

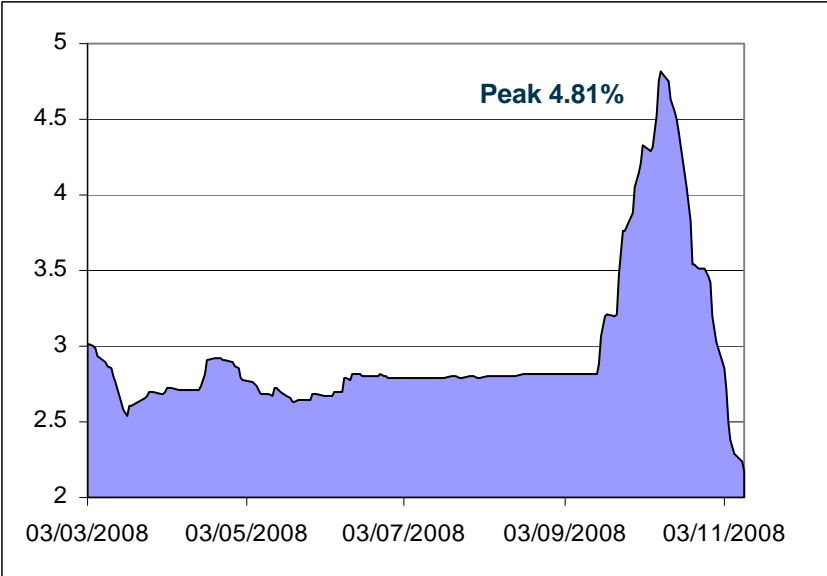
Asia: the last growth frontier in a global downturn?

November 2008



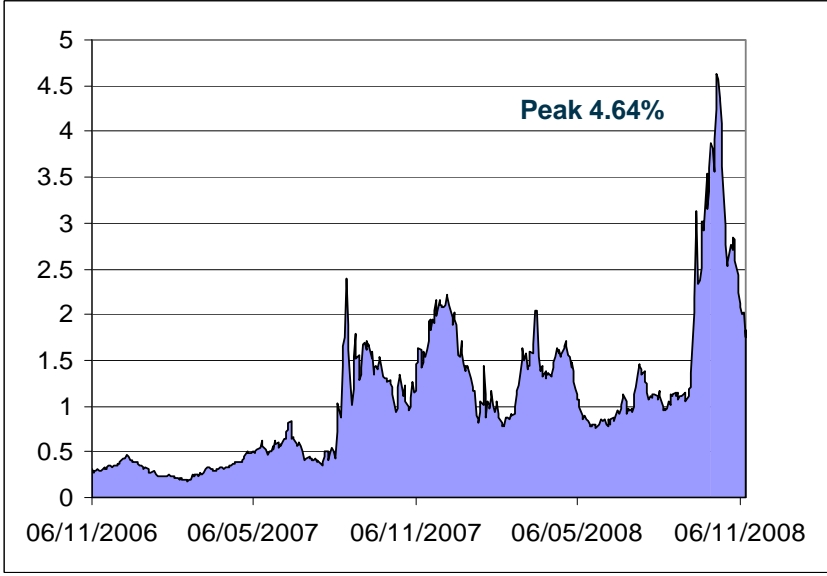
Credit markets are normalizing

USD 3 month interbank rates



Source: LGM, Bloomberg, data as at 12th Nov 2008.

The TED spread



De facto nationalizations, massive liquidity injections, aggressive interest rate cuts and multiple sovereign debt, deposit and FX guarantees have finally started to unclog the credit markets. Commercial paper issuance has resumed in the US. Risk indicators are beginning to normalize.



The policy response in Asia

China

- VAT rebates for exporters
- Property support measures
- Interest rate and reserve ratio cuts
- Bank lending quotas scrapped
- Rmb 4 tn stimulus package announced

Korea

- US\$100bn guarantee for bank FX borrowings
- US\$30bn capital injections into banks
- KRW1tn SME support package through IBK
- Base rate cut 75bps
- KRW 10 tn fiscal stimulus package

India

- Cash reserve ratio cut 350bps
- External commercial borrowing liberalized
- Base rate cut 150bps
- Statutory liquidity ratio cut 100bps
- FX support measures and liquidity injections

Hong Kong

- HK\$29bn liquidity injection
- Blanket deposit guarantees
- Base rate cut 100bps
- HK\$10bn SME lending scheme
- CEO's taskforce



What are the key issues now?

