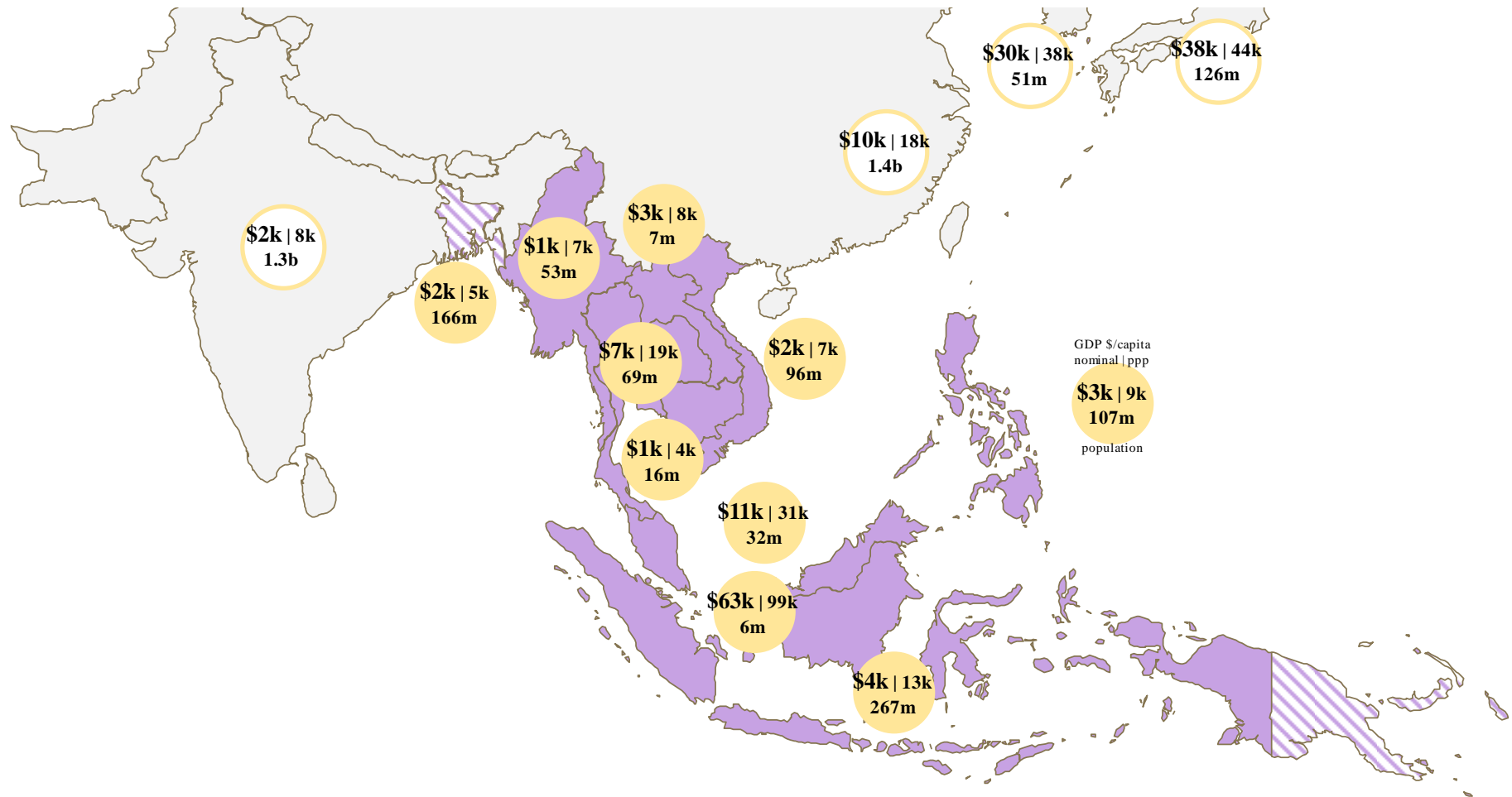


The Southeast Asia Opportunity

Trani, 12 July 2019



+some investment ideas to take advantage of SEA

florian.weidinger@hansabay.com

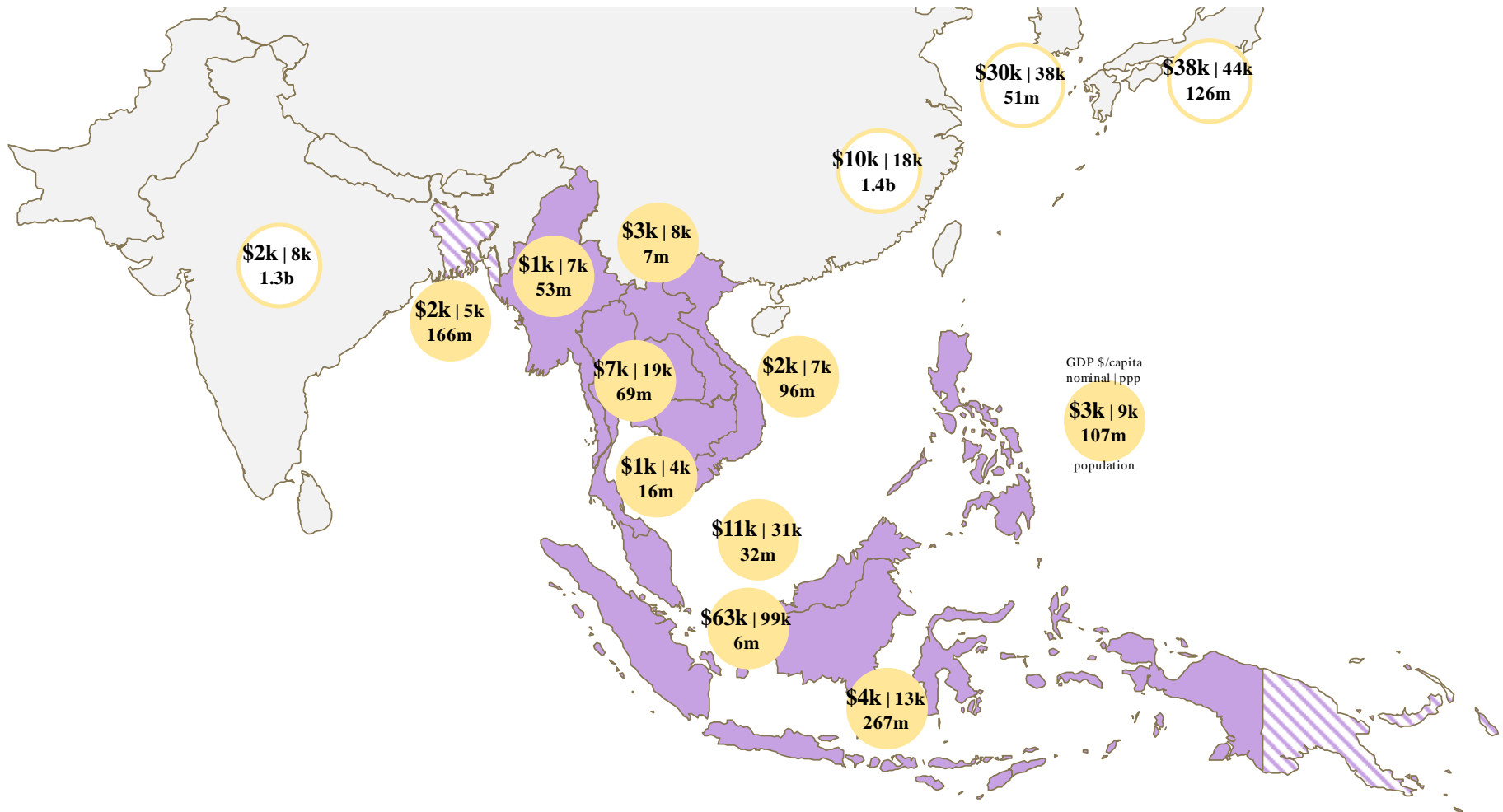
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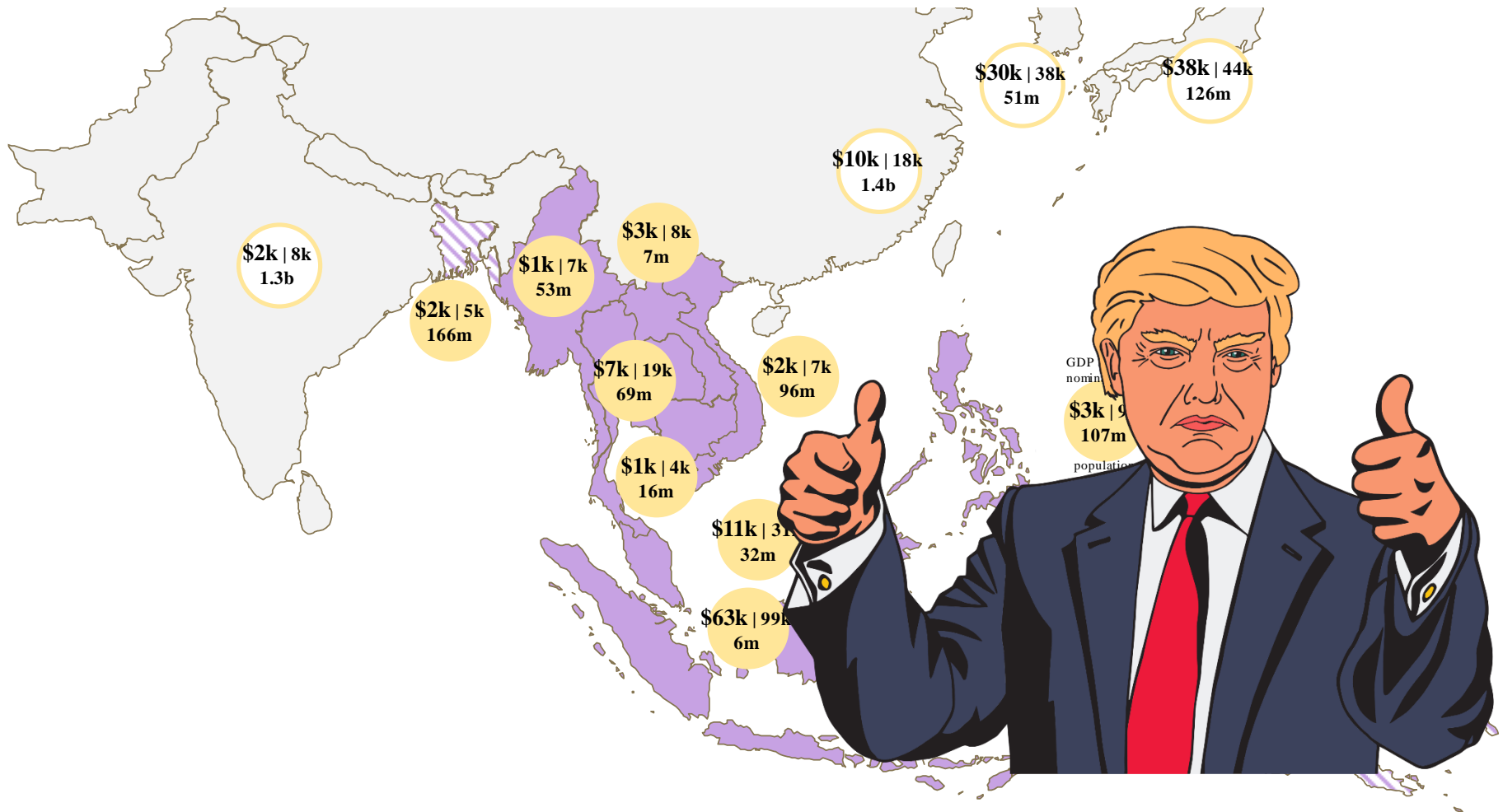
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Executive Summary



