



# From beauty products to bicycles: the promising landscape of Asian small companies

Why they warrant the attention of global investors

By Grace Yan, Asian Equity Senior Portfolio Manager  
9 July 2024

## South Korea's "indie"<sup>1</sup> cosmetics brands: vibrant alternative to large conglomerates

It's no secret that the global beauty industry has come to be dominated by smaller South Korean players. The "hallyu" wave, also known as the Korean wave, started in the 1990s and ignited the global popularity of South Korean culture and entertainment. Today, this includes beauty trends, **blazing a trail across the world with their "K-beauty" skincare and cosmetic products.** Terms like "glass skin" have become established globally among the beauty-conscious, along with the 10-step skincare routine prescribed to achieve the hydrated, 'glowy' look.

South Korea may be known for its large conglomerates dominating global industries such as automobiles and **semiconductors.** **But in cosmetics, independently owned and operated South Korean "indie" companies are punching above their weight and making an impact both domestically and globally.** An example is iFamilySC Company Limited, which has seen much success through its leading brand Rom&nd. Rom&nd stems from the name of one of Korea's top beauty creator Sae Rom Min who founded the brand together with iFamilySC. Launched in 2016, the brand's success can be attributed to its ability to quickly react to trends, grabbing the attention of the MZ (Millennials and Generation Z) consumers with their catchy marketing as well as strong product portfolio. Rom&nd is ranked among the top brands in Olive Young, South Korea's **leading health and beauty store chain**, for cosmetics as well. The company also actively uses pop-up stores as a marketing channel, something that resonates well with the youth today. Its pop-up store in South Korea, set up in April this year, was estimated to have attracted 40,000 visitors over 12 days, serving as a good marketing tool. The company is also making waves abroad. According to the media, 300,000 of its cosmetics items stocked at Lawson convenience stores sold out in three days in Japan when Lawson had initially expected the stock to last two months<sup>2</sup>.

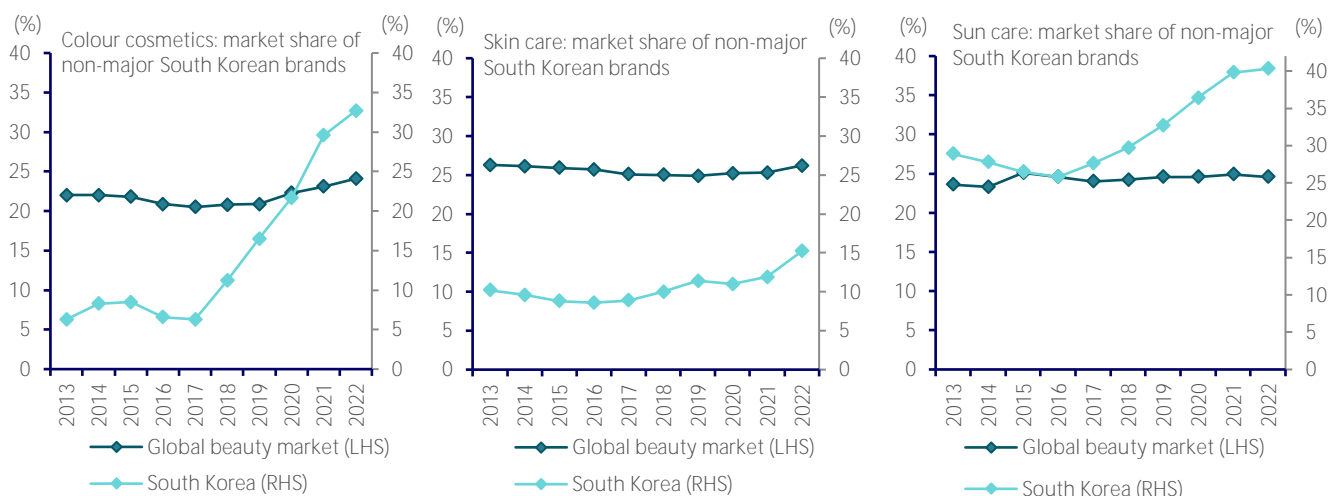
*Any reference to a particular security is purely for illustrative purpose only and does not constitute a recommendation to buy, sell or hold any security. Nor should it be relied upon as financial advice in any way.*

<sup>1</sup> A small company, a small shop or business not affiliated or owned by a larger company

<sup>2</sup> Source: *IT Media Business Online*, 10 April 2023, *Toyo Keizai Online*, 2 September 2023

South Korea's indie cosmetics companies have shown an ability to react quickly and capitalise on changing trends. These small-cap companies have established a presence in South Korean and global cosmetics markets (Chart 1).

