PANGOLIN INVESTMENT MANAGEMENT

Pangolin Asia Fund October 2024 NAV

As at the 31st October 2024, the NAV of the Class A shares of the Pangolin Asia Fund was US$605.10 net of all fees and expenses, down 4.42% from US$633.08 in September.

As of today, the fund is about 98% invested, with the split being approximately as follows:

Singapore	7%
Malaysia	32%
Indonesia	59%
Philippines	2%

We don't like to disclose our names, but some details are always available to investors (and those wishing to become investors) on request.

Overview

To put things into some perspective, please see the tables below.

Return (in local currencies, except MSCI)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia x JP	MSCI-ASEAN	PAF
Oct-24	-1.34%	-0.99%	-0.52%	0.61%	-2.85%	-0.74%	-4.51%	-4.80%	-4.42%
YTD 2024	10.81%	19.62%	20.54%	4.14%	10.12%	9.83%	13.48%	9.36%	3.14%

Return (in USD)									
Period	DOW	S&P 500	NASDAQ	JSE	KLSE	STI	MSCI Asia x JP	MSCI-ASEAN	PAF
Oct-24	-1.34%	-0.99%	-0.52%	-2.96%	-8.50%	-3.35%	-4.51%	-4.80%	-4.42%
YTD 2024	10.81%	19.62%	20.54%	2.16%	15.55%	9.87%	13.48%	9.36%	3.14%

% Change in Currency Vs USD			
Period	MYR	SGD	IDR
Oct-24	-5.81%	-2.64%	-3.55%
YTD 2024	4.93%	0.04%	-1.90%

As you can see from the table above, there's been a reversal of the mid-year's earlier bullishness surrounding our currencies against the US Dollar. At its weakest this year, the Malaysian Ringgit was at 4.78/USD before rallying to 4.12. Today's rate is 4.42, a fall of almost 7% from its high. This has shaken out many of those who bought purely as an FX play.

On a positive note, most of the fund's companies have reported good third-quarter results. This positive performance reflects a resurgence in consumer purchasing power, bolstered by easing inflation. The primary driver behind this inflation slowdown has been a stabilisation in food prices, which still represent a significant portion of household budgets.

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Metrodata Electronics

Last year, we wrote a case study on our largest holding, Metrodata (see letter). The Pangolin Asia Fund owns 6.33% of Metrodata and we have been a shareholder for over a decade. As the IT market grows, the business transforms from being one of purely selling hardware into one in which the provision of add-on services (solutions) becomes highly profitable. This is exactly what is occurring with Metrodata and something we thought worthwhile highlighting again.

Metrodata stands out as Indonesia's largest IT product distribution and solution company, commanding approximately 25% of the market share in distribution and around 10% in the solution and consulting sector. The company is evolving from being a purely hardware-centric business to one that emphasises IT solutions. While the distribution currently accounts for 76% of revenue, it only contributes 45% to the net profit. The crown jewel is the solutions business, with over 50% of its revenue coming from recurring sources. As well as growing faster, it also delivers a significantly higher profit margin than distribution.

"Solutions" refer to a range of tailored IT services and products designed to meet the specific needs of businesses in various sectors. These include managed services, digital business platforms, cybersecurity, cloud solutions and artificial intelligence (AI). For instance, Metrodata plays a crucial role in integrating a bank's core banking system with its digital application, enhancing functionality and customer experience.

