

Asia Pacific economy

ASEAN's New Economy

Chief Investment Office GWM | 08 May 2020 05:15 am BST
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- Supported by a confluence of structural demand and supply factors, we expect the addressable market of ASEAN's new economy to more than double to USD 800bn by 2025, from USD 380bn currently.
- In the near term, thematic investments in connectivity, new-age consumption, e-commerce, fintech and online media offer attractive risk-reward propositions, in our view.
- In the longer term, we favor themes with secular drivers like 5G, healthtech, tech manufacturing, automation, artificial intelligence and autonomous vehicles.



Source: Gettyimages

Our view

The Association of Southeast Asian Nations (ASEAN) is fast emerging as a major economic powerhouse. This bloc is a group of ten countries with a combined population of 670 million—the world's third largest if it were a single country. Its nominal GDP has risen fivefold to USD 3.1tr over the past two decades. The old economy, primarily related to the commodity, material, and traditional manufacturing industries, played a major role in ASEAN's past growth. But since the commodity super-cycle peaked in 2011, the supernormal growth in the old economy has subsided. At the same time, the new-economy sector, which is consumption- and service-oriented, is taking center-stage. Fueled by rapid technological adoption, a burgeoning middle class, a favorable regulatory backdrop, a robust funding ecosystem and a huge talent pool, ASEAN's new-economy sector is emerging as a new source for sustainably high growth.

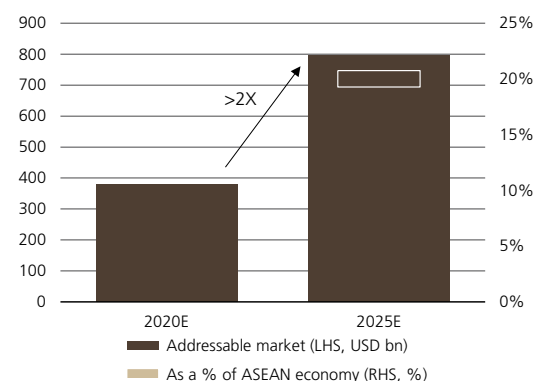
As elaborated further in our deep-dive report "[Tech disruption: ASEAN's new economy](#)", we expect its addressable market to rise from USD 380bn currently to USD 800bn by 2025, implying 16% annual growth—twice as fast as the region's nominal GDP growth. Potentially long-lasting consumer behavior changes after the COVID-19 outbreak, combined with income and penetration levels reaching a sweet spot, are key catalysts for this multi-year theme.

In the near term, we favor thematic opportunities in connectivity, new-age consumption, online media, e-commerce and fintech. These five segments have seen significant growth during the initial evolution of new-economy segments in China and the US, and should enjoy robust growth in the region as well. In the longer term, we see broad themes with profound implications such as 5G, healthtech, tech manufacturing, automation, artificial intelligence and autonomous vehicles. The industry is represented by a mix of regionally listed companies, global tech giants with notable direct/indirect exposure and homegrown startups. To participate in this strong growth, we believe investors will be best rewarded if they have diversified exposure to listed and unlisted companies.

Most Preferred			
Company	Ticker	Industry	Currency
Advanced Info Services	ADVANC TB	Communication Services	THB
Alibaba	BABA US	Communication Services	USD
Ascendas REIT	AREIT SP	Real Estate	SGD
Bank Central Asia	BBCA IJ	Financials	IDR
Bank Rakyat Indonesia	BBRI IJ	Financials	IDR
DBS Group Holdings Ltd	DBS SP	Financials	SGD
Inari Amertron	INRI MK	Information Technology	MYR
Indofood CBP	ICBP IJ	Consumer Staples	IDR
Masan Group Corp	MSN VN	Consumer Staples	VND
Mobile World	MWVG VN	Consumer Discretionary	VND
Razer Inc	1337 HK	Information Technology	HKD
Telkom Indonesia	TLKM IJ	Communication Services	IDR
Tencent Holdings	700 HK	Information Technology	HKD
ViTrox Corp	VITRO MK	Information Technology	MYR

This is a copy of the Equity Preference List (EPL) "ASEAN's New Economy". As selections may change, we recommend visiting the UBS WM CIO portal (which also lists the analyst (s) responsible for the selections and the thematic benchmark), or contacting your client advisor for the latest update of this EPL.

