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What's hot, what's not..

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What's hot, what's not . .

Agnes Chen asks fund managers which stock market catches their attention and what stocks to buy

BUSINESS TIMES: Is HK the best deal then?

For Hongkong, you only have to pay one unit of PE for 1.71 (units) of growth. So it seems to me that Hongkong is a great deal. But on the other hand, the reason why it's a great deal is because, my goodness, you could be standing on a time bomb here. So even though the growth to PE ratio is the highest in Hongkong, we are not exactly enamored of Hongkong.

BT: But you are overweight in Hongkong . . .

You can't deny Hongkong, when they're so cheap. And if you look at the historical chart patterns for the Hongkong market, there has almost always been a year-end rally. Historically it has always come true.

BT: Are you positioning for that?

Yes. We are betting on that one.

BT: Which market do you like best?

We are more enamored of the Philippines for the following reasons: Since Fidel Ramos was elected in 1992 the country has been on a path of slow recovery. This year it got the approval for more IMF loans; the inflation rate is coming down; and interest rates are coming down too, from something like 15 to 16 per cent at the beginning of this year to about 8.5 to 8.6 per cent right now. Their currency actually has strengthened.

We believe that Ramos will be able to put the country onto a path of recovery. It's also very important that Ramos has a military background. I am not so sure a *coup d'etat* is as likely as before.

BT: Speaking of politics, Indonesia is an interesting case.

I admit there is a level of uncertainty but it's not as bad as anything like in Hongkong.

BT: So how do you feel about the Indonesian market given that the ratio is pretty healthy?

EPS growth far exceeds the PE and in addition, the Indonesian Finance Minister is now proposing a corporate tax cut — from 35 per cent to 30 per cent next year. This means that if you have been paying 35 per cent corporate tax, instantly in 1995, you will enjoy a 17 per cent EPS growth because your tax rate is going to come down from 35 to 30.

BT: The ratio for Malaysia is not looking good.

The problem with Malaysia is that it's always been very speculative, and at the same time the market is expensive relative to the EPS growth rate. But we don't really like Malaysia right now for one reason — the market is speculative. These people don't seem to have learnt a lesson.

BT: But earnings growth is pretty good . . .

They have been good but on the other hand, unfortunately, the valuation is also very high. So that's why when we look at the growth to PE ratio, it's not as attractive. I would definitely underweight Malaysia.

BT: You are slightly overweight in Singapore and your ratio is 1.31 for 1995.

We like Singapore. Of course, it's a little expensive too, if you look at that ratio. On the other hand, Singapore deserves a premium because of its political stability and, I would say, a relative lack of corruption.

People like "clean" governments and it seems to me that among all these countries that we invest in, Singapore is definitely way ahead of any of the others. We definitely are concerned about corruption in Hongkong after the Chinese have arrived in 1997. Meanwhile, for Singapore, with all the political stability and a relatively clean government, we think that it deserves to trade at a premium.

BT: What targets are you looking at for the main market in-

looking at for the main market in-dices at the end of 1995?

I'm not giving you precise numbers but for Hongkong, we're talking around 14,000 at the end of 1995. For Singapore, we expect it to be around 2,700; Malaysia, 1,500; Thailand, 1,800; the Philippines, 3,400; and for Indonesia, 580.

BT: How about specific stocks?

In the Philippines there are two stocks that I am most bullish on. One is the First Philippine Holdings Corporation (FPHC). It is basically a conglomerate that engages in mostly infrastructure projects. For example, they are building several highways in and around Manila. It's called the North Luzon Expressway Project.

It is also participating in the rehabilitation of power plants. Obviously, these are high capital, high profile investments and very profitable as well; yet the stock is trading at a discount to the market. So, that's why we like the stock.

The second one is Meralco Electric Company. Like FPHC, this is partially controlled by the Lopez family. Meralco is the sole distributor of electricity in the Metro Manila area. They don't have to incur any big cap projects like power generation; all they are doing is to take power in from the National Power Corporation, which is a government-owned organisation, and simply distribute the power to the residents of Metro Manila. They have the monopoly to distribute electricity.

