

# ELLERSTON ASIAN INVESTMENTS LIMITED

ACN 606 683 729

18 May 2020

Company Announcements Office  
ASX Limited  
Level 4, Exchange Centre  
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SYDNEY NSW 2000

## ELLERSTON ASIAN INVESTMENTS LIMITED PRESENTATION

Ellerston Asian Investments Limited (**ASX: EAI**) encloses the presentation for the upcoming Investor Update Call.

The Ellerston Asia April 2020 Investment Update will take place on Tuesday 19 May at 10am AEST. Shareholders and investors can register for the webinar at the following link:

[Register your attendance here](#)

For any further enquiries please contact Link Market Services on 1300 551 627 or Ellerston Capital Limited Investor Relations on 02 9021 7701.

Yours sincerely,



Ian Kelly  
Company Secretary



ELLERSTON ASIA

# Ellerston Asian Investments

Investor Update May 2020

# Performance

## PERFORMANCE TO 30 APRIL 2020

- We remain cautious. This rally has gone far too fast and markets are disconnected from economic reality.
- Cash as of the end of April was 15.8%.
- The AUD strength was a headwind for absolute returns in April.
- The most current NTA (May 15<sup>th</sup>) is \$1.1434.
- The fully franked dividend profit reserve as of April 2020 is 5.31 cents per share.
- May MTD we are up in absolute terms and above benchmark.\*\*

%	1 Month	CYTD	6 Months	1 Year	2 Years p.a.	Since Inception p.a.**
EAI Net	1.24%	-4.48%	1.47%	2.56%	1.63%	6.15%
Benchmark*	1.81%	-4.83%	-0.54%	-2.94%	-1.22%	6.72%
Alpha	-0.57%	0.35%	2.02%	5.49%	2.85%	-0.57%

\* Benchmark is MSCI Asia ex Japan (non-accumulation) Index in AUD. Inception is Sept 2015.

\*\*As of May 14, 2020.



