

## **An In-Depth Look at the Annual Performance of SZSE Core Indices Constituent Companies**

All constituents of the key indices of the Shenzhen Stock Exchange (SZSE), including the Shenzhen Component Index, ChiNext Index, and Shenzhen 100 Index, have published their respective annual reports for 2021 by the end of April 2022. Data show that the market-leading performance of the key indices of SZSE has been further manifested, and the overall performance of the constituents has maintained steady growth, fully reflecting the pivotal role of the capital market in promoting science and technology innovation and high-quality development of the real economy.

### **Shenzhen Component Index: Reflecting the high-quality development of SZSE in multiple aspects**

**The market performance was well represented by the index.** As of 30 April 2022 (market capitalization coverage, weights, P/E ratios, and fund units in this article are updated to 30 April 2022), the Shenzhen Component Index covered 68% of the market capitalization of A-shares on SZSE. According to data of the 2021 annual reports, the constituents of the Shenzhen Component Index recorded operating revenue of RMB11.91 trillion for 2021 (excluding the impact of the outliers of ST Suning in the annual report analysis), representing 65% of the total revenue of all companies listed on SZSE, and recorded net profit of RMB862.0 billion, representing 88% of the total, declared cash dividends of RMB307.7 billion, representing 76% of the total, which fairly reflected the overall fundamentals of SZSE.

**Manufacturing companies delivered outstanding performance.** The 14th Five-Year Plan period is an important strategic opportunity period for building China into a manufacturer of quality. According to the industry classification standards of the CSRC, 332 constituents of the Shenzhen Component Index are listed manufacturing companies, with a weighting of 72% (in terms of market capitalization, same below), which is higher than other major indices in the market. According to data of the 2021 annual reports, the manufacturing constituents of the Shenzhen Component Index recorded operating revenue of RMB8.21 trillion, representing a year-on-year increase of 32%, and net profit of RMB645.3 billion, representing a year-on-year increase of 37%.

**Emerging industries showed strong momentum.** 271 constituents of the Shenzhen Component Index engage in strategic emerging industries with a weighting of 64%. All nine strategic emerging industries achieved positive revenue growth, and seven industries recorded growth in both revenue and earnings. In particular, new energy vehicles, new materials, and high-tech service industries showed accelerated growth momentum, with net profit growth of 87%, 79%, and 31% year-on-year, respectively. The constituents of the Shenzhen Component Index continued to increase their R&D investment and improve their independent innovation capability, with an average R&D investment of RMB660 million and an average R&D intensity of 6.4%, significantly higher than the overall level of SZSE (3.3%).

**Actively fulfilling social responsibilities.** In terms of employee protection, the constituent companies of the Shenzhen Component Index created an average of over 14,000 jobs with female employees accounting for nearly 40% of the total. 263 companies have established systems or programmes for employee career development such as vocational skills training, seminars by external experts, and succession planning, and over 290 companies have formulated management policies specifically designed to protect employees' health and safety.

In terms of products and services, 326 companies have passed the ISO9001 quality management system certification and nearly 280 companies have adopted targeted measures such as customer visits, full follow-up of product sales, and customer interest protection to improve customer satisfaction. In terms of public welfare activities, 429 companies carried out pandemic prevention and control, education support, poverty alleviation, and other public welfare projects in 2021, with an average investment of nearly RMB6 million in poverty alleviation.

### **ChiNext Index: Continuous growth driven by innovation**

**Significant growth in operating results:** According to data of the 2021 annual reports, 100 constituents of the ChiNext Index recorded operating revenue of RMB1.13 trillion for 2021, representing a year-on-year increase of 25%, of which 89 companies reported positive revenue growth. Furthermore, 69 companies maintained revenue growth for three consecutive years. It is worth noting that despite the slowdown in global economic recovery, the overseas business of the constituents of the ChiNext Index showed a rapid recovery, with overseas revenue growing significantly for the second consecutive year, up 54% year-on-year in 2021, and average growth of 69% over the past two years. The constituents of the ChiNext Index demonstrated outstanding profitability with a return on net assets of 12.6% and achieved net profits of RMB123.8 billion for the year, representing a year-on-year increase of 25%, of which 71 companies reported positive net profit growth. Moreover, 52 companies maintained positive growth for three consecutive years.

