



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

## HONG KONG (4.5 STARS – VERY ATTRACTIVE)

1. The estimated PE for Hong Kong's equities, represented by the Hang Seng Index, is at 11.9X and 10.0X for 2010 and 2011. Earnings growth for the Hong Kong stock market is at 22.8% and 18.4% in 2010 and 2011.
2. Property prices in Hong Kong climbed as the Centa-city Leading Index which tracks secondary residential property prices showed an increase of 6.8% year-to-date as of 20 June 2010 after a 27.1% increase in 2009.
3. After new measures taken by the government, the property prices dropped slightly in June. However, for the luxury property, we believe that the uptrend will remain. On the 8th June, an auctioned a piece of land for HK\$10.9 billion (\$1.4 billion), beating expectations and fuelling concern that the island's property market could still face overheating despite government measures.
4. We expect the easing liquidity situation and the improving economic activity to increase the money multiplier and gradually accelerate the recovery of bank loans, hence supporting a sustainable recovery of the economy.
5. Stable unemployment, improving sentiments in properties and stocks markets gave support to consumption and aided Hong Kong in recovering from the recession. Unemployment rate dropped to 4.4% in March but rebounded slightly to 4.6% in May. Retail sales increased 15.6% year-on-year in May. Total visitors arrival increased 38.9% year-on-year in May.
6. Exports increased by the most in five years in February. Exports increased 24.4% y-o-y in May and shipments to China and the US climbed 25.6% and 24.0% y-o-y respectively. Rebound in global trade continues to support Hong Kong's exports.
7. Any new outflow of "hot money" will have a negative impact on Hong Kong equity markets. However, we believe that any correction in the short term will provide an excellent investment opportunity. Investors should note that the long term driver of any stock is its earnings growth potential. "Hot money" can only have short term impact to the market.
8. The Agricultural Bank of China (ABoC), the last big four state-owned banks to list in HK, is going to be dual listing in Hong Kong and Shanghai. It plans to raise between US\$20 billion to US\$30 billion. The IPO amount is likely to exceed the record of US\$21.9 billion IPO by ICBC in October 2006.
9. Our 2011 target level of the Hang Seng Index is 35,000, based on our own estimated earnings forecast with a PE level of 18X.
10. We believe that Hong Kong market can benefit from the recovery in China. Therefore, we rate Hong Kong equity market as very attractive – 4.5 stars over the 3-year horizon.