

# Classical Insights -- Emerging Markets

Global Investment Analysis Based on the Classical Economic Model

EM portfolio update: Stocks on the move ... P/Es can keep expanding

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**Emerging markets have been soaring over the past three weeks -- and in principle there is more to go.** Many stocks still trade at 4x 2010 earnings and they can rise to 6.5x based solely on easing of systemic risk and early signs of economic stabilization.

**Four countries are particularly attractive here: Brazil, Turkey, Indonesia and India.** Most other EMs are problematic in some way. They lack a critical mass of names (Eastern Europe and most of Latin America), the language barriers are a challenge (Korea), the stocks aren't particularly cheap (Mexico, Malaysia), rule of law is an issue (Russia) or there's not enough liquidity (Sri Lanka, Vietnam). In contrast, Brazil, Turkey, Indonesia and India have low valuations, strong banks, plenty of stocks to choose from and generally good economic prospects.

**If stocks continue to rally, the ideal strategy will be to gradually move out on the obscurity curve.** "Cheap & obvious" names usually move first, followed by the less cheap or less obvious, followed by the obscure. One can already see this dynamic at work with the Brazilian homebuilders: MRV (cheap and obvious) is up 110% over the past month. Tecnisa (cheap but less obvious) is up 50% and Camargo Correa (obscure) is up 10%. We're going to partially switch out of MRV and into Tecnisa. Camargo is under a bit of a cloud at present: four executives were recently arrested for allegedly overcharging customers. There are a dozen homebuilders in Brazil, though, so others can be substituted. Trades planned for the portfolio are:

## Portfolio Rebalancing Trades (all data are in US\$)

	\$ Price	Shares	Total US\$		Notes
<b>Buys</b>				<b>Tgt (US\$)</b>	
Tecnisa SA (TCSA3 BS)	1.86	6000	\$11,166	5.10	2.4x our '10 EPS. Mid-priced homes selling well.
Petrolifera (PDP CN)	1.30	8000	\$10,400		Huge Peru & Colombia prospects. Arg wells justify EV.
WesternZagros (WZR CN)	0.59	16000	\$9,440		Huge Kurdistan prospects (billion bbls). EV is near zero.
Vestel Beyaz (VESBE TI)	0.75	10000	\$7,524	1.55	Trades at 4x our '10. Sells \$700 million in appliances.
Banco Pine (PINE4 BS)	2.84	3000	\$8,510		Trades at 0.65x book and 5x earnings.
Kardemir Karabuk (KDRMD TI)	0.35	17000	\$6,019		Among world's lowest-cost steel producers.
		<b>total buys</b>	<b>\$53,058</b>		
<b>Sells</b>				<b>% selling</b>	
Bagfas Bandirma (BAGFS TI)	47.42	340	\$16,123	100%	Hard to analyze. Other things are cheaper.
MRV Engenharia (MRVE3 BS)	8.33	1300	\$10,827	50%	Tecnisa is probably cheaper here.
Medco Energi (MEDC IJ)	0.21	50000	\$10,657	53%	Selling some to pay for WZR & PDP.
Cia. Saneamento MG (CSMG3 BS)	10.09	1000	\$10,094	19%	Should be fine. Position big relative to others.
Troy Resources (TRY AU)	0.88	8000	\$7,020	100%	Other things more attractive now.
London Sumatra (LSIP IJ)	0.31	20000	\$6,240	100%	Other things more attractive now.
Indo Tambangraya (ITMG IJ)	1.06	5000	\$5,318	50%	Certain Turkish names now cheaper.
		<b>total sales</b>	<b>\$66,280</b>		

**We're going to re-start the India portfolio.** India now looks particularly attractive, with low valuations, better-than-average growth and a fairly stable currency. India has a reputation as being an expensive market, but there are dozens of names there trading below 5x earnings. Here are some that are based in Mumbai. (I'm heading there later this month to see some of these companies.)

