

**UOBAM Investment Insights: Small-and-medium capitalised stocks offer long term growth for the discerning investor**

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**Headline** Small cap appeal  
**Publication** The Star  
**Date** 13 May 2016  
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# Small cap appeal

Stocks in the consumer and infrastructure sectors to gain from stimulus



**Lim:** 'Small-cap and medium-cap stocks are benefitting from South-East Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown.'

**PETALING JAYA:** Ramped-up public spending and an accommodative monetary policy are helping to support economic growth around the region, boosting the appeal of smaller capitalised stocks in the consumer and infrastructure sectors.

UOB Asset Management (M) Bhd chief executive officer Lim Suet Ling is of the view that this asset class is also benefitting from higher income levels, stronger foreign direct investment inflows and higher private consumption.

"Small-cap and medium-cap stocks are benefitting from South-East Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown which is driving slower export growth," she said in a statement yesterday.

Among the sectors that identify to have high potential growth are consumer and infrastructure.

Lim said the consumption growth level in the region would be supported by rising income levels and a growing middle class.

On the infrastructure sector growth, she said that the region would need to invest at least US\$110bil annually in power, transport, telecommunication and water and sanitation until 2025 to accelerate economic growth and improve productivity across the region.

"We also like the utility and construction sectors where we see evidence of decent yields, visible recurring income and a pipeline of high-value projects that can generate regular earnings," added Lim.

She said the small-cap and mid-cap stocks have higher potential to deliver "greater capital appreciation" to investor because smaller companies are able to increase their profits at a faster rate than larger firms.

"They are also often priced inefficiently or have modest analyst coverage, making the

small-cap and mid-cap market fertile picking ground for undervalued stocks," she reckoned.

Over the last 10 years, Lim said that South-East Asian small-cap and mid-cap stocks have delivered strong growth and attractive risk-reward for investors.

The MSCI South East Asia Small Caps index delivered a compounded annual growth rate (CAGR) of 14.1% during the 10-year period.

However, Lim advised that investors should be aware that small-cap and mid-cap stocks tend to have shorter track records, higher share price volatility and thin trading volume.

"For this reason, it is essential that investors rely on experienced and active fund managers to help them select equities in the small-and-mid cap space," she said.

UOB Asset Management manages about RM77bil worth of assets.

**Headline** UOB sees upside from small caps  
**Publication** *The MalayMail*  
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UOB sees small cap stocks benefit from Southeast Asia's rising income. — Picture by Bloomberg

## UOB sees upside from small caps

**KUALA LUMPUR** — UOB Asset Management Malaysia is looking at small- and mid-cap stocks from the consumer and infrastructure-linked sectors in a current bear market that has seen largely lacklustre earnings from large corporates.

“We favour consumer companies that offer good franchise value and steady income. We also like the utility and construction sectors where we see evidence of decent yields, visible recurring income and a pipeline of high-value projects that can generate regular earnings,” said UOB Asset Management Malaysia chief executive officer Lim Suet Ling.

She said that the Asean region will need to invest an estimated US\$110 billion (RM443.3 billion) annually in power, transport, telecommunications and water and sanitation until 2025 to accelerate economic growth and improve productivity across the region.

“We also favour consumer staples and consumer discretionary sectors as the anticipated economic growth in the region is translating into rising income levels and a growing middle class, which will ultimately boost consumption levels,” Lim said.

Besides consumer staples and consumer discretionary sectors, UOB Asset Management is also looking positively on consumer-related sectors such as automotive and property equities.

Southeast Asian stocks tumbled into a bear market last year and suffered outflows when the United States Federal Reserve contemplated raising its benchmark short-term interest rates.

The risk-off stance where risk sentiment turns negatively affected performance across regional equity markets with the Morgan Stanley Capital International (MSCI) Southeast Asia Index falling to 20.8% last year.

However, over the last decade, Southeast Asian small-and-mid cap stocks have delivered strong growth and attractive risk-reward for investors.

