Value Partners
Investing through discipline

[For Immediate Release]

Value Partners releases investment outlook for 2019 and sees attractive investment opportunities in Chinese healthcare stocks

(Hong Kong, 21 February 2019) – Value Partners Group Limited ("Value Partners" or "the Group"), one of the leading independent asset managers in Asia, has released its investment outlook for 2019.

Senior Fund Manager Ms. Kelly Chung highlighted **five major macro risks and opportunities** that are expected to shape the investment outlook for investors in 2019.

1. **Risk: Global economies continue to slow.**
   Purchasing manager index (PMI) readings for major economies around the world including the U.S., the Eurozone, China and Japan have been trending downwards over the past year. In particular, China's PMI slipped to 49.4 in December 2018[1], marking the first time that the sprawling manufacturing sector in the world's second largest economy has contracted since 2016. Additionally, retail sales have been slowing in China over the past year, while the U.S. logged its steepest decline since 2009 in December.

2. **Risk: Weak earnings sentiment.**
   Corporate earnings are set to be squeezed by the global economic slowdown. We expect further downward revisions to earnings estimates for the MSCI China, MSCI Asia-ex-Japan, MSCI Japan and MSCI USA indices.

3. **Opportunity: More dovish Fed and a reversal of the strong U.S. dollar.**
   Recent comments by the U.S. Federal Reserve Bank indicated a more dovish stance on monetary policies as global headwinds cloud the outlook for the U.S. economy. The number of rate hikes in the next 12 months implied by short-term interest rate futures has slipped from more than two in mid-2018 to zero at present. Subsequently, we expect a reversal in the U.S. dollar rally of 2018, which would be positive for emerging markets.

4. **Opportunity: More accommodative policy in China.**
   Monetary policies in China have become more accommodative as Beijing looked to cushion its moderating economic growth. Recent measures include a 100bp cut to the reserve ratio requirement ("RRR") of banks in January and the introduction of a new "targeted medium-term lending facility." We also expect more accommodative fiscal policy in 2019, with government officials having pledged to implement larger scale tax cuts and fee reductions such as a 50% cut on the tax for car purchases and to boost consumption.

   The government also plans to issue RMB2.15 trillion of Local Government Special Bonds (LGSB) in the first nine months of 2019. This amount is a 60% increase compared to last year[2]. These LGSB issuances are mostly to support infrastructure projects.

5. **Opportunity: Easing U.S.-China trade tensions.**
   The back-and-forth continues but progress is being made as both parties showed greater willingness to work together to reach an agreement, especially as the U.S. and Chinese economies face headwinds.

In light of the market landscape, Chung recommends being **overweight** North Asia ex-Japan equities, South Asia equities, other emerging market equities, U.S. government bonds, Asia investment grade bonds, Asia high yield bonds, emerging market debt, absolute return alternatives and precious commodities. However, she recommends being **underweight** U.S. equities, European equities, other developed market government bonds and cyclical commodities.

"With Central Banks around the world being more dovish and with the easier monetary policy in China, liquidity started to come back to the market. Additionally, with the good progress on the US-China trade talks, investors' risk appetite has started to return," says Chung. "This is positive to risky assets overall, but Asia and emerging market equities have the most upside potential. The valuations of Asia and emerging market equities are still below their historical average levels, while those of U.S. equities are still almost one standard deviation above their mean. In addition, most of the policy stimulus is coming out from China so Chinese equities, especially A-shares, will be the major beneficiary and could re-rate after an extremely bearish year in 2018."

Senior Fund Manager Mr. Philip Li adds that valuations for most sectors of the MSCI China are trading at close to 10-year trough levels on a price-to-earnings basis. In fact, the A-share market's valuation has become one of the lowest among global stock markets at 10 times 2018 earnings. While earnings visibility and trade talks continue to be uncertainties in the market, a weaker USD, a lower oil price, and more accommodative monetary and fiscal policies have historically paved the way for positive surprises.

Among Chinese stocks, Li sees opportunities in the healthcare, Internet and education sectors:

1. Healthcare

Defensive healthcare stocks have been persistent outperformers in recent years. However, valuations have fallen to cyclically low levels following a significant derating triggered by a vaccine scandal in August 2018 and subsequent drug price cuts in the 4+7 group purchase organization (GPO). Despite the recent headwinds, structural demand remains strong as the quality of drugs continue to improve in China. We like quality pharmaceutical companies with strong R&D capabilities and companies that produce supplements and healthcare products not subject to government reimbursements.

2. Internet

Valuations for Chinese Internet stocks have also become more attractive after the sector's underperformance last year. However, the shadows for online gaming are starting to lift with the resumption of approvals for new gaming titles in December 2018, while e-commerce continues to disrupt retail and enjoy growth drivers stemming from new retail such as fresh foods and China's consumption upgrade.

3. Education

Policy uncertainty in the education sector dented the once rosy sector in August 2018 after the announcement of the draft private education implementation regulation. The regulatory uncertainty raised concerns about increasing taxation for for-profit schools and the private sector becoming potentially discouraged to invest in education. In January, the Ministry of Education clarified that the implementation regulation has been reviewed and approved by the State Council. As such, we anticipate greater clarity to be provided shortly, which will further lift headwinds for an important consumption sector.

1. *Source: National Bureau of Statistics of China*
2. *Source: HSBC, Bank of America Merrill Lynch*

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About Value Partners Group Limited (Stock code: 806.HK)

Value Partners is one of Asia's largest independent asset management firms and seeks to offer world-class investment services and products. The firm had $16.1 billion of assets under management as at 31 January 2019. Since its establishment in 1993, Value Partners has been a dedicated value investor in Asia and around the world. In November 2007, Value Partners became the first asset management firm to be listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 806 HK). In addition to its Hong Kong headquarters, the firm operates in Shanghai, Shenzhen, Singapore, London and Kuala Lumpur. Value Partners' investment strategies cover equities, fixed income, multi-asset, alternatives and Quantitative Investment Solutions for institutional and individual clients in the Asia Pacific, Europe and the United States. For more information, please visit www.valuepartners-group.com.

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