INDIA (MUMBAI)										
Sector	Name	mkt cap	EV	P/book	P/sales	EV/sales	P/E last	P/E curr	P/E next	Ticker
Appliances	Bajaj Electricals	\$63	\$135	1.80	0.23	0.51	4.3	4.4	3.6	BJE
Auto/Trk Prts&Equip-Repl	Fag Bearings India	\$97	\$94	1.53	0.75	0.88	6.1	6.0	5.2	FAG
Bldg-Residential/Commer	Orbit Corporation Ltd	\$44	\$113	0.42	0.32	1.08	0.9	4.8	4.4	ORB
Bldg-Residential/Commer	Peninsula Land Limited	\$163	\$216	0.87	1.92	3.81	5.2	5.3	3.9	PENL
Broadcast Serv/Program	Balaji Telefilms Ltd	\$47	\$45	0.63	0.62	0.62	2.4	4.2	5.4	BLJT
Commer Banks Non-US	Bank Of India	\$2,400		1.12			5.7	4.1	3.9	BOI
Commer Banks Non-US	Yes Bank Ltd	\$320		1.21			7.7	5.5	4.6	YES
Commer Banks Non-US	Idbi Bank Limited	\$743		0.40			5.0	4.7	5.2	IDBI
Commer Banks Non-US	Union Bank Of India	\$1,595		1.08			5.8	4.8	4.7	UNBK
Commer Banks Non-US	Development Credit Bank	\$79		0.61			9.7	8.8	5.3	DEVB
Commer Banks Non-US	Dena Bank	\$196		0.54			2.7	2.5	2.3	DBNK
Commer Banks Non-US	Central Bank Of India	\$306		0.30			2.7	4.0	2.2	CBOI
Computer Services	Allied Digital Services	\$72	\$73	4.32	1.53	2.09	10.4	4.0	2.4	ALDS
Computer Software	Aftek Ltd	\$17	-\$7	0.13	0.22		1.5			AFTK
Containers-Metal/Glass	Ess Dee Aluminium Ltd	\$92	\$111	1.23	1.41	1.92	6.1			EDA
Containers-Paper/Plastic	Essel Propack Ltd	\$46	\$183	0.28	0.19	0.98	3.8			ESEL
Engineering/R&D Services	Walchandnagar Industries	\$75	\$91	0.89	0.46	0.76	8.0			WI
Engineering/R&D Services	Volta Limited	\$342	\$316	2.96	0.53	0.70	8.2	7.5	7.1	VOLT
Finance-Mtge Loan/Banker	Lic Housing Finance	\$424	\$4,463	1.15	0.97	12.27	5.4	4.4	3.9	LICHF
Food-Misc/Diversified	Ruchi Soya Industries	\$90	\$470	0.44	0.04	0.25	2.9			RSI
Machinery-Electric Util	Bharat Bijlee Limited	\$54	\$65	1.61	0.48	0.87	3.7	4.5	4.4	BIJL
Machinery-General Indust	Hindustan Dorr-Oliver	\$34	\$42	1.14	0.56	0.75	7.4	5.5	3.7	HDOR
Medical-Drugs	Wockhardt Limited	\$169	\$737	0.67	0.32	1.42	2.2			WPL
Medical-Drugs	Ipca Laboratories	\$180	\$254	1.52	0.85	1.39	6.6			IPCA
Metal-Aluminum	Hindalco Industries	\$2,045	\$8,303	0.46	0.13	0.72	3.3	4.7	8.6	HNDL
Metal-Copper	Sterlite Industries India	\$5,475	\$6,288	1.23	1.06	1.60	4.1	7.9	10.8	STLT
Real Estate Oper/Develop	Housing Dvlpmnt & Infra.	\$610	\$1,228	0.84	1.21	3.75	2.1	2.3	2.3	HDIL
Real Estate Oper/Develop	Indiabulls Real Estate Ltd	\$591	\$587	0.67	17.95	22.08	6.7			IBREL
Retail-Jewelry	Gitanjali Gems Ltd	\$106	\$421	0.29	0.08	0.56	2.6			GITG
Shipbuilding	ABG Shipyard Ltd	\$115	\$196	0.97	0.81	2.10	4.9			ABGS
Shipbuilding	Bharati Shipyard Limited	\$40	\$122	0.34	0.28	1.21	1.7	1.6	1.3	BHSL
Steel Pipe&Tube	Welspun-Gujarat Stahl	\$311	\$1,031	0.94	0.34	1.64	4.0	4.2	3.6	WGS
Steel Pipe&Tube	Man Industries	\$30	\$66	0.39	0.10	0.23	2.0	2.9	2.2	MAN
Steel-Producers	Tata Steel Limited	\$3,443	\$13,315	0.60	0.13	0.68	1.3	3.2	3.9	TATA
Textile-Products	S. Kumars Nationwide	\$104	\$382	0.63	0.27	1.64	2.4			SKUM
Textile-Products	Alok Industries Ltd	\$53	\$1,214	0.17	0.11	2.34	1.2	1.4	1.2	ALOK
Transport-Marine	Mercator Lines Limited	\$152	\$634	0.47	0.50	2.86	2.2	2.9	2.6	MRLN
Transport-Marine	Great Eastern Shipping	\$574	\$1,085	0.66	0.84	1.76	2.0	2.4	3.1	GESCO

