

SO YOU THINK THOSE SHARES ARE CHEAP, DO YOU ?

It is unlikely that most of the major stock markets of the world will be able to make much in the way of gains in the short term, and to many, they are unlikely to make much of a gain, even in the intermediate term.

In fact, share prices on most of the world's major bourses are, more than likely, ready to fall to lower levels, some more than others.

In short, the stock markets of the world have been overbought, or are fully priced at current levels.

In the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), there is growing evidence that, for the rest of this year, share prices will fall, some more than others, but fall they should, all things being equal.

Based on fundamentals, only, many of the share prices of most of the blue chips ought to fall to much lower levels, with old favourites, such as Cheung Kong (Holdings) Ltd (Code: 1, Main Board, The Stock Exchange of Hongkong Ltd), likely to see a 40-percent to 50-percent fall – or even greater.

Cheung Kong is a diversified conglomerate, controlled by the world's richest man (or one of them, at least), Mr Li Ka Shing.

But statistics do not take into account such matters as the threat of a libel suit, the cut of a man's clothes, whether or not a person is a good Christian/Buddhist/Muslim: Statistics are impersonal; and, truth, more often than not, is cruel – especially if one has not heard it for a while, if at all.

In the case of Cheung Kong, it was only a fortnight or so ago that it released its results for the Financial Year, ended December 31, 2001.

And the results were terrible, by anybody's calculations.

Mr Li Ka Shing, in defence of his company's performance, during the previous Year, said that he had faith in the HKSAR, its people and in its economy.

That is all very wonderful; his moving words may have been a fillip for some people.

But it did not change the situation: Cheung Kong's Net Profits Attributable to Shareholders were off 62.49 percent, Year-on-Year, down from the 2000 figure of about \$HK19.44 billion to the 2001 figure of about \$HK7.29 billion.

Those of the bare facts, about which nobody can dispute.

That put Cheung Kong's Year-end share price of \$HK81, trading on the Price-Earnings Ratio of 25.73 times.

That figure of the 2001 Price-Earnings Ratio was an increase of about 117 percentile points, compared with the 2000 Balance Sheet Date's Price-Earnings Ratio of 11.84 times.

When Cheung Kong's shares were trading on a Price-Earnings Ratio of 11.84 times, back in 2000, the Net Profits Attributable to Shareholders were about \$HK19.44 billion.

If one assumes that the investing public considered that Cheung Kong's shares were fully valued, as at December 31, 2000, when the share price was trading at 11.84 times earnings (Price-Earnings Ratio), then, at the same Price-Earnings Ratio, Cheung Kong's shares should, today, be trading at about \$HK37.

The share price of Cheung Kong, today, is about \$HK68.25.

TARGET is not trying to be definitive insofar as the share price of Cheung Kong is concerned, but it does appear, on the basis of statistics, that one may well be wise to sell Cheung Kong's shares, today, and to consider buying them back at a future date – if one is so disposed.

The same logic would hold true for quite a number of companies, listed on the Main Board of The Stock Exchange of Hongkong.

TARGET's, at random, selected companies, listed on the Main Board, representing a broad range of industries, in order to ascertain whether or not, on the basis of statistics, they, too, were likely to see a paring in their current share prices.

These are TARGET's findings:

The Bank of East Asia Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$1,599,806,000 | \$1,887,078,000 | (15.22) |
| Weighted Average Number of Shares | 1,428,057,773 | 1,404,239,697 | 1.70 |
| Earnings Per Share | \$1.12 | \$1.34 | (16.64) |
| Price at Financial Year-end | \$16.80 | \$20.15 | (16.63) |
| Price Earnings Ratio (Times) | 15.00 | 14.99 | 0.01 |

Today's Share Price: \$HK15.25

New World Development Company Ltd

| | 2001 June 30 | 2000 June 30 | Percentage Change |
|--|-----------------|-----------------|-------------------|
| Net Profits Attributable to Shareholders | \$220,500,000 | \$215,000,000 | 2.56 |
| Weighted Average Number of Shares | 2,119,000,000 | 2,125,500,000 | (0.31) |
| Earnings Per Share | \$0.10 | \$0.10 | 2.87 |
| Price at Financial Year-end | \$9.50 | \$8.70 | 9.20 |
| Price Earnings Ratio (Times) | 91.29 | 86.01 | 6.15 |

