Pheim: A Revival In Value Investing / MPI's Mid-Year Awakening/ Dissecting Property Prices

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Pheim: Revival of Value Investing

Backed by 8 years of strong outperformance, Pheim Unit Trusts Bhd spearheaded by Dr Tan Chong Koay is making a comeback on value and small to medium cap stocks with the launch of three new funds. Dr Tan talks to Smart Investor.

By Long Shih Rome

After many years of building a solid track record in fund management in Malaysian and Singapore, Pheim Unit Trusts Bhd's (PUTB) launch of three unit trusts on January 28th could mark a new return to value and small to medium cap investing.

Clearly, retail investors who have occasionally made money on Second Board stocks in the past won't be able to match the record of Pheim's performance. Heading the investment team of Pheim is Dr Tan Chong Koay, Chief Executive of Pheim Asset Management (PAM) Sdn Bhd, a contrarian investor who is well known for spotting trends in undervalued and Second Board stocks.

PAM's record speaks for itself: PAM has outperformed the benchmark for all Malaysia mandate accounts combined for the last eight consecutive years, while Pheim Asset Management (Asia) Pte Ltd in Singapore has outperformed the regional benchmark for the last seven consecutive years. Managing close to RM1.2bn of assets comprising largely of institutions and some high net worth individuals in Malaysia and Singapore, Pheim has taken the step to enter the competitive local unit trust industry.

Could investors hope to enjoy strong performance from Pheim's three new funds – namely Pheim Emerging Companies Balanced Fund, Dana Makmur Pheim and Pheim Income Fund? To find out, *Smart Investor* interviewed Dr Tan on his views on value and small to medium cap stocks, the tech sector and his uncanny sense of timing.

The Second Board Sage

Investment sage Dr Tan reminisces: "Looking at Malaysia, the last Second Board rally that ran very fiercely was in the first quarter of 1997. That was the highest. In 1998, Bloomberg gave us the name King of Second Board; that was basically because in 1995, we went heavily on Second Board stocks. At that time, selective Second Board stocks were selling at PEs that were half the main board's PEs."

But what were the qualities that attracted his interest in small cap stocks back then? Dr Tan remarks: "There were a few who were very focused, who have been in the same line for 20-30 years and were growing. Some of them, at that moment, had relatively very low gearing. So if you are a value investor, you will invest. Interestingly, by end of 1996, we were about 98% out of the market and we did not go back. It appeared that we sold too early, but with Second Board stocks, you always need to sell early. Many of the shares were near their highest points by the fourth quarter (of 1996)."

"Patience and the ability to sense the major trend helps. It is interesting to note we sold many of the Second Board shares at profit of more than 200%. The most exciting and rewarding was, if I can recall clearly, when we held one warrant which we inherited at RM0.64 and sold at more than RM31.00, a return of more than 45 times the original cost of investment. One of two clients still have Dialog shares at the cost of RM0.71/share, when the market price is close to RM6.00/share."

Since then, Dr Tan has not focused on the Second Board until last year. He notes that some small to medium capcompanies in Singapore and in Hong Kong are beginning to gain interest. In fact, one of the companies Pheim Asset Management Pte Ltd is bullish on is called Hyflux Ltd, based in Singapore. Last year, HyFlux (a water treatment company) outperformed the Sesdaq Index by a big margin with a return of close to 200%. At one time, Pheim Asset Management (Asia) Pte Ltd had acquired about 7.2% of the company.

"The problem with smaller companies is very simple: you must be able to collect them cheap and early or else you really need to wait."
Dr Tan Chong Koay

Ever the fundamentalist, Dr Tan says: "If you are a value investor, you buy shares at a discount especially during depressed market condition. We have been saying the same story in Malaysia: we have been buying WCT and Uchi Tech. If you look at their performance last year, they are outstanding. To me, Uchi Tech is one of the best Second Board companies. It meets all our investment criteria (it produces control device for washing machines and coffee makers).

