

## Malaysia to regain 'Asian tiger' status

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KUALA LUMPUR: While many foreign funds are still adopting a wait-and-see stance, Malaysia has found a firm believer in a prominent US-based fund manager who sees the country re-emerging as an "Asian tiger".

Amid the shifting global dynamics that will see the development of new engines of growth and the gearing up for the next industrial revolution, Levitt Capital Management LLC (LCM) founder and chief investment officer Robert Levitt has been investing his clients' money in emerging markets, including Malaysia.

LCM, which manages over US\$400 million (RM1.36 billion) for clients globally, is based in Boca Raton, Florida, the United States. Levitt, who splits his time between the US and France, has been in Malaysia for the past three months to identify investment opportunities.

Though liquidity, or lack thereof, is an issue, Levitt is not wasting any time and in just two months, LCM has invested between US\$10 million and US\$15 million in stocks here, spending an average of US\$1 million to US\$2 million per stock.

In an interview with The Edge Financial Daily, Levitt said LCM would be investing in Malaysian stocks for the next three to five years, or more.

Levitt: The major challenge of investing in Malaysia is a lack of liquidity on local bourse

"An investment theme that I've been looking at for several years is a group of countries that missed the industrial revolution, such as China and India, which are now catching up, and countries with large populations such as Nigeria, Pakistan and Indonesia, that don't want to miss the next revolution.



"The fast growth of these countries with large populations adds an element of growth that is not really being considered by investment professionals in the United States and Europe. They are growing in affluence and income and are supported by governments trying to eliminate barriers to communication," he said.

He sees Malaysia, though small population-wise, as among the countries "unwilling to miss the next

industrial revolution". He said Asian economies would be part of the world's new engines of growth, in a market of increasing importance to investors.

"Malaysia will fit into that category and will become interesting again as one of Asia's emerging tigers as it was in the 1990s, because it is opening itself to the world and especially if it is able to attract Chinese investments, which could be a huge boost to the economy," Levitt said.

LCM also sees countries with growing affluence, emerging healthcare and aging populations in developed countries as an investment theme.

Levitt said the company looked at investment themes that would sustain for multiple years, in a world transitioning from exporting to the US and Europe for growth to increasing inter-regional trade, such as in Asia, which was growing quickly and where populations had increasing purchasing power.

On Malaysian stocks which had caught his attention, he said the investment potential could be found in individual stories, such as rubber glove makers Supermax Corp Bhd and Top Glove Corp Bhd.

"They're in an industry that is growing very quickly as more people become aware of the potential for disease and as more emerging markets become more focused on improving their medical services," Levitt said.

AIRASIA BHD was an "interesting" company, he said, due to its large potential market and while the low-cost carrier would be challenged if fuel prices continued to rise, its stock would be included in LCM's portfolio.

Other stocks of interest were timber company Lingui Developments Bhd for its inexpensive valuations, forward-looking management and ownership of a natural resource.

"If in an economic crisis, the timber doesn't get logged, it just grows bigger, so it's like money in the ground," Levitt quipped.

He said LCM was also very impressed with GENTING BHD's operations, noting the gaming company's facilities had been packed during his visit there, while its operations in Singapore could also be interesting.

However, he said LCM was undecided on the PLANTATION sector, given the controversy in the West over the benefits of consuming palm oil and was planning a visit with IOI CORPORATION BHD to gain insights into the issue.

Another stock LCM had been accumulating is HONG LEONG BANK BHD due to its potential for attracting

Chinese investments to Malaysia.

Earlier this month, the bank signed agreements with China Development Bank Corp to develop cross-border financing opportunities and its 20%-owned Bank of Chengdu to operate a consumer finance arm in Chengdu.

“Today, with countries like China being able to compete against Malaysia for the same foreign direct investments (FDI), it’s important that Malaysia keeps its eyes open for every opportunity.

“The recent move to invite the Chinese here really appears to me to create tremendous possibilities,” he said. Chinese President Hu Jintao was in Malaysia recently for a two-day state visit.

Levitt said given Malaysia’s past setbacks with Middle East investments here, such as when Dubai’s Damac Group abandoned a deal with UEM LAND HOLDINGS BHD to buy land in Iskandar Malaysia for almost RM400 million, the country’s efforts to attract FDI from places like China showed tremendous creativity, flexibility and strength in expanding the domestic economy and improving the standard of living for Malaysians.

Meanwhile, he said the major challenge of investing in Malaysia was the lack of liquidity on the local bourse.

“We prefer to make a minimum investment of US\$2 million in stocks, but have been forced to cut that in half due to the difficulty of finding shares.

