

Pheim's Tan, Southeast Asia's Small-Cap 'King,' Bets on Vietnam **2006-08-09 12:18 (New York)**

By Chen Shiyin

Aug. 10 (Bloomberg) -- Tan Chong Koay led his Pheim Asean Emerging Companies Growth Fund to the top position in its category this year by investing in small and mid-sized Southeast Asian companies. He's planning to tap Vietnam, the region's fastest growing stock market, to keep beating his peers.

Tan said he looks for growing companies like Malaysia's Green Packet Bhd. that are cheap relative to earnings, have low debt and have been in the same industry for at least 10 years. They usually have market values of \$150 million to \$250 million.

Local newspapers call him "King of the Second Board," referring to sections for small companies on regional exchanges.

"We're very comfortable within Southeast Asia, where growth is still higher than in the U.S. or Europe," said Tan, 56, who oversees \$700 million in Singapore. "The key to investing in this region is to find undervalued stocks that can benefit from the growth."

Tan's fund has surged 29 percent this year, the best performer among 13 funds that invest in the Association of Southeast Asian Nations markets, according to data tracked by Bloomberg. The FTSE All World Asean Index, the fund's benchmark, gained 12 percent, as a slump in global stock markets during May and June pared its 2006 rally.

Tan's investments have benefited from sustained growth within the region. Southeast Asian economies may expand by as much as 5.5 percent this year, boosted by demand for electronics and other exports, the Asian Development Bank forecast in April. Vietnam is expected to grow 7.8 percent this year, the fastest in the region.

Southeast Asia

Tan and his team of 10 fund managers meet with managers of about 30 companies a week in a search for what he calls undervalued growth stocks.

"Investors sitting in London, Japan or Hong Kong may not know the ground as well," Tan said. "Small caps behave a bit differently from larger companies and that's where we can provide knowledge and add value."

About 10 percent of Pheim's business is from retail customers, while the remainder is managed for clients such as Malaysia's Employee Provident Fund, the Government of Singapore Investment Corp. and Aizawa Securities Co. in Tokyo. Pheim bought shares of Green Packet, a Kuala Lumpur-based provider of wireless network services, at around 80 sen (21.8 cents) apiece. The shares have jumped 76 percent to 3.60 ringgit this year, compared with a 4.6 percent gain in the Kuala Lumpur Composite Index. Green Packet was the top holding in the Southeast Asian fund as of June 30.

“If you're able to buy at three times price-earnings, your chances of doubling or tripling your return are very good,” Tan said. “The key is to identify companies that can grow.”

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Other stocks among the fund's top holdings have also outperformed benchmarks. Singapore-based Inter-Roller Engineering Ltd., a designer of baggage-handling systems for airports, has jumped 49 percent this year, while China Sky Chemical Fibre Co., a maker of chemical fibers that's also listed in Singapore, gained 89 percent during the period. All three companies have market values of less than \$500 million.

Inter-Roller trades at 17 times earnings, having climbed 50 percent from January. The shares of Quanzhou, China-based China Sky Chemical Fibre are valued at 11 times, doubling from its valuation at the start of the year.

Tan was born in Kedah, Malaysia. He earned a master's degree in business administration from Western Illinois University in 1974. He set up Pheim, a made-up word which he jokingly said means Please Help Everyone Invest Money, in 1994. He maintains offices in Singapore and Malaysia.

Track Record

Tan got his first job in 1976 at Malaysia's South East Asia Development Corp., which owned the first unit trust company in the country. He also headed investment divisions at Arab-Malaysian Merchant Bank, DG Bank-GZB (Asia) Ltd. and John Govett (Asia) Pte. before starting his own company.

During the 1997 and 1998 Asian Financial Crisis, Tan slashed costs at Pheim, including his own salary, and made his twice-weekly visits to Malaysia by bus. The firm managed to surpass the region's benchmark indexes, which lost more than half their values, by selling out early and holding a higher percentage of cash, Tan said.

“Southeast Asia had been wrongly written off a few years ago,” said Peter Hames, the Singapore-based director of Asian equities at Aberdeen Asset Management Asia Ltd., which manages \$20 billion in assets. “You've got lots of companies with a long track record.”

Risky Business

Tan warns that shares of small and mid-sized companies are riskier investments during stock-market slumps because they aren't as widely traded as larger companies.

Malaysia's Second Board Index of smaller companies has dropped 14 percent since May 8, five times the slide in the Kuala Lumpur Composite. Similarly, the Singapore UOB Sesdaq Index, which tracks companies on the second section of the exchange, has lost 9.1 percent since May, compared with a 5.6 percent decline in the benchmark Straits Times Index.

“Turnover is important because you need to implement and exit a position,” said Peter Chiang, who helps to oversee \$8 billion at DBS Asset Management Ltd. in Singapore as senior portfolio manager and chief equity strategist. “When investing in small caps, you'd better do your homework.”

Tan's research on Vietnam sparked plans for a fund there in October to tap growing demand for equities in the nation that adopted market-based policies only in 1986. He visited Japan last week to speak to institutional investors about the market and said interest was "strong."

Merrill Lynch & Co. rated Vietnamese shares a "10-year buy" in February as an improving economy spurs consumer spending and new share sales help draw investor interest.

'Top in Southeast Asia'

"Vietnam's economic growth is top in Southeast Asia," Tan said. "Its capital market is being liberalized, it has a huge population and it's set to become a competitor as a manufacturing hub."

The shares of Materials-Petroleum Joint Stock Co., an operator of gasoline stations, debuted on Aug. 7, joining 45 other companies on the six-year-old stock exchange. Materials-Petroleum's debut helped to increase the value of the market to \$2.83 billion, the smallest among the 15 in Asia tracked by Bloomberg.

Prospects for economic growth and the development of Vietnam's equity market help to reinforce Tan's optimism over the outlook for Southeast Asia.

"The region still offers a lot of resources and companies with potential," Tan said. "We can still find opportunities within Asean."

Story illustration: For more information on the fund, click on [{ASEMCGF VI <Equity> DES <GO>}](#). [{FTR1ASEA <Index> GPO D <GO>}](#) shows the performance of the FTSE All World Series Asean Index. For the best and worst performing markets, [{WEIS <GO>}](#). Click on [{TOP STK <GO>}](#) to see Bloomberg's top stories on stocks and stock markets.

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