

# LION'S

thoughts

2013

A quarterly newsletter by  
Lion Global Investors

Oct - Dec 2013

1st Quarter

2nd Quarter

3rd Quarter

4th Quarter

## Fourth Quarter Outlook

### What We Expect

- The third quarter of 2013 saw both equity and bond markets turn in a positive performance, as investor sentiment was bolstered by the US Federal Reserve's surprise decision in September to delay the tapering of their Quantitative Easing programme
- Against this backdrop, global equities, as represented by the MSCI AC World Index, gained 6.8% for the quarter while "safe haven" assets, as represented by the Citigroup World Government Bond Index, returned 1.8% for the quarter, in SGD terms
- Although the recent political gridlock in the US over the funding of the government has seen a temporary fix, it will continue to be a source of economic and financial uncertainty
- We continue to favour equities over bonds as the equity risk premium compared to cash and bonds is still well above historical averages



### CONTENTS

Fourth Quarter  
Outlook

LION'S Selects

Charts & Indicators

Sector Focus:  
Macau Gaming

## LION'S Selects

### The Budget: How the Government is Spending OUR Money

by Teh Chi-Chang

Teh is a former investment analyst and current researcher for REFSA, an independent, not-for-profit research institute for social, economic and political issues affecting Malaysians. For numerous years, whenever the Annual Budget draws near, speculation is rife with what are the "goodies" that will be handed to the people by the Government. These "goodies" or budget benefits are mainly seen by the people as a form of inducement to vote for the incumbent government in the upcoming general election. This book makes an interesting read for those who are keen to gain a deeper understanding of what goes on behind the glossy numbers in the Annual Budget of most countries while nudging us to cast a critical eye on mass media headline flashes and reports of a "people's budget".

Review by Alan Tan, CFA, Head of ASEAN Equities

### One Man's View of the World

by Lee Kuan Yew

*One Man's View of the World* summarises Singapore's former Minister Mentor Lee Kuan Yew's views and opinions of how the world may become in the next 15 to 20 years. By his own experience and wealth of knowledge in history, he identifies the key issues each country faces and the likelihood that they can be resolved. For example, he explains why he believes the US would overcome its debt problems, as the country continues to innovate and prosper, and remains a strong magnet for talent. He prophesises that Europe would continue to decline due to its lack of dynamism caused by the welfare states and rigid labour laws. Some of the other countries that were discussed include China, Japan and Southeast Asian nations. This is a gem of a book and is a must-read for all investors who wish to look into Lee's crystal ball and get an insight into global markets.

Review by Damien Chua, CFA, Analyst, Asian Equities



### One Up on Wall Street: How to Use What You Already Know to Make Money in the Market

by Peter Lynch

Written by former Fidelity star fund manager, this book was introduced by an old hand in fund management when I first joined the industry. With no prior experience, it became my "idiot's guide to stock investing". The book is easy to read, with plenty of stories to illustrate lessons on investing, including how being observant can trigger money making stock ideas, sometimes "multi-baggers", even before the professionals notice them. There are also simple rules to analysing companies and financial statements, immediately turning stock investing into a rational and logical process.

Review by Wee Ban Yew, CFA, Head of Japanese Equities

### The Power of Habit: Why We Do What We Do in Life and Business

by Charles Duhigg

Habits are the unthinking choices and invisible decisions that we make every day. They have the power to determine happiness and success, or destruction and failure of individuals and organisations. Duhigg's research showed that habits are formed through a repetition of a trigger, followed by a reward. Changing a habit involves breaking one of the elements in the habit loop. At the organisational level, a few 'keystone' habits will, over time, develop into the work culture. Duhigg gives examples of how making small but important changes to these 'keystone' habits can transform dysfunctional cultures into ones that support high corporate performance. This has relevance in the selection of companies we invest in.

