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EARNINGS

Mainland firms recover as economy gets back on track

Decline in second-quarter earnings narrows from slump in first three months as activity expands

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Earnings reports by publicly traded firms on the mainland rebounded from their worst performance in a decade in the second quarter, as government support and the containment of the coronavirus pandemic put economic activity back on track.

The 3,000-plus companies trading on the exchanges in Shanghai and Shenzhen reported an 18 per cent earnings decline for the three months to June 30, according to Haitong Securities.

That was narrower than the 42 per cent slump in the first quarter, when the pandemic forced factories to shut and people to stay at home.

Smaller firms took the lead in the earnings recovery, with growth returning to positive territory in the second quarter, Haitong said.

The economy expanded by 3.2 per cent in the second quarter, rebounding from a 6.8 per cent contraction during the previous three-month period, as the government cut taxes for some industries and the central bank released more liquidity to combat the economic downturn.

The Shanghai Composite Index has gained 12 per cent this year and is the best-performing gauge among the world's major equity benchmarks.

"The darkest moment for ... corporate earnings is already over," said Xun Yugen, a strategist at Haitong. "Earnings will continue to improve in the coming quarters."

He added that he expected full-year profits to grow by between 0 per cent and 5 per cent.

The turnaround in corporate earnings came as product prices halted declines amid normal economic activity, companies cut costs, investment gains increased and preferential tax policies were implemented, according to China Merchants Securities.

The biggest earnings increases were in the telecommunications and agricultural sectors, with quarterly profit at least tripling from a year earlier, as the mainland started construction of 5G networks and pork prices stayed elevated, Haitong said.

Growth at food companies averaged 42 per cent, while brokerages reported a 26 per cent increase, it said.

The start-ups on Shenzhen's ChiNext board recorded a 13 per cent gain in profit on average in the second quarter, while the growth rate for smaller firms on the Shenzhen bourse was 6.6 per cent, according to Haitong.

These firms outpaced growth at the biggest companies on the main boards of the Shanghai and Shenzhen bourses.

3.2%

The growth rate of the mainland economy in the second quarter following a 6.8 per cent contraction in the previous period

Earnings growth also accelerated for companies on the tech-heavy Star Market in Shanghai. Profit growth quickened to 41 per cent in the second quarter from 14 per cent previously, with the biopharmaceutical and integrated circuit sectors posting the biggest increases, according to Shanghai exchange data.

China International Capital Corporation (CICC) forecast a 6 per cent drop in full-year profits.

"We expect continuing improvement in corporate earnings in the second half," said Wang Hanfeng, an analyst at CICC, who recommended firms in cyclical upstream sectors and with exposure to overseas demand, against the backdrop of improving global containment of the pandemic.