

# INSIDE TRACK

## Keeping faith with China

Veteran mainland-born fund manager Yang Liu recently launched the New Era China Fund — at a time when Chinese shares are under pressure in Hong Kong. She tells Anthony Sabine why the current correction is a good opportunity to buy a piece of mainland China's bright economic future



KEVIN MAZUR FOR ENR

For a longer version of the interview, visit our website [ASIaweek.com](http://ASIaweek.com)

**China Mobile and other Chinese firms listed in Hong Kong are currently under pressure. Do you see their stock prices recovering?**

Over time, that should be the case, but we will probably see the market fluctuate for a while. People are anxious [because of the global economic slowdown] and tend to believe negative rumors. But we've seen companies post results that were better than expected, for example, [computer maker] Legend and Huaneng Power. China's impending membership in the World Trade Organization and Beijing's hosting of the 2008 Olympics are giving a great boost to the economy, which is why I have a lot of confidence in China in the next three to five years.

**What about the worrying bubble in Shanghai and Shenzhen?**

An average price-earning multiple of 60 times is pretty scary. You have around \$900 billion [in yuan bank deposits] and \$800 billion worth of foreign deposits [looking for higher yielding instruments]. But people are getting smarter. They know that there are more IPOs coming along. The government wants to bring

down market prices, so it is increasing the supply of listed companies. [Hong Kong-listed petrochemical company] Sinopec recently floated shares in the A-share market [exclusively for Chinese citizens] at a reasonable 20 times 2001 earnings.

**But in Hong Kong, Sinopec is trading at just six times forecast earnings. What are the prospects of unifying the different share classes of the same company?**

It's hard to understand why there are all these ways to raise capital. You have A-shares for Chinese investors, you have B-shares for locals and foreigners, you have H-shares in Hong Kong. One day we may have T-shares — Taiwan companies listed in China. I don't know when this system will change, but that's the challenge for [regulator] CSRC: to make the market more efficient and open to investors.

**Which stocks do you like?**

Sinopec [in Hong Kong] is very reasonably priced and has a 7% dividend yield. The other H-shares I like include Huaneng Power, Zhejiang Expressway and Beijing North Star, a consumer play that will reap good business from the Olympics. I prefer [telephone company] China Unicom to China Mobile because of its higher growth potential in market penetration. I like Legend, now that its stock price has fallen to around 15 times forecast earnings from 60 times a year or so ago. Of the B-shares, I favor [property developer] China Vanke and China International Marine Container. I also like second-tier companies Xinao Gas and orchard grower EuroAsia, which recently bought a flower business. ▲

## A GREAT DEAL... or is it? ON A SCALE OF 1-10, THIS IS WHAT WE THINK

**6 CALLING ALL INVESTORS**  
After investing \$9 billion in Japan Telecom, the Vodafone Group is embarking on a major reorganization that will cut costs, speed up decision-making and improve corporate governance. Japan Telecom aims to reduce costs by up to 30%. It will also merge its wireless units into J-Phone Co. Though radical, these measures will likely enable Japan Telecom to attract foreign investors, and to help it battle archrival NTT DoCoMo. Vodafone's presence is expected to boost shareholder value. That's a call worth making.

**5 CUBICLE VACANCIES**  
If you've ever wanted your very own office space, there's never been a better time: slowing demand in Asia's property markets means falling rents. In a survey of 13 Asian cities, net average rental prices slid anywhere from 2% to 19%. No rebound is in sight until the U.S. gets its act together: Asian exporters can count on lean times until that market begins importing again. Still, retail rents in prime Asian cities like Hong Kong are largely unchanged, as consumers keep shopping. Materialism isn't all bad.

**6 WARRANTS WORRIES**  
Big Brother is watching. And for that, Malaysian retail investors should be grateful. After several recent cases where warrants — securities giving holders the right to subscribe for company shares on a fixed date at a fixed price — became unusually more expensive than their shares, the Malaysian Securities Commission heightened its surveillance. Kuala Lumpur's Stock Exchange may consider putting trading restrictions on warrants to ensure investors know exactly what they're buying. In the meantime, watch out.

**6 BOOSTING THE PESO**  
Thanks to a sliding U.S. dollar, the Philippine central bank believes the peso will easily strengthen to about 50 pesos to the dollar by the end of the year. Since President Gloria Macapagal Arroyo ordered a sharp rise in the peso in early August, monetary policy has tightened considerably. The peso should also benefit from Manila's determination to contain the budget deficit. If the peso and inflation remain stable, the central bank says there is room to cut key interest rates. Forex traders, get ready.