Fig. 1: We expect ASEAN's new economy addressable market to double by 2025
 Addressable market, as a % of ASEAN economy



Source: UBS, as of May 2020

Secular factors and catalysts driving the new economy

ASEAN's new economy is set to take off. We see five secular demand and supply factors underpinning the new economy's potential:

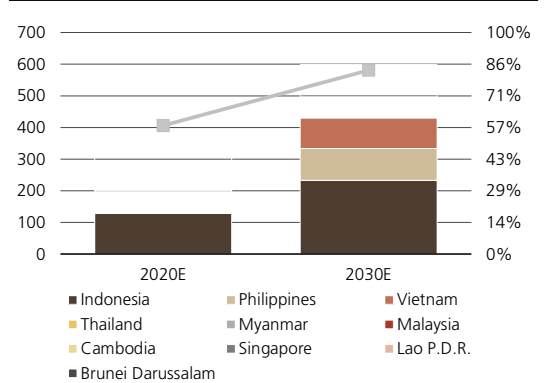
1. A burgeoning middle class. The largest middle-class boom in ASEAN's history is currently underway. Home to around 230 million middle-income people currently, we expect this large consumer base to swell by an additional 170 million by 2030. And as consumers enter this middle class, we think shifts in consumer spending patterns will accelerate. This includes higher share of spending on discretionary items like consumer electronics (smartphones, laptops, tablets, etc.), digital services (connectivity, music and video streaming, gaming, etc.), white goods (fridges, washing machines, air conditioners, TVs, etc.) and others (skincare, cosmetics, beer, etc.). Meanwhile, premiumization of select products will likely take place. Consumers will start to put more emphasis on quality and perceived prestige from buying certain products, driving average selling prices and margins higher for companies that can effectively capitalize on this trend. Overall, the proliferation of the middle class consumer pool and the favorable shift in consumer spending should spur new-age consumption over the next decade.

2. Rising technology adoption. Six out of 10 people are using internet in the region, based on government data. Over the next 10 years, we estimate this figure will rise to eight of 10 people, equivalent to more than 200 million new internet users. The structural rise in internet and smartphone adoption has been taking place in ASEAN's unique socio-culture. ASEAN's population is relatively young and highly internet savvy. The inhabitants are open to try new apps, products and services from start-ups and established businesses alike, spend a lot of time on the internet and are highly engaged in social networking sites. With around 8.5 hours spent daily consuming digital media, ASEAN significantly spends more time than the global average of around 6–7 hours, according to a global survey conducted by GlobalWebIndex. The massive increase in internet users that is taking place in a young and internet-savvy demographic underpins the powerful driving force of ASEAN's digital consumption.

3. Favorable regulatory backdrop. For policymakers, new-economy sector development is akin to killing two birds with one stone. On one hand, old economy growth is slowing, increasing the urgency to foster other sources of sustainable growth. On the other hand, ASEAN's population is vastly underbanked, underlining governments' strong desire to narrow this financial divide. Significant milestones have been achieved in recent years, with various policy measures and initiatives rolled out. For instance, regional policymakers have founded or partnered with local companies to create accelerators and incubators, such as Startup SG and Wavemaker Labs in Singapore, 1000 Digital Startup in Indonesia, MAGIC in Malaysia, Upscale in the Philippines and HBI-IT in Vietnam. Meanwhile, regulatory sandboxes are also becoming more prevalent, particularly in the field of fintech, health and transport.

Fig. 2: We expect 200 million new internet users in ASEAN by 2030

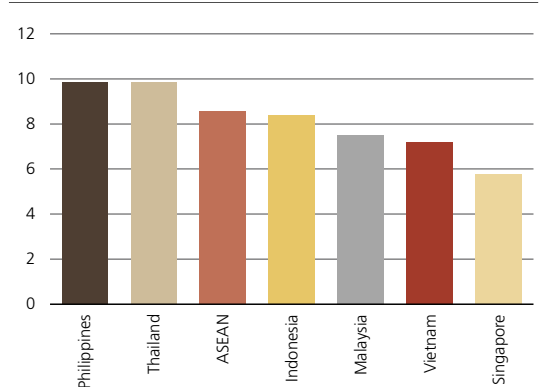
Internet users (lhs, million), as a % of ASEAN population (rhs, %)



