Regional Research

Six-for-18: Cycles, Structures, Breakouts & Breakdowns

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Macro Year Ahead: Blue Skies. Bring an Umbrella!
Dec 1, 2017

Six-for-18: Cycles, Structures, Breakouts & Breakdowns

ASEAN's 15-50% stock-market gain puts it near the top of the 2017 league table. While MKE's macro team sees sustained economic momentum, our country Heads of Research are sounding a cautious note on 2018. Cyclical tailwinds have been tempered by longer-term uncertainties. Most ASEAN corporates are not yet fully addressing the super-trends of innovation, dislocations, security and climate change, sticking to business-as-usual. We think their lack of strategic response may compromise their long-term earnings growth.

In Six-for-18, we tasked our Heads of Research to identify short-term cyclical and long-term secular trends that are breaking out or breaking down in their respective countries. We expect such cyclical, secular, enablement or disruptive forces to drive upside or downside for equities in 2018. We advocate a clear distinction between cyclical and secular growth drivers, as they will differ according to how quickly and severely business models, growth rates and valuations are affected. Differentiating these elements could impact portfolio composition and returns.

Six themes from this exercise

1. Large dispersion of returns throws up outperformance & underperformance trades

Best pair trades:
Long TTMT / short MSIL
Long ComfortDelgro / short CCT
Long VIP Shop / short Alibaba & JD.com

2017's rally lifted valuations to near 7-year highs. But returns seem more dispersed than in previous rounds. About 64% of the HSI's gains of 7,775 index points were contributed by its top five stocks - Tencent, AIA, HSBC, Ping An and China Construction Bank. The SET's top five performing constituents - AOT, PTT, ADVANC, CP and KBank - accounted for 52% of its increase. In the Philippines, the best five fuelled 65% of the index's 28% gains. With such concentration, we see opportunities to buy undervalued companies and sell overvalued ones.

	Short	Long
Singapore	CCT	ComfortDelgro
India	MSIL	Tata Motors
China	Alibaba & JD.com	VIP Shop

	Undervalued
Indonesia	Ramayana
Philippines	GT Capital
Thailand	Thai Union
Malaysia	Genting Bhd

2. Interest-rate-sensitive financials for mid-cycle recovery

To position for a mid-cycle recovery, buy interest-rate-sensitive life insurers in China and banks in the Philippines and Indonesia.

Banks and life insurers are classic interest-rate-sensitive, mid-cycle trades. Banks are favoured by our Indonesian, Thailand and Philippine teams. Rising rates improve net interest margins. Better asset quality spurs lending as risk aversion fades. Likewise, China's life-insurance companies should benefit from a bond-yield recovery. Higher rates should ease concerns about negative spreads, raise reinvestment yields, and returns for new monies. Lifers trade at 0.9x 2018E P/EV, below their long term average of 1.2x.

Near term, there could be a tactical trade given a flat yield curve with a risk of inversion by end-2018.

A note of caution, however. The yield curve has flattened and MKE's macro team sees the probability of the curve inverting by end-2018, going into 2019. Therefore, our positive view on financials may be a near-term tactical trade.

…and for Indonesian banks, there is added secular growth

In addition to the cyclical upturn, we think Indonesian banks offer one of the best secular growth propositions. They appear still only on the cusp of multi-decade growth prospects. This is due to the country's low loans-GDP ratio and financial inclusion. Banking penetration is accelerating. Lending spreads are the highest in the region, double those of ASEAN peers'. Barriers to entry remain in place to protect the local banks from their foreign rivals.

Multi-decade secular investment proposition plus cyclical recovery

3. Consumer recovery could be derailed by household debt

Consumer staples and discretionary are cyclical laggards. A number of our analysts' undervalued stock selections are consumer companies: Ramayana (Indonesia), GT Capital (Philippines) and Thai Union (Thailand). Other countries have thrown in JUMBO (Singapore), H&H (China) and Brilliant (China). But beware. Other than India, household debt in Asia has changed dramatically in the last 10 years. Household debt to GDP in China spiralled from 19% in 2007 to 44% in 2017, Indonesia 12%/17%, Malaysia 52%/70%, Philippines 2%/9%, Singapore 37%/61% and Thailand 45%/70%. India is an exception, at 11%/10%. Burdened by high debt, the consumption recovery may be slower and weaker.

Consumer staples and discretionary are cyclical laggards. But a big jump in household debt since GFC could slow or weaken their turnaround.

4. Indonesian property: cyclicality tempered by affordability

Intuitively, Indonesian property should provide good exposure to a cyclical recovery, were it not for a fundamental supply-demand misalignment. Our Indonesian property analyst, Aurellia, delved into the underperformance of Indonesian property stocks. Mining household income and expenditure data, she concludes that listed developers face secular de-rating prospects, from a mismatch between their product offerings and consumer demand. Their main offerings in the mid-high-end segment are "severely unaffordable". Her calculations suggest a very small demand pool that could take years of income growth to enlarge. Meanwhile, the burgeoning low-end market is under-served. This fundamental mismatch is only partially salvaged by a cyclical uptick in demand. Aurellia's report is a must-read. See *Knocking On The Wrong Doors dated Jan 2, 2018*.

An insightful piece on why Indonesian presales have slowed dramatically. There is a major affordability problem: homes built by the listed developers are well out of the reach of potential buyers. It could take years before income catches up with ASPs.

5. Some caution about infrastructure's risk-return trade-off

Infrastructure companies seem to have all the makings of a multi-year investment proposition. For some years, infrastructure development has been on the agenda of all the countries in our universe. This has taken on increased urgency as most of the countries are not yet prepared for a rapidly digitalising world. With 2018 being an election year in Malaysia, Thailand and Indonesia, the consensus view is that such expenditure should feed through. China's One-Belt-One-Road initiative adds another layer to developmental programmes. Yet, infrastructure companies are underperforming.

Infrastructure development has been flagged by almost every MKE team in the region for two years. Although expenditure may accelerate in 2018, an election year, domestic contractors may be vulnerable to competition from China.

Order books for construction companies appear rather full. But many of these companies also carry high leverage. Could political and fiscal pragmatism compromise on local content and participation? Increasingly, governments require contractors to carry the funding for such projects for longer – as in Indonesia and Malaysia. China's construction companies are increasing their presence in ASEAN. Their cost of capital appears much lower and balance sheets, much bigger, with better access to financing. ASEAN construction companies, thus, may end up playing a smaller role than what they were used to.

The sector could be set up for negative surprises.

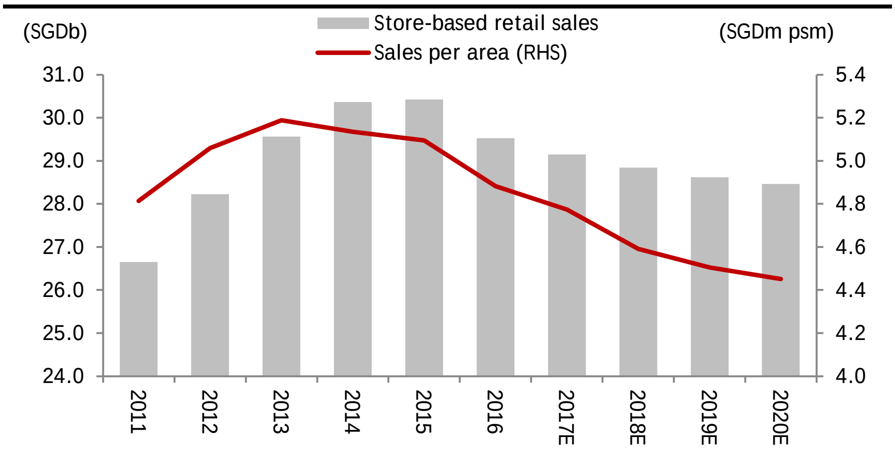
6. E-commerce's structural enablement & subversion

ASEAN remains slow in e-commerce adoption. Disruptions from e-commerce are a matter of time, not if. The retail sector is an obvious loser. At only 1-5% of retail sales, the collateral damage from e-commerce is already evident, in climbing vacancy rates in retail malls and reduced sales per sf. The most suggestive chart is from our Singapore REITs analyst, Su Tye, on declining sales per sf of retail space. Yields on retail space in Singapore have been declining, although only 5% of sales are currently generated online vs 95% for offline. Online penetration could get to the 10-20% in China and the US. He initiates coverage of Singapore Retail REITS with a NEGATIVE view.

Retail asset yields are already being eroded by e-commerce, though it is early days for online penetration.

E-commerce could precipitate deeper wireless penetration in Indonesia, the Philippines and Vietnam.

Fig 1: Retail sales values and sales psm



Source: Euromonitor, Maybank Kim Eng

But disruptions also carry opportunities. E-commerce should deepen wireless penetration. Telcos in low-penetration countries such as Thailand, the Philippines, Indonesia and Vietnam stand to gain. With technology, financial inclusion may be achieved much faster.

And the Not-So-Wild-Cards to Consider

Our analysts across the region see risks in politics, delays in the consumer recovery and government intervention. Politically, Malaysia, Indonesia and Thailand will be holding elections in 2018. Geopolitical risks carried from 2017 include the Korean peninsula and China's tug-of-war with the US for clout in Asia.

Both Neel and Mitchell point out that stronger-than-expected real property prices could trigger government cooling measures. In Singapore, this would surely come as a shock as easing only started in Mar 2017, after seven years of tightening.

Mitchell also warns of the possibility that the Chinese government could purchase strategic stakes in Internet companies to control their operations.

Last, but by no means least, is the inflation outlook in China. The consumer team reckons prices are set to rise as companies are more able to pass on higher input prices. This fits in with Willie's concerns over higher inflation prints in early 2018 and could mean higher than expected interest rate hikes. Together with financial deleveraging and property cooling measures persisting, and a flattening yield curve, we could see some growth moderation too. Stagflation is usually negative asset prices and Willie's recommends shifting from China to ASEAN in portfolios for 2018.

Fig 2: Summary Table

		Mkt Cap	3mth ADTV			TP	PE (x)		PB (x)		DY (%)		EV/EBITDA (x)		RoE (%)	
Name	**Ticker**	**(USDm)**	**(USDm)**	**Price**	**Rating**	**(lcl crcy)**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**	**FY17E**	**FY18E**
Greater China																
China Pacific Insurance	2601 HK	54,659	78.3	37.55	Buy	52.00	19.8	14.8	2.0	1.9	2.8	3.7	na	na	na	na
Brilliance China Auto	1114 HK	13,491	45.3	20.90	Buy	27.20	18.0	11.0	3.1	2.5	0.6	0.9	na	na	18.8	25.1
Vipshop Holdings	VIPS US	6,916	83.0	11.72	Buy	14.20	15.6	11.1	4.7	3.2	0.0	0.0	12.9	9.2	25.5	28.4
Health & Happiness Int'l	1112 HK	4,197	6.9	51.90	Buy	66.30	25.9	18.5	6.5	4.8	0.0	0.0	16.8	12.5	28.3	29.6
Huaneng Renewables	958 HK	3,610	8.4	2.65	Buy	3.30	6.7	5.8	0.9	0.8	2.2	2.5	7.6	6.9	14.8	14.8
India*																
Maruti Suzuki India	MSIL IN	45,754	70.3	9,651.9	Sell	7,500	39.8	33.5	8.1	6.7	0.4	0.4	17.4	22.6	23.9	21.8
Axis Bank	AXSB IN	22,752	83.1	565.5	Buy	615	36.8	32.4	2.4	2.2	0.9	1.1	na	na	na	na
Tata Motors	TTMT IN	21,165	56.4	424.5	Buy	544	22.8	12.3	2.5	2.2	0.1	0.1	6.2	4.5	10.9	17.0
Sterlite Technologies	SOTL IN	1,848	8.2	293.9	Buy	325	58.2	36.4	13.3	10.6	0.4	0.7	11.5	16.1	25.5	32.5
Himadri Speciality	HSCH IN	1,008	5.5	153.6	Buy	184	79.4	27.1	6.0	4.9	0.0	0.0	10.2	16.4	8.1	19.9
Inox Wind	INXW IN	506	1.4	145.3	Buy	165	10.6	na	1.5	1.5	0.0	0.0	9.6	na	15.0	(4.3)
Indonesia																
Bank Rakyat Indonesia	BBRI IJ	33,509	23.0	3,640.0	Buy	3,800	16.2	14.0	2.7	2.4	2.2	2.6	na	na	17.8	18.5
Bank Negara Indonesia	BBNI IJ	13,732	11.8	9,900.0	Buy	10,000	13.7	11.6	1.9	1.7	2.3	2.7	na	na	14.9	15.8
United Tractors	UNTR IJ	9,672	9.5	35,400.0	Buy	44,500	17.0	15.1	2.9	2.6	2.3	2.7	8.1	7.3	17.9	18.2
Indofood Sukses	INDF IJ	4,959	5.3	7,625.0	Buy	10,000	14.8	13.6	2.1	2.0	3.4	3.7	8.4	7.7	15.0	15.0
Vale Indonesia	INCO IJ	2,164	2.3	2,890.0	Buy	4,400	na	25.1	1.2	1.1	0.0	0.5	14.9	7.8	(0.1)	4.5
Ciputra Development	CTRA IJ	1,610	1.0	1,185.0	Buy	1,600	22.0	17.1	1.6	1.4	0.0	0.0	2.2	2.5	7.6	8.8
Malaysia																
Petronas Chemicals	PCHEM MK	15,350	17.1	7.70	Buy	8.50	14.7	14.6	2.3	2.1	3.5	3.5	8.8	8.3	15.4	14.8
Axiata Group	AXIATA MK	12,112	7.1	5.49	Hold	5.50	37.9	33.7	2.0	2.0	1.3	2.5	7.5	7.0	5.4	6.0
Genting Bhd	GENT MK	8,715	7.0	9.20	Buy	12.25	17.0	13.3	1.0	0.9	1.6	2.0	7.8	6.8	3.9	7.0
Lafarge Malaysia	LMC MK	1,306	0.7	6.20	Hold	6.90	na	54.5	1.8	1.8	0.0	1.7	na	14.6	(6.7)	3.4
Yinson Holdings	YNS MK	1,071	1.9	4.05	Buy	4.45	19.7	11.5	1.8	1.4	4.1	2.6	21.4	11.7	8.5	13.7
Atlan Holdings	ALN MK	267	0.0	4.29	Buy	6.00	28.3	27.6	2.3	3.4	5.2	3.6	9.8	10.6	12.4	9.8
Philippines																
Bank of the Philippine	BPI PM	8,509	3.7	108.1	Buy	118	18.7	17.4	2.3	2.1	1.7	1.7	na	na	12.6	13.3
Metropolitan Bank & Trust	MBT PM	6,460	4.2	101.4	Buy	110	17.4	15.2	1.6	1.4	1.0	1.0	na	na	9.1	9.4
Globe Telecom	GLO PM	5,059	2.2	1,900.0	Buy	2,420	19.0	16.6	3.8	3.6	5.1	4.4	6.7	6.3	24.2	24.0
GT Capital	GTCAP PM	4,985	3.2	1,292.0	Buy	1,386	17.2	15.2	1.6	1.5	0.2	0.2	11.5	10.9	11.8	11.0
Singapore																
CapitaLand Comm.Trust	CCT SP	5,303	15.4	1.93	Hold	1.80	25.5	23.2	1.1	1.1	4.7	4.7	38.1	33.7	8.7	4.7
StarHub	STH SP	3,734	5.9	2.85	Sell	2.17	20.1	27.0	30.2	71.2	5.6	5.6	9.7	11.1	136.6	157.4
Mapletree Comm. Trust	MCT SP	3,497	4.8	1.62	Sell	1.45	12.2	10.9	1.2	1.1	5.4	5.5	23.6	23.0	10.3	10.6
ComfortDelGro	CD SP	3,245	14.8	1.98	Buy	2.40	14.2	13.7	1.7	1.6	5.3	5.5	5.4	5.2	12.0	12.1
Singapore Post Ltd	SPOST SP	2,124	4.6	1.24	Buy	1.50	24.4	23.6	2.1	2.0	2.8	3.0	15.6	14.3	2.6	8.7
Jumbo Group Ltd	JUMBO SP	274	0.4	0.57	Buy	0.70	25.3	21.0	5.6	5.2	3.0	3.3	14.5	11.9	22.3	25.6
Thailand																
Siam Cement	SCC TB	17,867	41.1	484.0	Buy	545.0	11.1	11.5	2.2	2.0	3.9	3.9	9.3	8.9	20.5	17.9
Advanced Info Service	ADVANC TB	17,469	36.1	191.0	Buy	220.0	19.8	16.8	11.8	9.2	3.5	4.2	10.3	9.2	63.2	61.7
Bangkok Bank	BBL TB	11,862	20.4	202.0	Buy	227.0	12.1	10.5	1.0	0.9	3.7	4.2	na	na	8.2	9.0
Krung Thai Bank	KTB TB	8,255	20.9	19.2	Hold	19.0	10.9	9.7	0.9	0.9	3.5	3.9	na	na	8.8	9.3
Siam Makro	MAKRO TB	5,722	0.2	38.8	Buy	41.0	30.9	29.1	10.5	9.5	2.4	2.6	19.1	17.8	36.1	34.4
Thai Union Group	TU TB	2,921	8.2	19.9	Buy	24.5	18.0	15.4	2.0	1.9	3.6	3.6	16.3	13.9	13.9	12.9
Vietnam																
Vingroup JSC	VIC VN	9,025	4.6	77,300	Buy	92,000	41.0	15.4	6.0	4.4	0.0	0.0	18.0	10.9	15.5	32.2
Hoa Phat Group	HPG VN	3,109	7.5	46,850	Buy	51,450	9.2	8.9	2.2	1.8	0.0	0.0	6.1	6.7	29.1	24.0
Mobile World	MWG VN	1,831	3.8	131,000	Buy	157,000	17.6	15.1	7.2	5.3	1.1	1.1	12.7	10.1	47.1	39.8
Coteccons	CTD VN	763	1.1	226,500	Buy	271,000	10.9	9.5	2.4	2.0	1.3	0.0	6.4	5.2	26.3	24.7
Phu Nhuan Jewellery	PNJ VN	652	1.7	137,000	Buy	142,000	24.9	18.9	5.6	4.8	2.2	2.6	16.6	12.6	32.6	32.0
Nam Long Investment	NLG VN	212	0.9	30,100	Buy	36,500	18.0	11.3	1.6	1.4	1.7	1.7	6.5	5.7	17.7	14.1

Share prices as at 29 Dec, 2017 closing.

Note: FY17 actual for India

Source: Maybank Kim Eng, Bloomberg

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Indonesia..!

Indonesia - Positive on market

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We are positive on the market on the back of sustained gradual economic recovery. We think the market will focus more on growth than value in 2018 as the recovery gradually picks up. Our 2018-end JCI target is 7,100, based on 17.1x 2019E P/E, 1SD above its 8-year mean. We OVERWEIGHT banks, low-end consumer, mining and telcos, and UNDERWEIGHT cement (oversupply and slow pick up in property), plantations (price pressure) and utilities (regulatory risk). We are neutral on infrastructure and property. Our top picks are BBNI, BBRI, CTRA, INDF, INCO and UNTR.

Gradual recovery

We expect the economic recovery, which started in 3Q17, to be sustainable. MKE forecasts 5.3% economic growth for 2018E, to be led by a consumption recovery, government spending and exports. Inflation will likely remain low at 3.5%, enabling BI to keep its monetary policy. We forecast only a 25bp rise in the benchmark rate to 4.5% to anticipate external and internal factors.

E-commerce starts to emerge

E-commerce sales, though still puny, have grown rapidly in the past 3-4 years, thanks partly to a growing number of Internet users. Telcos look set to benefit, not only through increasing data usage but also the conversion of 2G to 3G/4G phones. In contrast, retailers and mall owners could face tougher times.

Low gearing provides protection

Net debt/equity and net debt/EBITDA of our company universe are low at 0.21x and 0.58x. They could decline to 0.18x and 0.50x in 2018E. Commodity, retail and cement companies in large part have net cash. Market FCF/share also improved 66% to IDR85 in 9M17 from IDR51 in 9M14. Credit risks are retreating. So are NPLs. Lending rates - with some support from Bank Indonesia's 100bp rate cuts in the last 12 months – have come down to 13.8%, close to their 15-year low.

Potential surprises

We expect commodity price strength to spill into 2018. Meanwhile, property developers that serve the lower-end market should continue to do well; we don't think demand for mid-high products will pick up soon. Unexpected results from regional elections, continued weak consumption and disappointing tax collection pose downside risks.

1. Rotation To Growth

1.1 Indonesia is ASEAN's growth country

Based on MSCI's Value-Growth indices, Indonesia was the best proxy for growth and Singapore, for value in ASEAN in 2000-17. This reflected the stage of their economic maturity.

MKE's regional equity strategist, Willie Chan, now prefers ASEAN to China and Indonesia to the Philippines. Our economists see the current export-driven economic rebound extending into private capital expenditure. For 2018E, we think that growth will trump value in Indonesia.

1.2 Banks the growth sector to be in, plantations the value sector to avoid

Unlike North Asia but like its ASEAN counterparts, Indonesia provides limited exposure to New Economy stocks. So, growth would have to be extracted from the same old names.

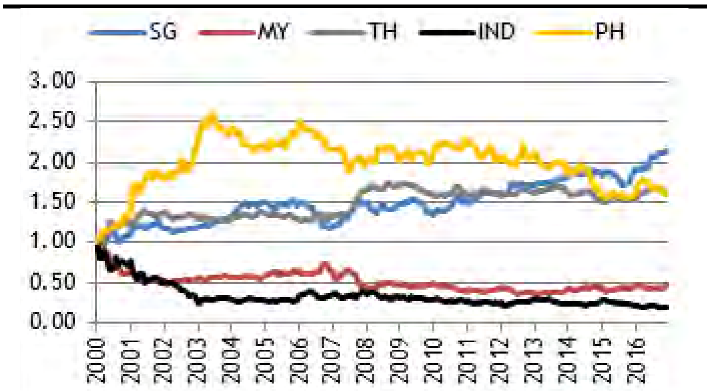
Going by the JCI's sub-indices for both short and long-range investment horizons, banks have been Indonesia's best performers and plantations, its worst. We expect these two secular trends to be intact, if not accentuate.

1.3 Banks: combination of secular growth & cyclical rebound

In our report "Follow The Money" on 27 Nov 2017, we argued that Indonesian banks are still in a multi-decade supernormal growth cycle. The country's low loan-GDP ratio and exceptionally low financial inclusion implies a severely underserved banking market. We reckon it will be decades before Indonesia catches up with even India. Besides, stubbornly anemic loan demand and delinquencies appear to have turned the corner, benefitting from strengthening revenue and corporate cash flows. Recovering exports, commodity prices and investment spending should more than compensate for tail end of lingering asset-quality stress.

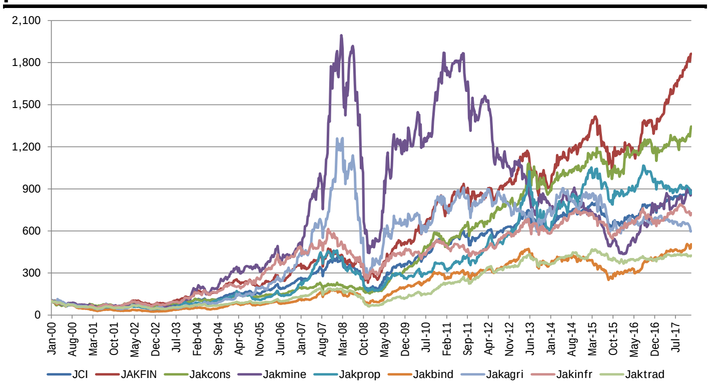
Despite their price run-up, valuations are not lofty against historical levels. Our top picks are BBNI and BBRI.

Fig 1: ASEAN's ratio of value to growth



Source: MSCI

Fig 2: Banking stocks have been the best long-term performers



Source: Bloomberg, Maybank KE

1.4 Planters underestimate production costs

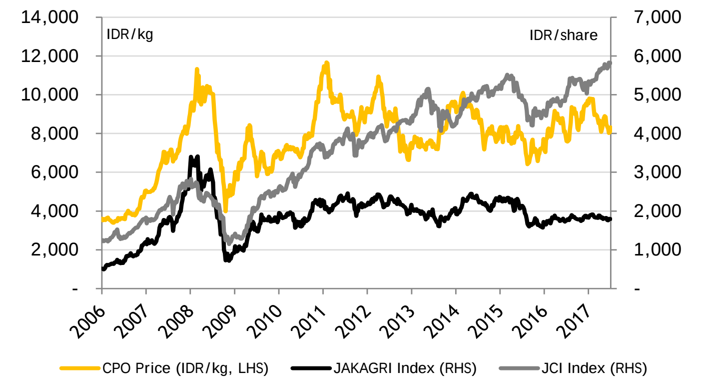
Plantation valuations are undemanding, so has value emerged? MKE forecasts CPO prices of MY2,700/2,600/2,600 for 2017/18/19. We advise caution.

In our "Dry Spell" report of 10 Oct 2017, we pointed out that the relationship between CPO prices and plantation stocks has broken down, in the last two years. Firmer CPO prices are unlikely to trigger a stock rally for planters. We suggest four reasons for this:

1. CPO prices are flat and planters have yet to tackle costs and productivity. This risks profit contractions.
2. The cry for sustainable farming grows increasingly strident and urgent. Worries of this threat have translated into higher risk premiums for plantation companies.
3. Socially-responsible investing is fast catching up. Investors are under increasing pressure from clients and trustees to invest in companies that are socially and environmentally responsible. Palm-oil companies may be shunned for fuelling deforestation.
4. Planters have been slow to embrace technological changes, which could marginalise the sector in the long term.

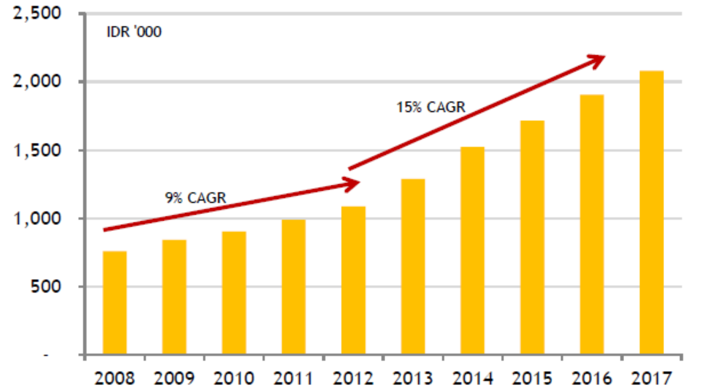
Beware the value trap. In the sector, we are most cautious on Eagle High Plantation (BWPT).

Fig 3: CPO prices vs JAKAGRI vs JCI index



Source: Maybank KE, Bloomberg

Fig 4: Average minimum wage increases in Indonesia



Source: Maybank KE, Ministry of Manpower

2. E-commerce starts to take over

2.1 Growing fast

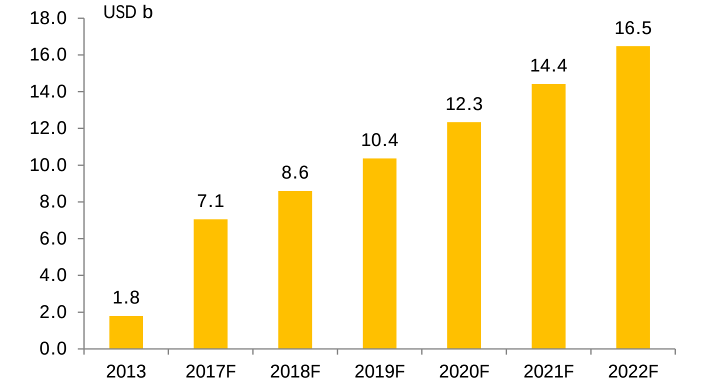
Online sales, though only 3% of retail sales, grew by a 41% CAGR in the past 3-4 years, from less than USD2b in 2013 to USD7.1b in 2017 (source: Statista). They are estimated to grow by an 18.5% CAGR over 2017-22, to USD16.5b. By that time, online sales could account for 10% of retail sales in Indonesia.

Despite strong growth, we believe the upside remains huge for e-commerce in Indonesia because:

1. E-commerce penetration, defined as the online shopping population divided by the total population, in Indonesia is still 41%. This is below Singapore's 60%, Malaysia's 52% and Thailand's 51%.
2. Indonesia is one of the biggest Internet users in the world, at 132m. Even then, its Internet penetration is only 50%, below the 56% average for the top 20 Internet users and world average of 52%. We think penetration will accelerate, as Internet pricing in Indonesia is one of the lowest in the world.
3. Despite low penetration, Internet users in Indonesia are tech-savvy. This is evident from the time spent online via mobile devices (3.5 hours/day) and social media (2.9 hours/day). These numbers beat the US' 1.9 / 1.7.
4. Around 70% of its population is under the age of 40.

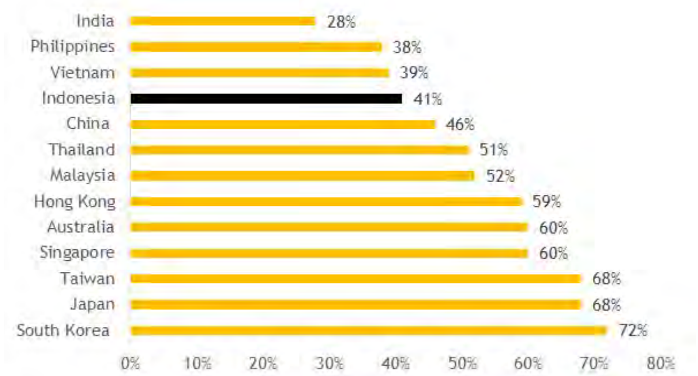
The government is paying special attention to e-commerce developments by issuing Presidential Regulation No. 74 of 2017 on E-Commerce Road Map for the Year of 2017-19. The road map provides direction to government agencies for the development of e-commerce in Indonesia.

Fig 5: Indonesia's growing e-commerce sales...



Source: Insideretail, Statista

Fig 6: ... and low e-commerce penetration



Source: Statista

2.2 Breakout: telcos; breakdown: mall owners

We think the biggest beneficiaries of e-commerce would be telcos, through: 1) increasing data usage or telco voucher sales and 2) the conversion from 2G to 4G phones. In the past three years, data revenue for the three largest telcos - Telkomsel, Indosat and XL Axiata – grew around 25% pa.

Some 60-70% of the handsets in Indonesia – 250m units - are still 2G phones. We think the main reason for the slow conversion so far has been the price points of 3G/4G handsets. These are still considered high by 2G users. We think things might change soon, as there are now a number of 4G handsets priced below IDR1m. 2G units are around IDR300,000.

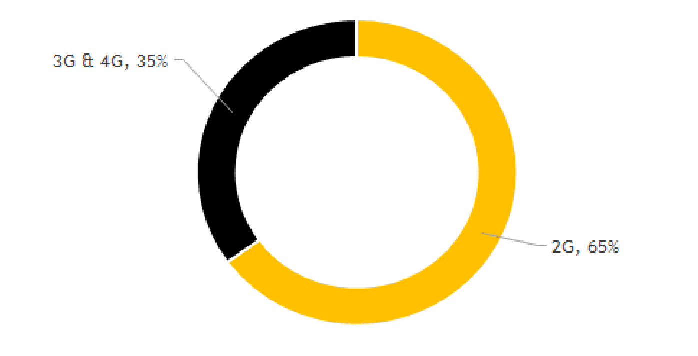
In anticipation of the threat from e-commerce, some retail companies, such as Mitra Adiperkasa (MAPI IJ, IDR6,200, BUY, TP IDR7,500) and Matahari Department Store (LPPF IJ, IDR10,000, BUY, TP IDR15,000), have been building their online platforms. We don't think these businesses are making money at this stage and it remains to be seen if they will be a success.

We think at the moment e-commerce will have direct impact on mall owner/operator. So far, mall occupancy in Greater Jakarta has been stable at 85%, due to a limited supply of new malls. We think this could be intact in the next 2-3 years. However, occupancy in mid-market to lower-end malls has been declining due to dwindling profitability because of the emergence of e-commerce.

2.3 Long / short trades

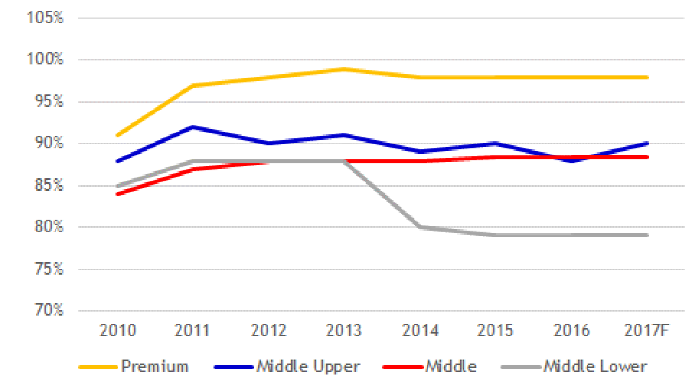
We are long on telcos as we believe they will benefit from increasing data usage and the switch from 2G to 3G/4G handsets. We are short on mall owners. Among the property companies we cover, Pakuwon (PWON IJ, IDR685, HOLD, TP IDR670) has the highest exposure to shopping malls.

Fig 7: Migration from 2G to 3G/4G offers upside to telcos



Source: Company data

Fig 8: Mall occupancy rates based on grade of mall



Source: Colliers

3. Residential Property Demand Shift

3.1 Upturn in demand countered by secular challenges

Residential developers are typically among the best mid-cycle trades where higher income growth translates into discretionary spending. This should have worked for Indonesia especially since home ownership in Inner and Greater Jakarta is only about 50%, the lowest in Indonesia. Instead, housing demand has been disappinting. Our analysis shows that secular problem of a mismatch between demand and supply. A cyclical home sales may not rebound, if it happens, may be tepid, at best.

3.2 Mid-high-end stagnation

Housing sales in Indonesia have been relatively stagnant since 2014, largely due to 1) a weak economy, 2) regulatory uncertainties, 3) tax amnesty and 4) political situation. In the past three years, mortgage loan growth has also been grounded despite BI's easing monetary policy. The situation particularly hit the mid-high end residential segment (ASP over IDR1b per unit). Listed property developers tend to focus on mid-high-end housing with ASPs of over IDR1b. This is to maximise profitability on land accumulated 20-30 years ago that is very hard to replace. Their strategy didn't work, in the past three years because:

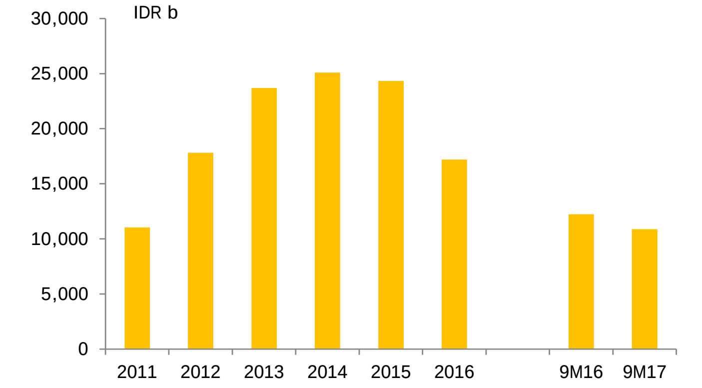
1. For investment buyers, yields have been declining in the past three years, to around 7%. This is not attractive against less-risky time-deposit rates of 4-5%;
2. For real buyers, ASPs of mid-high-end products are already high and as such do not provide good value for money. Moving out from inner Jakarta to Greater Jakarta also does not solve the problem either due to the long commute;
3. Our study suggests that potential demand for mid-high-end housing in Greater Jakarta is only 140,000 units, which is only 4.4% of the total potential demand pool. We also notice demand is quite sensitive to prices;
4. As most developers are actively serving this market, there has been an oversupply in the middle-high end segments while the low end market may be undersupplied.

3.3 Low-mid-end potential

We see more upside potential for the low end to mid-market (price tag below IDR1,100 a unit) where affordability is better. Our study suggests that housing demand for houses below IDR1,100m in inner and Greater Jakarta is 1.1m / 3.2m units. This translates to 88% of housing demand for inner and 96% for Greater Jakarta. But for 2018/19, overall demand for physical properties may be dampened by upcoming political elections.

We also note that, based on DuPont analysis, developers which are willing to develop low-mid-priced properties should eventually generate higher ROEs through higher asset turnover, despite lower margins.

Fig 9: Housing presales for developers under coverage



Source: Companies, Maybank Kim Eng

Fig 10: Household income segmentation and property affordability in Greater Jakarta

Property segment	Property price (IDR m)	Assumption of house ownership	No. of Household	Potential housing demand in 2017F (units)
Low-end	<600	40%	4,078,700	2,447,220
Low-mid	600-1,100	60%	1,583,900	633,560
Middle	1,100-1,600	80%	502,300	100,460
Middle-upper	>1,600	90%	425,500	42,550
Total potential demand		**51%**	**6,590,400**	**3,223,790**

Source: Euromonitor, Maybank Kim Eng

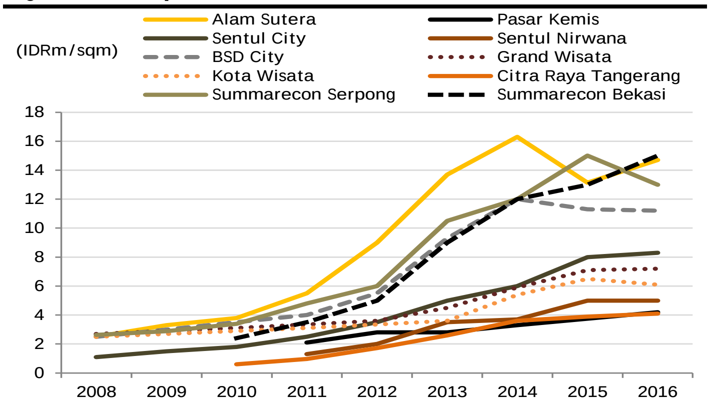
3.4 Breakout: CTRA

For now, we don't think developers have the flexibility to shift to the low-mid-market. This is because 1) shifting the segment will reduce profitability and 2) they have to cut ASP more than 50% which can impact positioning. That said, Ciputra (CTRA IJ, IDR1,165 BUY, TP IDR1,600) will benefit the most given its focus on low-mid segment.

3.5 Breakdown: ASRI

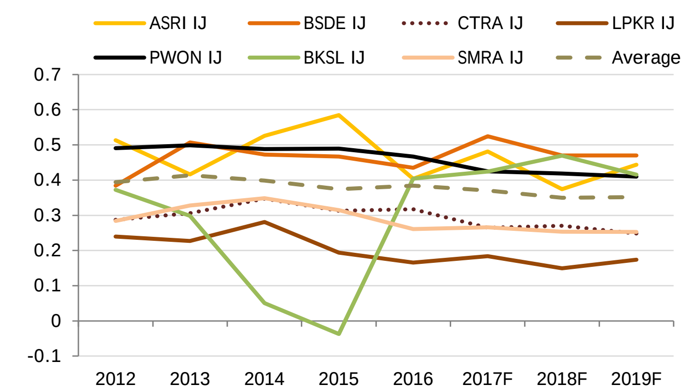
As demand is not likely to change substantially in the short term, we think Alam Sutera (ASRI IJ, IDR356, SELL, TP IDR300) will be a loser, given its high exposure to mid-high-end segment. We also think regulatory risks for this sub-market are higher, given the government's need for tax revenue.

Fig 11: House price index for Greater Jakarta



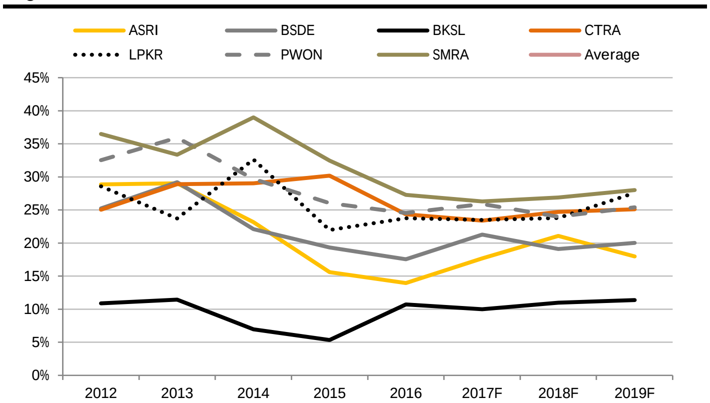
Source: Bank Indonesia, Maybank KE

Fig 12: DuPont ROE decomposition: operating margins...



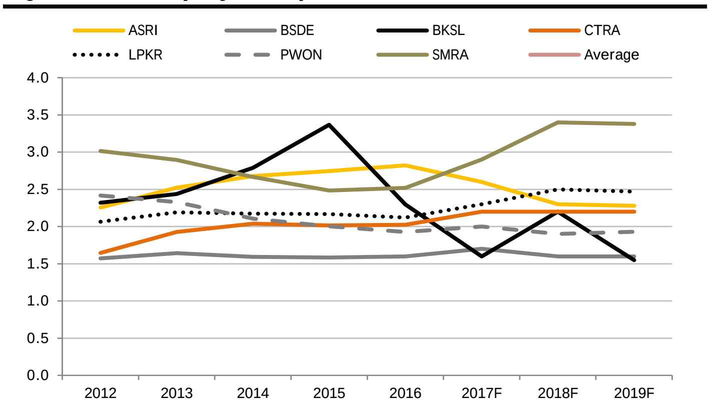
Source: Company, Maybank KE

Fig 13: ... asset turnover...



Source: Company, Maybank KE

Fig 14: ... and equity multiplier



Source: Company, Maybank KE

4. Mid-cycle breakout ideas

4.1 Mining sector: still at an early stage

Mining sector could potentially see more upside in terms of return performance in 2018 as we expect coal and nickel to sustain their price strength in 2018. The mining sector was up 14-15% in 2017 on the back of strong commodity prices, primarily coal.

Nickel deficit

Vale Indonesia's (INCO IJ, IDR2,890, BUY, TP IDR4,400) stock ended 2017 on a flat note but it was already up over 50% from its low at the beginning of 2H17. This was thanks to a 34% increase in nickel prices. We believe this is just the beginning of a multi-year rally. This is because we expect nickel's supply deficit, which started in 2016, to continue in the medium term on the back of improving demand and tightening supply.

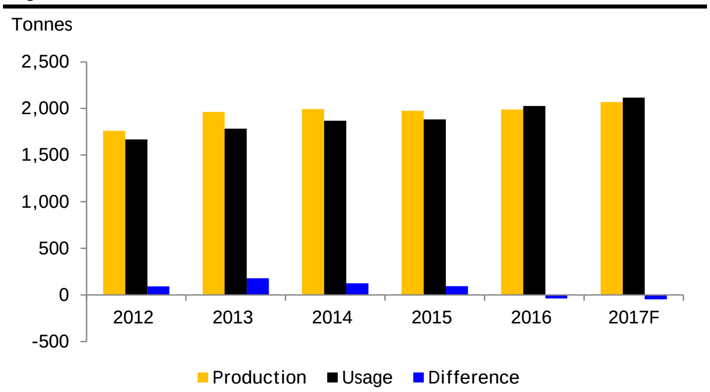
While short-term demand could still be shaped by China, in the medium term we expect growing demand from electric cars. Demand from this segment is expected to grow from below 5% of the total to 10%. Supply-wise, we expect shipments from the Philippines (20-25% of global supply) to contract ~40% due to environmental issues, and do not expect replacement from other countries.

4.2 Heavy equipment in early growth stage

We expect coal-price strength to sustain in the next 18 months on the back of strong demand from China and India and relatively limited supply growth. We forecast that Indonesia, the largest exporter, will face difficulties ramping up its coal production from its current 350m tonnes pa. This is because banks are now more reluctant to fund the small miners, after coal's price collapse in 2012-15.

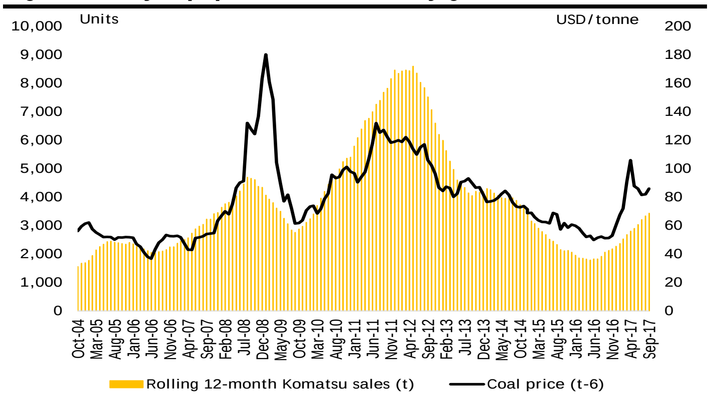
Komatsu's sales volume is an indicator of commodity-price strength as 50% of its volume is sold to the mining sector (rho = 0.74 based on 13-year monthly data). Rolling 12-month Komatsu sales were up 61.6% YoY to 3,433 units. We believe this recovery is nascent, as 1) we believe commodity prices could remain strong in the next 18 months; and 2) spare parts for heavy equipment are scarce globally. UNTR is best exposed to heavy-equipment sales.

Fig 15: Nickel market in deficit



Source: INSG

Fig 16: Heavy-equipment sales in early growth mode



Source: Company, Bloomberg, Global Coal

4.3 Laggard Consumer play: Ramayana: Sustainable Recovery

Ramayana Lestari (RALS, IDR1,200, BUY, TP IDR1,600) is a low-end retailer. Its share price was down 15% YoY in 2017 due to overall consumption weakness. We think it's time to revisit the stock as we expect operational improvements.

Consumption recovery

We think RALS should benefit the most from: 1) an 8.7% minimum-wage increase across Indonesia in 2018 and 2) a state-budget allocation of IDR60t or ~2.7% of the total to village funds. The money will be used to create 11-12m jobs, equivalent to 8-9% of the labour force. About 30% will be used for wages, which is positive for purchasing power. The government's plan to not raise electricity tariff in 2018 should maintain purchasing power. We forecast SSSG of 4% for 2018E (2017E: 0%).

Fashion turnaround

We forecast EBIT margin improvements of 30bps in 2018E on the back of a sales recovery and sustained improvements in its fashion business. We forecast sales growth of 8.0% YoY, which should improve operating leverage as 30% of its costs is fixed. Collaboration with celebrities to enhance branding and a rationalisation of in-house brands have already improved sales and profits for its direct-purchase fashion merchandise. Better service support for suppliers has improved its consignment fees. Store rejuvenation continues to attract more customers.

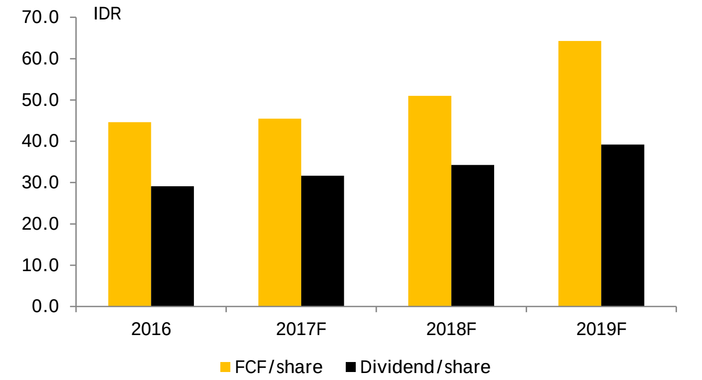
Supermarkets the wild card

Supermarkets account for 30% of its sales. They are still losing money, with a 9M17 EBIT margin of -3.1%. In 2017, some 25% of its supermarkets were rebranded and came under the management of SPAR. The converted stores now sell more fresh produce, from 6% of sales to 30%, with a breakeven target in 2-3 years. In 2018, RALS doesn't plan to convert any supermarkets but will keep closing unprofitable ones.

Strong FCF with dividend upside potential

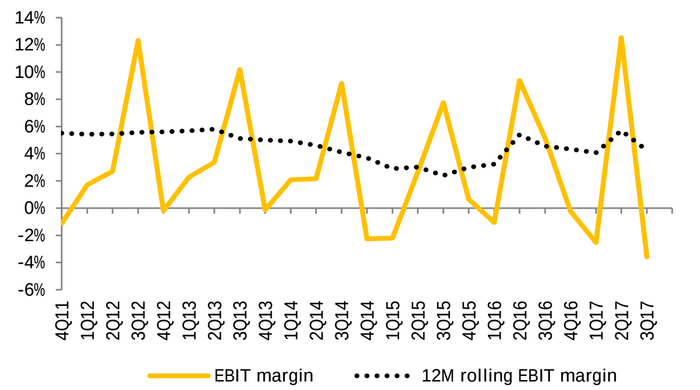
RALS generates strong FCF. We forecast an 18.9% CAGR for 2017-19E as its fashion and supermarket business transformation does not require much capex. We see payout upside potential from its strong FCF.

Fig 17: Strong FCF can support higher payouts



Source: Company, Maybank KE

Fig 18: Sustainable margin improvements



Source: Company

5. Cash Flows & Balance Sheets

5.1 As NPL risks fade, banks should lend more

For a country with low financial leverage, Indonesia has high non-performing assets. Its net debt to GDP for both the public and private sectors is 68%, a modest increase from 60% in 2007. Yet, NPLs at 2.8% in 9M17 were among the highest in ASEAN. Even Singapore banks with exposure to Indonesian credit have non-performance ratios of 4-5%. High credit costs elevate lending rates and discourage lending when quality deteriorates, such as in 2016/17.

But credit risks are retreating, with some support from Bank Indonesia's 100bp rate cuts in the last 12 months. The cuts brought lending rates to 13.8%, close to their 15-year low. Indonesia's economy is leveraged to its export market. And by virtue of its larger composition of commodity exports, its exports tend to gyrate more than its neighbours'. Both the export and commodity cycles have staged solid rebounds.

5.2 Stronger corporate balance sheets

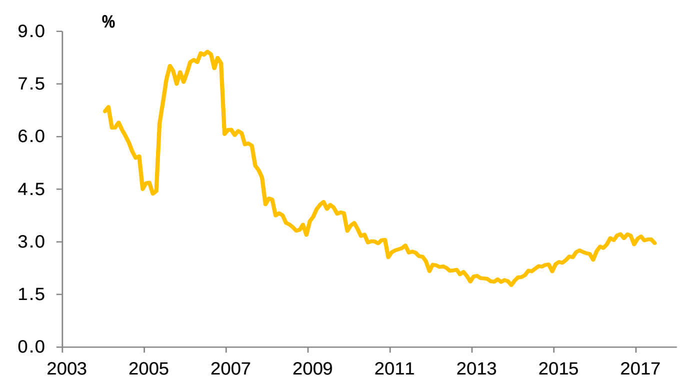
Improvements in cash flows and balance sheets have been broad-based. Using JCI's FCF to cash as a proxy for cash generation, by Sep 2017, FCF/share had increased 66% to IDR85 from IDR51 in 9M14, when NPLs started to accelerate. Revenue growth for JCI companies is expected to hasten from 7.2% in FY17E to 9.7% in FY19E. It was negative in 2016.

Net gearing was low at 0.24x in Sep 2017, modestly higher than the 0.19x in Dec 2016. Net debt/EBITDA was 0.56x at end-2016 and 0.58x at end-2017E, suggesting current debts can be paid with only seven months of EBITDA. Commodity, retail and cement companies had net cash. MKE forecasts 0.21/0.18/0.12x gearing for end-2017/18/19 on declining debts and improving equity.

5.3 Exception is infrastructure

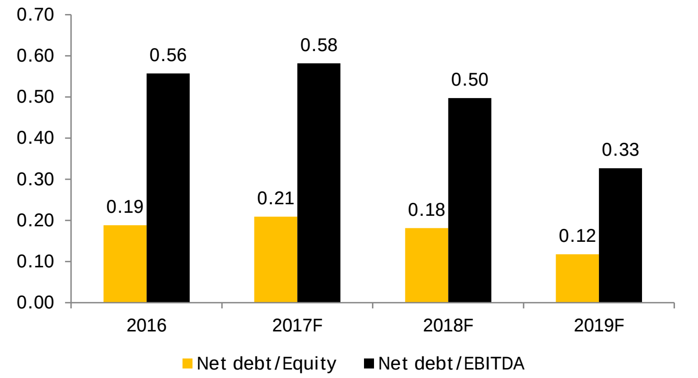
The exception is the infrastructure sector. But this is attributed to an evolution of business models. Instead of pure construction, contractors are increasingly taking stakes in certain projects. Project funding bumped up gearing from 0.51x at end-2016 to 1x at end-Sep 2017 and further to 1.06x at end-2017E. We see it coming down to 0.81x in 2019E, as companies start harvesting returns from turnkey projects. As the sector has come off 50-55% from its peak, we think the bad news has been priced in, though we don't see strong positive catalysts.

Fig 19: NPLs have started to improve



Source: Company

Fig 20: Low gearing of Indonesian companies



Source: Company, Maybank Kim Eng

6. Potential Surprises

6.1 Consumption recovery

We think in order for the economy to grow 5.3% in 2018E, consumption, at 55% of GDP, will have to perform. We are optimistic on the low-end segment, due to: 1) minimum wage hikes of 8.7% and 2) a state-budget allocation of IDR60t or 2.7% of the total budget to village funds, 30% for wages. The government has also decided not to increase electricity tariffs in 2018.

As the economic recovery will only be gradual and not spectacular, we think consumers will remain prudent. We expect them to spend on basic stuff. Indofood (INDF IJ, IDR7,625, BUY, TP IDR10,000) should be best positioned as it has a 70% market share in instant noodles.

INDF's strong brand equity and extensive distribution network should enhance customer awareness and acceptance in newer products such as dairy, snack and beverages. We see a strengthening franchise as consumers trade up in tandem with improving income and living standards. New products and penetration of new regions should also provide catalysts growth, in our view.

Declining wheat prices will provide support for consumer branded products (CBP) margins as wheat makes up 30% of COGS. However, it may also mute revenue growth of its flour-milling business and lower margins for its higher-priced inventories. The net impact on INDF would be positive as CBP's revenue and EBIT contributions are larger than the flour business.

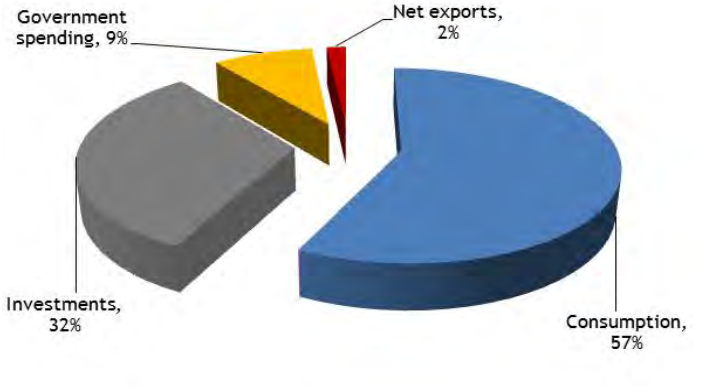
6.2 Tax collection

Tax collection is crucial to support government spending. The government is targeting 11.8% YoY tax revenue increase for 2018 to IDR1,386t. We are optimistic the tax collection for 2018 will be better than 2017 due to the improving economy and better quality of tax payers' information post the tax amnesty program.

6.3 Regional elections

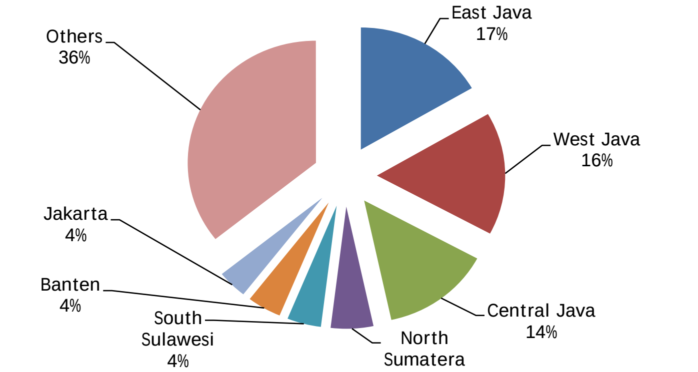
The country will have two major political events in 2018: 1) regional elections in 171 areas (17 provinces and 154 regencies) in June 2018 and 2) the start of election campaign in 4Q18. Provincial elections are important because they will include East Java, West Java and Central Java. In 2014, these three provinces contributed 17%, 16% and 14% to the national vote.

Fig 21: Consumption-driven economy



Source: BPS

Fig 22: 2014 vote distribution



Source: KPU

Bank Rakyat Indonesia (BBRI IJ)

ROE Leader

BUY

Share Price	IDR 3,640
12m Price Target	IDR 3,800 (+4%)
Previous Price Target	*IDR 3,800*

Potentially strong long-term expansion

We think BBRI will be one of the main beneficiaries of Indonesia's economic recovery and secular growth. It already has a strong foothold in SOE lending. It also has the widest geographical coverage to access Indonesia's underbanked population, through its high-margin micro-lending business. This is now based on a 3-year rolling ROE of 19%, the highest among peers, from its 10-year average of 17.4% previously. Maintain BUY.

Growing trading sector

We raise our loan-growth assumptions for BBRI by 100bps to 15-17% YoY for 2019-20E as we expect strong lending to the trading and manufacturing sectors. These currently make up 43% of BBRI's loan book. Apart from its wholesale corporate and SME segments, micro-financing should also contribute to its loan growth.

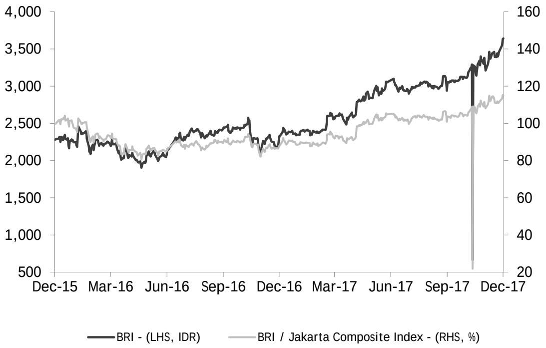
High-margin micro loans

We believe BBRI's leadership in micro loans gives it an advantage in tapping new markets for loans and deposits in rural areas. This underpins our assumption of a CASA increase from 56% in 9M17 to 61% by 2020E. Micro loans are also mainly behind our estimated 8% NIM for the medium term, the highest among peers. Our assumptions take into account a potential decline in yields from new subsidised micro loans as the government may further lower KUR lending rates.

Statistics

52w high/low (IDR)	3,640/658
3m avg turnover (USDm)	14.1
Free float (%)	43.0
Issued shares (m)	123,346
Market capitalisation	IDR449.0T
	USD33.1B
Major shareholders:	
Government of Indonesia	57.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	19	56
Relative to index (%)	5	11	30

Source: FactSet

FYE Dec (IDR b)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	70,688	84,935	90,453	98,546	107,885
Pre-provision profit	39,403	47,663	50,686	56,000	62,239
Core net profit	25,398	26,196	27,452	31,836	36,631
Core EPS (IDR)	208	214	225	260	300
Core EPS growth (%)	5.7	3.2	4.8	16.0	15.1
Net DPS (IDR)	280	386	80	93	107
Core P/E (x)	17.5	17.0	16.2	14.0	12.1
P/BV (x)	3.9	3.0	2.7	2.4	2.2
Net dividend yield (%)	7.7	10.6	2.2	2.6	2.9
Book value (IDR)	923	1,198	1,333	1,489	1,669
ROAE (%)	24.1	20.2	17.8	18.5	19.0
ROAA (%)	3.0	2.8	2.6	2.7	2.8
Consensus net profit	-	-	28,104	32,259	37,365
MKE vs. Consensus (%)	-	-	(2.3)	(1.3)	(2.0)

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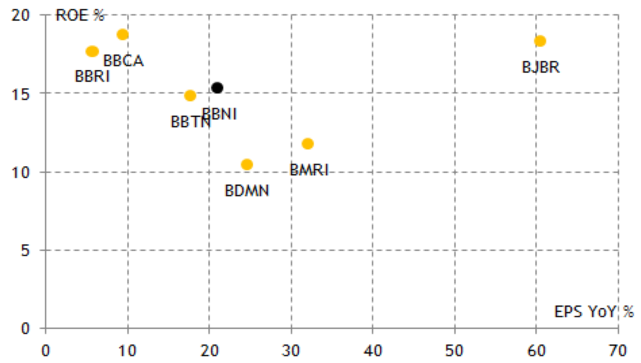
Value Proposition

- BBRI has one of Indonesia's best consumer franchises. Being government owned, the bank is also in a good position to fund state-related projects.
- BBRI has a 15% consumer market share. Low consumer delinquency and high CASA allow the bank to translate its higher NIMs into a sustainable ROE of 19%, one of the highest in Asia.
- The expertise required to successfully expand BBRI's type of consumer lending is a barrier for new entrants. We see no close competitor in the medium term

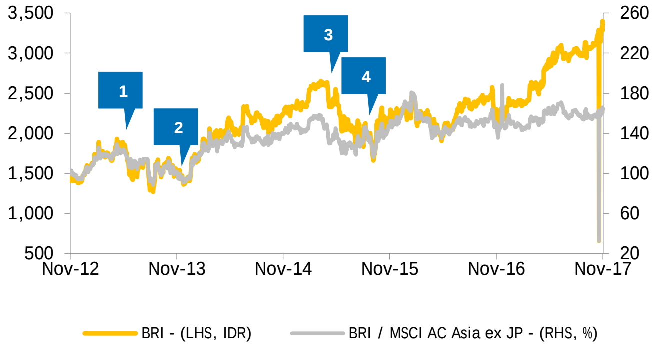
Indonesia banks ROE vs. EPS growth comparison (2017F)



Source: Companies, MKE

Price Drivers

Historical share price trend



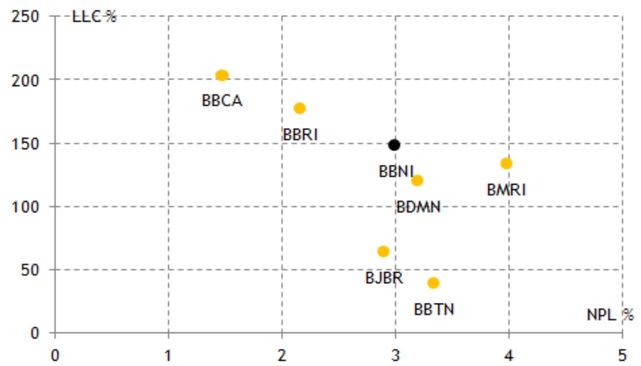
Source: Company, Maybank Kim Eng

1. Weakening IDR lead to NPL concerns.
2. NIM recovery as BBRI passed on the rising BI rate to borrowers.
3. Weak 1Q15 earnings due to high CoF, followed by NPL concerns on rapid IDR depreciation.
4. 50bp cut in BI's primary reserve requirement taken as a signal of lower benchmark rate in the future.

Financial Metrics

- We expect BBRI's leading position in consumer lending to keep NIM above 7% vs. the sector's average of 5.6%.
- Efficiency is expected to improve following the launch of BBRI's satellite in 2H16.
- NPLs should stay below 3% on improving credit origination standards. Lower exposure to more vulnerable corporate and SME segments.
- These metrics and BBRI's prudent coverage allow the bank to maintain higher ROE compared to peers.

Indonesia banks NPL & LLC comparison (2Q17) [wrong stock highlighted black]



Source: Companies

Swing Factors

Upside

- BI rate cut will lower cost of fund. As most of BBRI's loan portfolio is comprised of fixed rates, the bank should be able to maintain a higher NIM for longer than peers.
- Acceleration in corporate and SME loan demand, driven by a stable currency.
- Lower-than-expected NPLs.

Downside

- Government intervention in KUR lending rate to a level that this subsidised loan programme is no longer profitable for participating banks.
- Lower-than-expected credit demand from the corporate segment due to a prolonged weakening in the economy.
- Higher-than-expected cost of credit due to deteriorating asset quality.

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Bank Negara Indonesia (BBNI IJ)

Strongest Growth Prospects

BUY

Share Price	IDR 9,900
12m Price Target	IDR 10,000 (+1%)
Previous Price Target	*IDR 10,000*

Investment revival; higher TP

In our sector report "Follow the Money", we argued that Indonesia's underserved banking market should enjoy multiple years of secular growth. Near term, backed by an economic upturn, its banks are returning to a virtuous cycle. Having competencies in business lending, as well as the capacity and appetite for growth, we think BBNI is set to be a main beneficiary. We raise our GGM TP by 20% to IDR10,000, after switching to a 3-year rolling ROE of 16.8% to reflect multi-year prospects, from a 10-year average of 14.8% previously. Our new TP implies 1.6x FY18E P/BV. Maintain BUY.

Growing exposure to low-NPL segments

We expect BBNI's infrastructure loans to make up 34% of its portfolio in 2018E, up from 28% in 2015. As it focuses on government projects, inherent risks should be low. And with improving commodity prices and rising capacity utilisation, agriculture is likely to be another source of growth. BBNI lends 11% of its book to this sector, largely to private companies with good track records. Its exposure to the high-risk mining sector is expected to remain at only 3%.

Growing ahead of sector

BBNI was the first among the big banks to clean up its balance sheet in 2015. Being an early bird in resolving its NPLs, it was able to turn its attention to expansion and grow faster than peers. We estimate its loan growth could accelerate from 15% in 2017E to 16-18% in 2018-20E. Combined with continuous improvements in loan quality, a low LDR and an ample CAR, we estimate a 3-year rolling ROE of 16.8%, above its 10-year average of 14.8%.

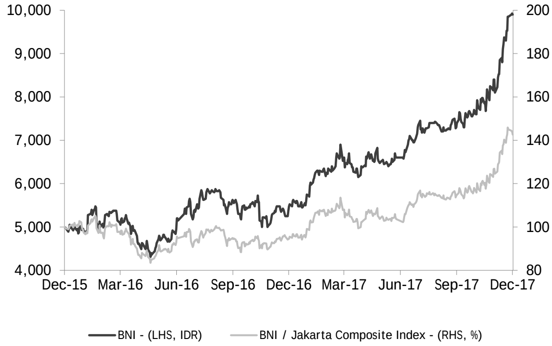
TP raised 20% to IDR10,000

We switch to a 3-year rolling ROE in our GGM valuations for all our banks. This is to reflect Indonesia's multi-year growth prospects. Accordingly, our TP rises to IDR10,000 (1.6x FY18E P/BV,16.8% ROE). Maintain BUY.

Statistics

52w high/low (IDR)	9,925/5,450
3m avg turnover (USDm)	11.4
Free float (%)	40.0
Issued shares (m)	18,649
Market capitalisation	IDR184.6T
	USD13.6B
Major shareholders:	
Government of Indonesia	60.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	18	34	81
Relative to index (%)	12	24	51

Source: FactSet

FYE Dec (IDR b)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	35,298	41,537	44,876	48,925	53,747
Pre-provision profit	18,458	22,088	24,352	27,258	30,869
Core net profit	9,067	11,339	13,467	15,945	18,799
Core EPS (IDR)	486	608	722	855	1,008
Core EPS growth (%)	(15.9)	25.1	18.8	18.4	17.9
Net DPS (IDR)	110	192	227	269	318
Core P/E (x)	20.4	16.3	13.7	11.6	9.8
P/BV (x)	2.5	2.2	1.9	1.7	1.6
Net dividend yield (%)	1.1	1.9	2.3	2.7	3.2
Book value (IDR)	3,976	4,553	5,120	5,675	6,330
ROAE (%)	13.8	14.3	14.9	15.8	16.8
ROAA (%)	2.0	2.0	2.1	2.1	2.2
Consensus net profit	-	-	13,237	15,338	17,377
MKE vs. Consensus (%)	-	-	1.7	4.0	8.2

Link to sector note:

Indonesia Banks - Follow The Money

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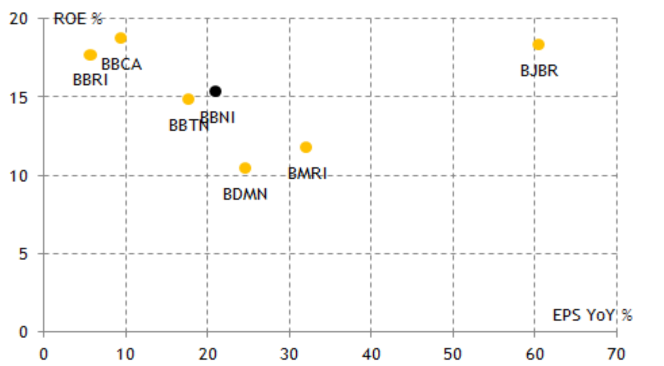
Value Proposition

- Focuses on corporate lending. BBNI will be the main beneficiary of an economic recovery and rising credit demand from the corporate segment.
- Being government owned, BBNI is in a good position to fund the increasing amount of government-related projects. Management has been successful in improving loan quality and maintaining high NPL coverage.

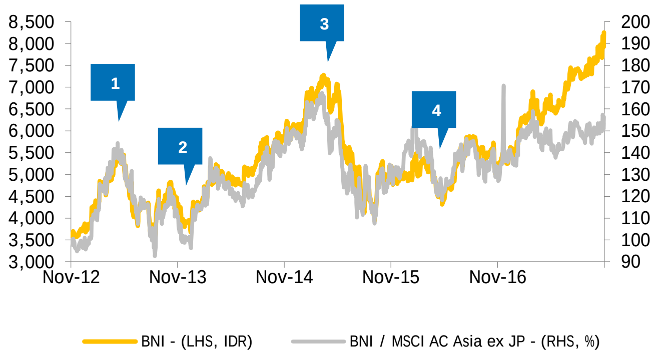
Indonesia banks ROE vs. EPS growth comparison (2017F)



Source: Companies, MKE

Price Drivers

Historical share price trend



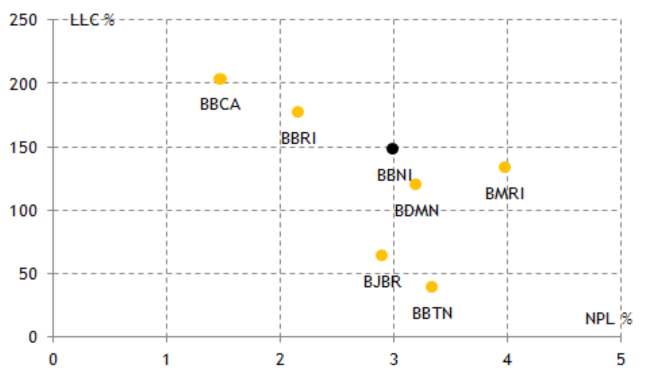
Source: Company, FactSet, Maybank Kim Eng

1. Weakening IDR leads to NPL concerns.
2. Improvement in asset quality, with NPL staying close to 2% until 1Q15.
3. Kitchen sinking by new BOD, which brought NPLs close to 3% from 2% in previous quarter.
4. Strong 1Q16 growth, despite a slowdown in the economy.

Financial Metrics

- We expect BBNI's strong position in corporate lending to keep loan growth above 15% vs. the 9% sector average.
- NPLs should stay below 3% due to better credit origination standards under the new management and a prudent coverage strategy.
- Strong growth and stable credit quality enables BBNI to maintain high EPS growth and ROE.

Indonesia banks NPL & LLC comparison (2Q17)



Source: Company

Swing Factors

Upside

- Acceleration in corporate loan demand driven by an economic recovery.
- Lower-than-expected new NPLs, which lead to lower provisioning expense.
- Higher-than-expected operating income, which will help management exceed its target of +18% YoY fee-based income growth for FY17.

Downside

- Concerns about single-digit lending rates resurfacing in 2018.
- NPL hiccup due to management's aggressive expansion strategy.
- Slow deposit growth as banks compete with the government for liquidity.

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January 2, 2018

Maybank Kim Eng

Consumer Staples

Indonesia

Indofood Sukses (INDF IJ)

Benefits from Better CPO Yield

BUY

Share Price	IDR 7,625
12m Price Target	IDR 10,000 (+31%)
Previous Price Target	*IDR 10,000*

Reiterate BUY; benefits from CBP & agribusiness

We expect INDF to profit from potentially stronger CPO output, via better margins for its agribusiness and sales of its consumer products from higher purchasing power. These are expected to provide stock catalysts. Reiterate BUY and IDR10,000 TP. This remains based on a 20% discount to SOTP vs its 5-year average discount of 15% to price in tougher competition for its consumer business. Our TP implies 18x FY18E P/E, not demanding vs JCI Consumers' 30x.

Better CPO yields to support earnings

Despite in-house expectations of slightly lower / flat CPO prices for 2018, higher productivity should lower production cost/tonne and therefore offset price pressure and lift EBIT margins for its agribusiness from 11% in 1H17 to 13.5% in FY18. Agribusiness segment was around 20% of total EBIT. Higher production, we believe, will also boost the country's employment and purchasing power, which should benefit INDF's CBP business.

Branding & distribution to give it an edge

We also expect INDF to bank on its solid CBP brand equity and extensive distribution network in the fight for market share in its newer ventures such as dairy, snack, and beverages. We see growing brand awareness as consumers trade up in tandem with improving income and living standards. New products and penetration of new regions should also provide additional room for growth, in our view.

Easing wheat prices to cushion CBP margins

Wheat prices have eased 15% from their peak in Jul 2017. We believe this will provide support for CBP's margins as wheat makes up 30% of COGS. However, it may also mute revenue growth of its flour-milling business and lower margins for its higher-priced inventories. This business accounted for 14% of its EBIT in 1H17. But as CBP's revenue and EBIT contributions are much bigger, we expect a net positive impact for INDF.

FYE Dec (IDR b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	64,062	66,750	71,424	76,644	81,999
EBITDA	8,878	10,675	11,204	12,250	13,335
Core net profit	2,968	4,145	4,534	4,905	5,437
Core EPS (IDR)	338	472	516	559	619
Core EPS growth (%)	(23.6)	39.6	9.4	8.2	10.8
Net DPS (IDR)	168	236	258	279	310
Core P/E (x)	22.6	16.2	14.8	13.6	12.3
P/BV (x)	2.5	2.3	2.1	2.0	1.8
Net dividend yield (%)	2.2	3.1	3.4	3.7	4.1
ROAE (%)	11.2	14.7	15.0	15.0	15.3
ROAA (%)	3.3	4.8	5.4	5.5	5.7
EV/EBITDA (x)	8.5	8.8	8.4	7.7	7.1
Net gearing (%) (incl perps)	33.7	20.6	22.6	19.7	16.0
Consensus net profit	-	-	4,402	4,764	5,417
MKE vs. Consensus (%)	-	-	3.0	3.0	0.4

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Company Description

An integrated food company. It manufactures and distributes consumer products. It also operates and manages flour mills and plantations.

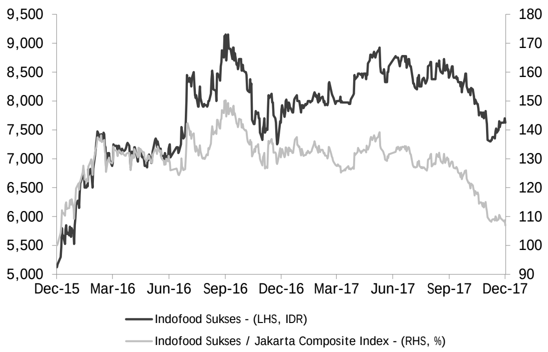
Statistics

52w high/low (IDR)	8,925/7,300
3m avg turnover (USDm)	5.2
Free float (%)	49.9
Issued shares (m)	8,780
Market capitalisation	IDR67.0T
	USD4.9B

Major shareholders:

First Pacific	50.1%

Price Performance



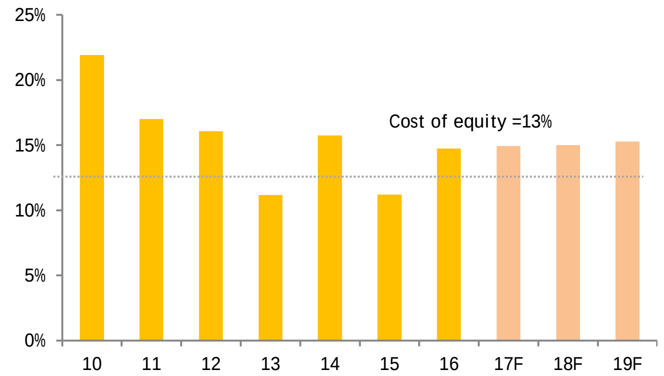
	-1M	-3M	-12M
Absolute (%)	0	(9)	(3)
Relative to index (%)	(4)	(16)	(19)

Source: FactSet

Value Proposition

- Owns 81% of ICBP, which contributes c.47% to revenue and c.61% to EBIT. But holds licences on ICBP's leading brands.
- ICBP supported by dominant position in instant noodles even as it diversifies into the faster growing, albeit lower margin, mass discretionary segments.
- Owns one of the most extensive distribution networks with more than 1,100 stock points, a key advantage in logistically challenged Indonesia.
- Exposure to agribusiness and FX debt, ROE relatively more volatile, but it remains above cost of capital.
- Capex is more intensive for agribusiness on the back of continuous planting and maintenance, particularly on immature plantations.

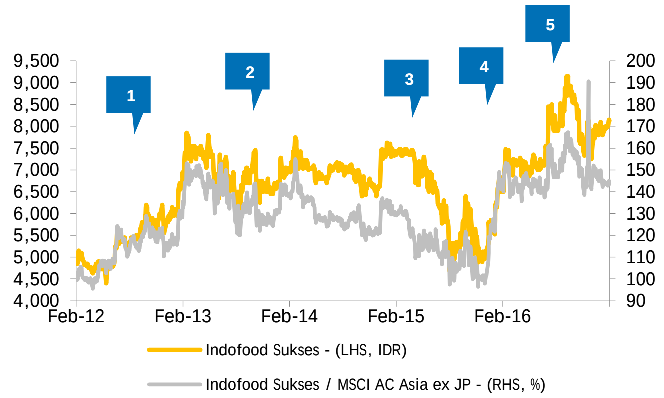
INDF's ROE



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



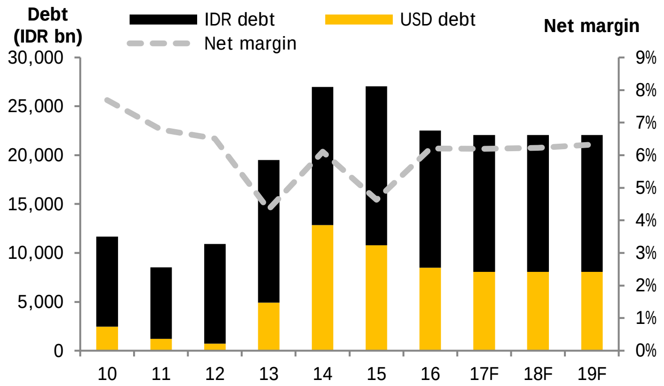
Source: Bloomberg, Company, Maybank Kim Eng

1. Strong earnings growth, mainly driven by agribusiness.
2. Weaker earnings growth, mainly due to slowdown and lower margin in agribusiness.
3. Acquired majority stake of MINZ and after that the subsidiary came under allegations of financial misstatement. INDF stated its support.
4. MINZ divestment plan announced.
5. MINZ divestment completed.

Financial Metrics

- Expect ICBP to remain the key growth driver for 2016-17F on volume growth recovery and sustainable margins.
- Expect slower growth for Bogasari in FY17E.
- We assume better productivity in FY17E for agribusiness, which should lead to the division's margin expansion.
- Expect interest income to support earnings after deleveraging post MINZ divestment in 1H17.

Expect earnings improvements from lower leverage



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Uptrend on CPO price.
- Change in regulations that limit flour imports or the entrance of new players to flour-milling industry.
- Expansion in new business that could fuel growth or has higher profitability than current businesses.

Downside

- Delayed payment from the divestment of MINZ (China-based vegetable cultivation business).
- Further IDR depreciation. The net impact is likely to be negative due to FX debt exposure.
- Shift in consumer preference from its major products in CBP business.

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Materials

Indonesia

Vale Indonesia (INCO IJ)

Ride the Nickel Wave

BUY

Share Price	IDR 2,890
12m Price Target	IDR 4,400 (+52%)
Previous Price Target	*IDR 4,400*

Company Description

INCO is a subsidiary of Vale SA which produces nickel in matte.

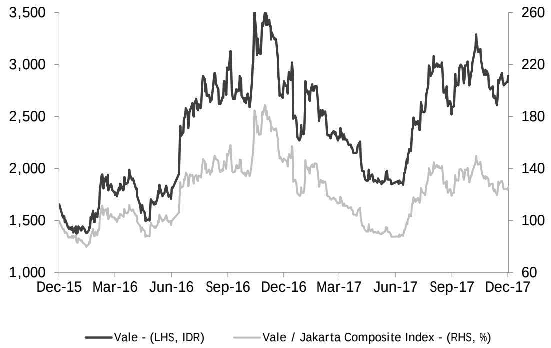
Statistics

52w high/low (IDR)	3,290/1,845
3m avg turnover (USDm)	2.3
Free float (%)	20.5
Issued shares (m)	9,936
Market capitalisation	IDR28.7T
	USD2.1B

Major shareholders:

Vale	59.3%
Sumitomo	20.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	12	2
Relative to index (%)	(1)	4	(15)

Source: FactSet

Reiterate BUY; positive outlook

We reiterate BUY on INCO on the back of positive earnings outlook. Our TP remains IDR4,400, which is based on FY18 P/BV multiple of 1.7x; in line with long-term mean. We believe the stock deserves a re-rating amid strong and rising nickel prices. The stock currently trades at an undemanding 1.1x 2018 P/BV - still at a 29% discount to the 15-year year mean.

4Q17 preview: stronger QoQ

We expect earnings momentum, which started in 3Q17, will continue in 4Q17. We forecast 4Q17 earnings of USD21m, up substantially from 3Q17's USD2m and 4Q16's USD9m. Higher ASP of USD9,126m (+19.8% QoQ), due to higher nickel prices, would be the main driver for the QoQ earnings improvement. Sales volume is likely to be slightly down (-1.5% QoQ) to 20.3m tonnes, but would be offset by higher ASP. We assume cost remained relatively stable (+0.6% QoQ) at USD7,582/tonne. We estimate FY17 earnings at –USD1m (2016: USD2m), but we believe this is already priced in.

Higher nickel prices for 2018

Nickel market is still very strong and is already in deficit. We think the deficit will continue in the medium term as we expect supply from the Philippines to remain tight and demand will pick up as the global economic outlook improves. That said we forecast 2018 earnings of USD84m on the back of higher ASP volume. Our forecasts are significantly above consensus.

Earnings upside

We see upside potential to our 2018 earnings forecast should the current nickel prices of ~USD12,100/tonne persist. Every USD100/tonne change in our nickel-price assumption would change our earnings forecast by 4.9%.

FYE Dec (USD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	790	584	634	741	835
EBITDA	228	145	137	248	339
Core net profit	51	2	(1)	84	151
Core EPS (cts)	0.5	0.0	(0.0)	0.8	1.5
Core EPS growth (%)	(70.7)	(96.2)	nm	nm	79.3
Net DPS (cts)	0.0	0.0	0.0	0.1	0.2
Core P/E (x)	41.9	nm	nm	25.1	14.0
P/BV (x)	1.2	1.2	1.2	1.1	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.5	0.9
ROAE (%)	2.8	0.1	(0.1)	4.5	7.6
ROAA (%)	2.2	0.1	(0.1)	3.8	6.6
EV/EBITDA (x)	5.0	13.8	14.9	7.9	5.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(13)	53	91
MKE vs. Consensus (%)	-	-	89.6	59.1	66.2

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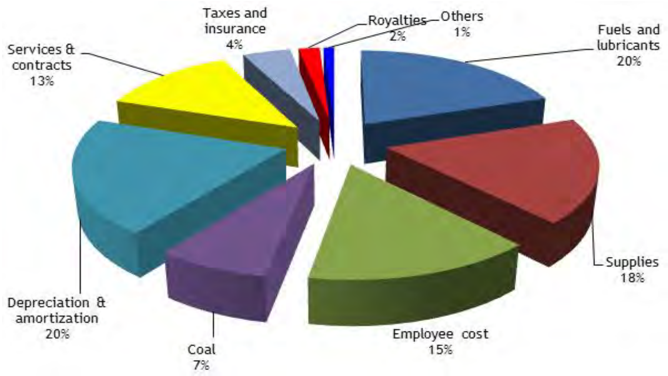
Value Proposition

- INCO is a subsidiary of Vale of Brazil and the only producer of nickel in matte in Indonesia.
- Cost efficiency has been INCO's strength. Costs have been declining in the last five years on the back of efficiency programs in order to counter nickel-price drop.
- Production has been relatively flat over the last three years due to capacity constraints.
- ROE has been dragged down to below cost of equity due to declining nickel prices which outpace higher efficiencies.

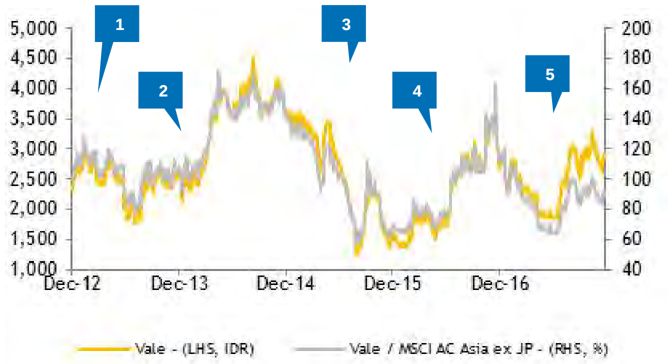
9M17 cost breakdown



Source: Company

Price Drivers

Historical share price trend



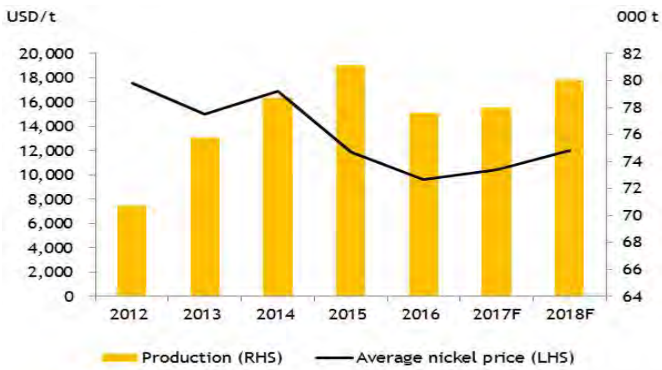
Source: Bloomberg, Maybank Kim Eng

1. New nickel projects commissioned which put pressure on nickel prices.
2. Government imposed nickel ore-export ban.
3. Earnings on downward trend due to declining nickel prices.
4. Nickel-price rally due to improving demand in China.
5. Government relaxed a regulation on mineral-ore exports.

Financial Metrics

- Earnings will turn positive in 2018 primarily due to improvements in ASP.
- Production costs will increase this year as on the back of higher coal and oil prices. Cost increases will be offset by higher ASP.
- Balance sheet will remain strong with a net cash position, which should enable INCO to start paying a dividend.

Production vs nickel prices



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Reversal of government regulation on exports of mineral ores.
- Successful cost-efficiency program.
- Successful monetization of Bahodopi and Pomala projects.

Downside

- Downward pressure on nickel prices, especially due to the impact from the mineral ore-export regulation in Indonesia.
- No significant progress in expansion projects.
- Change of permit when the current one expires in 2025.

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Maybank Kim Eng

Industrials

Indonesia

United Tractors (UNTR IJ)

Powering On

BUY

Share Price	IDR 35,400
12m Price Target	IDR 44,500 (+26%)
Previous Price Target	*IDR 44,500*

Reiterate BUY, valuation not demanding

We reiterate BUY on UNTR with a TP of IDR44,500 as we expect strong heavy equipment sales and the coal market to continue over the next 12 months, leading to higher earnings. We believe the stock deserves a rerating amid positive earnings outlook. At 6.9x 2018 EV/EBITDA and 15.1x 2018 P/E, valuations do not look demanding as they are still less than +1SD. Strong coal prices and earnings would be the main catalysts.

Robust FY18 earnings drivers

We forecast UNTR's 2018 earnings will grow 12.5% YoY on the back of higher heavy equipment volume (+12.5% YoY), higher overburden (+11.5%) and coal production (+7.0% YoY) and higher coal sales volume (+15.4% YoY). The strong and tight heavy equipment and coal markets would be able to maintain strong EBIT margin at 17.8% for 2018.

Earnings upside potential on tight supply

We see upside potential to our forecasts as waiting time for big heavy equipment is already 12 months and coal prices will likely remain strong as we expect supply growth from Indonesia will remain under control. *Ceteris paribus*, every 0.5% increase in our EBIT margin would increase our 2018-2019 forecasts by around 3%.

Power plant progress

Overall progress of the Tanjung Jati 2GW power project has reached 8%, in line with expectations. Target for commercial operation remains unchanged i.e. 2021. We forecast the project will contribute ~3% to UNTR's 2020 earnings. However, total contribution to earnings could be higher than our forecast, should we take into account potential contributions from contract mining and construction units.

