

## nCov and where is the Batman when we needed him most?

A quick summary of our thoughts with regards to nCov and market impact/opportunities.

1. The China State Council has extended the national Lunar New Year holiday by two days until February 2. 12 provinces, which jointly account for 62% of GDP and 80% of industry production, have delayed school and factory re-openings to no earlier than February 9.
2. The Impact could be as much as 1.5 to 2 ppt revision downwards to GDP in 1Q20 for China, which could mean 1Q GDP dropped to 3.8% yoy from 5.9%; but expectations are for 2Q and 3Q to rebound 10% for each quarter for full year to come in at 5.4%; 0.50 ppt lower than current forecast. Having said that, for SARS, the economy rebounded very strongly in the subsequent 3 quarters and ended the year with GDP higher than the start of the year forecast; though this is quite unlikely for nCov due to weaker underlying in China now versus 2004 period.

HK GDP in recession now. During CNY, HK witnessed -81% drop in tourism arrivals. Thailand will be badly hurt as services, aka tourism, is a large part of its current account surplus. Singapore as well given 2020 is the year many conventions and trade fairs are supposed to be held. Taiwan and Korea less impacted mostly coming from supply chain disruptions.

The impact to global GDP could be around 0.3ppt lower from current forecast of 2.6-2.7% for 1Q20. Consensus is for modest revision downwards for the full year as subsequent quarters to rebound with caveat that the virus is contained by April-May.

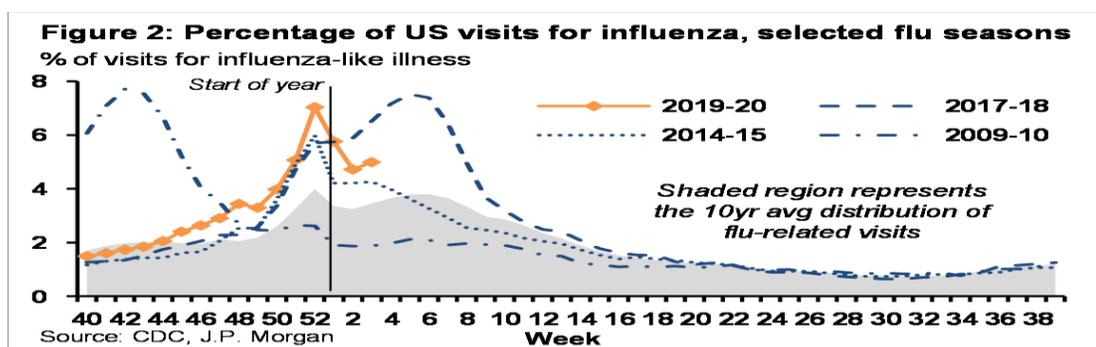
Early days but some research houses are modeling a -4% decline in EPS for 2020, bringing EPS growth to 9 - 10% for Asia including Japan. However, the impact on Global EPS is harder to ascertain.

3. China will implement more fiscal than monetary responses. Fiscal will be in form of tax reliefs for consumers and affected business and accelerated infrastructure spending. Monetary policies includes adding liquidity and on-lending facilities up to RMB3bn, 100bps RRR cut as early as Feb and 1-2 MLF cuts for 20bps cut.
4. Consumption is the most impacted, though impact on trade more transitory and is more vulnerable to US-China trade rhetoric. Travel is going to be affected badly. China airlines have already cancelled 50% of their scheduled flight exacerbated by the fact it is going into the low season of the year. Macau gaming (GGR fell -11% in Jan but Feb-Mar as much as -50%, which means casinos are at breakeven now (70% of Macau's Chinese visitors have travel bans while the government has suspended till end of Feb all form of gaming). Moreover, their stock prices have already fallen -18% and are now trading -1sd of historical average at 10.4 EV/EBITDA, which implies 8 quarters of zero EBITDA contribution versus SARs was only 2 quarters.

Sectors benefitting will be online streaming business (IQiyi), gaming (Tencent and Netease), ecommerce (Baba, Meituan) but may be less than the other two companies due to delivery issues.

We been buying Gold regardless of this outbreak as we see it as portfolio hedge and is riding on the trend that many emerging market central banks are diversifying their reserves away from USD with Gold as one of the substitutes.

