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Asia's Stock Winners and Losers

It's been a rough start to the year. What lies ahead?

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China's stock slump has given Asian markets an inauspicious start to 2016. After a generally lackluster 2015 for Asian equities, which bourse will star in the Year of the Monkey?

Monday's slide in Chinese stocks produced the nation's worst start to a trading year on record, with trading halted after shares tumbled by more than 7 percent following poor manufacturing data. A larger-than-expected currency devaluation added to traders' fears over the health of the world's second-largest economy, with China's exchanges closed early again Thursday after again dropping by more than 7 percent.

Overall though, the past year was generally subdued for Asian equities, as capital flowed out of Asia's emerging markets ahead of the U.S. Federal Reserve's December interest rate hike.

After claiming the title of Asia's top bourse in 2014 with a 54 percent gain, China's benchmark Shanghai Stock Exchange Composite Index still edged out a 9.4 percent rise to 3,539 in 2015 despite its August shock, narrowly ahead of the Nikkei Stock Average's 9 percent gain to 19,033, its best finish since 1996. However, New Zealand claimed the mantle of the region's best performing market among those surveyed by Yahoo, with the S&P/NZX 50 Index advancing by 13.6 percent to end the year at 6,324.

"Overall share prices have been driven by the low interest rate environment more than earnings growth from companies," Grant Williamson, director at Hamilton Hindin Greene, told the *New Zealand Herald*. "Company earnings didn't show huge growth this year, and that's why share prices are not quite up there – though still very acceptable – after four very good years in a row. The market will need to see earnings growth in 2016 to see share prices perform."

While South Korea's KOSPI index posted a 2.4 percent increase to 1,961, much of the rest of the Asia-Pacific region had a year to forget, hit by tumbling commodity prices and the biggest slide in emerging market currencies since 1997.

The benchmark S&P/ASX200 index of Australian stocks dropped by 2.1 percent, hit by a slide in resource and bank shares, while Malaysian stocks fell by nearly 4 percent, Indian stocks by 5 percent and Hong Kong stocks by 7.2 percent. The biggest declines though were posted by stocks in Taiwan (down 10.4 percent), Jakarta (minus 12.1 percent) and Singapore (down 14.3 percent).

Among individual stocks, according to the *Nikkei Asian Review* the biggest loser among Asia300 companies was Thailand's Total Access Communication, which plunged by nearly 68 percent, while Indonesian miner Aneka Tambang Persero dropped by 66 percent and Philippines casino operator Bloomberry Resorts dived by 66 percent in the year to December 25.

The biggest winners were South Korean pharmaceutical company Hanmi Science, which advanced by 709 percent, followed by Chinese internet service provider Leshi, up nearly 300 percent, and Malaysian medical products maker Top Glove, gaining 202 percent.

Analysts polled by the Japanese financial daily suggested companies driven by domestic demand could be among the winners in 2016, including Chinese property developer Dalian Wanda Commercial Properties, Philippines real

estate company Ayala Corp. and Vietnam Dairy Products.

2016 Stars

Yet with past performance no guarantor of future results, which Asian bourses are set to shine in 2016?

According to Nikko Asset Management, equities in Europe and Japan should outperform over the next six months, while U.S. stocks could underperform as markets adjust to tighter monetary policy.

Japanese stocks are predicted to benefit from progress toward implementation of the Trans-Pacific Partnership (TPP), along with improving corporate earnings, while the Bank of Japan could ease policy further should the Japanese yen strengthen to around 110 to 115 against the U.S. dollar.

"We believe Abenomics is working well, especially for corporations, with third quarter pretax profit margins soaring to historical highs for both manufacturing and non-manufacturing sectors," John F. Vail, chief global strategist and head of Nikko's Global Investment Committee, said in a December 15 statement. "It is, thus, working very well for equity investors too, and should continue to do so, in our view."

