HONG KONG (5.0 STARS – VERY ATTRACTIVE)

1) The estimated PE for Hong Kong's equities, represented by the Hang Seng Index, is at 12.8X and 11.9X for 2009 and 2010. As the valuation is becoming attractive compared with other markets, we maintain the Hong Kong market to very attractive rating of 5 stars.
2) Earnings growth for the Hong Kong stock market is at 1.3% and 7.2% in 2009 and 2010. Earnings growth is at an average 10.1% for the next 3 years.
3) Hong Kong's economy shrank 2.5% y-o-y in 4Q 08, the most since 2Q 03. It was even lower than the market consensus of 1.7% growth. Global financial crisis triggered exports and consumption to tumble while unemployment to climb to a decade-high.
4) Government plans to spend HK$1.6 billion over the next three years to create 62,000 jobs and internships. The measure is aim to stablise the labour market. Although government posted a HK$4.9 billion budget deficit for 2008/2009 fiscal year, it has no immediate rating implication on government debts as Hong Kong government has large fiscal reserves and limited debts.
5) HSBC said its full-year net income in 08 dropped 70% after huge losses in its North American business. It also launched a USD 17.7 billion rights issue at a deep discount to strengthen their capital. Bank of East Asia (BEA) posted a 99% drop in its net profit in 08 from a year earlier. It was the worst result in 30 years. The bank has suffered a huge net loss of HK$746 million in the 2H 08 after a massive write down of toxic securities.
6) Hong Kong Monetary Authority warned that syndicated loans worth more than HK$100 billion are set to mature this year. Corporate borrowers across many sectors could struggle to refinance as many foreign banks have been curtained their lending in order to withdraw capital from Hong Kong to help their parent companies.
7) Inflation in Hong Kong rose by 0.8%. The CPI was at 3.1% y-o-y in Jan 09. The decelerating in inflation was attributed to the timing effect of Chinese New Year as well as the declining external demands.
8) The average estimated P/E for next three years is just 12.6X while the average annualized earnings growth for next three years is 10.1%. It is becoming more attractive in valuation compared with other Asian markets. We thus remain the Hong Kong market to very attractive rating of 5 stars.