Review by Phoon Chiong Tuck, CFA, Head of Fixed Income

### Hedgehogging

by Barton Biggs

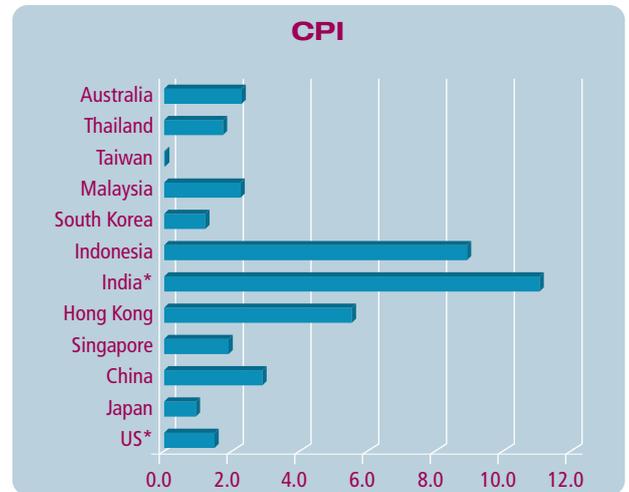
Barton Biggs' *Hedgehogging* opens readers to a wealth of knowledge into the practices of investment veterans and their varied investment styles. Written anecdotally, the book reveals what are the various equity investment philosophies – whether growth or value – and their evolution over time. There is a good glimpse into the industry's dynamics, particularly, the world of hedge funds, leaving readers to determine whether the lifestyle and associated stress are what they desire. *Hedgehogging* will also serve as a good introduction to asset management practices.

Review by Ng Po Ling, Analyst, Asian Equities

# Charts & Indicators



Real GDP data for all countries, correct as at 30 September 2013  
\* Data correct as at 30 June 2013



CPI data for all countries, correct as at 30 September 2013  
\* Data correct as at 30 June 2013

## Equity Indices

	Price-Earnings		
	as at 30 Sep 2013	Last 5 Years	
		High	Low
Australia	20.9	34.1	11.8
Thailand	13.0	21.1	9.7
Taiwan	16.5	26.9	13.4
Malaysia	16.4	22.6	12.6
South Korea	11.2	27.3	9.6
Indonesia	15.4	19.5	9.8
India	16.1	31.6	12.1
Hong Kong	10.8	26.0	7.1
Singapore	12.7	17.3	8.4
China	9.7	22.2	8.6
Japan	19.0	34.0	14.9
US	16.2	23.5	12.3

## Equity Indices

	Indices		
	End 3Q 2013	Last 5 Years	
		High	Low
Australia	1,065	1,115	650
Thailand	490	573	157
Taiwan	288	328	152
Malaysia	634	653	304
South Korea	577	640	261
Indonesia	4,917	6,149	1,503
India	751	839	315
Hong Kong	11,900	12,380	5,132
Singapore	1,690	1,826	817
China	61	73	33
Japan	737	794	427
US	1,612	1,696	645

## Bonds

	10 Year Govt Bond Yields	
	End 3Q 2013	End 2Q 2013
Australia	3.81	3.76
Thailand	3.90	3.73
Taiwan	1.42	1.42
Malaysia	3.74	3.63
South Korea	3.42	3.40
Indonesia	8.50	7.13
India	8.76	7.46
Hong Kong	2.07	2.00
Singapore	2.35	2.35
China	4.07	3.61
Japan	0.69	0.85
US	2.61	2.49

## Commodities

	End 3Q 2013	End 2Q 2013
Gold	1,328.94	1,234.57
Oil (Brent)	109.22	102.16
Oil (WTI)	101.90	94.38
Silver	21.70	19.67
Platinum	1,404.05	1,327.40
Copper	7,290.25	6,731.00
Nickel	13,885.00	13,643.50
Sugar	190.95	178.11
Steel	590.00	590.00
Palm Oil	2,292.50	2,330.00
Coal	78.30	77.75
Rice	14,807.00	15,750.00

## Forex

Against USD	End 3Q 2013	End 2Q 2013
Australia	1.07	1.09
Thailand	31.24	31.05
Taiwan	29.63	29.98
Malaysia	3.26	3.16
South Korea	1,075	1,142
Indonesia	11,406	10,004
India	62.62	59.39
Hong Kong	7.76	7.76
China	6.12	6.14
Japan	98.27	99.14
Singapore	1.26	1.27

## Forex

Against SGD	End 3Q 2013	End 2Q 2013
Australia	0.85	0.86
Thailand	24.88	24.49
Taiwan	23.58	23.65
Malaysia	2.60	2.50
South Korea	856	901
Indonesia	9,149	7,923
India	49.87	46.94
Hong Kong	6.18	6.12
China	4.87	4.84
Japan	78.23	78.21
US	0.80	0.79

