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## Opportunities in Southeast Asia

### Executive Summary

- Economic Growth – Southeast Asia countries have better GDP growth prospects than advanced economies.
- Improving Self-sustainability – Domestic demand provides the biggest contribution to GDP expenditure, increasing self-sustainability and resilience of the region against external shocks.
- Low Unemployment Rate – Likely to support consumption power and domestic demand.
- Asia-centric Export Sector – While less geographical diversification may pose higher regional risks, it is likely to benefit Southeast Asia in the foreseeable future due to robust economic growth in Asia.
- Growing Tourism Sector – Bright spot in Southeast Asia, fueled by tourism investments in various countries.

### Introduction

While global growth remains in tact, activities are slowing down temporarily and downside risks have increased, as mentioned by the latest IMF World Economic Outlook in June. Advanced economies continue to lag emerging and developing economies in terms of growth, while signs of overheating are present in some emerging and developing economies. Despite the risks present globally, we foresee opportunities in selected Southeast Asia countries for several reasons.

Firstly, their economic growth is expected to outperform advanced economies in 2011 and 2012. Secondly, domestic demand, which provides the biggest contribution of GDP expenditure, is likely to be supported by favorable employment situation, thus improving their self-sustainability and resilience against external shocks. Thirdly, tourism remains a bright spot in the region, fueled by developments in Singapore, Malaysia and Philippines. Lastly, while the Asia-centric export sector may pose higher regional risks due to less geographical diversification, it is likely to benefit the region in the foreseeable future due to robust economic growth in Asia.

**Table 1: Economic Growth – Higher Current and Future GDP Growth**

	Projections			Difference from April 2011 Projection	
	2010	2011*	2012*	2011*	2012*
<b>ASEAN – 5</b>	<b>6.9</b>	<b>5.4</b>	<b>5.7</b>	<b>0.0</b>	<b>0.0</b>
Emerging and Developing Economies	7.4	6.6	6.4	0.1	-0.1
World	5.1	4.3	4.5	-0.1	0.0
Advanced economies	3.0	2.2	2.6	-0.2	0.0

*Southeast Asia expected to have higher GDP growth than world and emerging economies.*

Source: IMF World Economic Outlook Database, as of June 2011  
 \*IMF Estimates



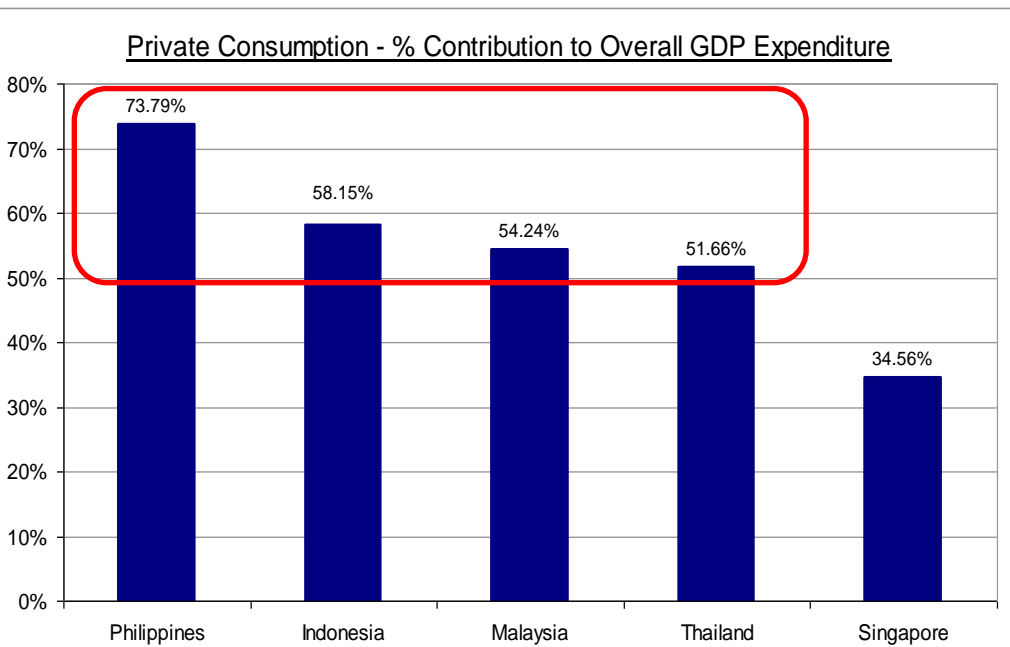
**Economic Growth – Higher Current and Future GDP Growth**

