China Leadership Change Boosts Consumer Stocks, Matthews Says(1)
2012-11-08 08:42:49.754 GMT

(Updates with BlackRock comment in eighth paragraph.)

By Bloomberg News

Nov. 8 (Bloomberg) -- China's once-in-a-decade leadership transition will spur policies that support consumer-driven stocks and encourage higher dividend payments, according to Matthews International Capital Management LLC.

Policy makers will rely on local demand to fuel growth rather than export revenue and investment, while regulators may encourage more companies to raise dividends to bolster interest in the stock market, said Richard Gao, a money manager at the San Francisco-based company that oversaw $19.2 billion globally at the end of October, according to its website.

"The government has made it very clear that going forward China's growth will come more from domestic consumption," Gao, whose China Fund beat 80 percent of its peers over the past five years, while trailing most of them in 2012, said in a phone interview yesterday. Matthews is overweight consumer-related companies and is avoiding cyclical stocks, he said.

Premier Wen Jiabao signaled a shift away from exports and capital spending and toward consumption in March, saying China needs to move to a more sustainable economic model. Wen and President Hu Jintao are forecast to hand over power to a new generation of leaders at the 18th Communist Party congress due to start today.

The new leadership will assume stewardship of an economy that grew at the slowest pace in more than three years last quarter. China's Shanghai Composite Index has dropped 5.8 percent this year, compared with a 11.4 percent advance in MSCI Inc.'s emerging-markets index.

'Quite Attractive'

Valuations on the Shanghai Composite have fallen to 9.8 times estimated profit, compared with an average multiple of 17.8 since Bloomberg began compiling weekly data on the gauge in 2006. The MSCI China Index of mostly Hong Kong-traded stocks is valued at 10.2 times profit after gaining 14 percent in 2012.

"The overall valuations of Chinese companies are still quite attractive," Gao said. While declining to name which stocks he is buying, Gao said he favors companies such as supermarket operators, department stores, technology firms and gaming stocks.

BlackRock Inc., the largest money manager in the world, recommends buying China stocks for long term investment on "attractive" valuations. Investment opportunities which could follow structural reforms are "enormous," Jing Ning, a BlackRock portfolio manager, wrote in an e-mailed note today.

Mobius Fund

Matthews' China fund, which has lost 3.2 percent in the past five years and returned 5.3 percent in 2012, invests mainly in Chinese companies listed in Hong Kong and the U.S. as well as foreign-currency denominated shares traded in the mainland. The top two holdings as of the end of June were Hong Kong-listed Digital China Holdings Ltd., a distributor of technology products, and Ping An Insurance (Group) Co., data compiled by Bloomberg show. Ping An, China's second-biggest insurer, gained 20 percent this year, while Digital China advanced 16 percent.

A gauge of consumer-staples companies in the MSCI China Index jumped 704 percent in the 10 years to yesterday, the top performer on 10 industry groups, while a measure of consumer discretionary companies climbed 138 percent.

Mark Mobius, executive chairman of Templeton Emerging Markets, will co-manage a China fund starting this month that will favor consumer stocks such as liquor producers.

ING Investment Management favors China Mobile Ltd., the world's biggest phone company by subscribers, on prospects mobile usage in Asia's biggest economy will surge, Manu Vandenbulck, who helps manage 500 million euros ($637 million) of emerging-market stocks that pay dividends, said in a Nov. 6 interview in London.

Dividends of developing-nation equities will be supported by improvement in the Chinese and U.S. economies next year, Vandenbulck said.

Dividend Yield

The dividend yield on the Shanghai Composite is 2.76 percent, the second-lowest among the so-called BRIC nations, data compiled by Bloomberg show. The dividend payout among China's publicly traded companies, or the cash dividend as a percentage of companies' annual net incomes, rose 1 percentage point to 31 percent, in 2011 from the previous year, the regulator said in a May 10 statement.

"There is a trend in China that more and more companies are willing to pay dividends," Matthews' Gao said. "Companies able to pay dividends on a sustainable basis will benefit shareholders a lot and show solid fundamentals. These are what the Chinese companies should be encouraged to do."

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