Trip Insights

Asia

May 2025

4D infrastructure

A Bennelong boutique

This is the 18th edition of our *Trip Insights* series, where we share our travel experiences and on-the-ground perspectives from our company meetings and regional visits. It follows a recent research trip by Sarah Shaw, Global Portfolio Manager, and Chris James, Senior Investment Analyst, through Malaysia, Thailand, Hong Kong, China, the Philippines, and Indonesia. During the trip, they met with management teams from regulated utilities, communications, and transport companies.

Observations across the region were mixed. The region's long-term structural thematics remain firmly intact with the listed Infrastructure asset class benefiting from enduring secular tailwinds, including favourable demographic trends, a rising middle class, ongoing urbanization, the energy transition, and accelerating digitization. However, as always stock selection remains key as the array of opportunities come with increasing risk as a result of domestic politics, geopolitical tensions, and evolving economic policies and trade.

This piece outlines the key themes and takeaways from the trip, and how these have shifted our investment strategy across the region.

Contents

Trip agenda

Investor meetings included the following companies / brokers:

Company	Sector/topic	Location
Westports + site visit	Ports	Malaysia
Tenaga Nasional	Utilities	Malaysia
Bangkok Expressway & Metro	Toll Roads	Thailand
JP Morgan	Utilities	Thailand
Global Power Synergy	Utilities	Thailand
BTS Group	Rail	Thailand
Airports of Thailand	Airports	Thailand
Daiwa	Thai Utilities	Thailand
Hong Kong & China Gas	Utilities	Hong Kong
China Merchants Port	Ports	Hong Kong
Daiwa	HK/China Airports & Ports	Hong Kong
Guangdong Investment	Utilities	Hong Kong
CLP Holdings	Utilities	Hong Kong
COSCO Shipping Port	Ports	Hong Kong
China Tower Corporation	Communications	Hong Kong
China Resources Gas	Utilities	Hong Kong
UBS	HK/China Utilities	Hong Kong
JP Morgan	HK/China Utilities	Hong Kong
JP Morgan	HK/China Transport	Hong Kong
Morgan Stanley	HK/China Utilities	Hong Kong
Zhejiang Expressway	Toll Roads	Hong Kong
ENN Energy	Utilities	Hong Kong
China Gas Holdings	Utilities	Hong Kong
Daiwa	HK/China Equity Strategist	Hong Kong
Daiwa	HK/China Utilities	Hong Kong
Shenzhen Expressway	Toll Roads	China
Shenzhen International + site visit	Infrastructure	China
JP Morgan	Utilities	Philippines
International Container Terminal Services	Ports	Philippines
UBS	Ports	Philippines
Daiwa	Utilities	Philippines
Daiwa	Equity Strategist	Philippines
Manila Electric Company	Utilities	Philippines
Jasa Marga	Toll Roads	Indonesia
JPM	Transport	Indonesia
Mitratel	Communications	Indonesia

Politics

Trump

As we commenced this trip President Trump announced his 'Liberation Day' tariffs. The announced tariffs were far more aggressive than most bear cases, with a 10% Universal Base Tariff (as expected), very high reciprocal tariffs on 27 countries and the EU bloc, as well as ending De Minimis exemptions (which allow duty free goods entry under USD$800, typically from China and Hong Kong). No region was more impacted than Asia and in particular Emerging Asia. As such, it was an interesting time to be travelling through the region.

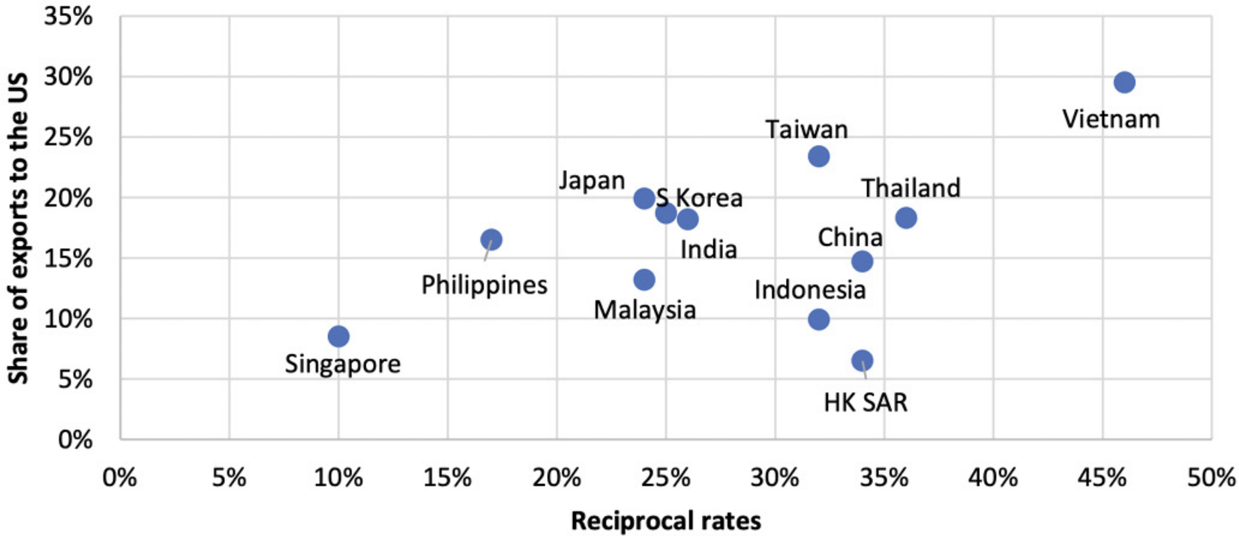
Country level Liberation Day Tariffs

Developed Markets		Emerging Asia	
Switzerland	31%	China	34%
EU	20%	Taiwan	32%
Norway	15%	South Korea	25%
UK	10%	Cambodia	49%
Japan	24%	Laos	48%
Australia	10%	Vietnam	46%
New Zealand	10%	Myanmar	44%
ASEAN		Thailand	36%
		Indonesia	32%
		Malaysia	24%
		Philippines	17%
		Singapore	10%
		India	26%

Source – DBS, White House

Immediate concern gave way to wary optimism as Trump paused implementation awaiting trade negotiations. However, the tariff level and impact to the in-region economies remained and remains a core overhang. As such, we look to prioritise investment opportunities in countries, sectors and companies that have relatively resilient fundamentals and/or are more immune to the impact of tariffs.

Vulnerabilities from proposed reciprocal tariffs



Source – DBS, CEIC

The question was posed to all companies regarding the impact of these tariffs, aiming to assess their effects on operations, earnings, and supply chain management. The direct and indirect impacts vary by sector, regional exposure, and pre-emptive mitigation strategies. While global trade faces significant challenges, it is not disappearing; rather, it is transforming.

We recently published an article News & Views: Are we there yet?! Assessing Trump's tariff policies, the impact on the economy and global listed infrastructure. As such we will not go into detail on this theme here except as it directly impacted corporate-level discussions.

Malaysia

Malaysia's domestic landscape feels relatively stable under Prime Minister Anwar Ibrahim's unity government. The 2023 state elections maintained the status quo, with Anwar's coalition holding key states, although the opposition Perikatan Nasional (PN) made notable inroads in Malay-majority areas, highlighting a polarized electorate. We did not observe any domestic political unrest or disharmony with the heightened tension with the US the key near term concern for domestic politics.

Malaysia is still viewed as a potential 'China +1' beneficiary, but progress remains slow amid uncertainty over a cohesive national strategy. Public sentiment remains cautiously optimistic, underpinned by ongoing reforms and efforts to strengthen regional economic ties, including the expected finalization of the ASEAN-China free trade agreement. Further, in an effort to attract foreign investment, the government introduced Budget 2025, which includes tax incentives for high-value sectors and, notably, infrastructure development. However, competition from regional peers and persistent bureaucratic hurdles continue to weigh on investor confidence, limiting the near-term upside of the policy.

The weakening ringgit continues to be an overhang and while there is speculation about potential capital controls, no concrete policy action has been taken.

Thailand

Thailand continues to face underlying political tension following the 2023 election, in which the progressive Move Forward Party (MFP) was prevented from forming a government despite winning the popular vote. In August 2024 the Constitutional Court dissolved the MFP and banned its leaders from politics for a decade, citing their push to reform the lèse-majesté law - a major blow to progressive politics. Pheu Thai, led by Paetongtarn Shinawatra, subsequently formed a coalition government with conservative and military-aligned parties, a strategic reinforcing of existing power structures and deepening concerns over democratic backsliding.

While political uncertainty and bureaucratic inertia continue to weigh on foreign investment public sentiment remains relatively calm, supported by a steady post-COVID tourism recovery. However, a major concern for us post this trip was the increased government intervention across key sectors, particularly where cost-of-living pressures or an economic recovery agenda have driven short-term populist policies. We observed damaging policies enforced upon the Airport, Expressway, Rail, and Utilities sectors, which have not only eroded company earnings but could also reshape the structure of concessions and contracts in certain sectors going forward. This was a key negative from this trip and the current political overhang sees us question Thailand as an investment destination over the near term.

Hong Kong/China

Hong Kong continues to operate as a hybrid jurisdiction, functionally distinct yet politically aligned with Beijing. While the mainland's presence remains influential, it has become more institutionalised and less visible in day-to-day affairs. It felt like the post-COVID business environment has stabilised, supported by resumed cross-border activity and an influx of high-net-worth mainland Chinese residents, which is reshaping demand in property, retail, and education. The expatriate outflow has slowed, but the city's demographic and economic profile continues to evolve.

On the mainland, confidence remains fragile amid regulatory unpredictability and ongoing geopolitical tensions. However, targeted policy support for strategic sectors—particularly AI, green tech, and advanced manufacturing—is creating pockets of opportunity. The feel on the ground had definitely taken a further step forward from our trip in 2024 with increased confidence that structural government stimulus would be used to stabilise the outlook.