IMF recently reduced the 2011 GDP growth estimates for both world and advanced economies by 0.1 percent and 0.2 percent respectively. On the other hand, ASEAN, emerging and developing economies not only did not receive a reduction in their 2011 growth estimates, but have higher projected GDP growth than advanced economies and world. Specifically, we will focus on Southeast Asian countries which include Singapore, Thailand, Indonesia, Philippines and Malaysia as we feel that they have better economic growth potential than advanced economies, and face less risks of overheating as compared to China and India.

**Improving Self-sustainability – Private Consumption Main Contributor to GDP**

Domestic demand is the main driver for Southeast Asian economies, with private consumption contributing over 50.0 percent to overall GDP expenditure for Philippines, Indonesia, Malaysia and Thailand. (Chart 1) The large contribution of domestic demand makes these countries more self-sustainable and resilient towards external shocks as compared to economies that are mainly driven by exports and external demand. As advanced economies such as US and Europe continue to face slower growth and possible headwinds from persistent fiscal and financial sector imbalances, we feel that the improvement in self-sustainability will add greater stability to their economy and support future growth.

**Chart 1: Domestic Demand Main Contributor to GDP**



*Private consumption is the main contributor for GDP expenditure in the selected Southeast Asia economies, improving their self-sustainability and resilience towards external shocks.*

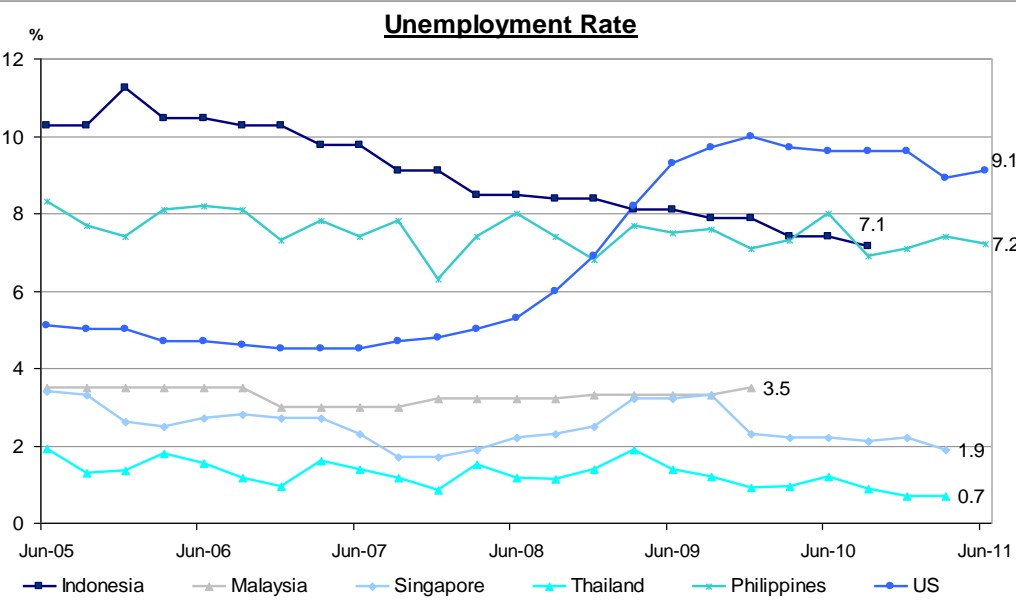
Source: Bloomberg, 1Q2011 data as of 22 Jul 2011



**Lower Unemployment Rate - Likely to Support Domestic Demand**

One of the key determinants of domestic consumption is employment situation as it affects the wealth and spending power of consumers. As shown in Chart 2, the unemployment rate of Thailand, Singapore and Malaysia have stayed below 4.0 percent and the US unemployment rate for the past 5 years. While unemployment rates in Indonesia and Philippines are slightly higher at around 7.0 percent, they are still about 2.0 percent lower than US, which has 9.1 percent of unemployed labour force. Lower unemployment rate tends to improve consumer sentiment and is likely to remain supportive for consumption and domestic demand in Southeast Asian countries, further contributing to the overall GDP growth.

