Herald INTERNATIONAL Tribune

THE MONEY REPORT

SATURDAY-SUNDAY
JULY 3-4, 1999
PAGE 15

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It's Cool to Be Hot: Stock Pickers Find This to Be a Pacific Season

DESPITE THE run-ups in the Pacific region, Scobie Ward, manager of the LG Asian Smaller Companies Fund in Hong Kong (marketed by Eaton Vance in the United States), said there was still plenty to buy. In the year to date, his fund is up by 35 percent, after having outperformed the index for a number of years.

"We see the preconditions really being very ripe for a major reallocation of capital toward the region, and therefore remain positively disposed to the entire region," Mr Ward said. "We're really at the beginning stage of a very strong improvement in return on equity. The region's price-to-book value is very low in a global context."

That does not make for big rises in stock prices for the short term, except for one big market not included in the Morgan Stanley Index: India, the biggest market not to participate in the "violent rallies" in the last quarter of last year.

"To hit an investment home run, we get a green light reading on valuation, growth, prospects and liquidity conditions in India in particular." he said.

The problem many investors have had with India is that it is facing its third general election in as many years. Yet a little history shows that India's market tends to come back sharply once a new election is behind it, no matter how shaky the coalition government that results.

Mr. Ward is shying away from India's star software stocks. He said better growth prospects were in sight for cement, engineering and automotive companies. His favorites include India's largest truck maker, **Tata Engineering & Locomotive Co**. Its earnings fell 99 percent in the last financial year excluding one-time gains, but truck sales in May rose 26% from a year earlier.

Another of Mr. Ward's picks is **Larsen & Toubro Ltd**., a cement, machinery and construction conglomerate trading at just 15 times expected earnings.

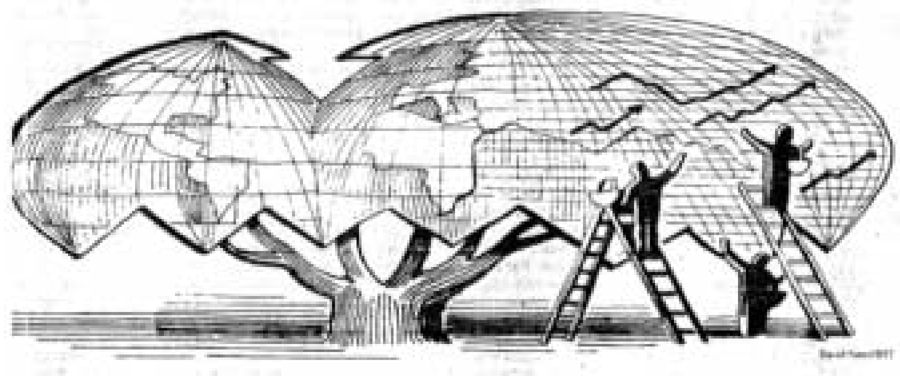
"Some of India's cheapest big stocks are in India", said Hugh Young, a fund manager in Singapore for Aberdeen Asset Management. A particular favorite is **Mahanagar Telephone Nigam Ltd**., which provides local phone services in Bombay and Delhi.

The good news is that MTNL has been trading at nearly nine times expected earnings, making the stock extremely cheap, compared with other phone companies around the world. The bad news, and the reason it is so cheap, is that the majority shareholder is the national government.

"There are a lot of businesses like this in India that are suffering under the dead weight of government involvement," Mr. Young commented. In a swiftly evolving industry like telecommunications, "the danger is that the market frees up and they don't change their work practices," he said of MTNL.

But much, if not all, of that danger is priced into the stock, he reasoned, so little can happen to push its price down appreciably; on the contrary, much can happen to push it up.

"The government in liberalizing slowly," he said. "If it's ever allowed to be properly run, the company could make a lot of money."



It is summer for many Money Report readers, what better time for hot tips from some of our favorite analysts and portfolio managers?

Many of them find value in Asia, especially if an investor is a little bit patient after sharp rises all across the region's markets this year.

Morgan Stanley Capital International's Asia Free japan Index, the most common benchmark in the area, was up 45 percent between the new year and June 23, easily outpacing the still bullish markets in the United States.

Within this Asian performance were some truly fabulous numbers, with Jakarta's index up 109 percent and Seoul's up 63.5 percent in U.S. Dollar terms.

Even relative laggards in Asia did superbly: one of the worst performing markets in the region so far this year has been the Philippines, up 29 percent in dollar terms, 1o percentage points better than the performance for the Dow Jones industrial average.