Executive Summary



Executive Summary

Southeast Asia is a lost asset class yet bigger than India; corporate/FDI investors are finding out, portfolio investors not yet ... and the trade war is accelerating an already ongoing trend of capital flowing into the region

<p>1</p> <p><u>Southeast Asia is a neglected asset class in capital markets</u> <i>but slowly being recognized</i></p>	<ul style="list-style-type: none">▪ Southeast Asia is the 5th largest economy in the world, yet under-represented in global capital markets with less than 9% of the MSCI Emerging & Frontier index.▪ 5k listed stocks with capital markets in transition<ul style="list-style-type: none">○ growing number of listings through e.g. IPOs○ local bourses become sophisticated (e.g. short selling)○ minimal and declining analyst coverage in the small/mid cap space with cheap valuations
<p>2</p> <p><u>Long-term trend of capital moving south</u> <i>sustainable and different from 1997</i></p>	<ul style="list-style-type: none">▪ emerging & frontier Southeast Asia is entering demographic sweet spot AND a sustainable regional investment cycle<ul style="list-style-type: none">○ growth of the underlying economies through demographic dividend○ ageing North Asia becomes an exporter of capital seeking access to cheaper labour▪ foreign direct investment (FDI) drives sustainable regional long-term cycle<ul style="list-style-type: none">○ well-diversified source & long-term commitment (not hot money!)
<p>3</p> <p><u>Trade war is accelerating this trend</u> <i>with a geostrategic dimension</i></p>	<ul style="list-style-type: none">▪ SEA is not only a short-term winner from the trade war, but a sustainable and long-term winner<ul style="list-style-type: none">○ the investment trends have been in place way before the start of the trade war but are now seeing a catalyst, preponing long-term growth▪ Rather than being stuck in the middle, SEA is being courted by a multipolar world<ul style="list-style-type: none">○ the investment trends have been in place way before the start of the trade war but are now seeing a catalyst, preponing long-term growth

Executive Summary

Hansabay: unique partner to access Southeast Asia with a niche public markets strategy with absolute return elements, and long history of responsible investing.

<p>4</p> <p><u>niche strategy</u> <i>with minimal competition to take advantage of the opportunity</i></p>	<ul style="list-style-type: none">▪ “we buy from local short-term investors and sell to Fidelity” – our target markets are dominated by local investors, and are growing to be attractive to foreign investors▪ very few Southeast Asia specialist investing teams around – and no one known to us employs our strategy :<ul style="list-style-type: none">○ the opportunity is bigger than India in GDP and market-terms, yet India is over-covered▪ long-only track record of lower market correlation, down-market outperformance yet full upside capture
<p>5</p> <p><u>absolute return/valued added investing</u> <i>de-risking through security selection & impact on portfolio companies/their business, not just buying paper</i></p>	<ul style="list-style-type: none">▪ “special situation”: seek superior risk-rewards across capital structure or events:<ul style="list-style-type: none">○ trusts at discounts, preference shares, GDRs○ holdco, credit or convertible alternative▪ “activism”: engagement with portfolio companies to achieve better corporate governance and disclosures to public investors & successfully advocate for value-creating measures▪ “discovery”: among first to invest in less covered companies for an attractive return▪ integration of responsible investing elements in process throughout (UN PRI member)
<p>6</p> <p><u>investor-ready alternative investment & and not an illiquid allocation</u> <i>following 6 years of building a track record as a regulated entity</i></p>	<ul style="list-style-type: none">▪ Hansabay is a registered fund management company, regulated by Monetary Authority of Singapore<ul style="list-style-type: none">○ stable team of 4 ½ professionals managing total AUM >\$100mn primarily on behalf of family offices from Germany, Italy, Hungary, Switzerland and the US + one US institution▪ Flagship fund (Luxemburg SIF) offers monthly-to-quarterly subscription and redemptions<ul style="list-style-type: none">○ only invests in publicly traded securities

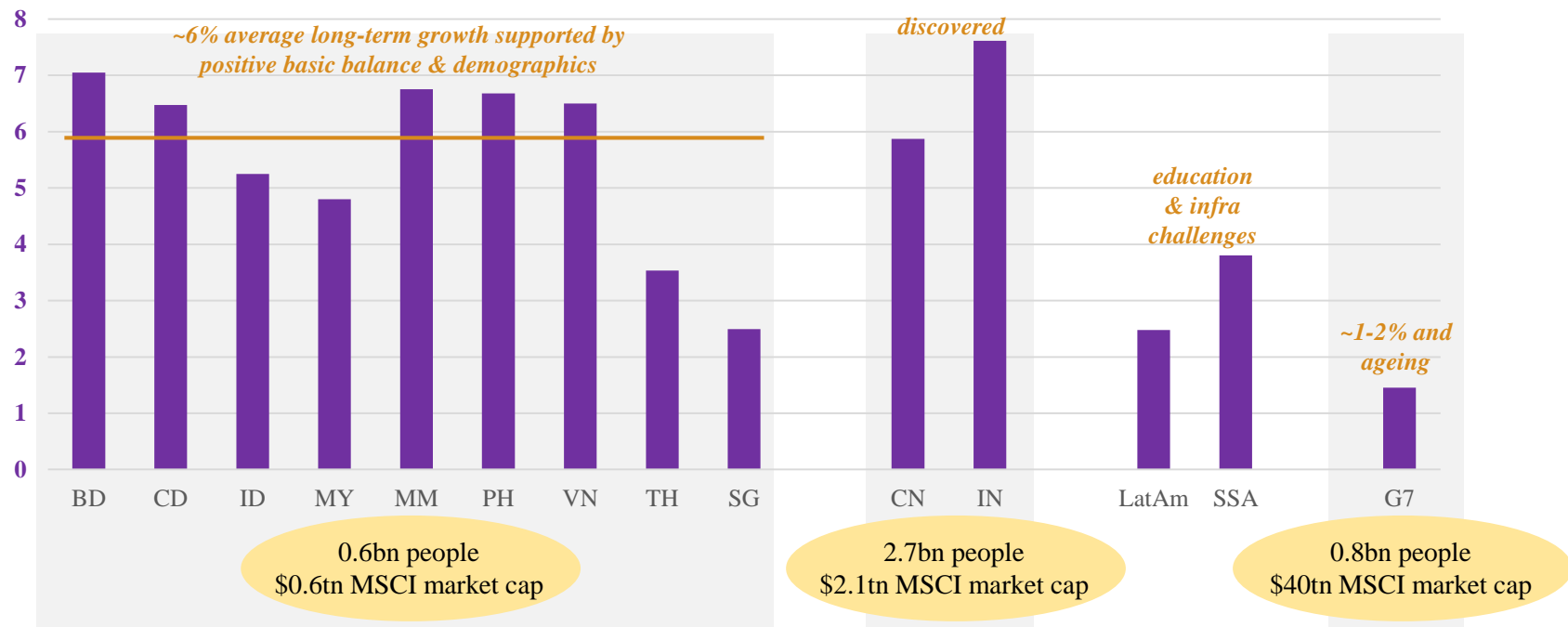
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Southeast Asia Opportunity

Long-term growth in emerging & frontier Asia

Southeast Asia is an undiscovered and inefficiently priced asset class, featuring some of the world's most attractive long-term investment destinations such as Vietnam, Indonesia and the Philippines.