**Chart 2: Lower Unemployment Rate as Compared to US**



*Low and falling unemployment rates likely to support consumption power and domestic demand.*

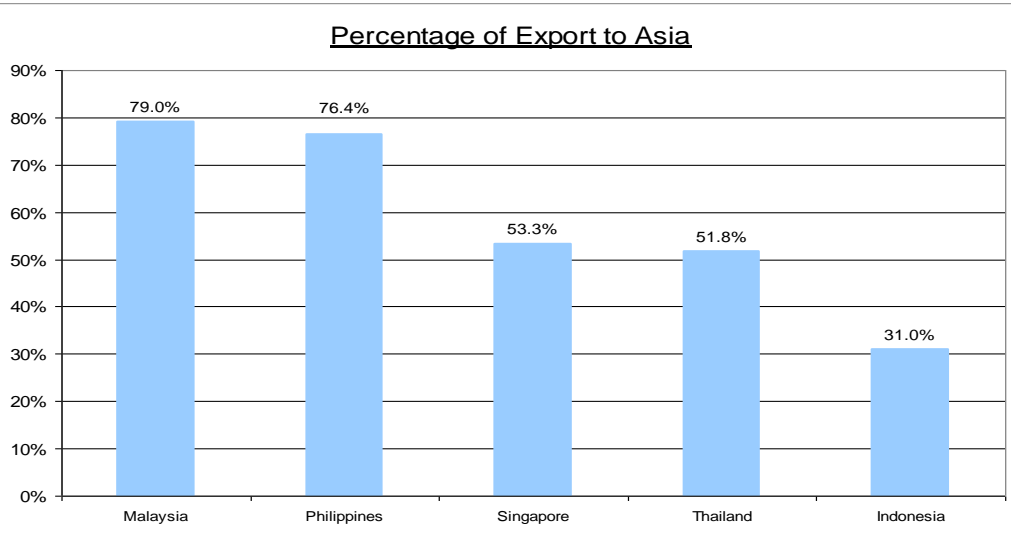
Source: Bloomberg, as of 22 Jul 2011

**Export to Asia – Double Edged Sword**

Aside from domestic demand, exports also contribute to a country's economy, and the bulk of the selected Southeast Asia countries' exports are to Asia, accounting for about 70.0 percent of Malaysia and Philippines and 50.0 percent of Singapore and Thailand's exports. (Chart 3) We feel that this may be a double-edged sword, as high proportion of Asian exports makes the countries less susceptible to slower growth in advanced economies but more susceptible to risks that affects Asian economies. On one hand, export growth is likely to be supported as Asian economies develop and grow at a faster rate than advanced economies, therefore fueling overall GDP growth. On the other hand, should any event such as the Asian Financial Crisis occur, the export sectors of the Southeast Asian countries are likely to receive a bigger hit as compared to more geographically diversified export sectors. That being said, as Asia is expected to have better economic growth and several developing nations' governments have started tightening to curb economies showing signs of overheating, the concentration in Asian exports is likely to be favorable for export growth in the foreseeable future.



