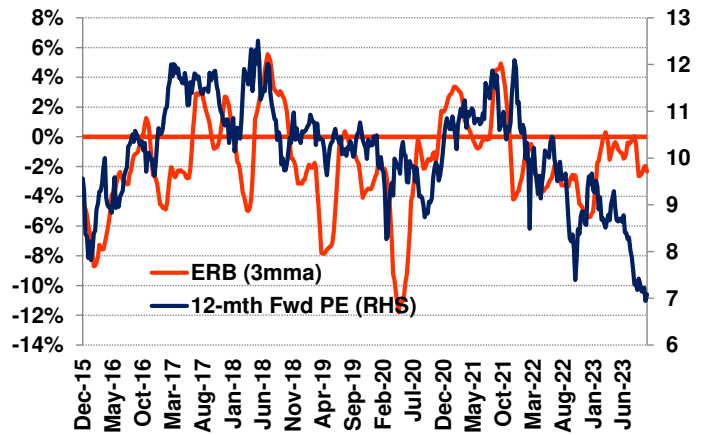
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 28: Telecom – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



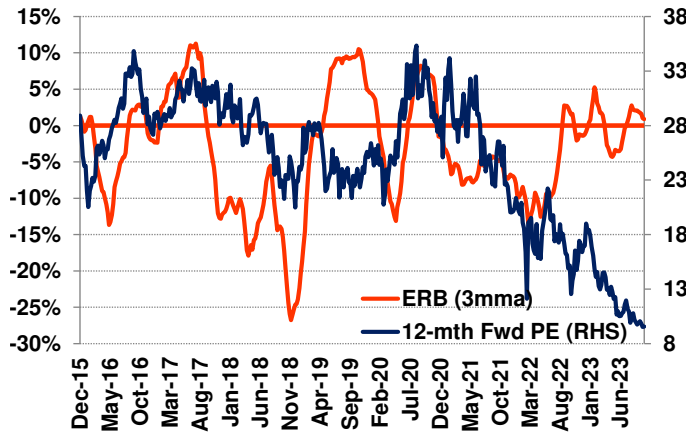
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 29: Utilities – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



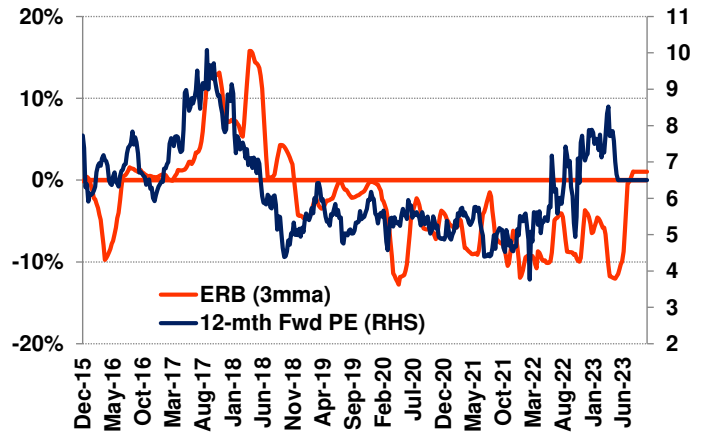
Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 30: Retailing – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

Exhibit 31: Real Estate – Earnings estimate revision breadth (ERB) vs. 12-month P/E trend



Source: IBES, Rimes, MSCI, Morgan Stanley Research. Weekly data as of October 31, 2023. Earnings Estimate Revision Breadth (ERB) = (number of upward revisions - number of downward revisions) / total number of estimates.

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(as of October 31, 2023)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1337	37%	270	43%	20%	594	39%
Equal-weight/Hold	1664	46%	299	47%	18%	700	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	588	16%	61	10%	10%	220	15%
Total	3,592		630			1515	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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