

# Treasure Hunting in Asia

12<sup>th</sup> May 2012

# Market Performance

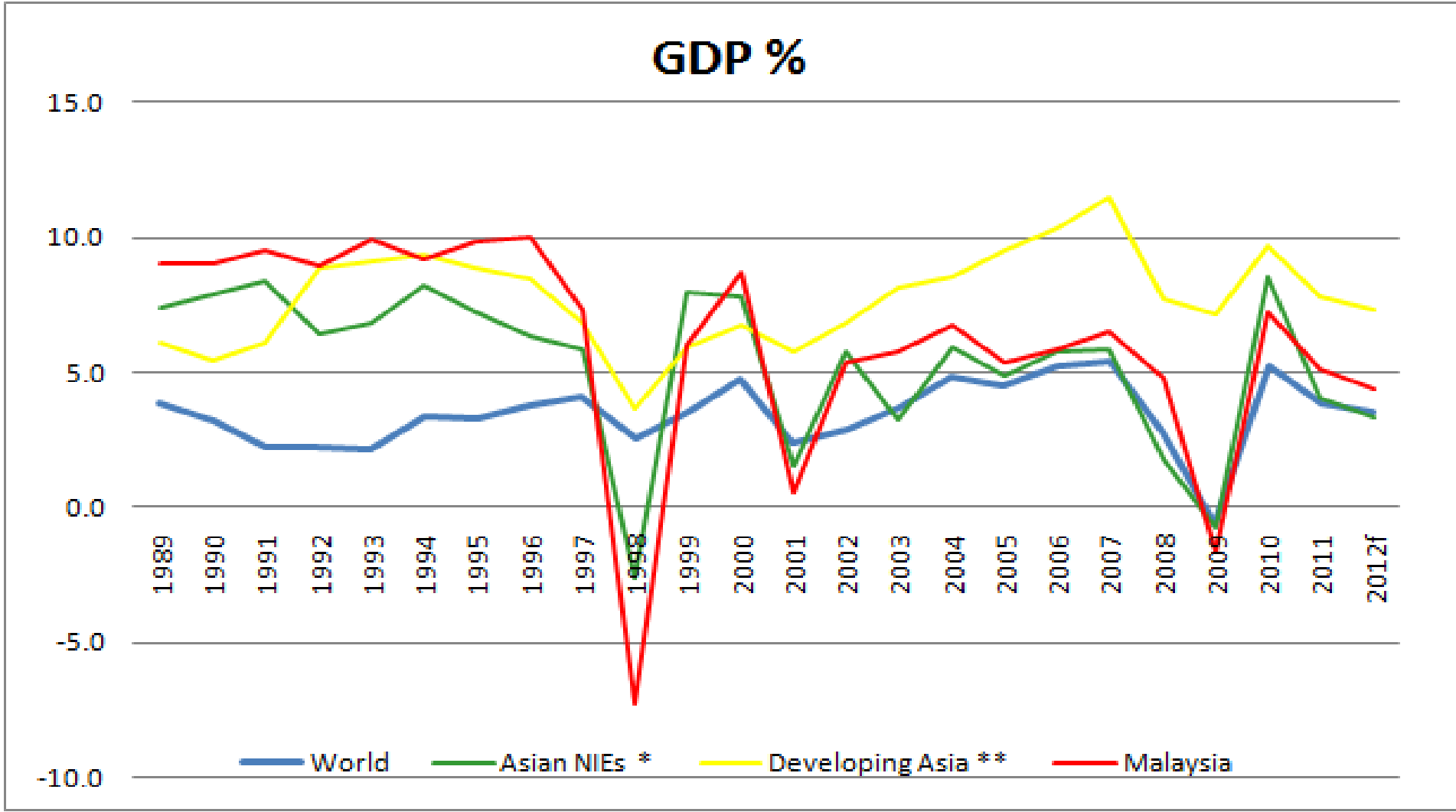
Range 12/29/1989 - 04/30/2012 Period Monthly 268 Month Period

