Your Money

UPDATE

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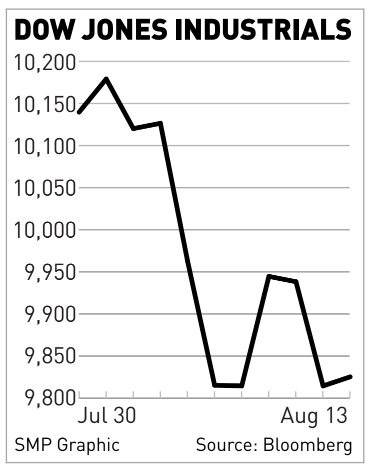
SMP Graphic Source: Bloomberg

Hong Kong shares are expected to trade higher this week on expectations of strong corporate results from leading companies, dealers say. Big blue-chip firms, including Cheung Kong, China Mobile and Hutchison, will report their interim results.

The Hang Seng Index lost 118.85 points, or 0.95 per cent, over the past week to close on Friday at 12,359.83.

"The sentiment in the Hong Kong market isn't bad but high oil prices have dampened investors' confidence," says DBS Vickers director Peter Lai said. *AFP*



SMP Graphic Source: Bloomberg

Soaring crude prices plus worries about the economy and the outlook for earnings are expected to hang over the United States stock market this week.

Oil prices topped US$46 a barrel on Friday, setting new highs every trading session except one in August.

For the week, the major stock indexes were mixed. The Nasdaq Composite Index fell 1.1 per cent to 1,757.22, while the blue-chip Dow Jones Industrial Average rose 0.10 per cent to 9,825.35, and the S&P 500 Index rose 0.08 per cent to 1064.90. *Reuters*

SEMINARS

The Technical Analysts Society will host a seminar next Friday which offers a close-up look at the foreign exchange markets.

Presenting will be two prominent technical analysts, Y.K. Hui and Ian Copsey, who will share their views on how to apply Elliott Wave Theory to enhance trading. Mr Hui is chairman of the AIM Group and a respected columnist and author, having published more than 10 books on investment topics. Mr Copsey, a former Hong Kong-based trader, is considered one of the foremost foreign exchange analysts in the world, with more than 20 years' experience in the financial markets. He is also a daily contributor to the New York charting service www.FX-Strategy.com. Mr Copsey's presentation will focus on understanding price, how it develops and how to construct a group of complimentary techniques that highlight the various influences that could affect market movements.

The event will be held at the Excelsior Hotel from 6.30pm to 9.30pm. Admission for non-society members will cost HK$388, and $238 for members. lisa@tempusinvestment.com

CURRENCIES

HK$	Bid	Ask
£	14.3640	14.3750
SFr	6.2962	6.2982
*¥	7.0400	7.0500
S$	4.5505	4.5530
A$	5.5902	5.5947
C$	5.9575	5.9617
Baht	0.1876	0.1879
NZ$	5.1954	5.1977
*Won	0.6700	0.6700
M$	2.0521	2.0526
NT$	0.2277	0.2284
Euro	9.6486	9.6511
Peso	0.1400	0.1401
Yuan	0.9421	0.9424

Rates yesterday *per 100 units Source: Bloomberg

Andy Mantel selects two HK-listed mainland stocks as bargain buys

H-share discount to correct

The summertime blues appear to have taken hold in the H-share market. Slack volume is the surest sign most investors are on holiday, and as a result we are seeing higher volatility on fewer trades and some share prices have moved to unrealistic extremes.

Of the 29 dual-listed mainland companies, the discount between A and H-share listings now ranges between 15 and 80 per cent.

I believe exaggerated discounts are a temporary phenomenon that will correct when trading volume picks up in the autumn. In addition, the eventual introduction of the Qualified Domestic Institutional Investor (QDII) scheme will allow mainland money to move directly into the Hong Kong market and should narrow the price difference.

With this in mind, here are two shares that appear to be bargains. In the case of the first company, the A share is trading at 7.25 yuan, while the H share can be bought by foreign investors for HK$1.50.

Nanjing Panda makes mobile phones, satellite communication systems, and other electronic-related products. Founded in 1936, the company grew into a prominent electronics group under its Panda brand name. In 1992 the firm was reorganised and in 1996 the company listed H shares in Hong Kong and A shares in Shanghai.

Following a very difficult period at the end of the 1990s, the company had a major restructuring in 2002 and its money-losing television and appliance units were sold back to its parent. The firm subsequently joined forces with Ericsson to enter the burgeoning mobile-phone sector. Despite a competitive mobile handset industry, Nanjing Panda has performed well.

