

# India from an Asian Perspective

January 2022



# Macro: Valuation Premium but with Strong Earnings Growth

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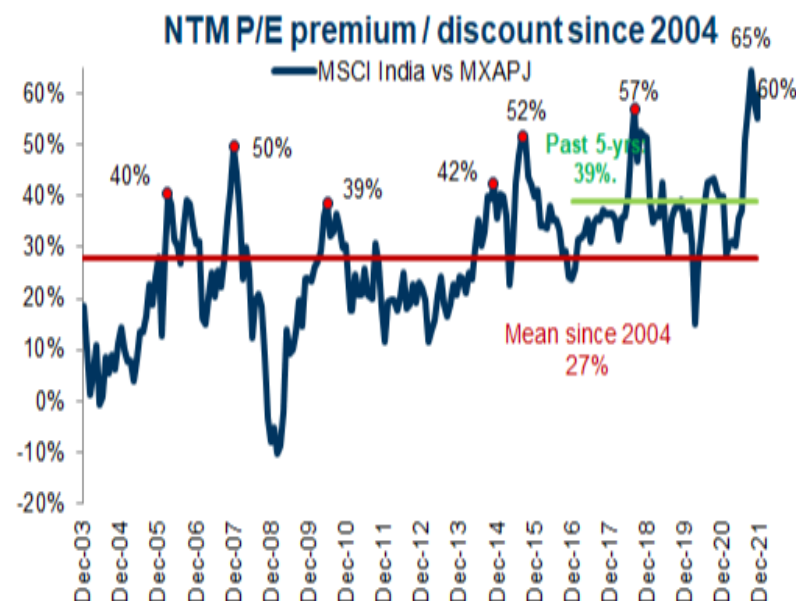
- ◆ **Valuation:** MSCI India relative P/E premium to MSCI Asia Pacific ex Japan is near record levels at 60%
- ◆ **Earnings:** India is expected to have a **higher earnings growth** compared to rest of the region
- ◆ **Stock selection:** Contrarian picks with good business models as only hold a handful of Indian stocks

## MSCI Market Valuations

	Consensus	
	P/E (x)	
	2022e	2023e
Asia ex Japan	14.4	13.6
USA	29.5	25.7
India	22.7	19.3
China	12.6	11.2
Japan	13.8	13.7
AC World	23.7	20.6

Source: IBES, MSCI, November 2021

## P/E Premium / Discount since 2004



Source: IBES, GS Research, December 2021

## EPS growth by country

	Consensus	
	2022E	2023E
China	14%	14%
China-A	16%	14%
Hong Kong	19%	13%
India	21%	14%
Indonesia	17%	12%
Korea	7%	10%
Malaysia	-4%	6%
Philippines	25%	20%
Singapore	13%	14%
Taiwan	0%	5%
Thailand	13%	13%
MSCI Asia ex Japan	11%	12%
HSBC Asia Strategy	16.9%	14.7%*