BT: I suppose the stock is cheap?

No. This one is not cheap. But earnings are going to grow more than 100 per cent this year (1994) because during April, May and June of 1993, the Metro Manila region could have had as many as eight hours of brownout per day. And luckily, miraculously, it did not happen this summer.

BT: Are you saying it's coming off a poor earnings base?

Exactly. It came off a very bad year so if you compare 1994 with 1993, of course, you look like a stud. But the question is, how about 1995?

In general, Meralco in a normal year enjoys about 12 per cent growth in terms of volume sales. We believe that it should be able to increase usage among industrial and commercial customers who are under-utilising Meralco's electricity right now because Meralco's power supply was not dependable in 1993. So a lot of these industrial and commercial users have their own generating equipment. At the same time, some of them are connecting directly to the National Power Corporation, which is illegal.

BT: The Philippines is also privatising its utilities. Will these independent producers strike up different partnerships with different distributors?

Absolutely. But luckily, Meralco has the monopoly on distribution in the Metro Manila region and as you know, Manila is the biggest city and the capital of the Philippines.

As a matter of fact, the IPPs are going to help Meralco in reducing the cost of power that it incurs every year when it purchases the power from the National Power Corp. Right now, Napcor is the sole supplier and it's very inflexible in terms of pricing. Luckily, Meralco has been passing on any price increase directly to the customer.

I think with the advent of the IPPs, and more competitive pricing, Meralco unfortunately may also reduce the rate that it charges its customers. On the other hand, because the power will be cheaper, it may stimulate higher volume growth.

The stock is trading at a premium to market but I think the quality of earnings is good, it is a monopoly, and therefore it deserves to trade at a premium.

BT: Right.

How about what I don't like about the Philippines? How about some short candidates?

BT: Okay.

Number 1 is San Miguel. San Miguel is a food company. It is a good quality, high quality food company in the Philippines but on the other hand it's trading at too much of a premium. I believe that it's trading at 40 times 1994 earnings. And earnings growth is nowhere as good as others like Meralco. So it's a great short.

The other short is Metro Bank. It is trying to become the biggest private bank in the Philippines. On the other hand, the interest rates have come down so much, from something like 15 per cent to about 8.5/8.6 per cent right now, and yet the deposit rates have not come down. So that means there will be a huge squeeze in the net interest margin. And there is no way that a bank will be able to grow itself out of a squeeze in net interest margin of that magnitude by growing loans.

So I am pretty sure that if it's not going to disappoint the analysts at the end of 1994, it will disappoint at the end of 1995.

BT: Hongkong?

In Hongkong, I like Dao Heng Bank. It is a bank that is dependent on trade financing. Like the small Chinese merchants on Bonham Road, these people are very loyal. These people don't shop around for better rates. Also, Dao Heng has a relatively smaller percentage of its loan book in residential mortgages.

Banks like HSBC and Hang Seng Bank have as much as 35 to 40 per cent of their loan portfolio in residential mortgages. And as you know the Hongkong government is trying to clamp down on residential housing prices, and as a result, there will be very little growth in residential mortgages in the next year or so. So that's why I decided to pick a bank that has the least exposure to residential mortgages. Dao Heng's earnings are going to grow 20 to 25 per cent a year and it's going to be the least affected by the property sector.

The second one that I like is called Yizheng. This is actually a China stock that is listed in Hongkong. It's a polyester producer. China has a bad crop of cotton in 1994 and, therefore, the substitute — polyester — can only go up in price.

BT: So this a 12-month hold?

Yes, this is going to be a short-term play. Because we don't know exactly what the crop is going to be like in 1995.

BT: So what are we looking at for growth this year?

We are looking at 20 per cent.

