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STAR RATINGS REVIEW

MONTHLY MORNING MEETING JUL 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

TAIWAN (4.0 STARS – VERY ATTRACTIVE)

1. Our estimated PE for Taiwan equity represented by Taiwan weighted index is 13.7X for 2010 and 12.4X for 2011 as of 28 June 2010.
2. Earnings growth is expected to increase sharply in 2010 due to recovery expectation. Estimated earnings growth is expected to be 82.4% and 10.3% for 2010 and 2011 while the annualized earnings growth during 2010 - 2011 is expected to be 42%.
3. The economy expanded by 13.27% y-o-y in the first quarter, compared to 9.06% in the fourth quarter last year, exceeding most expectations and confirming that the island's economy experienced a V-shaped recovery. This is the fastest pace in more than 30 years.
4. IMF forecasts Taiwan's economy to expand by 6.5% in 2010 and we also expect the government to revise up the current forecast of 4.72% following the improving outlook.
5. Exports and manufacturing data have shown a strong double-digit growth in the first half of 2010, thanks to the China-led recovery and the low-base effect. However, we expect the growth to fall back to the normal trend in the subsequent months because of China's tightening policy.
6. The Economic Cooperation Framework Agreement (ECFA) was signed on 29 June 2010. This free trade agreement is expected to benefit Taiwan exporters by saving NT\$26.1 billion in customs duty.
7. The European debt woes caused April's export orders (a leading indicator of exports) from Europe to decline by 11% compared to a month ago although the demand from China remains strong.
8. In spite of the potential slowdown of the European demand, the Central Bank unexpectedly raised the benchmark interest rate by 12.5bps to 1.375%, the first rate hike since October 2004. We think the officials are much more confident about the strength of the global recovery and also the recovery of the domestic demand.
9. The market expects the interest rate to reach 1.5% by end of 2010.
10. The earnings growth of Taiwan is the largest in Asia ex Japan region. In this regard, we maintain the Taiwan market as 4 stars – very attractive, under the three-year horizon.