**On a more cautionary note: "the calendar" is ideal through today, but Monday it turns neutral for a few weeks (before turning positive again).** This may sound like hocus-pocus, but Norman Fosback's seasonal rules (from his 1976 book *Stock Market Logic*) have proven incredibly accurate over the last six months (the period for which I've been paying attention). According to Fosback:

- The two trading days before an NYSE holiday tend to be extremely strong;
- The last trading day of the month and first three days of the month are also usually very strong;
- Mondays are the weakest day of the week.

That said, April is still in the strong part of the year (which is November-April). Since 1970, the S&P has recorded *more than 100% of its gains* between November and April. It has been slightly net negative the rest of the year.

## Classical Insights EM Portfolio as of April 8, 2009

(all prices translated into US\$)

		Date of orig purch.	Price		shares	value	Chg. since first pur.	% of port.
			initial	Current				
Cia. Saneamento de MG	CSMG3 BS	10/20/2008	7.41	10.09	5250	\$52,996	36%	11.6%
Selcuk Ecza	SELEC TI	2/14/2008	1.66	1.04	34900	\$36,407	-37%	8.0%
Bakrieland	ELTY IJ	1/26/2009	0.005	0.008	3700000	\$31,220	57%	6.9%
Pinar Sut	PNSUT TI	11/1/2008	1.90	1.82	13700	\$24,945	-4%	5.5%
Koc Holding	KCHOL TI	2/14/2008	3.44	1.60	14755	\$23,601	-54%	5.2%
Technisa SA	TCSA3 BS	2/6/2009	1.43	1.861	12000	\$22,331	30%	4.9%
MRV Engenharia	MRVE3 BS	2/6/2009	5.23	8.33	2600	\$21,655	59%	4.8%
Medco Energi	MEDC IJ	1/26/2009	0.15	0.21	95000	\$20,248	42%	4.5%
Orko Silver	OK CN	2/9/2009	0.66	0.76	25000	\$18,973	16%	4.2%
Kardemir Karabuk	KRDMD TI	5/8/2007	0.68	0.35	52300	\$18,517	-48%	4.1%
Bagfas Bandirma	BAGFS TI	2/2/2007	21.96	47.42	340	\$16,122	116%	3.5%
Turkiye Sinai Bank	TSKB TI	7/12/2007	1.31	0.49	26750	\$13,192	-62%	2.9%
Cia. SABESP	SBS	10/20/2008	21.40	23.23	550	\$12,777	9%	2.8%
Otokar Otobus	OTKAR TI	12/29/2006	11.06	5.60	2200	\$12,310	-49%	2.7%
Turk Traktor	TTRAK TI	9/15/2005	5.19	2.66	4225	\$11,219	-49%	2.5%
Canplats	CPQ CN	2/19/2009	1.76	1.57	7000	\$11,021	-11%	2.4%