The potential for the hardware segment remains enormous, with only 7% of the population owning a laptop, compared to 69% in Malaysia. In addition, it is the rise of AI that will spark a substantial replacement cycle in this market. AI currently contributes around 7% to Metrodata's core solutions order book and the company sees significant growth potential in this area. Notably, cloud revenue grew 43% year-on-year in the first nine months this year.
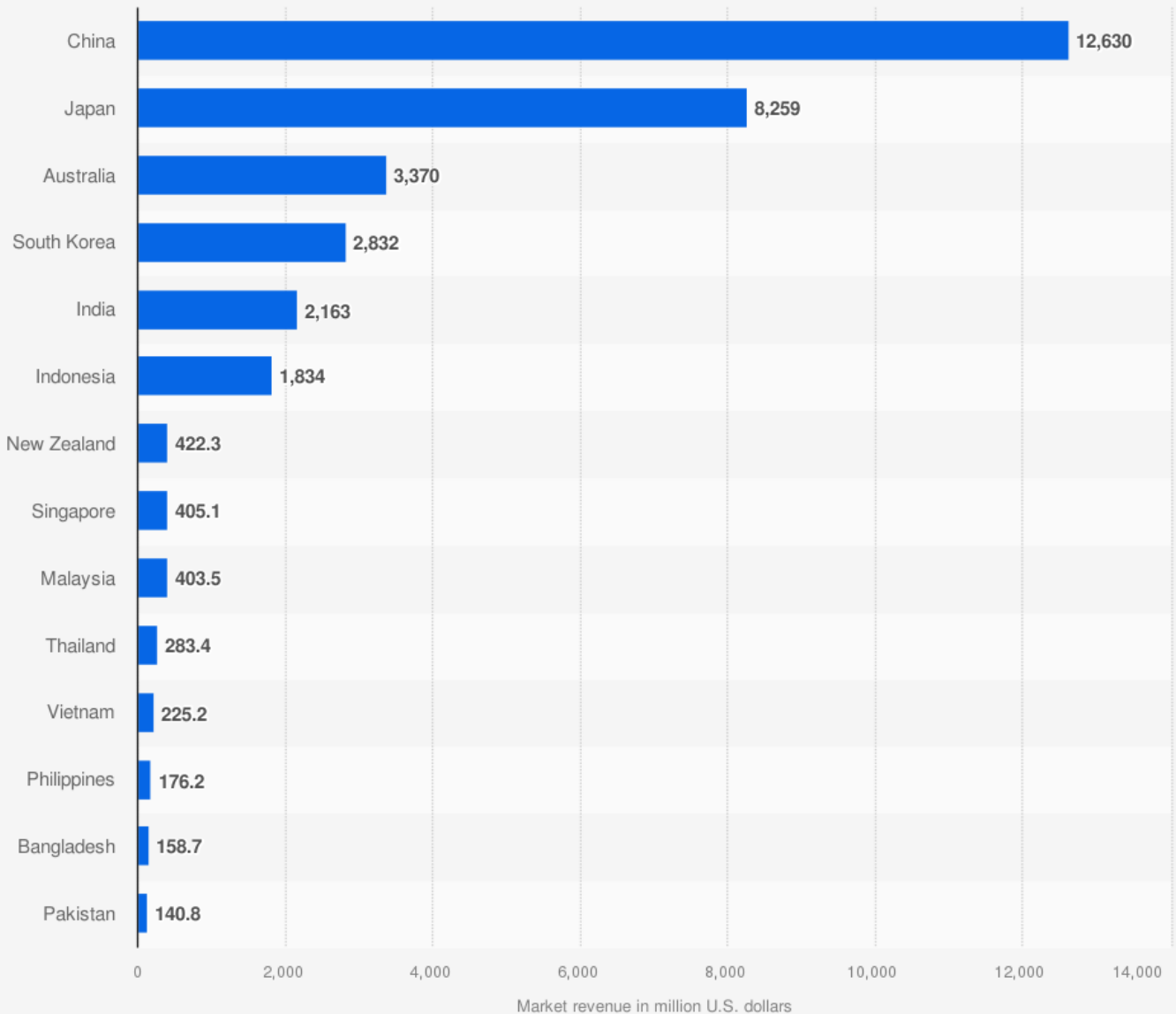
Indonesia has faced a significant number of cyberattacks in recent years, prompting the nation to establish a robust cybersecurity infrastructure. In July 2023, the passport records of approximately 34 million Indonesian citizens were stolen from the Indonesian Immigration Directorate General, exposing citizens to scams and identity theft. In May 2023, LockBit ransomware claimed to have stolen 1.5 terabytes of data from Bank Syariah Indonesia. Earlier incidents include a data breach in May 2021 involving the National Health Care and Social Security Agency (BPJS), which compromised the personal and financial information of 279 million citizens.

Consequently, the high frequency of attacks, particularly those targeting large financial institutions, underscores the urgent need for robust cybersecurity solutions. The cybersecurity market in Indonesia is currently experiencing explosive growth. According to Statista, the cybersecurity market's revenue is expected to hit USD2.39 billion in 2024, with an annualised growth rate of 10.40%, potentially reaching USD3.92 billion by 2029.

