

# 2020 Coronavirus: Near-Term Impact and Long-Term Outlook

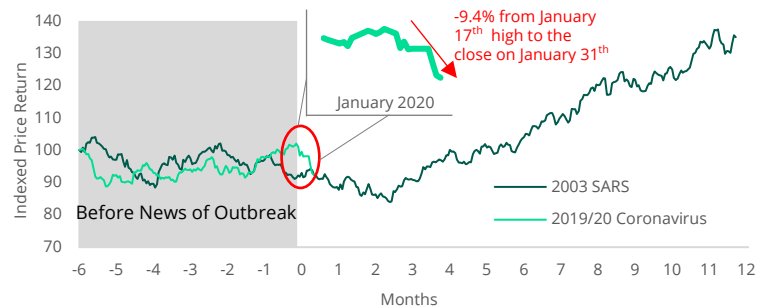
February 3, 2020

After a volatile 2019, dominated by US-China trade war and Hong Kong protest headlines, Asian markets have been rocked in recent weeks by news of the Novel Coronavirus outbreak in China. Many comparisons have already been made to the SARS outbreak in 2003. The precipitous declines in markets, travel and other consumer-driven activity are highly reminiscent of SARS, when a 2-3 month plummet was followed by a sharp rebound. As with SARS, we believe the short-term stock price reactions are overdone and have not impacted our long-term appraisals for the businesses we own. We are actively monitoring this developing situation, but we expect the broad share price declines will create compelling long-term opportunities to own high-quality businesses, managed by aligned, capable partners at historically low prices.

## Impact on the Markets: Hang Seng Index

In 2003, Hong Kong markets were skittish, coming off of a housing market slump and the aftermath of the Asian financial crisis. Similarly, today's outbreak comes on the heels of protest and trade concerns over the last year. The 2003 SARS scare proved to be short lived. The Index fell 15% from its early January 2003 high but sharply rebounded 50% from the bottom three short months later. This year, the Index has fallen precipitously since headlines broke in January.

Exhibit 1: During SARS, the Hang Seng traded lower for a short time before rallying sharply



Source: Southeastern Asset Management via FactSet

## Impact on the Consumer and Travel

The retail and travel industries were most negatively impacted by the SARS outbreak. However, these sectors quickly bounced back, thanks to government incentives and pent-up demand. We are seeing a similar level of slowdown in 2020, compounded by the travel ban. We expect the impact will result in *delayed*, not *lost* revenues.

Exhibit 2: Retail sales plummeted in China before rebounding sharply by June

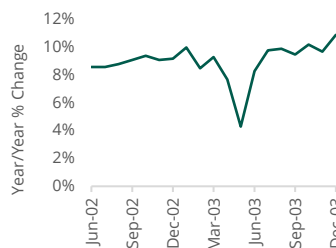


Exhibit 3: Visitors to Hong Kong declined 64% in April of 2003 but rebounded on back of incentives

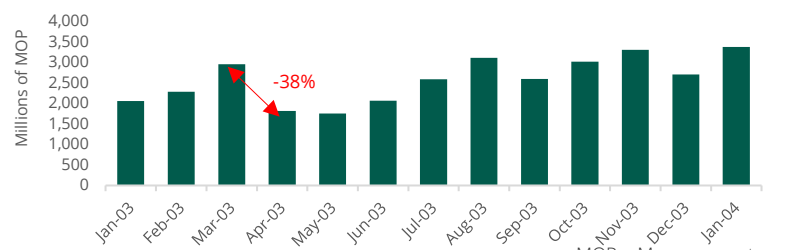


Source: Southeastern Asset Management using Economic Data from FactSet

## Impact on Macau Gaming

SARS saw steep drops in Macau visitation and gross gaming revenue (GGR), followed by a rapid rebound within a few months. Mainland China accounts for ~70% of total visitors today vs. only ~35% in 2003, and visitation numbers are reportedly down >80% in the last week of January. Our long-term outlook on Macau is unchanged. We expect visitation and GGR to rebound just as rapidly as they did following SARS.

Exhibit 4: Macau gaming revenues fell by nearly 40% from March to April 2003, but recovered over the next several months



MOP = Macanese pataca  
Source: Southeastern Asset Management using Economic Data from FactSet

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