TUNDRA CASE

DAEWOO EXPRESS BUS SERVICE
PAKISTAN
INTRODUCTION
In September 2016 Tundra Fonder, on behalf of three of its funds, bought 9.4% of Daewoo Bus Services, a Pakistani logistics company. The transaction was done through a so-called pre-IPO (Initial Public Offering) where Tundra buys into an unlisted company pending an intended listing on a stock exchange. Tundra’s funds are allowed to invest up to 10% of their assets in unlisted companies, provided these companies plan to list within 12 months. This case report describes an example of an investment where the business case is very closely linked to the ESG analysis.

BACKGROUND
The transportation sector in itself entails several components of interest from an ESG-perspective. Environmentally, there are obvious issues relating to energy and fuel consumption, methods of reducing CO2-emissions and adoption of greener technologies. Socially, problems pertaining to labour conditions (including child labourers and treatment of migrant workers), passenger safety and security should be addressed. Lastly, issues concerning governance in the sector revolving around corruption, bribery and non-transparency. This brief case report will however mainly focus on one of the core concepts of social responsibility; basic human rights of children and adolescents [1]. Traditionally, transportation in Pakistan has taken place in the format of smaller, colourful buses with an abundance of decorations. This system is wholly disorganized and usually considered unsafe, especially for women (incidents of harassment and eve teasing are considered the norm aboard these buses). However, when Daewoo started its operations in Pakistan, it promised to deliver safe, comfortable and quality travel. By doing so, not only did they tap into a niched market but they also appealed to new group of customers; women - that now felt comfortable enough to travel longer distances within the country on their own.

CHILD SEXUAL ABUSE AND TRAFFICKING IN PERSONS IN PAKISTAN
The number of children living on the streets in Pakistan is estimated to over 1.5 million according to various national reports and surveys. These children face extreme challenges due to their living circumstances where they are exposed to multiple threats. In a documentary from 2014 [2]; Pakistan’s hidden shame, featuring children in Peshawar, north-western Pakistan, we learn more from gut-wrenching stories on sexual exploitation and abuse. Thousands of poor and vulnerable children are affected, most of them boys. According to the report Cruel Numbers 2016 [3], based on incidents described in national press, a total of 1 974 (52%) girls and 1 794 (48%) boys were reportedly abused in Pakistan during 2015, displaying a 7 percent increase from the year before. About one third of these children were under the age of ten years at the time for the incident/s. The occurrence of sexual abuse in rural settings were more common (74%) than cases reported in urban areas (26%). Although these numbers might reveal important information on the occurrence and the excruciating details of child sexual abuse, they should be interpreted cautiously since the prevalence is generally under reported. According to the Global Report On Trafficking In Persons 2016 [4] almost a third of trafficking victims are children. In central Asia the corresponding number is estimated to around 40%. It should be noted however, that information available on trafficking in South Asia is very poor. Findings based on existing data show that the most common areas for trafficking victims is forced labour (85%), as compared to eastern Europe and central Asia where sexual exploitation is the most common purpose (64%). The lack of information in countries like Pakistan makes it difficult to analyze the types of exploitation, to assess offender profiles or let alone to estimate the exact number of individuals affected. This also reflects a general difficulty in assessing the prevalence of child sexual abuse. What we do know is that even in the global perspective, the number of victims is likely to exceed the estimations by far.
In a country-specific report Ecpat [5] states that Pakistan serves as an origin, transit and destination country for child trafficking, specifically for the purpose of forced labour and prostitution. Among the main destinations for cross border trafficking are the United Arab Emirates and the Middle East. However, internal trafficking seems to be a greater threat in Pakistan. Traffickers typically offer a job or money to the families in exchange for a child or promise marriage in the case of girls. According to estimations from the International Labour Organisation (ILO) there are over 12 million child labourers in Pakistan. A survey by a local NGO, many street children have previous traumatic experiences and run away from their homes These children are usually forced into begging or stealing by the local mafia and if they resist, risk being relocated within the country or smuggled abroad, often to neighbouring countries, e.g. Iran. Organizations working with protection of these children estimate that almost 90 percent of children are sexually abused on their first night on the streets. In many cases it is no point in reporting, since the police officers are among those sexually abusing them [6].

