

## RegionalNews

# New index to boost appeal of ASEAN

INTER-BLOC BOURSE AIMS TO PROVIDE GLOBAL INVESTORS WITH A DEEPER INSIGHT INTO PROSPECTS FOR REGIONAL COMPANIES

By **KARL WILSON** in Sydney  
karl.wilson@chinadailyapac.com

As the Association of Southeast Asian Nations (ASEAN) inches closer toward economic integration, it is hoped a new regional stock index will bring greater depth and clarity to its markets.

Next month should see the launch of a new FTSE ASEAN Stars Index which analysts say should help improve market liquidity within ASEAN.

The new index from FTSE, the London-based provider of stock market indices, will have 180 constituent stocks from seven ASEAN exchanges: The Jakarta Stock Exchange, Philippine Stock Exchange, Stock Exchange of Singapore, Bursa Malaysia, Stock Exchange of Thailand, Ho Chi Minh City Stock Exchange and the Hanoi Stock Exchange.

The 180-constituent index will be comprised of a combination of three existing FTSE-calculated indices — FTSE Bursa Malaysia KLCI (30), FTSE SET Large Cap Index (30), and the Straits Times Index in Singapore (30) — and companies provided by the stock exchanges of Hanoi (15), Ho Chi Minh city (15), Indonesia (30) and the Philippines (30).

The index will be free float-adjusted and rebalanced/updated on a quarterly basis.

Although the FTSE ASEAN Stars Index will be compiled independently of the exchanges, it will act more as a barometer to regional strengths rather than as a guide for investment products.

ASEAN stock markets represent around 12 percent of all Asia-Pacific market capitalization and around 10 percent of Asia's GDP.

While ASEAN's economic growth is expected to continue to outperform Europe and the United States, its stock markets do not reflect that growth.

ASEAN's biggest market, Singapore, ended 2013 flat, gaining just 0.01 percent on the year. Malaysia, on the other hand, ended the year up 10 percent, with Thailand the worst performer — down 7 percent on the year.

So far this year ASEAN markets have been mixed, although external concerns, such as the rollback of quantitative easing in the US which heavily influenced global market sentiment last year, have eased.



**Joanne Goh**, regional equities strategist, DBS Bank.

The World Bank and the Asian Development Bank both expect growth in ASEAN this year of between 5.6 and 6 percent. Some countries, however, will do better than others.

Thailand, one of ASEAN's biggest economies, continues to be weighed down by internal political unrest, while Indonesia, the bloc's biggest economy, is on hold due to elections.

Joanne Goh, regional equities strategist for DBS Bank, tells *China Daily Asia Weekly* that the inclusion of a new index will be good for the region as it should give greater depth to the market.

"What we need now are the constituents that will make up the new index," she says.

The current key ASEAN benchmark, the FTSE ASEAN 40 Index, gained 3.7 percent last year. This index is top-heavy with bank and telecom stocks, with Malaysia and Singapore dominating.

Indonesia has seven constituent stocks or 17.53 percent of the weighting, Malaysia 12 stocks, the Philippines two, Singapore 11 and Thailand eight.

Goh says that including stocks from Vietnam among the 180 constituents should give the new index greater depth.

She notes that the FTSE ASEAN 40 is dominated by telecom companies and banks, and does not give a good representation of the region.

"The region does need to have a benchmark index as the ASEAN 40 is too small and is not representative of the market as a whole," she says.

"The new index could be a benchmark in time once historical data has been collected. But as it stands it will



**Roel A Refran**, chief operating officer, Philippine Stock Exchange.

probably be used as a reference."

Roel A Refran, chief operating officer of the Philippine Stock Exchange (PSE), says that the ASEAN Stars Index intends to provide a wider choice for investors by highlighting the top 30 listed stocks in each ASEAN market.

"This new index is clearly more inclusive as it provides better opportunities for the performance of companies in all markets, including the smaller markets, to present their growth and thus present a better picture of ASEAN performance," he says.

He explains that the existing FTSE ASEAN 40 Index serves more as a broad index for the bigger companies in the ASEAN market, and caters to a specific set of investors that may require more stringent requirements such as market capitalization.

"While one can easily identify the biggest companies in the region through this index, it, however, limits the opportunity for other good and high-potential stocks from smaller markets to be highlighted and noticed by investors.

"This is where the new ASEAN Stars Index can come in," he says.

The ASEAN Stars will give more companies on the PSE a much-needed boost in terms of marketing, promotion and research coverage to foreign investors who may not be familiar with Philippine corporates.

The expanded coverage should also contribute to increased trading activity in the PSE.

"Having a broader index creates an environment that provides exposure to all companies in the ASEAN market," Refran says.

Champangorn Jotikasthira, president of the Stock Exchange of Thai-



A digital billboard flashes the Asian markets indices at the financial district of Raffles Place in Singapore. The launch of a new FTSE ASEAN Stars Index should help improve market liquidity within the ASEAN exchanges.

land (SET), said the ASEAN Stars will provide investors with greater depth to the market.

"When large foreign funds look to invest, they will look at the size of the market capitalization of each exchange," he said during a recent visit to the Hanoi Stock Exchange.

He told *The Nation* newspaper that while the SET is ranked 26th in the world "when you combine all seven markets (of ASEAN) we are seventh."

He said the creation of the new index will go a long way to promoting the development of ASEAN as an asset class and to boost the region's competitiveness.

Chris Devonshire-Ellis, a partner with consultants Dezan Shira & Associates, says: "The new index should go some way to further enhance the ASEAN market and will help upgrade the operational performance of local regional exchanges."

He adds that it should also provide a convenient platform for investors wishing to buy into companies that are becoming pan-Asian concerns.

"Although Singapore will develop as the largest regional exchange in ASEAN due to its free trade and internationalized currency, this index will act as a great starting point for domestic companies wishing to raise funds to expand beyond their home country and further afield into ASEAN," he says.

According to a newsletter by the Singapore Exchange, in 2013 and up to April 2014, ASEAN produced 160 initial public offerings. These raised a combined market capitalization of more than \$18 billion, with more

than 40 percent of the funds raised related to the financial sector.

"Key ASEAN economic growth drivers that have been identified by the world's largest economic institutions are domestic demand, credit expansion and rising middle-class incomes," the newsletter said, adding: "This has been complemented by significant growth in foreign direct investment."

Devonshire-Ellis, who is based in the city-state, says that Singapore sits at the center of ASEAN and is a significant financial platform for Southeast Asia.

He agrees with Goh from DBS, saying that the constituent spread of the new index is a lot deeper than the FTSE 40 which is dominated by the banking and telecom sectors.

"I think it is important for the development of the ASEAN market to have an index that is more reflective of the companies which are listed on the domestic exchanges."

He points out that ASEAN now has many companies that are crossing borders, some of which are likely to go on to become major regional or international players. "Some have already done that," he says.

"An index like this will help to develop the ASEAN market. It will allow local companies to benchmark themselves against similar companies in the region."

Once historical data is fed into the index, Devonshire-Ellis explains, it will allow analysts to examine companies at greater depth — how they are run and their financial track record.

AFP