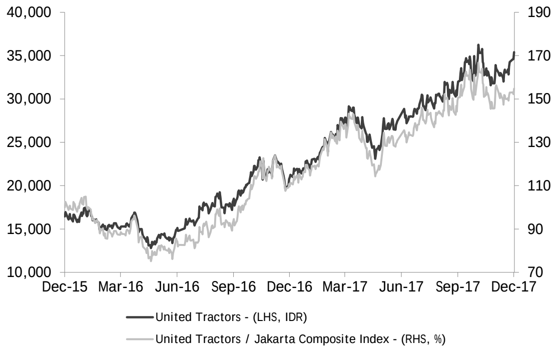
Company Description

UNTR's main businesses are mining contractor and selling heavy equipment.

Statistics

52w high/low (IDR)	36,250/21,000
3m avg turnover (USDm)	9.4
Free float (%)	40.5
Issued shares (m)	3,730
Market capitalisation	IDR132.0T
	USD9.7B
Major shareholders:	
Astra International	59.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	11	69
Relative to index (%)	(0)	3	41

Source: FactSet

FYE Dec (IDR b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	49,347	45,539	61,861	69,480	71,757
EBITDA	12,585	10,129	14,404	15,808	16,392
Core net profit	8,009	5,257	7,764	8,731	9,168
Core EPS (IDR)	2,147	1,409	2,081	2,341	2,458
Core EPS growth (%)	6.8	(34.4)	47.7	12.5	5.0
Net DPS (IDR)	413	536	831	940	990
Core P/E (x)	16.5	25.1	17.0	15.1	14.4
P/BV (x)	3.5	3.2	2.9	2.6	2.3
Net dividend yield (%)	1.2	1.5	2.3	2.7	2.8
ROAE (%)	10.3	12.7	17.9	18.2	17.2
ROAA (%)	13.1	8.4	11.0	10.7	10.3
EV/EBITDA (x)	4.0	6.2	8.1	7.3	6.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	7,605	8,770	9,445
MKE vs. Consensus (%)	-	-	1.9	(0.0)	(2.2)

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Value Proposition

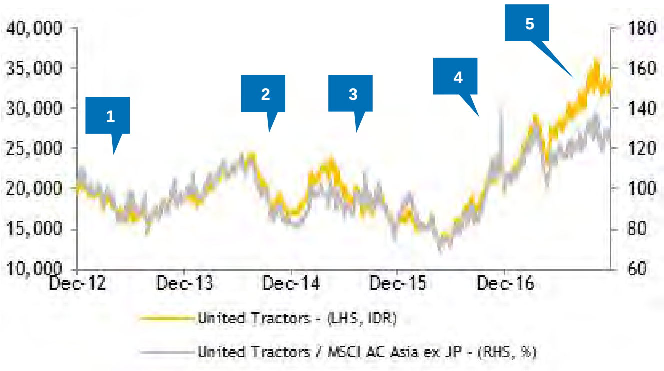
- UNTR, through its subsidiary (Pama), is the largest third party coal mining contractor in Indonesia with a consistent market share of ~28%.
- UNTR manages distributorship of Komatsu equipment in Indonesia with a strong presence in mining sector.
- The infrastructure unit (Acset Indonusa), whose objective is to diversify earnings, is one of the main players in foundation works in Indonesia.
- The whole value chain provides entry barriers and strengthening pricing power, allowing UNTR to maintain ROE above cost of equity.

Pama's consistent market share of >25% in coal mining

Source: Company

Price Drivers

Historical share price trend



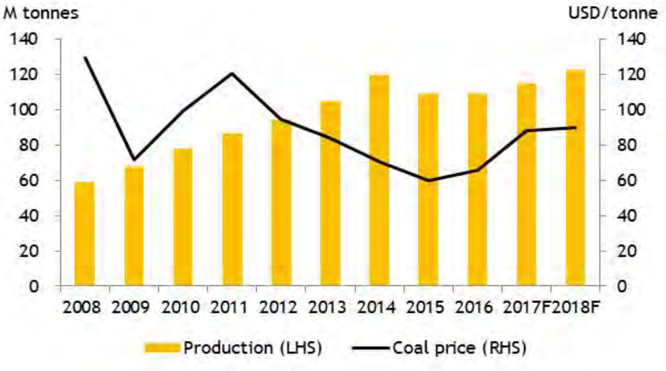
Source: Company, Maybank Kim Eng

1. Weak coal demand pushing down Komatsu's sales volume.
2. Impairment of UNTR's coal assets due to weak commodity prices
3. Acquisition of Acset Indonusa, the infrastructure subsidiary.
4. Earnings recovery driven by higher coal-production volume.
5. Coal-price spike due to higher demand from China and India and supply constraint in Australia.

Financial Metrics

- Forecast earnings to grow 12.5% YoY in 2018 on the back of higher coal prices, higher Pama's production and overburden volume and higher heavy-equipment sales.
- Forecast margin improvements through higher pricing/lower discount as coal companies should afford higher mining cost due to higher coal prices.
- Sustain strong balance sheet with net cash position, enabling 40% dividend payout ratio.

Production improves along with coal prices



Source: Company

Swing Factors

Upside

- Strong rebound in coal prices enabling Pama to raise contract-mining fees.
- Expanding contract-mining volume and market share.
- Successful diversification in infrastructure, which could lower earnings dependence on contract mining and heavy equipment.

Downside

- Temporary rebound in coal prices, putting pressure on margins.
- Innovations by coal companies to delay replacement of heavy equipment.
- Diversification into infrastructure requires much capital and takes longer to complete.

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Consumer Discretionary

Indonesia

Ramayana Lestari (RALS IJ)

Remain Positive

BUY

Share Price	IDR 1,200
12m Price Target	IDR 1,600 (+33%)
Previous Price Target	*IDR 1,600*

Reiterate BUY

Reiterate BUY as our new forecasts still suggest a 12% EPS CAGR for 2016-19E, up from 2% in 2013-16. We expect this to be led by margin expansion as RALs continues to transform its fashion business, providing potential stock catalysts. Our slightly lower TP of IDR1,600 after our EPS adjustments remains based on 22x FY18E P/E, +0.5SD of its 3-year mean.

Slower sales…

We attribute this year's slower growth to electricity-tariff hikes for the second-lowest category of users. Tariffs shot up from IDR586/kwh to IDR791 in January, IDR1,034 in March and finally IDR1,352 in May. The total hike was 31%. This likely crimped the purchasing power of the middle to lower-income classes. We expect lingering effects to result in flat sales in FY17E, before a potential recovery in FY18E when the impact from electricity tariff increase subsides.

… but margin expands

Despite its slower sales growth, we are eyeing gross-margin expansion of 120bps YoY and net-margin expansion of 50bps for this year. This should be spearheaded by better merchandise mix and less discounting for its fashion business. Supermarkets could continue to bleed losses at the EBIT level due to their slower-than-expected transformation. We now forecast -3.1% EBIT margins for this business, the same as last year.

Fashion transformation intact

We remain positive on the transformation of its fashion business. Collaboration with celebrities on branding and a rationalisation of in-house brands have already improved sales and profits for direct-purchase merchandise. Better service support for suppliers has also improved its consignment fees. We expect continued rejuvenation of its old stores to attract more traffic and sales.

FYE Dec (IDR b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	7,786	8,235	8,015	8,653	9,342
EBITDA	579	679	786	888	1,001
Core net profit	336	408	442	506	570
Core EPS (IDR)	47	58	62	71	80
Core EPS growth (%)	(5.4)	21.6	8.2	14.5	12.6
Net DPS (IDR)	25	27	29	33	38
Core P/E (x)	25.3	20.8	19.3	16.8	14.9
P/BV (x)	2.6	2.6	2.4	2.2	2.1
Net dividend yield (%)	2.1	2.2	2.4	2.8	3.1
ROAE (%)	10.0	12.2	12.8	13.7	14.4
ROAA (%)	7.4	8.9	9.3	10.1	10.6
EV/EBITDA (x)	4.7	9.9	8.4	7.3	6.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	410	506	569
MKE vs. Consensus (%)	-	-	7.9	(0.0)	0.1

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Company Description

Ramayana Lestari Sentosa operates and manages department stores and supermarkets.

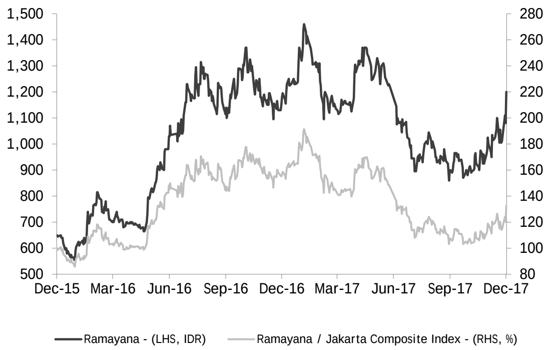
Statistics

52w high/low (IDR)	1,460/860
3m avg turnover (USDm)	0.5
Free float (%)	40.4
Issued shares (m)	7,096
Market capitalisation	IDR8.5T
	USD628M

Major shareholders:

PT Ramayana Makmur Sentosa	55.9%
Paulus Tumewu	3.7%

Price Performance



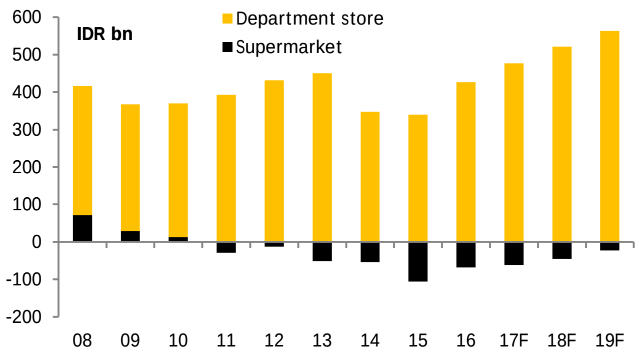
	-1M	-3M	-12M
Absolute (%)	17	33	2
Relative to index (%)	12	24	(15)

Source: FactSet

Value Proposition

- Largest Indonesian low-end fashion retailer. RALS benefits from a vast store network and relatively mild competition.
- Long history and deep industry knowledge enables RALS to procure lower priced products on a national scale.
- Mildly competitive landscape due to a lack of low-end retailers nationwide. The segment is perceived to be more difficult due to higher price sensitivity.
- Supermarkets operate at a loss due to decentralized purchasing and poor merchandising. Partnering SPAR to restructure showing encouraging initial results.
- Supermarket store revamp may see some revenue attrition over the near term. Higher capex would contract cash holdings and interest income.

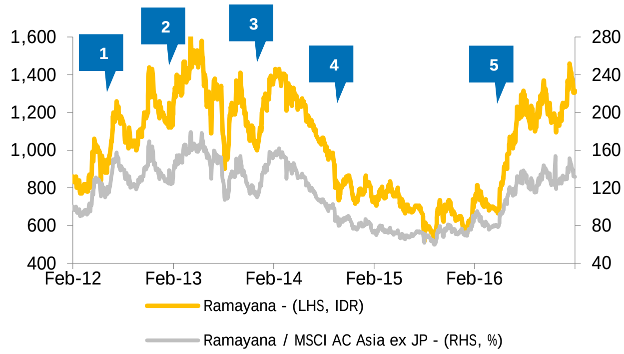
RALS EBIT breakdown



Source: Company, Maybank KE

Price Drivers

Historical share price trend



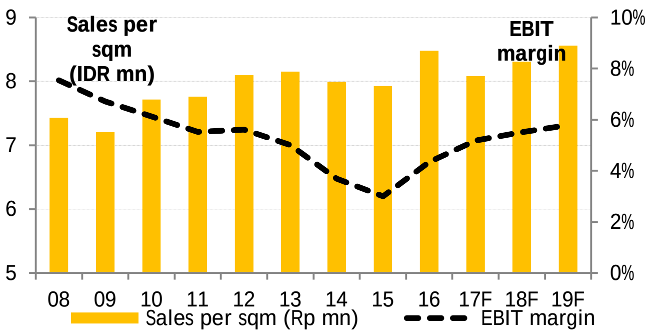
Source: Bloomberg, Company, Maybank Kim Eng

1. Relatively weak share price performance in 2011 as EBIT fell 2% YoY despite 9% YoY growth in revenue.
2. Strong SSSG and earnings performance in 2012 (revenue +13% YoY and EBIT +15% YoY).
3. Rumours of a potential buyer for its supermarkets, potentially unlocking value.
4. The sale did not materialise.
5. Operational improvements started to be visible in 2016.

Financial Metrics

- Revenue to decline 3% YoY FY17E before reverting back to +8% YoY in FY18E.
- Department store to remain as sole profit contributor in FY17-18F. Supermarket to breakeven by FY20F.
- Converted 21 supermarkets (vs. 95 to be converted) as per 1H17. Plans to convert another 10-15 stores p.a. over 2017-18F, leading to significant improvement in margins.
- Forecast 16/15% EBIT growth over FY17/18E.
- Likely to remain debt free. RALS has higher asset base than peers as it owns ~25-30% of the sales area.

Yield improvement may lead to better profitability



Source: Company, Maybank KE

Swing Factors

Upside

- If pace of supermarket conversion tops management's target of 15-20 stores p.a.
- Completion of fresh goods warehouse ahead of schedule. (The warehouse could increase RALS' price competitiveness).
- If commodity prices are positively impacted by El Nino this year, then affordability for consumers in Outer Islands would improve.

Downside

- Termination of partnership with SPAR, which could lead to cancellation or delay in the supermarket revamp.
- Failure to improve supermarket yields and margins, even after restructuring.
- Loss of market share due to rising competition from both offline and online retailers. Currently, offline retailers dominate the mass-market apparel and clothing segment.

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Thailand

Thailand – Buy into value

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After two consecutive years of over 15% appreciation - 20% per year in USD terms, the SET is not cheap, especially relative to single-digit earnings growth expected in 2018E, the second year of tepid growth. While the economy is expected to be healthier, anchored by buoyant exports and tourism traffic, these growth underpinnings, unfortunately, have low multiplier effects, in our view. There should be increased rollout of infrastructure projects (dual-tracking rail), digitalisation and long-term growth initiatives such as the EEC that big corporates can tap for growth. We see risks to upbeat year-end rhetoric on the fragile economic recovery, mainly from any unexpected weakening of demand for Thai products, rising interest rates and potential changes in the domestic political landscape. Disruptions of trade flows in the Pacific cannot be ruled out. At this point, we recommend investors to take some profit and / or switch to laggards: ADVANC, SCC, BBL, KTB, TU & MAKRO.

SET expensive, deep dive for value

After posting 20.4% gains in 2016 in USD terms and again another 20% in 2017 (nearly 10% in THB terms, the SET Index become expensive trading on 17x trailing PE (+2DS.10Y mean) and nearly 15.3x on forward basis (+1SD>10Y mean). Good stories are fully priced-in and many stocks are priced to perfection (>20x PE). The risk bias remains on the downside, which is nothing new. But, as we see in 9M-17 where EPS grow only 4.3% YoY (-5.1% if ex commodities) the downside hurdle is getting lower and argue that tolerance to mediocre profit growth could run out. We prefer value and chronic underperformer TU is our pick.

E-commerce a slow burn in a weak environment

E-commerce remains low and runs the risk of stalling against adverse demographic developments, namely poverty and ageing. However, the verdict is not out yet. The government, which employs 10% of the population, has spearheaded an e-payment system that has drawn banks to invest in similar platforms. We see mobile-phone operators benefiting and pick ADVANC to lead the pack. E-commerce will affect employment and consumption. We see MAKRO profiting as consumers trade down.

Elections, trade disruptions are wild cards

We think that election-related spending could spur economic growth. SCC could be the main beneficiary of increased demand for various construction materials. BBL and KTB could also benefit from higher demand for working-capital funding as well as LCs for the import of machinery and equipment. Delays could mean instability. An armed conflict on the Korean peninsula could also hit trade and tourism, particularly negative for THAI. However, demand for basic products, especially food, could play into the country's strength as a producer of long-shelf-life products, including canned fish and tuna.

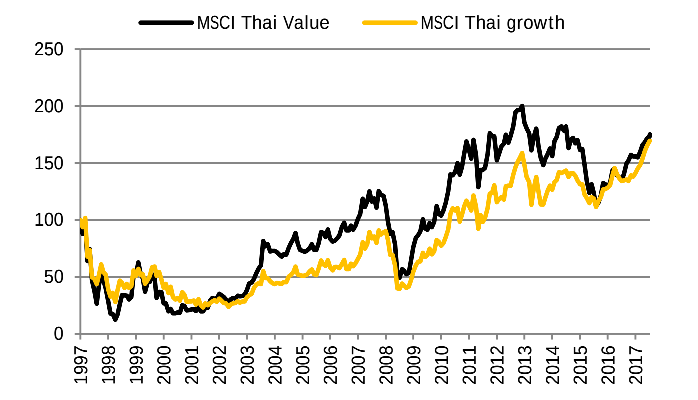
1. No Clear Value & Growth Divide

1.1 Irrelevance of growth vs value; tune in to cycles

Thailand's market is growth- and value-agnostic, with its growth and value camps not distinct. This is because the SET's composition has been largely unchanged. It remains dominated by "Old-Economy" sectors, such as banks, consumer, exports, commodities, infrastructure and tourism. Since 1997, MSCI Thailand Value is up 75% and MSCI Thailand Growth, up 69%. This is about even. YTD, their gains are both 25%.

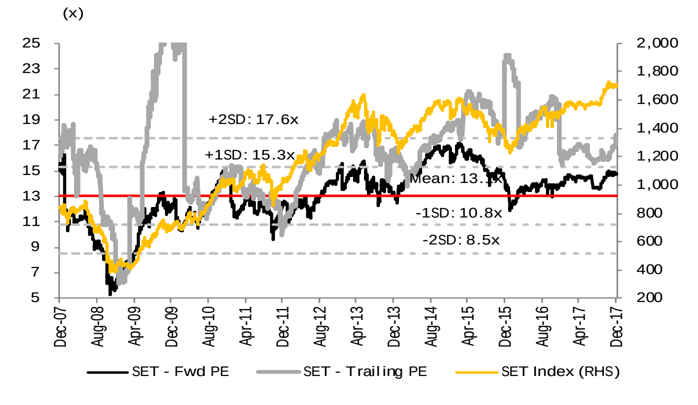
In this developing economy, secular growth is steady, though modest. New-Economy listings are few and far between. Disruptions from the new economy are small. Where they occur, such as in Banks and Retail, their impact on earnings is still minimal and not felt by the stock market. Economic and business cycles remain more crucial to market earnings growth or value. 2017's export-led upturn helped the SET eke out YoY net-profit growth of 4.3% in 9M17. Excluding commodity-related sectors such as Energy and Petrochem, earnings contracted 5.1% YoY. We expect the same tepidness in 4Q17, though a few recent listings could distort the SET's performance.

Fig 1: MSCI Thailand value vs growth indices



Source: Bloomberg

Fig 2: SET's forward and trailing P/E: lofty & range-bound

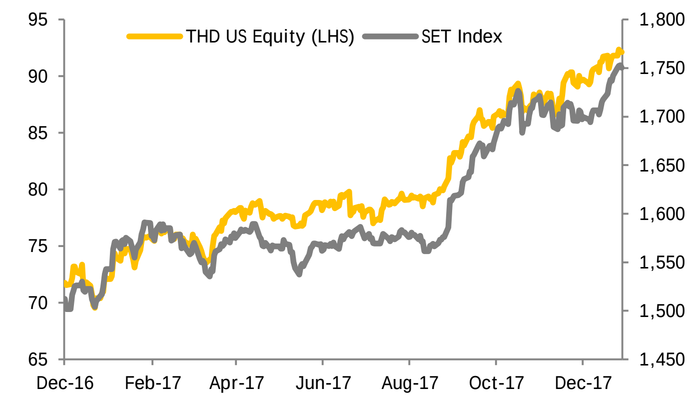


Source: Bloomberg, MKE-ISR

1.2 SET is pre-empting a mid-stage recovery

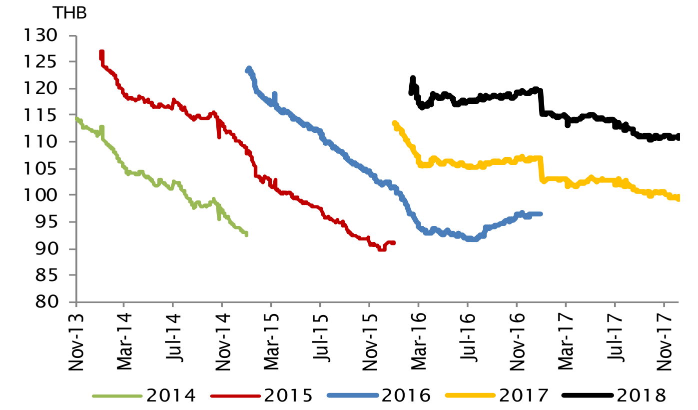
Without structural changes, we think the SET will trade within a P/E band of 10.8-15.3x. What could potentially take it higher, in our opinion, are fund flows, especially from ETFs that have been vital to the market's rally since August. The index is now near +2SD / +1SD of its trailing / forward 10-year P/E means. This is not cheap. Our 2018 target is 1,778 pts, pegged to 1SD above its 10-year forward mean, at the high end of its trading range. It implies only 4.2% upside. With modestly faster EPS growth of 7% vs this year's estimated 5%, SET's PEG is 2.15. This is as lofty as it was in 2017.

Fig 3: Liquidity-powered rally



Source: Bloomberg

Fig 4: Flat earnings support laggard picks in 2018E



Source: Bloomberg, MKE-ISR

1.3 More downside than upside

The SET's stretched valuations suggest risks, especially as Thailand's economic recovery remains choppy. The latter is being propped up by exports and tourism, whose ebbs and flows are not within the country's control. Infrastructure spending of some THB195b may cushion downside but at 1.1% of the SET's market cap - Thailand's stock market is about the same size as its nominal GDP, it is not enough. More populist policies such as cash transfers could come to the rescue but a fiscal-deficit cap of 3% may limit their scope.

Politically, four years of rigid control could reignite dissent. Instability could build up towards a general election in Nov 2018. But backsliding on elections could have equally adverse repercussions, in our view.

1.4 Focus on laggards

With the market arguably not pricing in enough of the risks, we have a slight preference for laggards, especially those with bigger market caps. Among them are SCC, INTUCH, ADVANC, SCB, BCP, CPF, TU and SPALI. After recent profit-taking, some SMIDs have become cheaper. But in the event the market turns bearish, SMIDs are likely to underperform the big caps.

Our top pick is TU. Its share price is down 10% YTD, capturing flat earnings due to lower gross margins. But with an earnings recovery expected from moderating raw-material prices plus contributions from higher-margin value-added products, we think its risk-reward has turned positive. Although some foreign funds cannot invest in TU on account of the EU's yellow card on Thailand for illegal, unreported and unregulated fishery (IUU), the European Council recently agreed to resume all political contacts with Thailand. The Council also urged the EU to resume FTA talks with Thailand that were shelved after its military coup in 2014. We expect a lifting of the yellow card some time in 2018.

1.5 Stock Ideas: BUY TU

2. E-commerce Not Yet Fully Disruptive

2.1 E-commerce is a when, not if

Thailand has been a slow adopter of technology, given its weak personal income, bulging poor population and ageing society. As it also has a well-developed banking system, people may take time to trust something different. However, the government employs 10% of the labour force. It spearheaded an e-payment system in 1Q17, starting with money transfers. This system may later be extended to other financial services. Big banks such as SCB, KBANK, KTB and BAY have been latching onto this with varying degrees of success.

BOT statistics show 27% / 81% YoY surges in the volumes of e-payments and Internet banking in 6M17. These were up from their 5-year CAGRs of 18% / 46% in 2011-2016. While adoption is slow, e-payments are gradually filtering to day-to-day transactions, especially among the millennials living in Bangkok. For example, response to the use of QR codes is unexpectedly positive, with 42% of those surveyed by Intuit Research responding that they are already using QR codes to make payments. About 50% say they are satisfied with the service. As the central bank gives approval for more banks to launch QR codes, this could prod companies into joining the e-commerce bandwagon.

Online retailing is only 3.8% of retail transactions. This lags Singapore's 5.5%, China's 14% and Europe's 14%, which can be interpreted as growth potential.

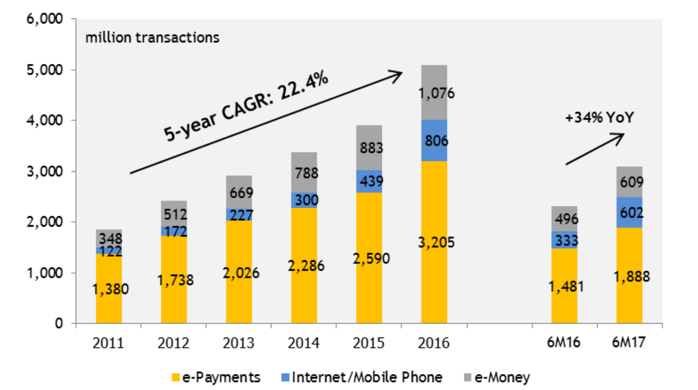
2.2 Breakout…

Thailand's smartphone penetration is 40.5% and rising. Smartphones could entice consumers to experiment with online purchases, especially with the availability of hi-speed wireless Internet on 4G. 5G precursor platforms could accelerate this.

We think mobile-phone operators will be the winners of digitalisation, especially ADVANC with its subscriber base of 40m as at 3Q17, strong network and fast-evolving supporting infrastructure. Internet usage by ADVANC's mobile subscribers doubled in six months, from 3GB to 6GB. We expect DTAC's and TRUE's to follow.

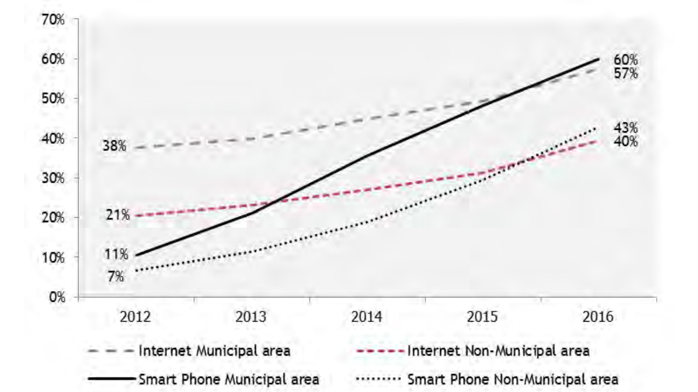
Though COL has been benefitting from e-commerce, it failed to deliver strong earnings growth in the past five years. Change could be in the offing. Parent Central Group has formed a JV with China's JD.com. The JV has committed to spending THB17.5b in the next five years on network & logistics/distribution. COL can piggyback on this and leapfrog growth.

Fig 5: Digital transactions



Source: BOT, NBTC

Fig 6: Smartphone penetration rising



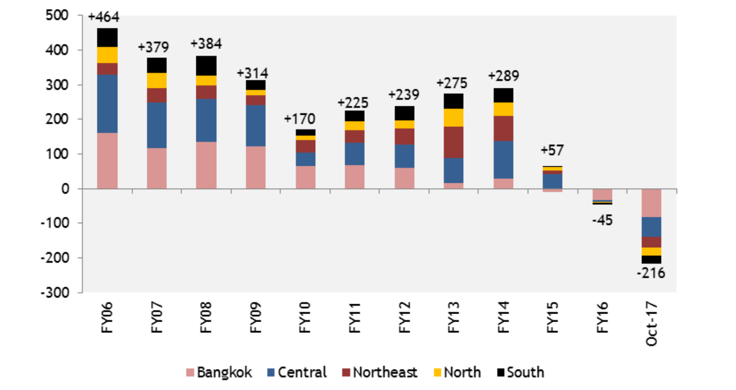
Note: Municipal areas denote urban areas including Bangkok
Source: Office of the Prime Minister, NBTC, MKE-ISR

2.3 ... and breakdown

The government aims to take the country into the digital era via its PromptPay e-payment scheme, using state-owned banks. Commercial banks will inevitably be forced to enter the fray, in our opinion.

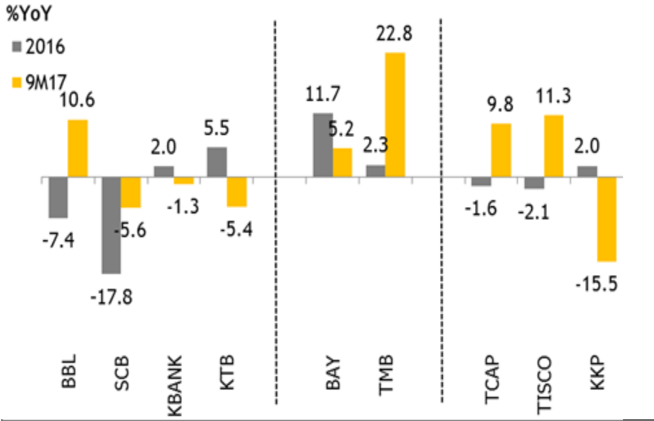
As a result of digitalisation and the emergence of PromptPay, 216 bank branches had been shuttered in 10M17. Lower transaction volumes cut transaction fees, weakening banks' non-interest income. KBANK felt the pinch the most, as transaction fees account for 6% of its non-interest income, the highest in the industry. Its non-interest income slipped 1.3% YoY in 9M17 vs 2.0% YoY growth in 2016. As the transaction bank for civil servants, KTB was affected as well. Many banks do not disclose their transaction fees but according to press reports, 9M17 industry transaction fees were down 0.8% vs +4.6% in 2016.

Fig 7. Bank branches have been closed down



Source: Banks, MKE-ISR

Fig 8: Non-NII of commercial banks



Note: SCB's and BBL's 2016 non-NII dropped YoY due to an unfavourable comparison base.

Source: Banks, MKE-ISR

Traditional retailers are not closing down physical stores just yet but ground checks suggest that more and more service-staff vacancies are not filled. Employment is a major casualty of digitalisation. Although this is happening everywhere, it could be more acute in Thailand, whose labour force is generally low-skilled and ageing. As workers are rendered redundant, consumption could be affected. Retailers targeting the middle income and first jobbers, such as ROBINS, could face a double whammy from this and e-commerce competition. On the other hand, MAKRO, the de-facto warehouse of small businesses, including mom-&-pop shops, could gain market share from downtrading.

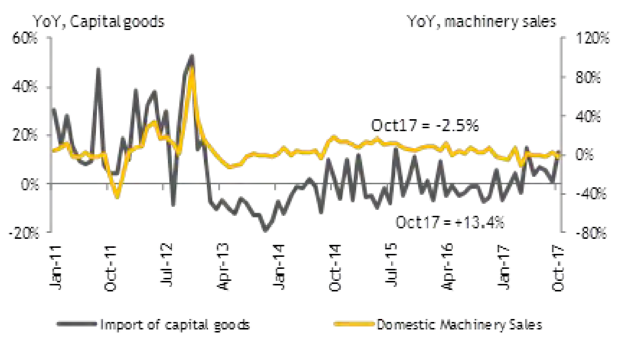
2.4 Stock Ideas: BUY ADVANC

3. Automation Making Deeper Inroads in Manufacturing

3.1 Investments continue

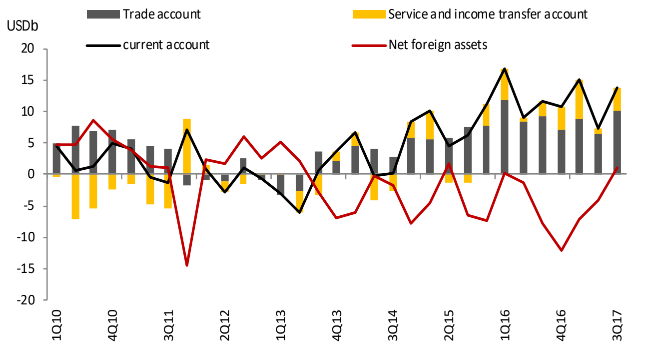
Investments in machinery and systems started in 2010, especially in the automotive and electronics sectors. The import value of Thai automation grew by a 7.5% CAGR in 2010-2015. Margins also expanded. While most investments were made in conveyors and packing systems, industrial robotics shipments are expected to swell from 2,131 units in 2013 to 7,500 by 2018, by the Federation of Thai Industries.

Fig 9: Private investments rebounded



Source: BOT

Fig 10: Investment outflows exceed inflows as Thai corporates search growth



Source: BOT

Top-exporting industries such as automotive, electrical, electronics and even some consumer goods are mostly owned by MNCs. They are not only at the forefront of automation but have been quick to shift labour-intensive operations overseas.

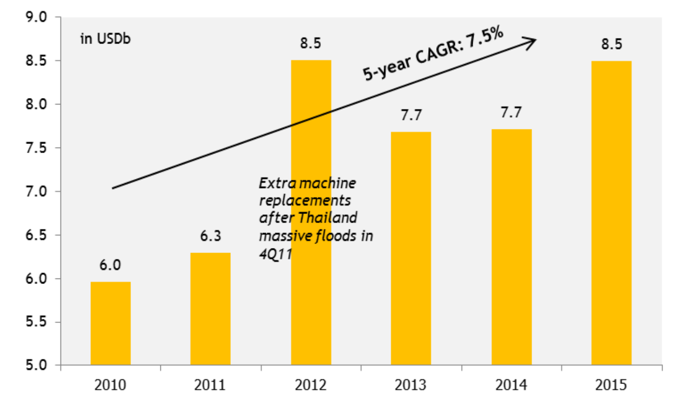
We think the next wave of automation will be sparked by manpower shortages, falling efficiency due to ageing workers and weak domestic demand compelling companies to lower costs, increase efficiency.. This should affect both foreign and Thai-owned businesses. The government is spurring automation by dangling tax incentives, mainly to Thai-owned businesses. In 2016, capex tax deductions were doubled. In 2017, the incentive was scaled back to 1.5x. As this is an ad-hoc policy, we don't know when it will end. What we do know is that corporates have been buying capital goods to enjoy the tax benefits.

3.2 Breakout…

As Thailand is export-dependent, the government has been keeping it competitive through tax allowances and BOI incentives. We believe companies focusing on enterprise digital solutions, automation systems and data centres will benefit from rapid automation. Electronics manufacturers such as DELTA and IOT which make cloud computing equipment and industrial automation should also benefit.

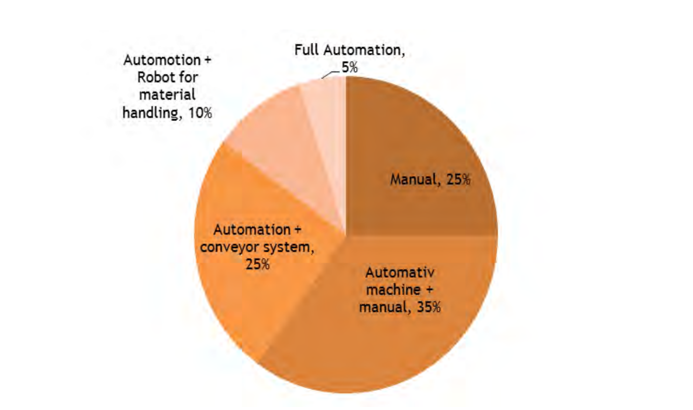
ADVANC plans to launch business solutions for the IT, manufacturing, transport and automotive industries in 2018. DTAC is working on apps that can help farmers of all sizes increase yields.

Fig 11: Import value of Thai automation industry



Source: Thai-German Institute

Fig 12: Status of manufacturing industries in Thailand



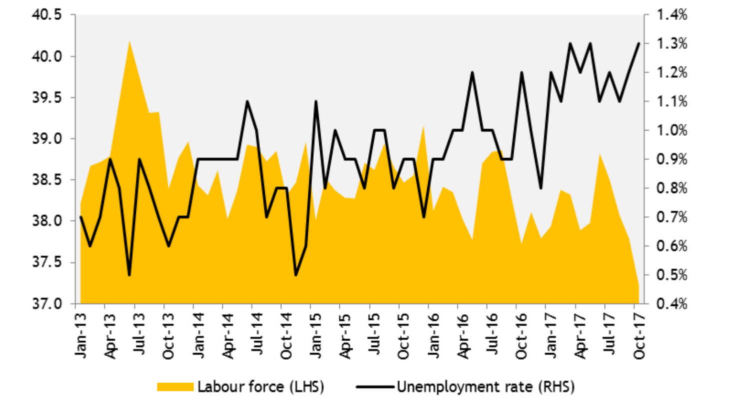
Source: EIT

3.3 ... and breakdown

Rising automation in the electronics and automotive sectors – the latter employs 30% of the workforce – could result in retrenchments, mostly of the lower-skilled. ILO estimates that 9m Thais are at high risk of being replaced by machines. They form 24% of the workforce. Up to 44% of all jobs in Thailand are at risk if adoption becomes more widespread.

Rising unemployment generally means lower purchasing power. Retailers and QSR businesses could be the biggest losers. SSSG is likely to remain soft.

Fig 13. Unemployment is climbing...



Source: NSO, MKE-ISR

Fig 14... and SSSG falling

Source: MOC, company interviews, MKE-ISR

3.4 Stock Ideas: BUY ADVANC

4. Holding Our Breath On Infrastructure

4.1 Major development initiatives

Capex/sales ratios have been falling for years. 2018 indications are lower. A recovery in exports tends to usher in investments but these are unlikely to be substantial. Why? Because domestic demand is weak and capacity utilization remained low at 60% in November.

Since 2006, the government has allocated THB2.5t altogether to infrastructure, mainly for transport. About THB1.7-1.9t of projects are at various stages of planning and negotiations. Those that have been approved with contracts signed will cost THB195b in 2018, based on our estimates, or about 1% of nominal GDP.

That said, China's One-Belt-One-Road initiative and India's Look-East Policy could accelerate the development of Thailand's Special Economic Zones (SEZs), Eastern Economic Corridor (EEC) and Kra Canal project.

4.2 SEZs & EEC could be fast-tracked

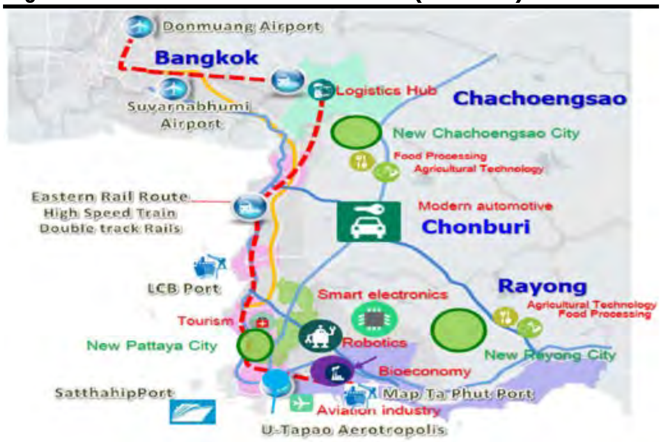
Since their launch in 2015, THb8.5b of investments have been pumped into SEZs, according to BOI. These are mostly in the areas of agricultural processing, logistics distribution, bonded warehouses and tourism. BOI is tweaking its rules to entice more investments in the SEZs and EEC. SEZs were designed to develop Thailand into a production and trading hub for the CLMV market, in preparation for the ASEAN Economic Community (AEC).

But by 2017, they had largely disappeared from the news cycle, largely supplanted by the EEC. The EEC is an initiative overlaid on the highly successful Eastern Seaboard Development (ESD) implemented in 1987-1997. The ESD was credited with turning Thailand into an export base for many global companies, especially automotive. Twenty years on, the economy on the eastern seaboard has expanded 4.6x. This translates into average growth of 18% pa. What's more, its success has spilled over to the other regions. The north's economy has expanded 3.8x or about 13% a year. The west's has expanded 3x or 10% pa and the northeast's, 3.5x or 13%.

Fig 15: Special Economic Zones (2015 to date)

Source: NSO, MKE-ISR

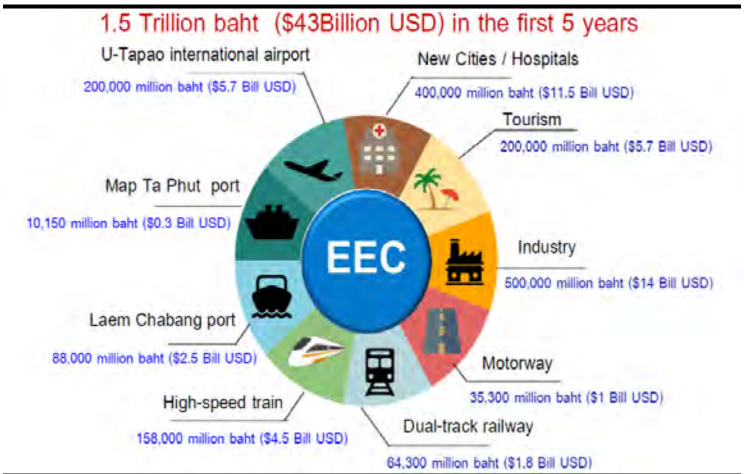
Fig 16:… Eastern Economic Corridor (2017-21)



Source: MOC, company interviews, MKE-ISR

The EEC is expected to cost THB1.5t or USD43m in its first five years. The bulk will be spent on new cities (27% or USD11.5b) and industries (33% or USD14b).

Fig 17: EEC's expected spending



Source: Office of the Prime Minister

Fig 18: Kra Canal to connect Indian Ocean to Pacific Ocean

Source: The Kra Canal Project

We believe listed industrial-estate operators, AMATA, WHA and TICON, can benefit from increased investments in the EEC, assuming the budget for industry is spent. However, as these stocks have risen 64.5%, 26.2%, 23.1%, respectively from their 2017 bottoms, investors may have priced in EEC success.

Elsewhere, we identify BAY as the biggest potential beneficiary of increasing participation of Japanese investors in the infrastructure spending and other development initiatives. Owned by MUFJ Japan, it should be the default bank for Japanese investors, who are among those expanding in the eastern seaboard. Japan is the largest source of foreign investors in Thailand. At the end of 2016, Japanese FDIs in Thailand were USD5b, 36% of Thailand's net FDIs.

In 2015, Mitsubishi UFG Financial Group (MUFG) amassed a 76.88% stake in BAY by acquiring shares from US-based GE and a subsequent tender offer. The merging of BAY's and MUFG (Thailand)'s loan books expanded BAY's total loan book by 30%. Access to Japanese investors further helped. In 2016, BAY's loan book was up 11% vs +2.5% on average for our banking universe. Its 9M17 loan book expanded 3% vs our universe's 1% average. As of 9M17, loans to the Japanese accounted for 11% of its THB1.5t loan book.

4.3 Trade connectivity

Dating back to 1677, the Kra Canal was first conceived for military purpose. Changes in its objective from military to trade came about in the 1930s but the project was put on the backburner for lack of support. Now that the Strait of Malacca is becoming very congested, the canal has resurfaced as a possible alternative route.

Apart from savings in transport days, it can potentially unlock the economic potential of Thailand's southern region. The government has just approved a THB500b budget to develop the south. This amount can have a bigger impact if the Kra Canal is developed. Budgeted at USD25-30b, the canal has garnered early support from JBIC/GIF and China, as a potential detour of One-Belt-One-Road. SCC and PTT are potential core investors in the project.

4.4 Stock Ideas: BUY SCC

5. Low Capex Strengthens Cashflows

5.1 Few high-capex sectors: transport, telcos & airlines

Combined 2018 capex for our universe of stocks is THB520b, 8% lower than in 2017. About 43% of our stocks has lower capex budgets for the new year. The heavy spenders in 2017 were: i) O&G players. These included PTT, which invested in gas infrastructure and BCP, which expanded into power; and ii) material suppliers such as BANPU, which added to its gas and power businesses.

Retail was a major spender in 2015-2016, on M&As. These evaporated in 2017 but we think they could come back in 2018, mainly involving overseas acquisitions to enhance growth.

For 2018, sectors ramping up their capex are: i) transport, with AOT planning to spend on Suvarnabhumi Airport Phase 2; ii) telcos, with upcoming spectrum bidding; and iii) airlines, with AAV planning for additional carriers.

5.2 Interest-rate hikes: winners…

BOT will likely not raise its policy rate when real interest rates are positive. However, developed markets' monetary-policy normalisation could force its hand prematurely, in our view.

Hotels' heavy-investment period was in 2015-16, when their capex to sales rose above 20%. In 2017-18, the ratio should moderate to 14%. With assets generating more FCF, the sector should not be as vulnerable to interest-rate hikes.

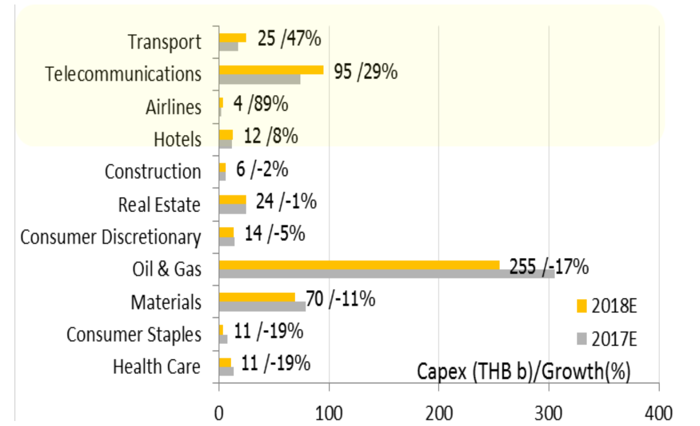
Banks' NIMs fatten when rates rise. BBL tends to among the first to benefit, as more than 90% of its loans are on floating rates. This allows for faster re-pricing. Lending opportunities could also emerge from state-related capex. KTB is closest to this pipeline. Though low-margin, at 50-100bps below commercial loans, volume should compensate.

5.3 … and losers

Capex for telcos, especially TRUE, could be high for network enhancement. TRUE's capex/sales ratio may climb to 23% from 17% in 2017. Though it may get relief from planned asset divestments of THB65b, its net debt/EBITDA could again spiral if it wins another spectrum. Rate hikes could tighten the noose for this already-highly-indebted company, risking cash calls.

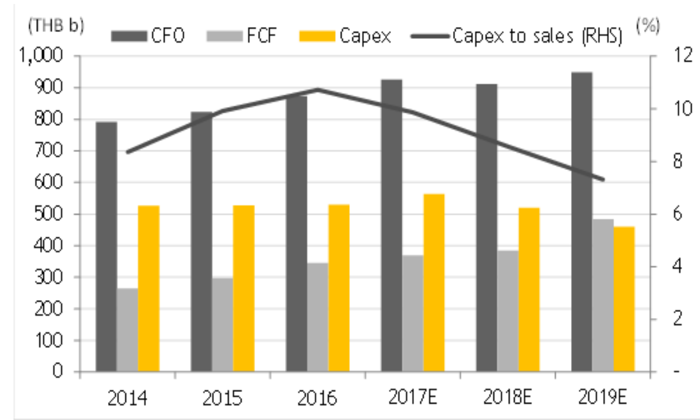
Property developers have long cash-conversion cycles. SPALI's risk stands out because of its high portion of short-term debt and high inventory worth over three years, based on current selling rates.

Fig 19: Capex falling



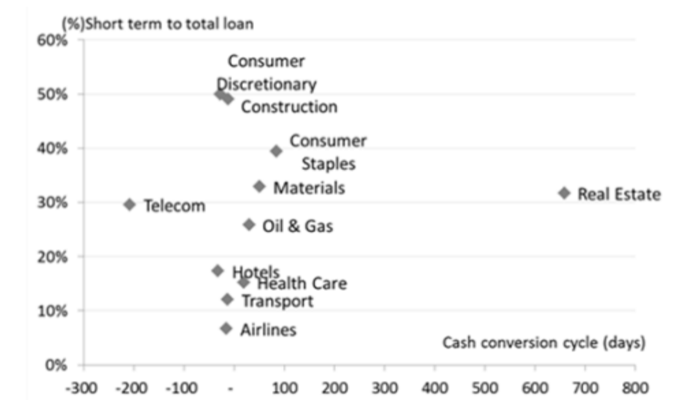
Source: Bloomberg, MKE-ISR

Fig 20: Capex/sales falling, FCF improving



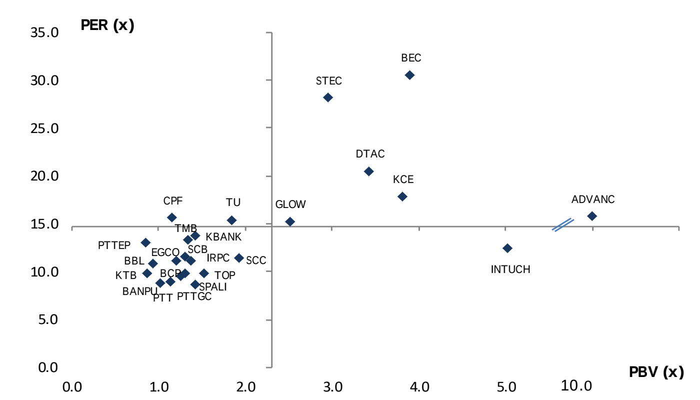
Source: MSCI, MKE-ISR

Fig 21: Real estate has the longest cash-conversion cycle



Source: Bloomberg, MKE-ISR

Fig 22: Go for bigger-cap stocks that are year-long laggards; distribution of value stocks



Source: MSCI, MKE-ISR

5.4 Stock Ideas: BUY BBL & KTB

6. Wild Cards

6.1 Disruptions of Pacific trade routes

Should brinkmanship on the Korean peninsula worsen, Thai exports and tourism could be affected. We see THAI as the biggest potential loser as its flights to Korea / Japan are its most profitable. These routes account for 30% of its profits.

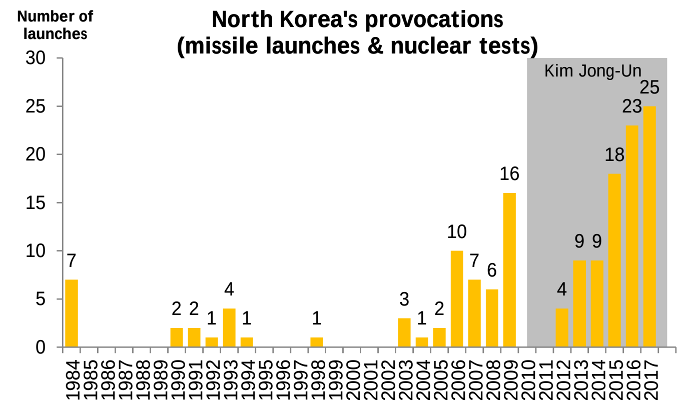
In the very worst case of an armed conflict, demand for SCC's and PTTGC's petrochemicals may soar. Producers of food with long shelf lives that can withstand rough handling may also benefit.

6.2 Delays of promised elections

A general election has been promised for late 2018. This would be the fourth timeline set since the coup in 2014.

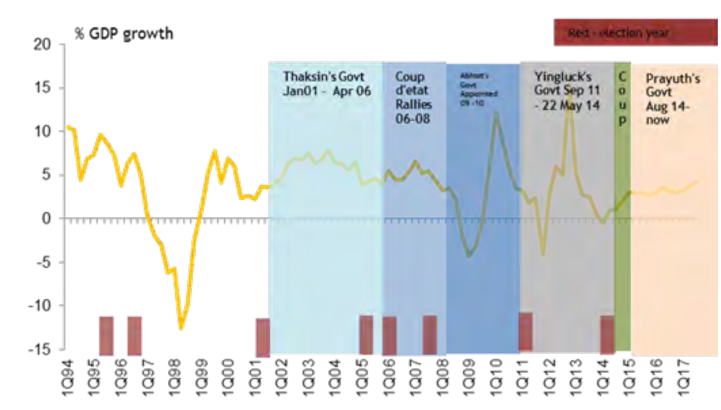
Consumption rises in an election year from cash transfers and populist policies to build vote banks. But we cannot envisage this for 2018. The government has been splurging on cash transfers since 2015. Its transfers have nearly reached THB1. It may, however, target election spending, possibly at small-scale projects in irrigation, water systems and agriculture-related handicrafts. In this situation, we see SCC profiting, as it makes diversified construction materials. MAKRO could also be a beneficiary, as it is the de-facto warehouse of small businesses.

Fig 23: Increasing agitation on the Korean peninsula



Source: BOT, MOC, MKE-ISR

Fig 24: A general election is coming along Thailand's way



Source: Ministry of Civil Affairs, NESDB

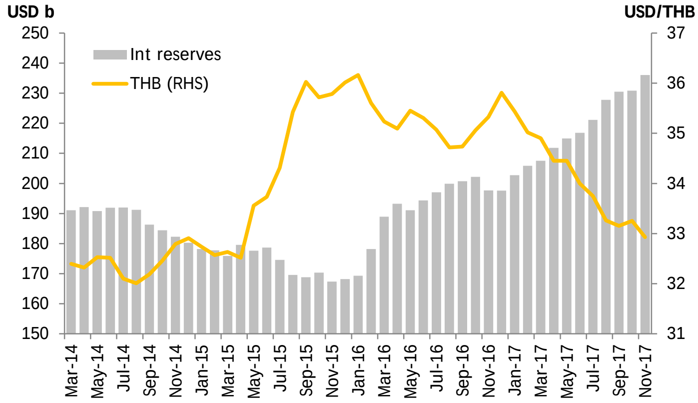
6.3 THB stronger for longer

Despite the BOT's aggressive intervention in currency markets, as suggested by a USD40b spike in Thailand's international reserves, THB hit a 31-month high of THB32.50 / USD in early Dec 2017. Its strength has yet to affect exports and tourism, the two propellers of the economy.

The easiest explanation for Thailand's hitherto export resilience is, Thailand is now a cog in the global supply chain. The strength of external demand has become more relevant than product prices. In addition, REER has yet to hit its last high of 110, despite its gradual ascent to nearly 105.

THB strength has been a boon to importers of machinery & equipment and operators with high import content, such as DELTA & HANA in consumer electronics; SAT, AH and PCSGG in auto parts; and TSTH in steel.

Fig 25: THB stronger for longer



Source: BOT, MKE-ISR

Fig 26: REER is still below peak

Source: BOT

6.4 Stock Ideas: BUY SCC & MAKRO

Maybank Kim Eng

Consumer Staples

Thailand

Thai Union Group (TU TB)

Good Value

BUY

Share Price	THB 19.60
12m Price Target	THB 24.50 (+25%)
Previous Price Target	*THB 24.50*

Laggard; 2018E PEG below 1

TU's results are expected to improve from 4Q17 on the back of falling material costs, mild ASP adjustments and higher contributions from value-added products. Although it is not likely to hit its USD8b revenue target by 2020 without sizeable M&As and gross margins of up to 20% without a big thrust into value-added products, we do not rule these targets out completely. Its share price is down 10% YTD, capturing its flat earnings. With an earnings recovery expected from FY18E, we think its risk-reward has turned positive. The European Council may also lift its yellow card on "illegal unreported and unregulated fishery" on Thailand some time in 2018. BUY with a THB24.50 TP, based on an average of DCF and GGM valuations at 6% WACC, 14% ROE and 2% LTG.

Operations bottomed in 3Q17

2017 could be a write-off year due to limited new products, flat revenue and higher raw-material prices, especially of tuna. 9M17 was weaker than expected. Reported net profit rose 7.9% YoY but recurring profit fell 8.3%. This was because tuna prices jumped 29% YoY. We believe 3Q17 marked its bottom, going by improving material prices since.

Thrust into high-value products

Raw-material price hikes are recurring risks for TU. The way it could insulate itself, we think, is to continue pushing into value-added products where it has some pricing power. This is part of its 5-year plan for 2015-2020, though progress has been slow. Our analysis suggests that doubling value-added revenue can add as much as 13% to its revenue and as much as 22% to its gross profits.

Global food major one day?

Salmon price jumps in the last two years and tuna price hikes this year disrupted sales to OEM / private labels. They also affected branded products, resulting in flat revenue. TU is adding value to its Ready-to-Eat and Ready-to-Cook categories, in conjunction with food-service companies and manufacturers. If it can achieve its 2020 targets, we believe it can be transformed from a producer of commodity seafood products to one of premium, high-value food.

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	125,183	134,375	143,726	155,854	168,923
EBITDA	10,108	10,662	10,255	11,961	13,357
Core net profit	4,290	5,497	5,267	6,146	7,141
Core EPS (THB)	0.90	1.15	1.10	1.29	1.50
Core EPS growth (%)	(10.8)	28.1	(4.2)	16.7	16.2
Net DPS (THB)	0.63	0.63	0.72	0.71	0.82
Core P/E (x)	21.8	17.0	17.8	15.2	13.1
P/BV (x)	2.1	2.2	2.0	1.9	1.8
Net dividend yield (%)	3.2	3.2	3.7	3.6	4.2
ROAE (%)	11.9	12.6	13.9	12.9	14.0
ROAA (%)	3.8	4.3	3.6	4.0	4.5
EV/EBITDA (x)	12.0	15.9	16.1	13.8	12.2
Net gearing (%) (incl perps)	75.5	136.6	130.0	119.2	105.6
Consensus net profit	-	-	5,680	5,935	6,490
MKE vs. Consensus (%)	-	-	9.5	3.6	10.0

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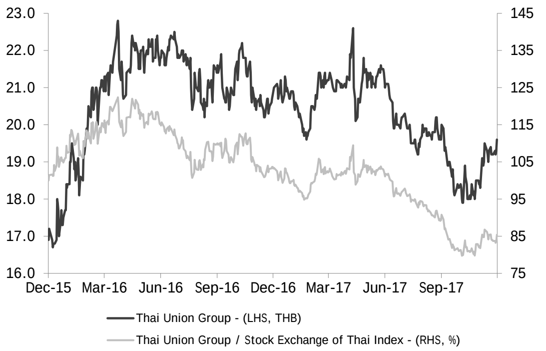
Company Description

TU produces & distributes a wide range of seafood products with facilities in Thailand, US and Europe.

Statistics

52w high/low (THB)	22.60/17.90
3m avg turnover (USDm)	8.1
Free float (%)	45.9
Issued shares (m)	4,772
Market capitalisation	THB93.5B
	USD2.9B
Major shareholders:	
Chansiri Family	20.5%
Mitsubishi Corp	7.3%
Niruttinanon Family	6.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	0	(6)
Relative to index (%)	3	(5)	(18)

Source: FactSet

Value Proposition

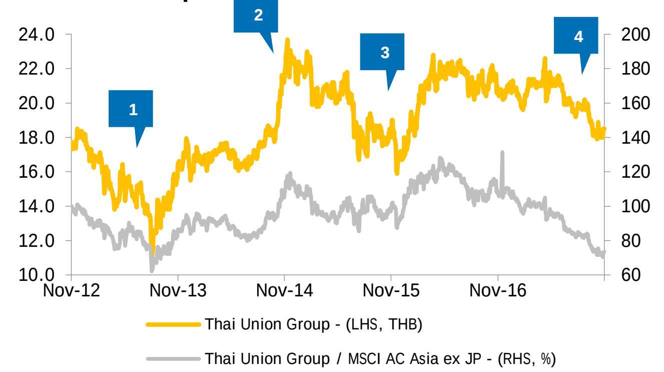
- TU aims to be a global player in the seafood business with the broadest product offerings from ambient seafood (tuna, sardines and salmon) to fresh/frozen chilled, such as lobster and shrimps to petfood and value added products.
- The main springboard is tuna whereby it accounts for 18% of the total global canned tuna production.
- Product diversification and acquisition are the ways to grow this business; here innovation is identified as key.
- Increasing value added is the way to insulate margins from increasing material volatility far better than growing volumes in OEM/private label.

TU's global footprint in seafood

Source: Company

Price Drivers

Historical share price trend



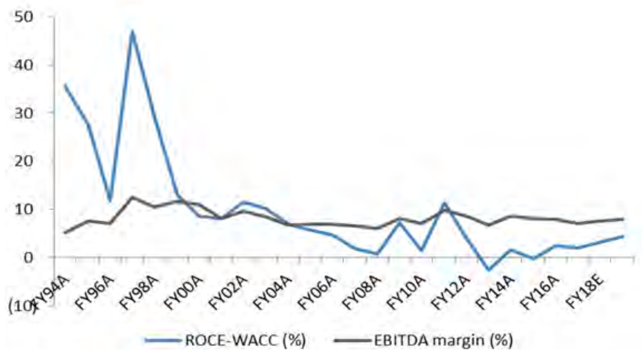
Source: Company, FactSet, Maybank Kim Eng

1. Share price reacted negatively to a drop in margins.
2. Margins started to recover and TU found an ad hoc solution to compensate for low shrimp supply in Thailand; acquisition of salmon & sardines companies also diversified product suite.
3. Share price performance was depressed again by the prospect of material price hikes; margin on salmon turned negative; supply from Chile disrupted by lice.
4. Earnings disappointment due to margin pressure on tuna as raw material costs escalated, buyers delayed orders.

Financial Metrics

- Gross margins have been flat partly because of volatility in raw material costs, and yet to show significant improvement despite rising innovation & value added products.
- EBITDA margins will improve mildly on better efficiency, more contribution from VAP, and stabilizing raw material costs, which will help drive capital yield (ROCE-WACC).
- The 2020 aim is to get gross margins up to 20% from 13-14%, while doubling revenues to USD8b, which could lead to higher cap yield; this scenario offers upside potential to our baseline forecasts.

Good track record in producing positive capital yield



Source: Company, MKE-ISR estimates

Swing Factors

Upside

- Gross margin is the most powerful share price driver.
- Acquisitions are also a driver, especially those that contribute to revenue and/or margin growth.
- Higher dividends can also drive the share price.

Downside

- Raw material escalation and limited ability to pass on to customers.
- Diseases affecting material supplies, such as the early mortality syndrome (or EMS in shrimp) and lice infestation in Chilean salmon culture.
- Adverse regulatory developments, on illegal catching, fishing bans, and labour reform could affect TU as it can potentially cause disruption in fishing activities.

Telecommunications

Thailand

January 2, 2018

Maybank Kim Eng

Advanced Info Service (ADVANC TB)

Defending Leadership

BUY

Share Price	THB 189.00
12m Price Target	THB 220.00 (+16%)
Previous Price Target	*THB 220.00*

Still No. 1

From conventional mobile telephony to digitalisation, we see ADVANC retaining its No. 1 position in the market. With 4G coverage at 98% nationwide, we believe it is a matter of time for its 40m subscribers – the largest base in the country - to increase their digital usage, especially as ADVANC is nurturing multi-platform interface, service quality and breadth of services to entice them. With earnings expected to normalise to pre-2015-auction levels faster than expected, we see the potential for consensus EPS increases. BUY with a DCF-based TP of THB220 (WACC 7.8%).

Earnings normalising

9M17 net profit formed 76% our FY17 forecast and EBITDA, 81%. We think ADVANC could be on its way to beating our estimates. Rising ARPUs, fast fibre-broadband growth and falling opex should help its EPS grow 18% in FY18E. While a spectrum auction scheduled for 1H18 could raise the bogeyman of overpaying for spectrum as it did in 2015, we believe such fears are baseless. This is because additional spectrum capacity at this stage is not as crucial as it was in 2015 when it had a huge 2G subscriber base to migrate to a higher platform.

Densifying 4G

2017 capex was budgeted at THB40b. We maintain this for our 2018 forecast. Unconfirmed press reports suggest that 2018 capex could be smaller, at THB24b. The money would be mainly used for densifying its network coverage. At 14% to sales, this may be on the low side, though we still think 2018 capex could fall YoY below our estimates. "Savings" should support either new spectrum investments or further deleveraging that may facilitate higher dividends. Our current yield forecast is 4.2%.

Ahead of the game

Thailand's telco market is valued at THB330b and expected to grow 5-10% pa. It is dominated by mobile services (74%). Broadband & ICT solutions are the fastest-growing segments, at 10-15% YoY. This number is still small. By virtue of its mobile strength, ADVANC is the de-facto leader. It collaborates with banks and retail conglomerates such as the Central Group (unlisted) to offer services on its mobile platform.

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	155,276	152,150	166,149	168,476	170,723
EBITDA	71,100	61,263	63,883	72,809	79,069
Core net profit	39,152	30,667	28,610	33,876	38,633
Core EPS (THB)	13.17	10.31	9.62	11.39	12.99
Core EPS growth (%)	8.7	(21.7)	(6.7)	18.4	14.0
Net DPS (THB)	12.99	10.08	6.77	8.02	9.16
Core P/E (x)	14.4	18.3	19.6	16.6	14.5
P/BV (x)	11.6	13.2	11.7	9.1	7.3
Net dividend yield (%)	6.9	5.3	3.6	4.2	4.8
ROAE (%)	82.3	67.4	63.2	61.7	55.9
ROAA (%)	25.4	13.4	10.3	11.9	13.5
EV/EBITDA (x)	7.1	8.6	10.2	9.1	8.1
Net gearing (%) (incl perps)	114.6	205.4	190.8	159.0	105.1
Consensus net profit	-	-	29,421	31,850	33,027
MKE vs. Consensus (%)	-	-	(2.8)	6.4	17.0

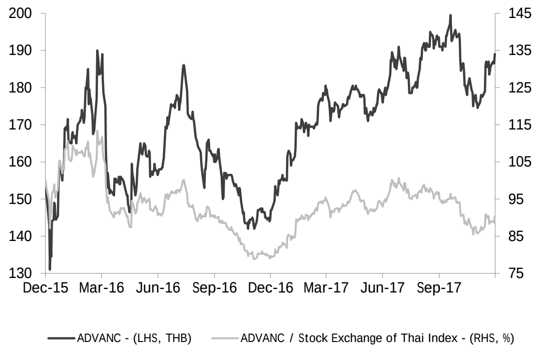
Company Description

Advanced Info Service provides mobile telephone services under the name AIS.

Statistics

52w high/low (THB)	199.50/147.00
3m avg turnover (USDm)	35.5
Free float (%)	32.0
Issued shares (m)	2,973
Market capitalisation	THB561.9B
	USD17.2B
Major shareholders:	
Intouch Holdings PCL	40.5%
Singtel Strategic Invest	23.3%
THAI NVDR Co Ltd	5.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	(2)	31
Relative to index (%)	5	(7)	14

Source: FactSet

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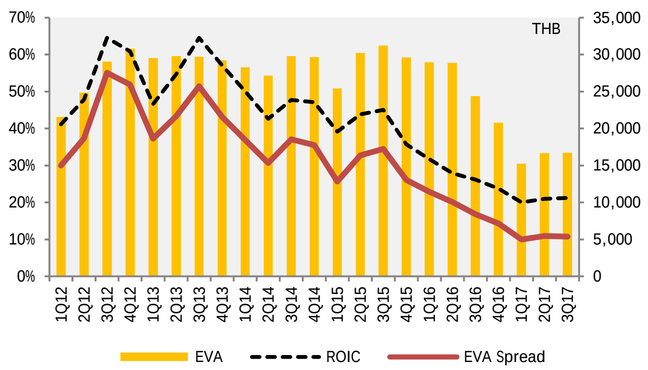
Value Proposition

- ADVANC was the first provider of mobile phone service in Thailand. Two players joined the market, but ADVANC has maintained the lead in the market.
- As the services move into higher spectrum – 3G/4G – capex is elevated and competition is more intense than normal.
- Lack of proper spectrum planning by the regulators is jacking up the price of spectrum way above their economic value.
- High capex and cost with flat revenues depress ROIC but share price has already corrected to capture the change in the return trajectory.

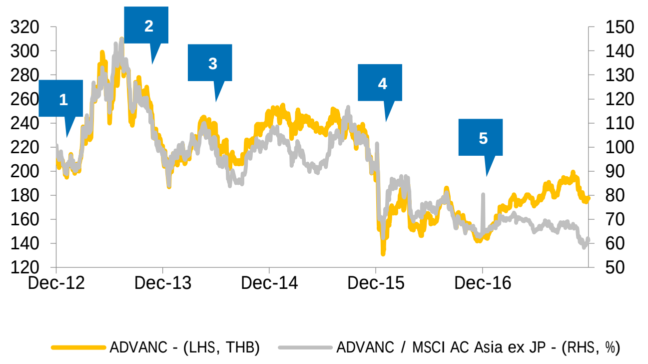
Stabilised ROIC after spectrum acquisition in 4Q15



Source: Company, Factset

Price Drivers

Historical share price trend



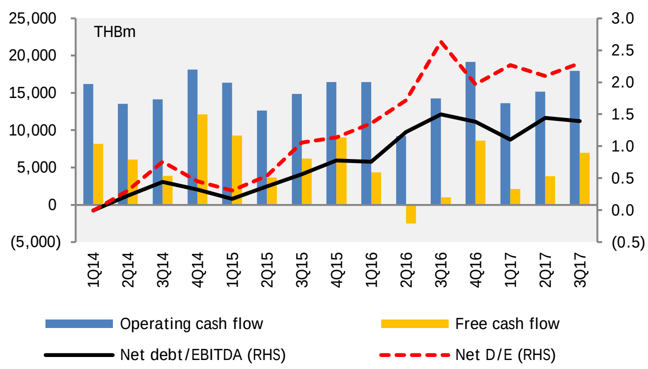
Source: Factset, Maybank Kim Eng

1. Revenue growth exceeded 10% that translated into gross margins hitting 40%.
2. Revenue hit new high as AIS switched to 3G.
3. Share price reacted to the delay of the 4G auction.
4. Positive move when timing of 4G auction became definite.
5. Share price collapsed when spectrum price hit 4x the estimated economic value .ADVANC announced to cut in dividend payout from the norm of 100%.

Financial Metrics

- At this point, revenue growth and EBITDA margins are the most relevant metrics.
- The high network capex amid flat revenue growth depresses margins.
- With licence obligation coming in 2017-2018 (THB14b each) and peaking in 2019-2020 (THB60b) keeping balance sheet light is an important objective.
- As IRR shrinks and obligations loom dividends have to be sacrificed; lowering statutory dividend payment ratio to 65% from 100% precludes the need to increase capital in 2019/2020 before the last payment is due.

ADVANC's debt profile and CF generation



Source: Company, SET

Swing Factors

Upside

- Stronger growth in revenue.
- Easing competition, falling cost of services.
- Expansion in EBITDA margin, leading to lower leverage and the restoration of 100% dividend payment ratio.
- Strong fixed broadband subscriber growth.

Downside

- Expensive cost of subscriber acquisition.
- Regulatory risks such as imposition of tariff caps (see discussion above).
- New player in the industry.

Banks

Thailand

Bangkok Bank (BBL TB)

Potential Rate-Hike Winner

BUY

Share Price	THB 201.00
12m Price Target	THB 227.00 (+13%)
Previous Price Target	*THB 227.00*

90% of loans tied to floating rates

Amid THB appreciation and developed markets' monetary-policy normalisation, there is a risk that the Bank of Thailand may prematurely raise policy rates next year. This would benefit the big banks, especially BBL. As an estimated 90% of its loan book is on floating rates, we believe BBL can reprice its assets faster than peers. BUY with a GGM TP of THB227 (1.02x P/BV, 9.8% ROE).

Catalysts from corporate loans & AIA deal

The Thai economy next year is expected to be powered by investments, including government infrastructure spending. BBL is the leader in corporate lending, with corporate loans forming 57% of its loan book. Its recent bancassurance tie-up with AIA should also boost its non-interest income. We expect BBL to begin selling AIA products in late 1H18, with an impact from 2H18 onwards. We estimate a 15% annual boost to its EPS from the tie-up.

Inexpensive; top BUY

Improving corporate loans coupled with its AIA deal should underpin faster EPS growth in 2018E than the other big banks. BBL still trades below its FY18E book value. With the above potential catalysts, we believe it could trade back to book value. BBL is our top BUY with a GGM-based TP of THB227.

Company Description

Biggest commercial bank in Thailand in terms of assets

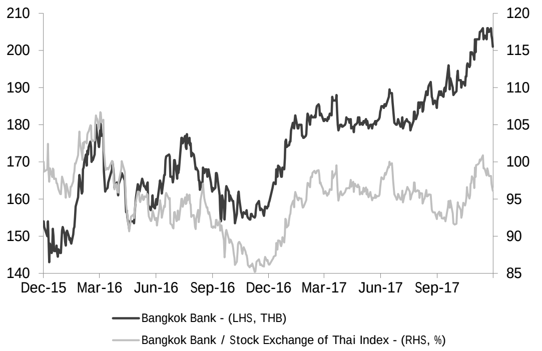
Statistics

52w high/low (THB)	206.00/159.00
3m avg turnover (USDm)	20.3
Free float (%)	97.8
Issued shares (m)	1,909
Market capitalisation	THB383.7B
	USD11.7B

Major shareholders:

Thai NVDR Co Ltd	34.4%
Chase Nominees Limited	3.7%
Thailand Securities Depository	2.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	9	27
Relative to index (%)	(1)	4	11

Source: FactSet

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	102,728	105,858	112,109	119,900	133,629
Pre-provision profit	57,683	55,352	63,119	68,461	79,617
Core net profit	34,181	31,815	31,844	36,585	45,101
Core EPS (THB)	17.9	16.7	16.7	19.2	23.6
Core EPS growth (%)	(5.9)	(6.9)	0.1	14.9	23.3
Net DPS (THB)	6.5	6.5	7.5	8.5	8.5
Core P/E (x)	11.2	12.1	12.0	10.5	8.5
P/BV (x)	1.1	1.0	1.0	0.9	0.9
Net dividend yield (%)	3.2	3.2	3.7	4.2	4.2
Book value (THB)	189.56	198.56	207.74	218.41	233.53
ROAE (%)	10.0	8.6	8.2	9.0	10.5
ROAA (%)	1.2	1.1	1.1	1.1	1.3
Consensus net profit	-	-	32,660	37,549	42,045
MKE vs. Consensus (%)	-	-	(2.5)	(2.6)	7.3

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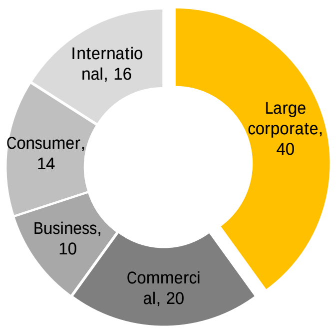
Value Proposition

- The largest Thai bank by assets, and used to be the largest bank in ASEAN, but its loan book expanded slowly after the 1997 Asian crisis.
- Regarded as the most conservative commercial bank in Thailand, reflected by its high coverage ratio and CAR, and low loan/deposit ratio.
- Leader in corporate finance thanks to its large balance sheet and good relationship with big corps.
- Strong regional footprint resulting in sizable loans abroad (16% of loan book). Most loans go to Thai firms for investments abroad.
- Strong fee income base (44% of total income, one of the highest in Thailand), mostly related to corporate lending (i.e. transaction fees, global markets, and mutual funds) and credit cards.

A bank for corporates (as of 4Q16)

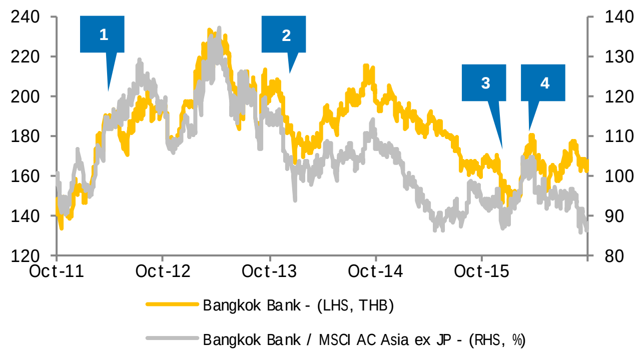
Composition of the loan book



Source: Company

Price Drivers

Historical share price trend



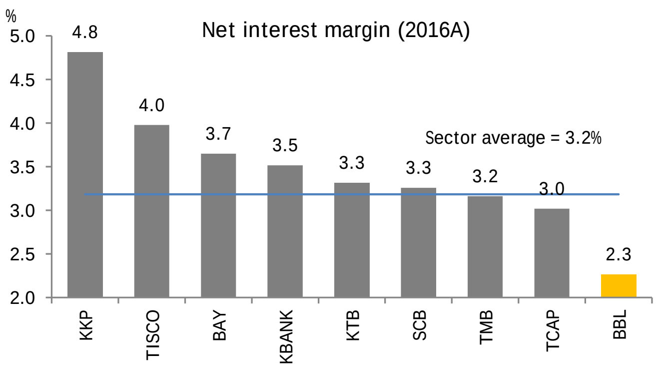
Source: Bloomberg, Maybank Kim Eng

1. Solid loan growth driven by strong domestic consumption boosted the bank's earnings.
2. Slowdown in lending due to Thailand's political turmoil. Lending was especially affected at the large corporate level.
3. Market concerned after BBL announced its support for JAS's 4G bidding.
4. Concerns subsided after JAS abandoned its auction-winning licence.

Financial Metrics

- Provisions are the key to watch. Due to its prudent policy, the bank may keep provisions at a high level as it still has risk regarding some large corporate clients.
- The conservative loan policy results in a low NIM, low risk and low returns. However, strong fee income enhances the bottom line.
- Corporate lending growth continues to underperform vs. that of SME/consumer, posing downside risk to the bank's loan target.

Low risk, low return for BBL



Source: Companies

Swing Factors

Upside

- Government expediting infrastructure investment, which could boost large corporate lending.
- New partnership with AIA could boost revenue from bancassurance business.

Downside

- Defaults by its large corporate clients (e.g. CTH, Thai TV) could pose risk to the balance sheet.
- Lower for longer interest rates could suppress the returns of the bank's investment portfolio, which is relatively large compared to other banks due to its ample liquidity.

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Siam Cement (SCC TB)

Developmental Beneficiary

BUY

Share Price	THB 480.00
12m Price Target	THB 545.00 (+14%)
Previous Price Target	*THB 545.00*

Better cement demand & price outlook

Nationwide construction is improving, along with increasing home renovation and reconstruction. This should improve SCC's domestic sales and ASPs. Better cement sales and earnings would drive its ConsMat division where SCC has a broad range of products that complement its cement business in terms of applications. Assuming petchem spreads are higher for longer, we see upside scope for our forecasts. BUY with a DCF-based TP of THB545 (WACC 7.05%, LTG 2%).

Improving profitability

SCC is becoming a significant industrial player in ASEAN, with its regional markets increasingly supported by local production facilities that could improve its profitability. For now, its profitability and cashflow rest very much on its Thai assets. Given higher infrastructure spending expected in 2018 plus demand for renovation and reconstruction, we are looking at 4-5% cement-demand growth in 2018-19E. We also see scope for further increases in cement ASPs, to a range of THB1,794-1,866/tonne from THB1,785-1,821/tonne.

ConsMat division to bounce back

SCC has three bread-and-butter businesses: ConsMat, Paper and Petrochem. Since 2015, Petchem has been propping up its earnings, as equity-owned assets climbed to 30% of its total and equity investments, to 58% of its total by end-3Q17. We believe weakness in its two other divisions were behind its stock underperformance. Petchem is dependent on cycle spreads. With the cycle passing its peak, SCC could be vulnerable. However, in 2018E, ConsMat earnings could potentially take up the slack of Petrochem. China's rollout of its One-Belt-One-Road and Thailand's development initiatives should spur investments and demand for industrial materials, the kind that SCC produces and dominates.

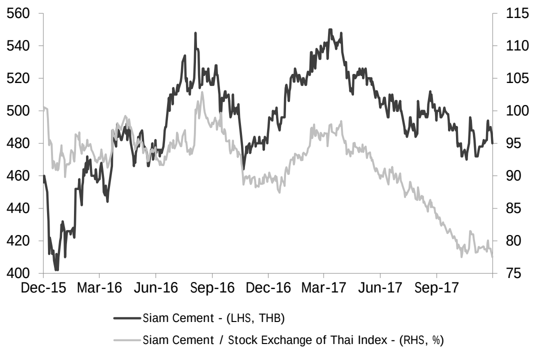
Company Description

SCC was created by a Royal Decree in 1913 to help develop Thailand & from that it has become the largest industrial conglomerate in the country

Statistics

52w high/low (THB)	550.00/470.00
3m avg turnover (USDm)	41.6
Free float (%)	62.4
Issued shares (m)	1,200
Market capitalisation	THB576.0B
	USD17.6B
Major shareholders:	
Crown Property Bureau	30.8%
CPB Equity	1.6%
Thai NVDR	7.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(3)	(1)
Relative to index (%)	(4)	(8)	(14)

Source: FactSet

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	439,614	423,442	448,643	452,634	456,700
EBITDA	76,151	82,590	84,279	89,857	89,530
Core net profit	45,400	56,084	52,352	50,717	48,556
Core EPS (THB)	37.83	46.74	43.63	42.26	40.46
Core EPS growth (%)	35.1	23.5	(6.7)	(3.1)	(4.3)
Net DPS (THB)	16.00	19.00	18.92	19.02	18.21
Core P/E (x)	12.7	10.3	11.0	11.4	11.9
P/BV (x)	2.8	2.4	2.1	1.9	1.8
Net dividend yield (%)	3.3	4.0	3.9	4.0	3.8
ROAE (%)	23.7	25.1	20.5	17.9	15.6
ROAA (%)	9.3	10.7	9.4	8.5	7.6
EV/EBITDA (x)	9.9	9.6	9.3	8.8	9.1
Net gearing (%) (incl perps)	69.1	54.4	46.1	39.9	39.4
Consensus net profit	-	-	54,128	53,803	54,237
MKE vs. Consensus (%)	-	-	(3.3)	(5.7)	(10.5)

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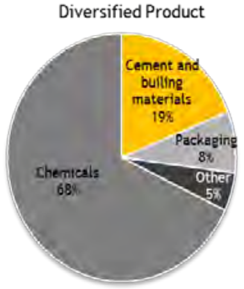
Materials

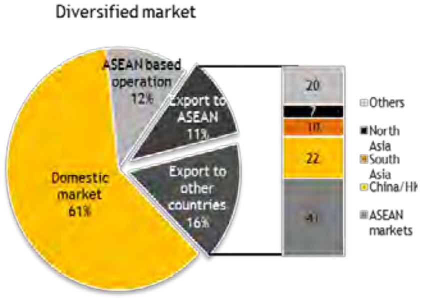
Thailand

Value Proposition

- Thailand's largest materials & industrial conglomerate. Ranks within the top 3 by market share for every industry it has a presence in (cement, petchem and paper).
- Ambition to become top ASEAN building materials player via capacity expansion – key strategy. Asset expansion drives profit growth but returns are flattish.
- SCC creates entry barriers by keeping high capacities that cost THB50b per year to maintain. Utilisation rates of its facilities are at nearly 100%.
- Returns could flatten as petchem spread enters peak cycle. Forward FCF should be positive but maintaining its DPR could push FCF into negative.

Diversified in terms of product and geography

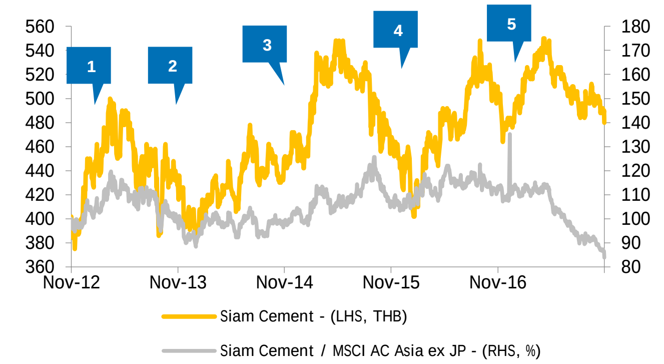




Source: Company

Price Drivers

Historical share price trend



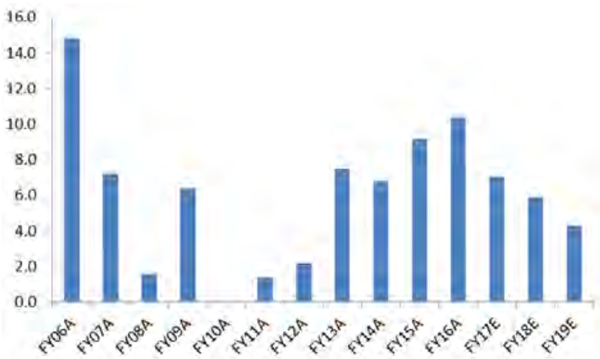
Source: Company, Maybank Kim Eng, Factset

1. SCC share price rose on improved economic outlook and reconstruction from the 2011 flooding.
2. Political turmoil triggered by the Shutdown Bangkok, Restarted Thailand mass rallies.
3. Military took over and re-ignited hope that the infrastructure roll out will be faster.
4. Disappointment slow implementation and sluggish economy.
5. Correction on concerns of weakening economic activity.

Financial Metrics

- We assume petchem spreads to remain at current highs until 2017 possibly until early 2019 and 5-10% revenue growth in paper & construction materials divisions.
- As the petchem cycle peaks, valuations could de-rate as lower cashflow outlook is priced in. If downturn follows history's severity, our baseline EBITDA may be too optimistic.
- As long as leverage and financial obligations do not spike, drop in cashflow should still keep financial obligations manageable though dividends may be pared.
- Note on risk - SCC may end up as a cornerstone investor to underwrite the USD4.5b petchem complex in Vietnam scheduled for construction in '17 and completion in '22.

Falling capital yield



Source: Company, MKE

Swing Factors

Upside

- Petrochemical spread hit new highs.
- Positive data points on Thailand infrastructure build up will support share price but not likely to drive it higher.

Downside

- Unexpected and deep collapse in petrochemical spreads will be adverse to profit estimates and returns.
- Loss of pricing discipline in the Thai construction materials market – mainly cement - will also be adverse to the share price.
- Major investment in a greenfield petrochemical plant in Vietnam may coincide with the downcycle of the industry and could see a long trough.

January 2, 2018

Krung Thai Bank (KTB TB)

Closest To State Capex

HOLD

Share Price	THB 19.20
12m Price Target	THB 19.00 (-1%)
Previous Price Target	*THB 19.00*

Infrastructure disbursements to rise

As a state-owned bank, KTB should be a prime beneficiary of government spending. Disbursements for government infrastructure investments should rise from THB51b in 2014-17 to THB195. Whether general elections are delayed or not, we think the military is here to stay, providing visibility to infrastructure spending. Still, maintain HOLD as we believe its credit costs may remain high, given low coverage and IFRS9 in 2019. Our GGM TP is THB19 (0.87x P/BV, 10% ROE).

Higher loan growth...

After loans to government entities declined this year, KTB aims to claw back market share through more attractive terms. As the salary administrator of Thailand's civil service, it will also roll out digital financial services to civil servants. This should boost its non-interest income next year. Furthermore, we do not expect big-borrower defaults like EARTH's (EARTH TB, Not Rated) in 2017.

... but high credit costs

That said, as the bank's coverage is only 115% vs a 137% industry average, its credit costs may remain high, especially with IFRS9 coming in 2019. Weak coverage partially explains its 8% underperformance to the sector YTD. We recommend a HOLD, pending evidence that its balance sheet is strong enough to withstand the more stringent accounting standard IFRS9.

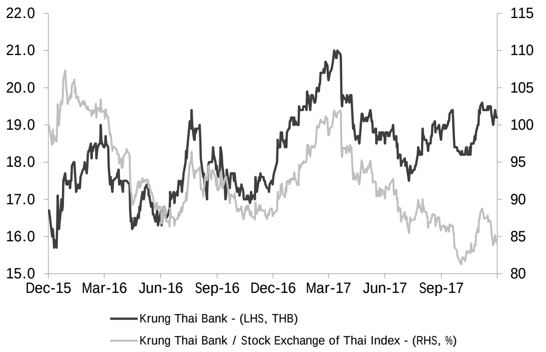
Company Description

Universal bank owned by the government

Statistics

52w high/low (THB)	21.00/17.50
3m avg turnover (USDm)	21.7
Free float (%)	44.9
Issued shares (m)	13,976
Market capitalisation	THB268.3B
	USD8.2B
Major shareholders:	
Financial Institutions Development Fund	55.1%
Thai NVDR	7.2%
State Street Bank Europe Limited	2.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	3	10
Relative to index (%)	(2)	(2)	(4)

Source: FactSet

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	116,609	124,668	122,161	124,490	133,298
Pre-provision profit	65,689	74,030	72,537	73,873	80,150
Core net profit	28,492	32,278	24,714	27,711	31,083
Core EPS (THB)	2.0	2.3	1.8	2.0	2.2
Core EPS growth (%)	(14.2)	13.3	(23.4)	12.1	12.2
Net DPS (THB)	0.8	0.9	0.7	0.8	0.8
Core P/E (x)	9.4	8.3	10.9	9.7	8.6
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	4.0	4.5	3.5	3.9	4.4
Book value (THB)	17.59	19.59	20.69	21.92	23.30
ROAE (%)	11.9	12.4	8.8	9.3	9.8
ROAA (%)	1.0	1.2	0.9	1.0	1.1
Consensus net profit	-	-	24,702	30,681	36,228
MKE vs. Consensus (%)	-	-	0.0	(9.7)	(14.2)

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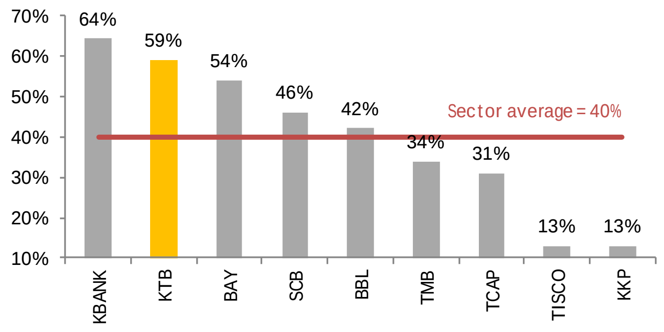
Banks

Thailand

Value Proposition

- Thailand's biggest commercial bank by assets. State-owned KTB has a natural advantage in government-related funding, which comprises 6% of its lending assets.
- Civil servants are captive customers as their salary accounts are administrated by KTB, which provides a large and stable source of deposits/lending. CASA also good at 60% vs 40% for the industry.
- Widest branch network in the country facilitates access to provincial customers. But social and policy funding might have compromised efficiency/returns.
- ROE/ROA lower than the industry average. If it can fully realise its potential, the biggest bank could be far bigger.

