Bright prospects for emerging market equites

The interest rate hike by the US Federal Reserve last December has resulted in less volatility in emerging market economies this year. Clement Chew, CEO of Apex Investment Services Bhd, says the Indonesian property sector, in particular, is looking attractive as the impending tax amnesty bill is set to be passed.

BY KUEK SER KWANG ZHE

merging market equities, particularly Indoattractive, says Apex Investment Services been delayed. Bhd CEO Clement Chew. This is due to macro ship of bonds and equities.

The US dollar is expected to remain rangebound This is because the Indonesian market lacks invest-crisis the following year. emerging market currencies. Also, the massive capital money back to the country, he explains. outflow from emerging markets over the last three years "With the new tax amnesty bill in place, the wealthy than what he was used to.

dollar tended to be rangebound after the Fed increased by many Asian countries, real estate investments have banks and hedge funds there. You could choose where the interest rate, which is what we are going through proven to be one of the best ways to protect and en-you wanted to work — sell equities or fixed income; now. You can see that the ringgit and a lot of emerging hance the assets of the wealthy." market currencies have strengthened [and stabilised]. For instance, the rupiah has been steady against the pared with other sectors such as financial and consumer me whether this was the right thing to do," says Chew. US dollar after Indonesia cut its interest rate three discretionary. These two sectors saw demand increase times this year," says Chew.

US\$117 billion outflow from emerging market equities. in the property sector. This is something I like as you won't have too much Chew is also bullish on Thailand and South Korea. worry,' he said. foreign ownership in the market. This means there will "With the more benign US interest rate normalisa-"I took a lot of assurance from what he told me. Lat-

picture". Since Joko Widodo (better known as Jokowi) also expecting the military-led government to accel- from the crisis. I have never regretted coming back." was elected Indonesian president in October 2014, erate infrastructure spending, providing a lift-off for There was no reason to. Under his leadership, JP the country's stock market had rallied on the back of economic growth," he says. investors' expectations were not met.

However, investors have started to regain confi- government to revive the economy. the Indonesian government, says Chew. "We went on its second largest export market. Therefore, South Koof its plans]," he adds.

Chew is bullish on the Indonesian property sector and its potential because of the anticipated passage A WEALTH OF EXPERIENCE target of 1.90%.

Indonesia's fourth tax amnesty bill since inde- charge of Asian equity sales.

pendence is expected to attract money kept overseas

"We think there may be some opportunities when market," says Chew.

following the Federal Reserve's interest rate hike in ment alternatives, so the property market is expected December last year. The rate hike has helped stabilise to be the beneficiary when the wealthy channel their his career advancement prospects. Moreover, the JP

is expected to result in less market volatility this year. are also less likely to take money out of the country or "I appreciated what I had in New York. There were "If you look at the last six rate-hike cycles, the [US] under-declare their income," he adds. "As experienced dozens of fund management companies, investment

be less volatility and it is good for emerging markets." tion cycle and Indonesia embarking on its monetary er, it turned out to be one of Malaysia's darkest times. Chew likes Indonesia for its favourable "top-down easing cycle, we expect Thailand to follow suit. We are But like he said, the country rebounded and recovered

reforms, reduce red tape for foreign companies and the recent decision of its central bank to bring down Chew left for Apex, there were 120 people at JP Morgan push through critical infrastructure projects. But the lending rates without a corresponding cut in deposit Malaysia, compared with about eight in 1998. During market fell back a few months later as international rates. But the infrastructure story remains viable as his tenure at the company, his roles included chairit is one of the more realistic options left for the Thai man of JP Morgan Securities (M) Sdn Bhd and senior

dence in the market, owing to the progress made by "As for South Korea, China has overtaken the US as Morgan Chase Bank Bhd. have a larger exposure to China."

this year. The implementation was originally planned sector, notably with JP Morgan, for almost two decades. jointly acquire a stake in Apex, which they wanted for early this year to boost the government's coffers by He started out as an equity analyst at Merrill Lynch him to helm. IDR60 trillion. The money will be used to boost gov- in 1991 before being transferred to its New York office

Chew decided to return to Malaysia in 1998. "My and net an additional US\$4.4 billion in revenue this father passed away in 1997 and it made me realise that year. However, the talks between the administration time with friends and family [back home] is precious. nesian property stocks, are starting to look and the House of Representatives on the policy have Like the saying goes, 'All the gold in the world cannot buy you one more breath'."

