



# M<sup>3</sup> STAR RATINGS REVIEW

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

## EMERGING MARKETS (5.0 STARS – VERY ATTRACTIVE)

- 1) The valuation for Emerging Markets is 7.9X and 7.8X for 2008 and 2009 (as at end March 2009). Earnings are expected to decline 11.2% in 2009 and only recover by 27% in 2010.
- 2) The view that we have on Emerging Markets is very much affected by Asia ex-Japan because this region takes up about 50% of the index. However, as Asia ex-Japan markets are suffering from a steeper decline in earnings (the denominator in the calculation for PE) than Emerging Markets, the estimated PE levels are higher at 11.2X and 8.2X respectively for 2008 and 2009.
- 3) Within Emerging Markets, Hungary and Russia are expected to have the steepest decline in earnings of 17.4% and 32.3% respectively for 2009. Mexico is still expected to have high earnings growth of 26.1% in 2009.
- 4) In contrast to the other commodity driven economies, Brazil is more resilient. The economy grew 5.7% in 2007 and 5.1% in 2008, largely propelled by private consumption and investments. Economic growth is expected to be from 0.8% to 1.2% for 2009 as Brazil is not immune from the global economic slowdown. The silver lining would be that exports only accounted for 12.3% of Brazilian GDP; the economy is driven by domestic rather than international factors.
- 5) One point to note on Brazil is that its sovereign credit rating was upgraded to investment grade (BBB-) by S&P in April 2008 and Fitch in May 2008. The upgrades in credit rating would make Brazil government bonds more marketable especially for international fund managers that have a mandate to only invest in government bonds that are investment grade.
- 6) For Russia, according to the Economist Intelligence Unit (EIU), real GDP growth is forecast to contract by 2% in 2009 after growing 5.6% in 2008. Declines in external demands, lower commodity prices and restricted access to external financing are some of the reasons that Russia may go through a negative economic growth in 2009. Inflation in Russia is still high; it peaked at 15.1% in mid-2008 and eased to 13.3% in December, there should be further easing in 2009.
- 7) In contrast to the world GDP growth of -1% to -0.5% in 2009, emerging market economies are expected to still see an increase in real gross domestic product of 1.5% to 2.5% in 2009, according to World Economic Outlook database, March 2009. From the same database, emerging and developing economies are expected to experience a recovery of 3.5% to 4.5%.
- 8) Emerging markets including Russia, Hungary, Poland and Brazil fell more than most of the Asian markets in 2008. These markets fell 72.4%, 55.8%, 51.1% and 40.3% in local currency terms. And hence, as a whole emerging market's estimated PE is more attractive than that of the Asia ex-Japan markets. Another factor would be that there seems to be steeper declines in estimated earnings growth of country markets such as Taiwan and Korea.
- 9) We like Emerging Markets for its long term growth potential. Economies such as Brazil and Russia can potentially recover faster than the rest of the emerging market peers, because of their skew towards producing and exporting commodities. We have given this market a 5 stars or 'very attractive' rating.