

Seeking opportunities from Asia ex-Japan equities

BIZ INSIGHT

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ASIA EX-JAPAN equities have been under-owned since 2013, but this year will be the turning point. Fund flows beginning to favour this region again together with strong fundamentals will create opportunities for risk-appetite investors who want to diversify their exposure to this market.

There are many factors to support a robust Asian equity market. First, Asian economies have recovered and remain in a strong position. Amid the diminishing economic risks, the positive signs supporting market sentiment are higher GDP growth, low government debt to gross domestic product, improving current-account balances, and export recoveries.

With economic growth and monetary-policy support, listed companies' earnings that have been weak in recent years are expected to improve. This is reflected in many analysts' earnings revisions.

Moreover, Asian stock valuation is still more attractive than in developed markets.

It is also predicted that the East Asian market including mainland China, South Korea and Taiwan, as well as India, will improve this year.

China's equity market looks most attractive as a result of economic reforms, bottomed-out economic

growth, and improved private-sector investment. It is believed that moving forward, economic reform will drive China's GDP growth to 6 per cent this year.

Supply-side reforms in heavy industry among high-cost producers via mergers and acquisitions will help strengthen balance sheets and create better earnings in China. In addition, the country's corporations still focus on climbing up the value chain and becoming innovative drivers for the next decade. Many Chinese businesses have spread successfully around the world, such as Alibaba, one of the world's largest e-commerce platforms.

South Korea and Taiwan are cautiously optimistic as they are oriented towards exports and global GDP. Both still offer opportunities to invest in companies that are leaders in technology and cost efficiency.

In addition, South Korea probably has a high growth opportunity influenced by its 2017 Tech Super Cycle.

The launch of a new Samsung mobile phone will be a key driver for growth in the Korean information-technology sector and will create intensive competition among the leading phone manufacturers around the world such as Apple, which expects to launch the iPhone 8 this year. These will benefit the IT supply chain.

As well, South Korea is second to none in cosmetics innovation. Its cosmetics spending per capita is higher than in the United States, the United Kingdom or France. Korean cosmetics brands make huge profits worldwide.

Apart from the East Asian market, Indian equities are also attractive. Driven by supporting factors in domestic consumption and infrastructure investment, India's economy still has high long-term growth opportunities.

As a result of cancelling 1,000- and 500-rupee banknotes, the Indian government has put more money back into the system. Such measures not only boost investors' confidence, but also successfully support government infrastructure investment.

Moreover, it is expected that India will play a role in replacing China in heavy industry because of lower wages.

For those who are looking to generate returns on the growing Asia ex-Japan equity market, but may lack the time to monitor market movements, taking the initiative to seek a professionally managed Asian equity mutual fund is highly recommended.

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