By the end of 1997, the Kuala Lumpur Stock Exchange factors such as the stabilisation of emerging the policy is implemented. It will keep funds in Indo-had plunged from more than 1,200 points to less than market currencies and lower foreign owner-nesia and the money will probably go into the property 600 while the ringgit had lost 50% of its value. The Malaysian economy would reel from the Asian financial

Chew was worried that he would have to give up Morgan team in Malaysia was considerably smaller

be a fund manager, derivatives trader or compliance Indonesia's property sector is a laggard when com- officer. When I decided to come back, everyone asked

"It was then that I reached out to one of my clients, after the Indonesian central bank cut interest rates. who was with the Abu Dhabi Investment Authority "Another big thing in the last three years was the But there has not been much change to the demand running an Asian fund. He told me Malaysia would not disappear and would come back. 'Go and do not

Morgan Malaysia expanded into stockbroking after market expectation that he would implement major "This optimism has been somewhat dampened by it acquired a foreign broker's licence in 2005. When country officer and non-independent director of JP

Chew sees his acquisition of a stake in Apex and company visits. The people there are now more posi- rea will be a key beneficiary if China recovers against joining the firm as CEO in December 2014 as a conflutive about the government [and the implementation expectations. We favour sectors in South Korea that ence of the people and events in his life. The opportunity came when the directors of MBM Resources Bhd — an investment holding company that trades in and distributes motor vehicles and related spare of the country's tax amnesty bill in the third quarter Prior to joining Apex, Chew worked in the financial parts through its subsidiaries — approached him to E

"I knew some of the first-generation directors at a ernment spending after its budget deficit of 2.53% of two years later to cover Asia ex-Japan sales. In 1995, he MBM when I was working with IGB Corp Bhd many 3 gross domestic product (GDP) last year exceeded its joined Robert Fleming & Co (now known as JP Morgan) years ago. Some of the directors of IGB were also direcas vice-president of the greater New York City area, in tors of MBM. They were interested in the fund management industry and found me," says Chew.

"Ng Seng Leong, a former colleague [at JP Morgan Group], was interested in the business when I approached him. He came back to Malaysia in 2014 [from Hong Kong] and joined the firm as head of investor portfolio management."

Ng was previously managing director and head of trading at JP Morgan Asset Management in Hong Kong, managing about US\$60 billion worth of assets.

Chew then persuaded Low Seow Che and Gary Lim to join the firm as investment committee members and regional fund managers. Low was chief investment officer at JP Morgan Investment Management in Singapore and an asset management firm called JF Asset Management in Hong Kong, where he managed an Asian portfolio with US\$3 billion worth of assets. Lim was with OCBC Asset Management before joining Nomura Asset Management as deputy chairman of its stock selection committee.

Tan Keah Huat, who had been director of Apex since 2001, continues to serve as the firm's executive director, while Dzulkarnine Datuk Kazim, who had been fund manager at Apex for many years, is now head of fund management.

"By combining our experience, we have investment and fund management experience of more than 140 years. This is our strength," says Chew.

Apex may be a small player in the asset management industry, but things are set to change. The firm has revamped its investment and decision-making process, and Chew is looking forward to growing the business and strengthening its reputation in the country.

fund managers to the firm, he is "deepening the bench" corporate earnings have been negative for the past of the company. "Like in football terms," he smiles.

three years."

Besides attracting talent, the team's investment and On the local front, Chew says the firm is using a botdecision-making process has changed since Chew took tom-up stock-picking approach with corporate earnings over as CEO. "In a multinational team environment, it expected to be disappointing this year. Consumer counis about building consensus, meaning that if we want ters that have a sound management team and operato make a decision, we come together to brainstorm tions with good cash flow are what his team is looking and influence the decision through the power of our for. They include small and mid-cap companies such as ideas," he says.

The Apex team led by Chew has a morning meeting every day and portfolio meeting every week. At the the country and is well known for its Spritzer and former, they discuss the day's news that could impact Cactus brand of mineral water. The company is constock movements and at the latter, macro-development trolled by the Lim family, with about 60% equity intrends and fund strategies are discussed.

Looking at the performance of the company's funds, Lee Corp Bhd. Chew says seven out of the eight have saw a return of 6% to 9% last year. "This was a good start as the market listing in 2000, navigating through hard times such as was down 3% last year. But I think we need to improve the 2008 global financial crisis. Net profit jumped from when benchmarked against our peers in the industry. RM10 million to close to RM30 million this year. This is important."

new funds this year. "We will probably launch one or syrup, among others. two regional wholesale funds," he says.

is also eyeing high-net-worth individuals with private either," says Chew. mandates of RM10 million and below.

big firms. But to us, we can take it and focus on small- oil industries, which were badly hit by the collapse in er mandates. There is good potential in this segment. commodity prices last year. Chew likes Dialog Group We are finding our niche in this space," says Chew.

