# AGCM Asia Growth Fund

ASIA GROWTH CAPITAL MANAGEMENT

October 4, 2022

## Record low equity valuations and accelerating economic stimulus

During the month of September, the NAV of AGCM Asia Growth Fund RC SEK decreased by -5.4% and the WP EUR share class by -6.8%. Equity markets around the world declined in September, the S&P500 -8.6%, EuroStoxx50 -6.4% and the Hang Seng index -11.5%, all in local currencies. Tightening monetary conditions in the US and Europe continue to pressure financial markets. Quantitative tightening by central banks proved easier said than done. Bank of England was the first central bank which had to reverse course and launch an emergency bond purchase program.

Despite concerns for European and US corporate earnings in the coming quarters, we are relatively optimistic on the outlook for Asia and our fund holdings. We find three reasons for optimism. First, due to concerns by Western investors over China's economy, Chinese equity markets are oversold, now trading close to 20-year lows on key valuation metrics. Second, China's economy continues to do better than most, and massive economic stimulus has been rolled out ahead of the 20th National Congress of the CPC in mid-October. The announcements of growth promoting packages have come at an accelerating pace, and China's positive growth-rate differential relative to other major economies is likely to be even larger in 2023. Since China runs a massive current account surplus and has never engaged in zero-interest rate policies or quantitative easing, policy makers have a lot of flexibility. The growth-promoting measures now rolled out will provide a floor for corporate earnings growth.

The third reason for optimism, is that two policies which have dampened economic growth, will be modified for the better. The on-going campaign to prevent overbuilding and reduce financial risk in China's real estate sector is a government initiative launched in August of 2020. The large, partly state-owned developers are not the problem, but there are tens of thousands private real estate developers, some of which have pursued overly aggressive growth- and financing strategies. The "three red-line policies" from 2020, aiming to improve the financial health of the real estate sector by reducing developers' leverage and increasing liquidity, was harsh but effective. Unfortunately, this program coincided with the Covid pandemic with rolling lockdowns, further slowing the sales of new homes. The cooling of the real estate sector went too far too fast, and the government is now in the process of easing these restrictions. A series of new stimulus measures were recently introduced, including reduced mortgage rates, lowered down-payment requirements, and eased home purchase restrictions related to residency (hukou). Nearly 30 provinces in China have rolled out measures to guarantee funding and accelerate the completion and delivery of stalled real estate projects.

Also, the central government has announced support initiatives to accelerate construction and delivery of overdue real estate projects through policy bank loans. Thanks to the various support measures, China's housing completion area reached 48.3 million square meters in August, an increase of 42% compared to July, and back to the same level as in August of last year.

To modify China's zero-Covid policy will take time, but there are signs that the leadership is moving to a gradual easing. Perhaps as a pilot case, Hong Kong lifted its quarantine restrictions for foreign visitors effective September 26. In China's 100 largest cities, "only" 158 million people were living with some level of Covid restrictions as of September 28, compared to 306 million people on September 1, according to CLSA China Reality Research.

The South Korean equity market fell in September with the Kospi index down -10.5%. The market is now trading at a price-to-earnings multiple of 9.6 times and a price-to-book value ratio of 0.9 times, close to historical lows. The valuations reflect a high degree of pessimism due to the poor outlook for South Korea's export destinations, USA and Europe. The share price of Samsung Electronics has been under pressure along with the global market downturn in semiconductors, due to softer downstream demand. To address the oversupply situation, the major chip vendors are expected to cut production and capital expenditures. Samsung is trading at 1.0 time book value, nearing 10-year lows, and should as the industry leader come out strong when the cycle eventually bottoms. Korean telecom operators are enjoying a more benign regulatory environment in a long while under the more pro-business government led by President Yoon Suk-yeol elected in May this year. With stable profit growth and capex peaking, SK Telecom, the largest operator in Korea, is committed to further increases in its dividend payout ratio. The stock is trading at 0.9 times book value, 0.6 times sales with a dividend yield of 8%. Under current market conditions, we like this category of stocks.

Three years into the pandemic, Singapore has been able to re-open the economy with life almost back to normal. One of the lowest excess mortality rates in the World may be explained by a high vaccination rate, and high hospital care standards. The competent governance of Singapore based on strong rule-of-law has made it a favored destination for the region's wealthy, underpinning a strong residential property market and financial sector. Despite rising mortgage rates, Singapore's home prices have increased 13% in September from a year earlier. We have noted continuing strong inflows to the wealth management units of our Singaporean bank holdings. The best managed banks with conservative provisioning during the pandemic, now have low credit costs. Rising interest rates contribute to widening net interest margins and solid earnings growth going forward.