Today's Share Price: \$HK6.25

Sun Hung Kai Properties Ltd

| | 2001 June 30 | 2000 June 30 | Percentage Change |
|--|-----------------|------------------|-------------------|
| Net Profits Attributable to Shareholders | \$8,330,000,000 | \$10,822,000,000 | (23.03) |

| | | | |
|-----------------------------------|---------------|---------------|---------|
| Weighted Average Number of Shares | 2,400,907,362 | 2,400,907,362 | 0.00 |
| Earnings Per Share | \$3.47 | \$4.51 | (23.03) |
| Price at Financial Year-end | \$70.25 | \$56.00 | 25.45 |
| Price Earnings Ratio (Times) | 20.25 | 12.42 | 62.97 |

Today's Share Price: \$HK58.25

Henderson Land Development Company Ltd

| | 2001 June 30 | 2000 June 30 | Percentage Change |
|--|-----------------|-----------------|-------------------|
| Net Profits Attributable to Shareholders | \$4,394,010,000 | \$5,829,344,000 | (24.62) |
| Weighted Average Number of Shares | 1,722,140,000 | 1,722,140,000 | 0.00 |
| Earnings Per Share | \$2.55 | \$3.38 | (24.62) |
| Price at Financial Year-end | \$34.60 | \$34.30 | 0.87 |
| Price Earnings Ratio (Times) | 13.56 | 10.13 | 33.83 |

Today's Share Price: \$HK31.40

Cheung Kong (Holdings) Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$7,291,000,000 | \$19,436,000,000 | (62.49) |
| Weighted Average Number of Shares | 2,316,164,338 | 2,307,521,232 | 0.37 |
| Earnings Per Share | \$3.15 | \$8.42 | (62.63) |
| Price at Financial Year-end | \$81.00 | \$99.75 | (18.80) |
| Price Earnings Ratio (Times) | 25.73 | 11.84 | 117.28 |

Today's Share Price: \$HK68.25

Hongkong Aircraft Engineering Company Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$312,200,000 | \$400,375,000 | (22.02) |
| Weighted Average Number of Shares | 166,951,872 | 181,150,644 | (7.84) |
| Earnings Per Share | \$1.87 | \$2.21 | (15.39) |
| Price at Financial Year-end | \$12.00 | \$13.80 | (13.04) |
| Price Earnings Ratio (Times) | 6.42 | 6.24 | 2.78 |

Today's Share Price: \$HK15.25

The Hongkong and Shanghai Hotels Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$33,000,000 | \$85,000,000 | (61.18) |
| Weighted Average Number of Shares | 1,170,000,000 | 1,169,000,000 | 0.09 |
| Earnings Per Share | \$0.03 | \$0.07 | (61.21) |
| Price at Financial Year-end | \$2.90 | \$4.30 | (32.56) |
| Price Earnings Ratio (Times) | 102.82 | 59.14 | 73.86 |

Today's Share Price: \$HK3.35

The Kowloon Motor Bus Holdings Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$1,595,542,000 | \$854,654,000 | 86.69 |
| Weighted Average Number of Shares | 403,639,413 | 403,639,413 | 0.00 |
| Earnings Per Share | \$3.95 | \$2.12 | 86.69 |
| Price at Financial Year-end | \$33.20 | \$18.30 | 81.42 |
| Price Earnings Ratio (Times) | 8.40 | 8.64 | (2.82) |

Today's Share Price: \$HK37.10

Midland Realty (Holdings) Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$40,976,000 | \$53,290,000 | (23.11) |
| Weighted Average Number of Shares | 595,685,000 | 594,058,000 | 0.27 |
| Earnings Per Share | \$0.07 | \$0.09 | (23.32) |
| Price at Financial Year-end | \$0.68 | \$0.59 | 15.25 |
| Price Earnings Ratio (Times) | 9.89 | 6.58 | 50.30 |