Chart 1: South Korea's "indie" cosmetics companies have seen increasing market share



Source: Euromonitor, CLSA, 2024

The main reason for their rapid growth can be attributed to their quick response to market trends and ability to effectively leverage online marketing channels. Silicon 2 Company Limited is one such company that has been facilitating this growth. It operates an online-based K-beauty platform, "stylekorean.com". It has grown into a leading B2B wholesaler, focusing on distributing independent Korean (K-indie) cosmetics products in the global market, offering more than 300 brands to over 150 countries<sup>3</sup>.

### Smaller companies have demonstrated swift response to trends

Successful Asian small companies\* can be found across the entire region. These companies have shown strong innovation as well as ability to respond quickly to trends. Giant Manufacturing Company Limited in Taiwan, for example, has exhibited adaptability and agility, allowing them to swiftly respond to emerging trends and technological advancements.

#### Giant: global leader in a low-growth industry

Giant Manufacturing Company Limited is a leading bicycle manufacturer which has made its mark by becoming a global leader in a low-growth industry. Since 2011, its median sales have been more than twice that of the industry; with a median Return on Equity (ROE)<sup>4</sup> of 20%<sup>5</sup>, it has demonstrated sustainable returns (Chart 2). **Giant's innovative** adoption of technology—it was a pioneer in using carbon fibre and aluminium for bicycles—and its commitment to quality and affordability has made the Taiwanese company one of the largest bicycle manufacturers in the world.

\* Companies with market capitalisations of over US dollar (USD) 100 million but less than USD 2 billion

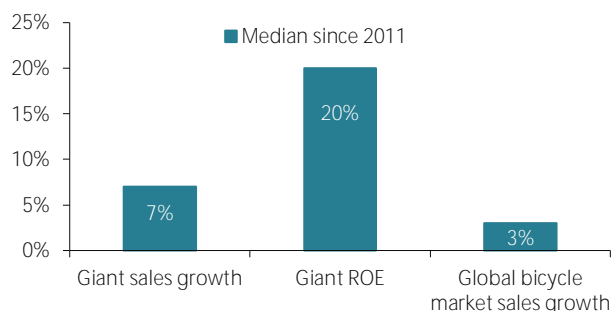
Any reference to a particular security is purely for illustrative purpose only and does not constitute a recommendation to buy, sell or hold any security. Nor should it be relied upon as financial advice in any way.

<sup>3</sup> Source: Company, June 2024

<sup>4</sup> Return on Equity (ROE) is a financial ratio that measures how efficiently a company is managing the capital that shareholders have invested in it. A higher ROE indicates better management in generating income and growth from equity financing.

<sup>5</sup> Source: HSBC, May 2024

Chart 2: Giant has consistently outperformed the broader industry



Source: Bloomberg, HSBC calculations, Median from 2011-2023

## Small companies: avenue for sustainable returns and diversification opportunities

In the ever-evolving investment landscape, small-cap<sup>6</sup> stocks in Asia have emerged as a promising avenue for investors seeking sustainable returns and diversification opportunities. These companies operate in markets with huge potential and economic development. In the following paragraphs, we provide other reasons why Asian small-cap stocks warrant the attention of global investors.

### Provide access to a large, expanding universe

With over 9,500 small companies, Asia (excluding Japan, Australia and New Zealand) boasts five times more small-cap stocks than the US<sup>7</sup>. In our view, small companies **also play a more prominent role in Asia's markets**. For example, more than 90% of the companies listed in South Korea and Taiwan are small companies, compared to 55% in the US<sup>8</sup>. Furthermore, the universe of listed Asian small companies is experiencing dynamic growth. The number of small companies in Asia has grown by 17% since 2021; in comparison, the US and Japan have seen their small cap numbers each shrink by 7%<sup>9</sup>.

Compared to other global regions, Asia has a bigger universe of small-cap stocks, with these companies often operating in markets rich with untapped potential. These entities provide exposure to regions undergoing substantial economic growth and development.