Let's talk about the ones I hate in Hongkong. Number 1 is Oriental Press. This is the largest Chinese newspaper company in Hongkong. It started an English paper called Eastern Express to compete with South China Morning Post at the beginning of 1994, and of the beginning of 1994, and of course that was a big bomb. They bled about HK$60 million last year. And the paper is getting worse every day.

Also, this paper is very dependent on real estate advertising, property advertising and because the Hongkong property market as well as the Chinese property market have come down quite a bit, I believe that the volume of advertising is not going to show as strong a growth as in 1994. This company's fiscal year ends in March 1995.

The stock right now is trading at about 13 times March 1994 earnings, and growth is only around 12 to 13 per cent. This stock is overpriced. I believe there is more room for it to go down.

BT: Let's move on to what you like in the other markets.

Okay. There is just one more market where I'd like to give you two names.

In Malaysia — MBF Capital. This is the biggest finance company in Malaysia and finance companies usually do very well on a declining interest rate environment, because most of them borrow on a floating rate basis and lend on a fixed rate basis. Yet, MBF Capital is trading at a huge discount to the market multiple. It's trading at about 11 times 1994 earnings, whereas the market is trading at 22 times. The other finance companies are trading at 18 to 20 times 1994 earnings. And they are much smaller than MBF Capital.

The reason is that a substantial shareholder, who is also involved with management, has a certain reputation . . .

BT: You mean Datuk Loy Hean Heong.

Yes. Yet the company was involved in a takeover battle only last month and the stock ran up from about M$2.50 to M$4.30, I believe.

BT: So, you are a very happy man . . .

Well, we sold a little bit. We didn't sell everything. But the stock has since come back down to about M$3.10 to M$3.20 after the Finance Minister, Mr Anwar Ibrahim, came out saying on the record that MBF Capital is not for sale because the substantial shareholder doesn't want to sell.

The second stock that I like is Development & Commercial

Bank. Every single penny of D & C's earnings is high quality. It is one of the few banks in Malaysia that does not have a brokerage operation and as you know, brokerage earnings were phenomenal in 1993 and are unlikely to show any substantive growth in 1994.

It also has a Japanese partner, the Sakura Bank, which of course is directing a lot of Japanese multinationals to D & C Bank for loans to finance their factory build-up in Malaysia. So I think D & C is going to be a great commercial bank going forward and at the same time, its earnings will not be subject to the volatility of brokerage earnings. That's why I like it.

BT: What are the numbers for D & C?

Earnings grew about 72 per cent in the first half of 1994. 72 per cent. And I believe it's trading at about 27 or 28 times 1994 earnings right now. So it is at a premium to the market. On the other hand, the quality of the earnings is very high.

BT: Is it still a buy?

We are still banking on good growth in the coming year. However, I'd like to provide a caveat that if for some reason there is going to be an election in Malaysia, we would shy away from the finance stocks and maybe the banking stocks as well. After the elections, it's unlikely that interest rates will decline any further. And in a rising rate environment the finance companies are going to get hurt, and the banks to a lesser extent.

BT: Can we round off with Singapore?

I don't like two companies. They are Fraser & Neave and Singapore Airlines.

With Fraser & Neave, people are banking on property earnings to tide over the lull in earnings in the food and beverage sector for the next couple of years. Well, my counter-argument is: This stock is trading at 30+ times 1994 earnings. Why should I pay 30 times for a property company? I'll pay 15 or even 20, but not 30. If it is a food company and if the food and beverage divisions were doing well, yes, I would pay 30+. But why should I pay 30+ for a property company in the next two or three years?

The other company I don't like is, of course, Singapore Airlines. As you know they reduced the fares by up to 20 per cent starting October 1994. I guess finally it has come to recognise that it cannot compete against the other airlines unless it does something about the artificially high fares. And even though it's unlikely that the US airlines will be given more freedom to fly in Asia in the next two or three years' time, if the US airlines were given total freedom to fly around in Asia, Singapore Airlines and Cathay Pacific would become bankrupt — quote me on that.

