



# Hong Kong/China Market

## Technical Strategy

**HSI makes first test of 200-day m.a. and may cross above it after a few days' minor consolidation...**

### Market Wrap

- The Hong Kong market advanced as the Shanghai Composite Index closed above 2,600, for the first time since May 28. The HSI and HSCEI gained 0.56% and 0.35% respectively to 21,091 and 11,972. Turnover was HK\$62.5 billion.
- HSBC (5) rallied 2.6% leading the HSI. Stanchart (2888) rose 3.3% to a 12-month high. HK Property names dropped on profit taking although the Mount Nicholson site was sold for HK\$10.4 billion. Hang Lung (101) fell 3.1% after reporting full year results.
- Exporters advanced on HK June trade data. China consumption themes were back in play. China auto stocks gained, TV maker Skyworth (751) rose 3.1% and mid-cap Sportswear names rallied after the recent selloff in Dongxiang due to its muted sales growth in Q2.
- Overnight, US stocks slipped back on the FRB's "Beige Book" report that indicated the recovery was slowing in some parts of the country. The S&P 500 Index closed down 0.69% at 1,106.13.

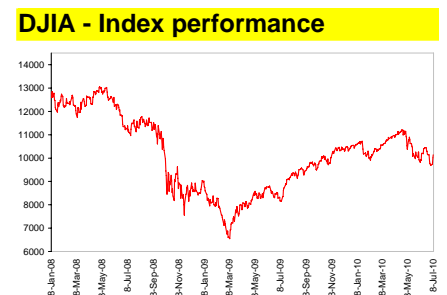
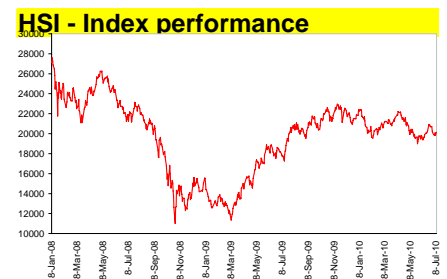
### Macro View

- The Hong Kong attempted to cross its 200-day m.a. yesterday and given the recent upturn in its 50-day m.a. we believe the rally will continue though there is quite a bit of resistance to overcome .
- It should be a gradual process as seasonally we do not expect strong moves in mid-summer. Also, it will take time to turn the long-term trend (200-day m.a.), back up.

### Trading Idea

- Swire A (19) has 10.3m sf of office space in HK and is set to benefit from the recovery in Grade A office rentals. The stock is on 0.93x PB and a DY of 3.0%. We expect it slowly but quite steadily.

Indices	Latest	Chg. Pts
HSI	21,091	118
DJIA	10,498	-40
S&P 500	1,106	-8
NASDAQ	2,265	-24
H-share	11,973	42
Red-chip	4,022	15
Shanghai Comp	2,634	58
Shenzhen Comp	1,072	23





## Industry News

- **Hong Kong property sector:** Nan Fung Development and Wharf (4 HK) together bought the building site at 103 Mount Nicholson Road for HKD10.4bn (or HKD HKD32,014 per sq. foot), which was close to market's estimates of between HKD8.9bn and HKD11.5bn. The price of the site was the third-highest in Hong Kong's history, underscoring the continued strength of the luxury residential market. (Bloomberg, SCMP, The Standard)
- **China banking sector:** The China Banking Regulatory Commission (CBRC) said about Rmb1.54tr out of Rmb7.7tr loans lent to finance local government projects face default risks due to lack of qualified borrowers or warrantors. However, CBRC said these questionable loans will not necessarily bring any systemic risks to the banking sector, as most of them have eligible collateral or a secondary source of repayment. CBRC will conduct on-site inspections over the next three months and urge banks to make adequate provisions to prevent possible increases in bad loans. (China Daily)

## IPO News

- **Infinity Chemical (640 HK):** Infinity Chemical, a glue maker for shoes, will kick off its IPO in Hong Kong today, and is seeking up to HKD93.75m by selling 125m shares at between HKD0.585 and HKD0.75 apiece. The shares will start trading on the HKEx on 12 Aug10. (The Standard, SCMP)

