

0610 | 2019

ASIA CHART OF THE WEEK

The undervalued, earnings growth opportunity

After the rout in Asia Pacific ex Japan equities over May, valuations are looking more reasonable and relatively attractive from a forward price to book (PB) perspective (Chart 1).

Further reinforcing the bottom up case is the estimated growth in earnings for next year. Globally, 2019 is expected to turn in challenging figures for most regions but 2020 is looking positive for Asia (Chart 2).

Korea and Taiwan are expected to lead the bounce back on recovering demand for information technology and communications while a recovery in Financials is expected to lead earnings in China, Singapore, Indonesia and Malaysia. Energy-centric Thailand corporates are also in line to do well backed by increased exploration and production and refining activities surrounding the IMO 2020 directive.

The bottom line

Valuations are looking relatively attractive for Asia, especially when underpinned by a potential global-leading earnings growth in 2020.

CHART 1: From a Next 12 Months Price to Book perspective, opportunity lies in Asia. (Data from 5 June 2009 to 5 June 2019).

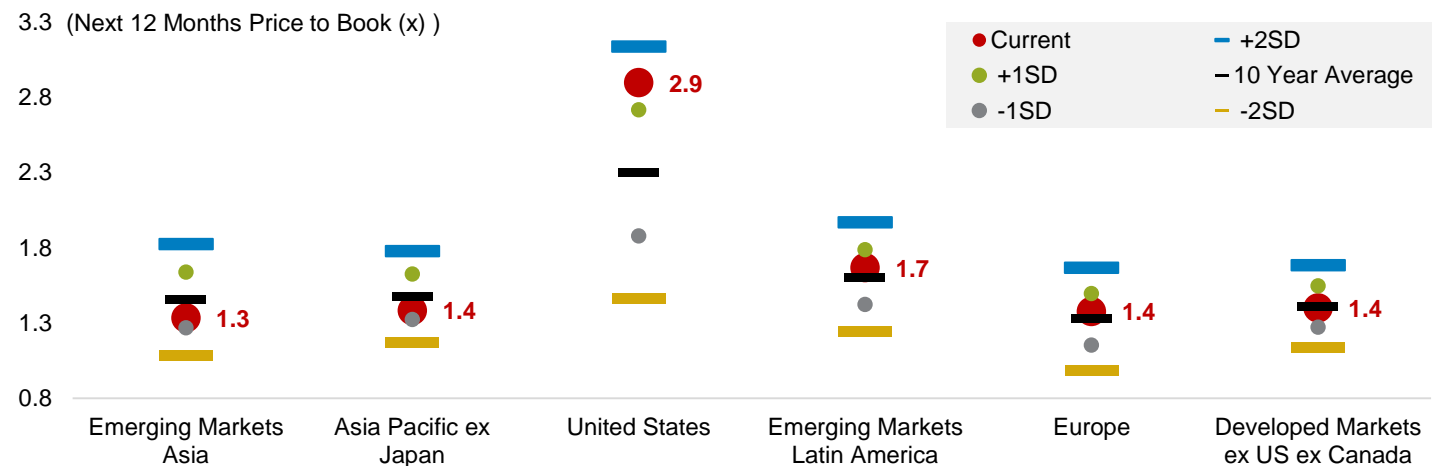
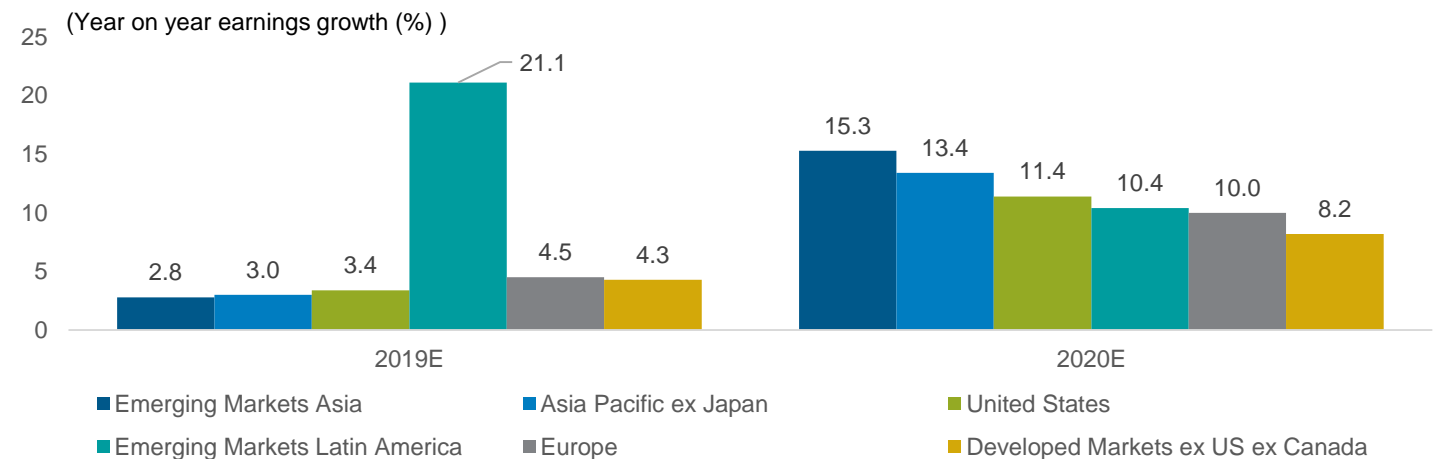


CHART 2: Emerging Asia is estimated to lead global earnings growth in 2020.



Source: Legg Mason, Yardeni Research, MSCI. Data in USD. 10 June 2019. Valuation data as at 5 June 2019. MSCI Estimates as at 29 May 2019. Emerging Markets Asia refer to the MSCI Emerging Asia Index. Asia Pacific ex Japan refers to the MSCI Asia Pacific ex Japan Index. United States refer to the MSCI US Index. Emerging Markets Latin American refer to the MSCI Latin American Index. Europe refers to the MSCI European Economic and Monetary Union Index. Developed Markets ex US ex Canada refer to the MSCI EAFE (Europe, Australasia and Far East) Index. SD refers to standard deviation. IMO 2020 refers to The International Maritime Organization (IMO) initiative to enforce a new 0.5% global sulphur cap on fuel content from 1 January 2020, lowering from the present 3.5% limit. The global fuel sulphur cap is part of the IMO's response to heightening environmental concerns, contributed in part by harmful emissions from ships.

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