Source: IBES, Goldman Sachs Research, November 2021

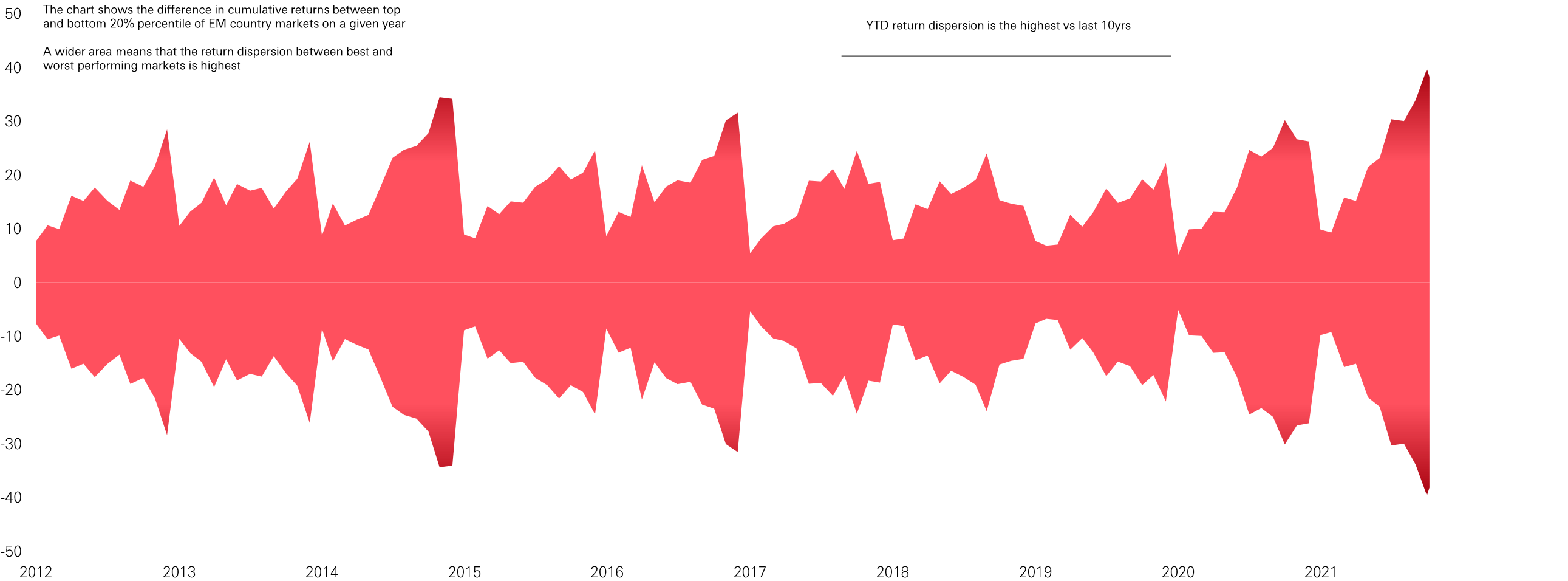
\* Source: HSBC Asset Management, December 2021. HGIF Asia ex Japan Equity estimates are aggregated based on our analysts' bottom up estimates of our portfolio companies

Note: Bloomberg consensus expectations used for Japan and Australia 2021-22 forecasts, while HSBC Asset Management forecasts are used for other economies

Source: IMF (WEO October 2021 database), CEIC, Bloomberg, HSBC Asset Management, November 2021. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management accepts no liability for any failure to meet such forecast, projection or target.

Wide gaps at a country level ➔ even bigger at a stock level

2021 has the highest return dispersion within EM countries of the last 10 years



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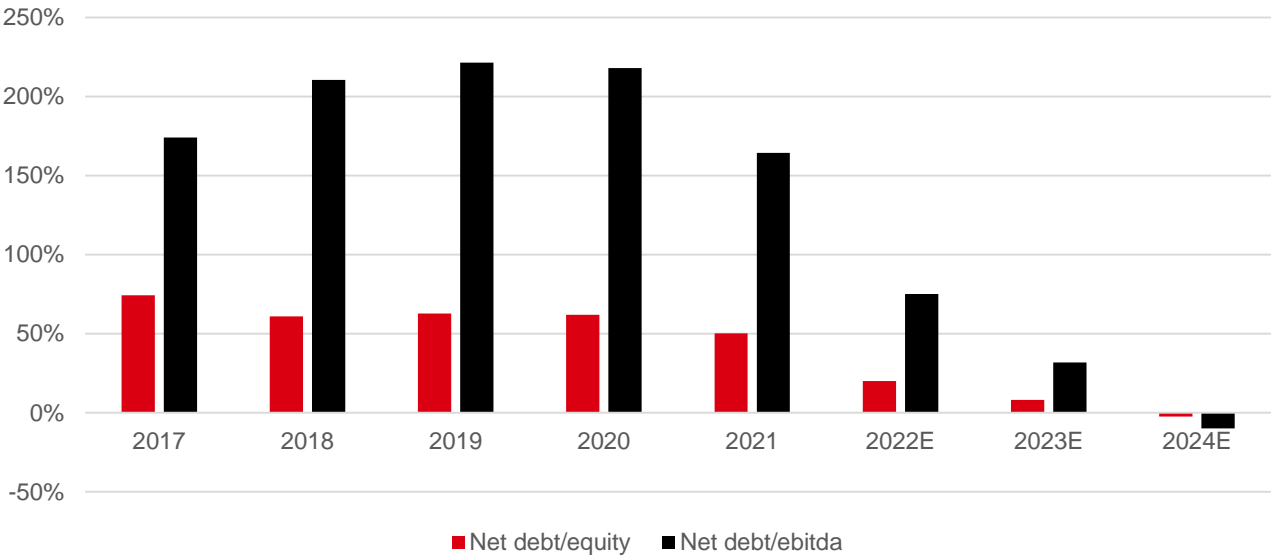
Indian Pharmaceutical Company