Security	Currency	Price Appreciation	Total Return	Difference	Annual Eq
1. FBMKLCI Index	MYR	179.33%	179.33% **	-81.95%	4.70%
2. MXASJ Index	MYR	261.29%	261.29% **		5.92%
3. MXWO Index	MYR	155.53%	155.53% **	-105.75%	4.29%

\*\* No dividends or coupons



# GDP Growth



# Key Megatrends in the Past Decade & Present

- The emergence of 3 billion new consumers, producers, and savers.
  - breakup of the Soviet bloc & the opening up of China
  - end of proxy wars between communism and capitalism
- Globalization transformed almost every economic activity in every country, as the principles of market competition, private enterprise, and free trade won acceptance after the breakdown of central planning and state ownership.
- A financial revolution resulted from the adoption of a free-market philosophy, the buildup of savings in the rapidly growing Asian economies, and the stability created by globalization and successful demand management.
- The first two megatrends are hopefully still on track and have not been derailed by the 'Great Financial Crisis'. The 'Financial Revolution' is still only now unfolding its many benefits on the Asian financial landscape.

# Looking Forward

- Arising from the 'Great Financial Crisis' differences in monetary policies between the East and the West should ensure that Asian currencies remain well bid. Implication - exporting stocks should struggle as Asian currencies move higher. Asian indices faces headwind as most indices comprised of 20-25% of exporting stocks.
- Willingness of Asian central bankers to tackle nascent inflationary problem is likely to see yield curves flattening or shifting higher. Implication – financial stocks faces headwind in a flattening yield curve environment and the not so positive news is they comprised 30-35% of most Asian equity indices.
- Asia's different cyclical and policy outlook argues against investing in indices and instead for concentrating on the parts of the market that will benefit from higher currencies and flattening yield curve. This includes high-dividend yield paying stocks, utility stocks, local consumption stocks and all the 'stable growth' stocks like healthcare, pharmaceuticals, consumer staples and even agri-stocks.

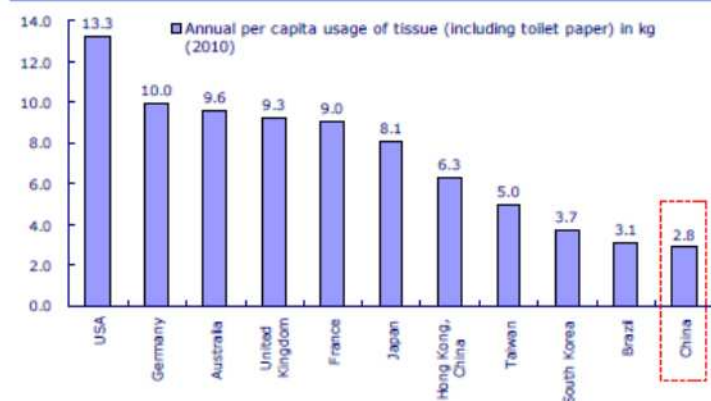
# Asia's Paradigm Shift

- A decade ago, having stock-picking skills did not matter much in Asia. What counted was having the courage, foresight, and cash, to jump in and out of markets by picking up dominant blue chips or buying index funds.
- Fast forward to today and things have undeniably changed. By now, Asia has become the world's great hope for growth and this perception is, unsurprisingly, reflected in equity market valuations.
- This valuation premium may of course be warranted given Asia's stronger growth outlook. But this also means that Asia equities really need to deliver on investors' expectations, or face a new de-rating.
- And if it is the later, then what does it mean for investors who wants to participate in Asia's growth story?