## Corporate News

- **ICBC (1398 HK):** ICBC said it will raise up to Rmb45bn in a rights offer to replenish capital. The bank will sell up to 0.6 shares for every 10 held, or as many as 15.06bn shares in Shanghai and 4.98bn in Hong Kong. The offer is subject to regulatory and shareholder approval. (Bloomberg)
- **ICBC Asia (349 HK):** Parentco ICBC said its board has approved the plan to privatize the company. (Bloomberg)
- **China Mengniu Dairy (2319 HK):** Shareholders of Mengniu, Jinniu Milk Industry and Yinniu Milk Industry are seeking as much as HKD1.22bn from a sale of Mengniu's shares. Jinniu and Yinniu are offering about 50.7 m shares at HKD23.75 to HKD24.15 each. (Bloomberg)
- **China Southern Airlines (1055 HK):** China Southern said it expects an increase of over 50 times in its profit for 1H10 compared to Rmb38m profit in 1H09. The jump in earnings was attributable to stronger demand for aviation and transportation services as a result of rapid domestic economic rebound, gains from the disposal of MTU Maintenance Zhuhai and a lower base effect. (HKEx)



- **Tianjin Capital (1065 HK):** The company said it will join Tianjin Ziya Investment to build a sewage water treatment plant in the Ziya industrial zone at a cost of Rmb76.7m. (The Standard)
- **China Huiyuan Juice (1886 HK):** Danone said it has agreed to sell its 22.98% stake in Huiyuan to SAIF Partners, a venture capital fund focused on China and India, for EUR200m. The shares will be sold for HKD6 per share, which is 11% higher than yesterday's closing price of HKD5.42 per share. (Bloomberg)
- **Golden Eagle Retail (3308 HK):** Golden Eagle announced that it has acquired two department stores in Hefei for a consideration of Rmb267m. (Golden Eagle)
- **GCL-Poly Energy (3800 HK):** The company said it will invest an additional USD300m to expand its solar wafer output capacity by 1GW, to 3GW by the end of the year. (SCMP, Bloomberg)
- **Chalco (2600 HK):** Chalco suspended its shares from trading ahead of a signing ceremony with Rio Tinto Group in Beijing today. Parentco Chinalco announced the event without giving details of the agreement. Chinalco in Mar10 signed a non-binding accord to pay USD1.35bn for a stake in Rio's Simandou iron ore project in Guinea. (Bloomberg)
- **Chu Kong Pipe (1938 HK):** Chu Kong Pipe issued profit warning and expected net profit for 1H10 to decrease by about 50% yoy, attributable to the decrease in the export sales as a result of the European financial crisis. Domestic sales also decreased but in a smaller extent due to tightening measures adopted by the PRC government to curb spending, resulting in procrastination of a number of pipeline construction projects. (HKEx)
- **Jiahua Stores (602 HK):** Jiahua issued profit warning and expected to record a lower profit for 1H10 due to the increase in local competition in the retail sector and the effects of the renovation of certain existing stores. (HKEx)

## Result Announcement

- **Hongkong Electric Holdings' (6 HK):** Interim net profit rose 3.2% yoy to HKD2.75bn. Its non-HK business, which accounted for 35.8% of overall group profit, increased from HKD883m to HKD978m. The company declared an interim dividend of HK62 cents per share. (SCMP, HKEx)
- **Melco (200 HK):** Melco said net losses in 2Q10 narrowed 80% to USD30.1m, while sales surged 166% to USD573.6m. (SCMP, Bloomberg)
- **Shandong Xinhua Pharmaceutical (719 HK):** Interim net profit was Rmb60.174m, increased 53.8% yoy. No dividend is declared. (The Standard, Oriental Daily)
- **Hang Lung Group (10 HK):** Net profit for the year ended 30 Jun10 was HKD12.404bn, up 370.2% yoy. Final dividend of HKD0.57 per share is proposed. (HKEx)

**TECHNICAL STRATEGY**

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*BOC HK is one of the first major stocks to break out of its trading range of the last eight months. While the stock is overbought it is likely to continue to trend higher from here. **Buy or hold with a stop loss at HK\$19.00.***



