

VALUE INVESTING IN EMERGING MARKETS

Current perspectives by Jenga Investment
Partners Ltd

 **October 17th, 2024**
15:55 - 16:25

 Venue
Ben Graham Centre
4th European Value
Investing Conference

 Presenter
Dede Eyesan



About Jenga Investment Partners Ltd

An London-based FCA-authorized global equities Investment Company



Founded in 2021



Global Equities



Research-driven



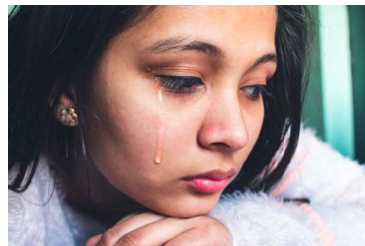
Willingness to
be contrarian

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Expectations of EM Investing



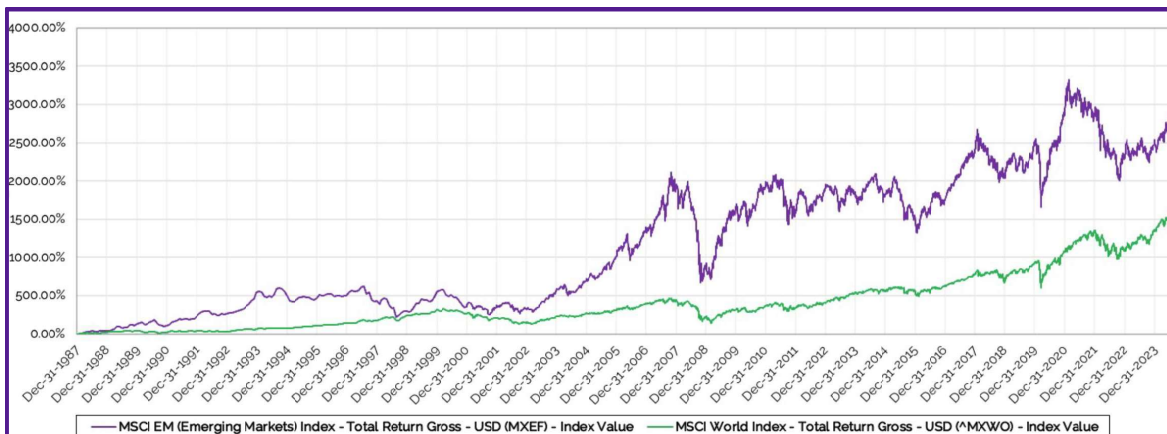
However, the average EM Fund Manager today.....



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EM Investing. A tale of two halves

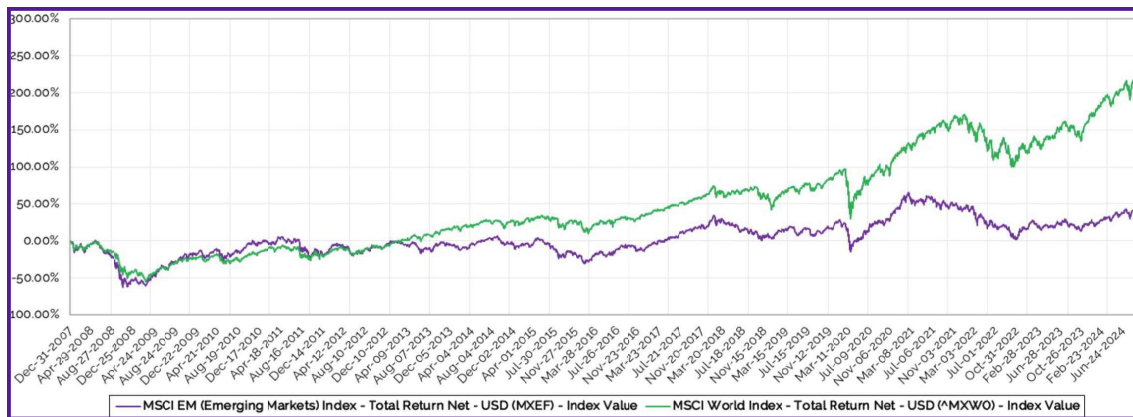
The MSCI EM Index versus the MSCI World Index (total return)



The MSCI EM Index (9.75%) has outperformed the MSCI World Index (7.85%) over the past 37 years

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EM's 17-year underperformance 2007 - 2024



The MSCI EM Index (2.38%) has underperformed the MSCI World Index (7.26%) over the past 17 years

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What went wrong in EM Investing?



