STABIHO
INVESTMENT PARTNERS

Stabiho Emerging Markets

AUM : €11.64mln

Share	ISIN	Bloomberg Ticker	NAV per share (in euro)
Share S	FR001400GN92	STEMMKS FP	94,28
Share P	FR001400GN84	STEMMAP FP	93,32
Share Z	FR001400GNA9	STEMMAZ FP	93,82

Emerging Markets Equities SICAV

REGISTERED COUNTRY

INVESTMENT TEAM

Charles Biderman

Wojciech Stanislawski

INVESTMENT STRATEGY

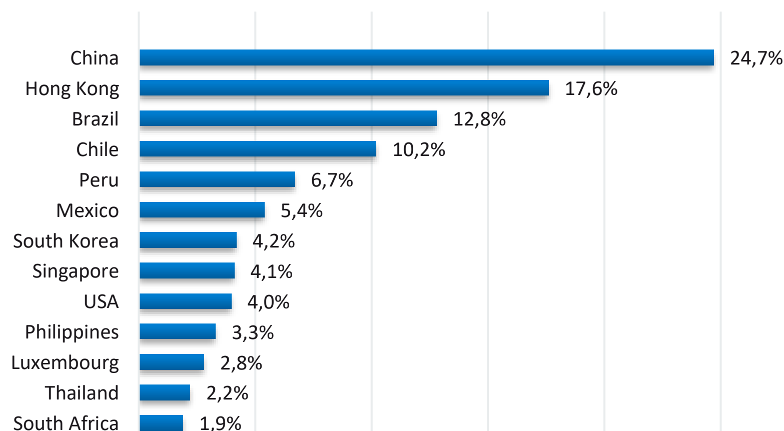
The sub-fund is actively managed and aims to achieve a performance with a recommended 5-year investment horizon.

The sub-fund invests in emerging markets equities of all size and economic sector and without any constraints related to an index.

TOP 5 HOLDINGS (%)

Companies:	%
ODONTOPREV S.A. (BVMF)	5,6
FIBRA MACQUARIE MEXICO (XMEX)	5,3
JARDINE MATHESON HLDGS LTD (XSES)	4,8
AIA GROUP LTD (XHKG)	4,6
CHINA OILFIELD SERVICES (XHKG)	4,6

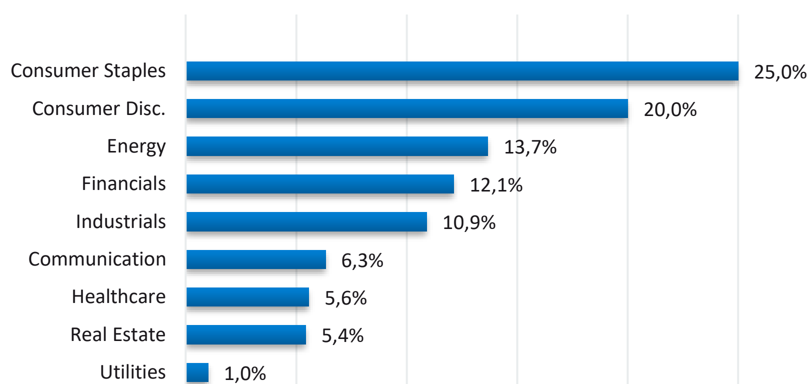
COUNTRY BREAKDOWN (%)



PORTFOLIO METRICS

Metrics:	
P/E NTM (x)	11,4
P/BV (x)	2,1
DY (%)	3,8
ROE (%)	15,3
Ebitda (%)	22,2
ND/Ebitda (x)	1,1
EPS Growth 2024 (%)	13,7

SECTOR BREAKDOWN (%)



PERFORMANCE

In accordance with the regulation, past performance figures are reported when a full calendar year of performance is available.

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CHARACTERISTICS

Portfolio characteristics

Currency	EUR (€)
Inception date	3 July 2023
AMF classification	International Equities
Cut off	10:30 am French time
Benchmark	MSCI Emerging Market Net return – EUR
Valuation	Each business day of the Paris Stock Exchange

Parties

Investment Manager	Stabiho Investment Partners
Depositary	CACEIS
Custodian	CACEIS
Auditor	PWC Audit
Fund Managers	Wojciech Stanislawski & Charles Biderman
Valuation frequency	Daily
NAV	Calculated using closing prices of D

Risk indicator

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.