“The MSCI Southeast Asia Small Caps Index delivered a compounded annual growth rate of 14.1% during this period. To add to their appeal, Southeast Asian stocks have bounced back from last year's lows with the MSCI Southeast Asia Index up 9.6% year-to-date as at March 31,” Lim pointed out.

She believes small- and mid-caps have the potential to deliver greater capital appreciation because smaller companies are often able to increase their profits at a faster rate than larger firms.

“They are also often priced inefficiently or have modest analyst coverage, making the small- and mid-cap market fertile picking ground for undervalued stocks,” she said.

However, Lim cautioned that investing in small- and mid-cap companies pose challenges and risks as well.

“Investors should be aware that these stocks tend to have shorter track records, higher share price volatility and thin trading volume. For these reasons, it is essential that investors rely on experienced and active fund managers to help them select equities in the small-and-mid cap space,” she said.

UOB Asset Management's long term outlook for regional small- and mid-cap stocks is predicated on the asset class benefitting from Southeast Asia's rapidly rising income levels, stronger foreign direct investment inflows and higher private consumption.

**Headline** Small cap appeal in Malaysia and the region  
**Publication** *The Star online*  
**Date** 13 May 2016  
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 Lim: Small cap and medium cap stocks are benefitting from South-East Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown.

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UOB Asset Management (M) Bhd chief executive officer Lim Suet Ling is of the view that this asset class is also benefitting from higher income levels, stronger foreign direct investment inflows and higher private consumption.

"Small-cap and medium-cap stocks are benefitting from South-East Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown which is driving slower export growth," she said in a statement, unattributed.

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However, Lim advised that investors should be aware that small-cap and mid-cap stocks tend to have shorter track records, higher share price volatility and thin trading volume.

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**Headline** Small- To-Medium Cap Stocks Seen Attractive For Long-term Investor  
**Publication** *Bernama*  
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Thursday, 12 May 2016



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## Small-To-Medium Cap Stocks Seen Attractive For Long-term Investor

KUALA LUMPUR, May 12 (Bernama) – Small-to-medium cap stocks in the Southeast Asian market offer attractive investment opportunities in the long term, as these stocks are benefitting from the region's governments' monetary and fiscal stimulus, said UOB Asset Management (M) Bhd.

Its Chief Executive Officer Lim Suet Ling said the asset class benefits from the region's rapidly rising income levels, stronger foreign direct investment inflows and higher private consumption.

"Small-and-mid cap stocks are benefitting from Southeast Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown which is driving slower export growth," she said in a statement Thursday.

Lim said small-and-mid cap stocks have the potential to deliver greater capital appreciation because smaller companies are often able to increase their profits at a faster rate than larger firms.

However, she said, investing in small-and-mid cap companies poses challenges and risks as well, as these stocks tend to have shorter track records, higher share price volatility and thin trading volume.

"For this reason, it is essential that investors rely on experienced and active fund managers to help them select equities in the small-and-mid cap space," added Lim.

UOB Asset Management believes that companies from the consumer sector offer good franchise value and steady income.

"We also like the utility and construction sectors where we see evidence of decent yields, visible recurring income and a pipeline of high-value projects that can generate regular earnings," added Lim.

-- BERNAMA

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### Pelabur Jangka Panjang Tertarik Dengan Saham Bermodal Kecil Dan Sederhana

KUALA LUMPUR, 12 Mei (Bernama) — Asia Tenggara menawarkan saham bermodal kecil dan sederhana yang memberikan peluang pelaburan yang menarik dalam jangka panjang, selepas stok tersebut mendapat faedah daripada rangsangan fiskal dan monetari kerajaan di rantau ini, kata UOB Asset Management (M) Bhd.

Ketua Pegawai Eksekutif Lim Suet Ling berkata aset seperti itu menerima faedah daripada peningkatan pendapatan rantau ini termasuk aliran masuk pelaburan langsung asing dan penggunaan swasta yang lebih tinggi.