**Outstanding growth advantages of innovative companies.** The ChiNext Index focuses on quality innovative and start-up enterprises in the ChiNext market. 86 constituents are listed companies engage in strategic emerging industries with a weighting of 84%, their revenue, and net profit accounted for 67% and 87% of the total, respectively, and their average R&D intensity reached 9.1%. In particular, constituents in green industries showed particularly strong development momentum, with net profit growth of 156%, 65%, and 51% year-on-year in the new energy vehicle, new energy, and energy conservation and environmental protection industries, respectively. The ChiNext Index constituent companies persist in technological innovation. Over 90% of them are high-tech enterprises, and nearly 50% of them have the characteristics of independent innovation and import substitution. Besides, the ChiNext Index constituent companies hold an average of 175 patents.

**Companies listed under the registration-based IPO system became new growth drivers of the index.** Since its reform and its pilot project of the registration-based IPO system, the ChiNext market has been operating in a stable manner. The registration-based IPO system injects new vitality into the market and introduces revenue a stream for the ChiNext Index. 10 ChiNext Index constituents are listed on the ChiNext under the registration-based IPO system with a weighting of 4.3%, and contributed 26% of revenue and 11% of net profit to the index.

**ETF products grew beyond the market trend.** The ChiNext Index has grown 166% over the three years from 2019 to 2021, leading the world's major indices in terms of return. With the general pullback in global capital markets since the beginning of this year, the ChiNext Index has become more volatile and the current P/E ratio of the index is 39 times (excluding loss-making constituents), which is at a relatively low level since its launch. Meanwhile, investors were generally optimistic about the long-term growth potential of the ChiNext and the investor sentiment picked up. ETF products tracking the ChiNext Index saw a larger net subscription, with a 95% increase in ETF units and a net capital inflow of over RMB16.6 billion at the end

of April 2022 as compared to the beginning of the year.

### **Shenzhen 100 Index: New blue chips play a leading role**

**Core assets of SZSE attracted mid to long-term investment.** Shenzhen 100 Index is the flagship index of SZSE and the first index set up with an investment function in China. Since its launch on 2 January 2003, the index has registered a yield of 435% and an annualized yield of 9%. Shenzhen 100 Index has both blue-chip and growth characteristics, provides good investment targets for mid to long-term investment in core assets of SZSE, and is well-received by institutional investors. According to data of the 2021 annual reports of relevant funds, the proportion of the E Fund SZ100ETF (159901) held by institutional investors reached 79%, which was the largest Shenzhen 100 Index product.

**Covering leading companies on SZSE.** Shenzhen 100 Index covers 42% of the market capitalization of A-shares on SZSE. Its constituents recorded operating revenue of RMB5.7 trillion for the year, representing 31% of the total, and net profit of RMB526.1 billion, representing 56% of the total. The Shenzhen 100 Index has distinctive blue-chip characteristics and outstanding profitability, with 72 constituents ranking among the top in their respective segments (top 10% in terms of market capitalization or revenue) and a return on net assets of 13%, outperforming other major A-share market indices.

**Balanced development of diversified sectors.** According to the CNI Industry Classification Standard, information technology, industrials, major consumption, optional consumption, and medical and healthcare industries account for 22%, 16%, 15%, 13%, and 12% of the market capitalization of the Shenzhen 100 Index constituents, respectively, forming a balanced industry structure similar to those of developed market indices such as the S&P 500 Index. In terms of performance growth, the raw materials, telecommunications business, and information technology sectors had a clear lead, with net profits up 95%, 52%, and 50% year-on-year, respectively.

**Maintaining a favorable trend of dividend distribution.** According to data of the 2021 annual reports, 92 Shenzhen 100 Index constituents disclosed their cash dividend proposals with a total cash dividend of RMB179.4 billion, accounting for 44% of that of SZSE. In particular, 43 companies had a dividend payout ratio of over 30%, 20 companies had a dividend payout ratio of over 50%, and 82 companies distributed dividends for three consecutive years, which effectively enhance investors' sense of gaining from the market.

**Actively disclosing social responsibility reports.** In January 2022, SZSE issued the Guidelines for Self-Regulation of Listed Companies No. 1 to further clarify that Shenzhen 100 Index constituents shall disclose their social responsibility report alongside the annual reports. By the end of April, all Shenzhen 100 Index constituents had made timely disclosure of such reports.