All data from Bloomberg

# Sector Focus: Macau Gaming

By Leong Chan Wai, Fund Manager, Asian Equities



## Recent Developments

- The Macau government has re-iterated that they will not lift the gaming table cap that is currently in place for the industry. From now until 2022, gaming tables will be increased at a rate of 3%, compounded annually. This is equivalent to 1,640 additional new tables to be granted over the next 9 years, falling short of the 3,100 new tables requested by the new Cotai projects
- The government has also re-iterated their stance that all dealers should be hired locally. But with unemployment rate at only 1.8% in Macau, hiring enough dealers for future projects will pose a big challenge
- In June 2013, the first phase of the China Gongbei border gate was completed, increasing the daily visitation capacity from 150,000 to 300,000. The second phase is expected to be completed by the end of the year, further increasing the daily visitation capacity to 500,000
- A new regulation governing low cost package tours was effective 1 October 2013. These tour packages allow Mainland Chinese tourists to pay a small fee to tour agencies to travel to Macau, but are subsequently pressured to purchase overpriced products. This new law regulates cheap or zero-fare package tours in China by doubling the price. However, as the package tours consist of mostly low-spending customers, the actual impact on Macau gaming revenue would be limited

## Key Observations

- Macau VIP segment continues to recover, triggering a strong share price performance. VIP segment revenue has recovered from its trough of -8% year-over-year in July 2012 to 19% year-over-year in September this year
- On the back of the gradual infrastructural improvement, such as the Guangzhou – Zhuhai Intercity Train and Border gate expansion, the number of visitors to Macau has also gradually accelerated. The arrival of visitors from Mainland China has increased by 15%, compared to the same period last year
- Macau gaming industry share price has continued to test new highs on the back of a gradual recovery of VIP segment revenue, continued strength in the mass market segment and analyst upgrades. By EBITDA multiple, the sector has already surpassed its previous peak. However, by P/E multiple, the sector is now trading at around 20x 2014 P/E with a 4% yield and 20% earnings growth. We consider the valuation fair and noticed that increasingly, investors are willing to look at the P/E ratio as a valuation matrix

## Our Views

- With strong growth in revenue, where we see October gaming revenue on track to grow 30% year-over-year, coupled with a good third quarter result and easy year-over-year comparison ahead, we see limited downside for this sector
- We continue to like names with strong earnings growth in 2014 (Sands China), observable catalyst such as completion of new property (Galaxy) and less well-known companies trading at an undemanding valuation (MGM China)

## Talk to Us

See something you like here? Have a suggestion of what you would like to read? Email us: [newsletter@lionglobalinvestors.com](mailto:newsletter@lionglobalinvestors.com)

Help us save the trees. We try every possible way to incorporate environmentally-friendly practices into our operations. Email us if you prefer to receive the electronic version of this newsletter.

For more information on Lion Global Investors, visit [www.lionglobalinvestors.com](http://www.lionglobalinvestors.com)

## Important Notice

All information correct at time of printing.

Lion Global Investors Limited ("Lion Global Investors") is a company incorporated in Singapore and a member of the OCBC group.

This publication is for information only. It is not an offer or solicitation for the purchase or sale of any securities/investments and does not have regard to your specific investment objectives, financial situation or particular needs. Any opinion or estimate provided in the publication is made on a general basis and is not to be relied on by investors as advice. The information provided herein may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. Investors must make their own assessment of the relevance, accuracy, adequacy and reliability of the information provided and make such independent investigations as they may consider necessary or appropriate for the purpose of such assessment. Lion Global Investors reserves the right to make changes and corrections to its opinions expressed here at any time, without notice. Accordingly, no warranty is given and no liability is accepted for any loss arising directly or indirectly as a result of investors acting on any information, opinion, forecast, or estimate contained herein. You may wish to seek advice from a financial adviser before making a commitment to undertake any investment. In the event that you choose not to seek advice from a financial adviser, you should consider carefully whether the investment is suitable for you.

© Lion Global Investors Limited. All rights reserved. Lion Global Investors Limited is a Singapore incorporated company, and is not related to any corporation or trading entity that is domiciled in Europe or the United States (other than entities owned by its holdings companies).

| 65 Chulia Street #18-01/08 OCBC Centre Singapore 049513 | Co Reg No.: 198601745D |