



M3

SECTOR REVIEW

MONTHLY MORNING MEETING MAY 2012. PRESENTED BY iFAST CAPITAL SDN BHD ©

OCEANIA

AUSTRALIA – 4.0 STARS (VERY ATTRACTIVE)

- Westpac Consumer Confidence Index was 94.5 in Apr 12, down from 96.1 in Mar 12
- Trade deficit narrowed to AUD 480 mil in Feb 12 from revised downward AUD 971 mil in Jan 12
- Unemployment rate remained at 5.2% in Mar 12
- Home loans dropped 2.5% in Feb 12 while the figure sank 1.2% in Jan 12
- Consumer inflation expectation increased from 2.7% in Mar 12 to 3.3% in Apr 12
- The benchmark rate (RBA Cash Rate Target) unchanged at 4.25% in Apr 12

MARKET OUTLOOK

Australian Performance of Manufacturing Index (PMI) dropped from 51.3 in a month earlier to 49.5 in March 2012. A reading below 50 means a contraction on the sector. Seven out of the twelve sub-sectors declined in the month. The biggest contraction was seen in clothing and footwear which dropped drastically from the February high of around 90 to around 40 while textiles, chemicals, paper, petroleum and coal products all dropped in March. The employment sub-index increased 1.3% points to 51.3 in the month, mainly supported by the employment increases in the transportation equipment sub-sector which has been supported by the robust mining sector.

The Westpac Consumer Confidence index fell by -1.6% from 96.1 in a month earlier to reach 94.5 in March. The index has stayed below the 100-mark in seven out of the last eight months. An index reading of below 100 represents pessimists outnumber optimists. The persistent decline has surprised markets as the index is now at its lowest since August 2011 when consumers were concerned with the global economic outlook and the potential impact of European debt turbulence. It shows that the current Australian economic condition and the Reserve Bank of Australia's hint on the potential rate cut had caused a negative reaction from household. The sub-index which tracks the household's finance plunged -14.4% on a year-on-year basis and the sub-index which tracks the expectation of household finance over the next 12 months dropped by -4.1%. The confidence index, surveyed about 400 companies by National Australia Bank, rose from 1 in February to 3 in March 2012. A reading above "0" indicates improving conditions. Business sentiment remains resilient amidst the slowing global economic activities, attributing to the strong demand for resources from emerging markets.

Our estimated PE for the Australian equities, represented by S&P/ASX 200 Index, are at 12.3X and 11.2X based on estimated FY 2012 and FY 2013 (Australia's fiscal year ends in June – FY2012 ends in June 2012). We expect the earnings to grow 4.9% and 10.4% in FY 2012 and FY 2013 respectively (as at 30 April 2012). As we see a strong potential upside forecasted in 2013, we maintain Australia a "Very Attractive" rating of 4.0 stars, under the three-year horizon.