

2020 ASEAN Outlook

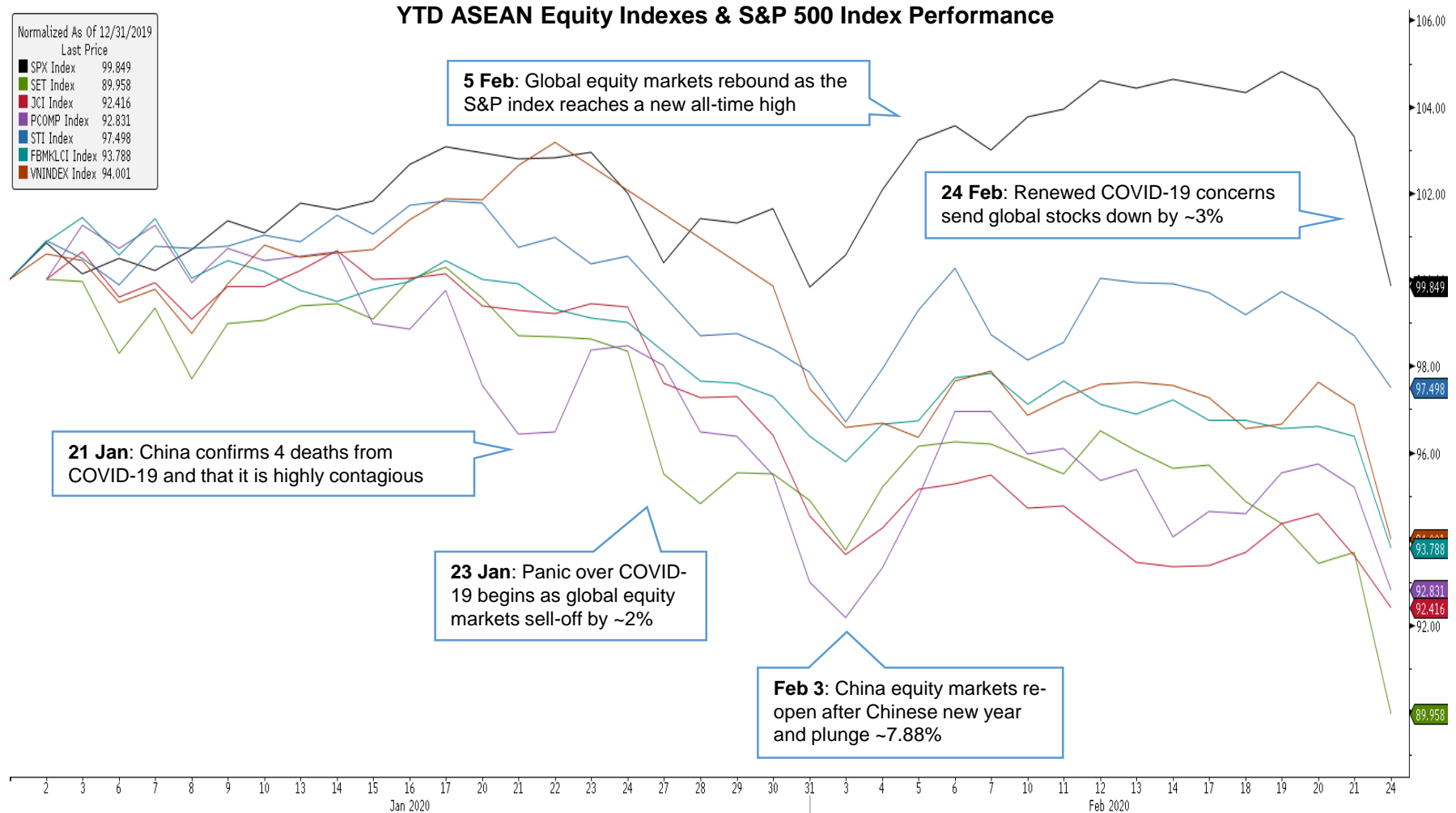
24th February 2020



COVID-19 Impact on ASEAN Indexes

COVID-19 has caused a turbulent start to the year for equity markets

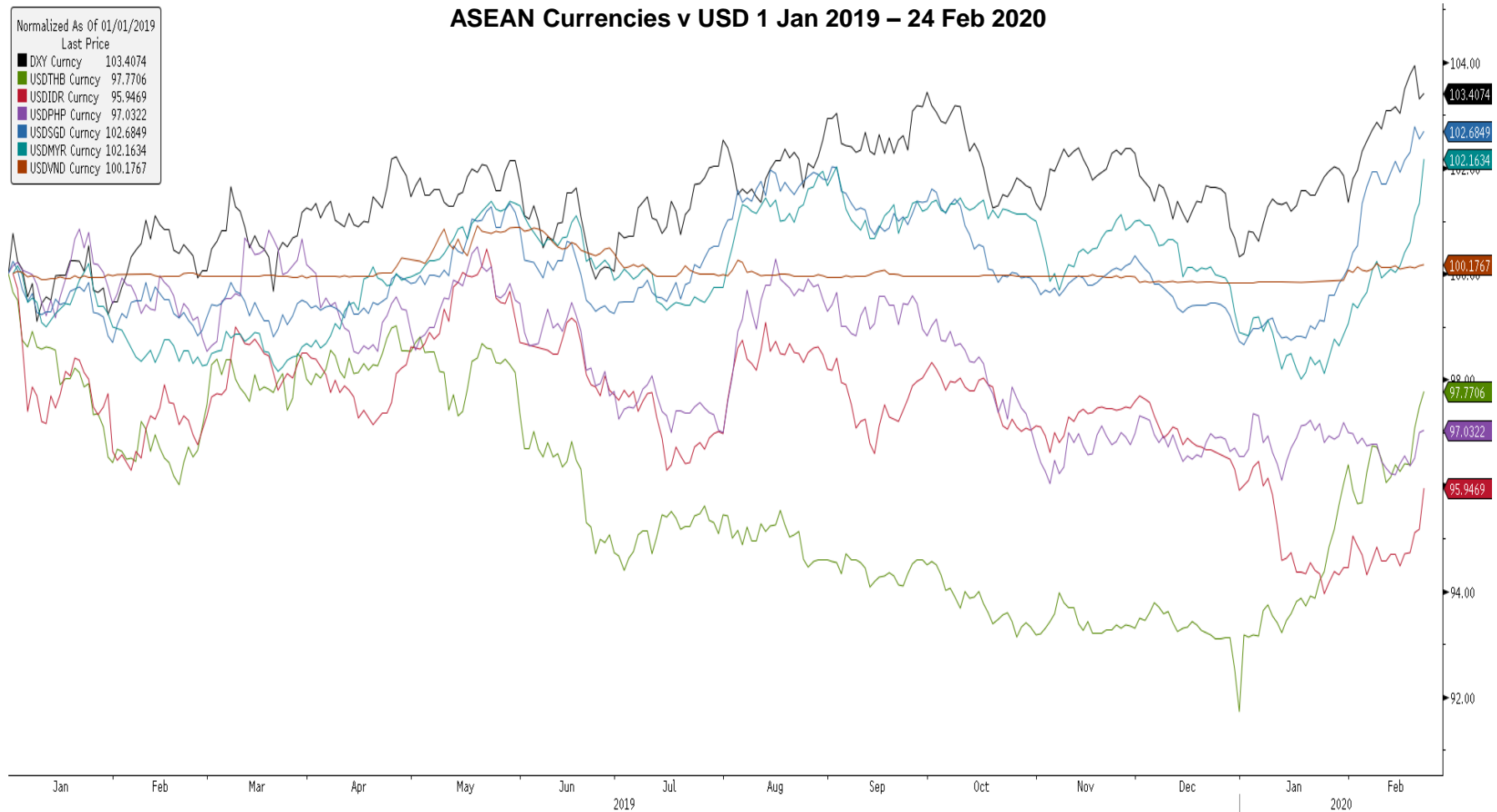
The SET Index has been the worst performer, falling by ~10% YTD