Global headwinds

- Credit crisis contained, but corporate default remains a risk
- De-leveraging process generates weak demand and structurally lower growth
- Deteriorating macro and weaker company earnings

Asia: structural opportunities & value – capital will eventually follow growth

- Declining export demand
- Structural growth and infrastructure development
- Strong balance sheets and cheap valuations

Risks

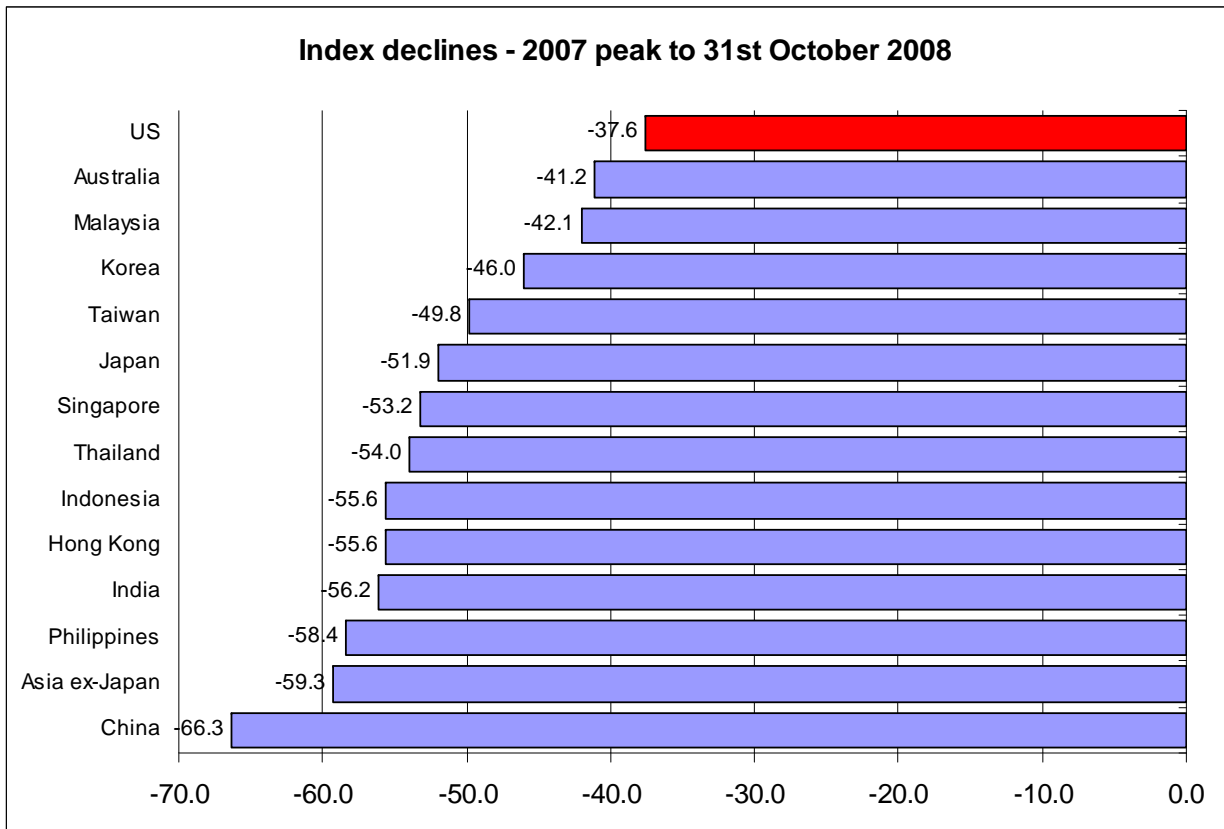
- Corporate defaults – working capital and solvency issues
- Non-bank financial contagion – hedge funds, insurers & consumer lenders
- Earnings shocks

Conditions for sustained performance

- Capitulation
- Monetary and fiscal stimulus
- Moderating risk aversion – M&A and buybacks



Market performance: the impact so far



Source: LGM, Bloomberg

History lesson: previous performance from peak to trough*:

1974 Oil Shock	-86%
1982 Recession	-58%
1987 Crash	-44%
1990 Recession	-40%
Asian Crisis	-66%
TMT	-57%
Now	-59%

Source: CSFB *MSCI Asia ex-Japan index

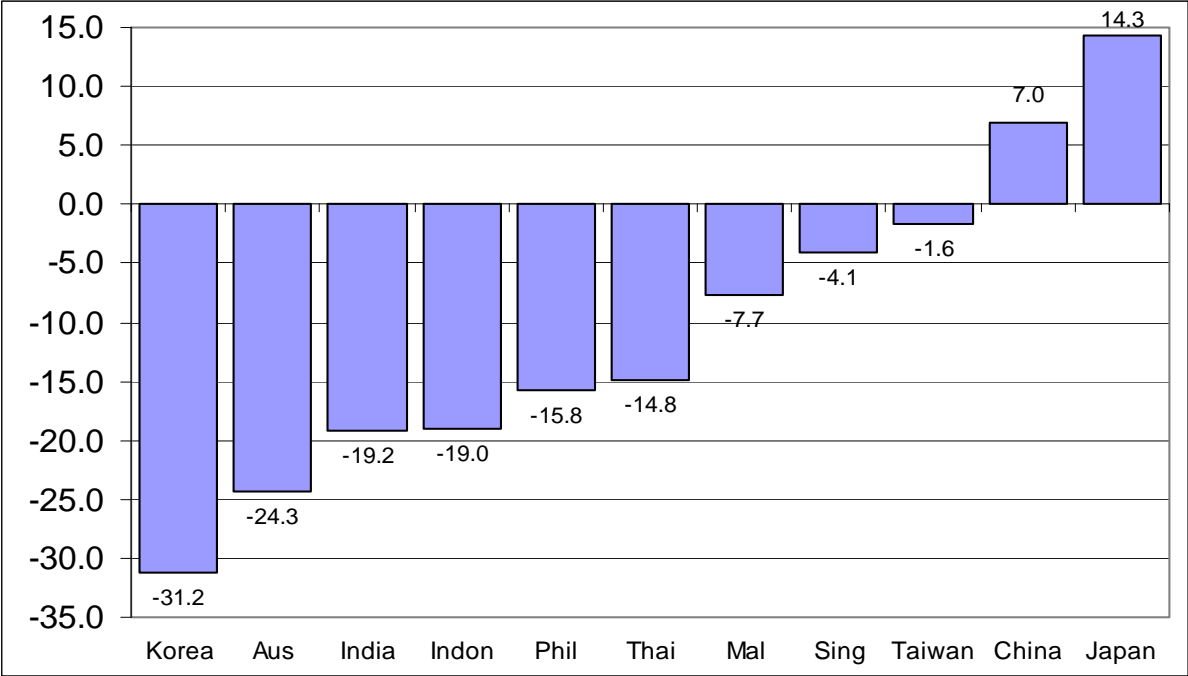
At the recent low on 27th Oct 2008, the MSCI Asia ex-Japan index had fallen 66% - exactly matching the drop seen during the Asian Crisis.

Asian markets have now matched the declines suffered during the Asian Crisis. Risk aversion, repatriation and redemptions have sucked liquidity from the region, despite stronger balance sheets, a significantly better growth profile and the absence of debt.



Currency impact: the US dollar rallies

Resurgent dollar
Regional currency performance vs the US\$ so far in 2008



Source: LGM, Bloomberg, data as at 12th Nov 2008.

A weak dollar has been the sine qua non for Asian equity performance since 2001. A rapidly improving trade position coupled with the repatriation of overseas US assets and the unwinding of the Yen carry trade has led to a temporary reversal of this trend.



Valuations: how much is discounted?