Investment View:

- ◆ Depressed valuations given the slow progress on net debt reduction. Proactive measures taken to pay down its debt including more focused R&D, sale of products and listing a subsidiary. As a result, the company has received **credit upgrade** and this will **eventually filter through into equity valuation**.
- ◆ We are of the view that attempts are being made to **out-license products; company recently out-licensed an asset from its R&D subsidiary**. We consider this a significant milestone for eventual value recognition of the **innovative R&D efforts** which are currently **negatively valued** owing to prolonged cash burn.
- ◆ **Significant upside** if **net debt is reduced significantly, more out-licensing deals secured by its R&D subsidiary and if company eventually successfully raises capital**

Sustainability Focus:

- ◆ We identified **improvement in governance standards** as a key focus and have actively engaged the management for better disclosures which have started to come through.
- ◆ Appointed external candidates as CEO's of 2 key subsidiaries

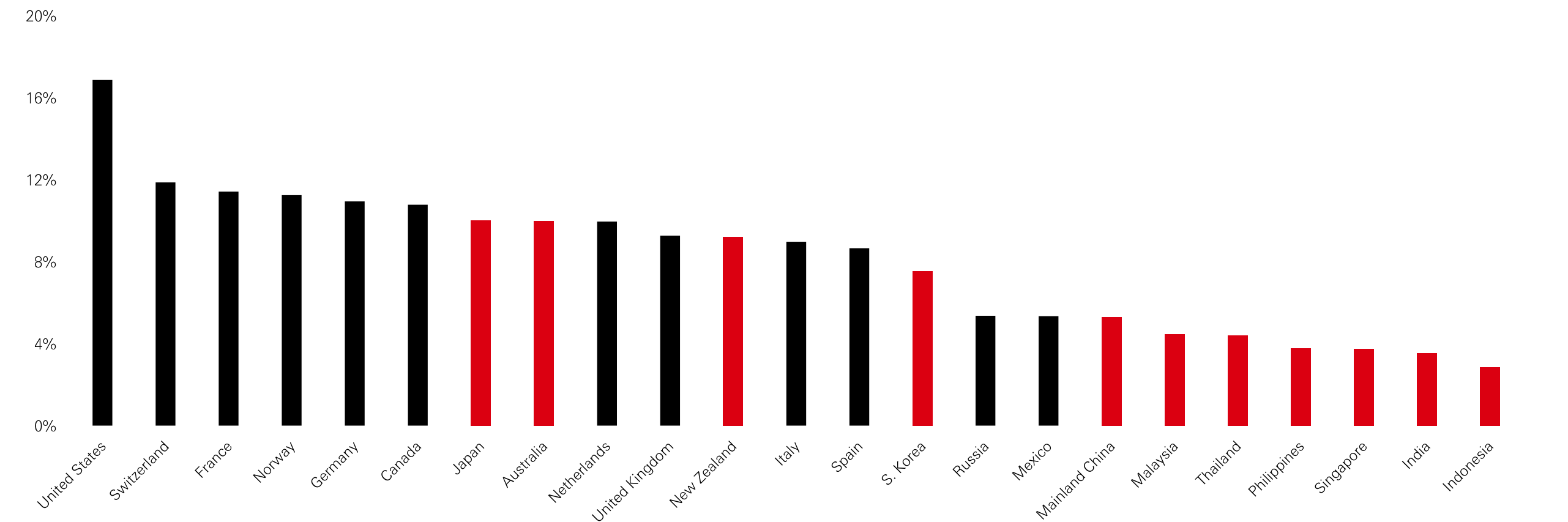


Source: HSBC Asset Management. For illustration purposes only and does not constitute investment advice.