COVID-19 Impact on ASEAN Currencies

USD strength in 2020 has been a contributing factor to poor ASEAN equity performance

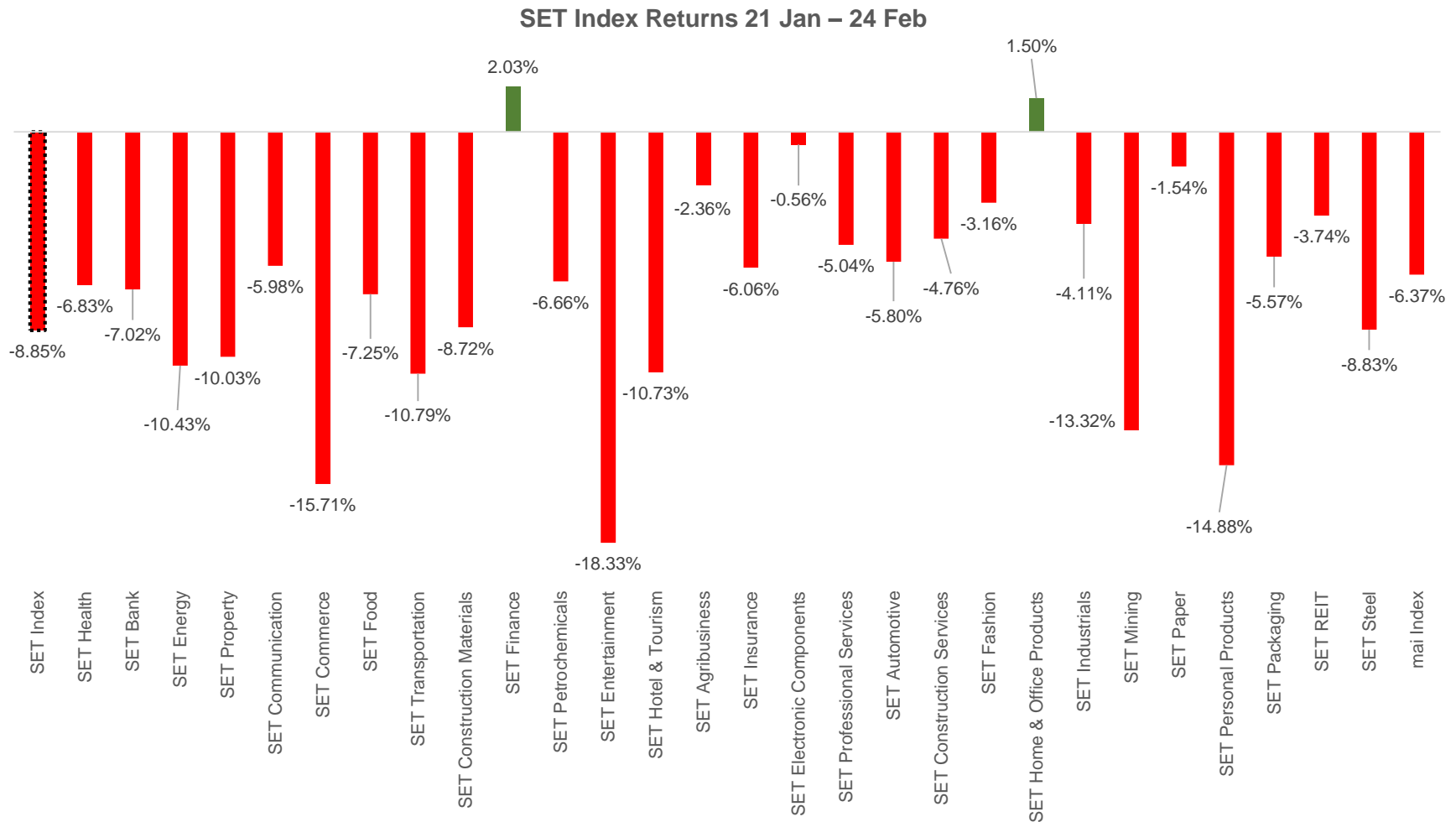
The THB has depreciated by ~6.6% during 2020



COVID-19 SET Index Impact

The SET Index has sold-off by ~8.9% since COVID-19 was first reported, with 24 February seeing the deepest sell-off of ~4%

The finance sector is the only sector to post meaningful gains during this period



COVID-19 Market Impact Summary

The SET Index has suffered a broad-based sell-off due to fears over COVID-19

	% Share Price Return	Trailing PE Valuation		
	21 Jan - 24 Feb	21-Jan-20	3-Feb-20	24-Feb-20
SET Index	-8.85%	18.32	17.34	16.57
SET Health	-6.83%	27.67	27.30	25.71
SET Bank	-7.02%	8.26	8.02	7.68
SET Energy	-10.43%	19.14	17.96	17.02
SET Property	-10.03%	12.83	12.04	11.09
SET Communication	-5.98%	17.03	16.27	15.99
SET Commerce	-15.71%	29.20	26.32	25.10
SET Food	-7.25%	21.13	20.05	18.87
SET Transportation	-10.79%	64.06	61.91	57.52
SET Construction Materials	-8.72%	15.75	15.37	14.31
SET Finance	2.03%	17.87	17.87	18.11
SET Petrochemicals	-6.66%	18.10	15.31	16.74
SET Entertainment	-18.33%	53.57	48.30	41.54
SET Hotel & Tourism	-10.73%	26.66	25.46	23.87
SET Agribusiness	-2.36%	59.89	60.11	50.32
SET Insurance	-6.06%	5.96	5.87	5.72
SET Electronic Components	-0.56%	18.90	18.35	19.40
SET Professional Services	-5.04%	44.37	45.08	40.26
SET Automotive	-5.80%	11.37	10.83	10.37
SET Construction Services	-4.76%	40.02	37.55	38.11
SET Fashion	-3.16%	18.09	18.14	19.33
SET Home & Office Products	1.50%	158.99	184.03	172.87
SET Industrials	-4.11%	-	-	-
SET Mining	-13.32%	1,348.24	1,136.49	-
SET Paper	-1.54%	7.53	7.22	7.29
SET Personal Products	-14.88%	29.10	22.15	26.79
SET Packaging	-5.57%	11.31	11.03	10.30
SET REIT	-3.74%	17.83	17.78	17.20
SET Steel	-8.83%	-	-	-
mai Index	-6.37%	21.29	20.94	19.07