In the past few years major global mobile players have expanded aggressively in the mainland's fast-growing market. According to the Ministry of Information Industry, the total number of subscribers is expected to reach one in four people by the end of the year at about 320 million users.

Global players have sought to align themselves with leading Chinese electronics-related groups to build their mainland businesses. As the market grows, these global giants aim to establish their own platform on the mainland. Likewise, Chinese business groups plan to leverage their new expertise and build up their own networks.

Nanjing Panda owns 20 per cent of Beijing Ericsson Putian Communication, which makes mobile phones mainly for export under the Sony Ericsson brand. This venture recorded sales of 6.3 billion yuan last year and net profits of 176 million yuan, increases of 33 per cent and 17 per cent respectively.

Its 51 per cent owned mobile phone unit, Nanjing Panda Mobile Communication Equipment, reached sales of 3.3 billion yuan and net profit of 88 million yuan, 305 per cent and 136 per cent higher than the year before.

Leveraging on its strong brand name, the subsidiary sold around 2,500,000 handsets despite only starting operations one year before.

Panda's consolidated turnover last year increased 200 per cent to 3.9 billion yuan, with its own Panda unit accounting for 84 per cent of total turnover. The other divisions accounted for the rest, including its 27 per cent-owned, Nanjing-based venture with Ericsson that makes switches and gears for phone networks. Group net profit for the group was 101.4 million yuan.

Panda is set to benefit from the consolidation in the handset industry. The company announced in early July that its first-half profits probably rose more than 50 per cent from a year earlier.

Chinese companies are required to publicly report earnings expectations that exceed a 50 per cent change. The stock has a valuation of 6 times current price/earnings and its H shares are trading at a whopping 80 per cent discount to its mainland-traded A shares.

My second pick is Guangdong Kelon, primarily a maker of refrigerators and air conditioners. Founded in 1984 and based in Guangdong province, the private company has been the largest manufacturer of refrigeration products in China since the 1990s.

However, during the past decade the industry has been caught in a vicious deflationary spiral of over production and falling prices. More recently several smaller players have gone bankrupt, which has helped disperse the inventory glut and restore a more rational production outlook.

If the industry continues to consolidate, and China's consumer consumption continues to grow, I see good results down the road.

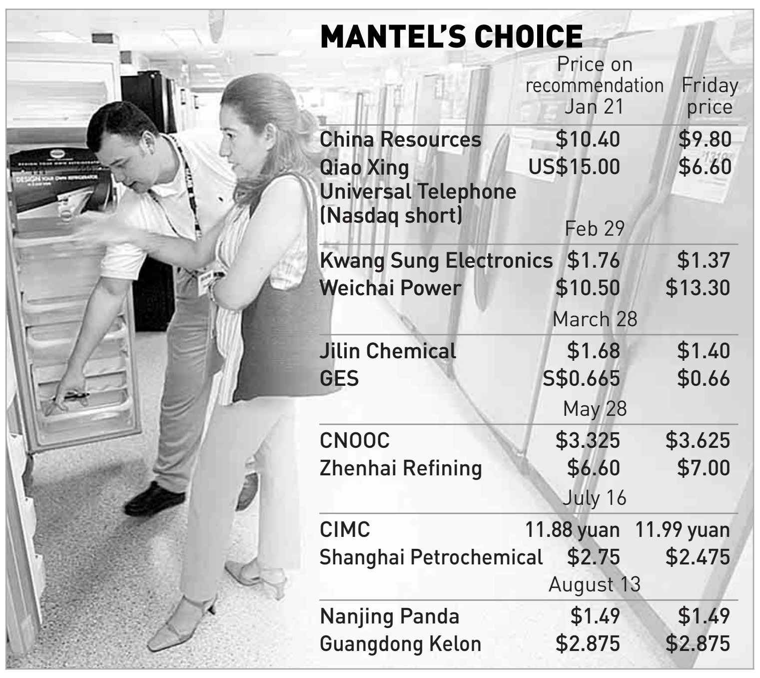
The company has an annual production capacity of five million refrigerators, three million air conditioners and one million freezers.

Last year revenue reached 6.2 billion yuan, 26 per cent higher the previous year. Refrigerators and air conditioners accounted for 49 per cent and 43 per cent of revenue respectively. Net profit increased 127 per cent to 191 million yuan.

Air conditioners are expected to be a strong growth area for the group, as urban temperatures have hit all-time highs in many areas across the mainland this summer.

Guangdong Kelon is increasing capacity this year and is trading at 6 times next year's price/earnings. Its H shares are trading at a 50 per cent discount to its mainland-traded A shares.

Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund



MANTEL'S CHOICE

	Price on recommendation	Friday price
	Jan 21	
China Resources	$10.40	$9.80
Qiao Xing	US$15.00	$6.60
Universal Telephone (Nasdaq short)		
	Feb 29	
Kwang Sung Electronics	$1.76	$1.37
Weichai Power	$10.50	$13.30
	March 28	
Jilin Chemical	$1.68	$1.40
GES	S$0.665	$0.66
	May 28	
CNOOC	$3.325	$3.625
Zhenhai Refining	$6.60	$7.00
	July 16	
CIMC	11.88 yuan	11.99 yuan
Shanghai Petrochemical	$2.75	$2.475
	August 13	
Nanjing Panda	$1.49	$1.49
Guangdong Kelon	$2.875	$2.875

Safety and yield key in new fund

MEET THE MANAGER
CHRIS OLIVER

By all accounts, guaranteed funds have caught the public's imagination. So many new funds are being launched that hardly a week goes by without a colourful brochure arriving in the mail, or a glossy display appearing before those in a bank queue.

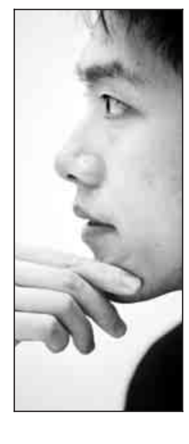
It is hard to believe that the first generation of these funds is only about four years old and is not due to mature for another six months or so.

So if there is little track record with which to measure the overall performance of these funds, why are they so successful?

It all comes down to the search for a safe haven, according to Rex Lo, vice-president of structured products at KBC Financial.

"Our experience in Europe is that it doesn't matter if there is a good market or a bad market – there is always a demand for guaranteed funds," he says. KBC Asset Management, a subsidiary of the Belgium bank KBC Bank, has launched six capital guaranteed funds since July last year.

Mr Lo says investors are also heading towards the funds as an alternative to cash deposit rates that pay virtually nothing.



Another reason is guaranteed funds are beginning to resemble more aggressive investment products. He says recent KBC funds have been designed around growing consumer awareness of guaranteed products. They are also designed for a market that wants safety with the potential for higher returns. KBC's new five-year fund, known as the Sunflower, offers a potential return of 16 per cent in the first year in the form of an 8 per cent guaranteed coupon and an 8 per cent bonus coupon.

The bonus coupon depends upon the price of 30 constituent shares in the fund's equity basket: if the share prices hold above 85 per cent of their starting price, the bonus system pays out at the end of 12 months. In the years that follow the fund uses a "lock the best" mechanism whereby the two best performing shares are removed from the fund every quarter. At maturity, as long as all the equity performance is greater than or equal to zero, an additional 8 per cent coupon will be paid out.

In theory there is no upside limit to the potential returns derived from the equity basket. When data backdated to July 1992 was applied, this fund structure was found to yield a return of 28 per cent. The final subscription date is August 27.

Waiting strategy called for as mood darkens

INVESTMENT TIPS
PAUL PONG

Continuing high oil prices are raising concerns that corporate earnings are unsustainable. Worrying signs of an economic slowdown were evident in the United States employment data last week, stirring doubts in global markets.

Thanks to the impressive interim earnings of major Hong Kong blue chips, HSBC Holdings, Hang Seng Bank and China Light Power, the Hang Seng Index outperformed its global counterparts. However the index was not able to escape all the gloom. Much of the early August momentum appears to have dissipated, with the Hang Seng advancing a mere 1 per cent over the past two weeks to 12,359.83 on Friday.

China plays also under-performed. Recent statistics reveal the mainland economy has started cooling down, yet consumer price inflation in July was higher than expected, hitting a seven-year high of 5.3 per cent. Fears that inflation is running amok triggered selling. For the week, the H-share index fell 7.48 per cent to 4,011.11. My portfolio, heavy in H shares, declined 5.26 per cent for the period.

Since inception in February my portfolio has lost 10.67 per cent. I have outperformed the H-share index, which has declined 15.83 per cent, but underperformed the benchmark Hang Seng which is down 7.14 per cent in the seven-month period. As readers will see from my recent trades, I hold about 23 per cent in cash, a fairly cautious position that is shared by other fund managers around town.

Cathay Pacific Airways, the world's third-biggest airline measured by market capitalisation, reported an impressive interim profit of HK$1.77 billion, compared with a loss of $1.24 billion a year earlier. Despite the overall good result, the market appears to have been disappointed at the news, with the sellers jumping all over the share this past week. My portfolio reported an 8.3 per cent unrealised loss on the stock.

The airline has only 25 per cent of its fuel requirements hedged. Rising fuel costs means future earnings are at risk. However, to an extent, these costs could be offset by levying passenger and cargo jet fuel surcharges in the second half of this year.