### Best placed to capture fundamental change

Asian small companies offer more than just short-term gains; they strategically position a portfolio for future growth potential by capturing fundamental change, in our view. As these companies evolve and prosper, they stand a chance to become tomorrow's industry leaders. For instance, 15% of the small-cap companies from 2015 have graduated into medium or large-cap status. Moreover, small companies have demonstrated a capacity to generate strong returns, as evidenced by the NIFTY small-cap index in India, which has provided an annualised return of approximately 50% since 2020<sup>10</sup>. India displays a high amount of fundamental change, such as structural reforms in the form of digitisation, as well as growth in infrastructure, which has led to reducing logistics costs (please see "[India's transformational trends](#)").

*Any reference to a particular security is purely for illustrative purpose only and does not constitute a recommendation to buy, sell or hold any security. Nor should it be relied upon as financial advice in any way.*

<sup>6</sup> Companies with market capitalisations of over US dollar (USD) 100 million but less than USD 2 billion

<sup>7</sup> Source: HSBC, May 2024

<sup>8</sup> Source: HSBC, May 2024

<sup>9</sup> Source: HSBC, May 2024

<sup>10</sup> Source: HSBC, May 2024

Using MSCI Asia ex Japan small cap as a base, we can see that small companies offer higher exposure to attractive growth areas such as India at 31% compared to MSCI Asia ex Japan cap index at 20%<sup>11</sup>. By sector, we see small companies having higher exposure to industrials, with 18% compared to only 7% in the large cap index.<sup>12</sup> Industrial sectors often experience significant growth during economic expansions and offers exposure to sectors involved in innovation and infrastructure.

### Present high growth potential

Asian small-cap companies typically possess significant growth potential. With the rise of emerging markets and economies, these companies are well-positioned to capitalise on expanding consumer bases and increasing demand for products and services.

Earnings growth among Asian small companies<sup>13</sup> has been stronger than that of medium and large companies<sup>14</sup>. Small companies have seen an annualised Earnings per share (EPS)<sup>15</sup> growth of 10% since 2012, compared to 6% for medium and large companies. India provides an example of small cap outperformance. The country accounts for only a quarter of the small companies **in Asia. However, India's small companies represent roughly half of Asia's highly profitable small companies with Return on Equity (ROEs) greater than 20%**<sup>16</sup>.

It is worth remembering that 20 years ago Nvidia was a small cap company; today, it has a larger market capitalisation than entire stock markets such as those of South Korea and Taiwan. Within Asian small companies, there are many companies displaying high growth and profitability. South Korean semiconductor equipment manufacturer Hanmi Semiconductor is an example of a company that saw its market capitalisation increase from USD 890 million to USD 12.1 billion within 18 months (from January 2023) thanks to robust sales growth<sup>17</sup>. Looking at the universe, 60% of Asian small companies have beaten the FTSE Asia Index excluding Japan, Australia and New Zealand in the last five years<sup>18</sup>.

### Give access to simpler corporate structures

Small companies often maintain a simpler corporate structure, focusing on niche markets rather than spanning multiple business units like conglomerates. This simplicity can be more appealing to investors who prefer to invest directly in specific segments and would be willing to pay higher valuation multiples due to the undiluted, stronger growth profile. Domestic investors also tend to invest in small companies within their home markets, as they possess a better understanding of these entities.

### Allow for a balanced risk profile

In our view, having Asian small-cap stocks in the portfolio does not increase the overall portfolio risk and offers higher returns. In the past five years ending May 2024, MSCI Asia ex Japan small companies index has delivered 54.9% returns in USD terms compared to 12.8% for MSCI Asia ex Japan index in USD terms<sup>19</sup>. From Chart 3, we can see that the FTSE Small cap Asia excluding Japan index does not demonstrate significant volatility compared to the FTSE Asia excluding Japan index. By investing in smaller companies, investors can effectively spread their risk and yet retain upside.

*Any reference to a particular security is purely for illustrative purpose only and does not constitute a recommendation to buy, sell or hold any security. Nor should it be relied upon as financial advice in any way.*

<sup>11</sup> Source: MSCI as of May 2024

<sup>12</sup> Source: MSCI as of May 2024

<sup>13</sup> Small caps here refer to FTSE Asia ex Japan small cap Index

<sup>14</sup> Medium and large caps here refer to the FTSE Asia ex Japan (standard index, includes mid and large caps)

<sup>15</sup> Earnings per share (EPS) is a widely used metric for estimating corporate value. It is calculated by dividing a company's net profit by the number of common shares it has outstanding. EPS indicates how much money a company makes for each share of its stock.