Infrastructure remains a bright spot across both Hong Kong and China, buoyed by Greater Bay Area integration and a renewed push into transport, logistics, and clean energy. These investments offer clearer visibility and long-duration potential for long-term capital, particularly where they align with national priorities.

Philippines

The Philippines continues to navigate a complex political landscape, marked by deepening divisions within its leadership. In the 2022 presidential election, Ferdinand Marcos Jr. won decisively with 58.8% of the vote, defeating Leni Robredo, who garnered 27.9%. However, the once-powerful alliance between the Marcos and Duterte families has fractured. Vice President Duterte now faces impeachment proceedings over allegations of corruption and threats against President Marcos, highlighting a significant rift between the two factions. This political breakdown adds uncertainty ahead of the May 2025 general election, which will reshape the composition of Congress and local governments.

A win for the current regime would be a boost for infrastructure. The Marcos administration continues to prioritize infrastructure as a cornerstone of economic growth through its 'Build Better More' (BBM) program. The 2025 national budget allocates ₱1.03 trillion (USD 18.7 billion) to public works, representing over 5% of GDP. This supports 194 Infrastructure Flagship Projects (IFPs) valued at ₱9.54 trillion (USD 163 billion), spanning transportation, energy, digital infrastructure, water, and agriculture. To attract foreign investment, the government has opened several infrastructure-related sectors to 100% foreign ownership and is advancing public-private partnerships (PPPs), with over ₱50 billion in projects expected to be awarded by year-end. These efforts aim to improve connectivity, drive economic activity, and strengthen the Philippines' appeal as a regional investment hub. It felt like the country was in a holding pattern until a political agenda could be defined but we remain hopeful that Marcos' goals can be realised.

Indonesia

Following the 2024 election, Prabowo Subianto assumed the presidency with strong backing from outgoing President Joko Widodo, signalling broad policy continuity. While concerns remain over Prabowo's military past, markets have responded positively to his emphasis on stability and growth.

He has set an ambitious target of achieving 8% annual GDP growth by 2029, up from the current rate of approximately 5%. To fund his administration's expansive programs, some of which have drawn criticism over affordability and logistics, the government has introduced austerity measures totalling around US$19 billion, affecting sectors including education, health, ***infrastructure***, and the public service. Notably, infrastructure spending has been cut sharply in 2025, with the Ministry of Public Works' budget reduced by over 70% - a Rp81 trillion (approximately $5 billion) drop - leading to suspended toll road and maintenance projects and the furloughing of thousands of contract workers. This shift places greater importance on alternative financing models, particularly from the private sector, and highlights the need for stronger regulatory certainty to maintain momentum in infrastructure development.

A key structural reform is the launch of the sovereign wealth fund, Daya Anagata Nusantara (Danantara), which aims to consolidate and optimise state-owned assets to attract investment and build long-term resilience. While we remain cautious on issues of transparency and political influence, beyond the supervisory board, the managing, advisory, and steering committees are composed entirely of seasoned professionals from the private sector, both domestic and international, which suggests potential for more commercially driven outcomes. Danantara's performance will serve as an early indicator of the administration's commitment to institutional reform and could make or break this administration.

Economics

Malaysia

Economic headwinds have emerged, including potential US tariffs and a revised 2025 GDP growth forecast that now falls below the original 4.5%–5.5% target. Inflation is expected to rise moderately to between 2.0-3.5%, driven by subsidy reforms, while Bank Negara Malaysia has held its key rate at 3.0%, with a possible cut later this year.

The tourism sector is recovering steadily, aided by momentum ahead of "Visit Malaysia 2026" - aiming to attract 45 million international visitors and generate ~USD 61 billion in tourism receipts.

Fiscal reforms, including targeted fuel subsidies and new taxes, aim to reduce the deficit, but foreign investors remain cautious amid political uncertainty and bureaucratic hurdles.

The feel on the ground was one of relative calm, albeit news flow on US tariffs dominated discussions with a real risk to the Malaysian economic outlook should they proceed as announced.

Thailand

We would describe the feel in Bangkok as cautiously optimistic amid the ongoing global trade uncertainties and ongoing political instability. The growth outlook is relatively muted, with the Finance Ministry recently downgrading its GDP growth forecast to 2.1% (from 3.5%), citing headwinds from US tariffs and a slowing global economy. The IMF is even more conservative, projecting just 1.8% growth, the lowest among ASEAN peers, due to high household debt and trade exposure. However, with levers to pull, the Bank of Thailand has cut its key interest rate to 1.75%, a two-year low, to stimulate domestic activity. Inflation remains muted, with a projected rate of just 0.5%, well below the central bank's 1-3% target range.

While Thailand positions itself as a viable 'China +1' alternative, foreign investment has lagged, hampered by political uncertainty and bureaucratic inertia that have driven some investors toward more stable regional markets.

Tourism, a key economic pillar, continues its recovery but has yet to return to pre-pandemic levels. Key tourist destinations in Bangkok were busy, much more so than 12 months ago, giving credence to the ongoing return of the tourist. However, a recent Chinese tourist kidnapping had dampened the return of Chinese tourists with expectations that this incident would remain an overhang for the next few months until trust could be rebuilt in its safety as a tourism destination.

Hong Kong

The feel in Hong Kong was well articulated by one management team that stated "Everything in HK is expensive except for the stocks". Affordability remains a big issue but with a growing divide between locals and expat living. Restaurants and grocery stores again shocked with their pricing while a visit to wet markets offered some insight into how the populous survives.

The disconnect between pricing in HK versus the mainland has enticed many living in HK to travel to Shenzhen each weekend to eat, shop and (strangely) get massages. In some extreme cases we heard of people relocating to the mainland and commuting to HK daily via high speed rail connections or metro. This option was a much more affordable option than living in HK, despite Shenzhen being one of the more expensive Tier One cities in China. This is a significant reversal from pre COVID when mainland residents use to flock to HK for luxury goods and cheap weekends away.

HK Supermarket ~ A$22

HK Wet Market ~ A$5 for 30

Mainland Supermarket ~ A$4.30

HK Supermarket ~ A$6

HK Wet Market

Mainland Supermarket ~ A$1.10

China

China continues with a measured economic strategy, favouring targeted stimulus over large-scale interventions to promote long-term sustainability. Small-scale bursts are aimed at stabilising sectors like manufacturing and real estate without exacerbating fiscal deficits.

While on the ground US tariffs reached up to 145% on Chinese goods. Interestingly, there was little concern, with many flagging that US exports is not a big driver of Chinese GDP (at less than 3% of GDP) and a real consensus view that there was a lot that the Central government could do and would do to support the domestic economy without giving in to Trump threats. Conversations with brokers, strategists, and corporates suggested that while the situation remains fluid, their base case assumes tariffs around the 60% level (aligned with Trump's campaign rhetoric) - viewing any level above as downside risk, and anything below as a potential upside surprise.

Beijing is employing strategies to mitigate the impact, including supporting exporters and bolstering domestic demand. Central to this effort is the 'dual circulation' strategy, which emphasizes strengthening the domestic market while maintaining foreign trade. Additionally, China's focus on the 'New Trio' (advanced manufacturing, renewable energy, and high-tech industries) underscores its commitment to transitioning towards a more resilient and innovation-driven economy. We heard many reports around the strength of the EV manufacturing base in China with some strong initiatives to support EV ownership in the developing world through the production of a low cost, high value vehicles at a cost of <USD$20k to the end user. These vehicles, as well as the better known BYD, were prevalent on the roads. We view a strategy to target 85% of the global population while supporting a greener future and global net zero targets as a very positive one. Interestingly, just post the trip, BYD Shenzhen (the world's largest car carrier with 9,200 standard loading spaces) undertook its maiden voyage transporting 7,000 BYD vehicles to Brazil.

The Central government is targeting 'around 5%' GDP growth, slightly ahead of the IMF's 4.6% forecast. The IMF have reiterated China's need to shift away from its export-driven economic model, emphasizing the importance of transitioning to a consumption-led economy, resolving challenges in the property sector, expanding the services sector, and reducing state intervention in economic activities.

Philippines

Despite ongoing political challenges, the Philippines' economic outlook remains positive. Although the IMF recently revised its 2025 growth forecast down to 5.5% (from 6.1%), the economy continues to be supported by strong household consumption, a resilient services sector, and improved trade dynamics. Inflation has eased sharply, falling to a five-year low of 1.4% in April 2025, primarily due to declining food and transport costs. This has provided the Bangko Sentral ng Pilipinas (BSP) room to adopt a more accommodative monetary policy stance, resuming its easing cycle with a 25-basis point cut to bring the policy rate to 5.5%. The Philippine peso has also strengthened, buoyed by favourable investor sentiment and a weaker US dollar. Looking ahead, the government's record budget for 2025, with significant allocations for education and infrastructure, is expected to underpin economic growth and contribute to poverty reduction.

The major overhang is the US tariffs which, like their peers, could definitely see some downgrades to the current exuberance. Importantly, on a relative basis, the Philippines feels like it has more to play with.

Indonesia

Indonesia's economic outlook reflects a balance of ambition and caution. The Prabowo administration has set a GDP growth target of 5.2%, supported by continued infrastructure investment and expanded social programs. However, the IMF's forecast is more conservative at 4.7%, citing external trade pressures and domestic fiscal limitations. While the government maintains a long-term goal of achieving 8% annual growth by 2029, near-term progress will depend on prudent policy execution amid global uncertainty.

The launch of a new sovereign wealth fund (Danantara), aimed at consolidating state-owned assets and attracting long-term investment, and modelled on Singapore's Temasek, is an interesting development. The fund aspires to manage up to $900 billion in assets and draw in significant global capital. Despite the very recent establishment of Danantara, the consensus view from companies and investors alike was that it was a positive development supporting further development of the infrastructure sector and economy alike, without further pressure on government budgets.