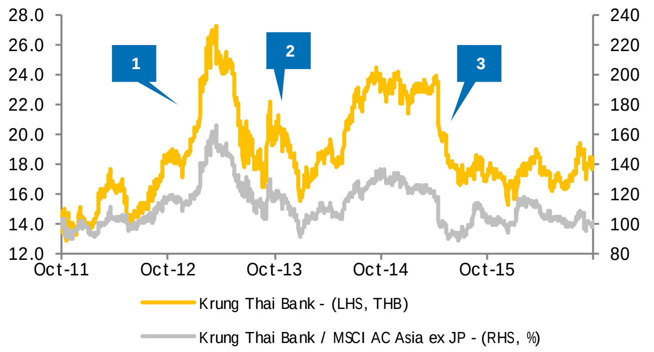
High CASA



Source: Companies

Price Drivers

Historical share price trend



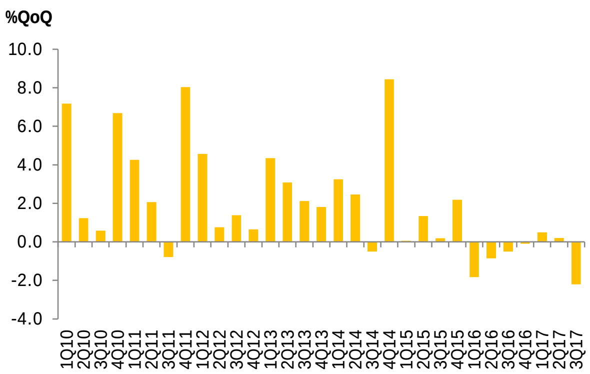
Source: Bloomberg, Maybank Kim Eng

1. KTB announced a 4:1 rights offer at THB12.6/sh to fund fast growing business expansion.
2. The bank failed to deliver on high expectation due to worse-than-expected credit quality, leading to larger provisions.
3. Concerns mounted on deteriorating credit quality, led by the potential SSI default.

Financial Metrics

- Loan growth is the key thing to watch in the short term. Despite a moderate economic recovery, the bank's loan growth unexpectedly has been shrinking thus far, mainly due to the large repayment from the government.
- The coverage ratio is relatively low vs peers and thus provisions may be kept at a higher-than-normal level for a few years to ramp up the ratio
- Margins have room to grow further as the bank is pursuing the high-yield business and trying to raising CASA to cut funding cost.

Still waiting for loans to improve



Source: Company

Swing Factors

Upside

- Bad debt recovered from AQ could exceed THB10b, equivalent to one third of 16F provisions and net profit.
- Margins may have upside if the bank is successful in its plan to expand into high-yield businesses.

Downside

- Large repayment from government poses downside risk to loan growth.
- In light of economic uncertainty, NPLs may deteriorate further, putting more of a burden on provisions.

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Siam Makro (MAKRO TB)

Not A Victim But A Survivor

BUY

Share Price	THB 38.75
12m Price Target	THB 41.00 (+6%)
Previous Price Target	*THB 41.00*

Potential downtrading; overseas contributions

With 9M17 revenue / net profit at 74% / 71% of our FY17E forecasts, we believe MAKRO is well-placed to meet our estimates. 4Q is seasonally the strongest for the cash & carry business. While consumption could remain soft in Thailand given falling income, an ageing population and rising unemployment partly from technology displacements, we believe MAKRO will benefit from consumers' downtrading to lower price points. Contributions from new stores in Cambodia (4Q17), India and China should also start as early as 1H18. Maintain BUY with a THB41 TP, based on DCF at 6.8% WACC and 4% LTG.

Better profitability

Contrary to the market's view, we found MAKRO's 9M17 results to be good. SSSG of 1.1% masked an 80bp improvement in gross margins. This came about despite an 11.8% rise in fixed costs and early expenses for new stores. MAKRO was able to keep a tight lid on opex. Operating profits in both the provinces and Bangkok were up 17% / 13%. What held down its bottom-line growth, to 13% YoY, was a THB1.2b expense for new offices.

Accidental beneficiary of automation

The cash-&-carry format is closest to the economic pulse of Thailand's masses, we believe. Small businesses tend to blossom during economic hard times as households stretching their dollars patronise them. At the end of 3Q17, MAKRO had 3.1m card members: 30% were food & non-food retailers, 20% HORECA operators and 11% in the service sector such as hair salons, laundromats and clinics. MAKRO tries to provide one-stop supplies to these small businesses. We think it will be some time before they migrate to the Internet. Meanwhile, we believe middle-aged workers made redundant by automation could become its customers.

Expanding to Cambodia, India & China

MAKRO will open its first 10k sqm cash-&-carry store in Cambodia in Dec 2017. By 2018, it should have two. India and China will follow: a potential six in India with smaller 3k sqm formats and six food-service stores in Guangzhou, China, also of smaller size. Tentative capex of THB8b is guided for FY18E but will be finalised in FY17 results sometime in 1Q17. The capex incorporates overseas expansion. The cash will come mainly from operating cashflows, backed by 2018E EBITDA of THB10.8b.

FYE Dec (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	155,898	172,790	185,411	200,295	216,038
EBITDA	8,901	9,125	10,060	10,814	11,606
Core net profit	5,378	5,412	6,029	6,402	6,861
Core EPS (THB)	1.12	1.13	1.26	1.33	1.43
Core EPS growth (%)	10.1	0.6	11.4	6.2	7.2
Net DPS (THB)	0.85	0.85	0.94	1.00	1.07
Core P/E (x)	34.6	34.4	30.9	29.1	27.1
P/BV (x)	13.1	11.8	10.5	9.5	8.6
Net dividend yield (%)	2.2	2.2	2.4	2.6	2.8
ROAE (%)	39.8	36.2	36.1	34.4	33.3
ROAA (%)	11.7	10.7	11.0	10.9	11.0
EV/EBITDA (x)	19.6	19.0	19.1	17.8	16.5
Net gearing (%) (incl perps)	30.9	31.6	34.8	30.8	22.9
Consensus net profit	-	-	5,969	6,550	7,120
MKE vs. Consensus (%)	-	-	1.0	(2.3)	(3.6)

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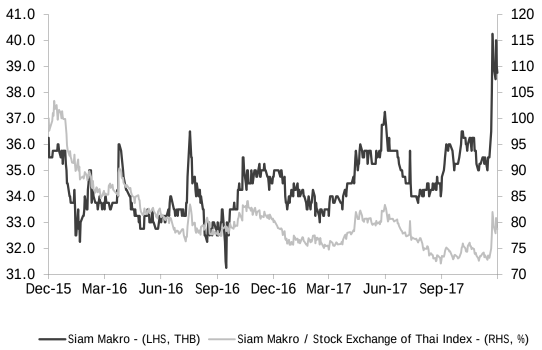
Company Description

MAKRO operates cash & carry stores in Thailand under the brand Makro. It has >100 stores nationwide, to expand in India, Cambodia & china

Statistics

52w high/low (THB)	40.25/33.00
3m avg turnover (USDm)	0.2
Free float (%)	2.1
Issued shares (m)	4,800
Market capitalisation	THB184.8B
	USD5.6B
Major shareholders:	
CPALL Group	97.9%

Price Performance



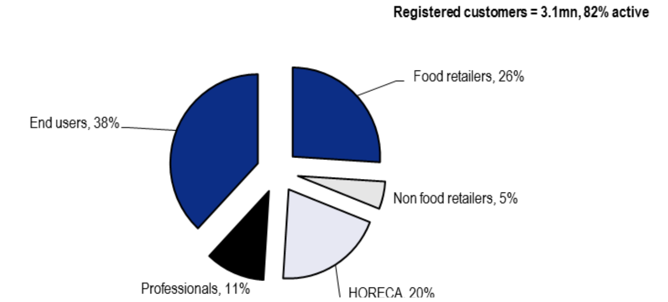
	-1M	-3M	-12M
Absolute (%)	11	13	12
Relative to index (%)	8	8	(3)

Source: FactSet

Value Proposition

- MAKRO is the only cash/carry retailer in Thailand. It has 3.1m members & growing comprising food retailers, non-food retailers, HORECA operators, professionals, agents and individual customers.
- While the general consumption trend remains soft & retailing environment slow, we expect MAKRO to do better than the sector in terms of sales development. The sluggish economic activity & falling wages should lead to proliferation of small businesses, handicraft industries that are natural customers of MAKRO.
- MAKRO's expansion in Thailand will slow to 6-8 stores (smaller-size) but it will start expansion overseas in Cambodia, India and China.
- The 10-15 store expansion during 2014-2016 caused returns to fall. However, as the stores mature, profitability (and return) should be improving, we expect, and this would be upside to our forecast.

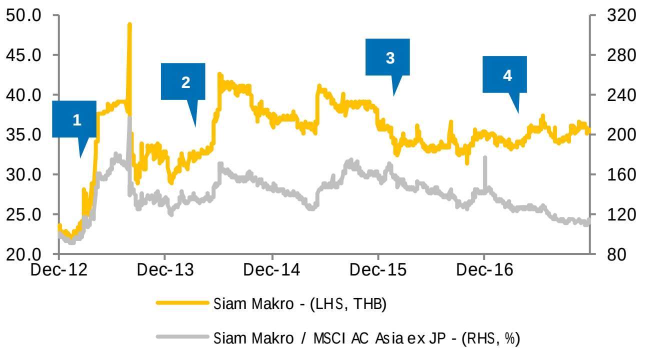
Professional solutions to entrepreneurs of all types



Source: Company

Price Drivers

Historical share price trend



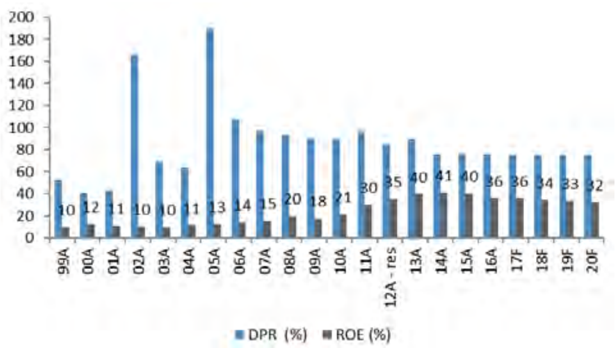
Source: Company, Maybank Kim Eng, Factset

1. Strong profit growth on the back of successful expansion.
2. Share price surged following acquisition by CPALL (Not Rated), operator of the largest CVS chain, on the belief that there will be significant synergy benefits
3. The anticipated synergy failed to materialize leading to disappointment. In addition, aggressive own store expansion and intensifying competition led to negative same store sales growth
4. Shares responded positively to the recovery in margins and same store sales growth

Financial Metrics

- Before MAKRO started aggressive expansion (in 2014), it maintained a decent dividend payout ratio (DPR) thus making it both a growth and dividend stock.
- Competition and weak consumption backdrop has slowed performance and high expansion has resulted in DPR. Expansion in Cambodia, India & China will replace Thailand, thus capping DPR.
- We expect MAKRO to return to high DPR and ROE once the pace of expansion slows and new stores hit maturity.

Return to high DPR and high ROE is possible but not now



12A – res means restated. Source: MAKRO financial reports, MKE-ISR estimates

Swing Factors

Upside

- Like other retailers in Thailand, the stock moves on expansion and same store sales growth
- Expanding gross margin is also positive on the share price
- Increasing DPR and nominal dividends
- Success in new country locations like Cambodia (1-2 stores), India (5-6, smaller sized stores) and China (4-6 food service stores) will drive profits and share price

Downside

- Intensifying competition manifested in price dumping of products
- Deflationary environment depresses asset turnover and lowers SSSG
- Regulatory risk especially relating to store opening and price controls
- If new stores in the overseas market perform badly enough to dilute the performance in Thailand

SINGAPORE

Singapore - The wind beneath Singapore’s wings

Healthy GDP, corporate profit growth and improving fundamentals in the higher-weighted financial, property and industrials sectors of the index should provide the tailwinds to sustain the market rally to higher levels by end-2018. We expect the performance of our coverage universe to remain relatively resilient even in wild-card scenarios of much larger-than-expected interest rate increases or sharp SGD appreciation. A return to cooling measures in the property sector will be a key risk to the current buoyant market sentiment. In this note we highlight six stock ideas where we expect structural and cyclical factors will drive a reversal of the relative and absolute price performance trends of the past year.

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Another good year expected

The FSSTI was up 27% in USD terms in 2017, among the best performers in ASEAN. We see a sustained rally into 2018. Performance is expected to moderate though, with our end-2018 index target of 3,670 based on an equal weighted combination of +1SD 5-year trailing P/E mean and bottom up stock prices reflecting 8% upside. Our index target implies 15.2x 2018E P/E. Dividend yield expectations of 3.5% are among the highest in ASEAN. Our view is supported by the reasonable 2.5% GDP growth that is expected, an EPS-growth outlook of 10%, trailing P/E and P/BV at 5-15% below their 5-year means and positive fundamentals in the three major sectors of banks, property and industrials.

Six of our top inflection ideas

Among our top stock ideas, we focus on the ones where we expect a reversal of stock-price movements. Looking at growth expectations vs value, we see a reversal of fortunes for CCT’s outperformance and CD’s underperformance. We expect e-commerce activity to spike and SPOST’s fortunes to reverse as it is an enabler. MCT, up 17% in 2017, is the most exposed to disruptions in retail-space demand. We also expect JUMBO to break out of its share-price stagnation as it expands regionally. STH’s remarkably resilient share price could break down as its dividend sustainability could crumble under an increasingly-stressed industry.

Macro wild cards: rates, currency, policy

Balance sheets in our universe are fairly resilient. Assuming a 100bp increase in borrowing costs, debt servicing should remain very comfortable, though aggregate earnings could shrink 4%. Banks could benefit as customer spreads could widen by an average 11bps. Policy tightening to SGD1.25 / USD suggests a 4% earnings erosion as well, although the index tends to correlate positively with SGD appreciation. Finally, surprise tightening measures in the property sector could pose the biggest risk to market sentiment, which has been buoyant since the first calibrated easing in Mar 2017.

1. Growth vs Value: Reversal of Fortunes

We focus on two sector trends and related stocks in the Singapore market in 2017 where we see a strong case for a reversal of their stock fortunes in 2018.

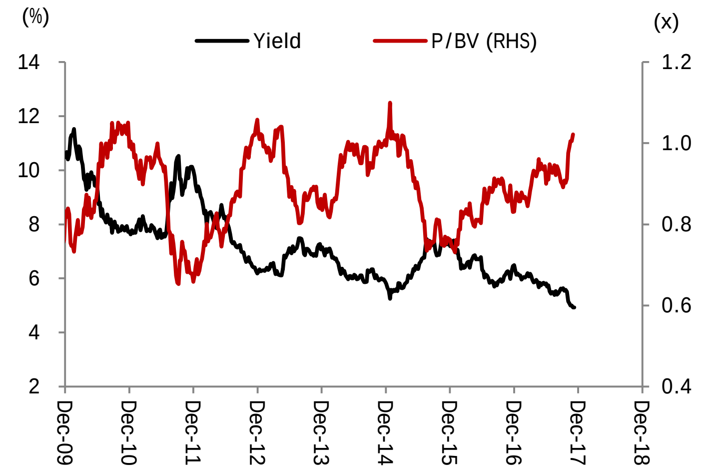
1.1 Office / commercial REITs: too much too soon?

Fuelled by calibrated policy easing in 1Q17, FTSTI was up 21% in 2017. Office REITs were among the best REIT performers, up 29%. Meanwhile, Grade A office rents have just turned the corner. They were up 2% in 2017 and we expect 2-3% increases annually in 2018-2020E. Still, we believe that valuations of key stocks in this segment have run far ahead of fundamentals.

1.2 CCT: near-peak valuations suggest positives priced in

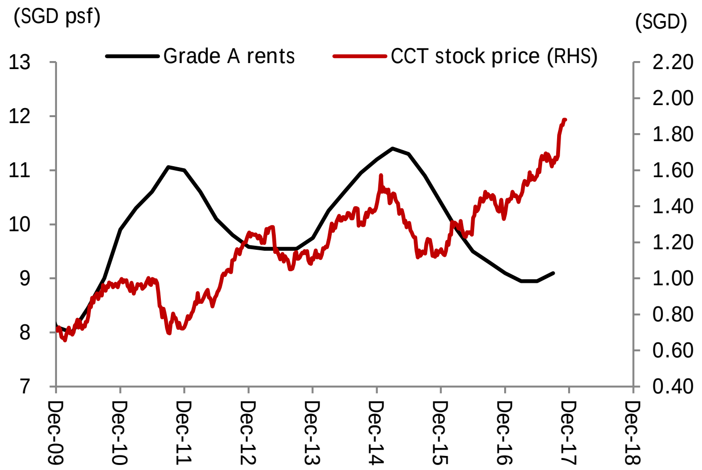
- CapitaLandCommercial Trust (CCT SP; SGD1.93; HOLD; TP SGD1.80) was the top performing S-REIT in 2017 with a total return of 40%. This was in response to its timely value-unlocking of two fully-priced assets and redeployment of capital to the redevelopment of Golden Shoe and acquisition of Asia Square Tower 2.
- While a good proxy for Singapore office rental strength (expected in 2018-2020E on the back of fewer new supply of prime office assets), CCT is trading at an 8-year high. Distribution yields are correspondingly low.
- With stock valuations near their peaks at sub-5% yields and 1.0x P/BV, we think the positives have been priced in.

Fig 1: CCT: time for a breather as valuations are stretched



Source: Bloomberg

Fig 2: Share price has run ahead of a rental recovery



Source: URA, CBRE, Bloomberg

1.3 Land transport: already factoring in 'Uberisation'?

Taxi stocks across the board faced another rough year in 2017. Uber and a multitude of similar regional and local sharing-economy platforms are making further inroads into what used to be a regulated high-entry barrier monopolistic or oligopolistic business just a few years ago.

In Singapore, ComfortDelgro (CD SP; SGD1.98; BUY; TP SGD2.40), the only listed entity in the space (following SMRT's privatisation in 2016) was one of the worst performing large caps of 2017, down 18% while, notably elsewhere in ASEAN, Indonesia's Blue Bird Group (BIRD IJ; Not Rated) shed 38% from its high in 1H17.

We question whether CD's price downturn and massive underperformance are already factoring a bear case scenario of market share erosion in the domestic taxi business and underappreciating other profit growth drivers in its multi-asset and multi-country operation – we believe that is indeed the case and forecast profits will revert back to single digit growth levels in 2018-19E.

1.4 CD: Darkest before dawn

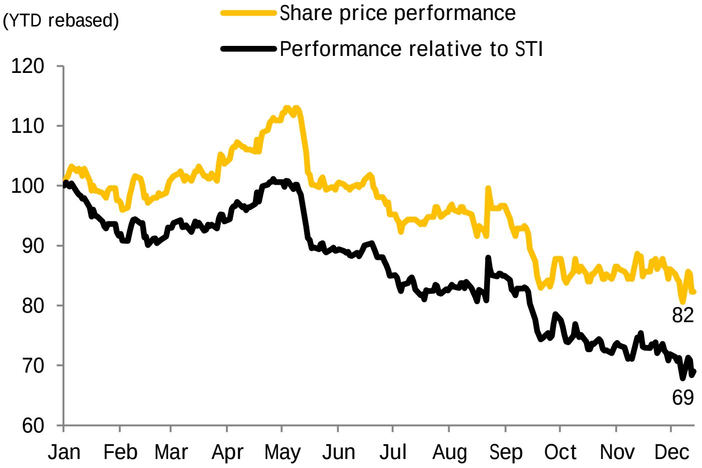
- CD's share price shed 18% and underperformed the benchmark FSSTI by 31%, making it the second worst performing index component stock in 2017. This was driven by the weakness in the taxi segment and increased startup losses for the opening of Downtown Line phase 3 (DTL). CD is now trading at -1.5sd below its 5-year trailing P/E mean.

- As the stock has typically been a mainstay of yield-oriented portfolios, sustainability of dividends has been a key concern in the market – we expect strong cashflow generation to be supportive. A FCF yield of c.10% in FY18, even after factoring a 12% YoY decline for taxi EBIT, has ample headroom against our expected dividend yield of 5.7%. In an extreme scenario analysis, if we assumed taxi EBIT went to zero, FCF yield would fall to c.8% and for it to fall below the dividend yield, the segment would need to incur estimated EBIT losses of c.SGD200m in FY18E (vs. our forecast of SGD120m profit).

- Recently announced tie-up with Uber may likely signal easing competition with two of the three major players aligned on some fronts. Following this tie-up, CD's greater exposure to private hire services should mitigate some of the taxi erosion as well as provide economies of scale and synergies for repair and maintenance of a combined larger fleet of vehicles.

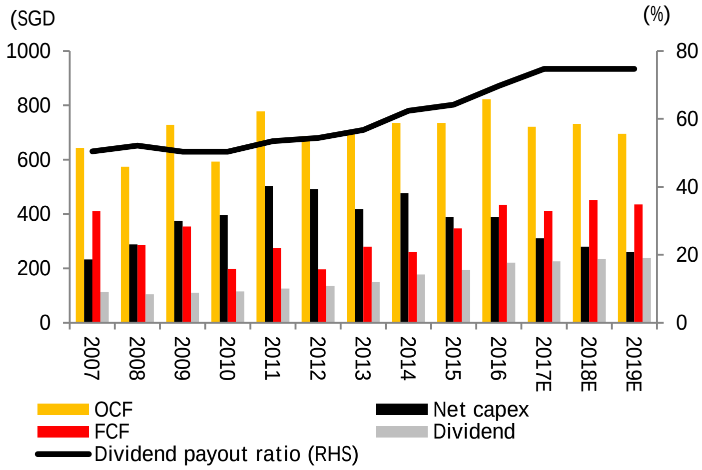
- A turnaround in CD's rail segment from higher rail ridership with the opening of DTL 3 in Oct 2017 is underappreciated, in our view. While we expect the rail segment to break even only in late-2018, increasing ridership should narrow losses in the early part of the year too. For FY18E we expect rail EBIT loss should narrow to –SGD5m in FY18E, from the –SGD25m levels in FY17E.

Fig 3: CD share price has materially underperformed in 2017



Source: Bloomberg, Maybank Kim Eng

Fig 4: Cashflows suggest dividends can weather the squeeze



Source: Company data, Maybank Kim Eng

2. Break-out or break-down: Coping with disruption

We highlight two segments and related stocks where, in our view, the share price performance in 2017 does not accurately reflect the potential medium term impact of transformational changes in their respective businesses from the fast growing new economy.

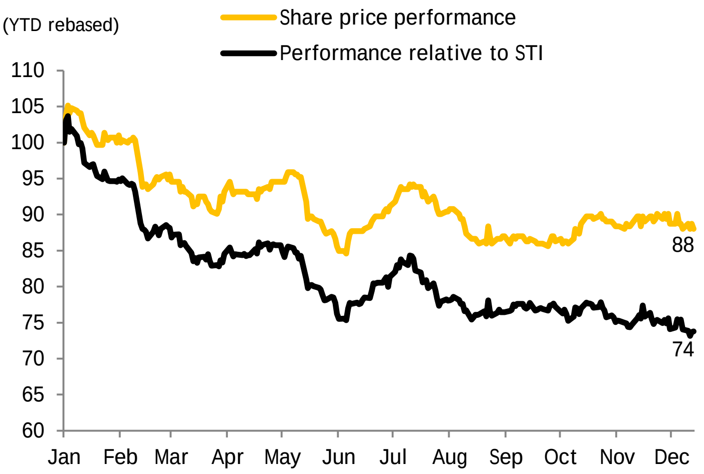
2.1 Logistics: Enabler of multi-year e-commerce growth

E-commerce growth is at a tipping point in ASEAN and even a developed economy like Singapore has ample headroom to grow further. Various studies from industry experts and government bodies like the Competition Commission of Singapore suggest that just c6-7% of Singapore's household expenditure is spent online but this is growing rapidly at 25%+ levels annually. Estimates for the rest of ASEAN combined are at an even lower sub-4% of retail spend through online channels. In contrast, advanced e-commerce markets like the US and China witness around 14% of spending online. Bottlenecks in logistics and payment systems are evolving fast and we expect efficient, cost-effective last mile access and smart warehousing will be amongst the key enablers of industry growth.

2.2 SPOST: Almost done with the ghosts of Christmas past

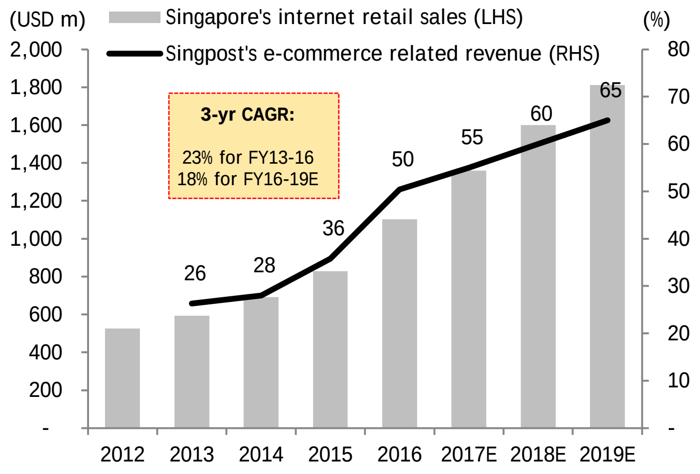
- SingPost (SPOST SP; SGD1.24; BUY; TP SGD1.50) is well-positioned to tap the region's e-commerce growth potential with unparalleled Singapore last mile connectivity, a regional logistics footprint, inherent advantages of being a Universal Postal Union member and an alliance with Alibaba (BABA US; USD172.43; HOLD; TP USD185.00).
- SPOST shares fell 12% in 2017 and underperformed FSSTI by 26% from a large profit decline in FY3/17, reasons for which are transient we believe and mostly to do with house-cleaning of acquisitions made in past years. Its new CEO has outlined priorities that include acquisition integration and re-gaining domestic share. We expect the house-cleaning to draw to a close and other revenue catalysts to push SPOST back to profit growth of 4%/13% in FY18E/FY19E.
- Three factors drive our above growth outlook: 1) International mail revenue from higher China outbound traffic from Alibaba and an increase in Singapore commerce revenue share, 2) Further progress in the US business turnaround that has recently seen some new customer acquisitions and improving cost efficiency, and 3) Resumption of rental income from SingPost Centre (SPC) previously under renovation.

Fig 5: Singpost underperformed in 2017 from past missteps



Source: Bloomberg, Maybank Kim Eng

Fig 6: But e-commerce related revenue continued to grow



Source: Euromonitor, Company data, Maybank Kim Eng

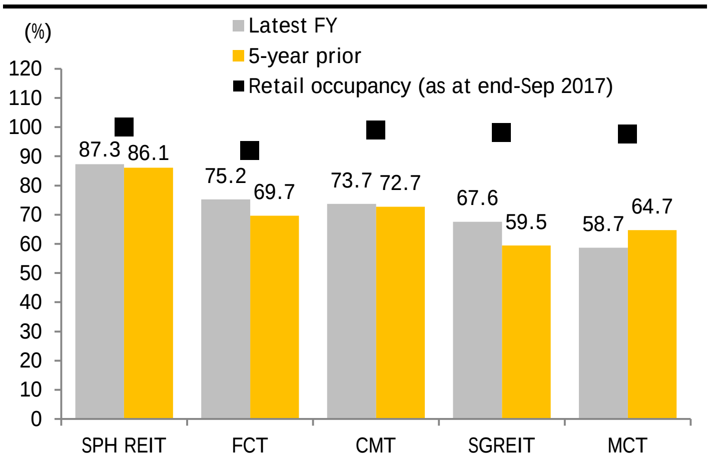
2.3 Retail: Brick-and-mortar yet to feel the pinch

The rapid growth of e-commerce will require companies to invest in and broaden online marketing strategies; many will need to re-evaluate and rationalize their brick-and-mortar network as online becomes a significant purchasing channel for consumers. As a result, the one sector that will likely face structural demand challenges for a number of years will be retail property assets. Nowhere is this more apparent than in the US market where various media articles by Bloomberg indicate that 1H17 store closures alone have outpaced the levels witnessed in 2008 during the GFC. For retail asset owners in Singapore, we believe that staying nimble in terms of asset mix and a focus on niche product and service strategies will be essential to mitigate the impact from e-commerce.

2.4 MCT: Most exposed to the structural disruption

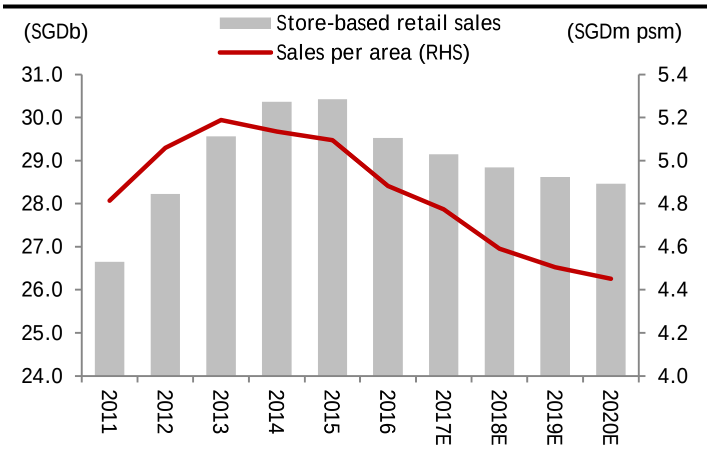
- We expect Singapore's retail sector to face structural challenges from rising e-commerce and sales leakage. The retail REIT portfolios are however actively-managed with occupancies at close to 100%, and hence, on a relative basis, should outperform the overall physical retail property market.
- Amongst our coverage Mapletree Commercial Trust (MCT SP; SGD1.62; SELL; TP SGD1.45) stands relatively disadvantaged to its peers against e-commerce disruption in our view. This is to do with factors of both tenant mix and positioning of a key asset, Vivocity.
- Vivocity's tenant base is well-diversified but we estimate around 59% of its portfolio is less-exposed to e-commerce competition with higher concentration of fashion-related brands, most of which are repetitive across other Orchard Road and suburban malls. This is a fair bit lower than the 68-87% levels witnessed for the other retail REITs.
- Destination malls draw tourists but MCT's Vivocity, while Singapore's largest mall, is not directly gaining from stronger traffic and expenditure, which instead benefits Changi Airport and Orchard Road malls.
- MCT trades at 5.8% DPU yield and 1.15x P/B, in line with its historical average.

Fig 7: Proportion of defensive rental income to e-commerce



Source: Company data, Maybank Kim Eng

Fig 8: Retails sales value and supply forecast



Source: Euromonitor, Maybank Kim Eng

3. Break out: This crab is going places

We focus on Jumbo Group (JUMBO SP; SGD0.57; BUY; TP SGD0.70) which saw share price decline 6% and underperform FSSTI by 22% in 2017 despite a reasonable revenue growth of 6% for FY9/17 as corresponding profits failed to deliver on market expectations, falling c7%.

We have a non-consensus positive call on the stock given specific bottom-up factors were responsible for the decline and expect FY18-19E to register double digit growth in core profits and a potential turnaround in its share price.

3.1 JUMBO: Expansion costs in FY17 pave the way for a rebound

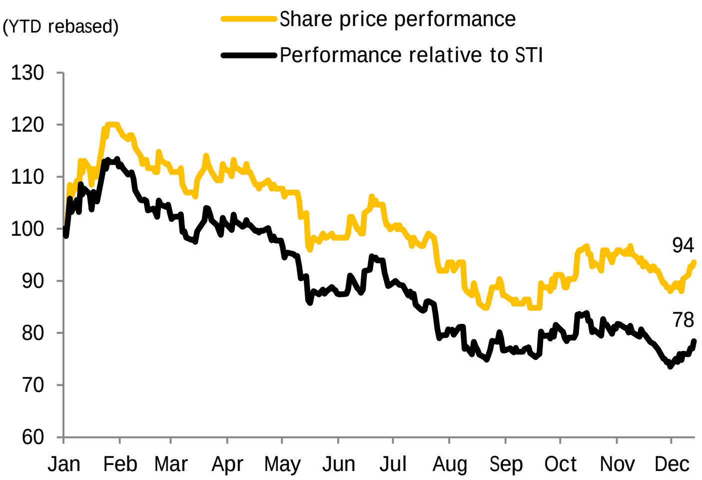
- Jumbo's profit decline in FY17 was due to higher costs in FY17 from a higher than usual number of new outlets being opened which entailed considerable upfront costs related to regional expansion, a move to bigger head offices in Singapore and China plus added headcount ahead of its opening of two new China outlets.

- But the upfront expansion costs incurred in the last financial year set the stage for higher profit growth in FY18-19E in our view. Its new Beijing SKP Jumbo outlet that opened in Jun 2017 broke into the black after just a month of operations, a record according to management while the new L'avenue Mall Shanghai outlet opened in Nov 2017 is expected to do well too given Jumbo's high brand recognition in the market.

- Going forward, new outlets to be opened under the JV/franchising model will enable Jumbo to tap local market knowledge of its partners and also significantly reduce capital outlay. Profitability metrics of new outlets under a JV/franchising model should have a quick turnaround time as well under a franchising fees model at 3-5% of revenues. We expect two new outlets under the franchising model in FY18, one in Taiwan and one in Vietnam.

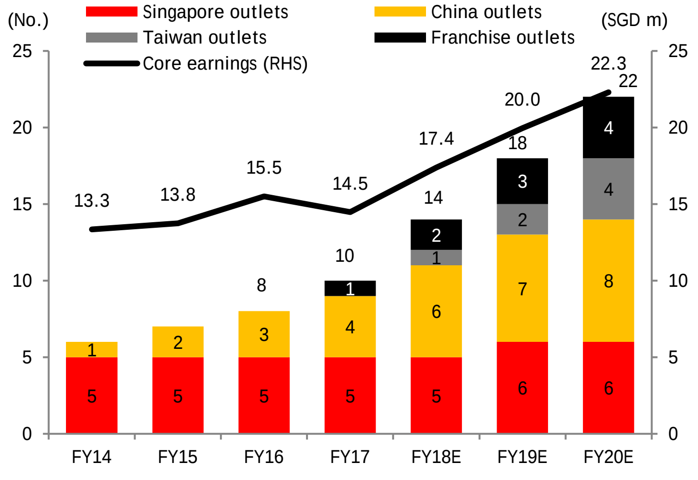
- We are also of the view that corporate accessibility for the investment community will improve going forward given that management indicated they were extremely tied up throughout FY17 on laying the foundation for its medium term expansion plans in new overseas cities and markets and would likely spend more time in reengaging with investors in 2018.

Fig 9: Jumbo underperformed as growth missed expectations



Source: Bloomberg, Maybank Kim Eng

Fig 10: Higher new outlet growth to boost earnings



Source: Bloomberg, Company data, Maybank Kim Eng

4. Break down: Rational oligopoly ending soon

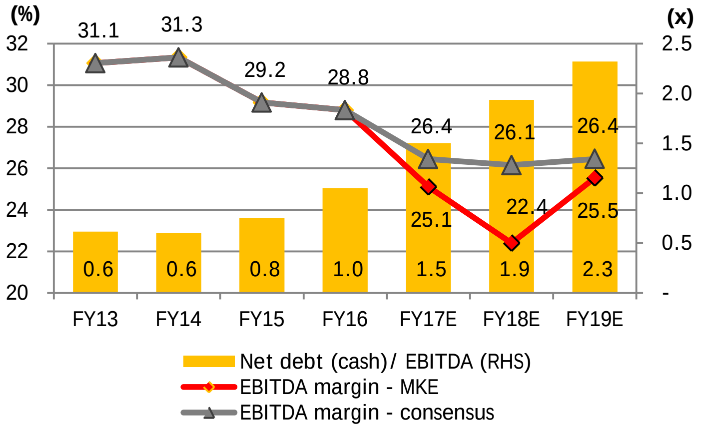
Singapore telco industry's medium-term earnings prospects are stressed. We expect further downside from higher handset subsidies from TPG's (TPM AU, Not Rated) and MyRepublic's (Not Listed) planned 2018 entry which is not reflected in consensus earnings. If handset subsidies are not aggressive then the risk shifts to industry airtime and data pricing; which could be worse in the long term.

Starhub's (STH SP; SGD2.85; SELL; TP SGD2.17) share price was up 4% in 2017 possibly from market expectations that a tie-up with MyRepublic, for a mobile virtual network operator (MVNO) deal, may be positive; we disagree as this will enable another competitor in a crowded market. In contrast, M1 (M1 SP; SGD1.78; SELL; TP SGD1.59), the other pure Singapore-centric operator shed 10% during the year. We are well below consensus on FY18E profit forecasts from our view that handset subsidies will accelerate and margins will capitulate.

4.1 STH: Under fire on three fronts

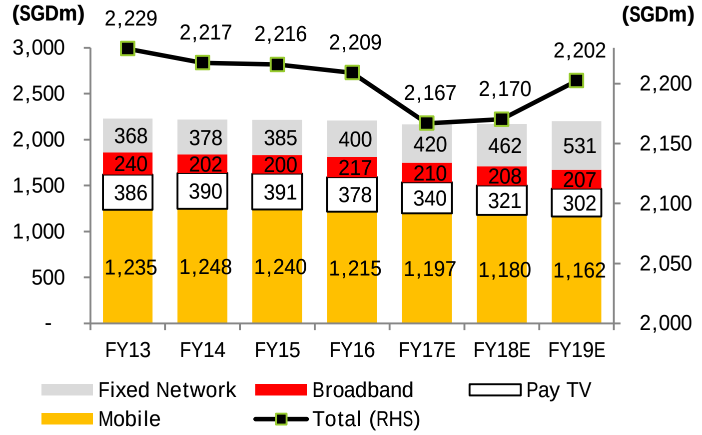
- Among the three wireless incumbents, StarHub has been the best relative performer in 2017 and we find no fundamental basis for this apart from general market optimism over the MVNO deal with MyRepublic and the 2017E committed DPS of SGD0.16.
- In our view, weaker earnings leading to worsening net debt to EBITDA levels create pressure on DPS sustainability in 2018E and onwards and ergo the dividend yield halo currently supporting the stock. Also a thrust towards growth by acquisitions brings to question whether the balance sheet can afford to finance both growth and current dividend levels.
- Fixed broadband pricing and growth are under stress as well while un-checked online content piracy continues to pressure the pay TV industry. The hook of "hubbing"/bundled packages that have been key to household retention and revenue growth in the past will likely lessen.
- Fixed network and enterprise segment is gaining traction but this business is just c20% of our FY17E revenue forecasts and not large enough to drive growth in face of headwinds on the other three divisions. To this end, StarHub recently announced a planned SGD122m acquisition for unlisted enterprise solutions provider D'Crypt.
- Valuations at 27.1x and 21.9x 2018E and 2019E P/E are generally at a premium versus Singapore and ASEAN peers. Current dividend yield is higher but sustainability in a more stressed environment will be tough.

Fig 11: StarHub - Un-priced margin risk and higher leverage



Source: Factset, Company, Maybank Kim Eng

Fig 12: Pay TV, fixed broadband revenues also under pressure



Source: Bloomberg, Company data, Maybank Kim Eng

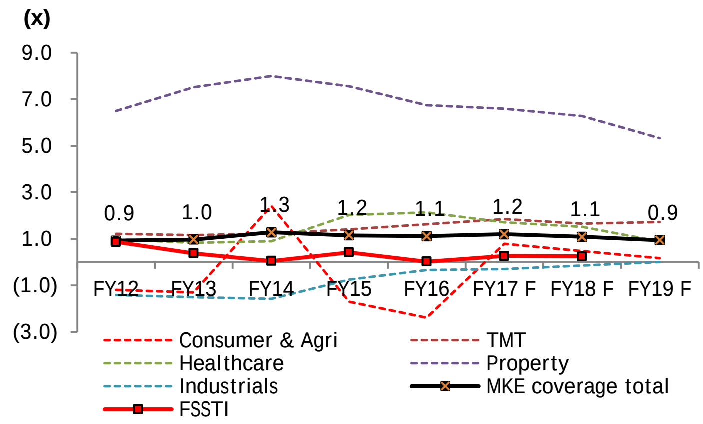
5. Balance sheet & cash flow: Fairly resilient

We look at balance sheet and cashflow resilience in our coverage universe (amongst which, we cover c65% of the FSSTI components by market cap) against an expectation of rising interest rates in 2018.

In our view, our coverage basket should be relatively resilient compared to the rest of ASEAN for moderate rate increases given the low gearing levels of 1.1x Net Debt/EBITDA forecast for FY18E (excluding the banks). The FSSTI Net Debt/EBITDA is an even lower 0.3x versus 0.6-1.2x witnessed for the other ASEAN indices). Key takeaways from our sensitivity analysis on coverage stocks to the cumulative net profit impact from a 100bps increase in average funding cost are:

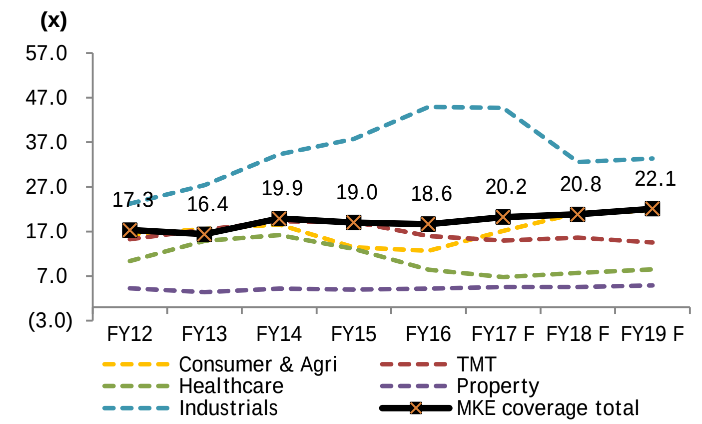
- Overall EBITDA interest expense cover is forecast at over 20x and hence should remain very comfortable with a 100bps rate increase over the current average borrowing cost of c3.5%. Sectors with the lowest cover are property where developers have been aggressively bidding for landbank and, healthcare where two companies have incurred significant capex on hospital expansion which have yet to contribute.
- The proportion of short term debt on balance sheets (i.e. due in next 12 months) is a relatively low c17% of gross outstanding debt.
- A 100bps rake hike would result in a 4%/3.9% drop in cumulative net profit forecasts for our coverage in FY18E/FY19E.

Fig 13: Net Debt to EBITDA by sector



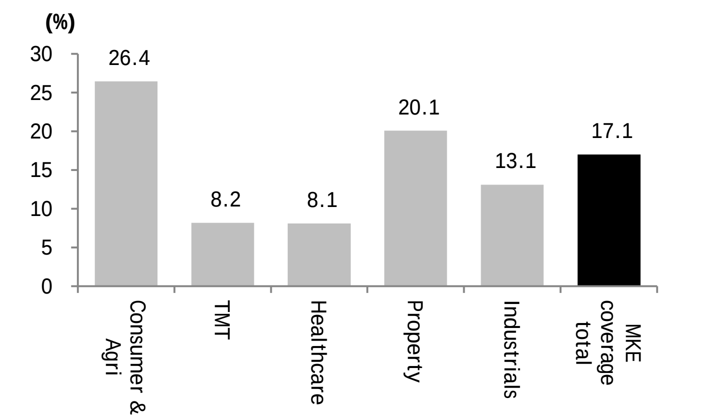
Source: Maybank Kim Eng, Bloomberg, Companies

Fig 14: EBITDA/Interest expense cover



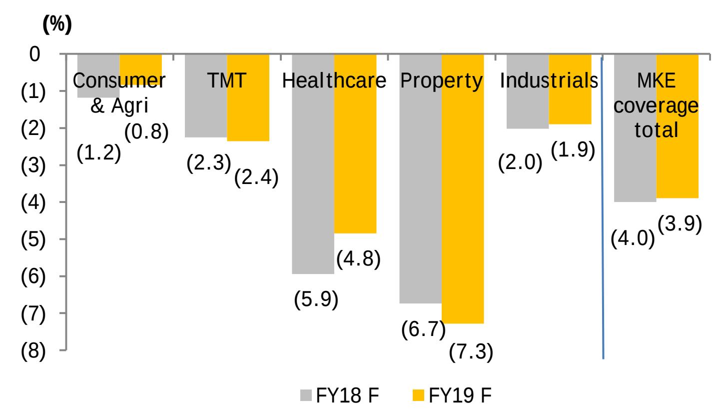
Source: Maybank Kim Eng, Bloomberg, Companies

Fig 15: Proportion of ST debt as at last reported FY



Source: Maybank Kim Eng, Bloomberg, Companies

Fig 16: Estimated net profit impact with +100bps funding cost



Source: Maybank Kim Eng

6. Three wild cards – Rates, Currency, Policy

Our view of the Singapore market is for the 2017 rally to be sustained in 2018 on the back of c2.5% GDP growth, earnings growth outlook of c10% with an upgrade cycle underway, trailing P/E and P/PB valuations still below respective 5Y mean and supportive bottom-up fundamentals in three major sectors of banks, property, and industrials. The macro wild cards to this market view are largely to do with interest rates, currency and policy measures specific to the property sector.

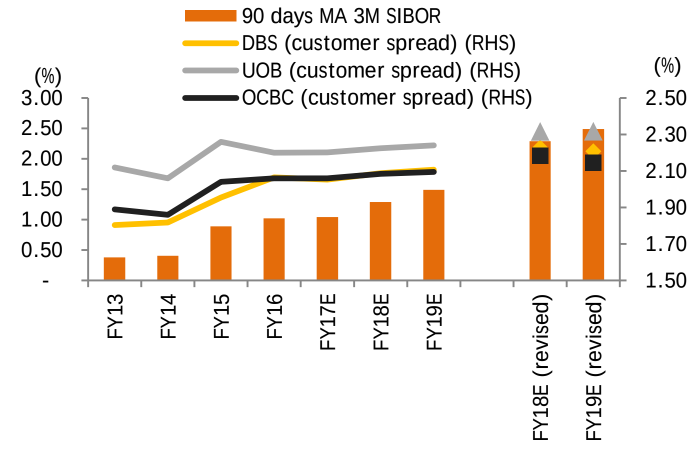
6.1 What if SIBOR hikes are as steep as 1% in both 2018/2019?

We discussed earlier the impact of rising rates to debt service ratios and concluded that corporate balance sheets are fairly resilient and impact to profit forecasts would be modest. We now discuss the impact of rising rates on financials, the largest sector in the market at over a third of FSSTI weightings.

It is largely a consensus view that Singapore interest rates will rise in 2018 based on expectations for moderate rate hikes in the US market and the high correlation between the Fed Funds rate and SIBOR. We have currently factored a 25bps/20bps increase in SIBOR for FY18E/FY19E. But with strong GDP growth in 2017 surprising on the upside and core inflation creeping up there is a chance that rates could go up much faster and higher than expectations.

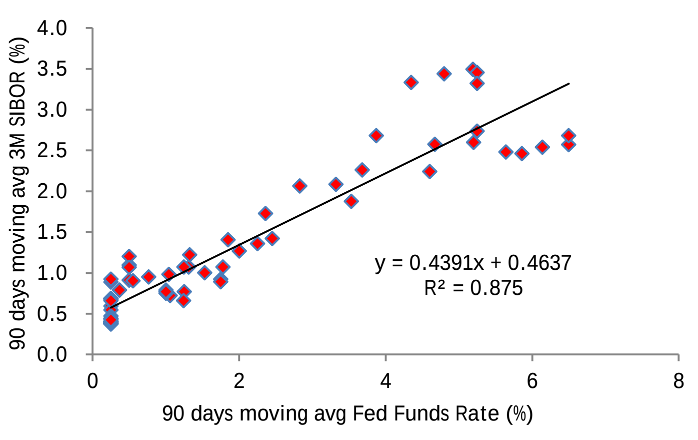
- Our linear scenario analysis on customer spreads (i.e. customer lending yields and cost of funds), ceteris paribus, suggests they can widen by 11bps/8bps on average across the banks in FY18E/FY19E respectively. Higher lending yields will offset higher cost of funding and banks stand to benefit in a higher rate environment.
- DBS may see bigger increases in customer spreads than peers, at 12bps on average for the two years from our current estimates followed by UOB at 8bps and OCBC, 7bps. This is unsurprising as DBS is the most sensitive to repricing intervals and has the lowest cost of funds from its POSB CASA deposit franchise.
- SGX is the other financial sector stock that warrants a mention as it could be adversely affected in attracting REITs and business trusts, locally and from overseas, to list in Singapore which has been a key growth strategy for its IPO pipeline. Sharp rate hikes will likely lower REIT sector valuations, reducing the attractiveness as a listing market destination. YTD FY18 around 83% of the increase in new IPO market capitalisation came from listings from REITs and business trusts.

Fig 17: SIBOR impact on banks customer spreads



Source: Bloomberg, Companies, Maybank Kim Eng

Fig 18: Fed Funds rate and SIBOR correlation



Source: Bloomberg, Maybank Kim Eng

6.2 What if USD:SGD is back at around 1.25 levels?

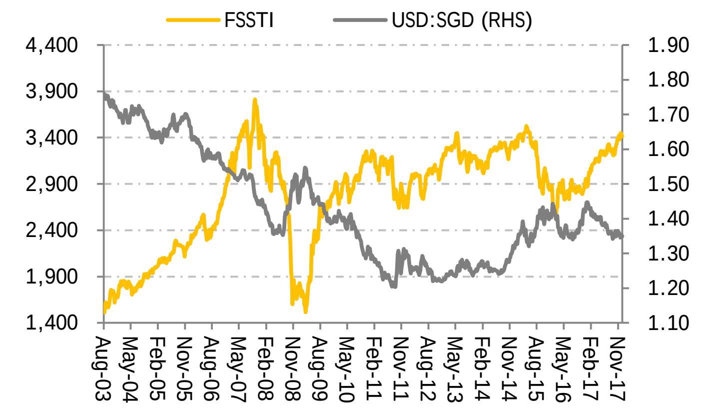
The direction of the Singapore Dollar against its trade weighted currency basket (of which the US Dollar is a large component) is an important factor for earnings. For our stock coverage, we estimate around 43% of core profit on a market cap weighted basis was non-SGD denominated in the last reported financial year. For FSSTI components we expect this to be even higher at c50-55% given the presence of large overseas companies not under our coverage in the stock component basket.

The Monetary Authority of Singapore (MAS) currently has a neutral stance on the SGD but in its Oct 2017 meeting it dropped the phrase "the neutral policy stance would be appropriate for an extended period" from its outlook statement opening the door for a tightening move in 2018. Our economics and F/X strategy teams expect the monetary policy stance to shift to a "slight appreciation" bias at the Apr 2018 meeting given the strong economic growth, exports and trade numbers seen in 2017 are likely to carry over into 2018. MKE forecasts an end-2018 USD:SGD rate of 1.36.

The wild card is if MAS allows the SGD to appreciate much faster than expected; they have demonstrated a willingness to allow sharper appreciation in the face of a broader confidence in growth sustainability and inflation is relatively benign. Over the past decade, 2006/2007/2009 were notable years that saw USD:SGD rate appreciate c6%/7%/8% respectively. Our two key observations on market performance related to USD:SGD sensitivity are:

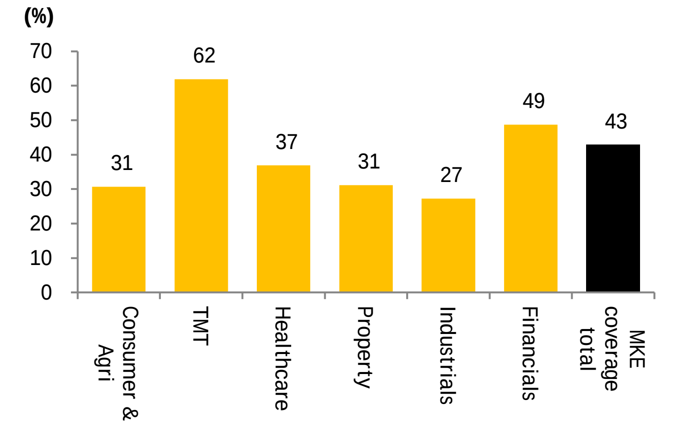
- A weaker Singapore Dollar is positive for market and index earnings growth in local currency terms. In a sensitivity analysis on our coverage stocks, core profits would be eroded by c4% should the SGD appreciate to 1.25 levels from the current 1.35 levels against the USD.
- However, the correlation between FSSTI performance and the USD:SGD rate goes against the grain of a negative earnings growth impact with SGD appreciation. A weaker Singapore Dollar has in fact usually been accompanied by a weak equities market and vice-versa. We believe this apparent incongruence is explained by the currency, and not interest rates, being the primary monetary policy tool. Hence currency weakness is a regulator managed one and resulting from lack of inflationary pressure in the economy and a weak external environment (as Singapore is an open trade-driven economy and the imported inflation component is high as well).

Fig 19: USD/SGD exchange rate and Straits Times Index



Source: Bloomberg

Fig 20: Estimated FY16 non-SGD core profit (MCap weighted)



Source: CEIC

6.3 What if there are surprise tightening measures in property?

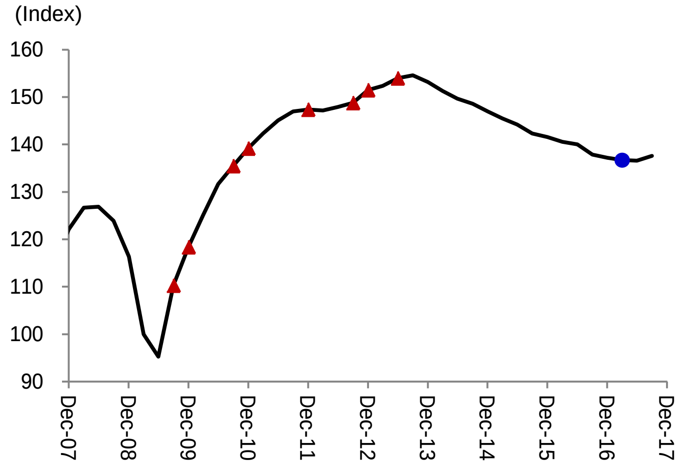
The market assumes the end of policy tightening after the first policy easing in Mar 2017 after almost seven years of a tightening regime. The buoyant home buying sentiment since then suggests that any further loosening is not imminent but, on the flipside, the Street is not expecting any policy tightening either.

Sales volume has picked up and prices have turned since the easing in 1Q17. New home sales are on track for 11,000 units in 2017, a significant improvement from the 7,000 to 8,000 units sold annually in the past three years. Home prices have also started to pick up with a 0.7% QoQ increase in the 3Q17 URA PPI. With stronger demand, developers have also turned more aggressive in acquiring fresh development land and en-bloc activity has been widespread given the relatively muted government land sales. We evaluate the potential impact of a surprise tightening on the property market and its possible impact on RNAVs of developers.

- Surprise tightening could sap demand. We believe ample liquidity, improving affordability and buoyant sentiments can lift home prices even without further policy easing. Hence, we have built in price escalation of 3-4% in our base case valuation for property developers. A surprise tightening could sap demand and potentially lead to downside to our ASP assumptions.

- Impact of ASP cut on RNAVs. In Fig 22 below, we assess the impact of a 20% ASP cut on our valuation of property developers. Assuming no change in sales volume, this would impact our RNAV by 0.3 – 17%. As a concentrated proxy for Singapore's residential market, lower home prices would hit Bukit Sembawang the most. With a diversified exposure, CapitaLand is most resilient. Outside our coverage universe, Oxley Holdings (OHL SP, Not Rated) could also be negatively impacted as it has been amongst the most aggressive buyers of residential land over the past year.

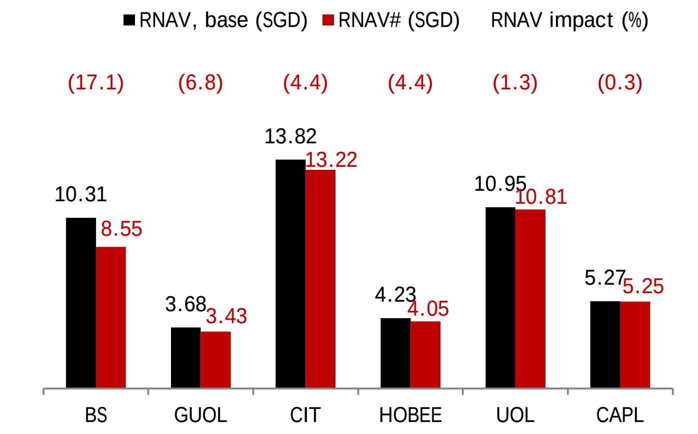
Fig 21: URA PPI vs policy measures



Red triangles = tightening, Blue circle = loosening.

Source: URA, MND, IRAS, MAS, Maybank Kim Eng

Fig 22: RNAV impact of a 20% ASP cut on developers



#RNAV impact of a 20% cut to ASP assumptions for Singapore.

Source: Maybank Kim Eng

Telecommunications

Singapore

StarHub (STH SP)

Risks Aplenty

SELL

Share Price	SGD 2.85
12m Price Target	SGD 2.17 (-24%)
Previous Price Target	*SGD 2.17*

Girding for war on several fronts

With new industry entrant TPG Telecom (TPG AU, Not Rated) still in the build-out phase before an anticipated 2H18 launch, StarHub and the other incumbents continue to prepare themselves. Re-contracting efforts and unlimited data plan options have already started. The launch of the latest batch of smartphones from Samsung and Apple will likely pressure industry margins with retention costs in the short to medium term while the risk of tariff cuts looms in the longer term. Fixed broadband revenue continues to be pressured due to competition, while pay TV's share of overall revenues is under pressure from unabated online piracy. The value proposition and protection provided by the bundling/"hubbing" strategy has thus lost some shine. To their credit, management have navigated a controlled descent of the declining segments.

One bright spot

The enterprise and fixed network division has delivered the double digit revenue growth that has kept overall service revenues stable in the face of pressure on all other segments. This has led to a recent proposal to invest up to SGD122m over 2018-2021 in unlisted enterprise solution provider D'Crypt. Management is actively evaluating other inorganic growth options.

Is the DPS policy at risk?

With competition set to pressure revenues and costs and with investments in other inorganic growth initiatives possibly on the horizon, the pressure on cashflow is mounting. The sustainability of the current SGD0.16 DPS policy beyond 2017E is thus not a surety, in our view. Despite the inherent risks, the share price remains up YoY which is likely untenable. We maintain our SELL.

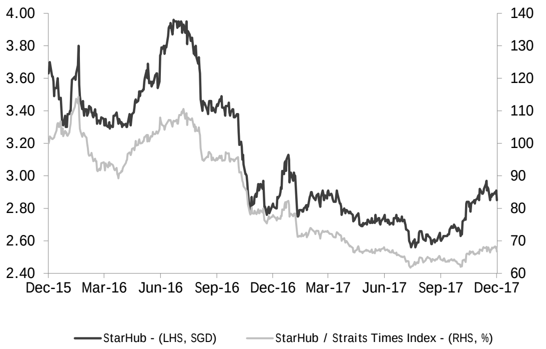
Company Description

StarHub is the second largest wireless service and largest pay TV operator in Singapore.

Statistics

52w high/low (SGD)	3.13/2.56
3m avg turnover (USDm)	5.9
Free float (%)	32.4
Issued shares (m)	1,732
Market capitalisation	SGD4.9B
	USD3.7B
Major shareholders:	
Asia Mobile Holdings Pte Ltd	55.9%
Nippon Telegraph & Telephone Corp.	9.9%
BlackRock Fund Advisors	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	10	1
Relative to index (%)	0	4	(14)

Source: FactSet

FYE Dec (SGD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	2,444	2,397	2,373	2,397	2,390
EBITDA	713	690	596	537	610
Core net profit	372	341	245	183	226
Core FDEPS (cts)	21.4	19.7	14.1	10.5	13.0
Core FDEPS growth(%)	0.3	(8.2)	(28.4)	(25.3)	23.9
Net DPS (cts)	20.0	20.0	16.0	16.0	16.0
Core FD P/E (x)	13.3	14.5	20.2	27.1	21.9
P/BV (x)	26.3	25.3	30.2	71.2	nm
Net dividend yield (%)	7.0	7.0	5.6	5.6	5.6
ROAE (%)	221.2	178.5	136.6	157.4	512.8
ROAA (%)	19.1	16.6	10.8	7.9	9.4
EV/EBITDA (x)	9.7	8.1	9.7	11.1	10.3
Net gearing (%) (incl perps)	274.0	360.3	534.0	nm	nm
Consensus net profit	-	-	277	257	230
MKE vs. Consensus (%)	-	-	(11.6)	(29.0)	(1.8)

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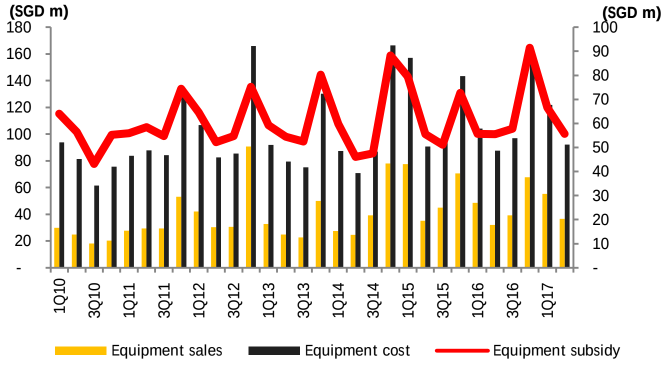
Value Proposition

- Second-largest operator in a mature, high income ASEAN economy. Entrant of fourth operator threatens market share, returns and cost of capital.
- Cyclical EBITDA margin within the calendar year due to smartphone launches and a largely postpaid revenue driven market that values equipment subsidies.
- Network management experience and breadth drive increased initiatives to tap private and public enterprise contracts.
- Dividend yield has been a key investment thesis. Despite reducing payout commitment (from SGD0.20 to SGD0.16), potential for DPS to exceed EPS remains, as in prior years.

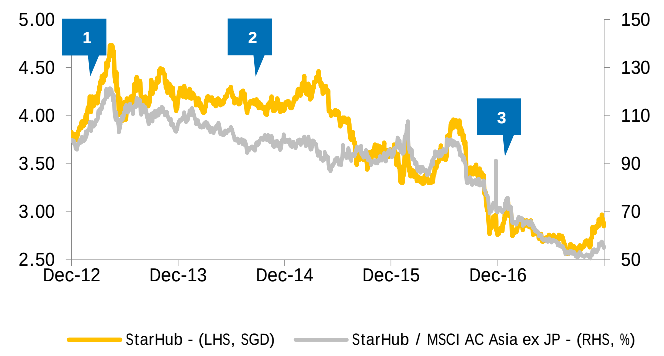
Equipment subsidy likely to spike higher



Source: Company

Price Drivers

Historical share price trend



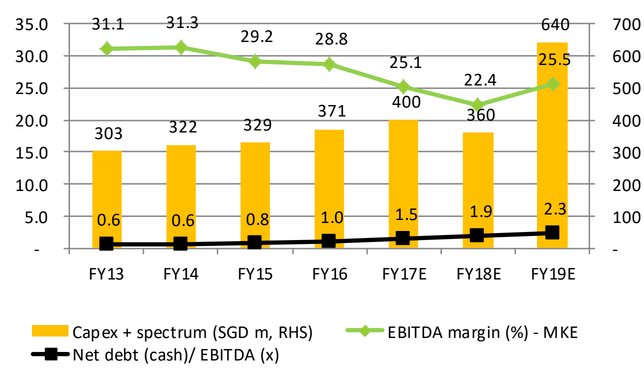
Source: Company, Maybank Kim Eng

1. Industry re-rating on the launch of 4G services to help replace unlimited-data 3G plans to pay-as-you-use plans.
2. Consistent dividend payout kept share price generally stable.
3. Expectations of a new entrant initially with a Dec 2016 spectrum auction that led to TPG's entry. Also, dividend payout commitment cut by 20% to SGD0.16 per share.

Financial Metrics

- 2H17 revenues could be uplifted by handset sales but margins consequently to come under pressure consistent with management guidance of 26-28% EBITDA.
- Gearing could come under pressure with spectrum payments and related capex in the coming months and years.
- Key financial/operating metrics we would be watching for in subsequent quarters are subsidy levels, mobile subscriber recontracting rates, and pay TV churn.

Gearing rising with margins weakening



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Enterprise segment targeting, including government contracts revolving around the Smart Nation initiatives provides source of new revenues, despite competition with SingTel.
- Network alliance with M1 to reduce network redundancies and operating expenses, and future joint capex planning is under negotiation.

Downside

- Re-contracting/retention costs likely to rise on the back of new smartphone launches and defensive preparation against TPG's entry.
- Wireless tariff package pressure on rates and/or data allocations possible with new competition.

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January 2, 2018

Consumer Staples

Singapore

Jumbo Group Ltd (JUMBO SP)

Time for Tasty Re-Rating

BUY

Share Price	SGD 0.57
12m Price Target	SGD 0.70 (+23%)
Previous Price Target	*SGD 0.70*

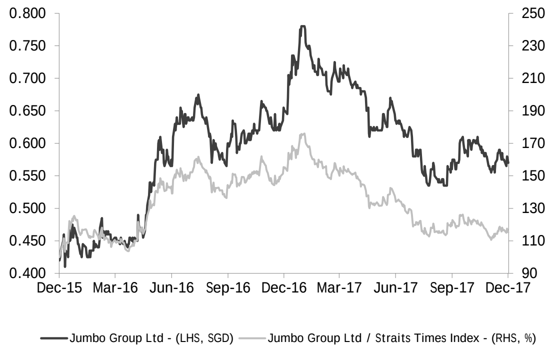
Company Description

F&B retailer in Singapore and China, most famous for its chilli crabs and JUMBO Seafood brand. Has five other brands in its stable.

Statistics

52w high/low (SGD)	0.78/0.54
3m avg turnover (USDm)	0.4
Free float (%)	18.2
Issued shares (m)	641
Market capitalisation	SGD365.6M
	USD273M
Major shareholders:	
JBO Holdings Pte Ltd.	57.9%
SIM CHYE HOCK	10.0%
TAN GEE JIAN	6.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	(1)	(12)
Relative to index (%)	3	(6)	(25)

Source: FactSet

Expansion catalysts in place

We have a contrarian BUY on JUMBO and DCF TP of SGD0.70 (WACC 9%). Leveraging on its reputation and consistent quality, JUMBO aims to open 4-5 new outlets a year in FY18-20E, up from just one historically. Rapid profitability in just one month for its Beijing outlet opened in Jul 2017 demonstrates the popularity of its brand in China and JUMBO's execution ability, in our view. We expect 3-year EPS CAGR of 15%, backed by: 1) more new outlets; 2) low upfront costs for expansion through JVs and franchises; and 3) operating leverage. Risks include execution missteps or delays.

More new outlets in China, Taiwan & Vietnam

JUMBO has gained a foothold in China with its consistent quality. China contributed 18% or SGD25m to its FY17 revenue, up from 6% or SGD7m in FY14. We expect contributions to exceed 30% by FY20E. Since 2014, JUMBO has been adding one new outlet a year. Outside China, it now aims to expand through franchises and JVs, allowing it to harness its partners' local market knowledge and reduce upfront costs. It started its first franchise in Vietnam in May 2017 and plans to open a second in Hanoi with a local F&B partner. It has formed a JV and franchises to open at least eight outlets in Taiwan. Additionally, it has identified five other potential markets: Thailand, Indonesia, Hong Kong, Macau and Korea.

Foundation laid for new EPS growth

EPS growth should resume in FY18E, from more new outlets overseas and operating leverage to cover additional head-office costs since FY17. To support its regional expansion, JUMBO had shifted to bigger head offices in Singapore and China in FY17. Most start-up costs had been recognised, when two new outlets in China were opened in late FY17 and early FY18.

Undervalued despite superior ROEs & net margins

JUMBO trades at 21x FY18E EPS, a discount to regional peers' 26x, despite its superior ROEs and margins. We use DCF valuation to capture the full value of its expansion potential that could materialise over more than a year. Our TP implies 26x FY18E EPS, on par with regional peers.

FYE Sep (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	137	145	164	189	208
EBITDA	22	22	26	30	33
Core net profit	16	14	17	20	22
Core EPS (cts)	2.4	2.3	2.7	3.1	3.5
Core EPS growth (%)	32.0	(6.7)	20.1	14.8	11.7
Net DPS (cts)	1.7	1.7	1.9	2.2	2.4
Core P/E (x)	23.6	25.3	21.0	18.3	16.4
P/BV (x)	5.6	5.6	5.2	4.8	4.4
Net dividend yield (%)	3.0	3.0	3.3	3.8	4.3
ROAE (%)	25.5	22.3	25.6	27.2	27.9
ROAA (%)	18.3	17.1	19.8	20.5	20.8
EV/EBITDA (x)	15.0	14.5	11.9	10.8	9.7
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	17	19	20
MKE vs. Consensus (%)	-	-	2.4	4.8	10.1

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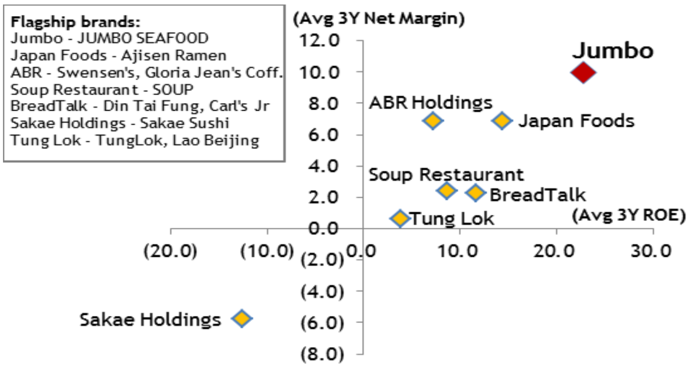
Value Proposition

- Restaurant operator popular in Singapore and China, given reasonable prices and consistent taste.
- Iconic dishes, outlets in ideal locations, strong brands and effective front-and-back-end operations provide high, defensible net margins.
- Branding hinges on signature seafood dishes such as chilli crab. Helps it stand out in crowded markets, especially when expanding overseas.
- Low-cash-cost business financed by suppliers' credit. High FCF generation supports expansion plus dividends.
- FY17 ROIC of 21% vs WACC of 9%.

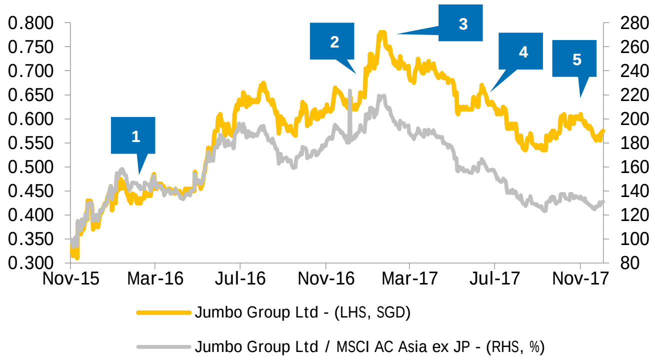
How Jumbo stacks up in profitability & returns



Source: Company

Price Drivers

Historical share price trend



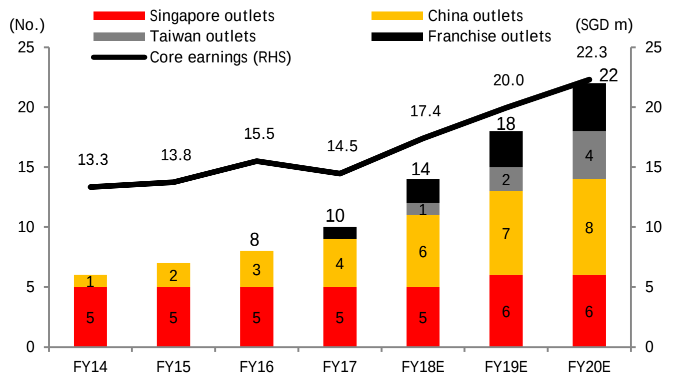
Source: Company, Maybank Kim Eng

1. Stock consolidated after surging from SGD0.25 IPO price as market awaited further developments of newly-opened China stores.
2. Stock broke out of consolidation following 1Q16 results which highlighted the promising performance of its premium IFC Mall outlet in Shanghai.
3. Stock peaked in 2Q16 and retreated ahead of expected seasonal weakness in 3Q16.
4. Continued to retreat as growth flattened out on lack of new outlets.
5. Stock surged after the announcement of expansion to Taiwan but consolidated after a lacklustre 4Q17.

Financial Metrics

- More new Jumbo seafood outlets overseas to power top and bottom lines. We assume 4-5 new outlets pa for FY18-20E, including new Ng Ah Sio Bak Kut Teh outlets.
- Jumbo seafood should continue to anchor revenue and earnings.
- Strong FCF comes from cash business, with little inventory requirements and low capex for new outlets.
- Dividend payouts of 70-75% in FY16-17 exceeded earlier guidance of at least 30%. We expect 70% or so, backed by robust FCF.

No. of Jumbo Seafood outlets and potential earnings growth



Source: Company

Swing Factors

Upside

- Better-than-expected Singapore and China sales, especially from new outlets.
- Lower-than-expected food and staff costs that could lead to better-than-expected margins.
- Expectations of higher dividends or articulation of a dividend policy.
- Expansion success, especially in overseas markets such as China, Taiwan and Vietnam.

Downside

- Any changes in China's food-safety laws that could affect China's imports of mud crabs.
- Shortage of critical ingredients for its signature dishes: crabs, other seafood.
- Epidemics or health scares that can damage its reputation eg mass food poisoning, salmonella.
- Poor execution of expansion, including major delays in opening of and longer-than-expected breakeven for new outlets.

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REITs

Singapore

CapitaLand Commercial Trust (CCT SP)

Positives Priced-In

HOLD

Share Price	SGD 1.93
12m Price Target	SGD 1.80 (-7%)
Previous Price Target	*SGD 1.80*

Awaiting better entry point

While CCT is an excellent proxy to the recovering office market, we believe the positives are priced in after a stellar 40% total return over the past year. Management executed a timely value unlocking of two fully priced assets in 2017, redeploying the capital into redevelopment of the GSCP and AST2 acquisitions. We believe the market will watch CCT's ability to improve the underlying performance of AST2 in 2018. Upside catalysts to watch are stronger-than-expected occupancies and signing rents. Our target yield of 5.0% is close to its historical low and reflects our view of a potential rebound in the office market.

Negative reversion for at least one more year

With vacancies still high and plenty of secondary space surfacing in 2018, we doubt market rents can rally enough to clear 2015 levels in 2018. This implies rental reversions will stay negative in 2018 considering the typical lease tenure of three years. As such, we expect underlying income to remain under pressure.

Nice manoeuvres in 2017; Time for 2018 execution

2017 was an eventful year for the management of CCT. They sold two assets (50% in One George Street + Wilkie Edge) at large premiums to fund the redevelopment of Golden Shoe Carpark (GSCP), and negotiated hard to acquire Asia Square Tower 2 (AST2) at an attractive price. It is execution time in 2018. We expect the market to focus on occupancy and signing rents at AST2 to determine the outlook for the stock.

GSCP a medium-term story

Looking beyond the near term, the ongoing redevelopment of GSCP has the potential to deliver outsized returns for unitholders. Our surplus estimates of 2.4 SGD cts (post-rights) are premised on Grade A rents reaching SGD11 psf by 2021E. While it is still too early to start its pre-leasing, a faster-than-expected rent increase could pose upside risk to our estimates.

FYE Dec (SGD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	273	299	321	389	399
Net property income	213	231	251	307	319
Core net profit	215	239	249	301	311
Core EPU (cts)	7.0	7.8	7.6	8.3	8.6
Core EPU growth (%)	(7.1)	10.5	(2.5)	10.0	3.0
DPU (cts)	8.6	9.1	9.1	9.0	9.2
DPU growth (%)	1.9	5.3	(0.2)	(0.6)	2.2
P/NTA (x)	1.1	1.1	1.1	1.1	1.1
DPU yield (%)	4.5	4.7	4.7	4.7	4.8
ROAE (%)	5.9	5.0	8.7	4.7	4.9
ROAA (%)	3.3	3.3	2.9	3.3	3.4
Debt/Assets (x)	0.19	0.33	0.28	0.29	0.30
Consensus DPU	-	-	8.8	8.8	8.7
MKE vs. Consensus (%)	-	-	2.9	2.3	5.4

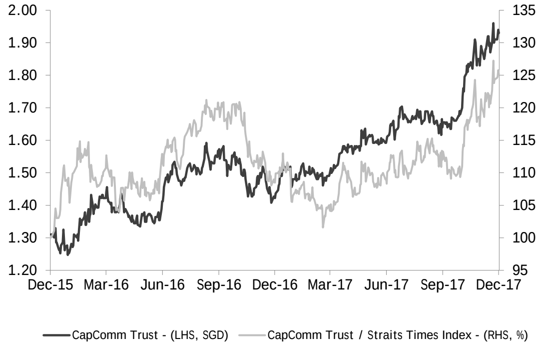
Statistics

52w high/low (SGD)	1.96/1.44
3m avg turnover (USDm)	15.6
Free float (%)	67.1
Issued shares (m)	3,608
Market capitalisation	SGD7.0B
	USD5.2B

Major shareholders:

CapitaLand Ltd.	31.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	17	36
Relative to index (%)	5	10	15

Source: FactSet

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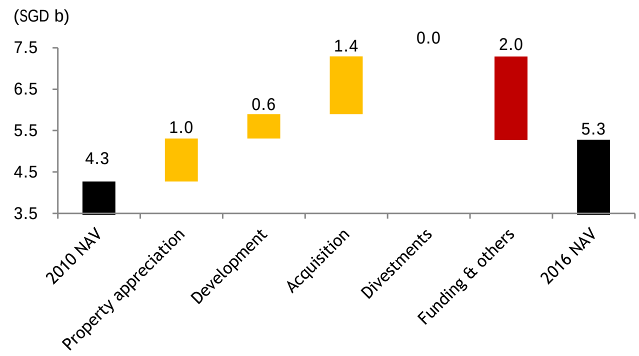
Value Proposition

- CCT is a commercial REIT with most of its office buildings in Singapore's CBD. Backed by CapitaLand, one of the largest property developers in Singapore.
- Good proxy for Singapore's commercial property market with SGD10b of assets after the acquisition of Asia Square Tower 2. Singapore's office market has turned around.
- Good track record of value creation for unit holders. Redeveloped Market Street Carpark into a new office building, CapitaGreen.
- Impending redevelopment of Golden Shoe Carpark is an avenue of future value creation. Inorganic acquisitions would further lift DPUs.

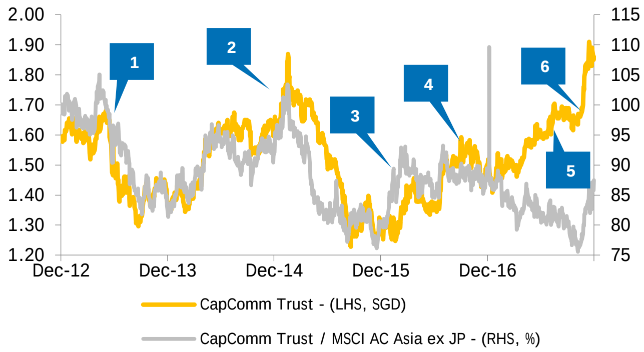
NAV changes



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



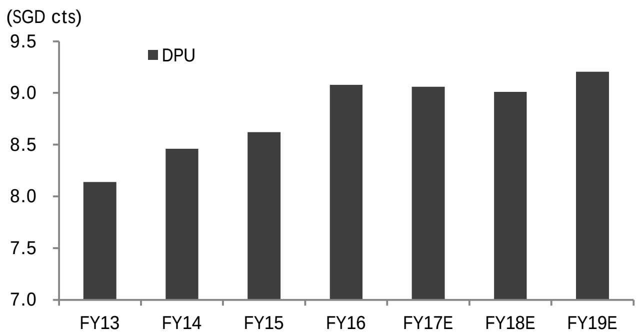
Source: Company, Maybank Kim Eng

1. Fed raised interest rates. Global yield assets sold off.
2. Office rents peaked in Singapore. Concerns about oversupply.
3. Sharp fall in bond yields on heightened risk aversion after Brexit. Rotation to stable income-producing properties.
4. Fed announces second rate hike. Yield sensitive assets under pressure.
5. Sale of a 50%-stake in One George Street and fringe asset Wilkie Edge at significant premiums over book.
6. Acquisition of Asia Square Tower 2.

Financial Metrics

- We forecast stable DPUs as incremental contributions from CapitaGreen should ensure income stability.
- Aggregate leverage could fall to 32% after recent divestments and CB conversions. Gearing remains comfortable at 37.1% even after acquiring Asia Square Tower 2.
- CCT could mitigate income losses from the redevelopment of Golden Shoe and recent asset sales by distributing SGD34m worth of tax-exempt income on its books.
- Distribution yields could stay low on narrowing office cap rates. Golden Shoe redevelopment offers DPU upside beyond our forecast horizon.

DPU trajectory



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Appreciation in the capital value of its properties.
- Successful redevelopment of assets, such as Golden Shoe Carpark.
- Earlier-than-expected rebound in office rents.

Downside

- Sharper-than-expected declines in office rents or occupancies.
- Overpaying for acquisitions.
- Cost overruns in any redevelopment projects.

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Industrials

Singapore

Singapore Post Ltd (SPOST SP)

Potential Earnings Turnaround

BUY

Share Price	SGD 1.24
12m Price Target	SGD 1.50 (+21%)
Previous Price Target	*SGD 1.50*

BUY for turnaround of key segments

In 2018, we see three key catalysts which could potentially lead to a turnaround: 1) strong international mail and e-commerce-related revenue; 2) turnaround of US e-commerce business; and 3) resumption of rental income. The latest 2Q18 results revealed improvement in three out of four growth cylinders, including mail, e-commerce and associate earnings, which we believe will gain momentum. Logistics is the only uncertain part, but the earnings drag should be manageable. The new CEO has revealed four key themes in its strategic review in Nov 2017. Although there is nothing fancy, we think the aims are practical and emphasize mostly on executable initiatives. Maintain BUY and DCF TP of SGD1.50.

Three turnaround catalysts for earnings

We see three potential catalysts: 1) two growth drivers could more than offset the declining traditional mail revenue. First, robust growth in international mail revenue, from increasing China outbound e-commerce parcels of Alibaba (BABA US; HOLD; USD185 TP). Second, increase in e-commerce-related revenue as SingPost gains market share in Singapore; 2) since the new CEO of US-based Trade Global, Paul Demirdjian took over in Mar 2017, he has started several turnaround initiatives including securing new customers and improving cost efficiency; and 3) resumption of rental income, which should start contributing in 3Q18 after the opening of SPC Retail Mall in Oct 2017.

Strategic review targets executable initiatives

The new CEO disclosed four themes in its strategic review. Although there is nothing fancy, we think the aims are practical and emphasize mostly on executable initiatives. Nonetheless, the third initiative is more ambitious and strives for longer term results. The themes are: 1) establishing market leadership in Singapore; 2) delivering full value from overseas investments; 3) igniting future growth engine; and 4) driving cost leadership.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,152	1,349	1,476	1,641	1,844
EBITDA	225	201	200	231	256
Core net profit	154	116	120	136	152
Core EPS (cts)	7.1	5.1	5.3	6.0	6.7
Core EPS growth (%)	(0.5)	(28.5)	3.5	13.3	12.1
Net DPS (cts)	7.0	3.5	3.7	4.2	4.7
Core P/E (x)	17.4	24.4	23.6	20.8	18.6
P/BV (x)	2.2	2.1	2.0	2.0	2.0
Net dividend yield (%)	5.6	2.8	3.0	3.4	3.8
ROAE (%)	21.5	2.6	8.7	9.7	10.7
ROAA (%)	6.7	4.5	4.4	4.9	5.4
EV/EBITDA (x)	16.4	15.6	14.3	12.2	10.9
Net gearing (%) (incl perps)	9.8	net cash	0.4	net cash	net cash
Consensus net profit	-	-	116	133	145
MKE vs. Consensus (%)	-	-	3.1	1.6	4.6

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Company Description

SingPost is a national postal provider that has branched into global e-commerce and fulfilment logistics services.

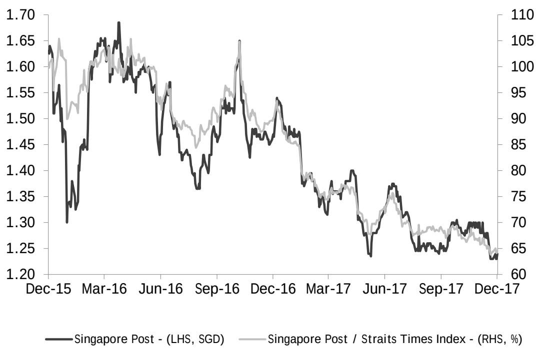
Statistics

52w high/low (SGD)	1.54/1.23
3m avg turnover (USDm)	4.7
Free float (%)	62.9
Issued shares (m)	2,275
Market capitalisation	SGD2.8B
	USD2.1B

Major shareholders:

Singapore Telecommunications Ltd.	21.7%
Alibaba Investment Ltd	14.4%

Price Performance



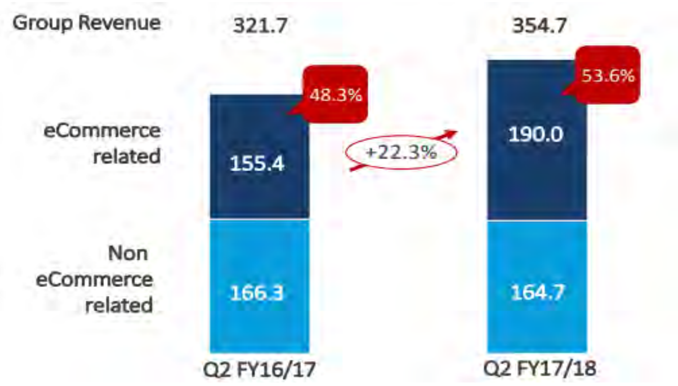
	-1M	-3M	-12M
Absolute (%)	(4)	(1)	(16)
Relative to index (%)	(3)	(6)	(28)

Source: FactSet

Value Proposition

- National postal provider that has branched into global e-commerce and fulfilment logistics, helping retail customers to sell online faster and more efficiently.
- Under transformation from a highly cash generative, but declining mail business to high-volume, high-growth e-commerce logistics
- Offers cheapest e-commerce deliveries at home. In ASEAN, has tied up with other national postal providers to offer commercial delivery services.
- The earliest impact from the expansions should be in FY3/19. Additional growth will come from Alibaba's (BABA US, HOLD, TP USD185) volumes, a new logistics hub, and new US customers.
- Recent ROEs about 8.5%. Expect expansion from FY3/18 on revenue growth and cost synergies. FY18E ROIC of 5.9% vs WACC of 7.6%.

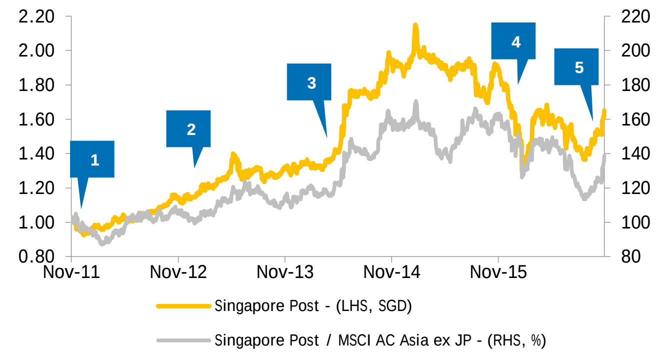
Transforming into an e-commerce logistics provider



Source: Company

Price Drivers

Historical share price



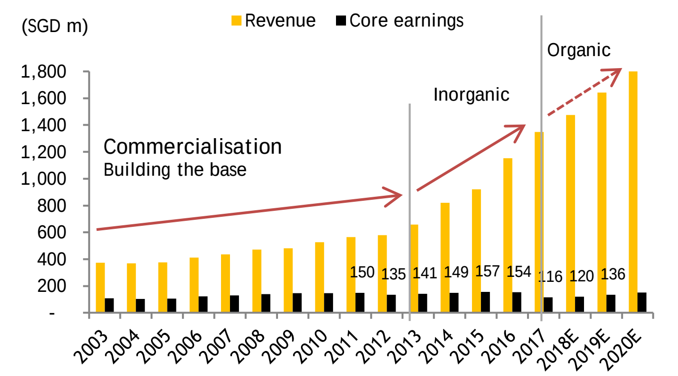
Source: Bloomberg, Maybank Kim Eng

1. Core mail volume declined in FY3/12 after growing 8% in FY11.
2. Re-rated in 2012-2014 after acquiring e-commerce logistics outfits, which bumped up its revenue growth.
3. Mar 2014: China's e-commerce juggernaut, Alibaba, took a 10% stake in SingPost and signed an MOU for a JV in international e-commerce logistics.
4. Dec 2015 – Jan 2016: CEO resigned. Disclosure that director's interest was not declared.
5. Oct 2016 – Alibaba's second investment in SingPost was approved by regulator allowing it to acquire a 30% stake in SingPost's subsidiary.