Source: UBS, as of May 2020

Fig. 3: ASEAN's young demographic is highly digital savvy

Time spent on digital media consumption, hours per day



Source: GlobalWebIndex (Digital vs Traditional Media Consumption Trend Report 2019), UBS

4. Robust funding ecosystem. ASEAN’s startup ecosystem has benefitted from a healthy investment appetite over the past five years, given its structural growth potential. Chinese tech giants and Japanese conglomerates, for instance, have invested in key unicorns in the region. Meanwhile, corporate venture capital (CVC) owned by family-run businesses, banks and telcos are dominating the CVC landscape with their regional expertise and ample balance sheets. From 2015 to 1H19, an estimated USD 37bn was invested in internet economy companies, according to a Google & Temasek / Bain, e-Conomy SEA 2019 report. Meanwhile, key unicorns have also expressed their intention to list in local exchanges, providing wider access for investors. With the funding ecosystem maturing, we expect a further uplift to ASEAN’s new-economy growth.

5. Huge pool of talent. In recent years, governments and universities alike have been swift in responding to the pressing need for workers with the right mix of digital know-how and soft skills, and encouraging progress has been made. Singapore, for example, is leading with initiatives such as TeSA (ICT upskilling / retraining in collaboration with industry partners), Code@SG (training on coding and computational thinking for students from an early age) and SMEs Go Digital (digital consultancy and solutions for SMEs to learn, implement and maintain digital solutions curated to their needs). Other initiatives abound in other ASEAN markets, driven by both government initiatives and private businesses. Combined, these programs provide a powerful driving force for the region to capitalize on its demographic dividend, with 170 million new workers expected to join the labor force over the next 10–15 years.

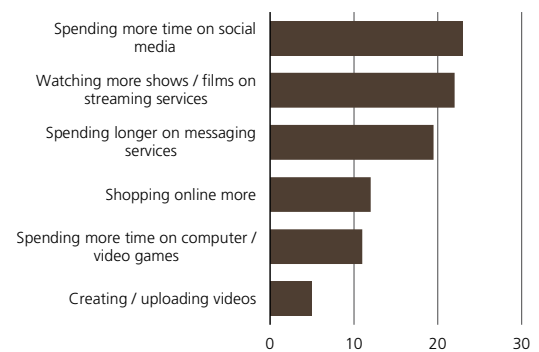
In addition to the mega-trend discussed above, we see two catalysts for the theme:

1. Long-lasting shift in consumer behavior after outbreaks.

The COVID-19 pandemic is giving rise to long-lasting changes in consumer behavior. Case in point, the GlobalWebIndex study found that around 12% of respondents in the region said they will do more online shopping after the outbreak is over. Other online activities received similar responses; 23% said they will dedicate longer time on social media, 22% on streaming devices and 20% on messaging services. Given the study was conducted early in the lockdown in the region, we see further upside to this level if mobility restrictions are prolonged. And we are seeing early signs that ASEAN’s businesses are capitalizing on this trend, creating a virtuous loop with larger network effects. In just two weeks between late March and early April, the number of B2C stores in LazMall in the Philippines rose 28% (an over 600x increase on a compound annualized basis), Malaysia 7% (5.8x annualized) and Singapore 5% (3.5x annualized). Within the same timeframe, Indonesia and Vietnam saw 3%–4% growth (2.5x annualized) across various players in the respective markets. Overall, these favorable supply and demand changes will likely lead to an accelerated rise in the ASEAN’s new economy addressable market.

Fig. 4: Long-lasting behavior changes expected in the region after COVID-19

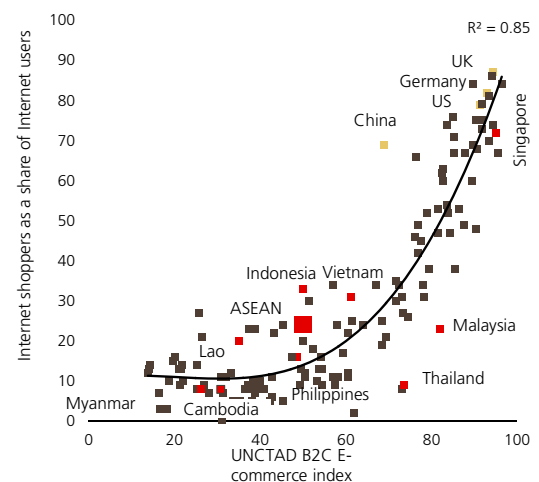
% who say they expect to carry on doing the following once the COVID-19 outbreak is over



Source: GlobalWebIndex, UBS, as of April 2020

Fig. 5: Technological adoption and network development reaching a sweet spot

UNCTAD B2C e-commerce index*



Source: UNCTAD, UBS, as of May 2020

* The index represents an average of: 1) account ownership at a financial institution or with a mobile-money service firm, 2) share of population using the internet, 3) the Postal Reliability Index, and 4) secure internet servers per one million population.

