

Sell Your Taiwanese Stocks!

Written by Leo Wang
Sunday, 05 July 2009 17:07

Upon seeing Crystal Hsu's business reporting on Taipei Times yesterday ([July 2nd, 2009](#)), something alerted me greatly.

I have been following stock markets since my days as an undergrad. That's more than 15 years ago. And I don't remember seeing the Taiwan's broad stock market index averaging a p/e (price to earnings) ratio over 40 times. According to Hsu's report, Kevin Hsiao, the head of UBS Wealth Management Research Taiwan, had pointed out that that p/e ratio is the highest among all four "small dragons" of Southeast Asia

. Another observation on Hsiao's data is that Taiwan's p/e ratio is *more than twice*

as large comparing against all the other three small dragons (Hong Kong 18.2x, South Korea 14.7x, Singapore 15.5x) and China (14.3x) and India (16.6). Amazing.

Digging deeper into the valuation issue of Taiwanese stocks, the following table is a comparison of major stock markets around the world (courtesy of Dow Jones Indexes):

Country

P/E (Incl. Negative)

P/E (Excl. Negative)

P/Book Value

Div. Yield

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P/Sales

P/Cash Flow

Trailing

Projected

Trailing

Projected

Australia

11.66

14.48

12.26

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14.56

1.85

5.56

1.27

7.21

Austria

NMF

14.21

7.17

11.43

0.89

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2.70

0.49

2.74

Belgium

23.01

11.48

12.58

11.48

1.29

2.44

0.41

5.06

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Brazil

12.45

11.04

10.19

11.04

1.93

1.13

1.15

4.41

Bulgaria

0.25

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NMF

0.25

NMF

NMF

0.77

NMF

NMF

Canada

13.17

13.71

12.29

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13.90

1.75

2.82

1.17

5.61

Chile

17.04

17.98

17.04

17.98

1.86

2.74

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1.09

6.89

Cyprus

5.63

8.84

5.13

8.84

NMF

6.73

NMF

NMF

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Czech Republic

8.65

9.23

8.65

9.23

1.68

6.00

1.15

6.30

Denmark

13.44

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14.94

13.85

15.25

1.63

0.92

0.65

6.94

Estonia

2.67

9.00

7.31

8.35

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0.48

6.44

0.36

3.66

Finland

10.01

13.03

10.04

13.19

1.71

3.37

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0.58

6.59

France

9.41

9.91

9.41

9.91

1.16

3.22

0.49

3.93

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Germany

13.98

10.43

11.90

10.45

1.29

3.09

0.43

4.04

Greece

7.25

9.40

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7.30

9.40

1.21

2.65

0.68

3.93

Hong Kong

15.09

15.52

15.74

15.64

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1.62

2.85

2.02

9.38

Hungary

6.38

7.94

3.67

7.94

0.97

1.70

0.50

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2.20

Indonesia

11.87

11.84

12.42

11.84

2.73

3.13

1.58

14.81

Ireland

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7.45

NMF

6.66

11.50

0.83

1.72

0.38

1.62

Italy

7.74

10.30

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7.74

10.39

0.87

3.39

0.48

2.72

Japan

NMF

27.62

19.82

21.25

1.21

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1.77

0.48

8.13

Latvia

1.51

NMF

1.51

NMF

NMF

0

NMF

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NMF

Lithuania

3.09

NMF

3.67

NMF

0.31

7.51

0.26

1.20

Malaysia

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14.10

14.26

14.08

14.29

1.59

3.91

1.30

7.75

Malta

16.44

NMF

14.01

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NMF

NMF

3.97

NMF

NMF

Mexico

7.11

12.23

7.20

12.23

1.87

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2.09

1.23

6.09

Netherlands

19.83

9.62

13.00

10.31

1.25

4.23

0.38

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1.98

New Zealand

10.69

13.96

10.69

13.96

1.33

7.38

0.92

5.57

Norway

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8.63

9.76

7.64

9.76

1.33

2.05

0.64

4.83

Philippines

13.87

11.79

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13.87

11.79

1.59

4.05

1.39

7.75

Poland

10.60

12.18

9.95

12.18

1.28

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3.23

0.59

6.05

Portugal

11.47

12.06

11.47

12.06

1.41

3.71

0.75

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4.80

Romania

0.01

8.85

0.01

6.97

NMF

3.10

NMF

NMF

Singapore

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12.55

13.93

13.09

14.12

1.38

4.15

1.04

8.16

Slovakia

NMF

NMF

NMF

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NMF

NMF

5.33

NMF

NMF

Slovenia

14.99

13.74

13.88

13.74

1.05

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1.67

0.56

7.42

South Africa

10.34

9.93

9.93

9.93

1.95

3.99

0.94

5.83

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South Korea

14.52

11.66

13.02

11.87

1.31

1.30

0.41

4.04

Spain

8.66

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9.59

8.66

9.59

1.57

4.98

0.87

4.61

Sweden

12.93

14.46

10.37

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14.88

1.31

2.41

0.76

7.73

Switzerland

24.17

11.94

12.78

11.94

2.08

1.87

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1.07

NMF

Taiwan

36.92

17.90

17.36

16.59

1.61

2.97

0.74

6.32

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Thailand

0.82

10.73

11.57

10.85

1.47

4.62

0.59

4.93

UK

8.04

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10.64

8.21

10.73

1.50

4.67

0.74

4.77

US

11.90

13.02

12.45

13.39

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1.98

2.20

0.84

6.28

I have bolded and enlarged three entries on the row for Taiwan. Notice that the trailing p/e, inclusive of companies with negative profits (i.e. companies making a net loss), Taiwan has the highest ratio for all 45 major markets of the world. The second observation on the table above is that, counting only firms with positive earnings, Taiwan still has the second highest ratio in the world; with Japan claiming to top spot. This tells me that either lots of companies in Taiwan are in the red or a few companies are losing a lot of money. I am inclined to believe the former, as shops after shops in Taiwan's streets are being closed down. Either way, the all-inclusive p/e ratio is being "averaged up" by the loss-making firms.

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Furthermore, if investors, both domestic and foreign, are willing to reward Taiwan's stock market with **the world's highest p/e ratio**, then they either believe that Taiwan's economy is so good that it will outperform every country on the face of the earth (?!), or the current Ma administration is so good at its illusion-creation and chicaneries that it has succeeded in producing the biggest euphoria of all time and both Taiwanese and foreign investors are going to wake up feeling very sorry after about 12 to 18 months from now...

I am inclined to believe the latter.

P.S. □ This opinion piece is written on Friday, July 3rd, 2009 when TAIEX closed the day at 6665.4.

DISCLOSURE: The information contained in this article should not be misconstrued as an offer to buy or sell securities. Always consult a professional advisor before making an investment. The author holds no positions in Taiwanese stocks.