China/HK Equity Markets Expected To Bode Well In 2014
Plenum suggests a return to pro-market policies; Deregulation to lift valuations

Hong Kong, 26 November, 2013 – Standard Chartered expects China and Hong Kong equity markets to fare well next year on the prospect of improving investor sentiment encouraged by Beijing's commitment to market reform and subsiding political risks.

In 2014, the Hang Seng Index is expected to trade between 24,000 and 28,000 points and the H-share index between 12,000 and 15,000 points. Standard Chartered recommended an Overweight rating on China-related shares versus their traditional Hong Kong counterparts. Within China sectors, energy, industrials, materials, auto, retail, property and insurance are rated Overweight while banks, telecom, internet, healthcare and utilities are rated Underweight. For Hong Kong sectors, industrials, consumer and banks are rated Overweight, and an Underweight rating on property and utilities.

Erwin Sanft, Head of China & Hong Kong Equity Research said: “The recently concluded Third Plenum in China suggested the country’s equity market will subsequently become more market-driven as the new leadership slowly lifts its hand. Deregulation should hinder earnings growth, but thanks to the resumption of pro-market policies, China’s equity discount to global markets could be reduced to 15-30% from 40%. Higher dividend payout ratios and rising free-float percentages should support share prices.”

Unquestionably, reducing support to the state sector should hamper earnings growth for state-owned enterprises, which account for 80% of the MSCI China index. But over the past four years, when profits of China’s overseas-listed equities grew 76%, the MSCI China responded with a shrinking PE ratio that fell to 10x from 17x over the same period. This de-rating reflects market concerns about the sustainability of China’s
growth model. By not actively supporting the state sector, the private sector’s share of the economy will naturally regain growth momentum, Sanft said.

State-owned-enterprises have been given a target to contribute 30% of earnings to the central budget by 2020. As such, parent of listed companies are expected to demand higher dividends, which will lead to higher payout ratio, Sanft said, adding that the average dividend payout of MSCI China Index is at a low of 32%. By increasing the payout to 50% would lift the market’s dividend yield to 5%.

-Ends-

For further information, please contact:

**Standard Chartered Bank (Hong Kong) Limited**
Gabriel Kwan / Joyce Li
Corporate Affairs, Hong Kong
2820-3036 / 2820-3841

**Notes to editors:**

**Standard Chartered – leading the way in Asia, Africa and the Middle East**

Standard Chartered is a leading international banking group. It has operated for over 150 years in some of the world's most dynamic markets and earns around 90 per cent of its income and profits in Asia, Africa and the Middle East. This geographic focus and commitment to developing deep relationships with clients and customers has driven the Bank’s growth in recent years. Standard Chartered PLC is listed on the London and Hong Kong stock exchanges as well as the Bombay and National Stock Exchanges in India.

With 1,700 offices in 70 markets, the Group offers exciting and challenging international career opportunities for 87,000 staff. It is committed to building a sustainable business over the long term and is trusted worldwide for upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity. Standard Chartered’s heritage and values are expressed in its brand promise, ‘Here for good’.

The history of Standard Chartered in Hong Kong dates back to 1859. It is currently one of the Hong Kong SAR’s three note-issuing banks. Standard Chartered incorporated its Hong Kong business on 1 July 2004, and now operates as a licensed bank in Hong Kong under the name of Standard Chartered Bank (Hong Kong) Limited, a wholly owned subsidiary of Standard Chartered PLC.

For further information please visit www.standardchartered.com. Follow Standard Chartered at www.facebook.com/standardchartered and on Twitter @StanChart.