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Dominance of slow growing SOEs

The largest EM companies underperformed in both growth and quality metrics over the past 17 years

Top 10 largest DM Companies by year			
2009	2014	2019	2024
Exxon Mobil	Apple	Apple	Apple
Microsoft	Exxon Mobil	Microsoft	Nvidia
HSBC	Alphabet	Amazon	Microsoft
Walmart	Microsoft	Alphabet	Alphabet
JP Morgan	Berkshire Hathaway	Meta Platforms	Amazon
BHP Group	Johnson & Johnson	Berkshire Hathaway	Meta Platforms
Shell	Wells Fargo	JP Morgan	Berkshire Hathaway
General Electric	Walmart	Visa	Broadcom
Apple	General Electric	Johnson & Johnson	TSMC
Johnson & Johnson	Roche Holding	Walmart	Eli Lilly

Top 10 largest EM Companies by year			
2009	2014	2019	2024
PetroChina	China Mobile	Alibaba	Aramco
ICBC	PetroChina	Tencent	Tencent
China Mobile	Alibaba	Samsung Electronics	Samsung Electronics
Petrobras	ICBC	ICBC	ICBC
China Construction Bank	China Construction Bank	Ping An Insurance	Kweichow Moutai
Bank of China	Samsung Electronics	Kweichow Moutai	Alibaba
Sinopec	Tencent	China Construction Bank	Agricultural Bank of China
China Life Insurance	Agricultural Bank of China	China Mobile	PetroChina
China Sherhua Energy	Bank of China	Agricultural Bank of China	China Mobile
Samsung Electronics	Petrobras	PetroChina	PDD Holdings

- Only **four** of the largest ten EM companies grew their earnings above **10% CAGR** over the trailing ten years. All ten DM companies surpassed 10% earnings CAGR
- The ten largest DM companies were more profitable with a 10-year average ROE of **32%** versus **18.1%** across the largest ten EM companies
- The ten largest DM companies grew their earnings over the prior 10 years by **26.8%** on average, versus **7.9%** across the largest EM companies
- Revenue and earnings of the largest companies have become more global, posing a challenge for domestic-focused EM companies

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Can investors still bet on Emerging Markets?



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EM Superinvestors of Graham-and-Doddsvill

Learnings from the greatest EM Value Investors



Can you name 7 of these 10 great EM Value Investors?

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EM Superinvestors of Graham-and-Doddsvill

Learnings from the greatest Emerging Market Investors



Carlos Slim



Zhang Lei



Richard Chandler



Michal Sotowow



Nives
Hemvachiravarakorn



Chandrakant Sampat



Fabio Alperowitch



Bang Chun Kang



Mark Mobius



Allan Gray

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What we learn from these greats

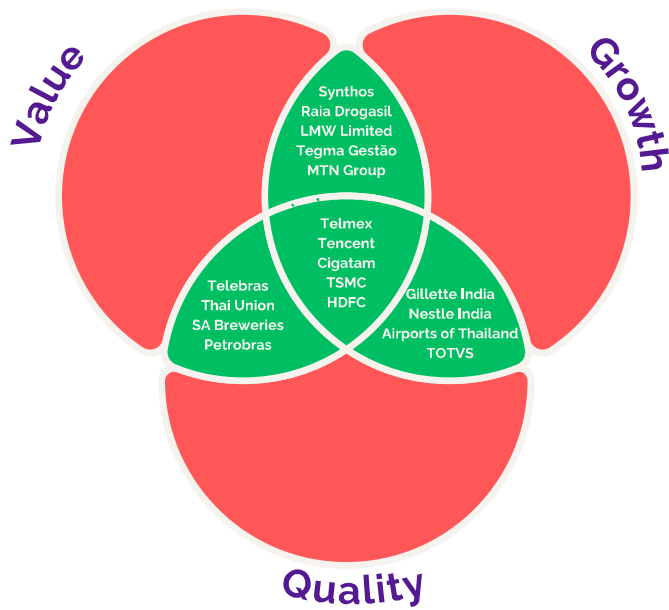
Investing when the **Stars Align**



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Learnings from the EM Superinvestors

