

Asia Pacific Region

Monthly Commentary

March 2012

Overview

Asian stockmarkets rose in February on the back of generally positive US economic data, decent corporate earnings and news of Greece's latest bailout. Also supporting sentiment was China's pledge to continue buying Eurozone debt, Japan's ¥10 trillion extension of its domestic bond purchases and the European Central Bank's fresh offer of cheap three-year loans. But the lack of fresh stimulatory measures from the US and concerns over a spike in the oil price caused by tensions over Iran's nuclear ambitions pared gains.

Fourth-quarter GDP data were mixed. Economic growth accelerated in the Philippines, buoyed by consumer spending, while both Malaysia and Indonesia benefited from higher levels of investment and consumption. Conversely, India was hindered by declining investment and manufacturing; Taiwan suffered from falling exports; and Thailand continued to be hampered by the aftermath of the floods. In Japan, the economy contracted because of supply chain disruptions, the yen's strength and weak overseas demand.

Food prices stabilised across most of the region, alleviating inflationary pressures. This allowed the Philippines and Thailand to lower interest rates, along with Indonesia, which also proposed a partial cut to fuel subsidies. On the other hand, firm Lunar New Year demand pushed inflation higher in China, Hong Kong and Taiwan. Although Beijing held interest rates unchanged, it lowered the reserve requirement ratio for banks for a second time in three months, whereas Sri Lanka hiked rates. In an unprecedented move, Japan set an inflation target in a bid to counter persistent deflation.

China and Russia drew widespread criticism for blocking a UN Security Council resolution that condemned the violence in Syria and called for president Bashar Assad's resignation. Australia's ruling Labor party faced a leadership tussle that saw prime minister Julia Gillard beat Kevin Rudd comfortably. India's Supreme Court scrapped telecom licences issued in 2008 tainted by a corruption probe. Subsequently, the Indian government outlined a new telecoms policy aimed at simplifying licencing rules, encouraging industry consolidation and improving transparency.

Looking ahead, liquidity injections by various central banks around the world are likely to continue buoying asset prices in the near term. However, uncertainty remains over Europe's ability to resolve the ongoing debt problems and the nascent recovery in the US. The historically high oil price is also a worry, as it could threaten the global economic recovery. Stockmarkets may have risen a little too quickly.

Corporate News

Australia: **BHP Billiton** and **Rio Tinto's** results met our expectations. At BHP, higher average selling prices were pared partially by lower volumes and cost pressures while Rio incurred a substantial impairment charge related to its aluminium business. **Woolworths** posted decent interim sales despite falling food prices. It is looking to sell its Dick Smith electronics chain.

China/Hong Kong: **AIA's** results met expectations despite the difficult operating and investment environment. Margins for its new business improved on the back of disciplined pricing and changes in product mix, while its capital position remains solid. **HSBC's** earnings, which were within our expectations, were supported by contributions from Asia and emerging markets. The company is on track with its cost-cutting program and remains well capitalised. Further, the 20% increase in full-year dividend showed management's commitment to sharing its growth with investors. **China Mobile's** customer base grew to 655 million by the end of January, cementing its leadership in the mainland.

India: **Hero MotoCorp** sealed a partnership with US motorbike maker Erik Buell, which will provide technology for its new hybrid scooter and high-end motorcycles.

GlaxoSmithKline Pharmaceuticals' earnings were driven by new products and cost controls. **ICICI Bank** posted steady earnings growth despite inflation and high interest rates. Singapore's Temasek Holdings sold its 1.37% stake in the lender.

Japan: Results from our holdings, including **Canon** and **Unicharm**, met our expectations. Carmaker **Toyota Motor** released good results as solid demand from North America outweighed weakness caused by the floods in Thailand. It will also double its capacity in Indonesia to meeting growing demand from Southeast Asia and counter the strong yen.

Honda Motor started a new two-wheeler production line in India, which will increase its output and market share. However, the carmaker posted a significant decline in profits and lowered its fiscal year forecast, given the yen's strength and production disruptions from the Thai floods. **Takeda Pharmaceutical** cut profit estimates because of restructuring costs from its Nycomed acquisition, though we see this as a strategic long-term acquisition of good fit. In a tie-up with Exxon Mobil, **Seven & i Holdings** will open 300 local convenience stores with self-service petrol stations by 2015.

