

## Ask The Expert:

# Continue to be Positive on North Asia



**Yap Eng Li, Senior Vice President, Investment of Kenanga Investors Berhad  
shares with us her outlook for Asia in 2015**

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### 1. What is your outlook for Asia in 2015? What catalysts do you see for the year?

She is positioning on Asia equities for the remaining part of 2015. However, she sees increased volatility in the market, partly due to the uncertainty of Fed rates hikes. There have been interest rates cuts by major countries in Asia in the first quarter of 2015, for example, India, Korea, Australia and China. She continues to expect easy monetary policy in Asia for the remaining part of 2015, particularly in China, as she expects more reserve requirement ratio (RRR) and interest rates cuts in the coming months.



### **2. How much further upside is there for investors and are valuations appealing? What about the earnings outlook?**

On Asia as a whole, she does not see valuations being stretched yet. For example, MSCI China is still trading slightly below its mean despite the recent rally at about 10.5X versus the average of about 11.3X. Taiwan is trading at around PE of 13.0X of which is in line of its historical average but with continual EPS consensus upgrades. This is the trend that she has seen for Taiwan since 2013 whereby the estimates continued to surprise on the upside. On other parts of Asia, she sees pockets of weakness for first quarter 2015. Indonesia has reported disappointing results thus far for first quarter 2015, as the benefits of infrastructure spending had not materialised yet. Thailand has also disappointed on the downside in terms of GDP growth whereby it cut its GDP guidance to mid point level of 3.7% from 3.9%, resulting in a second rate cut just last week. However, for 2015, she expects Asia Pacific ex-Japan to record high single-digit. With the easy monetary policy to continue, she expects growth to potentially pick up in 2016.

### **3. What are some of the key macroeconomic challenges you expect to occur?**

We are now entering seventh year after the global financial crisis in 2008, but we have yet to see a strong sustainable recovery of global economic growth. Macro data that came out of USA in the first quarter of 2015 showed mixed signs, though labour market had strengthened with average payroll rising. In this part of Asia, China which is one of the key engines continues to show subdued growth, with industrial production and fixed asset investment continued to decline in the latest data in March 2015. China is likely to experience new normal growth of 6-7% in the next few years, with consumption going to play the basic role supported by exports, whilst investment continues to play the key role. Other key challenges that we need to watch out are oil price and government bond yield.

### **4. Which countries within Asia you have the most and least preference for in 2015?**

At this juncture, she continues to like North Asia markets, particularly China/HK markets. She also likes Korea and Taiwan as valuations there remain attractive compared to the rest of the region. She is selective on the ASEAN markets due to outperformance in 2014 and they are relatively more expensive in terms of valuations compared to North Asia. However, she believes stock picking remains the key and she is selectively buying into some names within ASEAN.

### **5. What advice do you have for investors when it comes to selecting a suitable Asia equity fund for their portfolio?**

She thinks it is most important to choose a fund that suits the risk appetite of the investors. When selecting a fund, she advises investors to look at the fund manager's style such as growth, value or pure macro driven approach. She thinks it is important to look at the consistent performance of a fund regardless of market cycles. They are disciplined and always mindful of valuations of stocks, so as to avoid buying expensive stocks and lock in gains when valuations are no longer attractive.