On the other hand, we don't think it is going to be open skies for the US airlines. Nevertheless, the one or two flights that the US airlines have right now are already providing good enough competition for the Asian airlines because the US airlines are cutting fares. And even though Asians may consider service very important, when the fare is so much lower on a US airline, I think you may go for money. That is what is happening in the US — only airlines that are providing bare-bone services are making money. I suspect that the same is going to happen in Asia over time.

BT: Now, what do you like?

I like Singapore Press Holdings. Advertising rates are going to be increased as of January 1995, then maybe again in July 1995. And also it's a monopoly.

Singapore Press Holdings was sort of disappointing when it came out with a share placement two months ago, when the company was already flush with cash. It took advantage of the relatively high share price, and that was totally disappointing. Management should be faulted for that.

On the other hand, it's still a high growth, high quality earnings company and it's a monopoly. We see earnings growth of 20+ per cent in the next two years and we see a bigger jump in 1996. We see a much bigger jump in 1997 when the new colour printing presses are installed.

We also like Keppel. We believe that finally, the depressed ship repair market is turning around. The oil tankers cannot wait anymore.

Also, Keppel has a huge piece of land close to Sentosa. That could be a big surprise. When you are sitting on some pretty expensive land, you don't want to use it as a shipyard. It's a waste. Management just cannot justify keeping that land and using it for ship repair when they can sell it at a much higher price for residential development.

BUSINESS TIMES: When you say a bear phase, are we talking about a 25 per cent decline?

It's probably not that bad just yet. We have all sorts of models and the last time we had a similar negative reading was in 1989, early '90, and the market declined over 20 per cent. So, based on our research, world equity prices could decline 20 per cent.

Historically, price-to-book value has been higher only about 20 per cent of the time. And when you look at price-to-cash earnings, the world market is in the top decibel which basically means that in the last 25 years, valuations have been this extended only about 5 per cent of the time. The same picture emerges if you look at price-to-earnings. Dividend yield is also very low.

When will equity markets perform well? They would perform well in an environment where earnings are rising, when valuations are not extended, interest rates are low or falling. Right now, we are not in that environment. We have valuations which are very rich, globally we are in an environment where rates are rising.

BT: Where do Asian equities fit in this picture?

One of the reasons bond yields are so high, is what's happening around here. The common practice is to look at the OECD countries and say that's the proxy for the world. And the OECD countries were still in recession in 1993. (Whereas) based on purchasing power parity, Asia accounts for 22 per cent of the world economy, and you had industrial production in China growing at 22 per cent last year. So, the global economy actually bottomed a lot earlier than people thought it had.

So we are in a situation where rapid growth in Asia is contributing to a global surge in economic activity, long-term interest rates have headed up, equity markets everywhere are overvalued. To perform from these levels, markets will either have to see very strong earnings growth — much stronger than what you have historically seen in the last 25 years, and that's difficult to believe and you have to see interest rates come down. So, we don't think prospects for equity markets are good at all going forward.

Within Asia, we think Malaysia, Thailand and Indonesia will probably do reasonably well. The reason is that temporarily, the central banks are not tightening.

BT: When you say temporarily, what sort of window are we looking at?

Three to six months, maybe. Elections in Malaysia could be a reason why the central bank is not tightening. Indonesia is having some balance of payments difficulties and they want the rupiah to depreciate to help exports, so that's one reason why the central bank is not tightening right now. In Thailand, non-food inflation is quite low and the central bank is hoping to maintain the baht parity with the US dollar without having to raise interest rates too much. These are some macro factors why some of the Asian markets may perform somewhat better, but overall the picture is not the heady days of 1993.

BT: So, when it comes to what markets you favour, central bank action is what will tip the balance?

Yes. If central banks were to tighten in Malaysia, Thailand and Indonesia, I think we would get outright bearish on Asia.

BT: How many basis points are we talking about here?

150 basis points (one and one-half per cent) and we would turn bearish.

BT: To recap, you like Asian equities because the interest rate environment...