**Chart 3: Double Edged Sword – Self-sustainability vs Less Diversification**

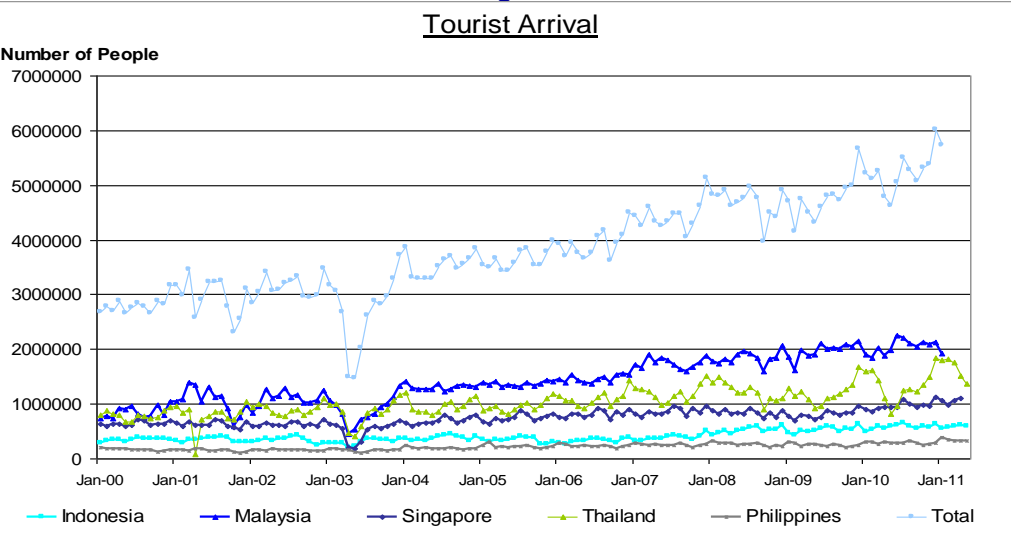


Source: Bloomberg, as of 22 Jul 2011

**Growing Tourism Sector**

Another bright spot for Southeast Asia will be the tourism sector, which has been growing consistently in the last decade. The total number of tourist arrivals for Indonesia, Malaysia, Singapore, Thailand and Philippines has increased 9.8 percent in 2010 and an average of 6.1 percent annually in the past 10 years. The Singapore Tourism Board aims to triple tourism receipts to \$30 million and double visitor arrivals to 17 million by 2015, and has plans to develop Orchard Road, Singapore Flyer, Integrated Resorts and rejuvenate Sentosa Island. In addition, Malaysia has made plans to build Asia’s first Legoland and ASEAN’s first premium outlet mall, expected to attract 4 million tourists a year. Lastly, the Philippine Tourism Secretary has also mentioned their plans to boost tourism by developing and improving airports, attracting investments in tourism establishments, upgrading products and services, and addressing security risks. Overall, tourism in the region is likely to benefit from the various countries’ investment in tourism.

**Chart 4: Growing Tourism Sector**



Source: Bloomberg, as of 22 Jul 2011

*The export sectors of the selected countries are Asia-centric with Asia contributing to over 50 percent of exports for Malaysia, Philippines, Singapore and Thailand.*

*Total tourist arrival for the countries in Chart 4 have growth 6.1 percent annually in the past 10 years and 9.8 percent in 2010.*



**Risk**

In our opinion, one risk that surrounds these countries may be their strong dependence on Asia market for export. As mentioned previously, with Asia accounting for more than half of their exports, these countries are more prone to risks that affect Asia. So in the event that China and India fail to contain overheating and experience a hardlanding, these countries are likely to receive headwinds in the export sectors. That being said, various governments have stepped up efforts to contain overheating and inflation, reducing this risk to a certain extent.

Another drawback for the region is the slightly higher valuation of the equities in Philippines and Indonesia. Table 2 ranks the selected indices based on weighted-average of the valuation ratios in the table, and shows that countries such as Indonesia, Philippines and Malaysia are trading above the world equities in terms of valuation, while Singapore equities appear to be more attractively valued followed by Thailand. While we note that equities might be slightly more expensive, we feel that the region remains attractive based on higher growth opportunities.

