PP14767/09/2012(030761)

Tuesday, July 14, 2015

3Q15 China Economic Outlook

"Embracing Slower Economic Growth"

China Economic Forecast

	2012	2013	2014	2015F	2016F
PBoC	7.7%	7.7%	7.4%	7.1%	n.a
IMF				6.8%	6.3%
OECD				7.1%	6.9%
World Bank				7.1%	7.0%
Bloomberg Consensus				7.0%	6.7%

Source: Various, M&A Securities

Positive catalysts:

1) Government commitment to intensify rebalancing the economy
2) Sluggish global commodity prices: breathing space to fiscal planning
3) Committed to liberalize financial market
4) USD may gain at the expense of Yuan; currency gains for their huge US Treasury holdings

Negative catalysts:

1) May need to cut policy rate before hiking, ahead of the US
2) Rebalancing may take toll on investment and consumption may still be weak
3) China's export may take a hit while import to slow down in an effort to cool economy
4) Slower GDP growth of 7.0% in 2015, the slowest in more than a decade

China has given the world a clear signal, in that it will, like it or not, grow at slower pace this year of 7.0% (2014: 7.4%) despite the fact that global commodity prices remained depressed. This will be China's slowest pace in more than a decade and to some, this is considered a recession. China economy has been hit by various factors namely 1) slower export momentum – dampen by challenging economic growth of Eurozone, one of its biggest export market 2) escalating debt in the financial system – weighed by years of credit boom that has been fuelling growth in private and public investment 3) still weak private consumption – which may take years before can take over private investment as the engine of growth. In that, China has taken bold steps to re-balance and re-form the economy by unleashing the power of its huge population that could be precursor for private consumption to take the lead.

Willy-nilly, China cannot rely through infinity the power of credit binge to fuel the economy as debt will escalate and hence, put little room to grow using the power of monetary weapon. In apparent attempt to re-jolt the economy China has taken painful measure to cut its RRR by full percentage point recently to 6.0% and also cutting the interest rate by a few notch in April and May. China is trying hard to meet the premier, Li Keqiang, new GDP target of 7.0% as revealed in May 2015. Of note, China has failed to capitalize on the depressed global commodity prices to re-energised the economy as the problem is more of structural nature. We are on the same page of China premier in that China will grow slower this year if one looks at the sagging performance of its import in the last few months. It has been in steady contraction mode y-o-y for the whole of this year. Added to the

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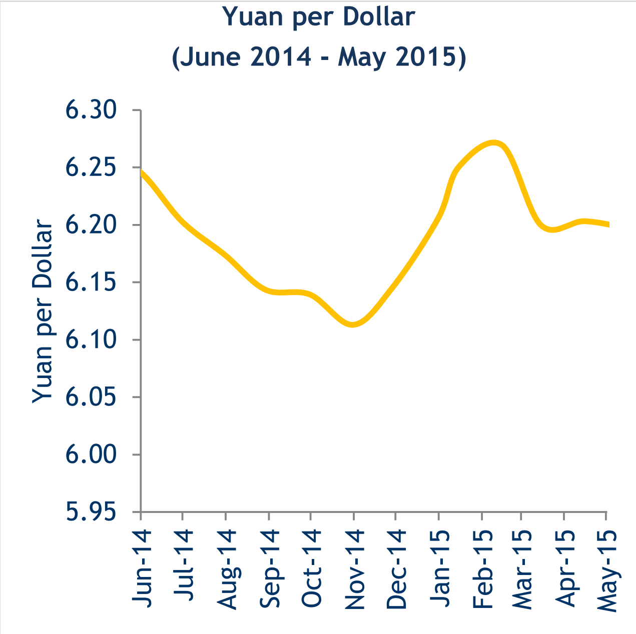
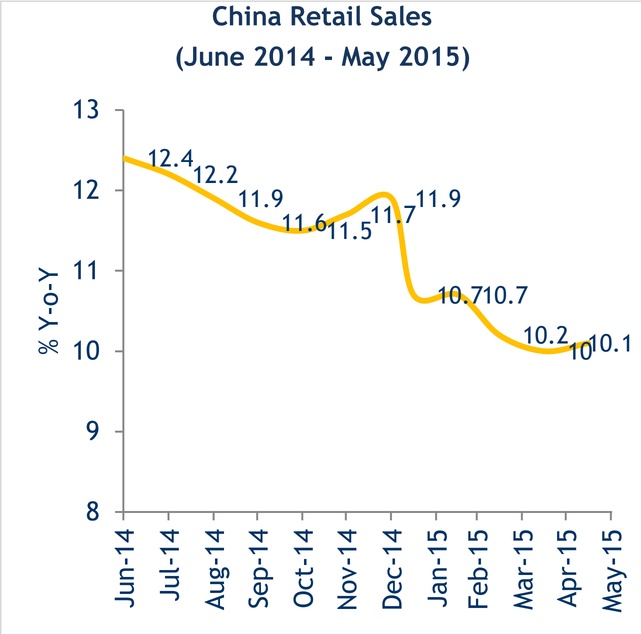
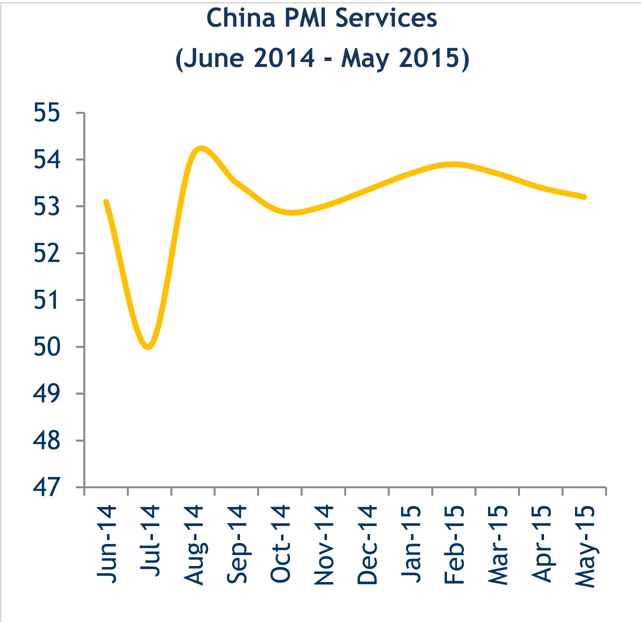
misery, China’s export has been less-than-impressive after commuting between growth and contraction from January till May this year, indicating that all is not well there. Its economic barometer, as in retail sales, has also been disappointing, after clocking in lower than the government target of 12% (May: 10.1%; April: 10%; March: 10.2%, February: 10.7%). To top it off, China has failed to capitalise on weakening Yuan to bolster its export, leading us to believe that China is re-engineering to slow its economy deliberately. In sum, we believe that this slow economic momentum could last a few years, at least until the fundamentals of China improve. Until then, be ready to face steady economic headwinds from China.





Source: Bloomberg, M&A Securities



Source: Bloomberg, M&A Securities

Market Access

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STOCK RECOMMENDATIONS

BUY Share price is expected to be ≥+10% over the next 12 months.
TRADING BUY Share price is expected to be ≥+10% within 3-months due to positive newsflow.
HOLD Share price is expected to be between -10% and +10% over the next 12 months.
SELL Share price is expected to be ≥-10% over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT The sector is expected to underperform the FBM KLCI over the next 12 months.

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