# Amala

Emerging Asia Fund

**Quarterly Commentary** **1 st Quarter 2021**

## FUND INFORMATION

**FUND OBJECTIVE**

To achieve long-term capital growth by investing in equity and equity-related securities of emerging companies in Asia whose businesses are geared towards domestic demand.

**LAUNCH DATE**

7th July 2015

**FUND SET-UP**

Cayman Islands Regulated Fund

**INVESTMENT MANAGER**

Nivalis Partners Limited, Hong Kong

**ADMINISTRATOR**

DBS Bank, Hong Kong

**CUSTODIAN**

DBS Bank, Hong Kong

**SUBSCRIPTIONS / REDEMPTIONS**

Monthly :
Minimum initial investment USD 100,000
Subsequent investment USD 50,000
Notice :
Subscription: 5 days
Redemption: 30 days

**MANAGEMENT FEE**

1.50%

**PERFORMANCE FEE**

10% with a high watermark

**FUND ELIGIBILITY**

Professional Investors

**Dear Investors,**

Our fund ended this quarter up 4% net of fees and expenses. A point to note is our fund is up ~60% from the lows in March 2020. Stocks continued to rally into the first 2 months of this quarter. However, from the end of February markets across Asia have declined. A new wave of Covid with its associated business dislocations is the key causal factor contributing to these declines.

Stock markets in our key markets ended the quarter on a mixed note. MSCI Asean was down 0.6% for the quarter while MSCI India index was up 5% for the quarter. Our net performance was also impacted by the decline in all Asian currencies against the US dollar. The Thai Baht lost 4%, Indonesian Rupiah was down 3.3%, the Malaysian Ringgit down 3.1% while the Indian Rupee and the Philippine Peso held steady with a minor appreciation.

Our investment activity during this quarter was focused on rebalancing the portfolio in most of our markets. We trimmed our holding in a Multi finance company in Indonesia. In India we reduced our weight in a specialty chemical company which has done exceptionally well (up 7.5x) for us over the last 5 years. We also took some gains in our holdings in Thailand and The Philippines.

**Portfolio Check**

We continue to reflect on our interactions with our portfolio companies to understand the impact of the pandemic on their business and how they have coped with this crisis. We are now amid a bigger second wave particularly in India and thus will keep this template to evaluate our portfolios companies.

At the end of this quarter about 93% of our portfolio holdings (88% in preceding quarter) are at par or higher than January '20 levels. This list now consists of 20 companies (20) with underlying businesses such as consumer staples, home improvement retailers, IT services, specialty chemicals, media & entertainment. Presently about 7% of our portfolio consists of companies whose share prices are still 2-10% lower than levels in January '20.

In this letter we highlight one business which was relatively more affected by the pandemic but due to external circumstances has been able to appreciably recover. We continue to own this business; we share our rationale for owning it at this juncture and its business outlook.

**Portfolio Company**

We featured GMA in our investor letter in 2Q CY 17.

*We own a free to air Television broadcaster in The Philippines. Television currently is a very important medium for advertising and marketing communication and accounts for 70% of total ad spending. GDP growth in the Philippines has averaged 6 plus in the last 7-8 years. It is an attractive market for a host of businesses with low penetration levels (in relation to Asean neighbors) and a young demographic profile. Ad spend to GDP is currently at 0.13% offering a good long-term growth opportunity which would be driven by a combination of emergence of new businesses and increased competition to reach the consumer. During 2000-12 the industry structure was such that only two leading players including our investee company and another player accounted for the bulk of the audiences and nearly 100 of the TV advertising spend. In the last decade, the company grew its revenues at 10% CAGR. The challenge on growth and profitability came during the period CY 2012-15. In CY 2012 the largest telecom company in the Philippines entered the free to air television broadcasting business. It committed serious capital to this venture. The new entrant bidding for existing artistes and talents resulted in a sharp increase in cost for all three players. In first couple of years the novelty of new content resulted in the third channel garnering an 8-10% market share largely from the incumbents. As ratings dropped inventory utilization of the existing two large channels dropped too and ad rates were under pressure. In CY 2012-13 revenue growth slowed down and profits remained flat. However, in CY 2014 revenue declined 8% and operating income declined nearly 40%. This in hindsight marked the peak competitive pressure point. From here on the latest entrant reduced and stopped investing by the middle of CY 2015. In the recent next 6-7 quarters both incumbents seem to have sorted out most of the challenges which were presented by the new competitor. They have recouped lost audience share and ratings are back to levels seen in CY 2011. Inventory utilization has improved along with rates while artiste and talent costs are down. Being a higher fixed cost business meant the industry profitability improved significantly as revenues grew and cost remained under control. Elections in CY 2016 too have aided to improvement in financial performance.*

