

Your Money

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Games could net gold for Chinese stock market

Historically, host countries enjoy a big rebound in stock prices in wake of Games - but China stands to experience even bigger pop

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If history is an indicator, China's beaten-down stock market should stage a big rebound after the Olympics end, according to the China Stock Digest.

Jim Trippon, editor-in-chief of the newsletter, studied the impact of the previous six summer Olympics on the host countries' stock markets in the six months after the games. The first of the six was held in Los Angeles, the latest in Athens.

"In the past six Olympic Games, there had been an average 19.12-per-cent increase in the hosting countries' stock indexes in the six months following the games," he said. The gain in the 12 months after the Olympics was even larger - at 26.14 per cent "Not all the gold in the Olympics is going to be made by the athletes; savvy investors are going to make some, too," Mr. Trippon said.

Unlike most of the six other Olympics host countries, China's stock market going into the Games, which begin today, is showing a big decline year to date. The Shanghai Stock Exchange composite index is down 48.2 per cent so far in 2008. Mr. Trippon said: "What I am telling the readers of my newsletter is that I think we may see a bigger pop than what has been historically normal because it is starting from a depressed starting point."

But he doesn't think the rebound will be big enough to offset the weakness in the early part of this year. Last year, the market got ahead of itself, and while investors can overdo optimism on the upside, "sometimes they get so pessimistic they drive things down to unrealistically low prices, which is pretty much where we are now in China," he said.

Several factors seem to be behind the post-Olympics market rallies. For one thing, "it causes a focus on the host country and a lot of people who maybe had not considered that host country's economy and opportunities for investment all of a sudden will pay more attention," Mr. Trippon said.

Then, too, the capital - whether the government's or the private sector's - used prior to the Games to build roads, buildings and all the infrastructure for the Games is freed up after the event, allowing that money to be used for economic stimulus or in the capital markets for example, he added.

"The infrastructure construction, system establishment and environmental protection, among others, for the Olympics gave a lasting boost to the hosting countries' economy," he said. "Therefore, although [gross domestic product] growth in those hosting countries showed a certain degree of slowdown, generally speaking, the hosting country's economy maintained a relatively high speed of growth."

The Chinese economy has been growing at an exceptionally fast pace the past several years, and may slow down in the second half of this year. Mr. Trippon actually hopes the GDP growth will slow from last year's 11.9 per cent to 7 or 8 per cent, because the rapid expansion has created a major inflation problem.

Mr. Trippon, who says he is bullish on China but warns that investors need to be aware of the inflation risk, favours industries or sectors that either are not being hurt by inflation or will be helped by it, and which are not affected by government price controls to a significant degree. Examples he gives are life insurance, telecommunications, high technology and online industries.

Among the companies he likes is **Melco Crown Entertainment Ltd.**, whose American depositary receipts trade on the Nasdaq Stock Market. Melco operates one casino in Macau, the only Chinese city where casino gambling is allowed, and has another two casinos under construction. Last year, Macau's total revenue from casinos actually passed that of Las Vegas for the first time, Mr. Trippon noted. Yet Melco shares are trading at about 20 times the consensus 2009 share profit estimate of about 32 cents (U.S.), while most of the U.S. casino operators are trading at 60 to 100 times earnings. Melco's profit is likely to triple when all three casinos are up and running, and the valuation should follow, he said.

Another play that he favours is **E-House China Holdings Ltd.**, which is one of the biggest real estate brokerage firms in mainland China, operating a service similar to that of the multiple listing service in Canada and the United States. The firm is likely to benefit from rising prices in China, he said. E-House, which has strong and growing profit, is expected to post a profit of \$1.11 per ADR for 2009, Mr. Trippon said. The ADRs closed yesterday at \$9.86, near the bottom of the \$9.40-\$36 range they have traded at over the past year.

A third choice is **Sinopec Shanghai Petrochemical Co. Ltd.**, which is mainly a refining company. It stands to gain from recent government approval of a 19-per-cent price rise for its products and the recent slide in global prices for crude oil, which feeds its refineries, Mr. Trippon said. The ADRs are trading at 10 times earnings, a multiple that may fall to just four or five times with the impact of the price increase and the lower crude prices, he added.

The China Stock Digest, published out of Houston, has more than 7,000 subscribers and costs