

## Asia Pacific region



Asian markets rose in April on the back of rosier economic data and largely upbeat earnings news. Improving US retail sales also raised hopes that the global economic recovery is on a firmer footing. The gains were capped, however, by fears of a growing impetus in the region to normalise monetary policy, China's moves to curb property speculation and Greece's ongoing debt problems. Investment fraud charges brought against Goldman Sachs also depressed sentiment. Indonesia, Singapore and Korea were among the top performers, while Thailand, Hong Kong and Australia lagged.

Exports continued their strong recovery across most of Asia, while first-quarter GDP growth remained encouraging. In particular, Singapore posted its fastest quarterly expansion on record and China grew by 11.9% year-on-year. In Korea, increased manufacturing activity led to a spurt of hiring that lowered the unemployment rate. Japanese data, however, was mixed despite growing optimism among large manufacturers and households. Although exports accelerated, the labour market and industrial output remained lacklustre.

On the policy front, Beijing increased banks' reserve ratios for the third time this year and moved to tame rising house prices through fresh measures such as higher downpayments and mortgage rates, as well as curbs on loans for third-home purchases. India raised interest rates, ordered lenders to set aside more cash as reserves but held off direct measures to cool the property market. The central bank will also gradually remove monetary stimulus because of rising inflationary pressures, which saw wholesale prices rise to a 17-month high in March. Australia also hiked interest rates and signalled further increases as both consumer and producer prices accelerated in the first quarter. In comparison, Japan kept rates unchanged amid persistent deflation.

In politics, US Treasury Secretary Geithner's visit triggered speculation that Beijing will allow the yuan to appreciate. In Sri Lanka, the ruling party won the first parliamentary elections by a landslide but failed to get the two-thirds majority president Rajapaksa needs to amend the constitution. Thailand's ongoing protests escalated into street battles between the army and anti-government demonstrators that resulted in hundreds of casualties. In light of the deteriorating political situation, Fitch cut the kingdom's long-term local currency credit rating outlook to negative.

In the near term, investors appear cautious. Greece and the European Union (EU) face a debt crisis which may take years to stabilise. Valuations may now be under pressure. Still, Asia is performing better than its cash-strapped counterparts in the West; it also appears less dependent on traditional export markets as it develops new sources of demand – either domestically or within the region. Therefore, the long-term outlook remains attractive.

**Australia:** Both **BHP Billiton** and **Rio Tinto** pushed clients to switch to shorter-term contracts instead of the previous annually priced ones. They also reported record output and robust sales, thanks to firm demand, particularly from China. **QBE Insurance Group** acquired US-based NAU Country Insurance for US\$565 million, which is likely to add to earnings in its first year; separately, the insurer raised US\$850 million in bonds to reduce borrowings.

**China/Hong Kong:** Our holdings posted improved earnings: **China Mobile** reported satisfactory first-quarter results, despite rising mobile penetration and competition; a recovery in crude oil prices boosted **PetroChina's** profits; and **Wing Hang Bank's** profit growth was aided by lower provisions. The bank remains well capitalised and should benefit from the economic recovery. Elsewhere, **ASM Pacific** reinforced its market leadership with increased orders across most applications in the first quarter.

**India:** The March quarter saw positive results across our holdings: **Infosys'** performance was driven by its US and European markets; **Hero Honda** benefited from healthy demand and lower raw material costs; and **GlaxoSmithKline** delivered strong sales growth.

**Indonesia:** **Unilever Indonesia's** first-quarter net profits rose 26% year-on-year on the back of higher sales and effective cost control.

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**Japan:** Retailers, including **Seven & I**, may face substantial losses this financial year because of stricter ecologically friendly rules. **Honda Motor** posted solid March sales in China; it will develop an emission-free electric motorbike for lease in Japan. **Toyota Motor** is licensing its hybrid technology to competitor Mazda to establish itself as a sector leader. Toyota's problems, however, continued to mount: it has to pay a US\$16.4 million fine for hiding gas-pedal problems from US regulators; it will recall Sienna minivans sold in the US and Canada; and it halted sales of its Lexus GX460 on safety concerns. Also, Moody's cut the carmaker's credit rating, while Fitch may follow suit. **Takeda Pharmaceutical's** deal to commercialise US-based AMAG's anaemia drug should strengthen its product line; the drugmaker started late-stage trials of a cancer treatment, while regulators approved the manufacture and sale of five new drugs.

**Korea:** First-quarter corporate results were mixed: **Samsung Electronics** impressed as supply constraints and better-than-expected sales drove memory prices; it is investing more to address the supply shortage and widen the gap with its peers. In contrast, **Daegu Bank's** asset quality fell despite improved net interest income, while **Busan Bank's** net interest income improved marginally, though loan growth has yet to recover.