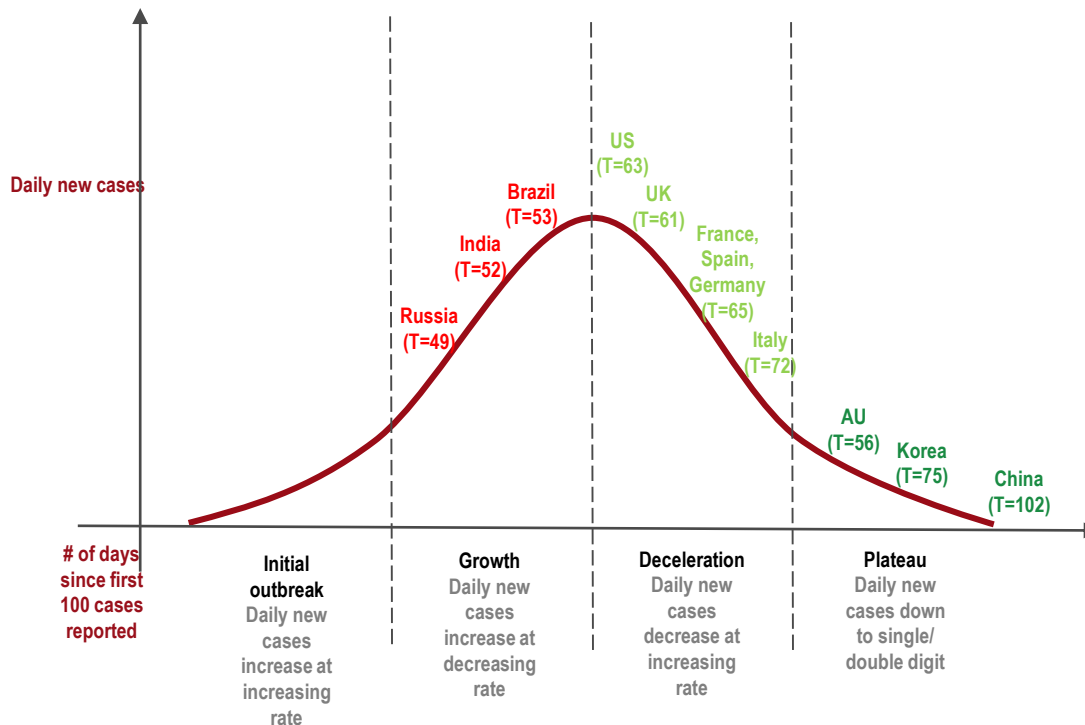
# ELLERSTON ASIA

## Asian Market Outlook

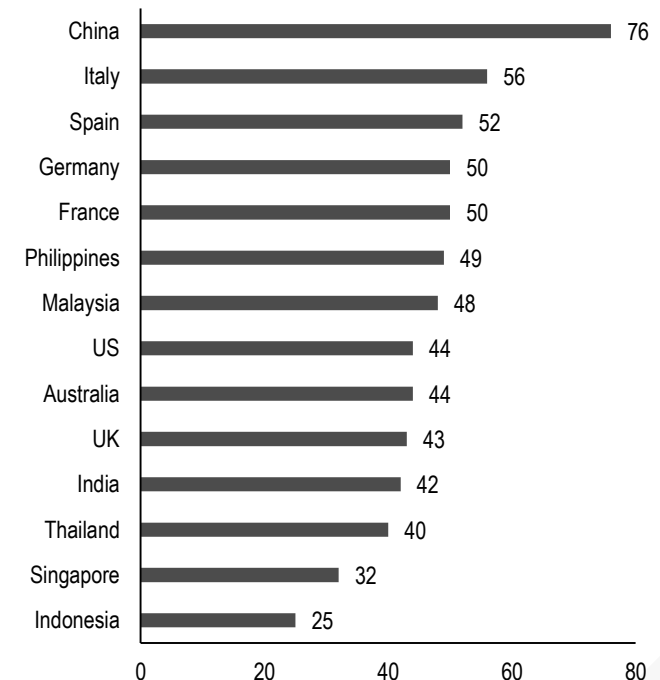
# Coronavirus Update

## ECONOMIC RE-OPENING AND WATCHING FOR A SECOND WAVE

- The focus of the market has shifted from virus outbreak to economic re-opening, with many countries starting to ease restrictions gradually. Most countries are heading towards the right hand side of the epidemic curve.
- The China re-opening experience has suggested that supply recovered sooner than demand. China is now at ~95% of normal operating capacity for production while demand is still ~60% of the normal level.
- However, we are closely tracking the case count because many countries are re-opening their economies with elevated daily new case count. The risk of second waves is very real.



## Days since initial lockdown



# Policy Response

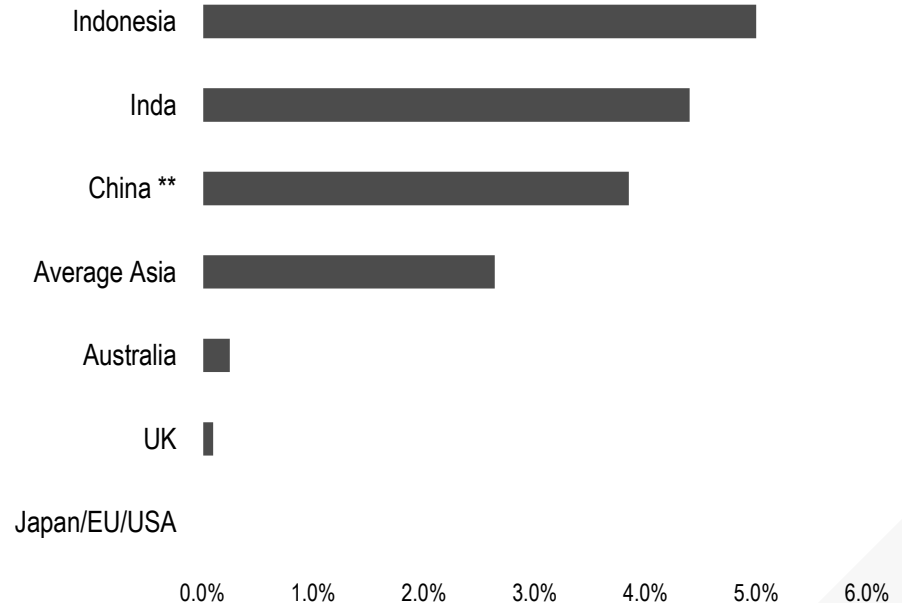
## THINKING ABOUT THE POLICY PUT

- Since the beginning of COVID approximately \$14 trillion of monetary and fiscal stimulus has been announced globally.
- The market reaction to fiscal stimulus has generally been more positive than to monetary stimulus.
- There is a mis-match between the pandemic path and the level of stimulus in some countries. Korea has potentially overstimulated while most countries in non-Asia EM have definitely under-stimulated.
- The S&P 500 has rallied 26% since the Fed announced on March 23, but unorthodox monetary policies do not create structural growth.
- COVID-19 has accelerated the Japanification of DM. Asia still has monetary options.

### Nikkei Average Annual Return Since QE is only 1.7%\*



### Interest Rates in Asia and DM



\*MSCI Europe is similar returning a CAGR of approximately 3% since Draghi's "Whatever it takes" speech in July 2012.

\*\* China is 1 year Loan Policy Rate (4.35%). 5 Year LPR is 4.65%. Source: Bloomberg.