Indo Tambangraya	ITMG IJ	1/28/2009	0.87	1.06	10000	\$10,635	22%	2.3%
Chariot Resources	CHD CN	3/19/2009	0.14	0.21	45000	\$9,446	51%	2.1%
Alternatifbank A.S.	ALNTF TI	2/14/2008	1.18	0.50	15000	\$7,492	-58%	1.6%
China Hongxing Sports	CHHS SP	1/28/2009	0.127	0.08	90000	\$7,422	-35%	1.6%
Nevsun	NSU	2/19/2009	1.25	1.03	7000	\$7,210	-18%	1.6%
Troy Resources	TRY AU	3/6/2009	0.80	0.88	8000	\$7,020	10%	1.5%
Candente	DNT CN	3/19/2009	0.21	0.27	25000	\$6,661	25%	1.5%
CGX Energy (OYL CN)	OYL CN	2/20/2009	0.54	0.94	7000	\$6,556	74%	1.4%
London Sumatra	LSIP IJ	1/28/2009	0.27	0.31	20000	\$6,240	18%	1.4%
Turk Hava Yollari	THYAO TI	4/3/2009	4.40	4.65	1200	\$5,576	6%	1.2%
Camargo Correa Des IMOB	CCIM3 BS	2/6/2009	1.09	1.03	5000	\$5,174	-5%	1.1%
Turcas Petrol	TRCAS TI	11/25/2008	1.61	1.69	3000	\$5,083	5%	1.1%
TEB Bank	TEBNK TI	10/25/2008	0.47	0.46	10000	\$4,615	-2%	1.0%
Vestel Beyaz	VESBE TI	7/12/2007	1.92	0.75	6000	\$4,514	-61%	1.0%
Namunukula Plantations	NAMU SL	12/20/2007	0.29	0.13	30500	\$3,951	-55%	0.9%
Alumindo Light Metal	ALMI IJ	5/8/2007	0.15	0.04	97000	\$3,837	-74%	0.8%
Gubre Fabrikalari	GUBRF TI	5/8/2007	0.94	3.48	742	\$2,580	269%	0.6%
Horona Plantations	HOPL SL		0.24	0.11	23000	\$2,433	-55%	0.5%
Banco Pine	PINE4 BS	7/3/2008	5.88	2.84	850	\$2,411	-52%	0.5%
Kotagala Plant.	KOTA SL	4/7/2008	0.65	0.16	15500	\$2,409	-76%	0.5%
Banco Daycoval	DAYC4 BS	7/3/2008	7.27	2.33	700	\$1,633	-68%	0.4%
Malwatte Vly Plantations	MAL SL	12/20/2007	0.40	0.17	8500	\$1,468	-57%	0.3%
ETF Cotton	COTN LN	4/4/2008	2.56	1.35	200	\$270	-47%	0.1%
First Trust Global Inc.	FAM	10/30/2008	9.98	10.64	13	\$138	7%	0.0%
<b>Cash</b>								
UBS & Pershing Money Market		4/18/2005	1.00	1.00	-4373	-\$4,373	0%	-1.0%

### Classical Insights EM Portfolio Performance (as of 4/8/09)

Value at inception on 4/18/05	\$246,600
Current value	\$455,002
<b>Gain since inception</b>	<b>84.5%</b>
MSCI Emerging Market Free index return since 4/18/05	15.9%

\* Actual starting value was \$150,000. Capital increased 50% on 4/17/06 and a further 9.6% on May 1, 2007.

