TRANSCRIPT

Asia: Buoyed by positive dividend trends and resilience to global shocks

Speaker Key:

OS   Onscreen questions
SD   Sat Duhra

OSQ   How has Asia fared relative to other emerging markets?

SD   The major emerging-market issue that's really outside of Asia, so where we've seen issues in Turkey and Argentina for example, they have been quite isolated. Whereas, within Asia itself, valuations and earnings trends are very strong. We think that the performance of Asia will really de-couple from the rest of the emerging markets as time continues.

The second point is that we think that the macro data coming out of Asia, in particular, is very strong. So, currencies outside of Indonesia, Philippines, and India have held up quite well, and we think that the strength of the US dollar will be quite limited from this point onwards. A deteriorating fiscal position, for example in the US, would limit that upside. And that, generally, will be positive for emerging markets and certainly for Asia within that.

OS   Where are the opportunities and risks in Asia?

SD   Within Asia there has been some exceptional performance by sector. Energy, materials, and financials have been very strong performers, in particular, for our strategy. So, we think that those sectors will continue to do well, to have good valuation support. They've been paying out dividends way above our expectations and the earnings trends continues to be positive.

Growth sectors such as technology and high-growth areas have really been out of fashion and operating trends there have been much weaker. We think results are still not going to be very good this year. And that's an area that we avoided last year and this year and that will stand, and has stood, the firm in good stead for the rest of this year.

OS   Current dividend trends.

SD   We've seen in Asia that companies have been increasing their dividends at a very fast pace. So, the level of positive dividend surprises has really increased, certainly over the last two to three years. The sectors that have been big beneficiaries of this have been, for example, domestic-energy companies in China, in Thailand, in Taiwan material companies, and also financials. So, as the capital positions for financials have become clearer, they've been more inclined to pay out the excess capital.

So, I think this trend will continue. There's still a lot of cash on balance sheets in Asia. The operating cash-flow metrics are very positive, and valuations still look very good for these sectors, in particular. So, that dividend surprise is leading to big capital appreciation on these names.

So, energy companies, for example, have performed exceptionally well, not just because the oil price is increasing, but because certain sectors within that, for example refining, for example petrochemicals, polyester and so on, have real capacity constraints and supply is very tight. So, that means that they're performing very well, regardless of underlying commodity prices.

And we think that will continue. And as their operating cash flow increases, they've been paying out more dividends, and that's led to a share price rerating. And that continues even today.

OS What are your views on the US/China trade war?

SD So, in terms of the trade war, we think the first thing to say is that this is very much more of an economic war rather than a trade war. And what that means is that this is something that will not find resolution in the very short term.

The aim of the US right now is to clamp down on China's economic rise. And that includes things such as intellectual property, which they feel has been unfairly acquired by China, issues such as forced technology transfer, when there's been JVs with US companies. And this Made in China 2025 plan, which is very much about China investing in what will be the high tech and leading industries of tomorrow, so AI, robotics, genetics, healthcare, semiconductors, and so on.

And we think that the US is very concerned that if China succeeds in investing in these kind of industries, and succeeds in the kind of economic strength it is building today, then this will be really at the detriment of US corporates. So, the solution will very much encompass trade tariffs, firstly, but mainly all of these issues around intellectual property. And also, at the margin, maybe some kind of solution around North Korea.

So, this will be an ongoing process. But what we feel that could happen, before the midterm elections in November, is that something tangible may come out of this because, frankly, the US need to show something tangible from these negotiations and will push a bit more and more until that time comes.

OS How will a US/China trade war impact Asia?

SD So, we think the biggest impact from a trade war will really be on technology companies, on supply chain for some of these technology companies, and on exporters. And these are areas that traditionally we have not invested in the fund, mainly because of valuation, but we've also seen the operating trends declining in many of these sectors.

So, we have favoured more domestic cyclicals, and in China that's very much about capturing these really true-growth stories, underlying bottom-up stories which are about, for example, sports brands, domestic sport brands. We're talking about domestic energy companies. And, these companies are actually performing very well, despite the impact of this trade war.

So, the operation metrics are very strong, the dividends coming out of these companies are very surprisingly positive, and we think that that trend will continue. So, the impact on these companies is very limited, and I think, as a strategy that focuses on value and income, that we are very well-placed to capture the upside from these domestic stories, within Asia, and certainly within China.

Asia: Buoyed by positive dividend trends and resilience to global shocks (cont'd)

Janus Henderson
INVESTORS