# US China Relations

## POSSIBLE OUTCOMES IN THE COVID BLAME GAME

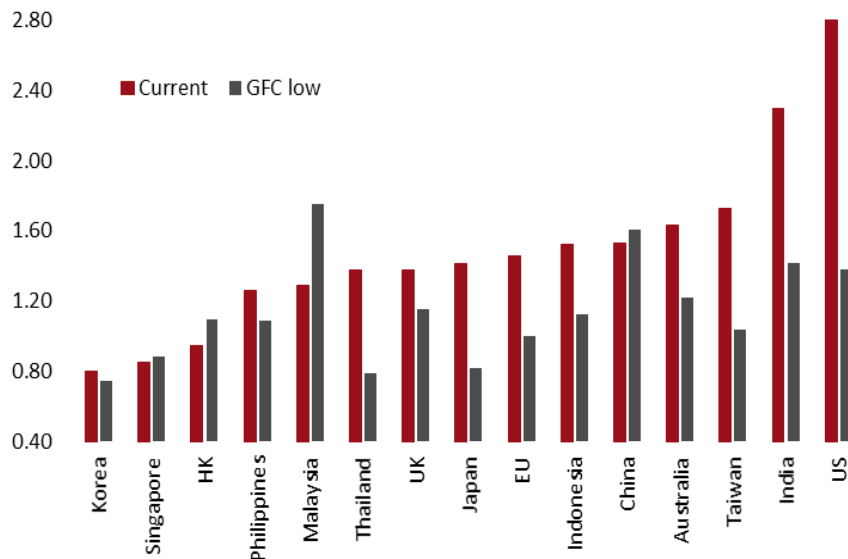
	Foreign Policy	Macro-Economic	Capital Markets
USA Actions Towards China	<ul style="list-style-type: none"><li>• Sovereign immunity / legal action on COVID</li><li>• Increased engagement with Taiwan</li><li>• Support of HK protesters</li><li>• Increased military presence in South China Seas</li><li>• Withdrawal from international organizations that include/support China</li></ul>	<ul style="list-style-type: none"><li>• Trade War 2.0</li><li>• Huawei / ZTE</li><li>• Forced supply chain reorganization for US companies</li></ul>	<ul style="list-style-type: none"><li>• Government pensions banned from investing in China</li><li>• Crack down on ADRs</li><li>• Cancelling of US debt obligations to China (likely impossible)</li></ul>
Chinese Retaliation to US Actions	<ul style="list-style-type: none"><li>• Increased financial support of multi-lateral organisations</li><li>• Keep OBOR friends close</li><li>• Increased military presence in South China Seas</li></ul>	<ul style="list-style-type: none"><li>• Consumer boycotts</li><li>• Trade retaliation in ag sector prior to US election</li><li>• Significant depreciation of RMB</li><li>• Restrict supply of rare earths</li></ul>	<ul style="list-style-type: none"><li>• Sell US Treasuries</li><li>• Sell US Equities/USD</li><li>• Encouragement of more dual listings for ADRs</li></ul>

# Valuations and Technicals

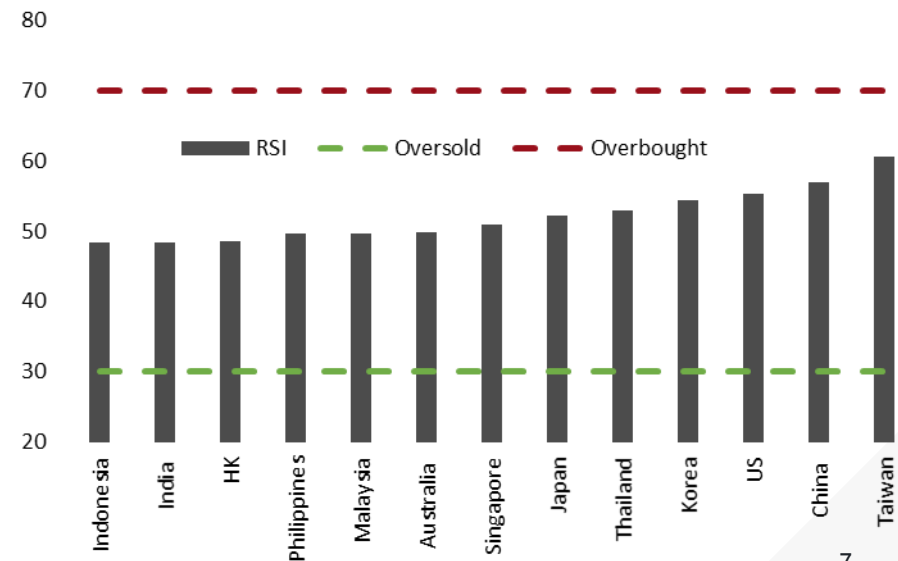
## VALUATIONS AND TECHNICAL LEVELS HAVE RECOVERED QUICKLY

- Most markets globally entered bear market territory in mid March, but have since staged a strong recovery. Asian markets are still down YTD and most have underperformed the US.
- Valuations are not as attractive as in March but most Asian markets remain more reasonably valued than the US, Australia, EU and Japan
- Asian markets no longer look oversold (i.e. RSI < 30), but are not overbought either (i.e. RSI > 70).

