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## THERE'S STILL MONEY TO BE MADE IN ASIA

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**Although many Asian markets have surged to record highs, Prudential Asset Management's Chief Investment Officer for Asian equities, Mr. Ashish Goyal, foresees more upside in the medium term. Short term volatility should be seen as an opportunity to add exposure to Asian equities.**

Mr. Goyal is of the view that earnings of Asian companies have kept pace with the sharp gains in share prices, and consequently, he says that stock market valuations are still reasonable. Also, many Asian economies have undergone significant structural changes and economic growth in the region continues to outpace developed economies.



### Tells us more about why you remain bullish on Asia

The outlook for economic growth in Asia is still very good, and it is not just driven by India and China. Many Asian economies are growing at a healthy pace of 5\* to 6\* per cent or more. (\*Source: Consensus Economics Inc. 2007).

Asia has gone through dramatic structural changes since the Asian financial crisis 10 years ago. At that time, we had to worry about issues like excessive leverage, current account deficits, high inflation, high interest rates and poor corporate governance.

But the situation has changed significantly since. For instance, apart from a few countries, almost every country in Asia enjoys strong current account positions.

Inflation and interest rate are also much less of a problem these days - thanks to significantly better macroeconomic management by Asian governments.

Indonesia is a case in point. It has cut interest rates sharply due to lower inflationary pressure and this has helped to boost interest in the country's stock market.

### How vulnerable is Asia to a U.S. economic slowdown?

Asia is probably less vulnerable than it was many years ago.

For one, intra-regional trade has gone up quite sharply which should help to mitigate the impact of a U.S. economic slowdown.

Also many Asian economies are in much better shape today than they were many years ago. Regional economies now enjoy very large foreign exchange reserves and this helps to reduce macroeconomic risks.

During the Asian crisis for example, Thailand and Korea ran out of foreign exchange reserves, and they had to turn to the International Monetary Fund for help. Today the situation is no where as dire, and Asian economies in general have strong balance sheets.

### What are your views on Asian currencies?

We think that Asian currencies are still undervalued and they will face pressure to revalue given the healthy economic and current account fundamentals in Asia. This is another factor that augurs well for Asian equities.

### How would you rate Asia's corporate fundamentals?

Prior to the Asian crisis, regional companies were borrowing a lot of money in foreign currencies like the U.S. dollar. When regional currencies came under attack by speculators, many companies in the region who had over-borrowed in foreign currencies got hurt.

But over the past 10 years, Asian companies have been paying off their debts and now have much healthier balance sheets. Many of them are also enjoying strong cash flows in their businesses and are enjoying net cash positions.

Another issue pre-crisis was the low return-on-equity (ROE) among Asian companies which were not making enough profits because there was indiscipline about capital expenditure. But the returns in the last four to five years have improved despite the fact that gearing has declined. Profit margins among Asian companies are among the highest in the world today.

Another significant change among Asian companies is the fact that many of them have made significant strides in the area of corporate governance. Minority shareholders have

become more savvy and vocal, and this is one reason for the better corporate governance in Asia.

#### **You said valuations are still attractive. Please elaborate**

Asian markets have done very well in the past few years, but so have earnings among Asian companies. Consequently, valuations are still very reasonable and below the historic peak.

On aggregate, Asian markets are trading at a forward price/earnings (PE) ratio of around 14 times. It's not dirt cheap as Asian markets have been cheaper in the past. But it's also not expensive, which leaves room for Asian markets to head higher

At the country level, the PE multiples are varied. At the lower end, you have Thailand and Korea trading at around 10 times while at the other end of the spectrum, markets like India and Singapore are trading at about 17 times.

Singapore's seemingly higher-than-average multiple is justified because the cost of capital is low in Singapore.

Also, Thailand's low multiple may be due to uncertainty about its political and economic outlook.

In essence, Asia offers a mixed bag of investment opportunities and while some markets have done exceptionally well, others are still laggards or have the potential to continue heading higher due to significant structural changes that could yield more benefits in the long-term.

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