Infrastructure

While the Asian infrastructure landscape remains dynamic in 2025, key themes have emerged and evolved. Our latest observations highlight several interesting trends, including:

- Energy: Growing power demand, supportive policy, the energy transition and rise of technology remain dominant regional themes, with the focus now firmly on execution over ambition. As with elsewhere in the world, Asian utilities are working to scale generation, decarbonise portfolios, and/or invest in network infrastructure, all while managing the pressures of affordability, supply security, and sustainability. The investment opportunity lies in multi-decade development pipelines, underpinned by network augmentation, growing or greening the generation fleet, and rising power consumption. If executed well, these factors can support incremental and long-term earnings growth. However, the question of 'who pays' (governments, consumers, or investors) and quantifying an acceptable level of bill-shock, remain central to investment risk and return.
- Airports: Despite persistent global affordability challenges, travel momentum remains strong, supported by pent-up demand, competitive fares, and structural shifts in consumer behaviour post-COVID. While Chinese outbound tourism remains slower than expected, regional markets—particularly in Southeast Asia—are driving growth. We note especially strong premium segment demand and record load factors across key hubs, supporting ongoing passenger and earnings momentum through at least 2025.
- Ports: Throughput growth, while moderating, remains solid. However, the current operating environment makes it challenging to distinguish between underlying organic growth and volumes driven by the front-loading of orders to circumvent US tariffs. Global trade is evolving in response to rising nationalism, reimposition and potential escalation of trade wars and geopolitical tensions, creating both challenges and opportunities for port operators. While no operator is entirely immune, those with diversified port portfolios (as opposed to single-port operators) and a greater composition of gateway throughput tend to be more resilient and better positioned to adapt across a range of trade or economic scenarios.
- Transport: Expressways and rail remain vital arteries for the movement of passengers and goods, supporting economic growth and regional integration. For the most part, traffic and ridership have normalised post-pandemic, with investment focus shifting toward capacity upgrades, network expansion, and operational efficiency. In road infrastructure, traffic growth remains steady, driven by growing MV penetration, urban congestion and both greenfield and brownfield expansion. In rail, intercity and regional projects continue to advance, though funding structures and execution timelines vary. Asset performance will increasingly hinge on demand predictability, regulatory clarity, and the ability to monetise ancillary opportunities.
- Communications: The rise of data infrastructure remains a major global theme, underpinned by sustained demand for high-speed connectivity, fiber backhaul, data centres, and cloud services. New tower and tenancy growth has moderated between investment cycles, and tower companies are increasingly

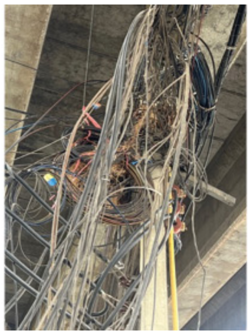
investing in ancillary services that leverage existing infrastructure and customer relationships to either enhance revenue per tower or create alternate income streams. While regional execution varies, the long-term fundamentals remain solid, underpinned by 5G expansion, fiber rollout, small cell deployment, and how to future-proof assets to capture the next wave of digital connectivity.

We touch on each of these below, as well as wrap up a few other sector dynamics.

Utilities

Global utilities remain a favoured investment theme as a result of strong government support for a sector facing incredible investment dynamics as the globe moves towards a cleaner environment and technology usage gains traction. This trip reinforced that the Asian market must and will play an important role in this evolution.

Bangkok Power Lines



Malaysian utilities

The sector is undergoing a significant transformation, unlocking a multidecade investment pipeline spurred by robust power demand growth, Malaysia's National Energy Transition Roadmap (NETR), and company-specific aspirations in pursing energy transition.

We met with TNB, an integrated utility with a strong network business governed by Incentive Based Regulation (IBR) on its Regulated Asset Base (RAB). In the current RP4 cycle (2025-27), the regulator has approved total capital expenditure of RM43 billion, split into RM27 billion of base capex (a 30% uplift from previous period) and an additional RM16 billion of contingent capex. Contingent capex has been further sub-categorised, 64% of which is linked to energy transition infrastructure, 30% to demand growth, and 6% to supply security.

The IBR structure and TNB’s domestic focus offer earnings defensiveness amid ongoing tariff uncertainties. However, investor concerns have recently centred on the visibility of contingent capex execution and the implications of data centre (DC) expansion following US AI Diffusions rules (AI chip export controls). This meeting was particularly timely with TNB outlining the RM16 billion contingent capex pool is comprised of 90 pre-approved projects, with spend activated by specific triggers such as increased demand or accelerated transition milestones. While management expects a back-end loaded contingent capex profile, they are relatively confident in ultimate deployment. On the DC front, TNB noted its secured pipeline stands at 5.9 GW, with current demand largely cloud based. Recent AI developments have yet to materially impact DC applications. Any acceleration in DC growth would trigger demand-driven contingent capex. In our base case, we assume full deployment of the base capex and only 50% of the contingent capex in RP4 (below management guidance of 60-70%), presenting upside risk should execution exceed expectations. The stock remains an attractive risk/return proposition at these levels with the latest meeting improving our confidence in the story.

Thai electricity utilities

Thailand's latest iteration of its Power Development Plan (PDP 2020) targets carbon neutrality by 2050 and net-zero greenhouse gas emissions by 2065. However, implementation remains uncertain, with recent policy interventions and shifting market dynamics likely necessitating further revisions to balance long-term power supply adequacy with affordability. A key concern is the structural oversupply in the domestic electricity market. Even under sustained annual demand growth of 3-5%, Global Power Synergy (GPSC TB) estimates that Thailand will remain oversupplied for nearly a decade, with reserve margins currently averaging 25-30%. This prolonged surplus has significant implications, particularly as a number of Power Purchase Agreements (PPAs) for existing capacity, approach expiry.

The Thai electric utilities are further under pressure as the Energy Regulatory Commission (ERC) retains strong oversight on the energy tariff. The fuel tariff (Ft) adjustment mechanism was designed to efficiently pass on the costs or savings from fluctuating procurement costs to end-users. However, ERC tariff freezes, while intended to lower energy costs and stimulate the Thai economy, have led to margin pressure, with the operators largely relying on declines in feedstock prices as opposed to tariff adjustments to support margins. While the sector has seen some reprieve through declining prices (gas and coal) and subsequent upward tariff revisions, margins remain well below levels prior to intervention. The failure of the regulatory construct/contract structure with little judicial recourse has long been a concern for us with the sector and a reason we are not invested despite the opportunity underpinned by the country's evolution.

The competitive intensity of local renewable energy bidding and margin squeeze through ERC intervention is driving Thai utilities to pursue international opportunities to diversify earnings and mitigate the risk of non-renewals and declining profitability. GPSC is expanding its footprint via investments in Avaada Energy, a renewables platform in India, and an offshore wind farm project in Taiwan. Electricity Generating PLC (EGCO TB) has similarly broadened its exposure across six international markets (the US, South Korea, Laos, the Philippines, Taiwan, and Indonesia) primarily through minority stakes that leverage domestic partners to manage regulatory and operational risk. EGCO's portfolio has materially shifted, with only 44% of total capacity (measured in megawatt equity-equivalent, MWe) now located in Thailand, and 56% internationally. While these international investments mark a clear strategic evolution, it is yet unclear that they are value add.

Despite significant share price correction, we continue to see more risk than opportunity to the Thai Utility sector at this time.

Chinese gas utilities

In recent years, the once-infamous sector tripod of (i) gas sales volume growth, (ii) dollar margin (DM), and (iii) new customer connections has steadily eroded. Anticipating pressure on these fronts, we reduced our exposure to the sector and took comfort in our residual position by adopting conservative assumptions in our forecasts. Unfortunately, those assumptions, especially on volumes and connections, proved accurate, as most Chinese gas utilities either downgraded or missed 2024 guidance. One of the clearest take aways from this trip and management discussions, was that the pain is not over with operators having little optimism for 2025.

I. Volumes have remained sluggish amid a slower macroeconomic recovery, stalled industrial upgrades, and a pause in coal-to-gas conversion, as elevated gas costs weigh on feasibility. A growing headwind has emerged as upstream players become increasingly aggressive in direct sales, targeting large industrial clients, such as gas-fired power generators.

II. Dollar margins, by contrast, have recovered in line with expectations. A combination of lower global gas prices and more supportive government policies, particularly around cost pass-through to residential users, has underpinned ongoing recovery. However, this has not been enough to offset volume weakness

III. Connections, historically a key profit driver due to their high-margin nature, have come under pressure from the continued pressure in China's property market. Even prior to the recent property market woes, our forecasts anticipated a slower long term trend with the current environment merely accelerating it. The major difference relative to our estimates has been the higher composition of existing dwellings, which typically attracts lower revenue and margin on a per connection basis relative to new dwellings.