# Asia Healthcare: Plenty of Room for Growth

- ◆ Asian economies spend a **much smaller portion of their GDPs on healthcare** than do developed economies
- ◆ Massive increase in innovative R&D spend that is being positively valued; capital markets supporting this spend

Healthcare expenditure (% of 2018 GDP )



Source: World Health Organization, data as of May 2020. WHO's comprehensive and comparable database on health spending for 190 countries is updated annually and released in December of each year with a 2-year lag

- **Multi-Thematic, benchmark agnostic approach** that aims to drive positive change without sacrificing performance
- Integrating a sustainability approach with **5 SDGs<sup>2</sup> identified (3, 7, 8, 9 12)** which are aligned to the 3 mega trends that would shape the social and economic landscape of Asia in the decades to come
- We have adopted this **responsible investing** approach to Asia and use the same lens to look at Indian stocks

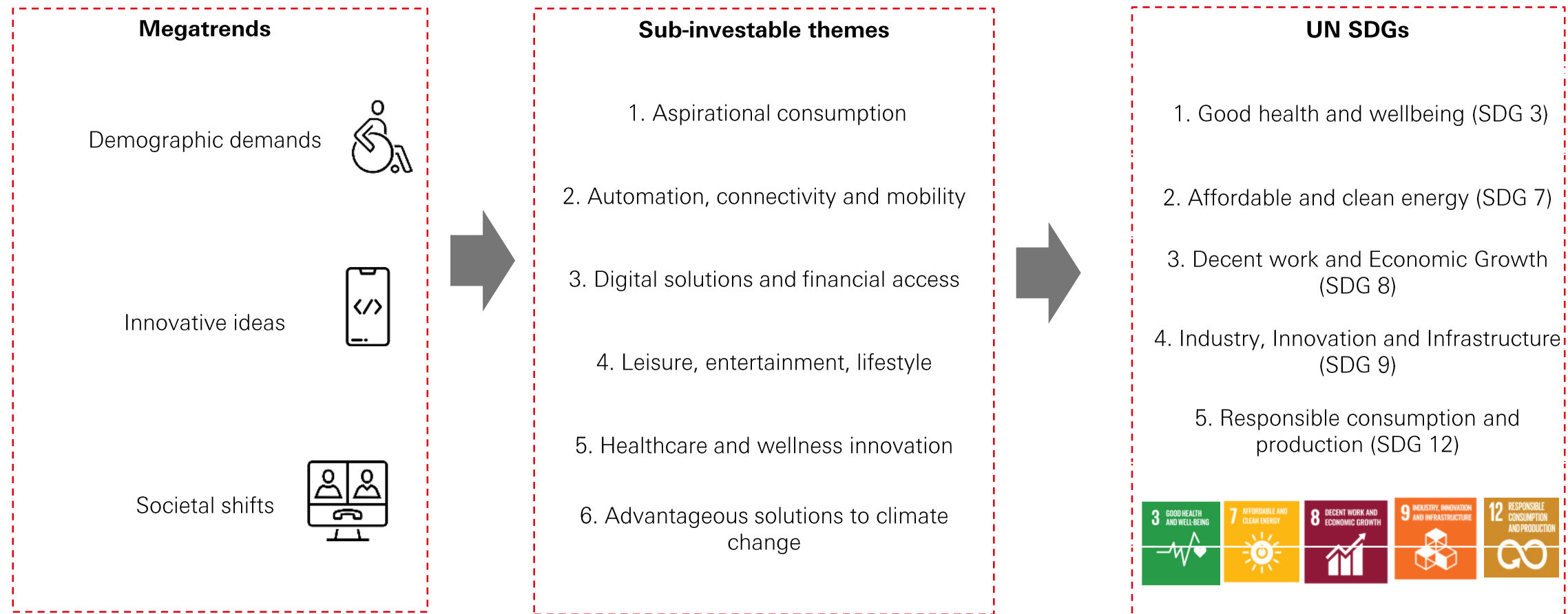


Source: HSBC Asset Management as November 2021. For illustrative purposes only.

1. Article 8 Product = A financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices
2. UN Sustainable Development Goals

Representative overview of the investment process, which may differ by product, client mandate or market conditions.

- Underneath the 3 megatrends identified, we see **sub-investable themes** that are **interconnected** in many ways that could drive sustainable growth and are **aligned** to the 5 identified UN SDGs
- These 5 SDGs will be **evaluated** in every stock we own in our portfolio and will be used as a basis for **company engagement**



