

# Asian Weekly

## Weekly Commentary

2 April 2012

### Overview

- Hopes of further stimulus from the US Federal Reserve buoyed Asian stockmarkets last week. However, gains were limited by concern over China's economic slowdown and its impact on company earnings.
- Japan's cabinet approved a bill to double the sales tax by 2015. Industrial production there unexpectedly fell in February as demand for exports weakened.
- Manufacturing PMI figures in China were mixed: an official measurement indicated unexpected improvement but another widely-watched index pointed to further weakness. Separate data showed home prices declining in March.
- In South Korea, manufacturing output and exports for February were better than expected but GDP growth slowed in the fourth quarter.
- Malaysia's inflation moderated in February, although prices could spike again on the back of higher oil prices and the government's plan to introduce a minimum wage. Thai exports in February rose for the first time since the floods struck last October.
- Indonesia amended plans to raise government-subsidised fuel prices after nationwide protests. In southern Thailand, three car bombs killed more than 10 people and wounded hundreds.

### Corporate News

**Australia: Rio Tinto** could possibly sell off its diamond business following a strategic review, as it lacks scale and contributed less than 1% to the group's earnings last year. Separately, Rio received an offer for its specialty alumina business from US private equity firm HIG, and completed its US\$7 billion share buyback. Miners from **BHP Billiton's** Queensland coalmines resumed strike action after negotiations between the management and labour unions to resolve a long-running dispute broke down. **Leighton Holdings** wrote down an additional A\$254 million on two of its projects – an airport road link in Queensland and a desalination plant in Victoria. This is disappointing as management had recently reaffirmed that these developments were on track for completion with no further cost overruns.

**China/Hong Kong:** In full-year earnings news, **CNOOC's** results were helped by higher oil prices, although production remained flat. Although losses in **PetroChina's** refining business weighed on profits, it maintained its dividend payout. **Sun Hung Kai's** operations remain unaffected by the corruption probe into two of its directors; we await further details.

**Indonesia:** **AKR Corporindo's** annual results met expectations, with solid growth in its core petroleum distribution business driven by rising fuel demand from the mining, power and industrial sectors. Discount retailer **Ramayana** delivered modest full-year earnings growth but remains committed to expanding its business. In other news, Swedish home retailer **IKEA** partnered local player Hero Supermarket in its foray into the domestic market. This is positive for **Dairy Farm**, which owns Hero, but **Ace Hardware** could face increased competition given the overlap in certain product ranges.

**Japan:** **Honda Motor** expects production at its newly reopened car plant in Thailand to normalise by mid-April. Thailand remains a key production base for the company although there are plans to open new plants in Indonesia and Mexico to cope with rising demand as well as to diversify geographically. **East Japan Railway** is cutting one of its loss-making lines for the first time since 1997 to improve operational efficiency.

**Malaysia:** **Alliance Bank's** eight-year bancassurance deal with AIA Bhd is expected to drive growth in its wealth management business. **United Malacca's** nine-month revenue rose on the back of higher crude palm oil prices and increased output. **CIMB Group's** appointment of an industry veteran as its deputy CEO and head of consumer banking should bolster the bank's regional operations. To accelerate expansion **AEON Co** is opening two malls this year and acquired land for development into shopping centres.

**Singapore:** **Fraser & Neave's** subsidiary Hong Kong-listed Frasers Property China will be privatised. The proposed transaction appears sensible given its cheap price, although it is not expected to have a material impact on the group's earnings or net asset value. **Keppel Corp** will build a US\$315m new-generation accommodation vessel for repeat customer Floatel

International. **Singapore Exchange** streamlined its business to reinforce its position and seize regional growth opportunities. **DBS** agreed to buy a 67.37% stake in Indonesia's Bank Danamon from state investment agency Temasek's subsidiary, Fullerton Financial Holdings, for S\$6.2 billion to diversify its revenue stream geographically. Subsequently, the Singapore bank will launch a mandatory cash offer for the remaining Danamon shares it does not own. The reasonably-priced purchase is expected to be earnings accretive by 2015. In a separate development, DBS received Bank Negara's approval to acquire Temasek's stake in Malaysia's Alliance Financial Group.

**Thailand:** **BIG C** is selling 23.6 million shares through a private placement to fund expansion and repay debts. An earlier plan to raise 25 billion baht via a rights issue was cancelled. **Electricity Generating** bought a 60% stake in G-Power Source for 630 million baht to expand its renewable energy business. Coke bottler **Haad Thip** is expected to benefit from Atlanta-based Coca-Cola's plans to invest 14 billion baht in Thailand over the next three years to expand beverage production. The PTT group saw a major reshuffle of its top executives, which included **PTTEP's** chief executive overseeing PTT Global Chemical and PTT's chief finance officer returning to PTTEP as CEO. Separately, PTTEP's Montara field is expected to resume production later this year.

We hold all the above companies highlighted.

## Asian Fixed Income

Asian bond markets were mixed last week. The Fed's dovish view saw most Asian currencies strengthen against the US dollar. However, regional currencies weakened against the euro on the back of a rally in the Continent arising from a successful Italian auction and falling Eurozone bond yields.

## Indices Performance Table

Index	WOW	YTD	WOW (US\$)	YTD (US\$)	30/03/2012
Australia All Ords	1.36%	7.51%	0.58%	8.79%	4,419.97
Hang Seng	-0.55%	11.51%	-0.50%	11.54%	20,555.58
MSCI China (US\$)	0.05%	9.91%	0.05%	9.91%	58.07
MSCI Zhong Hua (US\$)	-0.12%	10.88%	-0.12%	10.88%	316.72
India NSE50	0.33%	14.52%	0.98%	19.37%	5,295.55
Indonesia JCI	1.98%	7.84%	2.68%	7.60%	4,121.55
Japan Topix	0.21%	17.26%	0.00%	9.25%	854.35
Russell Nomura Small Cap Index #	2.17%	16.61%	2.94%	10.08%	350.27
Korea KOSPI	-0.63%	10.31%	-0.36%	12.66%	2,014.04
FTSE Bursa Malaysia KLCI	0.66%	4.29%	1.18%	7.89%	1,596.33
New Zealand 50	1.75%	7.17%	2.12%	12.73%	3,509.55
Pakistan KSE100	3.68%	21.27%	3.97%	20.31%	13,761.76
Philippines PCOMP	1.29%	16.83%	1.25%	19.35%	5,107.73
FTSE Straits Times Index	0.68%	13.76%	1.08%	17.34%	3,010.46
Taiwan TWSE	-1.78%	12.17%	-1.58%	15.14%	7,933.00

Thailand SET	0.20%	16.72%	-0.16%	19.64%	1,196.77
Sri Lanka	-0.04%	-10.77%	1.40%	-20.75%	5,420.20
US DJ	1.00%	8.14%	1.00%	8.14%	13,212.04
UK FTSE 100	-1.48%	3.52%	-0.72%	6.74%	5,768.45
Nasdaq Composite	0.77%	18.671%	0.77%	18.671%	3,091.57
MSCI AC AP X Japan (US\$)	0.21%	11.87%	0.21%	11.87%	439.40
MSCI AC Asia Pac X Japan Small Cap (US\$)	-0.76%	14.55%	-0.76%	14.55%	905.95

# based on Total Return

Source: Aberdeen Asset Management Asia Limited, Bloomberg, Reuters, IRESS

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