"Saham bermodal kecil dan sederhana sedang menerima rangsangan fiskal dan monetari daripada kerajaan-kerajaan di Asia Tenggara, ini memberikan perlindungan kepadanya jauh daripada risiko kegawatan ekonomi global yang telah menyebabkan pertumbuhan eksport yang lebih perlahan," katanya dalam satu kenyataan hari ini.

Lim berkata, saham-saham bermodal kecil dan sederhana ini mempunyai potensi bagi memberikan peningkatan nilai modal yang lebih besar memandangkan syarikat kecil sering berupaya meningkatkan keuntungan mereka pada kadar yang lebih cepat berbanding firma-firma yang lebih besar.

Bagaimanapun, pelaburan dalam syarikat bermodal kecil dan sederhana juga mempunyai cabaran dan risiko disebabkan saham seperti ini cenderung untuk mempunyai rekod prestasi yang lebih pendek, ketidakstabilan harga saham yang lebih tinggi dan jumlah dagangan yang nipis.

"Oleh itu, adalah penting untuk para pelabur bergantung kepada pengurus dana yang berpengalaman dan aktif bagi membantu mereka memilih ekuiti dalam ruang saham bermodal kecil dan sederhana," kata Lim.

UOB Asset Management percaya bahawa syarikat-syarikat daripada sektor pengguna menawarkan nilai francais yang baik dan pendapatan yang tetap.

"Kami juga meminati sektor utiliti dan pembinaan yang mana telah terbukti memberikan keuntungan yang baik, pendapatan berulang serta susunan projek bernilai tinggi yang mampu menjana pendapatan tetap," katanya.

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## Why small-and-mid cap stocks offer appeal

DESPITE the poor performance across Asia's equity markets in 2015 and the continued impact of the global economic slowdown on regional stock market performance, South-East Asian economies continue to show promise for long-term equity investors. UOB Asset Management (M) Bhd CEO Lim Suet Ling shares her economic outlook in a Q&A:

### South-East Asian equities went through a bear market last year. Why do you believe equities continue to hold long-term value for investors?

South-East Asian stocks tumbled into a bear market in 2015 and suffered outflows when the US Federal Reserve contemplated raising its benchmark short-term interest rates. The risk-off stance where risk sentiment turns negative affected performance across South-East Asia's equity markets with the Morgan Stanley Capital International (MSCI) South East Asia Index falling to 20.8% in 2015. However, over the last 10 years, South-East Asian small-and-mid cap stocks have delivered strong growth and attractive risk-reward for investors.

The MSCI South East Asia Small Caps index delivered a compounded annual growth rate of 14.1%

during this period. To add to their appeal, South-East Asian stocks have bounced back from last year's lows with the MSCI South East Asia Index up 9.6% year-to-date as at March 31, 2016.

As a long-term investor, UOB Asset Management sifts through the short-term volatility to identify long-term capital appreciation opportunities for our clients. Our long-term outlook for small-and-mid cap South-East Asian stocks is supported by the Asean region's attractive growth prospects. The asset class is benefitting from the region's rapidly rising income levels, stronger foreign direct investment inflows and higher private consumption.

In addition, small-and-mid cap stocks are benefitting from South-East Asian governments' monetary and fiscal stimulus, which should insulate these stocks further from the global economic slowdown which is driving slower export growth.

**Small-and-mid cap stocks usually offer investors a different risk-return profile relative to large-cap stocks. What risks should investors look out for when investing in small-and-mid cap stocks?**

Our view is that small-and-mid

cap stocks usually have the potential to deliver greater capital appreciation because smaller companies are often able to increase their profits at a faster rate than larger firms. They are also often priced inefficiently or have modest analyst coverage, making the small-and-mid cap market fertile picking ground for undervalued stocks.

However, investing in small-and-mid cap companies pose challenges and risks as well. Investors should be aware that these stocks tend to have shorter track records, higher share price volatility and thin trading volume. For this reason, it is essential that investors rely on experienced and active fund managers to help them select equities in the small-and-mid cap space. What active fund managers bring to the table is the experience and expertise to identify risk-adjusted investment opportunities within these companies.

