Chinese Companies See Profits Plunge Amid Slowdown

Joe McDonald, AP Business Writer

BEIJING (AP) — Some of China's biggest companies, from tech giants to airlines and retailers, are warning of unexpectedly sharp drops in profit of up to 80 percent, adding to pressure on Beijing to reverse a painful economic slump.

On Wednesday, Air China Ltd., one of three main government-owned airlines, warned first-half profit will fall by at least half from a year earlier. State-owned ZTE Corp., one of the world's biggest producers of telecommunications equipment, is projecting a decline of up to 80 percent.

The woes facing even politically favored companies that benefit from monopolies, low-cost bank loans and other government aid highlight the challenges for the authoritarian country's leaders who are trying to pull China out of its deepest slowdown since the 2008 crisis.

Forecasters say the slowdown might have bottomed out after growth fell to a three-year low of 7.6 percent in the second quarter but the timing and strength of a rebound are uncertain. Premier Wen Jiabao warned last weekend a recovery was not yet stable. On Tuesday, he said the employment outlook "will become more complex and severe."

"Economic growth will be unstable for the next six or even 12 months at quite a low level," said Zhang Jiuhui, an analyst for Great Wall Securities in Beijing.

Beijing has cut interest rates twice since the start of June and is pumping money into the economy through spending on building low-cost housing and other public works. It is trying to use targeted measures instead of flooding the economy with money after a binge of spending and bank lending that helped China rebound quickly from the 2008 crisis fueled inflation and a wasteful building boom.

China's expansion is still far more robust than the United States and Europe but its companies have come to depend on unusually high growth to stay profitable.

Industries that rely on demand for new factories and equipment have been hurt as struggling manufacturers put off spending and Beijing enforces curbs imposed on home purchases to cool surging prices. The country's shipbuilding industry association says May orders for new vessels were half the level of a year earlier.

"We have seen more profit warnings than expected in the first half and there might be more than there were in 2008," said Mao Sheng, a strategist for Huawei Securities in the western city of Chengdu.

ZTE's statement Friday said some Chinese phone companies were postponing new equipment orders — a downbeat sign for Beijing, which is pinning its hopes on higher investment to drive growth.

"Air China and ZTE are examples of companies that were hit by rising costs and reduced investment," said Mao. As for the timing of a recovery, he said, "although we saw some positive figures such as (higher) loans and home sales in June, those still have to be confirmed in coming months."

Some 233 companies with shares traded on mainland China's two exchanges expect to report losses for the first half, while another 449 expect lower profits compared with a year earlier, the official Xinhua News Agency reported Wednesday.

Growth in retail sales has declined steadily, a setback for government efforts to reduce reliance on exports and investment by creating consumer-driven growth.

TCL Corp., one of the world's biggest producers of televisions and other consumer electronics, said Sunday its first-half profit will be "significantly lower." A major appliance retailer, Suning Appliance Co. Ltd., warned its own profit might fall by 30 percent.

Li Ning Co., a maker of athletic shoes and sportswear, issued a profit warning in early July and announced the departure of its CEO and the launch of an overhaul to improve efficiency and profitability.

The squeeze is so severe its effects are spreading to companies that receive low-cost bank loans and other aid as part of government efforts to create elite enterprises to dominate industries from energy to airlines to telecoms.

Major state companies tend to be in capital-intensive industries. They create fewer new jobs as investment rises but are less likely to cut their workforces when profits decline.

Air China blamed its lower profits on weak travel demand at home and abroad. China's two other major state-owned airlines, China Eastern and China Southern, issued similar warnings earlier. The airlines received large injections of public money after suffering losses in the 2008 crisis.

In the auto industry, Dongfeng Motor Co. Ltd., the local partner of Nissan Motor Corp., warned last week its first-half profit will be down 60 to 70 percent.

Auto sales rose 3 percent in the first half of the year, but that was down from double-digit growth of recent years. A sales boom in 2009-10, driven by tax cuts and subsidies, prompted brands to expand production capacity, leading to abundant supplies and squeezing profits once the incentives ended.

Smaller and private companies face even tougher conditions and possible losses.

Da Ming International Holdings Ltd., which says it is China's biggest processor of stainless steel used in manufacturing automobiles, appliances and other products, warned Wednesday it expects to suffer a first-half loss due to falling prices for its products.

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