...is not as bad as it is elsewhere. We are not bullish, we are cautious on the Asian markets. We think they will do better than the rest of the world, earnings growth is there, but the price we are paying for growth is already quite high.

BT: If equities are not going to perform so well globally, what other asset classes will?

We don't invest in other asset classes. But in our global equity portfolio, we will currently hold 20 per cent cash; 13 per cent in non-Japan Asia, primarily Thailand and Malaysia; 29.5 per cent in Japan; and the rest will be primarily in the UK and US.

The benchmark MSCI World Index only has 4.5 per cent in Asia (but zero cash).

BT: Let's move to stock selection. Geoffrey?

Right. In Malaysia, we have a couple of themes. The infrastructure theme is already quite old but what's happening is that there is a lot more scope for financing of infrastructure development, and we think the finance sector is where valuations and earnings growth are very good. So we like both larger banks as well as the smaller finance companies, such as Public Finance. Also, Arab Malaysian Finance and Arab Malaysian Corp. We still like D & C Bank. We have holdings in British-American Life and General, which is about the only life insurance play of reasonable size in Malaysia.

The other theme we like is property. In certain areas, particularly around Kuala Lumpur and near where the expressways are being developed, they are pretty much in a situation Singapore was in maybe 15, 20 years ago. And property prices still have a long way to go.

We like Lam Soon Huat, which is a medium-sized property company. they are a subsidiary of IOI, the plantation company, and a lot of that old plantation land has been approved for development. And it so happens that a lot of it is along the North-South highway. Their existing plantation land will probably last them through the end of this millenium in terms of development, assuming it continues to be approved for conversion to residential use.

For size, it will be Land & General, if you really need the liquidity.

BT: These two sectors you

have identified are traditionally interest rate sensitive areas?

The same applies to Singapore, where it's pretty clear interest rates are on the way up but loans growth is not slackening off at all. We are quite bullish on the economies themselves, we are just cautious on the markets — in that sort of situation, you can see continued loans growth in the face of rising interest rates. If you look at the evidence of bank earnings and interest rates in markets like Singapore and Malaysia, there doesn't seem to be much correlation at all.

BT: What do you like in Singapore?

Similarly, we are quite well weighted in the finance sector. We like especially the finance companies but unfortunately, they are not very large. So, it's Hong Leong Finance and Sing Finance. Earnings are driven by strong housing loans growth as well as COE prices, and in terms of PE, they are typically selling in the low teens. Hong Leong is at about 15 times this year's earnings, well below the market. Earnings growth over the next 12 months is going to be about 18 per cent. So, that's pretty good valuation.

The other sector we've been playing for the last few years is contract manufacturers. There is a trend worldwide of out-sourcing of services as companies like Apple, IBM and Digital find that their added value is not in building factories but it's in R & D and design. So they do the R & D and marketing themselves but push all the manufacturing out the door.

We're still holders of Venture Manufacturing and Pentex Schweizer. Venture is at 20 times current year's earnings, falling to 17.5 next year and 15 the following year. We have the earnings growth at 26 per cent for the coming year, about 16 per cent for the following two years. So, we think it's quite reasonable value given the quality of the company. As you know, the management is basically all the ex-Hewlett Packard people.

BT: Venture has been on your list a long time.

Yes, and it continues to be there. Pentex we've added fairly recently since it's gotten quite cheap: 16 times '94, and about 14 times '95. We continue to like property companies with exposure to landed residential, like Wing Tai. And DBS Land has been lagging so it's probably worth looking at as well.

BT: What don't you like?

In Malaysia, we don't like Tenaga. If you look at the politics of the matter, there is nobody who benefits from giving Tenaga a favourable rate scheme. Nobody. While there are tons of people who will benefit from giving one of these small companies a favourable scheme of control. So, Tenaga's profit conceivably, in the worst case scenario, might go into negative growth. It's possible, if they lose the monopoly on transmission, for example. If they are forced to buy power from the independent power producers, their actual volume of sales may go down.

BT: Moving on to the other markets . . .