	PBR			RoE		
	Current	Low 2000-03	Asian Crisis	Current	Low 2000-03	Asian Crisis
Australia	1.9	1.7	1.7	21.5	13.1	12.5
China	1.4	0.6	0.4	23.0	3.0	6.4
Hong Kong	1.0	1.0	0.9	10.2	7.7	10.5
India	2.0	1.6	1.6	22.3	17.3	20.1
Indonesia	2.2	1.3	1.1	37.7	23.2	10.6
Japan	1.0	1.2	0.9	10.3	5.0	4.3
Korea	1.0	0.8	0.4	14.4	10.6	3.6
Malaysia	1.4	1.4	0.6	14.9	9.6	7.5
Philippines	1.6	0.9	0.9	17.3	6.5	11.0
Singapore	1.2	1.1	0.9	14.7	7.3	6.6
Taiwan	1.1	1.2	1.2	13.4	9.2	9.9
Thailand	1.3	1.3	0.5	19.8	1.9	3.5
Asia ex-Japan	1.3	1.2	1.2	17.3	10.5	9.4

Source: HSBC, IBES. Data as at 24th October 2008

Asia's PBR has now fallen to the same level reached during both the TMT/SARS recession of 2000-2003 and the Asian Financial Crisis of 1997-1998.

Hong Kong, Japan, Korea and Thailand are all trading at or very close to book value.

Return on equity has improved to more than 17% since 2003, justifying a higher price to book multiple than the current 1.3x.

To validate the current PBR of 1.3x, Asia's RoE would need to compress to the 10% level recorded in previous troughs.

Asian equity markets are implicitly discounting a compression in equity returns back to the lows of 2000-03 and 1997-98. This would require earnings to drop 42% in 2009.



Earnings risks: as bad as it gets?

	Peak to trough earnings change		
	1997/98	2000/01	Average
China	-38%	-57%	-48%
Hong Kong	-39%	-26%	-33%
Taiwan	-24%	-50%	-37%
Korea	-61%	-38%	-50%
Singapore	-52%	-28%	-40%
Malaysia	-61%	-25%	-43%
Indonesia	-74%	-30%	-52%
India	-6%	-10%	-8%
Average ex-China and India	-54%	-34%	-44%

Source: BNP Paribas

During the Asian Financial Crisis of 1997-1998 and the TMT recession of 2000-2001, Asian earnings fell 54% and 34% respectively. The market is now discounting an earnings decline for 2009 in line with the average for these two episodes.



Valuations: at record lows on trailing earnings

Asia ex-Japan: trailing price earnings ratio



Source: Datastream, CSFB

The lack of clarity on the outlook for earnings and speed of the global economic slowdown undermines the utility of forecast earnings. Analysts are typically behind the curve at inflection points in the cycle. Historic valuation measures are more useful in gauging how current valuations compare with previous trough levels. On the trailing PE measure, Asian equities are now the cheapest they have been for more than thirty years.



Valuations: the consensus view

	PER	PER	EPS Growth	EPS Growth
	2008	2009	2008	2009
MSCI JAPAN	12.5	11.1	-17%	13%
MSCI AUSTRALIA	8.7	8.3	28%	5%
MSCI CHINA	9.1	8.2	7%	12%
MSCI HONG KONG	10.1	10.2	-28%	-1%
MSCI INDONESIA	7.6	6.2	16%	24%
MSCI INDIA	10.8	9.1	1%	20%
MSCI KOREA	9.7	8.5	-11%	14%
MSCI MALAYSIA	10.4	10.5	-15%	-1%
MSCI PHILIPPINES	10.8	9.6	-1%	12%
MSCI SINGAPORE	8.9	9.3	-8%	-4%
MSCI TAIWAN	11.5	11.7	-34%	-2%
MSCI THAILAND	6.5	6.6	107%	-2%
MSCI AC Asia-ex-Japan	9.7	8.9	-11%	8%
MSCI AC ASIA-PACIFIC	11.2	10.0	-13%	13%

Source: HSBC, IBES



Value, returns, cash and yield: Asia now offers exceptional opportunities

Proportion universe (i.e. all listed stocks with a market cap > US\$500m):	AU	HK	CN	IN	ID	JP	KR	ML	PH	SG	TW	TH
	%	%	%	%	%	%	%	%	%	%	%	%
Trading below book value	23	52	44	21	23	65	46	32	19	45	39	46
With zero net debt	11	35	56	24	42	41	21	42	58	25	35	10
Where cash is > 20% of market cap	18	52	50	6	40	45	44	53	33	48	58	25
Where the trailing FCF yield is > 5%	20	2	5	13	18	33	31	46	26	38	42	37
Where the trailing dividend yield is > 5%	75	49	28	8	45	9	16	56	36	63	71	63
Where the historic RoE is >20%	37	38	46	58	51	6	24	31	26	43	38	36
Number of stocks in universe	116	112	94	129	22	614	100	49	15	52	85	24

