



# M3

## SECTOR REVIEW

MONTHLY MORNING MEETING JANUARY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

## GREATER CHINA

### CHINA – 5.0 STARS (VERY ATTRACTIVE)

- Manufacturing PMI was at 49 points in Nov 11, a decrease from 50.4 points in Oct 11
- Exports increased by 13.8% y-o-y in Nov 11 as compared with a 15.9% increase y-o-y in Oct 11
- Imports increased 22.1% y-o-y in Nov 11 as compared with a 28.7% increase y-o-y in Oct 11
- M1 and M2 grew 7.8% and 12.7% y-o-y in Nov 11 respectively
- New Loans declined to 562.2 billion Yuan in Nov 11, compared with 586.8 billion Yuan in Oct 11
- CPI rose 4.2% y-o-y in Nov 11 as compared with a 5.5% rise in Oct 11
- Retail Sales grew by 17.3% y-o-y in Nov 11 as compared with a 17.2% increase y-o-y in Oct 11
- Industrial production grew by 12.4% y-o-y in Nov 11 as compared with a 13.2% increase in Oct 11
- Urban fixed assets investments grew 24.5% y-o-y year-to-date as of end Nov 11

### MARKET OUTLOOK

On 12-14 December, China held its Central Economic Work Conference for 2012 in order to discuss plans for economic development in the coming year. Published statements indicated that the general tone of the meeting was to maintain the current policies unchanged whilst emphasising the task to maintain stability in the country's economic development. One of the fundamental topics discussed was the shift towards a consumption-driven economy, which will essentially bring the economy onto a stable path of economic development. Officials also agreed to increase flexibility of their exchange rate and interest rate setting mechanisms, which has been the crux of political disputes lately. However, statements published lacked details of particular policies, making it hard to determine as yet whether effective progress will be achieved in 2012.

Economic figures announced in December continued to signal a slowdown in the Chinese economy. In particular, industrial production grew 12.4% year-on-year in November, marking a further decline from October's 13.2% growth. Furthermore, M2 money supply growth continued to decline for the fifth consecutive month to 12.7%, which is the lowest growth seen in over 10 years. Finally, foreign direct investments (FDI) saw its first decline since 2009, dropping 9.8% from a year earlier in November.

On the other hand, after a year of aggressive tightening measures, the government is close to pushing inflation towards its official inflation target of 4%. In November, inflation declined to 4.2% which was the lowest level seen since September 2010 and is a dramatic decline from its peak of 6.5% seen in July this year. This will allow People's Bank of China (PBoC) to continue loosening monetary policy as slowing growth becomes a bigger concern for the nation.

According to our estimates, as of 30 December 2011, the estimated PE for Hang Seng Mainland 100 Index (HSML100) is 8.3X and 7.0X for 2012 and 2013 respectively. Estimated earnings growth is 8.7% and 17.9% for 2012 and 2013 respectively. As for the CSI 300 index, the estimated PE is 9.2X and 7.4X for 2012 and 2013 respectively. Estimated earnings growth is 18.1% and 24.1% for 2012 and 2013 respectively. We maintain our **5 Star – "Very Attractive"** rating on the market.