BUSINESS

THE INFORMER

EVENTS

Wednesday, January 15: German Chamber of Commerce lunch: "Disruption in the GBA – Tapping into the ecosystem". Cofco Tower.

Royal Geographical Society evening: "Empire of the winds: The global role of Asia's maritime Silk Road". Two International Finance Centre.

Thursday, January 16: Canadian Chamber of Commerce event: "Transpacific Entrepreneurial Conference". Cheung Kong Center.

Thursday, January 23: Lion Rock Institute evening: "The boundaries of the state: Insights and lessons from utilities in Perth, Hong Kong and Shanghai". Foreign Correspondents' Club.

RESULTS

January 13 1st Quarter: Linocraft Holdings
Interim: BCI Group Holdings, Netel Technology (Holdings)
AGM: Wisdom Education International Holdings

January 14 1st Quarter: ECI Technology Holdings
Special Dividend: PF Group Holdings

January 15 Special Dividend: China Apex Group

January 16 Final: Eco-Tek Holdings, Public Financial Holdings

January 17 Interim: Oriental University City Holdings (H.K.)
Final: China Literature, Sands China

January 20 Interim: Koolearn Technology Holding
Final: Gemilang International

January 21 Final: Hang Lung Group, Hang Lung Properties, Pico Far East Holdings, Vinda International Holdings
AGM: Edvantage Group Holdings

January 22 Special Dividend: Bright Smart Securities & Commodities Group
AGM: China Maple Leaf Educational Systems, ECI Technology Holdings, Melbourne Enterprises

January 30 AGM: LHN

February 4 AGM: China YuHua Education Corporation

February 5 AGM: EDICO Holdings

February 6 AGM: Polyard Petroleum International Group

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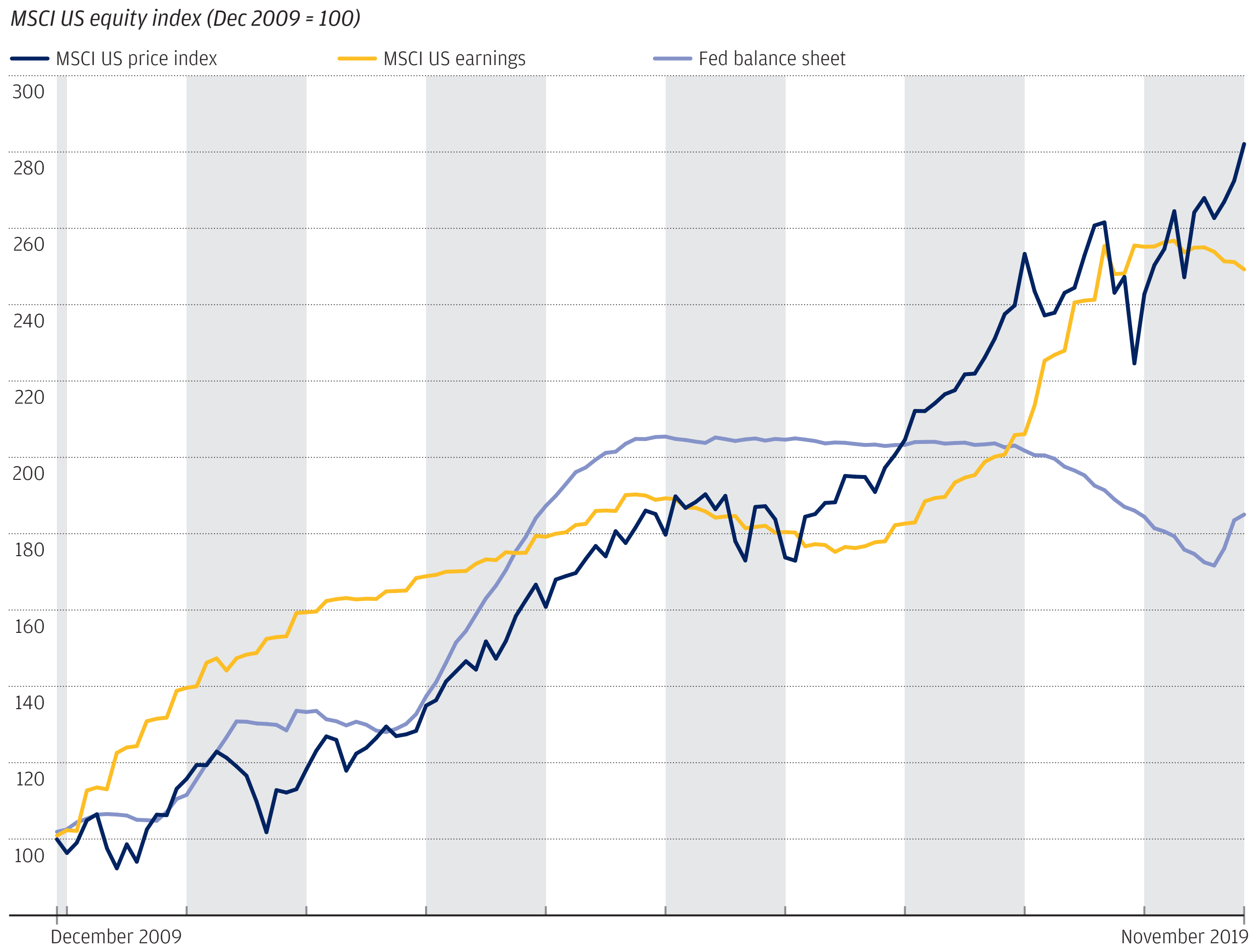
Chart of the day: The party continues