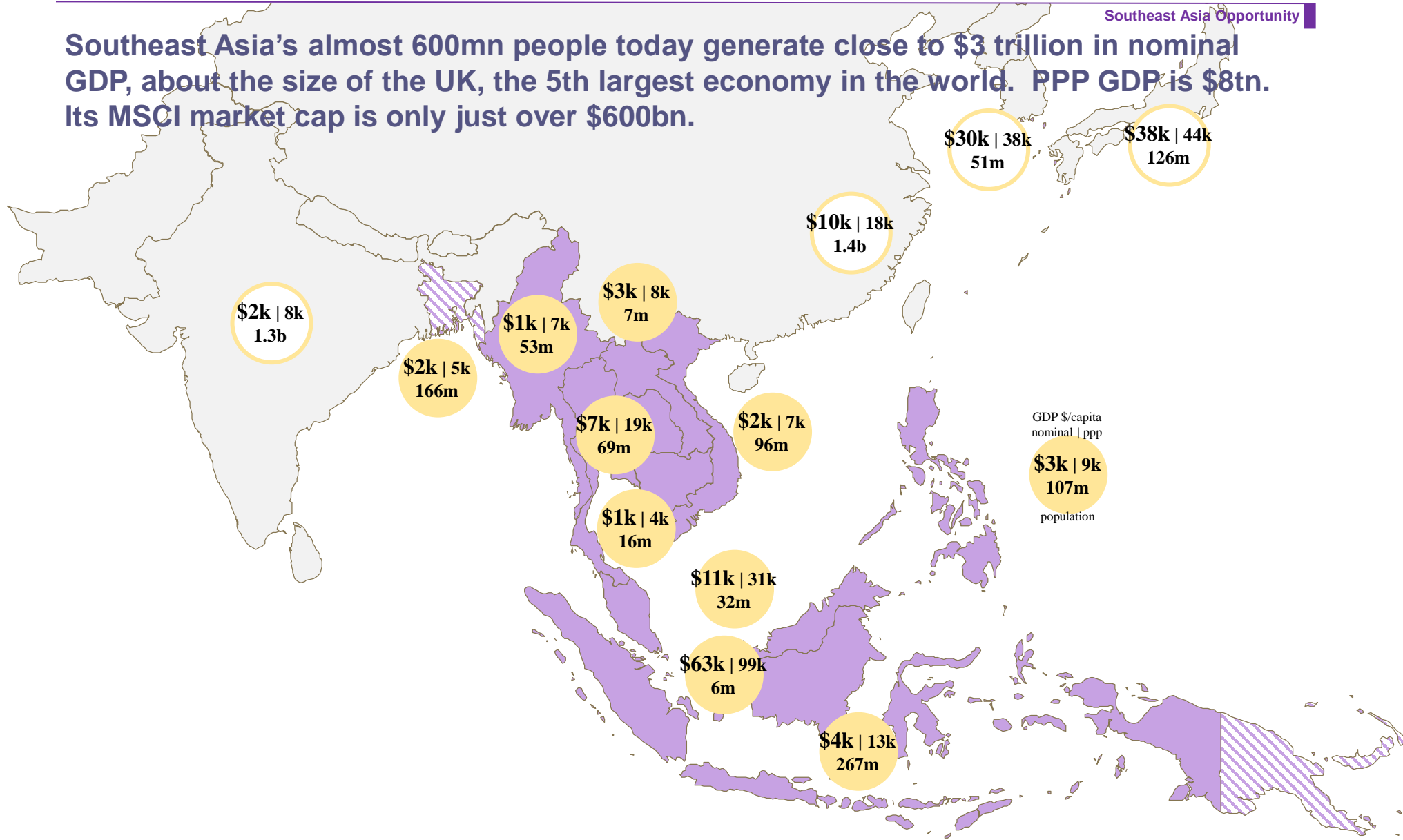
IMF World Economic Outlook 2019-2024 Average Growth Rate (%)



Southeast Asia: undiscovered large & growing economies

Southeast Asia Opportunity

Southeast Asia's almost 600mn people today generate close to \$3 trillion in nominal GDP, about the size of the UK, the 5th largest economy in the world. PPP GDP is \$8tn. Its MSCI market cap is only just over \$600bn.



Sources: Hansabay estimates based on MSCI, Bloomberg, World Bank data.

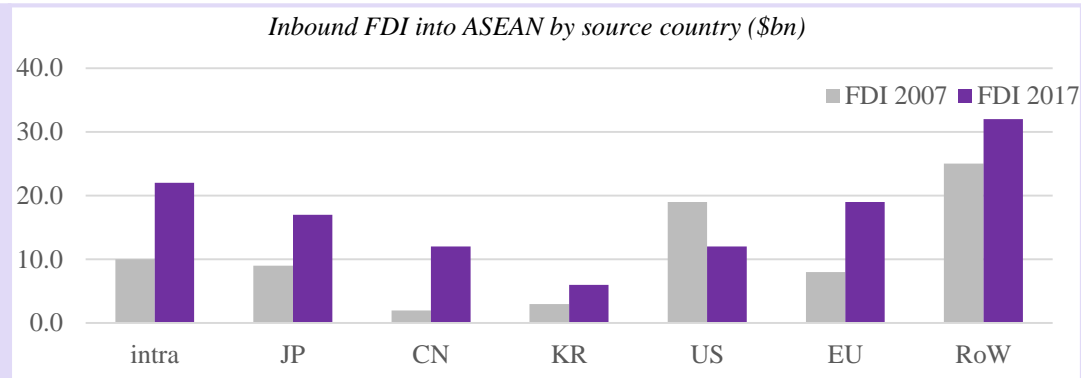
An active value investor's playground

	All Share Data			MSCI	Analyst Ratings	
	# Firms	Mkt Cap \$bn	<i>% rep in MSCI</i>	Traded Value \$mn	avg rating per stock	% no rating
TH	794	\$533	23%	\$1,699	4	28%
PH	266	\$269	22%	\$141	5	53%
ID	649	\$505	22%	\$623	5	49%
MY	944	\$419	28%	\$573	3	72%
SG	649	\$583	31%	\$840	2	22%
VN	1,565	\$191	10%	\$136	1	68%
BD	312	\$35	9%	\$66	1	86%

Why Asia Now?

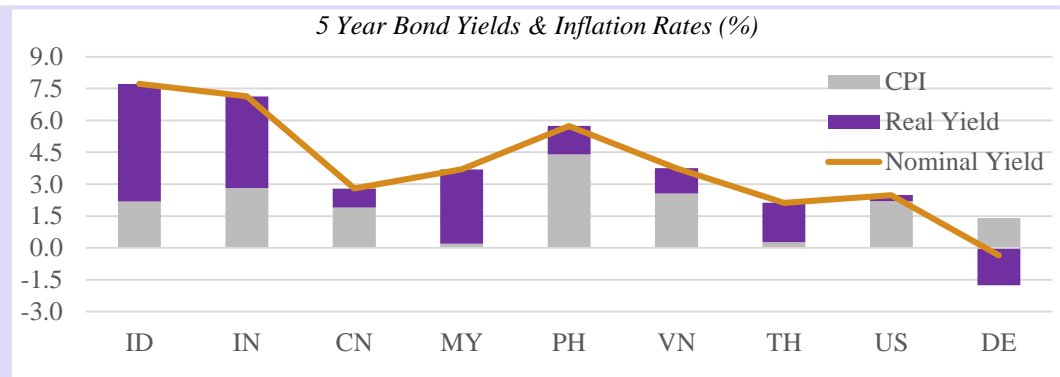
1

emerging & frontier Asia is entering demographic sweet spot AND a sustainable regional investment cycle



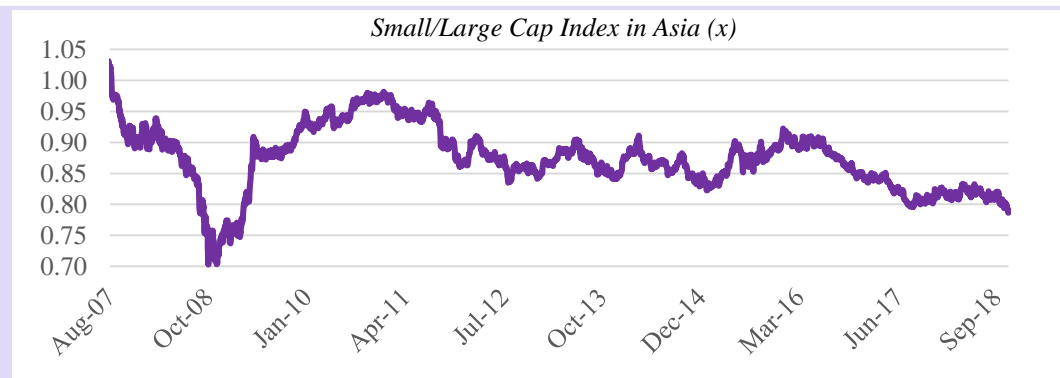
2

Real Yields are moderately higher, and less affected by central banks – should attract capital; Asian countries with low real yields are at least high growth