As Indonesia is rapidly emerging as one of the fastest-growing digital economies in Southeast Asia, there is an urgent need to address the cybersecurity threats. Companies like Metrodata that can offer innovative, comprehensive, and cost-effective cybersecurity solutions are well-positioned to capitalise on this burgeoning market.

Largest cybersecurity markets in the Asia-Pacific region in 2022, by revenue (in million U.S. dollars)

Country	Market revenue in million U.S. dollars
China	12,630
Japan	8,259
Australia	3,370
South Korea	2,832
India	2,163
Indonesia	1,834
New Zealand	422.3
Singapore	405.1
Malaysia	403.5
Thailand	283.4
Vietnam	225.2
Philippines	176.2
Bangladesh	158.7
Pakistan	140.8

Market revenue in million U.S. dollars

Sources
Statista; Statista Technology Market Insights
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Additional Information:
Asia; APAC; Statista Technology Market Insights; as of March 2023

statista

Recently, Metrodata has established a 60:40 joint venture (JV) with FPT, Vietnam's largest IT company, to conduct business in Indonesia. In the initial phase, the JV will focus on the development of cybersecurity services, with plans to expand into AI services, cloud GPU services, and software development. This strategic partnership aims to position Metrodata as a leader in providing cybersecurity-as-a-service and driving AI transformation within Indonesia. The ambitious target is to achieve a business run rate of USD100 million within the next five years, with an impressive net profit margin goal of 10-12%. This target is notably higher than Metrodata's current net profit margin of 3%.
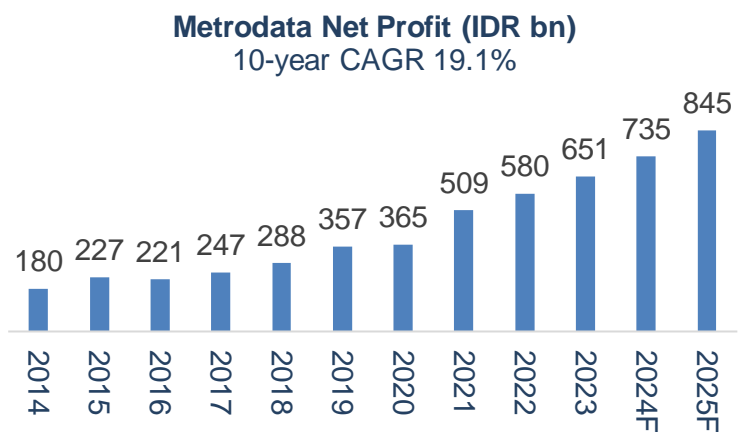
For the first nine months of 2024, Metrodata's revenue has increased by 14% year-on-year, while net profit has risen by 13%. Currently, we can only find research from one (local) broker on Metrodata. The reason for the lack of coverage is that the company's market capitalisation is only around USD500 million, and the average daily market turnover is USD200,000.

In our view, the correct PE for Metrodata is closer to 20x. When this happens, the company's market cap will exceed USD1 billion and many brokers will cover it. Most funds have a limit to the size of company they can buy, or a limit based on average daily market turnover. Most brokers' research departments are similarly constrained.

This gives a clear advantage to the unconstrained investor, but only if the in-house research and decision-making are correct far more often than not.

Metrodata Valuation

	2024F	2025F
Revenue (IDR bn)	24,958	27,703
Net Profit (IDR bn)	735	845
EPS (IDR)	60	69
DPS (IDR)	22.2	24.6
Profit growth (%)	13.0	15.0
P/E Ratio (x)	10.6	9.2
Net cash to market cap (x)	0.14	0.14
Dividend yield (%)	3.8	4.5
ROE (%)	19.9	20.2
ROIC (%)	27.1	27.2

Metrodata Net Profit (IDR bn)
10-year CAGR 19.1%

Year	Net Profit
2014	180
2015	227
2016	221
2017	247
2018	288
2019	357
2020	365
2021	509
2022	580
2023	651
2024F	735
2025F	845

Outlook

In the short term, the direction of the US currency affects our markets. Over a longer period, a strong USD benefits these exporting economies. Despite the recent retreat of the currency players, we are seeing strong interest in our fund from those who can take a longer-term view.