Sources: State Street Global Markets, Bloomberg
SCMP

The MSCI US equity index delivered a total return of more than 250 per cent in the 2010s. Benjamin Jones, senior macro strategist at State Street Global Markets, said the gains were driven by a cocktail of record low rates, stock buy-backs and balance sheet expansion. That has supposedly intoxicated the market and some have predicted that a mega hangover is due, but current data did not appear to support this theory, he said. This was because corporate earnings were largely responsible for driving US equity returns, despite buy-backs not being the primary driver of earnings per share growth. Looking ahead, he said, as the US equity multiples at the beginning of the new decade were only a little higher than where they started the 2010s, slower earnings growth could temper further equity gains. This should mean the US, and specifically the US technology sector, maintained its earnings dominance. As such, the US equity party will continue well into 2020, he added.

MARKETS

SMALL-CAP STOCK GAINS 'SIGNALLING OPTIMISM'

Expectations of a recovery in the economy are prompting investors to put money into smaller firms, though some warn of possible overheating

Bloomberg

In China's stock market, a rally in small caps rarely lasts and typically marks the start of excessive risk taking, but this time it is signalling optimism about the economy.

The outperformance of the ChiNext Index relative to benchmarks for larger companies has already held for six consecutive months, something not seen since 2013.

The advance is partly because of a global risk-on rally sparked by easing trade tensions between China and the US. Mainland investors are also hopeful about an economic recovery after some initial signs of stabilisation and an easing bias by the central bank.

The result has been steady buying of small caps, which are more sensitive to swings in market sentiment given their size.

"It's an omen, "said Zhu Chaoping, a global market strategist at JPMorgan Asset Management.

"Investors are pricing in expectations of a mild economic recovery in the first half" of 2020, he said, adding that more broad-based gains could be on the way once there was a more favourable economic environment.

The country's consumer inflation steadied in December after hitting the highest since 2012 the previous month, the latest encouraging economic reading and potentially giving officials room to further ease monetary policy.

The People's Bank of China on New Year's Day cut commercial banks' reserve-requirement ratios, freeing up 800 billion yuan (HK$897 billion) in funds at a time investors had been expecting support.

Meanwhile, Vice-Premier Liu He plans to sign the first phase of a trade deal with the US next week.

