

Your Money



UPDATE

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Speculation that China may revalue its yuan will continue to be a key driver for Hong Kong shares this week, with a surge of fund flows expected to keep a lid on interest rates. Traders say banking shares may make limited gains as they play catch-up to strong telecoms and property sectors. "We need a good catalyst to break through 2005 highs above 14,270 on blue chips," says Louis Wong of Phillip Securities. In the past week the Hang Seng Index rose 125 points, or 0.89 per cent, to 14,033.96. *Reuters*



Retailers will take the spotlight this week as investors mull over whether high energy costs have pinched consumers and clogged America's economic engine. "I think the market will try to extend its rally but I don't think it will go a whole lot higher," said investment strategist Jeffrey Saut. For the week, the Dow industrials rose 1.5 per cent to 10,345.40, the S&P 500 climbed 1.25 per cent to 1,171.35 and Nasdaq jumped 2.4 per cent to 1,967.35. *Reuters*

NEW PRODUCTS

Merrill Lynch's Hong Kong dollar equity linked note is due to close tomorrow, offering investors a final chance to lock in a product offering a minimum guaranteed return of 12 per cent over three years. The first-year coupon is fixed at 10 per cent; for both the second and third years, the coupons could be either 8 per cent or 1 per cent, depending on the performance of the underlying equities. The maximum potential return is 26 per cent. The product is linked to a basket of six blue-chip companies including Cheung Kong, HSBC, Hutchison Whampoa and PetroChina. Investors who exit early face redemption risk in the form of physical delivery of the underlying shares which may be worth substantially less than principal of the notes. "It is an interesting product in this low interest rate environment," says Merrill Lynch spokesman Abhinav Gorawara. The notes, named after the guarantor Cheung Kong Holdings, are expected to attract between \$500 million and \$1 billion. Mr Gorawara says Merrill Lynch may extend the offer date by a few days to enable more investors to take part. The coupon dates are in one-year intervals expected to start on May 24, 2006. Minimum investment is \$50,000.

EXCHANGE RATES

HK\$	Bid	Ask
€	14.7265	14.7330
Sfr	6.4541	6.4551
*Y	7.4160	7.4200
SS	4.7508	4.7527
AS	6.0400	6.0434
CS	6.2703	6.2744
Baht	0.1975	0.1977
NZ\$	5.7104	5.7177
*Won	0.7785	0.7785
M\$	2.0504	2.0511
NT\$	0.2503	0.2504
Euro	9.9865	9.9890
Peso	0.1439	0.1442
Yuan	0.9414	0.9417

Rates yesterday *per 100 units Source: Bloomberg

Exports to the US facing diminishing demand

Rate rise puts focus on China consumer plays

INVESTMENT TIPS PAUL PONG

I believe a slowdown in the United States economy is inevitable because of the rising interest-rate cycle. Readers will know that the US Federal Reserve last week boosted rates for the eighth consecutive time, pumping the short-term rate up to 3 per cent as expected.

It is hard to say when, but at some point exports to the US are likely to decline on diminishing consumer demand. As a result, I am sceptical about local and mainland export plays, and expect them to undergo a substantial correction.

I am more confident about mainland retail, tourism and consumption-related stocks.

During the past two weeks my portfolio moved in line with the broader market, gaining 1.07 per cent. Since launch three months ago, it is up 1.64 per cent, while the Hang Seng Index has gained 1.36 per cent and the H-share index lost 2.76 per cent.

Looking at the recent performance of the stock market, I remain somewhat cautious, holding a 29 per cent cash position. The subdued turnover on Friday signalled that many investors, including myself, stayed on the sidelines ahead of the latest US non-farm payrolls report.

That report showed the US added 274,000 jobs in April.

Attention this week will be focused on how mainland markets perform after the week-long holiday.

PEGASUS' PORTFOLIO

Stock	No of shares	Average Entry price	Current price	Market value
Café de Coral	22,000	\$8.75	\$8.70	\$191,400
China Shipping Container Lines	25,000	\$4.00	\$3.70	\$92,500
Chow Sang Sang	24,000	\$4.425	\$6.00	\$144,000
Dickson Concepts	8,000	\$11.90	\$13.90	\$111,200
Esprit Holdings	2,000	\$45.50	\$58.00	\$116,000
HKR International	38,000	\$5.20	\$5.30	\$201,400
Hong Kong Exchanges and Clearing	10,000	\$19.85	\$19.20	\$192,000
PCCW	46,000	\$4.475	\$4.80	\$220,800
Ping An Insurance	16,000	\$13.25	\$12.10	\$193,600

Starting capital: \$2 million
Total portfolio value: \$2,032,700
Portfolio gain: \$32,700
Cash (excluding dividends and trading costs): \$569,800

Hang Seng Index gain (February 11, 2005 - May 6): 1.36%
Portfolio gain (Feb 11 - May 6): 1.64%
H-share index loss (Feb 11 - May 6): 2.76%

After success in working with Hong Kong domestic retailers, my attention is now turning to the mainland. Retail was one of the fastest growing sectors in the mainland last year as sales rose 13.5 per cent to 5.3 trillion yuan.