**Malaysia:** **CIMB Group** received approval to list in Thailand; its unit CIMB Niaga's first-quarter net profits were aided by improved operational income and lower provisions. **Public Bank's** pre-tax earnings rose as its NPL ratio remained stable, but **British American Tobacco's** results were affected by higher packaging costs and marketing expenditure incurred to retain customers ahead of the small pack ban.

**Philippines:** **Ayala Land** may issue US\$300 million-worth of REITs in the second half of 2010 to fund capital expenditure.

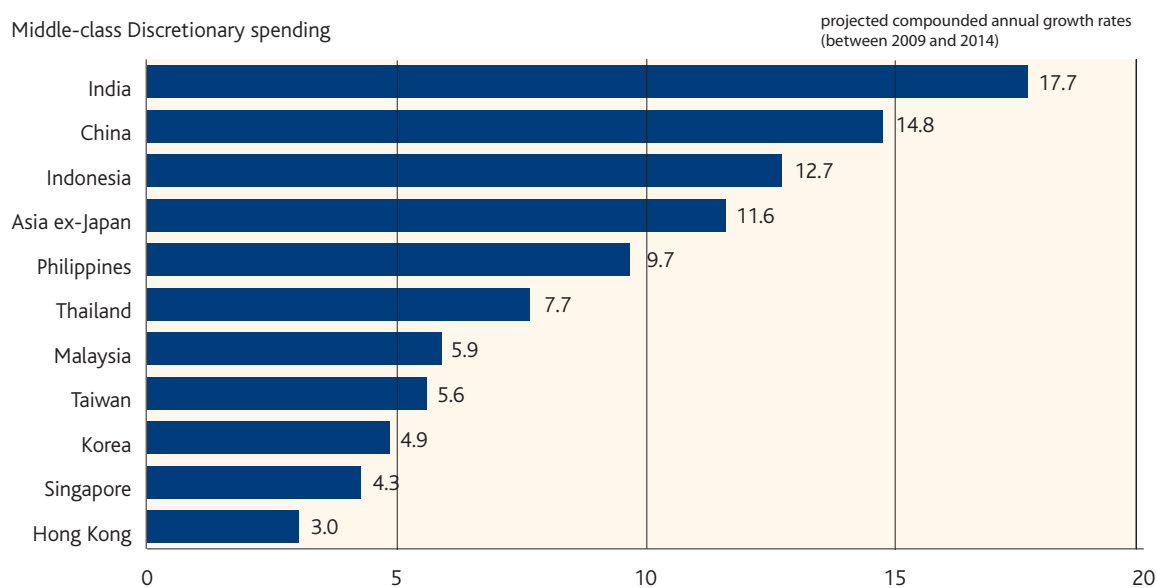
**Singapore:** **ST Engineering** secured several foreign contracts during the month, underlining the company's robust order book and, like other Singapore companies, appears to be taking the opportunity to redouble its forays overseas. Separately, enhanced operating margins drove **Venture Corp's** first-quarter net profits.

**Taiwan:** **Taiwan Mobile** posted resilient first-quarter earnings although management warned that price cuts and increased costs could hurt second-quarter performance. Nevertheless, it proposed a dividend payout of NT\$5.03 per share. **TSMC's** results were boosted by resilient demand and margin expansion.

**Thailand:** Company results were generally upbeat: **Siam Cement** was underpinned by its chemicals and paper divisions, while **PTT Exploration and Production's** earnings rose on higher selling prices, lower costs and a one-off tax gain.

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## Focus: If the renminbi rises



Source: CLSA Asia-Pacific Markets - Sector outlook: Consumer - Richer, younger and spending - 28 April 2010

Our regional holdings are weighted towards companies in the financials, telecommunication services and consumer staples sectors because of our optimism in Asia's domestic demand story. The region's high GDP growth rates have fomented a growing middle-class that is expected to expand by more than 10% annually for the next five years, according to CLSA estimates. Our holdings should benefit from this rising affluence over the medium to long term, particularly in emerging Asia where consumer goods' penetration rates are low.