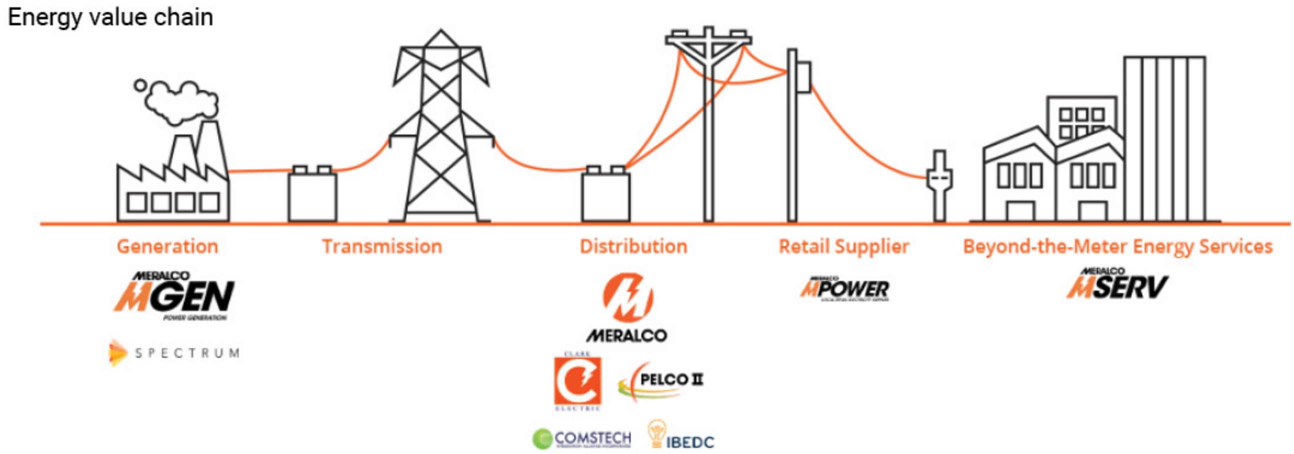
We view the sector as undergoing a structural shift, one born of necessity. Operators are shifting away from the legacy three-pillar model and focusing instead on customer retention and sustainable earnings growth. One tactical response has been accepting lower dollar margins in exchange for volume stability, particularly through discounted rates to retain key industrial clients or where incremental sales help neutralize the discount impact. Beyond pricing tactics, management teams are also seeking to establish a new pillar of growth by maximising value from incumbent operations. Rather than aggressively pursuing new concessions, many operators are concentrating on extracting more value from existing customer relationships and infrastructure. This strategic pivot reflects a broader recognition that long-term profitability will depend less on geographic expansion and more on deepening engagement within their existing footprint. Key initiatives include increasing customer penetration, increasing usage per customer, value-added services and integrated energy.

A more strategic response is evident in ENN Natural Gas's proposed acquisition of ENN Energy. This transaction reflects a clear imperative to consolidate upstream and downstream operations and compete more effectively across the entire gas value chain. If completed, ENN Energy's downstream distribution business would be merged with ENN-NG's upstream and midstream assets. According to management this vertical integration aims to improve supply chain control, unlock operational synergies, and allow more flexible responses to market, regulatory, and competitive pressures. It also sets a potential precedent for vertical integration as a future model in China's evolving gas utility landscape.

Under the proposal, ENN Natural Gas intends to privatize ENN Energy through a scheme of arrangement, offering a mix of cash and newly issued ENN-NG H-shares for every existing ENN Energy share. While the offer could be considered fair in headline terms, investor concerns, including our own, remain around the deal's reliance on ENN-NG H-shares, which typically trade at a discount to their A-share counterparts due to capital controls, liquidity constraints, and a segmented investor base.

Philippines electricity utilities

Manila Electric Company (MER) is the largest distribution utility in the Philippines, serving 8 million customers and vertically integrated across the power supply chain.



Source: Manila Electric

MER's core distribution business is regulated under performance-based regulation, which typically ensures stable and predictable cash flows. However, the Energy Regulatory Commission (ERC) has not issued a tariff reset since Regulatory Period (RP) 3, covering 2012–2015. Ongoing challenges at the ERC, including limited institutional capacity, high turnover, procedural complexities, legal challenges, and allegations of corruption, have contributed to a persistent regulatory backlog. As a result, MER has operated under interim tariffs, refunding approximately PHP50 billion in over-recoveries. The latest extension of the lapsed period could result in an additional PHP15-20 billion in refunds. The ERC has confirmed that the next RP will cover July 2025 to June 2029, resolving ambiguity around the rate-setting timeline. However, it remains unlikely that a final determination will be implemented by July. MER's submission for the 2025–2029 period proposes an investment plan underpinning a 5% CAGR on its regulated asset base. The total revenue requirement and average tariff are linked to the approval of a proposed 14.6% weighted average cost of capital (WACC), which has drawn scrutiny. Based on the ERC's recent refund orders and preliminary feedback, a WACC closer to ~11.7% appears more probable and palatable to the customer base.

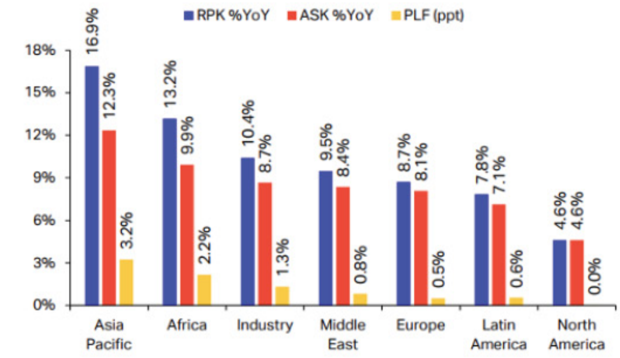
We remain constructive on the energy demand outlook and the substantial investment requirement across networks and generation, where MER is strategically positioned to capitalise. However, resolution of ERC-related issues and a return to normalcy through a transparent, four-year rate-setting cycle are critical to improving sector investability by restoring visibility on returns, earnings, and cash flows.

Airports

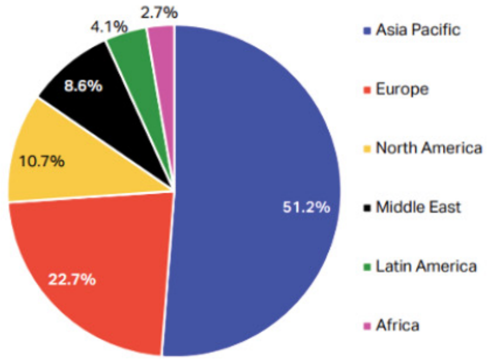
Air passenger growth is an exciting global investment thematic capitalising on many population dynamics including the emergence of the middle class. Despite visiting many on this trip under private and government ownership, unfortunately there is very little opportunity to capitalise on this thematic in-region with Airports of Thailand and Beijing Capital International Airport the only listed opportunities available to us.

Global air travel demand posted strong growth in 2024, with industry-wide Revenue Passenger-Kilometres (RPK) increasing 10.4% year-on-year. This figure surpassed the 2019 pre-pandemic benchmark by 3.8%. Notably, 2024 saw a full regional recovery, as all geographic regions exceeded their pre-pandemic performance, marking a new era of absolute growth. Nowhere was this growth more evident than in Asia Pacific with the region contributing over 50% of the 2024 RPK growth.

Industry and regional RPK, ASK and PLF growth in 2024



Regional contribution to industry-wide RPK growth in 2024, %



Source: IATA Sustainability and Economics using data from IATA Information and Data - Monthly Statistics

While passenger demand remains robust, the pace of growth is expected to moderate as markets transition from post-pandemic recovery to more structural, long-term growth patterns and in the short-to-medium term, several headwinds could impact the industry's trajectory. Economic uncertainty, demand stabilisation, geopolitical instability, airline capacity constraints, and ongoing supply chain disruptions in aircraft manufacturing may temper growth, particularly in mature markets. Additionally, infrastructure limitations at congested airports may hinder passenger growth. Importantly, emerging markets are likely to remain a key engine of growth, underpinned by rising infrastructure investment, growing middle-class travel demand, growing passport penetration and greater adoption of air travel.

Sydney Airport - Private

Manilla Airport - Govt

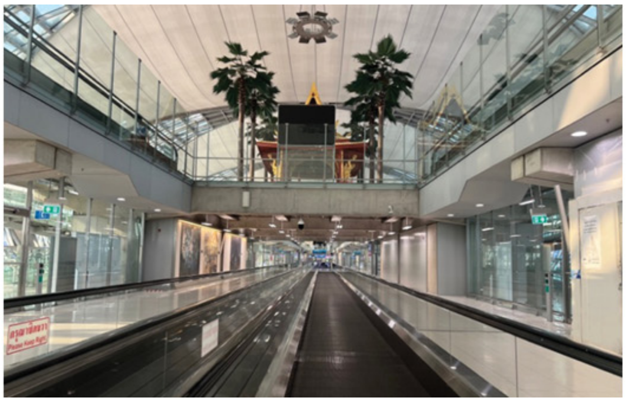
AOT Bangkok - Listed

Jakarta Airport - Govt

Thailand

Airports of Thailand (AOT) should be an incredible investment proposition underpinned by strong passenger growth, capacity expansions, regulatory returns and commercial upside. However, unfortunately every part of the investment case is at risk.

In 2024, AOT recorded passenger growth of 19.2% year-on-year (September year-end) but contrary to the above trend, they only reached 84.1% of pre-pandemic levels. Domestic traffic growth was muted, while international travel surged 35%. Management attributed the strong international recovery to various visa-free travel initiatives (having expanded arrangements from 57 to 93 countries and territories) and demand-stimulating measures. However, Chinese inbound tourism to Thailand remains a notable laggard - still at just 63% of 2019 levels due to weak consumer sentiment, prolonged visa and passport processing times, and limited airline capacity. Despite ongoing challenges, Chinese inbound tourism is considered the driver of near-term and long-term growth with AOT management pushing forward with ongoing expansion plans across all six of its airports. While we are supportive of increased capacity within the Thai airport arena, this trip definitely increased concerns around execution risk and the return proposition of the current expansions. We also question need at this time considering 'congestion' on arrival on a mid-afternoon international flight.



The other core overhang remains the regulated passenger service charges (PSC). AOT has engaged an external consultant to assess and prepare a proposal for an increase to the PSC, with the findings to be submitted to the Civil Aviation Authority of Thailand (CAAT) and the Ministry of Transport (MoT). The last official PSC increase was implemented in 2007. In 2013, AOT attempted to raise the international PSC by 14% and the domestic PSC by 50%, but the proposal was rejected by the Department of Civil Aviation (DCA). Management expects the current study to take at least 12 months, after which a formal proposal will be prepared. The key factors guiding the proposed PSC increase include the required rate of return under Thailand's single-till framework (though the threshold remains undisclosed), operational costs, and capital expenditure – both past and future. Following the review by CAAT and MOT, the final decision will rest with the Cabinet. The entire process is expected to take 2-3 years, with no guarantee of approval – an outcome that would be disappointing given AOT's rising cost base and investment requirements. Our conversations with the company did not suggest a high degree of confidence in a successful outcome, despite the significant capex underway. The prospect of a PSC increase is not central to driving investment decisions, as AOT are proceeding irrespective of any tariff approval, which could ultimately undermine the economics of the investment.

