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BLACKFRIARS ASSET MANAGEMENT

DEVELOPING MARKETS INSIGHT

5th February 2018

Market review

January continued the strong upward trend, with indeed an acceleration. The benchmark surged 8.3%, with 17 out of 23 trading days being positive. Of the 24 country constituents, only two did not keep up with the pace. This is the best start to a year since 2012.

Latin America was the winning region, jumping 13.2%, led by Brazil's impressive 16.8% ascent. The market enjoyed the renewed conviction (on appeal) of former President Lula for corruption. He is the front-runner in the polls for October's election, and this should reduce the likelihood of his candidacy. All the other markets were positive, with currency appreciations helping.

Asia was also buoyant, improving 8%, and in keeping with recent trends, it was China providing the power, with an accretion of 12.5%. The market has risen for 13 consecutive months, and more than doubled from its early 2016 level. The renminbi gained 3.4%, the largest monthly move in its history. The reported Q417 GDP growth of 6.8% was ahead of forecasts. All other markets improved, with the exception of The Philippines, which slipped 1.3%, on weakness in the banks.

EMEA also joined in the party, advancing 6.1%. Russia was the star market, leaping 12.6%, helped by crude oil's 3.3% improvement, during the month Brent blend traded above $70 for the first time since 2014. In addition the new possible American sanctions against oligarchs were not as extreme as feared. Again all other markets joined in the prolonged rally, except Egypt, which lost 1.1%.

In January Financials was the best sector, up 12.6%. Consumer Staples was up 2.6%.

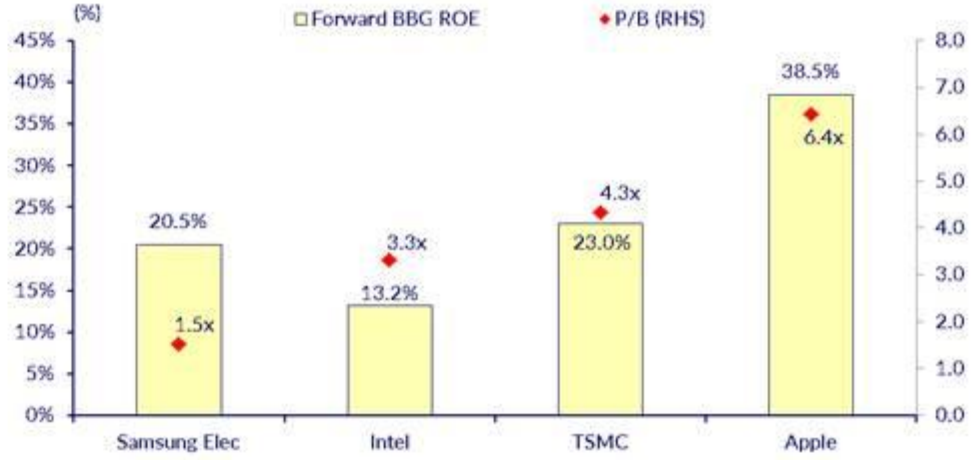
Corporate Governance in South Korea

Interesting moves were announced at the end of the month by Samsung Electronics. The dividend for 4Q17 was 50% higher than consensus expectations increasing the payout ratio to 14% (1.7% yield). In addition, the company will conduct a 50:1 stock split at the end of April. The stock price is currently over US$2,300 and the split will reduce it to a more manageable level of just over $45.

The combination of dividend per share surprise, stock split, and the shareholder return measures announced earlier this year (cancellation of treasury shares, on-going buybacks, guaranteed dividends for next three years) makes 2017 a major inflection point for Samsung's capital management and shareholder return policies.

Samsung's behaviour increasingly resembles that of other global tech giants with higher dividends, buybacks, stock splits, etc. but, comparing the price-to-book ratio (P/B) with forward return on equity (ROE), (See graph overleaf). Samsung still looks very attractive. We remain happy holders of the stock.

Forward-looking Return on Equity and Price/Book Ratios



Source: Bloomberg, CLSA

Poor capital management and shareholder return policies are often cited as one of the key reasons that the Korean market trades at a discount to its regional peers. If Samsung's positive moves in this area are rewarded by a higher rating, then we may see other businesses there begin to follow suit.

Market Price Earnings Ratios