Financial Metrics

- Revenue CAGR of 12% the past five years, 10% for the next three years due to on-going digestion of M&As and declining traditional mail revenue.
- Expect profit growth in FY18E on turnaround of e-commerce segment, growth in mail segment and completion of mall refurbishment.
- FY18E total capex SGD110m, of which SGD50m is for expansion, and SGD60m for maintenance.
- ROE and FCF expected to grow, along with profits, from FY18E.

Profits should turn higher in FY18; 1st time since FY15



Source: Company, Maybank Kim Eng estimates.

Swing Factors

Upside

- Faster-than-expected turnaround of TradeGlobal, a newly acquired e-commerce enabler for fashion and lifestyle.
- Higher-than-expected revenue growth in e-commerce logistics, from more customers and services.
- Higher-than-expected margins for e-commerce logistics, from economies of scale and operating leverage.

Downside

- Inability to resolve corporate-governance conundrum, including independence of the board and inadequate disclosure.
- Failure to extract synergies and integrate its largest acquisition, TradeGlobal.
- Worse-than-expected deterioration in mail business before e-commerce logistics compensates.

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January 2, 2018

ComfortDelGro (CD SP)

In a Comfort Zone

Industrials

Singapore

BUY

Share Price	SGD 1.98
12m Price Target	SGD 2.40 (+21%)
Previous Price Target	*SGD 2.40*

Negatives are in the price; catalysts from Uber & rail

We believe downside for its taxi operations has largely been priced in after the 25% share-price correction over the past 12M. We believe further taxi weakness is accounted for in our assumption of a 12-15% fleet size reduction pa. for FY17-19E. Key catalysts: 1) tie-up with Uber could reverse its taxi erosion as this alliance between two major players could signal easing competition and things could start improving; 2) the opening of Downtown Line 3 in Oct 2017 could turn around its rail segment; and 3) Singapore bus should provide steady earnings. FY17-19E dividend yields of >5% are the highest since 2005 and we think the yields are sustainable given ex-taxi FCF yield of c.8% for FY18E. Our DCF-based TP of SGD2.40 implies 16.3x FY18E EPS (LT mean of 16.2x). Risks: slower rail turnaround and regulations.

Catalyst from Uber tie-up; taxi relevance to fall

Further development from the Uber tie-up, announced in Dec 2017, will provide exposure to private hire services and potentially mitigate decline in the taxi segment. This alliance between two major players could signal easing competition and things could start improving. Aside from additional income from a new segment, Comfort could also benefit from other synergies including vehicle repair, maintenance and economies of scale in managing a larger fleet of vehicles.

Rail turnaround and bus segment to fill taxi gap

Its rail segment should turn around after the opening of Downtown Line 3 in Oct 2017, which should double ridership. Although we expect the rail segment to breakeven only in late-2018, the increased ridership should help to narrow losses in the rail segment in early 2018. We estimate that the rail EBIT loss should narrow to -SGD5m in FY18E, from -SGD25m in FY17E. Taxi's EBIT contribution to the group should decline to 27% in FY18E from 35% in FY16, as bus and rail increase to 49% from 37%. Singapore bus should provide steady fees under a new contract model with uplift from the new Seletar Bus Package kicking-in in 1Q18 and a rebound in the UK bus business as the forex impact of Brexit normalises.

FYE Dec (SGD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,112	4,060	4,091	4,137	3,982
EBITDA	840	858	814	814	810
Core net profit	302	317	302	313	319
Core EPS (cts)	14.0	14.6	13.9	14.4	14.7
Core EPS growth (%)	5.9	4.6	(4.9)	3.7	1.9
Net DPS (cts)	9.0	10.3	10.4	10.8	11.0
Core P/E (x)	14.1	13.5	14.2	13.7	13.5
P/BV (x)	1.8	1.7	1.7	1.6	1.6
Net dividend yield (%)	4.5	5.2	5.3	5.5	5.6
ROAE (%)	13.3	13.2	12.0	12.1	11.9
ROAA (%)	5.8	6.1	5.9	6.2	6.2
EV/EBITDA (x)	8.3	6.5	5.4	5.2	5.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	303	295	302
MKE vs. Consensus (%)	-	-	(0.6)	6.2	5.6

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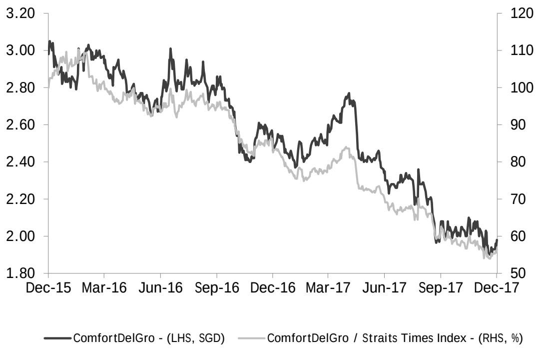
Company Description

ComfortDelGro is a land transport conglomerate. Its diversified business includes interests in taxi, bus and rail.

Statistics

52w high/low (SGD)	2.77/1.90
3m avg turnover (USDm)	14.9
Free float (%)	98.9
Issued shares (m)	2,164
Market capitalisation	SGD4.3B
	USD3.2B
Major shareholders:	
BlackRock Fund Advisors	6.0%
Capital Research & Management Co. (Globa	4.8%
The Vanguard Group, Inc.	2.3%

Price Performance



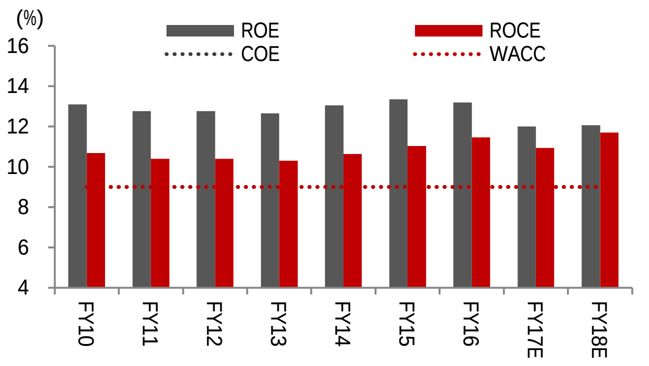
	-1M	-3M	-12M
Absolute (%)	(3)	(5)	(20)
Relative to index (%)	(2)	(10)	(32)

Source: FactSet

Value Proposition

- Land-transport conglomerate with over 46,000 vehicles globally. Its bus (39%) and taxi (36%) businesses are the biggest EBIT contributors.
- Singapore (60%) is the largest EBIT contributor by geography. It also has significant operations in the UK/Ireland (18%), Australia (12%) and China (10%).
- Structural threats to core taxi business from private-hire car operators, Uber & Grab.
- Singapore bus earnings may benefit from the change to asset-light, fare-independent regime.

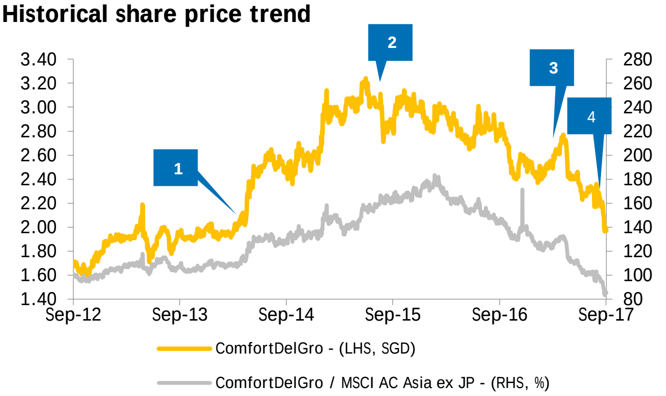
Consistently delivers higher returns than its cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



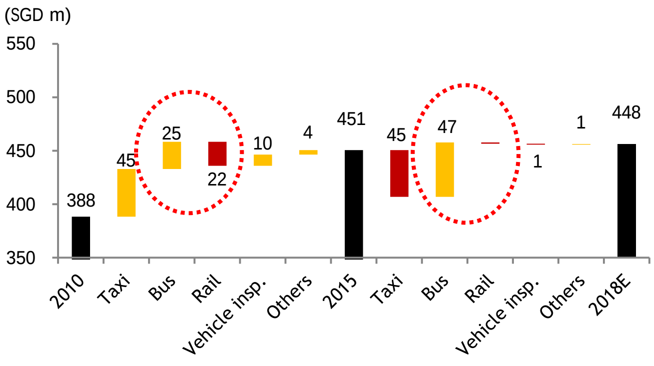
Source: Factset, Maybank Kim Eng

1. Government announcement of a change in bus operating model seen as a positive for the sector.
2. Uber started a car-rental company. Aggressive expansion by the new entrant is seen as a competitive threat to its taxi business.
3. Taxi's EBIT started declining due to intensifying competition from the private hire vehicles.
4. Lost the tender for Thomson East Coast Line.

Financial Metrics

- Expect improving Singapore bus profits after a change in business model from Sep 2016. Profitability for rail could start to improve as the Downtown Line fully opens in 2017.
- This should drive margin expansion over the next three years.
- Taxis key in past five years, but we project declining earnings given imminent threats. Increase in private-hire car drivers and its taxi utilisation are key indicators to watch.
- We expect rising FCF (recovery in FY17E vs FY16A, further increase in FY18E, stable in FY19E) to support progressive dividend distributions.

Operating profit progression from 2010 to 2018E



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Better-than-expected bus profitability.
- Successful bids for new rail lines in Singapore.
- Value-enhancing acquisitions of overseas business.

Downside

- Decline in taxi utilisation or rental rates.
- Overpaying for acquisitions.
- Higher labour and energy costs.

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January 2, 2018

REITs

Singapore

Mapletree Commercial Trust (MCT SP)

Mall Or Less

SELL

Share Price	SGD 1.62
12m Price Target	SGD 1.45 (-10%)

Initiate coverage with SELL, SGD1.45 TP

MCT has delivered according to its 2011 IPO playbook by achieving average +23% 6-year rental reversions at VivoCity, S'pore's largest mall, and 4.9% DPU CAGR from FY12-17 following its Mapletree Business City 1 (MBC1) acquisition in Jul 2016. However, we believe these are reflected in its valuations, now at 5.8% yield, with MCT the best performing REIT in 2017 despite structural sector headwinds. Looking ahead, we believe the market will need to price in a slowdown in rental reversions across its portfolio, and thus we look for MCT's share price to lag its retail peers. We find the shares overvalued and initiate with SELL and DDM-based TP of SGD1.45 (WACC: 7.1%; LTG: 1%).

Earlier rental reversions expected to moderate

We see downside risk to market expectations of rental reversion prospects at MCT's VivoCity, as well as its business park and office assets on the city fringe. VivoCity's earlier strong performance with rental reversions averaging +23% since IPO was supported by low rentals (by 22% below comparable malls). Meanwhile, we see a moderation in its rental reversion outlook for its business parks given the narrowing gap to prime Grade A offices. We believe that the office recovery is underway, but uncertainties lie in new tenancies, and have imputed 6%, 3% and 11% reversions for its retail, business park, and office assets, respectively.

Portfolio more exposed to e-commerce competition

We expect VivoCity to maintain its position as a destination mall, helped by improvement in shopper traffic given its size and location at Harbourfront's interchange, and gateway to Sentosa Island. However, we see some degree of tenant retention risk, with a relatively higher proportion of its leases (35-42%) at risk to e-commerce competition. We see a stronger proxy to S'pore's tourism rebound at Orchard Road malls.

Slower growth profile not priced into valuations

MCT has had the longest period of outperformance, which was achieved on the back of strong double-digit rental reversions at its key VivoCity retail asset. With growth tapering from structural concerns, we see downside risk to DPU estimates.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	288	378	427	435	444
Net property income	221	292	334	340	347
Core net profit	173	224	255	260	262
Core EPU (cts)	14.0	13.3	14.9	10.2	9.6
Core EPU growth (%)	(5.7)	(5.0)	11.6	(31.3)	(6.1)
DPU (cts)	8.1	8.8	8.9	9.0	9.0
DPU growth (%)	1.6	7.6	1.1	2.0	0.2
P/NTA (x)	1.2	1.2	1.1	1.1	1.1
DPU yield (%)	5.0	5.4	5.5	5.6	5.6
ROAE (%)	11.1	10.3	10.6	7.1	6.6
ROAA (%)	4.0	4.1	3.9	3.9	3.9
Debt/Assets (x)	0.35	0.36	0.35	0.35	0.35
Consensus DPU	-	-	9.0	9.0	9.0
MKE vs. Consensus (%)	-	-	(1.7)	0.3	0.3

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Company Description

MCT is a retail and commercial REIT, operating Vivocity, S'pore's largest mall, as well as extensive commercial space in the southern corridor.

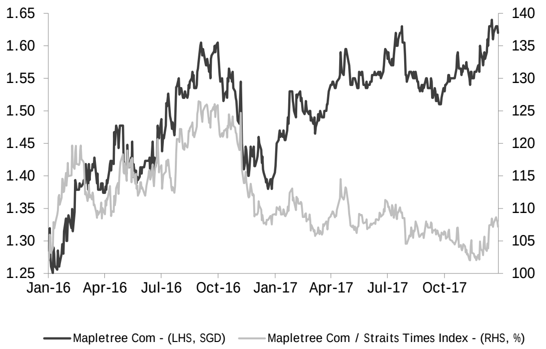
Statistics

52w high/low (SGD)	1.64/1.40
3m avg turnover (USDm)	4.9
Free float (%)	61.8
Issued shares (m)	2,879
Market capitalisation	SGD4.7B
	USD3.5B

Major shareholders:

Temasek	33.9%
Schroders	8.0%
AIA	3.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	7	17
Relative to index (%)	5	1	(0)

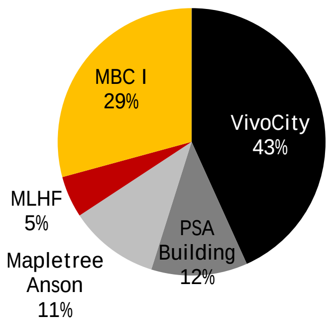
Source: FactSet

Link to sector note:
Singapore Retail REITs

Value Proposition

- MCT owns VivoCity, which is S'pore's largest mall at 1.05b sqft NLA, and achieved 55.8m (+4.8% YoY) and 27.0m (+1.1% YoY) shopper traffic in FY17 and 1H18, respectively.
- It is one of four S-REITs sponsored by Mapletree Investments, wholly-owned by Temasek Holdings.
- Its SGD1.86b acquisition of Mapletree Business City 1 from its sponsor in Jul 2016 has enabled an exposure to business parks (21% of AUM, 13% of NPI), with favourable demand-supply dynamics.
- Strong balance sheet with estimated SGD400m debt headroom, at 40% gearing, to pursue inorganic growth opportunities.

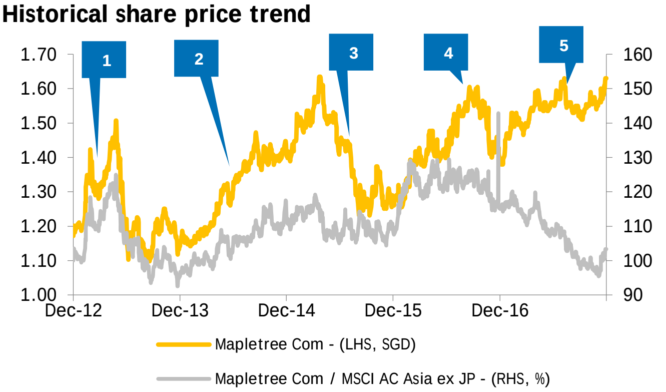
AUM breakdown (as of end-Sep 2017)



Source: Company

Price Drivers

Historical share price trend



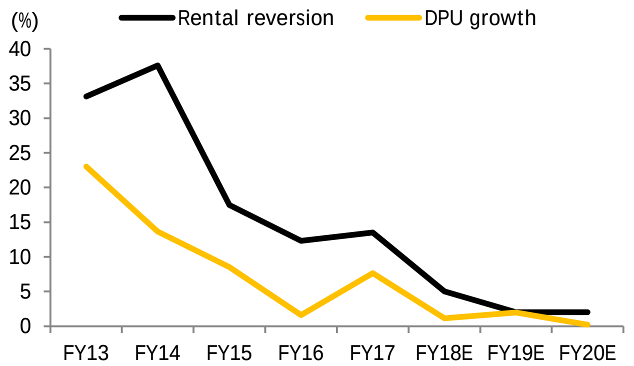
Source: Company, FactSet, Maybank Kim Eng

1. Jan-13: Announces first acquisition post-IPO of Mapletree Anson, a premium office building at a 2-min walk from Tanjong Pagar MRT for SGD690m at 3.6% NPI yield.
2. Apr-14: Reports FYMar-14 results with revenue/NPI up 21.7% YoY/25.2% YoY, exceeding forecasts by 3.8-8.8% and due to VivoCity and PSAB.
3. Apr-15: Opens new 15k sqft retail pockets at VivoCity Basement 1 to exploit commuter flows arising from its connectivity to HarbourFront MRT and Sentosa Express.
4. Jul-16: Acquires Mapletree Business City (P1) comprising an office tower and 3 business park blocks for SGD1.78b, at 5.6% NPI yield, above existing portfolio yield of 5.1%.
5. Apr-17: Reports FYMar-17 results with revenue/NPI up 31.3% YoY/32.4% YoY, with 1.3% YoY rise in tenant sales at VivoCity.

Financial Metrics

- DPU growth is expected to slow sharply from double-digit since IPO to 1-2% in FY18-20E.
- Rental reversion should decelerate from strong double-digit to 3-5% in FY18-20E, as VivoCity rents catch up with market. Strong balance sheet with estimated SGD400m debt headroom, at 40% gearing, to pursue inorganic growth opportunities.

Rental reversion and DPU growth



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail, office and business park space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail, office, and business park space resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Philippines

Philippines - Tracking Growth

We believe 2018 is all about execution – infrastructure, TRAIN and corporates delivering EPS growth of 12.6%, from an estimated 9% in 2017. Trading at 19.2x 2018E P/E or 0.8STD above mean, we believe the market is fairly valued, with limited upside to our 2018E PSEi target of 9,000. Concrete infrastructure execution, approval of corporate tax cuts under TRAIN 2 and a liquidity boost from any reserve cuts have the potential to catalyse blue-sky peak valuations of 22.0x or a PSEi of 9,700, in our view. We see mispriced opportunities in GTCAP and BPI, amid a dearth of value stocks. Meanwhile, rising rates make banks our top sector exposure, with MBT as our preferred pick. Finally, once the third-entrant threat unravels, we believe GLOBE, the wireless leader, stands to gain from low e-commerce penetration.

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Fairly valued

We expect PSEi to rise to 9,000 in 2018E on the back of a modest 12.6% increase in EPS, from this year's estimated 9%. At 19.2x 2018E P/E or 0.8 SD above its mean of 16.6x since 1995, we believe the market has priced in the passage of Package 1 of the Tax Reform for Acceleration and Inclusion (TRAIN) programme. What could spark a run-up to peak valuations of 22x or 9,700 points, in our view, are concrete progress of the infrastructure programme and passage of the second TRAIN package involving corporate tax cuts. Meanwhile, we see mispriced opportunities in GT Capital and BPI.

Rising interest rates, tax & infrastructure

Rising corporate leverage appears manageable. A possible 50bp policy-rate hike could sustain banks' NIM recovery. We prefer the big ones with lower funding costs, namely Metrobank and BPI. Personal tax cuts from Package 1 of TRAIN should be a boon to discretionary spending, benefiting retailers and QSRs. Meanwhile, lower-than-expected auto excise taxes should remove the overhang for underperformer, GT Capital. If infrastructure development is ramped up according to plan, the construction sector should benefit.

E-commerce, stronger PHP, liquidity & competition are wild cards

E-commerce is still nascent but we think Globe Telecom should be best positioned to leverage m-commerce if gets underway. Unexpected PHP strength should be positive for GT Capital, from cheaper completely built-up (CBU) car imports of Toyota. Finally, competitive pressure is easing for banks, though still unsettling for F&B manufacturers like URC.

1. Growth Vs Value is Moot

Attempts to slice and dice the market for growth and value fail to avail tangible results. New Economy stocks are scarce. On balance, slow secular growth and limited investible listings facilitate brisk price adjustments. For 2018E, we see two mispriced opportunities, in GT Capital and Bank of Philippine Islands (BPI).

1.1 Economic growth still dictates market direction

The Philippines' MSCI Growth and Value indices have largely moved in tandem, though a divergence favouring the growth index can be observed since 2014. This is not surprising, as the MSCI Growth index is made up of top conglomerates (SM Investments, Ayala Corp, JG Summit, GT Capital) and consumer (Universal Robina, Jollibee) & real-estate stocks (Ayala Land, SM Prime).

Economic growth retains its preponderant influence over the market. However, a low Philippine weighting of 1.3% in the MSCI Asia ex-Japan basket means investors generally concentrate their holdings in a tiny collection of stocks leveraged to growth. The top conglomerates (for multi-sector exposure), consumer (personal consumption accounts for 69% of GDP) and property stocks have largely been preferred.

1.2 Infrastructure & tax cuts as medium-term catalysts

The market's YTD run-up has brought valuations to 19.2x 2018E earnings, 0.8 SD above its mean of 16.6x since 1995. We believe positive newsflow such as Package 1 of the tax reform has been priced in. Bottom-up valuations based on MATRKE estimates and Bloomberg consensus price targets of index constituents point to an index target of 9,000, for 7% upside potential. Our index target implies 20.4x 2018E P/E.

Peak valuations of 22.0x were reached when the Philippines was promoted to investment grade in 2015. This blue-sky valuation translates to 9,700 for PSEi, for 13.3% potential upside from current levels. In our view, what could support a return to such valuations would be visible traction on infrastructure projects and approval of Package 2 of the tax reform on corporate tax cuts.

1.3 Focus on laggards

We remain selective with stocks, preferring laggards with potential imminent catalysts.

GT Capital (GTCAP PM, BUY, PHP1,292, TP PHP1,386)

While GTCAP is part of the Philippines MSCI Growth index, it has underperformed PSEi by 18% YTD. Ratification of the tax reform is expected to ease the overhang on Toyota Motor Philippines.

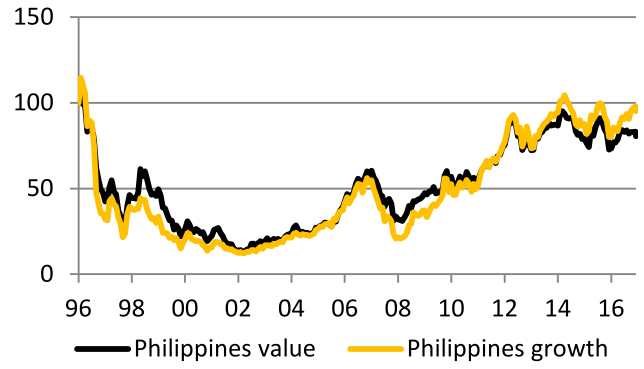
Also, the magnitude of the auto excise tax is less punitive than the 2-27% originally proposed under House Bill 4774. The estimated maximum increase in suggested retail prices is 10%, with the increase for popular low-priced cars of PHP700k and below at just 2%.

But volume could still drop in 2018, following the frontloading of car demand in 2017. We assume a 10% volume drop for GTCAP in 2018E. Nonetheless, we think the impact on its NAV will be limited, as lower car earnings could be offset by an increase in its stake in Metrobank (MBT PM, BUY, PHP101.40, TP PHP110). GTCAP trades at an 18% discount to its NAV. Its 14.6x 2018E P/E is also at a discount to the average market-weighted 20.0x for conglomerates.

Bank of Philippine Islands (BPI PM, BUY, PHP108.10, TP PHP118)
BPI, the third largest bank, has underperformed PSEi by 6% YTD. We believe its continued focus on cost reductions, supported by its digitisation efforts, could lift its ROE to 13.0%, above the 10.2% for peers. It is trading at 2.1x P/BV, below its 5-year mean of 2.5x. Clarity on capital-raising to boost CET1 could potentially remove the overhang on its shares.

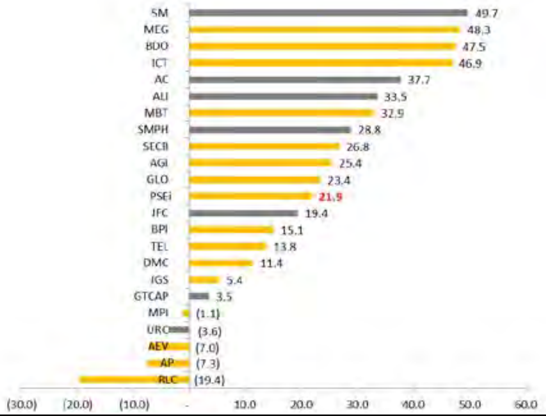
SM Prime (SMPH PM, Not Rated)
SMPH, included in the MSCI Growth index, has risen 29% YTD. Its 2018 P/E of 36x based on consensus estimates is over 2 SD above its 5-year mean of 23x. We believe approval of the Manila Bay reclamation project has been factored in. Medium-term risks could include the rapid adoption of online shopping and rising vacancy rates in its regional and super-regional malls.

Fig 1: MSCI Philippines Value vs Growth indices



Source: Bloomberg, Company data, Maybank Kim Eng

Fig 2: Outperformers and underperformers



Source: Bloomberg, Company data, Maybank Kim Eng

2. All About Tax

2.1 Boon to discretionary spending

Personal income tax rates will be cut in 2018. This should enhance purchasing power, particularly for the middle class. If the Department of Finance's initial forecasts of tax savings are fully spent, we estimate that personal consumption spending and GDP - in current terms - could grow by 1.2% and 0.9%, respectively.

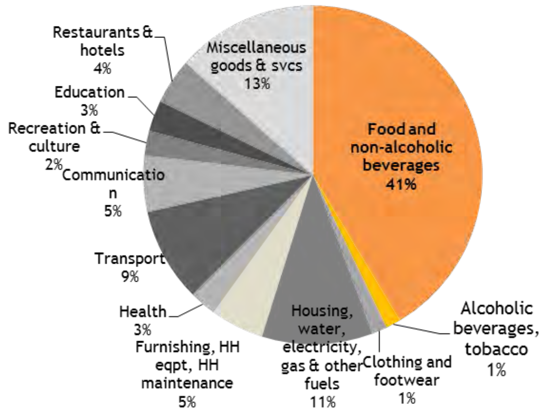
With most taxpayers receiving an extra 5-20% of take-home pay, the tax cuts could encourage discretionary spending, to the advantage of QSRs (Jollibee), F&B companies (URC), purveyors of consumer durables (CIC) and retailers (Puregold, Robinsons Retail, unlisted SM Retail of SM Investments). Moreover, tax savings could be sufficient for the monthly amortisation of car loans and even low-to-mid-income housing.

Fig 3: Tax savings for the majority of taxpayers

Annual tax bracket (PHPm)	Savings (as a % of income) from TRAIN	% of total taxpayers
10-250k	5% to 20%	83.10%
250-400k	16.3% to 20%	9.60%
400k-800k	11.4% to 16.3%	4.10%
800k-2m	5.8% to 11.4%	2.60%
2m-11m	0.2% to 5.8%	0.50%
12m and above	0 to net loss	0.10%

Source: DOF, Company data, Maybank Kim Eng

Fig 4: Food & non-alcoholic beverages are the biggest contributor to PCE



Source: Philippine Statistics Authority

2.2 New excise tax to hit several sectors

Less punitive for manufacturers of sweetened beverages

Approved excise taxes on sugar and sweetened beverages should be less punitive for F&B companies than earlier envisaged. Milk and coffee mixes are exempted, which would spare beverage companies such as Universal Robina (URC PM, Not Rated). URC's ready-to-drink segment, dominated by its C2 tea drinks, will be affected. These account for 14-15% of its domestic sales and 6-7% of EBIT. The company estimates that C2's suggested retail prices (SRP) could rise as much as 19-20% if the excise tax increase is fully passed, higher than our estimated 15%. Meanwhile, URC's sugar business stands to benefit from a potential shift from fructose to local sugar. The less punitive excise tax rates would partially remove the overhang on URC, which has underperformed the PSEi YTD. What remains to be settled is URC's ability to withstand competition in its key branded coffee and snack business and sustain its recovery in Vietnam.

Bottlers of carbonated drinks such as Pepsi (PIP PM, Not Rated) should be more affected as they use fructose. The excise tax for fructose is heftier at PHP12 vs PHP6 for local sugar. A litre of Pepsi with an SRP of PHP31 would be taxed an estimated PHP8.40 or 27.1% of its retail price, based on 60:40 local sugar and fructose content. Pepsi is reportedly considering shifting to 100% local sugar to minimise its tax hit.

Unexpected pain for other sectors

The unexpected inclusion of higher taxes for cigarettes in Package 1 could raise SRP by as much as 10%, if fully passed on to consumers. If so, Lucio Tan Group (LTG PM, Not Rated) could be affected. Meanwhile, a hike in excise taxes and a surprising reported removal of tax exemption for domestic coal producers should hurt Semirara Coal (SCC PM, Not Rated).

Fig 5: Higher excise taxes to generate revenue

		Bicam version		
Excise tax rate	Existing rate	2018	2019	2020
Coal and coke (PHP/MT)	10.00	50.00	100.00	150.00
Metallic minerals (%)	2.00	4.00	4.00	4.00
Sweetened beverage (using sugar and artificial sweetener - PHP/liter)	-	6.00	6.00	6.00
Sweetened beverage (high fructose corn syrup - PHP/liter)	-	12.00	12.00	12.00
"Invasive" cosmetic procedures, surgeries, and body enhancements directed solely towards improving, altering, or enhancing the patient's appearance (%)	-	5.00	5.00	5.00

Source: DOF, Company data, Maybank Kim Eng

Fig 6: Estimated price adjustments from taxes

	Current	2018	Change	2019	Change
Sugar (PHP/L)					
Coke 500ml	24.5	30.5	24.5%	30.5	0.0%
C2 Apple 500ml	20.5	23.5	14.6%	23.5	0.0%
Petroleum (PHP/L)					
Gasoline	47.8	50.5	5.5%	52.5	4.0%
Diesel	35.1	37.6	7.1%	39.6	5.3%
Cigarette (PHP/pack)					
Marlboro	62.0	67.0	8.1%	67.0	0.0%
Fortune	52.0	57.0	9.6%	57.0	0.0%
Jackpot	51.0	56.0	9.8%	56.0	0.0%
Auto (PHP)					
Wigo 1.0G M/T	564,000	575,059	2.0%	575,059	0.0%
Vios 1.3E M/T	768,000	819,830	6.7%	819,830	0.0%
Innova 2.8G Dsl M/T	1,313,000	1,491,657	13.6%	1,491,657	0.0%
Fortuner 4x2 2.4G Dsl M/T	1,465,000	1,625,284	10.9%	1,625,284	0.0%
Coal (PHP/mt)	**2,135**	**2,185**	**2.3%**	**2,235**	**2.3%**

Note: We assume higher taxes are fully reflected in selling prices

Source: DOF, Company data, Maybank Kim Eng

2.3 Corporate tax cuts a potential catalyst

Following approval of Package 1, the government is set to submit Package 2 of TRAIN as its priority legislation. Package 2 proposes a reduction in the corporate income tax rate to 25% from 30%. To neutralise the impact on government revenue, a number of tax incentives will be scaled back. If passed in 2018, the corporate tax cut could provide upside to our 11.4% earnings estimates for 2019E. The risk is local mid-term elections in May 2019, which could deter Senators and Congressmen seeking re-election from enacting a tax bill.

3. Infrastructure Could Lift Market Premium

President Duterte's "Build Build Build'' programme involves raising infrastructure spending to GDP from 5.4% in 2017 to 7.5% by the end of his term. This is expected to propel economic growth to 7-8% beginning 2018.

Some 34 of 75 priority projects are slated to start in 2018. Among these are the planned rollout of four mega-railway projects: Mega Manila Subway Phase 1, costing PHP355.6b; PNR North 2 costing PHP211.46b, to be funded by the Japanese ODA; PNR Long Haul costing PHP155b to be funded by China's ODA; and PNR South Commuter Line costing PHP134b.

We are mindful of risks of delays and cost-overruns due to stricter procurement rules and the government's limited technical expertise in some project areas; transparency in the award of projects; and general public wariness of a reliance on China's ODA. Additional funding from Package 1 of TRAIN and a planned doubling of the government's budget for right-of-way acquisitions could reduce execution risks, in our view.

Construction sector to benefit

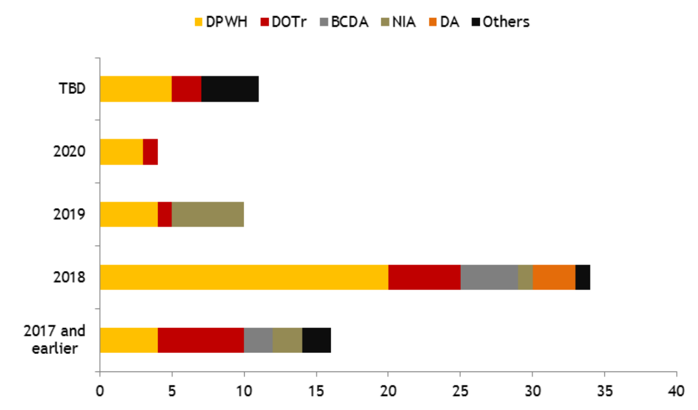
For ODA-funded projects, about 70% of project values is usually contracted out by the designated foreign contractors to local contractors. Those with AAAA ratings such as Engineering Equipment Inc (EEI), DMC Holdings through DM Consunji Construction and First Philippine Holdings through First Balfour Inc., are the favoured partners of Japanese consultants. EEI's construction business accounts for 90% of its earnings.

3.1 Revival of private sector's role via unsolicited proposals

In addition to ODA-funded projects, the private sector - namely, San Miguel Corp, Ayala Corp and Metro Pacific - has stepped up submissions of unsolicited infrastructure proposals to the government. A number has been granted original proponent status. We believe project awards will revive interest in the sector.

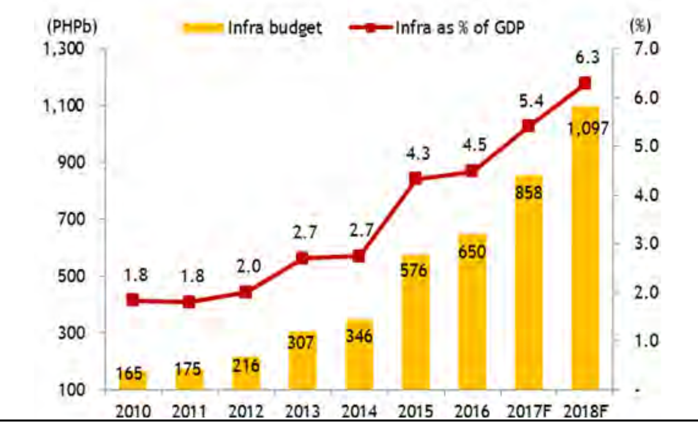
In our view, **Metro Pacific (MPI PM, Not Rated)** is the stock to watch. It has submitted six proposals with a combined project value of PHP189.2b.

Fig 7: Mega-projects expected to kick off in 2018



Source: Bloomberg, Company data, Maybank Kim Eng

Fig 8: Infrastructure to lift economic growth to the next level



Source: Department of Budget and Management

4. E-commerce Not Yet Disruptive

4.1 Still early

The Philippines' e-commerce penetration lags most of Asia's, estimated by Euromonitor at just 0.8% of its total retail sales in 2016. This can be traced to slow Internet connection, low credit-card penetration and logistics constraints as the Philippines is an archipelago with poor infrastructure.

Nonetheless, e-commerce cannot be discounted. Sales rose at a 19.2% CAGR in 2011-2016 vs 5.3% for store-based sales. While Euromonitor projects a slowdown to a 12.0% CAGR in the next five years, this would still outpace a 3.1% growth rate expected for store-based retailing.

More-affordable smartphones and the government's pressure on telcos to make wireless data more accessible should promote e-commerce.

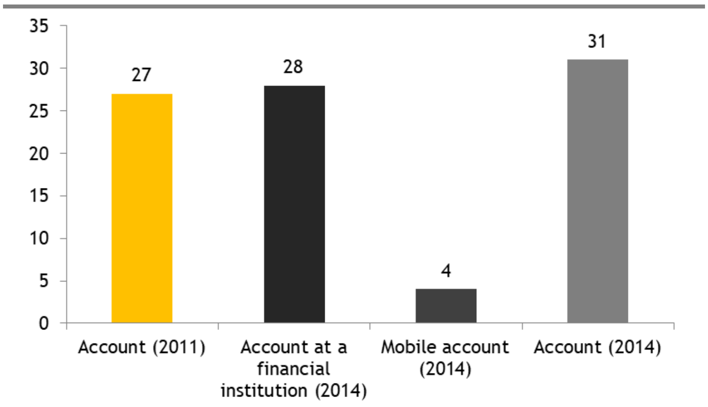
4.2 M-commerce opportunity for telcos

The World Bank estimates that only 31% of Filipinos above 15 years old had an account with a financial institution in 2014. This was lower than Indonesia's 36% and well below the global average of 62%. But importantly, 4.2% of its population above 15 had used a mobile money service in the last 12 months. For most other ASEAN countries, the figure was near zero.

In his initiation report, 'A Tale of Two Telcos' on 27 Oct 2017, our analyst, Luis Hilado, notes that Philippine telcos were early developers of mobile payment systems, particularly for m-remittances. Globe currently handles PHP6b or USD117m of financial transactions, including remittances a month. PLDT reportedly handled PHP200b or USD3.9b in 2016, although this accounted for a fractional 0.7% of its consolidated revenue.

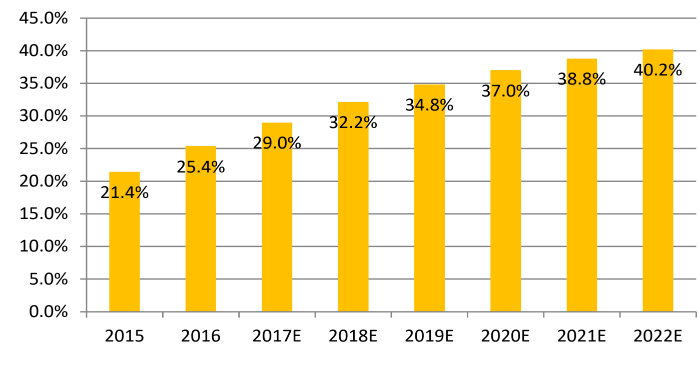
We believe telco operators have yet to treat their m-remittance business as a serious source of revenue. Rather, they are relying on it for subscriber loyalty, especially in the prepaid market where most users are overseas contract workers. Luis believes the familiarity and acceptance of m-payments present opportunities for other systems to take root. He reckons Globe (GLO PM, BUY, PHP1,900, TP PHP 2,420) should be better positioned to tap long-term m-opportunities, as it is ahead in wireless-data capacity. It already has a JV with Jack Ma's unlisted Ant Financial.

Fig 9: Mobile accounts are rising



Source: World Bank

Fig 10: Rising smartphone penetration to support m-commerce

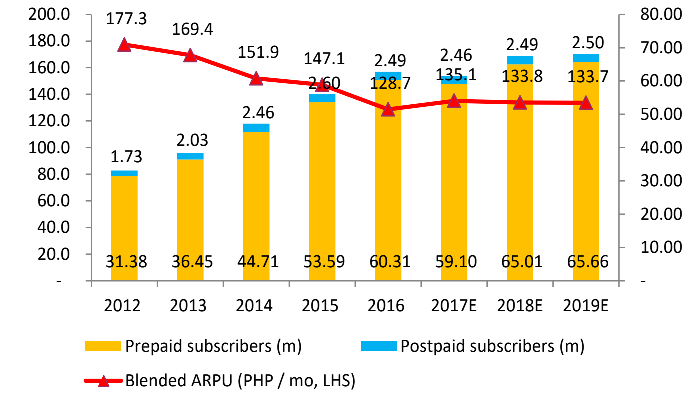


Source: Statista Digital Market Outlook (DMO) 2017 report

4.3 Retailers turning defensive via 'bricks and click'

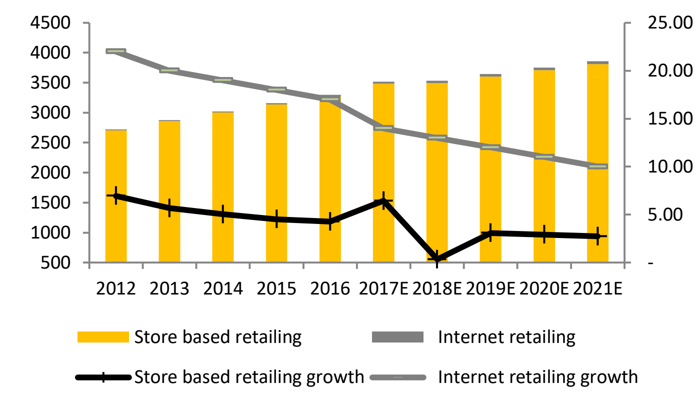
Media products, apparel, footwear and consumer electronics accounted for 85% of Internet sales in 2016, with a 4-5% penetration rate, according to Euromonitor. Major retailers are still in the process of developing e-strategies. Cognisant of 'last mile' distribution problems, the biggest retailer, unlisted SM Retail, plans to combine online with in-store distribution to reach customers. Customers have the option to pick up goods at the nearest SM Retail store, such as its smallest format, Alfamart, or its stores located in CityMalls' malls. SM's extensive store network supports this strategy, so should its recent acquisition of a 34% stake in 2GO Group (2GO PM, Not Rated. 2GO is a leading player in the Philippines' logistics sector.

Fig 11: GLOBE has a huge prepaid subscriber base accustomed to m-remittances



Source: Company data, Maybank Kim Eng

Fig 12: Internet retail growth outpacing in-store growth



Source: Bloomberg, Company data, Maybank Kim Eng

5. Rising Interest Rates

5.1 Potential policy-rate hikes in 2018

We expect BSP to raise policy rates in two steps, by a total of 50bps in 2018E, to 3.5%. This should track higher inflation of 3.6% expected in 2018E, from an estimated 3.2% in 2017E. Upside risks could stem from higher crude prices, the impact of TRAIN and stable consumption. Current effective 1-year borrowing cost is around 4%, a 50bp spread above Term Deposit Facility rates which track the policy rate.

5.2 Rising debt, though still manageable

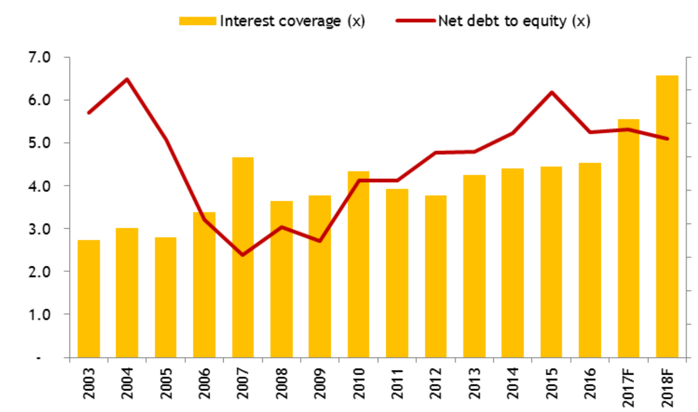
While estimated net debt to equity of 67.5% could be above ASEAN's average of 44.1% in 2017E, interest coverage has risen to 5.5x.

Planned capex, based on MATRKE and Bloomberg estimates, is flat for 2018-2019E. As such, we do not foresee any big need for funding. Sectors that are trimming their capex include utilities, power, consumer companies and conglomerates, unless the latter win bids for unsolicited infrastructure projects. Net gearing of the top listed conglomerates should average a manageable 0.77x. MPI's 0.98x debt to equity ratio is well within the 1.9x (rail) to 3.0x (toll roads) range prescribed by its debt covenants.

Meanwhile, sectors that are ramping up are property developers (beefing up inventories after strong residential take-up), construction companies (preparing for infrastructure boom) and telcos (expanding capacity).

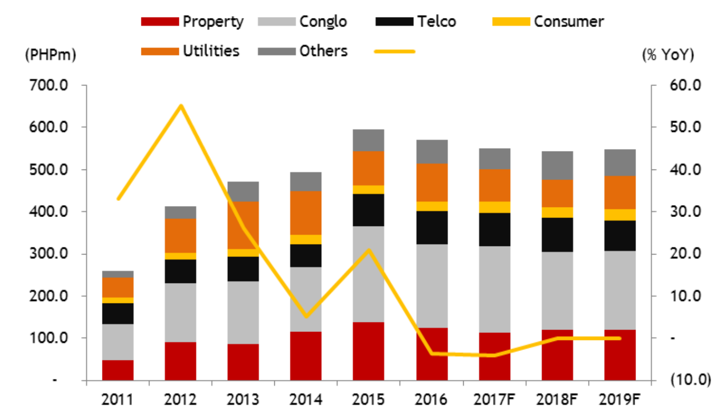
Telcos, with their higher net gearing of 1.5x, could be affected by rising rates although on average, 90% of their debt has fixed rates. We estimate that a 50bp rate hike will lop 3% off their earnings.

Fig 13: Rising net gearing, though still manageable



Source: Factset, Maybank Kim Eng

Fig 14: Stable capex



Source: Bloomberg, Company data, Maybank Kim Eng

5.3 Breakout: banks

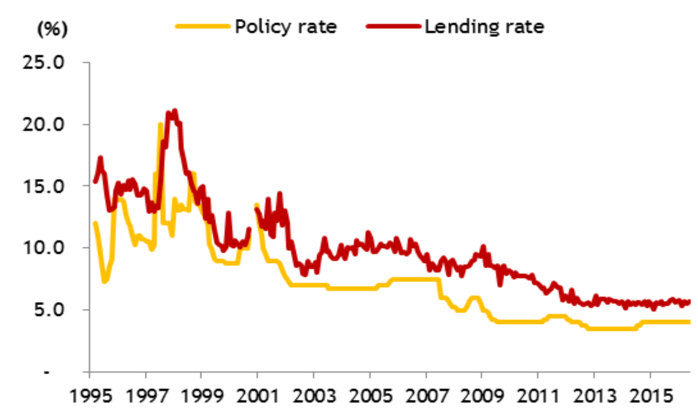
Protracted NIM contraction since 2011 could reverse for banks in 2018E. An expected 50bp policy-rate hike should improve loan yields. System liquidity and a build-up of CASA deposits are expected to keep funding costs subdued.

Go for big banks

Our banking analyst, Kat Tan, thinks that the top banks, with their lower funding costs and large corporate accounts, should benefit the most.

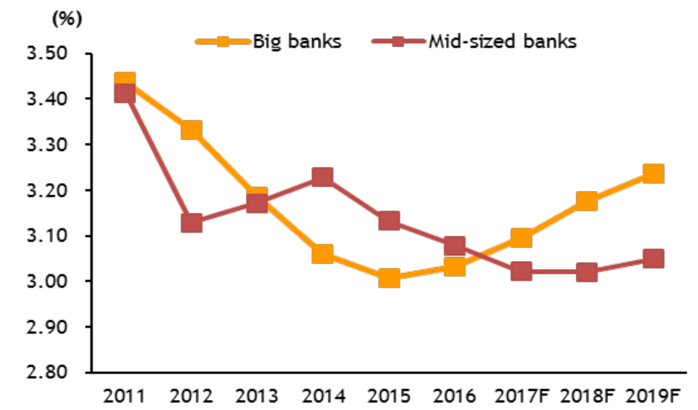
She believes BDO (BDO PM, PHP164, BUY, TP PHP157) is best positioned to capture an NIM recovery. Metrobank (MBT PM, PHP101.40, BUY, TP PHP110) has enough capital to boost lending. BPI's low capital ratio may result in modest loan growth – hence, its capital-raising overhang – though this should be offset by cost management.

Fig 15: Strong correlation between policy rate and average lending rates



Source: Bloomberg, Company data, Maybank Kim Eng

Fig 16: NIMs to expand gradually in 2018E



Source: Bloomberg, Company data, Maybank Kim Eng

6. Wild Cards

6.1 Stronger PHP

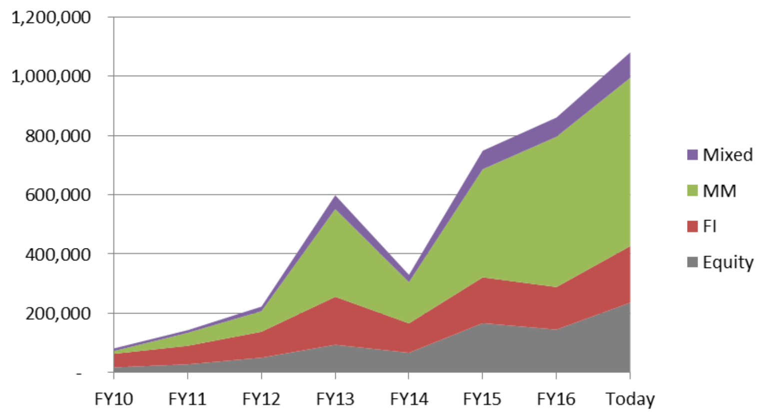
Consensus forecasts and forward rates suggest a weaker PHP51 in 2018 than our PHP50 forecast. A stronger PHP should benefit telcos, GLOBE and PLDT, via forex gains on their USD debt. GT Capital's auto imports should be cheaper, which could pave the way for a margin recovery. F&B manufacturers such as URC (URC PM, Not Rated) and QSR, Jollibee, could gain from PHP appreciation as imported inputs would cost less.

6.2 Another liquidity boost from reserve cut

New money flows into domestic institutional funds aided the market's rally in 2017. AUM for domestic institutions expanded 26% YoY to PHP1.08t or USD21.4b in 2017. Allocations to equity funds increased from 17% of total fund assets in 2016 to 22% in 2017, with fund sizes ballooning 62.5%.

In our view, there is a risk that higher PHP debt offerings by the government to fund development needs along with robust loan growth could crowd out equity funds. On the other hand, BSP plans to cut reserve requirements for banks to trim intermediation costs could inject another round of liquidity. We estimate that every 100bp cut in reserve requirements could release PHP90b into the system. This is equivalent to 8% of the size of domestic institutional funds.

Fig 17: Equity funds benefiting from strong liquidity



Source: Bloomberg, Company data, Maybank Kim Eng

6.3 Managing competitive pressures

Recent earnings reflect different degrees of competitive pressures on sectors.

Competition for deposits

Perhaps due to more broad-based demand for corporate loans, banks have managed to raise their corporate lending rates by 5-15bps. This has led to better NIMs. A potential risk is that competition will move from lending to deposit-taking to support loan demand. But with LDR averaging 71%, we believe this is not imminent. Still, we would recommend the top banks, which have better access to low-cost CASA deposits.

Food manufacturing, telcos & cement

The situation is different for food manufacturers such as URC, where competition from multinational and regional companies is eroding their market share in coffee and margins.

Although the two telcos, PLDT and GLOBE, appear to be in a truce, the potential entry of a Chinese telco under the encouragement of the government could change the uneasy balance. The incumbents could respond by cutting prices again to defend market shares.

Finally, an influx of imported cement and domestic capacity expansion could push out a recovery for cement producers.

6.4 Internal risks

The prospect of twin deficits in the current account and budget remains a risk, especially when the government is expected to ramp up infrastructure spending. Politically, public support for the government could be undermined by rising costs of living - partly induced by TRAIN - and human casualties from drug wars.

Industrials

Philippines

GT Capital (GTCAP PM)

Sole auto exposure

BUY

Share Price	PHP 1,292.00
12m Price Target	PHP 1,386.00 (+7%)
Previous Price Target	*PHP 1,386.00*

New auto excise tax eases concern on Toyota

The approval of the new auto excise tax should remove any overhang on GTCAP, particularly concerns over Toyota Motor Philippines (TMP, not listed). TMP, which for accounts ~39% of GTCAP's earnings and ~31% of NAV, is projected to have weak volume sales of -10% in 2018 as many Filipinos bought cars ahead of the auto tax implementation, but to recover +8.3% next year. New model launches and stronger PHP vs USD should support gross profit margin. Reiterate BUY on GTCAP with SOTP-based TP of PHP1,386.

Maximum of 10% rise in SRP

The new auto excise tax will have a maximum 10% suggested retail price (SRP) hike, less punitive than the initial proposal of +27% rise. Our calculation shows SRP of low-priced cars (PHP700k and below) will rise by only 2% or less than PHP15k. Cars selling at the range of PHP800k-PHP2.3m will see varied increases from 1% to 10%. For TMP, this would include second- and third- best-selling cars Fortuner (SRP of PHP1.5m-2.2m) and Innova (SRP of PHP1m-1.5m). However, high-end priced cars ranging from PHP2.4m-7.7m would have lower excise tax of up to -15%.

Lower volume sales in 2018F on front-loading

We attribute strong auto sales this year to concern over high auto excise tax. We estimate TMP's volume will rise by 13.8% to 180.7k units this year (10M17: +15.6% YoY to 149.3k). In 2018F, we assume a 10% drop in volume to 163k units, which we believe will recover in 2019F (+8.3%). TMP plans to launch three new full-model changes (Vios, Camry and RAV-4) and a new car model next year to mitigate the impact. *(Please refer to Let's talk Toyota, 13 Dec 2017).*

SOTP-based TP of PHP1,386

We estimate TMP's EPS to remain flat in 2018F but will have minimal impact on parent GTCAP's earnings. GTCAP's higher stake in banking unit Metrobank (MBT PM, TP PHP110, BUY) to 36% from 26% previously will likely offset. Our GTCAP NAV estimate stands at PHP297b or PHP1,540/share. We derive a 12-month target price of PHP1,386 using a 10% conglomerate discount. This translates to 16.3x 2018F PER. BUY.

FYE Dec (PHP m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	135,965	197,133	207,050	194,448	209,507
EBITDA	19,954	21,550	29,827	31,300	35,060
Core net profit	11,425	8,887	14,505	16,403	19,066
Core EPS (PHP)	65.55	50.99	75.31	85.17	98.99
Core EPS growth (%)	112.3	(22.2)	47.7	13.1	16.2
Net DPS (PHP)	3.00	6.00	3.00	3.00	3.00
Core P/E (x)	19.7	25.3	17.2	15.2	13.1
P/BV (x)	2.5	2.0	1.6	1.5	1.3
Net dividend yield (%)	0.2	0.5	0.2	0.2	0.2
ROAE (%)	14.3	11.6	11.8	11.0	11.4
ROAA (%)	4.4	3.1	4.9	4.8	5.2
EV/EBITDA (x)	17.9	14.5	11.5	10.9	9.7
Net gearing (%) (incl perps)	58.6	46.5	33.5	24.5	18.4
Consensus net profit	-	-	14,937	17,319	18,882
MKE vs. Consensus (%)	-	-	1.1	(1.9)	4.1

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Company Description

GT Capital Holdings, Inc. is engaged in banking, real estate development, power generation, automotive and life insurance business.

Statistics

52w high/low (PHP)	1,381.00/1,105.00
3m avg turnover (USDm)	3.2
Free float (%)	45.0
Issued shares (m)	193
Market capitalisation	PHP248.8B
	USD5.0B
Major shareholders:	
TY Family	54.3%
T Rowe Price Associates	5.6%
Matthews International Capital Managemen	2.4%

Price Performance

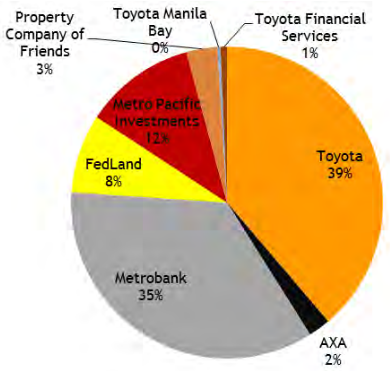
	-1M	-3M	-12M
Absolute (%)	12	11	2
Relative to index (%)	8	6	(19)

Source: FactSet

Value Proposition

- A diversified conglomerate with strong market position in automobile, financials, property and infrastructure.
- GTCAP owns 51% of Toyota Motor Philippines (TMP), which dominates the local automobile industry with ~40% market share in terms of sales volume.
- It increased its stake in Metrobank to 36%, the second largest bank in terms of assets.
- It recently acquired 16% of Metro Pacific Investments, which owns significant interest in power generation and distribution, water distribution and toll roads.

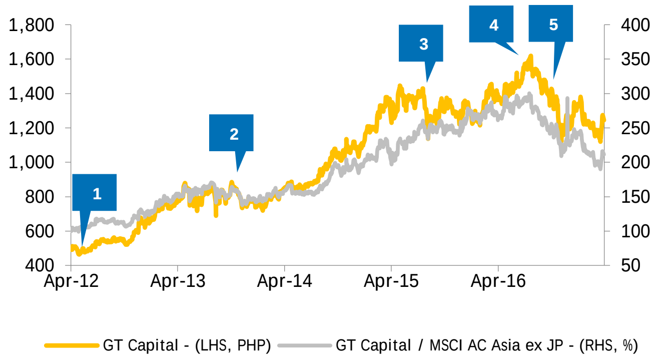
NAV contribution by segment



Source: Maybank Kim Eng estimates

Price Drivers

Historical share price trend



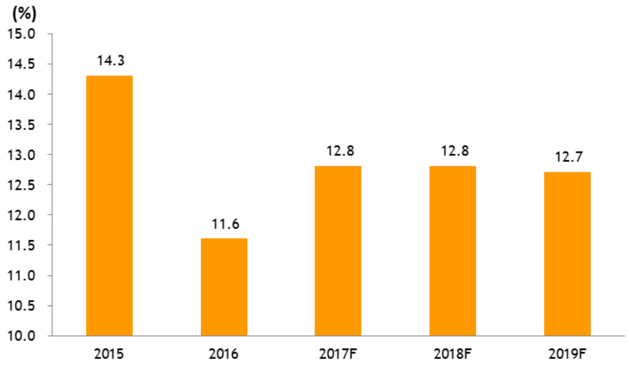
Source: Company, Bloomberg, Maybank Kim Eng

1. GTCAP lists in the PSE; used proceeds to repay debts, fund new projects and increase ownership in non-bank subsidiaries.
2. Inclusion to the Philippine Stock Exchange main index.
3. Inclusion to the MSCI Global Standard Index.
4. GTCAP buys 15.6% of MPI while divesting its 56% stake in Global Business Power (GBP).
5. GTCAP major shareholder Grand Titan Capital Holdings, Inc. sells 5.2m shares to foreign and local and investors at PHP1,539/sh.

Financial Metrics

- Earnings will still be driven by automobile, banking and property segments, which represent 80% of total earnings.
- Infrastructure would comprise at least 10% of earnings with potential upside as MPI is likely to benefit from ramp-up of infrastructure projects.
- GTCAP continues to generate steady double-digit ROE.
- Preferred share issuance improves balance sheet and will give GTCAP financial flexibility for any opportunistic acquisitions in the future.

Steady ROE



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- Poised to benefit in the Duterte administration's drive to enhance infrastructure spending. MPI is a key participator in several Public-Private Partnership projects. MBT is also seen to benefit with the increased lending/financing activities related to these projects.
- Faster-than-expected loan growth by MBT.
- Stronger-than-expected car sales by TMP.
- Faster sales take-up and project completion from both FedLand and Profriends.

Downside

- Potential increase in taxes in both automobile and gasoline may affect automobile sales growth.
- Unfavourable currency movements of JPY and USD.

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Banks

Philippines

Metropolitan Bank & Trust Co. (MBT PM)

Strong shift to core lending business

BUY

Share Price	PHP 101.40
12m Price Target	PHP 110.00 (+8%)
Previous Price Target	*PHP 110.00*

Enhancing niche market

Second biggest bank in terms of assets which has been posting above-industry loan growth, averaging 23% in the past five quarters. This aggressiveness is a turnaround in MBT's strategy as it previously focused on improving asset quality and relying on treasury operations. Niche in Filipino-Chinese middle-market lending is expected to benefit from the government's infrastructure spending cycle. Consumer lending will continue to benefit from its strong distribution franchise (958 branches) and synergies with parent GT Capital Holdings Inc's (GTCAP PM, BUY, TP PHP1,386) other business units: Toyota Motor Philippines for vehicles, Federal Land for mortgages and Philippine AXA Life Insurance for bancassurance. Also, MBT recently increased its stake in its credit card business Metrobank Card Corp, increasing its exposure to the consumer loan sector. Our 2017/18F EPS is below consensus, likely due to lower treasury income projection (-36%/-14% YoY) and higher credit cost (54bps/51bps).

Focus on organic growth

MBT has one of the highest NIMs and the second lowest deposit cost, enabling it to price loans competitively. Its new core banking system will be fully operational next year, and it is targeting an improvement in fee-based earnings via cross-selling of products and services. We estimate MBT's CET1 ratio will remain adequate to support its loan growth strategy in the next two years. It is also expanding its branch network in underserved areas, albeit through organic growth rather than M&A.

BUY with GGM-based TP of PHP110

Our GGM-based TP of PHP110 (sustained ROE 11%, LTG 7%, cost of equity 9.5%) implies 1.48x 2018F PBV, on par with its 5-year mean. Resolution of its employee-related fraud case was a catalyst for better share price performance.

Risk of slower auto loans

We expect better revenue growth on strong loan volume, while deposit cost holds steady. However, MBT leads the industry in terms of auto loans, which may slow down on potentially weaker car sales growth due to the implementation of the auto excise tax reform programme.

FYE Dec (PHP m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	67,811	78,432	83,750	93,566	104,548
Pre-provision profit	27,939	34,280	34,367	38,745	43,841
Core net profit	18,119	17,730	18,560	21,239	24,628
Core EPS (PHP)	5.9	5.6	5.8	6.7	7.7
Core EPS growth (%)	(18.0)	(4.9)	4.7	14.4	16.0
Net DPS (PHP)	0.9	1.0	1.0	1.0	1.0
Core P/E (x)	17.3	18.2	17.4	15.2	13.1
P/BV (x)	1.8	1.7	1.6	1.4	1.3
Net dividend yield (%)	0.9	1.0	1.0	1.0	1.0
Book value (PHP)	57.29	60.00	65.23	74.14	80.95
ROAE (%)	10.5	9.1	9.1	9.4	9.8
ROAA (%)	1.1	1.0	0.9	1.0	1.0
Consensus net profit	-	-	19,319	24,257	29,369
MKE vs. Consensus (%)	-	-	(3.9)	(12.4)	(16.1)

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Company Description

Metropolitan Bank & Trust Co. is engaged in the provision of banking, financing, leasing, real estate, and stock brokering services.

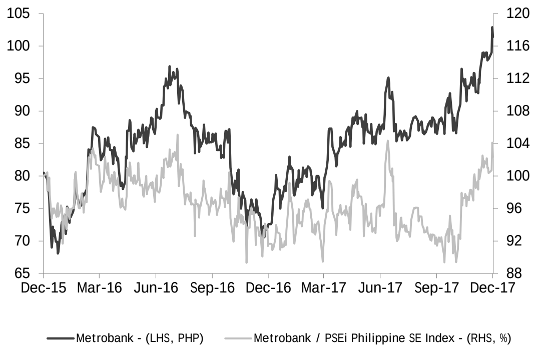
Statistics

52w high/low (PHP)	102.90/72.60
3m avg turnover (USDm)	4.2
Free float (%)	51.5
Issued shares (m)	3,180
Market capitalisation	PHP322.5B
	USD6.4B

Major shareholders:

TY FAMILY	25.1%
Philippine Securities Corp.	5.4%
Horizon Royale Holdings, Inc.	2.8%

Price Performance



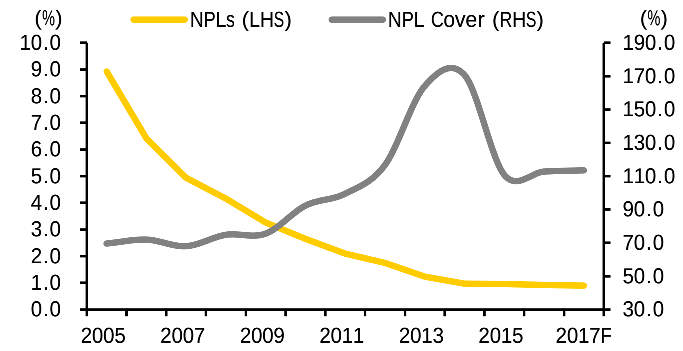
	-1M	-3M	-12M
Absolute (%)	6	17	40
Relative to index (%)	2	12	12

Source: FactSet

Value Proposition

- The 2nd largest bank in the country in terms of asset size.
- Has a niche in Filipino-Chinese business community, with a strong focus in the middle-market sector.
- Strong distribution franchise via 959 branches, largest in Visayas and second in Mindanao.
- Highest market share in auto lending via affiliation with market leader Toyota Motor Philippines.
- Significant inroads in asset quality improvement, evident in the sharp drop in NPLs to PHP10b from PHP38.6b in 2000.
- Has one of the lowest deposit costs, which enables competitive loan pricing.

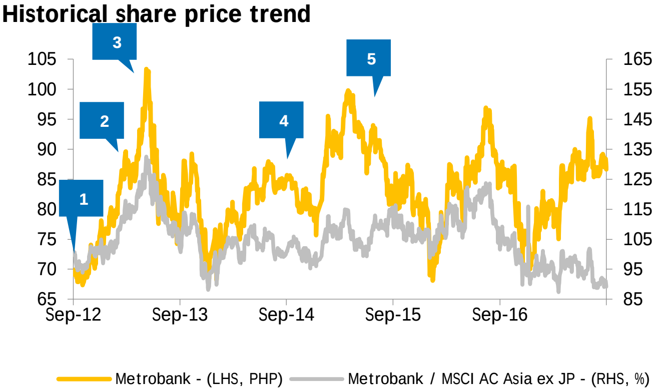
Asset quality improvement over time



Source: Company, Maybank Kim Eng forecast

Price Drivers

Historical share price trend



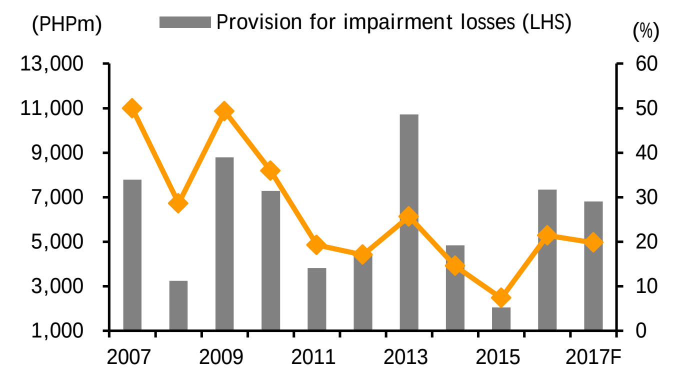
Source: Bloomberg, Company, Maybank Kim Eng

1. Reduced need for hefty provisions as bad assets held by special purpose vehicle has been fully provided.
2. Implementation of stringent Basel III rules led to the divestment of its 30% stake in Toyota Motor Philippines and 49% stake in Global Business Power.
3. Reclassification of held to maturity investments to available for sale led to PHP11.3b trading gains in 1Q13.
4. Sold 25% stake in Toyota Financial Services and also sold foreclosed property assets to sister firm Federal Land. Underperformed peers due to potential capital raising.
5. Raised PHP32b via stock rights issue to increase CET 1.

Financial Metrics

- Loan growth assumption of 18.1% in FY17F with NIM expansion of 15bps to 3.03%.
- Earnings to increase 5% in FY17 due to better recurring income that will offset higher provision for credit losses and potential weakness in trading gains.
- Asset quality remains solid with FY17F NPL ratio at 0.9%.
- Ample capital with FY17F CET 1 of 11.7% and CAR of 14.5% to support growth.

MBT provisioning over time



Source: Company, Maybank Kim Eng forecast

Swing Factors

Upside

- Better core lending business through loan growth and fee-based earnings.
- Strong CASA growth to continuously support low deposit cost.
- Higher than expected treasury gains.

Downside

- More volatility in its provisioning strategy.
- Higher than expected operating expenses due to expansion and new core banking system.
- NIM erosion from stiff competition.
- Heavy investment portfolio in a volatile market could cut trading gains.

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Maybank Kim Eng

Banks

Philippines

Bank of the Philippine Islands (BPI PM)

Cost efficiency-focused bank

BUY

Share Price	PHP 108.10
12m Price Target	PHP 118.00 (+9%)
Previous Price Target	*PHP 118.00*

Positive steps to lower cost/restore earnings growth

Third-largest BPI is known for its conservative credit culture and prudent cost management that have resulted in double-digit earnings growth, healthy cash dividends and above-industry ROE. Due to intense competition, we believe BPI has taken positive steps to improve earnings with a continued focus on cost reduction. Lending is projected to grow on par with the industry, at 17% YoY in 2018F with slight NIM expansion of +4bps to 3%. Aside from a strong corporate market, management is taking initiatives to improve SME, consumer and microfinance exposure. The company is gaining traction in its investment banking business after the aggressive build-up and in asset management on higher AUM. Capital raising, however, remains an overhang on BPI.

Efforts via digitalization

BPI aims to enhance client relationships by cross-selling products to existing BPI depositors, whose diverse financial requirements remain largely untapped. IT infrastructure and branches are also being ramped up to improve productivity and expand its retail market, where it lags peers. Focus on electronic and internet banking has resulted in an above-industry penetration rate, estimated at ~30%. Digitalization supported the bank's thrust on cost reduction but should eventually improve fee-income over time. Cost-to-income ratio (2018F: 54%) is the lowest among peers and we forecast will remain below industry-average of 59%.

BUY with GGM-based TP of PHP118

Our GGM-based TP assumes sustainable ROE of 13%, a LT growth rate of 6.5% and cost of equity 9.28%. Our TP of PHP118 is equivalent to 18.5x 2018F PER and 2.3x PBV, slightly below its five-year mean of 2.47x.

Low capital ratio, an overhang

Management believes current capital will be able to support loan growth of 12% annually. This is relatively modest compared with current industry growth of 21% and our 2018F industry loan projection of 17%. In 9M17, BPI booked 20.5% loan growth, suggesting continued competitiveness and that management is a bit conservative in its guidance. A clearer management decision over capital requirement might help remove the share price overhang.

FYE Dec (PHP m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	59,359	66,551	72,296	79,232	88,770
Pre-provision profit	27,489	31,610	33,807	36,786	41,950
Core net profit	18,234	22,050	22,765	24,447	28,543
Core EPS (PHP)	4.6	5.6	5.8	6.2	7.2
Core EPS growth (%)	0.4	20.8	3.2	7.4	16.8
Net DPS (PHP)	1.8	1.8	1.8	1.8	1.8
Core P/E (x)	23.3	19.3	18.7	17.4	14.9
P/BV (x)	2.8	2.6	2.3	2.1	1.9
Net dividend yield (%)	1.7	1.7	1.7	1.7	1.7
Book value (PHP)	38.22	41.94	46.57	51.63	57.08
ROAE (%)	12.4	14.0	13.1	12.6	13.3
ROAA (%)	1.2	1.4	1.2	1.2	1.2
Consensus net profit	-	-	22,765	26,572	31,205
MKE vs. Consensus (%)	-	-	(0.0)	(8.0)	(8.5)

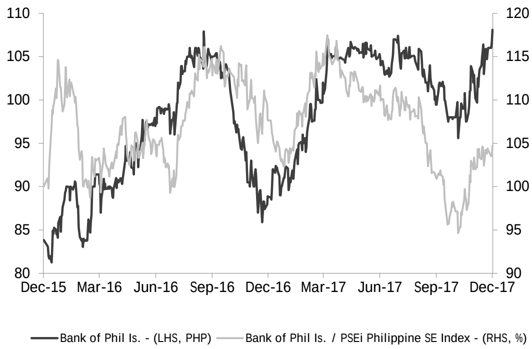
Company Description

Provides commercial banking services and is a first mover and innovator in the use of phone banking, internet banking and mobile banking.

Statistics

52w high/low (PHP)	108.10/88.50
3m avg turnover (USDm)	3.6
Free float (%)	47.7
Issued shares (m)	3,929
Market capitalisation	PHP424.7B
	USD8.5B
Major shareholders:	
Ayala Corp and affiliates	51.9%
Roman Catholic Archdiocese of Manila	7.7%
GIC Private Limited (Singapore)	5.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	9	22
Relative to index (%)	1	4	(3)

Source: FactSet

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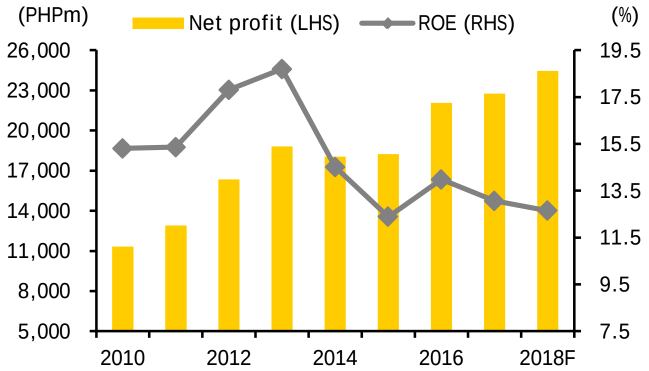
Value Proposition

- Third largest private bank in the country in terms of asset size.
- 100%-stake in biggest thrift bank, BPI Family Bank, one of the top players in consumer lending.
- Recognized leader in electronic, mobile and internet banking.
- Known for a conservative credit culture and prudent cost management, which has resulted in healthy cash dividends and above-industry ROE.
- Embarking on continuous improvement in IT infrastructure to improve productivity.
- Targets to strengthen market position through cross-selling products and services to largely untapped depositor base.
- Boosting fee-based income by reinforcing assets under management and investment banking.

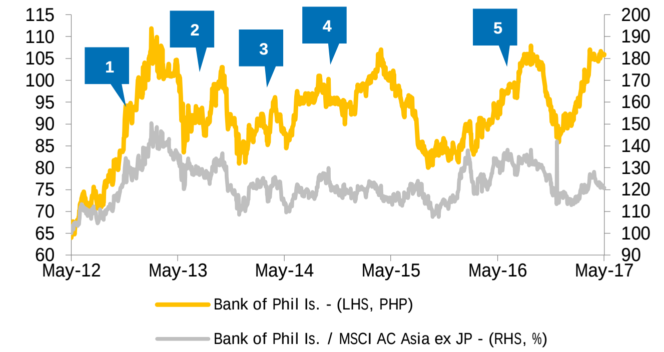
Healthy double-digit ROE



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



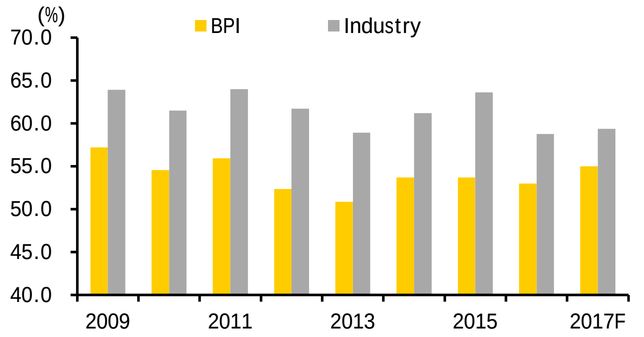
Source: Company, Factset, Maybank Kim Eng

1. Strong market rumour involving BPI's potential acquisition of fourth largest private bank, Philippine National Bank (PNB PM, PHP68.00, TP:PHP67.00, HOLD), which fell through.
2. Development Bank of Singapore ended 14-year partnership with the Ayala group with full divestment of its remaining 9.9% stake in BPI.
3. Raised PHP25b in capital via stock rights offering to meet Basel III requirement.
4. 2Q14 registers double-digit loan growth averaging more than 20%, ahead of peers.
5. BPI grows 2Q16 earnings by 74% on the back of hefty trading gains, particularly from the sale of held-to-maturity (HTM) investments.

Financial Metrics

- Management targeting medium-term ROA of 1.5% and ROE of 15%.
- Lowest cost-to-income ratio among big banks.
- Expect 16.5% loan growth this year with NIM of 3.4%.
- Conservative credit culture leads to continued build-up of impairment reserves, despite low 1.3% NPL ratio and adequate 126% NPL cover in FY17F.

Lower cost-to-income ratio vs. the industry



Source: Bangko Sentral ng Pilipinas, Maybank Kim Eng estimates

Swing Factors

Upside

- Better fee income from cross-selling activities.
- Higher-than-expected trading income.
- Focus on risk-adjusted returns could give rise to better-than-expected NIM.
- Better capital markets environment could improve contribution from its investment banking division.
- Value-enhancing acquisition may present new sources of growth.

Downside

- NIM contraction from intense competition in both corporate and consumer businesses.
- Higher-than-expected burn rate in capital that would result in accelerated capital raising.
- Higher cost from manpower build-up and branch expansion of micro-finance unit.

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Telecommunications

Philippines

January 2, 2018

Maybank Kim Eng

Globe Telecom (GLO PM)

Merits unchanged

BUY

Share Price	PHP 1,900.00
12m Price Target	PHP 2,420.00 (+27%)
Previous Price Target	*PHP 2,420.00*

Fundamentals remain healthy

We remain positive on Globe's short- to medium-term prospects of continued wireless revenue leadership in spite of negative newsflow on a potential Chinese telco entry into the Philippine telco sector. We believe that unless a plethora of incentives are given away to a start-up operator, there is enough time for the incumbents to prepare. The network quality issues of today will be addressed by current and future capex by the time a new operator can get its bearings.

Monetisation remains a key driver

Globe's data monetisation and pursuit of higher yields from viable subscribers continued to pay off in 3Q17. Wireless data revenue grew 36% YoY in 3Q17, lifting service revenue by 9% YoY. This offset a 6% / 2% YoY cannibalisation of wireless voice and SMS. Subscribers hooked on previous free app access to Facebook etc are paying for access now. A focus on subscriber quality raised 9M17 blended ARPU by 17% YoY vs a 9% YoY contraction in subscribers. Despite asking subscribers to pay more, Globe's wireless revenue market share against PLDT increased to 53% for the quarter. With an established m-remittance business, Globe is poised to tap the long-term potential of m-commerce and already has a joint venture with Jack Ma's unlisted Ant Financial.

Duopoly broken or not – business as usual

The business acumen that led Globe to reverse a seemingly insurmountable 63% wireless revenue market of PLDT (TEL PM, PHP1,480, HOLD, TP PHP1,620) will serve well in the event of new competition. As we noted previously, pricing is no longer a viable avenue for disruption with cUSD1 for 1GB plans already in the market.

Buy maintained

Despite PLDT's relatively more aggressive share price correction, Globe continues to trade at an unmerited P/E and EV/EBITDA discount to PLDT. This is a situation we believe will continue to reverse as 2018E solidifies Globe's gains in the wireless space. Third-entrant sentiment risk and/or elevated capex levels without commensurate revenue uplift are the key risks to our outlook and forecasts.

FYE Dec (PHP m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	119,969	126,184	137,778	143,237	149,624
EBITDA	48,844	53,334	55,324	58,890	62,848
Core net profit	14,573	15,467	13,256	15,222	16,977
Core EPS (PHP)	109.31	116.01	99.87	114.67	127.90
Core EPS growth (%)	2.6	6.1	(13.9)	14.8	11.5
Net DPS (PHP)	83.00	88.00	96.51	83.19	95.03
Core P/E (x)	17.4	16.4	19.0	16.6	14.9
P/BV (x)	4.2	4.0	3.8	3.6	3.4
Net dividend yield (%)	4.4	4.6	5.1	4.4	5.0
ROAE (%)	31.2	28.0	24.2	24.0	25.1
ROAA (%)	7.8	6.9	5.3	5.9	6.4
EV/EBITDA (x)	6.3	5.6	6.7	6.3	5.8
Net gearing (%) (incl perps)	101.7	153.0	171.4	165.4	150.3
Consensus net profit	-	-	14,779	15,464	17,272
MKE vs. Consensus (%)	-	-	(2.3)	(1.9)	(2.0)

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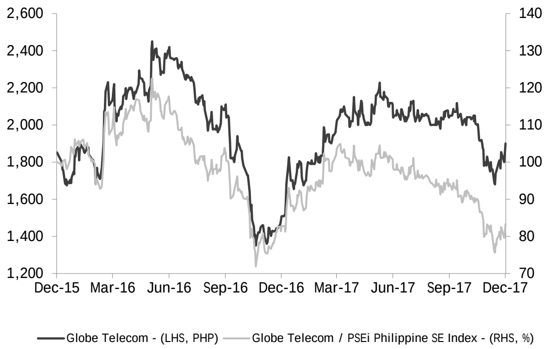
Company Description

Globe Telecom is an intergrated telco operator with the largest wireless revenue market share in the Philippines.

Statistics

52w high/low (PHP)	2,228.00/1,509.00
3m avg turnover (USDm)	2.2
Free float (%)	22.4
Issued shares (m)	133
Market capitalisation	PHP252.5B
	USD5.0B
Major shareholders:	
Singapore Telecommunications Ltd.	47.1%
Ayala Corp.	31.0%
Matthews International Capital Managemen	2.0%

Price Performance



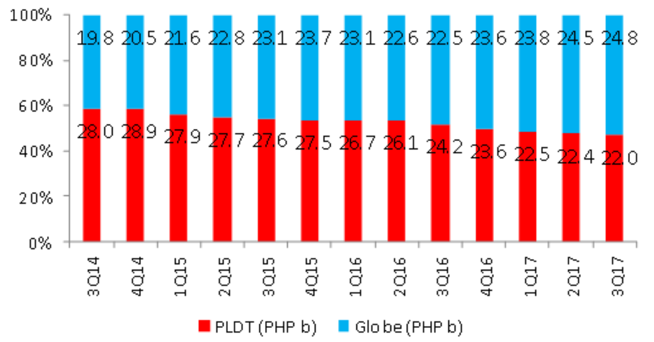
	-1M	-3M	-12M
Absolute (%)	4	(7)	26
Relative to index (%)	0	(12)	1

Source: FactSet

Value Proposition

- Wrested wireless revenue market leadership from PLDT in 1Q17 and delivered revenue growth despite a wireless data price war in 2016.
- With nationwide SIM penetration at over 120% the hurdle to wireless growth is higher. Data cannibalization of traditional revenues continues.
- Management is allocating capex to grow the enterprise division and challenge PLDT's dominance in the segment.
- Despite a capex to sales forecast of 21%-26% for 2017E-19E, the dividend payout of 75-90% in prior year earnings remains sustainable.

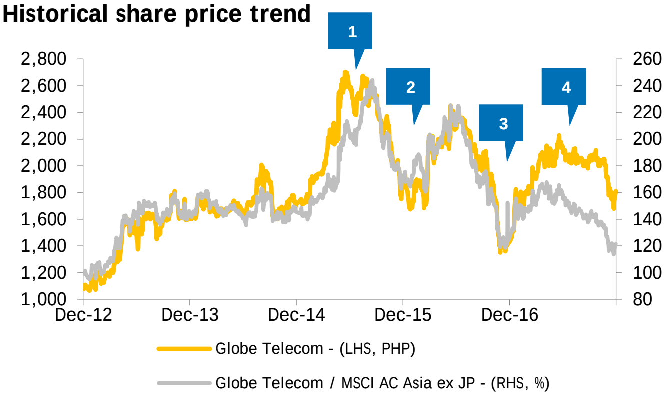
Wireless revenue market share (PHP b) - GLO took the lead



Source: Company

Price Drivers

Historical share price trend



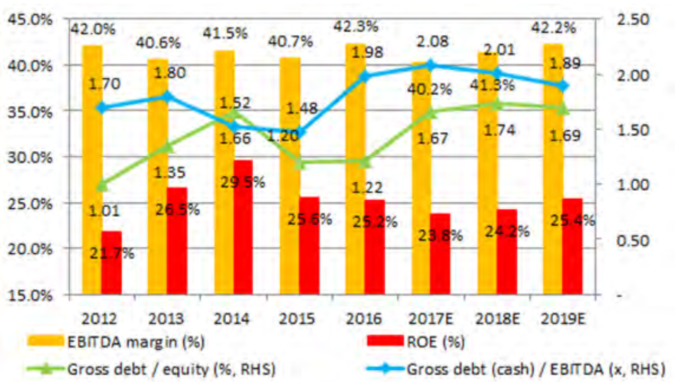
Source: FactSet, Maybank Kim Eng

1. Ramp up in wireless market share against PLDT.
2. Margins pressured by increased postpaid recruitment and retention efforts.
3. SMC acquisition questioned by PCC and wireless data tariff war commences with launch of PHP50, 1GB plans.
4. Stronger rebound in wireless revenues with the ceasefire in the tariff war and taking wireless revenue market leadership.

Financial Metrics

- We assume Globe will continue to take wireless revenue market share and drive a 3-year total revenue CAGR of 6% by 2019E).
- Increased handset subsidies from the launch of new smartphones will suppress EBITDA margins for 2017E-18E, despite the market share gains.
- With Globe's gross debt to EBITDA and gross debt to equity well within its 3x and 2.5x loan covenants, respectively, there is room to support its payout commitments.
- The digestion of its 50% share in the acquisition of San Miguel Corp's (SMC PM, Not Rated) previous telco business has eroded medium-term ROE and heightened leverage but prevented a new entrant risk in 2016.

Well within loan covenants



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Any improvement in industry wireless data yields would be a potential significant earnings driver.
- Market share gains in the enterprise/fixed network space could provide long-term growth upside.
- Dividend payout at the higher end of guidance or special dividends would be a positive catalyst.

Downside

- The potential entry of a third operator albeit a long tail risk operationally could lead to pre-emptive tariff cuts and/or marketing cost escalation.
- A resumption in wireless pricing hostilities could penalize both earnings and share price as it had in 2016.
- Higher-than-expected capex pressure driven by competition and/or 5G rollout would hurt earnings and FCF unless material revenue upside is created.
- Faster deterioration of voice and SMS due to wireless data adoption is a risk to forecasts.

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Vietnam

Vietnam – The Party Is On

2017 was a remarkable year for the Vietnam market; the VN-Index gained 48% while ADTV increased over 60% YoY. We expect the rally to continue in 2018 mostly because the drivers of 2017 will be extended, supporting our forecast for the VN-Index to surpass the all-time high of 1,179.

Vietnam's macros will likely be broadly positive. GDP growth is forecast to be 6.5% in 2018, led by manufacturing, services and a recovery of the mining sector (mostly oil and gas). Low inflation, robust exports, strong money inflows are key highlights. Positive sentiment, high liquidity, and more investible listings will be keys to supporting the VN-Index. On-going government efforts to accelerate Vietnam's transition to emerging from frontier status are added positives. The top 70 largest listcos are trading at 16x fwd P/E, upper end of the 5-year trading band. But the combination of global cyclical recovery, Vietnam's secular growth and dividend yield (~4.0%), VN-Index should have no problem sustaining valuation at top end of 5 year range in 2018.

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Expect mean-reversion in certain sectors

The VN-Index increased nearly 50% in 2017. Most sectors underperformed the index and only a handful outperformed (namely real estate, health care, IT and utilities). However, those that outperformed were generally highly concentrated, with a few stocks acting as key drivers. As such, we find mean-reversion ideas in both directions.

Expect break-outs

We expect to see break-outs in retail banking, digital consumption and infrastructure spending in 2018 and beyond. Nevertheless, we would be selective with stock picks, ensuring a balance of: (1) consumer-oriented vs risk management in retail banking; (2) online vs offline revenue in targeting digital consumers; and (3) capital-intensive vs capital-light in riding the infrastructure boom.

Expect more from foreign investors

We believe foreign interest in Vietnam will remain a recurring theme. At the macro level, strong FDI has resulted in a stronger balance of payments. At the micro level, corporates benefit from a lower cost of capital, stronger cash flows, and healthier balance sheets. There are two ways to play this theme: (1) companies that support FDI manufacturers, either by moving up the value chain and offering higher value-added products/services, or by providing supporting logistics/infrastructure; and (2) market-leading companies (which are also usually the heavyweight blue-chips), as they will likely be benchmarked favourably against regional peers (on a relative-valuation basis) by foreign investors.