Sexual abuse and the exposed situation of young men in Pakistan described here is not only alarming as such, but can also be associated with other problems such as drug abuse and health risks. A qualitative study from 2014 [7] illustrate the situation of young men working as “truck cleaners” on the colourful buses described on the previous page. For all the men interviewed in the study sexual interaction with the driver “ustriaad” is described as part of the job. One of the men describes how he “exchanged his body for money, food, shelter, clothes and to keep his job”. He was 13 years old when his driver raped him the first time. Other research findings display statistics that reflect an ongoing HIV epidemic in the country. The first case of AIDS was diagnosed in Pakistan in 1986, and since then the transmission has increased steady every year, with the highest prevalence in people who inject drugs [8]. It is not difficult to understand the multiple risks many of the young boys working in the transportation sector face, with drugs and sexual abuse as a part of their everyday work situation. Despite Pakistan’s ratification of core human rights, including the Convention on the Rights of the Child (CRC), there are still significant flaws concerning child protection. All across the country government allocations for the delivery of the child protection mandate are minimal, and laws and policies to protect children often do not align fully with the CRC [9]. The relatively new amendment, Section 369A of the Criminal Law Bill 2009, mandates child sexual abuse as punishable with life imprisonment and a fine of no less than Rs 100,000. But many of the laws dealing with prostitution and trafficking for sexual exploitation do not specify children as victims, and if they do; they do not include young men and boys.

References
RATIONALE FOR TUNDRA’S INVESTMENT

Daewoo is an example of how underlying ESG-issues becomes central to the attractiveness of the investment. There is a lack of organized, safe transportation in Pakistan. As the consumption capability of its citizens increase we believe they will increasingly choose more organized transports, as in other more developed countries. Removing the safety concerns will also expand the potential traveller base to include children and women travelling alone. Overall we see a strong structural growth potential for the services that a company like Daewoo provide. The investment was made in order to facilitate an early investment in new buses needed for the company’s expansion. The company is expected to list in the first half of 2017 and we expect it to be a profitable investment for our unit holders.

COMPANY FACTS

Daewoo Express is the largest, and one of the few organized, transportation companies in Pakistan, incorporated in 1997. The company has been rendering inter city transport services for more than 15 years and currently operates with a fleet of around 350 buses. Daewoo Express has presence in all major cities of Pakistan and is focused on expanding its footprint in other associated services.

The Company is also operating City Bus Service providing bus services within Lahore. The same is being replaced with a provincial governmental project which will guarantee a minimum fixed return to the company. The Company has also been selected to operate a metro bus project within city of Multan. The Company is in an expansionary phase looking for new opportunities. Daewoo recently launched Daewoo Cab, a subsidiary which currently has 46 cabs, targeted to grow to 250 by end 2018. The company also plans to develop a multipurpose bus terminal/mall on land allocated by provincial government which is targeted to come online by 2019. As per last audited financials the company has an aggregate workforce of over 4000 employees and caters to around 6 million passengers annually, representing a growth at a CAGR of 7% over the past 5 years.

DIALOGUE WITH DAEWOO EXPRESS

The following information has been retrieved from a detailed response to Tundra’s ESG questionnaire and monthly meetings with the company.

Environmentally, the company reportedly complies with ISO 14001:2004 and OHSAS 18001:2007 and keeps a track of its greenhouse gas emissions. The company has purchased buses that are Euro 3 compliant and continuously aim to incorporate environmentally friendly technologies. Socially, one of the main concerns related to the company was the sexually abusive behaviour rampant in the public transportation sector. In response, the company assured us that it has a strict stance against such actions along with other harassment of any kind. The company has a thorough process of recruitment which ensures that candidates for positions within the organization fulfil a range of criteria. All staff is routinely monitored and given refresher training sessions of policies and procedures relating to health and safety, dealing with hazardous materials, rescue and bomb disposal and driving under stressful conditions, to name a few. Since all employees require a national identity card (which can be applied only after the age of 18) to be eligible, incidents of child labour are successfully avoided. Further, hopeful candidates need to pass screenings (conducted by the company) for contagious diseases such as tuberculosis to even be considered for employment. As far as governance is concerned, the company has a zero-tolerance policy on matters relating to bribery, transparency and money laundering.