After all, the firm's ultimate goal is to generate sustainable return for its clients. "We may not be the ment has a very good track record of executing projects. top player among our peers, but we want to generate The world has an overcapacity in oil production and its steady and consistent returns for our clients. If we can tank terminals will be quite sought after. It is also expandhave sustainability in our performance, we would have ing its terminal capacity in Pengerang, Johor," he says. done a good service for our investors," he says.

may be some ance horse race in Arab countries, says Chew. "The Arab of storing oil and gas products is much higher in Sinroyalty in the Middle East are very fond of this sport. gapore," he adds. when the policy The participants ride on a special breed of Arabian Chew likes companies that are expected to benefit horse and ride across the desert for as far as 100km. It from the strengthening of the ringgit this year such is all about endurance and stamina.

in Indonesia and race, if you try to win, you will not finish. But if you of the weakening ringgit, such as Astro and Tenaga. the money will try to finish, one day you will win.' I think the asset A stronger ringgit will help ease Astro's content cost, probably go into management industry is like that."

Chew says the firm is not investing aggressively in the Telecommunications and banking are some of the expected to fall further, in line with the expected neg- headwinds in terms of spectrum costs and higher opative earnings of the MSCI World Index. He adds that erating costs. Competition has also intensified, forcing its peers' 12% to 18%.

"We are not aggressive this year. First, the revenue in the past," he says. of companies are under. There is also pressure on them to grow sales. This is due to the weak consumer and pressure and lower loans growth due to a slower econinvestor sentiment. Second, the cost for most companies are high this year due to the weak ringgit and capital market environment is sluggish." other input costs," he says.

sure - just like the last two to three years."

Typically, the low base effect would see corporate earnings improve, but Chew believes it is unlikely to ative interest rate territory and growth has not picked happen. "This is a valid question, but I would say the up. Abenomics, on the other hand, has failed to revive this year than last year. This takes into account a slow- exhausted their monetary policy as there is no more er economy, weaker consumer confidence and more room to cut interest rates to revive their economies. cautious investment spending budgets. The removal of subsidies, imposition of GST, higher cost of imports na growing at a much lower rate than before. "What we due to the weak ringgit and higher wage costs are also have seen globally since the global financial crisis is that part of the reason," he says.

year, people will lower their projection from 7% to probably be 2% to 2.5%," says Chew. 8% growth to 4% to 5%. It will probably end up being "World growth is not expected to be positive at the negative," he adds.

ings globally are expected to be negative and I would est rate expectations are scaled down."

He says that by attracting talent and experienced say the same for Malaysia. By the way, the country's

Spritzer Bhd and Three-A Resources Bhd.

Spritzer is the largest bottled water producer in terest held mainly through another listed entity, Yee

The company's revenue has grown every year since

Three-A Resources is an investment holding com-He adds that the eight funds include both con- pany with two wholly-owned subsidiaries, namely San ventional and shariah funds that invest in local and Soon Seng Food Industries Sdn Bhd and Three-A Food regional markets. He believes these offerings are suf- Industries Sdn Bhd. The company manufactures liquid ficient for now so the firm will not be launching many caramel, caramel colour, soya protein sauce and glucose

"We like them because their products have quite ine-Chew and his team are leveraging the corporate lastic demand [any change in demand will be relatively relationships they have built to attract more listed small even as prices increase]. The management is very companies to invest in their money market funds. He good at what it does. The valuation is not too expensive

From a bottom-up perspective, Apex is also comfort-"RM10 million and below is considered small to some able holding stocks in the oil and gas and crude palm Bhd for its good track record.

"We are a fans of the company because the manage-

"It has a competitive advantage [against its peers The asset management business is like the endur- which have tank terminals in Singapore] as the cost

as Astro Malaysia Holdings Bhd and Tenaga Nasional It will keep funds "There is a saying in this sport: 'In an endurance Bhd. "We like stocks that were under pressure because which is priced in the US dollar. It will also help slightly lower Tenaga's interest expense cost for its US dollar debt," he says.

> Malaysian market this year as companies' earnings are sectors Chew is underweight on. "Telcos are facing Apex holds about 30% in cash, which is higher than some of them to reinvent their business model. Telcos' dividend yields have fallen and are less attractive than

"Meanwhile, banks are facing net interest margin

Chew is rather pessimistic about the global econo-"It is a double dose for companies in general. Mar-my. He says the low and negative interest rates in the gins have been squeezed and earnings are under pres- world's major economies are distorting growth and productivity and destabilising the global economy.

He says Europe has moved into unprecedented negpressure on top line and costs are more pronounced Japan's economy so far. The central banks there have

This is despite the US economy recovering and Chiwe have entered a period where growth has continued "From the start of the year, you will see some of the to be disappointing and below expectations, whether analyst projections saying that corporate earnings in it is Japan or Europe and other forecasts. Global growth the market are growing. But towards the end of the this year is expected to be about 3%, but it will most

moment. We don't see where the engines for growth "Looking at the MSCI World Index, corporate earn- are. Because of this, we have some yield plays, as inter-