Active fund managers also ensure that there is diversification within the portfolio and that investors are compensated adequately for assuming the risk associated with this asset class.

**What sectors should investors look to hold as part of their South-East Asian small-and-mid cap equity portfolios and why?**

We favour companies from the consumer sector that offer good franchise value and steady income. We also like the utility and construction sectors where we see evidence of decent yields, visible recurring income and a pipeline of high-value projects that can generate regular earnings.

Given the expectations for increased infrastructure spending in the region, we favour infrastructure-related sectors at the moment. It is estimated that the region will need to invest at least US\$110bil annually in power,

transport, telecommunication and water and sanitation until 2025 to accelerate economic growth and improve productivity across the region.

We also favour consumer staples and consumer discretionary sectors as the anticipated economic growth in the region is translating into rising income levels and a growing middle class, which will ultimately boost consumption levels. Besides consumer staples and consumer discretionary sectors, we are also in favour of consumer-related sectors such as the automotive and property sectors.

**How do you expect the Asean economies to perform in the coming years and how will the**

**region's small-and-mid cap stocks fare over the medium to long term?**

We believe that the Asean region offers medium and long term investment opportunities, driven by the region's positive growth trajectory, favourable demographics, improved competitiveness and rising level of foreign direct investments.

Growth in the Asean region is projected to outpace the growth of developed economies over the next five years. Growing income and accumulated wealth will give rise to a new and savvy group of consumers who will in turn attract global firms to market their goods and services in the region.

With rising income and standards of living, the Asean consumer will be an important contributor to the region's overall economic growth. Over the longer term, the Asean Economic Community's goals of improved productivity, mobility of capital and an increase in cross-border trade flows.

Fuelled by the region's encouraging growth drivers, we expect the region's small-and-medium sized companies to sustain their momentum and deliver high revenue growth over the medium to long term.

### Statistic by MIDF Investment Research

#### TRADE STATISTICS ON BURSA MALAYSIA (RM mil)

Week ended	Total weekly net purchase/sale			Average daily participation rate		
	Retail	Local Institutions	Foreign	Retail	Local Institutions	Foreign
April 22	-2.4	-104.6	107	623.36	2,230.3	849.56
April 29	275.7	155.1	-430.8	713.54	2,460.2	923.80
May 6	84.7	538	-622.7	597.525	1,998.1	1,060.7
May 12*	-12.4	358.8	-346.4	656.8	2083.15	909.9

\*Until Thursday  
Source: Bursa Malaysia Preliminary Trade Statistics

#### STOCK MONEY FLOW (RM mil) : Monday - Thursday

	Top 5 Inflows	Top 5 Outflows
Kuala Lumpur Kepong Bhd	16.94	Westports Holdings Bhd -7.20
Public Bank Bhd	14.85	Hong Leong Financial Group -2.26
MISC Bhd	13.12	Lingkar Trans Kota Hldgs -2.01
TNB	11.95	Malayan Banking Bhd -1.89
AirAsia Bhd	8.61	DiGi.com Bhd -1.12

The list above covers only the top 100 stocks on Bursa Malaysia by market capitalization. Money flow is calculated based on transacted prices. An uptick in price (compared with the previous close) is considered money inflow, vice versa.  
Source: Bloomberg



**Headline** Why small-and-mid cap stocks offer appeal  
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# Why small-and-mid cap stocks offer appeal

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We believe that the Asean region offers medium and long term investment opportunities, driven by the region's positive growth trajectory, favourable demographics, improved competitiveness and rising level of foreign direct investments.

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With rising income and standards of living, the Asean consumer will be an important contributor to the region's overall economic growth. Over the longer term, the region stands to benefit from the Asean Economic Community's goals of improved productivity, mobility of capital and an increase in cross-border trade flows.

Fuelled by the region's encouraging growth drivers, we expect the region's small-and-medium sized companies to sustain their momentum and deliver high revenue growth over the medium to long term.