Investing when the Stars Align



Aligned Stars

- Stars align when value meets growth and/or quality opportunities
- The best investments have all three features e.g Telmex in 1992, Tencent in 2004, TSMC in 2001

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Situations where Stars Align in EM

Four focus areas for investing in EM listed companies

- 1 Geographic advantages
- 2 Cultural advantages
- 3 Market Structure advantages
- 4 Technical advantages

EM Superinvestors of Graham-and-Doddsvill

Flagship investments from the great EM Investors

1



LMW Limited, India

2



Minor International,
Thailand

3

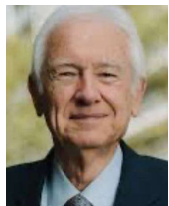


Telmex, Mexico

4



Tencent, China



SA Breweries, South
Africa



Amorepacific, South
Korea



Telebras, Brazil



TSMC, Taiwan

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1. Geographic Advantages

1 Blessed by nature

Products with materials created from natural resources that are present in only a handful of regions. Limited substitute products

2 Materials, energy or consumer staples

The companies are typically found in these industries and grow from small-caps to large-caps over time

3 Global export, limited FX impact

Necessities with global demand means they export globally, often in USD terms, providing a natural currency hedge

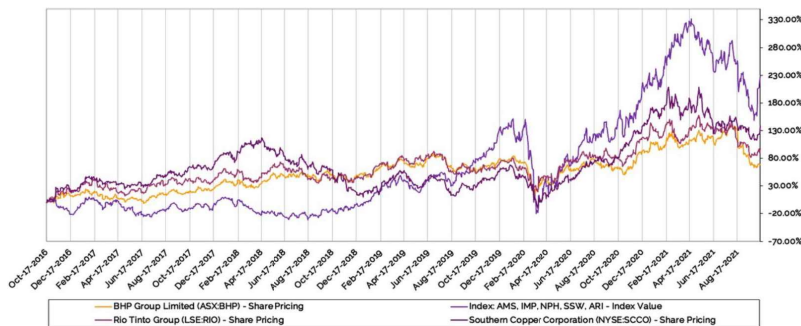
4 Commodity and cyclical

The commodity and cyclical economics impacts long term shareholder value. Don't hold onto shares for too long



1. Geographic Case Study - SA PGMs (2016 - 2021)

Anglo American Platinum, Impala Platinum, Northam Platinum, African Rainbow Materials, Sibanye Stillwater



Aligned Stars (Quality, Growth, Value)

- South Africa has 90% of global platinum reserves
- The rise of hybrid vehicles and their catalytic converters increased global demand for PGM metals
- With growing demand and limited supply, the PGM miners saw an uptick in profitability per tonne, boosting their share price to a return of **228% (26.8% IRR)**
- Shareholders who held onto PGM miners beyond 2021 saw share prices drop by more than **50% between 2021 and 2024**.

	EBIT margin	Return on capital	Debt/capital	2016 - 2021 earnings CAGR	EV/EBIT
SA PGMs	20.4	14.63	25.36	37.03	14.17
BHP	37.5	12.65	31.9	4.97	22.52
Rio Tinto	33.46	14.78	22.08	12.45	10.77
Southern Copper	39.77	13.88	49.98	5.12	15.4

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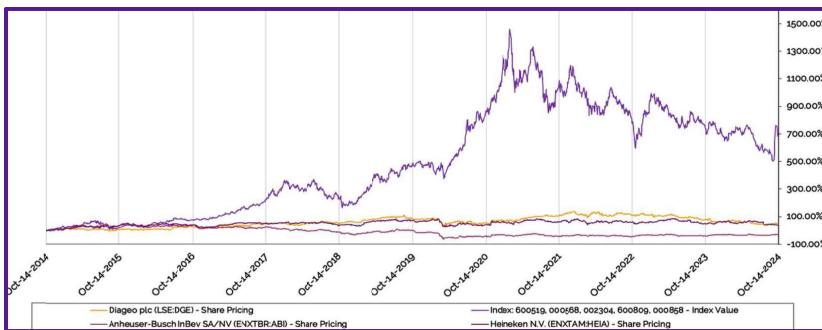
2. Cultural Advantages