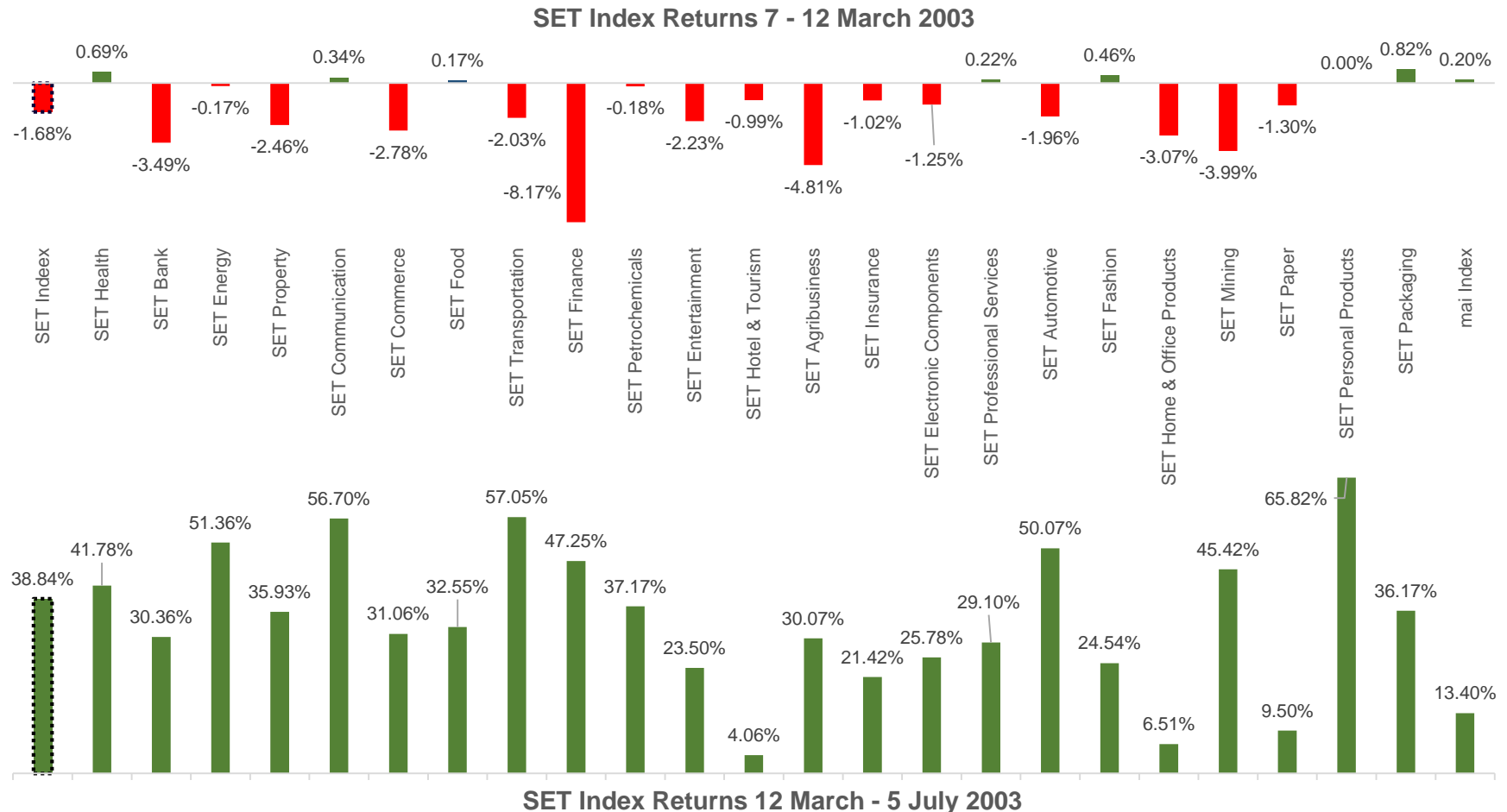
Observations:

- The SET Index has been the hardest hit in the region, declining by ~8.9% since COVID-19 was first reported on 21st January
- The finance index is the only sector to have posted a positive return during this period due to the belief that demand for alternative financing will increase during times of stress (the Home & Office Products Index is ignored due to outsized gains by 1 small company)
- The entertainment industry has been the worst performer as companies cut back on advertising spending during challenging times; the petrochemicals industry has also been hit hard as COVID-19 has caused demand to plunge, exacerbating the current oversupply in the industry
- Commerce, energy, property, hotel & tourism, and transportation have been the other big losers since the COVID-19 outbreak
- Its likely that a few of these sectors – hotel & tourism, transportation, commerce, energy, and entertainment – will see sharp rebounds when/if fears about COVID-19 subside
- The mining, professional services, household and personal products indexes can be ignored due to distortions caused by the composition of these indexes

SARS 2003 Sell-off & Rebound

SARS was widely reported in the news starting 7th March 2003; the SET Index sold-off by ~1.68% from 7th March – 12th March, which marked the bottom for the year

5th July marks the date when the CDC announced that SARS had been contained



SARS Market Impact Summary

The hotel & tourism index was an outperformer during the SARS sell-off, but also lagged peers during the market rebound

	%Share Price Return		Trailing PE Valuation	
	7 - 12 Mar	12 Mar - 5 Jul	7-Mar-03	31-Dec-03
SET Index	-1.68%	38.84%	11.56	28.59
SET Health	0.69%	41.78%	9.96	16.14
SET Bank	-3.49%	30.36%	32.35	-
SET Energy	-0.17%	51.36%	5.68	12.45
SET Property	-2.46%	35.93%	12.80	15.92
SET Communication	0.34%	56.70%	17.60	15.11
SET Commerce	-2.78%	31.06%	8.38	14.05
SET Food	0.17%	32.55%	9.17	11.40
SET Transportation	-2.03%	57.05%	3.85	7.82
SET Finance	-8.17%	47.25%	8.32	14.99
SET Petrochemicals	-0.18%	37.17%	-	-
SET Entertainment	-2.23%	23.50%	39.76	53.60
SET Hotel & Tourism	-0.99%	4.06%	11.45	20.25
SET Agribusiness	-4.81%	30.07%	6.73	12.87
SET Insurance	-1.02%	21.42%	10.70	13.86
SET Electronic Components	-1.25%	25.78%	14.17	20.07
SET Professional Services	0.22%	29.10%	7.76	9.85
SET Automotive	-1.96%	50.07%	-	-
SET Fashion	0.46%	24.54%	-	-
SET Home & Office Products	-3.07%	6.51%	8.69	16.12
SET Mining	-3.99%	45.42%	-	-
SET Paper	-1.30%	9.50%	-	-
SET Personal Products	0.00%	65.82%	-	-
SET Packaging	0.82%	36.17%	3.57	13.32
mai Index	0.20%	13.40%	-	-

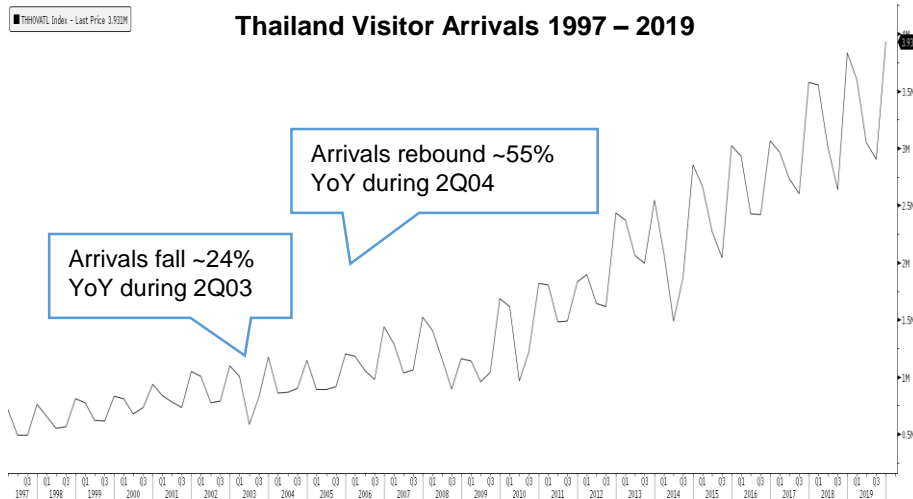
Observations:

- The sell-off in the SET Index during SARS was much less severe than the current COVID-19 outbreak, lasting a total of only 5 days from 7 – 12 March 2003; 12th March marked the low for the SET Index and the S&P 500 Index during 2003
- Unlike the COVID-19, the finance index was the hardest hit during the SARS outbreak
- The hotel & tourism index was surprisingly resilient during this period, declining only ~1%
- The healthcare index was the best performer during the sell-off returning ~0.7%
- From the low of the SARS sell-off on 12 March to the end of the epidemic on 5th July, the SET Index rebounded by ~39%
- The transportation, energy, communications, auto and finance industries were the main outperformers during the rebound
- The hotel & tourism index surprisingly returned only 4% during this period
- The difference between the COVID-19 sell-off and SARS sell-off is extremely stark due to the stronger position of the global economy in 2003, less demanding valuations, China's smaller contribution to global GDP and tourism's smaller contribution to Thailand's GDP
- The construction services, industrial machines, REITs and Steel indexes were not setup as of 2003

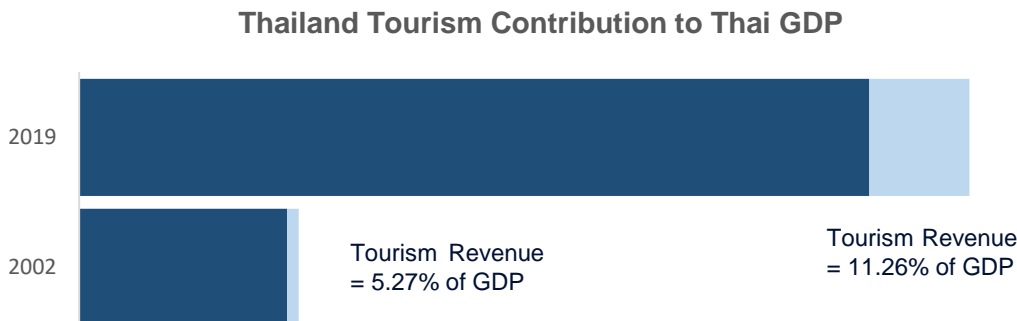
Thailand Tourism

Tourists arrivals fell by ~24% YoY during the second quarter of 2003 at the height of SARS; we can expect a similar impact to tourist numbers in 2020

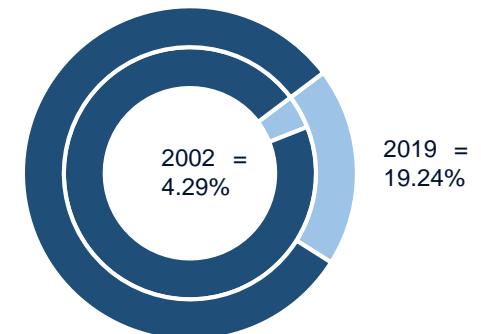
Thailand's dependency on tourism revenue has more than doubled, while the global economy's exposure to China has increased by ~5x since 2002



Thailand Airport Statistics 1 – 22 February 2020						
Airport	Flights (% Change)			Passengers (% change)		
	Dom	Int	Total	Dom	Int	Total
BKK	-9.7%	-19.5%	-17.2%	-20.9%	-33.4%	-30.9%
DMK	-0.3%	-17.3%	-6.9%	-12.5%	-38.5%	-23.5%
CNX	-6.9%	-37.5%	-16.6%	-20.7%	-62.1%	-33.3%
HDY	-8.0%	-19.7%	-9.1%	-14.0%	-38.7%	-15.8%
HKT	-9.4%	-29.2%	-20.8%	-28.5%	-34.8%	-32.3%
CEI	-5.6%	-63.9%	-13.2%	-14.7%	-86.3%	-23.2%
Total	-5.2%	-21.7%	-14.3%	-18.0%	-36.1%	-28.8%



China's Contribution to Global GDP (%)



COVID-19 v SARS

Its hard to draw on too many conclusions/foresight from the SARS outbreak in 2003 due to the vast differences between ASEANs economy in 2003 and 2020

Factor	SARS (2003)	COVID-19 (2020)
Length	SARS lasted ~5 months form the start of media coverage in March to de-escalation in July Sell-off in ASEAN indices lasted ~5 days, declining ~5% from the outbreak of SARS to the trough	COVID-19 has been in the news for ~1.5 months, with no signs of easing yet The sell-off in ASEAN indices has lasted for ~1.5 months, with declines of ~4-8%
Thai Hotel & Tourism Equity Index	Performed poorly during and after the SARS outbreak; tourism revenue was still a small portion of Thailand's economy	Has held up quite well, relative to tourism's greater importance to Thailand's economy, with the market perhaps pricing in a quick recovery from 2Q20
GDP	Average GDP growth of ~6% for ASEAN economies in 2003	Forecasted 2020 average GDP growth of ~4.4% in ASEAN
Valuations & Interest Rates	PE valuations averaged ~14x at end 2002 and increased to ~16.8x at end 2003 Real interest rates averaged ~5% across ASEAN	PE valuations averaged ~17.3x at end 2019; current PE valuations in ASEAN average ~16.2x Current real interest rates average ~1% across ASEAN, supporting higher valuations
Conclusions	<ul style="list-style-type: none"> • ASEANs economies were much smaller during the SARS outbreak, and thus grew rapidly from a low base, with tourism still not a major player as in 2020; the ASEAN Indices returned ~30-100% from their respective lows during SARS. • Current conditions look different, with ASEANs economies more inter-linked with China for both tourism and trade. • The finance industry has been a strong outperformer during both outbreaks • The Thai hotel and tourism sector was much smaller in 2003, and experienced minimal volatility during SARS; we expect the hotel and tourism sector to show greater volatility in 2020 due to its larger contribution to Thailand • Energy, transportation, petrochemicals, property, and communication are other sectors that performed well during the SARS outbreak 	
Inconsistencies	<ul style="list-style-type: none"> • There is still uncertainty over how long COVID-19 outbreak will last • China now plays a much greater role in the global economy vs. 2003 and a decline in economic activity there will have larger repercussions for the rest of the world in 2020 	

2020 ASEAN Top-Down View

From a top-down point of view, the Philippines and Vietnam look best placed to weather the sluggish global economy and the COVID-19 outbreak

A screen of ASEAN was conducted to determine which region should be our main focus

The screening was conducted based on 8 Macro factors and 6 financial/relative valuation factors

Macro factors were given a weighting of 40%, financials and relative valuations were given a weighting of 60%

Country	Macroeconomic Health	Financials/Valuations Health
Philippines	B	A
Vietnam	A	D
Indonesia	D	B
Malaysia	E	C
Thailand	C	E
Singapore	F	E

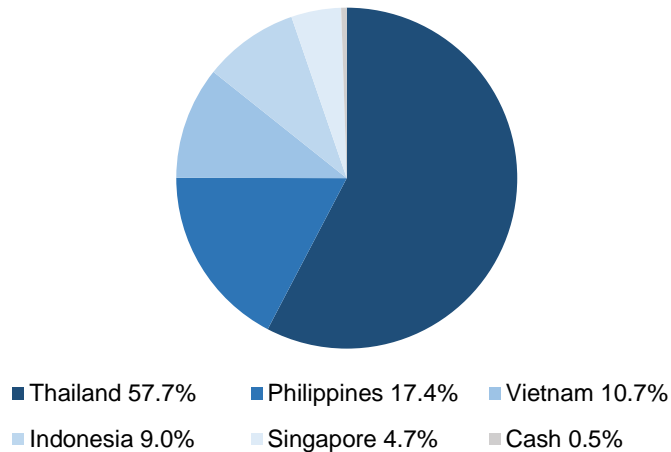
- The Philippines is given the highest overall grade due to its strong relative valuations and above average macroeconomic outlook
- The Philippines current account deficit is the main drag on its score
- Thailand and Singapore both have comparable scores, suffering from poor demographics, slow GDP growth and high relative valuations
- The Philippines, Vietnam and Indonesia look like the most attractive markets