I've just returned from seeing investors in America, where the risk of not being invested domestically outweighs almost anything else. The US remains a hard sell, which is unsurprising considering that the S&P is up 19% this year. Despite this, we are getting requests for meetings in Singapore from US managers who are visiting ASEAN, presumably attracted by the valuations. American institutionally managed money has close to zero exposure to ASEAN and, if at all, it is via pan-Asian funds which are predominantly invested in China and India. It would appear that the region is back on their radar screens again.

Meanwhile, we've been seeing inflows from those investing their own or their family's money, such as Single-Family Offices (from both the US and Europe). These investors, who are not constrained by benchmarks, are able to take a longer-term perspective, based on the region's fundamental undervaluation.

New Share Class

We are issuing a new share class at the request of an incoming investor. These will be Class C shares. The fees will be identical to the Class A shares, but they will have a three-year hard lock up, after which they will convert to Class A shares on a FIFO basis.

There is no difference at all to the existing Class A shares nor to the rights of the Class A shareholders. The Class A shares remain open for subscription.

It is conceivable that, at some future point, we might steer new money into the Class C shares, rather than closing the fund. But that is a bridge we are a long way from as of now.

James, Irvan and Vinchel
7th November 2024

Pangolin Asia Fund weighted valuation (31st October 2024)

	2024F	2025F
P/E (x)	10.5	9.4
ROE (%)	18	18
ROIC (%)	24	25
Div Yield (%)	5.1	5.6

GDP Forecasts (%)	2024F	2025F
Malaysia	5.2	5.3
Singapore	2.6	3.2
Indonesia	5.2	5.3
Philippines	6.0	6.5

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P/E of Pangolin Asia Fund (x)

Dividend Yield of Pangolin Asia Fund (%)
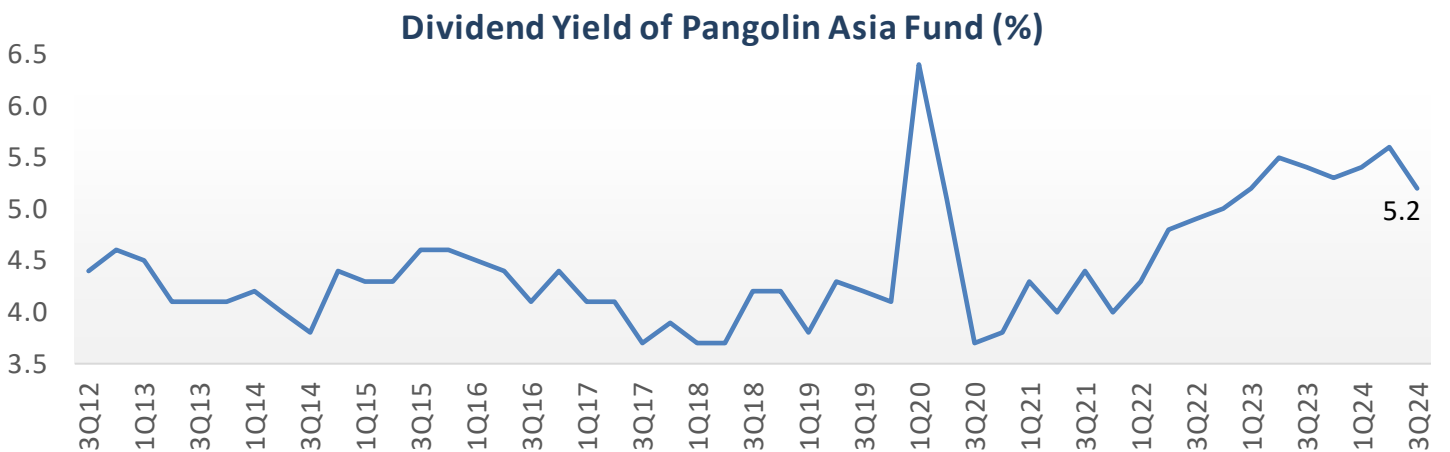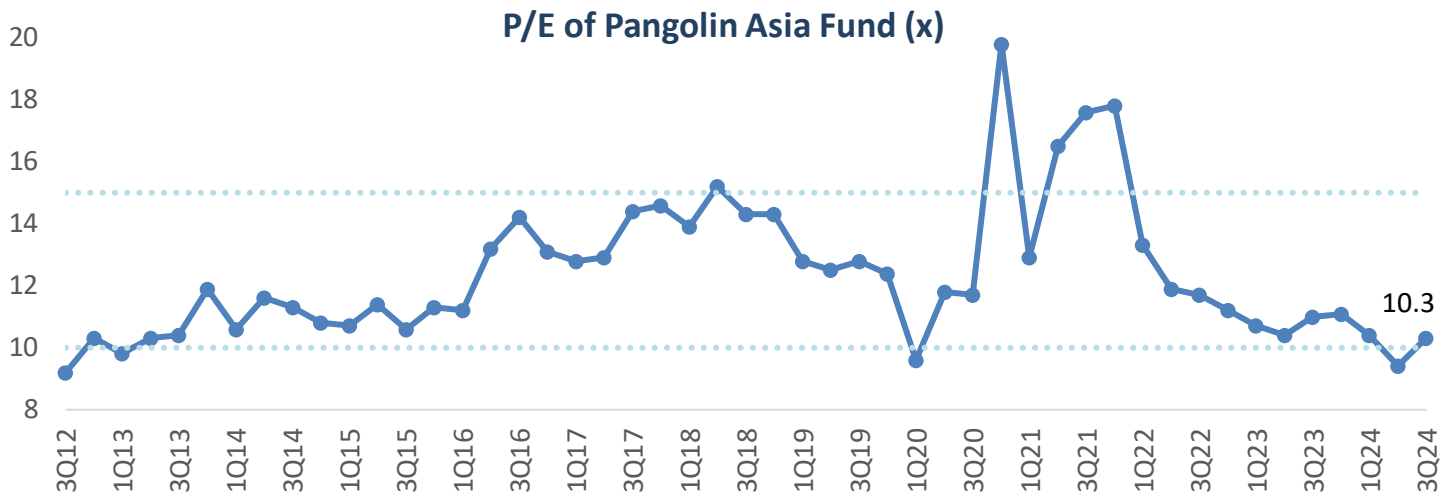
Nineteen years track record and annualised return of 9.46%