- 1 Embedded in culture**
Products have cultural significance and have been around for many decades. Embedded in lives of the average consumer
- 2 Consumer staples or healthcare**
Companies are typically found in either consumer staples or the healthcare industry
- 3 High barriers to foreign entry**
Due to the high cultural significance, its near impossible for foreign rival products to enter the domestic market
- 4 Limited export opportunity**
Products are unlikely to succeed in other markets due to the cultural differences



2. Cultural Case Study (Chinese Baijiu)

Kweichow Moutai, Wuliangye Libin, Luzhou Laojiao, Shanxi Fen Wine and Jiangsu Yanghe



	EBIT margin	Return on capital	Debt/capital	10 years earnings CAGR	EV/EBIT
The Chinese Baijiu 5	50.30	23.88	3.30	16.65	18.24
Diageo	30.00	11.00	57.13	4.81	17.93
AB Inbev	29.53	6.73	53.85	14.03	15.49
Heineken	13.51	6.25	49.15	6.20	18.56

Aligned Stars (Quality, Growth, Value)

- Chinese alcohol has the deepest cultural moat across all sub-beverages globally
- The leading five brands have been around for centuries
- The 2012–2015 crackdown on state banquet drinking caused a market panic in their shares
- Despite the crackdown, the Chinese Baijiu 5 delivered a **15.8%** share price CAGR return between **2010 - 2024**, outpacing peers and the market, and continues to be undervalued according to our estimates

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3. Market Structure Advantages

1 Oligopolistic with pricing power

The industry is typically dominated by a limited number of large players. These companies tend to be large caps

2 Financials or technology

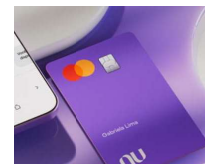
The best opportunities are found in both financials and technology industries

3 Regulatory impact on external competition

Heavy regulation poses challenges for new domestic players

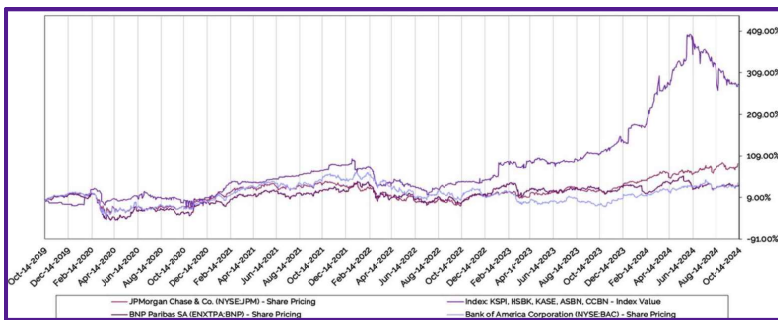
4 Susceptible to external and macro shocks

A global crisis has a detrimental impact to the industry i.e. Asian Financial Crisis in late 90s (SE Asia banking system)



3. Market Structure (Kazakhstan Financial Services)

Kaspi, Halyk Bank, Kazakhstan Stock Exchange, Center Credit, Forte Bank



Aligned Stars (Quality, Growth, Value)

- Kazakhstan’s financial services is among the most consolidated FS industries in the world, with the top five banks boasting a market share of **70-75%**
- The Russia - Ukraine war created opportunities for further consolidation and additional liquidity
- The five Kazakhstani financial services companies achieved an **IRR of 30.9%** over the past five years and continue to be undervalued according to our estimates

	NI margin	Return on equity	5 years net earnings CAGR	P/E ratio
Kazakhstan Financial services	54.01	43.93	46.90	8.38
JP Morgan	34.21	15.50	10.62	11.18
Bank of America	30.22	10.15	6.21	12.24
BNP Paribas	23.92	7.38	5.87	8.37

4. Technical Advantages

1 Oligopolistic with pricing power

Products that are technologically competitive with a global cost advantage due to specialisation and scale

