

Asian Investment Monitor May 2018

Overview

Malaysia

Mahathir Mohamad's Pakatan Harapan party swept to power winning the general election and removed the controversial former prime minister, Najib Razak, from office. This win has sent shockwaves throughout the country. The historic victory indicates a new dawn for Malaysia following a corruption scandal which tainted Najib Razak's premiership and ultimately led to his downfall. Harmony Capital expects a cautious approach from the new administration aimed at stabilising the country while it navigates a period of rehabilitation. We also expect a transitional period where the prime minister in waiting, Anwar Ibrahim, is handed the reins as Mahathir Mohamad reduces his responsibility as agreed between the two. For now, the new government is concentrating on reducing its USD251.0 Billion of national debt and is implementing the needed fiscal policies to do so.

China & Chinese Taipei

In a blow to Chinese Taipei (also known as Taiwan) the Dominican Republic and Burkina Faso has severed diplomatic relations with the country and pledged its full support towards China. While the 'departed' may be small countries, this development has left Chinese Taipei with only 17 diplomatic allies. This could be further reduced if the Vatican decides to follow suit. Once again we witness how China is flexing its muscles through the economic benefits a partnership with itself can bring. We also believe that this move by China is a provocation towards the United States who have aligned themselves closer with Chinese Taipei under President Trump's leadership.

Deal Activity

There were 673 M&A/PE transactions (Source: Bloomberg) completed in May with a total deal value of USD58.1 Billion originating from the region compared to April which saw the closing of 171 transactions with a value of USD15.2 Billion.

Notable transactions completed in May include:

- GIC Pte Ltd, Temasek Holdings Pte Ltd and Warburg Pincus invested USD10.0 Billion in Ant Financial Services Co Ltd.
- Tata Steel Ltd acquired 72.7% of Bhushan Steel Ltd for USD6.8 Billion.

Focus Industry: Leisure & Tourism

Asia Pacific ("APAC") has emerged as a leading tourism region experiencing year-on-year visitor growth of 6.5% between 2005 and 2016. This has been the key driving force behind global tourism growth. In 2016, APAC garnered 30.0% of global tourist arrivals, with China as the number one destination.

International Tourist Arrivals (UNWTO, 2017)



While Chinese tourists prefer to spend their holidays in popular destinations such as the US and UK, the Chinese government has embarked on a plan to attract foreign travellers to the resort island of Hainan, which has been referred to as China's Hawaii. This has been through initiatives such as visa-free access to the island for the citizens of 59 Asian and European countries. The Chinese government is also encouraging resort development on Hainan and there is speculation that gambling may be legalised which could fuel the growth in the number of foreign and domestic tourists arrivals.

Although gambling is currently banned in Japan with certain exceptions, this may be set to change. Japan's House of Representatives is looking to pass a key bill on gambling addiction countermeasures. Measures that could be introduced include a limit on the monthly number visits to casinos for Japanese residents and the implementation of a flat tax rate on revenue of 30.0% to the operator. The passing of the "IR Implementation Bill" could pave the way for gambling to be legalised. The governing Liberal Democratic Party claims that this as a priority issue as it can boost the Country's economy. Regions within Japan have also been battling to be the Country's gambling hub and developments are in the pipeline in the anticipation that gambling will be legalised in the Country in the foreseeable future.

Investment Manager Commentary

- With Najib Razak now out of office, the full extent of the 1MDB scandal which crippled the country can now be investigated. It is likely to end in prosecutions of major political players. However, the biggest winners of the election are the citizens of Malaysia who witnessed the first democratic transition of power since 1957. Prime Minister Mohamad has inherited a country hoping for a significant change which is in a dire financial state and facing a credit rating downgrade due to 1MDB. Prime Minister Mohamad must act swiftly to counteract the effects of the investigation into 1MDB which is uncovering hidden debt and to keep the country on the path to prosperity which he promised.
- China has embarked on an offensive strategy with the aim of hurting those that align themselves closely with Chinese Taipei. The Japanese retailer Muji was fined for describing Chinese Taipei as a country and the Australian Airline Qantas was threatened with having its website blocked after it referred to Chinese Taipei as being independent. If President Jinping is able to bring Chinese Taipei back into the fold, he will surely cement his position as being one of the country's all-time premiers and with the option to rule for life, he has the time to do it.

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