Economic growth in Indonesia remains very strong, in part due to the demand from China of commodities. The nation's large banks continue to do well. With double digit loan growth and rising policy rates, the banks are set for a strong improvement in profitability. The nation's largest bank Mandiri, guides for a full-year net interest margin of at least 5.4%, which is the same level as before the pandemic. Bank Rakyat, the largest Indonesian financial group, and the major player in micro lending, is guiding for a net interest margin of 7.7-7.9%, declining credit costs of 2.4-2.6% and earnings growth of at least 30% this year. Bank Rakyat serves 13 million micro borrowers and 100 million micro depositors. According to management, there is a market segment of 12 million people currently unserved by formal financial institutions, and an additional 18 million people not served by any providers at all. In other words, there is yet a long runway for loan growth in Indonesia.

Equity markets in Vietnam fell in September, with the MSCI country index down 11.2%. Vietnam saw robust economic growth in the third quarter, with real GDP up 13.7% year-on-year, an acceleration of the 7.8% year-on-year growth in the second quarter. The economy remains vibrant with a competitive export sector and increasing penetration of global supply chains. Retail sales grew 24.5% YoY in the first nine months, The sustained uptrend in retail sales indicated robust private consumption growth. Manufacturing output rose 24.7% year-on-year in the third quarter, an acceleration from 19.6% year-on-year growth in the second quarter. CPI inflation rose to a modest 3.9% in September, though still relatively low compared to the global level. The strong USD and a relatively weaker Vietnamese currency, VND, has been a boon both for exporters and the nation's trade numbers.

**Gustav Rhenman,** Chief Investment Officer

# AGCM Asia Growth Fund

Monthly Report

**September 2022**

ASIA GROWTH CAPITAL MANAGEMENT

## Performance

| As of 30/09/2022 | 1 month | YTD | 2 year | 5 year | Since launch Oct 3, 2014 |
|---|---|---|---|---|---|
| **AGCM Asia Growth Fund RC SEK** | -5.4% | -2.6% | +5.3% | +28.0% | +72.3% |
| **AGCM Asia Growth Fund WP EUR** | -6.8% | -6.8% | +3.2% | +19.6% | n.a. |

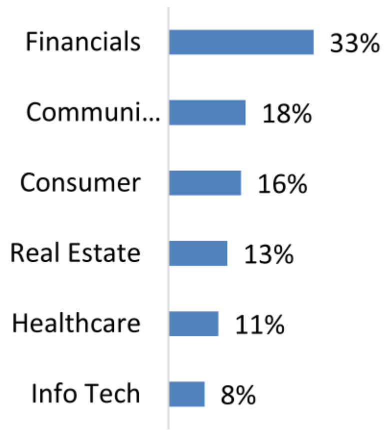
## Top 5 holdings %

As of 30/09/2022

| Company | Weight |
|---|---|
| Samsung Electronics | 5.9% |
| Alibaba Group | 5.8% |
| China Mobile | 5.6% |
| China Resources Land | 4.6% |
| Tencent Holdings | 4.4% |
| **Total** | **26.3%** |

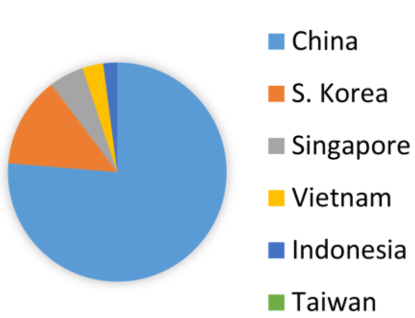
## Industry breakdown

As of 30/09/2022




## Geographic breakdown

As of 30/09/2022




## About Asia Growth Capital Management

Asia Growth Capital Management AB (AGCM) is a specialized investment management company managing investment funds investing in listed equities in Asia. The company was founded in Sweden in 2013 by a group of investment professionals and executives with extensive experiences from a wide range of different industries. The Chief Investment Officer has twice before been awarded by Lipper (Thomson Reuters) for managing the best performing Asia Fund among all regulated Asia funds registered for marketing in any EU country.

## Fund Facts

| | |
|---|---|
| **Portfolio manager:** | Gustav Rhenman |
| **Inception date:** | 03-Oct-2014 |
| **Fund size:** | SEK 763 million |
| **Number of holdings:** | 42 |
| **Management fee (RC):** | 1.85% |
| **Fund management Company:** | FundRock Management Company S.A. |
| **NAV:** | SEK 172.3<br>EUR 143.0 |
| **Minimum subscription:** | n.a. |
| **ISIN code:** | SEK RC LU 1091660909<br>EUR WP LU 1163023143 |




**ASIA GROWTH CAPITAL MANAGEMENT** • Birger Jarlsgatan 10, 5 tr • SE-114 34 Stockholm • Sweden • info@agcm.se • www.agcm.se

**Finnish Investors**: contact mauri.lavikainen@agcm.se