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## Performance of Asia Pacific stock markets

	30/04/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	104.79	0.19	0.60	-0.30	3.25	4.49	10.24
Australia ASX All Ordinaries	4833.90	-1.21	0.19	-0.71	-1.00	2.47	8.10
China Shanghai Se B-Share	247.29	-4.37	-4.37	-5.23	-2.03	-2.03	3.36
Hong Kong - Hang Seng	21108.59	-0.62	-0.61	-1.50	-3.49	-3.62	1.69
India Bse Sensex 30	17558.71	0.18	1.38	0.47	0.54	5.47	11.27
Indonesia Jakarta Composite	2971.25	6.98	8.00	7.03	17.24	22.19	28.92
Japan Topix	987.04	0.84	0.23	-0.67	8.75	7.70	13.62
Korea Kospi Composite	1741.56	2.88	5.02	4.08	3.49	8.73	14.72
FTSE Bursa Malaysia	1346.38	1.95	4.44	3.50	5.78	13.74	20.00
NZSE All Share	769.81	1.08	4.07	3.14	-0.42	-0.02	5.48
Pakistan KSE100	10428.12	2.45	2.50	1.58	11.09	11.52	17.66
Philippines PSEi Composite	3290.09	4.06	5.77	4.82	7.78	12.07	18.23
Sri Lanka CSE Colombo All-Share	4188.88	12.47	12.56	11.55	23.73	24.22	31.05
Taiwan TAIEX	8004.25	1.06	2.42	1.50	-2.25	-0.23	5.26
Thailand Bangkok SET	763.51	-3.11	-3.17	-4.04	3.94	7.11	13.00
MSCI India	719.06	0.60	1.82	0.90	1.69	6.68	12.55
MSCI Singapore	353.30	2.98	5.05	4.11	1.13	3.60	9.30

Source: Factset, 30 April 2010..

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### During the month we met the following companies:

**Australia:** Austar, Australia & New Zealand Banking, Australian Worldwide Exploration, Automotive, Brickworks, carsales.com, Clough Engineering, Commonwealth Bank of Australia, CSG, David Jones, Incitec Pivot, JB Hi-Fi, Leighton, National Australia Bank, Newcrest Mining, PaperlinX, Programmed Maintenance Services, SAI Global, Seek, SP Ausnet, Super Cheap, Toll, Westfield Group, Westpac Banking, Wotif.com

**China/Hong Kong:** Air Media, Angang Steel, Anhui Conch Cement, Asia Satellite Telecommunications, Baoshan Iron & Steel, Beijing Enterprises Water Group, CapitaRetail China Trust, China Distance Education, China Information Security Technology, China LotSynergy, China Merchants Bank, China Resource Land, China Resources Gas Group, China Shenhua Energy, China South Locomotive & Rolling Stock, China Wireless Technologies, Chongqing Machinery & Electric, City E-Solution, CNOOC, Comba Telecom Systems, Fortune REIT, Giordano, Glorious, Hidili Industry Group, Hollysys, IDS Group, Longfor Properties, Sino Land, Sinofert, Swire Pacific, Swire Properties, Xinao Gas, Yanlord, Yingde Gases Group, Yue Yuen Industrial, Zhaojin Mining Industry

**India:** Anant Raj Industries, Cairn, Gujarat Gas, Infosys Technologies

**Indonesia:** Bank Mandiri, Bukit Asam, Perusahaan Gas Negara, Petra Foods, Tower Bersama

**Japan:** ABC Mart, Capcom, Fanuc, Maxvalu Tokai, Pigeon, San-A

**Korea:** Samsung Life Insurance, Shinsegae Department Store

**Malaysia:** Alliance Financial Group, Bursa, CIMB Group, Hartalega, Hong Leong Bank, London Biscuits, Mah Sing Group, Masterskill Education Group, Mulpha International, Multi-Purpose, Pelikan Internatioanal, Pos Malaysia, YNH Property

**New Zealand:** Kathmandu, Pumpkin Patch

**Pakistan:** Orix Leasing Pakistan

**Philippines:** Bank of Philippine Islands

**Singapore:** Banyan Tree, Breadtalk Group, Bukit Sembawang, CapitaCommercial Trust, CapitaMall Asia, CDL Hospitality Trusts, City Developments, ComfortDelgro, DBS Bank, Frasers Commercial Trust, GuocoLand, Hong Leong Finance, Jardine Cycle & Carriage, Keppel, OUE, Oversea-Chinese Banking, Parkway Life Reit, Raffles Education, Raffles Medical Group, Sembcorp Marine, Singapore Bus Service, ST Engineering, United Overseas Bank, Venture, Wheelock Properties

**Sri Lanka:** Commercial Bank of Ceylon, DFCC Bank, Hemas, National Development Bank

**Thailand:** Advanced Info Service, Alucon, Amarin Printing, Banking Insurance, Big C, Bumrungrad Hospital, Central Pattana, Electricity Generating, Goodyear, Hana Microelectronics Kasikornbank, KCE Electronics, Krung Thai Creditcard, L.P.N Development, Mutual Fund (MFC) Asset Management, Regional Container Lines, Serm Surk, Siam City Cement, Siam Makro, Thai Reinsurance

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