

# Asia Monitor November 2018

## Notable Developments

### Pakistan

As part of the conditions imposed by the **International Monetary Fund** in exchange for a **USD7.0Bn bailout package**, the Pakistani government is to concentrate on reforming the country's loss-making **state-owned companies**, whose **total losses are roughly equalled to 2% of the country's GDP**. Previously, the Pakistani government sought to reduce the number of public sector employees, but this is now on hold following protests held by employees of the "Utility Stores Corporation", a chain of stores providing state subsidised groceries. As a result, the government will no longer take the company private as originally planned. This is a signal to other mismanaged SOEs that the government may still retreat on their policies in the case of any civil unrest.

### Malaysia

Malaysia's Prime Minister Mahathir Mohamad was elected in May 2018 with a mandate to resolve the issues arising from the 1Malaysia Development Berhad scandal. Mohamad's government is seeking to recoup **USD4.5Bn** in **misappropriated funds** from the United States' Department of Justice ("DoJ"), though recuperating the capital has proven difficult. Malaysia is also seeking to retrieve funds from **Goldman Sachs** who arranged **USD6.5Bn** of bond issuances for the fund. The DoJ believes that half of the issuance amount was misappropriated and is now investigating the investment bank's role in the scandal and its lack of effective compliance measures.

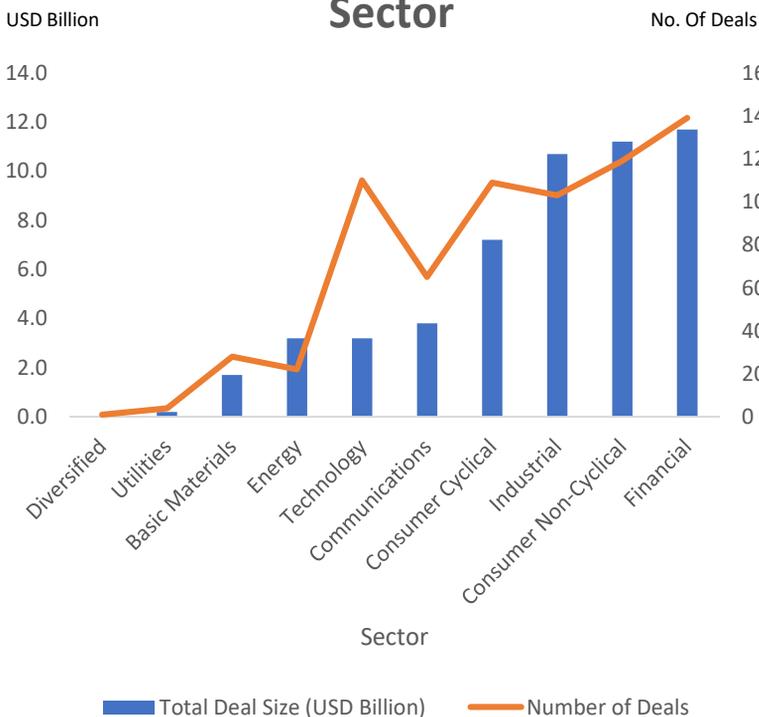
### Deal Activity

**694 M&A/PE transactions** (Source: Bloomberg) were completed in November with a total deal value of **USD51.5 Billion**, compared to October which saw the closing of 692 transactions with an aggregate value of USD68.2 Billion originating from Asia.

Notable transactions completed in November included:

- **Sony Corporation** acquired 20.4% of **DH Publishing LP** for USD3.7 Billion.
- **SoftBank Group Corp** invested USD2.0 Billion in **Coupage**.
- **Japan Tobacco Inc** acquired 100.0% of **United Dhaka Tobacco Co Ltd** for USD1.5 Billion.

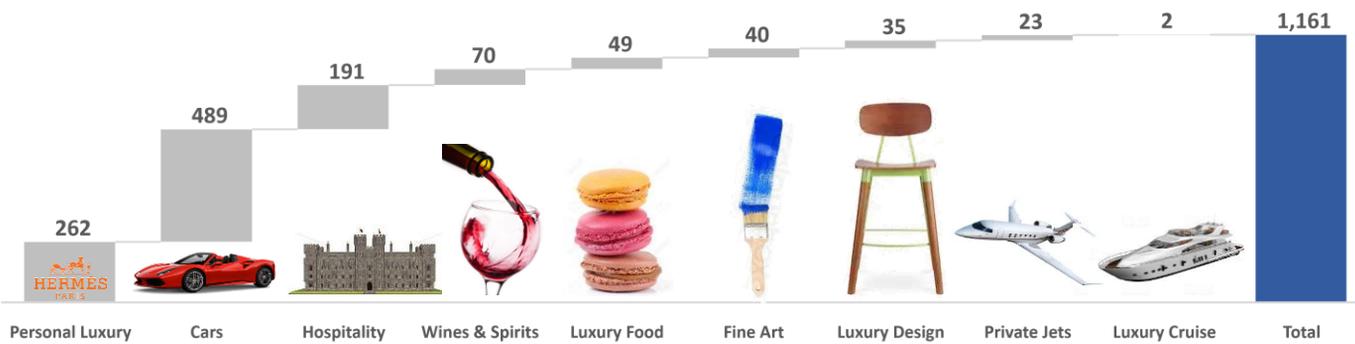
## Total Deal Size and Volume by Sector



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## Focus Industry: Luxury Retail

Global Luxury Sales  
(2017; in billion Euros)



The market is seeing growth across geographies, with China as the top performer.

Major Trends in Asia's Luxury Goods Market

### China

Middle class acceleration

Growing appreciation and sophistication

Fears of macroeconomic slowdown

18%

### Asia

HK & Macau locals seeking niche luxury brands

S. Korea positive on domestic spenders but decelerating on tourists

Taiwan growth is stagnating

9%

### Japan

Currency-driven consumption growth

Accelerating spend from Chinese tourists

Growth from domestic consumption, yet low engagement from millennials

8%

### Europe

Positive local consumption

UK and Spain attractive to tourists

Germany shows strong performance from locals

7%

### ROW

Middle East flat due to economic uncertainty but expected to stabilise by 2018

1%



Digitally-influenced millennials and Generation Z consumers are reshaping traditional luxury shopping with a new focus on online-to-offline ("O2O") and social shopping.



Increasing demand for affordable luxuries and niche streetwear brands due to a shift in stylistic preference.



A well-rounded shopping experience is key to engaging today's luxury consumers.

Sources: Deloitte, Bain & Co., Ipsos

## Investment Manager Commentary

- Since his appointment as Pakistan's Prime Minister in August 2018, Mr. Khan has embarked on an austerity drive to reduce unnecessary government expenditure. Through auctioning off government cars and reducing the size of the Prime Minister's staff, it has been estimated that this has saved Pakistan Rs150.0MM (USD1.1MM) since coming into office. However, Khan's attempts to reduce the expenditure of state-owned enterprises have not been successful due to strong resistance from the public sector. If the government is unable to reduce the losses of these enterprises, there may be repercussions from the International Monetary Fund on the aid granted to the country.
- The luxury retail market has responded well to the changing economic landscape, rapid digital integration, and evolving preferences of Asian consumers. The increasingly affluent and fashion-savvy middle class across many developing countries in Asia will further bolster luxury consumption in all categories, whilst the mounting purchasing power and unique tastes of young millennials will become key performance driver for lesser-known luxury brands, whose success will be largely dependent on a deep understanding of Asian consumers' lifestyle preferences and needs.

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