Korea: **E-mart's** fourth-quarter results were hurt by impairment losses but earnings in its core business remained solid. **Samsung Electronics**, together with its stable mates, partnered Quintiles to invest in a biologics contract manufacturing company, its first foray into the biopharmaceutical sector.

Malaysia: **CIMB Group's** Indonesian unit, CIMB Niaga, reported higher net profits due to rising interest income and lower provisions. In a positive development, Indonesia dropped its proposal to limit foreign ownership of local banks. This means that CIMB will not have to pare its stake in CIMB Niaga. Meanwhile, CIMB, which completed buying a 70% stake in Thai broker Sicco Securities, will sell a 60% shareholding in Singapore private equity unit CapAsia to Rohatyn Group. **Public Bank's** results met expectations as loans and profits improved.

Philippines: **Ayala Land** delivered fourth-quarter results that were in line with our expectations. Growth was robust across all residential brands, while the commercial business benefited from higher occupancy levels and lease rates. Margins improved as costs were kept under control. The company will redeem its existing non-voting preferred shares and issue a similar number of voting preferred shares to address foreign shareholding restrictions. We are in dialogue with Ayala over this issue. The **Bank of the Philippine Islands'** profits were driven by solid loan growth and steady margins.

Singapore: In fourth-quarter earnings news, lenders **OCBC**, **UOB** and **DBS** enjoyed robust loan growth, healthy fee income and asset quality. **City Developments** saw higher contributions from its property development and hotel operations during the year. **ST Engineering** continued to report steady profit growth across divisions. **Singapore Airlines'** third-quarter revenue growth was flat as operating margins were affected by higher fuel costs and weaker contribution from its cargo division. **Singapore Telecommunications'** results were affected by margin weakness and lower contributions from its regional associates, such as Bharti Airtel in India. Its Australian subsidiary, Optus, acquired Vivid Wireless Group for A\$230 million. Despite **Venture Corporation's** decline in earnings, cash flow generation was robust and it maintained its dividend payment.

Thailand: **PTT Exploration and Production** offered £1.1 billion for Cove Energy, which has gas reserves in East Africa. **Siam Cement** will develop a US\$4.5 billion petrochemical complex in southern Vietnam together with PetroVietnam, Vinachem and Qatar Petroleum.

We hold the companies highlighted above.

Focus: Just another turning point?



Source: IBES, Datastream, 29 Feb 12

Earnings expectations of companies in Asia, which deteriorated sharply last year in tandem with the global economic slowdown, appear to have bottomed. Both earnings revisions and momentum are stabilising, particularly in the past three months or so and seem to be at the cusp of turning positive. However, given the current headwinds of rising oil prices, transitions in political leadership and a still cloudy global economic outlook, it is far from clear whether this uptrend can be sustained.

During the month we met the following companies:

Australia: Adelaide Brighton, Australia & New Zealand Banking, CSL, David Jones, Forge Group, InvoCare, Iluka Resources, Macmahon, Metcash, Navitas, Orica, QBE Insurance Group, Reckon, Regis Resources, Retail Food Group, SMS Management & Technology, Treasury Wine Estates, Westpac Banking, Woodside Petroleum

Bangladesh: Grameephone, Summit Group

China/Hong Kong: 361 Degree International, Asia Satellite Telecommunications, Brilliant Circle, Christine International, City E-Solution, Dah Sing Banking Group, Evergrande Real Estate Group, Giordano, Hang Lung Group, Hang Lung Properties, Hang Seng Bank, Hong Kong and Shanghai Hotels, Naibu Global International, Public Financial, SA SA International, Sun Hung Kai Properties, Texwinca, Yanlord, YGM Trading

India: Bharti Airtel, Godrej Properties, Housing Development Finance, Jammu & Kashmir Bank, Marico, Oberoi Realty, Piramal Healthcare, Tata Power

Indonesia: Astra International, Astra Otoparts, Bank OCBC NISP, Holcim, Indocement Tunggol, Mandom, Merck, Ramayana Lestari Sentosa, Sepatu Bata, Tower Bersama, United Tractors, Vale