Country	Population	Media Age	2020F GDP Growth	Household Debt/ GDP	Current Account/GDP	Current PE to Avg PE	2020F ROE	2020F EPS Growth
Philippines	117.26mn	25.7	6.20%	12.1%	-2.2%	-17.19%	11.63%	10.31%
Vietnam	99.92mn	30.5	6.70%	61.5%	2.3%	-9.79%	17.75%	9.56%
Indonesia	281.64mn	28.8	5.00%	10.3%	-2.6%	-7.92%	16.87%	29.82%
Malaysia	34.92mn	28.6	4.00%	62.3%	2.7%	-6.11%	9.54%	10.45%
Thailand	68.26mn	38.3	2.85%	78.6%	5.5%	0.59%	9.47%	11.62%
Singapore	5.83mn	42.2	1.40%	57.1%	16.7%	-1.34%	8.97%	-9.22%
Median	84.09mn	29.6	4.50%	59.3%	2.5%	-7.02%	10.59%	10.38%

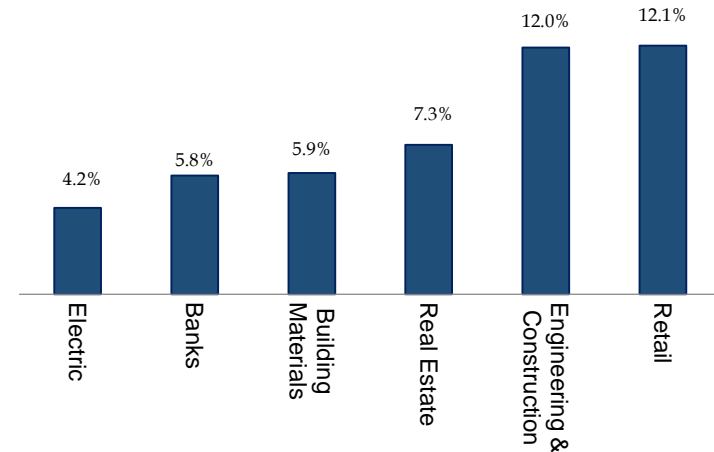
RVC Portfolio January 2020

RVC's portfolio currently has a large exposure to ASEAN's fastest growing regions (Philippines & Vietnam) and is positioned for an expected recovery in Thailand during 2H20 after the COVID-19 outbreak settles down

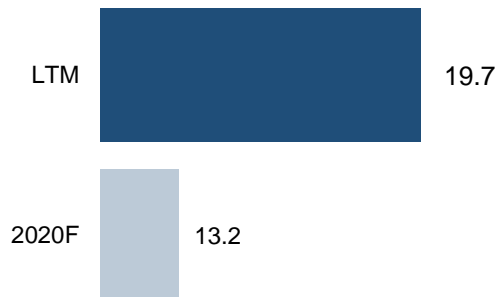
RVC Portfolio Regional Allocation



RVC Portfolio Sector Allocation



Price to Earnings (P/E)



Price to Book (P/B)



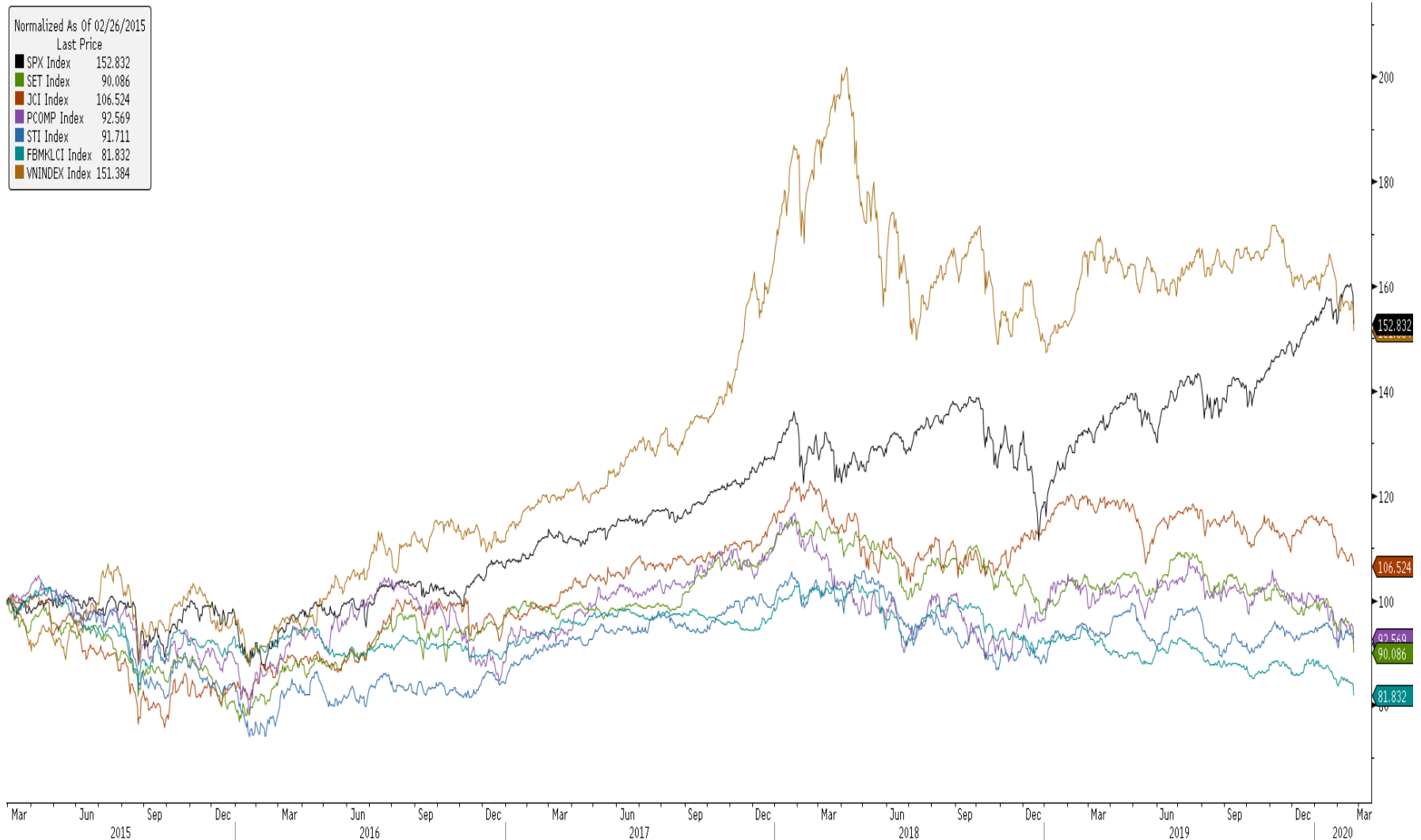
Return on Equity (ROE)



Appendix

5-Year Returns

With the exception of Vietnam, all ASEAN indexes have massively underperformed relative to the S&P Index over the past 5 years



