

Asia Pacific region



Overview

Asian markets rose in February, aided by encouraging Japanese economic data, better-than-expected corporate results and hopes that the global recovery would be sustained. Adding to the upbeat mood were expectations that India would unveil a pro-growth Budget and the European Union's pledge to support crisis-hit Greece. However, gains were pared by the US Federal Reserve's surprise discount rate hike, ongoing concerns over monetary tightening in China and potential sovereign debt contagion across the Eurozone, all of which pose threats to the fragile global recovery. Among the best performing markets were the Philippines, Hong Kong and Thailand, while Sri Lanka, Indonesia and Taiwan lagged.

Fourth-quarter economic growth exceeded expectations, particularly in Japan, Indonesia, Taiwan, Thailand and Malaysia, where exports continued to rebound strongly. India and Singapore raised their forecasts for 2010, even though the pace of expansion slowed in the final three months of 2009. Singapore expects its GDP to grow by 6.5% this year, whereas India projects growth to surpass 8%. Both countries unveiled pro-growth budgets: Indian expenditure will focus on infrastructure, the poor and the rural sector, while Singapore earmarked S\$5.5 billion to boost productivity. In Japan, domestic demand improved, evidenced by the first rise in retail sales in 17 months.

Most central banks held interest rates steady, even as inflation continued to advance across the region. China raised lenders' reserve requirements for the second time this year but left interest rates unchanged. India saw wholesale prices reach a 15-month peak in January. Japan remained the exception, with the economy dogged by persistent deflation, which the government aims to combat through its fiscal policies, rather than via an expansion of its lending and asset-purchase programmes.

In policy news, Taiwan will relax restrictions on domestic flat-panel and chipmakers investing in China, while Hong Kong and Singapore unveiled new rules to stabilise their overheating property markets. Meanwhile, Thailand's Supreme Court ruled that former premier Thaksin Shinawatra had abused his power while in office and ordered the seizure of US\$1.4 billion-worth of his assets.

Looking ahead, we are cautious about Asian markets as positive factors such as loose monetary conditions are balanced by rising sovereign risks in the developed world, notably certain countries in Europe. Global imbalances remain essentially unaddressed, and thus continue to pose a risk to stability. Given the extent of last year's rally, it would be healthy for markets to continue to pull back or consolidate because market valuations will realign with fundamentals and present buying opportunities.

In Asia, a meaningful recovery is underway, although much of that has been the result of government expenditure. With inflation rising again, policymakers in Asia will come under increasing pressure to withdraw stimulus and raise interest rates. Attention is likely to then turn to trade and private sector demand as growth drivers.

Australia: Lower prices for commodities hurt the results for both **BHP Billiton** and **Rio Tinto**. **QBE Insurance's** net profits rose in 2009, but it expects the strength of the Australian dollar to depress current-year earnings. In addition, the industry is expected to continue facing low interest yields, while premiums fail to keep up with claims inflation.

China/Hong Kong: **ASM Pacific's** full-year results exceeded our expectations, lifted by record sales and profit growth as demand revived. **Swire Pacific** sought approval from the stock exchange to spin off and list its property arm. It may raise US\$3 billion to invest in Hong Kong and mainland properties.

India: Corporate results for the December quarter were largely resilient. **Housing Development Finance Corp's** net interest margins expanded despite softer interest rates; **Grasim Industries'** cement and viscose staple fibre businesses were lifted by steady demand and healthy prices; **GlaxoSmithKline** saw broad-based growth across its business units; and higher volumes and lower raw material costs drove **Hindustan Unilever's** profits.

Japan: **Toyota Motor's** president testified at a US congressional hearing on the automaker's recalls. The Japanese auto industry continued to recover, with both Toyota and **Honda Motor** posting a sharp rise in January output, even though earnings remained mixed. **Takeda Pharmaceutical's** profits fell for the first time in five quarters due to acquisition costs associated with some experimental drugs.

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Korea: Fourth-quarter results were mixed: **Daegu Bank** was hurt by its exposure to Kumho Group's losses, albeit its core operating performance was encouraging. Conversely, **Samsung Electronics** benefited from its semiconductor and LCD divisions. The company has a 3% share of the global mobile handset market and aims to triple shipments of smart phones this year.

