



FRONTIER MARKET
ASSET MANAGEMENT

Latitudes and Attitudes: Jordan, Dubai, Sri Lanka & Vietnam

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Ben Tra, Mekong Delta, Vietnam

*"It's those changes in latitudes,
changes in attitudes, nothing remains quite the same"
– Jimmy Buffet, 1977*

Kids play on the dock in Ben Tra on the Mekong River. A few miles away, five men and women toil in a hot dark metal shed to make rice noodles.

Tourists in shorts and flip-flops mingle with financial analysts in suits and dishdashas at the gaudy Atlantis Hotel in Dubai. A few miles away in Ajman, workers from Asia toil at repetitive tasks in a tobacco plant.

A shepherd drives his flock through the traffic in downtown Amman. A few miles away, shoppers flock to a new luxury shopping mall.

We travelled 24,567 miles to four frontier countries. We travelled through 360 degrees of longitude and 65 degrees of latitude. We met with more than 20 companies. What did we learn?

We learned of booming construction in the Middle East and the promise of tourism in Sri Lanka. We learned of positive changes in the political landscape of Jordan, Palestine, Sri Lanka and

Vietnam. We learned that Hawaiian Airlines is the worst airline and that Honolulu is the worst airport. If you want to party in the air on the way to Sri Lanka with British tourists, we recommend FlyDubai. We learned that sleeping consecutive nights on planes is a tough way to save money on hotel rooms. And we learned that people on the bank of a creek in the Mekong can be happier than financial analysts at the conference in Dubai.

*Oh me! Oh life! of the questions of these recurring,
 Of the endless trains of the faithless, of cities fill'd with the foolish,
 Of myself forever reproaching myself, (for who more foolish than I, and who more faithless?)
 Of eyes that vainly crave the light, of the objects mean, of the struggle ever renew'd,
 Of the poor results of all, of the plodding and sordid crowds I see around me,
 Of the empty and useless years of the rest, with the rest me intertwined,
 The question, O me! so sad, recurring—What good amid these, O me, O life?*

Answer.

*That you are here—that life exists and identity,
 That the powerful play goes on, and you may contribute a verse.*

- Walt Whitman, *Leaves of Grass* 1892



32° 42' N / 117° 9' W	San Diego	
31° 57' N / 35° 56' E	Amman, Jordan	7,742 miles
25° 16' N / 55° 18' E	Dubai, UAE	1,250 miles
6° 55' N / 79° 51' E	Colombo, Sri Lanka	2,089 miles
10° 49' N / 106° 37' E	Ho Chi Minh City, Vietnam	1,851 miles
33° 52' S / 151° 12' E	Sydney, Australia	4,174 miles
32° 42' N / 117° 9' W	San Diego	7,461 miles
		24,567 miles

The countries we visited on our trip are all doing well. GDP growth is 6-7% in Sri Lanka and Vietnam and it is improving in Jordan. Inflation appears to be under control in these markets, providing a relatively benign backdrop for monetary policy. Surprisingly, military spending in Sri Lanka and Vietnam is lower than in Australia and is less than half that of the Middle East. Vietnam's

communist government is only a minor contributor to the country's economy at a mere 7% of GDP. Since 2011, the CIA data shows big improvements for Jordan in literacy, 96% versus 90%, and urbanization, 83% versus 78%. UAE is richer than most developed countries and its women are more literate than the men.

	Jordan	UAE	Sri Lanka	Vietnam	Australia
GDP Growth (2014 est)	3.5%	3.0%	7.0%	6.3%	3.3%
Inflation	3.5%	0.7%	7.5%	6.0%	2.1%
Population (mil)	6.5	5.5	21.7	92.5	22.0
People / km sq	73	65	330	279	3
% Literate	96%	90%	91%	93%	99%
% Literate Female	93.9%	91.5%	90.0%	91%	99%
% under age 15	35%	21%	25%	25%	18%
Life expectancy	80.3	76.9	76.2	72.7	81.9
% Urban	83%	84%	15%	31%	89%
GDP / cap (PPP)	\$6,100	\$49,800	\$6,200	\$3,600	\$42,400
Electricity/cap kWh	2,089	13,540	461	1,124.6	10,392.9
% Unemployed	13%	2%	5%	4%	5%
Land (km sq)	89,342	83,600	65,610	331,210	7,741,220
Market Cap (\$ bil)	\$27.0	\$93.8	\$16.9	\$38.2	\$1,198.0
Market Cap/GDP	86.5%	26.1%	28.5%	27.7%	77.7%
GDP (Official Exch Rate)	\$31.2	\$358.90	\$59.4	\$138.1	\$1,542.0
Military exp % GDP	9.5%	6.4%	2.9%	2.5%	3.0%
MktCap/GDP	87%	26%	28%	28%	78%
Electricity Cons Bil kWh	13.5	74.1	10.0	104.0	228.8