Today's Share Price: \$HK0.71

SCMP Group Ltd

| 2001 | 2000 |
|------|------|
|------|------|

| | June 30 | June 30 | Percentage Change |
|--|---------------|---------------|-------------------|
| Net Profits Attributable to Shareholders | \$410,685,000 | \$562,574,000 | (27.00) |
| Weighted Average Number of Shares | 1,733,481,650 | 1,731,388,275 | 0.12 |
| Earnings Per Share | \$0.24 | \$0.32 | (27.09) |
| Price at Financial Year-end | \$5.15 | \$6.05 | (14.88) |
| Price Earnings Ratio (Times) | 21.74 | 18.62 | 16.75 |
| Today's Share Price: \$HK4.325 | | | |

Café De Coral Holdings Ltd

| | 2001 March 31 | 2000 March 31 | Percentage Change |
|--|------------------|------------------|-------------------|
| Net Profits Attributable to Shareholders | \$254,278,000 | \$220,542,000 | 15.30 |
| Weighted Average Number of Shares | 548,795,754 | 552,193,498 | (0.62) |
| Earnings Per Share | \$0.46 | \$0.40 | 15.00 |
| Price at Financial Year-end | \$3.375 | \$2.50 | 35.00 |
| Price Earnings Ratio (Times) | 7.34 | 6.25 | 17.44 |
| Today's Share Price: \$HK5.70 | | | |

The Hong Kong and China Gas Company Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$3,182,700,000 | \$3,131,000,000 | 1.65 |
| Weighted Average Number of Shares | 5,487,413,793 | 5,676,584,271 | (3.33) |
| Earnings Per Share | \$0.58 | \$0.55 | 5.45 |
| Price at Financial Year-end | \$9.55 | \$11.45 | (16.59) |
| Price Earnings Ratio (Times) | 16.47 | 20.82 | (20.89) |
| Today's Share Price: \$HK10.70 | | | |

Hong Kong Ferry (Holdings) Company Ltd

| | 2001 December 31 | 2000 December 31 | Percentage Change |
|--|---------------------|---------------------|-------------------|
| Net Profits Attributable to Shareholders | \$281,926,000 | \$126,613,000 | 122.67 |
| Weighted Average Number of Shares | 356,273,883 | 356,273,883 | 0.00 |
| Earnings Per Share | \$0.79 | \$0.36 | 119.44 |
| Price at Financial Year-end | \$6.50 | \$6.15 | 5.69 |
| Price Earnings Ratio (Times) | 8.23 | 17.08 | (51.81) |
| Today's Share Price: \$HK6.15 | | | |

Television Broadcasts Ltd

| | 2001 | 2000 | |
|--|---------------|---------------|-------------------|
| | December 31 | December 31 | Percentage Change |
| Net Profits Attributable to Shareholders | \$596,250,000 | \$774,151,000 | (22.98) |
| Weighted Average Number of Shares | 438,000,000 | 438,000,000 | 0.00 |
| Earnings Per Share | \$1.36 | \$1.77 | (23.16) |
| Price at Financial Year-end | \$33.80 | \$41.00 | (17.56) |
| Price Earnings Ratio (Times) | 24.85 | 23.16 | 7.30 |

Today's Share Price: \$HK34.40

In respect of SCMP Group Ltd, it changed its Year-end from June 30 to December 31.

Reworking the statistics makes the situation for this company look even worse than the above TARGET table since, if one annualises the 18-month, Net Profit Attributable to Shareholders, about \$HK482,793,000, the resultant figure indicates a Bottom Line for the annualised 12-months, to December 31, 2001, of about \$HK321,862,000.

A Bottom Line of \$HK321,862,000 gives rise to Earnings Per Share of about 19 cents and a Price-Earnings Ratio of about 26.39 times.

As at December 31, 2001, the share price of SCMP Group closed out the year at \$HK4.90 and, although it has dropped back of late, back to about \$HK4.325, it would appear that it should fall even further on the assumption that fundamentals will out, eventually.

The Psychology of Share Trading

The reason that a lady buys a high-collared, skin-tight evening gown, a see-through blouse, or slips into stiletto-heeled shoes that are mighty uncomfortable to use for walking more than 10 steps may well befuddle most ordinary males.