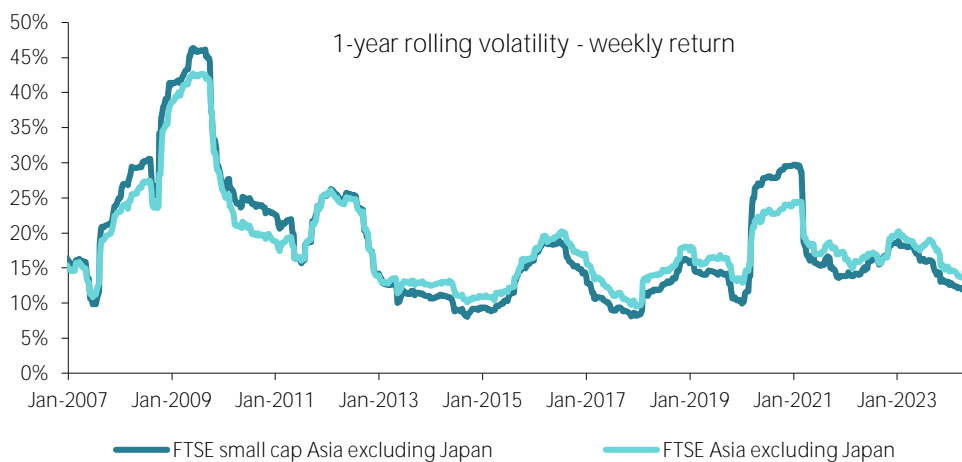
<sup>16</sup> Source: HSBC, May 2024

<sup>17</sup> Source: HSBC, May 2024

<sup>18</sup> Source: HSBC, May 2024

<sup>19</sup> Source: Bloomberg, MSCI, May 2024

Chart 3: Rolling volatility of Asian small companies vs large companies



Source: FTSE Russell, Factset, HSBC Calculations, Jan 2007-Jan 2023

### Show ability to outperform under varied conditions

It is a commonly held belief that small-cap stocks tend to outperform only when interest rates are low, and liquidity is ample. Historical data from the US and EU markets seem to corroborate this view, especially during periods when the Federal Reserve and the European Central Bank have raised interest rates, often leading to a less favourable environment for small-cap stocks given the assumption that they carry more debt compared to their larger counterparts.

However, the performance of small companies in Asia challenges this assumption. Despite rising interest rates since 2022, Asian small companies have shown strong outperformance, with the MSCI Asia ex Japan small companies showing 1.93% in USD terms (until May 2024) compared to -9.76% for the MSCI Asia ex Japan in USD terms<sup>20</sup>. We think that this could be attributable to Asian smaller companies having several factors which mitigate the negative impact, such as strong domestic growth, as well as exposure to areas of growth. Key among these are advances in artificial intelligence, shifts in global manufacturing dynamics, and the evolution of consumer habits in the region. In addition, within the small cap universe, we do see companies with strong balance sheets, which reduces the need for financing when rates are high. These factors provide a robust foundation for growth, enabling Asian small companies to thrive even when traditional economic indicators might suggest otherwise.

Investors should be aware of key risks and considerations associated with investing into Asian small companies. Market volatility can cause significant price fluctuations in equities. And investing into these equities are subject to sector-specific or economic downturns which can still impact performance.

## Summary

Small companies in Asia offer, in our view, an array of opportunities for those seeking high growth potential without significantly changing portfolio risk. These companies, found among emerging markets, present a chance to invest in the future economic powerhouses of the world. The strategic positioning, high growth potential, adaptability, and innovation of Asian small companies make them a compelling choice. Moreover, their simpler corporate structures and balanced risk profiles further enhance their appeal. Despite common misconceptions, Asian small companies have demonstrated consistent outperformance, even under varying market conditions. This underscores their resilience, ability to harness fundamental change and potential for sustainable returns. Despite these opportunities, several risks should be acknowledged such as liquidity risks, price volatility as well as stock specific risks. As the companies are smaller in nature, they tend to be less liquid than their larger counterparts. In addition, due to their

<sup>20</sup> Source: Bloomberg, MSCI, May 2024

higher risk in nature, they would be more volatile as well. All in all, we feel that there are more opportunities in smaller companies and should be seriously considered by investors worldwide in our view.

---

Important information: This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secteur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United



Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

**Canada:** The information provide herein does not constitute any form of financial opinion or investment advice on the part of Nikko AM and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.