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Robert Levitt, a contrarian fund manager



Written by Yong Min Wei & Siow Chen Ming

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KUALA LUMPUR: Robert Levitt, who made regular appearances on financial networks Bloomberg TV and CNBC, dropped by The Edge office last week for a chat. The globe-trotting fund manager who founded Levitt Capital Management LLC is known for his "contrarian style" in the global investment community.

Dressed casually in blue jeans and short-sleeved shirt as he was on his way to a school he helps fund for Afghan refugees here, Levitt said he did not attend the World Capital Markets Symposium from Sept 27-28 although he was in town.

"I heard Mr (Nouriel) Roubini was here... but his business is to sell gloom, and tell people how awful things are. I don't think we share the same perspective," said Levitt.

He has made regular visits to Malaysia and said he likes it here because of the diversity. His preferred stay is a hotel located in the less fashionable part of Jalan Raja Laut in downtown Kuala Lumpur. Levitt said he likes it there because of the attractions of the food stalls nearby and the chance to blend in with the different communities in the neighbourhood.

"It's something different, not like Shangri-la where it's almost the same everywhere," he said.

Nod for aviation, rubber gloves

Levitt said Malaysia accounted for about 3.5% of his fund portfolio of about US\$500 million (RM1.55 billion). Surprisingly, he said he is not into plantation stocks of which Malaysia has many big names to offer such as IOI Corp Bhd and Kuala Lumpur Kepong Bhd, preferring instead crude palm oil futures for direct exposure to the sector.

"The area that we are really interested in, in Malaysia is the aviation sector. We own stocks in MAS (Malaysian Airline System Bhd), AirAsia (Bhd) and Malaysia Airports (Holdings Bhd, or MAHB). We think they will do extremely well," said Levitt.

Interestingly, these three are the only aviation stocks in the world that Levitt's fund invests in, apart from aircraft maker Boeing Co and EADS (European Aeronautic Defence and Space Company NV).

"MAS is the one that most people would feel surprised (about). But I think the management is doing most of the things correctly and there are so much low-hanging fruits for them to fix, this is where there is a lot of potential," he added.

He said MAS would soon have a whole new fleet of aircraft that would lower operating expenses and fuel costs. In addition, he also likes its management for thinking out of the box, such as shifting its eastern hub from Tokyo's Haneda airport to Kota Kinabalu (KK), which bring down costs "dramatically".

"Although it's (KK to Haneda route) not a huge revenue source, it's very important because it shows that management is thinking differently, instead of following everybody else and doing the same thing," said Levitt, adding that the national airline could also expect handsome returns from its cargo services as well.

"MAS is a turnaround story... it is not a brand-new story, but the results will start showing in the next couple of years. In investing, you don't want to buy when all the positive results start showing up, you want to buy now, when management is making these changes," he said.

A contrarian, Levitt said he does not own shares in bigger name airlines in the region such as Singapore Airlines Ltd and Cathay Pacific Airways Ltd, because they are operating at a much higher cost and "do not really have their own market".

Levitt sees “tremendous potential” for tourism in Malaysia especially through AirAsia’s efforts in connecting tourists from India and China as well as other regional destinations to Malaysia.

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LOOKING UP TO THE SKIES... Levitt Capital Management LLC founder Robert Levitt is interested in the aviation sector in Malaysia, especially Malaysia Airlines, AirAsia and Malaysia Airports as he thinks they will do extremely well. These three stocks are the only aviation stocks in the world his fund invests in apart from Boeing and EADS.

“While MAS is a turnaround story — from using the wrong planes to the right planes, AirAsia is more of a regional play, and MAHB will certainly benefit in terms of increasing tourist arrivals,” said Levitt.

“MAHB will see increasing volumes. Its new low-cost terminal will also have a shopping mall that will do quite well. The number of passengers I think they are projecting is double the current number,” he added.

Glove sector ‘really exciting’

Touching on the glove manufacturing sector here, Levitt considers the sector as “really exciting” and would perform well for a long time.

“I can see (an) industry like gloves where Malaysia is world-class. It is just world-class,” Levitt said in amazement.

His fund invests in Top Glove Corp Bhd, Supermax Corp Bhd, Latexx Partners Bhd and Hartalega Holdings Bhd.

On the glove sector being downgraded recently due to high latex prices and normalising of demand, he said the glove manufacturers’ bottom lines were not compressed and they did not appear to have overcapacity in production.

“As a matter of fact, I met a glove manufacturer in the past week who showed me on his Blackberry how he was not going to be able to fill the orders from the customers,” he added.

In his laid-back style, Levitt did not give the usual spiel that Malaysia is the world’s biggest maker of gloves, supplying 65% of global demand, or quote from recent news reports that suggest Malaysia’s exports of rubber products are expected to rise from RM7.2 billion last year to RM30 billion in 10 years’ time.

He said simply: “Imagine the market potential when countries like Brazil and China set higher requirements for their medical sector to use better quality gloves.”

Levitt said he wanted to add a couple more glove companies to LCM’s portfolio, but that it was difficult to find bloc shares for sale in glove companies since the local pension funds have taken a big slice of such stocks, which limits their liquidity.

He said he found it strange that some rubber gloves used in government hospitals in Malaysia were manufactured in Sri Lanka.

"There are certain things in Malaysia that seem like the government is in the way or maybe that some people are benefiting in ways that might not be as transparent as they should be. And I can't talk about specifics," he said.