# Treasure #1 - Tissue/Toilet Paper/Diapers

Figure 19

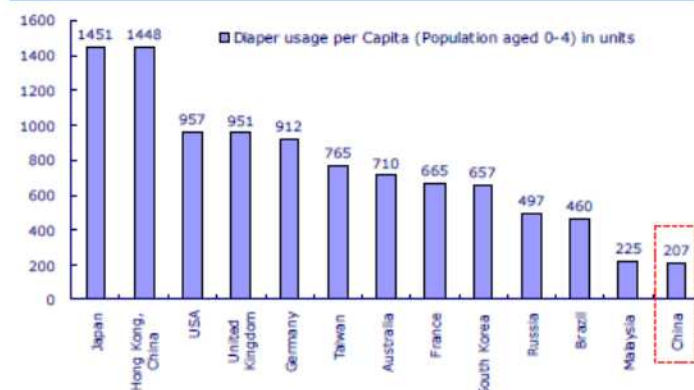
## Low penetration level in China (Tissue & toilet paper)



Source: Euromonitor, CLSA Asia-Pacific Markets

Figure 29

## The low penetration level of baby diapers in China...



Source: Euromonitor, CLSA Asia-Pacific Markets

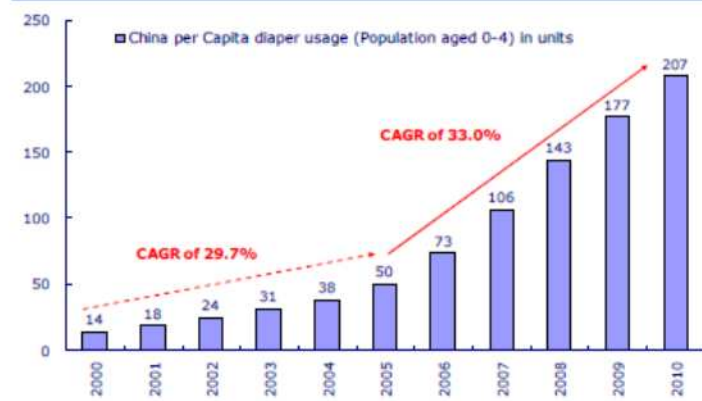
Figure 20

## Accelerated growth in per capita consumption



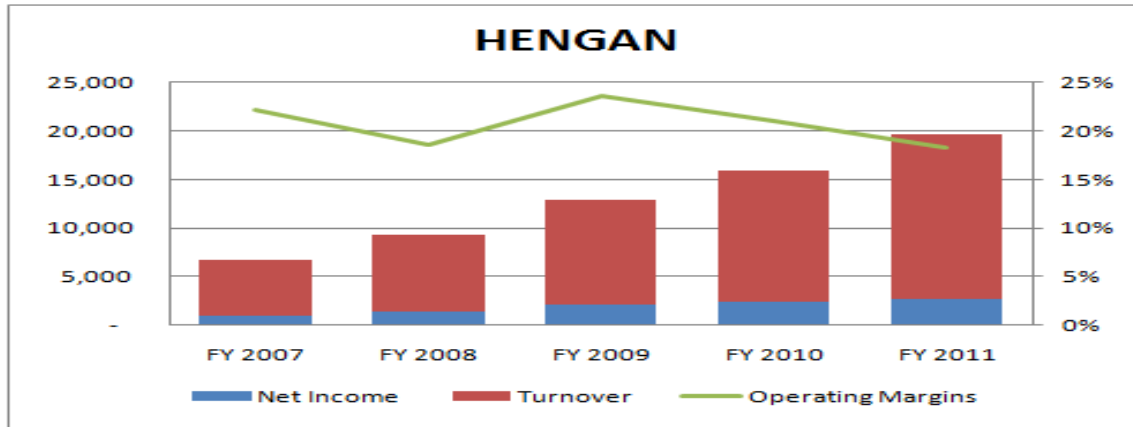
Figure 30

## ... but with 30%+ CAGR growth in volume



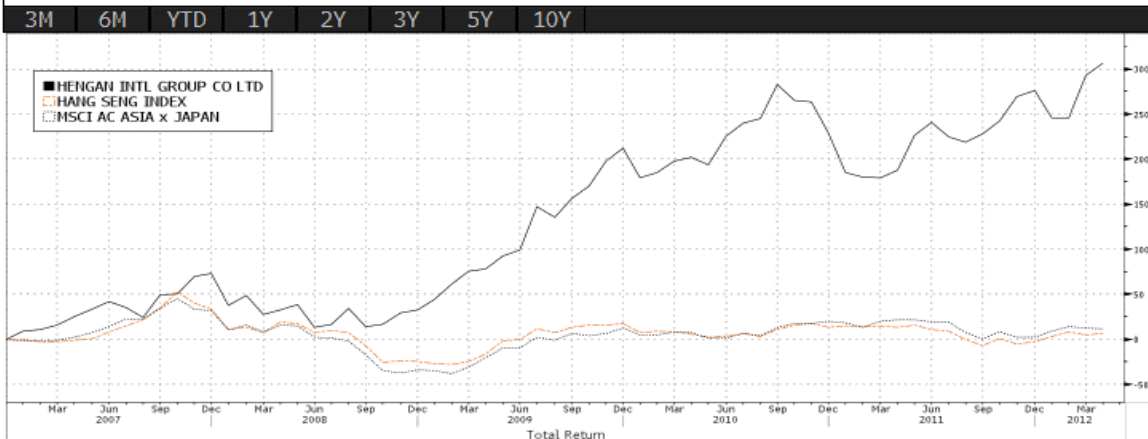
- Relatively low penetration at 2.8kg per capita for tissue/toilet paper in China