We have classified this product as 4 out of 7 which is a medium risk class. This rates the risk of potential losses from future performance at a medium level.
In other words, the potential losses related to the future results of the product are at a medium level and, if the situation deteriorates on the markets, our ability to pay you may be affected. This product does not include any protection from future market performance so you could lose some or all of your investment.

Fees

Share	Allocation of distributable sums	Date of 1st NAV	Initial minimum investment	Management fees	Management fees + Operating fees***	Maximum subscription fees
Share S*	Capitalization	18 Sept. 2023	€50.000	0.75% inc. taxes	1.10%	-
Share P	Capitalization	5 Sept. 2023	1 share	1.25% inc. Taxes	1.60%	3.25%
Share Z**	Capitalization	4 July 2023		1% inc. taxes	1.35%	-

* The S share is open to subscriptions over a limited period of time. Please see prospectus for further details.
** The Z share is open to subscribers who have entered into an agreement with the Asset Management Company.
*** On top of these fees, in theoretical case where we would be mainly invested in UCITS, « indirect fees » can apply up to 0.3% max. Please see the prospectus and KID of each share for exhaustive details on fees applied by the sub-fund.

Quarterly fund commentary (1/3)

Like the end of the year 2023, the first quarter of 2024 unfolded under the sign of a growing euphoria around AI and continued denigration of China. Speaking about AI is not easy for us, as, this phenomenon goes a bit beyond our expertise while a certain ambiguity exists around its true extent even among specialists. We will only allow ourselves two remarks.

At this stage, we have not been able to clearly identify Generative AI applications that would have a real impact on productivity. Current uses are often closer to improving automation processes than to a real application of Generative AI. In any case, the use of AI will mean a massive increase in computing capacity needs, but the scale of this need is still very difficult to assess: are we talking about a doubling, a quintupling, or a tenfold increase in chip and microprocessor demand and on what timeline? This "small" uncertainty could be significant... While admitting that AI is very likely a major innovation for humanity, we are therefore holding our breath to learn more.

Furthermore, we have been able to gather some figures on ongoing investments in terms of microprocessor production capacity, figures that seem a bit more precise than those related to demand. Indeed, several countries (United States, European Union, South Korea, China, India) have enacted their "Chips Acts" aiming to massively increase support for the sector, now considered of strategic importance. According to our calculations, the money being deployed in new factories, by private or public actors, or both, ranges between 600 and 1000 billion dollars. Without wanting to settle the debate, we can probably say without too much risk that there will be "a little" more chips in circulation in the years to come. Too many? Not enough? We do not know.

On the subject of China, we engaged in a rather academic but equally amusing exercise of collecting press articles that talk about China, a rather easy task since they are there every day and very often on the front page. Needless to say, the vast majority of them have a negative tone. Among the headlines that caught our attention in recent weeks, we found:

“Uninvestable : China’s $2tn stock rout leaves investors scarred”
“China’s prices fall at fastest rate in 15 years as economy battles deflation”
“China’s consumers tighten belts even as prices fall”
“US investors in emerging markets switch to ETFs that exclude China”
“Foreign direct investment into China slows as investors pull out money”
“US says it will act if China dumps goods on global markets”

This very biased rhetoric from the media had its effect, the month of January having been disastrous for the Chinese market. But by reading the same thing over and over again, investors are starting to no longer pay attention or perhaps, judging by massive outflows from Emerging and Chinese funds in recent quarters, those who were supposed to sell have already done so. Without even any announcement of the famous “bazooka”, the market changed direction and quickly erased its losses. We are not unconditional fans of China (see our last newsletter), but we would not be surprised if the upward trend continued for a while, which could have a favorable impact on the performance of our fund.

Regarding the latter, we must note that in the first quarter of the year, we dropped 2 or 3 points compared to our benchmark index, which we rarely look at, as you know. The fund's NAV decreased by 0.3% compared to the MSCI EM index which increased by 4.7% in euros. Certainly, China rebounded since its January lows, but India, Taiwan and Korea, almost half of the MSCI EM, made further progress: they were not affected by a complicated month of January while the AI frenzy was generally very favorable to them.