2. Technology, logistics and income reaching a sweet spot.

Progress in internet adoption, banking penetration, distribution network development and secure internet ecosystem correlate with the prevalence of online shoppers and their engagement level. But the relationship isn't linear. During the initial phase of development, the trickle-down effect on e-commerce may be slow, but as a critical level is reached, the impact multiplies, creating an exponential tailwind for the industries. Fig. 5 captures this relationship, with the UNCTAD B2C e-commerce index in the x-axis (which summarizes a market's preparedness for online shopping across key metrics explained above) and internet shoppers as a percentage of internet users in the y-axis. With an UNCTAD B2C e-commerce index score of 53 (average), we believe the region is at a tipping point where further developments in these factors lead to a higher uplift in the share of internet shoppers.

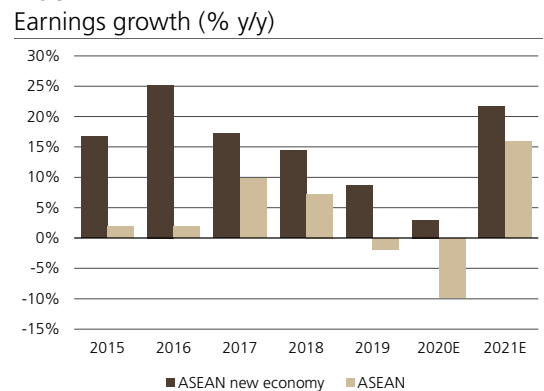
From an income perspective, we see a similar inflection trend. At around USD 5,000, ASEAN's annual GDP per capita is at a similar level to where China was in 2011. Around this income level, consumers start to purchase smartphones, tablets and laptops which are necessary to access online services. They have higher needs for discretionary items beyond staple products while still being highly price conscious. Online shopping is very appealing to this target market with its convenience and cheaper pricing compared to brick-and-mortar shops. China's e-commerce penetration has risen fivefold in less than 10 years, from mid-single digits in 2011 to more than 25% currently. With an e-commerce penetration rate of around 5%–6% in ASEAN currently, we expect an explosive rise in online shopping over the next decade, potentially hitting 15%–20%.

Riding the new economy boom

For investors, we believe there is no better time to gain exposure to ASEAN's new economy. In the near term, thematic investments in connectivity, new-age consumption, e-commerce, fintech and online media offer attractive risk-reward propositions, in our view, given their relatively advanced adoption level in the region. These five segments saw solid growth during their growth stages in China and the US, and are in a favorable place to enjoy robust growth in the region. In the longer term, we favor themes with secular drivers like 5G, healthtech, tech manufacturing, automation, artificial intelligence and autonomous vehicles. These technologies, while still nascent in the region, will likely have profound implications for ASEAN. (Please refer to our deep dive on "[Tech disruption: ASEAN's New Economy](#)" report for more details on individual themes).

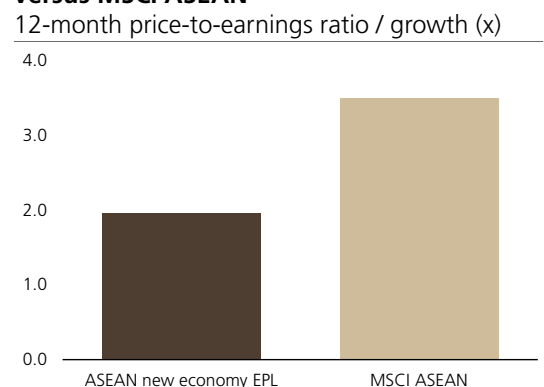
The industry is represented by a mix of regionally listed companies, global tech giants with notable direct/indirect exposure and home-grown startups. Key unicorns have also expressed their intention to go public over the next few years, providing ease of access to investors. To participate in this growth story, we believe investors will be best rewarded if they have a diversified exposure to listed and unlisted companies.

