Analysts: Stock rally sustainable

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By Bi Xiaoning (China Daily)

A 50 percent rebound in the stock market in the first half of 2009 has set in motion momentum for the remainder of the year, despite undoubted occasional fluctuations, according to industry analysts.

Reports from CITIC Securities said the economy is certainly experiencing a U-shaped recovery, with Shanghai's A-share market continuing its rebound.

Anxin Securities seemed the most optimistic when it said this round of growth could last to the second quarter of 2010 with country's benchmark Shanghai Composite Index rising to 3,800 points from the current 2,900.

Guotai Junan Securities Co also believes the A-share market will remain in an upward trend due to a recovering economy, moderately relaxed monetary policies and the improved performance of listed companies.
According to Guotai Junan, listed companies can experience a V-shaped recovery in the second half and are likely to gain 12 percent to 15 percent in annual growth by the year end, though their mid-term earnings may drop about 10 percent year-on-year on average.

Guotai Junan predicted that the Shanghai market may range between 2,300 to 3,500 points in the second half and warned the bourse might feel the impact of corrections in the third quarter.

"The biggest uncertainty is from overseas markets," said Zhang Linchang, analyst with Guotai Junan Securities.

According to the forecast by Guotai Junan, the US Federal Reserve may tighten liquidity to avert potential inflation, which will lead to appreciation in the greenback and depreciation of staple commodities. Overseas stock markets may respond with a tumble and drag down China's A-share market.

In addition, A-share valuations are somewhat higher in some industries, with the average price-to-earnings ratio about 28 times and an average price-to-book ratio about 3.2 times, the report said.

"Meanwhile, the resumption of initial public offerings (IPOs) and the unlocking of non-tradable shares may result in an imbalanced capital supply. So the market is likely to feel the impact of corrections in the third quarter," said Zhang.

The mainland index has jumped over 70 percent since last October. Given the strong rally in shares and the upbeat outlook for the economy, the securities regulator lifted a nine-month ban on IPOs on June 18.

The China Securities Regulatory Commission (CSRC) suspended new listings in September of last year after the Shanghai index fell almost 60 percent in the first nine months.

Two firms - Guilin Sanjin Pharmaceutical Co and Zhejiang Wanma Group Cable Co - have now been approved to list on the small and medium-sized enterprise (SME) board in Shenzhen.

"It's reasonable to let the small and mid-cap stocks go first to tap funds from the market. Large companies are not suitable to list immediately after the resumption of IPOs due to concerns that a massive equity supply could stifle the market rally," said Li Daxiao, a director of Yingda Securities.

Thirty-three companies have passed hearings at the CSRC's listing panel, the penultimate step in the process of receiving stock sale approvals. Those sales may collect a combined 70 billion yuan.

According to financial data provider Wind Info, those 33 companies can sell about 11.42 billion A shares in total. Among them four are planning to list on the main board and the largest deal is the country's biggest homebuilder China State Construction Engineering Corp (CSCEC), which would issue 12 billion A shares and raise about 40 billion yuan, its prospectus said. Once listed, it would be the fifth-largest IPO ever on the mainland.

On June 12, market rumors said the CSCEC was likely to get listed, and the Shanghai index responded with a decline about 1.91 percent.

"Market watchers are waiting to see which companies will be listed first on the main board. It is important for the CSRC to regulate the pace of new listings in minimizing the potential impact of a rush of capital," Li said.

In the history of China's stock market, there have been six IPO suspensions. On five occasions, the index increased slightly by 2 percent to 5 percent in month following resumption of IPOs.

Investors are also wary of the upcoming unlocking of non-tradable shares. According to Wind Info, there could be about

688 billion non-tradable shares made tradable this year, about four times the number last year, which will peak in the second half.

Analysts said there is no need to panic since large State-owned companies such as Bank of China, ICBC and Sinopec hold 80 percent of those share and are not likely to flood the market.

The government also provided some cushion for the effect of unlocking non-tradable shares.

On June 19, just a day after the lifting the IPO suspension, the Ministry of Finance and the CSRC said about 131 State-controlled enterprises, with current market capitalization of 63.9 billion yuan, will transfer the equivalent of 10 percent of their shares sold in IPOs on domestic stock markets to the national pension fund to increase the assets of the welfare system.

The National Social Security Fund would extend the lock-up period of those stocks by another three years, which is believed to add stability to the stock market and boost investors' confidence.

"The performance of the A-share market will lie on the profitability of listed companies. If they haven't recovered as expected, the market may see a deep correction," said Wang Qing, Hong Kong-based chief China economist at Morgan Stanley.