



STAR RATINGS REVIEW

MONTHLY MORNING MEETING APRIL 2009. PRESENTED BY iFAST FINANCIAL INDIA PVT LTD ©

EUROPE (3.0 STARS – ATTRACTIVE)

- 1) The estimated PE of the Europe equity market as at 31 March 2009 stands at 12.3X and 10.6X for 2009 and 2010 respectively. These valuations are relatively more attractive as compared to the historical range of 14.6X to 17.5X between 2003 and 2007.
- 2) Earnings growth for 2009 is expected to reach a low -23% as profits shrink on slower demand. Due to the negative earnings growth in 2009, we downgrade Europe from 4 stars to 3 stars. However, a rebound in earnings is expected to take place in 2010, with a stronger estimated earnings growth of 15.8% in 2010.
- 3) The German economy contracted in the fourth quarter of 2008, shrinking 2.1% from the previous quarter, the biggest dip since 1987 and the third straight quarter of decline. 2008 GDP growth stood at -1.8% primarily due to a fall in exports and investments. Exports fell for a fourth month in January, declining 4.4% month-on-month.
- 4) Industrial production has been falling at an accelerating pace in Germany, declining 7.5% month-on-month after a 3.9% fall in January. Unemployment rose to 7.9% in February, increasing by 0.1% from the previous month. The pace of job cuts has been increasing significantly in previous months.
- 5) The French economy contracted the most in at least 30 years in the last quarter of 2008 as companies slashed investments and cut jobs. GDP declined 1.2% from the third quarter, which saw the economy growing at 0.1%.
- 6) France's Industrial production fell 3.1% month-on-month in January as compared to a 0.1% gain in December. The INSEE Business Climate Index which measures business confidence in France fell to 68 in February and March, the lowest level reached since inception in ?
- 7) The UK economy shrank more than expected in the fourth quarter of 2008, falling 1.6% from the third quarter when the economy contracted 0.7%. The largest contraction since 1980 was primarily attributable to a sharp fall in consumer spending and construction. Unemployment rose to 6.5% in the three months to January, breaching the 2 million mark. This trend will most likely sustain in the coming months as companies brace for the recession by cutting jobs.
- 8) On a brighter note, mortgage approvals in the UK increased from 32,000 in January to 38,000 in February as the Bank of England lowered interest rates to 0.5%, an indication that the housing slump may be hitting a bottom.
- 9) The European Central Bank (ECB) cut interest rates by 50 basis points to 1.5%, the lowest since the formation of the EMU. Since October 2008, the rate has been cut by a total of 275 basis points. The severe slowdown in the economy of the Eurozone, indicated by the fourth quarter -1.5% quarter-on-quarter contraction and easing inflation will most likely allow more room for rate cuts to spur growth.
- 10) Aside from cutting rates by 50 basis points to 0.5% in March, Bank of England's Monetary Policy Committee has announced a measure, known as quantitative easing, to purchase GBP75 billion worth of assets from troubled banks, using up half of the authorised amount to purchase private sector assets.
- 11) Given the strong interdependence among European economies and the potential sovereign debt defaults in Emerging Europe as the economies deteriorate, the recovery may take a relatively longer period. We thus downgrade Europe from 4.0 stars to 3.0 stars.