

Maple-Brown Abbott

Flash Note

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Assessing Asia's post-pandemic recovery – it's not what you might think

By Howard Ho

Viewpoint

- To the surprise of some, the post-pandemic re-acceleration of many ASEAN countries, including Thailand and Singapore, appears faster than China and Hong Kong
- Some pandemic-specific consumption patterns appear to have turned permanent, impacting various business models
- Lockdowns in China created clear winners and losers, and with it, fresh investment opportunities and risks.

At the heart of bottom-up, fundamental active management is a need to travel – to assess the quality of management first-hand, build relationships and visit key assets. The re-opening of China and Hong Kong gave us added reason to head north again, where we completed 48 company visits over two weeks across five key markets.

Our trip unearthed valuable insights on why, once again, it can be dangerous to homogenise Asian markets. We also believe danger lies in assuming China and Hong Kong's speed and pathway out of the pandemic will simply follow ASEAN countries. Lessons can be learned but investors must heed local conditions and idiosyncratic market forces.

Pandemic recovery through the lens of landlords

While tourist levels in Singapore have been running at ~65% of pre-pandemic levels, Capitaland Integrated Commercial Trust, a Singapore-focussed REIT, told us that foot-traffic and occupancy rates at their malls have already been back to pre-pandemic levels for some time. Conversely, Hong Kong's tourist levels were recently running at ~30%. Hysan Development, a large listed-Hong Kong retail and commercial property landlord we met, expects further negative rental reversions to come through over 2023 following negative ~30% rent reversions during 2022. While there are signs of green shoots year-to-date (for instance some tenants experienced rising sales of ~20% YoY during February) Hysan still expects it will be two years before Hong Kong retail sales are back to pre-pandemic levels.



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Continuation of some pandemic consumption patterns

Across various countries there are interesting and important instances of how new consumption patterns born out of the pandemic have persisted in a post-pandemic world. For example, Singapore's Sheng Siong Group, one of the most profitable listed supermarket chains in the world¹, discovered that even after one year of economic reopening, shoppers are mostly sticking to the habits which materially boosted their profitability during the pandemic. Sheng Siong has found shoppers are, still, travelling less to 'big-box' stores and malls and instead are staying local. Additionally, the higher average basket size experienced during the pandemic has been wholly sustained, indicating consumers have retained their pandemic-period habits of eating out less and purchasing more fresh groceries (Sheng Siong's highest margin category).

Post the pandemic the Singaporean government has resumed public housing construction needed to cater for its population growth projection of up to 6.9 million people by 2030 (an increase of around one million people from current levels)². Sheng Siong is seeking to expand store numbers by bidding on new neighbourhood stores within these new housing estates, winning four of six tenders in 2022 and aiming for more in 2023. Given the high visibility on the source of earnings growth and management's strong execution track record, our conviction on Sheng Siong further increased as a result of our visit and meetings.

In Taiwan, President Chain Store's chain of 7-Eleven convenience stores (CVS) increased their market share dominance throughout, and after, the pandemic period. The chain controls over half the CVS market share in Taiwan, where the penetration of CVS stores is the second highest in the world³.

During the pandemic, with movements severely limited, Taiwanese consumers deepened their appreciation for the CVS format. President Chain Store management explained that the local and ubiquitous presence of the CVS network saw the CVS sector overtake supermarkets to become the highest grossing retail sales sector in Taiwan, a dominance that has now persisted in post-pandemic conditions. The 7-Eleven chain is also taking advantage of its scale by morphing into 'multi-format' stores offering extra items from fresh food to e-commerce pick-up services on top of the traditional CVS staples.

Dramatic reopening in China

The sheer scale of the Chinese market and its vast population means investors in mainland China and the broader region must heed the residual impacts of lockdowns and any spread of COVID-19 post-lockdown. In our view, the re-opening of China and Hong Kong has created clear winners and losers which, as active investors, we need to build into our convictions to take advantage of fresh opportunities, but also negate some new unforeseen risks.

1 As measured by Return on Invested Capital.

2 www.strategygroup.gov.sg

3 Taiwan has the world's second highest number of convenience stores per person, after South Korea, according to the Taiwanese Ministry of Economic Affairs' statistics department.

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A specific two-sided example of the business impact is Want Want China, one of China's largest rice cracker, snack food and dairy-based beverage producers. Want Want told us they suffered sporadic supply chain disruptions throughout 2022, with lockdowns at or near their production facilities culminating in a weeks-long complete production shutdown. Since reopening in January 2023, even with extra shifts employed, Want Want were still unable to fill orders for the peak Chinese New Year season, when rice cracker sales are around a quarter of total annual volumes.

Conversely, according to the quarterly report of China Resources Sanjiu Medical & Pharmaceutical, a listed healthcare company which is the largest over-the-counter drugs brand in China, organic sales growth during 2023Q1 exceeded 20% YoY driven by demand for its cold and flu medicine. This momentum continued into Q2 as non-COVID flu outbreaks continued to spread across the population with weakened immunity after years of mask-wearing.

Parting thought

While Asia's high overall economic growth rate and rising consumer market trends may offer plenty of longer-term opportunities for investors, our recent trip once again highlights the importance of taking an active approach to investing in the region. Asia's different markets remain highly dynamic with numerous different economic and profit drivers. We retain the view that a bottom-up, fundamental approach to company analysis and active stock-picking works best in Asia.



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