

Asian Weekly

Weekly Commentary

23 January 2012

Overview

- Asian equities rose last week, following news that US jobless claims fell to a four-year low, while the decline in Spanish and French bond yields added to investor relief.
- China's fourth-quarter GDP grew by 8.9%, its slowest pace in two and a half years, as the Eurozone debt crisis hurt exports and property cooling measures took a toll, with home sales growing at its slowest in three years in 2011. Nevertheless, the growth rate was better than expected and concerns of a hard landing receded.
- Japan's machinery orders rebounded by 15% month-on-month in November. Singapore's exports unexpectedly rose in December, led by pharmaceutical shipments.
- The People's Bank of China injected 169 billion yuan into local banks to ease a liquidity squeeze. Elsewhere, the Philippine central bank cut interest rates by 25 basis points to 4.25%. India's inflation slowed to a two-year low in December.
- Foreign direct investment in Indonesia soared to a fresh high of 175.3 trillion rupiah last year. Inflows are expected to grow, following Moody's and Fitch's upgrade of the country's sovereign debt rating to investment grade status. Investments also flowed in to Singapore at near record levels last year. In India, foreign individuals will be able to invest directly in the local stockmarket.
- Thai prime minister Yingluck Shinawatra's reshuffled cabinet received royal endorsement. Notably, deputy prime minister and commerce minister Kittiratt Na-Ranong will replace Thirachai Phuvanatanarubala as finance minister, while retaining his post as deputy prime minister. The cabinet also approved about 400 billion baht in spending for 128 infrastructure upgrading projects in the north and in post-flood repairs.

Corporate News

Australia: In quarterly production reports, **BHP Billiton** expects full-year production of iron ore to exceed prior forecasts. **Rio Tinto's** iron ore output hit a record, which led full-year output to be larger than expected. Coal output was also healthy but copper output was hampered by strikes.

China: **Hang Lung Properties'** robust interim results were boosted by rental growth in the mainland and property sales in Hong Kong. Conversely, **Public Financial's**

full-year results were hurt by narrowing net interest margins and higher impairment allowance. Nevertheless, its asset quality continues to improve and capital adequacy remains solid. **CNOOC** estimates production to stagnate this year as its Penglai field ceased operations following last year's oil spill. However, its growth forecast remained unchanged. **Swire Pacific** succeeded in spinning off property arm **Swire Properties**, which was listed in the stockmarket last week. The move provides Swire Properties greater flexibility in seeking funds, while giving Swire Pacific's non-property businesses access to fresh capital.

India: Our holdings posted solid December-quarter results. **Infosys** was underpinned by better volume and pricing, led by contributions from Europe and the US; **Tata Consultancy Services** benefited from improvement across its markets; while **ING Vysya** saw healthy loan growth, better margins and stable asset quality. The bank was also more efficient, as evident from its lower cost-to-income ratio. Although **Housing Development Finance Corporation's** earnings moderated because of the slowing domestic economy and persistent inflation, loan growth remained healthy and asset quality was stable.

Indonesia: Moody's upgraded the foreign currency-denominated debt ratings of nine local banks including **Bank Permata** and Malaysian lender **CIMB's** subsidiary **Bank Niaga**. **Astra International's** listed unit, **Astra Otoparts** will partner a Japanese company to build a motor disc brake factory. **Perusahaan Gas Negara** will invest in two more storage units in South Sumatra and Central Java. **XL Axiata** will transfer some 1,200 employees to partner Huawei Tech to boost operational efficiency.

Japan: Media conglomerate **Fuji Media Holdings** announced a takeover bid for real estate developer **Sankei Building** at a 149% premium. **Takeda Pharmaceutical** plans to lay off 2,800 employees from its global workforce as it seeks to align itself with its acquired operations from Zurich-based **Nycomed**. Carmaker **Toyota Motor** will invest ¥19.8 billion to expand production capacity in Thailand, in response to growing demand from Southeast Asia.

Malaysia: **Axiata** may buy a stake in Indian private broadband operator **Tikona Digital Networks**, which is launching 4G service this year. The proposed acquisition will increase Axiata's access to India's largely untapped broadband market. Axiata has allocated M\$4.2 billion in capital expenditure for the year to boost revenue, especially in the non-mobile segment. **Fraser and Neave Holdings** expects its Thai dairy plant that was affected by the floods to resume operations in April. **Aeon** aims to open several shopping complexes by 2015. **DiGi** reported robust full-year revenue growth, supported by data and voice businesses, text messaging, value added services and tax incentives. The telco declared a net dividend of 6.5 sen for the quarter, bringing the full-year payout to 17.5 sen.