3

Hansabay's typical target universe is historically cheap



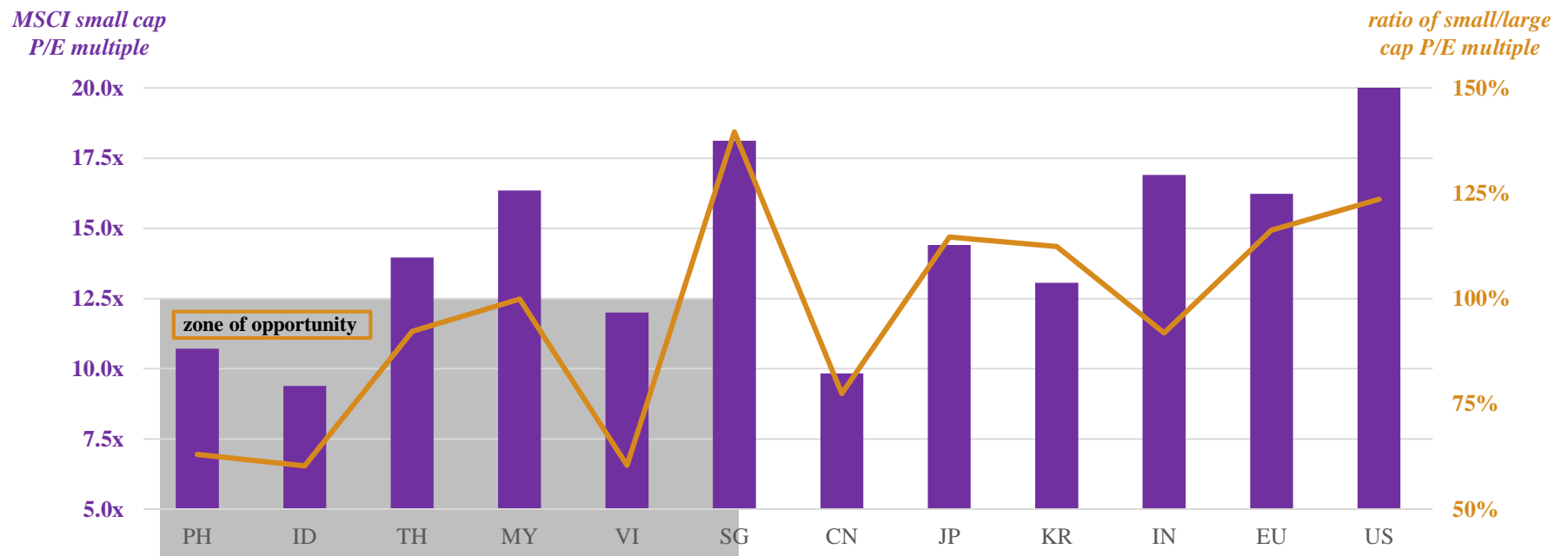
Sources: (1) ASEAN; (2,3) Bloomberg.

“the most interesting sub-asset class in global equities”

Small-Cap Southeast Asia is cheap in absolute and relative terms:

- other than China, the only region where higher growth small caps are a bargain
- one of the few regions not to have rallied hard these past few years, not benefitting from synchronized money printing

Price-to-Earnings Ratios of MSCI Small Cap Indices



2

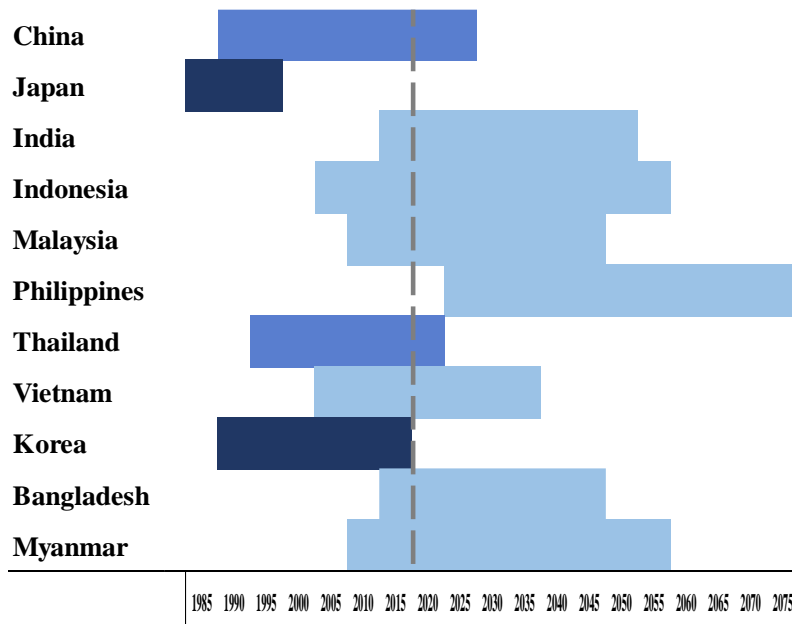
Capital Flowing South

The “demographic sweet spot”

Southeast Asia has the necessary threshold conditions in hard (e.g. electricity generation) and soft (e.g. education levels) infrastructure to capitalize on its young populations – in the form of dramatic rises in FDI inflows, more and better jobs, urbanization and growing domestic economies.

Years during which percentage of population aged 0-14 below 30% & population aged 65+ below 15%

Older net saver countries start exporting capital to younger economies



“good enough” infrastructure to facilitate development



7

Seven southeast Asian nations in top-35 countries for ease of getting electricity as a business



8th

Vietnam PISA rank for 15yr olds science scores, out of 72 countries

Educational Attainment % of 15+ population with at least primary education



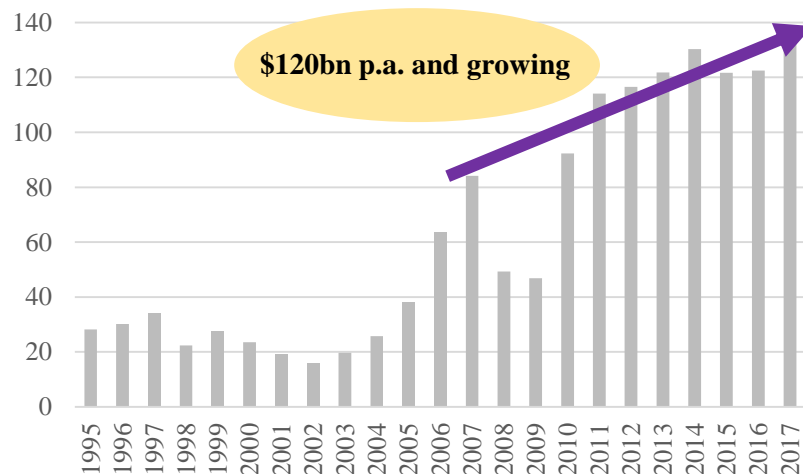
The long-term money has noticed, the short-term one hasn't

Southeast Asia has been discovered by the conglomerates and industrial players of the world, increasingly so also from North Asia – but portfolio investors i.e. fund managers and banks are still massively underweight the region and ignoring the asset class

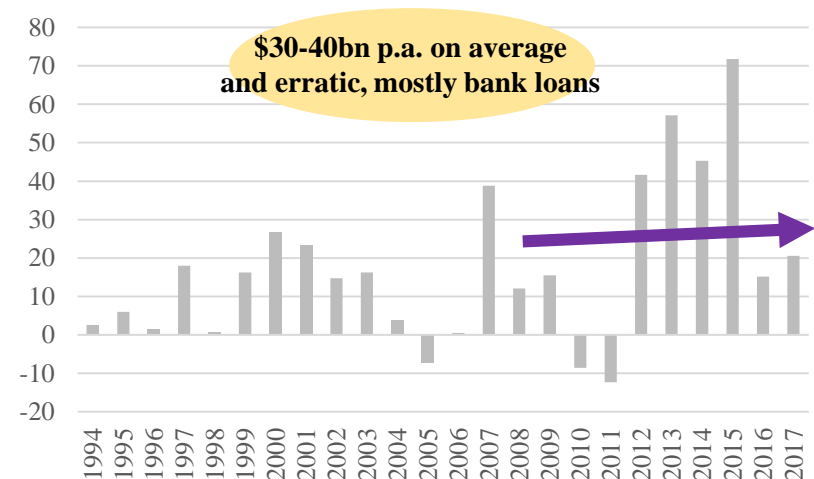
Foreign Direct Investment (FDI) drives sustainable regional long-term cycle, growing in size ...

... while portfolio investors have not participated in a major way so far

inbound FDI into ASEAN (\$bn)



aggregate portfolio investment into ASEAN countries (\$bn)

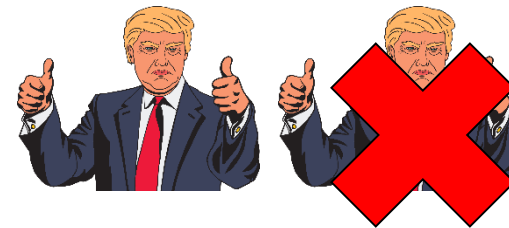
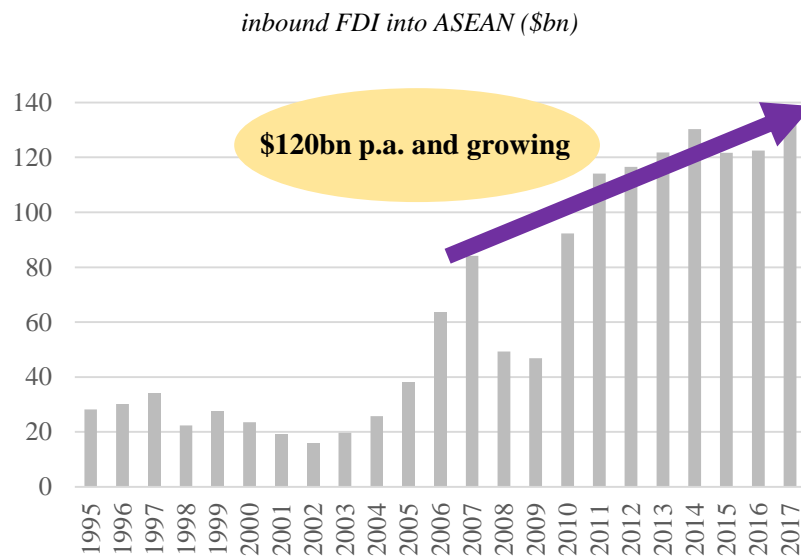


