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SECTOR REVIEW

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

NORTH ASIA

SOUTH KOREA – 5.0 STARS (VERY ATTRACTIVE)

- Korean Won (KRW) depreciated against USD by 2.6% YTD as of 29 Dec 11
- The Bank of Korea (BOK) held its benchmark 7-day repo rate unchanged at 3.25% in Dec 11
- The Consumer Price Index (CPI) grew at 4.2% y-o-y in Nov 11 compared to a 3.6% increase in Oct 11
- Unemployment rate remained at 3.1% throughout Sep 11 to Nov 11
- Exports grew at 13.8% y-o-y while Imports increased by 11.3% y-o-y in Nov 11

MARKET OUTLOOK

The South Korean equity market plunged 3.4% to 1776.9 on 19 December 2011 after the death of North Korean leader Kim Jong Il was announced. It was the largest decline in five weeks, reflecting jittery market conditions given the worries about the power struggle or the rising instability on the Korean peninsula. Markets were concerned about the ability of his little-known third son to lead the nuclear-armed country. Kim Jong Un, who is just 29 years old, is probably still too young and inexperienced to handle all the country's economic, diplomatic and military affairs at the same time. In addition, he was just nominated as Kim Jong Il's successor in 2010, whereas the succession process from Kim Il Sung to Kim Jong Il started in the late 1960s. It means he may take a few more years to fully obtain the power (his father took three years to fully consolidate the power after Kim Il Sung's death).

During the transition period, there would be a power vacuum or power struggle in North Korean regime. We believe the possibility of a military coup, revolt in the ruling elite and public uprising happening in the near term is low given that Kim Jong Un has been appointed to the funeral committee head. However, investors should keep an eye on these medium-term risks.

Korean consumer confidence fell to 99 in December 2011, the lowest level in three months. A reading below 100 means pessimists outnumber optimists. The index, which represents consumers' overall economic outlook, also dropped below the threshold of 100 for the second straight month in September and rebounded to above 100 in last two month. The survey was conducted during 14 to 21 December. It shows that the European debt crisis and the death of Kim Jong Il weighed on consumer sentiment.

As at 29 December 2011, we expect earnings growth in 2012 and 2013 to increase by 1.9% and 17.6%. Our estimated PE for the market is at 9.0X and 7.7X for 2012 and 2013. As the valuations are very attractive compared with other countries, we maintain South Korea market a very attractive rating of 5 stars.