*We are getting an opportunity to own a company on a path of solid recovery after a challenging 3–4-year period. This business has demonstrated solid resilience with a loyal core audience base in the face of challenge. The medium to long term risk to our thesis would be the emergence of online as a significant alternative medium.*

When we invested in this company in Jan-Mar 17 its stock was trading at 12x P/E (normalized earnings) with ROE more than 25% over the prior 5 years. This for us was an opportunity to own a good business which was coming out of a highly competitive business environment and was challenged on growth. Our investment thesis was premised on growth coming back to a reasonable level while a solid dividend yield (7-8% normalized) would protect the downside.

During 2016-2020 annual advertising spend grew at 5% in The Philippines. However, GMA's core broadcasting business barely moved during this period. The entire incremental ad-spend was being taken up by digital advertising which grew its share in total ad spend from under 10% to over 25%. The spread of the covid pandemic added further duress to the TV broadcasting business in the 1H CY 20 with a sharp decline in revenues and profits.

In May 2020 ABS CBN its major competitor franchise expired, its renewal request was turned down and it was issued an order from National Telecommunications Commission to cease operations. ABS shut its business operations within a few days of this order. Thus, our company overnight became the only large sized credible Television advertising vehicle. As a result of this externality, the company benefitted substantially having grown its revenues and profits 47% and 258% in the 2H CY 20. For the full year it reported 17% growth in revenues while EBITDA grew 83% and PAT was up 128%. This sharp growth meant that annualized revenue growth for 4 years now stands at 4%, while EBIDTA and PAT have grown at 17% and 14% respectively. The company has maintained a high payout ratio of 80-90% in the last 5 years. We have cumulatively collected a total dividend of PHP 2.33/share after taxes (8% annual). On our weighted average purchase price of PHP 5.85 and current price of PHP 7.5, our total annualized returns are about 15% including a small gain on the currency.

At this juncture we are faced with 3 major questions:

- How sustainable are the profits if a new player were to get a licence or ABS CBN were to get its license renewed?
- What can be the realistic growth in the TV advertising business over the medium term as consumers continue to migrate and spend more time on the digital medium.
- Can the company take advantage of its current market position, use super normal cash flows, and pivot its business model to achieve a substantial presence in the digital medium?

Our conversation with the company points out that renewal of ABS CBN seems to be remote possibility in the near term. GMA has recently launched a low-cost device which enables a viewer to watch its free to air broadcast TV on a mobile device. With this the company is hoping to achieve addressability and have an ability to customize programs and promotions over time. With this digitalization initiative it has also launched 2 Over The Top (OTT) channels to tap into the younger audience which has been consuming other digital channels.

GMA is interestingly poised with its newfound dominant industry position. We will continue to evaluate how the company uses this advantage to grow the traditional TV advertising market. The company has announced a large investment plan to create fresh content over 2021-23. In addition, it has lined up a host of other digital initiatives. Currently the stock trades only at 9x our conservative estimate on CY 21 earnings with 8-9% dividend yield implied. We are now in a similar situation when we had originally bought the stock. The value of the core business gives us enough margin of safety and we are not paying for the optionality of success in its digital initiatives. Hopefully as it delivers numbers and builds a larger business there could be additional investor interest. Risks in the near term would be a new entrant in the TV broadcasting business and the company overspending on content creation.

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**Outlook**

Investors in Asia are currently more circumspect vs a bullish position in the first 2 months of the recent quarter. From a global perspective the big debate has been a potential rise in inflation and its impact on interest rates. The new wave of Covid infections have been particularly severe in India. The focus is now back on protocols like 2020. There are state-wide and localized lock downs to contain the spread of the virus. These measures are impacting businesses in the near term. Clearly this will have cost implications and push back the expected broad based economic recovery. The vaccination program is progressing but would take 6-9 months in most of Asia for the population to attain heard immunity.

In this slightly hazy backdrop, we believe Asian emerging markets could do well over the next 5-7 years. Our optimism is premised on faster economic growth (vs the developed world) resulting in higher revenue and profit growth in the larger Asian economies.

Our portfolio consists of 22 companies primarily in India and ASEAN countries, most of which have demonstrated solid and resilient operations in the backdrop of a very tough operating environment. The ongoing earnings season points to an improved outlook for 2021 despite the ongoing wave of Covid.

We will continue to navigate these markets with our committed investment process in search of solid high-quality growth businesses.

