Coronavirus Exposing Value in Asia

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Figures for the coronavirus outbreak in China totalled 80,754 as of 9 March 2020. According to the National Health Commission there were 3,136 reported fatalities with 59,897 recovered cases. The Chinese mainland reported 19 new cases of confirmed infections, 36 new cases of suspected infections, and 17 deaths (all in Hubei province).

In response to the virus, the Chinese government has pushed for more counter-cyclical efforts as well as the implementation of expansionary fiscal and expansionary monetary policy. Under the quarantine and back-to-work policies, President Xi highlighted the importance of implementing epidemic control measures while also resuming production in areas classified as low risk. Multiple cities have revealed policies that will help subsidise home purchases. The National Development and Reform Commission (NDRC) temporarily cut unit prices of electricity as well as natural gas. Largely, efforts to control the outbreak in Wuhan and Hubei include setting up 42 designated hospitals, 21,574 beds to treat patients, 10,317 additional beds in shelters to handle patients showing milder symptoms and 27,387 medical staff who have come in across the country to provide support. (These figures are as at 20 February 2020 and sourced from Bloomberg, the WHO and Chinese press reports).

Economic Disruption Persists

Although provinces in China have resumed business activities, the country still faces a shortage of workers in the movement of goods. Activity levels remain at 20-30% of 2019 historic levels. Provinces such as Guangdong (a hub for electronics) and Hebei (a hub for metallurgy) have resumed manufacturing activities faster than other municipalities.

Various sectors are being impacted. This includes tourism & hospitality, aviation/airlines, luxury goods, automotive sector, consumer products as well as consumer electronics & semi-conductors domestically.

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The Next Few Weeks are Critical

We believe that the worst is over for China and the next month-and-a-half should see supply chains come back. Factories are at 30-40% utilisation, so the priority is to resume production gradually while controlling a further outbreak of the virus. Markets, however, are uncertain of the outlook in impacted countries; particularly Korea, Italy and Iran. The next few weeks will be key for investors to assess the economic disruption caused by the virus.

> "In a bear case scenario, countries other than China reporting an exponential increase of infected cases could pose a bigger threat to markets than first anticipated."

As seen in Korea, the sudden spike of cases mean we cannot easily predict which potential countries could be affected next. This uncertainty will have an impact on the world economy.

Furthermore, given quarantine restrictions are not being followed by all countries around the world, there is a risk that infections may be much harder to contain. We draw comfort in not seeing new large scale cases outside of Hubei, but are keeping watch as seen with the rise of new cases in Italy, Korea and Iran.

We still see semiconductor names as relatively resilient; Korea has resumed production in factories post the weekend disruption. Moreover, in the last couple of weeks with individuals forced to stay indoors and work from home, we've seen a big spike in data centre traffic with a huge increase in time spent on social media, games, online entertainment and education.

In the ASEAN region, there are three key factors on investor's minds:

- **The First:** fear of the virus spreading beyond China which will disrupt Asian manufacturing supply chains.
- **The Second:** higher import prices or lack of supply will have an impact on net importers.
- **Finally:** ASEAN countries such as Thailand, Philippines and Vietnam have become reliant on Chinese and Korean tourists. Given the situation, tourism flow may remain subdued for at least the next two quarters.

Investment strategy - we're still bullish on Asia

Medium-term, we continue to remain positive on Asian markets and are confident that growth should recover after Q1, 2020. With inventory levels low globally, we may see a strong order momentum in the coming months to replenish stock.

In China, we believe things should improve considerably post Q1, 2020. We maintain our views and do not seek to change our positions. Overall, we are seeing 70% of scheduled flights down and jet fuel demand for February drop to 77% year-on-year. We believe the turning point for tourism will be when the WHO lifts its global alert on the virus, similar to SARS. Further, the vast majority of companies within our portfolio that are in online entertainment, education, food delivery and finance sectors have fairly robust digital interfaces. These companies should see a market share shift from their pure brick and mortar peers.

In India there are not many virus cases being reported, providing some level of comfort. The economic recovery may be delayed from negative sentiment globally but will still be underway nevertheless. Our medium-term view on India is still positive. With a forecast recovery in place, we're positioning ourselves with an overweight exposure in financials, real estate, consumer discretionary and healthcare sectors. We are expecting rural demand recovery and with increased compliance post-GST, which should lead to higher growth for organised sectors.

Deep value exists in some of state-owned enterprises in the energy & utility space. Should the Modi Government pursue the much-articulated path of privatisation of these assets, meaningful upside can be realised over the next 12-18 months. The spread of the coronavirus, along with the trade war & tax cuts, may hasten the diversification of supply chains away from China to India, a positive from a medium-term perspective.

Outside Asia, global markets are sanguine on the back of improving PMIs, a function of inventory restocking demand and expanding Central Bank balance sheets. For Asian equities, as investors get confidence the coronavirus situation is not significantly deteriorating, markets should bottom.

Overall, the impact of the virus will affect performance in the short-term. To put it into perspective, a quarter of negative sentiment and growth is priced in post a 5-7% market correction, but will not have a material impact on long-term portfolio holdings.

Invest in sector leading companies

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