Malaysia: **CIMB Group Holdings'** results exceeded our expectations, with profit before tax driven by higher income from treasury and investments, as well as better contribution from CIMB Niaga. In addition, the group proposed a one-for-one bonus issue to improve liquidity and align the quoted share price to the pricing conventions set by the Stock Exchange of Thailand, ahead of its proposed dual listing in Bangkok.

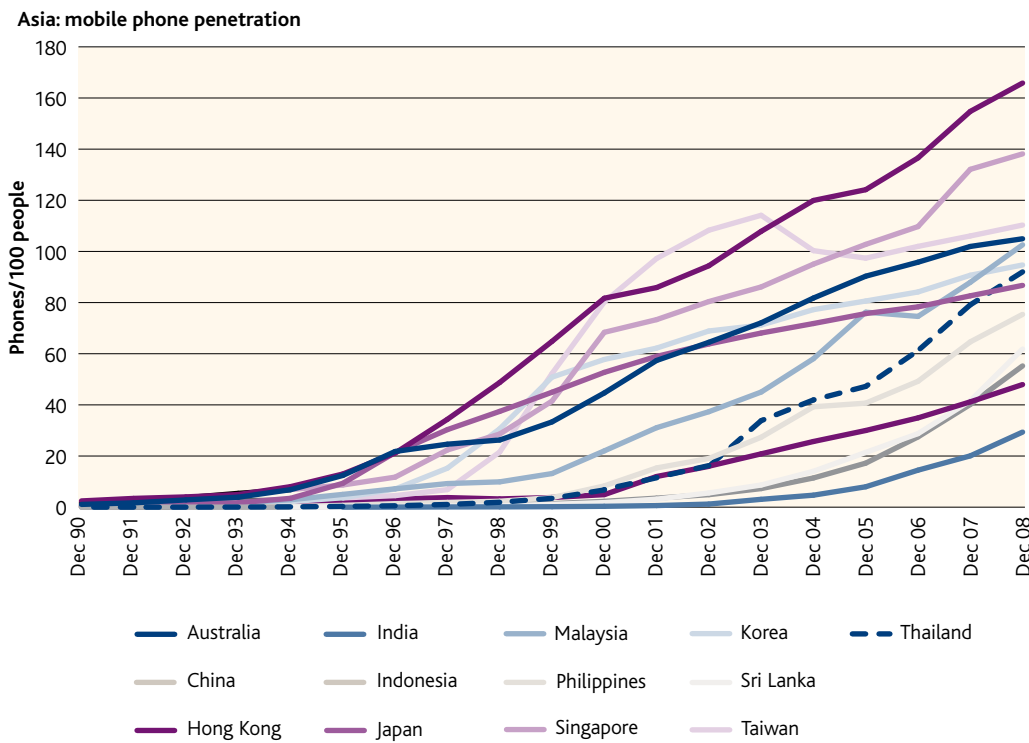
Philippines: The fall in **Ayala Land's** 2009 net income was due largely to lower property sales. The **Bank of the Philippine Islands** saw net income rise 33% in 2009, while fourth-quarter profits grew 7% year-on-year.

Singapore: **ST Engineering's** aerospace unit posted lower fourth-quarter profits amid a challenging environment, but this was compensated for by strong performances from its electronics, land systems and marine businesses. The company prudently cut its dividend payout. Elsewhere, **Singapore Airlines** turned profitable in the third quarter; **SingTel** enjoyed higher mobile contribution from its operations in Singapore, Australia and Indonesia; and a recovery in insurance and trading income underpinned **Oversea-Chinese Banking Corp's** full-year performance.

Taiwan: **TSMC** recorded its highest net profits in two years, underpinned by a recovery in global chip demand. Meanwhile, the bulk of its US\$4.8 billion capital expenditure budget for 2010 has been earmarked for leading edge technology. **Taiwan Mobile's** results met expectations, with rising cable revenue making up for a contraction in its mobile business.

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Focus: Just scratching the surface



Source: Bloomberg

The penetration for mobile phones in the region is far from uniform, presenting investors with a diverse range of opportunities. In particular, markets such as China, India and Sri Lanka are still near the beginning of their growth trajectories and hold tremendous promise. Among our holdings that stand to benefit from these conditions are China Mobile, Taiwan Mobile, and Singapore Telecommunications. In addition, these traditionally defensive companies are also viewed as compelling plays on the region's growing consumption story.