- Relatively low penetration at 207 diapers per capita in China
- Growth driven by higher income, better education and convenience

# Hengan International Group



Range 12/29/2006 - 04/30/2012 Period Monthly 64 Month Period

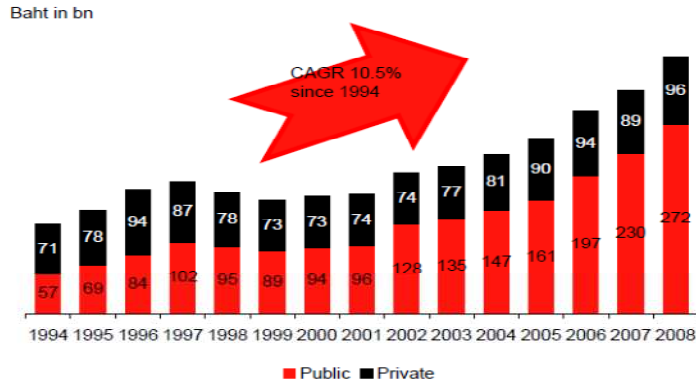
Security	Currency	Price Appreciation	Total Return	Difference	Annual Eq
1. 1044 HK Equity	MYR	266.46%	307.02%	300.43%	30.07%
2. HSI Index	MYR	-9.13%	6.59%		1.20%
3. MXASJ Index	MYR	-1.73%	11.51%	4.92%	2.06%



- Number 1 in tissue and toilet paper at 33.9% and 5.7% respectively
- Number 1 in sanitary napkins at 9.6%
- Number 2 in baby diapers at 12.9%
- Revenue = 32.0% p.a.
- Net income = 27.0% p.a.
- Operating margin = ~20.7% p.a.