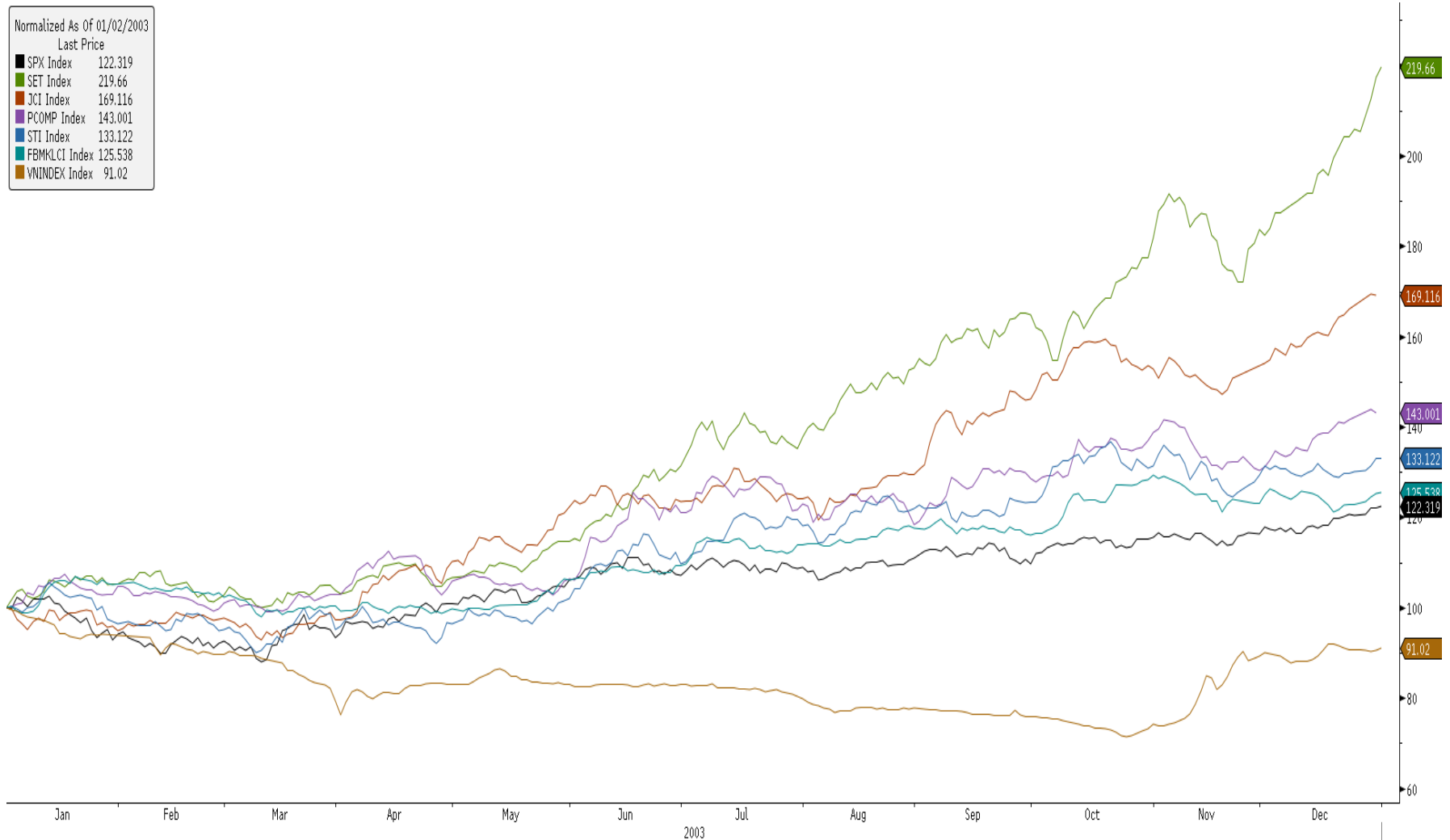
1-Year Return

Divergence over the past year is even more stark, with the S&P Index delivering alpha of ~19% vs ASEAN's best performer, Singapore



Equity Returns during SARS (2003)

After bottoming on 12th March 2003, ASEAN equity markets soared, with Thailand leading the way, returning ~119% from the 2003 low



Philippines Valuations

The Philippines has not traded at these valuations since ~2013, despite strong EPS numbers

Philippines Equity Index v Forward EPS 2000 – 2020

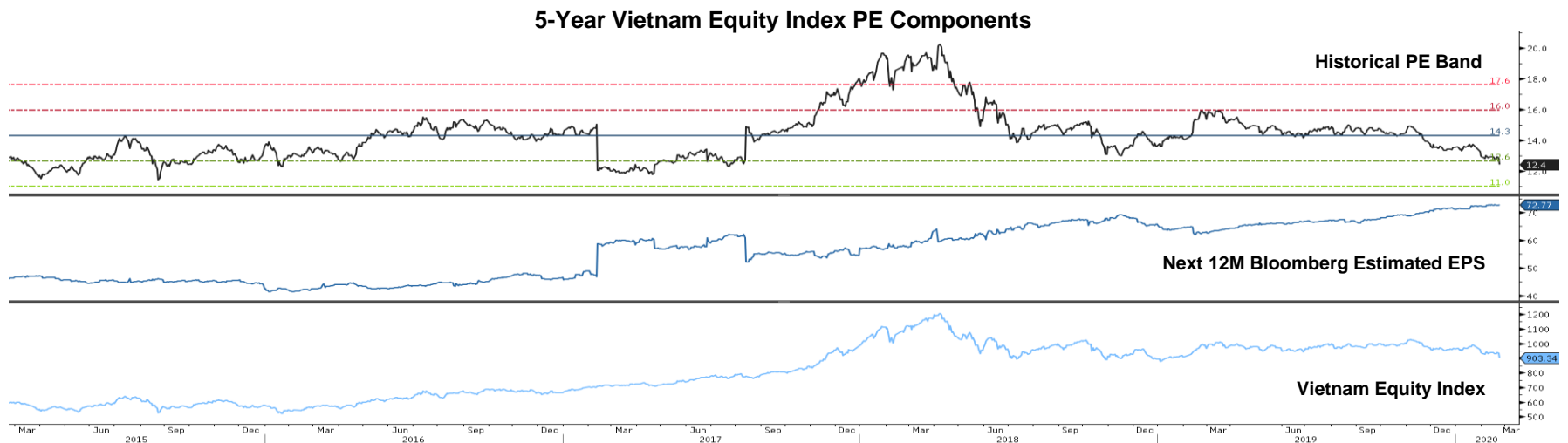
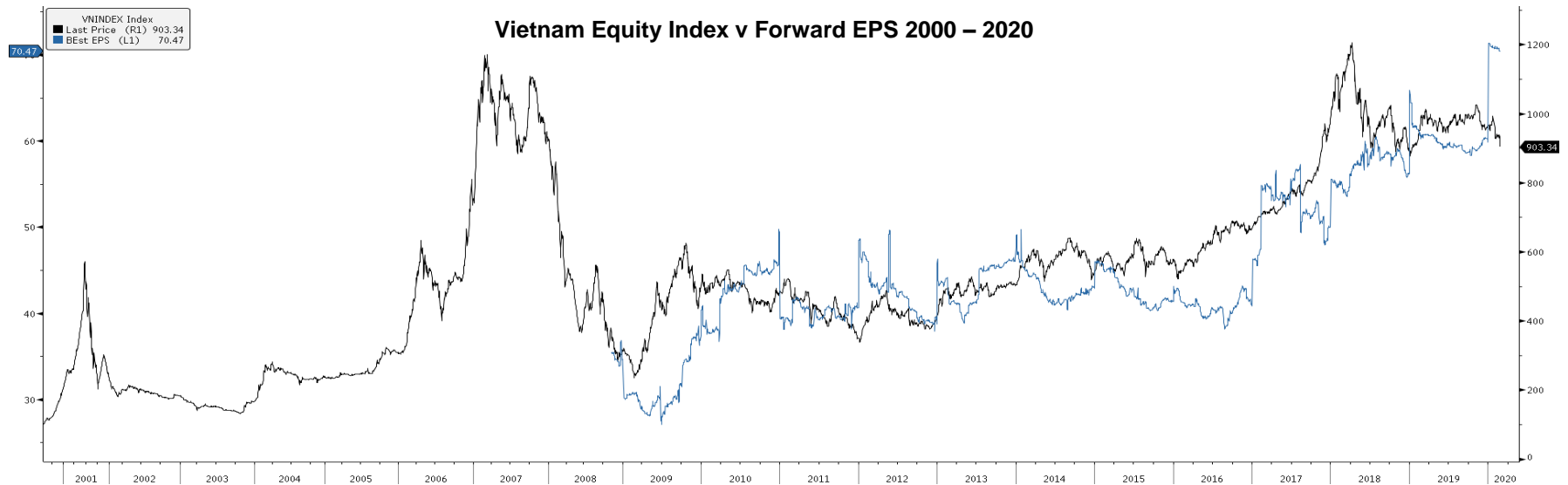


