

Top China Stock Forecaster Sees Brighter Outlook for 2018

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- Zhu Bin targets 13 percent gain on earnings, more mergers
- Shanghai shares have lagged behind global peers this year



Investors stand at trading terminals in front of electronic stock boards at a securities brokerage in Shanghai, China, on Oct. 13. *Photographer: Qilai Shen/Bloomberg*

Chinese stock investors can expect a better performance next year as earnings growth picks up and MSCI Inc. includes the country's equities in its benchmark indexes, according to the most accurate forecaster for 2017.



Zhu Bin, strategist for Southwest Securities Co., predicts the Shanghai Composite Index will climb to 3,700 by the end of 2018, implying a 13 percent gain from Monday's close, helped by an increase in mergers. A year ago, he successfully forecast a deleveraging campaign <https://www.bloomberg.com/news/articles/2017-11-21/china-is-stepping-up-the-fight-against-its-mountain-of-debt> would weigh on the nation's equities, picking 3,300 as his year-end target. The gauge, which has trailed most major global benchmarks this year with an advance of more than 5 percent, traded at 3,278.04 as of 10:33 a.m. local time.

“By now companies would be more adapted to the slowing economy, where we expect accelerated industry consolidation to help drive stronger earnings and stock performance for market-leading firms,” Zhu said in an interview. “MSCI’s inclusion of some A shares will also offer strong support for stocks.”

Zhu’s target is more closely aligned with other analysts polled by Bloomberg than last year, when he was the least bullish among participants. The median forecast among 13 analysts and fund managers for next year is 3,650.



Offshore Chinese shares are still likely to offer better opportunities, according to the poll. The Hang Seng China Enterprises Index, which has jumped 22 percent in Hong Kong in 2017, will rise 17 percent to 13,300 next year, according to the median estimate of 10 analysts. The MSCI China Index is estimated to gain 15 percent to 100 by end-2018.

Mainland equities have been buffeted by a government campaign to cut leverage in financial markets, with the Shanghai index slumping in April and November as bonds were sold off. Big cap shares and offshore stocks were the best destinations for cash, with the CSI 100 Index jumping 29 percent and the MSCI China rallying 48 percent. The outperformance has made the MSCI gauge more expensive than the broader Shanghai measure for the first time on record, based on reported price to earnings.

The Shanghai benchmark added 0.4 percent on Tuesday, while the Hang Seng Index rose 0.6 percent and the Hang Seng China Enterprises Index climbed 0.7 percent.

- Technology, financial and health care stocks are preferred by most analysts in both China and Hong Kong for next year, while commodity, materials and Chinese developers may underperform
- Cathay Securities Investment Trust Co. has the most bullish view, seeing the Shanghai Composite at 3,950 by the end of 2018, while Central China Securities Co. has the lowest forecast at 3,400.
- The Hang Seng Index will gain 10 percent to 32,000 points by the end of next year, the median of 13 forecasts showed
- The Shanghai Composite Index is expected to rise to 3,415 by the end of the first quarter, according to the median forecast of 12 analysts. The Hang Seng China Enterprises Index and Hang Seng Index are seen rising to 11,900 and 30,100 by then, respectively

The survey participants that provided index targets were: Nomura Holdings Inc., Central China Securities, Hengsheng Asset Management Co., First Seafront Fund Management Co., Morgan Stanley, Goldman Sachs Group Inc., UBS Group AG, Zhongtai Securities Co., Shanshan Finance Co., Cathay Securities Investment Trust, XuFunds Investment Management Co., Uni-President Assets Management Corp., First Shanghai Securities, Sun Hung Kai Financial Ltd., Capital Securities Corp., UOB Kay Hian (Hong Kong) Ltd., Southwest Securities Co., AXA SPDB Investment Managers, CCB International Securities Ltd., BOC International Holdings Ltd., ABC International Holdings Ltd., Huatai Securities Co., CMB International Securities Ltd.