PAF vs. MSCI South East Asia
Lifetime Alpha (vs. MSCI ASEAN): 6.2%
Alpha since Apr 2013 (vs. MSCI ASEAN): 6.9%

605.10

MSCI ASEAN CAGR since Apr 2013 peak: -2.68%.
Total Return: -26.79%

188.91

—— PAF   —— ASEAN

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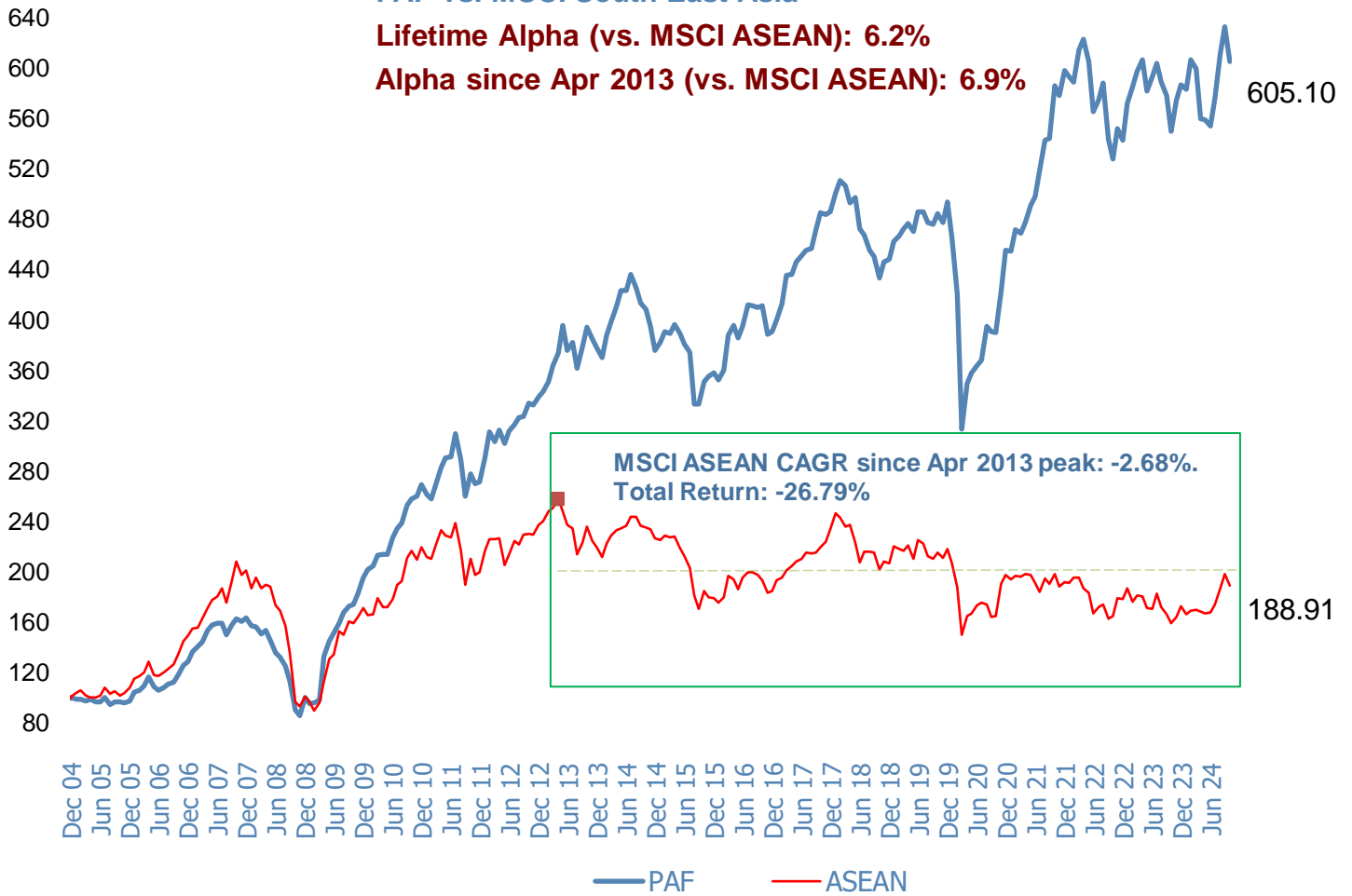
Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	NAV	583.20	606.55	599.94	560.25	558.96	554.34	576.15	611.53	633.08	605.10			3.14%
	% chg	-0.59%	4.00%	-1.09%	-6.62%	-0.23%	-0.83%	3.93%	6.14%	3.52%	-4.42%			
2023	NAV	571.92	585.67	597.55	606.77	581.95	593.00	604.19	589.30	578.62	549.65	574.87	586.68	8.00%
	% chg	5.28%	2.40%	2.03%	1.54%	-4.09%	1.90%	1.89%	-2.46%	-1.81%	-5.01%	4.59%	2.05%	
2022	NAV	593.29	588.82	614.73	622.83	605.35	565.54	574.94	588.17	543.35	527.78	552.46	543.22	-9.23%
	% chg	-0.86%	-0.75%	4.40%	1.32%	-2.81%	-6.58%	1.66%	2.30%	-7.62%	-2.87%	4.68%	-1.67%	
2021	NAV	454.64	471.89	469.26	477.70	491.07	497.99	518.78	542.88	544.24	585.87	578.32	598.45	31.44%
	% chg	-0.15%	3.79%	-0.56%	1.80%	2.80%	1.41%	4.17%	4.65%	0.25%	7.65%	-1.29%	3.48%	
2020	NAV	465.73	420.43	313.82	349.63	358.55	364.26	367.99	394.82	391.21	390.47	422.87	455.32	-7.80%
	% chg	-5.69%	-9.73%	-25.36%	11.41%	2.55%	1.59%	1.02%	7.29%	-0.91%	-0.19%	8.30%	7.67%	
2019	NAV	462.51	467.10	472.67	477.00	470.36	485.78	486.12	477.67	475.87	484.37	477.85	493.85	10.21%
	% chg	3.21%	0.99%	1.19%	0.92%	-1.39%	3.28%	0.07%	-1.74%	-0.38%	1.79%	-1.35%	3.35%	