Lianhua Supermarket is the largest retail chain in the mainland and plans to open 600 more new stores this year. Thanks to rapid economic growth and improving living standards, the company's turnover grew 17 per cent year on year to 10.9 billion yuan last year. Net profit totalled 216 million yuan, a 32 per cent increase.

The company's turnover and profit will continue to show robust growth, owing to the strategic expansion of its distribution network.

Another selection I like is Sport retailer Li Ning. The company re-

ported a 133-million-yuan profit last year and has an extensive retail network with more than 2,880 stores.

I am also fond of beverage manufacturer Cofco International, although the company posted rather weak 2004 earnings. Net profit fell 27 per cent to \$300.7 million.

The company manufactures and markets Great Wall Red Wine, ranked No 1 in the mainland, capturing 37 per cent market share of domestic red wine consumption.

Having such a strong brand identity, Great Wall could further expand its sales on the back of growing demand. I see this part of the company as a profit generator for the overall organisation. Moreover, the stock has already corrected about 20 per cent from its high in February, and I anticipate short-

term upside potential. I have also added Kingboard Chemical to my watch list.

The company posted a 1.33 times increase in net profit from \$472.37 million a year earlier to \$1.1 billion last year - in line with market expectations.

The operational outlook for Kingboard is positive as the management effectively applies economies of scale to seize market share in the global printed circuit-board market. Moreover earnings are generated from various businesses, which enables diversification of income and reduced risk profile.

Paul Pong is managing director of Pegasus Fund Managers Limited. He is an SFC licence holder. Neither he nor his associates own any of the stocks mentioned above.

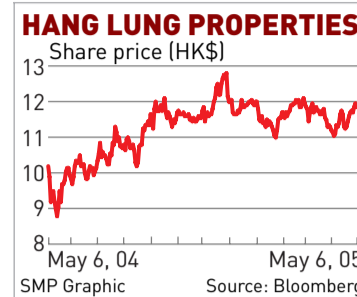
WHAT THE BROKER SAYS

Macquarie Research has cut its earnings forecast for Hang Lung Properties this year by 16 per cent to \$2.98 billion because the sale of its Hong Kong projects will be spread over a longer period than expected. However, it has raised forecasts for next year by 2 per cent to \$4.75 billion and 2007 by 7 per cent to \$5.7 billion.

The sales schedule of Hang Lung's Hong Kong developments now covers three to four years instead of two to three years, as previously assumed.

The strong response to Sun Hung Kai Properties' The Arch, above Kowloon Station, should benefit future sales of neighbour The Harbourside, a project of 1,162 flats. The market price of surrounding developments should increase, leading Macquarie to raise its estimated selling price for The Harbourside from \$10,000 per square foot to \$12,000 per sq ft.

The company's Shanghai office tower the Grand Gateway, which is 80 per cent pre-leased, is scheduled to be completed in July and contributions from rent should start flowing earlier than expected.



The broker has an "outperform" recommendation on the stock and maintains its net asset valuation at \$17.90 and a 12-month price target of \$14.30 - from a price on April 21 of \$11.60 - based on rising home prices, rising commercial rents in Hong Kong and China and new ventures in China.

It says new investment in Tianjin and its projects under way in Shanghai will further strengthen the company's recurring earnings, its cheap development land bank in Hong Kong offers greater flexibility for Hang Lung to time the sale of its projects for maximum benefit.

The counter closed at \$11.75 on Friday.

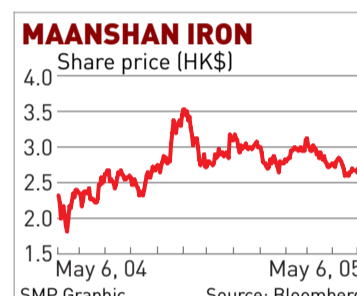
WHAT THE BROKER SAID

About a year ago Core Pacific-Ya-maichi increased its earnings forecast and target price for Maanshan Iron & Steel after China's largest Hong Kong-listed steel producer announced robust growth in 2003 earnings and encouraging results for the first quarter of last year.

The broker placed a "buy" recommendation on the stock, and raised its target price from \$4.20 to \$4.50, an upside of 22.5 per cent on its price of \$3.675 on April 16 last year. The counter was trading at \$2.925 a year ago.

The earnings forecast for 2004 was increased by 7.4 per cent to 3.61 billion yuan and for 2005 by 7.3 per cent to 4.24 billion yuan.

Last month Maanshan unveiled a plan to raise its production capacity after reporting a 30.6 per cent year-on-year fall in first-quarter net



profit. The company posted a net profit of 1.05 billion yuan, down from 1.51 billion yuan for the same quarter last year.

It also reported a 35.09 per cent rise in net profit for last year to 3.59 billion yuan as turnover surged 70.07 per cent to 26.77 billion yuan.

The counter closed at \$2.775 on Friday.

PetroChina set to maintain run of solid numbers

Andy Mantel

Recommendations earlier this year concentrated on companies with valuations way above what we felt were indicative of their fair value. These companies mostly were listed on the Nasdaq.

