

Banking on Infrastructure

So long as high growth rates are sustained

SOME ASIAN COUNTRIES HAVE too much of a good thing called growth.

Overheating is hurting several Asian economies. Governments have many ways to cool down the system, but cutting infrastructure spending should not be among them. So believes Daniel Tseng, Singapore-based senior portfolio manager of Citibank Global Asset Management, which oversees the \$40-million, open-ended CitiAsia Infrastructure Fund. A business graduate from the University of Singapore, Tseng, 43, has been with Citibank for more than five years. Previously, he worked for Morgan Grenfell and for two Singapore banking groups. He spoke with Asiaweek's Steven K.C. Poh. Excerpts:

How does economic overheating affect infrastructure stocks?

It adversely affects stock markets in the short term, as the economy makes painful adjustments. However, if the overheating is controlled and managed well, high long-term growth is sustainable and strong stock market performance likely. Infrastructure spending should be increased to provide the additional capacity for future growth in business activity if high economic performance is to be sustained. In such a case, infrastructure stocks will gain from the increase in building projects.

Why should investors get specifically into Asian infrastructure?

Asia's economic boom has put a tremendous strain on existing infrastructure. If infrastructure is inadequate to cope with the surge in economic activity, it will prove an obstacle to further growth. There is already evidence of this trend: limited road infrastructure that cannot cope with the rise in traffic volumes; power outages reflecting the heavy demands put on power generation as higher economic activity requires heavier power consumption. Productivity suffers as a result of poor infrastructure. Foreign investors lose confidence, and become concerned over efficiency and costs. So we expect governments to spend large sums of money to build the necessary infrastructure. Expenditure on infrastructure also creates employment opportunities as well as indirect benefits for supporting industries. The business potential is enormous.

Has privatization of infrastructure gotten out of hand, as with telecommunications and highways in Malaysia?

In some cases, having too many players is counter-productive, as duplication results in misallocation of limited resources. In Malaysia, we perhaps see this problem in the telecoms industry. As for roads, the issue of duplication is not there unless the building of new roads is not well planned. [But] competition is healthy. As infrastructure development requires massive funding, spreading the job around is necessary.

How are earnings in infrastructure stocks looking?

We expect earnings growth to be higher than average. We could be looking at a sustainable 20% to 35% EPS growth. With some stocks, earnings have surpassed our expectations. Meanwhile, competition -- both internally and externally -- have [hurt] margins and volumes in certain companies.

What about the growth of the CitiAsia Infrastructure Fund?

We forecast a 20% annual return on the assets under management. Subscriptions should grow with the performance track record. Growth rates for subscriptions to the fund are difficult to forecast.

Where are you putting your money?

In Southeast Asia, we particularly like Malaysia for its infrastructure potential. We like Indonesia and the Philippines as well. In Thailand, we are concerned about the management of the overheating economy and the politics. The benchmark for the in-frastructure fund is the MSCI Combine Far East Ex-Japan Free. Against this benchmark weighting, and taking into account short-term tactical is-sues such as interest rates or politics, we have 20% in Malaysia, 13% in Singapore, 9% in Thailand, 6% in Indonesia and 5% in the Philippines.

Are you keen on the Bakun hydroelectric dam in Malaysia's Sarawak state?

Yes, the indirect benefits over the period of development of the Bakun project are attractive, such as equipment and material supplies. In the longer term, the supply of cheap power will ensure Malaysia maintains its competitive edge.

What are your Asian sectoral picks?

Depending on price and valuation levels, we like utility stocks, including telecoms and power companies. We also favor engineering companies and equipment suppliers. We like the blue chips linked to the index, as well as banks, building material suppliers, service providers for toll roads, even property developers, ports and transportation.