Morgan Stanley said upcoming changes to China's Securities Law have also contributed to stock gains the past two weeks, strategists led by Laura Wang wrote in a note. The revisions, effective March 1, include an easing of listing rules and harsher penalties for violations.

Ken Chen, an analyst at KGI Securities, said investors had begun moving money out of blue chips and into smaller names. Large caps had been outperformers most of the time since 2016.

"Expectations of a recovery in the economy and corporate earnings are starting to become a reality due to an overall monetary-loosening environment and stepped-up efforts to support growth," Chen said.

> **Investors are pricing in expectations of a mild economic recovery**
> ZHU CHAOPING, MARKET STRATEGIST

"Small caps with good growth stories to tell would benefit more."

However, there might be hints of excessive investor optimism. The ChiNext is up 35 per cent from June's low and on Thursday notched its highest close since October 2017. The 14-day relative-strength reading for both the ChiNext and the onshore yuan has reached overbought territory, a benchmark which raises the potential of a near-term pullback.

Big start-of-year rallies have occurred for stocks linked to genetically modified crops as well as Tesla, which has started deliveries of locally made vehicles.

Small caps are typically a barometer of market sentiment, and extreme rallies have previously prompted regulators to take measures to avoid a repeat of 2015's market crash.

"Some investors don't care if the firms will deliver good earnings, so long as they can find the next buyers," said He Qi, a fund manager with Huatai-PineBridge Fund Management.

"I don't think the gains will be sustained" for smaller stocks.

INDUSTRY

Appliance giant Dyson to beef up R&D in Singapore

Coco Feng in Beijing
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Household appliance giant Dyson is broadening the technology role of its Singapore research and development team as part of a plan to shift its UK headquarters to the city state.

Dyson has started recruiting for "early-stage research projects specifically in Singapore", Charlie Park, the firm's global category director for environmental care, said on Thursday.

Originally run as a subsidiary of the UK parent, the Singapore operation had been "purely supporting late-stage development", with all of the early-stage research done in Britain, Park said.

However, the maker of vacuum cleaners and air dryers is now planning to upgrade the Singapore team in line with the level of research it has been doing in Britain, he added.

For now, the UK still provides Dyson's strongest R&D muscle, accommodating half of the company's 6,000 engineers globally.

Singapore currently has 1,100 engineers but Park said there would be "a significant amount of growth" in line with the separate decision a year ago to move global headquarters from Wiltshire, England, to Singapore to be closer to its fastest-growing markets and production base.

Dyson chief executive Jim Rowan said last year that the company's growth rate in Asia had been double most other markets in the world in recent years and that more than half of its profit came from the region.

Park said some senior executives were already based in Singapore, including the CEO and the chief financial officer, and that the company would move into its new headquarters building at the historic St James Power Station in early 2021.

Currently Dyson develops personal care and hair care products in Singapore and floor and environmental care products in Malaysia.

Park added that Singapore would have "a number of new skill sets", without elaborating.

DILBERT

COMMENTARY

When showing real commitment makes a difference

If companies can build believability with clear evidence, then trust will quickly follow

Howard Yu

You can't manage what you can't measure. It happened like this. A chief executive saw that selling licensed software in boxes no longer worked. Revenue growth had stalled and was improved only marginally by a price rise.

The user population did not grow, and they came to expect version updates after purchase. The chief executive's solution was to transition the firm's revenue model from licensing, where users pay a fixed amount up front, to a pay-as-you-go monthly subscription.

Wall Street was not thrilled. If you take revenue over time against up front, they asked, won't it hasten revenue's decline further? Won't subscriptions reduce margins? How would your sales team sell this stuff?

"The faster the earnings fall, the better off we are as a company and the better off you are as investors," the company's chief financial officer said, "because millions of people paying us every single month is very compelling from a revenue perspective."

The first thing that fell the next day was the firm's share price. The market groaned. You can't measure what you can't describe.

Except, this company actually used a new set of measures. The finance chief laid out a clear target for future subscribers and introduced new numbers to watch: the revenue per user per month (ARPU) and the annualised recurring revenue (ARR). There were additional disclosures beyond what the conventional accounting standards (GAAP) required.