Market P/B vs GFC Low



RSI for Asian Markets





# Putting It All Together

## EAI'S PROPRIETARY COVID MARKET MATRIX

	COVID-19		Policy Response		Valuation		Technicals		Oil	
	Epidemic Status	Response Status	Monetary	Fiscal Adequate?	P/B vs GFC Low	3M Performance	RSI	Technical Support?	Low Oil + or -	Count/Rank
China (CSI 300)	Peaked	Out of lockdown	Yes	Yes	>5% from GFC Low	0.0%	63.0	>10% from Tech Support	Positive	5
Taiwan	Peaked	No lockdown	Yes	Yes	>5% from GFC Low	-8.0%	59.4	>10% from Tech Support	Positive	5
Korea	Peaked	Lockdown lifting	Yes	Yes	>5% from GFC Low	-14.1%	55.3	>10% from Tech Support	Positive	4
Japan (Nikkei 225)	Stabilizing	No lockdown	Yes	Yes	>5% from GFC Low	-15.3%	58.6	>10% from Tech Support	Positive	4
India	Stabilizing	Lockdown lifting	Yes	Yes	>5% from GFC Low	-24.3%	48.0	>10% from Tech Support	Positive	4
Australia	Peaked	Lockdown lifting	Yes	Yes	>5% from GFC Low	-25.0%	51.0	>10% from Tech Support	Neutral	3
HK	Peaked	Lockdown lifting	No	Yes	>5% from GFC Low	-13.0%	51.1	>10% from Tech Support	Positive	3
UK (FTSE 100)	Peaked	Lockdown lifting	Yes	Yes	>5% from GFC Low	-19.6%	55.9	>10% from Tech Support	Neutral	3
Indonesia	Stabilizing	Lockdown lifting	Yes	No	>5% from GFC Low	-21.9%	47.5	>10% from Tech Support	Neutral	2
US (S&P)	Stabilizing	Lockdown lifting	Yes	Yes	>5% from GFC Low	-14.9%	53.3	>10% from Tech Support	Neutral	2
Singapore	Stabilizing	Lockdown lifting	No	Yes	>5% from GFC Low	-20.1%	50.3	>10% from Tech Support	Neutral	2
Thailand	Stabilizing	Lockdown lifting	Yes	Yes	>5% from GFC Low	-15.2%	59.8	>10% from Tech Support	Negative	2
Philippines	Stabilizing	Lockdown lifting	Yes	No	>5% from GFC Low	-23.7%	49.6	>10% from Tech Support	Neutral	1
Malaysia	Stabilizing	Lockdown lifting	Yes	No	>5% from GFC Low	-10.2%	50.4	>10% from Tech Support	Negative	1
Europe (MXEU)	Stabilizing	Lockdown lifting	Yes	Varies	>5% from GFC Low	-15.3%	58.6	>10% from Tech Support	Neutral	1



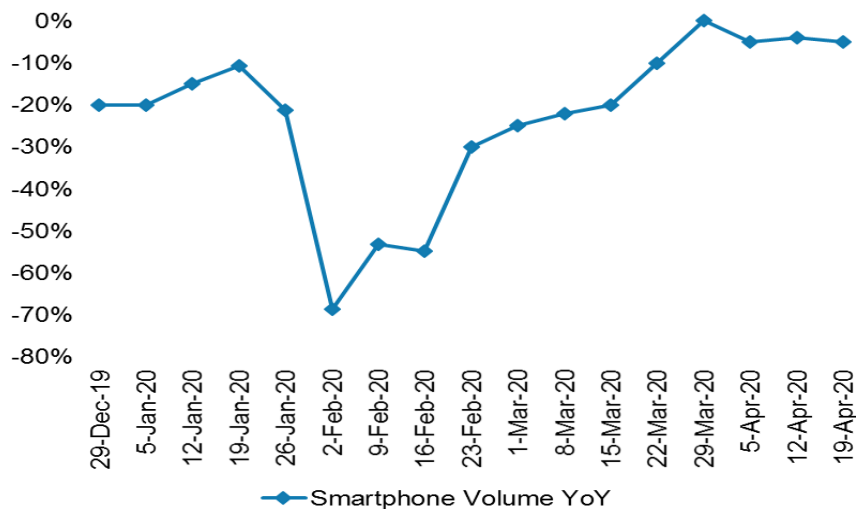
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Sector & Stock Discussion

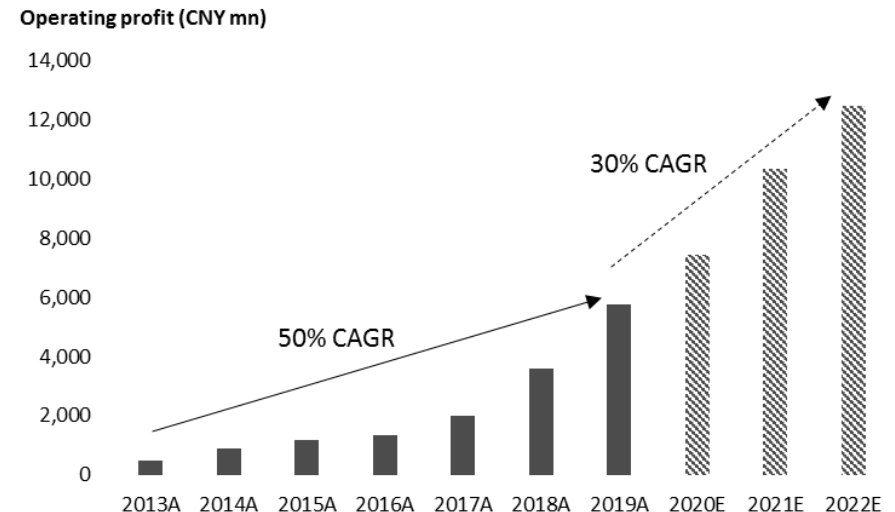
## LUXSHARE

- The tech sector has been resilient despite the global coronavirus outbreak, but there are risks on the horizon.
- 1Q20 results for tech stocks in EAI such as TSMC, Mediatek, Samsung, Hynix and Luxshare were better than expected with operating profit growing by on average ~41% yoy. Growth rate could slow in 2Q, but should remain positive.
- Risk 1: Demand slowdown for consumer electronic products such as smartphones in 2Q across North America, Europe and parts of Asia (ex China). China experience suggests a V-shaped recovery is possible post containment.
- Risk 2: Escalating US/China tensions could see more US restrictions against Chinese tech firms such as Huawei. Few winners except Samsung and Mediatek.
- Luxshare is a tech company we like and is the largest supplier of Apple AirPods and Lightning cables globally. Wearables is the fastest growing segment for Apple. We forecast 3yr EPS CAGR of 31% vs PE of 35x.

