# Platinum Asia Investments Limited ASX: PAI

30 April 2020

## Facts

| | |
|---|---|
| Portfolio value | $411.0 mn |
| Portfolio Inception | 15 September 2015 |
| Current share price | $0.97 |
| Pre-tax NTA | $1.1281 |
| Post-tax NTA | $1.1210 |

## Fees

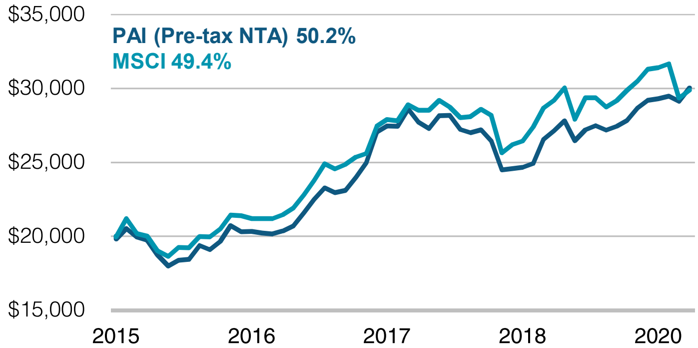
| | |
|---|---|
| Management fee: | 1.1% p.a. of the portfolio value |
| Performance fee: | Payable at15% of the amount by which the portfolio's annual performance exceeds the return achieved by the MSCI All Country Asia ex Japan Net Index |

## Performance [1]

| | Company % (Pre-tax NTA) | MSCI % |
|---|---|---|
| 1 month | 3.08 | 1.86 |
| 3 months | 2.48 | (4.83) |
| 6 months | 7.90 | 0.06 |
| Calendar year to date | 2.91 | (4.51) |
| 1 year | 8.04 | (0.50) |
| 2 years (compound pa) | 3.26 | 1.16 |
| 3 years (compound pa) | 10.10 | 7.93 |
| Since inception (compound pa) | 9.19 | 9.08 |

PAI's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. PAI's returns have not been calculated using PAI's share price.

## Performance graph [2]




PAI's returns are calculated after the deduction of fees and expenses, adjusted for taxes paid and any capital flows and assume the reinvestment of dividends. PAI's returns have not been calculated using PAI's share price.

## Invested positions [3]

| | Long % | Short % | Net % | Currency % |
|---|---|---|---|---|
| Asia-Pacific | 95.3 | (2.8) | 92.5 | 79.2 |
| China | 12.8 | | 12.8 | 12.8 |
| China Ex PRC | 44.5 | | 44.5 | |
| Hong Kong | 6.8 | | 6.8 | 28.6 |
| Taiwan | 7.8 | | 7.8 | 7.8 |
| India | 5.5 | (2.8) | 2.7 | 3.7 |
| Korea | 11.9 | | 11.9 | 12.0 |
| Singapore | 2.0 | | 2.0 | 0.2 |
| Thailand | 1.6 | | 1.6 | 1.7 |
| Vietnam | 2.4 | | 2.4 | 2.4 |
| Australian Dollar | | | | 10.0 |
| North America | | | | 20.8 |
| United States Dollar | | | | 20.8 |
| Sub-Total | 95.3 | (2.8) | 92.5 | 100.0 |
| Cash | 4.7 | 2.8 | 7.5 | |
| Total | 100.0 | | 100.0 | 100.0 |

Long - 47 stocks Short - 1 other

## Top ten positions [4]

| Stock | Country | Industry | % |
|---|---|---|---|
| Alibaba Group Holding Ltd | China | Cons Discretionary | 6.5 |
| Samsung Electronics Co Ltd | Korea | Info Technology | 5.7 |
| Taiwan Semiconductor | Taiwan | Info Technology | 5.7 |
| Tencent Holdings | China | Comm Services | 5.5 |
| AIA Group Ltd | Hong Kong | Financials | 3.9 |
| China International | China | Cons Discretionary | 3.7 |
| Reliance Industries Ltd | India | Energy | 3.6 |
| Huazhu Group | China | Cons Discretionary | 3.5 |
| LG Chem Ltd | Korea | Materials | 3.2 |
| Midea Group | China | Cons Discretionary | 3.1 |
| | | Total | 44.3 |

## Industry breakdown [3]

| Sector | Long % | Short % | Net % |
|---|---|---|---|
| Consumer Discretionary | 32.6 | | 32.6 |
| Info Technology | 20.2 | | 20.2 |
| Communication Services | 12.5 | | 12.5 |
| Financials | 7.5 | | 7.5 |
| Consumer Staples | 6.0 | | 6.0 |
| Industrials | 3.7 | | 3.7 |
| Energy | 3.6 | | 3.6 |
| Materials | 3.4 | | 3.4 |
| Real Estate | 2.0 | | 2.0 |
| Health Care | 1.6 | | 1.6 |
| Other | 2.3 | (2.8) | (0.5) |



1. & 2. Source: Platinum for portfolio returns and Factset Research Systems for MSCI returns. The returns are calculated relative to the MSCI All Country Asia ex-Japan Net Index in A$. The investment returns in the line graph are cumulative on A$20,000 invested in PAI since inception. Past performance is not a reliable indicator of future returns. Platinum does not invest by reference to the weightings of the index. The index is provided as a reference only.

