ANALYSIS-Asia telecoms lure investors with payouts, high yields

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SINGAPORE, May 13 (Reuters) - Investors look set to pump more money into Asian telecoms stocks, drawn by the sector's high cash payouts and stable earnings prospects, as they seek refuge from turmoil in financial markets, sky-high inflation and a slowing U.S. economy.

Compared with technology, banking and consumer stocks, Asian telecoms carriers are seen offering shelter from the subprime storm, ranking among the top five sectors in terms of yield, returns and earnings growth this year.

Favourite stocks include Taiwan's largest operator Chunghwa Telecom Co and South Korea's second-ranked mobile firm KTF Corp, which are relatively cheap, generate robust cashflows and offer dividend yields above 5 percent.

Investors are more wary of carriers in China, India and Indonesia. These firms offer stronger growth potential, thanks to their rapidly expanding subscriber bases, but escalating price competition and higher regulatory risks are a concern.

"When markets are volatile, sectors that have high yield and generate a lot of cashflow and have fairly certain earnings growth will be in favour, and the telco sector fits that pretty well -- telcos are the new utility stocks," said Michael Kerley, a London-based fund manager withHenderson Global Investors.

"I expect markets to stay volatile, and people tend to be more willing to pay for certainty when markets are volatile, so telcos will remain attractive," he said, adding that this situation could last another six months or longer.

Asia's telecoms sector is ranked a top performer in terms of dividend yield, earnings per share (EPS) growth and return on equity (ROE) ratios, in comparison with other sectors like finance, raw materials, property, healthcare and retail.

Return on equity measures how much profit a company generates with the money that shareholders have invested. A business with a high ROE is likely to be one that is able to generate cash internally.

According to recent data from J.P. Morgan Securities, the telecoms services sector has the highest forecast dividend yield of 2.8 percent this year, followed by the materials industry at 2.7 percent. The sector's forecast ROE stands at 14.1 percent, second after the energy industry's 16.6 percent.

Merrill Lynch ranks telecoms as the third-best performers in terms of EPS growth this year at 17.4 percent, after forecast 22.3 percent growth for the discretionary consumer segment and 36.8 percent for the non-semiconductor technology sector.

"We don't expect any slowdown in the Asian telecoms sector as domestic consumption is holding up well," said Credit Suisse analyst Colin McCallum.

"It remains to be seen whether high food -- in this case, rice -- prices has an impact, but we're not hearing operators talk about it as a major factor yet."

CHEAP, CASH-RICH

In terms of valuations, the telecoms sector appears more pricey relative to the technology, banking and raw material sectors, but the defensive nature of its cashflow and profits more than compensates for this, analysts said.

Merrill ranks Asian telecoms as the sixth cheapest -- at 18.7 times 2008 earnings -- out of 11 sectors, while Citigroup Global Markets ranks the industry 14th least expensive -- at 15.4 times 2008 earnings -- out of 24 sectors. Top investor picks range from Taiwan's second-ranked carrier Far EasTone Telecom and third-ranked Taiwan Mobile to South Korea's top fixed-line operator KT Corp and number three player LG Telecom Co

"Korea is the stand-out cheapest in the region -- you get pretty good yields, strong balance sheets, and attractive valuations, even on earnings which have been hard-hit by overly aggressive marketing campaigns," said Peter Wilmshurst, a Melbourne-based fund manager with Franklin Templeton Investments.

KT Corp ranks among the top five cheapest integrated telecoms operators in Asia Pacific -- at a 2008 PER of 12.5 times, out of a universe of 15 stocks, recent Credit Suisse data showed.

LG Telecom and KTF are also the cheapest and second-cheapest mobile operators in the region -- at 6.5 and 10 times 2008 earnings -- a ranking of 24 stocks from Credit Suisse showed.

Henderson's Kerley favours Far EasTone and Taiwan Mobile.

"They are cheap and hugely cash-generative. Although the market is fairly mature, the need for significant capital expenditure is muted, so these firms generate significant annual free cashflows and dividend yields are over 5 percent," he added.

In terms of 2008 forecast dividend yields, Chunghwa offers the third-highest rate of 6.4 percent, out of a ranking of 15 Asia-Pacific integrated telecom stocks by Credit Suisse.

Far EasTone is second in terms of offering the highest yield -- at 7.1 percent -- according to Credit Suisse's ranking of 24 Asia-Pacific mobile operator stocks.

The lowest forecast yields are from Japan's KDDI Corp at 1.6 percent, China Telecom Corp at 1.7 percent, as well as India's Bharti Airtel Ltdand Reliance Communications Ltd, both at zero percent, the data showed.

"Chunghwa is debt-free and we usually pay out all our reserves when we return additional cash to shareholders -- we don't retain excess cash, and we plan to continue to do this," said Chunghwa spokeswoman Shen Fu-fu.

"Our cash is for share buybacks, capital reduction or overseas expansion such as our recent $30 million joint venture with Vietnam's Viettel," she added.

Meanwhile, some analysts are less enthusiastic about China Telecomand China Netcom Group Corp, the country's top two fixed-line operators.

"Benefits from industry restructuring have already been reflected in their stock prices and valuations are too stretched," said Cazenove analyst Lai Voon San.

Henderson's Kerley is also shying away from Chinese and Indonesian operators.

"The regulatory environment in China is very unclear, and we're not comfortable with that. We're also not keen on Indonesia -- competition is intense and lots of new players are entering the market -- we prefer to get exposure through SingTel."

Singapore Telecommunications Ltd, Southeast Asia's largest phone company, has spent about S$18 billion in recent years buying stakes in mobile operators in high-growth Asian markets ranging from Pakistan to Thailand. It owns 35 percent of PT Telekomunikasi Selular, Indonesia's top mobile firm.

SingTel also owns a 30 percent stake in Bharti, which has seen its share price fall on concerns over the extent of debt financing that would be used to fund a potential acquisition of a majority stake in South Africa-based rival MTN Group (Additional reporting by Sheena Lee in TAIPEI; Editing by Louise Heavens) (jennifer.tan@thomsonreuters.com; +65-6403 5660; Reuters Messaging: jennifer.tan.reuters.com@reuters.net)

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