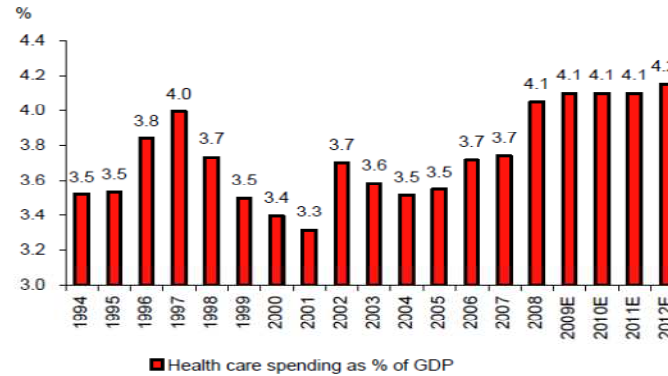
# Treasure #2: Thailand Healthcare

**Fig 4 Health care spending +10.5 % CAGR**



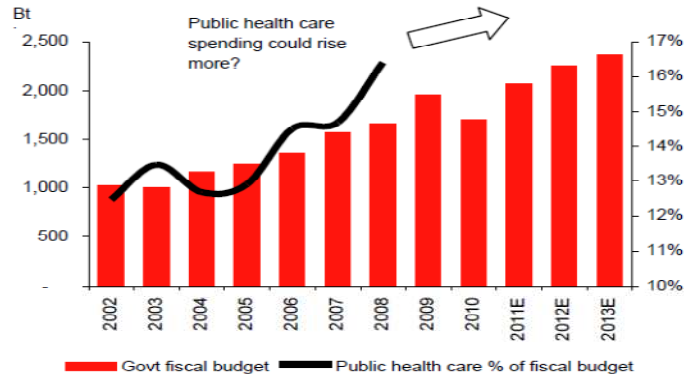
Source: MOPH October 2010, Macquarie Research, May 2011

**Fig 5 ...reaching over 4% of nominal GDP...**



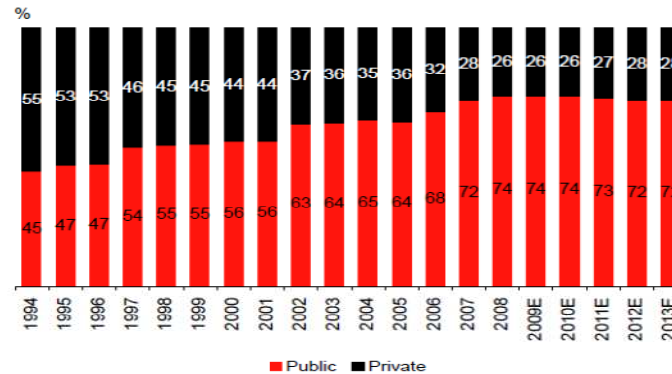
Source: MOPH October 2010, Macquarie Research, May 2011

**Fig 6 ...more than 16% of Gov't fiscal budget...**



Source: MOF, MOPH, Macquarie Research, May 2011

**Fig 7 ... and 74% of total health care spending.**



Source: MOPH, Macquarie Research, May 2011

- Healthcare spending grew by 10.5%pa from 1994 – 2008
- Middle class skews towards private healthcare due to insufficient facilities and overworked doctors
- Medical tourism gaining prominence

# Bangkok Dusit – Thailand Largest Hospital Group

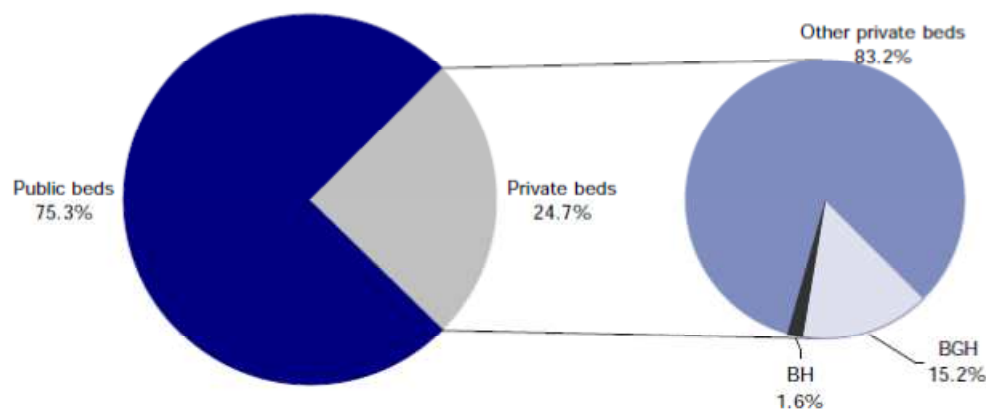
**Figure 2: Thailand major private hospitals**

