

Banqueting With the Bears

As prices decline, savvy punters get hungrier

THE APPARENT ECONOMIC SLOWDOWN in Asia this year has cooled investor enthusiasm for stocks. But as markets fall, Hugh Young, 38, managing director of Abtrust Fund Managers (Singapore) Ltd., says he is becoming more bullish. The trick, as usual, is to know where to tread. The Exeter University graduate, who since 1985 has managed Britain's top-performing Asian unit trust, Abtrust Pacific, spoke with Asiaweek's Steven K.C. Poh. Excerpts:

Has the Asian growth story changed?

Overall, the longterm economic outlook for Asia is as promising as ever. With the exception of Japan, which is undergoing a structural, not cyclical, change and is having to open its doors to the outside world, the forecasts for GDP growth over the next 3 to 5 years in Asia are a comfortable 6%-7% per annum.

So, should we worry about the apparent slowdown?

That depends. I regard the slowdown we're seeing in Singapore, and indeed throughout the region, as fundamentally healthy. But it's also going to be painful for certain industries, specific companies and unwary investors. Singapore is a good example. The boom in the global electronics industry over the past few years has had a dramatic effect, boosting economic growth above virtually all forecasts. It surprised me that first-quarter 1996 growth was so strong at 10.9%. Yet now everyone is sunk in deep gloom over second-quarter growth of 7.0%. I find it hard to understand this reaction to a cyclical event, which should have been expected. Cycles are part of life, and so is development. Development or economic success brings its problems and I think that is what we are seeing in Asia today. All the region's economies are starting from a higher base each year, so sustaining high growth levels is ever harder. Labor, property and associated costs are all rising; that puts pressure on margins, and eventually squeezes certain businesses out.

What are the implications for earnings?

Corporate earnings are coming in much as we expected, but we have had forecasts well below the consensus. Overall for our Asian portfolios, we are seeing earnings-per-share growth slowing to around 12% in 1996. This is a function of increasing costs and increasing competition. With tariff barriers coming down across the region, businesses are moving across borders ever more rapidly. Any inefficient producers who have traditionally been protected by tariffs will go out of business and those who survive will have to be forward-thinking and agile.

It sounds as if you are bearish on Asia.

No, oddly enough I'm getting more bullish as markets slip. I think the key is knowing what you're doing. It's no longer sufficient to close your eyes and invest in Asia, relying on economic growth to carry you through. I think markets will punish most concept stocks or those that have relied on financial engineering and aggressive leverage. Conversely, the rewards will go to stocks that invest in professionally managed, well-financed companies - providing one is careful about not overpaying for those earnings. For those investors who are prepared to do the hard work there's some great value to be had.

Is there value in sectors?

Obviously there are sectors that we naturally favor. Anything benefiting from the growing wealth of the consumer should do well, so we favor areas such as retail, insurance and media. Similarly with strong economic growth, we like banks and financial institutions. Also the infrastructure story will remain a core investment theme in Asia for many years to come. But at the end of the day, you have to be terribly stock specific and focus on management because you are going to need some skilled and visionary people to cope with all the pressures of success that Asia is facing.

What stocks do you favor?

Among the large-capitalization issues, it is hard to do better than some of the region's banks. Well-managed and standing on reasonable ratings, we would buy HSBC, even after its strong performance, and the Thai banks, such as Bangkok Bank, Siam Commercial Bank and Thai Farmers Bank (but taking care to access these either via the local board, if legally permissible, or via convertible bonds). In Singapore there is fabulous value to be discovered, but again only if one has the ability to access the local board. The local board stocks that look very cheap are again the banks - DBS, OCBC, OUB and UOB. Singapore Airlines, which can be bought at asset value, and Singapore Press Holdings are also bargains. Elsewhere among the region's larger capitalized stocks, we are comfortable with companies such as Indostat in Indonesia and Philippine Long Distance Telephone and with some property companies that are beginning to appear to be good value, such as Sime-UEP in Malaysia and Sammakorn in Thailand.

RIDING THE TROUGHS