2 Technology, industrials or healthcare

Companies are typically found in the above sectors and can grow into large caps

3 Global export, limited FX impact

The global demand for their products makes them less exposed to domestic economic challenges

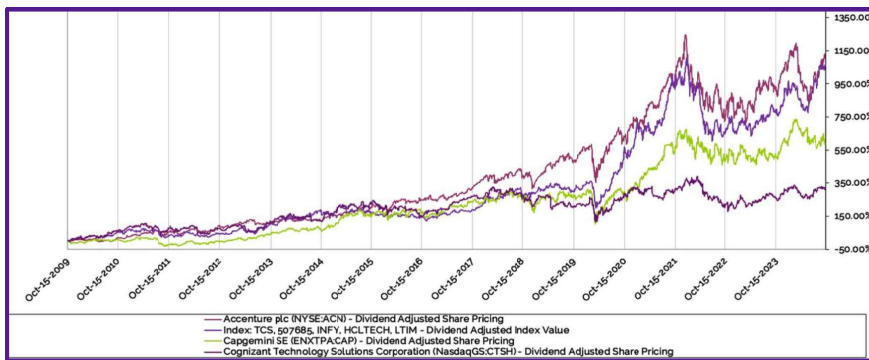
4 Exposed to foreign competition

They become more susceptible to companies in faster growing economies that have access to cheaper labour and resources



4. Technical Case Study (Indian IT Services)

Tata Consulting, Infosys, Wipro, LTIMindtree, HCL Technologies



	EBIT margin	Return on capital	Debt/capital	10 years earnings CAGR	EV/EBIT
Indian IT Services	20.76	19.78	9.58	21.36	18.04
Accenture	14.61	37.48	4.94	8.83	15.49
Capgemini	9.39	7.9	34.83	13.31	12.51
Cognizant	24.31	15.13	11.52	24.31	15.23

Aligned Stars (Quality, Growth, Value)

- India is the global market leader in the IT services industry due to its educated workforce combined with lower labour costs
- Given more than 90% of its revenue comes from foreign clients, the Indian IT service companies benefit from a local currency depreciation
- Accenture (**18.3% CAGR**), marginally outperformed the five Indian IT services companies (**17.81% CAGR**) during the 15 year period, **highlighting the threat of foreign competition**

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The Jenga Country Screening Index

Our proprietary screening tool that supports research allocation across Emerging Markets

Country	Listed co's	Profit margin	Profitability	Debt level	Earnings growth	Multiples	Jenga Country Index
Kazakhstan	13	92.3%	76.9%	38.5%	76.9%	92.3%	80.8%
Egypt	89	88.8%	85.4%	31.5%	73.0%	78.6%	76.1%
Pakistan	118	66.1%	68.6%	39.0%	67.0%	80.5%	67.6%
Brazil	259	69.5%	51.0%	21.2%	54.8%	77.2%	60.2%
Mexico	99	66.7%	50.5%	19.2%	62.6%	62.6%	57.5%
South Africa	159	59.8%	52.8%	33.3%	50.3%	73.0%	57.0%
Philippines	153	81.1%	40.5%	30.1%	43.1%	66.0%	56.6%
Hungary	25	52.0%	56.0%	16.0%	60.0%	64.0%	54.0%
Poland	182	49.5%	53.3%	47.8%	51.1%	59.9%	52.9%
Argentina	52	61.5%	55.8%	50.0%	53.8%	40.4%	52.8%
Bangladesh	98	75.5%	44.9%	20.4%	38.8%	61.2%	52.7%
Turkey	429	64.8%	57.6%	53.6%	37.3%	49.7%	51.9%
Malaysia	522	62.1%	30.8%	51.2%	39.9%	47.3%	47.1%
Thailand	504	62.5%	36.1%	43.1%	37.1%	45.2%	45.9%
Indonesia	459	61.9%	35.1%	40.1%	35.9%	46.6%	45.4%
India	1,926	60.3%	47.3%	48.8%	52.9%	11.6%	43.2%
Vietnam	249	52.6%	38.6%	29.7%	40.6%	41.8%	42.5%
South Korea	1,672	30.6%	20.9%	50.1%	37.4%	45.0%	36.4%
Saudi Arabia	289	61.9%	41.2%	41.9%	26.3%	15.2%	36.2%
China	6,436	39.1%	17.1%	53.2%	24.4%	19.5%	28.6%