Further, pressuring returns, AOT has suffered due to a combination of government-imposed policies and internal strategic decisions that have weighed on its non-aeronautical business.

Effective 24 August 2024, Thailand's Ministry of Finance (MoF) implemented a Cabinet-approved proposal to abolish on-arrival duty-free (DF) shops at airports, aimed at encouraging greater in-town spending by both tourists and local consumers. AOT had previously expressed its scepticism about the policy's effectiveness, arguing that most travellers, foreign and Thai alike, tend to plan ahead and typically make duty-free purchases on departure, not arrival. As a result of this policy alone AOT loses 5% of its total non-aeronautical revenue. Separately, AOT announced the reclamation of certain commercial areas from its main concessionaire, King Power Duty Free (KP), and office areas from government agencies at BKK and Phuket (HKT) airports. These measures are intended to alleviate congestion and improve service quality, following recommendations from Skytrax and AOT's internal Airport Service Quality Strategy Committee. This initiative is expected to result in an additional revenue loss of ~3% of total non-aeronautical revenue.

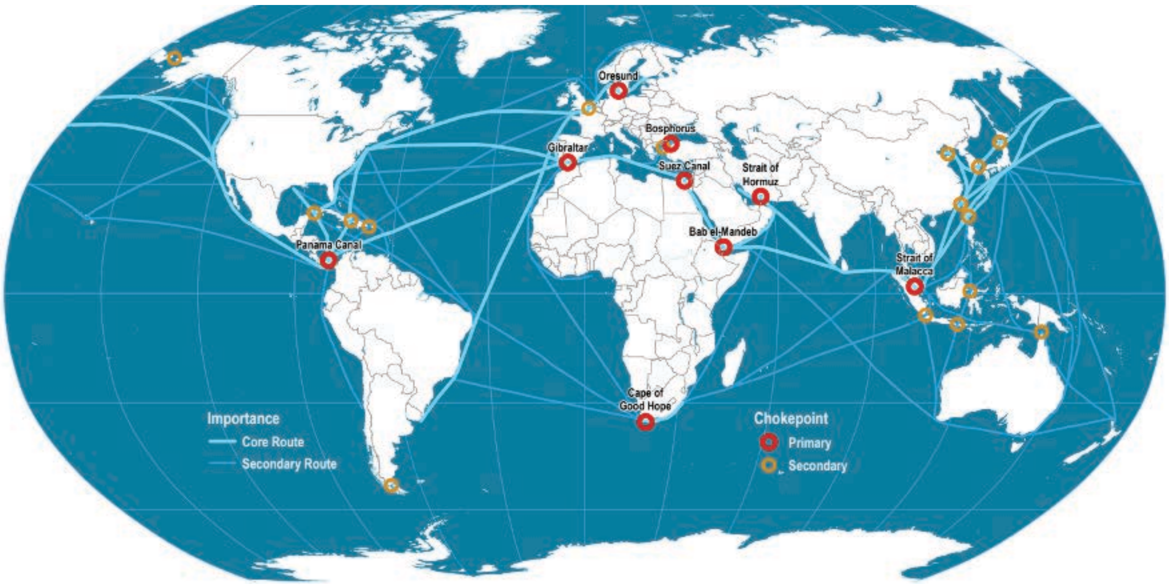
Finally, AOT shares further de-rated in February 2025 after the company extended credit terms to its concessionaires, with over 70 operators, including key partner King Power, requesting relief. Reported financials highlight non-current trade receivables increasing sharply from Bt2.0 billion in Sep-24 to Bt5.7 billion in Dec-24, with over Bt4 billion attributed to King Power. Amid ongoing liquidity pressures and many concessionaires remaining unprofitable despite the tourism rebound, AOT agreed to defer Minimum Annual Guarantee (MAG) payments for up to 24 months. These deferrals will incur interest at Minimum Lending Rate (MLR) + 2%, and AOT will require collateral for outstanding dues, including penalties. AOT's strategy aims to preserve long-term stability and operational continuity, with expectations of a business recovery by 2026. The company maintains that extending payment terms is preferable to contract termination, which could lead to re-bidding of concessions at potentially materially lower MAGs.

Collectively, these developments have weighed on earnings, investor sentiment and created prolonged uncertainty around the outlook for AOT's non-aeronautical segment.

As such, while the industry dynamic for airports remains robust, unfortunately the return dynamic for AOT given current intervention and risk to future capex recovery sees the stock as a low-quality proposition to capitalise on what is otherwise a very attractive global thematic.

Ports

Maritime transport serves as the main artery of global trade, handling over 80% of global merchandise trade in volume and over 70% of global trade by value. Maritime lanes connect global value chains, carrying raw materials and semi-processed goods to production hubs and delivering finished products to consumers. These flows are vital for industrialization, economic growth and job creation. However, the sector is facing numerous challenges that threaten the efficiency, reliability, resilience, and sustainability of maritime transport. Geopolitical tensions have disrupted shipping routes, lengthening supply chains. Meanwhile, the risk of rising US tariffs has added to the volume and routing uncertainty, leading to increasing demand through front-loading. Global trade is evolving in response to rising nationalism and geopolitical tensions, creating both challenges and opportunities for port operators. While no operator is entirely immune, those with diversified port portfolios (as opposed to single-port operators) and a greater composition of gateway throughput tend to be more resilient and better positioned to adapt across a range of trade or economic scenarios.



Source: Dept. of Maritime Business Administration, Texas A&M University

Maritime trade outlook

In 2024, the container market surpassed growth expectations, with volumes increasing 6.2% and demand for TEU-miles rising 21%, according to Sea-Intelligence. The increase in volumes was driven by a mix of underlying economic growth and front-loading of orders, while the sharp rise in TEU-miles was largely a result of the Red Sea crisis, which forced carriers to re-route vessels around the Cape of Good Hope. Looking ahead to 2025, the container volume growth outlook remains fluid and is closely linked to tariff developments – including the scale of tariffs, their timing, and the potential for any trade agreements brokered. In mid-April, shipping consultancy Drewry revised its forecast, now projecting global port container volumes to decline by 1% in 2025 due to US trade policies. If realised, this would mark only the third annual contraction since records began in 1979 – following 2009 (during the global financial crisis, down 8.4%) and 2020 (Covid-19 pandemic, down 0.9%). While (at the time of writing) a 90-day pause has been placed on most tariffs, this is expected to trigger further front-loading by importers. Although this may support short-term throughput growth, it could also result in port congestion, higher freight rates, and trade disruptions – potentially distorting the perception of underlying demand health.

Port operator guidance for 2025 remains mixed, reflecting differences in portfolio composition and market exposure. However, a common theme across the board is a more cautious outlook relative to 2024. China Merchants Port (CMP) expects volume growth to moderate to 1-2% for the full year (+5.6% in Q1) as does COSCO Shipping Ports (CSP), who saw Q1 growth of 7.6% driven by low base effects and front-loading activity. International Container Terminal Services (ICTSI) anticipates mixed performance across its portfolio, but overall volumes are expected to grow in line with the industry, with management targeting 2-4% the full year growth. Westports (WPRTS), a key trans-shipment port situated along key Asia-Europe and intra-Asia trade routes in the Strait of Malacca, recorded 1% throughput growth for 1Q25 and is guiding for "low single-digit" volume growth in 2025. Interestingly for them, Gateway volumes are expected to remain broadly flat after several years of strong growth, while trans-shipment volumes are projected to grow in the "mid-single-digit" range as the port recaptures volumes lost to nearby competitors during prior congestion periods.

Tariffs

At the time of writing the scope and scale of the proposed tariffs have surprised markets and triggered immediate disruption to global shipping and trade activity. Port operators had largely anticipated that trade negotiations would remain focused on China, Canada, and Mexico. However, they were caught off guard by the announcement of a worldwide blanket 10% baseline tariff on all imports, alongside differentiated rates targeting specific countries. This broad-based strategy has introduced a new layer of uncertainty to global trade flows and container logistics, with far-reaching implications for pricing, routing, and demand. The impacts are multifaceted:

- Manufacturers are accelerating shipments or re-routing trade flows, pushing up short-term freight rates.
- Bonded warehouse capacity is increasingly stretched, as businesses rush to clear goods ahead of tariff implementation.
- Some shippers are delaying cargo movement, awaiting clearer policy guidance or clarity on potential retaliatory tariffs.
- Trade volumes are expected to enter a period of volatility and realignment, disrupting established shipping lanes and rate structures.
- These dynamics are likely to contribute to congestion, delays, and broader inefficiencies across the supply chain.