Source: LGM, Bloomberg

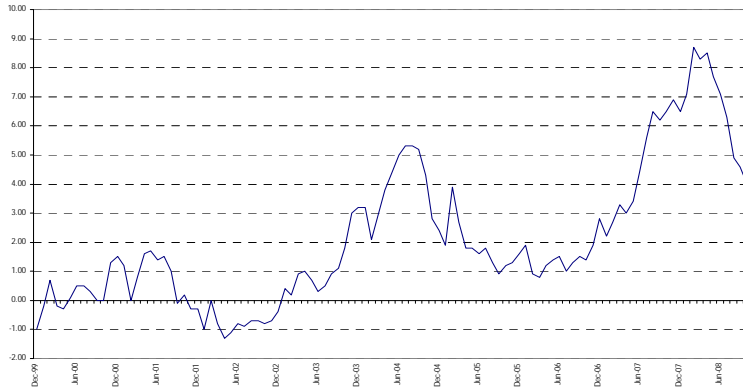
The quantum of price destruction in Asian equity markets since the peak of October 2007 has thrown up some compelling valuation and returns statistics. For example:

- 65% of stocks in Japan are trading below book value
- 56% of Hong Kong-listed China stocks have zero net debt
- 58% of Taiwanese companies have cash equivalent to more than 20% of market cap
- 46% of Malaysian companies have a free cash flow yield greater than 5%
- 75% of Australian companies have a dividend yield higher than 5%
- 58% of Indian companies have an RoE greater than 20%.