5-Year Philippines Equity Index PE Components



Vietnam Valuations

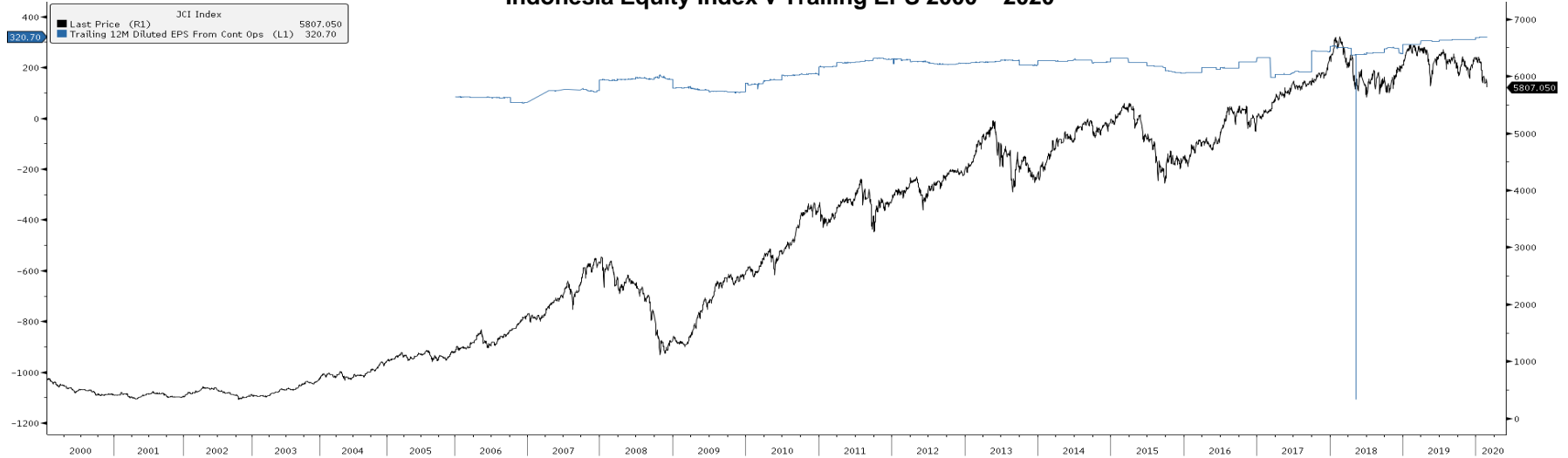
Vietnam is another region showing strong growth, but trading at trough valuations



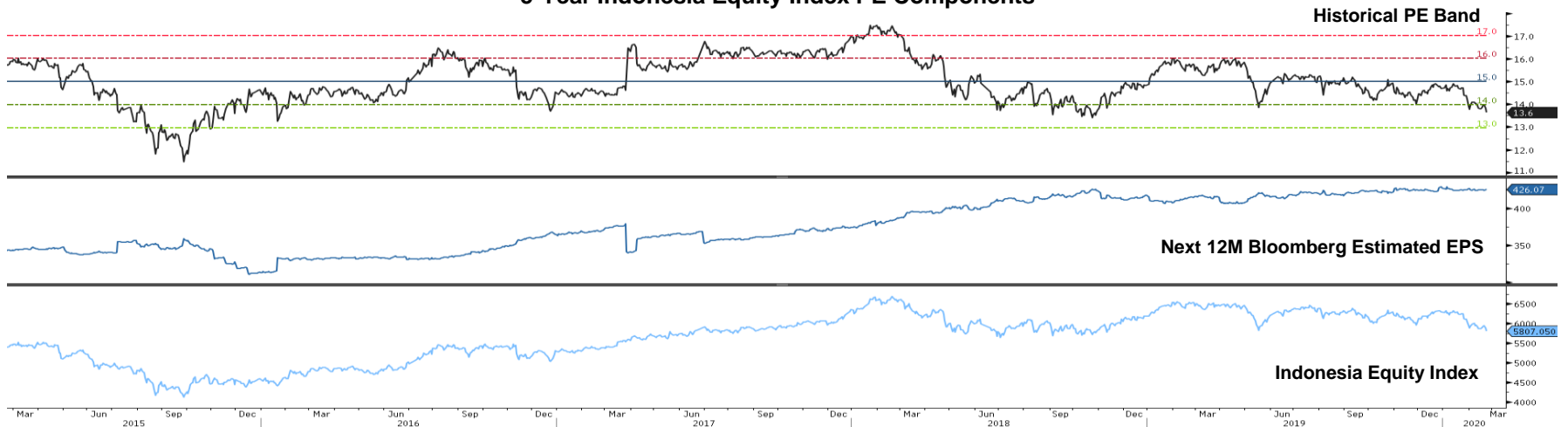
Indonesia Valuations

Growth in Indonesia hasn't been as strong as in PHP & VN, but valuations remain compelling

Indonesia Equity Index v Trailing EPS 2000 – 2020



5-Year Indonesia Equity Index PE Components



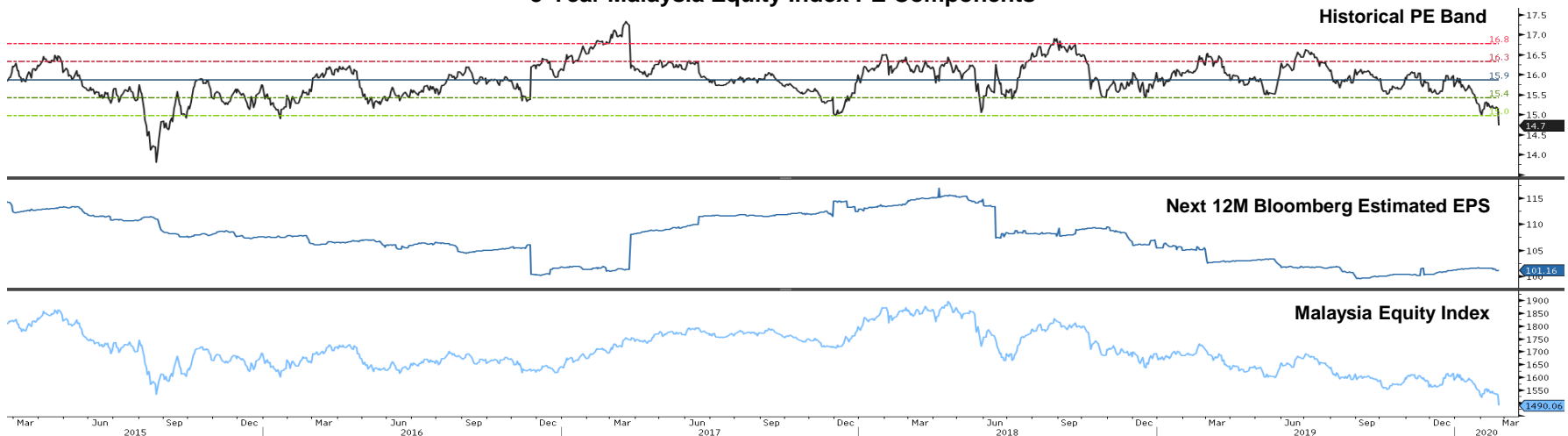
Malaysia Valuations

Similar to PHP, Malaysia is trading 2 standard deviations below historical valuations, but this has largely been driven by disappointing forward earnings estimates