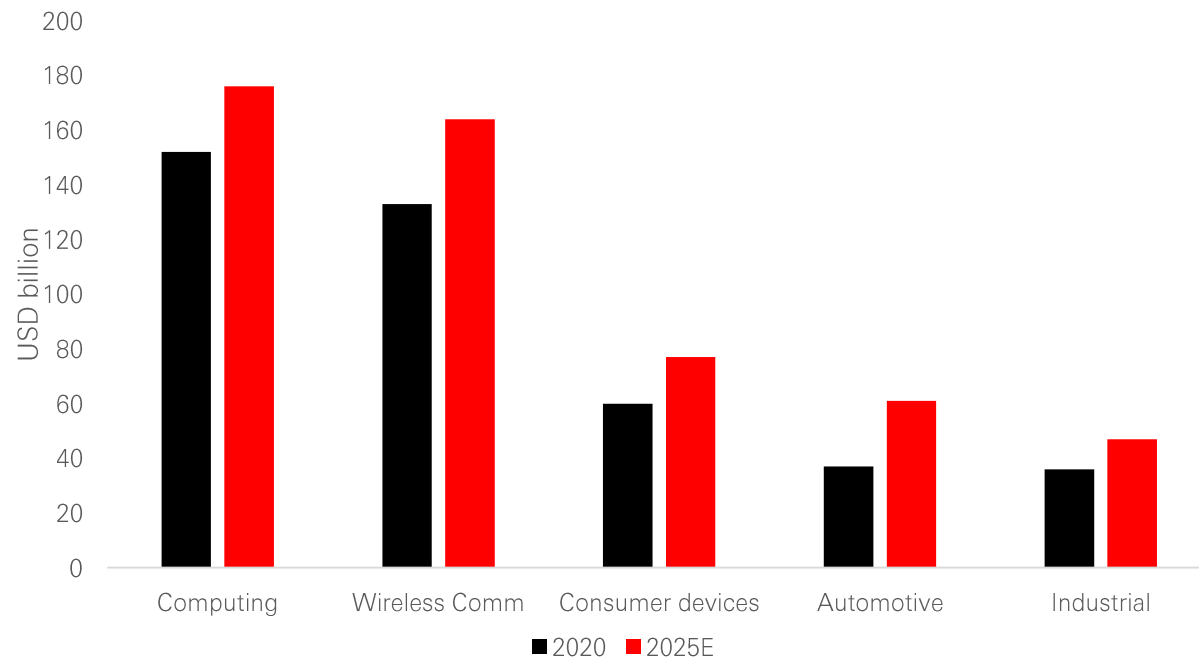
Source: HSBC Asset Management, November 2021. Views and positioning can and will change without prior notice. The investment themes are for illustration purposes only. The actual universe and allocation may differ and are subject to change without prior notice. Investor should always refer to the fund's offering documents for fund information.

# Asia: Technology to boost productivity and unlock higher growth potential

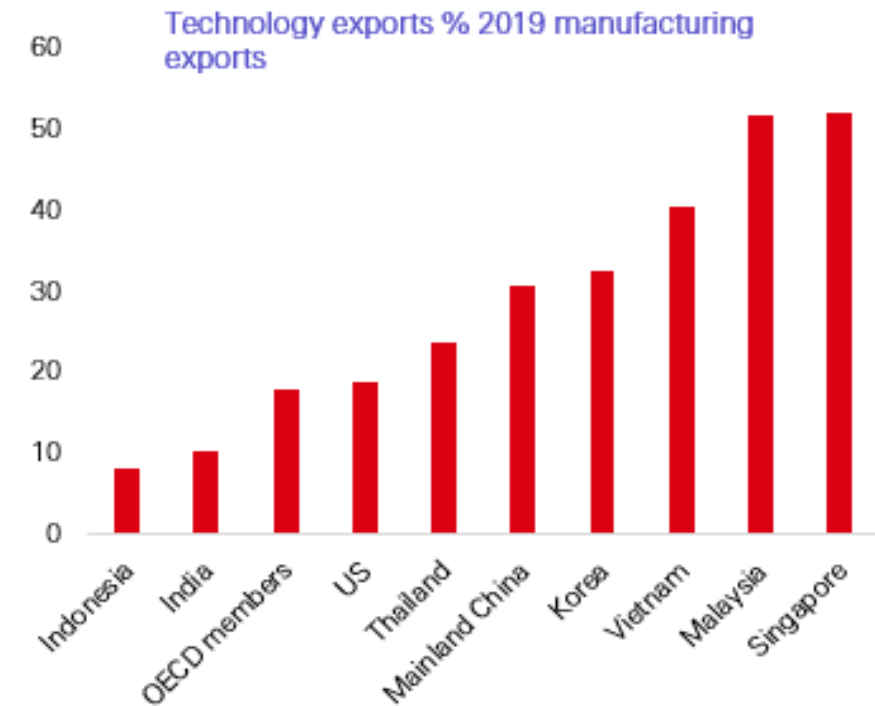
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- ◆ **Asia is a key technological hub** globally and is an area with structural demand growth driven by increasing computing usage and evolving societal habit changes
- ◆ **Indian high skill exports (such as IT services)** have gained global market share over the last few years
- ◆ Entrepreneurs creating new investment avenues in India, following other Asian countries