Fundamentally, our exposure to China is doing well. We own eleven Chinese companies, plus AIA and Jardine Matheson (JM), the latter two having significant but not majority exposure to China. In aggregate, our Chinese block (around 40% of assets) presents solid characteristics: estimated EPS growth (excluding AIA and JM) of 19% and 16% in 2024 and 2025 respectively (this is better than the market which is at 12% and 15%), a return on equity (ROE) of 16% and a net debt to equity ratio of 20.5%, with many companies being net cash. The aggregate valuation of our Chinese companies is slightly below the portfolio average: 2024 price/earnings ratio (PER) of 10.8x, 2024 price to book value ratio (PB) of 1.8x and a 2023 dividend yield (DY) of 3.4%.

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Quarterly fund commentary (2/3)

These companies are well positioned to contribute significantly to the performance.

Among the stocks that hurt us this quarter, we can cite the Korean Orion Corp, manufacturer of confectionery, snacks and drinks, present on the local market, in China, Vietnam and Russia. Orion's core business is doing quite well, but it was the announcement of an acquisition in the biopharmaceutical field that caused the stock to plummet. This movement was unexpected and does not represent any great strategic interest for the company while weighing on its profitability and cash flow for a period of time that we are unable to estimate. Frustrated by this very “Korean” movement, we reduced our investment.

When asked which beer brand is the most international in the world, many would rightly answer Heineken. The eponymous Dutch company has been working to promote its brand for many decades, with great success it must be admitted, since the product is now present in more than 190 countries. It is quite interesting to observe that in so-called rich countries, Heineken beer is a mid-range drink, whereas, in the emerging world, it is a premium product: ordering a Heineken in India or Brazil is the illustration of social status.

Like its flagship product, the Heineken company, the largest European brewer and the second largest in the world, is also a high-quality, highly profitable and respectable entity, even if its growth has been less sparkling in recent years. It is true that beer in the developed world is a little less attractive and suffers from strong competition from many spirits products as well as a certain rejection of alcohol in general, for reasons of healthy lifestyle. Thus, on a global scale, volumes only increased by 1% p.a. over the decade. Growth in the emerging world was stronger, of the order of 3-4% p.a., but even in these areas per capita consumption levels are gradually approaching world averages. What nevertheless still differentiates the developed world from the developing world is the proportion of premium beers which have “exploded” in the first but are only just beginning their rise in the second.

This is particularly true in China where the premiumization of the beer market is in its infancy. We took an option on this development by investing in China Resource Beer (CRB), a joint venture between China Resource Enterprise and Heineken and also the largest brewer in the country (30% market share). The two entities have cooperated for a long time but it was only in 2018 that the relationship was formalized through a capital link. Since then, CRB has worked to promote Heineken at its many points of sale. 2023 was the first year that green bottles were distributed by the entire CRB network. Since the start of the joint venture, Heineken volumes in China have more than tripled but still represent only 5% of the total volumes sold by CRB. The contribution to turnover is naturally greater (13%) and premium products are generally 50% more profitable than mainstream beers. The global share of premium products in volumes is around 25%-30%, depending on the definition of premium. The work (and the development potential) that awaits CRB is therefore substantial.

Beyond Heineken, CRB is also the largest beer brand in Asia, Snow (representing 80% of sales), which the company has been able to produce in several variants. Snow, however, remains a basic/low-cost product, which meets the needs of the current Chinese consumer particularly well.

The premiumization of CRB therefore means improved margins. The latter are also positively impacted by the rationalization of production and distribution systems. As an example, the number of factories has fallen from 90 to 63 over the last 20 years and 10 others will be gradually closed. The joint venture with Heineken allows CRB to adopt best operational practices. In total, the company believes it can add 500 basis points to its Ebitda margin which is around 20% today.

On the stock market, CRB has suffered greatly over the last 12 months, like other Chinese companies exposed to consumption. The stock has depreciated significantly, its earnings multiple falling from a historical average of 40x to 16x today. It was therefore quite natural that we took a stake. The stock is up 5.4% over the quarter.

Our relationship with Heineken does not end with China. We are also exposed to Compania Cervecerias Unidas (CCU) in Chile which is a joint venture between Heineken and local conglomerate Quiñenco (Luksic group). CCU generates 67% of its turnover in beer in Chile and 23% in the region (especially in Argentina), the remaining 10% being represented by wine.

