Standard Chartered

press release

China/HK Equity Markets Expected To Bode Well In 2014

Plenum suggests a return to pro-market policies; Deregulation to lift valuations

Hong Kong, 26 November, 2013 – Standard Chartered expects China and Hong Kong equity markets to fare well next year on the prospect of improving investor sentiment encouraged by Beijing's commitment to market reform and subsiding political risks.

In 2014, the Hang Seng Index is expected to trade between 24,000 and 28,000 points and the H-share index between 12,000 and 15,000 points. Standard Chartered recommended an Overweight rating on China-related shares versus their traditional Hong Kong counterparts. Within China sectors, energy, industrials, materials, auto, retail, property and insurance are rated Overweight while banks, telecom, internet, healthcare and utilities are rated Underweight. For Hong Kong sectors, industrials, consumer and banks are rated Overweight, and an Underweight rating on property and utilities.

Erwin Sanft, Head of China & Hong Kong Equity Research said: "The recently concluded Third Plenum in China suggested the country's equity market will subsequently become more market-driven as the new leadership slowly lifts its hand. Deregulation should hinder earnings growth, but thanks to the resumption of pro-market policies, China's equity discount to global markets could be reduced to 15-30% from 40%. Higher dividend payout ratios and rising free-float percentages should support share prices."

Unquestionably, reducing support to the state sector should hamper earnings growth for state-owned enterprises, which account for 80% of the MSCI China index. But over the past four years, when profits of China's overseas-listed equities grew 76%, the MSCI China responded with a shrinking PE ratio that fell to 10x from 17x over the same period. This de-rating reflects market concerns about the sustainability of China's

growth model. By not actively supporting the state sector, the private sector's share of the economy will naturally regain growth momentum, Sanft said.

State-owned-enterprises have been given a target to contribute 30% of earnings to the central budget by 2020. As such, parent of listed companies are expected to demand higher dividends, which will lead to higher payout ratio, Sanft said, adding that the average dividend payout of MSCI China Index is at a low of 32%. By increasing the payout to 50% would lift the market's dividend yield to 5%.

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Notes to editors:

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