While the share prices of many have come down, some are still overvalued and should fall further.

It is time once again to recommend a stock on the long side and we chose blue-chip PetroChina.

PetroChina is Asia's largest integrated oil company, with most of its oil and gas reserves in China. It refines, transports and distributes crude oil and petroleum products, produces and sells chemicals, and markets and sells gas.

Last year, the company produced 778.4 million barrels of crude oil and 841.2 billion feet of natural gas; its reserve replacement ratio was 1.02 times.

It was listed in March 2000 with a secondary offering in January last year. Warren Buffett's Berkshire Hathaway is the second largest outside investor with about US\$1.4 billion worth of shares. PetroChina's market cap is about US\$106 billion.

About 85 per cent of the company's operating profit last year was derived from exploration and production, 8.2 per cent from refining, 5.2 per cent from chemical-related activities, and about 1.7 per cent from natural and pipeline gas. Proven developed and undeveloped reserve estimates are 11 billion barrels of crude and 45 trillion cubic feet of natural gas.

Fiscal year 2004 turnover and profit reached 389 billion yuan and 103 billion yuan respectively, annual increases of 28 per cent and 48 per cent. Profits from all four business segments reached historical highs, helping make PetroChina Asia's most profitable company.

Operating profit margins increased to 38 per cent from 33 per cent the year before due to higher volumes and higher average selling prices. PetroChina's average realised crude-oil price last year was US\$33.88 per barrel, an increase of 24.6 per cent from the year before. At the same time, it only had a modest 22-cent increase in lifting cost to US\$4.61 per barrel.

This year, capital expenditure is expected to be 97.5 billion yuan

versus 95.4 billion yuan last year. We expect PetroChina's operating cash flow this year will be more than enough to cover its capital expenditure. In each of the two previous years PetroChina generated 137 billion yuan in cash inflow from its operations. The company has an extremely healthy balance sheet with total debt to common equity of 15.5 per cent.

China's domestic crude-oil price is pegged to the benchmark Minas and Brent crude prices, with a one-month lag. With Minas and Brent prices remaining high, the time lags and crude-quality difference creates differentials in the benchmark crude price and PetroChina's realised oil price.

Last year, the discount of PetroChina's realised crude price to Minas widened from US\$1.73 a barrel

	Price on recommendation	Friday price
Jan 1		
51job (Nasdaq short)	US\$51.97	US\$20.44
Elong (Nasdaq short)	US\$18.65	US\$8.80
March 18		
The9Ltd (Nasdaq short)	US\$16.86	US\$22.51
May 6		
Petrochina	\$4.75	\$4.75

in 2003 to US\$2.81, while its discount to Brent widened from US\$1.57 a barrel in 2003 to US\$3.64 a barrel.

PetroChina currently has a valuation of eight times current year earnings, a 5.5 per cent dividend yield, and a return on equity of about 25.3 per cent. It has a target dividend payout ratio of 40 to 50 per cent. Since listing the company has consistently produced solid financial numbers. It has a solid balance sheet, strong government support and is well positioned in a strategic industry.

Andy Mantel is managing director of Pacific Sun Investment Management and manager of The China Mantou Fund. The fund is available to accredited professional investors only. info@pacificsun.com.hk

A 1-Day Conference

Wealth Management: Challenges, Opportunities and Way Forward

Tuesday, 31 May 2005, 9:00 am - 5:00 pm
Conrad Hotel, Hong Kong

SPEAKERS:

Stewart Aldcroft, Regional Director, Asia, Noble Investments (Hong Kong) Limited

Bruce Bromberg, Head of Compliance, Morgan Stanley

Dr. Louis Cheng, Associate Professor, Hong Kong Polytechnic University

Josephine Chung, Legal Counsel, Citigroup Asset Management (Hong Kong)

Ian De Witt, Partner, Tanner De Witt

Francine Fu, Regional Director - Far East, Royal Skandia Life Assurance Ltd.

Ian Johnston, Special Adviser, Securities and Futures Commission of Hong Kong

Alice Law, Director, Intermediaries and Investment Products, Securities and Futures Commission of Hong Kong

Kaven Leung, Managing Director & Region Head, North Asia & Canada, Citigroup Private Bank

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Albert Wong, Managing Director, Sun Hung Kai Wealth Management Limited

Derek Young, Chief Executive Officer, ipac Asia

Raphael Young, Senior Manager, Strategy, Financial Services, North Asia, Accenture Company Limited

CONFERENCE CONTENT

- Welcome Speech: Hong Kong as a Wealth Management Hub
- Regulation of Wealth Managers, Financial Advisers and Financial Planners: the Australian Experience and the Way Forward
- Panel Discussion: Is the Australian Model Suitable for Hong Kong?
- Evolving Role of Wealth Management Advisor
- Technology: How to Achieve Efficiency and Effectiveness
- Integrating Wealth Management with Professional Services
- Building Better Portfolios for Optimum Results: Role of Alternative Investments and Structured Products in a Portfolio
- Practice Management: Regulatory Hazards
- Case Studies: What Went Wrong? Lessons to be Learnt
- Challenges and Way Forward for Wealth Management Industry

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