



Seeking a different angle: Baring Asset Management's Do.

Discovering Asia

Khiem Do doesn't care much about big names. He digs down to find little-known stocks all over Asia | **BY SUSAN KITCHENS**

FOR INVESTORS SEEKING PORTFOLIO diversification, it's tough to ignore Asia. But figuring out where to invest in the region can be daunting. China is hot, Japan is cold, and the rest of Asia looks just plain volatile: Political unrest, nuclear threats and sometimes-violent protests don't make for stable markets. Not to mention that countries in the region range in size from miniature Singapore to vast and unwieldy China and in economic development from rich Japan to poor Laos, making it tough to get a han-

dle on the economic picture.

But if you know where to look, and can stomach the ups and downs, there are plenty of opportunities to make money in the region. So says Khiem Do, who has spent the past 21 years digging through information on thousands of Asia's publicly listed companies to find overlooked growth stocks. Do, 51, runs portfolios out of the Hong Kong office of Baring Asset Management, now part of MassMutual. One of them is the \$173 million Asia Pacific Fund (ex-Japan), an SEC-registered closed-end

whose annualized 11% return for the past five years outpaces its benchmark MSCI AC Far East ex-Japan Index by 9 percentage points.

Though most investors suffered during the Asian financial crisis of 1997-98, Do says Asia has come out of it and "never looked back." China and India lead a regional boom, and financial-markets deregulation has made Asian companies start to do business in ways Western investors understand (mostly). Banks, particularly in South Korea, have, with a few exceptions, begun assessing credit risk instead of making loans because a government official or sister company told them to, and conglomerates are learning that the bottom line, not the top one, drives their stock price.

And, perhaps as a result of the crisis, stock analysts still cast a more pessimistic eye on Asia's companies than they do on those in Europe and North America. Do says earnings per share

growth for the U.S. this year is forecast to be 10%-plus. For Asia the experts are predicting minus 1%. So be it. That makes for bargains. Share prices can pop when "growth surprises" occur. Earlier this year clothing retailer Esprit (one of Do's holdings) announced 70% EPS growth for its first half, not the 30% analysts expected. Its shares rose 18%. On average, companies in the MSCI AC Far-East ex-Japan Index trade at 15 times trailing earnings versus the 19 times multiple for S&P 500 companies.

Not that Do seeks average companies. He prefers to venture where others fear to tread, typically avoiding blue chips and often investing in countries that are off the beaten path for most U.S. investors, such as Malaysia and the Philippines. His investment philosophy is to search for a blend of growth and value: He is not rigid about sectors, provided that his picks offer prospects for 15% to 20% growth a year for the next two or three years. And he likes stocks that are not well covered. He says, "They tend to offer new and interesting angles."

One company that fits his bill is Weichai Power, a Chinese manufacturer of engines, mostly for trucks, but also for bulldozers and the like. China's booming businesses are switching their freight from the country's rickety railroads to the new network of highways under construction. Weichai Power has 50% of the market for heavy-truck engines and 45% for construction-machinery engines. It trades on the Hong Kong exchange for 10 times trailing earnings.

Esprit might fail Do's obscurity test, but he likes its growth prospects. In the past five years the Hong Kong-headquartered retailer has been relaunched as a global brand, with profitable businesses in the U.K. and the Netherlands and growing ones in Germany, Italy and the U.S. Do credits new management for providing the company's 15- to 35-year-old customers with the stylish but reasonably priced clothes they want. He says management watches costs carefully, which let the company expand its operating margin by 3 points in the previous year. He has held the stock for five years

and will continue to do so as Esprit has consistently exceeded earnings expectations. Esprit trades at 25 times trailing earnings.

He also likes S-Oil, a South Korean oil refinery company 35% owned by Saudi Aramco. Thanks to Chinese demand, refineries in Asia are running flat out. That leaves S-Oil, which refines mostly its captive source of Saudi crude, collecting a handsome spread. The shares trade at nine times trailing earnings in Seoul.

Do holds Ayala Corp. and Ayala Land, part of a politically well-connected conglomerate with interests in mobile

which earlier this year began negotiating a controversial agreement to build a \$180 million production and sales operation in Yangzhou, China. But Do likes the company for its real estate, which he reckons is undervalued on the balance sheet. The stock trades at 85% of its book value.

Do has started buying Maybank, Malaysia's largest banking group, with \$47 billion in assets. Though the group has aspirations of being a regional financier, Do sees it more as a way to invest in Malaysia's rising wealth (the economy grew at 7% in 2004) and commercial loan volume; its 5% dividend

A Road Less Traveled

These Asian companies all pass Do's low-profile, high-value tests and can be bought by U.S. investors via ADRs.

COMPANY/BUSINESS	PRICE		P/E	MARKET VALUE (\$BIL)	HEADQUARTERS
	RECENT	52-WEEK HIGH			
AU OPTRONICS/electronics	\$17.74	\$23.39	17	8.2	Taiwan
CHINA NETCOM GROUP/telecom	27.62	31.58	9	9.2	Hong Kong
HONG KONG & CHINA GAS/utility	2.07	2.13	30	11.7	Hong Kong
KOOKMIN BANK/banking	43.17	49.00	24	13.0	South Korea
SHIN CORP/telecom	3.92	4.93	12	2.9	Thailand
SILICONWARE PRECISION/electronics	4.53	5.45	17	1.9	Taiwan
SWIRE PACIFIC/beverages	8.40	8.56	15	7.7	Hong Kong
TECHTRONIC INDS/power tools	11.06	11.96	25	3.0	Hong Kong

Figures in U.S. dollars. Prices as of May 9. All shares traded in U.S. as American Depositary Receipts. Source: Worldscope via FactSet Research Systems.

phone service, banking and real estate. He says Ayala Land is a good way for investors to bet on the Philippine economy, on which he has grown more bullish in recent months. The property market is recovering from the damage inflicted by the Asian crisis, and tax reform is starting to get the government's finances back in shape. When Do first bought the stock less than a year ago, it traded at a 40% discount to its net asset value; now it trades at a 30% discount. But the market for the two Ayala companies, like most Philippine stocks, is thin, so Do dips in and out on the price swings to take profits as he can.

In Taiwan, Do owns unglamorous and 24%-state-owned Taiwan Fertilizer,

yield doesn't hurt, either. It trades at 16 times trailing earnings.

With some exceptions Maybank is about as big a company as Do will buy into. Asia's biggest companies are often too well-known to investors for his liking. "The positions that we love a lot are those that not too many other investors have heard of. That's the way we like it."

Do's fund trades on the New York Stock Exchange at a 12% discount to its net asset value. The bargain element in the discount is largely offset by the somewhat steep 1.9% annual expense ratio of the fund. Go-it-alone investors can cherry-pick many of his individual holdings, as they have American Depositary Receipts. **F**