Source: CIA World Fact Book



JORDAN
31° 57' N / 35° 56' E

The TAJ shopping mall looks a lot like Fashion Island in Orange County... not surprising, since both malls had the same design firm. The TAJ has blossomed since opening in 2011 and now has 198 up-scale stores on five levels. On the bottom level, Spinneys supermarket offers the quality of Whole Foods, while at the top level a multiplex theater features the latest films. Surrounding the mall, luxury condos and hotels are in development and should provide a steady source of foot traffic.



Spinneys, The TAJ mall, Amman

Jordan continues its delicate balancing act between conflicting neighbors. In the fall of 2011, our friends there expected no end to the Palestine problem, but they did expect a prompt regime change in Syria. Now there have been some talks between Palestinians and Israelis, yet Syria seems doomed to long-term conflict.

Meanwhile, Jordan is managing well. Its GDP growth expected to pick up to 3.5% in 2014 and 4.5% over the medium term. Perhaps this will be enough to balance employment with the influx of refugees from Syria (1 mil already and perhaps 2 mil before long), plus Iraqis (800k) and Egyptians

(500k). The start of construction on a new pipeline from Iraq will help with jobs later this year and, eventually, Jordan will benefit from preferential oil prices.

It is interesting to note the Arab Spring's disappointments have helped Jordan become a haven of stability in the Middle East. There are fewer protests against the government than two years ago, the king has implemented reforms and Jordanians are unnerved by the chaos in Egypt. Meanwhile, countries in the rich Gulf Cooperation Council are helping with loans to boost Jordan's currency reserves.

The sporadic Israeli-Palestinian talks are of significant interest to Jordan, since half of its 6 million citizens are of Palestinian origin, with some still in refugee camps. While diplomats ponder the question of "right of return" to a Palestinian state, most Palestinians living in Jordan appear content to stay there. Nevertheless, the intrinsic right to move back to Palestine is critically important to them.

Palestinians from the West Bank have low expectations, but they do hope that someday Israel will ease restrictions on border control, possibly by keeping the West Bank to Jordan border open 24 hours instead of closing it after 10 pm on weekdays and 1 pm on weekends. It would also help if Palestinians were allowed to fly from Tel Aviv instead making an all-day journey to Jordan's airport. Incumbent telecom operator, Paltel, hopes that imported equipment from Ericsson could arrive without a one year delay in an Israeli port.

The ability of Palestinian companies to deliver superior margins under such circumstances is admirable. By getting the most from its 2G network, Paltel, for example, generates an operating margin in the mid 40's compared to a mid-30's regional average. Given greater access to next generation equipment, Paltel could set the standard for telecom efficiency.



United Arab Emirates
25° 16' N / 55° 18' E

At the 10th annual EFG Hermes MENA Conference in Dubai, important looking analysts engaged in a feeding frenzy of one-on-one meetings with the best known companies in the region.

Conferences like this are not our natural habitat, but it is eye-opening to see how sophisticated and formalized some parts of the frontier have become. The Atlantis Hotel on the tip of the man-made Palm Islands of the coast of Dubai is opulent, even gaudy.

Once we got our \$814 room rate corrected down to the "special" conference rate of \$394, we settled into the unaccustomed luxury and set about to learn something. We learned that you can buy gold bars



The lobby - the Atlantis Hotel, Dubai

from an ATM in the shopping arcade...



Gold ATM – Atlantis Hotel

More importantly, we learned that the GCC is booming, that Egypt is remains exceptionally challenged and that no one seems to care about tapering by the U.S. Fed.