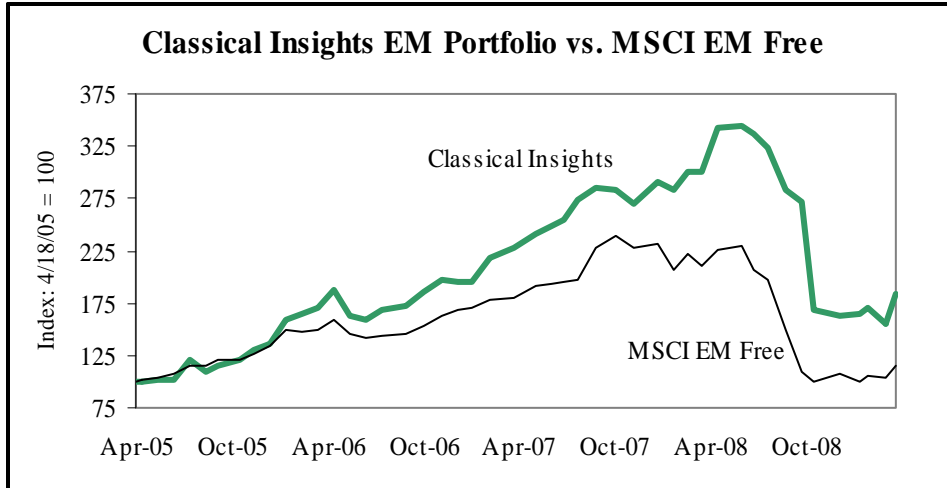
The Classical Insights EM portfolio has gained 18.8% since our last update (March 19).

### Target prices and implied upside (April 8, 2009)

	Currency	Target	Price	Upside	Last reviewed	
Bakrieland (ELTY IJ)	IDR	350	96	<b>265%</b>	Jan-09	
Cia. Sanea. Parana (SAPR4 BS)	BRL	4.70	1.69	<b>178%</b>	Jul-07	<i>need to review (down)</i>
Canplats (CPQ CN)	CAN	5.40	1.95	<b>177%</b>	Jan-09	
Tecnisa SA (TCSA3 BS)	BRL	11.12	4.10	<b>171%</b>	Mar-09	
Pinar Sut (PNSUT TI)	TRL	7.78	2.88	<b>170%</b>	Nov-08	
Turkiye Sinai Bank (TSKB TI)	USD	2.03	0.78	<b>160%</b>	Mar-09	
Koc Holding As (KCHOL TI)	TRL	6.43	2.53	<b>154%</b>	Jul-08	<i>need to review (down)</i>
Camargo Correa (CCIM3 BS)	BRL	5.71	2.28	<b>150%</b>	Jan-09	
Orko Silver (OK CN)	CAD	2.20	0.94	<b>134%</b>	Feb-09	
Troy Resources (TRY AU)	AUD	2.95	1.29	<b>129%</b>	Apr-08	
Turcas Petrol (TRCAS TI)	TRL	5.98	2.68	<b>123%</b>	Mar-09	
Turk Hava Yollari (THYAO TI)	TRL	16.30	7.35	<b>122%</b>	Mar-09	
Alternatifbank (ALNTF TI)	TRY	1.73	0.79	<b>119%</b>	Nov-08	
CGX Energy (OYL CN)	CAD	2.01	0.94	<b>114%</b>	Feb-09	
Medco Energi (MEDC IJ)	IDR	5000	2425	<b>106%</b>	Jan-09	
TEB Bank (TEBNK TI)	TRL	1.50	0.73	<b>105%</b>	Nov-08	
Vestel Beyaz (VESBE TI)	TRL	2.44	1.19	<b>105%</b>	Mar-09	
Selcuk Ecza (SELEC TI)	TRY	3.17	1.65	<b>92%</b>	Feb-08	<i>need to review (down)</i>
Cia. SABESP (SBSP3)	BRL	37.08	23.23	<b>60%</b>	Oct-08	
Duratex (DURA4 BS)	BRL	27.42	17.96	<b>53%</b>	Feb-09	
Indo Tambangraya (ITMG IJ)	IDR	18160	12100	<b>50%</b>	Jan-09	
Cia. Saneamento MG (CSMG3 BS)	BRL	30.34	22.24	<b>36%</b>	Nov-08	
London Sumatra (LSIP IJ)	IDR	4668	3550	<b>31%</b>	Jan-09	
China Agri (606 HK)	HKD	5.39	4.12	<b>31%</b>	Jan-09	
MRV Engenharia (MRVE3 BS)	BRL	23.85	18.35	<b>30%</b>	Mar-09	<i>need to review (up)</i>
Petrol Offisi (PTOFS TI)	TRL	5.12	4.12	<b>24%</b>	Nov-08	
United Tractor (UNTR IJ)	IDR	6543	6600	<b>-1%</b>	Jan-09	

