新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

SHKF expects buying opportunities in Hong Kong and China equities

*　　*　　*

"Hong Kong and PRC Market Outlook for 2011"

Highlights:

- China GDP growth to moderate to 8%-9% in 2011.
- Hong Kong equities to range-trade with high volatility in 2011, market faces a trade-off between growth expectations and policy risks.
- HSI fair value at 27,000; HSCEI at 15,000.
- CPI to remain high; interest rates to continue trending up.
- Favour upstream agricultural plays, insurers and high yield stocks.
- Value investors should accumulate large PRC banks and China property stocks.
- Avoid low-end discretionary spending plays, midstream food producers and automakers.

Hong Kong, 11 January 2011 – Sun Hung Kai Financial ("SHKF"), Hong Kong's leading non-bank financial institution, expects Hong Kong equities to range-trade and volatility to remain high, and states that a non-trending market will present good stock buying opportunities during the year.

After the fast pace of economic growth of the past two years fuelled by a RMB4 trillion fiscal stimuli, China's CPI has accelerated from 1.5% at the beginning of 2010 to 5.1% recently. SHKF expects economic growth to moderate from an estimated 11% last year to 8%-9% this year. The government faces serious challenges to achieving such a growth rate while maintaining moderate inflationary pressures. SHKF sees M2 growth of around 15% as appropriate to achieve this balance between growth and inflation under prevailing conditions, so current M2 growth of 20% suggests that China's CPI will rise and remain high for some time. Mr. Alvin Chong, Senior Vice President of Research, Sun Hung Kai Financial said, "To accept a high inflation environment would disadvantage the low-income earners. To contain inflation would require interest rates to rise faster, which would threaten the low-margin small-and-medium sized enterprise segment and hence export growth and employment creation. Amid a still-fragile global economic landscape, such a dilemma would mean stock market performance faces a trade-off between growth expectations and policy risks."

Based on the earnings yield of Hong Kong stocks compared against U.S. bond yields, SHKF's fair value for the HSI for 2011 is 27,000, and for the HSCEI is 15,000, indicating that stocks are inexpensive. But Mr. Chong warned of headwinds against reaching this level in a straight line. "In 2010, despite policy headwinds, surplus liquidity looked to gain exposure to the relative strength of the China economy and the potential for RMB appreciation, as was evident in H-shares trading at a premium to A-shares at the end of the year, compared with a 20% discount at the start. Those liquidity flows could ebb as China's economic and earnings growth moderate, expectation of RMB appreciation diminish, and policy-risk concerns remain," he said. In addition, despite the PRC's superior economic growth rates over developed economies, companies face rising costs including labour, raw materials, electricity, rental, and compliance, and rising interest rates are also raising funding costs. Consequently, their earnings growth is expected to generally decelerate. By comparison, those in developed economies are seeing accelerating earnings growth driven by rising productivity, contained wages, low funding costs and accelerating global growth."

With the economy this year likely to be characterised by rising interest-rates and high CPI, SHKF recommends playing this theme through upstream agricultural companies and insurers. Dividend yield plays are also seen as attractive in a non-trending market. Mr. Chong adds, "High stock market volatility will present good opportunities for value investors to accumulate shares of large PRC banks and China property companies for the longer term. Many are both undervalued and highly profitable, with PRC banks averaging 20% ROE and trading at 10X P/E with 4%-5% dividend yield, while China property stocks trade at substantial NAV discounts of around 40%, with 15%-20% ROE." He sees rising interest rates per se as less of a concern for the property sector, since an estimated 35%-40% of Chinese homebuyers pay fully in cash, so rising financing costs have generally not been a strain on buyers, and property companies' interest coverage is sufficient to cushion against interest rate rises.

Mr. Chong recommends avoiding companies that use agricultural produce as their main inputs, noting that their costs are rising, but many cannot put up selling prices enough to compensate." He also sees the auto sector's risk-reward ratio as unfavourable. Government subsidies for auto purchases in the past two years have helped auto sales grow by 45% in 2009 and 34% in 2010, making China the largest auto producer in the world in 2009, overtaking the U.S. But those subsidies are starting to result in heavy traffic congestion, and now Beijing is capping car purchases. Says Mr. Chong, "Our concern is the risk of overcapacity, possibly leading to inventory piling up. Auto inventories become obsolete very quickly, so if overcapacity and inventory build-up arise, price cuts will be swift and steep."

SHKF also recommends staying away from low-end consumer discretionary stocks, as low-income consumers are likely to be hurt the most by high CPI inflation and cut down their discretionary spending to compensate.

As for the U.S. dollar, SHKF expects the dollar index to range-trade with high volatility during the year as the support offered by an improving U.S. economy is played out against a persistently high budget deficit. Support is seen at around 74, and resistance at 90.

- End –

About Sun Hung Kai & Co. Limited and Sun Hung Kai Financial

Sun Hung Kai & Co. Limited (HKEx stock code: 86), which operates as Sun Hung Kai Financial, is the leading non-bank financial institution in Hong Kong. Founded in 1969, the Group offers tailored financial solutions to retail, corporate and institutional clients. The Group's core areas of focus consist of wealth management and brokerage, asset management, corporate finance, consumer finance and principal investments. Operating an extensive branch and office network across 90 locations in Hong Kong, China, Macau and Singapore, the Group currently has approximately HK$60 billion in assets under management, custody and/or advice and over HK$9 billion* in shareholders' equity. *(*Figure as at 30 June 2010)*

For enquiries:
Sun Hung Kai Financial

Marie Yung	+(852) 3920 2511	marie.yung@shkf.com
Peony Cheng	+(852) 3920 2513	peony.cheng@shkf.com
Sannie Pang	+(852) 3920 2509	sannie.pang@shkf.com

 # This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's equities research team.