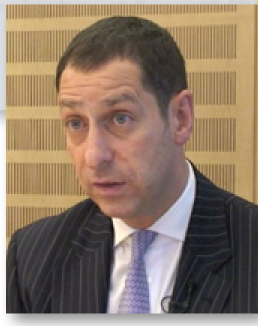
Taking advantage of opportunities in China

Mark Konyn of RCM Asia Pacific reveals the approach of investors towards investing in China at the moment, and discusses some of the main ways to access the country's growth story.



Link to video for this interview
Link to article for this interview
Link to continuous education test

Interview

Mark Konyn

View the profile
& other content for
Mark Konyn

Date: Nov 2010
Category: Market Updates and Analysis
Tags: China, Growth, Asset allocation, Portfolio construction, IPOs

- In 2010, many international investors have been underweight China, based on concerns about the potential for overheating and a hard landing
- But as investors consider allocations in 2011, they will look at markets which have been lagging – leading to more attention on China
- With support from earnings, China has an opportunity to outperform the rest of the region, although investors need to be wary of overpriced small caps
- Going forward, more diversity, more consumer themes and A-Shares are among the options for investors looking to access China's growth story

According to Mark Konyn in an interview, the approach of international investors towards China in 2010 can generally be described as fickle.

Towards the end of 2009, he explained, investors were extremely bullish about China, reflected in the performance of the markets. This year, however, international investors have been concerned, both in terms of the potential for overheating as well as for a hard landing.

As a result, most of them have been underweight China, he added.

Higher allocations to China

While emerging markets have broadly seen considerable inflows since mid-2010, Konyn said this hasn't really included mainland China.

As a result, as investors think about their allocations in 2011, he predicted that they will look at markets which have been lagging – leading to more attention on China.

The trigger points for this re-allocation to the mainland, said Konyn, are likely to be earnings reports exceeding expectations. This has already happened to some extent, and if earnings continue to be strong and if inflation doesn't become a problem, as expected by many investors, then this could be a good environment for allocations to China.

The IPO market

According to Konyn, 2010 is likely to be the first time when Hong Kong emerges as the number-one exchange globally in terms of initial public offerings (IPOs).

This demonstrates the growth in Greater China, the types of new companies coming to market to take advantage of the fund flows, and liquidity conditions, he said.

There is also a big theme of consumption generally in Asia, and particularly in China, so a lot of new IPOs offer investors access to that theme.

The Shenzhen and Shanghai markets have also seen high IPO volumes in 2010, added Konyn. While the market will tire at some point, he said that those IPOs only amount to around 3% of total market capitalisation within Greater China.

China in comparison with regional markets

When looking at China in a regional context, meanwhile, investors are likely to be surprised by the robustness of China's growth, predicted Konyn.

While there has been some skepticism over whether China can sustain levels of 8% growth and above, this should continue, albeit with some modest reduction in the output level.

With support from earnings, China has an opportunity to outperform the rest of the region, especially when considering the strong flows to certain markets such as Malaysia, Thailand and Indonesia in 2010, said Konyn, explaining that China is likely to take advantage of a switch out of those markets with a re-allocation by investors.

However, he said some caution is needed over the development of a two-speed situation in China – where a lot of small caps are overpriced while a lot of large cap names are more reasonably priced when looking at multiples.

Accessing China's growth story

International investors have typically looked to get access to China through the Hong Kong stock market – which has historically been focused on a lot of larger names and certain sectors. Going forward, Konyn said there is likely to be more diversity and more consumer themes.

In addition, A-Shares is an option for investors, he added, with a lot of managers having acquired QFII quotas to invest funds directly into the Shanghai and Shenzhen markets.

Further, investors can try to capture China-themed investments from elsewhere in Asia, said Konyn – for example, a company listed in another market which derives a large part of its earnings through its business activities and relationships with China.

Do you have any comments?
Contact the editor:

T 852 2563 8683
E editor@hubbis.com
W www.hubbis.com