**China smartphone market has made a v-shaped recovery**



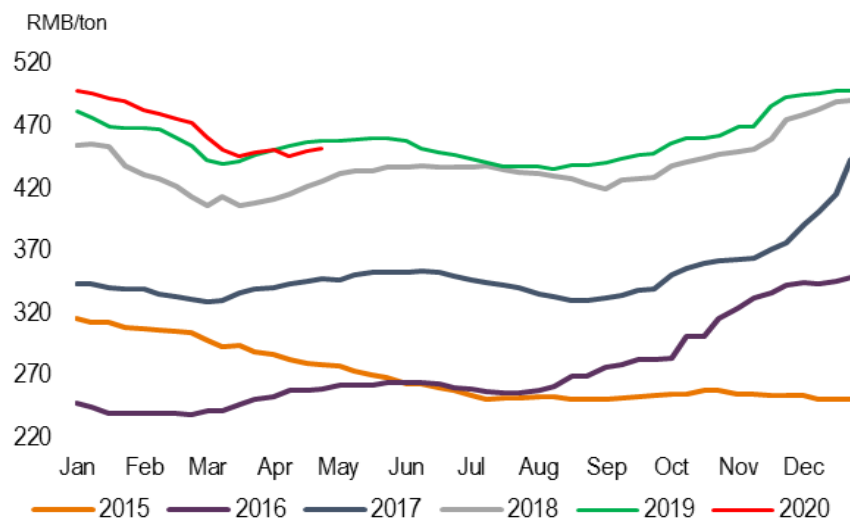
**Luxshare has consistently delivered strong earnings growth**



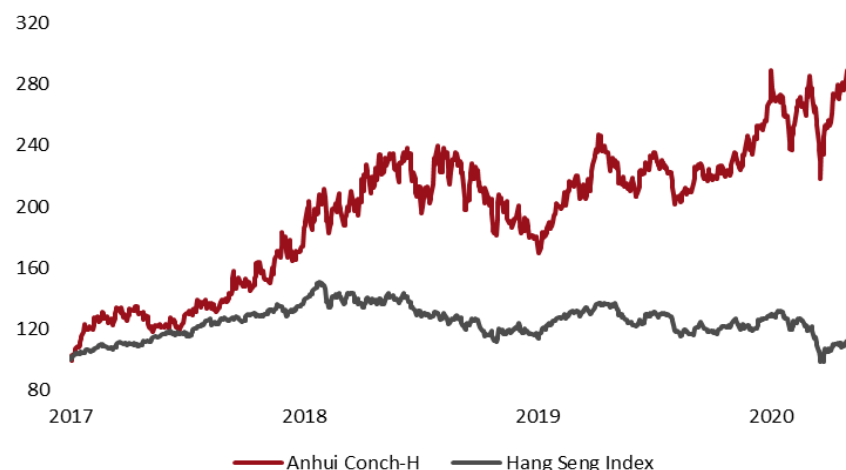
## ANHUI CONCH

- China 1Q20 GDP print of -6.8%yoy has put pressure on the Government to further stimulate. Threat of second wave infections and trade war re-escalation could provide additional impetus for policy easing.
- Fiscal stimulus of ~2% of GDP thus far. Stimulus measures will likely focus on consumption and infrastructure investment.
- Cement provides the highest leverage to infrastructure stimulus (35% of China's cement consumption from infra vs 20% for steel). Industry structure in cement also favourable with rational competitive/supply behaviour.
- Anhui Conch is best of the China cement names. Conch is net cash, FCF positive and is extremely cheap (8.5x PE) despite improving margins and ROE over the past 5 years. This has seen the stock outperform the Hang Seng Index by 180% since the start of 2017 and by 43% over the past 12 months.