## Computing, wireless communications and consumer devices are driving structural demand for semiconductors



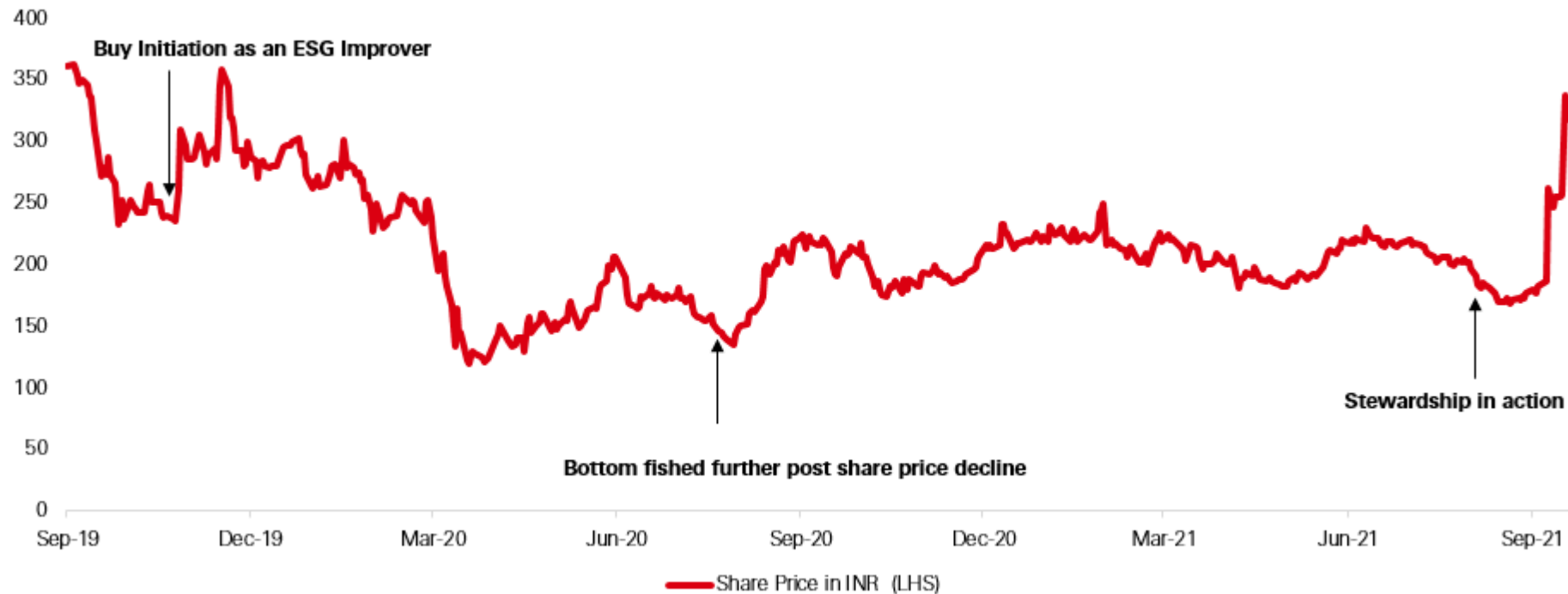
## Asia plays a key role in the global tech supply chain





- Significant ESG Resources: Third party ESG data providers, ESG research providers, Responsible Investment Specialists, Stewardship Activities
- Integrated in our Investment Process: Proprietary investment framework, Enhanced Due Diligence, Weekly ESG Stock Deep Dives, Monthly Top Down ESG Discussions, e.g., Packaging & Plastic Recycling
- Stewardship and Advocacy: Follow-up actions including engagement - India media conglomerate's improving governance and disclosure link to higher value creation
- Monitoring key metrics, e.g., Fund's carbon intensity is significantly lower than benchmark

## India media conglomerate: Moving ESG into the mainstream



One of the largest residential developers and office landlords in India – an ESG improver story...