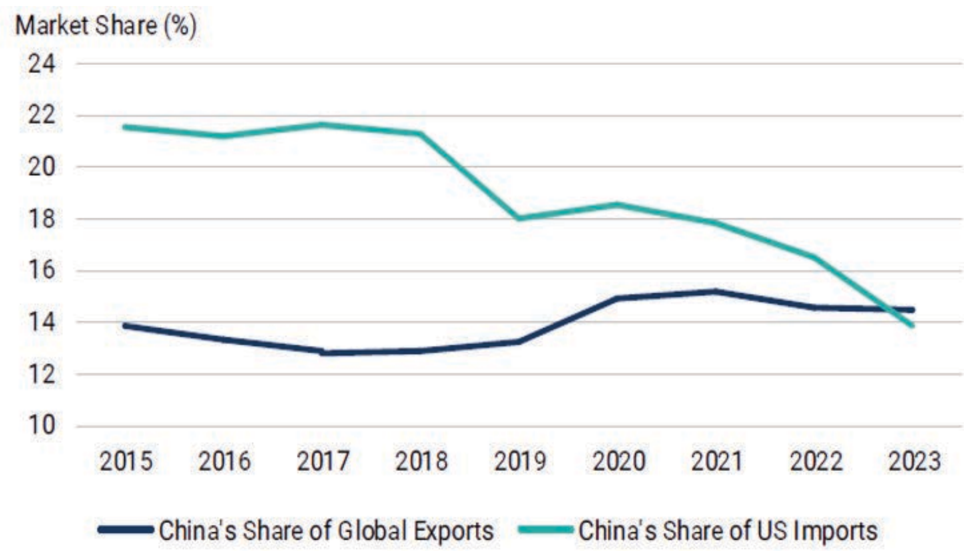
Supply chain experts caution that reconfiguring supplier networks is a long-term undertaking. It is not a matter of simply switching to new producers as full relocation and network establishment can take years. This hesitancy is further compounded by political uncertainty, with many manufacturers reluctant to commit to long-term investments that may be unwound after the conclusion of President Trump's current (and arguably final) term.

In response to escalating trade tensions, port operators have moved swiftly to assess their exposure either across the entire network or at key terminals. CMP reports minimal direct exposure to the US (<5%), though it acknowledges rising indirect risks from Southeast Asia-US trade flows. CSP similarly cites limited direct exposure (~5%) but expressed heightened concerns under the Trump 2.0 tariff regime, particularly as 80% of flows transit through Southeast Asian countries, with a substantial portion ultimately bound for the US. ICTSI noted that its US exposure is modest, with only 15% of total exports destined there. A deep dive into its Mexican operations revealed that, while 60% of imports are from China, only one-third are routed to manufacturing hubs in northern parts of Mexico, and of these, just half eventually reach the US. This translates to around 6% direct exposure at its Mexican terminals, with the remainder consumed domestically or re-exported. WPRTS acknowledged the broader economic and social disruptions stemming from tariffs, citing early evidence of consumer boycotts in Malaysia. While these developments may pressure its throughput guidance, management's primary concern is that sustained aggressive tariffs could dampen global growth, potentially escalating into a container volume recession should broader economic conditions deteriorate.

Supply chain shifts

Countries and companies have increasingly focused on 'decoupling', 'diversifying', and 'de-risking' their supply chain configurations – a trend that, while not new, has accelerated following the COVID-19 pandemic, rising geopolitical tensions, diversification initiatives, tariffs, and other policy shifts. Although not necessarily the most competitive or efficient, several ASEAN and other emerging market countries have benefited from this global supply chain reconfiguration. The impacts include trade diversion through intermediary countries to avoid direct shipments from China to the US (thereby circumventing tariffs); the relocation of foreign direct investment (FDI); the implementation of favourable policies (such as re-shoring subsidies and tax credits); and an increase in self-reliance through import substitution and R&D initiatives.

Relocating manufacturing bases or rerouting shipments through alternative jurisdictions does not inherently reduce global container throughput. Moreover, while tariffs can dampen demand, exporters often seek out alternative markets for their goods. As illustrated below, US imports from China fell to 14% of total US imports in 2023, down from 22% in 2017. However, China's share of global exports remained resilient, with Chinese exporters expanding into other markets, particularly in emerging economies.



Source: CEIC and UBS

CMP, COSCO, and ICTSI have actively expanded their global terminal networks, prioritising locations with strong gateway or consumption-driven throughput to better mitigate risks associated with shifting global trade dynamics. This strategy has positioned them to capture shifting trade flows amid ongoing supply chain realignment. CMP and CSP, in particular, are more exposed to industrial migration and the 'China +1' strategy through their domestic operations, as companies diversify manufacturing footprints beyond China. While this transition often introduces short-term uncertainty and may moderate near-term growth expectations, both operators have expressed optimism regarding the Chinese government's shift from an investment-led economy toward a 'dual circulation' model. By prioritising domestic production and consumption while enhancing high-end industrial goods output, the model is expected to foster more sustainable long-term growth. Both CMP and CSP also remain proactive in seeking new terminal opportunities in regions likely to benefit from this structural shift. ICTSI has emerged as a key beneficiary of structural re-shoring trends, driving volume growth at core terminals such as CMSA (in Mexico). Meanwhile, WPRTS pointed to record-high levels of FDI over the past two years alongside container throughput growth, as clear evidence of its gains from supply chain realignment and continued expansion in intra-Asia trade.

US Port Call Fees Targeting Vessels with Chinese Nexus

While tariff announcements have captured headlines, a separate draft executive order from the US government is drawing attention for its proposal to impose significant port call fees on vessels with direct or indirect links to China. The initiative aims to reduce China's influence in the maritime, logistics, and shipbuilding sectors, but would impact a substantial portion of the global fleet calling at US ports.

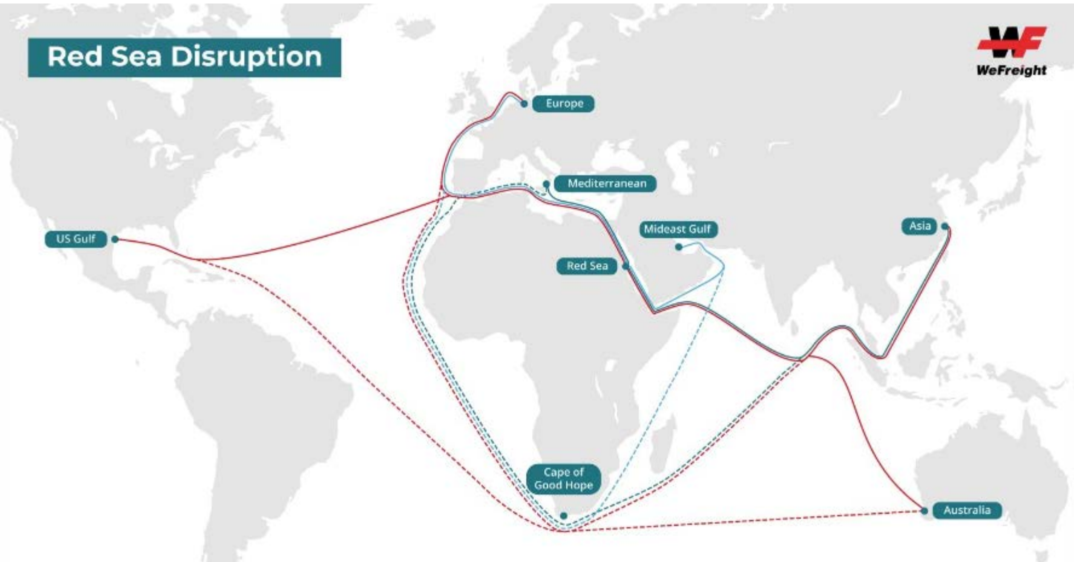
Key elements of the proposal include:

- A port call fee of up to USD$1 million (or USD$1,000 per net ton) for vessels owned by Chinese entities.
- For all vessel owners, regardless of nationality:
  - fleets containing Chinese-built vessels would be subject to an additional fee of up to USD$1.5 million per call, based on fleet composition and
  - fleets with vessels on order at Chinese shipyards could incur a further fee of up to USD$1 million, tied to the scale of future orders.

These charges are cumulative, meaning a single vessel could face total port fees of up to USD$3.5 million if it meets all three criteria. In some cases, these fees may even exceed the freight value, introducing significant commercial risk. While the costs are likely to be passed on to cargo owners, the wider implications for port operators and the shipping industry could be significant.

The Red Sea disruptions

The security situation in the Red Sea remains largely unresolved, though the US has recently negotiated a ceasefire with Yemen's Houthi rebels. It remains unclear whether the agreement applies broadly or only to US-flagged vessels. These ongoing disruptions have not surprised port operators within our coverage; as highlighted in our 2024 Asia Trip Insights (15), operators noted that despite ongoing logistical challenges, ocean carriers' networks are adapting to a 'new normal.' The Suez Canal plays a critical role in global trade, historically accounting for approximately 12–15% of total trade volumes and up to 30% of global container traffic. Avoiding the canal and re-routing via the Cape of Good Hope adds more than a week to transit times and over 3,500 nautical miles (6,500 km) to voyages, increasing per-container costs by 20–30%.



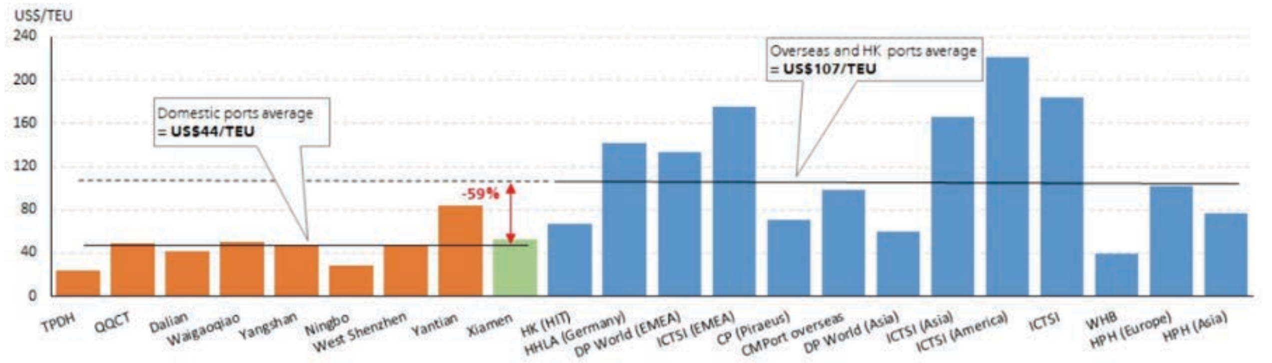
Trade Flows	— Suez Route	--- Cape Route
Middle East to Europe	25 days	42 days
Mediterranean to Eastern Asia	32 days	50 days
Europe to Asia	40 days	52 days
US Gulf to Asia	53 days	57 days
Australia to Europe	38 days	42 days

Source: WeFreight

Port charges

Port charges were less of a focal point in discussions this year compared to last. Port operators broadly agreed that shipping rates have normalised following the pandemic period marked by container shortages, terminal congestion, and elevated global inflation.