Risks

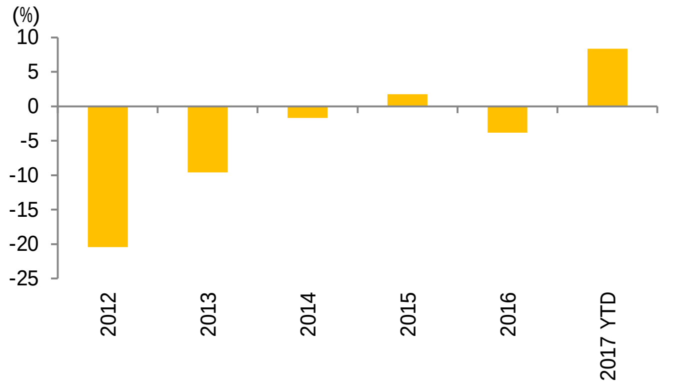
Downside risks to Vietnam in 2018 may come from: (1) return of inflation; and (2) negative responses to acceleration of phase 2 banking restructuring and political crackdown. Both of these may cause a drop in market liquidity and put an end to the current uptrend. Regarding the first one, it is unlikely given both headline CPI and core inflation were at low levels in 2016-2017 despite recoveries of most commodities. For the second one we are of the opinion that the government has gained sufficient experience to handle the next phase of reform in the banking, public sector and without shaking up the system. In 2017 investors have appeared to show more confidence and support rather than responding negatively. Corruption and the fragile banking sector undermine Vietnam's potential and should be addressed thoroughly with no untouchables.

1. Expect mean-reversion in certain sectors

1.1 Underperforming real estate turned star performer

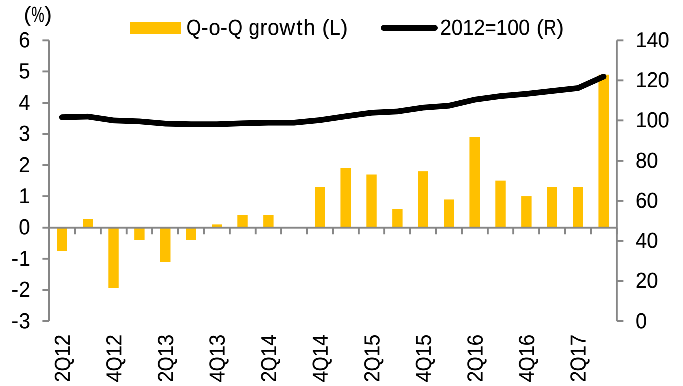
During the 2014-2016 upcycle, real estate developers lagged the VN-Index, partially due to their modest pricing power. As concrete positives were seen in 2017, we recently upgraded the sector rating to POSITIVE. Real estate was the best performing sector in 2017, and we think the reversal of relative share-price performance by real estate stocks will likely continue in 2018. This is because the market still appears to underappreciate the general improvement in developers' pricing power, especially for small-scale developers.

Fig 1: Real estate sector relative performance vs VN-Index



Source: Bloomberg

Fig 2: Apartment price indices in HCMC



Source: JLL

In the current environment, we like developers with a combination of earnings visibility in the short term and land-bank scalability in the long term. We like **Vingroup's (VIC VN, BUY, TP VND92,000)** ability to grow its RNAV, much of which now includes affordable housing. This outweighs uncertain returns on capital in non-real estate sectors. We also like **Nam Long (NLG VN, BUY, TP VND36,500).** From a re-rating point of view, a seller's market would greatly benefit the more reasonably valued smaller-scale developers.

1.2 An underperformer with value left on the table

PetroVietnam Nhon Trach 2 (NT2 VN, BUY, TP VND44,000) underperformed the market in 2017 due to: (1) extraordinarily high rain levels, which benefited its hydro-power competitors; (2) one-off factors, e.g. major 5-year maintenance and CEO retirement; and (3) new projects that were expected to be catalysts not being granted. We note that none of the above affects the long-term value that is still left on the table, as NT2 is mainly a dividend play, with stable cash flows, high entry barriers, and low human capital risks. Furthermore, we think the electricity shortage will worsen from 2018 onwards, with it being more severe in the South. As such, we expect NT2 to be able to reverse its fortunes.

1.3 An outperformer with too much FOL expectations priced in

DHG Pharma (DHG VN, SELL, TP VND89,000) saw its share price increase over 80% in 2017, partly on expectations of an increase in the foreign ownership limit (FOL). However, we note that premiums paid by foreign investors appear to be declining, while operational results may not see significant improvements for the time being. Its Japanese strategic shareholder Taisho Pharmaceutical (TYO 4535, NR) may not be in a rush to increase their stake to a controlling level, unless the government decides to accelerate its divestment plan out of DHG. With a lack of catalysts, we expect to see a reversal in DHG's outperformance.

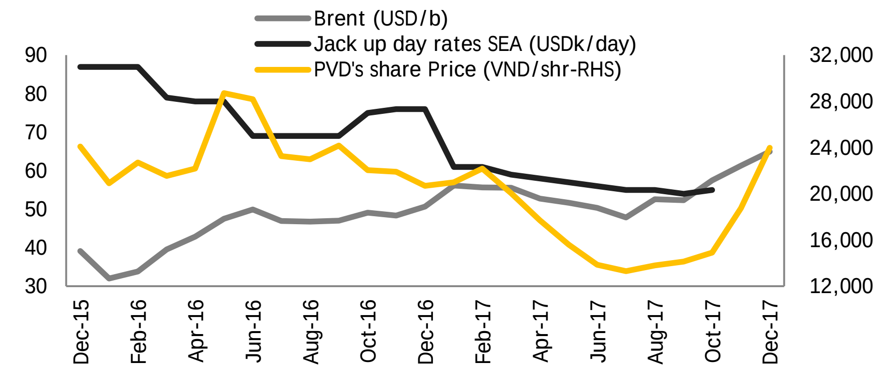
1.4 An outperformer likely running ahead of fundamentals

Recovery of oil prices to >USD50/b since Jul 2017, and approaching USD70/b since late November, has led to strong performance in O&G stocks (PVD VN: up 87%, GAS VN: up 84% and PVS VN: up 48%). Any oil price above USD60/b is positive for companies in the sector as Vietnam requires more oil and gas for the upcoming 2nd and 3rd refinery plant, Nghi Son and Long Son, which will come on stream in 2018-2020.

That said, we believe the recent rally in O&G stocks have caused them to run ahead of the fundamentals, under our base scenario of USD60-65/bbl in 2018.

Of the three names, we recommend taking profit in **PetroVietnam Drilling (PVD VN, SELL, VND20,900)** when the oil price fails to sustain USD70/bbl. Under a better scenario, assuming the oil price stays at USD65-70/bbl and PVD can fully deploy all of its rigs, our DCF-based TP of PVD would be VND23,350/shr. There is a significant lag between the oil price and the jack-up day rates. Even though the oil price has returned to 2015 levels, day rates are still about 33% lower. However, we note that investors have been reacting more to oil price movements and corporate news rather than PVD's results.

Fig 3: PVD share prices vs. Brent and jack-up rates



Source: Bloomberg

2. Retail banking: Long way ahead

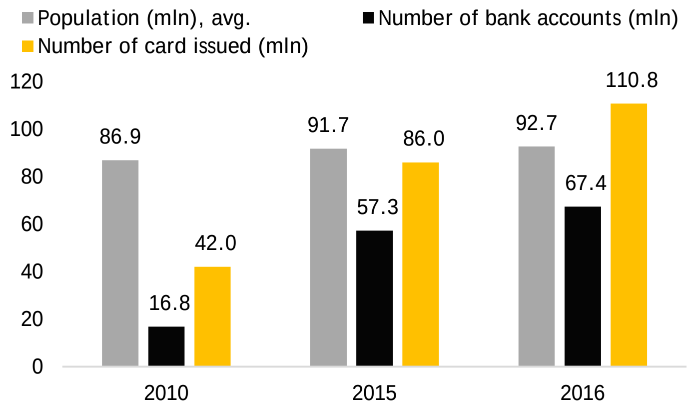
2.1 Good news: financial inclusion to continue

The surge in financial inclusion in Vietnam continues, and there is a long way to go. Vietnam's low banking penetration (c.30% per latest World Bank data) is evolving, thanks to improved infrastructure, consumers being more tech-savvy, as well as changing mindsets.

Given the strong growth we have seen in recent years, we expect to see break-outs in retail banking from 2018 onwards, as banks launch more products targeted at the increasingly adaptive consumers.

Number of bank accounts increased 4x during 2011-2016 to 67.4m out of a population of about 93m. Total number of cards issued during this period also jumped 2.6x to 111m. ATMs and POS/EDC rose 1.3x and 4.5x to approximately 17,400 and 254,000 units respectively.

Fig 4: Rapid increase in number of bank accounts and cards issued

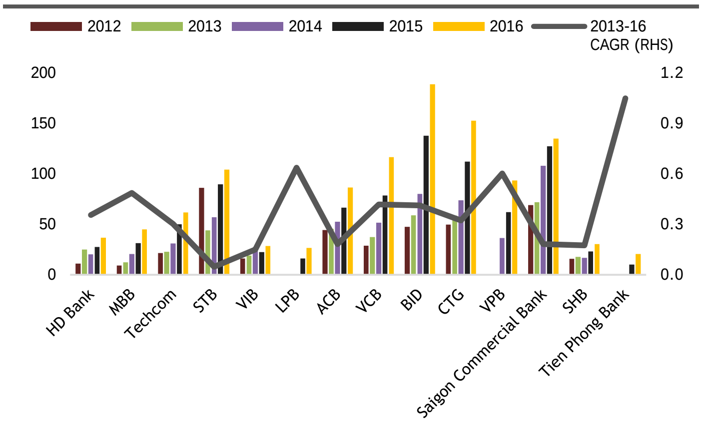


Source: Vietnam Banking Association

Vietnam's 14 largest banks (excluding Agribank, which account for approximately 60% of total outstanding loans) reported a 25.3% retail loan CAGR vs. a 20.8% overall loan CAGR and 15.5% total system loan CAGR during 2013-2016.

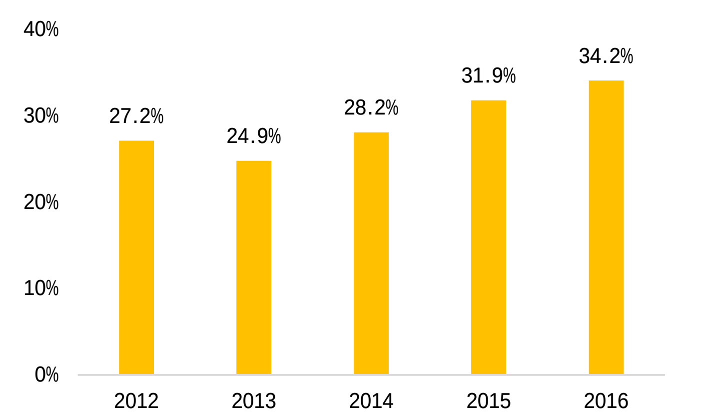
As a result, their retail loans/total loans increased to 34.2% by the end of 2016 vs. 27.2% three years ago. A similar trend was seen in 2017.

Fig 5: Retail loans have led credit growth since 2013



*Source: Company (*No data available for LPB and Tien Phong Bank prior- to 2015)*

Fig 6: Retail loans as a pct. of overall bank loans



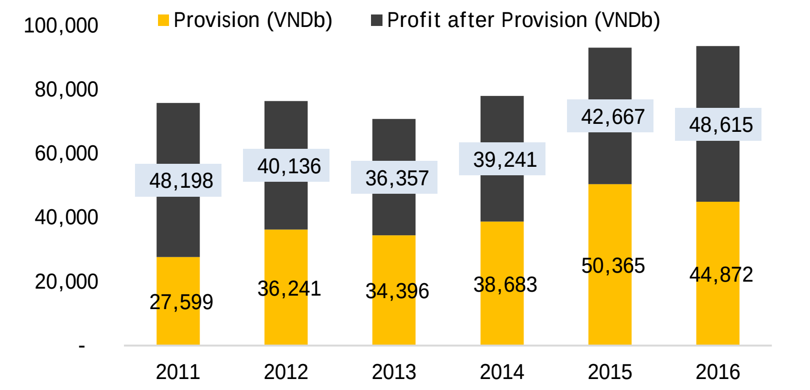
Source: Data of 14 banks (VCB, BID, CTG, MBB, ACB, VPB, LPB, STB, SHB, EIB, Techcombank, HD Bank, Saigon Commercial Bank, Tien Phong Bank), accounting for 60% of total outstanding credit.

2.2 Bad news: large provisioning still required

While the market seems to be focused on retail banks that have recently listed or are undergoing IPOs, we have a non-consensus cautious view on the overall banking sector.

We see that NPL's have been significantly lower, but the provisioning of legacy bad debts in previous years has a long way to go. In the next few years, we expect a large portion of profits to face scheduled provisioning, much of that related to bad debts previously sold to Vietnam Asset Management Corp (VAMC).

Fig 7: Nearly half of PBT was written down by provision during 2011-16



Source: Bloomberg, Company data, Maybank Kim Eng

2.3 Stock Ideas: VPB (Non-rated), MBB (Non-rated)

We believe long-term winners of the banking consolidation in 2018-2020 before the deadline of Basel II implementation will be those that: (1) have healthy balance sheets; (2) consistently apply rigorous risk management; (3) are able to adopt technology to serve younger, more digitally savvy banking clients; and (4) will be relatively less affected by provisioning compared with the rest of the sector.

From the top-down approach shown in Figure 9 below, VPB VN, MBB VN and VCB VN have reported the highest retail loan CAGRs over the last four years. VPB in particular stood out with retail loans accounting for over 63% of its total outstanding loans, higher CAR (16.7%), higher ROE (28.6%) as well as higher NIM (7.7%) than peers' average of 11.8%, 12.4% and 3.4%, respectively.

Fig 8: 12 key metrics for major banks

Ticker (Stock exchange)	Market cap (USDm)	Retail loans CAGR (2013-16)	Retail loans, % of Total loans (2016)	Current P/B	CAR (2016)	ROE (trailing)	2016 PBT +/-	9M17 PBT +/-	NIM (2016)	CIR (9M17)	Provision cover ratio (3Q17)	NPL (3Q17)
VPB (HSX)	2,671	50.1%	63.1%	2.2	16.7%	28.6%	59.2%	79.1%	7.7%	36.0%	49.5%	3.1%
MBB (HSX)	788	48.5%	30.3%	1.7	12.0%	14.3%	13.4%	43.6%	3.4%	40.7%	87.0%	1.4%
VCB (HSX)	8,574	41.8%	25.7%	3.6	10.3%	13.0%	24.7%	25.6%	2.6%	52.4%	164.8%	1.2%
BID (HSX)	3,727	41.2%	26.4%	1.8	9.3%	9.4%	-2.7%	-3.0%	2.7%	37.4%	84.0%	2.1%
LPB (UpCOM)	367	40.0%	33.5%	0.9	11.0%	17.1%	219.4%	71.4%	3.7%	49.1%	105.5%	1.2%
HD Bank (Unlisted)	1,206	35.5%	44.7%	2.6	12.5%	17.4%	61.4%	279.0%	4.0%	52.4%	73.2%	1.6%
STB (HSX)	1,075	32.8%	53.0%	1.7	9.6%	3.1%	-82.2%	393.3%	2.0%	77.7%	19.1%	5.9%
CTG (HSX)	3,978	32.3%	23.3%	1.4	10.4%	10.4%	16.6%	11.5%	2.7%	42.0%	100.7%	1.2%
ACB (HNX)	1,598	18.2%	53.5%	2.4	13.2%	12.6%	26.9%	61.2%	3.6%	56.2%	151.0%	1.0%
SHB (HSX)	454	17.5%	18.9%	0.8	n/a	10.2%	13.0%	68.8%	2.1%	44.8%	59.8%	1.9%
VIB (UpCOM)	572	15.1%	47.9%	1.5	13.3%	8.3%	7.1%	52.0%	2.9%	60.8%	49.8%	2.5%
EIB (HSX)	683	10.8%	46.4%	1.1	n/a	3.8%	540.8%	176.7%	2.8%	63.0%	41.5%	2.5%
Average	**2,141**	**32.0%**	**38.9%**	**1.80**	**11.8%**	**12.4%**	**74.8%**	**104.9%**	**3.4%**	**51.0%**	**82.2%**	**2.1%**

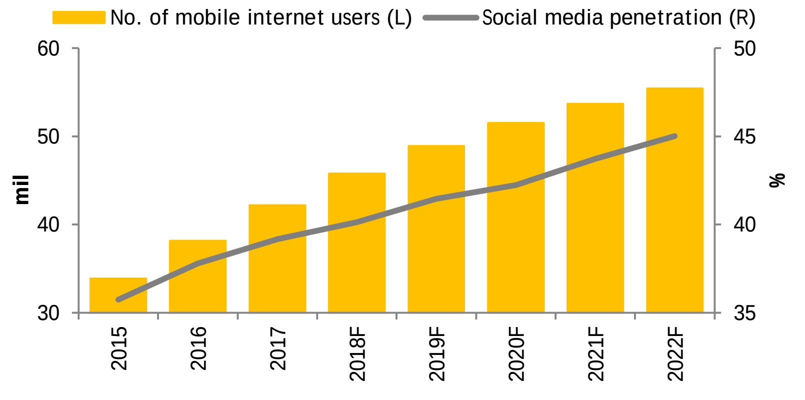
Source: Company data

3. Digital consumers: We've only just begun

3.1 Expect a break-out in the mobile Internet user base

The young and tech-savvy Vietnamese consumer has attracted headlines for years. The strong rise in mobile Internet and social media penetration has been well-noted. 2018 marks a break-out year when about half of the population is expected to be mobile Internet users.

Fig 9: Mobile internet and social media penetration in Vietnam

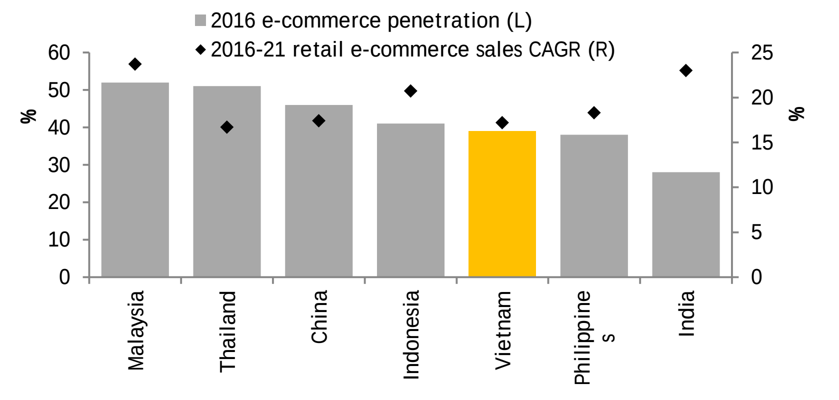


Source: Statista Digital Market Outlook

E-commerce is not an easy battle

While some would expect Vietnamese consumers to move straight from mom-&-pop shops to online and bypass brick-n-mortar, market studies by Statista indicate that monetising the Vietnamese online consumer base doesn't appear to be easy. Possible reasons are: (1) consumers spend lots of time online but still don't trust online shopping; (2) low banking penetration; and (3) logistical difficulties.

Fig 10: e-commerce penetration and growth by country



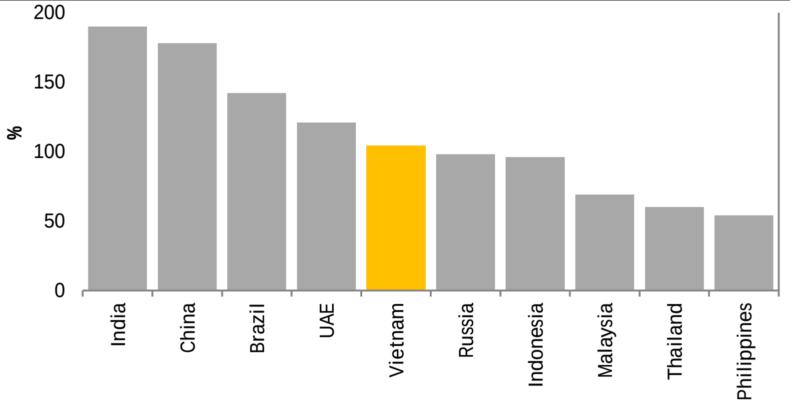
Source: Statista Digital Market Outlook, e-Commerce Report 2017

3.2 But logistical difficulties could be solved

While the first two factors mentioned above could change rapidly, logistical difficulties appear to be a long-term structural issue. Setting up distribution across different provinces has been a major hurdle not just in e-commerce, given Vietnam's geographical and cultural characteristics.

However, large investments in logistics are expected and should alleviate the issue. The government has made logistics a key priority for investment and reform, focusing on improving the country's infrastructure, as well as legal and commercial framework. The 2025 Logistics master plan has been signed off, followed by various revised laws and decrees from trade law, maritime law, and foreign trade governance law. Initial results in 2017 include: (1) allowing e-payments of import/export taxes; (2) cutting list of items requiring pre-clearance inspection by 50%; (3) automated customs clearance for air cargo (piloting at Noi Bai airport); and (4) adopting digital signatures in declaration of information relating to vessels exiting, entering and passing through at marine terminals.

Fig 11: Number of planned investments in logistics in next 5 yrs as of 2016

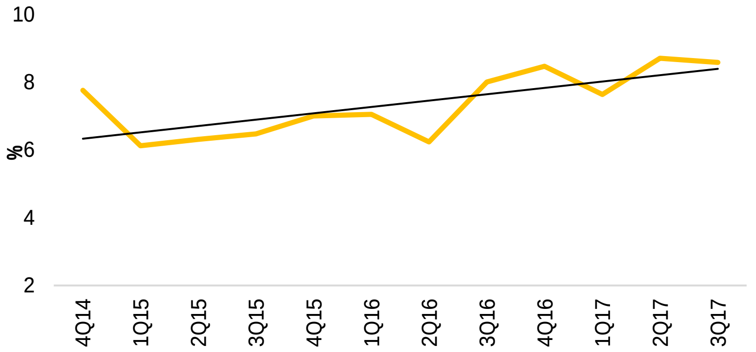


Source: Transport Intelligence; Statista estimate

3.3 Winner: Mobile World

We believe Mobile World (MWG VN, BUY, TP157,000) is well-positioned to capture Vietnam's future switch from offline to online consumption. Its online revenue as a % of total revenue has been steadily growing. We also believe that MWG has the best of both worlds – it is an established market leader in both brick-n-mortar and online retailing revenue, per Euromonitor. In fact, over the past few years, it has remained focused on the appealing economics of its capital-light rental-based store-cum-warehouse network and has not aggressively burned cash on its pilot e-commerce platform.

Fig 12: Mobile World's online revenue, % of total revenue



Source: Company data

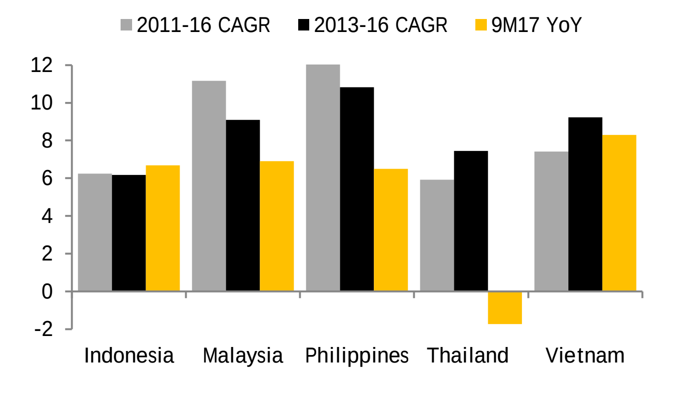
4. Infrastructure boost: the case for real estate

4.1 Infrastructure a recurring theme

We expect infrastructure to be a recurring theme in Vietnam in the next few years, not only in 2018. This is in line with our ASEAN Investment Revival theme.

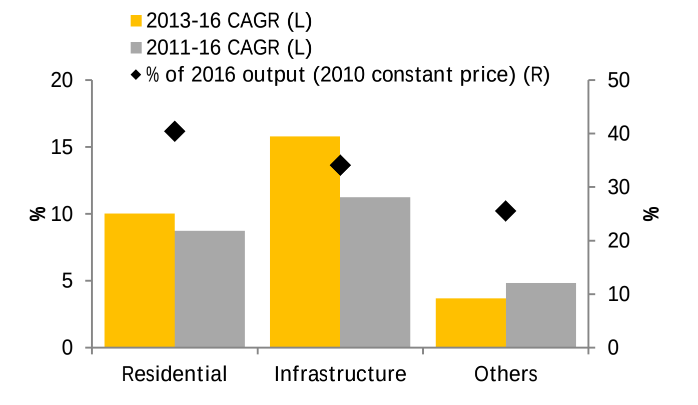
Total construction output in Vietnam has been growing at the most stable pace and has also seen the highest growth in 9M17 within ASEAN. **M**uch of this growth has been seen in infrastructure.

Fig 13: Construction GDP growth (in real terms) by country



Source: CEIC, MKE estimates

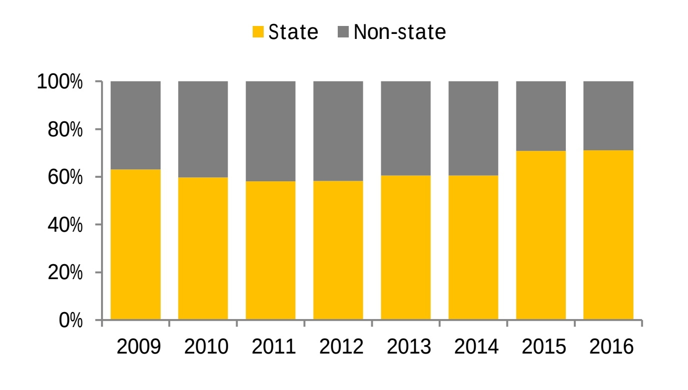
Fig 14: Vietnam's real construction output by type



Source: GSO, MKE estimates

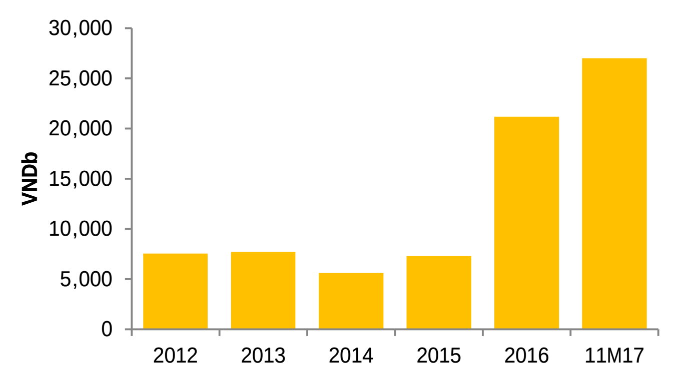
We look to 2018-2019 as break-out years for infrastructure completions. Investments by the Ministry of Transport alone totalled USD0.3/1.0/1.2b in 2015/2016/11M17.

Fig 15: Vietnam's total investment in transport/storage



Source: CEIC, MKE estimates

Fig 16: Total Investments by Vietnam's Ministry of Transport



Source: CEIC, General Statistics Office

A sustained increase in infrastructure spending generally bodes well for both construction contractors and real estate developers.

Real estate stocks underperformed the market during the 2013-2016 upcycle, though not without some short-term rallies. Then came 2017, when concrete positives were seen (e.g. stronger pricing power, cash flows and balance sheet). Real estate looks set to be one of the best performing sectors in 2017.

On the other hand, we also expect construction contractors to have a fairly busy 2018-2019, assuming they can grow their workforce adequately to take on increased orders.

4.2 Real estate picks: Vingroup & Nam Long

We like Vingroup's ability to grow its RNAV, much of which now includes affordable housing. In fact, we expect Vingroup to be present wherever new infrastructure is built. This outweighs uncertain returns on capital in non-real estate sectors.

We also like Nam Long. From a re-rating point of view, a seller's market would greatly benefit smaller-scale developers with a lower base of multiples. Plus, its JV with Japanese investors has allowed the company to develop township development capabilities that can be replicated in future projects, especially those located alongside new infrastructure.

4.3 Construction pick: Coteccons

We still advocate buying CTD as a capital-light indirect exposure to real estate, and we think our FY18E 0.9x PEG target is conservative.

We think the recent share-price correction following a minor dispute with a client represents a good buying opportunity.

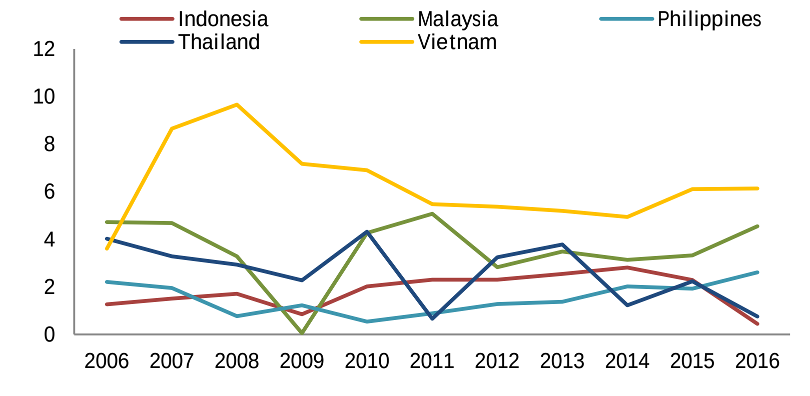
Coteccons is targeting a handful of BOT infrastructure and commercial projects to invest in, which could provide stable recurring income and capital value appreciation.

5. Increased interest from foreign investors

5.1 From balance of payments to corporate balance sheets

Following Vietnam's WTO accession in 2007, FDI into Vietnam has surged to over 6% of GDP consistently. Foreign businesses are attracted by its attractive demographics (a population of over 90m, two-thirds of whom are independent, ie in the working force, high literacy rate and most importantly the return of macro-stability. It is a clear winner in attracting FDI, which has also been highlighted in our ASEAN economics report dated Nov 2017.

Fig 17:FDI net inflows, % of GDP

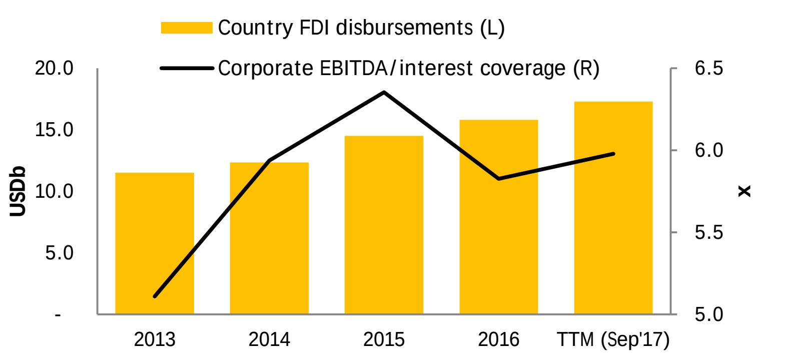


Source: World Bank

Much of these FDI inflows subsequently turned into exports that, together with strong FX reserves and solid overseas remittances, resulted in increasingly strong balance of payment (BOP) positions. We note that as the country's BOP position strengthens, its currency becomes more stable, which subsequently leads to manageable raw material inputs (assuming relatively stable pricing in USD terms), modest domestic inflation, and increased consumer confidence.

Key spill-over effect on the ground is that corporates can increasingly pass on rising costs to consumers, while actively deleveraging, such as during 2013-2016, leading to healthy interest coverage ratios.

Fig 18: Vietnam's BOP positions vs corporate leverage



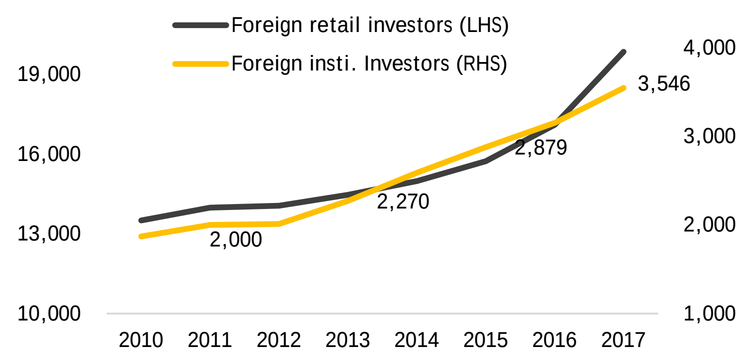
Notes: Country FDI disbursements refer to nationwide capital disbursements by FDI entities, including capital contributed by local partners. Corporate EBITDA/interest coverage uses all available data from public companies (HSX, HNX, Upcom, OTC).
Source: CEIC, Foreign Investment Agency, FiinPro

5.2 Not just FDI, capital markets are busy too

Aside from FDI manufacturers, financial and strategic investors have been putting their money in Vietnam at a record pace.

In 2017, we saw a record high in total foreign purchases on the stock exchange (close to USD8b, an 80%+ YoY growth). We saw large subscriptions into heavyweight blue-chip market leaders, such as Vinamilk by Jardine Matheson (USD912m for an 8% stake), Sabeco by ThaiBev (USD4.5b for a 54% stake), and Vincom Retail's share sale and subsequent listing (USD700m for c.20% stake). We also saw a strong rise in new trading accounts being opened by both retail and institutional foreign investors.

Fig 19: Number of new trading codes from foreign investors



Source: Vietnam Securities Depository

5.3 Two ways to go with the flow

We see two groups that may benefit from the increased interest from foreign investors: (1) companies that support FDI manufacturers, either by moving up the value chain and offering higher value-added products/services, or by providing supporting logistics/infrastructure; and (2) market-leading companies (which are also usually the heavyweight blue-chips), as they will likely be benchmarked favourably against regional peers (on a relative-valuation basis) by foreign investors.

#1. Consider companies that support FDI: GMD, KBC and HPG

Vietnam's unique geographical and cultural characteristics mean logistical difficulties will remain a structural issue. **Gemadept (GMD VN, NR),** as Vietnam's largest listed logistics player, could be well-positioned to serve FDI players. **Kinh Bac City (KBC VN, BUY, TP VND18,500),** as an industrial estate market leader in Northern Vietnam, would also benefit from new FDI inflows, although competition from other developers is rising.

A less obvious player is **Hoa Phat (HPG VN, BUY, TP51,450)**. As the FDI-led industrialisation accelerates, Vietnam will likely see increases in steel usage in various industrial and consumer products, from cars to household appliances. As Hoa Phat is already taking advantage of its integrated steelmaking model to move up the value chain, FDI manufacturers could eventually demand higher value-added steel products from the company.

#2. Consider market-leading heavyweight blue-chips

The VN-Index is highly concentrated, with the five largest stocks accounting for 40% of the index market cap. Except for Sabeco (SAB VN, NR), all the other four blue-chips, **Vinamilk (VNM VN), PetroVietnam GAS (GAS VN), Vietcombank (VCB VN, NR)** and **Vingroup (VIC VN, BUY, TP VND92,000)** are available to foreign investors and compare reasonably with regional peers in relative valuation terms. Some of them have their own catalysts (GAS with higher O&G prices, new field exploitations and pipelines, new LNG warehouses; VCB from the on-going industry consolidation; VIC from land bank expansion).

6. Wild cards: Politics and inflation

6.1 Politics: what if further arrests happen in 2018?

2017 saw high-profile arrests of key members of the ruling Party (most notably former Politburo member Dinh La Thang) and their related associates. These were part of a crackdown on corruption in the energy sector (e.g. PetroVietnam - the parent holding SOE) and the banking sector (e.g. OceanBank, in direct relation to PetroVietnam) and may spread to other sectors and higher ranked officers, either still in their positions or who have retired/dismissed. These are the two sectors that have, in aggregate, consumed a lot of capital in the past at the expense of shareholder returns.

This anti-corruption campaign has accelerated from 1H17, and we expect it to continue, probably in a more intense manner in 2018-2019. Aside from creating higher market volatility, a much more severe scenario could theoretically be that certain personnel from companies in the energy and banking sectors be legally charged. As a result, we would not be too excited over the energy or banking sectors. Even within the banking sector a safer choice will be those with generally more rigorous risk management, more conservative provision cover ratios and stronger base of operations, as well as more diversified ownership structure so that any such arrests or investigation would affect individuals directly involved rather than the bank's business.

6.2 Inflation: what if external price shocks occur in 2018?

Vietnam's core CPI has remained at about 2% p.a. in 2015-2017. Higher headline CPI of 2.6% in 2017 (and 4.7% in 2016) was largely driven by administered price hikes in education and healthcare. On average, these two items combined have explained c.70% of the rise in headline CPI every year during 2015-2017. We believe the government chose the timing deliberately, taking advantage of the very low inflationary environment (e.g. headline CPI was only 0.6% in 2015, second lowest in the region after Singapore). We don't expect similar sharp adjustments in the short term.

However given a more volatile global environment (e.g. oil price has increased >100% in 2017), any large external price shock may reverse our main assumption of brighter macro prospects. While we maintain that any adverse impacts would be lower than during the 2008-2011 period as both economic and corporate conditions have strengthened consumer financing companies (VPB VN), more highly leveraged sectors, such as real estate, airlines as well as certain corporates (MSN VN) may be hit harder. On the other hand, we prefer companies that offer products/services to consumer groups with fairly inelastic demand/low price sensitivity. Examples are:

- **PetroVietnam Nhon Trach 2 (NT2 VN, BUY, TP VND44,000):** Not only is NT2 faced with fairly inelastic demand, it is also a beneficiary of the upside potential in electricity tariffs.

- **Vinamilk (VNM VN, HOLD, TP 197,500):** VNM has been known to have pricing power, despite an intention to keep its product prices stable, even with the fluctuations in input costs. Overtime, milk consumption habits in Vietnam have become more established, albeit still low over the years, in our view.

Coteccons (CTD VN)

Vietnam's Construction Story

BUY

Share Price	VND 223,000
12m Price Target	VND 271,000 (+22%)
Previous Price Target	*VND 271,000*

Solid growth in construction, incl. infrastructure

Reiterate BUY with no change to our TP and est's from our last report dated 19 Dec. Coteccons is a possible beneficiary of our infrastructure theme, as the company targets a handful of BOT projects. We see strong support for our forecasts from the backlog of VND30.9T (end-3Q17, equivalent to our FY18E revenue). Share price has corrected recently following CTD's dispute with one of its clients. We see this as a buying opportunity as this incident is unlikely to slow CTD's general momentum, and the company will likely refocus on other clients. We continue to like CTD's ROE profile, despite a slower FY18-19E growth outlook and normalising asset turnover from the current high base due to investments in recurring-income assets. Our TP is based on an unchanged 12x FY18E P/E, 14% below regional peers, equal to 0.9x FY18E PEG.

Market too caught up with recent client dispute

Recall, during Oct-Dec 2017, CTD and the privately held developer of the condotel project Panorama Nha Trang entered into a legal dispute. In short, CTD refused to continue working on the project after having been asked to, among other things, increase the height without proper legal permission. In return, the client accused CTD of bad faith and forwarded the matters to authorities without any bilateral discussion. Although VND120b of receivables and VND70b of inventory under CTD's balance sheet are still locked up in this project (c.8% of FY17E PBT, about equivalent to the 9% drop in the share price from mid-Nov to mid-Dec), we believe CTD's bargaining power in this case is strong, and it is willing to bring the matter to court. As such, we are not lowering our earnings estimates on this incident at this stage. In fact, we think the correction presents a good buying opportunity.

FY18E earnings outlook solid

We are expecting FY18E revenue/EPS growth of 15%, in line with the speed at which it is able to grow its new orders. We also think its revenue per employee is peaking, and growth will now partly depend on whether it can grow its staff (3Q17 headcount only grew 18% YoY).

Human capital risks could be key to watch

Besides the difficulties in finding qualified employees, we note retaining existing employees could become more difficult amid this upcycle. Click here to enter text.

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	13,669	20,783	28,900	33,120	36,354
EBITDA	794	1,555	1,898	2,142	2,315
Core net profit	633	1,353	1,607	1,870	2,066
Core EPS (VND)	11,077	20,923	20,703	23,747	25,939
Core EPS growth (%)	100.3	88.9	(1.1)	14.7	9.2
Net DPS (VND)	4,125	5,000	3,000	0	0
Core P/E (x)	20.1	10.7	10.8	9.4	8.6
P/BV (x)	4.3	2.8	2.3	1.9	1.6
Net dividend yield (%)	1.8	2.2	1.3	0.0	0.0
ROAE (%)	23.1	30.1	26.3	24.7	22.2
ROAA (%)	10.0	13.8	12.4	12.0	11.3
EV/EBITDA (x)	5.2	4.6	6.2	5.1	4.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,758	1,976	2,173
MKE vs. Consensus (%)	-	-	2.5	3.4	3.6

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Company Description

Coteccons (formerly Cotec Construction) provides general contractor and design-&-build services, and builds apartments, shopping malls and factories.

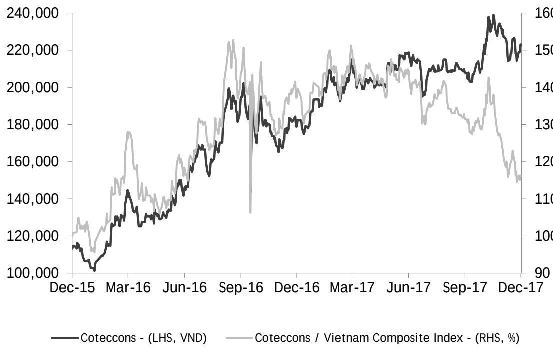
Statistics

52w high/low (VND)	239,000/174,800
3m avg turnover (USDm)	1.5
Free float (%)	45.3
Issued shares (m)	77
Market capitalisation	VND17.1T
	USD751M

Major shareholders:

Kusto Group	43.8%
Chairman	5.3%
Ton Toh Fund	4.3%

Price Performance



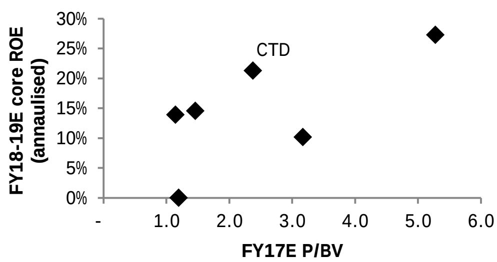
	-1M	-3M	-12M
Absolute (%)	(3)	7	24
Relative to index (%)	(6)	(12)	(16)

Source: FactSet

Link to sector note:

Vietnam Real Estate - Let the buyer beware!

CTD vs peers in P/BV and ROE terms

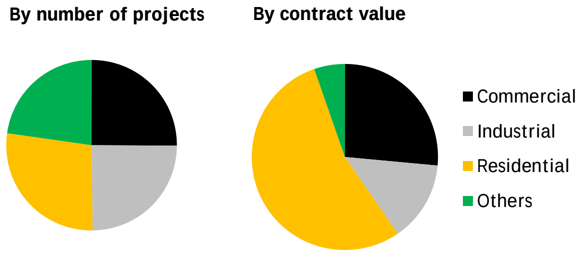


Source: MKE coverage universe – selected construction peers

Value Proposition

- Evolved from a subcontractor to a general and design-and-build (D&B) contractor. Has first-mover advantage in D&B.
- Focuses on quality builds, securing contracts for high-quality projects from its early days. Also has the ability to control costs rigorously at the project level.
- Difficult for competitors to develop similar brand strength and D&B capabilities. Foreign contractors face regulatory hurdles, besides navigating a complicated local network.
- Stable management and a highly efficient workforce. Developers increasingly favour reputable contractors that can consistently deliver large-scale projects.
- Beneficiary of and proxy to the construction upcycle. Currently has high exposure to residential construction, but has been known to be resilient during down-cycles.

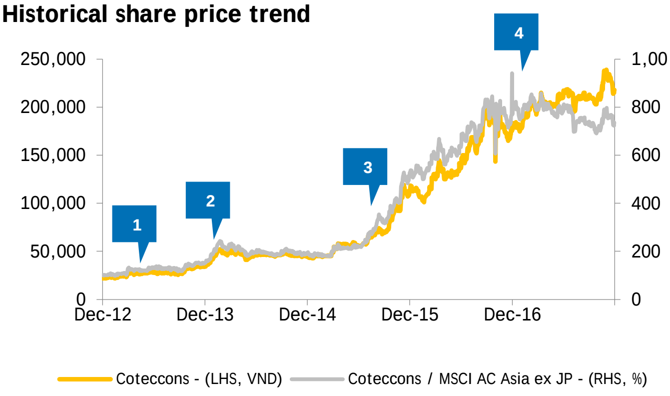
Diverse types of contracts won, 2003-2017 (YTD)



Source: Company, MKE estimates

Price Drivers

Historical share price trend



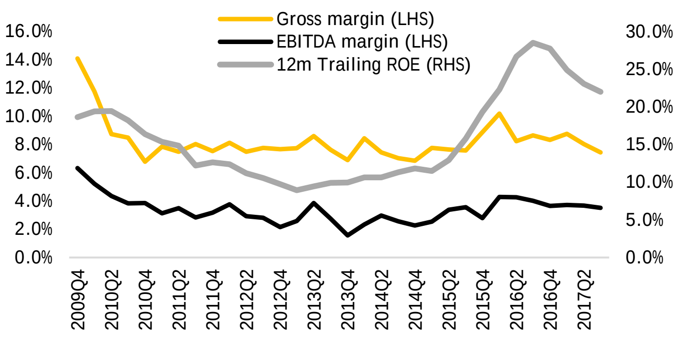
Source: Company, FactSet, Maybank Kim Eng

1. Construction industry not favoured by the market in 2011 during a period of hyperinflation and tight credit.
2. Re-rating started in early 2014, but low liquidity and foreign-ownership limits kept the stock range-bound.
3. Strong order-book growth and fundamentals (debt-free and improving profitability).
4. Upbeat quarterly results announced in FY16, coupled with robust order-book and plan to increase margin via a design and build model.

Financial Metrics

- Gross margin is stable (from a local context) and is reflective of the company's strong cost control ability.
- EBIT margin is strong. A lean workforce cost model (2,000+ permanent staff vs 70,000 blue-collar headcount) that is both defensive in downcycles and scalable in upcycles.
- FY16E backlog is roughly equivalent to FY17E revenue. Strong order book growth locks in ~60% of FY17-18E revenue.
- Strong ROE backed by a capital-light and scalable business model, with rigorous cost controls.

ROE reflective of growth and cost control capabilities



Source: Company

Swing Factors

Upside

- Higher-than-expected margins, especially for D&B. Mix of in-house and outsourced architects may increase margins more than expected.
- Stronger-than-expected order-book growth from a growing residential property market.
- More infrastructure jobs. CTD has forayed into infrastructure through its 35% stake in a BOT toll highway south of Hanoi, an area traditionally reserved for SOEs.

Downside

- Human capital risks could rise as retaining qualified employees could become more difficult amid the construction industry upcycle.
- Cyclicality of construction industry, especially one in a frontier market, could surprise to the downside.
- Capital-intensive infrastructure work can be a risk. Regionally, we have seen many contractors bearing losses due to poor infrastructure execution.

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January 2, 2018

Consumer Discretionary

Vietnam

Mobile World Investment (MWG VN)

Clicking With Digital Consumers

BUY

Share Price	VND 130,800
12m Price Target	VND 157,000 (+20%)
Previous Price Target	*VND 157,000*

Gradually gaining online traction; Maintain BUY

Maintain BUY with unchanged DCF-based TP (10.2% WACC, 2% LTG) and FY17-19E est's. Despite some slowdown in Oct-Nov sales in the two major chains TGDD and DMX, most probably due to flooding/storms in certain rural areas, online revenue surpassed 10% of the total for the first time in Oct and continued in Nov. FY17E results, including the consolidation of Tran Anh (TAG VN, NR), remain within our expectations. Management recently announced FY18E revenue/PAT guidance 7%/5% below our FY18E est's. Given their 15%/20% historical outperformance, we believe the guidance is conservative, and maintain our est's (albeit below consensus). We note the ongoing ESOP issuance should effectively increase the foreign limit by about 4.5m shares around end-FY17E.

TGDD (portable electronics): store growth to stop

3MMA sales/store/mth and 3MMA YoY revenue growth ending Nov 2017 stood at VND2.6b (from a fairly stable avg of VND2.8b prior to Oct) and negative 4% (from c.9% prior to Oct), respectively. We believe the negative growth was skewed by flooding/storms during Oct-Nov in certain Northern/Central provinces. That said, as YoY store count growth remains at double-digit, flattish SSSG is implied. We expect TGDD store growth to fully stop but its operating margins to improve in FY18E.

DMX (white/brown goods): moderate FY18E growth

3MMA sales/store/mth and 3MMA YoY revenue growth ending Nov 2017 stood at VND4.8b (from an avg of VND5.8b in the preceding months prior to Oct) and 95% (from >120% prior to Oct), respectively. The chain was similarly affected by flooding/storms, but YoY store growth remains well above 20%. We expect the momentum to continue, but FY18E store count growth to moderate to low double-digit territory.

Expect FY18E earnings to take a breather but...

All in all, we expect FY18E earnings to take a breather (mid-teens), due mostly to TGDD/DMX store growth tapering off. OCF, on the other hand, will likely rise sharply, in tandem with slower inventory builds. As such, we expect heavy capex to be spent in FY18E on future growth initiatives, namely FMCG (BHX), e-commerce and some drugstores. We expect the market to begin pricing in positive results in 2H18E (BHX reaching EBITDA break-even levels and e-commerce seeing higher volumes).

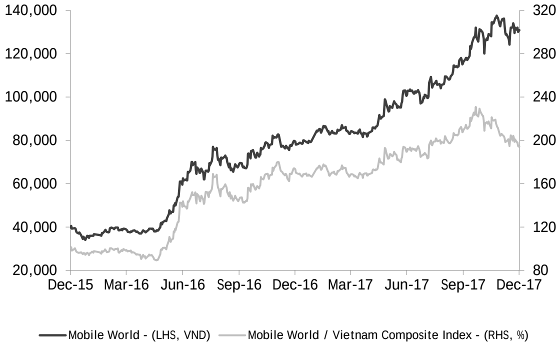
Company Description

Vietnam's largest retailer, currently offering portable electronics ("TGDD"), white/brown goods ("DMX"), FMCG ("BHX"), & B2C e-commerce ("vuivui.com")

Statistics

52w high/low (VND)	137,500/78,000
3m avg turnover (USDm)	3.9
Free float (%)	62.0
Issued shares (m)	317
Market capitalisation	VND41.4T
	USD1.8B
Major shareholders:	
Founders & related parties	35.6%
PYN Elite Fund	5.3%
Other foreign investors	43.7%

Price Performance

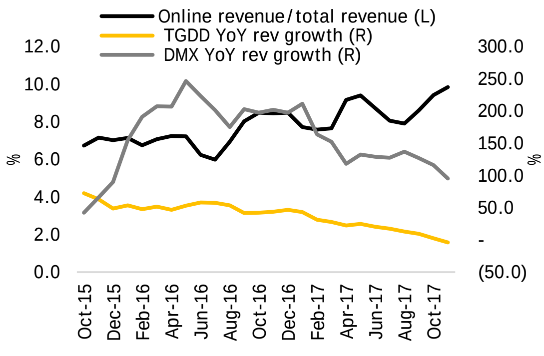


	-1M	-3M	-12M
Absolute (%)	(3)	12	65
Relative to index (%)	(5)	(7)	12

Source: FactSet

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	25,253	44,613	69,010	92,032	112,534
EBITDA	1,519	2,361	3,513	4,436	5,592
Core net profit	1,072	1,577	2,293	2,814	3,516
Core EPS (VND)	3,825	5,375	7,424	8,680	10,535
Core EPS growth (%)	52.8	40.5	38.1	16.9	21.4
Net DPS (VND)	750	750	1,500	1,500	1,500
Core P/E (x)	34.2	24.3	17.6	15.1	12.4
P/BV (x)	15.5	10.5	7.2	5.3	4.0
Net dividend yield (%)	0.6	0.6	1.1	1.1	1.1
ROAE (%)	54.2	49.9	47.1	39.8	36.1
ROAA (%)	20.1	14.3	13.2	12.4	12.3
EV/EBITDA (x)	8.4	11.3	12.6	10.1	7.8
Net gearing (%) (incl perps)	68.8	98.7	67.6	29.9	net cash
Consensus net profit	-	-	2,214	2,973	3,516
MKE vs. Consensus (%)	-	-	3.6	(5.3)	(0.0)

3MMA online revenue share & revenue growth



Source: Company

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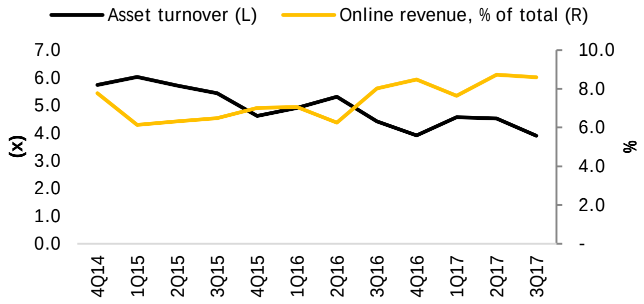
Value Proposition

- Vietnam's largest retailer by revenue (offline & online), MWG differentiates via its customer-centric culture, a motivated workforce and a customised ERP system.
- Focused products are portable electronics ("TGDD") and white goods/brown goods ("DMX"). Gearing up FMCG minimarts ("BHX"). Testing e-commerce & drugstores.
- Carefully building its e-commerce business in small steps, as its asset-light rental-based brick-n-mortar model remains economically profitable, especially in rural areas.
- Having seen PATMI leap 10x during 2011-16, MWG is still looking to reach untapped demand in remote areas across Vietnam with an on-going store expansion plan.
- Secular growth story. Mom-and-pops still dominate Vietnam's retailing, and MWG's scalable platform is well positioned to capture mass-market modern trade growth.

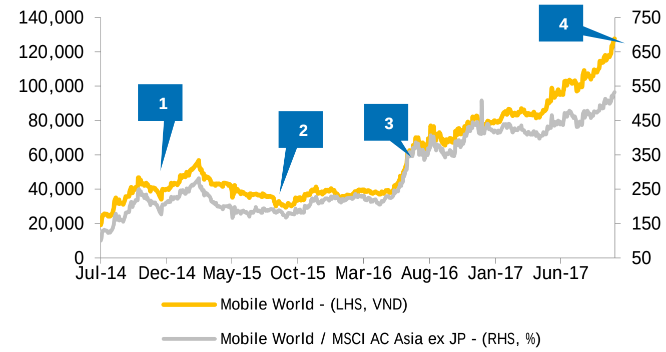
Reaping the benefits of being asset-light before going online



Source: Company

Price Drivers

Corporate actions and business operations key drivers



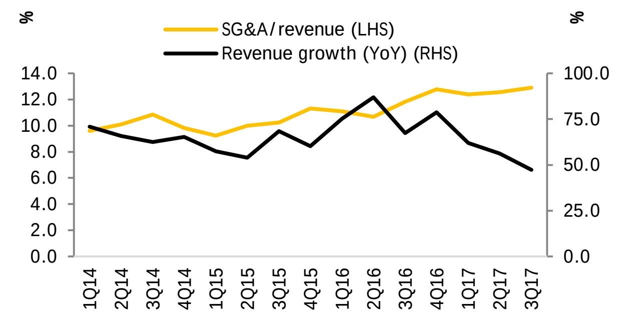
Source: Company, Maybank Kim Eng

1. Shares well received by the market due to increasing sell-side coverage.
2. Announced generous employee stock ownership programme (ESOP) at 5% of outstanding shares with no upfront cost.
3. FY16 AGM saw an aggressive store-opening plan put forward.
4. Noted progress in BHX and intention to acquire drugstore chains well received by the market.

Financial Metrics

- SSSG key to monitor in FY18E as store growth in incumbent chains slows; currently flattish for portable electronics and double-digit for white/brown goods.
- Expect SG&A/revenue to increase as MWG seeks to: (1) maintain competitive cash incentives for managers; (2) expand BHX; and (3) ramp up TGDD/DMX market positions.
- Cash conversion cycle (>30 days) and current liabilities to inventory (~1x) are now stable. Expect gearing to remain at ~1x as MWG makes use of favourable lending rates.

Increase in SG&A necessary to maintain revenue growth



Source: Company

Swing Factors

Upside

- Accretive M&A opportunities may arise as MWG looks to marry its scalable business operations and industry expertise in other retailing formats.
- Margin expansion from value-added services, such as providing instalment loans to customers, as well as early payment discounts.
- Industry consolidation or an exit by trailing competitors (FPTShop, Viettel Store, Vien Thong A, aside from Tran Anh) may open up further room for growth.

Downside

- Higher-than-expected opex in BHX could slow growth.
- Aggressive BHX expansion, if not timed properly, could coincide with its opex hikes and lead to higher-than-expected debt needs and lower earnings.
- Selling pressure from insiders, employees and long-standing strategic investors is occasionally a concern. These shareholders have acquired shares at low costs.

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Maybank Kim Eng

Real Estate

Vietnam

Nam Long Investment (NLG VN)

House of the Rising Sun

BUY

Share Price	VND 30,100
12m Price Target	VND 36,500 (+21%)
Previous Price Target	*VND 36,500*

Japanese JV to unlock value as infrastructure improves

Reiterate BUY with unchanged net profit est.'s and RNAV-based TP of VND36,500 from our last report dated 19 Dec. We expect Nam Long's JV with Japanese developers to help the company develop a township platform to unlock land value, as urban sprawl occurs over time and infrastructure improves. The recent success in Mizuki Park – a 50/50 JV project with Japanese developers Hankyu Realty & Nishi-Nippon – promises a township platform that can be replicated in future projects and fits into Nam Long's vision to be a township developer by 2020. Even though the 50/50 JV means NLG will have to share half of the future economic interest in its JV land bank, FY18-19E earnings look set to grow strongly on both stronger volumes and ASP.

Mizuki Park's success could be replicated

We believe NLG's JV with Japanese developers offers a unique value proposition, even when compared with urban complexes built by larger developers. We reviewed the development concept behind Mizuki Park (part of the original 37ha Aquamarine), and think that this JV (in which different partners have different expertise) offers a convincing township model with well-planned infrastructure and amenities to a diverse group of homebuyers, similar to the flagship township Phu My Hung located not too far away.

Strong 4Q17E: handovers broadly on track

Our FY17E revenue is slightly lowered (-3%), but still implies 90% of the handovers scheduled in 4Q17E will be completed by year-end. Management expects 4Q17E revenue to be VND2.0T if 100% of its buyers complete handover procedures by year-end. We noted two apartment projects that may pose risks of lumpy handovers (i.e. EhomeS Phu Huu – 680 units, and Flora Fuji – 789 units), which are seeing positive progress; as such, we are comfortable with our FY17E revenue forecast.

Positive catalyst: RNAV accretions

Following approval from 61% of its shareholders in Oct 2017, NLG is looking to do a 5:1 rights issue at VND15,000-20,000/share during 4Q17-1Q18 to purchase more land. We have not factored in any RNAV accretions from the enlarged capital in our valuations; however, given the current cycle of the market, this could be a positive catalyst.

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,259	2,534	3,451	4,679	5,517
EBITDA	159	494	692	933	1,096
Core net profit	192	321	252	482	632
Core FDEPS (VND)	1,315	1,871	1,496	2,385	3,127
Core FDEPS growth(%)	87.0	42.3	(20.1)	59.5	31.1
Net DPS (VND)	596	500	500	500	500
Core FD P/E (x)	22.9	16.1	20.1	12.6	9.6
P/BV (x)	2.0	1.8	1.6	1.4	1.2
Net dividend yield (%)	2.0	1.7	1.7	1.7	1.7
ROAE (%)	9.9	14.7	17.7	14.1	16.4
ROAA (%)	4.3	5.7	3.6	6.0	6.9
EV/EBITDA (x)	21.6	7.9	6.5	5.7	4.6
Net gearing (%) (incl perps)	8.1	6.2	net cash	net cash	net cash
Consensus net profit	-	-	508	630	680
MKE vs. Consensus (%)	-	-	4.1	(17.8)	0.0

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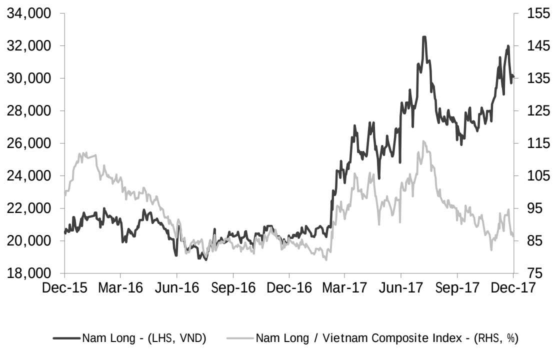
Company Description

Vietnam's affordable housing pioneer, known for its EHome brand ($30-50K/unit) and a few mid-end product lines. Has a land bank of >500ha.

Statistics

52w high/low (VND)	32,550/20,189
3m avg turnover (USDm)	1.0
Free float (%)	35.0
Issued shares (m)	157
Market capitalisation	VND4.7T
	USD208M
Major shareholders:	
Founders	36.8%
PYN Elite	6.8%
Goldman Sachs	6.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	11	49
Relative to index (%)	2	(8)	1

Source: FactSet

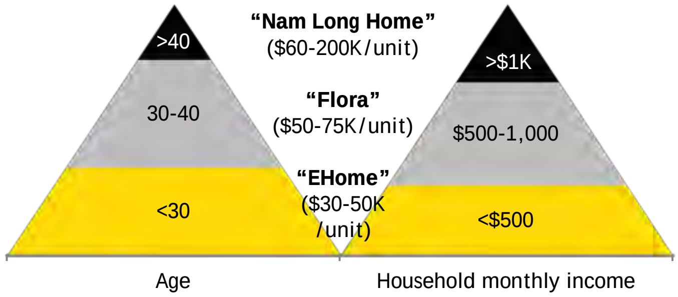
Link to sector note:

Vietnam Real Estate - Let the buyer beware!

Value Proposition

- An affordable housing pioneer, Nam Long decided to focus on developing USD30-50k apartment units even when high-end real estate was in favour during 2005-08.
- Its affordable housing brand (called "EHome") was developed internally with good cost control and is now well established in the market.
- Strong market research capabilities provide a competitive edge and are difficult to replicate. Rich data on demographics, home financing and land availability.
- Currently working with Hankyu Realty/Nishi-Nippon to develop reasonably priced housing in HCMC, on top of the existing EHome value chain.
- Has over 300ha of township land bank outside of HCMC. Strategic investors and JV partners could help unlock latent value as urbanisation gradually takes place.

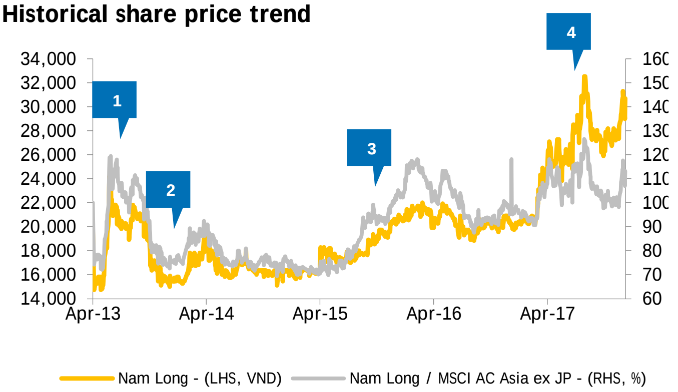
Different brands for different demographic groups



Source: Nam Long presentation detailing its customer profiles in 2014

Price Drivers

Historical share price trend



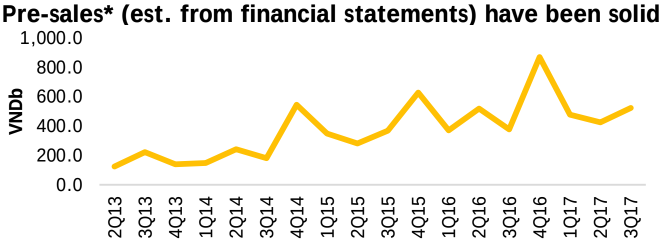
Source: Company, FactSet, Maybank Kim Eng

1. NLG's share price rallied shortly after its debut on HSX. Much attention was paid to the total land bank size.
2. The market realised the long gestation period of the land bank. Revenue (recognised on a completion of construction basis) cyclically reached a low point.
3. FY15 revenue cyclically reached a high point. Earnings doubled.
4. The market appeared to realise strong revenue potential from past and on-going pre-sales. Certain projects, such as Mizuki Park were well-received upon launch.

Financial Metrics

- Key metric is pre-sales, but is difficult for the market to price in under Vietnam's accounting standards. NLG's high pre-sales reflect its ability to sell the right products.
- Land acquisitions in prior years have driven gross development value of foreseeable pipeline projects within HCMC alone to ~8-10x FY17E revenue.
- Gross margin has been stable at ~30% and will likely remain at that level as NLG focuses more on apartments as opposed to land plots (>40% GM in the past).
- Net gearing now at historical lows (~0.1x). Will likely be in net cash position following rights issue in 4Q17-1Q18.

Pre-sales* (est. from financial statements) have been solid



** changes in customer advances plus revenue recognised during the period*
Source: Company data, MKE estimates

Swing Factors

Upside

- RNAV-accretive acquisitions. Backed by improved execution capabilities when partnering with Japanese developers, NLG could acquire land faster than expected.
- Further accommodative government policies to support affordable housing may also be launched. The government has been supportive, as is the World Bank.
- A 355ha project outside of HCMC (called "Waterpoint"), 35km by highway from HCMC could be unlocked sooner than expected if NLG manages to find the right partner.

Downside

- Slow infrastructure progress. On average, affordable projects are ~10km from CBD. Majority of NLG's existing customers are not willing to travel further to work.
- Maintenance expenditures for affordable housing projects post-completion can exceed expectations.
- Much of Waterpoint's latent value, which has been priced into RNAV due to the project's long-standing presence, may drag down enterprise value if progress remains slow.

Vingroup JSC (VIC VN)

Vietnam's Mega Builder

BUY

Share Price	VND 77,400
12m Price Target	VND 92,000 (+19%)
Previous Price Target	*VND 92,000*

Expect Vingroup to be where infrastructure is built

Reiterate BUY with unchanged RNAV-based TP of VND92,000 as per our last report dated 19 Dec. We expect Vingroup to be Vietnam's mega builder and to be present anywhere new major infrastructure projects are built. Recall that during 3Q17, Vingroup's land bank area/GFA under development increased by 50%/300% as a result of regulatory approvals being lumped into a short period of time. Fast project deliveries in 4Q17E and FY18E, particularly from low-rise products, also support our BUY call.

Swing factor #1: Vinhomes Long Beach

Per our estimates, over 30%/70% of Vingroup's increase in land area/GFA under development during 3Q17 was the result of Vinhomes Long Beach – a 2,000ha beachfront project 60km from HCMC CBD. This project appears to have a very high overall plot ratio of 4.4x (vs 4.0x in Vinhomes Central Park) and combines both high-density apartments and beachfront villas. We reviewed the development concept and believe it is possible for Vingroup to develop this project in 10-15 years. There is, however, a risk that regulators may eventually not approve such a high plot ratio. If we cut the plot ratio to 2x, our TP would drop 21% to VND73,000.

Swing factor #2: Hospitality real estate

The Vinpearl operational resort portfolio will likely continue to see heavy opex frontloaded for new projects and maintenance capex for older projects. If we take out the beach villas for sale (already included in our RNAV calculation for property sales), the remainder of the business (room revenues vs guaranteed rental yields plus opex/capex) has negligible NPV per our current estimates. Future tourism growth prospects and Vingroup's market positioning could change our valuations in either direction. Note that, in the short term, the hospitality business may create a sense of accounting losses as guaranteed liabilities are frontloaded.

Swing factor #3: Non-real estate segments

Aside from FMCG retailing, new ventures, such as automobile manufacturing (VinFast) appear to have uncertain returns on capital.

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	34,048	57,614	82,354	104,407	107,370
EBITDA	7,044	8,524	13,848	28,606	33,093
Core net profit	1,513	314	4,516	12,043	12,994
Core EPS (VND)	651	131	1,886	5,029	5,426
Core EPS growth (%)	(57.0)	(79.9)	1,338.8	166.7	7.9
Net DPS (VND)	0	0	0	0	0
Core P/E (x)	118.8	nm	41.0	15.4	14.3
P/BV (x)	7.9	7.1	6.1	4.4	3.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	5.6	9.8	15.5	32.2	26.0
ROAA (%)	1.3	0.2	2.4	4.8	3.7
EV/EBITDA (x)	15.8	17.4	18.0	11.0	9.6
Net gearing (%) (incl perps)	50.1	65.0	92.1	166.9	134.7
Consensus net profit	-	-	4,506	7,026	12,303
MKE vs. Consensus (%)	-	-	0.2	71.4	5.6

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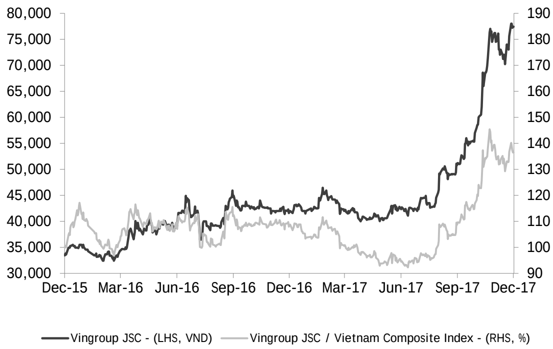
Company Description

Vingroup JSC is Vietnam's largest listed residential and commercial property developer. Also engages in healthcare, education and retailing.

Statistics

52w high/low (VND)	78,000/40,000
3m avg turnover (USDm)	6.6
Free float (%)	37.6
Issued shares (m)	2,638
Market capitalisation	VND204.2T
	USD9.0B
Major shareholders:	
Vietnam Investment Corporation	33.4%
Pham Nhat Vuong	27.5%
Pham Thu Huong	4.7%

Price Performance



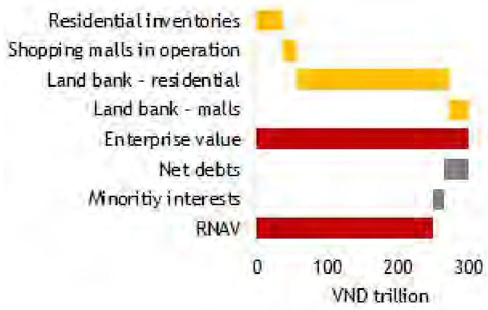
	-1M	-3M	-12M
Absolute (%)	2	51	85
Relative to index (%)	(1)	25	26

Source: FactSet

Link to sector note:

Vietnam Real Estate - Let the buyer beware!

Vingroup's RNAV calculation breakdown

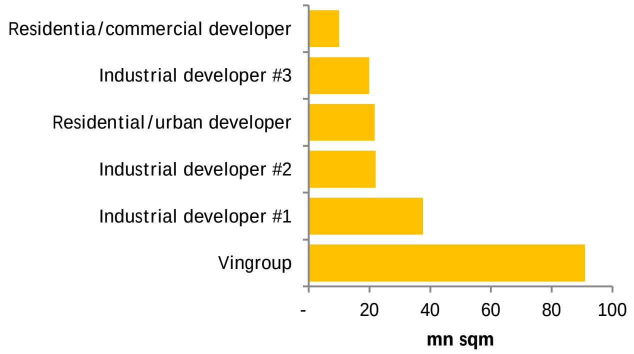


Source: MKE estimates

Value Proposition

- Vietnam's largest real estate developer with 9,100ha of land bank and market share of 24%/60%/41% in residential/retail/hospitality real estate (as at Sep'17).
- First-mover advantage: (1) well-established relationship with authorities; (2) comprehensive network of suppliers; and (3) reputation for delivery among buyers.
- Building a large-scale ecosystem serving urban population and beachfront tourists with healthcare, education and FMCG retailing. Also starting to manufacture automobiles.
- Capital raising and allocation appear to be driven by a general ambition to transform urban development landscape and middle-class consumer preferences.

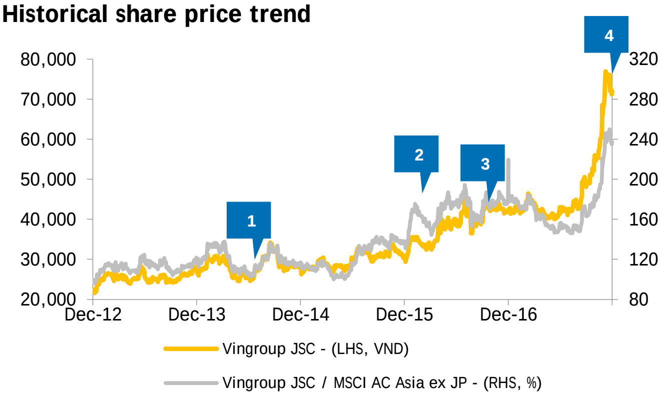
Largest land bank in Vietnam, far surpassing competitors



Source: Corporate presentation (citing CBRE, Savills, JLL, PwC)

Price Drivers

Historical share price trend



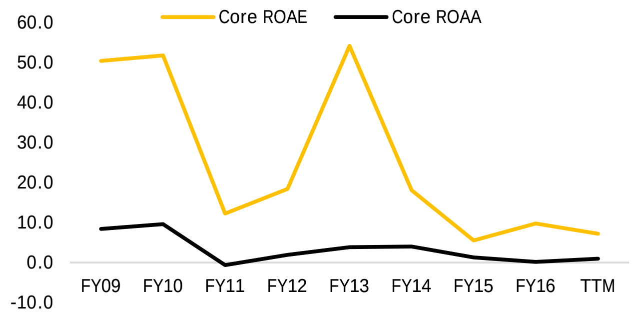
Source: Company, FactSet, Maybank Kim Eng

1. RNAV discount hit all-time low. Our initiation report was issued in Jul 2014, aiming to provide transparency into Vingroup's value.
2. FY15 pre-sales were released, showing robust results from Vinhomes Central Park and Vinhomes Times City – P2.
3. Stock dropped 20% in early Aug 2016 then bounced back, following a host of negative news including inventory losses at subsidiary Truong Thanh (TTF VN, NR).
4. New land bank info was released; total land area under development increased by ~50% within three months, from 6,090ha in 2Q17 to 9,100ha in 3Q17.

Financial Metrics

- Pre-sales can be monitored using "customer advances" and "other payables" on the balance sheet. Stood at USD4.7b as at 3Q17.
- Other than capex, acquisitions also drive investment outflows. Tends to spend excess working capital (driven by pre-sales) on acquisitions.
- Leverage: Gross and net gearing have dropped to 0.9x/0.8x in 3Q17, respectively, from 2.0x/1.5x in FY12. Gearing to rise again on major developments.
- Short-term ROE is difficult to assess as revenue from property sales is lumpy and heavy opex in certain business lines can be frontloaded. Long-term ROE averages 25%.

Historical core ROAE (26% avg) and core ROAA (4% avg)



Source: Company

Swing Factors

Upside

- Relationships are an entry barrier that can further boost market share. Local authorities are incentivised to work with Vingroup, thanks to their landscape-changing ability.
- Proven ability to spot and acquire sizeable urban land at prime locations and beachfront projects at competitive costs can be compounded to grow RNAV even further.
- Ability to make opportunistic divestments can at times result in significant capital gains.

Downside

- Regardless of the motives behind building a large-scale ecosystem, the impact on earnings may be significant and may further drag down ROE if not executed properly.
- Outside shareholders do not have a lot of discretion over capital allocation and capital raising deals. Some of these may not accrue to shareholders as much as expected.
- Key man risk is always present, as Vingroup depends on its chairman for both strategy and operations.

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Hoa Phat Group (HPG VN)

Moving Up the Value Chain

BUY

Share Price	VND 45,800
12m Price Target	VND 51,450 (+12%)
Previous Price Target	*VND 51,450*

Company Description

Hoa Phat is Vietnam's largest and most profitable steelmaker, using integrated blast furnaces. Also runs other legacy businesses (20-25% revenue).

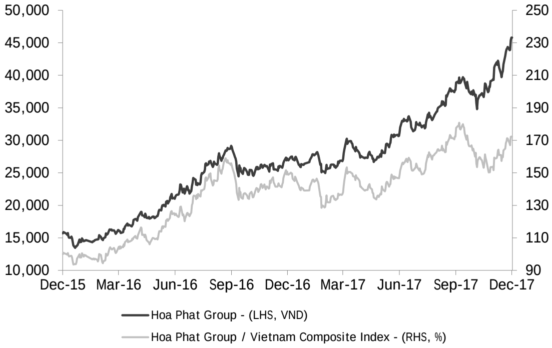
Statistics

52w high/low (VND)	45,800/24,966
3m avg turnover (USDm)	7.8
Free float (%)	57.2
Issued shares (m)	1,517
Market capitalisation	VND69.5T
	USD3.1B

Major shareholders:

Chairman & family	32.4%
Other insiders	10.3%
Dragon Capital	7.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	17	18	70
Relative to index (%)	14	(3)	16

Source: FactSet

Strong market share increases; Maintain BUY

Maintain BUY with unchanged DCF-based TP (14.4% WACC, 2% LTG) and FY17-19E estimates. Despite the floods/storms during Oct/Nov, growth momentum did not slow down, as its long-steel market share remained well above 25% in Oct-Nov (from c.24% in previous months) and production reached an all-time high of 196,615t in Nov. HPG's solid market positioning in a growing domestic economy supports our expectation of a latent move up the value chain; the main driver is higher value-added steel products (currently about 25% of FY17E production) from its integrated blast-furnace to serve the FDI-led manufacturing sector at large.

Solid 4Q results so far; expect FY17E to be robust

On balance, we expect 4Q PATMI to be only moderately lower than 3Q, and believe the market will take a positive view of FY17E results. Data up until Nov 2017 suggest that, compared with 3Q17, 4Q17 will likely see: (1) lower sales volume, due to weather conditions; (2) slightly higher ASP, as also reflected in scrap price trends; (3) slightly lower iron ore costs; and (4) mixed coking coal costs. Surprises on the upside may also come from Mandarin Garden 2 – an apartment project expected to be handed over in 4Q17.

FY18E outlook solid on multiple earnings drivers

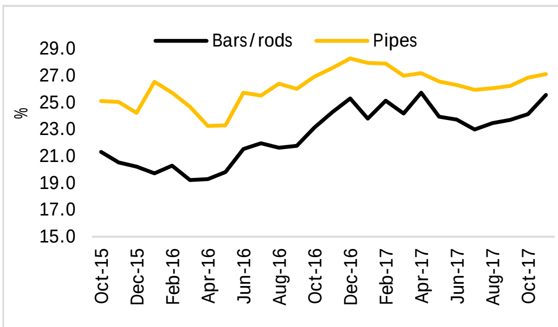
Despite the enlarged capital following the rights issue in mid-FY17, the FY18E EPS outlook looks solid on multiple earnings drivers: (1) the completion of Mandarin Garden 2, with expected net profit in the VND600-700b, assuming 100% handover; (2) the completion of a 400,000tpa coated steel facility; and (3) frontloading about 1m tpa of the Dung Quat's steel production capacity in FY18E using billet-rolling equipment to be supplied at an early stage by Danieli.

FY19E outlook: the reason to buy the stock

With total steel production capacity expected to more than double in FY19E amid limited visible downsides, we see FY19E outlook as the main reason to buy the stock; at the current share price, both P/E and P/BV will drop to -0.4SD from historical averages in FY19E, per our estimates.

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	27,453	33,283	45,937	56,490	67,100
EBITDA	5,982	9,530	10,976	12,512	17,045
Core net profit	3,232	6,242	7,083	8,008	9,738
Core FDEPS (VND)	2,557	4,938	4,669	5,279	6,419
Core FDEPS growth(%)	22.5	93.1	(5.4)	13.1	21.6
Net DPS (VND)	870	0	0	0	0
Core FD P/E (x)	17.9	9.3	9.8	8.7	7.1
P/BV (x)	4.0	2.9	2.2	1.7	1.4
Net dividend yield (%)	1.9	0.0	0.0	0.0	0.0
ROAE (%)	26.6	38.6	29.1	24.0	22.8
ROAA (%)	13.6	21.3	16.0	12.1	11.6
EV/EBITDA (x)	4.0	3.7	5.9	6.5	4.8
Net gearing (%) (incl perps)	25.7	6.1	2.8	29.0	22.5
Consensus net profit	-	-	7,437	8,524	10,252
MKE vs. Consensus (%)	-	-	0.8	1.4	(0.0)

HPG's 3MMA market share



Source: Vietnam Steel Association, FiinPro

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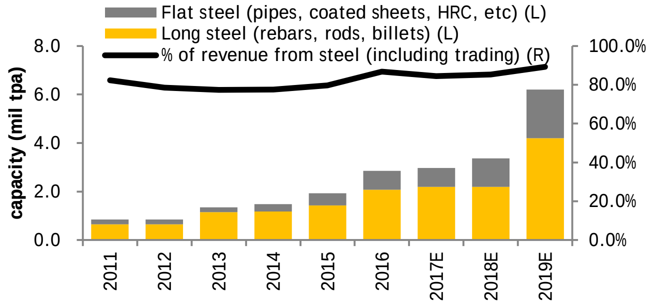
Value Proposition

- Vietnam's largest and most profitable steelmaker, with over 20% market share in long steel and steel pipes.
- An integrated steelmaker with iron ore extraction licenses. This has historically proven effective in minimising input cost fluctuations.
- The steel industry currently has safeguard tariffs running beyond 2019. Logistical entry barriers have also historically protected industry ASP from Chinese imports.
- Management's prudence has helped maintain high ROIC even in the face of increasing fixed asset investments.
- A conglomerate before embarking on long steel in 2000, HPG still runs legacy businesses from the 1990s (e.g. industrial parks, furniture and refrigerators).
- Has ventured into agriculture since 2015, also noted by management as a "legacy business idea". ROIC remains below WACC for this business.

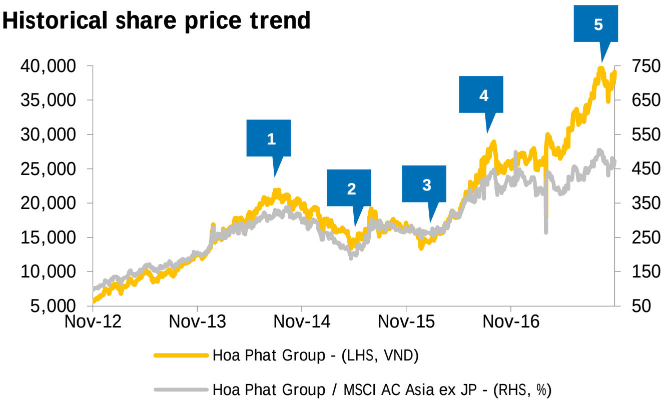
Prudent capacity additions; expect strong growth in FY19



Source: Company

Price Drivers

Historical share price trend



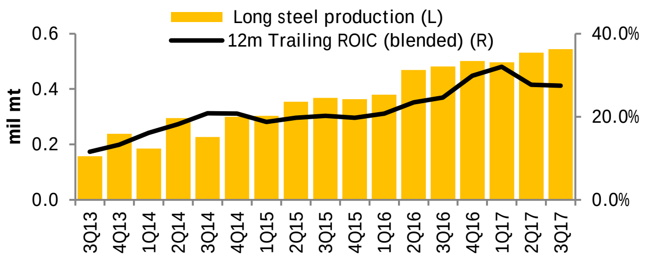
Source: Company, Maybank Kim Eng

1. The market was positive on the company's outlook as it emerged from the economic downturn with new capacity. P/E reached and hovered around double-digit highs.
2. Long-standing institutional shareholders divested, creating pressure on the share price. Fundamentals were intact, as core FY14 EPS still grew 57%.
3. Pressure from Chinese imports intensified. The stock fell out of favour even though FY15 EPS growth (~23%) beat both initial guidance and consensus estimates.
4. In Jul'16, the government imposed a four-year-long safeguard duty that would triple taxation on Chinese imported billets and double taxation on rebars.
5. FY18-19 earnings become more visible with capacity increases amidst favourable industry outlook.

Financial Metrics

- Capacity growth, steel production and sales (which can be tracked monthly) can rise rapidly, given strong management capabilities.
- One of the highest gross margins in the industry, averaging ~20% historically. Certain quarters may see large gross margin variations, however, due to inventory provisioning.
- Historical average ROIC of 20%, even though capex and capacity were steadily on the rise. Management is known for prudent and highly reliable planning.
- Historical EPS growth of 30%: secular growth story tied to Vietnam's civil construction output, infrastructure developments and steel-dependent manufacturing.

High ROIC with rising production



Source: Company

Swing Factors

Upside

- Higher-than-expected margins if domestic supply remains muted, imports are limited, and value-added steel products are gradually introduced to the product mix.
- Ability to increase capacity at a rapid rate and with good timing has been proven (e.g. steel pipes, industrial parks).
- Established distribution network could help grab market share and surprise on the upside, especially with infrastructure constraints in the near term.

Downside

- Dependence on integrated steelmaking reduces flexibility in scaling back production. Fixed costs could erode earnings if economic downturns occur.
- Lower-than-expected margins if import influx and/or capacity are added at a higher-than-expected pace. Also, coking coal input costs could occasionally surge.
- Venture into new areas such as agriculture, if not well executed, may hit ROIC.

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Maybank Kim Eng

Consumer Discretionary

Vietnam

Phu Nhuan Jewellery (PNJ VN)

Upbeat SSSG, Faster Store Expansion

BUY

Share Price	VND 135,100
12m Price Target	VND 142,000 (+5%)
Previous Price Target	*VND 142,000*

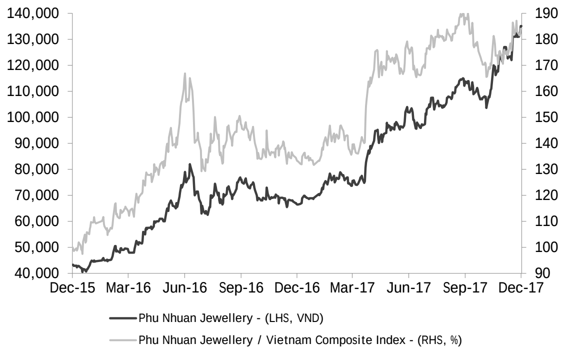
Company Description

PNJ is Vietnam's largest retail jewelry chain with 26% market share. It has gradually divested unrelated businesses, focusing on higher margin jewelry

Statistics

52w high/low (VND)	135,100/66,500
3m avg turnover (USDm)	1.7
Free float (%)	71.6
Issued shares (m)	108
Market capitalisation	VND14.6T
	USD643M
Major shareholders:	
Cao Thi Ngoc Dung	9.2%
LGM Investment Ltd	4.5%
Route One Investment	4.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	19	103
Relative to index (%)	8	(2)	38

Source: FactSet

Higher-than-expected SSSG, and store expansion

In our last report on 1 Nov 2017, we raised our DCF-based TP for PNJ by ~24% to VND142,000 (WACC 9.5%) as a result of higher sales CAGR of 15.5% and stronger gross margin of 20.4% during 2017-22F, from 14.2% and 19.2% previously. Note that both of these, in turn, were a result of: (1) faster store expansion; and (2) upbeat SSSG, which improved to 22% for gold and 20% for silver in 9M17 (from 8% and 12% in 9M16). In our view, PNJ's impressive SSSG should come from its more fashionable collections, designs and strengthened market share, which make it a top-of-the-mind jewellery brand.

Production efficiency to improve further

PNJ has been seeking to improve efficiency to reduce cost, and thus improve margins. One way is to separate the wholesale and retail businesses. Technically the new structure may also favour PNJ's attempt to raise the foreign ownership limit (FOL) to above the current 49% should shareholders approve such a plan.

Larger contribution & improved margin of gold retail

For 9M17, gold jewellery retail sales surged 40% YoY. Gross profit increased 42%, implying 28.2% gross margin, higher than 27.7% for 9M16. Management however indicated that it will not abandon gold wholesale, which carries lower margins of 4-4.5% only. We believe it is not just for volume purposes but also for building up and enhancing the PNJ brand outside key cities in preparation for boosting retail jewellery sales once the PNJ brand becomes more well-known.

9M17 results above expectations

Sales and profit beat our expectations by 7% and 9%. 9M17 sales rose 31% to VND7.8t, led by gold retail, and PBT surged 41% YoY to VND630b. Silver jewellery sales rose 31% but still accounted for just a small portion or 4% of total sales. Gold bar revenues jumped 34.3% YoY, partially because of re-classification of lucky gold tael relating to lunar new year. We note that 15% sales growth in 3Q17, lower than the 39% in 1H17, was mostly due to the high base in 3Q16 including the wedding season, which came late last year (2017). Gold retail sales still continued to grow 28.5% YoY.