However, there is method to the seeming madness – because males are expected to be dazzled by the lady's appearance since it is hoped that the skin-tight dress will show off her wares, while the stiletto-heeled shoes will accentuate her calf muscles, making them more pronounced with much more definition.

Which is the object of the exercise in the first instance, in any event: The propagation of the species is dependent on attraction and repulsion as a means of finding the opposite number with the correct chemistry in order to produce the best offspring.

But, when it comes to trading in shares, listed on a stock market, one would do well to think with one's mind, rather than with one's penis, or whatever other sex organs one possesses.

As the world has come to realise of late, with disclosures of Enron, et al, the biggest single bust in history, and the shredding of Enron's documents by Arthur Anderson, Enron's former auditing firm, money, definitely, talks and bullshit, definitely, does walk.

Many investors, especially those who are not well endowed with a meaningful amount of gray matter, buy shares of publicly traded companies, more often than not, on feeling, for a certain director, the name of the company, the business of the company, a lover's birthday, and, etc, etc.

Few investors are able to read and to understand the annual reports of companies so they are compelled to rely on *'experts'* – stockbrokers, bankers, the hairdresser, the waiter, the tailor, the lady/gentleman next door, or the tooth fairy's prognostications.

Making matters even more complicated, many directors of publicly listed companies indulge in a little skulduggery, from time to time, telling their *'friends'* that the time to buy is 'NOW!'

History has proved, however, that those investors who buy on the basis of fundamentals, eventually, come up trumps in the fullness of time.

In trying to make a determination as to whether or not one should invest in this company or that company, it would appear that the quality of earnings is much more important than the hairdresser's opinion of the ageing Mr Lee Shau Kee, the Chairman of Henderson Land Development Company Ltd (Code: 12), or the loathing of the cheapness of Mr Cecil Chao, the (sometimes) Chairman of Cheuk Nang (Holdings) Ltd (Code: 131).

Another factor is, of course, that many companies, including but not limited to Cheung Kong, are prone to including one-off profits in their Bottom Lines, a practice which is kosher, of course.

These one-off profits may be the result of such things as non-recurrent, share-trading activities, or the sales of some or all of the company's *'jewels'*, such as the sale of a property(ies) in a company whose Principal Activity does not include property trading activities.

A classic example of the legal padding of a Profit and Loss Account of a publicly listed company was when, for a number of years, Cheuk Nang Properties habitually sold a handful of its townhouses to one family member and, then, to another.

It was all legal and proper, of course, and the *'sales'* were all said to be at arm's length and at fair market prices.

But the fact that the Chairman's family had to be the buyers of the property leads one to believe, and, probably, rightly so, too, that there were no other buyers to be found.

If that was the case, then, a cursory glance at the annual reports of this company for those years would, invariably, cause one to reach inaccurate conclusions as to the strength of Cheuk Nang Properties.

Because, in truth, the company was, and still is, doing very poorly under the Chairmanship of Mr Cecil Chao.

The lack of objectivity of management of publicly listed companies in the HKSAR is, by far, the worst affliction of most of the companies, listed on The Stock Exchange of Hongkong Ltd.

This inhibits institutionalisation of companies, causing stunted growth of corporate entities – when they are able to grow at all, that is.

To the credit of Mr Li Ka Shing, it would appear that Cheung Kong, and many of the other companies under his umbrella, do not suffer from the nepotism of management, so prevalent in many corporate entities that TARGET could name with ease.

However, even in Mr Li Ka Shing's stable of companies, one notes that his sons, Richard and Victor, are in positions of absolute power – whether or not they are deserving of their august positions.

Mr Li Ka Shing's publicly listed corporate entities have proved themselves, on many occasions, to be among the leaders within their respective fields.

It is a rare day that the names of Cheung Kong or Hutchison Whampoa Ltd (Code: 13) are not listed among the Ten Most Actives on the Main Board of The Stock Exchange of Hongkong Ltd.

Many investors are quite willing to pay a higher-than-average, Price-Earnings Ratio for the shares of these companies, clearly because of their trust in the management of them.

That is the reason that they are known in the parlance as 'blue chips'.

However, even blue chips can be overpriced, at times.

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