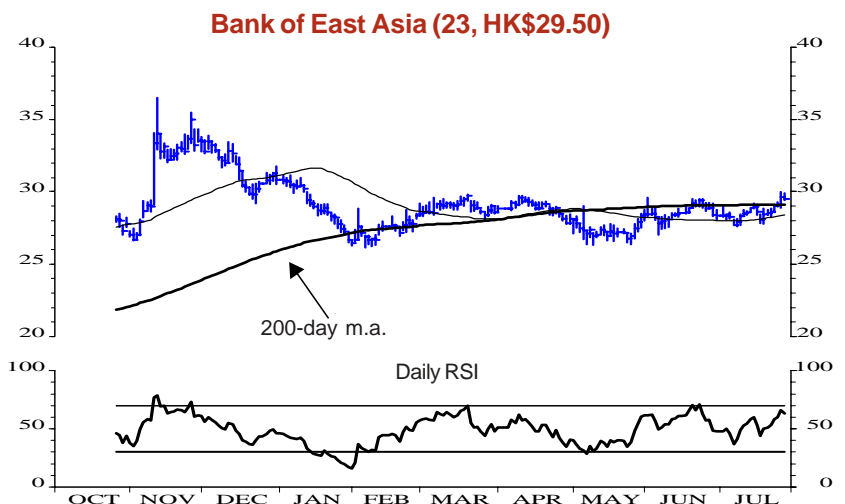
Source: Thomson Financial Datastream

*Hang Seng Bank moved out of a recent narrow trading range recently and has upside potential to its 200-day m.a. at HK\$110.00. **Buy or hold with a stop loss at HK\$105.00.***



Source: Thomson Financial Datastream

*BEA has crossed above its 200-day m.a. but is still in a narrow trading range. **Trading buy on a move above resistance at HK\$30.00.***



Source: Thomson Financial Datastream

**TECHNICAL STRATEGY**

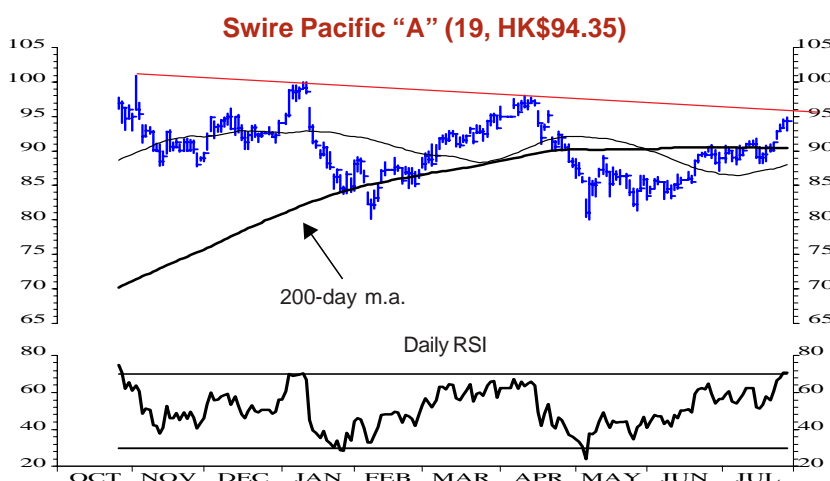
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*CRE has broken long-term resistance at HK\$30.00 and should continue to trend higher from here. Buy or hold with a stop loss at HK\$29.50.*



Source: Thomson Financial Datastream

*Swire Pacific "A" is rallying towards resistance at HK\$96.00. Consider taking partial profit at that level.*



Source: Thomson Financial Datastream

**Hang Seng Composite Sectors**

Sector	Index	Day (%)	Week (%)	MTD (%)	YTD (%)
Hang Seng Index (HSI)	21091.18	0.56	2.95	4.78	-3.57
Hang Seng Composite	2955.72	0.54	2.71	5.17	-3.15
HSCI Info Technology	2250.72	1.70	3.69	5.68	-15.68
HSCI Financials	3403.02	1.12	3.53	5.93	-5.45
HSCI Consumer Goods	5257.28	0.79	1.31	2.86	1.58
HSCI Industrial Goods	1456.62	0.67	4.18	10.76	3.95
HSCI Utilities	5134.19	0.62	0.91	1.24	3.65
HSCI Services	3637.82	0.30	2.47	6.35	8.74
HSCI Telecommunication	1653.37	0.18	1.12	1.16	8.11
HSCI Materials	9520.20	0.06	2.64	6.42	-12.03
HSCI Energy	12171.32	-0.04	2.81	2.20	-5.00
HSCI Conglomerates	2065.43	-0.34	4.28	6.90	-4.88
HSCI Property & Construction	2782.58	-0.35	2.14	8.91	-4.58
HS Mainland 100	6739.43	0.37	1.90	4.13	NA
HS China Enterprises	11972.75	0.35	2.42	4.42	-6.42
HS China H-Financial	16967.66	0.34	1.81	3.48	-4.01
HS China Affiliated Corps	4021.64	0.38	1.60	5.32	-0.94
HS HK 35	2169.82	0.16	3.25	5.58	NA
HS HK Comp Large Cap	1716.22	0.44	2.72	4.87	NA
HS HK Comp MidCap	4385.22	0.73	2.59	6.54	NA
HS HK Comp Small Cap	2281.36	1.37	2.93	5.00	NA

Source: Thomson Financial Datastream

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