“The pension funds absorb the share issuances and there’s no trading and liquidity, preventing foreign investors from accessing many of the more interesting companies that are here,” he said.

For instance, he said LCM was interested in picking up shares in PARKSON HOLDINGS BHD, after accumulating its Hong Kong shares for the past six months, but found it difficult to grow its holdings here due to the lack of shares traded.

However, he said Bursa Malaysia Securities, local companies’ investor relations arms and brokerages had been very encouraging and open to sharing information with LCM.

On his outlook for the equity markets, he said the S&P 500 was expected to gain another 10%-15% until early 2010, which would be tracked by other markets, including Malaysia’s.

Following the challenges of last year, he said fund managers’ clients would have been “happy” with 6%-8% returns in 2009, but with returns coming in at around four times more than expected, they were now in a situation where they did not want to lose out on those returns.

As such, when markets declined, they would fall sharply as managers sought to protect gains, resulting in more volatile markets for between two and four days, before rising again to new highs, Levitt said.

#### LCM stock picks

##### Hong Leong Bank Bhd

Apart from its recent Chinese tie-ups, the bank, controlled by billionaire Tan Sri Quek Leng Chan, posted a net profit of RM234.21 million in the first quarter ended Sept 30, 2009. Its results had included a RM31 million contribution from Bank of Chengdu. Between July 2 and Nov 16, 2009, seven analysts have called a buy on the stock, eight a hold and four a sell, with target prices ranging from RM4.50 to RM10.40. It closed last Friday at RM8.30 and has gained 62.75% in the year to date (YTD). According to Bloomberg data, its estimated current fiscal year price-earnings (PE) ratio is 13.47 times.

##### AirAsia Bhd

The country's pioneer low-cost carrier recently announced its intention to seek a dual listing on Thailand's stock exchange. From May 29 to Nov 20, 2009, 12 analysts had a buy, two a hold and seven a sell, with target prices ranging from 60 sen to RM2. It closed last Friday at RM1.28 and has risen 47.9% YTD. Its estimated current fiscal year PE is 6.01 times.

##### Lingui Developments Bhd

Its primary business is manufacturing and selling plywood and veneer. Apart from owning a timber concession in Sarawak, it has operations in New Zealand. The three analysts who cover the counter have a buy, hold and sell rating each, from June 1 to Nov 6, 2009, with target prices of between 94 sen and RM1.30. It closed last Friday at RM1.07 and has risen 78.33% YTD. Estimated current fiscal year PE is 18.45 times.

##### Top Glove Corp Bhd

A stock market darling due to its share of the global rubber glove market. Of the 14 analysts rating the counter between Oct 8 and Nov 20, 2009, five had buy calls, four a hold, two an outperform and one each with a neutral, overweight and market perform. The stock is targeted to reach between RM8.20 and RM10.55. It closed at RM8.90 last Friday and has gained 154.29% YTD. Estimated current fiscal year PE is 14.66 times.

##### Supermax Corp Bhd

The company's performance has soared since abandoning a soured investment in latex glove maker and wholesaler APL INDUSTRIES BHD. It reported a 155% year-on-year (y-o-y) surge in net profit to RM15.77 million in the third quarter ended Sept 30, 2009, boosted by higher margins. Between Oct 15 and Nov 3, 2009, six analysts have called a buy on the stock and one a trading buy, with target prices from RM3.80 to RM6.60. The stock closed at RM4.01 last Friday and has surged 401.25% YTD. Estimated current fiscal year PE is 8.74 times.

#### Parkson Holdings Bhd

Retailer which operates Malaysia's best-known brand in China. It reported an 8% y-o-y growth in net profit for the first quarter ended Sept 30, 2009, attributed to the opening of new stores and same store sales growth. From Feb 26 to Nov 19, 2009, three analysts had a buy call, three a hold, two neutral, one a sell and one an outperform. Their target prices are between RM2.38 and RM6.54. It closed last Friday at RM5.20. The stock has risen 31.95% YTD, with an estimated current fiscal year PE of 17.16 times.

#### Genting Bhd

A gaming giant with interests in power and utilities, all eyes are on the opening of its casino resort in Singapore in January 2010. Its leisure and hospitality arm in Malaysia is listed under Genting Malaysia Bhd. Between May 29 and Nov 13, 2009, 19 analysts rating the stock have a buy call, three hold and three sell, with target prices ranging from RM4.60 to RM9.50. The counter closed at RM7.12 last Friday, gaining 92.43% YTD. Estimated current fiscal year PE is 25.89 times.

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