



M3

STAR RATINGS REVIEW

MONTHLY MORNING MEETING JUL 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

CHINA (4.5 STARS – VERY ATTRACTIVE)

1. Estimated PE for Chinese equity represented by HSML100 index (include red chips giant such as China Mobile and CNOOC) is 12.9X for 2010 and 11.0X for 2011 as of 30 June 2010. Expected earnings growth is 26.2% and 19.0% for 2010 and 2011. In addition, the estimated PE for H-share represented by HSCEI index is 13.1X for 2010 and 11.0X for 2011 as of 30 June 2010. Expected earnings growth is 26.2% and 19.0% for 2010 and 2011.
2. China's GDP expanded 11.9% y-o-y in the first quarter of 2010, faster than a 11.7% estimated. The government targeted a 8% growth in 2010 with a 3% inflation. However, we expect the GDP growth for 2010 to be between 9% and 10%, the fastest in G20.
3. Industrial net income year-to-date rose 82% year-on-year as of end May 2010. Strong rebound in net income lead to an increase in industrial production. Industrial increased 18.5% year-on-year in the first five months in 2010.
4. According to the National Bureau of Statistics, residential real-estate prices in 70 major cities rose 12.4% year-on-year in May 2010. In addition, the prices of newly built homes rose 15.1% year-on-year and second-hand housing prices rose 9.2% year-on-year in May respectively. The Chinese government notes the potential property bubble and have already implemented measures to cool the property market in the coming future.
5. There is a total of 4 trillion yuan of new loan made in the first five months in 2010. We maintain our views that a moderately loose fiscal policy will continue to be in place. We expect the new loans made in 2010 will be around 7.5 - 8 trillion yuan.
6. Exports continue to rebound in 2010. Exports increased 48.5% year-on-year in May. However, Europe is the biggest buyer for Chinese goods. Shipments to the Europe accounted for about 20% of China's total exports. Therefore, a slowdown in the Europe will hurt Chinese exporters and we expect the exports growth rate will slow down in the third quarter of 2010.
7. Domestic spending remains robust. Retail sales year-to-date increased 18.2% year-on-year as of end May, faster than the 15.5% growth in 2009. In addition, M1 grew 29.9% year-on-year in May also suggests that the strong growth in domestic spending is likely to be sustainable.
8. In the pervious update, we mentioned that we foresee an appreciation of the RMB against the USD. The People's Bank of China announced to further reform the RMB exchange rate regime and increases the RMB exchange rate flexibility. We think that the RMB is likely to appreciate marginally (about 2% - 3%) in 2010.
9. According to the non-delivery forward, market expects a further 1.5% appreciation of the RMB against the USD. In fact, the RMB already appreciated 0.5% right after the FX regime reformation.
10. Inflation finally rose above 3% in May. We revised our view and expect the People's Bank of China will hike its benchmark interest rate by 27 basis points the third quarter.
11. China is attractive in terms of its valuation and strong economic growth. We rate China equity market as very attractive – 4.5 stars over the 3-year horizon.