FYE Dec (VND b)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	7,708	8,566	10,808	12,896	15,087
EBITDA	657	758	946	1,266	1,644
Core net profit	212	450	678	913	1,199
Core EPS (VND)	1,833	4,814	5,502	7,249	9,362
Core EPS growth (%)	(16.2)	162.7	14.3	31.8	29.2
Net DPS (VND)	1,500	2,000	3,000	3,500	4,500
Core P/E (x)	73.7	28.1	24.6	18.6	14.4
P/BV (x)	9.7	8.8	5.5	4.8	4.1
Net dividend yield (%)	1.1	1.5	2.2	2.6	3.3
ROAE (%)	5.6	31.3	32.6	32.0	36.1
ROAA (%)	7.3	13.8	16.8	18.6	21.0
EV/EBITDA (x)	8.3	10.4	16.4	12.4	9.6
Net gearing (%) (incl perps)	89.5	90.2	33.1	36.3	34.7
Consensus net profit	-	-	711	963	1,054
MKE vs. Consensus (%)	-	-	(4.7)	(5.1)	13.7

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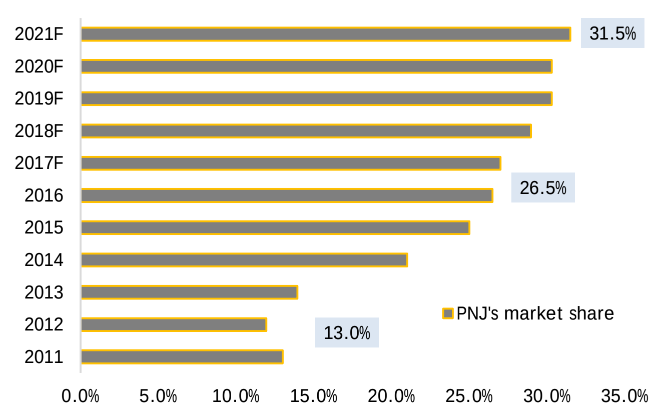
Value Proposition

- Vietnam's largest jewellery retailer. Has 219 stores nation-wide, surpassing SJC (~160 outlets) and (Doji <50 outlets), the second and third largest respectively.
- Focused on high-margin jewellery retailing in FY14-16. Robust demand for jewellery, steered by gold price drop and higher disposal income.
- Demand transitioning from unbranded to branded jewellery benefits PNJ due to its established brands, quality, higher repurchase price and ads using celebrities.
- Market share increased from 13% in FY11 to ~26.5% at end FY16 as strategic shift, ahead of competitors, towards brands and designs, gained traction with retail customers.

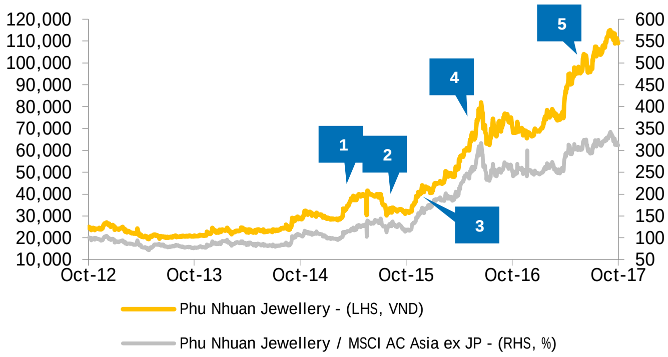
PNJ's market share



Source: Company

Price Drivers

Historical share price trend



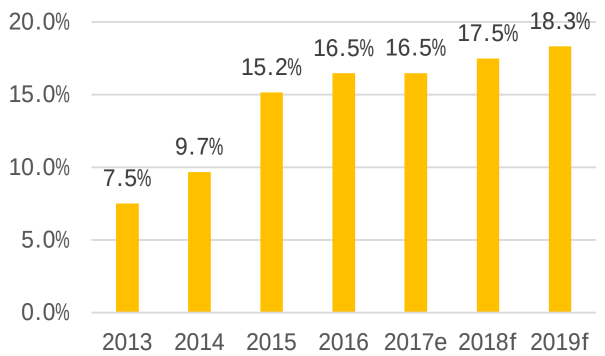
Source: Company, Bloomberg, Maybank Kim Eng

1. Market responded positively to favourable initial results of PNJ's successful switch to higher margin retail jewellery business.
2. Dong A Bank was put under the supervision of State Bank of Vietnam. Concerns PNJ might be affected due to marriage between its chairlady and Dong A Bank's CEO.
3. Recovery after being oversold as investors calmed down and PNJ announced normal operations and aggressive provision for this Dong A Bank investment.
4. Better-than-expected 1H16 results from both revenue growth and gross margin.
5. Better-than-expected 1H17 results, aggressive 5-year 2017-21 guidance with 20% growth in both top line and bottom line.

Financial Metrics

- Core net profit growth projected to average 30.1% in 2017-20 against 20% annual growth guided by PNJ.
- Expect gross margin to improve robustly to 17.5% in 2018 and 18.3% in 2019 2021 from 16.5% in 2017 due to higher contribution of retail silver and retail gold jewellery.
- We forecast SSSG of 12% in WHAT YEAR?? vs. the 16% average during 2014-16.
- On-going capital increase plan (by 10%) is expected to bring net debt/equity to 27% by the year end, from 66% at 1Q17.

PNJ forecast to sustainably improve gross margin



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- Faster store expansion, higher sales and gross margin, extended from strong FY17 momentum.
- Strong sales growth of silver jewellery, currently still contributes modestly but carries significantly higher gross margin (est. ~68%) vs. gold jewellery (est. ~28%).
- Potential tax finalization, estimated to be around VND80b as provision for losses in investment in Dong A Bank in 2015-16 was temporarily not tax deductible.

Downside

- Lower SSSG than our forecast (20% in 2017 and 13% in 2018-21)
- Lower silver sales growth than our forecast of 28.3% during 2017-21.
- Misconduct in inventory management could lead to asset losses, especially for large-value items.

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Malaysia

Malaysia – Positive Alignment

We are cautiously constructive on Malaysia equities into 2018 with upside from earnings growth and further MYR strengthening. We highlighted five thematic considerations in our *MY 2018 Outlook & Lookouts*: Fiscal stimulus pre-GE14; BNM's OPR hike; Multi-year orderbook replenishment in infrastructure construction; Tourism; *Look East, Malaysia*. We also refresh our equity top BUY picks for 2018.

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Positive alignments

We are cautiously constructive on Malaysia equities into 2018 amid sustained GDP and corporate earnings growth resuming for the second year. Our end-2018 KLCI target of 1,840 is based on 15.6x 12M forward earnings, its mean valuation. On 2018 stock picks, we see stocks with better risk-reward profiles outside the list of 2017 best and worst performers. Our preference is for stocks which offer attractive earnings growth while trading at reasonable valuations. **Petronas Chemicals (PCHEM MK, BUY, TP: MYR8.50)** and **Genting (GENT MK, BUY, TP: MYR12.25)** are among our top BUYs for 2018. Possible volatility could stem from household spending, 14th General Election and the currency.

E-commerce a threat, media losing its appeal?

E-commerce in Malaysia has yet to take off in a big way but a key beneficiary would be the courier services sector. The effects on store-based retailing have yet to be felt. Longer term, we expect consumer discretionary names with strong branding or niche/captive segments to remain relatively resilient. Meanwhile, media consumption habits are changing with higher broadband penetration (fixed and mobile). Traditional adex is on a downtrend, and pay-TV subscriptions are falling. Telcos see advertising technology as a segment they could participate in.

Higher infra works progress positive for cement

Total construction job awards hit a high of MYR229b in 2016, supported by the record high infrastructure job awards of MYR137b, but took a breather in 2017. We see it picking up in 2018 again. Construction names should benefit. As work progress gathers pace, we see a possible 'break-out' for cement demand. We project cement demand to grow 5% in 2018, along with the possibility of ASP hikes. The main risks relate to possible cost inflation arising from elevated coal prices.

*(*Please refer to our 2018 Outlook & Lookouts for details on the five thematic considerations – three of which are for 2018 and another two for the longer-term and our equity top BUY picks)*

1. Slight shift towards value

1.1 The outperformers…

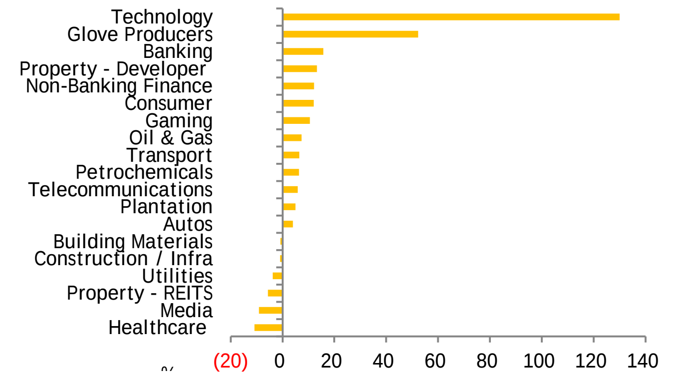
Technology was comfortably the best performing sector in 2017. Vitrox, V.S. Industries, Inari and Globetronics were among the top 10 best performers in our universe as share prices soared on the back of strong earnings delivery amid an environment of super-normal growth in global semiconductor sales and equipment billings. Gloves also outperformed on the back of strong volume growth and margin expansion, with Hartalega featuring among the best stock performers.

Consumer stocks that continued to deliver earnings growth (Padini, Bison, Oldtown) amid an environment of weak consumer sentiment also fared well (Oldtown also received a takeover offer in Dec 2017). Ann Joo benefitted from an improvement in the overall dynamics of the steel market. Dialog also re-rated, with investors liking its strong balance sheet (atypical of the oil services industry presently) and its status as a direct proxy to PETRONAS' RAPID project.

1.2 The underperformers…

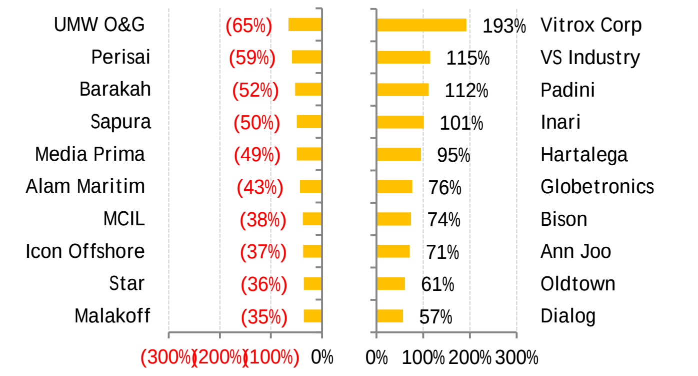
The worst performing stocks comprised mainly of oil services (UMW Oil & Gas, Perisai, Barakah, Sapura Energy, Alam Maritim, Icon Offshore) and media (Media Prima, MCIL, Star Media) stocks. Oil services companies endured a difficult year with oil majors having lowered capex plans amid an environment of low oil prices. Companies with balance sheet or cashflow concerns were subsequently de-rated. Media companies have had to contend with earnings pressure arising from both weakness in consumer sentiment and a structural migration of print adex to digital. Malakoff completes the list of top underperformers with its unscheduled outage (in 1H17) having a substantially detrimental impact on stock perception.

Fig 1: 2017 YTD sectoral performance



Source: Maybank Kim Eng

Fig 2: 2017 best and worst performing stocks under coverage



Source: Bloomberg, Maybank Kim Eng

1.3 Still cautious on the challenged

With the exception of Sapura Energy, prospects for all the other underperforming oil services companies remain challenging. Balance sheet and cashflow concerns are unlikely to dissipate in the near term for these companies, thus we do not expect share prices to recover. Prospects for media stocks remain similarly challenged, and with valuations still at a premium to the market, we do not advocate a position in these stocks.

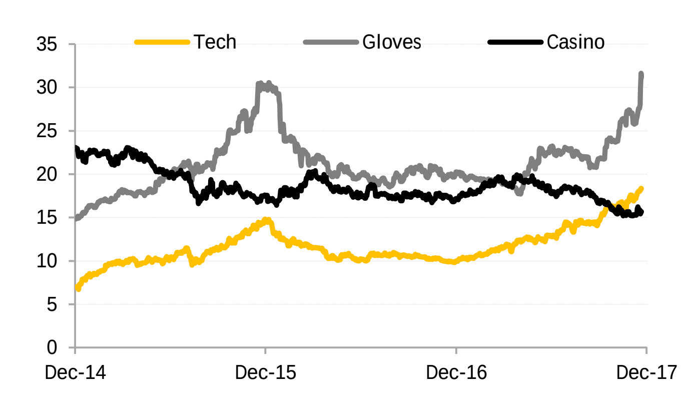
Among the 2017 worst performing stocks, we presently have BUY ratings on Sapura Energy and Malakoff. Sapura Energy functions as a proxy for the sector. Its share price could recover given our expectations of an uptick in oil prices and job awards in 2018. For Malakoff, value is beginning to emerge with the stock now offering a decent dividend yield following its 2017 share price correction.

1.4 Better risk-reward elsewhere

We are no longer as bullish on technology (we have BUY ratings on only Inari and V.S. Industries) and gloves for 2018. While we expect both sectors to still deliver strong earnings growth in 2018, valuations are now stretched (PERs are already at all-time highs) following their strong performances in 2017. Meanwhile, the consumer stocks which outperformed in 2017 have approached or exceeded our target prices. Bucking the trend is Dialog, which remains among our preferred oil services play for its growth potential.

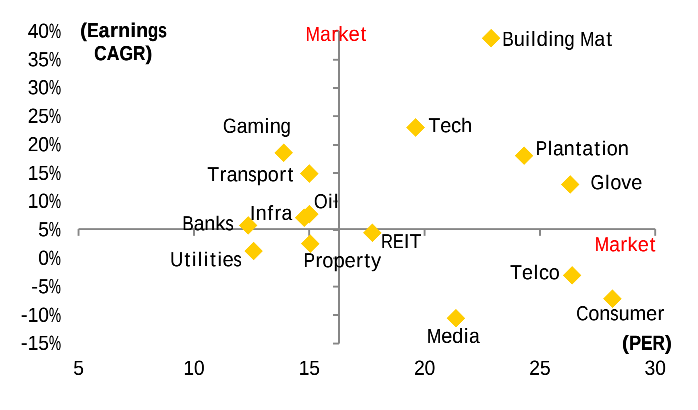
For 2018 picks, we see stocks with better risk-reward profiles elsewhere. Our preference is for stocks which offer attractive earnings growth while trading at reasonable valuations. **Genting (GENT MK, BUY, TP: MYR12.25)** fits this profile, and is among our top picks for the market. Our complete top BUYs for 2018 are Petronas Chemical, Genting, IOI Corporation, Hong Leong Financial Group, Gamuda, Yinson, Cahya Mata Sarawak, Berjaya Auto and YTL REIT.

Fig 3: Forward PER – Tech, Gloves and Casino



Source: Maybank Kim Eng

Fig 4: 2016-18 earnings CAGR and 2018 PER by sectors



Source: Maybank Kim Eng

1.5 Cautiously constructive for the market

For Malaysia, the macro backdrop remains positive in 2018 as we forecast another year of above-5% real GDP growth, i.e. 5.3% in 2018 (continuing the momentum from 2017). In addition, we expect market core earnings to grow for the second year (+9.7% in 2018 for our research universe - we cover 73% of Malaysia market capitalisation, from +7.9% in 2017), while the prospects of a higher OPR would continue to lend support to the MYR. GE14, in our view, will be a major driver of investors' sentiment in early 2018. We expect volatility in both equities and MYR to be higher in the run-up to, and post polling day. Our end-2018 KLCI target of 1,840 is based on 15.6x 12M forward earnings, its mean valuation.

2. E-commerce boom?

2.1 Much room for e-commerce growth

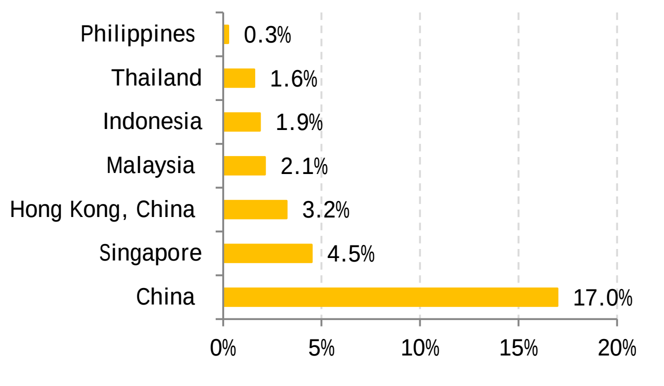
Internet retailing value has grown at an estimated 5-year CAGR of 31.5%, driven primarily by the surge in e-commerce shopping and platforms/shops. Nonetheless, internet retailing remains a minor contributor at just 2.1% of Malaysia's total retailing value in 2016. Separately, internet retailing constituted 32% of non-store retailing in 2016 while direct selling contributed 63%.

Relative to the region, Malaysia's internet retail sales as a proportion of total retail sales have lagged that of Hong Kong (3.2%), Singapore (4.5%) and China (17.0%). Going forward, Euromonitor forecasts a 5-year CAGR of 27% for Malaysia's internet retail sales, with rising adoption being driven by greater confidence in online payment security and availability of items which are not present in stores.

2.2 Courier parcel volumes on the rise

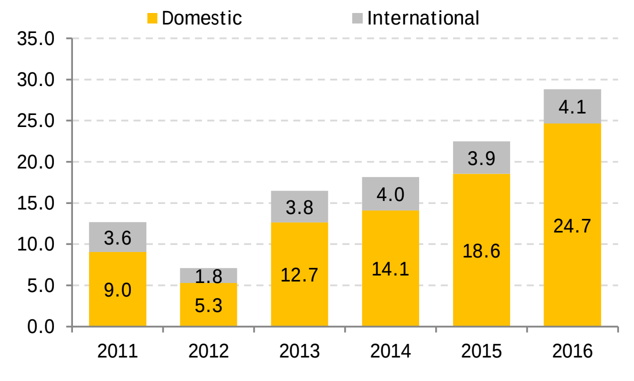
One of the indirect beneficiaries will be the courier/last mile-delivery logistics sector. According to Malaysian Communications and Multimedia Commission, Malaysia's courier parcel volume grew by a CAGR of 17.9% (2011-2016) and this largely mirrored the growth in internet retail sales. Of note, the domestic segment has been driving the overall volume growth (22.2% CAGR from 2011-2016 versus international service's 2.7% CAGR). Competition, however, is rising, with a significant jump in courier licenses in 2016 (+24 licenses YoY), as more players eye a piece of this growing pie. Incumbents should nevertheless have first mover advantage.

Fig 5: Internet retail sales (% of total retail sales), 2016



Source: Euromonitor

Fig 6: Malaysia courier parcel volume (million pieces)



Source: Malaysian Communications and Multimedia Commission

2.3 Store-based retailing redundancy will take time

The threat of internet retailing to brick-and-mortar is real over time. However in the near term, internet retailing (at only 2.1% of total retail sales) remains too small to have a substantial impact. Store-based retailing meanwhile has grown at a 2.6% CAGR in the past five years, driven by ongoing growth in grocery sales. Store-based retailing accounted for 93% of Malaysia's total retailing value in 2016.

2.4 Varying long-term impact to consumer names

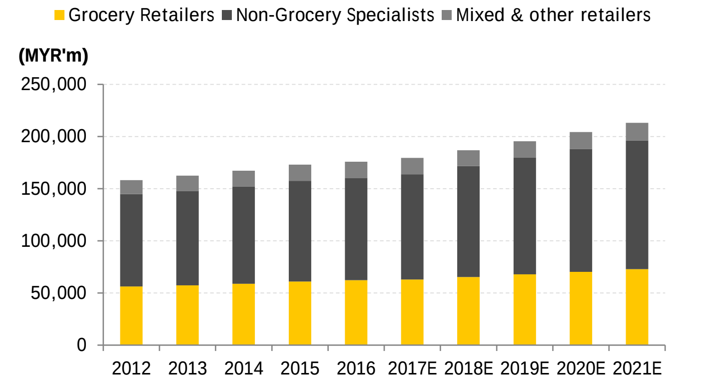
When e-commerce takes off with full force, we believe staples under our coverage are unlikely to be significantly disrupted. Nestle Malaysia **(NESZ MK, HOLD, TP: MYR86.70)**, with its strong F&B market share of c.16%, has already been making a push into e-commerce (since 2015) through partnerships with online platforms such as Lazada and 11street. Meanwhile, cigarette sales for BAT (M) **(ROTH MK, HOLD, TP: MYR45.60)** are unlikely to be disrupted from e-commerce.

For discretionary names, companies with strong branding or niche/captive segments are likely to remain relatively resilient. We expect Berjaya Food **(BFD MK, BUY, TP: MYR1.95)**, leveraging on the strong Starbucks brand, and **Atlan (ALN MK, BUY, TP: MYR6.00)** (captive market in duty-free zones) to sustain strong sales from their brick and mortar shops. Meanwhile companies possibly at risk include AEON (operator of general merchandise stores, supermarkets, and malls), which would likely have to reevaluate its long-term online-offline channel mix and possibly invest in online platforms and related inventory management systems to cater for online grocery sales.

Fig 7: Store-based retailing vs. non-store based retailing

Source: Euromonitor

Fig 8: Breakdown of store-based retailing



Source: Euromonitor

3. Cement demand breaking out?

3.1 Infrastructure in the spotlight

Based on statistics from the Malaysia Construction Industry Development Board (CIDB), total job awards hit a high of MYR229b in 2016, supported by the record high infrastructure job awards of MYR137b. 2017 infrastructure awards could normalize to the MYR25b-30b range, we believe, as major projects awards take a breather.

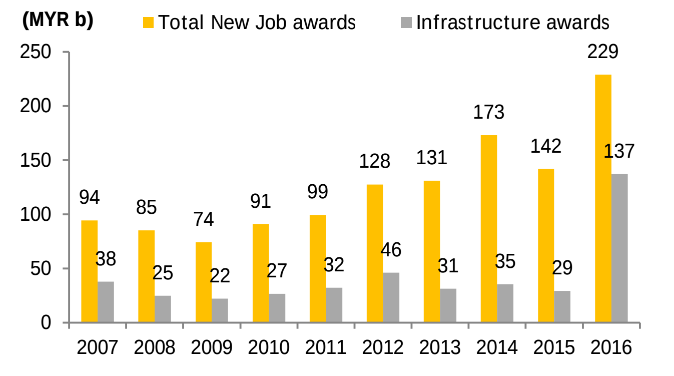
Into 2018, the momentum for infrastructure awards could pick up again, driven by major rail developments such as the KL-SG High Speed Rail (e.MYR60b) and KVMRT 3 (e.MYR40b). The Pan Borneo Sabah Highway and KVLRT 3 could also see awards of their remaining packages.

3.2 'Local content' to apply

China led foreign countries' participation in construction jobs awarded to foreign contractors, and secured MYR8b (42%) of MYR19.2b of awards in 2015. We expect the value of awards to Chinese contractors was significantly higher in 2016 (details not available yet) with the awards of i) ECRL (c.MYR55b) to CCCC, ii) Gemas-JB double track rail (c.MYR8.9b) to the consortium of CREC-CRCC-CCCC, iii) Signature Tower in TRX to CSCEC.

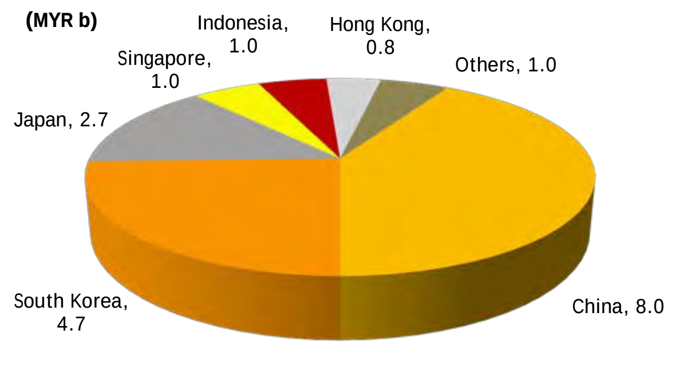
With the ability to provide attractive financing (low interest rates, long payback periods), we expect Chinese contractors to continue to feature in 2018. However, 'local content' would likely apply, with Malaysian contractors set to benefit as works package contractors for the civil portions of the KVMRT3 and HK-SG HSR. Meanwhile, Malaysian construction materials suppliers (such as cement and steel) should also benefit.

Fig 9: Total new job and infrastructure awards



Source: CIDB

Fig 10: Value of new projects awarded to foreign contractors in 2015



Source: CIDB

3.3 Construction execution picks up, positive for cement

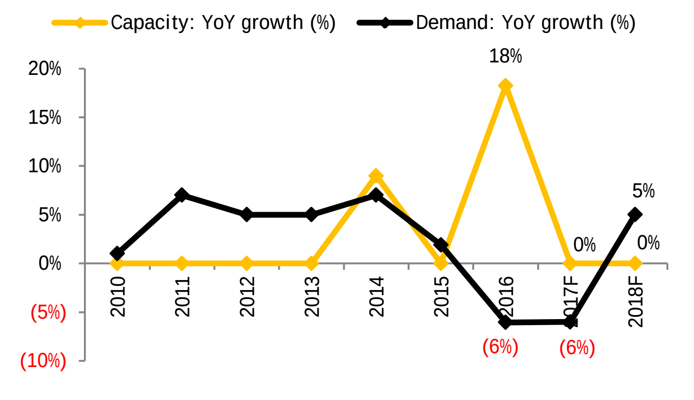
Given the substantial construction awards in recent years, we expect execution to pick up significantly in the coming years. Demand for building materials in turn, should also improve from 2018. Cement, in particular should benefit given that importing cement is generally not viable from a cost perspective.

The cement industry is presently at a low with recent capacity addition resulting in a supply-demand imbalance. We project cement demand to grow 5% in 2018 (or +0.9m tonnes) and the industry's capacity utilisation rate to improve to 67% in 2018 from 63% in 2017. Based on our estimates, KVMRT2, KVLRT3 and ECRL could contribute around 1.5m tonnes p.a., roughly 8% of current demand. Demand should recover more meaningfully from 2H18-2019 onwards. Additionally, we also think that the demand for residential/non-residential properties has already set a low base and the building of affordable housing may lift demand from the property sector.

3.4 ASP recovery on the cusp?

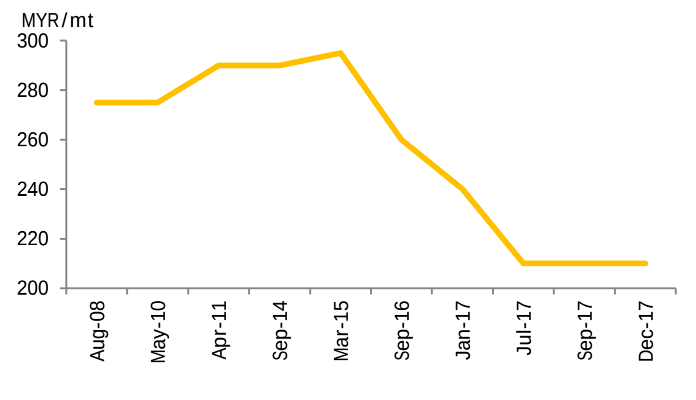
As an indication of improving operating conditions, most of the local cement players have already made several attempts to hike ASPs for both bulk and bag segments in 3Q17. However, with one key player having abstained, the ASP hikes were not successful. Nevertheless, we believe it is a matter of time before ASPs recover as current prices are unsustainable. **Lafarge Malayan Cement (LMC MK, HOLD, TP: MYR6.90)** is our preferred cement exposure. The main risks relate to possible cost inflation arising from elevated coal prices.

Fig 11: Cement capacity and demand growth



Source: Various, Maybank Kim Eng

Fig 12: Net ASP of bulk cement in Peninsular Malaysia



Source: Various, Maybank Kim Eng

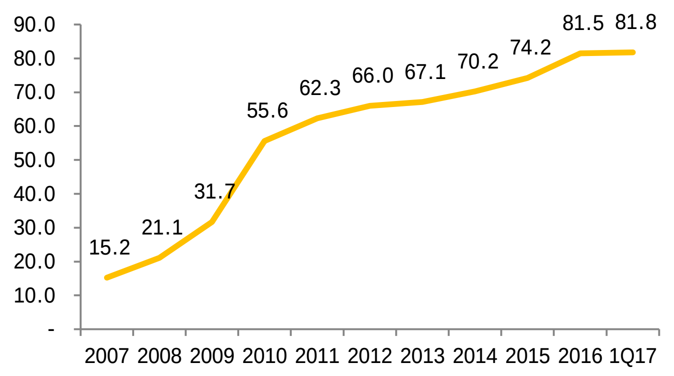
4. Traditional media losing its appeal?

4.1 Media consumption habits changing

The broadband penetration rate (fixed and mobile) in Malaysia has grown, thanks to lower unit prices. The rate of growth has been rapid, with fixed broadband penetration rate rising from just 15% back in 2007 to 82% in 1Q17. The growth of mobile internet usage has been even more exponential as operators offer more generous data quotas with the increasing adoption of 4G.

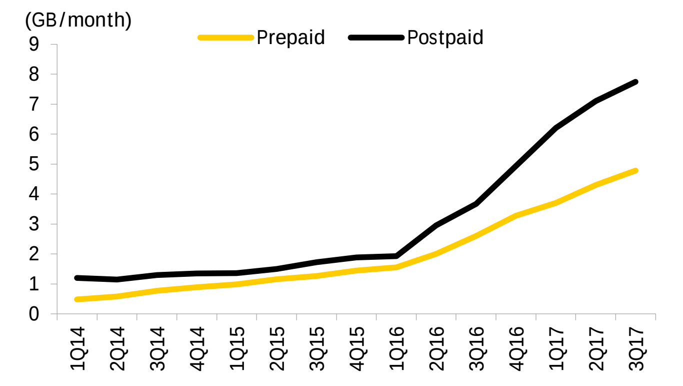
As such, media consumption habits are changing and Malaysians no longer rely solely on traditional media for entertainment, borne out by the fact that the penetration rates of traditional media (e.g. TV, newspapers, etc.) are either flat or declining.

Fig 13: Malaysia fixed broadband penetration rate (%)



Source: Malaysian Communications & Multimedia Commission

Fig 14: Mobile internet usage (Maxis)



Source: Maxis

4.2 Traditional media losing the appeal

As a result of this change in media consumption habits, there has been a structural shift in advertising spend away from traditional to digital media (i.e. Google & Facebook). Digital media gained popularity as advertising spend was put towards better audience targeting with a larger reach. Digital ads are also cheaper than traditional ads (i.e. newspapers, FTA TV, radio, cinema etc).

For Malaysia, 10M17 total gross adex declined 13% YoY (newspaper: -22% YoY, radio: -6% YoY, FTA TV: -4% YoY), as many smaller advertisers likely reduced advertising spend in response to challenging operating environments. For 2018, we expect a modest adex recovery, with gross adex to grow 5% YoY emerging from a low base in 2017 and led by pre-GE14 advertising spend.

4.3 Telcos joining the party

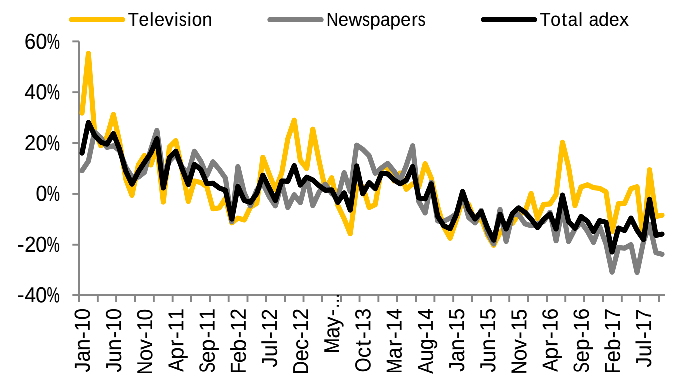
Telcos have had to contend with the evolution of their core product (from voice/sms to data) in recent years. The process has not been entirely smooth sailing given the differing capacity needs (data is more taxing on the network) and billing requirements. Competition has also resulted in monetization being sub-optimal.

The rising data adoption has also seen OTT giants emerge. To get in the act, most telcos have begun looking at investing in digital businesses. **Axiata (Axiata MK, HOLD, TP: MYR5.50)** is targeting to derive 20% of its future revenue from digital business, with advertising tech being an area of focus.

4.4 Pay-TV increasingly vulnerable

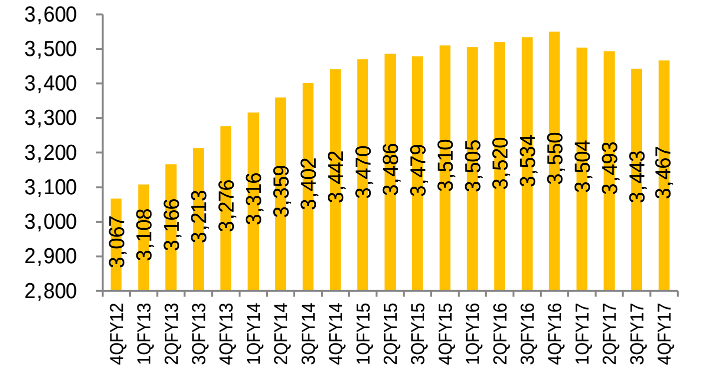
With higher broadband penetration, along with improved mobile internet speeds, users are now able to access online content, or subscribe directly to video services. This has had negative repercussions for ASTRO, the dominant Pay-TV operator in Malaysia. Together with the proliferation of illegal Android TV boxes (which serve as direct competitors to ASTRO's set-top boxes), ASTRO's number of Pay-TV subscribers has been on a declining trend. Note that Astro has stopped disclosing subscriber numbers since 4QFY1/17.

Fig 15: Gross FTA TV, newspapers and total adex change YoY



Source: Nielsen Media Research

Fig 16: ASTRO Pay-TV subscribers ('000)*



Source: Astro

5. Balance sheet / cashflow risk manageable

5.1 Corporate gearing generally manageable

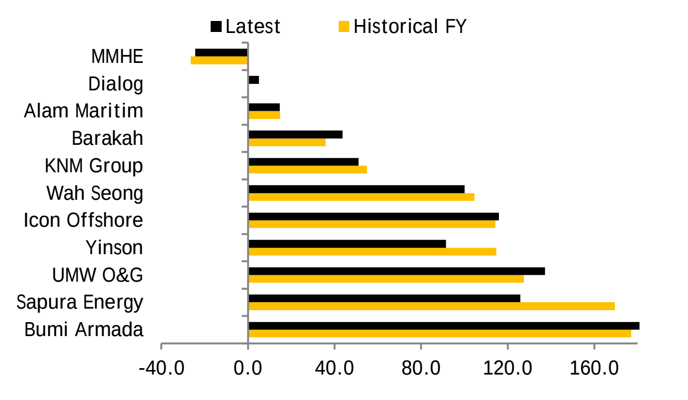
Broadly, there are no major balance sheet or cashflow risks across the market with the exception of oil services. Aggregate market gearing remains at a comfortable 39%. There were further equity-raising exercises (notably by property companies and telcos) in 2017 as companies beefed up balance sheets in anticipation of future capex / softening operating environments. Overall, we do not expect marginally higher interest rates (our Economics Team expects a +25bps OPR hike in 2018 post-GE14) to have a material impact on companies' health.

5.2 Main risk presently at oil services

The oil & gas landscape has structurally altered, with companies still adapting to operating in a USD50-60/bbl oil price environment. Avoiding defaults remains a legitimate concern (Alam Maritim defaulted on its MYR30m Sukuk Ijarah MTN payment in Jul 2017), with companies having to refinance loans, undertake cash calls, impair assets (to bid competitively) and divest assets in recent years. Service providers now merely aim to optimize asset utilization and achieve cashflow neutrality.

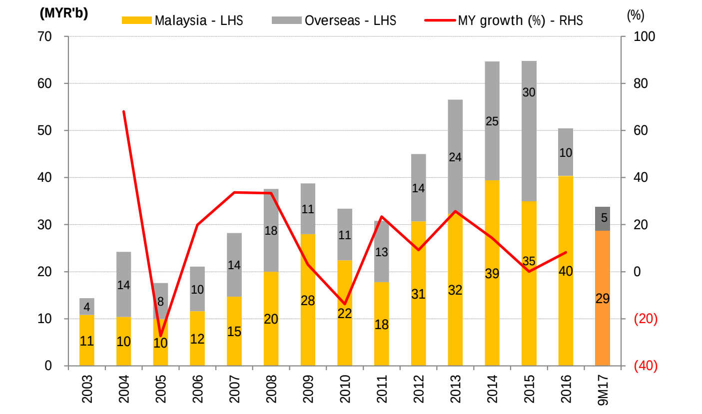
Nevertheless, things could be more upbeat in 2018, with contract replenishment activities set to pick up as oil majors firm up their long term plans. Our house view for crude oil price is an average USD60/bbl in 2018. We like **Yinson (YNS MK, BUY, TP: MYR4.45)** for its cashflow strength, strong earnings growth prospects and proven execution capabilities.

Fig 17: Net gearing – oil services companies



Source: Company data, Maybank Kim Eng

Fig 18: PETRONAS: Capex (yearly)



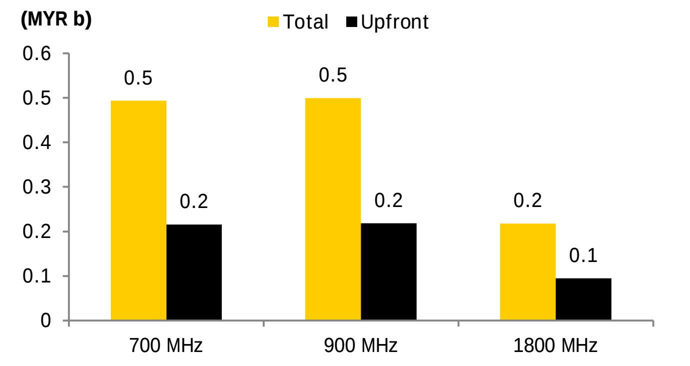
Source: PETRONAS, Maybank KE

5.3 Telcos are now comfortable

There were previous concerns of potentially hefty spectrum fees for the telcos (in lieu of the 700Mhz re-farming), but these have since dissipated. Details of the tender for the 700MHz band were announced in Oct 2017, with a total of 40MHz pairs being made available to telcos at a very reasonable price. The total cost for a 5Mhz pair in the 700Mhz band is MYR494m, slightly lower than the MYR500m for the 900Mhz band. Given the reasonable pricing, all incumbents are likely to participate in the tender in our view.

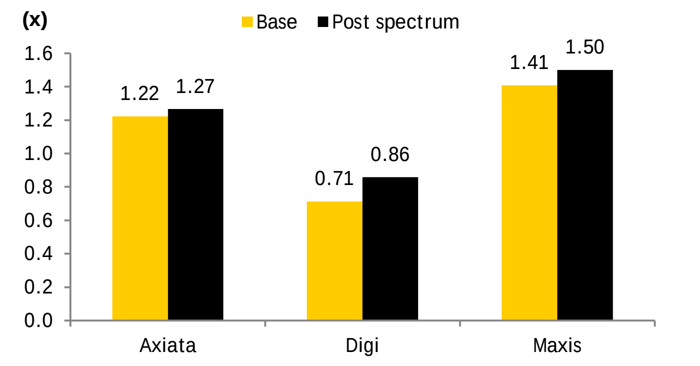
Assuming each operator gets allocated a 10Mhz pair, the incremental impact to gearing (net debt to EBITDA) remains manageable. Meanwhile, we understand both the soon-to-expire 2600MHz and 2100MHz bands would be extended for two years with no upfront fee. All these are positive for the balance sheet of mobile operators, who are unlikely to require further equity-raising, in our view.

Fig 19: Spectrum cost (2 x 5Mhz block)



Source: MCMC

Fig 20: Net debt to EBITDA (2018, post spectrum fee)



Source: MCMC, Maybank Kim Eng

5.4 Banks to marginally benefit from interest rate hike

We expect banks to marginally benefit from a +25bps rise in the OPR (+2.7% average increase in aggregate net profit) as margins initially expand. Net interest margins (NIMs) should nevertheless normalise over the 3-6 months post rate hike, as deposit rates adjust and competition, particularly for deposits, persists. Within our coverage, Alliance Bank would benefit the most while Hong Long Bank the least from the upcoming OPR hike, based on their latest loan/funding structures.

6. Possible volatility factors in 2018

6.1 Slower household spending?

Consumer spending has contributed much to Malaysia's robust 2017E GDP growth of 5.8%, expanding at an estimated rate of 7% in 2017. However, some of the consumer spending stimulus in 2016-2017 will expire and reverse in 2018 i.e. normalisation of workers' contribution to EPF. Also, we expect BNM to raise interest rate.

We expect consumer spending growth to moderate in 2H18, as National Budget 2018's measures for the households are mainly front-loaded in 1H18, tapering full-year 2018 growth to about 6.5%. What would be a problem for economic growth, therefore, would be if consumer spending moderates much faster than expected.

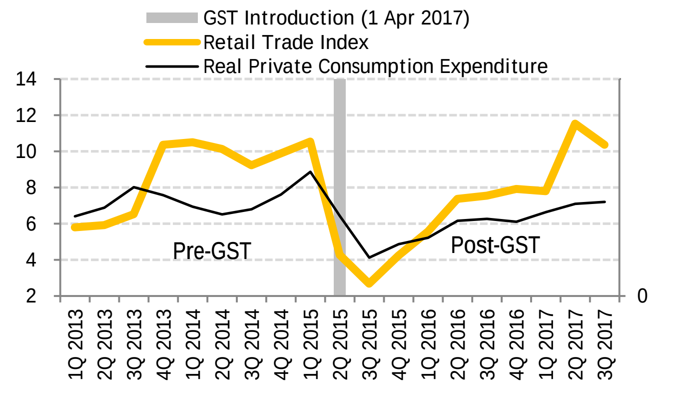
6.2 14th General Election

Malaysia's current electoral term will automatically dissolve on 24 Jun 2018 and the 14th General Election (GE14) must be held within 60 days. A possible window for GE14 is post-Chinese New Year (CNY; 16-17 Feb) and before Ramadhan (15 May). If the Parliament dissolves within the 15 days of CNY celebration, then polling could be held during the first term school holidays (17-25 Mar). Much is expected to remain status quo.

Nevertheless, the interim run-up to the elections could be a period of volatility for both equities and the currency. During GE13, the KLCI and USDMYR volatility were largely unchanged after the dissolution of Parliament but subsequently spiked up +57% and +50% respectively on the first trading day post polling day (after the incumbent coalition retained its simple majority win in Parliament). KLCI's volatility continued to climb thereafter and only started receding after six weeks.

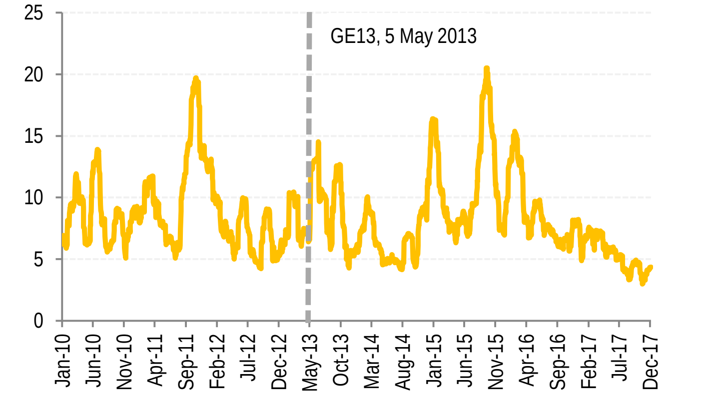
For GE14, we expect higher volatility in both equities and MYR in the run-up to, and post polling day, with the sizable amount of political newsflow possibly having an impact on investors' sentiment. Assuming the Parliament dissolves just after CNY, we could potentially see higher activity in equities from Jan to GE14 (some trading opportunities may manifest). During GE13, the KLCI moved up +3.0% in the one month leading to Parliament dissolution, +0.6% from dissolution to polling day, and +4.7% in the one month post polling day.

Fig 21: Retail Trade Index & real PCE (% YoY)



Source: Department of Statistics

Fig 22: KLCI 30-day volatility



Source: Bloomberg, Maybank KE

6.3 MYR trends

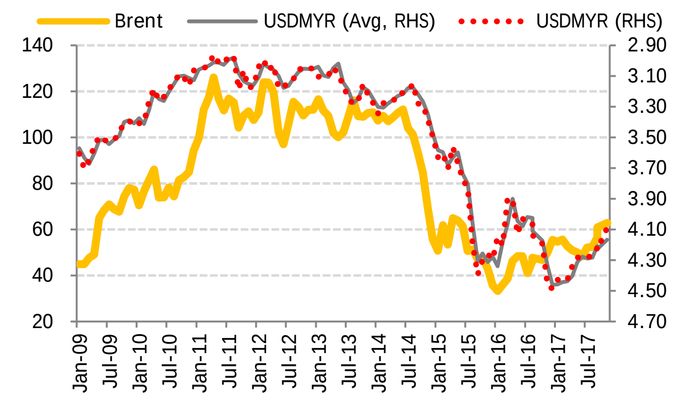
The MYR has in 2017 YTD gained 10% against the USD to 4.08 after enduring four straight years of losses against the greenback totaling -31.8% over 2013-2016. Maybank FX Research expects the momentum in USDMYR to continue in 2018 with a year-end target of 3.95, to average 4.05 (2017E average USDMYR: 4.30).

Selling pressure could, however, potentially emerge in 2Q18 after BNM's expected OPR hike and GE14, while the other factor to monitor would be crude oil prices. As such, further volatility for the currency into 2018 cannot be ruled out.

6.4 Petrochemicals insulated from domestic volatility

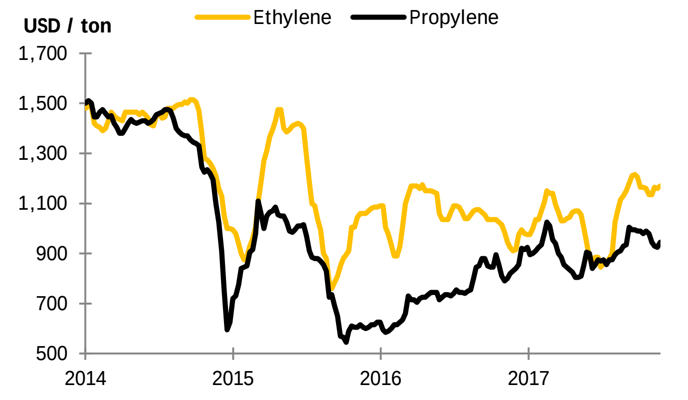
In our view, the petrochemical sector should fare well in 2018 on sustained global GDP growth and benign inflation. Global new capacity output is manageable and demand-supply is forecasted to be balanced, thus providing a stable outlook on ASPs. We believe factory utilization rate will be the main consideration for investment picks. **Petronas Chemicals (PCHEM MK, BUY, TP: MYR8.50)** is one of our top picks for the market as it is a beneficiary of higher crude oil prices with its feedstock cost relatively fixed, thus ensuring margin expansion.

Fig 23: USDMYR vs crude oil prices



Source: Bloomberg

Fig 24: Olefins price trend



Source: Bloomberg

January 2, 2018

Oil & Gas

Malaysia

Yinson Holdings (YNS MK)

Steady as it grows

Maintain BUY and MYR4.45 SOP-based TP

Yinson is one of our key O&G and market picks. We are positive on its business direction, prospects, earnings growth and steady cashflow strength. Our SOP-based TP offers 17% upside and does not include potential earnings/NPV positives from FPSO Layang and Lam Son.

Busy period over the next few months

We expect the details of the: (i) FPSO Layang job, novated by THHE; and (ii) LOA on FPSO Lam Son to be made known soon. We see potential earnings upside from the Layang and Lam Son FPSO contracts, which are not factored into our model. Based on our back of the envelope valuation, redeployment of FPSO Lam Son alone would marginally lift our TP by 4-10 sen/shr (on a firm 4-year charter), based on DCRs at 25-50% of its initial DCR of USD200k.

Strengthens balance sheet, enhances values

Meanwhile, the sale of the earlier agreed 26% stake in FPSO JAK to a Japanese consortium (Sumitomo Corp-K-Line-JGC Development Bank of Japan) for USD117m is expected to be finalised by 1QCY18. We reiterate that the pricing is fair, at a 2% discount to our NPV on a firm charter basis. In this deal, Yinson gets to: (i) de-risk, recouping 45% of its equity value on this project; (ii) de-gear, lowering its pro forma net debt / gearing by 18%/20-ppt (0.9x currently); and (iii) form a strategic partnership & access to a new pool of strong capital partners and vessels for future conversion bids with options on lower refinancing rates.

A growth stock with improving visibility

We remain upbeat on Yinson for its ability to create value, steady earnings growth, visible tender pipeline and cashflow strength. The tender pipeline for FPSOs worldwide remains strong. FPSO CRD job win in early 2017 would offer visible earnings growth from 2020. Apart from FPSO Layang, Yinson remains engaged in several firm biddings. Yinson's valuations are undemanding, considering its earnings visibility, growth prospects, decent dividends and balance sheet / cashflow strength.

FYE Jan (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,039	764	1,001	1,140	1,140
EBITDA	261	284	561	698	704
Core net profit	173	219	375	341	357
Core EPS (sen)	16.2	20.6	35.2	31.9	33.5
Core EPS growth (%)	17.5	26.8	71.0	(9.3)	4.9
Net DPS (sen)	1.5	16.8	10.4	10.0	10.0
Core P/E (x)	25.0	19.7	11.5	12.7	12.1
P/BV (x)	1.9	1.8	1.4	1.3	1.2
Net dividend yield (%)	0.4	4.1	2.6	2.5	2.5
ROAE (%)	12.0	8.5	13.7	10.7	10.4
ROAA (%)	4.8	3.9	5.6	4.8	4.8
EV/EBITDA (x)	15.6	21.4	11.7	8.9	8.4
Net gearing (%) (incl perps)	51.9	114.7	72.9	54.9	40.1
Consensus net profit	-	-	347	334	347
MKE vs. Consensus (%)	-	-	8.1	2.0	3.0

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BUY

Share Price	MYR 4.05
12m Price Target	MYR 4.45 (+10%)
Previous Price Target	*MYR 4.45*

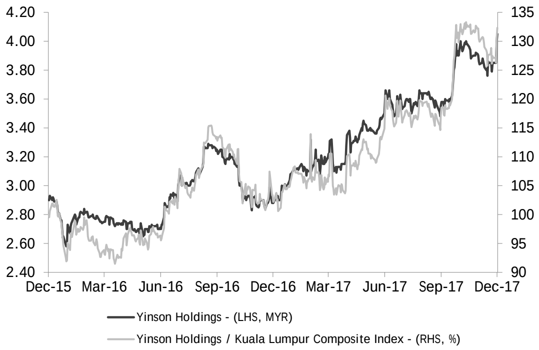
Company Description

Yinson is the Top 6 FPSO operator in the world by fleet size. OSV and non-O&G (transport & trading) operations are complementary businesses.

Statistics

Shariah status	Yes
52w high/low (MYR)	4.05/2.89
3m avg turnover (USDm)	2.0
Free float (%)	51.9
Issued shares (m)	1,093
Market capitalisation	MYR4.4B
	USD1.1B
Major shareholders:	
LIM HAN WENG	16.0%
Kumpulan Wang Persaraan	14.0%
Employees Provident Fund	11.2%

Price Performance



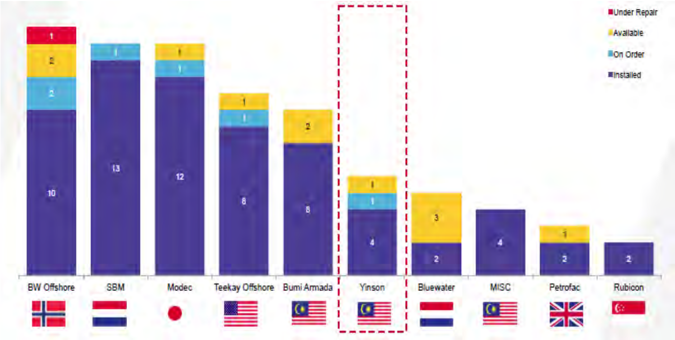
	-1M	-3M	-12M
Absolute (%)	5	13	41
Relative to index (%)	1	12	29

Source: FactSet

Value Proposition

- Arguably the most profitable FPSO operator globally. 6th largest independent FPSO leasing entity worldwide in terms of fleet size (with operating presence in Asia and Africa). OSV is its complementary business.
- Unlike its peers, its FPSO contracts are generally more bankable (strong counterparties), providing steady visibility (long term charters, termination protection) with reasonable project IRRs.
- Has an experienced, lean management team with strong execution capabilities – proven track record in consistently delivering projects on budget, on time.

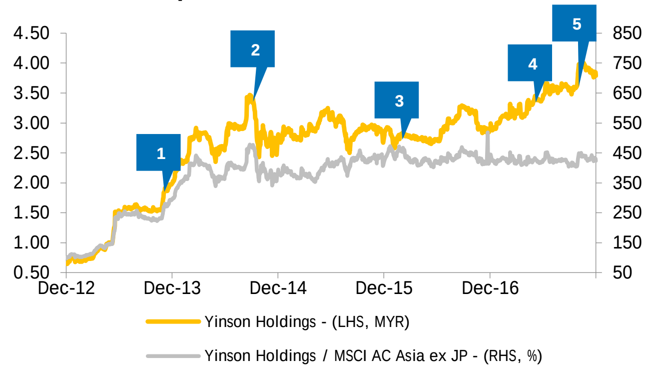
Top 10 FPSO companies worldwide



Source: Company

Price Drivers

Historical share price trend



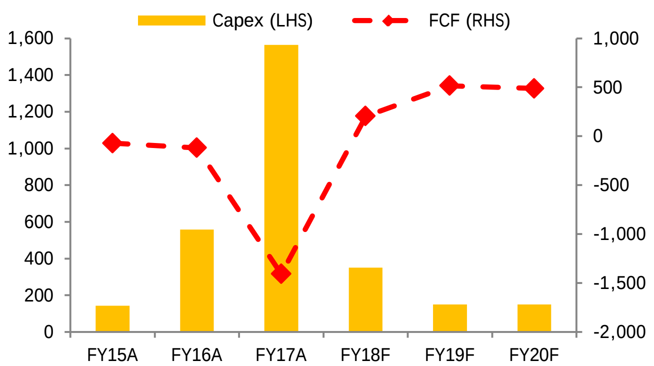
Source: Company, FactSet, Maybank Kim Eng

1. Completed the acquisition of Fred Olsen Production for USD180m on 20 Dec 2013.
2. The beginning of the fall in crude oil price to sub-USD100/bbl.
3. Secures 2nd extension for FPSO Adoon.
4. Secures CRD FPSO contract worth USD1b (10+5-year charter).
5. To take over THHE's laying job.

Financial Metrics

- Key earnings drivers are Yinson's bare-boat & O&M charters, as well as utilisation and opex. Variations in any of these parameters will impact profitability.
- With low oil prices, cost management and capital discipline are key emphases in this cycle.
- Post-delivery of FPSO JAK, Group's FCF will turn positive in FY18.
- Despite the heavy capex, net gearing has been manageable, reflective of prudent financial management and cashflow generation from its FPSO operations.

Capex and FCF trend (MYR'm)



Source: Company

Swing Factors

Upside

- Rebound in crude oil price will be the most dominant near term stock driver.
- New job wins (prospecting for 2-3 firm tenders) will contribute to a significant jump in earnings.
- M&A action is not entirely ruled out as values are undemanding following the recent steep drop in asset prices.

Downside

- Further weakness in oil price will hurt share price performance.
- Poor execution capabilities and/or contract(s) termination related to its FPSO operations and inferior cost management would have a detrimental effect on earnings and market perception.
- Expansion of non-core operations will not be well received at this point of the industry cycle.

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Materials

Malaysia

Petronas Chemicals (PCHEM MK)

Don't overlook this champion

BUY

Share Price	MYR 7.70
12m Price Target	MYR 8.50 (+10%)
Previous Price Target	*MYR 8.50*

Maintain BUY with MYR8.50 TP, peer-group comp

PCHEM's diversified product portfolio makes it an excellent play for strong global demand for petrochemicals. ASPs have held firm YoY, utilisation rate is at high levels (~90%) and new builds are on schedule. However, EPS growth will be flat in 2018 due to a statutory maintenance shutdown. Our TP is based on 2018 EV/EBITDA of 9.1x, 10% premium to the peer group for its strong cash flows and net cash of ~MYR7b.

What to look for

Management targets a 90% utilisation rate in 2018 and expects an immediate profit contribution from the recently commissioned Aroma plant. The crude oil price has been trending upwards since 3Q17 and this is positive for petrochemicals as prices are deeply correlated to crude oil. PCHEM's feedstock cost is fixed and independent of crude oil price movement. Despite the rising crude oil price trend, we have imputed a flat ASP in our 2018 earnings forecast assumption.

Key risk

The key risks in our view are: 1) extended downtime of Kertih integrated petrochemical complex (IPC); and 2) higher-than-expected methane gas price escalation. The Kertih IPC is due for its 5-year turnaround cycle and management guided a downtime of 6-8 weeks. Management is tight lipped on the price escalation of methane gas (as usual), but states it is similar to the ethane gas contract renewal in 2016. We assumed a one-time escalation of 10% coupled with an annual escalation of 1%.

The highest quality petrochemical play

We believe PCHEM has been overlooked purely due to the fear that US petrochemical exports will alter the global supply-demand balance. Our reading of the market is different: global demand-supply is in balance and prices will remain steady. PCHEM will benefit from such a scenario and deliver sustained strong earnings in 2018.

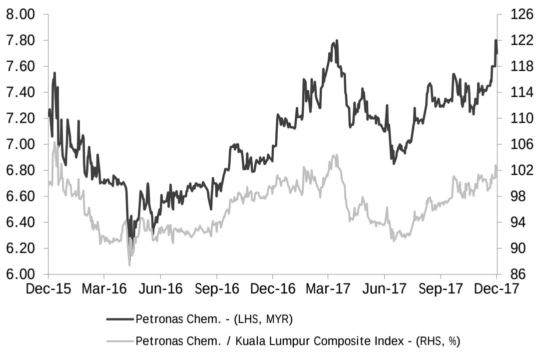
Company Description

Petronas Chemicals Group Bhd manufactures, markets, and sells petrochemicals.

Statistics

Shariah status	Yes
52w high/low (MYR)	7.80/6.85
3m avg turnover (USDm)	17.3
Free float (%)	35.5
Issued shares (m)	8,000
Market capitalisation	MYR61.6B
	USD15.1B
Major shareholders:	
Government of Malaysia	64.4%
Employees Provident Fund	10.1%
Permodalan Nasional Bhd.	7.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	6	10
Relative to index (%)	(0)	4	1

Source: FactSet

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	13,536	13,860	16,926	17,116	17,385
EBITDA	4,660	5,291	6,464	6,548	7,233
Core net profit	2,780	3,183	4,202	4,205	4,656
Core EPS (sen)	34.8	39.8	52.5	52.6	58.2
Core EPS growth (%)	9.0	14.5	32.0	0.1	10.7
Net DPS (sen)	18.0	19.0	27.0	27.0	30.0
Core P/E (x)	22.2	19.4	14.7	14.6	13.2
P/BV (x)	2.5	2.3	2.3	2.1	1.9
Net dividend yield (%)	2.3	2.5	3.5	3.5	3.9
ROAE (%)	11.7	11.3	15.4	14.8	15.1
ROAA (%)	9.4	10.1	13.1	12.7	13.2
EV/EBITDA (x)	11.0	9.4	8.8	8.3	7.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	4,130	4,086	4,289
MKE vs. Consensus (%)	-	-	1.4	2.9	8.6

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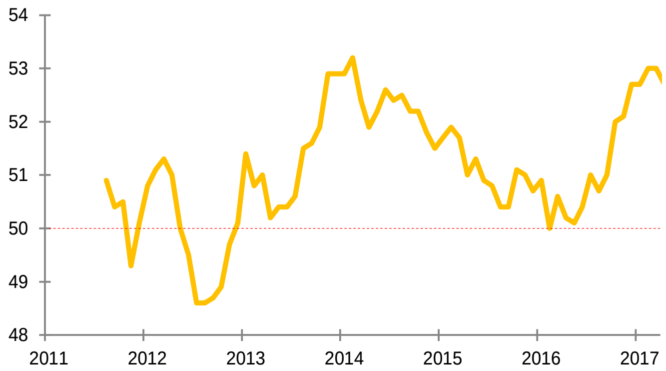
Value Proposition

- Southeast Asia's largest integrated gas-based chemicals producer with a nameplate capacity of 12.7 million tpa.
- Strong growth pipeline with three expansion projects that will expand nameplate capacity by ~30%, scheduled for completion in 2018-19.
- The lowest cost petrochemical producer in Asia Pacific, ensuring sustainable profits, by our estimate.
- Global PMI firmly in expansion territory and tight supply-demand dynamics suggest product spreads should continue to be resilient in the short term.

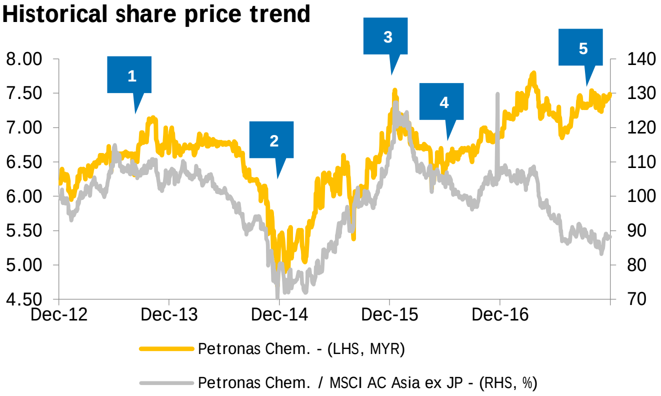
Global Producer Manufacturer Index (PMI)



Source: Bloomberg

Price Drivers

Historical share price trend



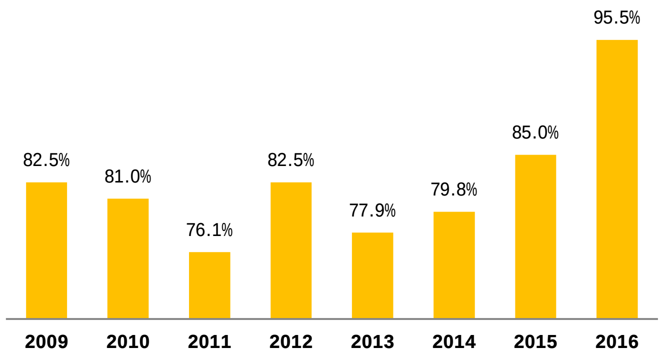
Source: Company, FactSet, Maybank Kim Eng

1. Share price tracks the KLCI market.
2. The collapse of crude oil prices caused a de-rating of the petrochemical sector.
3. Reported strong profit on better utilisation rate and good cost control.
4. Share price re-tracked in-line with general market.
5. Share price relatively stable as investors hold it for dividends.

Financial Metrics

- Consistent improvement in utilisation rates, management have enhanced maintenance practices and procedures.
- Higher utilisation will propel economies of scale benefits as the fixed cost components are amortised over greater unit volume.
- Assume utilisation rate of 90%, flat ASP, 7% higher raw material cost and 16% tax rate for 2018.
- Sensitive to naphtha price movement, a 1% change in naphtha will move earnings by MYR50m (±1.2%)

PCHEM utilisation rate



Source: Company

Swing Factors

Upside

- Petrochemical spread continues to be firm.
- Unscheduled closure of major competitors' production plants.
- Customers draw in and exhaust their inventories and look for replenishment of supply.

Downside

- Sudden collapse in petrochemical spreads or extreme volatility may have an adverse impact on earnings.
- Unscheduled factory shutdowns that could materially reduce utilisation rates and product volumes.
- Wait-and-see purchase behaviour by customers will exhibit extreme volatility in the ASP, which may have an adverse impact on earnings.

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Lafarge Malaysia (LMC MK)

A slow recovery

HOLD

Share Price	MYR 6.20
12m Price Target	MYR 6.90 (+11%)
Previous Price Target	*MYR 6.90*

Cost inflation in 1H18; better prospects in 2H18

Earnings could still be challenging in 1H18 due to cost inflation and a slow recovery in demand. However, we look forward to 2H18 when we forecast a faster ASP recovery, underpinned by stronger demand as infrastructure work progress accelerates. In our view, LMC's earnings recovery has largely been priced-in. We reiterate HOLD and TP of MYR6.90 based on 1.9x P/BV (-1SD to mean).

Positive demand outlook

Despite a record high MYR229b construction job awards in 2016 (including property sector), demand for cement was lacklustre in 1H17 due to the slow work progress on mega infrastructure projects and shortage of foreign workers. We project cement demand will grow 5% in 2018 (or +0.9m tonnes) and that industry plant utilisation rate will improve to 67%. Based on our estimates, KVMRT2, KVLRT3 and ECRL could contribute around 1.5m tonnes p.a., with the demand coming in more significantly from 2H18-2019 onwards.

Earnings recovery in 2H18?

We believe the cement players will continue to push for higher net ASP in 1H18. However, this could be just to cover the rising production cost given the rising coal cost. That said, with stronger demand in 2H18, cement players should be able to implement a higher net ASP, which may lead to margin expansion and earnings recovery. We note that the present net bulk ASP is 30% below the peak ASP in 1Q15.

Key risks

Our FY18 EPS forecast assumes industry volume growth of 5% and blended ASP growth of 15%. A slower-than-expected demand recovery may adversely impact our earnings forecasts.

Company Description

Lafarge Malaysia is Malaysia's largest cement player with market share of around 40%.

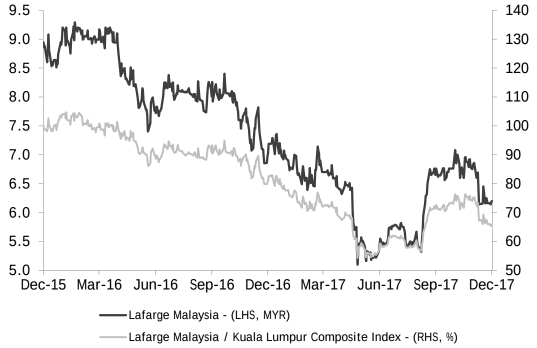
Statistics

Shariah status	Yes
52w high/low (MYR)	7.36/5.10
3m avg turnover (USDm)	0.7
Free float (%)	38.7
Issued shares (m)	850
Market capitalisation	MYR5.3B
	USD1.3B

Major shareholders:

LafargeHolcim Ltd.	51.0%
Permodalan Nasional Bhd.	12.9%
Employees Provident Fund	8.1%

Price Performance

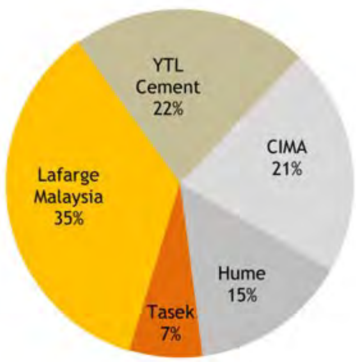


	-1M	-3M	-12M
Absolute (%)	(9)	(8)	(12)
Relative to index (%)	(12)	(9)	(19)

Source: FactSet

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	2,751	2,552	2,286	2,616	2,852
EBITDA	512	302	5	376	471
Core net profit	252	85	(197)	97	167
Core EPS (sen)	29.7	10.0	(23.2)	11.4	19.7
Core EPS growth (%)	(1.4)	(66.3)	nm	nm	73.0
Net DPS (sen)	31.0	5.0	0.0	10.2	17.7
Core P/E (x)	20.7	61.6	nm	54.1	31.3
P/BV (x)	1.7	1.7	1.8	1.8	1.8
Net dividend yield (%)	5.0	0.8	0.0	1.7	2.9
ROAE (%)	8.1	2.5	(6.7)	3.4	5.8
ROAA (%)	6.0	2.0	(4.8)	2.4	4.1
EV/EBITDA (x)	14.8	20.7	nm	14.5	11.4
Net gearing (%) (incl perps)	1.0	4.6	9.7	7.3	4.3
Consensus net profit	-	-	(165)	68	114
MKE vs. Consensus (%)	-	-	(19.6)	43.1	46.3

Peninsular Malaysia: Capacity market share (2017)



Source: Maybank Kim Eng

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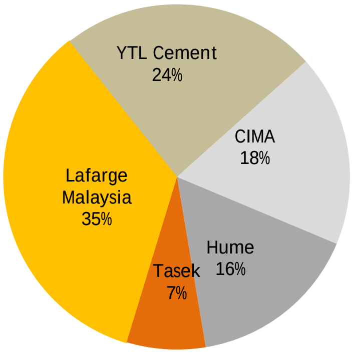
Value Proposition

- Operates in a market oligopoly in Peninsular Malaysia (total of five players), where all cement players exhibit rational business behaviours.
- Largest cement player in Peninsular Malaysia, with a market share of 35% based on cement capacity.
- Following a capacity increase in 2016, we expect the company to benefit from a recovery in both volume and ASP based on our expectation of an upcycle in Malaysian construction in 2018-20E.
- A major barrier to entry is the high capex of MYR700m-MYR1b for a greenfield integrated cement plant.
- Limited import threat due to low cement ASP in Malaysia and expensive logistics costs.

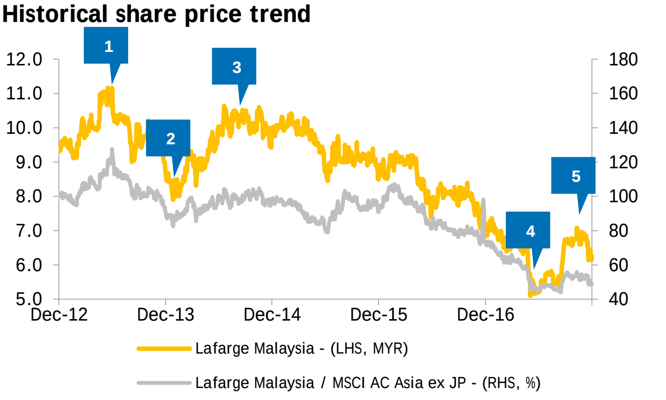
Peninsular Malaysia: Capacity market share



Source: Various, Maybank KE

Price Drivers

Historical share price trend



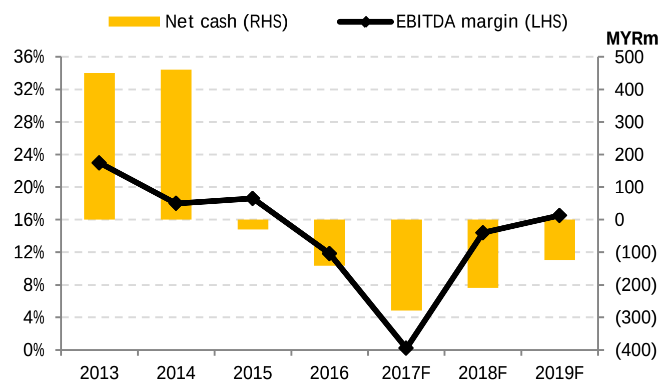
Source: Company, Maybank Kim Eng

1. Reported better 4Q12 results and high dividend payout.
2. Earnings deteriorate amid heightened competition as new player (Hume) entered the market.
3. Announcement of the merger of its French parent and Switzerland's Holcim, which resulted in the injection of Holcim Malaysia into Lafarge Malaysia.
4. Reported biggest quarterly core net loss of MYR44-49m in 1Q-2Q17 due to the depressed ASPs.
5. Share price rose upon attempts by cement players to raise net ASPs.

Financial Metrics

- EBITDA margin peaked in 2013 before the market was disrupted by the entrance of a new player.
- EBITDA margin started to deteriorate in 2014 as Hume started production. However, net cash position was still stable.
- Turned net debt in 2015 due to the weaker earnings and capex spending for new capacity.
- Net debt widened in 2017 due to the massive losses but we expect an earnings recovery and lower net debt in 2018-19E on recoveries in volume and ASP.

LMC: EBITDA margin and net cash trends



Source: Company, Maybank KE

Swing Factors

Upside

- Faster cement demand underpinned by higher infrastructure work progress and a recovery in the property sector.
- Higher-than-expected net ASP hikes.
- Lower coal cost due to higher coal supply from China and higher usage of renewable energy globally.

Downside

- Lower cement demand due to a weaker-than-expected recovery in the property market.
- Lower net ASP on heightened competition.
- Higher coal cost, potentially due to further cutbacks in coal mining and/or higher global demand.

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January 2, 2018

Gaming

Malaysia

Genting Bhd (GENT MK)

All in on Genting

BUY

Share Price	MYR 9.20
12m Price Target	MYR 12.25 (+33%)
Previous Price Target	*MYR 12.25*

Maintain BUY and MYR12.25 SOTP-based TP

We continue to see value in GENT, with the stock trading at ~40% discount to SOTP/sh or -2SD to its post-1997 mean discount to SOTP/sh of 22%. P/E is also unreasonably cheap at c.15x FY18 (GENS: >20x FY18, GENM: >15x FY18). In our view, GENT is a cheaper proxy for GENS (GENS SP, SGD1.31, BUY, TP: SGD1.42) and GENM (GENM MK, MYR5.63, HOLD, TP: MYR5.25). Our MYR12.25 TP is based on 21% discount to end-FY18E SOTP/sh valuation. In FY18, GENT may also benefit from GENS potentially securing a Japanese casino license.

Forecast earnings to double in three years

Although GENM's 9M17 earnings were supressed by lower-than-theoretical RWG VIP win rate and higher-than-expected RWG staff cost, GENT's 9M17 earnings still surged 42% YoY thanks to normal 9M17 RWS VIP win rate of 3.0% (9M16: 2.6%) and 9M17 RWS bad debts plunging 78% YoY. We forecast GENT's FY18 earnings will grow another 27% YoY thanks to normalised RWG VIP win rate and staff cost. With organic growth at both RWG and RWS, we expect GENT's FY19 earnings to hit MYR3.0b or double the amount in FY16.

Trading at unreasonably cheap valuations

Note that GENM and GENS contribute ~90% to GENT's earnings. That is why we believe it is unwarranted that GENT's share price appreciated only 12% while GENM and GENS surged 30% and 82% respectively over the last 18 months. In fact, we estimate GENT is trading at a ~40% discount to SOTP/sh or -2SD to its post-1997 mean. Therefore, we believe GENT's share price ought to catch up with GENM and GENS in 2018.

Whopping 75% upside from Japanese casino license

In FY18, the Japanese Diet is expected to legalise casinos by passing the Problem Gambling Bill and Implementation Bill and call for Requests For Proposals. GENS intends to bid for a Japanese casino license. When GENS won the Sentosa casino license in Dec 2006, we noted that GENT even traded at a 20% premium to its SOTP/sh. Should GENS win a Japanese casino license and GENT trade at par to SOTP/sh, our TP for GENT may be lifted further to MYR15.50, implying higher potential 75% upside.

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	18,100	18,366	19,324	21,545	23,824
EBITDA	5,394	6,028	7,413	8,589	9,655
Core net profit	1,298	1,525	2,020	2,568	3,011
Core FDEPS (sen)	34.8	40.8	48.6	60.9	70.8
Core FDEPS growth(%)	(24.3)	17.1	19.2	25.3	16.3
Net DPS (sen)	3.5	12.5	14.6	18.3	21.2
Core FD P/E (x)	26.4	22.6	18.9	15.1	13.0
P/BV (x)	1.0	1.0	1.0	0.9	0.9
Net dividend yield (%)	0.4	1.4	1.6	2.0	2.3
ROAE (%)	4.7	6.4	3.9	7.0	7.8
ROAA (%)	1.6	1.7	2.2	2.7	3.1
EV/EBITDA (x)	8.3	7.6	7.8	6.8	6.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,003	2,445	2,776
MKE vs. Consensus (%)	-	-	(30.9)	5.1	8.5

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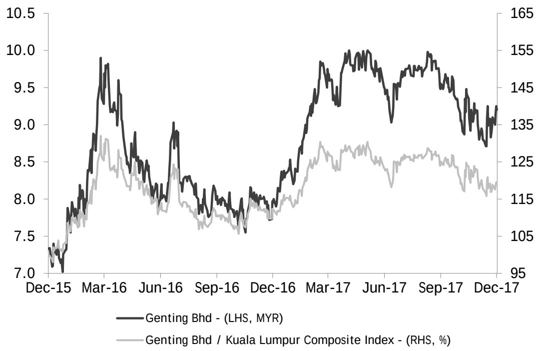
Company Description

Genting Bhd. engages in the leisure and hospitality, oil palm plantations, property development, biotechnology, and oil and gas businesses.

Statistics

52w high/low (MYR)	10.00/7.90
3m avg turnover (USDm)	7.2
Free float (%)	54.4
Issued shares (m)	3,852
Market capitalisation	MYR35.4B
	USD8.7B
Major shareholders:	
LIM FAMILY	42.7%
OppenheimerFunds, Inc.	4.9%
GIC Pte Ltd. (Investment Management)	3.2%

Price Performance



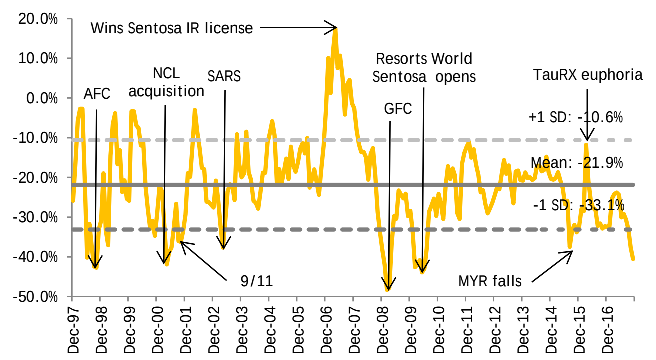
	-1M	-3M	-12M
Absolute (%)	3	(4)	16
Relative to index (%)	(0)	(5)	7

Source: FactSet

Value Proposition

- Largest casino conglomerate in South East Asia with interests in power, plantations, property and oil & gas.
- Via 49%-owned Genting Malaysia (GENM) and 53%-owned Genting Singapore (GENS), operates Resorts World Genting (RWG) and Resorts World Sentosa (RWS).
- ROEs have fallen from >10% pre-2012 to ~6% in 2016 due to RWS being pressured by the weak Chinese economy.
- We expect better performance from major subsidiaries to drive reversion to mean discount to SOP/sh.
- GENM expanding RWG via Genting Integrated Tourism Plan (GITP). RWG is Malaysian centric and especially resilient.

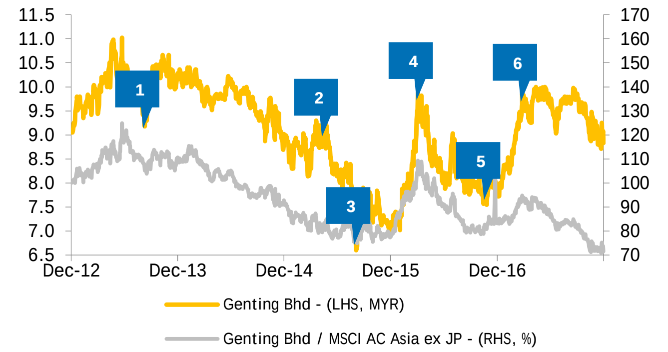
Historical (discount)/premium to SOP/sh



Source: Company, Maybank Kim Eng, Bloomberg

Price Drivers

Historical share price trend



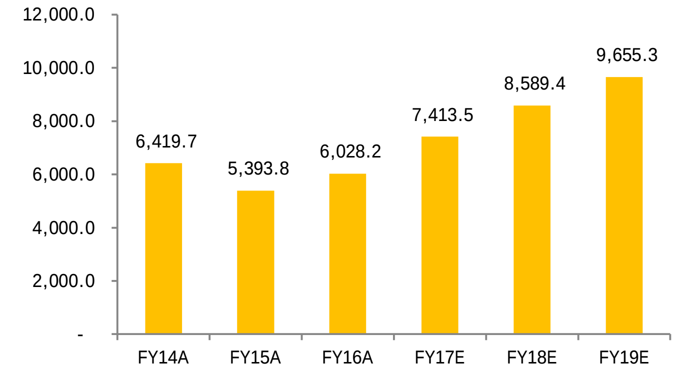
Source: Company, FactSet, Maybank Kim Eng

1. Announced 50sen special DPS and offered 1 warrant at MYR1.50 for every 4 existing shares.
2. Foreign fund outflows driven by the weak MYR pressured GENT's share price due to its high foreign shareholding.
3. GENS reported 2Q16 net loss due to derivative and foreign exchange losses.
4. Foreign fund inflows driven by the recovering MYR lifted GENT's share price due to its high foreign shareholding.
5. 21%-owned TauRX fails studies for Alzheimer's disease and behavioural variant fronto-temporal dementia.
6. GENS reported better 3Q16 results due to less direct VIP rebates and bad debts.

Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- Forecast FY17E EBITDA to grow 23% YoY on: (i) normalising VIP win rate at GENS; (ii) maiden contributions from Banten IPP; and (iii) additional capacity at RWG.
- Forecast FY18E EBITDA to grow 16% YoY on: (i) full year of contributions from Banten IPP; and (ii) continued additional capacity at RWG.
- Forecast FY19E EBITDA to grow 12% YoY on continued additional capacity at RWG.

EBITDA (MYRm)



Source: Company, Maybank KE

Swing Factors

Upside

- Higher VIP volume and win rate. These tend to be volatile, especially at GENS and can greatly influence GENT earnings.
- Lower VIP/mass market mix. Tilt towards mass market will expand margins due to less commissions and rebates.
- Higher visitor arrivals to RWG – the purpose of the GITP is to attract more high margin mass market gamblers.
- Lower USD/MYR exchange rate. Most of GENT's financial assets are denominated in USD.

Downside

- Lower VIP volume and win rate. Rising bad debt. Chinese account for 33-50% of GENS VIP volume but gambling debts are not enforceable in China.
- Lower CPO and oil prices. Plantations and oil & gas account for <10% of group EBITDA but CPO and oil prices can impact earnings nonetheless.
- Disappointing results from regional expansion. New jurisdictions often require high capex commitments without guaranteeing returns.

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January 2, 2018

Telecommunications

Malaysia

Axiata Group (AXIATA MK)

Growing digital business

HOLD

Share Price	MYR 5.49
12m Price Target	MYR 5.50 (+0%)
Previous Price Target	*MYR 5.50*

EBITDA recovery underway

Axiata's earnings recovery is underway but we believe it is largely priced-in. Nevertheless, there remains a part of the portfolio that has not yet been accorded the analysis necessary to determine the full value due to insufficient disclosure (such as edotco and the digital business). We maintain our HOLD rating with an unchanged SOTP-based TP of MYR5.50. Risk-reward remains balanced for now.

Operationally solid in 2017

Main highlight for Axiata in 2017 was the EBITDA recovery at both Celcom and XL on the back of both revenue growth and margin expansion. Axiata's share price has thus re-rated accordingly. Other companies within the Group have generally performed well. On the flipside, Ncell is grappling with the structurally declining international long-distance segment, and its dividend repatriation remains a work in progress. Associate Idea has also been posting significant losses.

3-pillar strategy

Axiata's new 'Triple core' long-term strategy comprises: 1) telco (focusing on convergence and digitalization); 2) digital business (in the areas of fintech, ad tech, enterprise IOT and application platform); and 3) infrastructure (mainly towers) in a 70-20-10 revenue split. Axiata is a proponent of convergence (both fixed mobile and fibre to homes). Monetisation remains key for each pillar, in particular for the digital business, where the days of experimenting and incubating are now over.

Our preferred Malaysia telco pick on a relative basis

We value Axiata based on a sum-of-parts analysis, with each operating entity valued using DCF. Celcom and XL, respectively account for MYR2.54 and MYR0.90 of Axiata's valuation. Dividend is set to increase in 2018E following a scheduled normalisation of the payout (payout ratio was reduced in 2016 and 2017 to conserve cash). We forecast the payout ratio will increase to 85% in 2018/19E (50% in 2017E).

FYE Dec (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	19,883	21,565	24,373	25,786	27,222
EBITDA	7,284	8,013	9,378	10,089	10,897
Core net profit	2,071	1,418	1,301	1,462	1,798
Core EPS (sen)	23.9	16.0	14.5	16.3	20.0
Core EPS growth (%)	(8.6)	(33.1)	(9.2)	12.4	23.0
Net DPS (sen)	20.0	8.0	7.2	13.8	17.0
Core P/E (x)	23.0	34.4	37.9	33.7	27.4
P/BV (x)	2.1	2.1	2.0	2.0	2.0
Net dividend yield (%)	3.6	1.5	1.3	2.5	3.1
ROAE (%)	11.5	2.1	5.4	6.0	7.3
ROAA (%)	3.9	2.2	1.8	2.0	2.4
EV/EBITDA (x)	9.4	8.0	7.5	7.0	6.4
Net gearing (%) (incl perps)	42.3	59.1	38.6	36.9	31.7
Consensus net profit	-	-	1,291	1,538	1,785
MKE vs. Consensus (%)	-	-	0.7	(5.0)	0.7

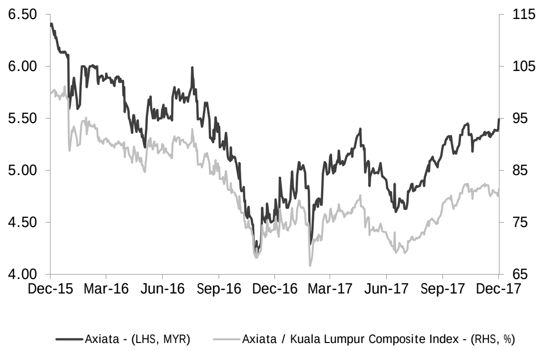
Company Description

Axiata Group owns a portfolio of mobile telcos, network infrastructure and digital internet companies in 9 countries across Asia.

Statistics

Shariah status	Yes
52w high/low (MYR)	5.49/4.29
3m avg turnover (USDm)	7.1
Free float (%)	60.1
Issued shares (m)	9,048
Market capitalisation	MYR49.7B
	USD12.2B
Major shareholders:	
Khazanah Nasional Bhd. (Investment Compa	37.8%
Permodalan Nasional Bhd.	15.7%
Employees Provident Fund	15.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	5	20
Relative to index (%)	(0)	3	11

Source: FactSet

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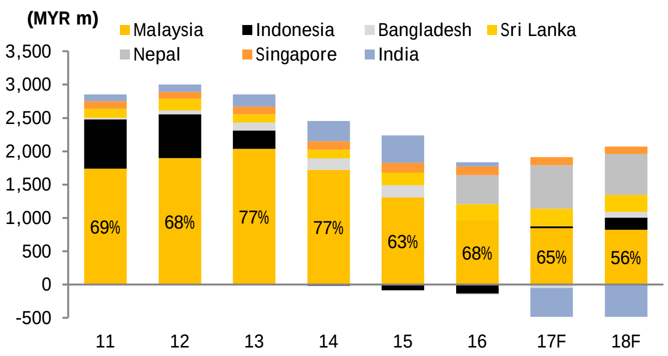
Value Proposition

- A pan-Asia portfolio of mobile telcos, with each entity in a dominant position (top-3) within its respective country.
- While organic growth is preferred, Axiata is not adverse to M&A, particularly in relation to in-country consolidation.
- Axiata will consider expanding into new markets within Asia if the investment case is compelling (recent examples include Ncell and Myanmar Tower Company).
- Axiata aims to sustain healthy long-term ROICs by maintaining a mix of income (Celcom and M1) and growth (Robi, Dialog, Ncell, Smart and Idea) in its portfolio.
- Due to operational headwinds at Celcom and XL, Axiata's ROIC fell below 10% in 2014-2016; ROIC has gradually recovered since as the respective restructuring efforts bore fruit.

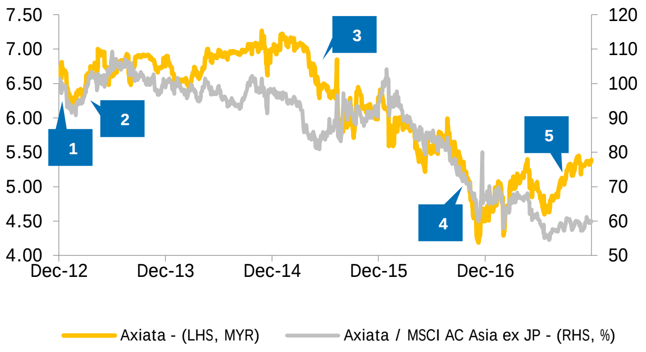
Net profit split



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price



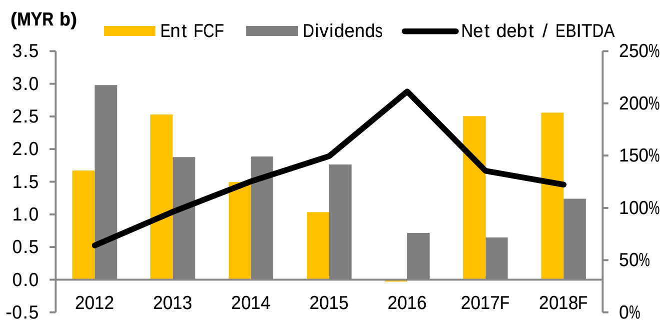
Source: Company, FactSet, Maybank Kim Eng

1. Concerns over XL's earnings outlook following sizable subscriber loss and higher capex guidance in 3Q12.
2. Restoration of expectations for a special dividend with 3Q12 results unexpectedly in line with market expectations.
3. Celcom's IT problems taking longer than expected to resolve, resulting in further loss of market share.
4. Concerns over Celcom incurring high spectrum fees from auctions, but auctions were subsequently ruled out by the regulator.
5. Market buoyed by ongoing EBITDA recovery at both Celcom and XL.