Dr Tan reckons that in a time of economic slump, even good companies underperform. He cites Maybank: "You can see in 1998 Maybank's price. Maybank was trading below RM4 a share cum bonus. That was the time to buy. In that kind of crisis, you would be better off buying the big cap stocks first. Arab Malaysian Finance was doing over 60 sen before rising to the current levels."

Astute Timing in Tech

Dr Tan attributes Pheim's success to two strengths: market timing and stock selection. On timing, Dr Tan explains how PAM sold out 90% of tech stock holdings in March / April 2000 at the height of the tech bubble in Malaysia.

Only recently did PAM begin to pick up some tech stocks. Dr Tan believes there is a recovery in electronics. He points out that certain sectors had done quite well in the fourth quarter, beating expectations: "Now, people are worried that the first quarter of this year may not be as good as the fourth quarter of last year. If you look at the tech stocks in Korea and Taiwan, many of them have risen more than 50% from the lowest point in the last two months (November and December)."

He reckons that every bull run has a "hero" and though it is risky to be exposed to a popular sector because of one winner, owning the winner could make a huge a difference to a fund's performance. He cites Unisem in 1999 as an example. PAM had subscribed to two million shares in Unisem at IPO and sold substantially in early 2000. It is a good feeling to sell some of the Unisem shares at above RM40/share.

On the current outlook for electronics, Dr Tan believes that many of the quarters may not beat the fourth quarter of 2001 but 2002 will still be better than 2001. However, he cautions that the market's expectations for 2002 could drive valuations beyond sensible values.

Suitability of Funds

It is interesting to note that all the three new funds are not aggressive equity funds. Dr Tan explains that retail investors would not be able to withstand the high risk of aggressive funds. As such, the Pheim Emerging Companies Balanced and the Dana Makmur Pheim funds are suitable for conservative investors while the Pheim Income Fund is for risk averse individuals.

On prospects of making money in bonds with the Pheim Income Fund, which has a 20% ceiling on equities, Dr Tan replies: "We sell our know-how on the equity side. Bond investments for us, is for hedging purposes and helps to stabilise our performance. We have a duty to give individual investors a return that is much higher than fixed deposits. People who come to us will come to us for our ability to invest wisely in equities."

Dr Tan thinks the Pheim Emerging Companies Balanced Fund (maximum 60% equities: 40% fixed income) is the ideal vehicle for hedging in both the equity and fixed income markets. He explains: "When fixed income (market) is bad, you can go into equities. When equities is very bad, you are also hedged. If you are careful, you give your funds to a fund manager who has a track record."

The third fund is the Dana Makmur Pheim which is another balanced fund managed according to Syariah principles of ethical investing. The fund can invest a maximum of 60% in equities and a minimum of 40% in fixed income assets.

Investors may switch among three of the funds for free once a year. Subsequent switches will be levied a 1% charge on the amount. The management fees of 1.5% compares favourably with the industry and combined with a 5% sales charge, the overall charges are not demanding given PAM's track record.

Last year, PAM managing RM678.8m of funds as at December 2001 - achieved an average return of 12.35%compared to the KLCI's performance of 2.42% - outperforming it by 9.93%. The largest account in Malaysia recorded a return of 15.81%, while the best performed account recorded a return of 28.7%, both outperforming the KLCI return by 13.39% and 26.3% respectively.

In Singapore, for all USD accounts combined with a fund size of USD104.21m, Pheim Asset Management (Asia) Pte Ltd achieved an average return of 16.7%, outperforming the MSCI Far East Free ex. Japan (-4.19%) by 20.89%. The largest USD account actually recorded a return of 19.9%, outperforming the index by 24.1%. For all SGD base accounts combined with a fund size of SGD43.06m, the Singapore office chalked up a 15.07% return, outperming the MSCI Far East Free ex. Japan of 1.95%, by 13.12%.