We are cautious on Hongkong as a whole and there are not many things we greatly like. We are especially cautious on Cathay Pacific in light of the fare cuts. Being sort of defensive, we would be looking at South China Morning Post, which yields about 6 per cent (dividend). There's some play in smaller banks, such as Union Bank and Ka Wah Bank because from next year, they will have to disclose the profits they have been putting into reserves in the past and when that happens, the market will probably find that these banks are selling at about 8 or 9 times PE.

We are holding broadly diversified portfolios in Indonesia and Thailand. It's an uncertain market environment — it will be pretty unusual for interest rates in Thailand or Indonesia to buck the global trend. If the central banks start to tighten, we will have to start reducing our allocations to these two markets, and these are not very liquid markets. We have to stay pretty diversified and if there's any weighting, it would be towards the more liquid stocks.

USINESS TIMES: Is Thailand the

B... best in the region, do you think?

It is not just the best, it is the quality also. The key thing is, corporate (earnings) growth is not only going to be high, very strong, but it is going to be upgraded continuously from here on. The market should go for a re-rating.

I am putting the Malaysian market either on par with Singapore or slightly behind Singapore although I must say that in Malaysia, there are a lot more trading opportunities because of the privatisation. But as a core part of a portfolio, I have more preference for Singapore shares. It is a lot easier to make money in Singapore.

BT: A lot easier to make money?

In Singapore, I have more confidence in earnings estimates. And I know that the PE ratios are (really) there, whereas in Malaysia some of them are based on speculative projections of one project or another.

So, if you look at core holdings, I'd rather have a smaller weighting in Malaysia than Singapore, although there will be more activity in Malaysian stocks because of situations.

Moving over to the Philippines, (President Fidel) Ramos is beginning to make an impact on the economy now, and if he can sustain that, the Philippines would have a very good chance of catching up with the rest of Asean. And obviously as that evidence becomes more acceptable to other investors, we will have more and more investors going in.

The biggest disappointment has been Hongkong, and I think Hongkong will continue to be a disappointment, largely because China has failed to check inflation. Of course, the other problem is obviously becoming more and more an issue now — the Sino-British gap as to how to run Hongkong. That rancour is going to get more and more serious between now and 1997. That would mean the index will roller-coaster even more wildly.

BT: Coming back to stocks . . .

Because we think that the various indices in the next three months (for the rest of the year) will just swing up and down within certain broad ranges, you've just got to be a very good stock picker this time.

In Singapore, I think there are three areas you have got to be very focused on. One would be commercial property. You just make a pick — if it's not City Development, it's DBS Land or Straits Steamship Land or Singapore Land, or even some proxy types like UOL and Bonvest. You've got to have some commercial property.

I know it's gone up but — and you should quote me on this — if you think that residential prices are mind-boggling, you're going to see exactly the same thing repeated in office rental and office property prices over the next 12 months. (The market) is already very tight and demand is going to make it tighter and tighter, because there are going to be more companies relocating here, especially Hongkong companies. You are going to see large companies looking for large office space in Singapore over the next four months.

BT: Even given the supply coming on-stream?

It's still cheaper than Hongkong.

BT: Yes, much cheaper.

And if you are a foreigner and you do not want to be in Hongkong or you think you need to have a second office in Asia, Singapore is by far the best second choice, because there is no other second choice, as a place of business. And if you are an English company, you want to migrate out of Hongkong because you think you're not going to wait until 1997, where else would you go apart from Singapore? And if you are a (Hongkong) Chinese and you've already got an Australian or North American passport, you know you're not going to go there and live there and make money. You've got to come back to Asia. So if it's not Hongkong, where else? Again, Singapore.

So, as a place to stay and to make a living, Singapore stands out above everybody else now. And it's still cheaper.

BT: So you've got to have commercial property.

Yes. The second area is financial services. If Senior Minister Lee's vision of a vibrant fund management centre comes true, with more and more international houses coming in and CPF funds going into unit trusts of one form or another, then stockbrokers is a must to have.