Hospital	SET listed	Bed capacity	Target patients	Number of hospitals
Bangkok Dusit Medical Service	Yes	>5,000	Middle to high income class	26
Bangkok Chain hospital	Yes	>1,500	Low to middle income class	6
Bumrungrad hospital	Yes	>500	International & High income class	1
Bangpakok hospital group	No	>250	Low to middle income class	4
Ramkhamhaeng hospital group	Yes	>450	Low to middle income class	11
Vibhavadi hospital	Yes	>350	Low to middle income class	3

Sources: Office of the national economic and social development board (NESDB), TISCO Research

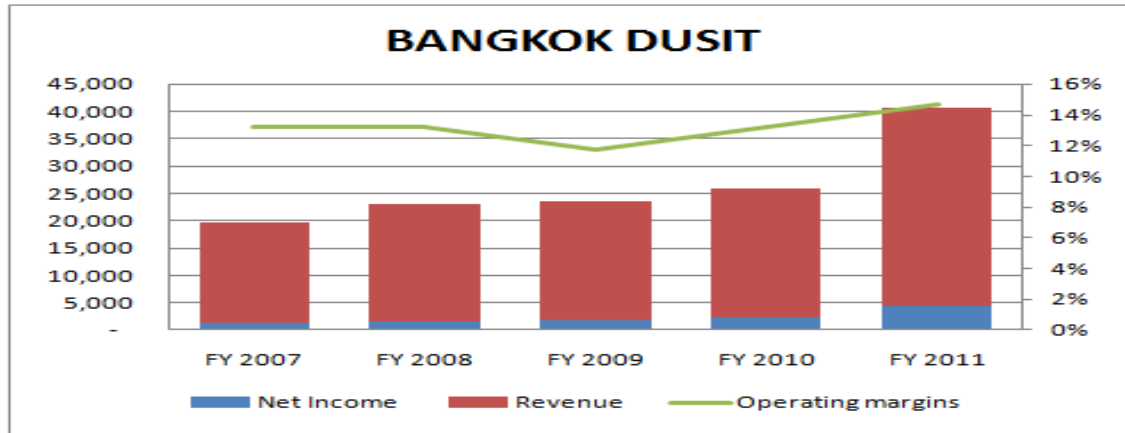
- Bangkok Dusit has the largest market share at 15%