We would like to thank each of you for entrusting us with the management of your money.

**Ayaz Motiwala**
Portfolio Manager

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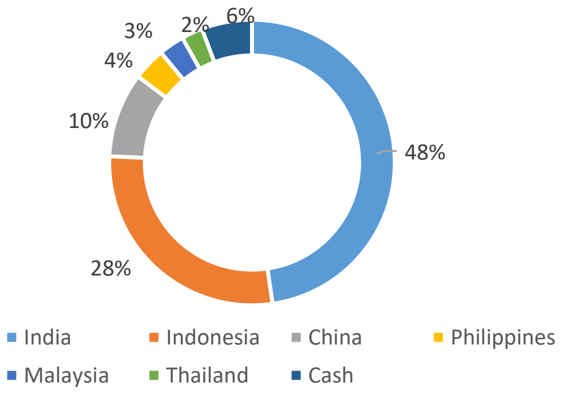
## Fund Performance

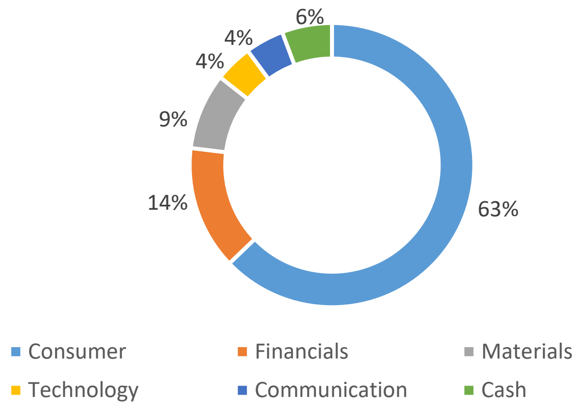
| | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | **NAV** | 103.97 | 109.18 | 106.92 | | | | | | | | | | 4.0% |
| | **% Chg.** | 1.1% | 5.0% | -2.1% | | | | | | | | | | |
| **2020** | **NAV** | 100.20 | 90.15 | 66.47 | 72.27 | 73.49 | 76.61 | 79.76 | 85.32 | 85.63 | 85.14 | 91.72 | 102.79 | 5.1% |
| | **% Chg.** | 2.4% | -10.0% | -26.3% | 8.7% | 1.7% | 4.2% | 4.1% | 7.0% | 0.4% | -0.6% | 7.7% | 12.1% | |
| **2019** | **NAV** | 99.59 | 98.95 | 103.90 | 102.36 | 103.45 | 105.16 | 102.51 | 97.93 | 98.34 | 98.56 | 95.07 | 97.83 | -2.3% |
| | **% Chg.** | -0.6% | -0.6% | 5.0% | -1.5% | 1.1% | 1.7% | -2.5% | -4.5% | 0.4% | 0.22% | -3.54% | 2.90% | |
| **2018** | **NAV** | 121.86 | 119.89 | 118.82 | 118.62 | 117.07 | 109.92 | 110.31 | 106.08 | 97.30 | 93.07 | 99.11 | 100.18 | -16.2% |
| | **% Chg.** | 2.0% | -1.6% | -0.9% | -0.2% | -1.3% | -6.1% | 0.4% | -3.8% | -8.3% | -4.3% | 6.5% | 1.1% | |
| **2017** | **NAV** | 100.40 | 102.88 | 106.95 | 110.92 | 110.61 | 113.58 | 114.44 | 110.69 | 110.27 | 113.15 | 114.31 | 119.52 | 19.7% |
| | **% Chg.** | 0.5% | 2.5% | 4.0% | 3.7% | -0.3% | 2.7% | 0.8% | -3.3% | -0.4% | 2.6% | 1.0% | 4.6% | |
| **2016** | **NAV** | 96.25 | 93.76 | 97.63 | 100.83 | 99.22 | 102.13 | 104.00 | 105.89 | 104.99 | 106.72 | 100.29 | 99.86 | 1.2% |
| | **% Chg.** | -2.4% | -2.6% | 4.1% | 3.3% | -1.6% | 2.9% | 1.8% | 1.8% | -0.8% | 1.6% | -6.0% | -0.4% | |
| **2015** | **NAV** | | | | | | 100.00 | 99.71 | 98.11 | 97.58 | 98.49 | 97.74 | 98.63 | -1.4% |
| | **% Chg.** | | | | | | | -0.3% | -1.6% | -0.5% | 0.9% | -0.8% | 0.9% | |

**Cumulative return since 07 July 15** 6.9%

## Country Exposure




## Sector Exposure

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