China cement prices have held firm YTD



Conch has outperformed the market since 2017



# Consumer

## JD & LI NING

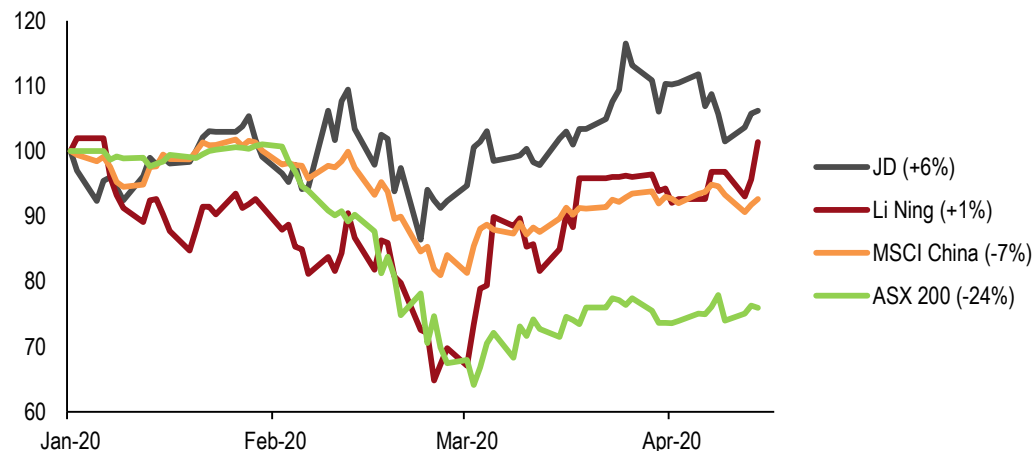
- While overall consumer confidence in China has been severely impacted by COVID-19, our portfolio stocks JD & Li Ning have performed better than market thanks to their strong brand and management capability. Channel checks suggest that we are seeing week on week improvement on consumer sentiment.

### JD.com

- China's largest online retailer with over 360m active customers. Sits behind Alibaba as the second largest eCommerce platform.
- Gained market share during COVID-19 due to its in-house logistics network while others suffered from supply constraint.
- Revenue/EPS expected to 17%/32% for next 3 years while valued at 29x forward PE.

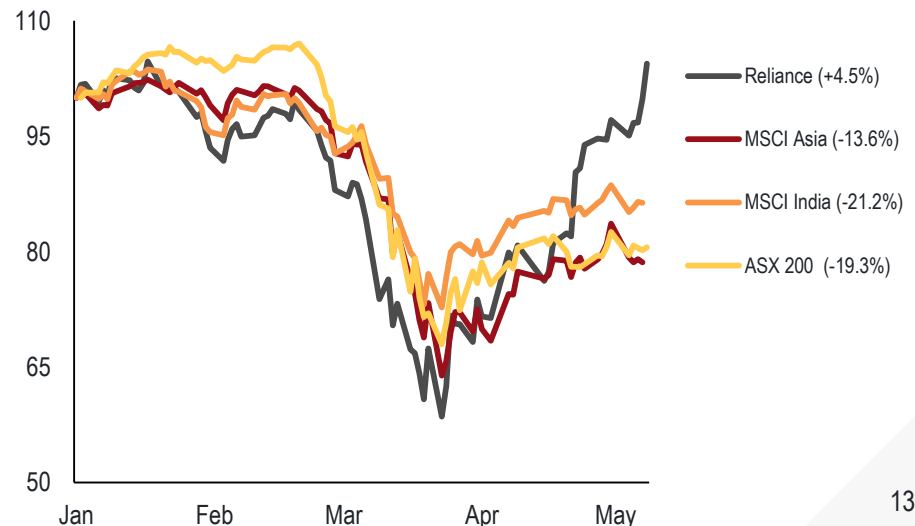
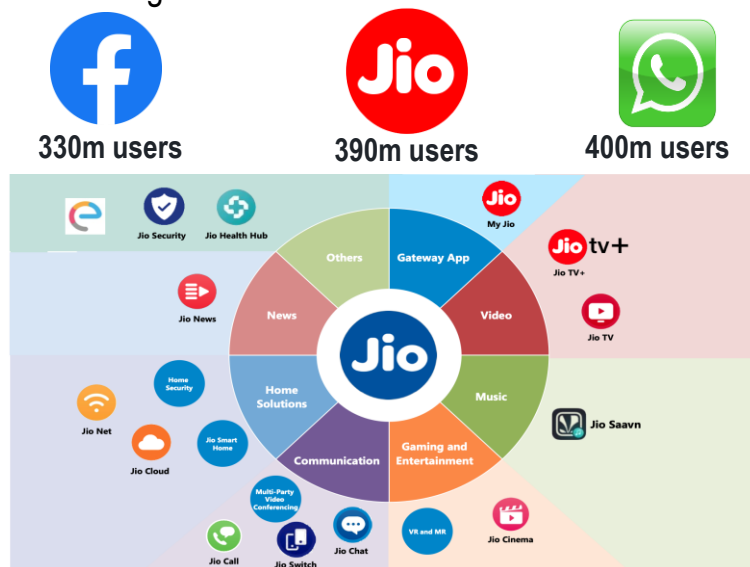
### Li Ning

- China's leading sportswear brand which was founded by Olympic gold medallist Mr Li Ning, also known as the "Prince of Gymnastics" in China.
- Outperformed due to better than expected recovery in retail sales, prudent inventory management, and its pure exposure to China domestic recovery.
- Revenue/EPS expected to 15%/23% for next 3 years while valued at 32x forward PE.



