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China tech: Volatility flares, but the bull case endures

19 May 2025, 20:16 UTC, written by UBS Editorial Team US Editorial Team

China's earning season has interrupted the post-trade de-escalation lull in Chinese equities, with company results reinjecting some volatility into tech shares in particular. We believe robust earnings momentum, attractive valuations, and renewed capital market activity make this an opportune time for investors to consider adding exposure to China tech.

China's earnings season is ramping up, and so too is post-earnings China tech sector dispersion. Last Friday, shares in Alibaba fell as much as 6.4% intra-session after a slight earnings miss, while gaming platform NetEase rallied as much as 16.3% intra-session on its results. This pick-up in two-way volatility came after a sharp rebound in China equity sentiment on the back of the Swiss US-China détente; the Hang Seng Tech Index is now up nearly 20% since its 9 April "Liberation day" lows.

With US "reciprocal" tariffs on pause but not resolved, we believe the growing divergence in single-stock performance within China equities reflects heightened market sensitivity to any perceived weakness in earnings or forward guidance.

But we view this volatility as more a function of positioning after the trade relief rebound, rather than a sign of deteriorating fundamentals. We see several reasons to stay engaged and continue building exposure to China tech:

China tech earnings so far have been broadly positive. Most large-cap Chinese tech companies have reported results ahead of consensus on both revenue and profit, reflecting resilient demand across core businesses and new growth drivers. E-commerce platforms are showing steady top-line growth, while gaming and cloud service providers are benefiting from ongoing digitalization and AI adoption. Importantly, management teams remain confident about the monetization potential of artificial intelligence capabilities and expect growth to accelerate further as adoption deepens. This earnings

momentum suggests that sector fundamentals remain intact, even if the market is scrutinizing individual misses more closely.

China tech valuations are attractive relative to global peers. While some gaming and internet platforms have seen sharp share price moves post-results, we think sector-level valuations have not fully reflected the improving earnings backdrop for China tech equities. On a price/earnings-to-growth (PEG) basis, China tech continues to trade at a meaningful discount to US large-cap tech despite an improving growth backdrop. Leading Chinese tech names are trading at forward price-to-earnings (P/E) multiples averaging 13x, well below global gaming and technology sector averages. This valuation gap, combined with robust earnings prospects, underpins our constructive sector view.

Capital market activity is picking up, supporting liquidity and sentiment. A major IPO in the mainland China electric vehicle (EV) supply chain in Hong Kong this week will be the city's largest listing of 2025, signaling renewed investor engagement. We expect a steady pipeline of secondary listings from domestic A-shares and the return of more China ADRs to Hong Kong, which should further strengthen the exchange's status as a hub for tech listings. Increased listings not only broaden investor access but also enhance liquidity and visibility for the sector as a whole.

So, we recommend investors use any outsized dips to build exposure to mainland China tech, which we continue to rate as Attractive. In our view, strong sector-level earnings momentum, compelling valuations, and supportive capital market trends outweigh near-term volatility tied to individual results or lingering trade uncertainty. Within China internet, we currently favor select online gaming names, which are demonstrating healthy fundamentals and positive earnings revisions. Investors who are underexposed to China tech may consider gradually increasing their allocation, taking advantage of market pullbacks to add quality names at reasonable prices.

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