**Figure 3: Hospital business market share, in terms of bed capacity**

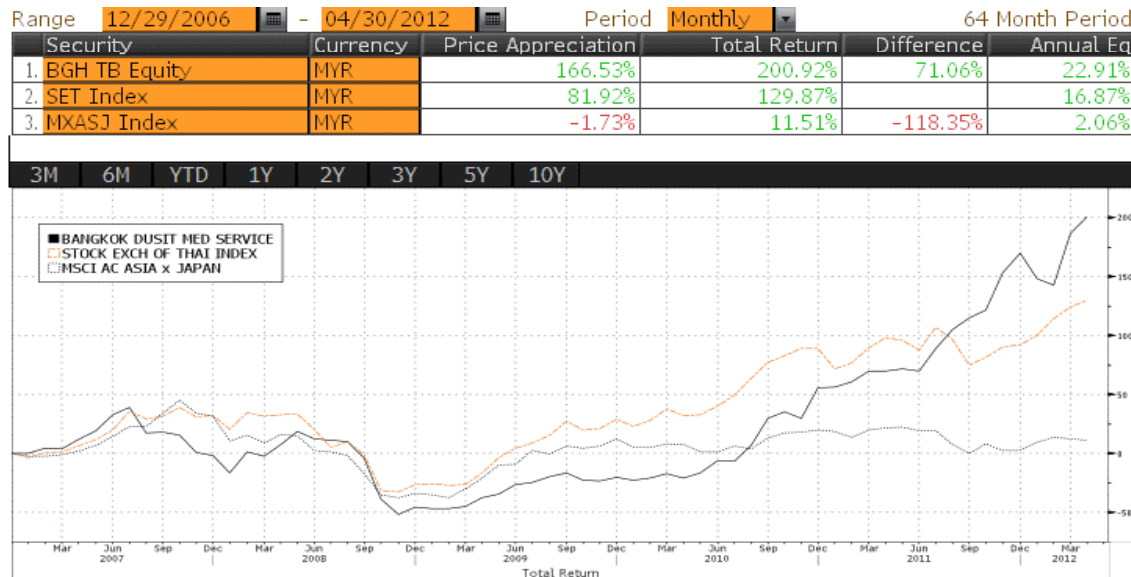


Sources: Bureau of Policy & Strategy, Company data, TISCO Research

# Bangkok Dusit – Thailand Largest Hospital Group



- Revenue = 18% p.a.
- Net income = 37% p.a.
- Operating margin = ~13.2% p.a.



## Treasure #3: Agriculture / Oil Seeds

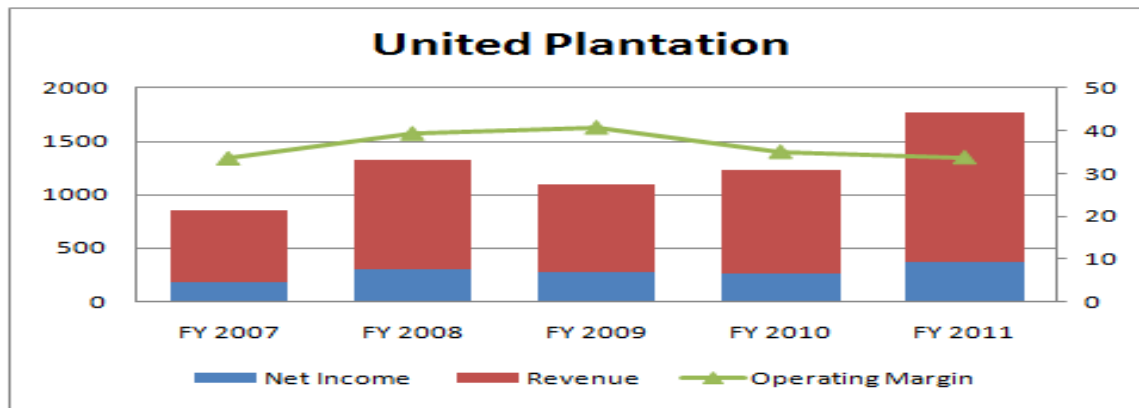
- Demand for vegetable oil has grown by ~4% p.a. (for the period 2001 to 2011), from 118mil MT to 176 mil MT. The strong demand was mainly due to:
  - Global population growth - ~1.2% p.a. over the past 10 years.
  - Rising living standards among Asian consumers, namely Chinese (oil consumption of ~22kg p.a. per capital), Indian (~13kg), Indonesian (~24kg), compared to developed nations like US (~54kg) and EU (~59kg).
  - Expanding of non-edible use of vegetable oil, where:
    - 74% of oil is used in the food industry,
    - 11% in the energy sector,
    - 10 % in oleochemicals industry and
    - 5% for animal fees.