## RELIANCE INDUSTRIES

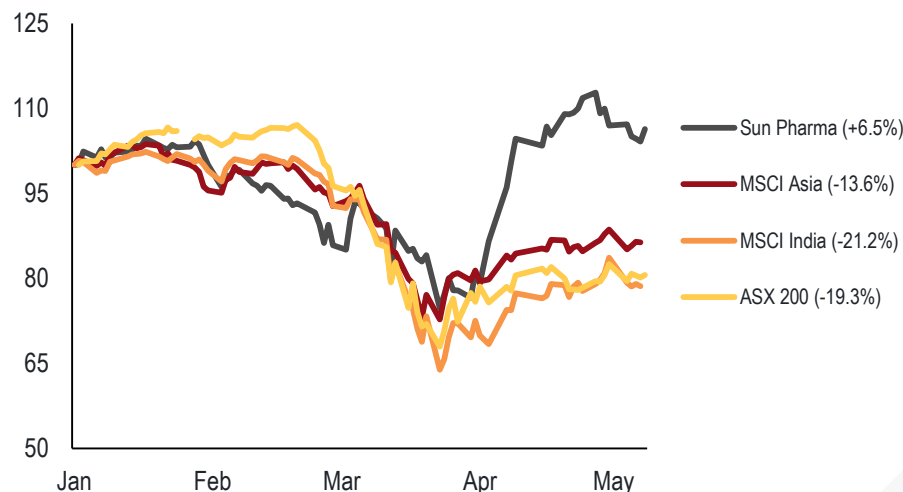
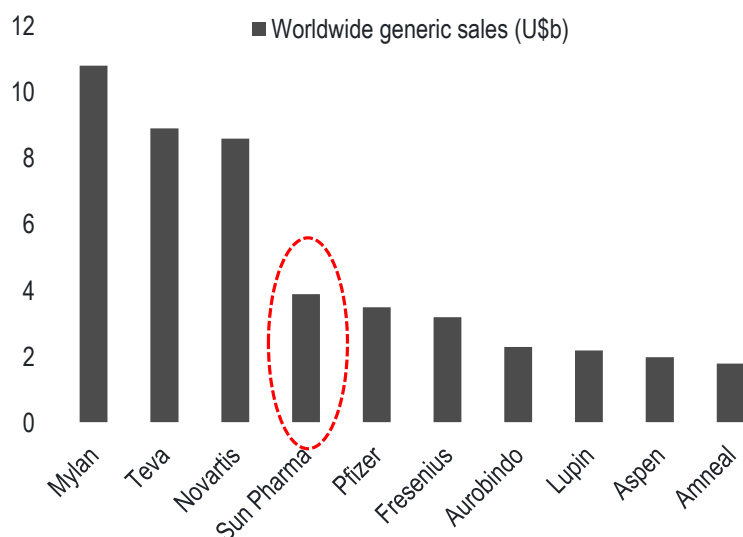
- Ellerston Asia has very strict ESG criteria which means we had very little exposure to the energy space as oil prices declined in March. With lockdowns being lifted across the world, we expect oil prices to stabilise and gradually rise as the demand supply dynamic starts to improve in 2H20.
- We initiated a position in Reliance in April as we saw significant potential for long term rerating driven by greater earnings contribution from the Retail and Digital (Jio) businesses that sit within Reliance.
- The announcement of the Facebook – Jio deal with Facebook taking a 10% stake in Jio for an enterprise valuation of U\$61b helped reaffirm our thesis of the value unlocking potential in the Digital business.
- This was followed by further stake sales to Global PE firms at valuations of between U\$61-67b. At this valuation, Jio would rank amongst the top five businesses in India by market capitalisation and accounts for 60% of the current market capitalisation of Reliance.
- Earnings are expected to grow at a 20% CAGR over the next 3 years and the stock trades at 19x one year forward earnings.



# Health Care

## SUN PHARMA

- The Indian pharma sector is the largest provider of generic drugs globally and supplies over 60% of the global demand for vaccines, 40% of the generics demand in the US and 25% of all drugs in the UK.
- Domestically, India's pharma market has been consistently witnessing 10%-11% YoY growth to US\$20bn driven by a healthy mix of volume and price-led growth. The market has strong industry growth drivers, such as the rising penetration of medicines, increasing affordability and a growing incidence of lifestyle diseases.
- Sun Pharma is India's largest pharma business and the 4<sup>th</sup> largest speciality generics pharma business in the world.
- Positioning in India and emerging markets remains strong and Sun is set to grow to grow ahead of its addressable market. Sun's India business has been consistently witnessing 10%-15% growth while the the launch of speciality drugs is driving growth in the global business.
- Earnings are expected to grow at a 14% CAGR over the next 3 years and the stock trades at a 21x one year forward earnings multiple.



# Financials

## PING AN AND HONG KONG EXCHANGE

- Financials is one of our 3 core sectors but we are currently underweight given the medium term NPL risks for banks post-COVID. Therefore, our financials portfolio is more weighted to insurance and exchanges.
- The banks that we do own (DBS, China Merchants Bank, BBKA) are very well capitalized and have sustainable dividends.

### Ping An Insurance

- Ping An is a well diversified insurance company with a clearly defined “finance + technology” strategy.
- Ping An is a new economy company but it still trades at old economy, insurance type multiples. In 2020, Ping An is expected to post a 3 Year EPS CAGR growth of 17%, it is still only trading at 9x PE.



### Hong Kong Exchange

- HKEX has a near monopoly position on equity flows into and out of Hong Kong.
- Chinese ADRs are increasingly looking to re-list or dual list in Hong Kong. Alibaba has already listed and JD and NetEase have filed to do so.
- These 3 companies alone have a combined market cap of \$A1 trillion.
- HKEX has 3 year EPS CAGR of over 10% and has a strong and sustainable dividend yield of approximately 3%. Investors are not getting these dividend yields from banks in the current environment.