There are four to pick from at the moment. My first choice will be Kim Eng and GK Goh. We've seen how they performed over the last few years since their listing and they have done quite well. They are expanding, they are also ranked very high in research.

They are expanding not only in terms of more remisiers; they are also expanding in taking seats in the regional markets. And when you look at the regional markets, every market over the next five/10 years will have turnover and market capitalisation many, many times higher than what it is today.

Apart from that, buying brokers is the easiest money to make. Whether your market crashes, comes back or swings, brokers will continue to generate revenue, because we're trading in a very high volume situation.

The banks will make more money, but nowhere as obscene as the brokers. For instance, brokers do not face pricing competition. Commissions are flat, they're fixed. Whereas in banks there is a lot of pricing competition. And while most of the bad debt provisions made by brokers are unlikely to be called upon, banks are a different story. There are bound to be companies that can't meet their obligations from time to time.

The third area to focus on in Singapore is the ship repair and shipping cycle. A few ship repairers like Keppel are already signalling that an upturn is coming around, by spending about $100 million for a new dry dock. You could buy a few bargains at this stage now, for a 12- to 18-month turnaround. The Keppels and the Sembawangs may not outperform but certainly they still will give you a decent return. These are a hold.

But if you are looking for better gains, then you probably want to have smaller plays related to the shipping cycle. You're sure to make money on Singapore Shipbuilding & Engineering at this level if you are patient enough, because they have good order books, they have expansion, and the PE ratio is not very high. If you can make money in the ship repair or shipping sector, that's the one you'd probably have the best chance of making money on.

BT: What about Malaysian picks?

The best area to be in is the stockbrokers, because after all this privatisation comes through, after all this (economic) growth of 8 per cent, the total number of shares that are going to be listed in Malaysia by the end of the decade, will be huge. And the traders who speculate in the Malaysian market are less restrained than people speculating in Singapore. And they have not even started to talk about making KL a fund management centre. Certainly, the spinoff to Malaysian brokers as a result of Singapore becoming a fund management centre should not be underestimated.

The second area I would focus on is obviously the banks. Every time a privatisation comes up, there are a lot of loans, guarantees, etc. And it's usually the large bank, the listed bank that can actually provide that. The Malaysian banks are not that expensive given their earnings profile over the next five years. So you've got Maybank, D & C.

The second theme in Malaysia is the East Malaysia play, since the last election when East Malaysia came under the Barisan Nasional. I think (Prime Minister) Mahathir is committed to show that he can develop East Malaysia, especially Sabah, because they are so backward. So anybody who is connected to businesses in East Malaysia, companies that are related to that, will be a target for privatisation of one form or another. You already have Ekran, and maybe Malaysian Mosaic, and lately North Borneo Timbers.

I wouldn't buy North Borneo Timbers at the moment as I don't know what's going on still. Ekran I will buy. I don't think they will allow Ekran to fail. They must succeed because it's such a pivotal project for East Malaysia and it's going to provide power beyond the year 2000 for West Malaysia.

In West Malaysia, there is a heck of a lot of privatisation — from the KL international airport, water projects and all that. Obviously, the big boys will continue to be in there but the question is: can they continue to make big money out of it? The ones you certainly need to have would be those where you know what they are in, like Renong and UEM. Or like YTL, which already has some IPP projects. You want to be in a company where they already have some organic business. The ones that do not have, like your Ayer Molek — I think those are for people who want to live very dangerously.

Anyway, among the Renong group, there is a lot to choose from. And in East Malaysia, we have the Westmont group, the Datuk Ting group, and the Berjaya Textile or Datuk Tiong group. You can select a few of those people. But you've got to see the deals and then work out the numbers. I won't be surprised that some that look very good before an announcement may look terrible after the announcement because of the number of shares issued. And even after they announce it, you never know what the Securities Commission would do and the number of shares that they have to issue finally.