Malaysia Equity Index v Forward EPS 2000 – 2020



5-Year Malaysia Equity Index PE Components



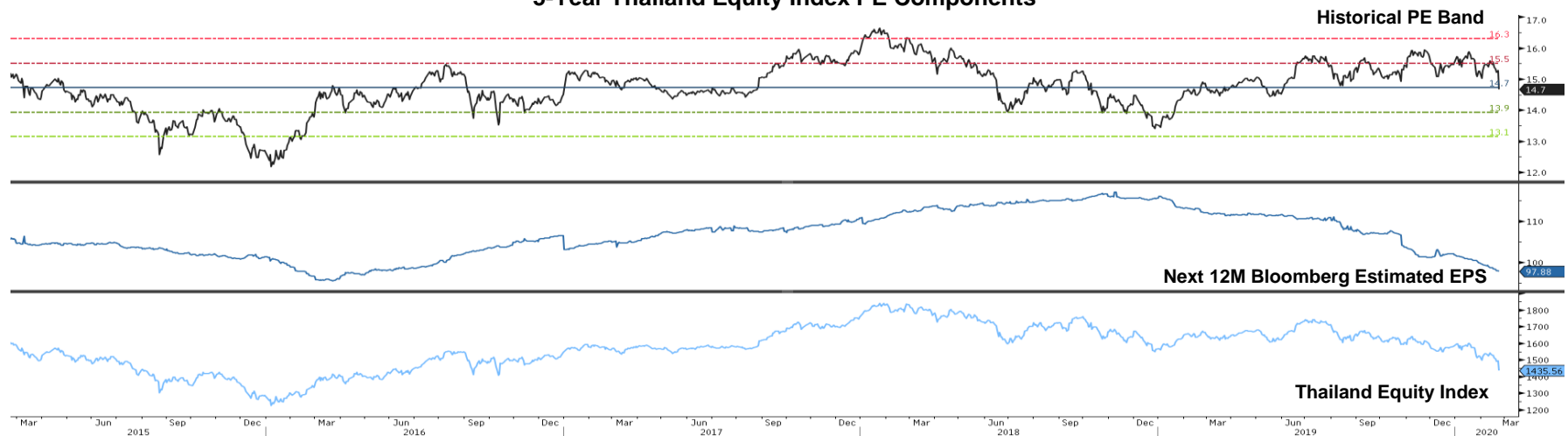
Thailand Valuations

Heavy weighting of oil & petrochemical companies in Thailand's Index leaves both forecasted EPS numbers and valuations looking poor

Thailand Equity Index v Forward EPS 2000 – 2020



5-Year Thailand Equity Index PE Components



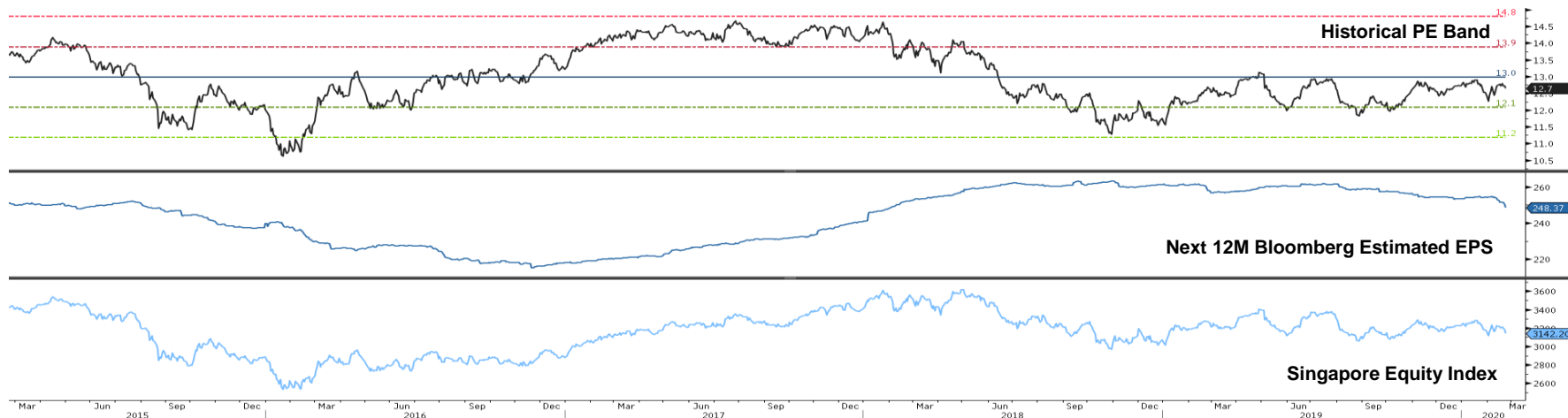
Singapore Valuations

Poor earnings outlook leave Singapore looking unattractive at current valuations, despite the underperformance

Singapore Equity Index v Forward EPS 2000 – 2020



5-Year Singapore Equity Index PE Components



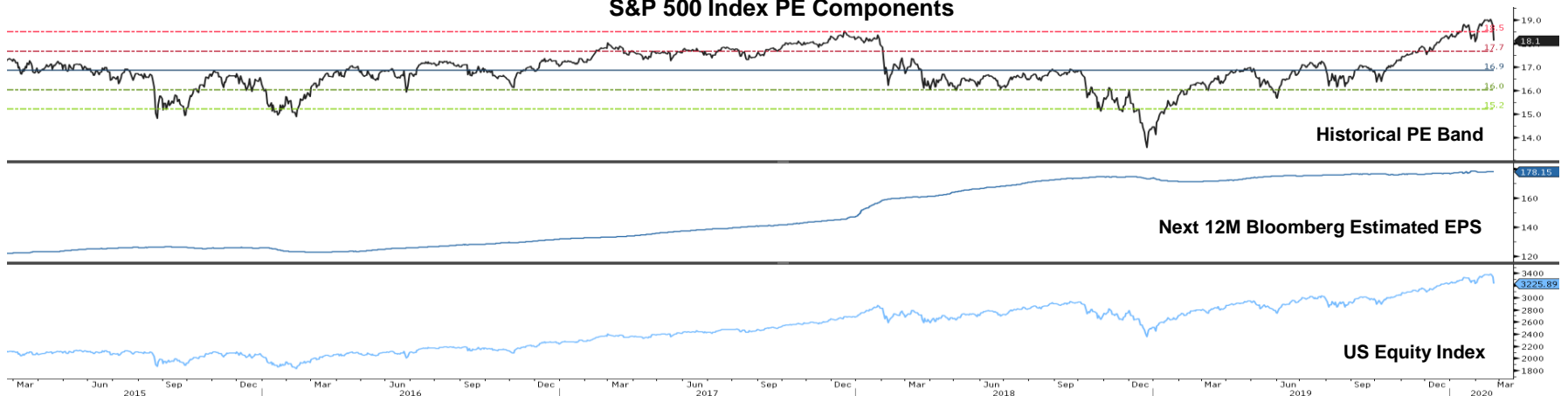
US Valuations

Meanwhile, the S&P Index is trading 2 standard deviations above historical valuations, with slow EPS growth numbers

S&P 500 Index v Forward EPS 2000 – 2020



S&P 500 Index PE Components



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