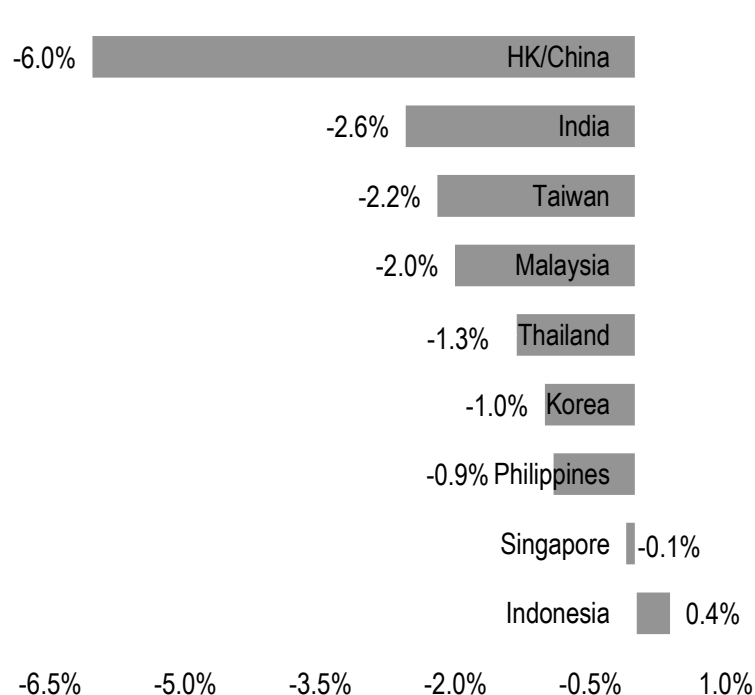


# Portfolio Overview

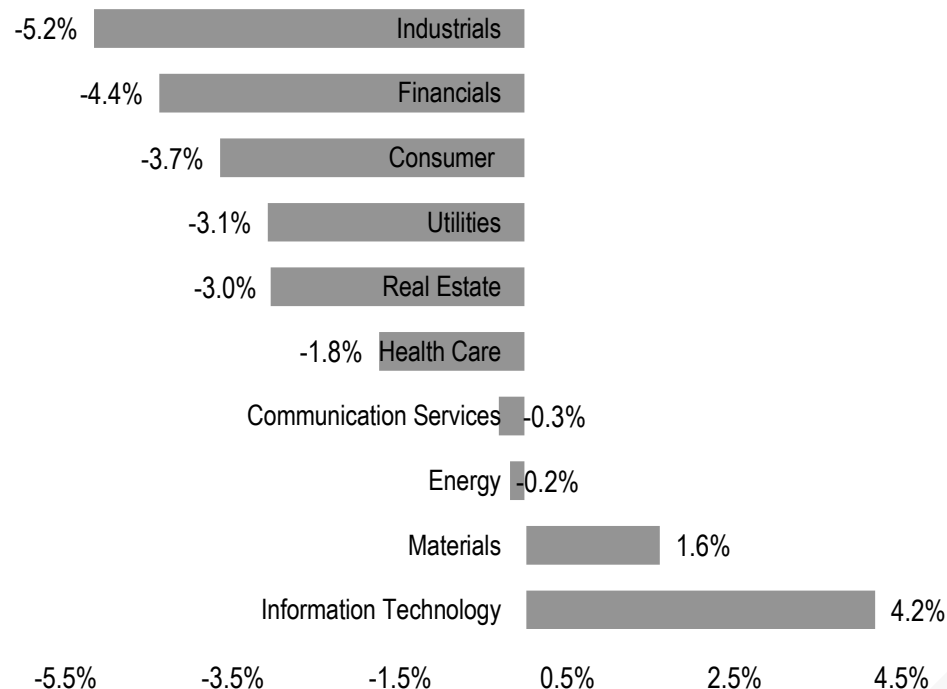
## PORTFOLIO CHARACTERISTICS AS OF 30 APRIL 2020

- The portfolio remains very concentrated with 53% of positions in the Top 10.
- On FX, we use FX forwards to match portfolio weights with the benchmark for large country/FX exposures like KRW, HKD, USD and TWD.

### Country OW/UW



### Sector OW/UW



# Portfolio Overview

TOP 10 AS OF 30 APRIL 2020

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Top 10 Holdings	Sector	Country	Portfolio Weight (%)
TSMC	Technology	Taiwan	9.55%
Tencent Holdings	Technology	China	8.17%
Samsung Electronics	Technology	Korea	7.72%
Alibaba	Technology/Consumer	China	7.69%
Anhui Conch Cement	Materials	China	4.64%
Ping An Insurance	Financials	China	3.96%
China Merchants Bank	Financials	China	3.21%
Hong Kong Exchange	Financials	Hong Kong	2.94%
JD.com	Technology/Consumer	China	2.68%
AIA Group Limited	Financials	Hong Kong	2.54%
<b>Total</b>			<b>53.09%</b>



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Q&A

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