

Local Telecoms Operators – Defensive Plays with Growth Story

Ming Pao Newspaper

19 June 2019

From an economic perspective, the biggest impact brought by the controversial extradition bill to Hong Kong could be on its property market instead of the stock market, Vincent Lam, managing director of VL Asset Management, told Ming Pao Newspaper at an interview.



The extradition bill was first proposed by the Hong Kong SAR Government in February this year but was put on hold by the Chief Executive in mid-June after a number of massive protests by the citizens.

If the incident causes some or many Hong Kong citizens to emigrate and sell their properties, sentiment for the local property market will be adversely affected, said Lam. However, unless the incident prompts the US to review the US-Hong Kong Policy Act of 1992 (under which the city is treated separately from the mainland on trade and economic policy issues), the economic activities of Hong Kong should not be threatened in the near term. What's more worth-noting is whether Sino-US trade negotiations and relations will worsen, which may in turn drag down local employment. "If investor sentiments deteriorate, the Hang Seng Index may test the trough of last year (which was in October)," he added.

In spite of the above, Lam viewed that selective sectors do present good opportunities for investment. For example, Hong Kong-listed property counters now enjoy huge discount to their valuations and the growth in their stock prices has lagged behind the rise in local property prices since 2003 as recorded on the Centa-City Leading Index (which tracks secondary private residential property prices). "If dividend payment is taken into account, property counters are still maintaining an uptrend. My preference is on companies that have a higher ratio of rental income such as SHKP (16 HK), Sino Land (83 HK) and New World Development (17 HK). New World Development stock price has been lagging behind for years but we believe the company is

transforming. The company is now run by Adrian Cheng, who is of the third generation of the clan of Chengs, and so far market comments on him are generally favorable. Corporate debt is maintained at an acceptable level. Further, it has successfully bid and won the Skycity Project of the Hong Kong International Airport, which should enable it to benefit from the launch of the Hong Kong-Zhuhai-Macau Bridge," he added.

Local telecoms players constitute another sector that looks promising to Lam. With limited competition in the fixed-line telecoms industry of Hong Kong, HKT Limited (6823 HK) is offering dividend yield of 7%, higher than many bonds, Lam explained, adding that as a basic necessity for the general public, fixed-line telecoms is a business which can be hedged against inflation as ARPU (average revenue per user) can usually be adjusted upwards in inflationary environment. He is also optimistic on CITIC Telecom International (1883), a telecoms service provider operating in Macau's almost monopolistic telecoms market. "Macau's GDP growth has been running ahead of Hong Kong," said Lam, "CITIC Telecom is offering dividend yield of about 6% and its stock price has been outshining HKT so far this year."