2018	NAV	501.11	510.62	506.32	493.22	497.19	472.82	467.29	455.31	450.29	433.40	446.46	448.11	-7.76%
	% chg	3.15%	1.90%	-0.84%	-2.59%	0.80%	-4.90%	-1.17%	-2.56%	-1.10%	-3.75%	3.01%	0.37%	
2017	NAV	400.08	412.81	435.93	436.54	446.18	451.43	455.76	457.12	472.10	485.61	483.86	485.79	24.18%
	% chg	2.27%	3.18%	5.60%	0.14%	2.21%	1.18%	0.96%	0.30%	3.28%	2.86%	-0.36%	0.40%	
2016	NAV	352.31	360.43	387.79	396.17	386.04	395.41	412.53	411.2	410.02	411.25	388.48	391.19	9.16%
	% chg	-1.69%	2.30%	7.59%	2.16%	-2.56%	2.43%	4.33%	-0.32%	-0.29%	0.30%	-5.54%	0.70%	
2015	NAV	382.31	391.18	389.48	396.82	389.67	380.77	374.61	333.73	333.52	350.84	355.19	358.38	-4.76%
	% chg	1.60%	2.32%	-0.43%	1.88%	-1.80%	-2.28%	-1.62%	-10.91%	-0.06%	5.19%	1.24%	0.90%	
2014	NAV	370.08	388.25	398.79	410.89	423.38	423.84	436.37	425.85	413.36	408.97	395.23	376.28	-0.52%
	% chg	-2.16%	4.91%	2.71%	3.03%	3.04%	0.11%	2.96%	-2.41%	-2.93%	-1.06%	-3.36%	-4.79%	
2013	NAV	343.47	350.86	364.04	374.14	395.94	375.98	382.69	361.54	378.56	394.53	384.87	378.24	11.48%
	% chg	1.23%	2.15%	3.76%	2.77%	5.83%	-5.04%	1.78%	-5.53%	4.71%	4.22%	-2.45%	-1.72%	
2012	NAV	290.78	311.15	303.35	313.01	301.88	312.18	316.87	323.01	323.75	334.08	332.63	339.29	24.85%
	% chg	7.00%	7.01%	-2.51%	3.18%	-3.56%	3.41%	1.50%	1.94%	0.23%	3.19%	-0.43%	2.00%	
2011	NAV	261.86	258.03	271.83	283.00	290.51	291.75	310.23	289.05	260.46	278.31	269.95	271.75	0.85%
	% chg	-2.82%	-1.46%	5.35%	4.11%	2.65%	0.43%	6.33%	-6.83%	-9.89%	6.85%	-3.00%	0.67%	
