



## SECTOR REVIEW

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

### GREATER CHINA

#### TAIWAN – 5.0 STARS (VERY ATTRACTIVE)

- CPI rose 1.0% y-o-y in Nov 11, compared to a 1.2% y-o-y increase in Oct 11
- Exports grew 1.3% y-o-y in Nov 11, compared to a 11.7% y-o-y gain in Oct 11
- Imports contracted -10.4% y-o-y in Nov 11, compared to a 11.8% y-o-y gain in Oct 11
- Export orders grew 2.5% y-o-y in Nov 11, compared to a 4.4% y-o-y gain in Oct 11
- Unemployment rate (seasonally adjusted) increased to 4.3% in Nov 11
- Industrial production contracted -3.6% y-o-y in Nov 11, compared to a revised 1.0% increase in Oct 11

### MARKET OUTLOOK

Taiwan's exports orders growth, a leading indicator for exports in the next 1-3 months, has remained weak for the third consecutive month, growing only 2.54% year-on-year in November. Weakness in exports orders growth has started to reflect in exports which grew only 1.3% year-on-year in November compared with the double-digit gains seen throughout last year and most of this year. The gains in exports were also significantly lower than the 8.6% expected by markets. In particular, exports to Taiwan's main trading partners, Hong Kong, China and US all recorded year-on-year declines in the range of 2-4% but the most significant decline in exports came from Europe. As the global economy continues to slow and exports orders growth weakens further, exports can be expected to remain weak.

As a result of weakening external demand, industrial production in November contracted for the first time since 2009; it contracted 3.55%, which was more than what markets had expected. The contraction was mainly led by a drop in production of electronic components which fell over 9% year-on-year in November. Negative industrial production growth further adds to concerns of a slowing Taiwanese economy.

As Taiwan's economy is particularly susceptible to external shocks, the nervous tension coming from the global economy's weakening outlook led to weak performance of Taiwan Stock Exchange Weighted Index in December; the weighted index had dropped 3.9% (in local currency) as of 19 December 2011. The weak performance prompted the government to intervene in the markets via purchasing equities with its NT\$500 billion National Stabilisation Fund, in attempt to support equity markets. The weighted index subsequently posted the biggest one-day gain in more than two years, recording a 4.6% gain on 21 December 2011.

According to our estimates, as of 30 December 2011, the estimated PE for Taiwan's stock market (TWSE) is 12.8X and 10.2X for 2012 and 2013 respectively. Estimated earnings growth is 4.6% and 25.4% in 2012 and 2013 respectively. We maintain our **5 Star – "Very Attractive"** rating on the market.