## What was the issue?

- ◆ There was a perception that the real estate sector in India has lower governance
- ◆ The company had governance standards that were perceived to be low due to higher ownership of the founders
- ◆ Legacy litigations with government related tax and customer complaints

## What did we do?

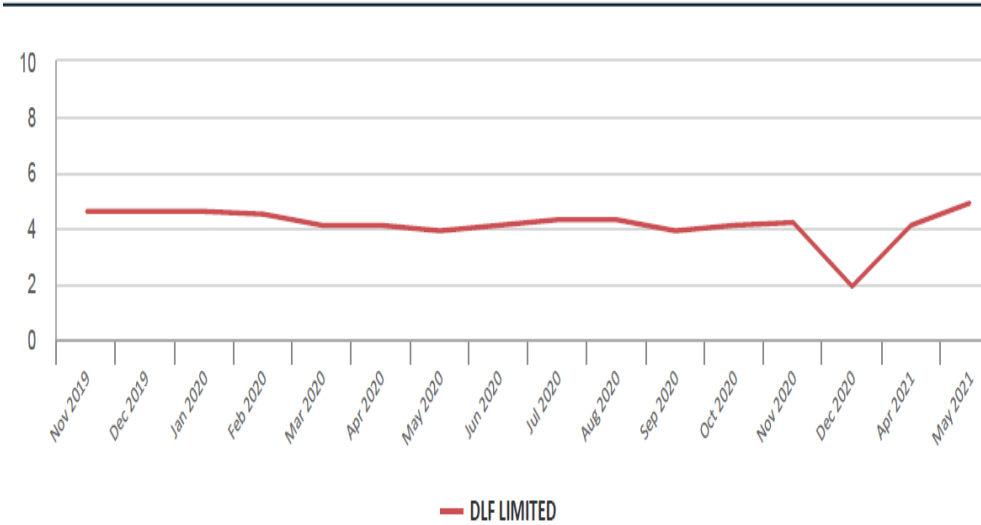
- ◆ We identified **improvement in governance standards** for the sector as a key ESG catalyst
- ◆ Governance for the real estate sector was on improving trend on back of government's effort to **formalize the sector** by discouraging use of cash, improving customer protection by introducing formal regulator for the sector and increasing penetration of home loans
- ◆ We analyzed governance related concerns in detail and tracked the company's actions vs its commitments in areas related to **capital allocation, minority shareholder interest** and **customer related litigations** for a few of years before making our first investment
- ◆ We engaged with the management team and nudged them to **progressively adopt best governance practices, increased disclosures and investor communication**
- ◆ We analyzed and discussed with the management team on their commitments and actions in areas of **environment and operational safety – use of renewable energy, recycling of water, treatment of waste, climate related risk**
- ◆ We incorporated the **risk of financial penalties** and **loss of customers due to climate risk** into our profitability projections and in our valuations

Source: HSBC Asset Management. For illustration purposes only and does not constitute investment advice.

One of the largest residential developers and office landlords in India – an ESG improver story...

- ◆ The Indian property developer has articulated its intentions publicly to improve its governance practices and disclosures to best in class
- ◆ It is **one of 5 Indian companies to be added to Dow Jones Sustainability Index**
  - It has 93rd percentile overall score on ESG dimensions
  - It ranks 18th out of 250 global real estate companies across US, UK, Japan, Singapore, Hong Kong, etc.
- ◆ Its governance score in MSCI rating saw an improvement last year

CORPORATE GOVERNANCE SCORE HISTORY



Company Name	Market Cap (USD Mio)	Country	Sustainalytics ESG Risk Score	ESG Risk Category	MSCI ESG Rating
	5,289	Singapore	8.8	Negligible	AAA
	14,700	Singapore	11.2	Low	A
	13,849	Hong Kong/China	14.2	Low	BBB
	11,674	Philippines	17.1	Low	BB
Indian property developer	10,100	India	18.6	Low	BB
	3,192	India	19.1	Low	
	22,643	Philippines	20.0	Low	BBB
	33,589	China	20.5	Medium	BB
	36,269	China	22.3	Medium	BB
	27,363	China	22.4	Medium	B
	5,344	India	22.5	Medium	
	648	India	24.3	Medium	
	2,118	Philippines	24.7	Medium	
	10,304	Hong Kong/China	24.7	Medium	BB
	1,582	India	27.8	Medium	
	896	Indonesia	32.3	High Risk	

Source: HSBC Asset Management, May 2021. For illustration purposes only and does not constitute investment advice.

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