### Forward P/E and P/FCF Estimates (April 8, 2009)

	Crncy	Price	EPS (e)			P/E	FCF (e)			P/FCF
			2008e	2009e	2010e	2009e	2008e	2009e	2010e	2009e
Turkiye Sinai Bank (TSKB TI)	TRL	0.78	0.24	0.25	0.29	<b>3.1</b>				
Cia. Sanea. Parana (SAPR4 BS)	BRL	1.69	0.46	0.50		<b>3.4</b>	-0.58	-0.52		
China Hongxing Sports (CHHS SP)	SGD	0.12	0.037	0.035	0.041	<b>3.4</b>	0.02	0.02	0.02	<b>6.2</b>
TEB Bank (TEBNK TI)	TRL	0.73	0.20	0.20		<b>3.7</b>				
Tecnisa SA (TCSA3 BS)	BRL	4.10	0.52	0.99	1.59	<b>4.1</b>	0.50	0.95	1.53	<b>4.3</b>
Selcuk Ecza (SELEC TI)	TRL	1.65	0.34	0.36		<b>4.6</b>	0.34	0.36		<b>4.6</b>
Turcas Petrol (TRCAS TI)	TRL	2.68	0.59	0.56	0.75	<b>4.8</b>				
Indo Tambangraya (ITMG IJ)	USD	1.06	0.19	0.21	0.13	<b>5.0</b>	0.08	0.22	0.14	<b>4.8</b>
Cia. SABESP (SBSP3 BS)	BRL	23.23	3.93	4.63		<b>5.0</b>	1.52	2.47		<b>9.4</b>
Pinar Sut (PNSUT TI)	TRL	2.88	0.80	0.55	0.97	<b>5.3</b>	0.78	0.64	0.97	<b>4.5</b>
Cia. Saneamento MG (CSMG3 BS)	BRL	22.24	3.24	3.51	3.79	<b>6.3</b>	-1.63	-1.29	-0.91	<b>nmf</b>
Petrol Offisi (PTOFS TI)	TRL	4.12	0.55	0.64		<b>6.4</b>				
Turk Hava Yollari (THYAO TI)	TRL	7.35	4.44	1.04	2.51	<b>7.1</b>				
Troy Resources (TRY AU)	AUD	1.29	-0.25	0.18	0.10	<b>7.3</b>	-0.50	0.20	0.19	<b>6.6</b>
Duratex (DURA4 BS)	BRL	17.96	2.50	2.37	2.74	<b>7.6</b>	-1.00	-0.35	1.65	<b>nmf</b>
MRV Engenharia (MRVE3 BS)	BRL	18.35	1.70	2.35	2.98	<b>7.8</b>	1.41	1.99	2.55	<b>9.2</b>
China Agri (606 HK)	HKD	4.12	0.87	0.53	0.60	<b>7.8</b>	0.40	-0.09	-0.02	<b>nmf</b>
United Tractor (UNTR IJ)	IDR	6600	731	695	727	<b>9.5</b>	509	304	532	<b>21.7</b>
Vestel Beyaz (VESBE TI)	TRL	1.19	0.16	0.12	0.29	<b>9.9</b>	0.24	0.23	0.35	<b>5.2</b>



### **Important Notes About the Portfolio & Trading Policies**

*The Classical Insights Emerging Market portfolio is Mike Churchill's actual brokerage account. While there are drawbacks with this approach, using a real portfolio should eliminate the performance-tracking problems associated with hypothetical portfolios. We try to inform clients of all trades in new positions prior to those being made. Subsequent trades are sometimes done without notice. Performance measurement will automatically include transaction costs, fees and "slippage." The account is held partly at UBS and partly at Auerbach Grayson. Commissions for UBS are paid in the form of a flat annual fee of 1.0% of total assets. That fee is reflected over the course of the year in the performance of the overall portfolio. Auerbach Grayson commissions are based on a flat fee per trade. Churchill Research Inc. is the investment advisor to Classical Insights Fund L.P.*

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