Criteria for the Jenga Country Index

- Listed companies: >\$50 million market cap
- Profit margin: >10% EBIT margin or >8% PAT margin
- Profitability: >8% ROC or >12% ROE
- Debt level: <25% debt/capital
- Earnings growth: >8% 5-year earnings CAGR
- Multiples: <10x EV/EBIT or <12x P/E ratio
- Jenga Country Index: 50% Quality, 25% Growth, 25% Value

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Kazakhstan In Focus



Metrics	Kazakhstan
GDP per capita	\$13,137
GDP growth rate (10 yr)	3.14%
Population	20,225,000
HDI	0.802
HDI growth rate (10 yr)	0.38%
Healthcare Index	0.601
Education Index	0.82
Unemployment rate	4.78%
Credit rating	BBB-
Government debt/GDP	24.20%
Foreign reserve per capita	\$1,706

5 Key Facts

- 13 listed companies with >\$50 million (4 on the MSCI)
- One of the most profitable banking sectors globally
- 121% (17.2% CAGR) total market return in past 5 years (USD)
- 5 IPO's over the past 3 years, recent rise in listings
- Depressed valuations due to the Russia - Ukraine war

The Kazakhstan Playbook

Focus on the financial services sector



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Egypt In Focus



Metrics	Egypt
GDP per capita	\$3,513
GDP growth rate (10 yr)	4.29%
Population	105,914,000
HDI	0.728
HDI growth rate (10 yr)	0.73%
Healthcare Index	0.475
Education Index	0.69
Unemployment rate	7.07%
Credit rating	B-
Government debt/GDP	96.40%
Foreign reserve per capita	\$333

5 Key Facts

- 89 listed companies with >\$50 million but only 4 >\$2billion
- Egyptian Pound has depreciated by 2/3rds over the past 5 years
- 67% (60 of 89 companies) are valued below 8x earnings
- Egyptian companies on average have a conservative balance sheet, 25% have a debt/capital below <10%
- Its index is dominated by SOEs or recently privatised companies

The Egyptian Playbook

Focus on cheap export oriented companies



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China in Focus



Metrics	China
GDP per capita	\$12,614
GDP growth rate (10 yr)	6.15%
Population	1,409,670,000
HDI	0.788
HDI growth rate (10 yr)	1.02%
Healthcare Index	0.683
Education Index	0.69
Unemployment rate	5.10%
Credit rating	A+
Government debt/GDP	88.60%
Foreign reserve per capita	\$2,353

5 Key Facts

- China has the largest number of listed companies in the world
- Only 31% of its listed companies achieve a ROE/ROC >8%
- Largely dominated by SOEs in sectors like energy, banking
- The median Chinese company earns an EBIT margin of 4.9% versus 8.3% in the US (one of the lowest globally)
- The median Chinese company is valued at 19.7x P/E

The China Playbook

Growing market leaders in oligopolistic industries



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Saudi Arabia in Focus



Metrics	Saudi Arabia
GDP per capita	\$28,895
GDP growth rate (10 yr)	2.38%
Population	32,175,224
HDI	0.875
HDI growth rate (10 yr)	0.70%
Healthcare Index	0.611
Education Index	0.8
Unemployment rate	4.80%
Credit rating	A+
Government debt/GDP	27.50%
Foreign reserve per capita	\$14,148

5 Key Facts

- 26% (75/289) of Saudi companies IPO'd over the past 5 years
- The median Saudi company is valued at 21x earnings
- Unlike most EM countries, the FX risk in Saudi is limited
- The median Saudi company with sell-side coverage is expected to grow earnings by 16.5% over next 2 years
- Largest stock market in MENA with \$2.8 trillion market cap

The Saudi Playbook

Companies benefitting from a modernising economy



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Summary of EM Investing learnings

- 1 Focus on Geographical, cultural, market structure and technical advantages
- 2 Look beyond large caps and SOEs
- 3 Don't neglect the macro picture and FX impact
- 4 Learn from the strategies of successful EM investors

Question & Answers

Thank you

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