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Performance of Asia Pacific stock markets

	28/02/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	97.54	0.06	1.06	6.37	-3.89	-1.98	3.97
Australia ASX All Ordinaries	4651.10	1.18	1.94	7.29	-4.74	-5.15	0.61
China Shanghai Se B-Share	254.06	4.71	4.71	10.21	0.66	0.66	6.77
Hong Kong - Hang Seng	20608.70	2.42	2.45	7.84	-5.78	-5.89	-0.18
India Bse Sensex 30	16429.55	0.44	0.58	5.86	-5.93	-5.05	0.72
Indonesia Jakarta Composite	2549.03	-2.37	-2.21	2.93	0.58	1.23	7.37
Japan Topix	894.10	-0.78	1.22	6.54	-1.49	3.20	9.47
Korea Kospi Composite	1594.58	-0.49	-0.33	4.91	-5.24	-4.87	0.91
FTSE Bursa Malaysia	1270.78	0.92	1.09	6.40	-0.16	0.39	6.48
NZSE All Share	753.44	-0.91	-1.85	3.31	-2.54	-6.47	-0.79
Pakistan KSE100	9657.79	0.45	0.30	5.57	2.89	2.07	8.27
Philippines PSEi Composite	3043.75	3.07	3.90	9.36	-0.29	-0.07	6.00
Sri Lanka CSE Colombo All-Share	3807.86	4.71	4.74	10.24	12.47	12.25	19.07
Taiwan TAIEX	7436.10	-2.67	-3.06	2.04	-9.18	-9.43	-3.93
Thailand Bangkok SET	721.37	3.56	3.97	9.43	-1.79	-0.98	5.04
MSCI India	672.12	1.18	1.32	6.64	-4.95	-4.06	1.76
MSCI Singapore	331.02	0.86	0.72	6.01	-5.25	-5.37	0.38

Source: Factset.

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During the month we met the following companies:

Australia: Alesco, Austereo, Australia & New Zealand Banking, Avoca Resources, AXA Asia Pacific, BHP Billiton, Billabong International, Bradken, Commonwealth Bank of Australia, Computershare, Count Financial, CSL, David Jones, Healthscope, Incitec Pivot, InvoCare, IOOF, Lihir Gold, Macquarie Bank, National Australia Bank, Navitas, Primary Health Care, Ramsay Health Care, SMS Management & Technology, Spotless Group, Tabcorp, Telstra, Tower Australia Group, Westfield Group, Westpac Banking, Woodside Petroleum, Wotif.com

China/Hong Kong: ASM Pacific Technology, Café de Coral, China Resources Enterprise, CLP Power, Hang Lung Properties, Huaxin Cement, Parkson Retail Group, Ruinian International

India: DQ Entertainment, Godrej Consumer Products, Jammu & Kashmir Bank, NMDC, Rural Electrification

Indonesia: Bumi Serpong Damai, Mandom

Japan: ABC Mart, Asahi Intecc, Autobacs Seven, Bank of Kyoto, CMIC, Dai Nippon Screen, Saito Trust Construction, EPS, Gourmet Navigator, GS Yuasa, Hitachi Construction Machinery, Kao, Kintetsu World Express, Max, McDonald's Holdings Japan, Musashino Bank, Nabtesco, Nikon, Olympus, Optex, Parco, Rakuten, Sanrio, Shimamura, Shiseido, Shizuoka Gas, Sampo Japan Insurance, Takara Bio, Toyota Motor, Wacoal, Yahoo, Yakult Honsha, Yomiuri Land

Korea: Industrial Bank of Korea, Korea Life, The Basic House

Malaysia: Mamee-Double Decker, Pos Malaysia, United Malacca

New Zealand: Telecom Corporation of New Zealand

Pakistan: Muslim Commercial Bank, Pakistan Telecommunication

Philippines: Ayala Land, SM Prime

Singapore: CDL Hospitality Trusts, ComfortDelgro, DBS Bank Bank, FJ Benjamin, Oversea-Chinese Banking, Singapore Airlines, Singapore Bus Service, Singapore Telecom

Sri Lanka: National Development Bank

Thailand: BEC World, Bumrungrad Hospital, Central Pattana, Electricity Generating, Hana Microelectronics, Minor International, Siam Cement, Total Access Communication

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