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Markets

Buy China stocks, Morgan Stanley says

(Agencies)
Updated: 2010-05-27 11:26

China's stocks are a buying opportunity as the government is unlikely to step up measures to slow the world's third-biggest economy at a time the European crisis is deepening, according to Morgan Stanley.

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Europe's slowdown will delay the need for the US to raise interest rates, reducing risks of a "double-dip" recession, Jerry Lou, Morgan Stanley's China strategist, said in a Bloomberg Television interview. He shares the view of investors Martin Currie Ltd's Chris Ruffle and Templeton Asset Management Ltd's Mark Mobius, who are buying more of China's stocks.

Stocks on the MSCI China, which tracks mostly Hong Kong- traded Chinese companies, trade at 14.8 times reported earnings. That compares with the peak valuation of 30 times profit in October 2007. The Shanghai Composite Index is valued at 19.5 times earnings.

"Despite the fact that a lot of people think that we are entering into a bear market, we don't believe so," Mobius, who oversees about $34 billion in emerging markets as Templeton Asset Management's Singapore-based executive chairman, said in an interview yesterday in Cairo. "This is a correction in an ongoing bull market."

China's shipping companies will be the "most exposed" to a slowdown in Europe as the region accounts for a third of their container shipping revenue, according to Credit Suisse Group AG.

The fiscal crisis in Greece will probably make the Chinese government more concerned about local government borrowings, Vincent Chan and Peggy Chan, analysts at Credit Suisse, wrote in a note to clients.

Morgan Stanley on May 25 upgraded steel and building materials shares in its China portfolio to "overweight" from "underweight," a week after increasing the weighting of banks. Morgan Stanley maintained its end-2010 estimates of 81.7 for the MSCI China Index and 15,399 for the Hang Seng China Enterprises Index.

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