3









Southeast Asia & The Trade War

Trade & Tech War is accelerating an existing trend

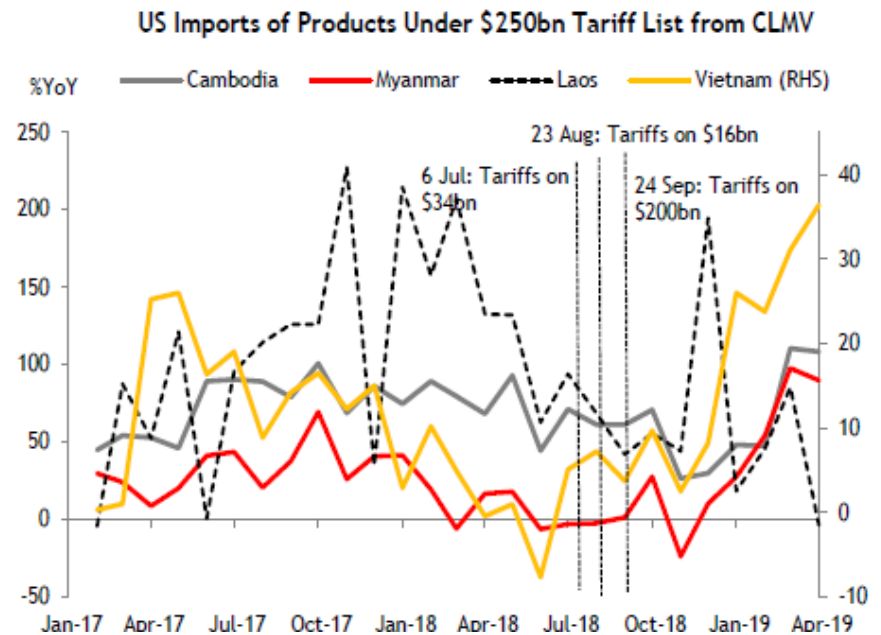
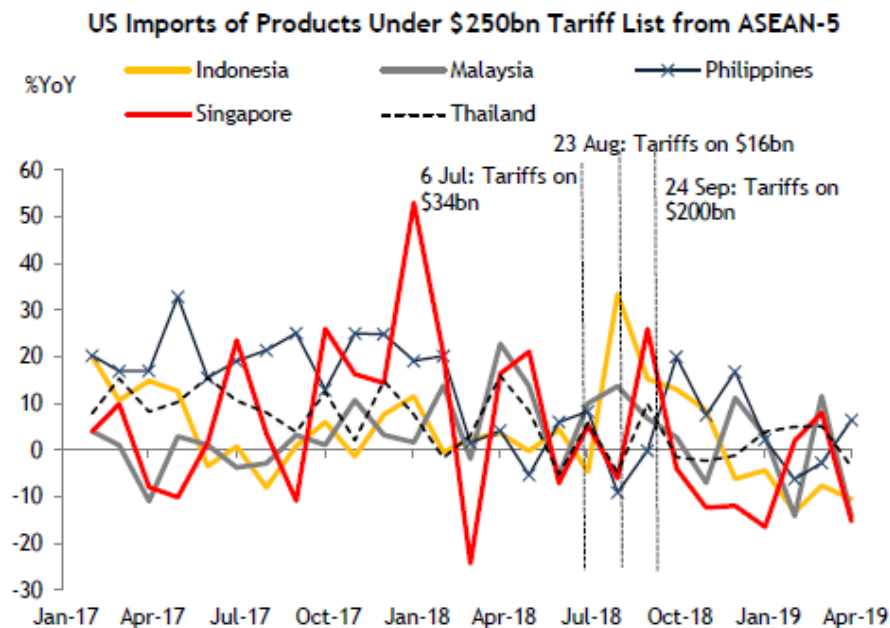
Foreign Direct Investment (FDI) drives sustainable regional long-term cycle, growing in size ...



Examples of trade-war related business activity

	<ul style="list-style-type: none"> Amata (AMATA TB, \$750mn, 15x P/E, 1.9x P/B) a major Thai industrial park operator reporting more than 80% of 2018 bookings to have originated from Chinese businesses re-locating production, supporting overall growth in excess of 20% for the year 		<ul style="list-style-type: none"> Bekasi Fajar (BEST IJ, \$160mn, 7x P/E & 0.7x P/B) a major Indonesian industrial park operator strongly geared towards Japanese FDI investment
	<ul style="list-style-type: none"> Sritex (SRIL IJ, \$500mn, 7x P/E) fully integrated midstream textile company with capacities from upstream to midstream (yarn, greige, fabric and garment) exported sales have doubled from 2016 to 2018 		<ul style="list-style-type: none"> Phu Tai Corp (PTB VN, \$130mn, 8x P/E) is a conglomerate, manufacturer stone & wood products, overseas clients like Walmart, Carrefour and Kingfisher US contribution to its furniture segment's export sales has increased from 25pct in 2017 to 40pct in 2018
	<ul style="list-style-type: none"> SITC (1308 HK, \$2.6bn, 13x P/E) regional intra-Asian integrated logistics shipping company, most significant player with feeder-size fleet to access secondary ports in Southeast Asia opening a new shipping route every month currently 		<ul style="list-style-type: none"> Integra Cabinet (WOOD IJ, \$380mn, 19x P/E) forestry segment recorded >150% growth in 2018 revenue as the company leveraged on the implementation of anti-dumping and anti-subsidy duties
	<ul style="list-style-type: none"> Noibai Cargo (NCT VN, \$80mn, 8x P/E, 14% div yield) ground cargo handling at Noibai airport in Vietnam, majority-owned by Vietnam Airlines 		<ul style="list-style-type: none"> Kelington Group (KGRB MK, \$80mn, 18x P/E) gas delivery systems for industrial plants beneficiary of China's push to build up semiconductor capacity as a hedge against the tech war

Macro data evidence so far ...



... and we haven't even started yet

Companies planning to relocate production from China to Southeast Asian nations or elsewhere

Company/main business	Places to which production is planned to be shifted
China	
Advanced Technology & Materials <i>Metals, machine tools</i>	Thailand
Goertek <i>Earphones</i>	Vietnam
Hangzhou Great Star Industrial <i>Tools</i>	Vietnam
Jiangsu General Science Technology <i>Tire</i>	Thailand
KingClean Electric <i>Home electronics</i>	Vietnam
Lenovo Group <i>Personal computers</i>	Vietnam
Shenzhen H&T Intelligent Control <i>Home appliances, electric devices</i>	Vietnam
TCL <i>Home electronics</i>	Vietnam
Zhejiang Chenfeng Technology <i>Lighting equipment</i>	India
Zhejiang Hailide New Material <i>Chemicals</i>	Vietnam
Zhejiang Henglin Chair Industry <i>Furniture</i>	Vietnam
Zhejiang Jasan Holding Group <i>Textile</i>	Vietnam
Taiwan	
Compal Electronics <i>Routers, personal computers</i>	Taiwan, Vietnam
Pegatron <i>Routers, personal computers</i>	Taiwan, India, Indonesia
Japan	
Ricoh <i>Multifunctional copiers</i>	Thailand
U.S.	
Brooks Running <i>Running shoes</i>	Vietnam

Plans include output increases and corporate buyouts
Source: Based on corporate announcements, local media reports or the like