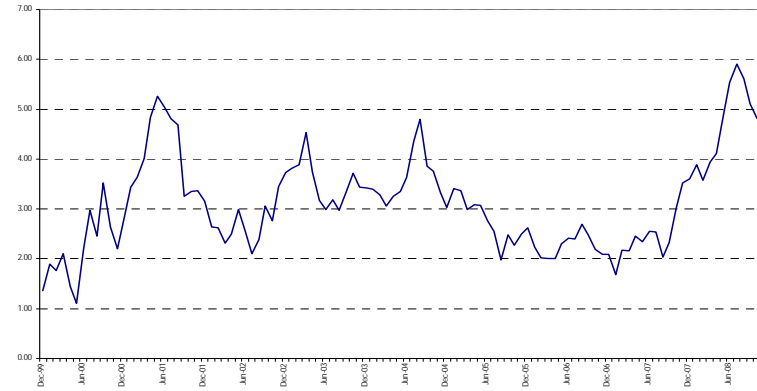


Inflation – no longer the enemy

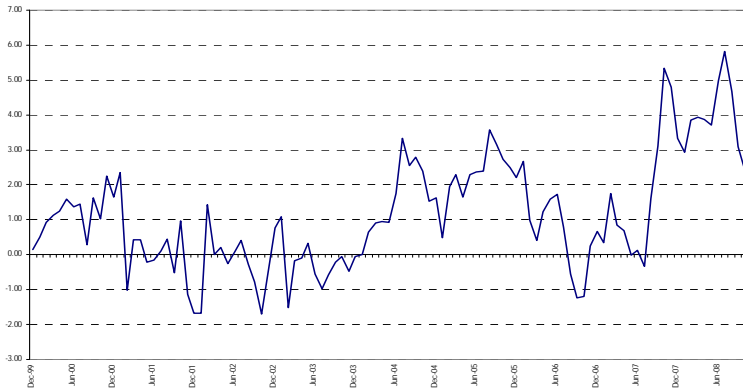
China CPI



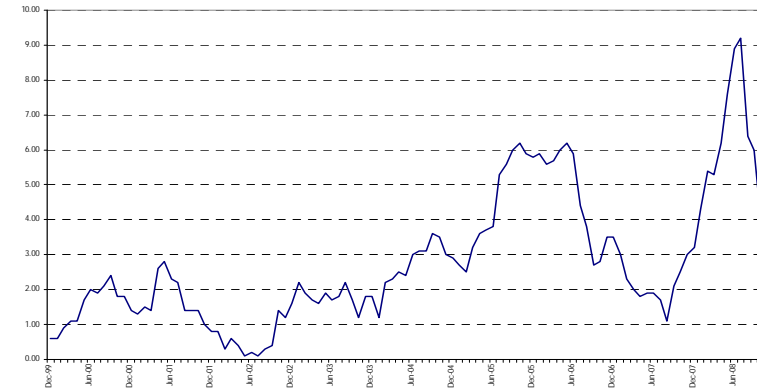
South Korea CPI



Taiwan CPI



Thailand CPI



Source: LGM, Bloomberg



Lower inflation – higher disposable income

Oil import dependency ratio	
China	46%
Korea	100%
Taiwan	100%
Hong Kong	100%
Singapore	100%
Malaysia	-48%
Thailand	69%
Indonesia	11%
Philippines	93%
India	67%

Source: Nomura

Food and fuel in the CPI basket	
China	39%
Hong Kong	31%
India	28%
Indonesia	45%
Korea	36%
Malaysia	44%
Philippines	53%
Singapore	29%
Taiwan	33%
Thailand	45%

Source: Govt data, BP Statistical review of World Energy, June 2007, CSFB



Asia's jewel: the balance sheet

Current account to GDP ratio (%)	
China	9.8
India	-3.1
Indonesia	1.8
Korea	-1.0
Malaysia	11.7
Philippines	2.2
Thailand	3.4
Asia average	3.6
EMEA average	-9.1
Africa average	-3.6
LATAM average	0.0

Source: IMF Global Financial Stability Report, October 2008

Net Debt to Equity (%)	1997	2007
China	93	21
Hong Kong	18	14
India	26	19
Indonesia	113	28
Korea	246	41
Malaysia	38	32
Singapore	12	22
Taiwan	30	10
Thailand	310	39
Asia average	98	25

Source: HSBC Securities

Loan to deposit ratios (%)	
China	66
Hong Kong	63
India	96
Indonesia	71
Korea	130
Malaysia	82
Singapore	81
Taiwan	84
Thailand	93
Asia average	85

Source: BNP Paribas

Asia has no debt problem. Asia de-leveraged following the Asian Crisis. This means governments can spend and companies can invest, buy back their shares and/or engage in M&A. No other part of the world can match the strength of Asian balance sheets.



Infrastructure

	India	China
Roads	Expand 45,000km of highways, build of 9,000km new highways & 165,000km rural roads and upgrade the existing 200,000km network.	Construct/rebuild 1.25m km of roads by 2010, adding 65,000km of expressways. 30-year target is for 85,000km of expressways.
National Railways	Dedicated freight corridors + 10,300km of new lines + gauge conversion of 10,000km + passenger train speeds hiked to 150kph etc.	Adding 17,000km of new rail lines, including 7,000km for passengers + upgrading and electrifying existing track.
Urban Railways	New metros for Mumbai, Chennai, Hyderabad, Bangalore and Cochin . Delhi plans to expand metro.	15 Chinese cities are currently building subways and Beijing aims to have the world's largest metro system by 2015.
Airports	Redevelop 4 major & 35 smaller airports + 7 greenfield airports.	Increase from 142 in 2006 to 190 in 2010 and 244 by 2020.
Ports	Adding 840mt of capacity & 76 new berths by 2012.	Five-year plan to boost deep water berths 86% to 639.
Electricity	Add 70GW of capacity during current five-year plan. Provide electricity access to all rural households. Construction of Ultra Mega Power Projects - three awarded so far, equivalent to 60% of current capacity.	Five-year plan: 1) Eliminate power shortages for additional 3.5m people. 2) Consolidate coal industry. 3) Grid expansion and upgrade.
Water	Targeting 100% water access by 2012.	Targeting 95% urban access, 20% reduction in usage, 70% sewage treatment and safe water for an additional 100m rural citizens.
Telecoms	Telecom subscriber base of 600m, including 200m in rural areas. Broadband coverage of 20m, internet 40m.	<i>Village Connected Project</i> to subsidize expansion of services to rural areas. Reorganization of wireless to boost investment in rural networks.
Cost	US\$480bn – almost 50% of current GDP	US\$970bn – almost 14% of current GDP

Source: LGM



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