Singapore: **Singapore Exchange's** December-quarter results suffered from lower trading volumes because of global market weakness. **OCBC's** long-time chief executive **David Conner** will retire in April but will remain as a non-executive director. He will be succeeded by **Samuel Tsien**, the current head of global corporate banking. **Ching Wei Hong**, currently head of Global Consumer Financial Services, was appointed chief operating officer. We expect a smooth transition and the new management to continue to strengthen the business.

Singapore Press Holdings, together with **United Engineers Group**, submitted the top bid of S\$328 million for a commercial site in Sengkang. The publishing company has done well in growing its retail property portfolio that includes **Clementi Mall** and **Paragon at Orchard**.

Sri Lanka: Conglomerate **John Keells** will partner local firm **Brandix Group** to offer domestic commercial flights, the only non-government domestic aeroplane service. The venture underlines **John Keells's** solid balance sheet to capitalise on opportunities in the developing economy.

Thailand: **BEC World** maintained its leadership in advertising expenditure via free-TV for the second consecutive month. Although car sales dropped for the third straight month in December because of supply chain disruptions, monthly sales rose by 113% as production normalised. Meanwhile, the year-end motor expo also bodes well for our auto-related holdings **Thai Stanley**, **Goodyear Thailand** and **TISCO Financial Group**. **Banpu** plans to raise US\$300 million via foreign bonds, its first overseas offering in 16 years, to fund its investments and repay debt; it will invest about US\$1.03 billion over the next four years to increase coal production in Australia, Mongolia and Indonesia.

We hold all the above companies highlighted.

Asian Fixed Income

Asian bond markets were swayed by continued uncertainty in the Eurozone, although bond markets in Singapore and Malaysia remained mostly flat. In the Philippines, the short end of the curve rallied, following the central bank's interest rate cut. Indonesia saw strong buying across the curve after Moody's upgraded its sovereign debt rating, while India was buoyed by expectations that the central bank will alleviate a persistent liquidity crunch via bond buybacks. Conversely, Thailand saw a sell-off in the 16-year and 8-year tenors.

Asian currencies outperformed the US dollar, led by the rupee, rupiah and won, but were mixed against the euro on the back of continued headwinds. The rupee, rupiah and won strengthened the most against the euro, whereas the yuan, Hong Kong dollar, Taiwan dollar and baht lagged.

Indices Performance Table

| Index | WOW | YTD | WOW (US\$) | YTD (US\$) | 20/01/2012 |
|---|--------|--------|------------|------------|------------|
| Australia All Ords | 1.12% | 4.67% | 2.92% | 6.86% | 4,303.00 |
| Hang Seng | 4.72% | 9.09% | 4.80% | 9.18% | 20,110.37 |
| MSCI China (US\$) | 4.05% | 9.41% | 4.05% | 9.41% | 57.80 |
| MSCI Zhong Hua (US\$) | 4.46% | 8.97% | 4.46% | 8.97% | 311.27 |
| India NSE50 | 3.75% | 9.18% | 6.25% | 15.41% | 5,048.60 |
| Indonesia JCI | 1.30% | 4.30% | 2.89% | 6.61% | 3,986.52 |
| Japan Topix | 2.84% | 3.69% | 2.72% | 3.71% | 755.47 |
| Korea KOSPI | 3.96% | 6.80% | 5.51% | 8.92% | 1,949.89 |
| FTSE Bursa Malaysia KLCI | -0.03% | -0.53% | 1.02% | 1.45% | 1,522.66 |
| New Zealand 50 | 1.52% | 0.05% | 3.22% | 3.30% | 3,276.46 |
| Pakistan KSE100 | 6.90% | 3.76% | 6.95% | 3.38% | 11,774.68 |
| Philippines PCOMP | 2.91% | 8.60% | 4.41% | 10.03% | 4,747.90 |
| FTSE Straits Times Index | 2.07% | 7.67% | 3.75% | 9.70% | 2,849.38 |
| Taiwan TWSE | 0.73% | 2.29% | 0.81% | 3.36% | 7,233.69 |
| Thailand SET | 1.33% | 3.25% | 2.16% | 3.38% | 1,058.66 |
| Sri Lanka | -2.50% | -4.83% | -2.55% | -4.83% | 5,781.13 |
| US DJ | 2.40% | 4.12% | 2.40% | 4.12% | 12,720.48 |
| UK FTSE 100 | 1.63% | 2.80% | 3.27% | 3.02% | 5,728.55 |
| Nasdaq Composite | 2.80% | 6.969% | 2.80% | 6.969% | 2,786.70 |
| MSCI AC AP X Japan (US\$) | 3.59% | 7.67% | 3.59% | 7.67% | 422.89 |
| MSCI AC Asia Pac X Japan Small Cap (US\$) | 3.21% | 7.40% | 3.21% | 7.40% | 849.36 |

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

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