During one of the monthly updates by the company, a question was raised by the ESG team regarding an accident that occurred on the Lahore highway due to foggy weather conditions involving a Daewoo bus. The company clarified that it was not a Daewoo Express bus, but a vehicle from another company that had purchased the bus from a local distributor that manufactures commercial vehicle brands such as Daewoo, JAC, King Long etc. When asked about the company’s policies on driving in dangerous weather, it was explained that in those conditions the focus is on day-time driving and night shifts are curtailed. In the case of sudden bad weather, the drivers are told to drive carefully to the next possible stop.
Important: Please read this information/disclaimer
This presentation is issued by Tundra Fonder AB ("Tundra"). The information – assumptions, opinions, valuations, recommendations etc – presented in this publication have been compiled by Tundra. The publication is based on generally available information from sources that Tundra believes to be reliable. However, Tundra cannot guarantee the accuracy of this information. This presentation – as well as all or parts of its content – may not be duplicated or distributed under any circumstances without the written permission of Tundra.

Use of information
This presentation is intended exclusively for the use of Tundra’s clients in Sweden and is thus not intended for any individual or company in the USA, Canada, Japan or Australia, or in any other country where the publication or availability of the material is prohibited or restricted in any way.
The Fund or the Fund Company Tundra Fonder is not registered under the United States Securities Act of 1933, the United States Investment Company Act of 1940, or any other applicable law of the United States. Therefore fund units may not be offered, sold or in any other way distributed to physical or legal persons in the United States of America. It is the responsibility of individuals or entities acquainting themselves with this presentation to inform themselves of and comply with these regulations. A legal entity may be prevented from investing in Tundra’s fund by law or internal regulations. Foreign law may prevent investments to be made from outside of Sweden. Tundra will not verify that investments from outside of Sweden are made in accordance with foreign law and Tundra will not accept responsibility for any such investments. It is the responsibility of persons reading this presentation to inform themselves of, and to follow these rules. Should any such person or company nonetheless accept offers from Tundra, of whatever kind they may be, it may be disregarded. No part of this presentation should be construed as a solicitation or recommendation to conduct or make use of any type of investment or to enter into any other transactions. The opinions expressed in this presentation reflect the present views of the participants and may thus be subject to change. The information in this presentation does not take into account the specific investment goal, financial situation or needs of any specific recipient. The information should not be regarded as a personal recommendation or investment advice. The client should always seek adequate professional advice before taking any investment decision and each such investment decision is taken independently by the client and at the client’s own risk. Tundra accepts no liability whatsoever for any direct or consequential loss of any kind arising from the use of this presentation. Tundra’s employees may hold, indirect or indirect investments mentioned in this presentation.
The state of the origin of the Fund is Sweden. This document may only be distributed in or from Switzerland to qualified investors within the meaning of Art. 10 Para. 3.3bis and 3ter CISA. The representative in Switzerland is ACOLIN Fund Service AG, Stadelhoferstrasse 18, CH-8001 Zurich, whilst the Paying Agent is Bank Vontobel Ltd, Gotthardstrasse 43, CH-8022 Zurich. The Basic documents of the fund as well as the annual report may be obtained free of charge at the registered office of the Swiss Representative

Risks
Investments in financial instruments are associated with risk and an investment may both increase and decrease in value or even become worthless. Historical returns are no guarantee of future returns. International investments, particularly those on new markets in developing and growth countries (such as Eastern Europe (including Russia), Asia, Latin America and Africa), are normally associated with a higher level of risk than investments in Swedish or other developed markets’ securities. These risks include both political and economic uncertainty in other countries as well as currency fluctuations. These risks are particularly high on new markets since these countries may have relatively unstable governments and immature markets and economies.