After hitting a wall in the Global Financial Collapse, regional construction is in full swing. Surreal projects like the mile of bleak condo towers on the road out to The Atlantis have taken on an attitude of certain success. (If this is the future, the past is looking better...)

As for Egypt's problems, an investment company at the conference indicated that it is difficult to run a country when oil production has collapsed, yet subsidies keep diesel fuel prices at 15 cents per liter versus the market price of \$1. Barges on the Nile don't stand a chance competing with trucks that roll on carrying 80 tons of cargo despite their rated 27 ton limit (no inspectors are on the job). Energy is squandered, causing Egypt to use twice as much energy per dollar of GDP as Turkey... and almost as much as the rich GCC countries. Meanwhile, the water company is wrestling with an 80% surge in labor costs, which now exceed the revenues from selling water. Potential solutions would be a massive currency devaluation combined with deregulation to bolster Egypt's competitive standing. However, this radical reform is unlikely, as long as the GCC is sending vast funding simply to keep Egypt afloat and prevent another revolution.

In the UAE, we did have a chance to escape the conference to visit a tobacco factory. Here we saw some of the immigrant workers from less developed countries that make up six million out of the Emirates' seven million population. Workers come from places like India, Pakistan, Bangladesh, the Philippines and Nepal.

At Al Eqbal's factory in the Emirate of Amjan (an hour east of Dubai and just beyond Sharjah), workers commit to two years followed by a two month vacation home. They work six days a week, are paid 1,000 AED or \$285 per month, most of which is sent home to their families. The company provides modest but clean bunkrooms plus food from separate kitchens that specialize in their favorite local-country dishes.

This factory and the Atlantis Hotel are poles apart, but compensation is generous compared to wages and opportunities in the workers' home countries. Turnover is very low, because management is good and fair. General Manager Ibrahim Abjubeh takes pride, both in the packaging machines of his own design and in the clean quarters for his workers.



Labor Accommodations



Clean machinery...



and hard workers



Sri Lanka
6° 55' N / 79° 51' E

Sri Lanka has changed a lot since the spring of 2005 when Larry went from Galle in the south to the capital of Colombo along a coast ravaged by the horrors of the December 2004 tsunami. Now a new toll road connects the airport to the capital and superhighways to Galle and Kandy will open soon. A new Chinese container port in Colombo has opened, boosting total port capacity to 9 million twenty-foot equivalent units (TEUs). Another port in the south is being built to provide bunker fuel and dry-dock facilities.

Tourist arrivals have recovered from 400,000 during the Global Financial Crisis to 1 million in 2012, 1.2 million in 2013 and perhaps 1.5 million by 2016. There are several luxury hotel projects underway along Sri Lanka's beautiful coast. A casino is likely to be approved that could yield additional 1 million visitors, particularly if the country can attract tourists from neighboring India.



The president, who crushed the Tamil civil war in 2009, remains popular despite, or perhaps because of, his tightening grip on power. He can now run for reelection forever and he has packed the government with friends and family. Also, he has appointed 100 ministers to enjoy the largesse of the government. Whether a less autocratic government would be better for Sri Lanka remains questionable, as the country is burdened by an abysmally obstructive bureaucracy. Formidable labor unions are another growth obstacle. Plantation workers demand a 20% wage hike every two years. Even the banks struggle with unionized staff. Nevertheless, at the stock level, we find good companies... and some that are cheap as well. The banks, for example, are positioned to benefit from a more favorable credit environment in 2014 and possible loan loss recoveries. While "diversified" conglomerates are quite common, many operate each business unit separately, provide detailed profit and loss statements for all divisions, and are well capitalized.



TKS Securities Analysts , Chamitheri and Tharushi , with the temple elephant..



Colombo Stock Exchange



Vietnam
10° 49' N / 106° 37' E

"It's a communist country here, so people don't think about having a strike or something..."
- Phong Nguyen, Vice Director, VN Direct

Whisking to the Park Hyatt in the cool luxury of a Mercedes with in-car wifi, one can appreciate the impact the government's vehicle taxation scheme has on traffic. There are now six million motorbikes for Saigon's nine million residents, while there are only 500,000 cars. Taxes are high on cars and even large motorcycles, while Tuk-Tuks, the bane of the streets in Bangladesh and Sri Lanka, are completely banned. A Toyota Camry costs \$60,000, an Audi A7 is \$200,000 and a Range Rover is \$500,000.