2010	NAV	201.91	205.09	213.68	227.44	213.93	227.45	234.62	238.78	253.28	258.37	260.53	269.47	37.58%
	% chg	3.08%	1.57%	4.19%	6.44%	-5.94%	6.32%	3.15%	1.77%	6.07%	2.01%	0.84%	3.43%	
2009	NAV	95.67	96.38	98.12	133.22	145.25	151.32	159.71	167.99	173.21	174.49	182.60	195.87	95.34%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%	5.54%	5.18%	3.11%	0.74%	4.65%	7.27%	
2008	NAV	157.49	156.55	150.63	154.03	146.18	136.23	132.58	125.09	113.55	90.36	85.98	100.27	-38.81%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%	-2.68%	-5.65%	-9.23%	-20.42%	-4.85%	16.62%	
2007	NAV	136.43	140.75	144.17	153.68	157.90	159.36	159.56	150.23	158.13	163.17	160.72	163.86	27.19%
	% chg	5.90%	3.17%	2.43%	6.60%	2.75%	0.92%	0.13%	-5.85%	5.26%	3.19%	-1.50%	1.95%	
2006	NAV	104.53	106.09	109.42	116.62	108.82	106.34	107.96	110.76	112.41	117.94	125.81	128.83	31.74%
	% chg	6.89%	1.49%	3.14%	6.58%	-6.69%	-2.28%	1.52%	2.59%	1.49%	4.92%	6.67%	2.40%	
2005	NAV	99.24	99.37	97.77	98.86	96.77	97.05	100.14	94.90	96.99	97.05	96.14	97.79	-2.57%
	% chg	-1.13%	0.13%	-1.61%	1.11%	-2.11%	0.29%	3.18%	-5.23%	2.20%	0.06%	-0.94%	1.72%	

Best monthly return	**35.77%**
Worst monthly return	**-25.36%**
Maximum drawdown	**-47.53%**
% of positive months	**63.60%**
Annualised return	**9.46%**

By Sector

Pie chart legend:
- C. Discretionery — 42%
- Healthcare — 9%
- Financials — 22%
- Real Estate — 13%
- Others — 12%

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