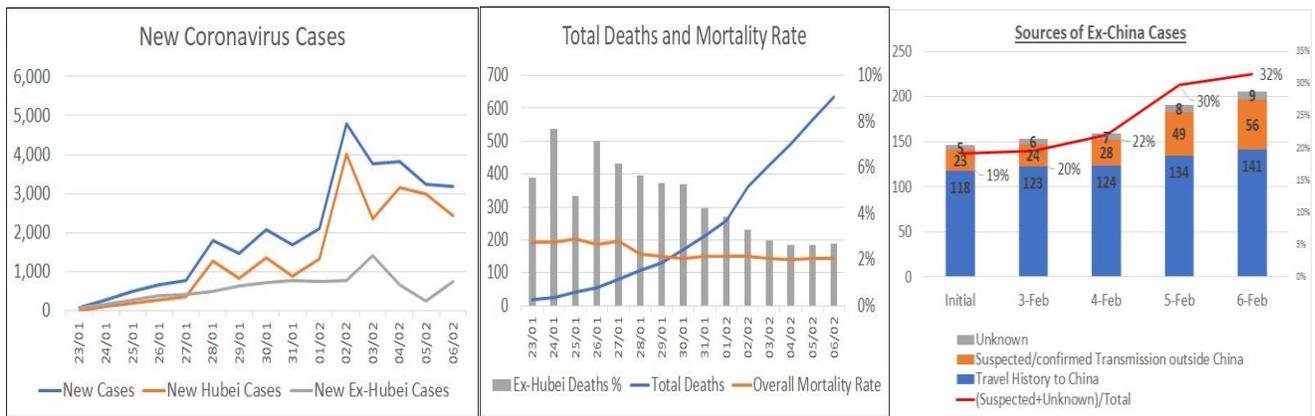
- Some context is important regarding nCov. Chart below shows the typical flu season in the US. 55K people in US alone die of influenza and in 2017 surge to 88k deaths. US CDC estimates 300k to 600k die globally from influenza.



Stock market impact from past health concerns shows that there is still some downside risk though we are likely to have discounted more than half of the risk now. History from SARs tell us the turning point in markets is when new transmission peaks

Epidemic	Start Time	End Time	Biggest Decline		
			MSCI Hong Kong	MSCI China	CSI 300
SARS	29-Nov-02	31-Jul-03	-18.20%	-15.30%	-6.70%
Avian Influenza	31-Jan-05	31-Oct-06	-14.30%	-20.30%	-18.40%
Influenza A (H1N1)	31-Mar-09	31-Aug-10	-15.50%	-17.70%	-3.23%
MERS	28-Sep-12	30-Apr-14	-14.30%	-22.40%	-3.84%
		<b>Average</b>	<b>-15.58%</b>	<b>-18.93%</b>	<b>-8.04%</b>
<b>nCov</b>	<b>20-Jan-20</b>		<b>-9.50%</b>	<b>-9.77%</b>	<b>-9% today just open</b>

We are tracking these three charts daily. Left chart is the new cases particularly focus in on Hubei new cases, middle chart is to track if the virus has become more virulent, and right chart is the transmission outside of China particularly focusing on risk of community spread. We agree with most commentary, the most critical period is past 9 Feb 2020 to assess the speed of new transmissions within China. Though the latest developments outside of China have shown some community transmission but not at the speed and scale of Wubei, and warrants closer monitoring.



6. Paraphrasing the key call details with Dr John Nicholls, the clinical professor of University of Hong Kong and is an expert on coronaviruses (He was a key member of the research team at the University of Hong Kong which isolated and characterized the novel SARS coronavirus in 2003).

- **Key conclusion:** He characterised nCov should not be compared to SARS or MERS but a bad cold that kills below 2% of the people affected and typically those who have pre-existing conditions.
- Three things the virus does not like 1) sunlight 2) temperature and 3) humidity. Sunlight will cut the virus ability to grow in half so the half-life will be 2.5 minutes and in the dark it's about 13m to 20m. Sunlight is really good at killing viruses. That's why I believe that Australia and the southern hemisphere will not see any great infection rates because they have lots of sunlight and they are in the middle of summer. And Wuhan and Beijing is still cold which is why there's high infection rates. the virus can remain intact at 4 degrees or 10 degrees for a longer period of time. But at 30 degrees then you get inactivation. And High humidity the virus doesn't like it either. That's why I think Sars stopped around May and June in 2003 – that's when there's more sunlight and more humidity. The environment is a crucial factor. The environment will be unfavourable for growth around May. The evidence is to look at the common cold – it's always during winter. So the natural environment will not be favourable in Asia in about May.
- Mortality rate in China is higher because it is related to the environment. In the high income countries you don't have as high a population density, higher level of environment control and hygiene. In Indonesia – it's unlikely to spread much as it's very hot and humid. Would this virus move to Africa? I think that's unlikely – too hot there's not a lot of travel there.. Europe – possibility higher transmission but environmental care is higher.
- The recovery rate now higher than the deaths rate as we learned from in HK with SARS we didn't know how long to treat a patient for. Now in China they are using the SARS model but treating

patients for shorter time periods so that they don't get the secondary problems that they did with Sars. The problem is that with SARS, there were quite a bit of people where the steroid were very beneficial to treat the acute stage and we didn't know how long the virus would live for so we kept them on the steroids for a long period of time and they came out with all sorts of secondary problems due to the immunosuppression.

- Antivirals are being used and that it's working unlike in with SARS it didn't seem to work at all with the commercially available antivirals. But there seems to be good effects with the case in Washington with the Gilead agent. And it sounds like China will be using it. Interferon works and it has quite a bit of benefit.

**Featured Picture/Quote:** Please don't be a kiasu, kiasi and worse of all, hai-lang (harm people) citizens. If you are sick, please don a mask and not the other way around!



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