# Treasure #3: Agriculture / Oil Seeds

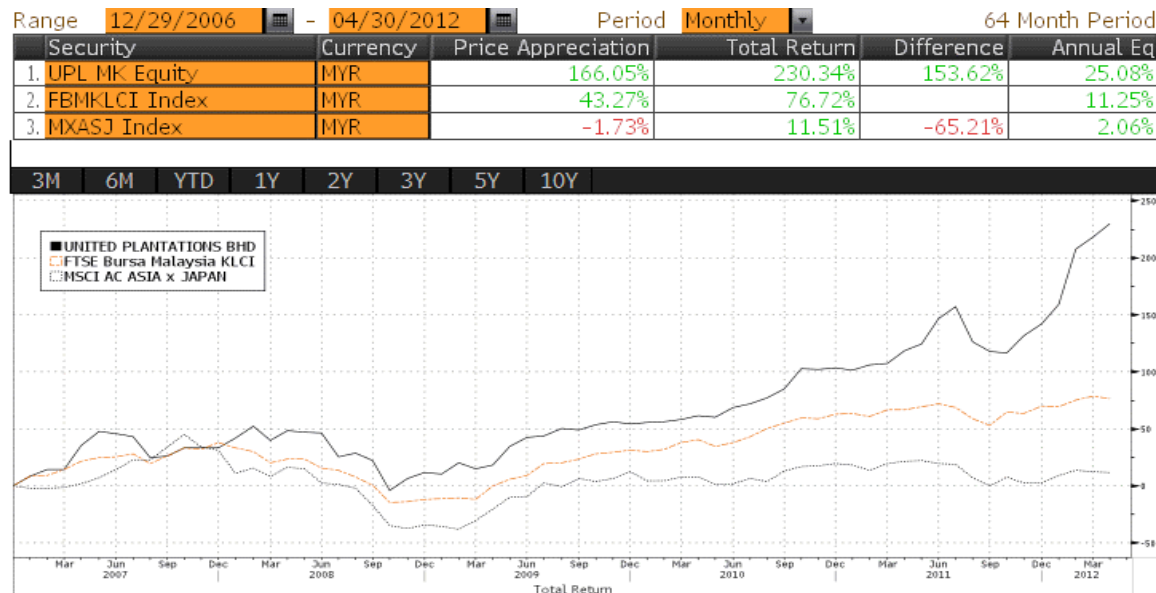
- Palm Oil remains as the most productive and profitable oilseed

Crop		Palm oil -Malaysia 2011	Rapeseed -EU 2010/2011	Soybean -USA 2010/2011	Sunflower -Argentina 2010/2011
<b>Harvest yield</b> (tonnes/ha/yr)		19.69	2.96	2.92	2.11
<b>Oil</b>	Oil Extraction (%)	20.35	41.55	19.10	41.89
	Oil yield (tonnes/ha/yr)	4.01	1.23	0.56	0.88
	Price (USD/tonne)	1,015	1368	1218	1241
	<b>Value (USD/ha/yr)</b>	<b>4,069</b>	<b>1,682</b>	<b>679</b>	<b>1,097</b>
		<b>85%</b>	<b>79%</b>	<b>42%</b>	<b>83%</b>
Non-oil:	Extraction (%)	5.07	57.57	79.39	43.92
<b>Meal or kernel</b>	Yield (tonnes/ha/yr)	1.00	1.70	2.32	0.93
	Price (USD/tonne)	696	264	406	246
	<b>Value (USD/ha/yr)</b>	<b>695</b>	<b>450</b>	<b>941</b>	<b>228</b>
		<b>15%</b>	<b>21%</b>	<b>58%</b>	<b>17%</b>
<b>Output</b>	<b>Total value (USD/ha/yr)</b>	<b>4,764</b>	<b>2,132</b>	<b>1,620</b>	<b>1,324</b>
		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

# United Plantations



- Revenue = 20.0% p.a.
- Net income = 20.2% p.a.
- Operating margin = ~36.5%



# Conclusion

- These are not easy times for Asian investors, what with global concerns weighing on markets (US double dip?, EMU solvency?, etc . . ), unprecedented cyclical adjustments (Asia leading the tightening cycle), and important paradigm shift (end of cheap labor in China).
- To do well, one has to remain very close to the market. Having said this, for us, a few key trends are already emerging. These include:
  - Asian currencies will remain well bid for the coming years.
  - Asian indices/ETFs will face challenges. Investors should invest with managers willing to stray massively from any benchmark.
  - We favor high-dividend yield paying stocks, utility stocks and 'stable growth' stocks, especially those linked to consumer.
  - Stocks linked to the infrastructure roll-out should be seen as a trade at best. Such stocks were the main driver of the past decade's Asian boom, but they will not be the leaders of the next decade.

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\* The section on Asia is inspired by GaveKal ad-hoc comment.