Fig. 6: ASEAN's new economy basket offers superior earnings growth versus the broader index



Source: Bloomberg, Factset, UBS, as of May 2020

Fig. 7: Attractive PEG ratio of the EPL basket versus MSCI ASEAN



Source: Bloomberg, Factset, UBS, as of May 2020

In the listed segment, our “ASEAN's new economy” Equity Preference List is guided by preference on industry leaders with sizable potential exposure to the near-term and long-term themes discussed above. In the connectivity segment, we favor Telkom Indonesia and Advanced Info Service given their superior balance sheets and spectrum positions, which should allow them to capitalize on the gradual roll-out of 5G and cement their leading positions in the market. The connectivity theme extends beyond the traditional telco sector. The growing need for data centers and distribution networks for e-commerce underpin the structural demand for high-quality real estate solutions tailored to the market's respective requirements. We believe A-REIT is well positioned to capitalize on this. It also has sizable exposure to the high-specification industrials segment, which is key to our longer-term tech manufacturing theme. For the new-age consumption theme, we favor ICBP and Masan as the main beneficiaries of the premiumization trend, as well as the secular middle-class rise in the region.

In the e-commerce segment, we prefer to gain exposure via Chinese tech giants (Alibaba, Tencent) and listed local players (Mobile World). These Chinese tech giants have invested heavily over the past few years, and are now well-positioned to benefit from ASEAN's growth story. Alibaba, for example, holds a controlling stake in Lazada, which is among the leading cross-border e-commerce player in ASEAN. It also has 29% interest in Tokopedia, one of the largest C2C e-commerce giant in Indonesia, with strength in digital goods like telco prepaid vouchers, utilities payments, etc. While the overall contribution of ASEAN in Alibaba's e-commerce segment is still low at mid-single digits currently, it has been growing rapidly and will serve as the next growth frontier over the next five years, in our view. Meanwhile, Alibaba's Ant Financial has made significant progresses in the region, with fintech JVs in all key markets in ASEAN.

Tencent holds a more diversified exposure across different verticals in ASEAN. It has about 34% stakes in SEA group, which is a leader in gaming (Garena) and e-commerce in the region (Shopee). Additionally, Tencent is also a key investor of Gojek, one the largest ride-hailing firm in ASEAN. In the fintech segments, regulators across the region are looking to foster innovation and improve pricing by opening up their banking systems to virtual banks and securely sharing data through open banking initiatives. This will narrow any informational advantage that the incumbents have in pricing customers' risks, in our view. Against this backdrop, we believe the ongoing consolidation pace in the industry will accelerate over the next decade. Large, adaptable and technologically superior banks such as DBS, BBCA and BBRI will likely be able to safeguard, or even extend, their market share, while the smaller, rigid ones may gradually lose relevance.

Overall, the equity basket has consistently shown superior earnings growth compared to the broader MSCI ASEAN index. Its earnings growth has outperformed the latter's for the past five consecutive years, with an average of c.10 percentage points per year. And while the pandemic will pose near-term headwinds to the overall economy, we believe new-economy names are in a relatively

more resilient position compared to the broader market. Over the next three years, we expect c.15% normalized earnings growth on average per year for the basket, compared to c.4% for the broader MSCI ASEAN based on consensus expectations. From a valuation perspective, the new-economy basket is trading at an attractive 2.0x PEG ratio (12-month forward price-to-earnings ratio divided by growth), significantly below the broader MSCI ASEAN's PEG of 3.4x. With the likely acceleration in the new economy's addressable market, we believe the segment will trade at higher multiple over the next 12–18 months.