To give Wall Street the new story, the chief financial officer made numerous calls to junior analysts at Goldman Sachs and Credit Suisse so they understood the new set of metrics and could build their analyses outside a strict GAAP-based valuation model and do it well for their boss.

Incomes did fall by 35 per cent next year. But in the three years that followed, the company's overall revenue went from zero per cent to 100 per cent subscription fee, of which 70 per cent was based on recurring users.

The stock price grew at a rate of 25 per cent a year. The company – Adobe – became a casebook study that sparked similar transitions at Autodesk, Intuit and Microsoft.

"The supreme art of war is to subdue the enemy without fighting," Sun Tzu says. And quite often, sending a signal of a major commitment can freeze competitors in their tracks or elicit support from business partners. Such a commitment is powerful because it binds an organisation to a future course of action.

An example of this occurred in the early 1980s when IBM publicly pledged to lead the personal computer market. Backed by large investments and the dedication of top-ranking executives to the PC business, IBM convinced software vendors to write applications for their machines. Hardware distributors were persuaded to reserve shelf space.

Still, believability doesn't arrive overnight. And that had been the trouble for Adobe, at least initially. Many organisations may be too stupid or too blind or too languid to see the plain truth.

> **Sending a signal of a major commitment can freeze competitors in their tracks**

Facts and arguments and slogans won't be enough. There are people who believe that if they can just get through this, they can catch their breath and get things back to normal.

So what makes a commitment believable to outsiders? It requires the available evidence to be observable and demonstrable. The evidence does not need to be financially related. The most powerful evidence can be non-financial, especially when it demonstrates that the commitment that had been made earlier, whatever it may be, is now being implemented with rigour and discipline. Progress is made, traction is shown and momentum is sustained. What's there not to trust? Measure what matters.

Howard Yu is the author of LEAP: How to Thrive in a World Where Everything Can Be Copied and LEGO professor of management and innovation at the IMD Business School in Switzerland

Connect Watch

Shanghai-Hong Kong Stock Connect

Northbound trading

Turnover (m yuan)	Buy	Sell	Total
	13,201	11,706.9	24,907.8

Top 5 most actively traded stocks (m yuan)

Rank	Stock	Buy	Sell
1	Kweichow Moutai	1,132.4	492.5
2	Ping An Insurance	526.1	502.1
3	Jiangsu Hengrui Medicine	596.3	253.2
4	Shanghai International Airport	310.3	415.6
5	Citic Securities	244.6	252.6

Southbound trading

Turnover (HK$m)	Buy	Sell	Total
	6,011.8	3,259.3	9,271.1

Top 5 most actively traded stocks (HK$m)

Rank	Stock	Buy	Sell
1	Sunac	998.8	207.5
2	Tencent	989.5	144
3	China Construction Bank	302.2	129.1
4	Wuxi Biologics Cayman	263.4	17.4
5	Xiaomi	139.1	64

Shenzhen-Hong Kong Stock Connect

Northbound trading

Turnover (m yuan)	Buy	Sell	Total
	16,693.4	15,229.2	31,922.6

Top 5 most actively traded stocks (m yuan)

Rank	Stock	Buy	Sell
1	Wuliangye Yibin	1,430	287.8
2	Midea Group	610.4	257.5
3	East Money Information	184.4	530.9
4	Luxshare Precision Industry	250.8	423.1
5	Hangzhou Hikvision Digital Technology	176.6	442

Southbound trading

Turnover (HK$m)	Buy	Sell	Total
	3,956	2,446.3	6,402.3

Top 5 most actively traded stocks (HK$m)

Rank	Stock	Buy	Sell
1	Tencent	455.6	123.2
2	Sunac	392.1	59.1
3	Meituan Dianping	291.6	108.3
4	ZTE	196.3	46
5	Wuxi Biologics Cayman	224.2	7.6

Source: HKEX
SCMP