**Table 2: Growth At Slightly Higher Valuations**

Country/Region	Dividend Yield	Price-to-Book	Forward PE	Current PE
MSCI Europe Index	3.45	1.56	10.89	12.67
MSCI Emerging Markets Index	2.62	1.85	10.89	12.23
FTSE Straits Times Index	2.80	1.62	14.63	10.61
MSCI AC Asia Pacific ex Japan	2.95	1.87	12.27	13.53
Stock Exchange of Thailand Index	3.49	3.01	12.65	14.20
MSCI World Index	2.51	1.81	12.85	14.52
FTSE Bursa Malaysia KLCI	3.60	2.40	14.99	17.36
PSEi – Philippines SE Index	2.97	2.49	14.75	15.84
Jakarta Composite Index	1.84	3.29	16.00	18.58

*Philippine and Indonesia equities appear slightly more expensive as compared to MSCI World, while Singapore and Thailand appears to be at a cheaper valuation.*

Source: Bloomberg, as of 22 Jul 2011

**Conclusion**

We see the Southeast Asia region as an economic bloc that is increasingly self-sustainable, with domestic demand contributing to the bulk of GDP expenditure and supported by the low unemployment rate. In addition, their Asia-centric export sectors appear to be more of a pro than con for now as advanced economies face slower growth and fiscal and financial issues. Lastly, we foresee tourism investment in various countries to pay off and bring in more tourists and income for the countries. While we note that the region's strong reliance on Asia for exports may be a drawback if Asia experience a drastic slowdown, we feel that Asia currently appears to be in a better position as compared to advanced economies in terms of both economic growth and fiscal position, which may also explain its slightly higher valuation.



**Fund in Focus**

Three funds with Southeast Asia focus are shortlisted in Table 3, namely Fidelity - ASEAN A Acc SGD, Legg Mason - Southeast Asia Special Situations and LionGlobal - South East Asia SGD.

For all three funds, the top countries allocation in the portfolio are Singapore, Malaysia, Thailand and Indonesia, where we are positive on. Also, the top country holding for all funds is Singapore, with LionGlobal allocating 43.2 percent, followed by Fidelity (35.4 percent) and Legg Mason (31.0 percent). Although Singapore appears to have the most attractive valuation among the countries, we prefer a more geographically diversified fund so as to reduce single country risk. Therefore, we favor Fidelity and Legg Mason in terms of their country allocations.

**Table 3: Top Country Allocation**

Fidelity - ASEAN A Acc SGD	Legg Mason - Southeast Asia Special Situations	LionGlobal - South East Asia SGD
Singapore 35.4%	Singapore 31%	Singapore 43.2%
Malaysia 21.5%	Indonesia 19%	Malaysia 20.7%
Indonesia 20.5%	Malaysia 16%	Indonesia 19.5%
Thailand 13.6%	Thailand 10%	Thailand 11.8%

Source: Latest Fundhouse Factsheets, as of 30 June 2011

In terms of return, Fidelity - ASEAN A Acc SGD outperformed on the year-to-date, 1-year and 5-year basis. Moreover, it has the lowest 1-year and 3-year volatility, signally possibly slightly lower risk among the three funds. With better returns and lower risks, it is not surprising that its risk-adjusted return as represented by Sharpe ratio also outperformed its peers.

**Table 4: Fund Return and Risk**

	YTD Return	1 Yr Return	3 Yr Return (Ann.)	5 Yr Return (Ann.)	1 Yr Vol	3 Yr Vol (Ann.)	1 Yr Sharpe Ratio
Fidelity - ASEAN A Acc SGD	2.02	15.11	8.85	11.07	11.56	22.37	1.27
Legg Mason - Southeast Asia Special Situations	-5.96	5.23	8.99	10.25	13.84	31.31	0.27
Lion Global - South East Asia SGD	0.15	14.71	7.77	9.1	12.49	24.11	1.04

Source: Financial Express, as of 25 Jul 2011

Overall, we prefer Fidelity – ASEAN A as it is more geographically diversified, have better returns and at a lower risks level as compared to its peers.

*Fidelity and Legg Mason is more geographically diversified as compared to LionGlobal.*

*Fidelity – ASEAN A Acc SGD outperforms in most periods chosen, with lower volatility and better risk-adjusted return.*



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