China/Hong Kong Update

Monthly Commentary

April 2013

Market & Economic Overview

- The MSCI Zhong Hua Index fell in March and was among the main laggards in the region, because of worries over continued policy tightening measures aimed at cooling the property market.
- China maintained its GDP growth target at 7.5% for 2013 and raised its budget deficit forecast in view of tax cuts and measures to support consumption.
- Inflation rose in China and Hong Kong in February due to the seasonal effect of the Chinese New Year holidays.
- In March, Chinese export growth missed forecasts and manufacturing activity increased at its fastest pace in 11 months.
- Hong Kong's economy grew in the fourth quarter of 2012, albeit at a slower-than-expected rate.
- The persistent rise in total social financing has raised concerns over hot money inflows and worsening asset bubbles in China. Further, the fatal avian flu outbreak in China has added to investor anxieties, which could translate to increased market volatility ahead.
- Nevertheless, bright spots remain. The stronger-than-expected growth in March imports points to the gathering momentum in domestic consumption. Encouragingly, the mainland government is set to unveil more measures to boost investment-led domestic demand, which is vital to the mainland's economic health.

Model Portfolio News

There were no major changes to the portfolio in March.

Key Economic Numbers

50.9 China's March PMI rose to 50.9 on the back of increasing trade activity, new orders and slowing inflation for upstream products.

3.5% Beijing is targeting a 3.5% inflation goal for 2013, down from 4% in 2012 as price gains slowed last year.

10% China's exports grew by 10% year-on-year in March. The figure was lower than expected and has fuelled concerns over the mainland's trade outlook.

Aberdeen

Corporate News

Results were mixed among our holdings. **Standard Chartered** reported higher profits, despite paying off its fines; stringent cost controls and its wholesale banking business supported earnings. **HSBC** raised its dividend payout even though higher compliance costs pared profits. The sale of several non-core assets also boosted the bank's capital position, while cost cuts exceeded initial targets. **MTR** and **Swire Properties**' results were boosted by better-than-expected sales of residential projects. **ASM Pacific**'s fourth-quarter orders also improved. **Dairy Farm** reported solid contributions from its multi-format stores, although its earnings were pared by a one-off writeback of previously recognised supplier income in Malaysia.

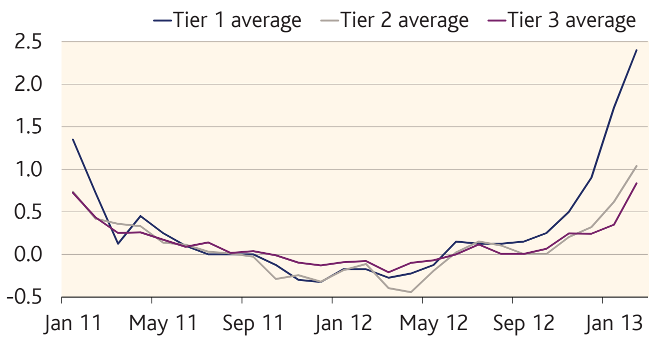
In the energy sector, increased product prices narrowed **PetroChina**'s refining losses, although the natural gas segment was affected by increased gas imports. Nevertheless, pricing mechanisms for new refined products should benefit the company. **CNOOC** made numerous discoveries in 2012 though operating expenses rose.

Conversely, **Wing Hang Bank** and **Dah Sing Bank** witnessed higher provision charges relating to exposures in China. **China Resources Enterprise**'s net profits were pared by costs from its new start-ups. While its retail and beer segments face challenging conditions, the company's solid market share should support future growth. **Aeon Stores**' China operations also made a loss in the second half of 2012.

We hold all the companies highlighted.

Focus: China's property prices still propped up

New constructed residential prices (% m/m)



Source: CEIC, UBS estimates, March 2013

Property prices in China's Tier 1 cities have spiked significantly in the first quarter. Notably, real estate prices in Shanghai have risen by more than 40% in January and February. In response, authorities intensified tightening measures, which included a 20% profit tax on home sales as well as raising the minimum down payment and mortgage rates for second homes in key cities. But there are limits to the efficacy of these policies, as they do not address the underlying structural issues of the asset bubble – there is a dearth of alternative investment options in the mainland and local governments are extremely dependent on land sales for revenue. As long as these issues persist, the pressure on property prices is likely to remain.

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