

Buy China Infrastructure Stocks, Jewelers on Weakness, HSBC Says
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By Jan Dahinten

May 29 (Bloomberg) -- Buy cement, railway equipment manufacturing, construction machinery, export beneficiaries, department stores, jewelry retailers, HSBC strategists Steven Sun, Roger Xie and Garry Evans write in client note.

- * Expect China's economic growth to rebound in short term, market to do much better in 2H
- * Weak external demand, slowing property investment will continue to weigh on economy, leaving infrastructure, public housing as inevitable choice
- * Market needs to see 800b-900b yuan (\$126b-\$142b) lending in June, July to get more comfortable; breakout over 50 for HSBC China PMI could help restore confidence
- * Cyclical (industrial, IT, materials, consumer discretionary) have underperformed defensives (telecom services, utilities, health care, consumer staples) for past 3 mos, which is reversing due to cheap valuations, better earnings outlook on pro-growth policies
- * Cyclical trade on avg. 12x forward PE at 20% discount to 5-yr avg. valuation and vs defensives' 15x, same discount as at end-2008

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