Japan: Aeon, Asics, Calbee, Canon, Daibiru, Daiseki, Dr Ci: Labo, GMO Payment Gateway, Hamamatsu Photonics, Kao, Komatsu, McDonald's Holdings, Nidec, Optex, Parco, Pola Orbis, Resorttrust, Seria, Shizuoka Bank, SMC, Suruga Bank, Takeda Pharmaceutical, Trend Micro, Tsumura, T. Hasegawa, USS, Valor, Wacom

Korea: BS Financial Group, LG Display, Samsung Electronics

Malaysia: Aeon Credit Service, Alliance Financial Group, Benalec, CIMB Group, Digicom, Fraser & Neave, Harrisons, Iskandar Investment, LPI Capital, Nestle, Public Bank, SP Setia, Tasek, United Malacca, Wing Tai

Philippines: Aboitiz Power, Alliance Global Group, Asian Terminals, Ayala, Ayala Land, Bank of Philippine Islands, Cebu, DMCI, Filinvest Development, Ginebra San Miguel, Globe Telecom, GT Capital, Holcim Philippines International, Jollibee Foods, Manila Water, Republic Cement, Sm Investments, SM Prime

Singapore: Bukit Sembawang, FJ Benjamin, Keppel, Oversea-Chinese Banking, Sarin Technologies, Sembcorp Marine, Super Group, Venture

Sri Lanka: Aitken Spence

Taiwan: China Life Insurance, PCHome Online, Siliconware Precision Industrial, Taiwan Mobile

Thailand: Aeon Thana Sinsap, Asian Property Development, Bangkok Chain Hospital, BEC World, Goodyear, Indorama Ventures, PTT Exploration and Production, PTT Global Chemical, PTT, Siam Cement, Tesco Lotus PFPO, Thai Reinsurance, Thai Stanley Electric, Tisco Financial Group

Performance of Asia Pacific Stock Markets

	02/29/2012	1 month			Year to date		
	Local Currency	Local Currency	US\$	£	Local Currency	US\$	£
MSCI Ac Asia Pacific	97.91	6.84	4.92	3.65	13.21	13.27	10.19
Australia Asx All Ordinaries	4388.10	1.44	3.13	1.88	6.74	12.49	9.44
China Shanghai Se B Share	241.77	9.01	9.01	7.68	12.31	12.31	9.27
Hong Kong Hang Seng	21680.08	6.32	6.31	5.02	17.61	17.77	14.58
India Bse Sensex(Bse30)	17752.68	3.25	4.17	2.90	14.87	24.47	21.09
Indonesia Jsx Composite	3985.21	1.10	0.77	-0.46	4.27	4.82	1.98
Japan Topix	835.96	10.68	4.27	3.00	14.73	9.06	6.10
Korea Kospi Composite	2030.25	3.81	4.24	2.97	11.20	14.51	11.40
Malaysia Klse Composite	1569.65	3.18	4.78	3.51	2.54	8.52	5.57
New Zealand Nzx All(Cap)	749.13	1.23	3.29	2.03	2.62	10.92	7.91
Pakistan Kse 100	12877.88	8.45	7.81	6.50	13.48	12.17	9.13
Philippines Psei	4897.65	4.60	4.91	3.64	12.02	14.91	11.79
Sri Lanka Cse All Share	5458.09	-4.14	-10.43	-11.52	-10.15	-16.04	-18.32
Taiwan Taix	8121.44	8.04	8.74	7.42	14.84	18.29	15.08
Thailand Set	1160.90	7.10	9.43	8.10	13.22	18.03	14.83
MSCI India	698.46	3.86	4.78	3.51	16.86	26.63	23.19
MSCI Singapore Free	347.58	3.97	4.71	3.44	15.18	19.77	16.52

Source: Factset, 29 Feb 12

For more information**Client Services Team**

Tel: +65 6395 2701

Fax: +65 6438 0743

Aberdeen Asset Management Asia Limited

21 Church Street

#01-01 Capital Square Two

Singapore 049480

Tel: +65 6395 2700

Fax: +65 6535 7159

www.aberdeen-asia.com

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