Saigon traffic

Meanwhile, a 100cc motorbike costs only \$800, and smaller ones don't even require a license. We even saw an electric bicycle zipping along in traffic, although their high price will keep the numbers down. Traffic congestion could get even better when the first 19 km subway line opens in 2018.

Around Saigon, officially Ho Chi Minh City, every foot of every building on every street is a shop. High end malls have multiplied since 2008 and Starbucks is a popular destination – a sure sign of development.

The government remains an obstacle, at least until the Prime Minister Dung is replaced at the end



« Eyes » on the bow to ward off crocodile attacks on the Mekong River

of 2015. Still, some rational policies are at last being put in place. Petro Vietnam is being told to divest non-core assets over the next 18 months. And companies are now being allowed to sell off bad investments below book value without the threat of prison. Foreign ownership limits on stocks may be relaxed, although this has now been delayed.

Vietnam is seeing acceleration in foreign direct investment (FDI). Back in 2008, FDI applications rose to \$60 billion, but 80% was for resort and tourist projects and most planned spending was cancelled. After dropping to \$10 billion, applications have recovered to \$22 billion, with much from Japan and South Korea.



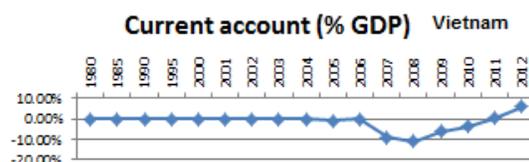
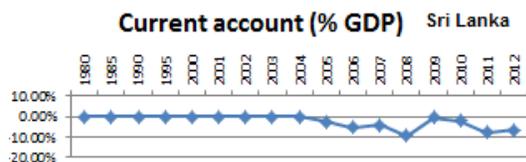
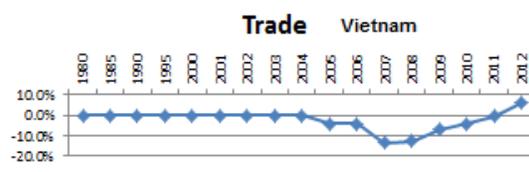
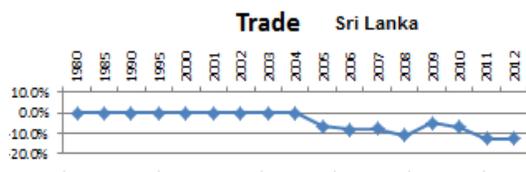
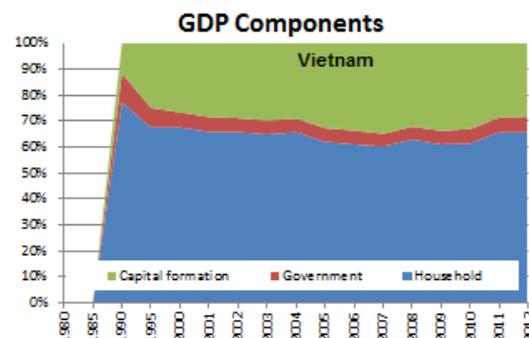
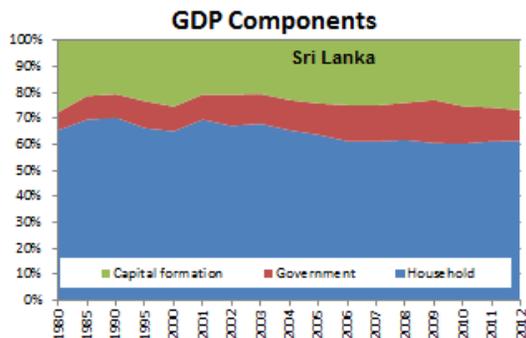
At peace in the Delta

