



# M3

## SECTOR REVIEW

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

## GREATER CHINA

### HONG KONG – 5.0 STARS (VERY ATTRACTIVE)

- CPI rose 5.7% y-o-y in Nov 11 as compared with a 5.8% y-o-y increase in Oct 11
- Retail sales grew 23.1% y-o-y in Oct 11 as compared with a 24.1% increase y-o-y in Sep 11
- Unemployment for Sep to Nov 11 increased to 3.4%, as compared with 3.3% in Aug to Oct 11
- Exports increased by 2% y-o-y in Nov 11 as compared with a 11.5% increase y-o-y in Oct 11
- Imports increased 8.8% y-o-y in Nov 11 as compared with a 10.9% increase y-o-y in Oct 11
- Centa-City Leading Index, which tracks secondary residential property declined -0.44% to 96.81 m-o-m as of 18 Dec 11

## MARKET OUTLOOK

According to the World Economic Forum's 2011 index of financial market development, Hong Kong rose in the ranks this year to first place, overtaking US, UK and Singapore from 2010.

Unemployment in Hong Kong rose for a second consecutive month in November, as the weakening global economy has led employers to hold back on hiring and remain more cautious. The unemployment rate for the three months up to November rose to 3.4%, after reaching a 13-year low of 3.2% in the third quarter this year, highlighting the possibility of the Hong Kong economy slowing further. Cautious hiring or job cuts are coming mainly from international financial institutions, the trade or real estate sector. Nonetheless the current unemployment rate is still relatively low, as it continues to be supported by high demand in the retail sector. Retail sector payrolls are also outshining the overall economy as it rose 8.2% year-on-year in the third quarter, compared with the overall 1.6% increase for all industries.

On the other hand, exports growth in November slowed to 2% year-on-year as a slowdown in the global economy continues to hit Hong Kong's export-led economy. Although a slowdown from the surprisingly strong 11.5% growth seen in October was foreseen, the figure nonetheless disappointed markets, which expected a 3.9% year-on-year growth.

The Hang Seng Index (HSI) rebounded slightly in December, gaining 2.5% (in local currency), but it nonetheless remains to be one of the weaker performers in 2011, declining 20% (in local currency) for the whole year. Furthermore, initial public offerings (IPOs) in Hong Kong have raised only USD23.12 billion year-to-date (as of 19 December 2011), highlighting the wariness in capital markets. In particular, poor market sentiment led new IPOs launched in December to slump on their debut. Chow Tai Fook, the world's largest jeweler by market capitalisation saw its shares drop 9.8% on its debut. New China Life Insurance, the third largest insurance company in the country, also saw its shares drop 8% on the same day.

According to our estimates, as of 30 December 2011, the estimated PE for HSI is 9.6X and 8.7X for 2012 and 2013 respectively against a fair PE of 14.5X. Estimated earnings growth is 8.0% and 13.8% for 2012 and 2013 respectively. We maintain our **5.0 star – "Very Attractive"** rating on the market.