Table 1: Valuations

Company	ISIN	Ticker	Currency	Price	Market cap in USD	Average daily trading volume in '000s	2020E P/E (x)	2021E P/E (x)	2020E P/B (x)	2021E P/B (x)	2020E ROE (%)
Telkom Indonesia	ID1000129000	TLKM JJ	IDR	3,240.00	21,333	109,546	14.5x	13.4x	2.9x	2.7x	20.1%
Advanced Info Services	TH0268010Z03	ADVANC TB THB		198.50	18,217	10,653	18.7x	18.2x	7.5x	6.9x	40.3%
Indofood CBP Sukses Makmur	ID1000116700	ICBP JJ	IDR	9,675.00	7,499	6,282	20.9x	18.9x	4.0x	3.6x	19.1%
MASAN GROUP CORP	VN000000MSN4	MSN VN	VND	58,000.00	2,880	2,849	37.5x	25.2x	1.5x	1.4x	4.1%
Mobile World	VN000000MWG0	MWG VN	VND	81,200.00	1,570	1,412	9.2x	7.1x	2.5x	2.0x	27.5%
Razer Inc	KYG7397A1067	1337 HK	HKD	1.04	1,078	8,111		292.6x	1.7x	1.5x	-3.6%
Alibaba	US01609W1027	BABA US	USD	195.17	523,587	18,021	23.0x	18.2x	4.3x	3.5x	18.5%
Tencent Holdings	KYG875721634	700 HK	HKD	410.00	501,143	24,274	33.8x	27.2x	6.6x	5.2x	19.4%
DBS Group Holdings Ltd	SG1L01001701	DBS SP	SGD	19.74	35,292	8,763	10.6x	9.9x	1.0x	1.0x	9.3%
Bank Central Asia	ID1000109507	BBCA JJ	IDR	26,775.00	43,878	27,013	22.9x	20.3x	3.5x	3.1x	15.3%
Bank Rakyat Indonesia	ID1000118201	BBRI JJ	IDR	2,620.00	21,312	215,178	9.8x	8.6x	1.5x	1.4x	15.8%
ViTrox Corp	MYQ009700004	VITRO MK	MYR	8.35	909	207	34.8x	29.7x	7.0x	6.0x	20.2%
Inari Amertron	MYQ016600007	INRI MK	MYR	1.38	1,034	13,572	26.3x	18.9x	3.8x	3.6x	14.3%
Ascendas REIT	SG1M77906915	AREIT SP	SGD	2.96	7,541	23,024	18.6x	18.1x	1.4x	1.4x	7.3%

Note: P/E, P/B, ROE and dividend yield based on 2020 and 2021 projections. Source: Factset prices and estimates as on 6 May 2020

Appendix

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UBS CIO GWM equity selection system

We provide two equity selections: Most Preferred (MP) and Least Preferred (LP).

Most preferred

We expect the stock to outperform the benchmark in the next 12 months.

Least preferred

We expect the stock to underperform the benchmark in the next 12 months.

Suspended

Sometimes legal, regulatory, contractual or best-business-practice obligations restrict us from issuing research on a company. This situation normally stems from UBS Investment Bank's involvement in an investment banking transaction associated with that company.

Equity selection: An assessment relative to a benchmark

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Our selection is based on an assessment of the company's fundamental outlook and valuation, the risks owning the stock entails and the diversification benefits it provides in an investment portfolio, among many other factors. UBS WM CIO's selection methodology enables wealth management clients to invest in a specific investment theme or focus on a sector/industry or country/region.

Stocks can be selected for multiple EPLs. For consistency's sake, a stock can only be selected as either Most Preferred or Least Preferred, not both simultaneously. As EPL benchmarks differ, stocks do not need to be included on every list to which they could theoretically be added.

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Whenever CIO has an investment view (such as with the tactical asset allocation TAA) on an entire country/region, or sector/industry on a three to 12-month time horizon, we state our preference by using the terms overweight, neutral and underweight.

For more information about our present and past recommendations, please contact ubs-cio-wm@ubs.com

Current UBS CIO global rating distribution (as of last month-end)

Least Preferred	9%
Most Preferred	91%

Current UBS global rating distribution (as of last month-end)

Buy	47.42% (31.91%*)
Neutral	38.70% (28.62%*)
Sell	11.52% (21.48%*)
Suspended	1.91% (65.96%*)
Discontinued	0.45% (27.27%*)

Terms and Abbreviations

Term / Abbreviation	Description / Definition	Term / Abbreviation	Description / Definition
1H, 2H, etc. or 1H11, 2H11, etc.	First half, second half, etc. or first half 2011, second half 2011, etc.	A	actual i.e. 2010A
COM	Common shares	E	expected i.e. 2011E
GDP	Gross domestic product	MP	Marketperform: The stocks expected performance is in line with the sector benchmark
NAV	Net asset value	PEG Ratio	P/E ratio divided by earnings growth
Shares o/s	Shares outstanding	UP	Underperform: The stock is expected to underperform the sector benchmark
CIO	UBS WM Chief Investment Office	x	multiple / multiplier
y/y or YOY	Year-over-year; year on year		

Appendix

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