The Tokyo-based asset manager expects the TOPIX index to advance by 7.5 percent in yen terms in the half-year period to June 2016, with U.S. equities gaining 3 percent in dollar terms and eurozone stocks enjoying a 15 percent climb in local currency terms.

Recent mixed performance has left Asian stocks appearing relatively cheap however compared to previous years. *Bloomberg News* has noted Japanese stocks' estimated price-earnings ratio (PER) stood at 18.6 times on Monday compared to its five-year average of 35.4, with Taiwan at 13.3 times versus 18.6 times, India at 17.8 times against 19.3 and Australia's bourse at 16.2 times versus 18.2.

However, Chinese stocks appeared slightly overvalued, with China's market PER at 14.7 times compared to its five-year average of 13.3 and Hong Kong's 11.1 times versus 10.5.

According to the financial newswire, Japan's TOPIX is expected to end 2016 at 1,800 and the Nikkei at 22,500, while Hong Kong's Hang Seng Index could reach 23,588.

Nevertheless, the easy gains for Japanese exporters could be harder to find in 2016. Japanese companies enjoyed an estimated 10 trillion yen ($82.3 billion) windfall gain in fiscal 2015 from a weak yen and cheap oil according to Mizuho Research Institute, a windfall that is unlikely to be repeated.

"The weak yen that is bolstering growth in corporate pretax profits by 4 points in fiscal 2015 will only add a point in fiscal 2016," Kenji Abe of Merrill Lynch Japan Securities told the *Nikkei Asian Review*.

However, Goldman Sachs' Kathy Matsui still expects the Nikkei to reach 22,700 by year-end amid improved corporate performance, while WisdomTree Investments' Jesper Koll suggests another election victory for Japanese Prime Minister Shinzo Abe could also boost markets.

Meanwhile, delays to China's planned capital market reforms, including changes to initial public offerings and the launch of the Shenzhen-Hong Kong Connect program, may dampen gains for Chinese stocks in 2016.

"Without bold reforms, the [Chinese] economy will slow further, capital flight will intensify and the yuan will weaken more, which will erode confidence further," Chaoping Zhu, economist at Singapore-based brokerage UOB-Kay Hian Holdings, told the *Wall Street Journal*.

Yet *Barron's Asia* writer Wayne Arnold disagrees, suggesting that Chinese stocks will be "the best of a bad bunch" in the region in 2016, helped by government moves to prop up equities ahead of a reshuffle of the Standing Committee of China's Politburo in late 2017.

AMP Capital's Shane Oliver says key factors for investors in 2016 are the pace of increase in U.S. interest rates, whether China avoids a "hard landing," and also the risk of major geopolitical flare-ups, including in the South China Sea. For Australia, the economist expects the ASX200 index to reach 5,700 by the end of 2016, while Morningstar analyst Peter Warnes expects a slightly higher level of 5,800.

For Asian investors though, a different type of diversification could be the key to success in 2016, amid the Fed's

tightening, China's slowdown and the prospect of continued sluggish global growth.

Glenn Rushton, executive director of Rushton Financial Services, the investment manager for the Rushton Global Market Neutral Fund, suggests diversification into investments lowly correlated with global share markets could prove crucial due to the high level of market volatility and scramble by investors for higher returns.

"Since the global financial crisis, we've seen a heightened level of risk aversion, with some commentators suggesting we shouldn't even think of double-digit returns anymore. This is quite concerning, particularly for those investors approaching retirement – and this is where strategies such as market neutral can add tremendous value to an investment portfolio, as they can perform equally well in rising and falling markets, are lowly correlated to the returns from shares and can actually benefit from increased volatility." he said.

According to a *Reuters* survey of more than 300 equity analysts and fund managers, developed economy stocks are predicted to outperform emerging markets in 2016, led by gains in European shares, although both China and India are expected to move higher.

After a disappointing start to 2016, Asian investors can only hope for better times ahead in the Year of the Monkey. On behalf of *Pacific Money*, happy investing!