Some believe emerging budget airlines, namely Malaysia's AirAsia, Thailand's One-Two-Go, and Singapore's Valuair, would lead to direct competition. Yet the target passenger groups are quite different and I believe Cathay Pacific can compete effectively.

Last Tuesday Huaneng Power reported profits were up 8.6 per cent to 2.48 billion yuan, a result in line with expectations. The upbeat mood was interrupted by details of the utility's rising cost base, including a 22 per cent jump in coal prices year on year.

Traders dumped the company on concerns that continuing higher costs will erode earnings. Once the share declined more than 15 per cent below my purchase price, it was removed from my portfolio.

During the past two weeks, I also cut loss on Jiangsu Expressway, the toll road operator.

In a bid to control commodity prices, earlier this month the mainland implemented a price-capping mechanism on a national level. The policy sounds like good news for electric utilities and should enable them to reduce operating costs.

However, the measure may hinder Yanzhou Coal's profitability. The market reacted negatively to the news, with the share sliding 14 per cent in the past two weeks to $8.05.

I took advantage of the pullback in TPV Technology, one of the stocks on my watch list, to buy in at $4.43 per share.

The market is still volatile and lacks attractive investment opportunities. I plan to build up my capital in anticipation of a better buying opportunity in the days ahead.

Paul Pong is managing director of Pegasus Fund Managers

PEGASUS' PORTFOLIO

Stock	No of shares	Average Entry price	Current price	Market value
BYD	4,500	$22.00	$19.45	$87,525
Cathay Pacific	14,000	$14.125	$12.95	$181,300
Esprit Holdings	8,500	$29.025	$34.60	$294,100
Hang Fung Gold Technology	64,000	$1.40	$1.28	$81,920
Ningbo Yidong Electronic	155,000	$0.64	$0.66	$102,300
Ping An Insurance (Group)	2,000	$10.33	$10.10	$20,200
Sa Sa International	76,000	$2.65	$2.975	$226,100
TPV Technology	20,000	4.425	$4.425	$88,500
Yanzhou Coal	14,000	$8.10	$8.05	$112,700
Zhejiang Expressway	36,000	$5.075	$5.15	$185,400

Starting capital: $2 million
Total portfolio value: $1,786,660
Portfolio loss: $213,340
Cash (excluding dividends and trading costs): $406,615

Hang Seng Index loss
(February 6, 2004 – August 13): **7.14%**
Portfolio loss
(Feb 6 – Aug 13): **10.67%**
H-share index loss
(Feb 6 – Aug 13): **15.83%**

WHAT THE BROKER SAYS

DBS Vickers Securities has set a one-year price target on HK$31.60 on Orient Overseas International, an upside of more than 32 per cent on the August 9 price of $23.85.

This month OOIL, which is 68 per cent held by the family of chief executive Tung Chee-hwa and derives almost all profit from shipping company Orient Overseas Container Line, posted a 238 per cent year-on-year growth in its first-half net to US$268 million, way ahead of market forecasts. DBS Vickers expects the upward revision of forecasts for full-year earnings to cause the share price to jump.

SMP Graphic Source: Bloomberg

With the start of the busy season in shipping and peak surcharges, stronger cargo volume and freight rates are expected in the second half. The broker raised its profit forecast for OOIL by 15 per cent to US$531 million in 2004.

Valuation of the company is still attractive at 3.3 times price/earnings forecasts for this year and a 7.6 per cent yield. Management does not rule out paying a special dividend in the second half.

DBS Vickers expects to see the market re-rate OOIL soon, and reiterates its "buy" recommendation. The counter closed at HK$23.35 on Friday.

WHAT THE BROKER SAID

About a year ago CLSA said mobile network operator SmarTone was expected to be more shareholder-friendly with its large cash surplus. With the company confident it could maintain its cash flow, the broker expected a major dividend increase within months.

Trading at an ex-cash price/earnings of only five times relative to market price earnings of 14 times, with a forecast double-digit yield, the stock offered attractive value. It set a target price of HK$10.60, an upside of about 15 per cent, and recommended the stock as a "buy". The counter was trading at $9.40 a year ago.

SMP Graphic Source: Bloomberg

In September SmarTone rewarded its shareholders with a cash dividend payout of $2.19 billion as it reported a 254 per cent increase in annual profit. It paid a final dividend of $3.77 per share. This and the improved business outlook lifted SmarTone's share price to $12.50 at one stage, its highest since February 2001.

In March SmarTone said earnings increased just 5.38 per cent to $235 million in the six months to December as a price war undermined profitability. The customer base increased 9.5 per cent to 1.04 million users. On Friday the counter closed at $8.15.