

China stocks look expensive: analysts

Forward PE ratios already more than half that at peak of market

By JAMIE LEE

BEWARE the dragon. That was the view of panellists at a discussion at Invest Fair 2009 organised by ShareInvestor and *The Business Times*.

Some cautioned that Chinese equities look expensive, while others warned that China's buying – or otherwise – of US Treasury bonds will have a huge impact on the strength of the US dollar.

NRA Capital chairman Kevin Scully said that after the recent rally on Chinese stock markets, forward price-earnings ratios are

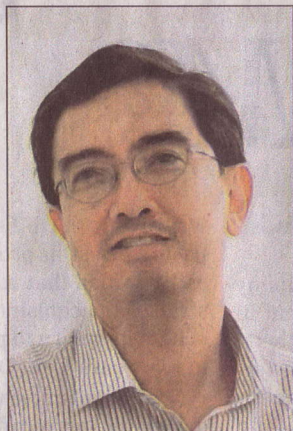
more than 30 times, which are already more than half the ratio at the peak of the market.

"Basically, the market is looking expensive," Mr Scully said during a panel discussion entitled "Economy – Worst behind us?"

Gabriel Yap, senior dealing director at DMG & Partners Securities, said that after recent "IPO euphoria", caution is the watch word when buying stocks of recent listings in China.

"There's a lot of hype," he said, adding that a similar scenario could be playing out with some of the new second-tier, or Catalist, stocks here.

Although Mr Yap recommends buying into the top six Chinese banks because of their exposure to the country's growing wealth,



Mr Scully: 'Basically, the market is looking expensive.'

he said that investors should only start buying when prices fall about 20 per cent below current levels.

Questions were also



FILE PHOTOS

Mr Yap: Calls for caution when buying stocks of recent listings in China

raised about the US dollar, with China and India saying recently that they want to move away from using the greenback as the reserve currency.

Saxo Capital Markets' forex strategist Andrew Robinson says that the latest US Treasury auction was "very well-subscribed", showing that the appetite among Asian countries remains.

"The dollar is still safe haven and as such, there is still a need to buy US dollars in the near term," he said. "What will happen when the Chinese have had enough of funding the US deficit? You might see a totally different scenario."

But China will risk devaluing its reserves if it sells its US assets too aggressively, since this would move the US dollar, said BT associate editor Vikram Khanna.

Mr Robinson said the best solution could be to maintain a portfolio of cur-

rencies, adding that smaller currencies – such as the now popular Australian dollar and Norwegian kroner – may not be able to absorb the amount of money thrown at them.

"What happens when you want to liquidate them? You'll face the same problem when holding the US dollar," he added.

Volatility has extended from stock movements to analysts' expectations, with Mr Scully noting that corporate earnings in China are caving in under analysts' optimistic calls.

Because the US and European economies are starting to perform, the US and European markets may start to catch up, said Mr Scully, who recommends avoiding blue chips here as they are too expen-

sive. Panellists also said they reckon the worst is over for the global economies.

While some high-profile corporate failures are expected amid the need to unwind deficits, this is unlikely to derail economic recovery, said David Cohen, director of Asian Economic Forecasting at Action Economics.

As for Singapore property, PropNex CEO Mohamed Ismail Gafoor said that there could be opportunities in the resale market to get freehold units in prime areas such as Bukit Timah for about \$700 per sq ft. In comparison, some newly launched units in suburban areas are priced around \$1,000 psf.