3. The geographic "Long %" is the exposure to long securities and long securities/index derivative positions, the geographic "Short %" is the exposure to short securities and short securities/index derivative positions and the geographic "Net %" is the difference between the geographic "Long %" and the geographic "Short %", each as a percentage of the market value of the Fund's portfolio. The "Currency %" is the effective currency exposure as a percentage of the market value of the Fund's portfolio taking into account long and short securities, cash, forwards and long and short securities/index derivative positions. The cash "Long %" includes cash at bank, cashflows expected from forwards and effective cash exposures resulting from long securities/index derivative positions, the cash "Short %" includes effective cash exposures resulting from short securities/index derivative positions and the cash "Net %" is the difference between the cash "Long %" and the cash "Short %", each as a percentage of the market value of the Fund's portfolio. For the "Industry breakdown", index positions (whether through ETFs or derivatives) are only included under the relevant sector if they are sector specific, otherwise they are included under "Other".

3. and 4. China generally refers to securities or derivatives over securities, which securities are listed on the Shanghai or Shenzhen stock exchange. China Ex PRC generally refers to securities or derivatives over securities, which securities are listed outside of the PRC but provide exposure to PRC companies.

4. The "Top ten positions" show PAI's top ten long securities positions as a percentage of PAI's portfolio value (including long securities and long securities derivative positions).

- We capitalised on a positive month for the Asia ex-Japan portfolio by lifting exposure.
- We have trimmed exposure subsequent to quarter end.
- We have modest exposure to India for now – it is vulnerable to COVID-19 and expensive in our view.

The portfolio posted a pleasing return in April, amid improved performance for Asian markets in general. As the market moved from pessimism to complacency during April we reduced shorts and deployed cash, assisting performance. Subsequent to month end we have lowered exposure once again. We have noted in past months that we will be fleet-of-foot in terms of exposure given volatile conditions.

As at the close on Wednesday, 6 May, we are 85% long, of which 51% is in China and 7% is in India. We currently have no shorts. We have 10% exposure to the Australian Dollar. Given the current dynamic nature of the evolving situation, this is changing from day to day.

China is gradually getting back to work, and this may be more of the familiar, commodity intensive stimulus of the past amid rising unemployment and weak consumer confidence. For instance, land purchases of the top 100 Chinese housing companies rose 7.2% on a year ago and 108.9% versus March in April, according to the China Index Research Institute (Source: BMO). Special bond issuance from January to April 2020 has exceeded that of the whole of 2019 and over 4,300 major projects started across China in April, with the total investment amount exceeding RMB 2.9tn (US$411bn), according to Mysteel. Factory restarts continue to improve with Hubei at 98%. Thermal coal demand has recovered to 2019 levels. Oil refinery runs also showed improvement and were up 4% on a week earlier and up 12% on 2019 as refineries take advantage of low crude prices (Source: Bernstein).

A recent survey carried out by Shanghai Metal Markets of Chinese copper wire and cable fabricators showed a surge in operating rates over the past month. From a multi-year low in February of 34.5%, operating rates are now over 100% of nameplate capacity for the first time. This comes amid a surge of orders from the State Grid, whose budget has been markedly increased this year (Source: BMO).

On the consumer side of the economy, data from Bernstein indicate what may lie ahead as economies gradually reopen following the coronavirus response. The number of new cases of COVID-19 in China decreased to 50 in the week of 27 April (down 40% on the prior week), and the number of deaths was 0 for the second consecutive week. Inter-city travel as tracked by mobile phone data was up +43% on a week earlier as a result of the May Day holidays, but compared to May Day 2019 the figure was 43% lower. Total passenger movements on public transport remain in a 50-60% decline nationally versus a year ago. Macau gaming revenues are effectively zero due to travel restrictions, with an estimate for May down 90 to 95% on a year earlier. Auto sales volumes were up +12% on 2019. Baidu Search volumes for the premium car brands were 20% higher in March and April versus Q4 2019, while the mass brands were 1% higher. This is perhaps reflective of moves away from public transport. Search volumes for ride sharing app Didi remained 34% lower than fourth quarter 2019 levels.

As we have discussed in previous months, we have avoided economic leverage in non-Japan Asia. This is because investors rushed out of the region from the onset of the trade war in 2018, which created attractive buying opportunities in high quality companies, particularly in China. As a result, the portfolio is higher PE and less contrarian than many may expect. This is offset by the degree to which a holding in non-Japan Asia, and China in particular, is itself contrarian! Once a durable recovery is on foot, we will need to pivot toward more cyclical exposures to fully benefit. This is unlikely to occur imminently and in the recovery of 2015-16 the region's large, well-known companies led the equity market's performance initially.

We have little exposure to India, outside of refining and telco giant Reliance. We regard the long-term economic story for India as outstanding. In contrast, the market story is unattractive in the near term. India is one the world's most expensive equity markets (see accompanying chart of PEs). Further, with a rudimentary healthcare system and GDP per capita of just over US$2,000 per capita in 2018 (Source: World Bank), India is not well placed to deal with COVID-19 in our view.

On 3 May, India recorded its highest jump in COVID-19 cases yet, with 2,644 new cases and 83 deaths reported in 24 hours. The increase took India's case count to just over 40,000 as of that date (Source: Economic Times). One must wonder if the case count is accurate in India. There may be significant under counting in our view. All of this means we are unlikely to add significantly to Indian exposure in the near term. Once we get more confidence regarding India's ability to reopen its economy we will seek to add to exposure should the market provide well-priced opportunities. This would likely require genuine herd immunity or a mass produced and accessible vaccine.


Source: Chart 1 – IBES consensus, in local currency. Correct as at 5 May 2020.


Source: Chart 2 – IBES consensus, in local currency. Correct as at 5 May 2020.

Charts 1 and 2 show valuations based on sell-side consensus estimates. It is worth noting at this stage, that these earnings forecasts will almost certainly come down substantially to reflect the impact of coronavirus-related slowdown in the global economy.