CMP and COSCO management indicated expectations of modest domestic tariff increases of 1-2%, while targeting inflation-aligned adjustments at overseas terminals. Over the longer term, we see a compelling case for upward tariff adjustments at mainland China ports, given the significant pricing disparity relative to global peers. Notably, our current forecast excludes domestic tariff increases, which therefore represent a potential source of upside risk.



Source: Company Data, UBS – China Port Tariffs still significantly lower than global peers (2022)

For ICTSI, 70% of the terminals are subject to pricing regulation, which typically results in inflation-like annual increases, while the remaining 30% operate with pricing flexibility.

WPRTS tariffs are regulated by the Port Klang Authority which sets maximum ceiling rates. The company negotiates directly with shippers and typically provides discounts to the ceiling tariff dependent upon volumes. Historically, WPRTS have sought increases every 6 to 10 years and is currently in the process of requesting a container tariff revision, aiming for similar increases achieved in its 2019 review (+30% for transshipment, +20% for Origin & Destination). A decision is expected in 2025 and likely to be implemented in phases. O&D tariff adjustments are passed on almost immediately, whereas transshipment increases typically take 3 to 5 years, as WPRTS cycles through its contract book.

Transport

Transport infrastructure is a core driver and a direct beneficiary of economic development, urbanisation and an evolving middle class. As such they generally represent an attractive investment destination in emerging markets. This trip saw us increasingly positive on Chinese expressways, reiterated thinking on Indonesia while we see downside to the Thai transport names.

Chinese expressways

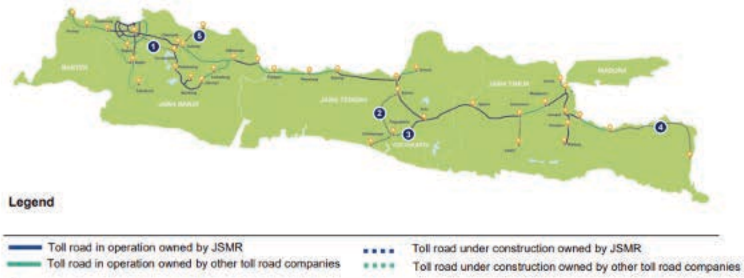
The potential finalization of the long-awaited “Amendments to the National Toll Road Regulation” in 2025 would mark a pivotal moment for China's toll road sector, with reforms poised to reshape its regulatory and investment landscape. First proposed in 2015, the amendments aim to modernize the outdated 2004 framework by introducing mechanisms for toll pricing adjustments, extending concession periods up to 40 years, ensuring compensation for government-imposed toll interruptions, and enabling differentiated pricing to balance traffic flow distribution and enhance overall operational efficiency. These changes reflect the government's broader agenda of infrastructure modernization and fiscal discipline amid rising construction and land costs. Critically, the regulation is expected to provide enhanced protection for toll road operators, offering long-term financial visibility, reduced policy uncertainty, and support for reinvestment through clearer rules on cost recovery. Operators are increasingly optimistic, with expectations of a valuation re-rating as the sector transitions from a defensive yield play to a growth-oriented theme, underpinned by improved return profiles and extended asset lifespans. Zhejiang Expressway (ZJE) expressed optimism about potential regulatory changes, highlighting increased assurance of returns for both new and existing projects. This policy has been in the pipeline for over a decade, so we remain cautious of its imminent implementation, albeit noting that the operators see real signs of its execution in terms of provincially negotiated extensions/investment plans.

Investment in expressways remains critical to connecting remote areas, relieving congestion on mature routes, enhancing logistics efficiency, and facilitating trade. While substantial investments have already been made, the level of infrastructure in China remains below that of developed nations, suggesting continued growth is likely. While greenfield projects are limited, congestion on key routes operated by listed companies underscores the need for redevelopment and expansion. Short remaining concession tenors (5–10 years) have dampened operator appetite for major capital outlays. In response, the central government has issued guidance supporting more favourable toll road policies—most notably lifting the concession cap from 25 to 30–40 years—to ensure reasonable returns. This has prompted all listed operators to engage local governments to progress redevelopment and expansion plans. Jiangsu Expressway (JSE) has commenced widening works on key routes such as the Guangjing-Xicheng and Xiyi Expressways. The company is also in negotiations with the provincial government regarding a major redevelopment and expansion of its core asset, the Shanghai–Nanjing Expressway, which accounts for ~55% of toll revenues and has a concession expiring in 2032. Similarly, Zhejiang Expressway (ZJE) has launched a redevelopment program, including upgrades to the Yongjin and Zhajiasu Expressways and discussions are underway with the local government to finalize the expansion of the Shanghai–Hangzhou–Ningbo Expressway (concession ending 2030; 47% of revenues), with construction expected to begin in 2027. Shenzhen Expressway (SZE) has eight expressways expiring by 2027; four of them (Jihe East and West, GS Superhighway and Yangmao expressway) will have their concession periods extended through widening projects. Upon the introduction of the Toll Road Ordinance, we anticipate further parent company asset dropdowns of brownfield expressways into the listcos, as improved return profiles should enhance investor appetite and reduce the risk of minority shareholders voting against such injections.

Indonesian expressways

Jasa Marga (JSMR) continues to advance its robust development pipeline, which includes five new toll road projects to be constructed in phases. The total estimated cost is expected to exceed IDR85 trillion, with management guiding to an annual investment run-rate of IDR10-12 trillion. Phased development allows the company to manage capital commitments within its balance sheet. JSMR has also become more selective in its expansion strategy, focusing only on projects located in Java that directly connect to its existing network. All new developments are expected to meet or exceed JSMR's internal return hurdle of 13%. For projects that fall short of this threshold, the company retains the option to seek compensation to ensure financial viability. Additional growth opportunities may also be pursued through competitive tenders, acquisitions, or unsolicited proposals.

There has been a lot of pressure on the stock over recent years as it executes on an ever-growing expressway network, keeping the balance sheet under pressure and the time frame for shareholder returns get pushed out. While total return and asset duration has improved dramatically, many investors would sacrifice some of this to see near term cash flows and a growing yield. The recent government budget cuts and injection of the JSMR stake into the Danantara Fund could actually see these investor concerns addressed with a slowdown on road build allowing the company to continue increasing shareholder remuneration to balance future growth with near term cash flows.



1	Jakarta-Cikampek II South	62.00 km
2	Jogja-Bawen	75.82 km
3	Jogja-Solo	96.57 km
4	Probolinggo-Banyuwangi[1]	171.50 km
5	Akses Patimban	37.05 km

	Section	Length (km)
2024	Jogja-Solo (Section 1.1)	22.30
2025 (± 58 km)	Probolinggo-Banyuwangi (Phase 1)[1]	49.68
	Jogja-Solo (Section 1.2A)	8.60
2026 (± 83 km)	Jakarta-Cikampek II South (Section II-III)	54.75
	Jogja-Bawen (Section 1 & 6)	13.78
	Jogja-Solo (Section 1.2B & 2.2B)	14.37
2027 (± 41 km)	Jogja-Solo (Section 2.1A)	3.63
	Akses Patimban	37.05
2028+ (± 263 km)	Jakarta-Cikampek II South (Section I)	7.25
	Bogor Ring Road (Section IIIB)	1.01
	Probolinggo-Banyuwangi (Phase 2-3)[1]	126.22
	Ngawi-Kertosono (Section V)	20.30
	Jogja-Bawen (Section 2-5)	61.34
	Jogja-Solo (Phase 2 & Phase 3)	51.12

Source: Jasa Marga

Thai transport

The Thai government has proposed several policies that, in our view, present risks to both the expressway and rail sectors, either through direct earnings pressure or by introducing greater uncertainty around concession frameworks and travel behaviour.

For the expressway sector, the Transport Ministry has proposed implementing congestion charges in Bangkok to reduce traffic and fund public transportation. The fee is expected to start at Bt40-50/vehicle and increase to Bt80 over time. Price elasticity will be a key factor, as motorists may re-route or shift to alternative transport modes to avoid the added cost, potentially altering traffic patterns across BEM's expressway network. While this may pressure expressway earnings, the impact could be partially mitigated by upside to metro operations, which are likely to benefit from higher ridership due to modal shifts and fare subsidies.

For the metro segment, the government is proposing to extend the 20-baht flat fare across all metro lines and services. However, the policy presents challenges for operators like BEM and BTS, as they are not permitted to retain any upside from policy-induced ridership. Compensation is limited to the difference between the flat fare and concession-agreed rates on organic ridership, creating a complex task to distinguish between baseline passenger growth and incremental demand driven by the policy. A more structurally disruptive proposal is the concession buyback plan, which would shift BEM and BTS's model from concessionaire to O&M operator, albeit with clauses in place for fair-value compensation. The shift would compress long-term upside but partially de-risk earnings through guaranteed returns (cost plus model) and no exposure to ridership – BTS was in favour of this policy while BEM was less so.

Despite significant uncertainty, BEM are advancing their 17-km, Bt35 billion Double Deck Expressway Project, an elevated roadway to be constructed above the existing Si Rat Expressway (SES). The initiative aims to ease chronic congestion without need for direct government funding. The project will be incorporated into the existing SES concession but will require an extension to the residual 22.5-year term to ensure investment feasibility. Although the traffic uplift is modest, the broader network will benefit significantly from improved flow, particularly in areas where off-ramps and entry points are frequently gridlocked. In BEM's metro segment, construction continues on the 36-km MRT Orange Line, a major east-west corridor for Bangkok. The Orange Line is split into two phases: the eastern section (Orange East) is scheduled to commence operations in 2028, while the western section (Orange West) is expected to follow in 2030. These developments will drive significant ridership growth and enhance overall integration across the metro network. Management is hopeful of securing the O&M contract for the South Purple Line given its incumbency on the Purple Line North.