So it's all, as I said, very conceptual. And you've got to trade in those stocks. That's not the way you should invest your money if you are investing. So you've got to look for companies which already have something — where it's already finalised, settled, and we know exactly what they are going to get into.

Obviously, with all this huge infrastructure, it'll benefit quite a lot of supporting industries, like steel. But we are not buying into all those things.

BT: Why?

There's just too much competition in that area now. A lot of people are opening up quarries. Steel mills are going up. Even cables and fiber optics — it all looks very good on the outside but inside the industry, there is a lot of margin erosion, cost escalation, as well as competition.

An area which we think would see a little bit more strength in Malaysia is some of these developers, Land & General for example.

BT: Medium-cost housing or big, landed . . .

Mostly in the luxury niche.

BT: Like Country Heights?

Yes.

BT: In the other markets . . .

Thailand. Obviously, the brokers are going to do very, very well because the turnover in Thailand is strong. The banks are still very, very cheap in Thailand. Then you've got telecommunication which continues to be one of the areas of growth. Indonesia is a consumer play basically.

BT: Any specific ones you like?

You would have your Sampoerna cigarettes. Then you have Hero Supermarket. Property is also coming out very nicely. The Indonesians don't build projects, they build whole towns. Ciputra is Number 1, of course. We're talking very long-term here, and property prices are going to just keep going up because as they develop, they just keep pricing it higher and higher. In telecommunication, you've got to have Indosat.

These are the ones where you are talking about performance in quality earnings over the long term.

BT: What about the Philippines?

PLDT has underperformed very badly. That might be a candidate to buy.

BT: Okay. You want to round up our discussion?

I say for Singapore clients, there are times when there is easy money to be made, and there are two areas where it is so easy to make money in Singapore — just buy stockbrokers and just buy office (property), and that's it.

By the way, look at how Changi International Airport position themselves, because if they start building the third terminal, then you can see they are looking for 20 million visitors to come through. And when that's the kind of figures you're looking at, then you've got to see what kind of demand that means for hotel rooms. The airport authorities plan very well based on projections which are achievable, not speculative.

● *The writer is a BT correspondent*

Alliance Capital is ranked among the 10 largest pension fund managers in the US last year. Of its funds under active Management, US$1 billion is invested in South-east Asian equities outside Japan. To screen for cheap stocks, the New York-based Mr Lui uses a simple ratio — the company's earnings-per-share (EPS) growth rate versus the stock's price-earnings (PE) multiple.

❛ If we can get more growth per unit of PE we'll be happier. The 1995 EPS growth to PE ratio for the Philippines is 1.57; for Hongkong, it's 1.71; for Indonesia, 1.44; Malaysia, 0.74; Singapore, 1.31; Taiwan, 0.62; and for Thailand, it's 1.16 ❜

it's 1.16.

KCM manages US$1 billion for several Australian pension and insurance companies and various sovereign clients. Possibly the largest non-bank fund management company in Singapore, KCM has been ranked among the world's top global equity portfolio managers. Recently, Dr Kapur gave the firm's top-down view of the markets in a paper titled "Clear and Present Danger"...

We are bearish on world equities, and if the global equity market performs very poorly — if there's a bear phase — then Asia is not going to escape. (But) returns in Asia will be marginally better than cash looking out over the next 3-6 months.

Mr See and team ran Indosuez Asset Management's top-ranked Asean Fund, which returned 241 per cent between Jan '91 and Dec '93. He has since set up PointWorth, a boutique fund management firm whose shareholders include a government-linked corporation. For the next 12 months, Mr See's money is on the Thai market...

The SET index was earlier thought to be heading for about 1500 at most by year-end, but we are now hearing more and more people say that 1500 will be the minimum. We are now at the mid range of about 1450 or 1460; I think between now and the next, say, 12 months, we are seeing at least a 15 per cent return on the Thai market.

David Lui,

vice president, Alliance Capital

Deep C Kapur,
director, economics research

Geoffrey Wong,
director, investment technology

Koeneman Capital Management

Dennis See,
CEO, PointWorth Management

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