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India and Southeast Asia

Very interesting reading, from our Hong Kong friend. Of particular note is that related to the banks in India, given the nervous state of the U.S. industry investors.

I am always impressed by Robert's depth and breadth of knowledge. Enjoy the read. Comments or questions always welcome.

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INVESTMENT OUTLOOK

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INDIA AND SOUTHEAST ASIA

I have just returned from a lengthy visit to Singapore and ASEAN, followed by India. My overwhelming impression is of a burgeoning local prosperity -- the visible spending power of a large new middle class (300 million in each region) and a national confidence symbolized by large new infrastructure projects -- the new capital of Indonesia, Nusantara, a US$34 Billion project on the east coast of the Island of Borneo in the East Kalimantan province -- and a 550 km highspeed rail from Bombay to Ahmedabad -- both likely to be opened in 2023.

Among the several companies we visited, I would highlight Larsen and Toubro (market cap US$37 Billion, revenues of $20 Billion), the 2nd largest engineering company in the world, undertaking most of the major Indian infrastructure projects in rail, road, power, ports, and telecom, as well as having 30% of its contracts in the Gulf. It also trades as a GDR, together with Reliance Industries, Infosys, ICICI, Wipro, HDFC, and many other leading Indian companies. Sun Pharmaceutical, which we also visited in Mumbai, indicated that India's pharmaceutical industry is growing at 10% per annum, and now amounts to over $25 Billion -- but there is no healthcare insurance; patients pay out of pocket. Finally, the Indian banking industry, with over 34 players, mostly regional, is growing faster than any other banking sector in the world (latest loan demand figures indicate 16% annual growth). But why (in our view) will there be no banking crisis in India, like SVB or Credit Suisse? Because there is tight regulation by the Reserve Bank of India (very little investment banking or trading); NPLS are low -- below 1% -- and, like other emerging markets, real interest rates have always been high -- they never played the zero or negative interest rate game -- today inflation in India Is 6%, bank rate is 7%, loans may be 9% to 10%. But we were very impressed by the capable management of ICICI and HDFC (which maintain a 25% compound growth rate by refusing mortgage loans to many applicants).

India is still a very underleveraged and under-borrowed nation, where savings (as in other Asian countries) exceed 30% (in some instances, reach 50%), and gold and property are still held as insurance by most families.

Although the immediate quarterly results of Infosys and Tata Consultancy Services (TCS) have been less exciting, we see the long-term development of India as the "back office to the world" as very exciting, with growth continuing for all major banks, airlines, telecoms, etc. The availability of a large, trained population of young Indian software engineers, at a starting salary of about US$6,000 per annum, is an unanswerable argument for most multinational CEOs. In addition, the shift of manufacturing out of China has begun, with Apple/Foxconn starting iPhone production in India as well as Vietnam.

Politically, the region is characterized by stability and long-term planning with India's BJP likely to achieve a 3rd term of 5 years in 2024, and Indonesia's Jokowi having laid the foundation for further economic growth in the next decade. Both Malaysia and the Philippines have moved to a more liberal economic policy in recent months. Singapore's problems (high costs, mainly) are those of success. We were told that no less than 1500 family offices, averaging US$50M, have been opened in the Island Republic in the past 2 years -- mainly sourced from China but also wealthy Taiwanese families seeking a safe haven.

We expect, however, to see Hong Kong recover as a wealth management, shipping, insurance, and financial center in the next 2 years. There is a growing flow of funds in the "Northbound Stock Connect" into A Shares in Shanghai which have raised over US$50 Billion in the past year (more than Hong Kong and New York). China's share market is cheap and neglected, and there are large amounts of savings now being mobilized into mutual funds by trusted names, such as Fidelity, BlackRock, and Bridgewater, as well as local players. The restructuring of Alibaba is a positive sign for technology and for the private sector as a whole.

Everywhere we travelled, there was dismay at the lack of American interest or understanding about the region. We didn't sense any Chinese hostility -- only the desire to do business and to resume the profitable trading relationships which flourished pre-Trump and pre-Covid. Just as

Brexit, after 7 years, is now clearly seen as a tragic mistake which has impoverished both sides, so, too, in Asia, the "Trade War" has no winners, and there is a strong desire to row back on the more extreme measures and resume normal business activities.

Asian Forecast

	GDP Growth (%)		5 Yr. CAGR Population		
	2023	2024	(%)	PER	P/B
India	5.2	6.5	0.5	19.0	3.0
Indonesia	5.0	5.6	0.9	13.0	2.0
Philippines	5.3	6.2	1.2	12.0	1.3
Vietnam	5.8	6.4	0.8	8.6	1.3
Thailand	3.1	3.7	0.1	13.0	1.2
Malaysia	4.1	4.2	-	13.0	1.3
Singapore	1.9	3.4	-	12.0	1.1
China	5.0	5.0	-0.1	6.5	0.7

Total ASEAN GDP (10 Countries)	US$ 3600 Billion
Total ASEAN Population	689 Million
Total ASEAN as % of World Population	9%

We anticipate a strong flow of funds into both Asia and Global Emerging Markets (85% of which are in Asia) in the next 2 years. Valuations are low, earnings growth prospects are good, and most Western institutions are very underweight. Our assessment is that, although China looks cheap, the real long-term growth prospects are in India and Southeast Asia, where demographics, politics, and culture support long-term investment. In fact, we estimate that the combined demand of India (1.4Billion) and Southeast Asia (689 million) will equal, or even surpass that of China in the past 2 decades, with a consequent growth in demand for global commodities, for food and energy, and for capital and consumer goods.

R. Lloyd George

Robert Lloyd George
01 April 2023
Hong Kong

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