Financial Metrics

- Axiata's investment thesis revolves around both growth and yield, hence the focus on earnings and FCF.
- EBITDA did not grow meaningfully during 2010-2015 due to weaknesses at XL and Celcom; the acquisition of Ncell in 2016 helped elevate earnings.
- Net profit has remained suppressed since 2016 due to rising depreciation and lower associate contribution.
- Dividend to normalise in 2018 after two years of prudence (Axiata lowered DPR to 50% from 85% in 2016 and 2017).

FCF, dividends and gearing



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Celcom and XL deliver a stronger-than-expected recovery in 2018.
- Celcom obtaining a larger quantum of 700MHz spectrum.
- Ncell successfully repatriating dividends to Axiata.

Downside

- Celcom and XL fail to sustain EBITDA recovery momentum.
- Competition intensifies, and spectrum fees become increasingly punitive in countries that Axiata's entities operate in.
- An extended lower payout ratio as Axiata opts for further prudence.

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Maybank Kim Eng

Consumer Discretionary

Malaysia

Atlan Holdings (ALN MK)

Uncovering value

BUY

Share Price	MYR 4.29
12m Price Target	MYR 6.00 (+40%)
Previous Price Target	*MYR 6.00*

Untouched by e-commerce

We believe Atlan's core business would remain resilient against the backdrop of rising e-commerce activities. This is attributed to the nature of its duty-free business as shoppers purchase duty-free products directly from its outlets which are located in duty-free zones/airports/border towns – providing a niche and captive market for Atlan. Maintain BUY with a MYR6.00 SOP-based TP.

Earnings to be enhanced by DFI

There could be more earnings upside from Atlan's duty-free arm, Duty Free International Ltd (DFIL SP, Not Rated), following its partnership with Gebr. Heinemann since Jun 2016 which could (i) improve profit margins from cheaper supplies, (ii) lower working capital and inventory costs, and (iii) introduce new brands and a wider range of merchandise in its outlets. Although near-term net profit growth is offset by higher minority interest, we are confident of larger synergistic benefits.

Sizeable expansion potential ahead

We believe there are plenty of expansion opportunities such as acquiring land/synergistic companies, developing existing businesses and tapping new markets - backed by Atlan's healthy balance sheet (end-FY17: net cash of 91sen/share). This includes its underutilised 772-acre Bukit Kayu Hitam land which has significant redevelopment and revaluation potential (we estimate at least MYR86m or 34sen/share). A potential catalyst, in our view, is the Malaysian government's recent proposal to the Thai government for better land connectivity between Songkhla Port and Penang Port, which passes Atlan's Bukit Kayu Hitam land, to speed up economic activities in the northern region of Peninsular Malaysia.

A defensive, value BUY

We like Atlan for its: (i) resilient earnings (from DFI), (ii) solid FY18-19E dividends (100% payout) which offer net yields of 3%+ (free cashflow: 9-27sen/share p.a.), (iii) M&A driven growth prospects, (iv) undervalued assets i.e. Jalan Ampang and Bukit Kayu Hitam.

FYE Feb (MYR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	768	809	812	834	856
EBITDA	108	119	113	122	125
Core net profit	51	38	39	41	42
Core EPS (sen)	20.0	15.1	15.6	16.1	16.6
Core EPS growth (%)	40.4	(24.3)	2.9	3.4	3.3
Net DPS (sen)	17.5	22.5	15.6	16.1	16.6
Core P/E (x)	21.5	28.3	27.6	26.6	25.8
P/BV (x)	2.7	2.3	3.4	3.4	3.4
Net dividend yield (%)	4.1	5.2	3.6	3.8	3.9
ROAE (%)	10.8	12.4	9.8	12.6	13.0
ROAA (%)	6.5	4.4	4.0	3.8	3.9
EV/EBITDA (x)	11.4	9.8	10.6	9.7	9.7
Net gearing (%) (incl perps)	6.8	net cash	net cash	net cash	net cash
Consensus net profit	-	-	40	41	42
MKE vs. Consensus (%)	-	-	(0.0)	0.1	(0.0)

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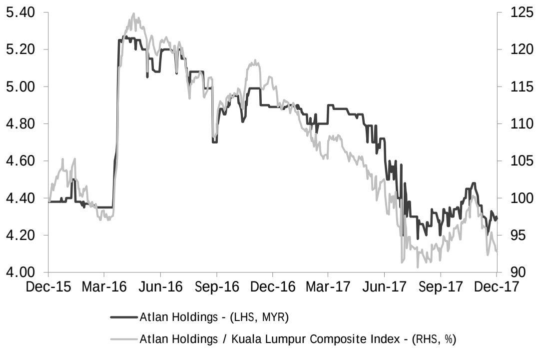
Company Description

Atlan primarily operates and develop travel retail outlets in Malaysia. Other segments include property, hospitality and automotive.

Statistics

Shariah status	Yes
52w high/low (MYR)	4.90/4.18
3m avg turnover (USDm)	0.0
Free float (%)	9.1
Issued shares (m)	254
Market capitalisation	MYR1.1B
	USD267M
Major shareholders:	
Distinct Continent Sdn. Bhd.	51.4%
Berjaya Corp. Bhd.	24.7%
Asia-Pacific Strategic Investments Ltd.	3.2%

Price Performance



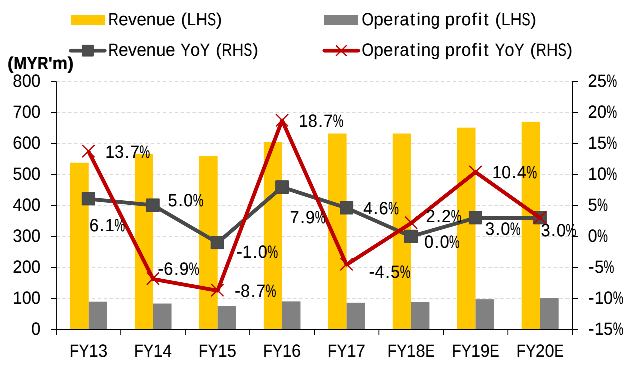
	-1M	-3M	-12M
Absolute (%)	(2)	1	(12)
Relative to index (%)	(5)	(0)	(19)

Source: FactSet

Value Proposition

- DFI (Atlan's duty free subsidiary) operates under the 'ZON' brand and is one of two key operators of travel retail outlet chains in Malaysia. Atlan has also diversified into property, hospitality and autoparts manufacturing.
- DFI operates in a mature, duopoly market with a high barrier to entry. Its other peer is ERAMAN Malaysia.
- Recently-concluded partnership with Gebr. Heinemann would enhance DFI's sales and earnings prospects.
- Duty free outlets, particularly for the border town and airport outlets, provide resilient earnings for the group by contributing stable, year-round sales volume.
- Net cash position and low capex requirements would be an avenue for sizable future growth and expansion.

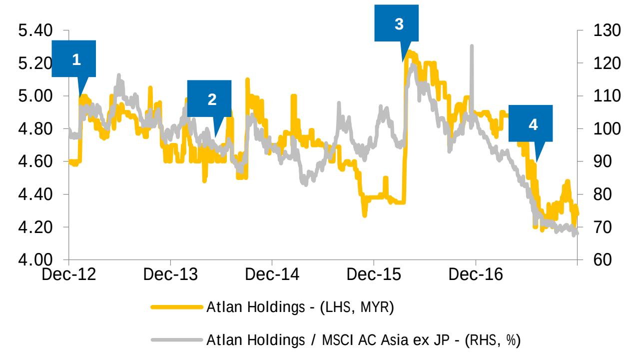
DFI revenue and operating profit



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



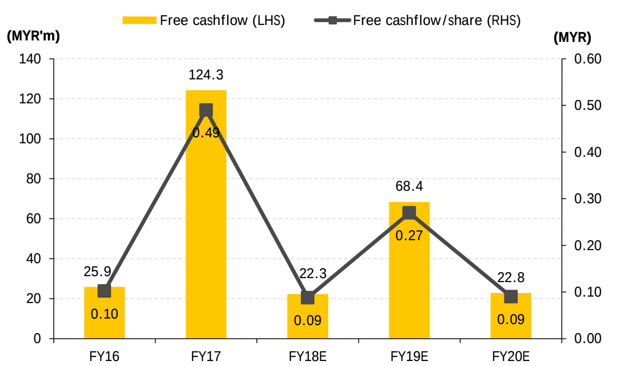
Source: Company, Maybank Kim Eng

1. Post Berjaya Corp's acquisition of a sizeable stake (~8%) in Atlan in May 2012 and became the second largest shareholder.
2. Share price has remained relatively stable; largely in line with Atlan's resilient earnings.
3. Post partnership agreement with Gebr. Heinemann which was deemed as positive for Atlan's operations.
4. Partly attributed to short-term shortfall in earnings as revenue (i.e. at bordertown outlets) was temporarily dampened by the passing of Thailand's King in Oct 2016 and flooding in northern Peninsular Malaysia.

Financial Metrics

- The duty free segment (via DFI) is the key earnings driver.
- Profitability of DFI would be enhanced by better margins post its partnership with Gebr. Heinemann. Sales volume is expected to achieve stable, albeit minimal, growth.
- In a net cash position since 1QFY17, which provide opportunities for expansion (e.g. M&A, tapping new markets).
- Near-term FCF to remain at commendable levels due to low capex requirements. This supports favourable dividend payouts in future.

Free cashflow



FCF in FY15 due to drop in working capital post asset disposals
Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Increase in DFI's profitability via better revenue growth and/or margin improvement.
- Expansion of DFI via opening of new outlets in existing or new markets.
- Boost in Malaysia's tourist arrivals and spending.
- Acquisition of profitable businesses which synergise with Atlan's existing businesses/segments.

Downside

- Lower-than-expected/slower earnings growth due to drop in sales volume.
- Exceptional events which affect tourism in Malaysia.
- Acquisition of less/non-profitable companies.

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INDIA

INDIA – Liquidity driven rally to cool off

The 2017 33% NIFTY rally was driven by domestic equity flow (USD13.7b inflows which is greater than past 3 years cumulative) and will be more difficult to beat in 2018. Key catalysts would be a recovery in GDP/corporate earnings. Cut in corporate tax and GST will be positive for corporate earnings but negative for fiscal deficit management. A rise in interest rate could affect companies in the telecom, power, roads, and sectors which are overstretched. Market volatility is set to increase ahead of election in 8 states in 2018, and general elections in 2019. We highlight five stocks (TTMT, AXSB, INXW, SOTL, HSCH) that could re-rate either from an inflection in operations and/or industry trends.

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Time for a breather; D/G to Neutral on valuation/EPS miss

An unprecedented domestic equity flow has led to a big rally, despite demonetization, GST and earnings falling short of consensus estimates. Unless there is a sharp earnings recovery, we believe a correction is imminent. Accordingly, we downgrade our market rating from Positive to Neutral. The NIFTY is 13% above our previous target of 9,312 (based on 16x FY18E P/E) set a year ago after having rallied 33% YTD to an all-time high of 10,490. Our revised target of 10,500 is based on an unchanged 17x FY19 P/E (slightly above the market LT avg) after rolling forward to FY19E, in line with consensus. Refer our latest detailed India strategy note.

Five of our top ideas are a mix of growth and value

Among our top stock ideas, two are break-out and three are contrarian where we expect a reversal of stock-price movements. Though our bias is towards value stocks for 2018 because 60% of the index is skewed towards growth stocks as per the latest MSCI value/growth index the highest among peer countries.

We believe the worst is over for Tata Motors and it is trading at a large discount to the NIFTY Auto index/Maruti Suzuki. We would long TTMT versus MSIL.

Axis Bank should recover after a strong and timely capital injection, and is trading at its 3 year low valuation.

The reversal in Inox Wind could be quick (30% utilization of capacity) based on the success of a new policy and renewal in orders for wind turbines (25-30% market share). The worst is over for the company and there are early signs of a pick-up in its order backlog.

Himadri Chemical will ride on its launch of anode material used in making lithium-ion batteries and its growing use in EV.

Sterlite Tech with its optic fibers and system integration is enabling a global data revolution and is ready to scale up capacity to meet burgeoning demand.

Market volatility to rise ahead of elections in 2018/19

NIFTY premium due to PM Modi's popularity and invincibility could be at risk after 3.5 years of his rule. The recently concluded Gujarat elections indicate a close battle for the ensuing state elections in the North-East, Karnataka, Rajasthan, MP, Odisha and Jharkhand. Another critical factor will be the reduction in corporate tax rate in the forthcoming budget and expected cuts in the GST as per popular demand. These, if carried out, will increase pressure on the fiscal deficit. Overall both politics and taxation will drive volatility in the market which is at a multi-year low and historically tends to rise at the time of elections.

1. Growth vs Value - Prefer Tata Motors(TTMT) to MSIL

In 2017, TTMT's share price fell 13%. However, compared to the NIFTY auto index, it under performed 40% and a whopping 81% vs MSIL. We find the value in the stock compelling at 9x FY19E P/E vs MSIL which trades at 27x P/E for a similar ROE. Not only that but we think TTMT's EBIDTA expansion of 32% for FY19E and EPS increase of 53% will be in excess of MSIL's growth rate for the same year. Automobiles is one of our preferred 2018 themes in India due to low car ownership of 40 per 1000 and rising disposable income. Within autos, TTMT is our top pick due to recovery in its earnings in India, steady growth at JLR and a compelling valuation. Our forecasts for MSIL's EPS for FY18/19 are unchanged and we find the recent rally in its stock to be overdone. The stock is trading at c.22% above our TP. We recommend BUY TTMT and SELL MSIL.

1.1 TTMT earnings to recover sharply

We forecast an EBITDA CAGR of 22% in FY17-20E led by margin improvement, lower FX losses in JLR and increased capacity utilization in domestic truck and car business. TTMT (standalone) reported an EBITDA of INR15.5b (margin of 6.5%, EBITDA loss in 1Q) for 1HFY18.

We think that TTMT's India business is on the path to recovery and is expected to generate net profit by FY20. We see a trebling of net profit and a doubling of ROE from FY17-20E due to low base, rising volume, high operating leverage and improving demand for new products. After a slump to 10% for FY17, we forecast its ROE for FY18 to go back to its level of 17% achieved for FY16.

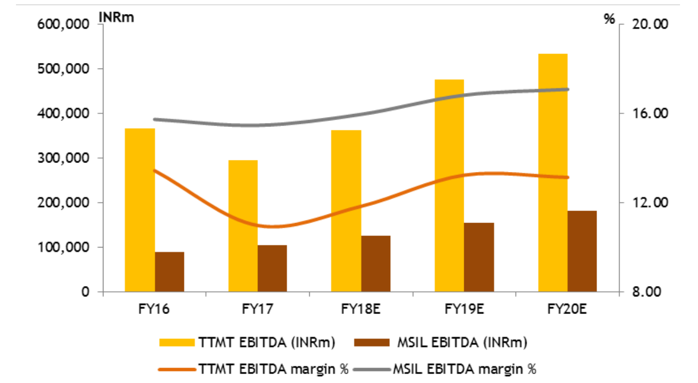
1.2 … aided by new launches driven volume

JLR reported a 13% CAGR in volumes in the last five years and we forecast a 9.6% CAGR for FY17-20E. Recent launch of Range Rover Velar and the XF Sportsbrake along with Jaguar's E-Pace (expected in 2HFY18) and I-Pace (battery electric SUV expected in 2HFY19) are set to drive volume growth.

Increased volume in both truck (+11% YoY) and passenger cars (+12% YoY) segment in 1HFY18 and successful launch of new products is enabling market share gain (+240bp in CV segment to 46%; +40bp for car segment to 5%).

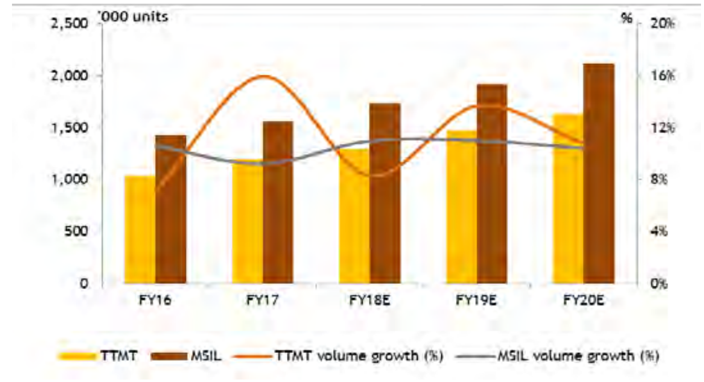
Electrification strategy is chalked out and will be on offer across JLR, TTMT India vehicles from FY19.

Fig 1: EBITDA and EBITDA margin of TTMT vs MSIL



Source: Company data, MKE

Fig 2: Overall volume and volume growth TTMT vs MSIL



Source: Company data, MKE; TTMT includes volumes of JLR as well

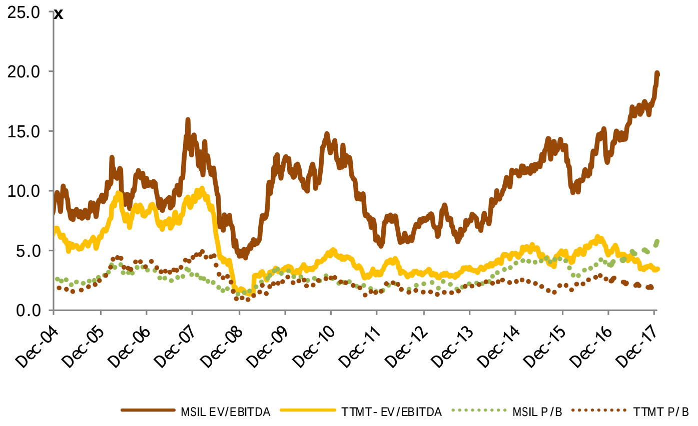
1.3 Steep discount to MSIL unwarranted

From 2004 till 2009, the gap in share price and valuation between TTMT and MSIL was not significant. However, over the past three years, MSIL's market cap rose at a CAGR of 59% to USD40b while that of TTMT fell -11% to USD20b. This was due to the 43% rise in MSIL's earnings vs -27% for TTMT over FY15-17. In this period, TTMT's domestic business made losses hurting its overall growth even as JLR continued to perform well.

We are confident of an earnings recovery for TTMT over the next two years led by a bottoming out of margin at JLR and a turnaround in the India business.

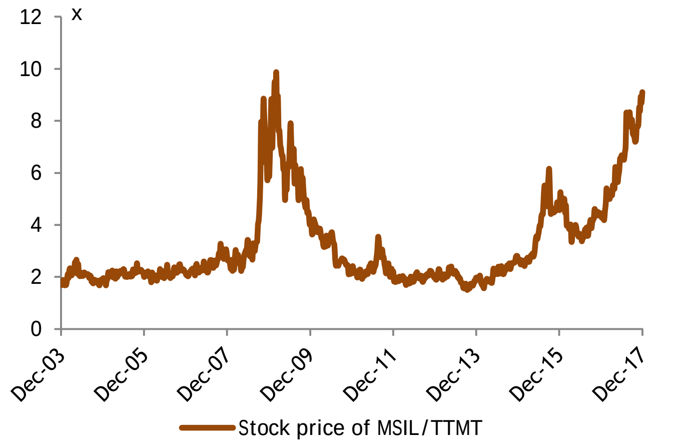
The valuation gap between MSIL and TTMT has widened to more than 200% based on PER for FY19E. We think the gap in PER will narrow because on other important parameters such as the size of profit, quality of balance sheet, and ROE the two are comparable.

Fig 3: TTMT vs MSIL valuation (1 year fwd EV/EBITDA & P/B)



Source: Bloomberg, MKE, MSIL listed in 2003

Fig 4: 14 years price movement of TTMT vs MSIL



*Source: Bloomberg, *MSIL listed in 2003; Considered Face value of INR5 for both*

1.4 Peer comparison

Fig 5: TTMT trades at 1/3rd the PER and 1/4th EV/EBIDTA relative to MSIL

Name	Ticker	Country	Mcap (USDb)	CMP (Local)	TP (INR)	Upside (%)	Reco.	P/E (x) FY17A	P/E (x) FY18E	EV/EBITDA (x) FY17A	EV/EBITDA (x) FY18E	ROE FY17A
Domestic companies												
Maruti Suzuki India	MSIL IN	India	37.0	9,671	7,500	-22%	Sell	39.8	33.5	25.6	21.2	20.9
Mahindra & Mahindra	MM IN	India	13.8	741	781	5%	Buy	22.2	20.5	15.6	12.1	14.2
Tata Motors	TTMT IN	India	22.0	424	544	28%	Buy	22.7	12.2	4.9	4.8	12.8
Average								**31.0**	**27.0**	**20.6**	**16.7**	**17.5**
Foreign companies												
TOYOTA MOTOR CORP	7203 JP	Japan	206.0	7,079	n.a	-	NR	10.7	10.2	12.0	11.5	20.4
VOLKSWAGEN AG	VOW GR	Germany	100.7	171	n.a	-	NR	7.3	6.7	2.1	2.0	24.5
DAIMLER AG-REGISTERED SHARES	DAI GR	Germany	88.9	71	n.a	-	NR	7.8	7.9	2.5	2.5	19.7
BAYERISCHE MOTOREN WERKE AG	BMW GR	Germany	66.3	87	n.a	-	NR	7.9	7.9	9.4	9.2	17.1
GENERAL MOTORS CO	GM US	USA	63.9	45	n.a	-	NR	7.1	7.7	3.6	3.8	18.4
HONDA MOTOR CO LTD	7267 JP	Japan	60.0	3,715	n.a	-	NR	10.3	9.4	8.8	8.1	n.a
TESLA INC	TSLA US	USA	53.4	318	n.a	-	NR	n.a	n.a	132.2	31.6	31.2

Source: Maybank Kim Eng

Fig 6: SOTP valuation

Business segments	Valuation methodology	EBITDA (INRb)	Equity value (INRb)	INR/sh	Comments
Auto					
- TTMT s'alone	8x EV/EBITDA FY19E	41	330	97	40-50% discount to peers
- JLR	4x EV/EBITDA FY19E	349	1,412	416	Slight premium to peers
Sub Total				**513**	
Investments					
Tata Motors Finance	1x P/B FY17		16	5	at 1x P/B; Discount to peers' 2.5-3x
Other Associates/JVs					
Tata Technologies	8x EBITDA FY17a		39	12	At recent transaction with Warburg
Tata Daewoo	5x EBITDA FY17a		25	7	Discount to domestic autocomp peers
TML Drivelines	8x EBITDA FY17a		8	2	Discount to domestic autocomp peers
Tata Cummins	At book value FY17		4	1	
Fiat India Auto Pvt Ltd	At book value FY17		15	5	
Tata Hitachi	At book value FY17		4	1	
Sub Total			**112**	**33**	
Total market value					
less debt	FY19E		587	173	Excl debt of Tata Motors Fin
add Cash	FY19E		580	171	
SOTP value				**544**	

Source: Maybank Kim Eng, Exchange rate is 1GBP=INR82.8 –current exchange rate is 86

2. Breakout in demand

2.1 Himadri Speciality Chemicals (HSCH)

HSCH is one of the best performing stocks of 2017 but we still like it for the strength of its core earnings and commercialization of its anode material which is used in lithium-ion batteries. The anode material plant will go live in 2HFY19 and could be its defining moment due to its high entry barrier, a 10x higher margin vs its existing products and buoyant prospects of electronics/electric cars where lithium-ion batteries are used. We forecast its earnings to triple this year and rise 30% pa. for the next two years. The stock trades at a PEG of 0.7x, justifying its 20% upside to our TP of INR184. Catalyst will be quick ramp up of the anode material business.

2.2 Earnings momentum, Leadership sustainable

HSCH commands 70% of the coal tar pitch (CTP) and 17% of the carbon black (CB) market in India and will retain its leadership due to expansionof capacity of both products in a niche segment that has high entry barriers.

HSCH commands pricing power / flexibility in CTP (used for making aluminium) as it supplies the most critical product in the aluminium manufacturing sector. It sells more than 55% of its CB in the non-commoditized market allowing it to earn a better margin than peers.

Its net profit is expected to increase 3x for FY18E YoY and see a 30% CAGR from FY18-20E. A key catalyst is the start of its new ACM plant in 2HFY19.

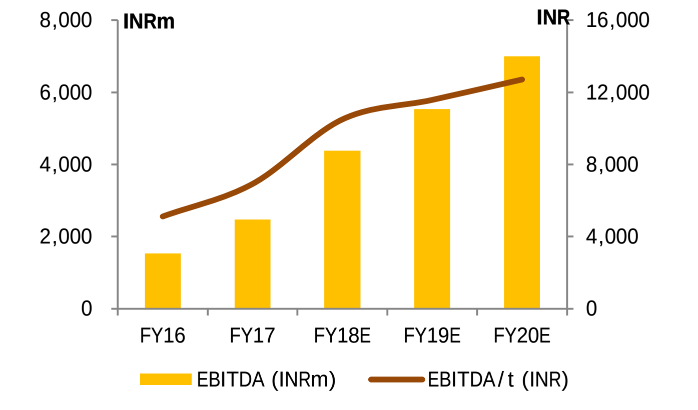
2.3 Play on high growth Li-ion batteries, EVs

HSCH has recently commercialized Advance Carbon Material (ACM) (~10x more value add than existing products) which is the anode material used in Li-ion batteries, in turn used for electronics and electric vehicles (EV).

The demand for Li-ion batteries is expected to accelerate due to a global shift in car technology to EV from internal combustion engines (EU, India and China want to be 100% on EV by 2030-35 to cut pollution). According to automotive experts at Society of Indian Automotive Manufacturers (SIAM) annual event held in September 2017, about 20-25% of global demand will shift to EV from conventional fuel based cars from the current 1% of total.

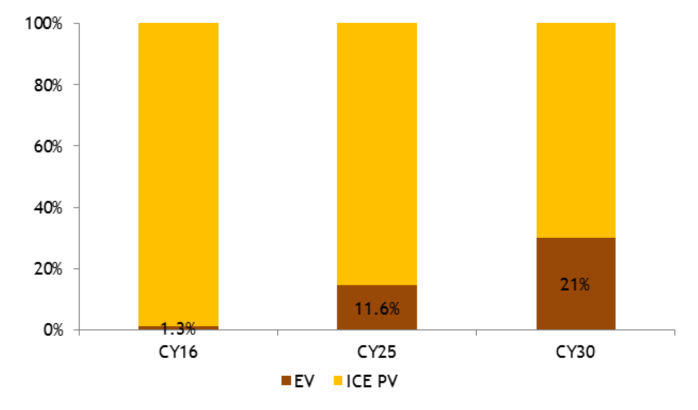
As per HSCH, ACM forms 40-50% of the cost of anodes in the Li-ion battery and is made by a few companies worldwide including Mitsubishi, Nippon Carbon and Shanshan Tech - this opens a huge growth opportunity for the company.

Fig 7: Improving profitability due to better product mix



Source: Company data, MKE

Fig 8: EV as a % of total PV sales to rise sharply by CY30



Source: Statista, Industry, MKE

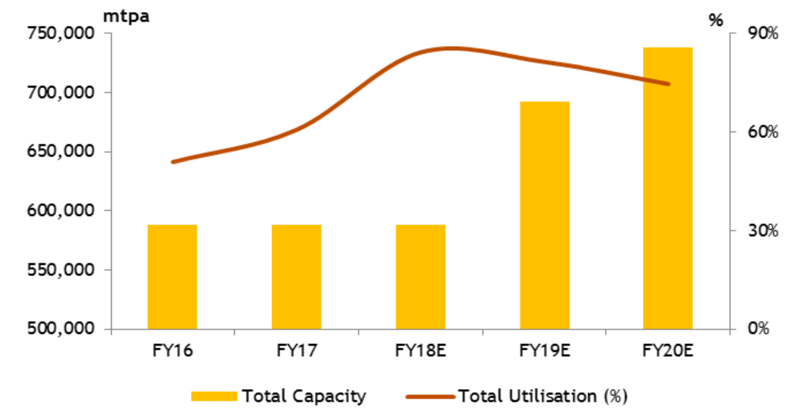
2.4 Earnings can break-out more than forecast

HSCH could generate EBITDA of INR5b from 20kT of ACM at full capacity in FY21-22, double that of its existing business (not in our forecast).

Our forecasts are conservative with sales of 4kT in FY20 and EBITDA of INR960m from ACM (~14% of total EBITDA).

Faster ramp up of the capacity and higher utilization are catalysts with potential to ramp up HSCH's profitability.

Fig 9: Additional capacity in FY20 for higher value products



Source: MKE

1. INOX WIND(INXW) - Break-down due to new policy to be short-lived; Worst in the price

2017 has been a bad year for the wind turbine makers in India and globally. The stocks of Indian wind turbine makers were weak (INXW down 20% in 2017 and its rival SUEL 20% in the last 6 months) given lack of orders in the sector and concern on the return profile of the wind power industry. Globally too wind power stocks fell sharply in the year (GAMESA SM -27%, SENVION SA -17%, NORDEX SE -56%). After the stabilization of the new auction based tariff policy in India, demand should recover in FY19/20. The Indian government's plan to install 60GW of wind power by 2022 remains unchanged despite the aberration in 2017. INXW is cheap, operating at 30% utilization and trading at 7x FY19E EV/EBITDA vs 8x its peers. Prior to the demand break-down and fall in stock price earlier this year, INXW traded at an average EV/EBIDTA of 10x since its listing in FY15.

1.1 Wind turbine makers came under pressure in FY18

Change in the regulated tariff to an auction based competitive bid tariff impacted the wind power installation from 4QFY17.

For 1HFY18, India commissioned 0.4GW wind power vs 1.2GW in 1HFY17 and 5.4GW in FY17; this impacted earnings of the incumbents in the sector.

We believe the auction regime has created near term uncertainty in the sector but offers long term gains (increase in the market size, reduced working capital, short gestation, lower cost of capital).

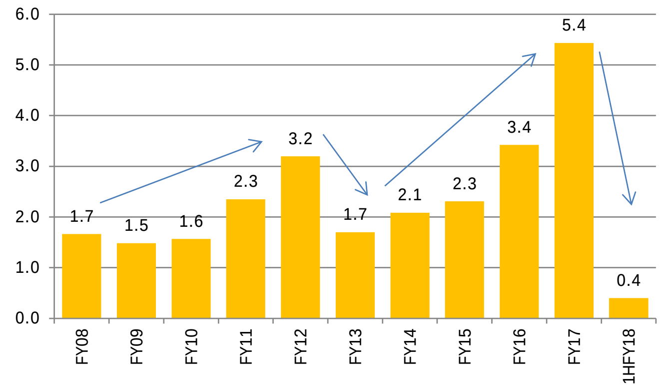
1.2 Tariff at bottom; Orders to pick up in 2HFY18/FY19

Central government is targeting to auction 4GW of wind projects in FY18 (most of it in 2H) and 10GW pa in FY19/20.

At the lowest tariff of INR2.6/kwh, wind developers may earn an estimated equity IRR of 8%. Sensitivity remains high; if tariffs rise by 5%, equity IRR can move +2ppt.

Selling price for wind turbine makers is expected to increase 10-15% in FY19 to INR70m/MW. We estimate working cap requirement will reduce below 120 days (currently at 200 days) as industry plant load factor (PLF) moves up due to higher hub height and bigger diameter turbine.

Fig 10: India wind power installation: Cyclical Nature (GW)



Source: Company data

Fig 11: Wind cheaper than conventional power

Power Sources	Levelized Tariff INR /kwh	Capital Cost (INR m/MW)	PLF %	Expected Equity IRR %
Hydro	4.8	90	35	15
Nuclear	4.4	113	75	15
Coal	4.2	75	85	15
Wind	2.6	70	40	8
Solar	2.4	40	20	Loss

Source: Company data

Weakness in stock price is in line with the sector

The stocks of Indian wind turbine makers were weak (INXW was down 20% in 2017 and its rival SUEL 20% in the last 6 months) given lack of orders and concern on the return profile of the wind power industry. Globally, wind power stocks weakened due to unsupportive US policy. We believe this could change in India in 2018 as the orders have resumed and are likely to accelerate as per the government's assurance.

Fig 12: Global Renewable stock performance

Company	Country	Stock Performance 6 Month	12 Month
Siemens Gamesha	Germany	-37%	-27%
Nordex SE	Germany	-19%	-56%
Senvion SA	Germany	-30%	-17%
Suzlon Energy	India	-20%	8%
Vestas Wind A/S	Germany	-25%	-1%
Inox Wind	India	4%	-20%

Source: Bloomberg

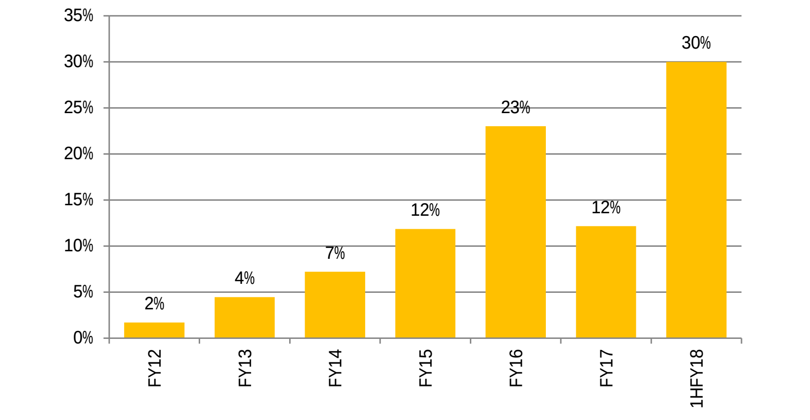
1.3 INXW's immediate concerns priced in

For FY18/19, we expect INXW to execute 100MW/600MW. This is our base case forecast. Catalyst for the stock is consistent build-up of order book from timely auctions by the government.

The company is operating at a 30% utilization rate and its FCF yield is expected to rise to 12% in FY19E from an average of -7% over FY15-17 as NWC stabilizes in auctioning regime. This will lead it to generate FCF of INR10.5b (1/3rd of Mcap) over FY18/19.

Stock currently trades at 7x FY19 EV /EBITDA vs 8x of its peers. We have valued INXW at 8x FY19E EV/EBITDA (no discount to peers) because a) it has the largest order book in Indian wind turbine industry, b) rising cash flow will reduce debt/increase dividend and c) government plan of installation of 5-6GW/pa over the next 5 years offers strong visibility its order backlog.

Fig 12: INXW's share of the wind equipment market



Source: Company data

Fig 13: Peer comparison

	Country Currency	Rating	TP INR/sh	CMP	Mkt Cap b	EPS growth yoy, % FY18E	FY19E	PER (x) FY18E	FY19E	P/BV (x) FY18E	FY19E	RoE (%) FY18E	FY19E	EV / EBITDA (x) FY18E	FY19E
Gamesa Corp Technologica SA	Germany- Euro	Not Rated	NA	12	8	-22%	-19%	14	17	1.2	1.2	10.6	7.0	6.1	6.6
Nordex Se	Germany- Euro	Not Rated	NA	9	1	-44%	-93%	13	12	0.8	0.8	6.7	6.9	4.3	6.7
SENVION SA	Germany- Euro	Not Rated	NA	10	1	-33%	-22%	14	18	2.3	2.2	13.3	12.5	5.5	5.6
Suzlon Energy Ltd	India-INR	Not Rated	NA	15	81	-48%	194%	38	13	NA	NA	-4.7	-3.0	9.5	7.6
Vestas Wind Systems	Germany- Euro	Not Rated	NA	58	13	-7%	-4%	14	14	3.3	2.9	25.5	21.5	6.1	6.6
Xinjiang Goldwind Science	HK - HKD	Not Rated	NA	13	73	1%	3%	15	14	2.2	2.1	16.0	15.1	15.3	14.9
Average						**-25%**	**10%**	**18**	**15**	**2.0**	**1.8**	**11.2**	**10.0**	**7.8**	**8.0**
Inox Wind	India-INR	Hold	165	144	32	NA	NA	NA	11	1.5	1.3	NA	13.3	NA	7.1

Source: Maybank Kim Eng, Bloomberg consensus for all the stocks, excluding INXW. Peer companies listed are not-rated by Maybank Kim Eng.

2. Axis Bank (AXSB) - Balance sheet on the mend

AXSB - India's third largest private bank – has had two rough years with asset quality pressure mounting and capital adequacy depleting. Stock price has underperformed the Bank Index by 18% in CY2017 and private bank peers such as HDFC Bank by 33% and ICICI Bank by 13%. The Board's credibility also took a beating due to repeated lapses in asset quality. AXSB de-rated with its valuation multiple correcting to 1.7x P/BV in CY2017 compared with 2.8x P/BV enjoyed in CY2015.

With USD1.8b equity capital infusion in Nov 2017 (*refer to upgrade note – link* HERE), AXSB took corrective steps to strengthen its balance sheet. The new investor, Bain Capital, brings credibility. They also have a Board seat which ensures better accountability and supervision. With the fund raise, core tier I ratio improves 1.5ppts to 13% against the regulatory requirement of 9%.

We believe AXSB is now well placed to absorb NPL write offs and renew growth. Its balance sheet repair will prompt a re-rating, in our view.

2.1 New capital to cushion asset quality

AXSB's recent equity-capital infusion of USD1.8b bolstered its balance sheet. With new capital, CAR will improve by 150bps to 17%. We believe, part of the capital will provide for NPLs and part will rev up growth. Loan growth will pick up from 10% in FY17 to 16% pa over FY18-20.

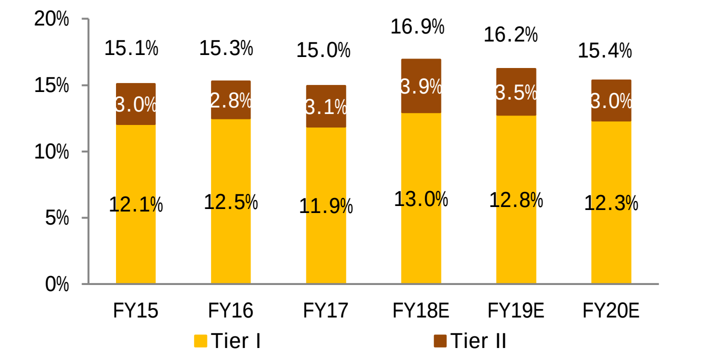
Core tier 1 lifted to 13% vis-a-vis regulatory requirement of 9%. Fresh capital provides ability to shore up provision coverage and write-off bad loans of INR60b.

2.2 Asset quality stress nearing an end

The last two years have been a washout from an asset quality perspective. GNPLs jumped up from 1.5% to 6.5% in 1HFY18 but we forecast GNPLs to reduce to 4.7% by FY20. We expect the bulk of stress has now been recognized.

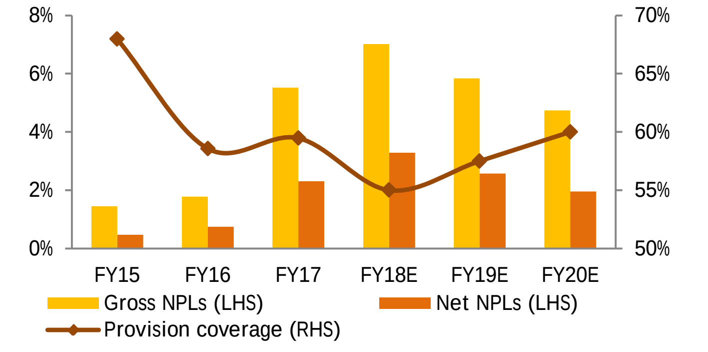
The regulator's drive to resolve corporate NPLs through insolvency proceedings will aid recovery from stress in the power/steel sectors (7% exposure). Strain on profitability will materially reduce as credit costs normalise from 2.6% in FY18E to 1% by FY20E. All of it augurs well for EPS growth of 91% YoY for FY19 from its low base.

Fig 14: Fresh equity capital has boosted CAR to 16.9%



Source: Bank, Maybank Kim Eng

Fig 15: Asset quality deteriorated in the last three years



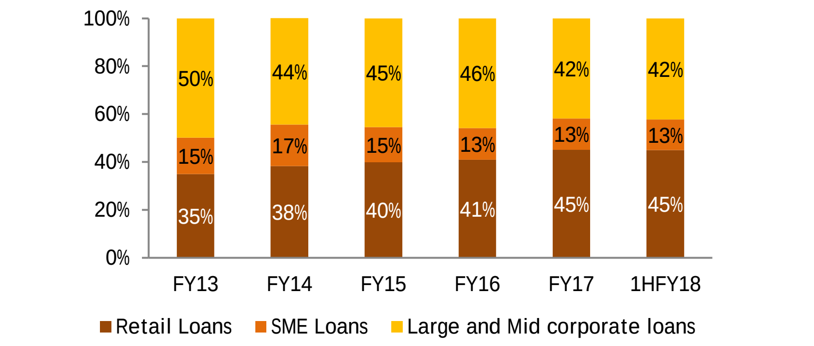
Source: Bank, Maybank Kim Eng

2.3 Increase in retail book is positive

AXSB has painstakingly reorganised its loan mix to reduce concentration risks. Small ticket consumer loans with low asset quality issues now form 45% of loan mix compared with 35% four years ago.

Following fresh capital, we upped our loan growth forecast by 2ppts to 16% YoY for FY19E. We believe the reorganised mix will enable AXSB to better manage risks and grow strongly.

Fig 16: The bank cut down its corporate-loan exposure

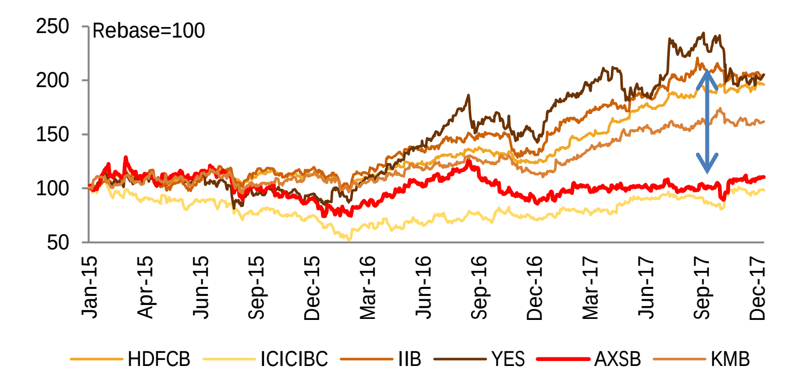


Source: Bank

2.4 AXSB has underperformed peers, room for re-rating

AXSB's underperformance vs peers widened from the Dec'15 quarter when it announced a watch list of NPA worth INR226b (6.7% of loans). Since then, its stock has been under pressure. With the bulk of bad/doubtful assets now recognised and capital base enhanced, we expect its underperformance to reverse. In our view, an expected earnings expansion on a low base and relatively cheaper valuation compared with peers leaves room for re-rating.

Fig 17: AXSB stock price performance vis-à-vis peers



Source: Bloomberg, Maybank Kim Eng

Fig 18: Peer valuations: AXSB relatively inexpensive

BB Code	Rating	Share price (INR)	Target Price (INR)	Upside/Downside (%)	Market cap (USD b)	P/E (x)		P/BV (x)		ROE (%)		ROA (%)	
						FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
AXSB	**BUY**	**555**	**615**	**11**	**17.5**	**31.8**	**16.6**	**2.1**	**1.9**	**7.3**	**12.1**	**0.7**	**1.2**
HDFCB	BUY	1,868	2,000	7	71.4	28.5	23.3	4	3.5	16.3	16	1.8	1.9
ICICBC	BUY	318	360	13	14.7	22.4	15.8	2	1.8	9.1	11.9	1.1	1.5
IIB	HOLD	1,664	1,800	8	14.7	29.7	23.6	4	3.5	16	15.9	1.9	1.9
YES	BUY	316	390	24	11.5	18.1	15	2.9	2.5	16.8	17.7	1.7	1.6
Average						**24.7**	**19.4**	**3.2**	**2.8**	**14.6**	**15.4**	**1.6**	**1.7**

Source: Bloomberg, Maybank Kim Eng

3. Sterlite Technologies (SOTL) - Enabling break out in data consumption

This is one of our most durable themes despite the run up in 2017. After the 4G roll-out and crash in data prices, India has already become the largest consumer of data in the world and its internet and smart phone penetration of around 25-30% is likely to double in the next 2-3 years. This will require huge investment into telecom infrastructure and more precisely fibre. We like SOTL due to its strong positioning in the global optic fibre business which is enabling a data revolution. India is on the cusp of a high speed broadband revolution wherein SOTL will be at the forefront of the opportunity to supply optic fibre and design networks. We forecast its earnings to double in the next two years. The stock trades at a FY19E PEG of 0.5x and still remains attractive.

3.1 Momentum in optical fibre demand

Optical fibre (OF) is gaining importance as a critical component for telecom networks as the world moves up the “G” ladder.

Large scale 5G trials are expected to commence in 2018. We believe the next wave of OF demand will be driven by full-fledged 5G roll-out fueled by the need for “zero” latency networks for internet of things and connected devices in cars, machines etc.

India at 22m fibre km (fkm) OF installation pa is at a stage where China was in 2006. To accelerate data consumption and speed, the Indian government has approved INR309b towards connectivity of an additional 150k gram panchayats (GPs) and upgrading of last mile connectivity with new OF by Mar’19. In Phase I, 100k GPs have been connected.

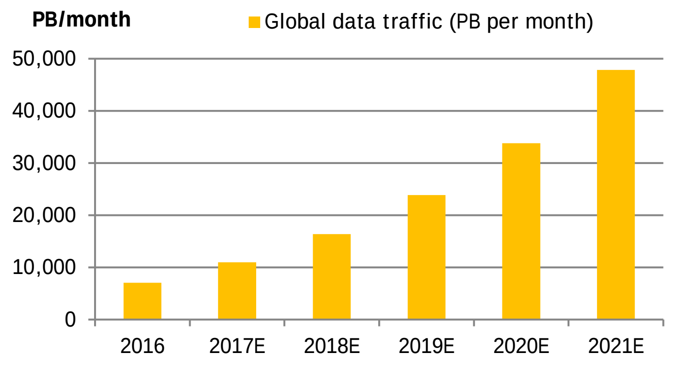
3.2 New capacity for next demand wave

SOTL is the only home-grown integrated OF cable company and one of only eight such companies globally. It has presence in 100 countries.

Anticipating the demand, SOTL has embarked on OF capacity expansion to 50m fkm from 30m fkm by June 2019 enhancing its global market share to 9% from 6%.

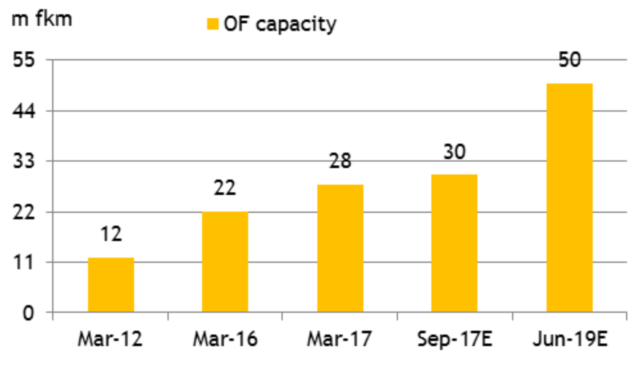
It has a OF cable capacity of 15m fkm running at 60% capacity utilisation. This is anticipated to reach 100% capacity utilisation by FY20.

Fig 19: Industry forecasts 5x jump in global data traffic



Source: Cisco Visual Networking Index Forecast 2017

Fig 20: Optical fibre capacity ramp-up



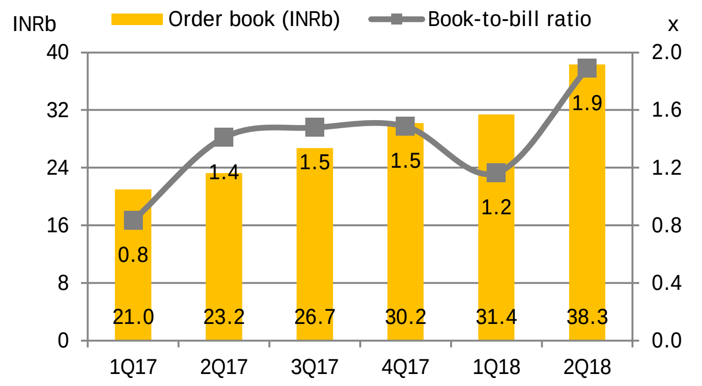
Source: Company

3.3 R&D, System integration are catalysts

SOTL recently launched a high-speed 5G-ready network solution "FlashFWD" with cables which has 50 times more capacity and is backed by a strong portfolio of 162 patents.

Add to this its network design and management services, SOTL has transformed into a formidable product+services company in the telecom network space (order book of INR38.3b).

Fig 21: Increasing order book



Source: Company

3.4 Peer comparison

Fig 22: Peer comparison of SOTL - Rich valuation vs peers but also has the highest ROE

Company name	Bbg Code	Curr	CMP	Rating	TP (INR)	Mkt cap (USDm)	EV/EBITDA (x) FY17	FY18E	FY19E	ROE (%) FY17	FY18E	FY19E
Sterlite Technologies	**SOTL IN**	INR	**295**	**BUY**	**325**	**1,827**	**24.4**	**16.0**	**11.3**	**25.5**	**32.5**	**39.6**
Fujikura	5803 JT	JPY	1,010	NR	NR	2,648	6.8	7.9	7.2	6.4	10.2	10.2
Prysmian	PRY IM	EUR	27	NR	NR	6,996	9.7	10.1	9.0	18.0	19.8	20.5
Corning	GLW US	USD	32	NR	NR	28,140	9.1	9.5	9.4	22.4	10.2	11.1
Yangtze Optical Fibre	6869 HK	HKD	36	NR	NR	13,848	10.0	13.7	11.0	18.1	25.2	24.1
Finolex Cables	FNXC IN	INR	706	NR	NR	1,670	18.0	22.1	19.1	20.4	18.0	17.9
Vindhya Telelinks	VT IN	INR	1,296	NR	NR	238	7.8	NA	NA	16.3	NA	NA
Average of peers							**10.2**	**12.7**	**11.1**	**17.0**	**16.7**	**16.8**

Source: Maybank Kim Eng, Bloomberg

4. Taxation, Elections, Interest rates are key local factors in 2018

Markets hate uncertainty and that is precisely on the cards in 2018 due to a) government's taxation policy and b) elections in 8 states and at the national level in the next 18 months and c) a possible uptick in the interest rate due to additional government borrowing and steadily rising inflation. The decision on easing corporate tax could come as early as Feb'18 but any delay will hurt sentiment. Elections in key states will be held through the year and any advancement in general election date from May'19 to Dec'2018 could spring a surprise. NIFTY VIX which is at its lowest in recent times is all set to rise which it has done historically at the time of elections.

4.1 GST, Direct tax cuts to spur optimism

The government recently lowered the tax on 177 items within the highest 28% bracket to 18%. It has hinted more cuts for next year after the GST receipts stabilize and the compliance increases (Gov't expects GST will force large number of medium and small enterprises to pay tax vs nil now). Some of the key categories to witness the next GST cut will be cement, paints, and petroleum. The government already confirmed a reduction in the direct tax rate to 25% from the current 33.9% and is likely to give a timeline on 1 Feb'18, budget day. A tax cut for the special economic zone is also on the cards.

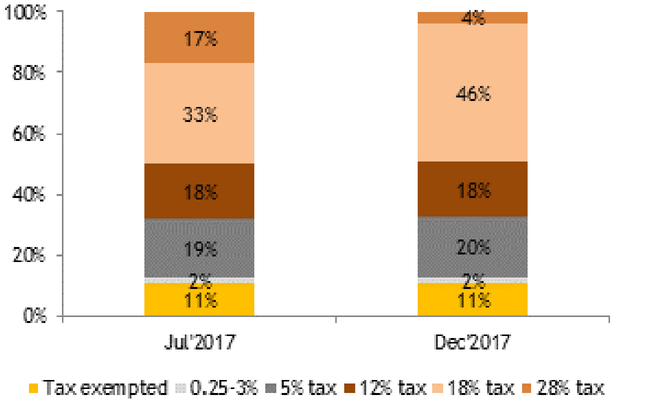
A risk to benefits from the GST cut will be the anti-profiteering law which threatens to weigh on corporate profitability. Lack of simplification of the process will also be a continued negative.

4.2 Historically volatility rises in election year

BJP won Gujarat and HP state elections in Dec'17 but with a lower share of the vote. Of the nine state elections scheduled for 2018, it faces anti-incumbency in four including Chhattisgarh, MP and Rajasthan. Jobs and farm stress remains an issue across the country. BJP victory in the forthcoming elections in the North East and Karnataka will strengthen its chances to another majority in GE 2019 in May'19. As per recent surveys, PM Modi continues to be the choice of the people across India and BJP lacks any major challenge for the GE in 2019.

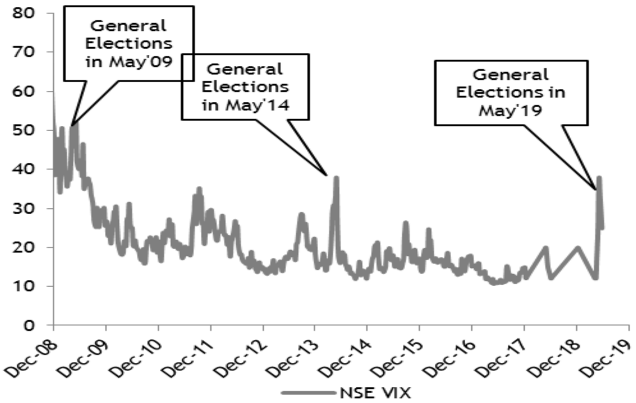
Risk to BJP majority in GE 2019 will come from any loss in big states in 2018 and any desperate populist measures to secure votes. We maintain our view of 10500 on NIFTY for 6-12 months, indicating minimal upside.

Fig 23: GST slabs and items included in July '17 and Dec'17



Source: CBEC

Fig 24: VIX at all time low; Road to GE2019 will be volatile



Source: Election Commission of India, MKE, Bloomberg

4.3 Hike in interest rates could negatively impact highly leveraged companies

During 2017, the yield on 10 year G-sec in India rose 80bp to 7.3%. In our view, this is primarily on account of the fears that a) government is likely to miss fiscal deficit target for FY18 b) inflation is at risk of overshooting RBI's comfort level of 4.5% due to rising oil prices. Moreover, globally an increase in rates is on the cards during 2018. This possibility leaves over leveraged companies in India vulnerable to interest rate risk. We analyze the top 500 companies in BSE index (70% of total Mcap) to narrow down the most susceptible companies/sectors having high D/E and low interest cover.

Fig 25: Government bond yields inching up since Sep 2017

Source: Bloomberg

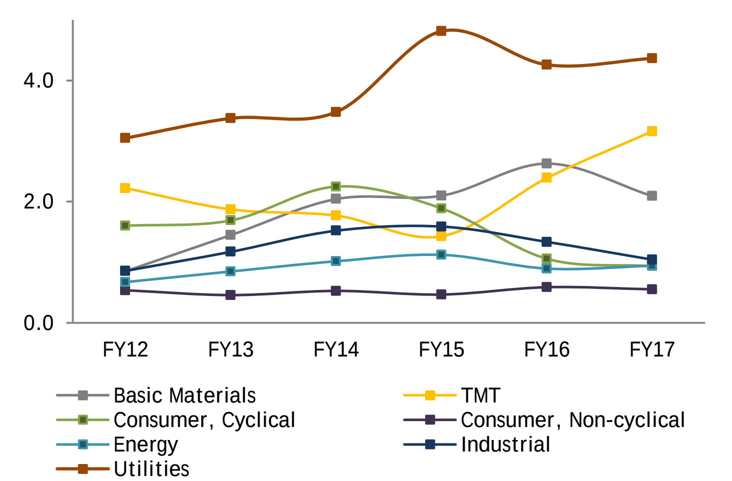
Debt in the telecom sector has shot up in recent times: The net debt to EBITDA has risen to 3.6x from 1.6x in FY15 due to high debt levels for financing 4G related capex. The top three telcos have resorted to a fire sale of assets and are hopeful of tiding over the crisis by getting an extended time to pay for spectrum to the government. A few other telcos have sold their stake or surrendered their assets for a lender's auction. The other most geared sectors are utilities and materials which remain threatened by any sharp rise in interest rate which could throw their debt resolution plans out of gear. However, their increase in debt is not recent.

The top 20 companies with high net D/E: Our finding reveals that the top 20 companies (excluding banks) with net debt to equity of over 2x are from industrials, utilities, metals, transportation and communication sectors (refer fig.27 for list of companies). Apart from high D/E, some of these companies have weak cash flows. In the event of an increase in interest rates, their ability to service debt would be constrained. Some of the prominent names among the top 100 companies are Reliance Naval, Suzlon Energy, Adani Power, IL&FS Transportation and Idea Cellular.

Top 20 companies with poor interest coverage : Similarly, companies with poor interest coverage ratio (EBIT/Interest) will face issues with a rise in interest rates. Apart from the above mentioned sectors, media and conglomerates engaged in manufacturing (refer fig.28 for list of companies) such as Hindustan Copper, Network 18 media and Kesoram Industries top the list.

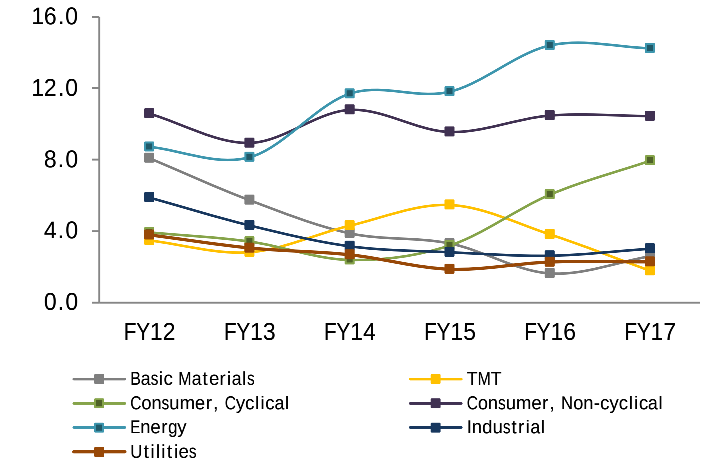
Impact on financial sector due to rate hike: Increase in interest rates is negative for non-bank financial companies (NBFCs) which depend on market borrowings to fund growth. NBFCs witnessed improvement in NIMs in the last two years due to easy liquidity and lower rates. In an event of rate hikes, their NIMs will be negatively impacted as their ability to pass on the increase to the end-customer is limited. Relative impact on banks will be limited as they have low cost funding in the form of CASA deposits. Banks' ability to change interest rate on deposits and yields on loans is better compared with NBFCs.

Fig 26: Net Debt to EBITDA by sectors



Source: Maybank Kim Eng, Bloomberg

Fig 27: EBIT/Interest expense cover



Source: Maybank Kim Eng, Bloomberg

Fig 28: Top 10 companies with high net debt to equity

Company	Ticker	Sector	Market Cap (INR b)	YTD Change (%)	Rating	Upside	Net Debt (INR b)	D/E (x)	Debt/ Mcap	EBIT (INR b)	EBITDA (INRb)	Interest (INR b)	Interest coverage ratio (x)
KESORAM INDUSTRIES	KSI IB	Industrial	17.5	11.4	NR	-	33.0	11.7	1.9	-1.8	-0.5	2.6	-0.7
RELIANCE NAVAL&ENG.	RNAVAL IB	Industrial	33.7	-14.3	NR	-	88.2	7.1	2.6	4.1	6.1	5.6	0.7
SUZLON ENERGY	SUEL IB	Industrial	80.8	9.7	NR	-	61.0	5.9	0.8	21.1	25.0	11.1	1.9
ADANI POWER	ADANI IB	Utilities	152.2	34.9	NR	-	484.6	5.4	3.2	33.0	59.7	52.5	0.6
SCHNEIDER ELECTRIC	SCHN IB	Industrial	31.3	-5.6	NR	-	3.6	4.9	0.1	-1.5	-1.2	0.3	-5.0
JINDAL STAINLESS	JSHL IB	Basic Materials	54.5	152.3	NR	-	33.5	3.8	0.6	7.0	9.8	4.0	1.7
IL&FS TRANSPOR.	ILFT IB	Transportation	27.9	-19.3	NR	-	259.7	3.7	9.3	32.1	35.8	n.a.	n.a.
ADANI TRANSMISSION	ADANIT IB	Utilities	248.9	294.1	NR	-	81.6	3.6	0.3	14.2	19.9	7.1	2.0
JAIPRAKASH ASSOC.	JPA IB	Industrial	50.6	164.6	NR	-	385.9	3.4	7.6	-1.1	17.8	74.2	0.0

Source: Maybank Kim Eng, Bloomberg

Note: Financial information pertains to FY17

Fig 29: Top 10 companies with weak interest coverage ratio

Company	Sector	Ticker	Market Cap (INR b)	YTD Change (%)	Rating	Upside	Net Debt (INR b)	D/E(x)	EBIT (INR b)	EBITDA (INR b)	Interest (INR b)	Interest coverage ratio (x)
HINDUSTAN COPPER	Basic Materials	HCP IB	89.4	61.3	NR	-	4.2	0.3	-0.1	1.3	0.0	-5.7
SCHNEIDER ELECT	Industrial	SCHN IB	31.3	-6.3	NR	-	3.6	4.9	-1.5	-1.2	0.3	-5.0
INTELLECT DESIGN	Technology	INDA IN	23.5	27.5	NR	-	0.9	0.4	-0.5	-0.2	0.1	-4.2
NETWORK 18 MEDIA	Communications	NETM IB	64.3	81.9	NR	-	12.3	0.5	-2.2	-1.4	0.8	-2.7
KESORAM INDUS	Industrial	KSI IB	17.5	11.6	NR	-	33.0	11.7	-1.8	-0.5	2.6	-0.6
TV18 BROADCAST	Communications	TV18 IN	105.4	66.3	NR	-	2.5	0.1	-0.3	0.3	0.5	-1.1
SITI NETWORKS	Communications	SITINET IB	22.5	-33.4	NR	-	12.6	2.4	-0.4	2.0	1.0	-0.4
WOCKHARDT	Consumer,	WPL IN	101.9	35.6	NR	-	16.8	1.6	-0.8	0.7	2.3	-0.4
GE T&D	Industrial	GETD IN	111.3	40.9	NR	-	4.5	0.5	-0.5	0.4	1.7	-0.3

Source: Maybank Kim Eng, Bloomberg

Note: Financial information pertains to FY17

Maybank Kim Eng

Automotive

India

Tata Motors (TTMT IN)

Set to perform better

BUY

Share Price	INR 431
12m Price Target	INR 544 (+26%)
Previous Price Target	*INR 544*

Volume pick up in India; Margin improvement at JLR

We maintain BUY on TTMT as our preferred pick in the auto sector with an unchanged SOTP-based TP of INR544 (see Fig. 6). We believe the company's strategy of new launches in the Indian car/truck market is beginning to pay off with market share increasing and volume picking up this year. At JLR, the company's margin has bottomed and the company is now confident of getting back to 14-15% EBITDA margin in another year or so from 10% now. We believe, the under performance of the stock vis-à-vis the NIFTY Auto index and Maruti Suzuki (MSIL) is unjustified. We recommend switching from MSIL to TTMT due to the sharp valuation difference.

Substantial efforts to turn around India business

TTMT's India business, which consists of truck segment No. 1 and No. 5 in passenger vehicles, has been incurring net losses for the past few years. While its truck business is profitable, the passenger vehicle business is loss making. During FY17, it operated at only a 30% utilization rate, which drove down overall EBITDA margin to 5.8% vs peers 8-15%. Due to successful new launches in the past 12 months and recent launch of Nexon SUV the company is confident of achieving a utilization rate over 60% in two years and returning to net profit. We factor in a marginal net loss for FY19E and a net profit for FY20E.

Value in JV, subsidiary investment is being ignored

TTMT India has substantial investments in subsidiaries, such as Tata Motor Finance, Tata Technologies, Tata Daewoo, etc. It also has a profitable JV with Cummins and Hitachi. We have valued these investments at INR31/sh or INR105b using 1x book value. We believe the value of these investments is not properly reflected in the current price because all of them are profitable and TTMT may monetize its holdings at greater than book value (has guided for stake sale without timeframe)

Value in India business, investment is hard to ignore

We believe the current market price only reflects the value of JLR (INR416/sh or INR1412b at 4x EV/EBIDTA FY19E) in TTMT but does not account for TTMT India and its investments (INR128/sh). See Figure 6 on page 162. The catalyst will come from: a) more evidence of a recovery in its passenger vehicle volume; b) the sale of non-core assets; and c) any strategic alliance in the domestic car business with a global automaker.

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	2,730,456	2,696,925	3,061,338	3,604,578	4,067,817
EBITDA	366,906	295,887	362,374	477,142	534,394
Core net profit	134,297	63,398	105,829	161,521	192,458
Core EPS (INR)	40	19	35	48	57
Core EPS growth (%)	(9.0)	(52.8)	85.9	37.1	19.2
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	10.9	23.1	12.4	9.1	7.6
P/BV (x)	1.8	2.5	2.2	1.8	1.5
Net dividend yield (%)	0.0	0.1	0.1	0.1	0.1
ROAE (%)	17.3	10.9	17.0	21.7	21.1
ROAA (%)	5.3	2.3	3.7	5.3	5.9
EV/EBITDA (x)	3.9	6.2	4.5	3.4	2.7
Net gearing (%) (incl perps)	15.5	39.9	25.3	19.0	net cash
Consensus net profit	-	-	93,855	153,280	187,023
MKE vs. Consensus (%)	-	-	12.8	5.4	2.9

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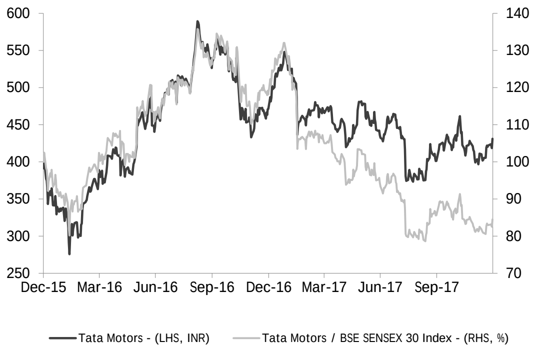
Company Description

Tata Motors is India's largest truck maker and also the owner of luxury car company Jaguar Land Rover.

Statistics

52w high/low (INR)	548/373
3m avg turnover (USDm)	57.3
Free float (%)	65.0
Issued shares (m)	2,887
Market capitalisation	INR1,245.0B
	USD19.5B
Major shareholders:	
Tata Sons Ltd.	34.6%
Life Insurance Corp. of India	5.2%
Abu Dhabi Investment Authority (Investme	1.9%

Price Performance



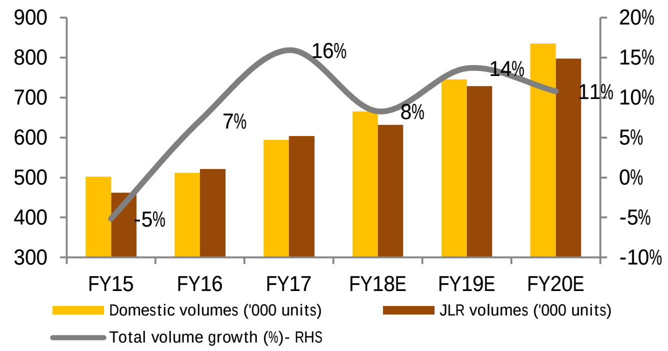
	-1M	-3M	-12M
Absolute (%)	4	7	(8)
Relative to index (%)	3	(1)	(29)

Source: FactSet

Value Proposition- TTMT

- Tata Motors, part of USD100b Tata group, is a leading global automobile manufacturer of cars, utility vehicles, buses, trucks and defence vehicles. It acquired Jaguar Land Rover in UK from Ford in 2007 and turned it around into the world's most profitable luxury vehicle maker.
- Leading commercial vehicle manufacturer (No. 1) in India; the company derives ~56% of its volume from commercial vehicles and ~31% from passenger vehicles (No 5) in India.
- The company's strategy continues to be investing in new products, technology and manufacturing capabilities to achieve a position among the top three in its chosen segments.

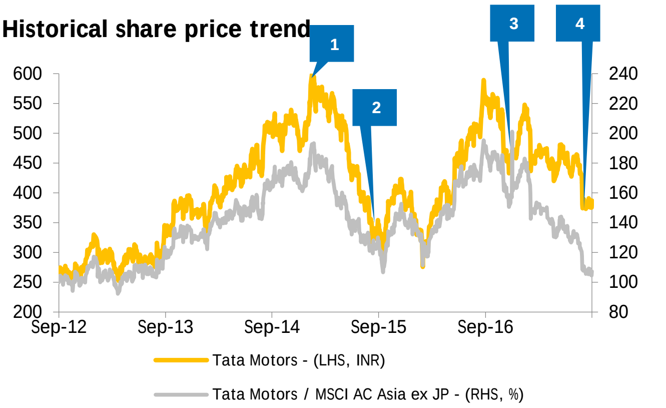
JLR and domestic sales volumes (units)and total volume growth (%)



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



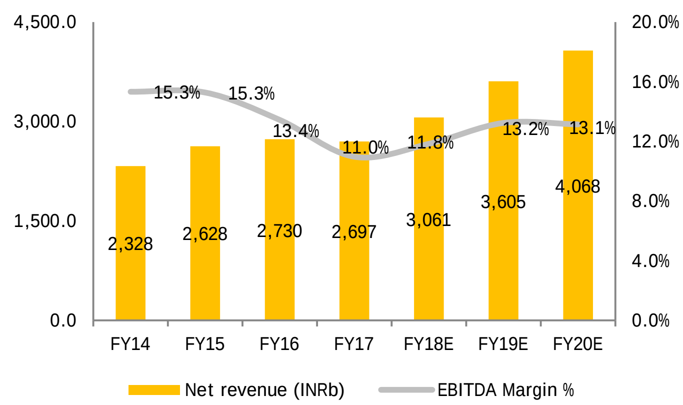
Source: Company, Bloomberg

1. Reported best ever profit margins on the back of surging sales of JLR products in China.
2. Sharp decline in price on account of Brexit.
3. Stock price reacted to demonetisation.
4. Stock price declined on account of dismal 1Q18 performance.

Financial Metrics

- For FY17A, 16% of TTMT's revenue was from Indian operations and ~78% from Jaguar Land Rover PLC; In terms of EBITDA, JLR formed ~92% and India 8%.
- For JLR in FY18E, we expect volume growth of 5%; however, pressure on margins will be sustained.
- We forecast EBITDA growth of 23%/32% in FY18/FY19, and margin improvement from various cost control measures and strong volume growth.

Revenue (INRm) and EBITDA margin (%)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Good acceptance to newly launched products to new models like E-PACE, Velar and I-Pace.
- Faster than expected turnaround in domestic business.

Downside

- Prolonged currency risk.
- Pressure on margins at JLR due to promotional expenses and discounts.
- Delay in demand recovery for CV segment in India.

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Maybank Kim Eng

Maruti Suzuki India (MSIL IN)

D/G to SELL on valuation

SELL *[Prior:HOLD]*

Share Price	INR 9,731
12m Price Target	INR 7,500 (-23%)
Previous Price Target	*INR 7,500*

Risk-reward unfavourable; Sharp rally unjustified

MSIL stock price has increased 83% in 2017, including a spurt of 13% in the past month and is now overvalued, based on our estimates. We believe the recent share price rally is related to the recently announced plan to launch an electric vehicle (EV) by FY20. The company itself has clarified that the EV will not form a meaningful part of its volume in FY20 even as they embark on the technology shift. We maintain our forecasts unchanged with 19%/24% EPS growth in FY18/19. The stock is overvalued in our view at a PER of 27x FY19E and 35x on a 1YR FWD basis (+2SD to the 5 yr mean). Our INR7,500 TP is unchanged, based on 21x FY19E PER equal to the five-year average. We recommend switching into Tata Motors (TTMT, INR426, BUY, TP INR544) which offers better value at a PER of 9x FY19E and better earnings growth of 37% for FY19E.

Peak profit margin; Maintain EPS for FY18/19E

Despite higher commodity costs, MSIL reported good 1HFY18 EPS (46% of our FY18E). Results benefitted from economies of scale due to higher sales volume, lower discounts, and cost-reduction initiatives. EBITDA margin remained above 17% and could have been as low as 16% without the improvements. This year, MSIL generated better-than-expected volume due to pent up demand post the festive season in October. We see risk of lower profit margins ahead. The company guided that 2H margins could come under pressure from higher commodity prices, such as for steel and copper. We have factored in an EBITDA margin of 16%/16.8% for FY18/FY19 and expect it to improve as the Gujarat plant ramps up in FY20.

Healthy volume growth; guidance intact

During the 1st 8 mos of FY18, MSIL volume increased 15.4% YoY vs 8.5% for the industry; its market share stood at 50.4% (+300bp YoY). The company confirmed that most of its incremental growth came from the Baleno and Brezza car models. Despite the bump up this year, the company recently re-iterated a long term volume expansion of 9% pa to 2m by 2020 and 3m units by 2025. We have factored in +11%/+11% for FY18/FY19.

Stretched valuation without any material upgrade

MSIL is trading at a 105% premium to the sector average PER of 16.3x FY19E and a 60% premium to its five-year average of 21x. This steep valuation fully factors in the 11% volume growth and 22% EBITDA growth for FY18/FY19E and is 22% above our TP. MSIL's valuation does not factor risk to its all-time high EBIDTA margin from rising metal prices and high competitive intensity in the entry level cars and compact SUV segment.

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	564,412	669,094	789,530	916,135	1,058,645
EBITDA	88,844	103,530	126,066	154,207	180,947
Core net profit	53,573	73,377	87,130	108,025	126,756
Core EPS (INR)	178	243	288	358	420
Core EPS growth (%)	44.5	36.8	18.7	24.0	17.3
Net DPS (INR)	35	37	37	39	43
Core P/E (x)	54.8	40.1	33.7	27.2	23.2
P/BV (x)	10.9	8.1	6.7	5.5	4.5
Net dividend yield (%)	0.4	0.4	0.4	0.4	0.4
ROAE (%)	21.2	23.9	21.8	22.2	21.5
ROAA (%)	14.7	16.3	15.8	16.6	16.3
EV/EBITDA (x)	12.6	17.4	22.8	18.1	14.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	84,473	102,158	120,533
MKE vs. Consensus (%)	-	-	3.1	5.7	5.2

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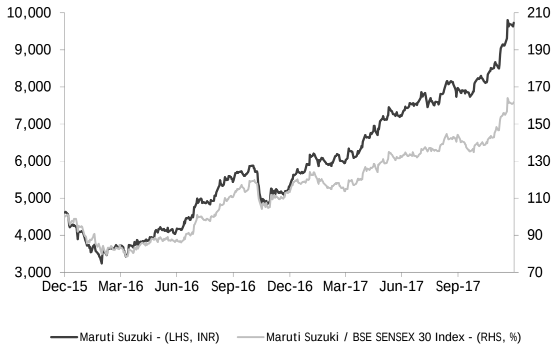
Company Description

Maruti Suzuki is India's largest car manufacturer with 50% market share.

Statistics

52w high/low (INR)	9,805/5,323
3m avg turnover (USDm)	71.1
Free float (%)	44.0
Issued shares (m)	302
Market capitalisation	INR2,939.6B
	USD46.1B
Major shareholders:	
Suzuki Motor Corp.	56.2%
Life Insurance Corp. of India	5.3%
The Vanguard Group, Inc.	1.3%

Price Performance



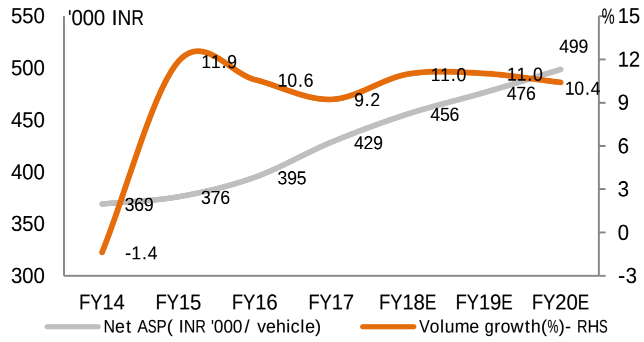
	-1M	-3M	-12M
Absolute (%)	12	22	83
Relative to index (%)	11	12	42

Source: FactSet

Value Proposition

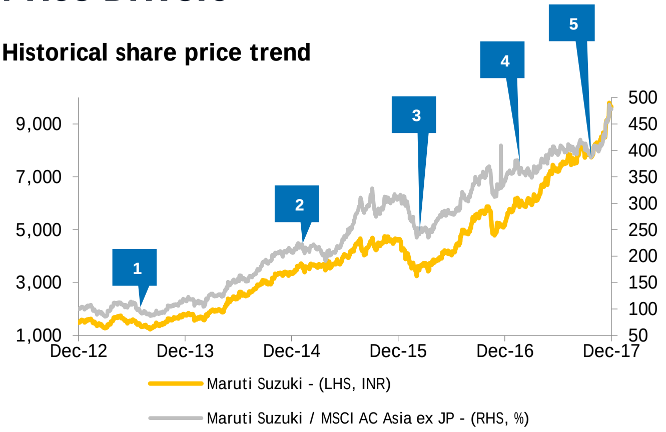
- Largest maker of passenger vehicles in India. Market share ~50% and capacity of 1.65m vehicles pa and ~95% utilization. Expect market-share gains with new launches.
- MSIL's volume sales increased by nearly 30% in two years due to new models and more premium showrooms, filling gaps in the SUV line, and better distribution in rural areas.
- Moving steadily into the premium segment with cars of higher ASPs and better services, offered through Nexa showrooms for premium cars.
- Net cash and strong FCF. Future capex for R&D, new models and marketing spends would be funded from internal cash.

Average selling price per vehicle ('000 INR) and volume growth (%)



Price Drivers

Historical share price trend



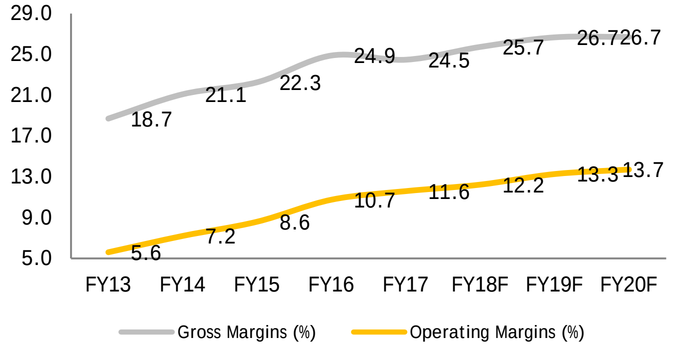
Source: Company, Bloomberg, Maybank Kim Eng

1. Share price rose after strong 4QFY13 earnings.
2. Posted robust earnings for FY15 and 1HFY16.
3. Company failed to continue expected earnings growth in 3QFY16 due to higher base and hurt by one-off.
4. Steep correction after the announcement of demonetization
5. Consistent volume growth even after demonetization, GST led to surge in price.

Financial Metrics

- We expect 11% sales volume growth for FY18-19E due to a strong new launch programme, expansion of its distribution network, and an increase in exports
- Margins to stabilise on higher plant utilisation, better mix, and savings in raw material costs, but are likely to flatten as the benefit of low price of RM is almost exhausted.
- We have factored an improvement of 5% from FY17-FY19E in the average selling price due to change in product mix and shift towards high value compact cars and UVs.

Stable margins (%)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Strong market acceptance of models like Baleno and Brezza keeping volume visibility intact.
- Benign crude prices and low interest rates can boost margins.
- Strong pick up in bread and butter segment cars, i.e Alto and WagonR with normal monsoons.

Downside

- Risk arises from uncertainty on foreign exchange and commodity prices. It imports 10-12% of its critical components in value terms and is subject to risk from FX fluctuations.
- Capacity constraint to limit volume growth beyond 12%.
- EBIDTA margin of 17% as at 2QFY18 is at peak; Expect downward pressure due to rising commodity prices; Little room to expand margin as efficiency benefits may be exhausted

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January 2, 2018

Industrials

India

Himadri Speciality Chemicals (HSCH IN)

Play on Li-ion batteries

BUY

Share Price	INR 154
12m Price Target	INR 184 (+20%)
Previous Price Target	*INR 184*

Speciality business witnessing margin expansion

HSCH's FY17 profits returned to the black after three years of losses. It is leader in manufacturing coal tar pitch (CTP) and carbon black (CB), which saw improved demand in its application industries leading to higher prices which looks sustainable due to bright demand outlook for tyres, rubber and non-rubber use of carbon black, aluminium and lithium ion batteries used in electronics/electric vehicles. It recently commenced commercial sale of high margin advance carbon material (ACM) with application in Li-ion batteries. We have BUY rating on the stock with TP of INR184 based on 15.2x FY19E EV/EBITDA, which implies a PER of 27x and PEG of 0.9x.

Improved volume, import restriction support pricing

Led by a better product mix due to high-margin products, such as refined naphthalene, specialty carbon black and coal tar pitch, the blended selling price surged to INR49,673/t (+35% YoY) in the latest quarter. Our volume forecast factors 417kt (+17% YoY) for FY18E and 478kt (+15% YoY) for FY19E due to an increased contribution from coal tar pitch, carbon black and 1800t of ACM.

Increased selling price, ACM to boost EBIDTA margin

Strong demand for tyre and non-tyre applications, supply constraints and no dumping from China has led to improved selling price of carbon black in the domestic market. We forecast EBITDA of INR4.3b (+77% YoY) for FY18E and INR5.5b (+26% YoY) for FY19E. Led by higher selling price, we forecast EBITDA/t of INR10.4k/t for FY18E(+52% YoY) and INR11.5k/t for FY19E (+10% YoY).

Premium valuation for future ready business

We value HSCH at 15.2x FY19E EV/EBITDA 48% above 5-yr. avg., as we factor in higher ASP and profit margins due to increased capacity utilisation in carbon black, and ramping up of ACM, which will be sold for Li-ion batteries used in computers, mobile phones and electric vehicles. Faster ramping of ACM capacity is a catalyst. At our target price, the PER works out to 27x FY19E and implies a PEG of 0.9x.

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	11,518	13,242	20,535	25,117	30,901
EBITDA	1,530	2,470	4,379	5,538	7,001
Core net profit	(164)	812	2,377	3,089	3,939
Core EPS (INR)	(0)	2	6	7	9
Core EPS growth (%)	nm	nm	192.8	30.0	27.5
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	nm	79.3	27.1	20.9	16.4
P/BV (x)	7.0	6.0	4.9	4.0	3.2
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(3.4)	8.1	19.9	21.2	21.8
ROAA (%)	(0.8)	3.9	10.1	11.1	12.0
EV/EBITDA (x)	9.4	10.2	16.4	13.4	10.7
Net gearing (%) (incl perps)	85.0	64.8	56.0	62.1	51.8
Consensus net profit	-	-	2,175	2,745	3,939
MKE vs. Consensus (%)	-	-	9.3	12.5	(0.0)

Company Description

Himadri Speciality Chemical Ltd. engages in developing and manufacturing the Carbon chemicals.

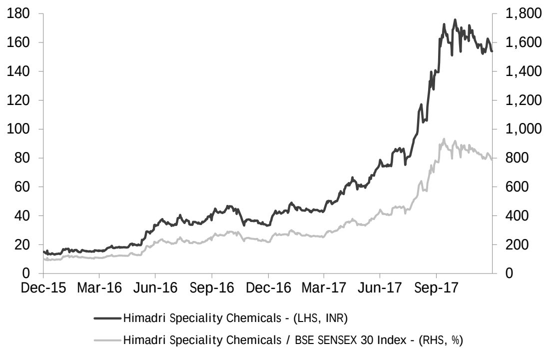
Statistics

52w high/low (INR)	176/33
3m avg turnover (USDm)	5.7
Free float (%)	20.9
Issued shares (m)	418
Market capitalisation	INR64.4B
	USD1.0B

Major shareholders:

Bain Capital Private Equity LP	24.7%
Himadri Dyes & Intermediates Ltd.	23.5%
Himadri Industries Ltd.	11.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	10	362
Relative to index (%)	(7)	1	257

Source: FactSet

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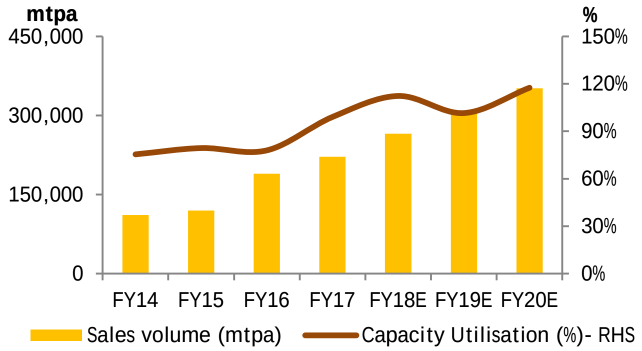
Value Proposition- HSCH

- India's largest producer of CTP with 70% market share. One of the few integrated speciality carbon chemical companies in the world.
- Products across carbon value chain. Offers a variety of high-demand specialised products with higher ASPs and profitability.
- Also has a clean-power business, at 2% of revenue.
- Eight plants in India with capacity for 400,000 / 120,000 / 68,000 TPA of CTP / CB / SNF. One CTP facility in China with 50,000 TPA capacity.
- Expect RoIC to improve to 16% in FY19E from 3.7% in FY17 vs WACC of 10.2%.

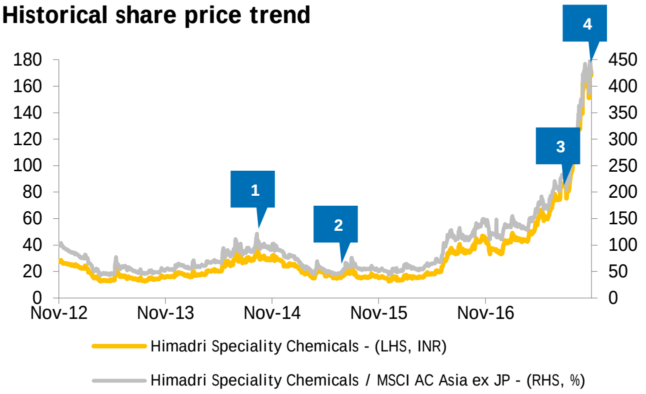
Product volume and capacity utilisation



Source: Company, Maybank Kim Eng. Nameplate capacity of 400,000 mtpa for CTP can be increased to 500.000.

Price Drivers

Historical share price trend



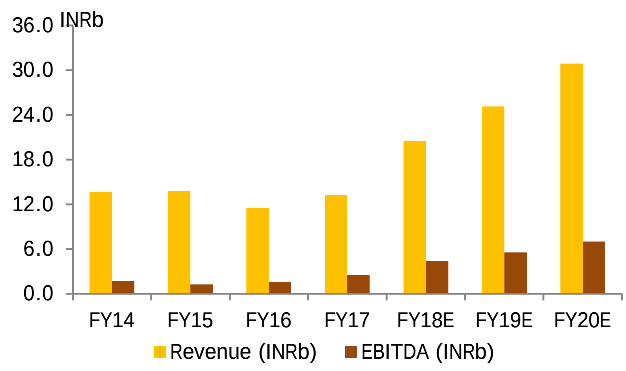
Source: Company, Bloomberg, Maybank Kim Eng

1. Commissioned new capacity for coal tar distillation at Mahistikry, and Hooghly.
2. Poor FY15 earnings.
3. Strong 4QFY17 earnings, confirming the upcycle and positive FY18E outlook for products CTP and CB.
4. Started commercial sales of advance carbon material in 2QFY18.

Financial Metrics

- ASPs expected to improve to INR50k/t in FY19 with strong demand for CTP and CB.
- Aided by operating leverage, we expect EBITDA margins to improve 260bps YoY in FY18E to 21.3% and reach 22% by FY19E.
- Expect brownfield capex for the next three years to setup additional capacity of CB and advanced carbon material.
- The net D/E of 0.6x will not increase because the company is looking to raise some equity to part finance this expansion.

Improving revenue and EBITDA



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Stronger-than-expected demand for CTP and CB.
- Higher than expected commercial sale of ACM drive earnings. Any successful expansion into construction chemicals and admixtures.
- More value-added products in carbon black.
- Green/brownfield expansion to meet increasing demand.

Downside

- Delays in commercialisation of new value-added products.
- Major volatility in global aluminium prices and demand.
- Major volatility in CB prices and demand.