4

Portfolio

Asia Public Markets: what we do & how we are different

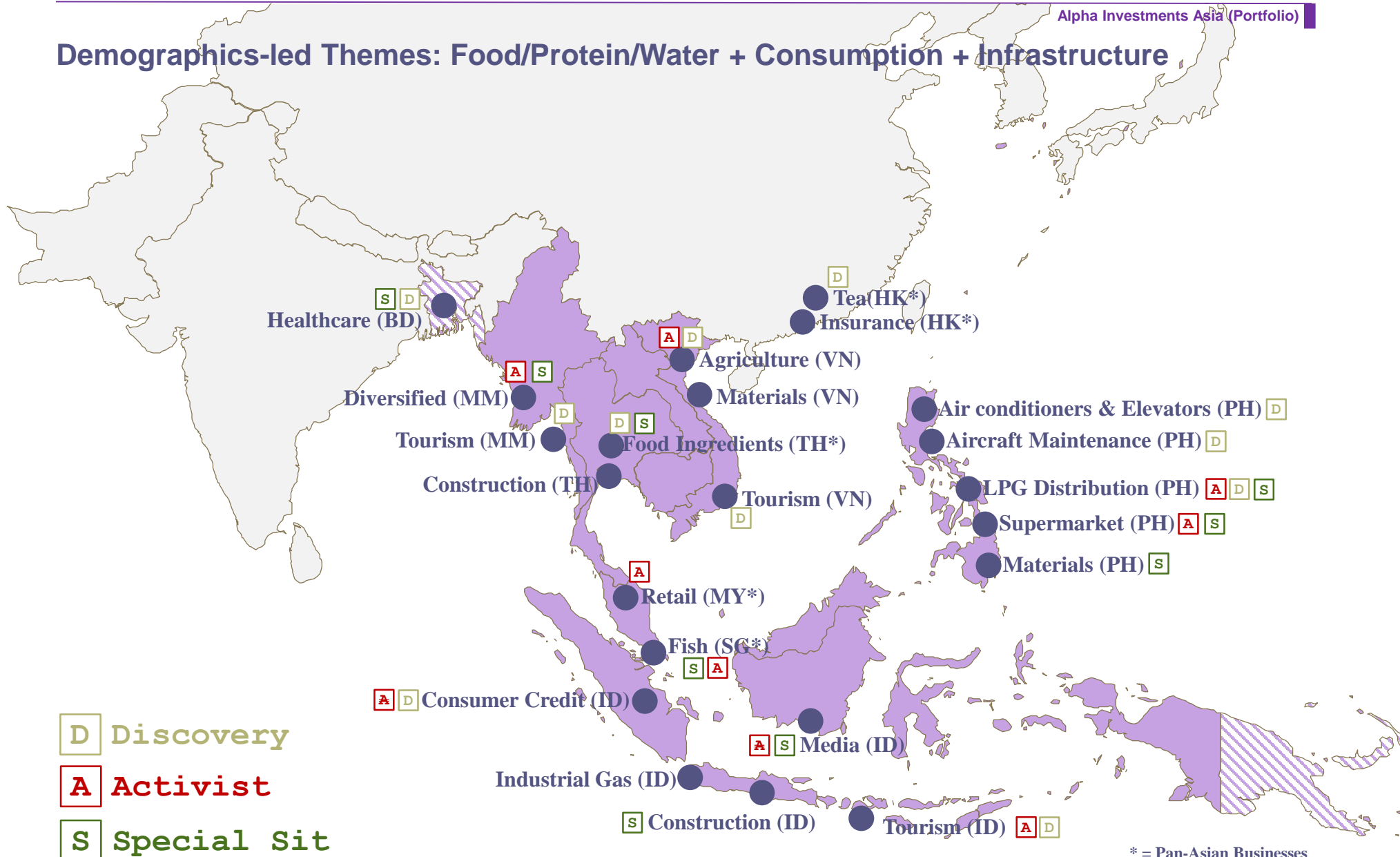
<p>1</p> <p><u>differentiated portfolio</u> of shares and bonds issued by companies, of all sizes, operating in <u>emerging Asia</u></p>	<ul style="list-style-type: none"> ▪ systematic investment process to discover Emerging Asian “J-curve” companies ▪ our portfolio and idea pipeline is typically very different from most funds covering the region ▪ we specifically seek to invest time and money where we find fewer of our peers 	
<p>2</p> <p><u>executing a methodology</u> to access Asian growth, hopefully avoiding the traps</p>	<ul style="list-style-type: none"> ▪ we know our businesses in detail and typically invest for a long time frame ▪ adherence to internally developed frameworks emphasizing factors that make an Asian investment successful and that avoid value traps and frauds 	
<p>3</p> <p><u>valued added investing</u> de-risking through security selection & impact on portfolio companies and their business, not just buying a piece of paper</p>	<ul style="list-style-type: none"> ▪ seek superior risk-rewards across capital structure <ul style="list-style-type: none"> ▪ trusts at discounts, preference shares, GDRs ▪ holdco, credit or convertible alternative ▪ engagement with portfolio companies to achieve better corporate governance and disclosures to public investors ▪ successfully advocate for value-creating measures 	
<p>4</p> <p>we have a track record in <u>sustainable investing</u> and we understand the communities we operate in</p>	<ul style="list-style-type: none"> ▪ incorporation of ESG elements part of the investment process ▪ mindful of potential to create impact <ul style="list-style-type: none"> ▪ committed to corporate governance ▪ business decisions in developing countries affect poor people 	

Sources: (1) CLSA; (2,3) Hansabay; (4) UN PRI.

Highly Differentiated Pan-Asian Portfolio

Demographics-led Themes: Food/Protein/Water + Consumption + Infrastructure

Alpha Investments Asia (Portfolio)



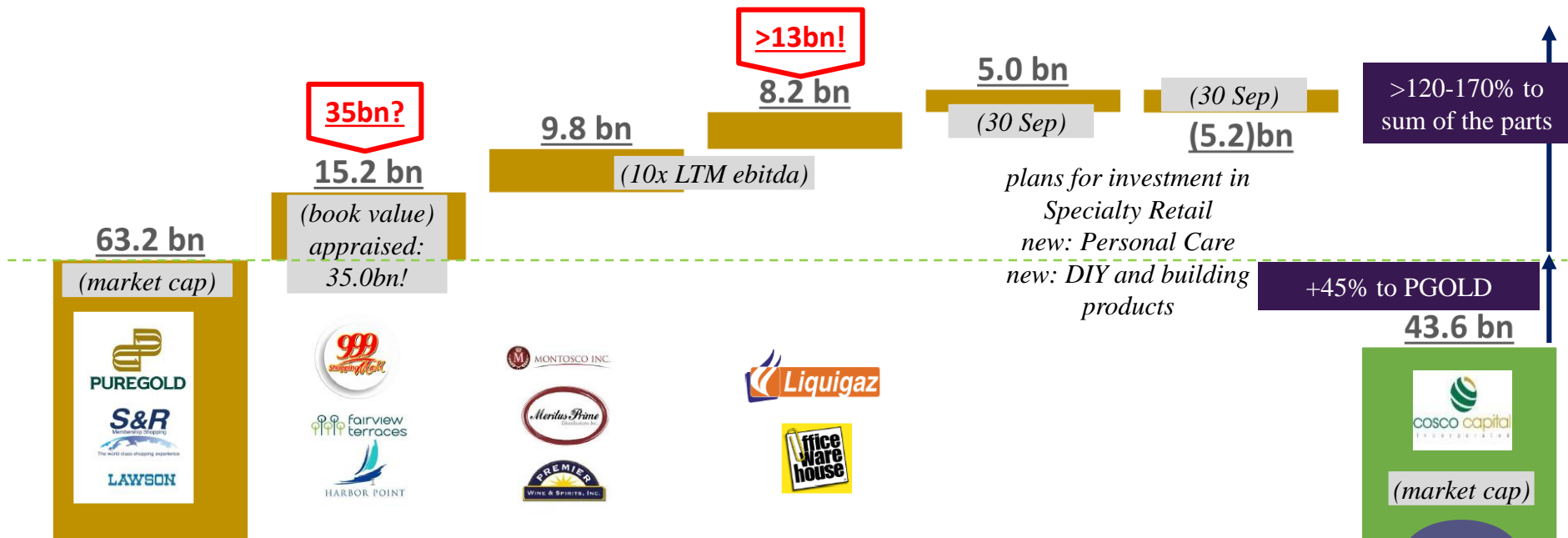
Note: portfolio is non-exhaustive.

Portfolio Highlight: Cosco Capital

Philippines / consumer



Description & Rationale



51% in Puregold Property Liquor Distribution Specialty Retail Cash Cosco ex Pgold Debt Cosco ex Pgold Cosco Market Cap

Net income	5.8bn	1.05bn	0.61bn	0.43bn
EBITDA	10.4bn	1.35bn	0.98bn	0.82bn
Revenue	121.4bn	2.25bn	6.26bn	12.95bn



- Assumptions:**
- Puregold: 51% current market cap
 - Property: see Note 30 in 3Q17 Report
 - Liquor distribution: at 10x LTM EBITDA based on comparables
 - Specialty Retail: Liquigaz at 10x LTM EBITDA based on comparables

9x P/E

Sources: Company and Hansabay unless stated.

Portfolio Highlight: MNC

Indonesia / media: MNCN IJ equity and BHITIJ credit



Description

Rationale



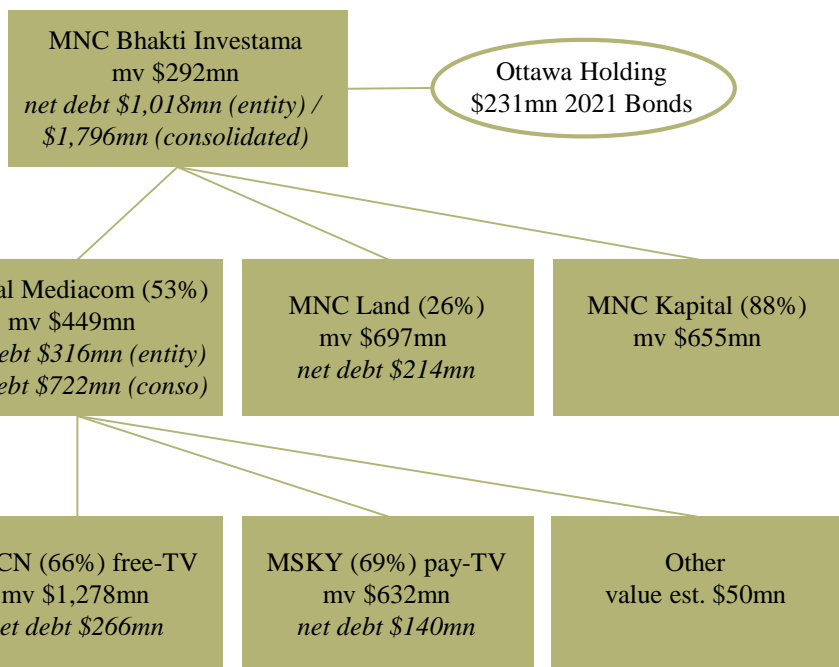
Dominant media conglomerate
(simplified structure)

>18%

yield to maturity to 2018 in USD, creating an equity-like return

1.3x

Theoretical further downside protection in USD based on value of unsecured claim; current value partially protected by share pledge in Singapore



9x P/E



#1

in free-TV and pay-TV with 35-40% and 70% market shares

70%

TV set penetration in Indonesia, with advertising rate cards at % discount to the Philippines

Illustrative Recovery Analysis

	\$mn
Pledged Global Mediacom shares	96
Pledged MNC Land shares	12
Recovery Value on Pledged only	108 0.5x covered
Unsecured claim Mediacom	28
Unsecured claim Other Investama	131
Unsecured claim Land	38
Recovery Value on see-through	306 1.3x covered
2018 Bonds Outstanding	231

Sources: Company and Hansabay estimates unless stated. Outdated as it reflects the set-up of the investment.