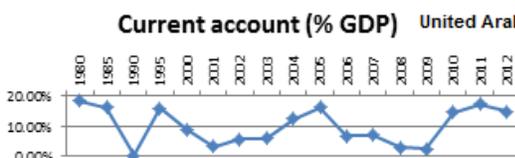
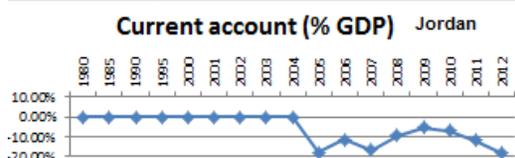
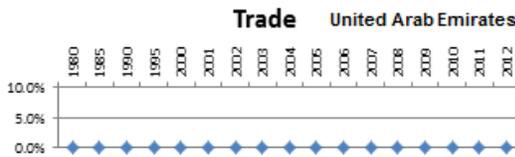
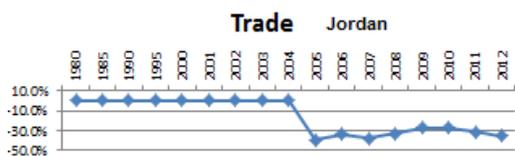
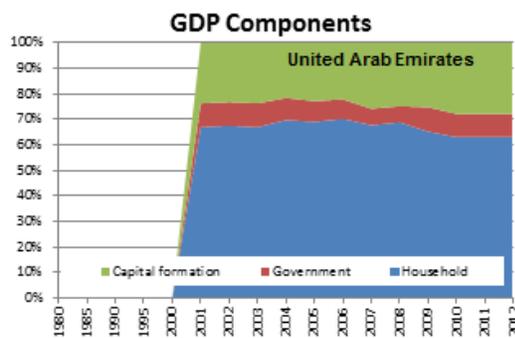
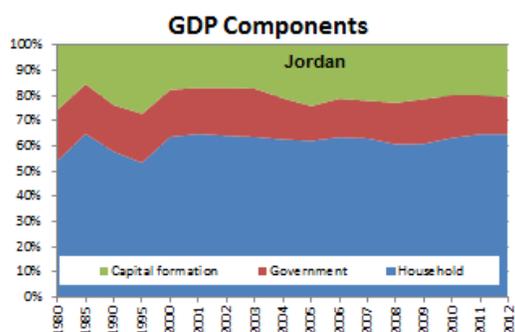
Many companies are adopting a “China plus One” strategy to establish a viable alternative to China. It helps that Vietnam’s labor costs are \$200 per month (and only \$140 in the countryside) compared with \$400 in China, and electricity is cheaper too. Today’s investments are in textiles and electronics (Samsung, Intel & Nokia). Companies like FPT are training software engineers to provide outsourcing for Japan.

Vietnam has a frenetic energy that is intoxicating. There is a sense that the Vietnamese will persevere despite the government’s ineptitude. It is this entrepreneurial spirit that gives us confidence in the country’s future.

Conclusion

It is interesting to look at the different economic paths of these countries as reflected in the composition of GDP. The charts below show the three main components: household consumption, government spending and investment in capital formation.





As mentioned earlier, the charts show that government is as small as a percent of GDP in Vietnam. Investment, while substantial, has been falling, but it should improve now that inflation and currency problems are reduced. Also, Vietnam's trade balance is strong.

In Sri Lanka high government spending results in abundant inefficiencies, but investment is rising and the trade balance is expected to improve.

Jordan has a huge refugee burden, so its government spending is high but is supported by the United Nations and assistance from its oil producing neighbors.

As for the UAE, investment is high, but highly dependent real estate development, which has the potential of leading to a bubble. Trade balance data is not available, but oil exports are clearly driving the economy.

Attitudes differ across these countries, but we find all of them interesting. Each has a unique culture that drives their priorities in different directions. Unfortunately, the governments of Sri Lanka and Vietnam leave much to be desired. Too often, many companies are hopelessly complicated conglomerates. Yet, if you are willing to dig deeply, there are many opportunities for bottom-up stock-picking. We discovered wonderful, enterprising people and good stocks in all four destinations of our journey.

*"Reading departure signs in some big airport
Reminds me of the places I've been..."*

*"With all of our running and all of our cunning,
If we couldn't laugh, we would all go insane."
– Jimmy Buffet, 1977*



Gangaramaya Temple, Colombo

About Frontier Market Asset Management

Founded in 2006, Frontier Market Asset Management holds more than 35 years' worth of investment experience including work in Emerging and Frontier Markets since 1987. For more information, please contact us at (858) 456-1440.

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