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Profits In China Deaccelerate

Shu-Ching Jean Chen, 09.26.06, 12:20 PM ET

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While it remains enormous by the standards of any major economy, earnings growth at China's largest publicly traded companies has slowed from the breakneck pace of two years ago and is likely to cool further, Standard and Poor's Index said on Tuesday. The decline reflects, in part, falling energy prices, which have a large effect on China's corporate sector.

S&P found earnings growth at the 200 companies with the largest sales was 20.8% in the 2005 fiscal year, a level that would be alarmingly high in most countries. But that was down from 46.5% in 2004, the peak of a four-year boom.

If the top three companies, China Petroleum & Chemical, better known as **Sinopec**; PetroChina; and China Mobile, were to be left off the list, earnings growth would grind down to 16%.

"We are talking about a slowdown in momentum, not a reversal of earnings. Overall, it's still growing. But the windfall gains for commodities have started to disappear," said John Bailey, S&P's Asia managing director for corporate and infrastructure ratings. "It probably hit the peak in 2004, came off in 2005, and we expect it continue to cool off in 2006 and 2007."

It is a theme that is being played out repeatedly elsewhere around the world. Oil and gas companies have ruled the roost as far as business performance goes, thanks to record high energy prices, which have been reversing in earnest since early this summer. The top three Chinese companies in the petroleum sector--Sinopec, the largest petrochemical company; PetroChina, the top oil company; and CNOOC, the largest offshore developer--have made it into the top ten in terms of revenues and earnings.

Sinopec and PetroChina rank first and second, respectively, among the top 200, with revenues of 799 billion yuan ($101.0 billion) and 522 billion yuan ($66.0 billion). On the earnings front, PetroChina, which is responsible for two-thirds of China's oil production, led the pack with 133 billion yuan ($16.8 billion), a 33% jump from 2004. Sinopec's earnings were suppressed by official control of domestic retail prices of petroleum products, but the company still earned a record 40.9 billion yuan ($5.2 billion) in 2005, a 14% increase from the year before.

The laggards in earnings are also largely predictable, companies that use energy and other commodities. They include power producer Huaneng Power and China Southern Airlines. Price controls introduced in strategic industries further pressured performance.

Two large companies stood out for other reasons. Both **TCL**, the country's top television maker, and computer manufacturer Lenovo Group have struggled in large part because of the difficulties of integrating businesses acquired through overseas acquisitions. TCL posted a $320 million yuan ($40.5 million) net loss partly because of the cost arising from buying the television manufacturing business of France's Thomson.

Lenovo had to make do with a slim net profit of $181 million yuan ($22.9 million), down from $1.2 billion yuan ($151.7 million) in 2004 before it bought the personal computer business of IBM. Lenovo also suffered from intensifying competition with Dell and Hewlett-Packard in Asia and the U.S..

All in all, the earnings picture of China's top 200 duly reflects the high concentration of China's economic power among a few state-controlled national champions. Still, said S&P's Bailey, it remains a classic emerging market, strewn with hidden dangers and opportunities.