Portfolio Highlight: Macroasia

Alpha Investments Asia (Portfolio)

Philippines / infrastructure



Description



Rationale

25x

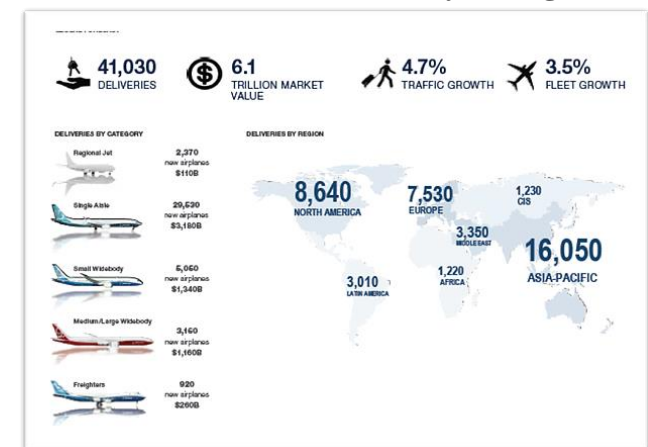
not cheap but “quality/growth at an acceptable price”

49%

stake in Lufthansa Technik Philippines delivers German MRO quality/standard/brand with Western governance – but less in focus as associate income

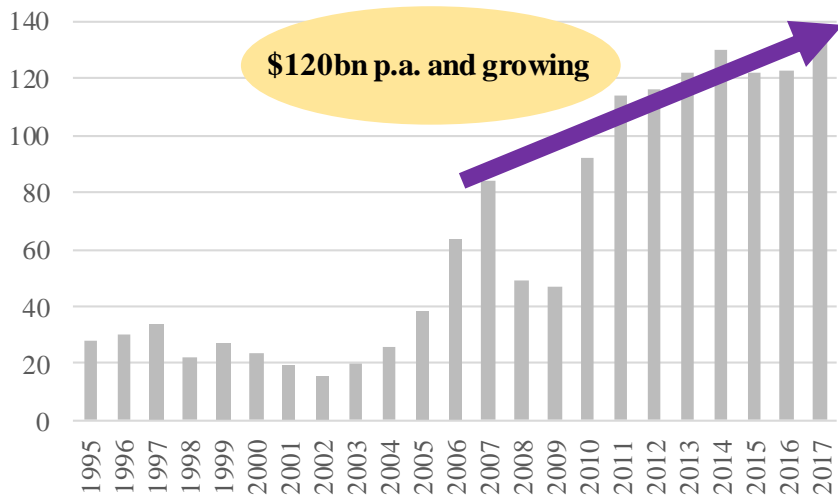
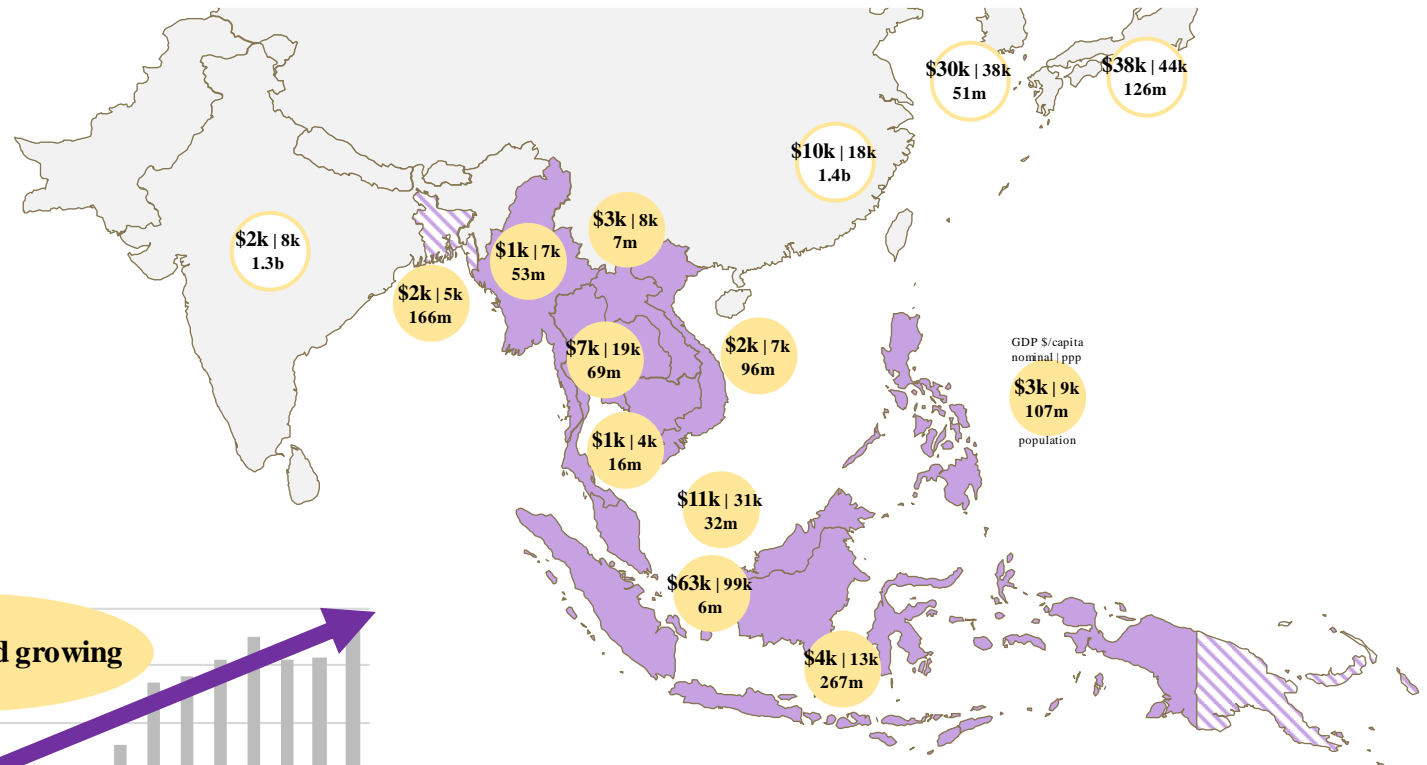
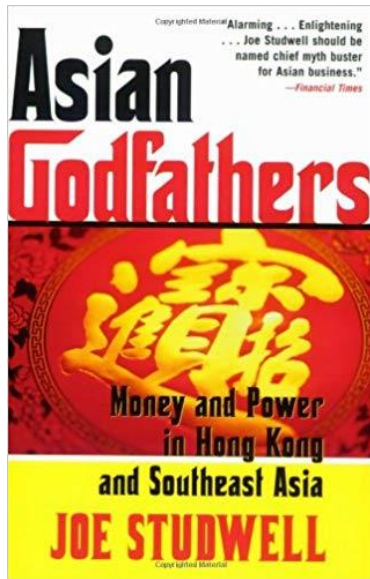
16k

16k deliveries in Asia over next 20 years vs. current fleet of 7k (vs 3k 10 years ago)



Sources: Company and Hansabay unless stated.

Thank You!



5

Appendix

Portfolio Highlight: San Miguel Pure Food

Appendix

Philippines / diversified food conglomerate

D A S

Description



(est. 2014 operating profit share)

Agro Industrial 42%



Value-added Foods 23%



Flour Milling 29%



Other 7%

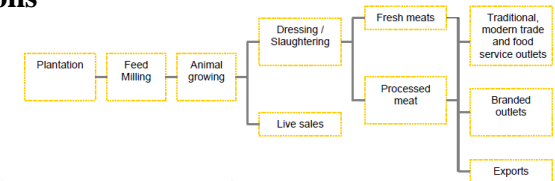
Rationale

#1/#2

market positions for its consumer brands and for its commercial agro-industrial business

asset light

vertically integrated but contracted out farming operations

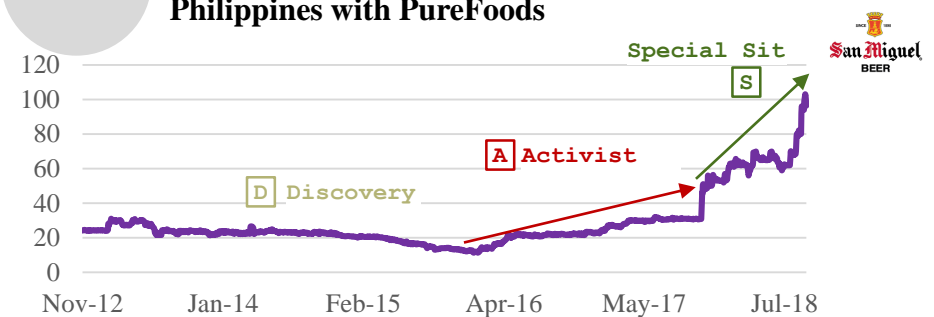


4x

2015 ebitda entry-valuation (low valuation highlighted by non-core disposals and refinancing of previously punitive preferred shares)

CPF

CP Foods case study in Thailand coming true in the Philippines with PureFoods



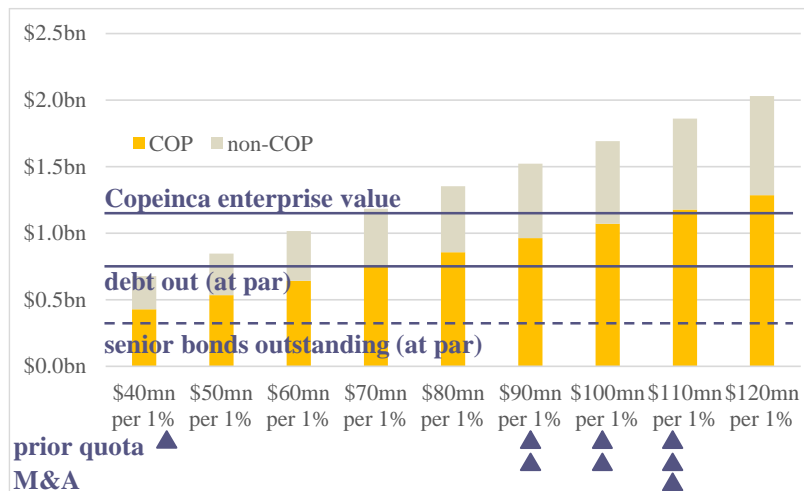



Sources: Company and Hansabay unless stated.