No plantation stocks

Asked if he was bullish on plantation stocks, Levitt said his fund did not purchase plantation stocks at all as the company considered plantations as a matured industry and "not growing hugely".

He explained that while plantation companies are well managed, their growth potential is "not overwhelming" to certain fund managers, including him, as earnings of these stocks are tied to crude palm oil prices.

"I would rather buy a commodity than a company. Because, if the run-up is based on the commodity value, the decline could occur because of a management problem. You can see that in the gold sector," he pointed out.

Parkson's opportunity to grow in Indonesia

Another stock in Malaysia that Levitt singled out as a favourite is Parkson Holdings Bhd. Parkson has potential to expand as it has a huge presence in China and Vietnam and might venture into the Indonesian market in a matter of time, he said.

"Our biggest problem with Parkson is that we can't buy enough shares," Levitt quipped. His fund also owns shares in Parkson's Hong Kong-listed unit Parkson Retail Group Ltd.

His understanding is that Parkson outlets in Malaysia are "great beneficiaries" from Chinese tourists and that the company also has huge operating cashflow.

"I'm sure in the next few years they will find a way to enter Indonesia. Right now, the retail market in Indonesia is sort of controlled by one player — Mitra (PT Mitra Adiperkasa Tbk)," he said. He expects Parkson to venture into Indonesia through some form of partnership or collaboration.

Indonesia booming

Levitt's eyes shone when he talked about Indonesia, where his firm has invested 14% of its funds compared to Malaysia which accounts for about 3.5%.

Indonesia is among LCM's top three investment destinations, after the US and China. Excluding bonds and other instruments, Levitt has parked 25% of his global equities investments in Indonesia.

Acknowledging that his firm was "running out of stocks" to buy in Malaysia, Levitt said that population size was an important factor for global investors and Malaysia's current population of 28 million could not compare with Indonesia's 250 million population and the huge market opportunities it presented.

"There is far greater growth potential in Indonesia. When you fly into KLIA (KL International Airport), you have a beautiful infrastructure. When you fly into Jakarta, you have a potential for a beautiful infrastructure," said Levitt, who said he will increasingly spend more time in Indonesia.

Comparing with Indonesia, the fund manager noted that while Malaysia in general is considerably well equipped with infrastructural facilities and still has strong growth potential in the small and medium enterprises (SMEs), it will unfortunately not be a sexy market for global investors.

Asked what stocks he favoured in Indonesia, Levitt answered: "Everything. You can start with the coal sector... we would also be interested in (Indonesian airline) Garuda when it goes IPO. But one thing is for sure, we don't invest in companies run by large families or those that could be politically involved."

Levitt said his understanding is that 40% of the coal in Indonesia could not currently be mined as the local players lacked the infrastructure and technology to do so; thus, this opens a window of opportunity for coal-related companies, including foreign ones, to invest and go public.

Although his policy of avoiding "large family-owned or politically connected companies" may limit his choices in coal operators in Indonesia, he said the alternative would be to invest in foreign coal miners who invest and operate mines in Indonesia.

He added that the potential growth for coal exports was massive for Indonesia as China had turned into a net importer of coal while certain coal-hungry Northeast Asian countries that used to import coal from China would now need a new source, and that would be Indonesia.

Singapore 'less interesting'

Without going into details, Levitt said his firm has "some holdings" in the island-state but "not as many" as in the past.

"It is not necessarily that we don't like Singapore. Personally, I am not a big fan of Singapore because I like to see trees. I am not a big shopper," he reasoned.

Nevertheless, he commended Singapore for its high-income status and believed there are ideas which Malaysia could emulate in running an efficient and successful state.

"The one thing that people talk about Singapore now is on the Iskandar Malaysia development... I don't understand why Malaysia would want to construct an area of the country which requires lots of labour when Malaysia does not have excess labour. Therefore, they have to import labour to develop it," said Levitt. He said he would not be "excited" to invest in the area.

"We see Singapore as a very developed market. They have done a lot of things right but there is no industry-transforming kind of thing occurring. Singapore is just less interesting to us," he concluded.

Not 'hands-on' in Thailand

Levitt said his firm was not "hands-on" in Thailand. The firm is gaining exposure in the country through investing in stock brokerage firms in the event the Thai market does come around, he added.

"We think that Thailand is going to do much better. So, we have bought three brokers in Thailand assuming that in any kind of bullish market, it would be brokers that do well."

"Therefore, we are not that focused on the sectors there...There are some political issues," he said when asked if he had any more stocks in mind in Thailand.

US economy

On the US economy, Levitt said the situation in the US did not appear to be improving but the "thought process" that the US was doomed was slowly vanishing as reflected by the fundamentals of the nation's stock market.

"The problem in the US is that the people now are very pessimistic. I have not seen such level of pessimism anywhere worse than in the US," he said.

According to him, the political situation in the US played a crucial role in the economy as President Barack Obama appeared to be "very anti-business" in his first term of office though that appearance could change with new economic policies.

However, Levitt felt the US healthcare bill which was passed this year did not augur well for increasing the labour force as the cost of insurance coverage for employees had increased overwhelmingly.

"The healthcare bill alone has cost my (firm's) insurance rates for (employees') healthcare to increase by 40%. As an example of a small business, we are a generator of high-salary jobs but we will hire less people in the US because of the cost," he said, noting that employers might eventually pass on such high insurance costs to employees.

With the "largest tax increase in US" possibly taking place in January, Levitt said there would be "different decisions" on his stocks in the US as a tax hike on dividends would minimise the returns of investors whose objective was merely to obtain dividend income.

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