Jon Thorn's top recommendation is also in India, but he manages the Indian Smaller Companies Fund, so it should be. He likes a business called Marico Industries Ltd., which he described as "the leading coconut-hair products company in India."

Marico is trading at 20 times its earnings per share, a very modest price for a company that Mr Thorn noted has a return on equity of 35% and earnings growth of about 40%.

He pointed to a vital aspect of Marico's target market that is helping it to achieve those numbers: "Indian women have beautiful, long, sleek black tresses. Their main beauty aid in achieving that look is Marico's Parachaut coconut oil."

The key to the company's success, he said, lies in getting care to the hair.

"The main story with Marico has always been the distribution," he explained. "It reaches more retailers than any comparable company, and it is now starting to leverage that distribution network."

Noting that Marico was starting to sell some brands made by the multinational consumer-goods company Proctor & Gamble Co., he added: "This is crucial, as it is a tacit admission that Marico's distribution is better that P&G's and shows that that network can be leveraged still further. The beauty of leveraging that existing network is that it requires no further capital investment."

Mr. Thorn said he expected the share to grow by 25 percent a year, or "more in a good year, of which I think there will be many for Marico."

Ang Lay Pheng at Goldman Sachs in Singapore steered readers correctly when she recommended **Singapore Press Holdings Ltd**. Last year. It rose sharply, but says Ms. Ang still says it is a buy. Now, shareholders are looking at the company's possibilities as an internet stock.

Goldman's other top picks in Singapore include **Development Bank of Singapore Ltd**., which is expected to benefit from Singapore's financial-sector liberalization. The bank is well managed, according to Goldman, but there is an additional technical factor at work. The Singapore financial sector's weighting in the Morgan Stanley index is to rise because of the government's announcement in May that it would lift the restrictions on foreign shareholdings in Singaporean banks. That means that passive investment funds will have to buy in.

Another consistently good stock picker is Alfred Ho, manager of Invesco's Premier Select Asian Enterprise Fund. In the year to May 31, the fund was up 43.3 percent against 42 percent for the index. It has outperformed the index for the past five years, and has done so in every calendar year except 1995.

Among Mr. Ho's largest holdings at the end of May was **Overseas Chinese Banking Corp**. of Singapore at 4.6 percent of his fund. In Hong Kong, a consistently steady fund always in the top one or two in its sector since 1996 has been the **Indocam Hong Kong A Fund**, managed by a variety of people over the past few years.

The current manager, Terrence Khoo, likes a Singapore-listed stock that is really an investment in Hong Kong, since that is where most of its assets are: **Pacific Century Regional Development Ltd**., the public investment vehicle of Richard Li.

Mr. Li's father is Li Ka-shing, the Hong Kong tycoon who is among the world's richest men. That relationship probably helped the younger Mr Li win a juicy contract (awarded without tender) to develop Hong Kong's cyberport.

Whatever the truth, it is Pacific Century's future technology projects, along with an imminent initial public offering of its Hong Kong insurance business, that have made the stock popular. It currently trades at 2,435 (yes, 2,435) times earnings, having reported per-share income in 1998 of one-third of a Singapore cent.

While acknowledging the advances being made by Singapore's banks, Mr Khoo (who after all manages a Hong Kong fund) said that "five or 10 years from now, Singapore banks will pale in comparison to progress in the small and medium capitalization banks in Hong Kong." His favorite is Dao Heng Bank Group Ltd., which he finds "interesting as they tend to benchmark themselves to similar American banks."

Dao Heng was the first Hong Kong bank this year to write off all its unsecured lending to the now bankrupt Chinese state financial institution, Guangdong International Trust & Investment Corp. Dao Heng was founded by a Hong Kong family, but is now controlled by the Hong Leong Group of Malaysian tycoon Quek Leng Chang and his Singapore cousin, Kwek Leng Beng.

William Gallagher at Schroders Japan Ltd., endorsed Central Japan Railway Co. last year before it rose by 14.7 percent. The stock is fully valued now, he said, but he had another pick: **Rengo Co**., an Osaka based maker of packaging materials that he describes as "one of the cheapest paper stocks in the world"., despite having doubled in price since he recommended it in April. Rengo is trading at 666 yen ($5.50), about 23 times expected earnings. This has been a hot season for telecommunications stocks, so it will be no surprise that Oscar Castro's May 15 picks for the Money