Expressway v metro

Note – the pollution hovering over BKK city in expressway photo

BTS, through the BSR consortium, are currently constructing the Pink Line extension in Bangkok and is scheduled for completion in 2025. BTS is actively positioning itself to capitalize on the government's Metro Master Plan, which aims to double Bangkok's rapid transit network from approximately 275 kilometres today to over 550 kms by 2029. However, only 25 kms are currently under construction, with the remaining ~250 kms pending bid processes and/or cabinet approval. While there are ongoing discussions around a potential shift in the sector model from the current concession-based framework to an O&M contractor model, this is not expected to alter the design or scope of the Metro Master Plan. That said, such a shift could affect the delivery pace and investment model of future projects.

Communications

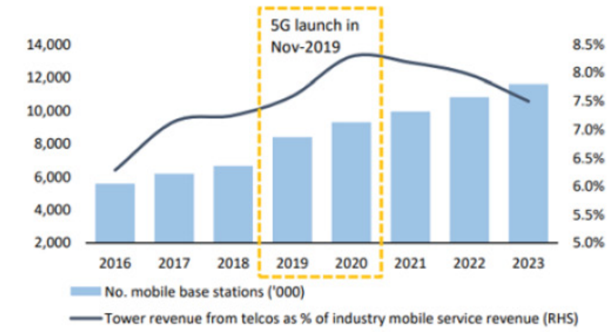
In terms of communications, while the opportunity set of 5G, data and the rise of AI is universal, the ability to capitalise on the growth of technology varies across Asia.

China tower (CTC)

New tower growth for CTC modestly accelerated to 2.3% in 2024 though remains well below the historical 4–8% range, as mobile network operators (MNOs) scale back investments after meeting coverage mandates and focus on network sharing and cost optimisation. We expect tower growth to remain subdued until the regulator mandates additional coverage at specific frequencies or until the 6G investment cycle begins, albeit likely not before 2028–2030.

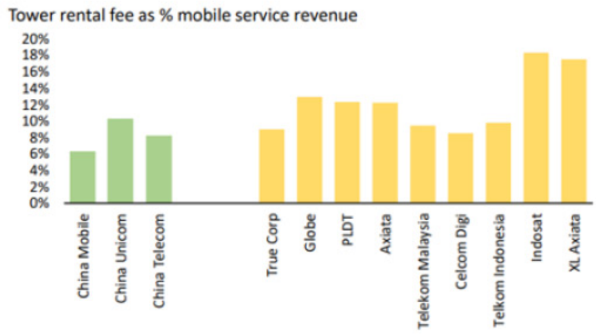
Pricing remains stable under the current 5-year Master Lease Agreement (2023–2027), with the next round of negotiations (2028–2032) expected in 2027. Unlike other jurisdictions, the expectation is for a decline in revenue per tower, consistent with past resets. In line with company guidance, we expect tenancy ratios to improve by 0.3–0.4x, maturing around 2.0x (from 1.81x as of FY24). The tower, tenancy and pricing outlook combine to support muted but stable growth for the core tower business. Certainly nothing to get excited about.

Tower cost as of mobile revenue remained stable despite increasing no. mobile base stations



Source: Company data, MIT

Tower cost of mobile service revenue in China is reasonable compared to regional peers



Source: Company data, UBS estimates

CTC is diversifying through its 'Two Wings' strategy, focusing on its Smart Tower business and innovative energy services. Both segments are still in relatively early stages and leverage the existing asset footprint to generate incremental revenue from new and existing customers. While both have demonstrated solid growth and added value, we expect this to normalise, with combined contribution to total revenue remaining below 20%.

As with all Chinese names, dividend growth is a key re-rating catalyst. The company's ability to increase distributions is limited by State-Owned Enterprise (SOE) rules, which prohibit dividend per share from exceeding earnings per share, regardless of underlying FCF. A step-up in net profit and DPS could occur in 2026 as tower assets acquired in 2015 are fully depreciated. However, this upside may be offset by continued tower augmentation and equipment replacement, which extend tower life but increase depreciation and capex due to shorter-cycle assets.

Despite strong cash flow and a solid balance sheet, CTC remains a capital-trap. SOE rules limit dividends to earnings per share, share buybacks are constrained by free float rules, and US bans on key shareholders (China Mobile, China Unicom and China Telecom) dampen foreign interest.

Mitratel (MTEL)

Investor sentiment toward Indonesia's tower sector remains cautious amid the prospect of consolidation between MNOs XL Axiata and Smartfren (XLFREN) and the 2022 merger that created Indosat Ooredoo Hutchison (IOH). While MNO consolidation typically supports long-term industry fundamentals, such as financial stability and coordinated investment planning, it often introduces short-term headwinds. These include portfolio rationalisation, where overlapping sites are decommissioned or relocated, and elevated churn from non-renewals, both of which reduce net new demand for towercos. Consolidation may also weaken pricing power in revenue negotiations. Meanwhile, rival MNOs typically adopt a 'wait and see' approach, deferring network investment until there is greater clarity around the merged entity's strategy. As a result, tower and tenancy growth may remain subdued in the near term despite stable fundamentals.

APAC markets are at various stages of 5G adoption, however Indonesia lags behind regional peers, particularly in spectrum allocation and network performance. While 4G coverage reaches 98% of the population, just 26.3% had access to 5G by the end of 2024, and the country ranks 9th out of 10 ASEAN nations in mobile and fixed broadband performance. Progress has been limited by spectrum availability, with key mid-band frequencies still allocated to other services such as satellite communications. Once 5G spectrum auctions occur, they are expected to trigger a new wave of investments for towercos, as the technology demands significant network upgrades and densification. However, successful 5G implementation will hinge on a confluence of factors, including clear policy, efficient spectrum allocation, robust infrastructure, and sound commercial models.

With demand for new towers softening, Indonesian tower companies are shifting focus to fiber deployment to unlock new revenue streams and future-proof their infrastructure. This strategy allows towercos to leverage existing assets and customer relationships while responding to growing demand for high-speed connectivity. MTEL, in particular, has aggressively expanded its fiber footprint, both organically and via acquisitions, reaching over 32,000 km by the end-2024. It targets 10,000 km of additional rollout annually and is actively pursuing opportunities arising from MNO asset divestments.

MTEL is the best positioned Indonesia's towerco to capitalise on current and future sector themes. It benefits from a strategic affiliation with sister company Telkomsel (Indonesia's largest MNO), has an extensive and underutilised nationwide tower footprint with distinctive site locations, and boasts the strongest balance sheet metrics within the sector. Importantly, it also has the lowest exposure to the ongoing IOH rationalisation and the potential XLFREN merger. Despite these advantages, MTEL trades at a discount to peers. We believe this valuation gap is unwarranted and should narrow over time.

Portfolio positions

Despite ever-evolving political and economic headwinds across the globe, this trip sees us reaffirm our investment in the Asian region. We have factored in the risks and believe the value proposition of the quality infrastructure names continue to be very attractive.

In summary:

- Energy: A growing middle class, a global desire for a greener future and the increasing importance of technology in everyday life makes for a huge investment opportunity globally, including Asia. However, as investors we seek not only growth but reliable returns which limits the current regional investment universe to Malaysia where we are increasingly confident in the development of this sector in a shareholder-friendly way. By contrast, despite an improved regulatory outlook, we see increasing structural headwinds in the Chinese gas sector making it relatively less attractive than historically. Elsewhere we see ongoing regulatory hurdles across the region that need to be resolved before we would look to take a position.
- Airports: Asia is a driver of global air passenger growth seeing a structural need for increased airport capacity globally. Unfortunately, we do not see an attractive way to play this thematic in the region, but rather gain our exposure via destination airports in Europe and those Asian airports under European ownership (Vinci owns a global airport network including assets in Japan and Cambodia which are both benefiting from Asian tourism).
- Ports: Sentiment and uncertainty around tariffs and trade routes remains a significant headwind for the port sector in the near term. However, we were surprisingly positive on the fundamentals of the core operators we met with, particularly those prioritising diversity in gateway locations while structurally mitigating US exposure.
- Toll roads: The rise of the middle class remains a core theme across the region, and we believe toll roads are a fantastic way to capitalise on this evolution – both passenger and heavy vehicle travel momentum supported by a growing middle class and improving economic outlook. Further, the opportunity for more growth in the sector provides upside support – roads are core to economic evolution. We favour Indonesian toll road operator Jasa Marga and the Chinese operators exposed to the relatively resilient Tier 1 cities such as Shenzhen International and those operators capitalising on supportive regulatory change such as Jiangsu Expressway.
- Communications: Not all tower companies are created equal. While the opportunity set of 5G and data is universal, the framework and ability to execute is disparate. Within the Asian space we favour Mitratel in Indonesia who has the geographic footprint, asset quality, balance sheet, and strong management team to truly capitalise on the opportunity. However, we still see better relative tower value in other regions where MNO consolidation and spectrum issues are not a headwind.

- **Yield**: This trip again highlighted the importance of yield to the domestic investor, particularly in China. While we (like most investors) like yield, more important to our investment decision is fundamental value, total return, and quality.
- **Thailand:** A comment on Thailand as this trip highlighted the detriment of government intervention in the infrastructure sector at the expense of shareholder value. A clear take away was that we don't see an opportunity to invest in Thailand under the current regime.

As always, we maintain a diversified portfolio of high-quality infrastructure names globally, and at the moment, believe parts of Asia are offering an attractive mix of quality and value while other areas are less attractive than has historically been the case.

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