Quarterly fund commentary (3/3)

CCU has also been quite mistreated on the stock market and its price is not far from pandemic lows, 40% below 2019 levels. It is clear that the results produced by CCU have been disappointing over the last two years, mainly for external reasons: recession in Chile, sharply rising prices of raw materials, galloping inflation in Argentina, devaluation of the Argentine peso, particularly rainy weather due to El Nino, etc.
We believe 2023 was the low point in results. Our investment in CCU is therefore less linked to premiumization (much more advanced in Latin America than in China) but more to a cyclical recovery in the brewer's growth. Without detailing all the elements, the latter should come from 1/ Chile's exit from recession (see our newsletter n°2) and therefore resumption of consumption, 2/ the improvement of the economic situation in Argentina, 3/ the recovery of margins thanks to the normalization of input prices.

In the recently published Q4 2023 results, we observe that the third pillar of our investment thesis is already being confirmed. We believe that the first two will additionally play in favor of CCU in 2024 and 2025 where the increase in EPS is forecast by the consensus at 44% and 20% respectively. The return to growth should allow the Chilean brewer to revalue, with CCU's PER having fallen from 18x historically to only 13x today. The dividend yield is 3-4%. The balance sheet and governance (Heineken) are very solid. CCU grew by 3.7% over the quarter.

When talking about companies that have been battered on the stock market and are still dealing with Covid, it is difficult not to mention Singapore Telecom (SingTel), in which we hold a position. SingTel is on the one hand a “classic” mobile and landline operator in Singapore and Australia (approximately 1/3 of the taxable income) and on the other hand a “telecom holding” with participations in Telkomsel in Indonesia (35%), Bharti Airtel in India (29%), AIS in Thailand (23%) and Globe in the Philippines (47%), to name only the largest (around 2/3 of the taxable result). SingTel is therefore a multitude of markets often responding to different dynamics, Singapore and Australia being mature markets, while the participations in Emerging Asia countries generate (a little) growth. Overall, we expect only modest growth from SingTel and are primarily interested in it for its generous dividend yield. The latter is driven by the recurring generation of excess cash flow and by the opportunistic sales of non-strategic assets that the company now regularly undertakes to simplify its structure.

That said, it is clear that SingTel's recently released Q3 2023 results (fiscal year to end-March) were quite frustrating. The mature part declined slightly following weak demand and price pressure. The value of its emerging assets was affected by currency depreciations (the Indian rupee and the naira in Nigeria – Bharti Airtel Africa) while Telkomsel in Indonesia saw its figures drop very slightly. The net result was saved by asset sales and is therefore perfectly stable over the nine months of the year. The likelihood of a special dividend has increased further, and we may well see SingTel with a yield of 7% this year (instead of the usual 5%). There is therefore temporarily a small bond side in SingTel with a very solid balance sheet and return on equity of around 10%. Temporarily, because after a stable year we anticipate the return of “a little” growth in 2024 and 2025, 15% (recuperation from a disappointing 2023) and 7% respectively. The stock trades at 14x earnings for the next 12 months. We are maintaining our position for the moment, a position which is up 2.4% since the start of the year.

The **Stabiho Emerging Markets** portfolio therefore has plenty of ammunition to generate solid, even above-average, results. Emerging market stocks remain under pressure, partly due to China bashing and partly to a tremendous concentration of interest around a few American stocks that everyone knows. The change in sentiment, the return of common sense and above all the acceptance that economic fundamentals in the emerging world are more solid than in the Western world could well surprise investors who have too little exposure.

Wojciech et Charles

Best/worst performance of the quarter (in euros)

The best performers:

Ferreycorp SAA (Peru)	+19,2%
Midea Group Co Ltd (China)	+18,5%
Credicorp Ltd (Peru)	+15,8%
Tenaris (Argentina)	+15,8%
China Oilfield Services Ltd (China)	+15,4%

The worst performers:

Orion Corp (Republic of Korea)	-23,0%
AIA Group Ltd (Hong Kong)	-21,0%
Minth Group Ltd (China)	-19,9%
Localiza Rent a Car SA (Brazil)	-14,5%
Engie Brasil Energia SA(Brazil)	-11,7%

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Past performance does not guarantee future performance. Performance is calculated net of management fees. Past performance is reported when a full calendar year of performance is available.

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