



MARKET INSIGHTS

# SPOTLIGHT ON CHINA'S 19th NATIONAL PARTY CONGRESS

OCTOBER 2017

## 1. WHY IS CHINA'S 19th NATIONAL CONGRESS SO IMPORTANT?

The 19th National Party Congress (NPC) of the Chinese Communist Party will be held on October 18, 2017. It is a major political event that will dictate China's political leadership over the next five years. A new Politburo Standing Committee is expected to be elected whose members fill the most important positions within the Chinese government. Currently, there are 7 members of this Committee led by Xi Jinping (General Secretary) and Li Keqiang (Premier). Xi Jinping's successor will likely be named at this event and one of the top candidates for this role could be Hu Chunhua, the current party secretary for Guangdong.

Hu Chunhua is a current member of the Politburo and had previously served in the Youth League and is widely seen as a close ally of China's former General Secretary, Hu Jintao. No doubt, Xi Jinping will want to look for a successor who can continue to help implement his policies after 2022 when a new General Secretary is expected to be elected in the 20th NPC.

## 2. WHAT CAN INVESTORS EXPECT FROM THIS EVENT?

Despite the political importance of the upcoming NPC, it is highly unlikely that any major economic policy or reform initiatives will be discussed during the meeting of the 2,300 delegates in Beijing next week. Rather investors should focus on the 3rd plenary session to

be held in October or November of 2018. Previous plenary sessions are known for announcing a wide range of reform packages to help stimulate China's economy.

Interestingly, Chinese equity markets have been positive during the month when the NPC was held even though no major policy announcements were expected.

### MSCI China monthly performance in USD terms during previous NPC

- +0.6% in November, 2012
- +16.6% in October, 2007
- +4.8% in November 2002

## 3. WHAT ARE THE SECTORS TO LOOK OUT FOR FOLLOWING THE 19th NPC?

Given that there will not be any meaningful policy announcements that will directly benefit sectors, we prefer to focus on the Chinese stocks that are trading substantially below their intrinsic value.

From a sector standpoint, our China Equity team favours the Chinese IT sector as there are a number of cheap Chinese e-commerce and internet related names that continue to trade at a valuation discount



as compared to their Chinese IT peers. Similarly a number of Chinese industrial companies we hold are trading at a significant discount relative to their own history while also enjoying the potential future benefits from China's "One-belt-one-road" initiative.

#### 4. WHAT ARE THE OPPORTUNITIES AND RISKS INVESTING IN CHINA?

We are currently in uncharted territories as the Chinese equity market has been on a nine month winning streak. On a P/E and P/B basis, Chinese

equity markets are still trading at more than a 50% discount compared to the last bull market run back in 2007. This, despite the fact that Chinese equity markets have already gained over 50% so far in 2017.

The catalysts for a further re-rating of the Chinese equity markets can come in the form of future Chinese corporate earnings' growth surpassing expectations. Chinese corporates expect their 2018 earnings to rise by 15%. Any positive surprises (over and above this 15%) will boost sentiment and Chinese equity allocation should continue to rise.

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