Portfolio Highlight: CFG Investment SAC (Bond)

Singapore / pan-Asian fishery business (distressed situation)



Description	Rationale
<p>Access to quota-based supply of highly strategic fish species</p>  <p>Alaska Pollock</p> <p>Peruvian Anchovy</p> <p>CHINA FISHERY GROUP LIMITED</p> <p>McDonald's</p>  <p>Anchovy business owns 17% of Pacific fishing quota, valued typically at around \$100mn per 1% end-market is China domestic consumption of aquaculture and some hog products</p>	<p>>20% expected yield, creating an equity-like return in bonds pari passu with bank debt</p> <p>1.2x MM if distressed situation realized within next twelve months as expected</p> <p>Illustrative Recovery Analysis</p>  <p>Copeinca enterprise value</p> <p>debt out (at par)</p> <p>senior bonds outstanding (at par)</p> <p>prior quota M&A</p>
<p>as a former equity holder of the Peruvian-Chinese business, we have very high conviction in the value of the former Copeinca (COP) assets</p>	

Portfolio Highlight: Beximco Pharma

Appendix

Bangladesh / healthcare

D S

Description	Rationale
-------------	-----------

analgesics



branded generics



contract/export manufacturing



injectables



55,000

#2 pharma company selling to fragmented market of 55,000 pharmacies

quality

experienced management and the largest white collar employer in Bangladesh

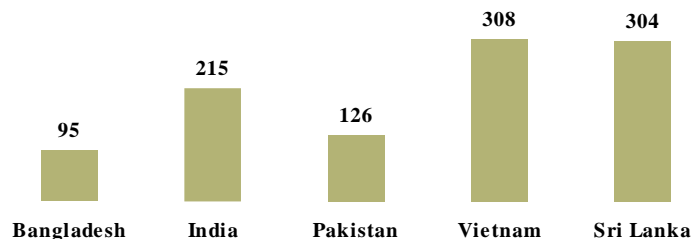
7x

P/E entry valuation into our position due to security selection of depositary receipts at a c. 60% discount

growth

Export revenue opportunity following regulatory approval drive: first Bangladeshi company to export to US under FDA license

Annual Healthcare Expenditure per capita






Sources: Company and Hansabay unless stated.

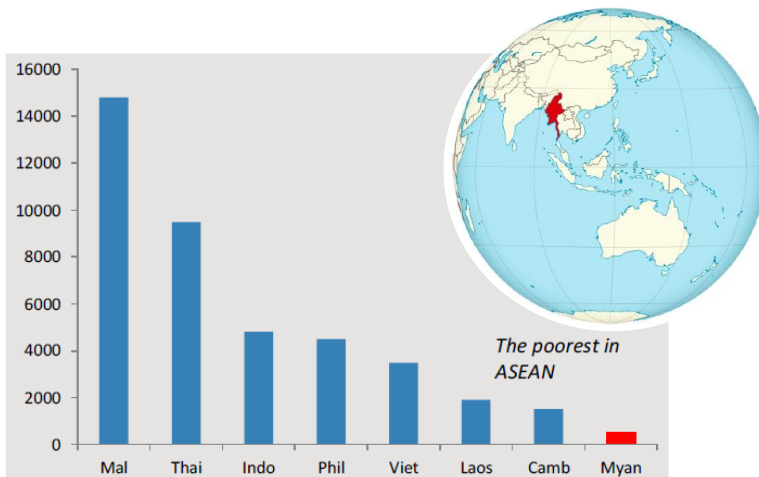
Portfolio Highlight: Myanmar Investments

Myanmar / diversified



Description	
Portfolio	Company
  	<ul style="list-style-type: none"> \$50mn holding company, second largest for Burma/Myanmar aim to grow asset base and market cap substantially with deal pipeline
Country	

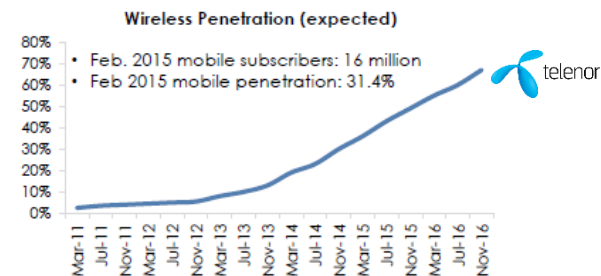
- Myanmar is the second largest land mass in Southeast Asia (653,290 sq. km), with the 5th largest population (51mn), with 34% urban population, and 13% in large cities (>200k)
- Lowest nominal GDP/capita (~\$1,000) in SE Asia, but growing rapidly at 8.5% in 2014, and >7% p.a. since the dissolution of the military junta in 2010



Rationale

70%

mobile penetration still very low, i.e. Myanmar telecoms is a compelling greenfield opportunity, with a low risk anchor client in Norway's Telenor



country is more strongly endowed in natural resources than its comparable and neighbor Thailand, and at a highly strategic location, attracting the interest of China, India and the US.

MIL investment is a chance to invest in a very compelling medium-term growth profile (Myanmar cell towers) with a low risk off-take (Telenor and Ooredoo), experienced management (ex Orange CEO/Eaton Towers founder) and a co-shareholder interested in value creation and eventually an exit (TPG), with low transaction costs and high convenience (through existing listing) + access to attractive pipeline of other investments accessing Myanmar's growth (e.g. MFIL microfinance, e.g. healthcare)

Portfolio Highlight: ASEAN cement minorities event-driven

ASEAN / materials



Holcim Indonesia case study ...

2018: LafargeHolcim sold Holcim Indonesia for a 270% premium



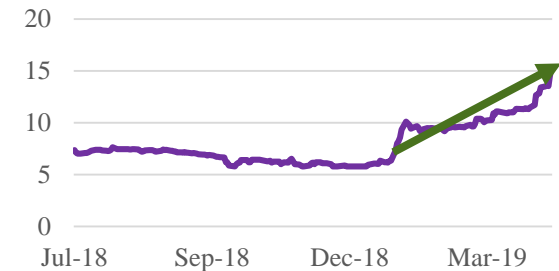
key insight: when a foreign-listed subsidiary of a multinational is sold, the purchaser pays the present value of future cash flows without the license fee expense that the public market valuation of course discounts. For a low 3-5% net margin business like cement, the effect can be dramatic

... successfully applied to the Philippines & Malaysia

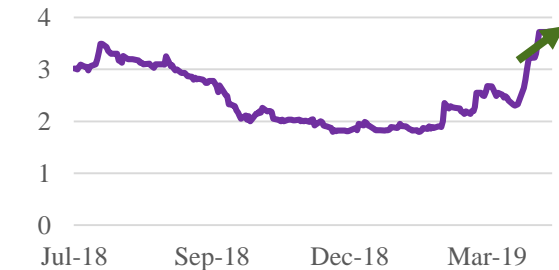


LafargeHolcim had two other listed subsidiaries in Southeast Asia remaining, both undervaluing M&A scenarios

LafargeHolcim sold Holcim Philippines for a >100% premium



LafargeHolcim sold Lafarge Malaysia for a >100% premium



g. Rincian pembelian barang dan jasa dari pihak berelasi sebagai berikut:

	2017	2016
Pembelian barang dan jasa		
Jasa industrial franchise		
Holcim Technology Ltd.	417.326	390.905
Jasa intellectual property		
LafargeHolcim Ltd.	56.699	39.063
Jasa services agreement dan Master branding agreement		
Lafarge S.A.	22.540	26.479
Pembelian barang		
LH Trading Pte. Ltd.	78.882	107.959
LafargeHolcim Energy Solutions S.A.S	-	24.616
Jumlah	575.447	589.022

g. The details of purchases of goods and services from related parties are as follows:

	2017	2016
Purchase of goods and services		
Service industrial franchise fee		
Holcim Technology Ltd.	417.326	390.905
Intellectual property fee		
LafargeHolcim Ltd.	56.699	39.063
Service agreement fee and Master Branding Agreement fee		
Lafarge S.A.	22.540	26.479
Purchase of goods		
LH Trading Pte. Ltd.	78.882	107.959
LafargeHolcim Energy Solutions S.A.S	-	24.616
Total	575.447	589.022

Persentase terhadap beban pokok pendapatan	7,7%	7,8%	Percentage to total cost of revenue
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