TA South East Asia Equity favours Singapore and Indonesia

by **Lim Siew May**

Southeast Asian economies are making headlines for their strong equity gains and economic growth this year. According to Standard & Poor's, the Asean 5, which comprises the Philippines, Singapore, Malaysia, Indonesia and Thailand, is expected to register an average growth of 7.9% in 1H2010.

TA South East Asia Equity Fund has generated 74% gains from its inception in November 2005 to Sept 30, 2010, and 17.34% gains over the one year ended Sept 30, 2010. "Our exposure in the cyclical sectors, such as banking, industrial, energy and material stocks, did well in an environment of improving economic fundamentals and increasing investor risk appetite," says Kelvin Wong, external investment manager for the fund and Lion Global Investors' Malaysia and Philippines country specialist.

As at Sept 30, the fund was 97% invested in Southeast Asian markets' equities, with more than 40% allocated to equities in the financial sector. Banks are favoured as a proxy to the economic cycle. Foreseeing that a global economic recovery is in place, the fund seeks to achieve exposure to the economic recovery through an overweight investment in cyclicals, balanced by a commitment to high-quality defensives. Low cash positions will be maintained, he adds.

One of the fund's top stock picks is DBS, for its attractive valuations, Wong says: "The stock is trading at a discount to its 10-year mean, on both earnings and book value bases," he says. "Moreover, the ongoing management changes by its new CEO, Piyush Gupta, could lead to better execution of its corporate strategy." According to Wong, stock ideas are generated primarily through the use of Lion Global's filter, containing both fundamental and valuation screens. "We believe in maintaining a strong value discipline; and aim to buy stocks at a prudent discount to their intrinsic value."

WONG: Main theme for the Asean region is that of increasing domestic consumption

For the region, Wong favours Singapore and its government's vision in defining the country as a "Global City". "The two newly completed integrated resorts are driving tourist arrivals," he says, adding that recent monthly tourist arrivals have crossed a new milestone of one million. Although the main transformational projects have already opened, there are still further phased openings that will be rolled out, he says. Given that the Singapore market has underperformed its Asean peers this year, coupled with its relatively undemanding valuation, it may be poised to play catch-up, he adds.

He also singles out Indonesia as another regional favourite on a longer-term basis. "With an improved macro and political landscape, we believe that the country is undergoing a structural transformation," he says, adding that tight fiscal control has kept Indonesia's deficit consistently below 2.5% of GDP. "In terms of capital expenditure, Indonesia stands out as having one of the highest investment-to-GDP ratios in Asia," he says. "Also a positive is the country's natural advantage of an abundant supply of commodity resources and favourable demographics."

On the key risk to the Asean markets, Wong says strengthening currencies may reduce their competitiveness, and a possibility of capital controls may result in a disruption in trade.

The low growth environment in the developed markets, particularly the US and Europe, are attracting investors to turn to Asia's higher-growth outlook, Wong observes. "The main theme of increasing domestic consumption has been driving Asian equities, especially in the Asean markets," he says. "Despite Asean economic growth having peaked, growth going forward is expected to expand at least in line with its long-term trend average, which is better than the global average."

Valuations are looking a little stretched, Wong admits, but reckons that it isn't in an unreasonable territory at this time. "With the likelihood of an additional monetary stimulus in the developed world, which will drive interest rates and currencies in developed markets lower, liquidity should continue to flow into emerging market bourses." ▪