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January 2, 2018

Maybank Kim Eng

Inox Wind (INXW IN)

Industry's downturn temporary

BUY

Share Price	INR 144
12m Price Target	INR 165 (+15%)
Previous Price Target	*INR 206*

Worst over;Early signs of recovery not priced in

We reiterate BUY on INXW with a reduced TP of INR165 (at 8 x FY19 EV/EBITDA in-line with global peers vs 25% PER discount earlier) after adjusting for a cut in its order book/execution. Indian government plan of doubling wind power capacity to 60 GW by 2022 witnessed short term break down after industry moved to auction based tariff in Feb'17. Wind power commissioning was down by 65% YoY in 1HFY18 and stocks took the beating (INXW and its rival SUEL down 20% in 2017). On a positive note, we expect INXW net working capital to reduce to 126/103 days in FY19/20 vs 140/233 days in FY16/17 as sticky receivables are collected after policy clarity helped execution of backlog. We estimate INXW to generate FCF of INR10.5b (28% to EV) over FY18/19. Catalyst will be gov't auction driven installation of 5-6GW/pa over the next 5 years offers strong visibility for wind equipment manufacturers.

Order book building up again; Recovery in FY19

INXW commenced FY18 with nil order-book leading it to a loss of INR0.9b for 1HFY18 vs profit of INR0.7b YoY. Company is building up its order book now and as of 1HFY18, it has the largest order book in Indian wind turbine market at 600MW (30% share). For FY18/19, in our base case scenario INXW should execute 100MW/600MW versus earlier assumption of 700MW/840MW. We also lowered EBITDA margins by ~220bps as competitive intensity has increased in the sector. Our revised EPS is -4/13 versus earlier EPS of 16/21 for FY18/19. But upside from fresh orders from auctions to be held in 4QFY18 and FY19 is not factored into our estimates.

Receivables to normalize and support FCF increase

INWX reported an improvement in net working capital (NWC) in 2QFY18 to INR19.3b vs INR20.8b QoQ. This is expected to tread lower as INXW expects resolution in sticky receivables (50%/total) post Karnataka/AP government intervention to maintain status quo on already signed Power Purchase Agreement (PPA). Auctioning is expected to further assist in stabilizing the NWC as it offers upfront PPA. For FY19, we expect NWC of 126 days for INXW vs ~233 for FY17. This will drive up INXW's FCF by INR10.5b (1/3rd of Mcap) over FY18/19.

Catalysts ignored, trading at 7x EV/EBITDA

INXW trades at 7x FY19 EV/EBITDA vs 8x of its peers. The company is operating at a 30% utilization rate and its FCF yield is expected to rise to 12% in FY19E (as NWC stabilizes) from an average of -7% over FY15-17. Catalyst for stock performance is further increase in the market size of wind power auctioning. Central Government has announced its plan to auction another 2GW by FY18 and 2GW/qtr in the next fiscal. Other projects up for bidding are Rajasthan (250MW) and Public sector units (700MW).

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	44,507	34,150	6,581	43,437	50,866
EBITDA	7,347	5,416	(230)	5,113	6,066
Core net profit	4,612	3,033	(924)	2,980	3,913
Core EPS (INR)	21	14	(4)	13	18
Core EPS growth (%)	55.6	(34.2)	nm	nm	31.3
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	6.9	10.5	nm	10.7	8.2
P/BV (x)	1.7	1.5	1.5	1.3	1.1
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	28.5	15.0	(4.3)	13.3	15.1
ROAA (%)	11.6	6.1	(1.9)	6.8	9.1
EV/EBITDA (x)	9.8	9.6	nm	7.1	5.1
Net gearing (%) (incl perps)	75.5	64.7	35.4	17.8	net cash
Consensus net profit	-	-	-	-	-
MKE vs. Consensus (%)	-	-	-	-	-

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Company Description

Inox Wind is a wind turbine and generator manufacturer. It also provides turnkey solutions like land sourcing, wind study for wind power projects

Statistics

52w high/low (INR)	205/107
3m avg turnover (USDm)	1.4
Free float (%)	14.4
Issued shares (m)	222
Market capitalisation	INR31.9B
	USD500M

Major shareholders:

Gujarat Fluorochemicals Ltd.	68.7%
DEVANSH TRADEMART LLP	5.6%
Inox Chemicals Pvt Ltd.	5.6%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(3)	34	(20)
Relative to index (%)	(4)	23	(38)

Source: FactSet

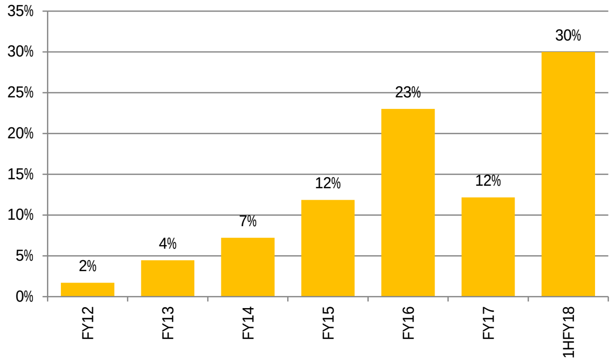
Industrials

India

Value Proposition - INXW

- Wind sector witnessing demand break down and is led by change in industry dynamics from FIT to auction.
- Wind power has become cheaper than conventional power but fall in the tariff has led to weak outlook for the incumbents on their return profile.
- INXW is building up its order book and has a market share of 30% in the last 2 auctioning.
- ROE impacted of the incumbents in the wind power sector, expect gradual improvement as industry mature.

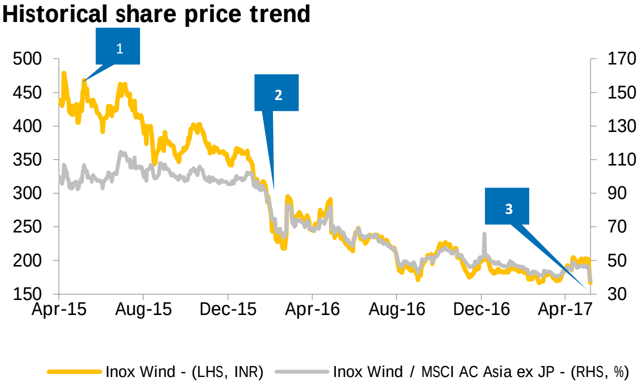
INXW's share of the wind equipment market historically



Source: Company

Price Drivers

Historical share price trend



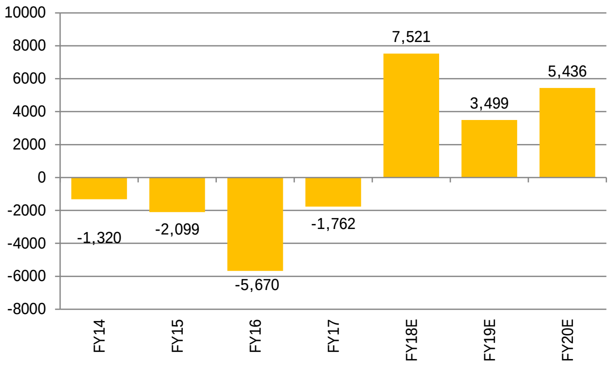
Source: Company, Bloomberg, Maybank Kim Eng

1. Strong IPO debut in Apr 2015; IPO price was INR325.
2. 3QFY16 PAT growth of 10% YoY was below 1HFY16 growth of 100%+ due to fewer turbine deliveries.
3. Weak 4QFY17 results, led by stoppage of signing PPA by State Electricity Board.

Financial Metrics

- INXW boast of largest order book in Indian wind turbine market at 600MW and is expected to commence execution from FY19.
- Business growth to be sustained by wind industry commissioning of 7-10GW/annum and market share gains.
- We expect INXW to execute 600MW in FY19 and 700MW in FY20, resulting in revenue strong revenue growth of 6.6x for FY19 and 17% YoY for FY20.
- With EBITDA margin of ~12% in FY19/20, we expect INXW to report net profit in FY19/20.

Free cash flow (INR m)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Strong order flows from new auctions in 4QFY18 and FY19.
- Launch of more sophisticated products, like 113m blades, which improve yields by 50% over current 100m blades.
- Debt reduction and/or large dividend pay-out from free CF generation.

Downside

- Rising competition may pressure selling price/MW and EBIDTA margin.
- High exposure to multiple currencies for imports; INR depreciation to USD is negative
- Changes in regulations that could trim addressable market

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Telecommunications

India

Sterlite Technologies (SOTL IN)

On a momentum

BUY

Share Price	INR 292
12m Price Target	INR 325 (+11%)
Previous Price Target	*INR 320*

Riding the global/local data consumption wave

Despite near tripling of stock price this year, we like SOTL and maintain BUY on the stock due to a sustainable buoyancy in the data consumption and need to create new infrastructure. Following its beat in 2Q performance in November, we raised our EPS forecasts by 10%/14%/12% for FY18/19/20 to factor in better EBITDA margins, and increased optical fibre (OF) and OF cable, services order book. 1H EBITDA forms 42% of our FY18E. Maintain BUY with TP of INR325, based on 12x FY19E EBITDA still at a 20% premium to peers factoring in higher ROE and growth. At our TP, SOTL will trade at 25x FY19E EPS, and PEG of 0.5x.

Revenue momentum intact, OF cable business driver

International business continued to drive the revenue increase, now contributing 51% of revenue in 1HFY18. The improvement in international business is being driven by a deeper penetration into the China and Europe markets. As guided, SOTL increased it's OF capacity to 30m fkm in Sep'17. Also, part of the new 20m fkm OF capacity will be commissioned in mid-CY18 and fully operational by June'19. We raise our revenue forecasts by 3%/8%/7% for FY18/19/20 to factor in the improved outlook on new orders.

EBITDA margin to sustain expansion

For the recently ended quarter, EBITDA margins improved 80bps QoQ to 21.9% driven by higher OF/OFC capacity utilisation and improvement in margins in the software & services business. We believe this uptick will continue as the capacity utilization improves and margins of the software and services business move from 12-13% to 15%. Following 2Q, we raised our EBITDA margin forecast to 22.2%/22.9%/23.2% for FY18/19/20 to factor in this improvement

EBITDA for TP at 12x, a 20% premium to peers

SOTL continues to outperform and is riding the upgrade cycle. The overall OF industry is also faring well due to the demand/supply mismatch driving up valuations. FY19E EV/EBITDA multiple of peers has risen to 10.3x from 8.2x in 1Q18. Considering strong earnings CAGR (49% over FY17-20E) and better ROE (30%+) vs peers, we maintain our 20% TP valuation premium of 12x FY19E.

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	22,749	25,936	35,864	49,747	62,689
EBITDA	4,592	5,189	7,954	11,415	14,513
Core net profit	1,537	2,014	3,219	5,065	6,698
Core EPS (INR)	4	5	8	13	17
Core EPS growth (%)	29.1	30.0	59.8	57.4	32.2
Net DPS (INR)	1	1	2	3	4
Core P/E (x)	75.0	57.7	36.1	22.9	17.4
P/BV (x)	16.5	13.2	10.5	8.0	6.1
Net dividend yield (%)	0.3	0.4	0.7	1.1	1.5
ROAE (%)	24.1	25.5	32.5	39.6	39.7
ROAA (%)	6.5	7.3	10.0	12.6	13.3
EV/EBITDA (x)	10.1	11.5	16.0	11.3	8.9
Net gearing (%) (incl perps)	138.1	99.3	84.8	71.2	50.4
Consensus net profit	-	-	3,025	4,108	5,540
MKE vs. Consensus (%)	-	-	6.4	23.3	20.9

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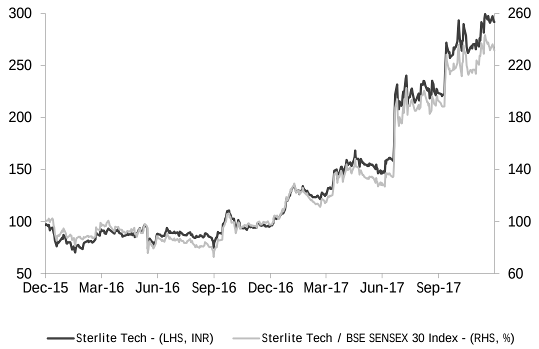
Company Description

SOTL provides transmission solutions for the telecom industry. It offers a range of end-to-end optical fibers for a variety of applications.

Statistics

52w high/low (INR)	299/96
3m avg turnover (USDm)	8.5
Free float (%)	44.4
Issued shares (m)	400
Market capitalisation	INR116.8B
	USD1.8B
Major shareholders:	
Twinstar Overseas Ltd.	52.3%
DSP BlackRock Investment Managers Pvt Lt	2.9%
L&T Investment Management Ltd.	2.2%

Price Performance



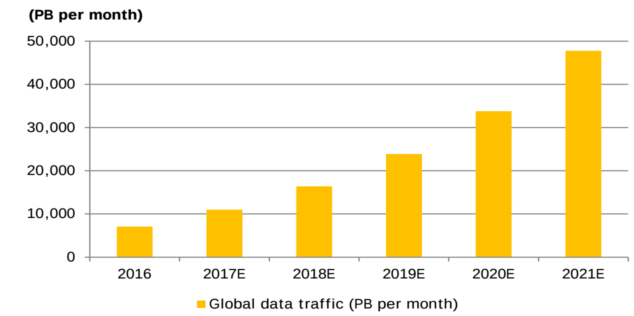
	-1M	-3M	-12M
Absolute (%)	10	31	207
Relative to index (%)	8	20	138

Source: FactSet

Value Proposition - SOTL

- SOTL is one of only eight fully integrated optic fibre manufacturers globally, giving it a cost advantage of 12-15% over peers.
- SOTL dominates India's optic fibre market with a 45% share and has a 6% share of the global market as of Sep'17.
- High investments and low initial returns are entry barriers.
- Optic fibre cable demand is increasing at a 17% CAGR, backed by the upgrade of telco networks and building fibre-to-the-home networks.
- Increase in capacity will change the outlook for returns. OF capacity will increase to 50m fkm by Jun 19 from 28m fkm in Mar 17. Capex of INR11-13b FY18-20E will be funded from internal cash flows and debt.

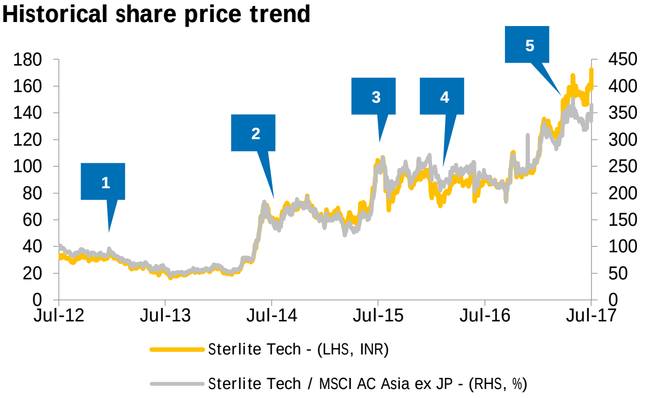
Global data traffic growth (Petabytes/month)



Source: Cisco Visual Networking Index Forecast 2017

Price Drivers

Historical share price trend



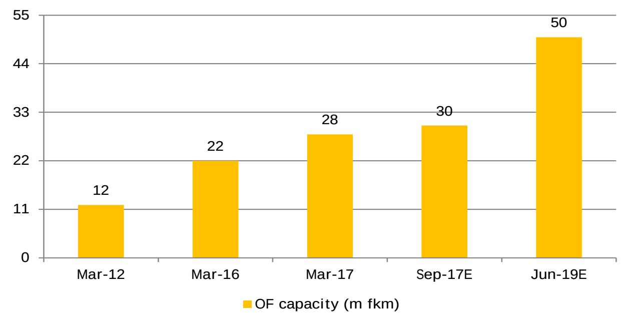
Source: Company, Maybank Kim Eng

1. Performance of power conductor business missed expectations owing to economic slowdown.
2. Stock suffered badly due to weak power transmission business, which dragged overall performance of the company.
3. SOTL announced spin-off of the power business with guaranteed buyback by promoters at a fair value.
4. The share price is adjusted to give the effect of a demerger of the power business.
5. Announces expansion on OF capacity of 50m fkm from 20m fkm.

Financial Metrics

- Data traffic in India is expected to increase 365% over the next five years, boosting optic fibre demand.
- High EBITDA margin of 30% on optic fibre is sustainable. SOTL will retain cost advantage as new capacity will take at least 3-4 years to come on stream.
- SOTL's earnings visibility is improving with entry into network design business, which will also reduce the dependence on product business.
- D/E is comfortable at 1.0x FY17A. This will decrease despite capex plan.

SOTL: Optical fibre capacity ramp-up



Source: Company

Swing Factors

Upside

- New order wins in network design segment.
- Faster than expected commissioning of new OF capacity.
- Demand pick-up in optic fibre cables volume in India.

Downside

- Postponement in government expenditure for Bharat Net project and other related "broadband for all" initiatives.
- Delay in commissioning of OF capacity.
- FX sensitivity to earnings owing to increasing exports dependence.
- Break down in global OF demand, especially China. SOTL derives 20% of its volume from China.

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Maybank Kim Eng

Banks

India

Axis Bank (AXSB IN)

Out of the woods

BUY

Share Price	INR 562
12m Price Target	INR 615 (+9%)
Previous Price Target	*INR 615*

Worst of NPLs behind, now geared for growth

We expect AXSB to turnaround after two years of underperformance. We turned positive last Nov. after the equity capital infusion and upgraded to BUY. In our view, the infusion of USD1.8b is a big confidence booster, providing the ability to write off NPLs and rev up growth. Also, bringing credible investors on-board will enhance accountability and supervision, as well as provide ammunition to fight recapitalised public banks. We believe worst of asset quality issues are a thing of the past after two painful years due to improving loan growth and more cautious lending practices.

Turnaround in sight

The last two years have been tough for AXSB with mounting asset quality pressure and a fall in loan growth. With the bulk of stressed corporate loans recognised as NPLs, fresh accretion will fall drastically from FY19 onwards. The bank has been cautious in fresh lending to troubled sectors, which will help avoid future stress. It has focused on SMEs and secured retail loans for growth. We forecast a reversion of credit costs to 1% by FY20E from 2.9% reported the past two years. We also expect a pickup in loan growth after subdued trends in FY17 and forecast 16% YoY during FY19-20E compared with 10% in FY17.

Better visibility

We expect better visibility for growth and asset quality in FY19-20E. With a capital adequacy ratio (CAR) of 16.9%, the bank is comfortably placed to grow over the next two years. EPS growth is set to revive off a low base. Normalisation of credit cost and a revival in growth will aid EPS growth, in our view.

Re-rating is imminent

AXSB has unperformed the Bank index and peers in CY2017 owing to asset quality issues. Its valuation multiple has de-rated significantly during this period. We believe with a fortified balance sheet, stabilisation in asset quality, and recovery in EPS, a re-rating is imminent. Maintain BUY with TP of INR615 based on 2.1x FY19E P/BV, equal to its 10 year mean.

FYE Mar (INR m)	FY16A	FY17A	FY18E	FY19E	FY20E
Operating income	262,045	297,844	318,260	371,515	422,713
Pre-provision profit	161,036	175,845	173,397	200,724	220,464
Core net profit	82,236	36,793	44,865	87,407	109,706
Core EPS (INR)	35	15	17	33	42
Core EPS growth (%)	11.2	(55.5)	13.7	91.4	25.5
Net DPS (INR)	5	5	6	7	8
Core P/E (x)	16.3	36.6	32.2	16.8	13.4
P/BV (x)	2.5	2.4	2.1	1.9	1.7
Net dividend yield (%)	0.9	0.9	1.1	1.2	1.4
Book value (INR)	223	233	263	293	326
ROAE (%)	16.8	6.8	7.3	12.1	13.6
ROAA (%)	1.6	0.6	0.7	1.2	1.3
Consensus net profit	-	-	44,609	83,078	116,631
MKE vs. Consensus (%)	-	-	0.6	5.2	(5.9)

Company Description

Axis Bank is India's third largest private bank. It has a diversve mix of loans and strong liability franchsie.

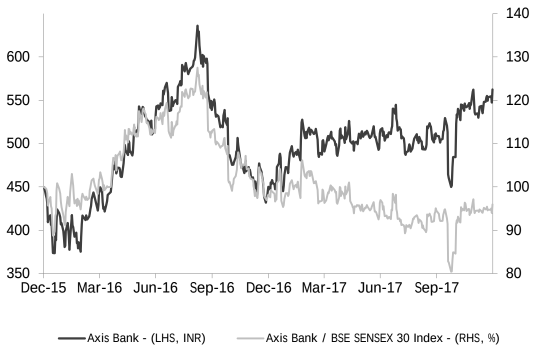
Statistics

52w high/low (INR)	562/445
3m avg turnover (USDm)	84.7
Free float (%)	88.3
Issued shares (m)	2,564
Market capitalisation	INR1,441.9B
	USD22.6B

Major shareholders:

Life Insurance Corp. of India	13.5%
The Specified Undertaking of the Unit Tr	11.7%
Capital Research & Management Co. (World	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	11	27
Relative to index (%)	1	2	(2)

Source: FactSet

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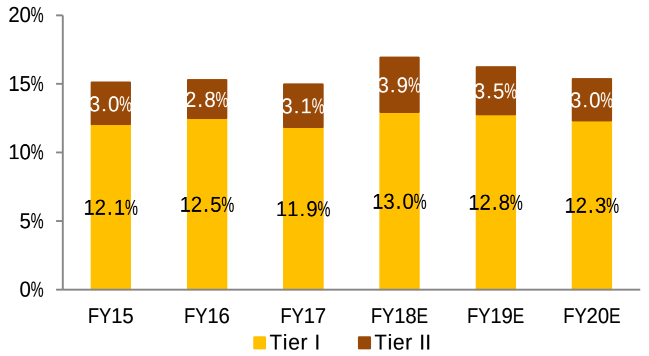
Value Proposition- AXSB

- NPL cycle is peaking out in FY18E. Credit cost is expected to fall to 1.5% by FY19E.
- Loan mix diversification improved with an increase in retail and SME loan contributions. Concentration risk is declining with increasing loan mix granularity.
- High low-cost deposits (CASA ratio of 50.4%) will help reduce the cost of funds.
- Big capital booster of INR116b will help CAR improve to 16.9% in FY18 and will provide sufficient capital for three years.

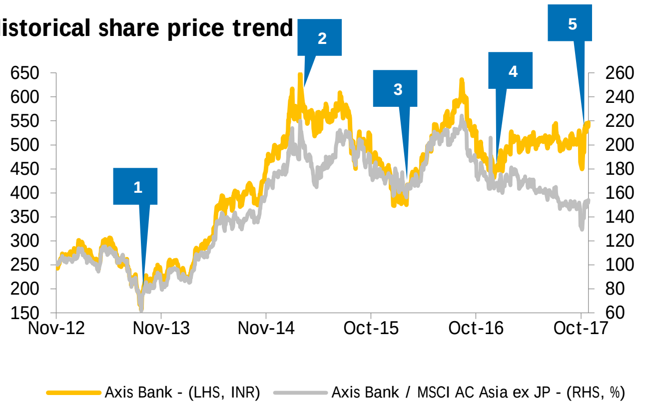
CAR to improve to 16.9% due to capital infusion in 3QFY18



Source: Bank, Maybank Kim Eng

Price Drivers

Historical share price trend



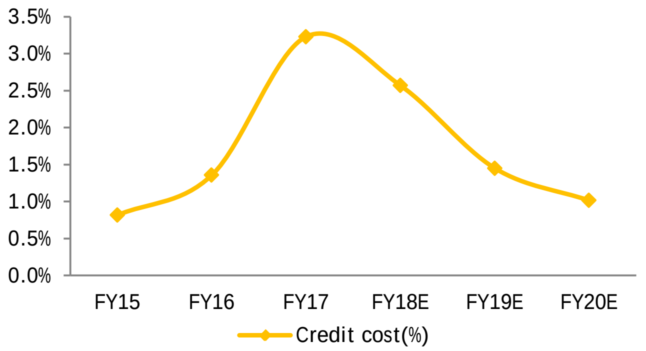
Source: Company, FactSet, Maybank Kim Eng

1. Interest rate hiked by the Central Bank to stem the fall in INR. Bank reported higher investment losses, and asset quality risks increased on foreign currency loans.
2. Stock continued to re-rate on account of a pickup in the secured consumer business and stable asset quality.
3. Asset quality risks emerge as commodity prices crash.
4. Poor results on account of asset quality pressure. Earnings fell 55% YoY in FY17.
5. Stock ran up post announcement of capital infusion.

Financial Metrics

- Credit cost is expected to remain elevated in FY18 at 2.6% but will normalize by FY20E to 1.0%.
- Loan growth of 15.6% CAGR over FY18-20E will be led by SME and retail loans.
- With pick up in loan growth, AXSB will witness sharp earning rebound in FY19E after two muted years.
- The worst is over for AXSB; ROEs to improve to 12.1% in FY19E vs 6.8% in FY17.
- Valuation of 2.1x P/BV (FY18E) is lower than the 10 year average and has room for re-rating.

Credit cost to fall to 1.0% by FY19E



Source: Bank, Maybank Kim Eng

Swing Factors

Upside

- Faster than expected recovery in corporate NPL cycle.
- Continued traction in its retail business could lead to higher than expected volume growth.
- Improvement in outlook for corporate sector will lead to higher growth and reduce the challenges from asset quality.

Downside

- Delay in resolution of corporate NPLs in infrastructure.
- Slower than expected pick up in corporate credit cycle.
- Deterioration in retail credit poses risk to asset quality.

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Greater
China
MADE IN GERMANY
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HB 2

Greater China –Growth to Value & Pricing Power

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KL Lo – Autos, Textiles
Ricky Ng – HK Properties & Utilities, Renewable Energy
Chris Wong – HK Properties
Ning Ma – Insurance

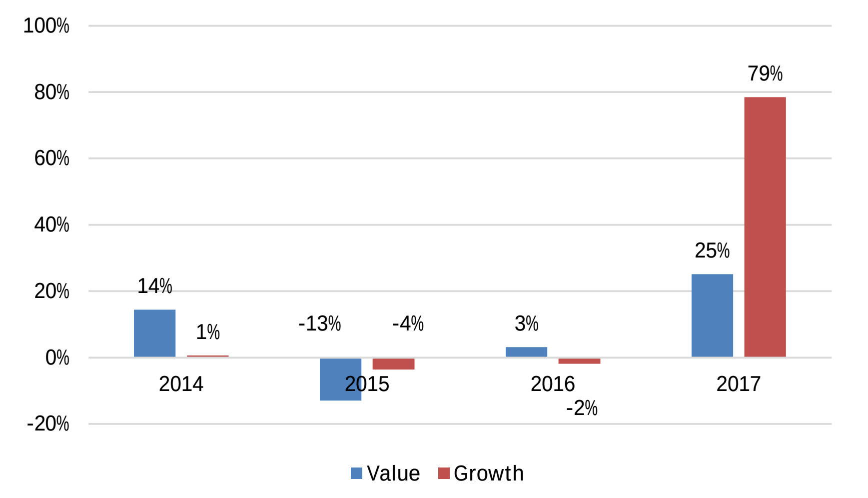
For Greater China, our regional strategist, Willie Chan, recommends investors rotate into value vs. growth for 2018 considering the potential stagflation risks and given that growth significantly outperformed value by 53% points in 2017, led by Internet and technology (see Fig 1). Looking ahead to 2018, from a bottom-up perspective, we have taken on a more cautious stance on Internet and technology sectors. Our contrarian calls are on Alibaba as a HOLD (downgraded in October) and our Street's only SELL on JD.com, as well as our HOLD on TSMC (2330 TT, CP NT$ 229, TP NT$ 215) and SELL on Catcher (2474 TT, CP NT$ 328, TP NT$ 305). We also highlight the renewable energy sector as a good value laggard play under a more stable interest rate environment. For other sectors that have already outperformed including autos and consumer staples as well as insurance companies, we recommend a theme-based stock picking strategy.

With this back drop, we collectively identified six key themes for 2018, some paralleling our top-down value call, while others representing a realignment of positions within growth sectors. Our investment themes/recommendations are: 1) Rotate into value in eCommerce; 2) Premiumization in consumer staples will lead to superior earnings growth and trigger continuing outperformance; 3) Stay long on premium brands to take advantage of the consumer upgrade cycle and short small vehicle foreign JVs as their tax break has expired; 4) Coal energy continues to face headwinds with China's focus on clean energy – go with renewables in 2018; 5) Under a much higher interest rate regime, utilities, properties and materials arguably face the greatest risks, while life insurance would provide more upside as bond yield rises. Lastly, 6) we also highlight three wild card themes: risk of government intervention and the potential for further M&A in the Internet sector, and the ramifications of higher interest rate environment on the property sector.

Based on these themes, we highlight our top long ideas for 2018: 1) Vipshop (VIPS US, BUY); 2) H&H (1112 HK, BUY); 3) Brilliance (1114 HK, BUY); 4) Huaneng Renewables (958 HK, BUY); and 5) CPIC (2601 HK, BUY).

To take some risk out of the portfolio, we recommend selling JD.com (JD US, SELL) our key contrarian call. We also have HOLDs on Alibaba (BABA US, HOLD), SAIC (600104 CH, HOLD), GAC (2238 HK, HOLD).

Fig 1: MSCI Growth Index outperformed significantly in 2017



Source: MSCI, Maybank Kim Eng

1. Time for Value in e-Commerce

Given the current environment, we see downside risk to China Internet in two phases: 1) at a macro level, any notable downturn in macro factors, such as softer consumption, could lead to a correction, especially for China consumption proxy stocks, such as Alibaba (BABA US, HOLD, CP USD172.43, TP USD185) and Tencent (700 HK, Not Rated, HKD 406); and 2) at a company-specific level, stocks that miss earnings expectations will likely be significantly punished. For this reason, we think it is prudent to pick sectors and stocks with positive structural themes as we highlight in this report, as well as laggards in growth sectors, such as the ecommerce sector.

After taking more than 16% of retail consumption from brick and mortar businesses over the last 10 years, we now see the online shopping platform as more of an enabler than a disruptor. E-commerce and chat based platforms have been disruptors to brick and mortar retailers. However, at this time in China, such disruptions have already taken a toll, albeit a more limited one on offline department stores (e.g., Intime) or specialty retailers (e.g., Suning (002024 CH, Not Rated, CNY12.24) and Gome (493 HK, Not Rated, HKD 0.94)). Going forward we also see a more limited impact on the supermarket and hypermarket segments. In fact, ecommerce companies have become invaluable distribution partners for some manufacturers and importers, including H&H's Swisse products. Offline retailers have also teamed up with Internet platforms (Suning's Omni-channel partnership with Alibaba). In addition, Internet platform companies have also become partners or investors in emerging insurance or lending companies through their AI (Artificial Intelligence) and fintech capabilities. Companies such as Zhongan Insurance (6060 HK, Not Rated, CP HKD23.25) and Qudian (QD US, Not Rated, CP USD12.5) have emerged due to their ability to leverage the credit assessment and other analytics capabilities of Internet companies.

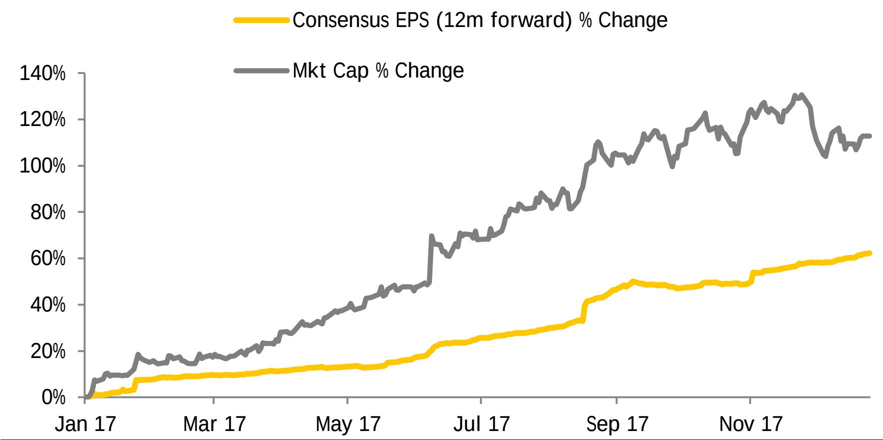
Currently, competition is more focused on platform vs platform – i.e., Alibaba's social shopping experience vs. JD.com's Amazon model. Alibaba's share price outperformed JD.com for the second consecutive year in 2017, as the former's revenue growth reaccelerated, in contrast to the latter's revenue growth deceleration, which ended up being less than expected in 2017.

Arguably, our most contrarian call is our recent downgrade of Alibaba to HOLD in October. We have been an early bull on Alibaba over JD.com over the last two years with our target price topping the consensus range until our downgrade. We applauded Alibaba's innovative social shopping platform, but we closed our long position in October after the market cap doubled. We believe its risk reward profile is now less attractive as its outperformance was only partially supported by consensus earnings upgrade (see Figure 2) and it will be tough to find incremental buyers when its operating momentum will slow for next two quarters. We believe slowing revenue growth in FY2H18 (Dec and March quarters, see Fig 3) and margin compression from intensifying competition will increase the downside risks for Alibaba, as well as for the sector.

We recommend rotating from Alibaba (HOLD) and JD.com (JD US, SELL, CP USD41.42, TP USD30) into Vipshop (VIPS, BUY, CP USD11.72, TP USD14.20), our ecommerce value play. With operating momentum slowing for Alibaba and more intense competition likely to undermine JD.com's margin expansion story, we believe Vipshop is attractive as a margin recovery value play. This is a contrarian view as the market remains ultra-bullish on both Alibaba and JD.com, the latter more so after its announced investment in Vipshop on 18 Dec.

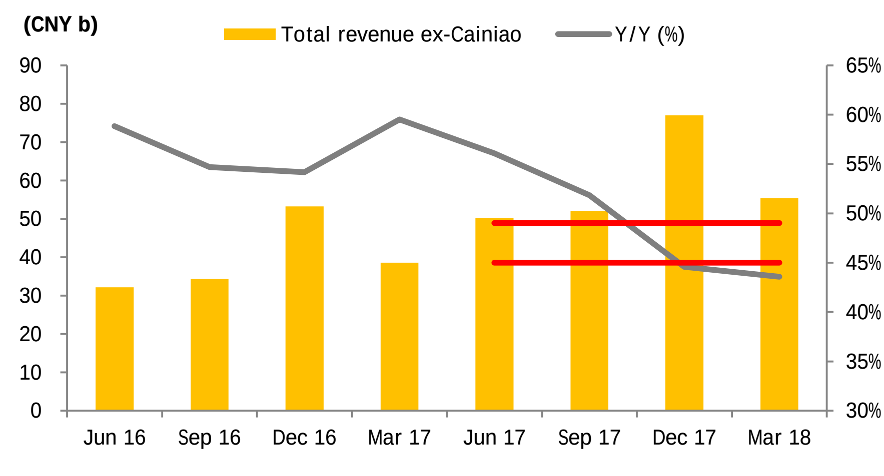
Once a darling of hedge funds, VIPS has fallen out of favor because of the questionable growth outlook and the declining margin trends, especially amid a more intense competitive environment. This opens up an opportunity to buy VIPS in our view. We think the market is overly discounting the company's unique flash business model and its female dominant customer base. While the stock has recovered 40% in the last two weeks with the news of the Tencent/JD.com investment, we believe there is still more upside to this margin recovery story with an undemanding valuation of 12x FY18 P/E. Contrary to the market, we believe Vipshop's "brand for less" flash model insulates its business from direct competition with Alibaba in its core categories, which are made up of apparel, shoes and home goods.

Fig 2: Alibaba: Doubling of market cap only partially supported by earnings upgrades



Source: FactSet

Fig 3: We estimate Alibaba's revenue growth will slow from 54% in FY1H18 to 44% in FY2H18, below the full year guidance of 45-49% (ex-Cainiao)



Source: Company data, Maybank Kim Eng

2. Consumer Premiumization

We believe consumer companies with stronger brands will emerge as winners in 2018 as Chinese consumer tastes upgrade towards higher end products. In the consumer staples sector, we are seeing stronger-than-expected sales growth, not just because of the volume recovery, but also due to accelerating sales growth in high-end products which resulted in a better product mix. Moreover, manufacturers are showing the ability to pass on the increasing input prices to the end consumers through innovation. Lately, we have seen moderate GPM pressure despite a broad-based surge in raw materials cost. Similarly, in the auto sector as well as other discretionary areas, we are seeing a more favorable sales mix trending towards higher end models, which should favor those manufacturers with premium brands.

We believe these trends are emerging because of multiple factors: 1) more rational competition; 2) better inventory management; 3) higher input costs leading to industry consolidation which allows larger players to raise retail-prices; and finally 4) more sophisticated consumers who recognize the value of brands and are willing to pay for better quality products. We have seen our coverage universe witness growing contribution from their mid-high end products, as the relevant sales segments are achieving better than average growth. **This is happening not only with manufacturers and consumers, but also retail distribution** – e.g., merchants are willing to pay more for the "Uni Marketing" value proposition of Alibaba's platform.

We highlight our long thesis on H&H (Health and Happiness), which provides strong earnings growth potential for 2018E based on consumer premiumization, as it has exposure to the baby and adult nutrition and care segments. Its products are manufactured in France, Australia and other European countries. It caters well to the growing demand from more affluent and better educated parents.

We also note manufacturers have become more disciplined with their working capital allocations, as evidenced by channel inventory running at the lowest level in recent years. This is largely due to the commitment by operators to avoid over-stuffing the channel and to improve supply chain infrastructure. This should also help reduce destocking risks, as we have seen in the case of undisciplined manufacturers in past years.

Rising raw material costs (i.e. both edibles and non-edibles: palm oil, sugar, grain, PET resin, wood pulp, petrochemicals, etc.) will put pressure on profitability and eventually separate the winners from the losers and lead to greater market stability. Those manufacturers with stronger brands will be able to pass the higher cost on to consumers, while weaker players could be forced out. We also see signs manufacturers are less concerned with market share and more focused on profitability: we have already observed less keen promotional discounts and gifting activities as reflected from interim reports and higher quality players are planning to raise prices to offset the increasing raw material costs. Already in 4Q17, we saw price increases or some players planning such action in 2018 to mitigate the raw materials cost pressure: Vinda (3331 HK, BUY, CP HKD15.68, TP HKD17.64) raised prices by low single digits in Oct, and we expect a subsequent hike if wood prices continue to increase. Recently, H&H also announced its plan to lift the retail prices of its infant formula by 5.7% from Mar 2018. In our view, we could be seeing a series of price hike actions in 2018.

Despite the cost increase, larger players are positioned to use this opportunity to enhance margins for a couple of reasons: 1) Higher input cost and competition could potentially drive weaker players out of the market; we have observed that listed players are growing faster together as compared to industry with dairy and HPC (household and personal care) space being a good example; and 2) Intense competition of the past has forced larger players to strengthen their competitive positions through a better product mix, investments in enhanced automation, and improvements in production techniques. We expect the easier competitive environment in 2017 to persist into 2018 given the keen cost pressure, as leading players are likely to better expand their competitive edge over smaller players.

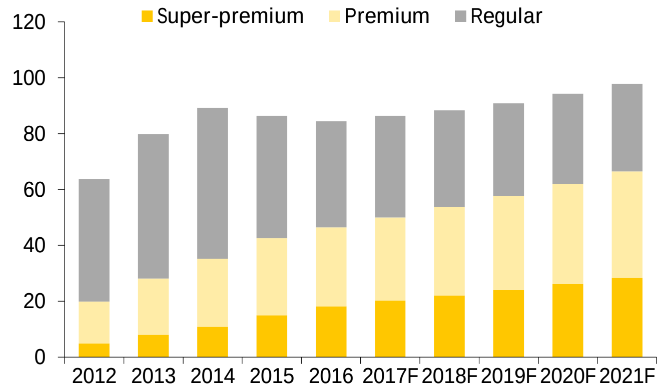
We believe consumer premiumization will drive continued strong earnings growth for market leaders. Consumers have a greater appreciation for better brands and are willing to pay a premium for quality products. This is evident from the mid- to high-end product sales growth of market leaders. Notwithstanding the stellar year in 2018, which may be due to cyclical demand from a better economy, we have consistently seen the relevant sales contribution on the rise. We note high-end products have, at a minimum, 5-10ppt higher margin than the blended average for most companies. As such, we believe industry players have a good and structural margin uplift story to tell going forward.

Consumer staples companies are leveraging the eCommerce platform as another distribution channel. In fact, H&H saw stronger-than-expected Swisse sales during the 2017 Singles Day, which grew 100% YoY and surpassed the CNY100m sales mark on the Alibaba platform (includes Tmall and Taobao).

Stock Implications: Our best stock idea based on the consumer premiumization theme is H&H (1112 HK, BUY, CP HKD51.90, TP HKD66.30). In parallel with this theme, we believe the company is well positioned in the baby nutrition and care category as it commands the best pricing power supported by price inelastic demand growth from affluent young parents (see Fig 4 and 5). We upgraded H&H's target price by 16% to HKD66.30 on 18 Dec. We expect H&H to double its net profit during FY17-19F driven by rapid growth in both its adult and baby nutrition & care divisions. Its ANC brand, Swisse Wellness, being the no.1 supplements brand in Australia and no.1 online brand in China, should be able to leverage off an aging population and rising health awareness, in our view.

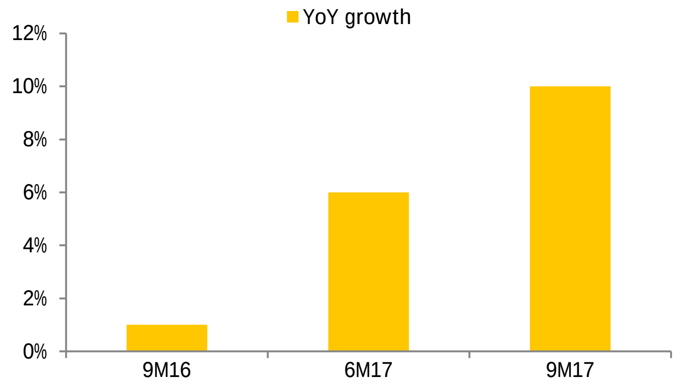
China Mengniu (2319HK, BUY, CP HKD23.25,TP HKD26.0) should also be a beneficiary of consumer premiumization. This will be driven by consumers paying more to upgrade from plain milk to high-end UHT, as well as buying its chilled products, such as yogurt. For example, it has recorded double digit growth for its flagship product, Milk Deluxe.

Fig 4: H&H (1112 HK): IMF retail sales value by tier (CNYb)



Source: Frost & Sullivan, Feihe's IPO prospectus

Fig 5: China's infant milk formula market growth rate



Source: Danone's PPT, H&H's PPT, Nielsen, Euromonitor

3. Auto Consumers On an Upgrade Cycle

3.1 Breakout – Target Auto Companies with Better Brand

The key theme for the auto sector is consumer's willingness to upgrade to larger and higher premium vehicles, albeit, part of this is due to the expiration of tax subsidies for small vehicles. **Based on this theme, we recommend Brilliance (1114 HK, BUY, CP: HKD20.9, TP: HKD27.2) as our top pick in the auto sector** to leverage off the company's premium brand, with the BMW 5 series and X3 in the pipeline. While Brilliance shares rose 96% in 2017, this is one of the few stocks where consensus earnings upgrades fully supported its share price gains during the year.

Chinese auto stocks were on fire in 2017 with four of our 10 covered stocks outperforming the MSCI China, and Geely (175 HK, BUY, CP: HKD27.1, TP: HKD36.0) rising 2.5x. However, for sustainable high returns, we believe companies with premium brands will perform better in 2018. We do expect some downside demand risk in 2018 for small vehicle centric companies due to the pre-ordering in 4Q17 to take advantage of terminating tax subsidies. At the same time, we are also seeing consumers upgrade to larger models while selecting the full option package in their vehicle purchases. (See Fig 6, 7) As a case in point, automatic transmission has now become a standard feature. In addition, consumers are also taking new safety options, such as Autonomous Cruise Control (ACC), which is being adopted in the mid-end segment. Moreover, large SUV sales grew 57% YoY in Jan-Sep 2017, outpacing compact SUV sales growth. (See Fig 7)

We like the outlook for premium brands and believe they will be more resilient under an intensified pricing environment. We therefore recommend **Brilliance as our top pick.** We believe it has the highest earnings visibility among peers. Demand for the new BMW 5 series remains strong; and the company will launch another high end model, the X3 in 1H18, which will not only help to increase sales, but also lift overall profitability after output fully ramps up. We also like BJ-Benz which will continue to be the key driver for BAIC (1958 HK, BUY, CP: HKD10.18, TP: HKD11.2).

Domestic brand manufacturers are exposed to small car risks, but because they continue to improve technological capabilities and have faster new model launches in the mid-end segment, we expect them to participate in the consumer upgrading cycle. Domestic brands used to only focus on the price segment below CNY150k, but a few local brands have successfully tapped into the mid-end segment with prices between CNY150k-200k. For example, sales of Great Wall's (2333 HK, BUY, CP: HKD8.95, TP: HKD11.5) WEY brand reached 20k a month in Nov 2017 and Geely's new Lynn & Co brand has so far been able to lock in a few months of pre-orders. The company has targeted young consumers who recognize the brand image and are also willing to pay extra for the new product offerings and features. This has been facilitated by a more mature and transparent market thanks to the information flow from the internet.

3.2 Breakdown – Small Car Focused Foreign JVs

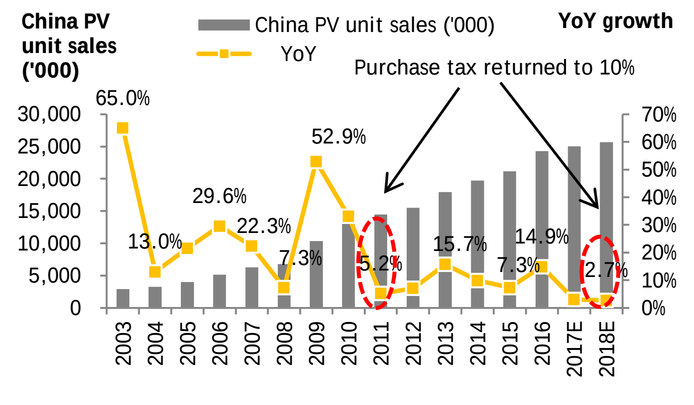
We expect the China passenger vehicle (PV) market to grow by 2-3% in 2018 as the purchase tax for small cars (engine size 1.6L or below) increases to 10% in 2018 from 7.5% in 2017. We expect demand for small cars to wane in 1H18 as consumers pre-purchased small cars in 4Q17 to take advantage of lower taxes. For this reason, we believe low-end and small cars are expected to come under pressure.

Among our BUY rated stocks, Geely and Great Wall have the highest proportion of sales from small cars at 70-80%. While we believe their sales will likely come under pressure in 1H18, the launch of their new mid-end brands should offset the impact and help sales to normalize in 2H18.

Among our BUYs, Dong Feng Motors (489 HK, BUY, CP: HKD9.46, TP: HKD11.8) faces the highest risk among the foreign JVs as the company also has high exposure to small PVs (~60% of sales from passenger vehicles 1.6L or below). Unlike domestic brands, foreign JVs have been slower in responding to the market and therefore face greater risk under the consumer upgrade cycle scenario. We would avoid SAIC (600104 CH, HOLD, CP: NY32.5, TP: CNY28.6) and GAC (2238 HK, HOLD, CP: HKD18.52, TP: HKD21.0) given their relatively weak brand and dependence on small cars.

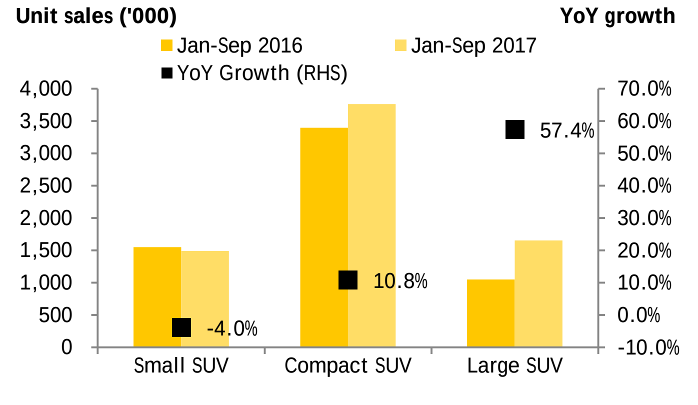
Risk to our thesis: Could consumer confidence be buoyed by property prices? The wealth effect from the increase in tier 1 city property prices could have bolstered consumer confidence. If so, there could be potential downside risk – especially for the consumer discretionary sector - if property prices fall. Already in October, we saw property prices flatten out compared to the levels of previous years. (see Figure 8)

Fig 6: Overall market growth is growing at 2-3% YoY



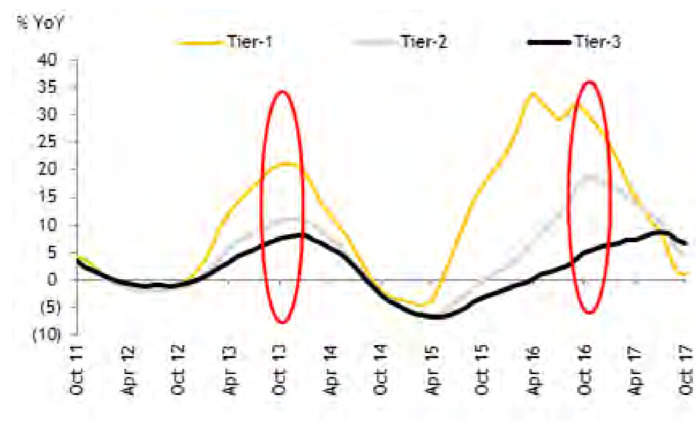
Source: CAAM, Maybank Kim Eng

Fig 7: ......but consumers are upgrading



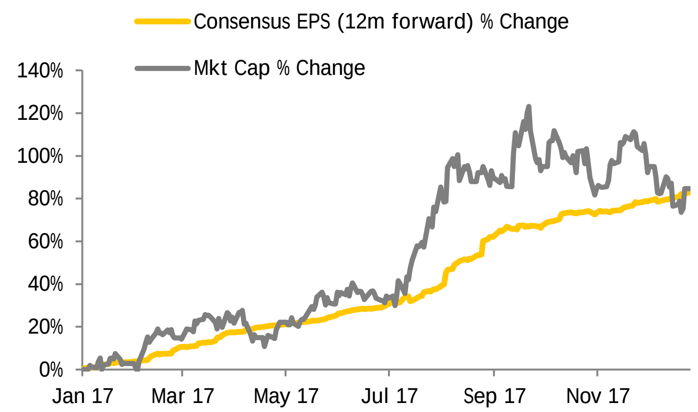
Source: Gasgoo

Fig 8: China Property Price Change (Tier 1 to 3)



Source: Wind, National Bureau Statistic (NBS)

Fig 9: Brilliance: Consensus Forward EPS % change vs Mkt Cap



Source: Factset

4. Longing for a Breath of Fresh Air

Our previous three themes focused either on: 1) rotation within a sector into value; or 2) taking a position in a stock with consumer premiumization; or 3) favoring premium brand in autos. **Our fourth theme is wholly focused on value stocks trading at P/E's of 6-8x, which benefit from supportive government policies on clean air.**

We are positive on both wind and nuclear renewable/alternative energy as China is committed to Green Development over the long term in order to curb carbon emission by 64%-70% by 2030E from the 2005 level. Moreover, the government targets the overall clean power proportion of total generation (non-hydro) to be 15%/20% by 2020E/2030E, up ~3.4ppt/8.4ppt compared to the 2016 level. (See Fig 10 for our forecast of power generation mix.) However, these long term goals have not yet been a boon for the renewable/alternative sectors because the government has yet sort out which among the various power sources will be most effective to achieve it, in our view. More specifically for wind power, the historical sluggish share price performance was mainly due to curtailment issues, weak utilization hours and green certificate policy overhang. **As we take a step into 2018, we think the need to support renewable energy with more clear policies should only increase.**

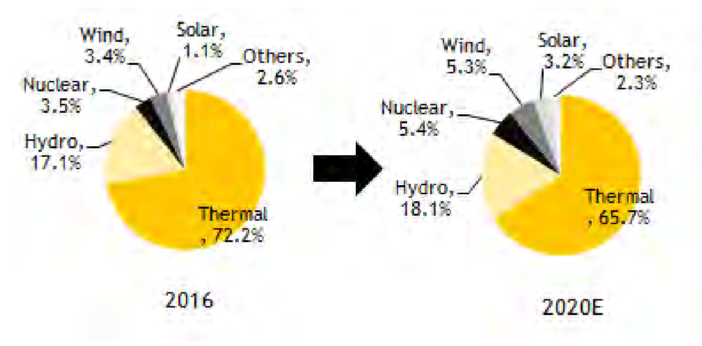
We see potential catalysts for renewables/alternative energy in 2018 in two forms: 1) further improvement in utilization hours and curtailment driving earnings growth; and 2) more clarity on Green Certificate to remove concerns over subsidy on the existing wind farms.
In 2018, we expect both the wind and nuclear power sectors will see further improvement in utilization hours, mainly due to the "Guaranteed UT hours" policy target and inter-provincial transmission, and as continued policies supporting clean energy will suppress investment in coal-fired power. **In fact, the government unveiled a plan to cut coal use in 14 northern provinces by about 9% by the end of 2019,** according to a report by Bloomberg. We believe using more natural gas could help lower carbon emissions but shortage of gas and/or lack of gas infrastructure seems to be the market concern. **If so, we believe the government will have even greater incentive to be more supportive of renewable/alternative energy including wind, nuclear and solar to increase the supply.**

In 2018, we forecast a 3.1% increase in utilization hours for the wind power sector and a 2.3% increase for CGN Power. We forecast an attractive 3-year EPS CAGR of 40.3% for wind (2016 to 2019E) and 17.6% for CGN. Already in 2017, we saw curtailment ratio improve from 16% in 3M17 to 12% in 9M17 and utilization hours also recorded a YoY growth of 11% in 10M17 (refer to Fig 11) amid some coal power project suspensions or delays.

Stock Ideas:

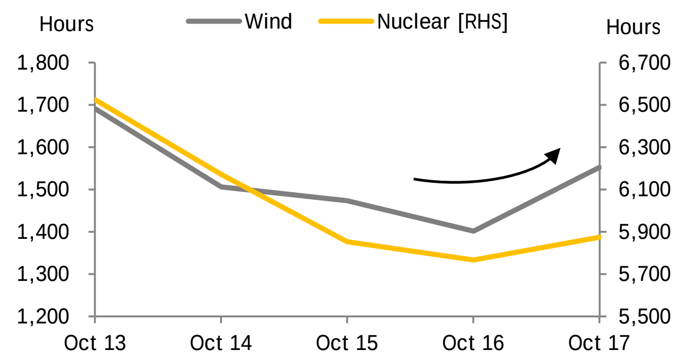
We recommend Huaneng Renewables (958 HK, trading price: HKD2.65, BUY, Target Price: HKD3.30) as our top idea for this theme. Huaneng Renewables is trading at ~6x FY18E P/E, which is around 1SD below its 6-year average. For investors favoring nuclear power, CGN (1816 HK, trading price: HKD2.12, BUY, Target Price: HKD2.80) is also an attractive value play within the alternative energy sector as nuclear power could be used to replace and supplement the base-load power generation. CGN is now trading at FY18E P/E of ~8x, around 1 SD below to the 3-year mean.

Fig 10: Our forecast of China's power generation mix



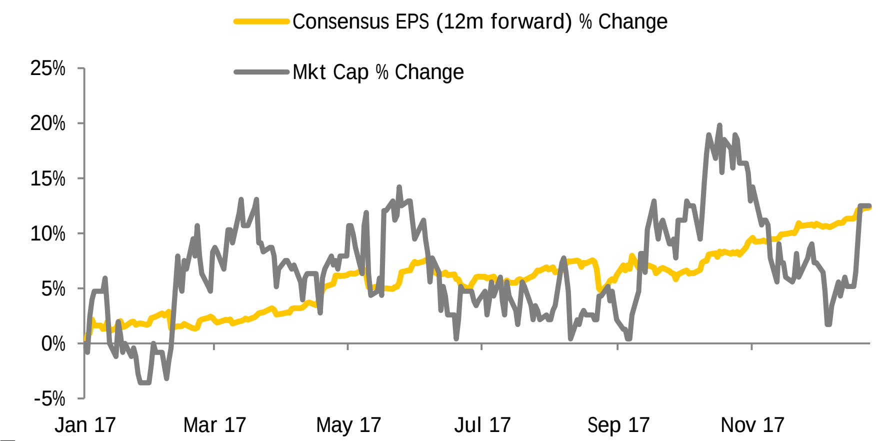
Source: CEC, Maybank Kim Eng

Fig 11: Utilization hours (10 months)



Source: CEC, Maybank Kim Eng; Note: Sum of the figures from Jan to Oct for each year for YoY comparison

Fig 12: Huaneng Renewables (958 HK): % change in Consensus EPS (12m forward) vs Mkt Cap



Source: FactSet

5. Balance Sheet Blues?

Domestic and Foreign Debt

China's elevated aggregate debt level is well known. That there has also been an enormous surge since the Global Financial Crisis is also well flagged. Since Quantitative Easing, there has also been a large increase in external borrowing in USD terms, as reported by the BIS. However, the latter reversed sharply during the USD rally in 2015 and 2016. In 2017, with the USD pausing and tightening of the Chinese capital account, USD borrowing by China again rose, up 24%.

Leverage by sector

To calculate leverage by sector, we used consensus estimates of the companies in the MSCI China and Hang Seng H-share indices.

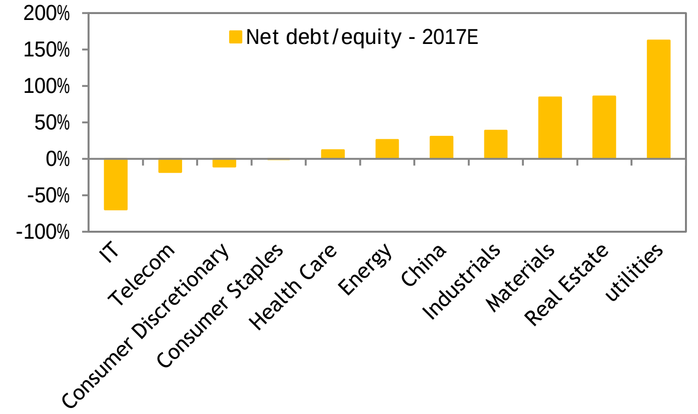
Utilities, property and materials are still the most leveraged sectors, with net debt-to-equity ratios exceeding 50%, as seen in Fig 12. If the stagflation scenario unfolds, and China's cost of capital keeps rising in 2018, these three sectors would arguably be at greatest risk.

Tech sector is cash-rich, and valuations have benefited from the low interest-rate environment. Effectively, a low long-term discount rate has helped produce high valuations. Under the rising interest-rate scenario, we reckon unlisted technology companies will be hit the hardest as they'll have the greatest difficulty in getting funding, particularly if they have negative cash flow. This will, we think, also impact the high valuations of listed technology plays.

Rising credit spreads

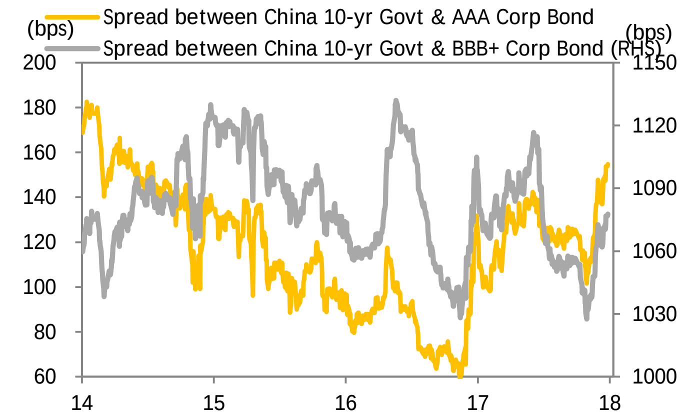
China's government bond yield increased even more than US government bond yield in 2017. A possible explanation is liquidity tightness due to financial deleveraging in China. The spreads between corporate bonds (AAA and BBB+) and government bonds have widened sharply in the past two months. Indeed, AAA spreads are the widest now since 2014. We believe liquidity tightness will continue in 2018. (Fig 14)

Fig 13: China net debt equity - by sector



Source: Maybank Kim Eng

Fig 14: Spreads between gov't bonds and corporate bonds



Source: Wind, Bloomberg, Maybank Kim Eng

On the other hand, financial institutions would be beneficiaries of higher-than-expected interest rates. In this environment, we like the insurance sector. We expect China's nominal interest rates to remain elevated in 2018 due to potential US rate hikes, high domestic inflation, and tight system liquidity amid financial deleveraging.

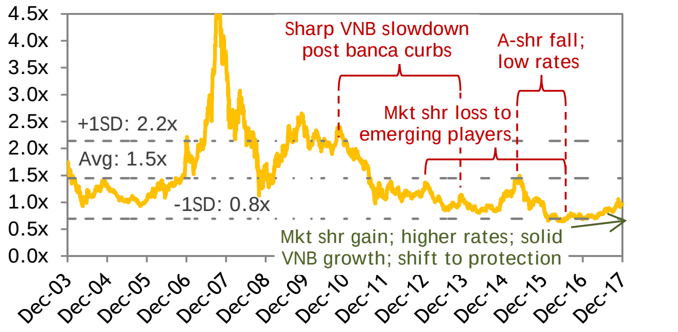
We see a bond yield recovery as beneficial to Chinese lifers because: 1) it eases negative spread concerns and restores investor confidence in EV/VNB metrics; 2) it improves lifers' new money and reinvestment yields; and 3) it reduces or even reverses the negative drag from life reserve charges. The key is that these long-term positive factors would need to outweigh the one-off mark-to-market losses from insurers' bond holdings, in our view.

With the ongoing financial deleveraging, we expect the highly-leveraged financial institutions to gradually shrink their B/S and shadow bank exposures. Compared with banks/brokers, insurers are less involved in the leveraging-up process and have a negative B/S duration structure, which should be relatively less vulnerable to a systemic contagion risk and liquidity crunch.

Although rising bank WMP (Wealth Management Product) yields could lift the competitive pressure on savings-type life products, listed lifers are better positioned nowadays compared with the last rate-hike cycle in 2011-12, thanks to their high exposure to agency channel. While CIRC's tighter product regulations (Document 134) present near-term uncertainty for listed lifers' 1Q18 growth, their medium- to long-term VNB outlook remains intact, driven by: 1) continuous product mix upgrades towards LT protection amid growing health/mortality protection demands (supported by ageing population, rising middle class, increasing healthcare expenditure, etc.); and 2) further market share gains from unlisted emerging insurers amid a favorable regulatory environment.

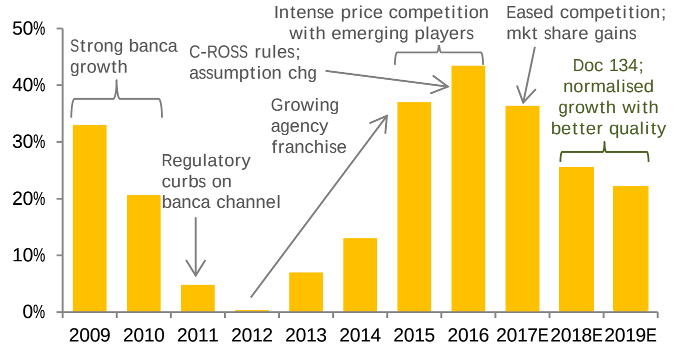
Despite the strong share price performance in 2017, Chinese lifers are still trading at around 0.9x 2018E P/EV, which is below their long-term average of 1.5x. We believe the life sector will continue to re-rate in 2018 amid macro tailwinds, favorable demographics, decent near-term VNB growth and improving earnings quality. Our sector top picks are: CPIC (2601 HK, BUY) and Ping An (2318 HK, BUY). We like CPIC for its high earnings quality, strong VNB growth, and inexpensive ex-growth valuation (0.9x 2018E P/EV). We like Ping An for its best-in-class life operations, strong VNB outlook and unique fintech exposure.

Fig 15: Chinese lifers still trade at low P/EV valuation…



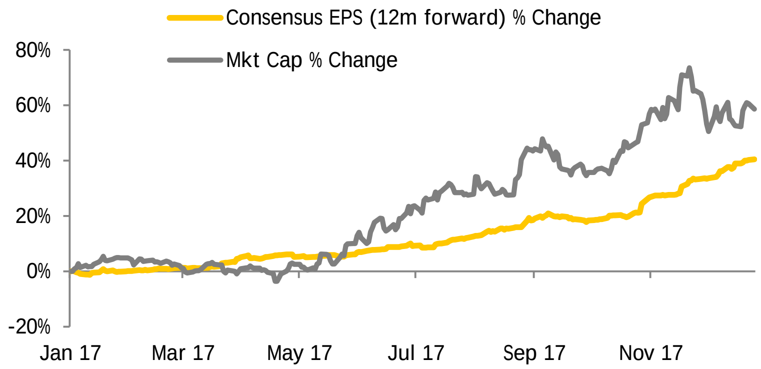
Source: Bloomberg, Company data, Maybank Kim Eng

Fig 16: … despite their strong VNB growth



Source: Bloomberg, Company data, Maybank Kim Eng

Fig 17: CPIC (2601 HK): % change in Consensus EPS (12m forward) vs Mkt Cap



Source: FactSet

6. Wild Cards

#1: We could potentially see the Chinese government seeking greater control over the Internet industry in 2018. In 2017, the government already expressed concern over the appropriateness of online game content, and news media reported the government might take small stakes in internet companies. We also note that internet companies were tapped to bail out China Unicom as part of the mixed ownership reform.

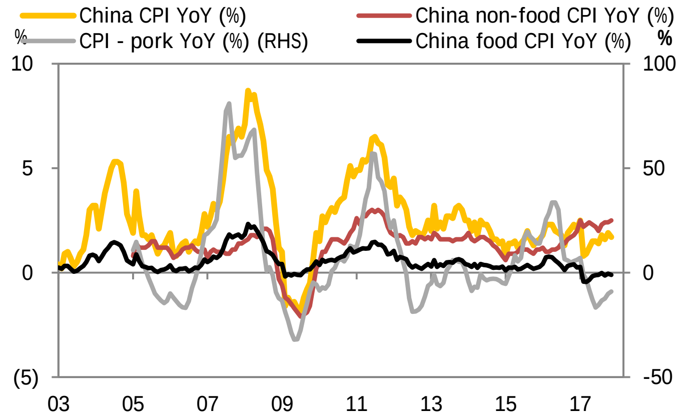
While a small stake by the government in Internet companies would have a minimal impact on the actual operations, we think that the market would adversely react to such an action if it were to occur. We believe social media networks could come under greater scrutiny than ecommerce platforms. If this were the case, there could be a more significant share overhang on Tencent (Not Rated) and Weibo (Not Rated), but Alibaba and other ecommerce platforms, as well as Baidu could come under pressure as well. However, the big question remains whether the government will be willing to kill a goose that lays golden eggs. We believe the risk exists but it has not been factored in the share prices of the Internet stocks.

#2: More M&A activities by the Internet platforms. We see two mega platforms dueling for the future of Chinese consumption: Alibaba and Tencent, with Baidu one step behind. Already, we have seen Tencent attempting to strengthen its foothold in the ecommerce space through its announced investment in Vipshop, along with its strategic partner JD.com. We do not think Tencent will trek back into ecommerce after its exit following its divestment of Pai Pai, but at the same time it appears the company does not want Alibaba's dominance in ecommerce to increase further without being checked. Considering that Tencent is second to Alibaba in online payment and cloud market share, we believe Tencent wants to keep pressure on Alibaba on the ecommerce market.

#3: The Stagflation Scenario. Our Regional Strategist, Willie Chan, thinks there is risk of stagflation in China in 2018 (Does No One See the Clouds?). Fig 17 shows that China's headline CPI rose moderately in 2017 from 0.8% in Feb 2017 to 1.7% in Dec 2017. However, non-food inflation has been rising steadily - it reached 2.5% in Dec 2017, higher than the historical average of 1.3% mainly driven by the services sector. Also, food inflation has started to turn around. As such, we think inflation could surprise the market given rising material and food prices, especially in 1Q18. If so, the government would be pressured to tighten monetary policy further.

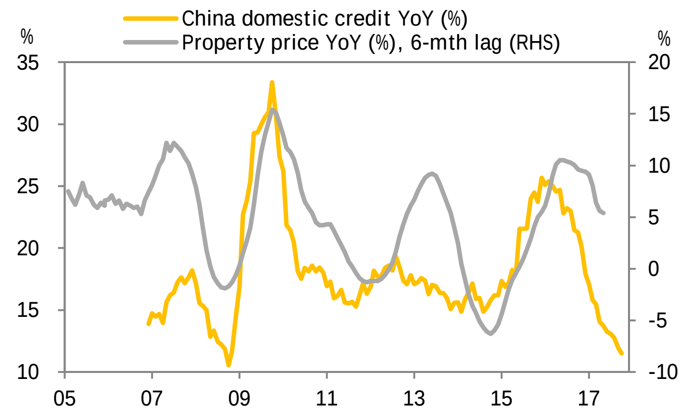
At the same time, we have also seen rising liquidity pressure in China given the pressures to achieve some financial deleveraging. We are also concerned the economic slowdown in China will be greater than expected, especially as the property market has cooled and the government has tightened controls of public private partnership projects to manage potential fiscal burden. Fig 18 shows that property prices will come under pressure as the government continues to tighten domestic credit growth.

Fig 18: Inflation breakdown



Source: CEIC, Maybank Kim Eng

Fig 19: Domestic credit growth and property price



Source: CEIC, Maybank Kim Eng

Vipshop Holdings (VIPS US)

Value In Play

BUY

Share Price	USD 11.73
12m Price Target	USD 14.20 (+21%)
Previous Price Target	*USD 14.20*

BUY: a rare value play in eCommerce

In our Year Ahead outlook report, we recommend investors to rotate out of JD.com (JD US, SELL, CP 41.12, TP 30.0) and Alibaba (BABA US, HOLD, CP172.43, TP185.0) into Vipshop, as we think the market is overlooking its value. We believe its long-term value will be unlocked as margins recover over the next 12 months. The market is overly concerned about VIPS' margin decline and top line growth in an intensifying competitive environment, but we think VIPS is near an inflection point as we see improving operating metrics and potential benefits from the recent Tencent/JD investment. The stock is still attractive at 12x 2018 P/E. Our TP is based on DCF (WACC 13%; LTG 2%).

Revenue per buyer on the rise

VIPS focused its new user acquisition on new young users who generate lower revenue per buyer in the near term, but spend more over time. Revenue per buyer grew 11% YoY in 3Q17, the second consecutive quarter of positive growth. This is a step in the right direction.

Concern on competitive risk is overdone

The market is concerned that the intensifying competition between Alibaba and JD.com will pressure VIPS' margins and top line growth. We believe the market's concern is sufficiently priced-in, but VIPS' competitiveness as an online brand discount retailer in its core categories – apparel, shoes and home goods – is overlooked. On recovery of operating margin to 4.2% in 2018E from the estimated 3.4% for 2017E (and still well below 4.8% in 2016), we estimate its non-GAAP earnings growth to be 40% in 2018, even before the JD/Tencent strategic benefits.

Strategic value confirmed by Tencent/JD investment

Tencent and JD's investment in VIPS at 55% premium announced on 18 Dec supports our value argument on the stock. The investment comes with an access to WeChat and JD's mobile app, which could provide incremental user traffic and consequently additional revenues. Back in 2014, after JD entered into a similar agreement with Tencent, 20%+ of JD's first-time customers came from WeChat and Mobile QQ. With nearly 1 bil WeChat users today, we think VIPS could see similar benefits.

FYE Dec (CNY m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	40,203	56,591	72,493	88,109	101,554
EBITDA	2,654	3,552	3,434	4,545	5,946
Core net profit	2,199	2,867	2,852	3,999	5,139
Core FDEPS (CNY)	3.66	4.57	4.55	6.38	8.20
Core FDEPS growth(%)	78.2	25.0	(0.5)	40.2	28.5
Net DPS (CNY)	0.00	0.00	0.00	0.00	0.00
Core FD P/E (x)	20.9	16.7	16.8	12.0	9.3
P/BV (x)	10.7	6.7	4.7	3.2	2.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	52.2	43.9	25.5	28.4	27.8
ROAA (%)	11.9	12.7	10.4	12.1	13.0
EV/EBITDA (x)	22.0	12.6	12.9	9.2	6.3
Net gearing (%) (incl perps)	22.9	4.7	net cash	net cash	net cash
Consensus net profit	-	-	2,564	3,260	4,206
MKE vs. Consensus (%)	-	-	(30.6)	(13.1)	(6.6)

Company Description

VipShop is an online discounted brand retailer in China and utilizes the online flash sales model to push off-season products to customers.

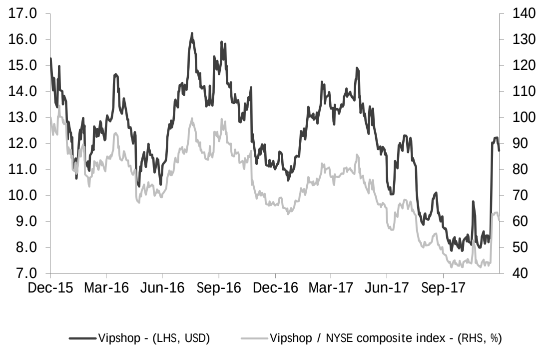
Statistics

52w high/low (USD)	14.91/7.87
3m avg turnover (USDm)	28.8
Free float (%)	98.0
Issued shares (m)	627
Market capitalisation	USD7.3B
	USD7.3B

Major shareholders:

Fidelity Management & Research Co.	5.9%
Comgest S.A.	4.9%
Morgan Stanley & Co. LLC	4.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	46	33	6
Relative to index (%)	43	27	(9)

Source: FactSet

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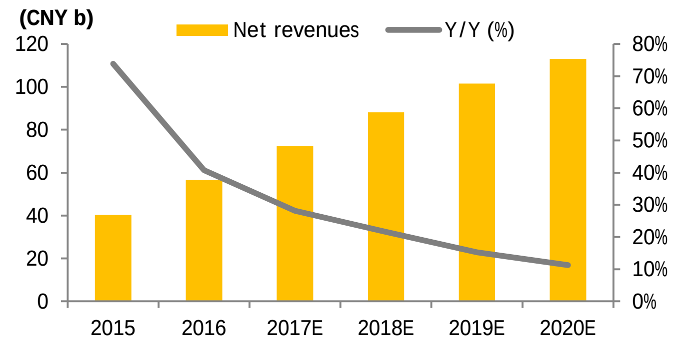
Value Proposition

- A leading online discount retailer in China on growing demand for discounted off-season inventories of domestic and global brands.
- The market sell-off in 2H17 due to eroding margins and increasing concerns on competition are priced-in, in our view. This creates an attractive value buying opportunity for a company that could deliver 18% revenue growth per year for next two years, in our view. The stock trades at 12x FY18 P/E on margin recovery of 70 bps in 2018.
- The company has gained incremental distribution channels through its strategic relationship with Tencent and JD.com. Monetization of these channels could be a catalyst.

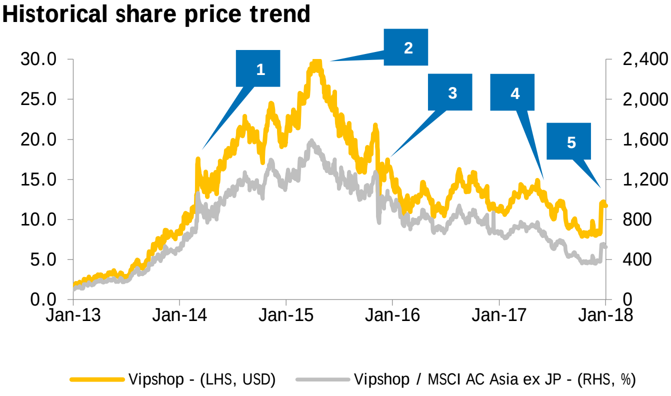
Revenue growth slowing but still growing at 18% p.a.



Source: Company data, Maybank Kim Eng

Price Drivers

Historical share price trend



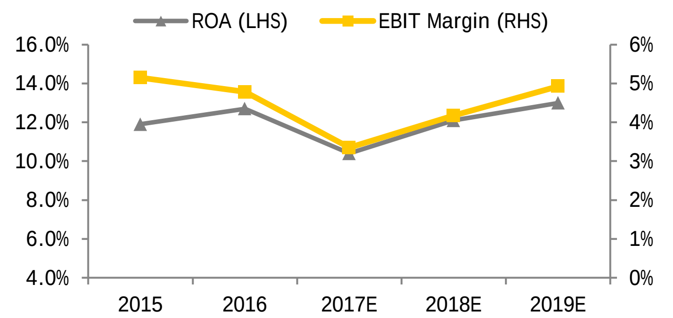
Source: Bloomberg, Maybank Kim Eng

1. Strong FY13 results confirmed the sustainability of Vipshop's model.
2. Peaked on strong 4Q14 results and due to China rally.
3. Fell sharply after 3Q15 top line growth missed expectations. Peaked on strong 4Q14 results and due to China rally.
4. Shares sold off as company's margins declined.
5. Shares climbed 40% after Tencent/JD investment was announced on 18 Dec 2017.

Financial Metrics

- VIP's investment in fulfilment assets and more intense competition in new categories led gross and EBIT margins to fall, particularly in 2017E.
- We estimate margins to recover as fulfilment investments slow in 2018 and lower traffic acquisition costs decline as the company leverages Wechat and JD's platform.
- ROA also improves as investment in HQ building completes in 2018.

ROA and EBIT



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- Revenue growth rebound — especially related to Singles' Day — to boost investor confidence of sustainable top-line growth.
- Stronger-than-expected buyer's growth and/or ARPU if marketing efforts show impact.
- Signs of moderating fulfilment costs indicating upside to operating profit and validating the company's margin recovery story.
- Evidence of incremental revenue generated by customers acquired through the Tencent/JD distribution.

Downside

- If FMCG sales grow faster than expected, gross margin compression could lead to slower earnings growth.
- If more fierce competition leads to prolonged price competition.
- If fulfilment costs continue to remain at 10% of sales, our operating margin recovery could be questioned.

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Consumer Staples

China

January 2, 2018

Maybank Kim Eng

Health & Happiness Int'l (1112 HK)

Yr2020 Dream in the Making

Profit to double in two years, Yr 2020 aim achievable

We highlighted H&H in our Year Ahead report as the best idea to play the consumer premiumization theme in the consumer staples sector. Street earnings have caught up with our bullish stance since late 2Q17 and the market's pessimism has been reversed. However, we raised our TP by 16% on 18 Dec as we see more sales and margin upside. Our thesis is unchanged, ie, both the ANC and BNC segments are on a cyclical and structural uptrend due to favourable demographics and regulations. We have a strong conviction probiotics will also boost BNC sales, given its low penetration but fast growing market. This is in addition to the strong infant milk formula (IMF) sales. As such, we believe H&H will achieve its 2020 sales target of USD2b, supported by its differentiated PPA (premium, proven, aspirational) model. With 16% net margin, we expect a net profit of CNY2b in 2019 at the earliest. New SOTP-based TP is based on a target 25x (from 22x) FY18F P/E for BNC and 15x FY18 EV/EBITDA for ANC.

BNC: to grow faster & margins to trend upwards

We estimate IMF sales growth to be 15%/13% for FY18/19F under the backdrop of the baby boom and a better supply-demand outlook. This is also driven by its channel strength within baby specialty stores. The number of affluent parents will increase in China and H&H's premium brand can capitalise on this. Also, we factored in ASP hike from Mar 2018; retail prices will be raised by 5.7%. BNC is not a one-trick pony. Aside from IMF, probiotics is a new growth spot, as pointed out in our thematic report. We recently lifted our probiotics sales growth forecast from 35-40% YoY pa to 70/60% for 2018/19F in view of the 46% YoY increase in new customers in 9M17. The new customer acquisition effort should translate into recurring sales growth. We expect a positive product mix and ASP hike to drive up BNC's EBITDA margin, above its long-term target of 20%.

ANC: 100% commitment in China

H&H can now be fully committed to growing Swisse Wellness as it has resolved the uncertainty over its China operating rights (*Click **HERE***). We believe Swisse can leverage being the No. 1 brand in the PRC (online) within VHMS to expand offline, complemented by its rich new product pipeline and positive impact from brand ambassador Fan Bing Bing. There will be 12 new products in 2018 covering pregnancy, infants, household nutrition and beauty & detox; 9 out of the 12 products are exclusive for offline. Judging from recent sales (eg, 100% YoY growth on Single's day), and offline expansion, we forecast 30% sales CAGR FY18-19F (from 20%).

Babycare to reinforce one-stop BNC solution image

H&H started selling "Dodie", a 60-year-old high-end French babycare brand in China from Sep 2017. Over the longer run, we expect better cross-selling to allow H&H to explore this CNY50b market. Meanwhile, H&H is adding more products to its platform, eg, organic milk powder.

FYE Dec (CNY m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,819	6,506	7,808	9,957	12,633
EBITDA	604	1,800	1,950	2,520	3,226
Core net profit	251	704	1,053	1,477	1,978
Core EPS (CNY)	0.41	1.12	1.67	2.34	3.13
Core EPS growth (%)	(69.4)	175.2	48.3	40.3	33.9
Net DPS (CNY)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	105.9	38.5	25.9	18.5	13.8
P/BV (x)	8.2	8.6	6.5	4.8	3.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	7.7	28.1	28.3	29.6	29.5
ROAA (%)	2.4	5.0	7.5	9.9	11.6
EV/EBITDA (x)	21.6	9.9	16.8	12.5	9.2
Net gearing (%) (incl perps)	128.0	134.3	128.6	72.2	30.9
Consensus net profit	-	-	909	1,079	1,352
MKE vs. Consensus (%)	-	-	15.9	36.9	46.3

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BUY

Share Price	HKD 51.90
12m Price Target	HKD 66.30 (+28%)
Previous Price Target	*HKD 66.30*

Company Description

H&H(previously known as "Biostime"), is a leading premium nutrition and wellness provider. It also owns Australia-based Swisse Wellness.

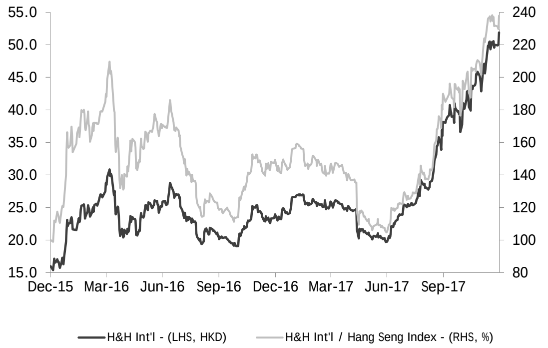
Statistics

52w high/low (HKD)	51.90/19.70
3m avg turnover (USDm)	7.0
Free float (%)	28.9
Issued shares (m)	637
Market capitalisation	HKD33.1B
	USD4.2B

Major shareholders:

Biostime Pharmaceuticals (China) Ltd.	70.8%
The Vanguard Group, Inc.	0.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	17	36	120
Relative to index (%)	16	25	61

Source: FactSet

*Click **HERE** to download PDF report (14 Nov) –* ***A peaceful divorce.***

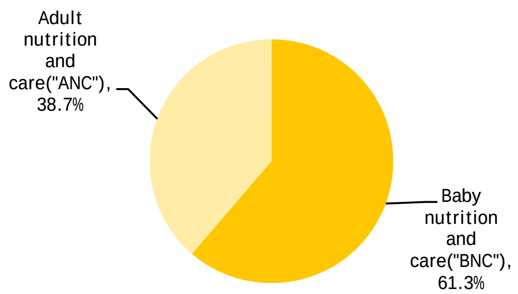
*Click **HERE** to download PDF report (31 Oct) -* ***Robust 3Q affirms twin engines firing, TP 51% upside.***

*Click **HERE** to download PDF report (20 Oct) -* ***Double Happiness; TP +42%***

Value Proposition

- H&H's "Biostime" ranks No.6 in China's IMF market, with market share of 5.5% as of 1H17. It has differentiated sales strength in the baby specialty store channel.
- Acquired Swisse Wellness in Sep-15 to diversify from infant food to a one-stop nutrition and wellness provider. 70% of target customers overlap with its BNC segment.
- Loyalty programme, Mama100, with over 2m active members in 9M15 (per last disclosure). Precise database-driven A&P boosts A&P efficiency and cross-selling potential. H&H's competitive edge is it knows customers' preference well thanks to its membership database.

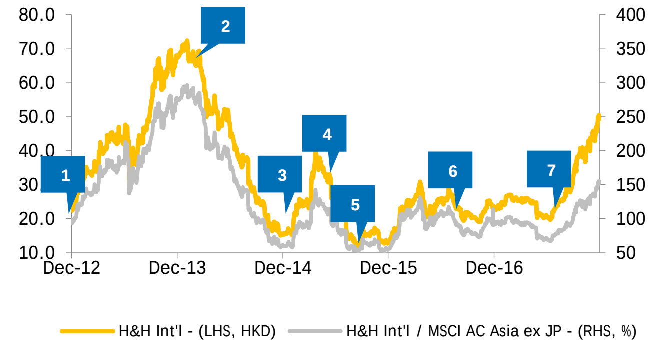
1H17 EBITDA breakdown



Source: Company PPT

Price Drivers

Share-price movement vs. market



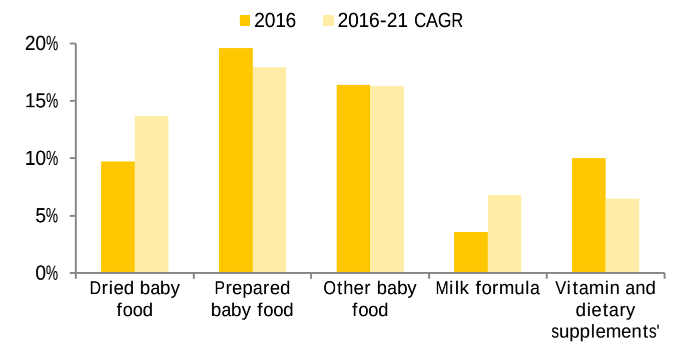
Source: FactSet, Maybank Kim Eng

1. Listed on 17 Dec 2010, raising HKD1.6b.
2. Share price peaked in early 2014. Gradual de-rating on structural issues: more imported products available in the market, channel strength shift.
3. Market expects Biostime to benefit from weak euro.
4. Corrected on first earnings decline in FY14 since listing and absence of special dividends.
5. Announced acquisition of 83% stake in Swisse Wellness.
6. PRC government announced new CBEC regulation and health foods filing/registration measures.
7. On 17 Mar 2017, China announced it will hold back implementation of tough cross-border e-commerce (CBEC) policies.

Financial Metrics

- We project 27-28% sales growth over FY18-19F, accelerating from 20% growth in 2017, on the back of favourable demographics and industry environment.
- Sales performance of Swisse on Alibaba platforms (Tmall and Taobao) worth monitoring. Of note, Tmall plays more important role as B2C taking mkt share in online space.
- Swisse is expanding its active sales in China (c. 24.4% of Swisse sales, expect to hit 30% by end 2017), reformulating products as well as launching new products to tap the offline market other than online.
- Potential offline sales of approved SKUs and general foods in H&H's existing network (~40k POS) will help offset aforementioned negative sales impact.
- We expect manageable FX risks and consistently improving net gearing ratio.

H&H exposed to categories with high market growth



Source: Euromonitor

Swing Factors

Upside

- Weak EUR (50-60% of COGS) / strong AUD (~40% of sales) / strong CNY (60% of sales) to boost profit.
- Larger addressable markets from policy and structural demographic trend - aging, one-child relaxation, etc.
- Growing demand for VDMS (vitamin, dietary and mineral supplements) and low penetration in China. Euromonitor projects 9% industry sales CAGR over 2016-2020.
- Benefit from IMF industry consolidation as upcoming registration policy to squeeze out many smaller brands and reduce excess capacity.
- Long-term drivers: organic IMF (under brand of "Healthy Times"), sports nutrition and skincare products. Acquired French baby care brand (60 years of history) "Dodie" in Dec-16.

Downside

- FX risks (eg, AUD weakness against CNY), given our estimate that 40%-50% of EBITDA is denominated in AUD.
- Near-term sales hiccup related to new IMF registration before full execution in 2018.
- Any unexpected delay in Swisse's offline new launches.
- Regulatory risk on cross-border e-commerce trade.
- Food safety concerns.

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Automotive

China

Brilliance China Automotive (1114 HK)

Premium Brand for Upgrading Consumers

BUY

Share Price	HKD 20.90
12m Price Target	HKD 27.20 (+30%)
Previous Price Target	*HKD 27.20*

Stock to Own as Consumers on an Upgrade Cycle

Reiterate BUY with 30% upside to our TP of HKD27.2. We highlighted this stock in our Year Ahead report as our best idea in the auto sector based on the consumer premiumization theme. With tax discount for small vehicles expiring we are seeing signs of buyers opting for bigger cars and better brands. With lowest exposure to "small cars" and its premium BMW brand, Brilliance is the auto stock to own in 2018. We forecast 64% earnings growth in 2018, supported by robust new car model pipeline and strong operating efficiency improvement. We believe X3 shipment may provide upside surprise to the market in 2018-2019. Despite shares having soared 96% YTD, stock only trades at 11x P/E 2018F, which is still below 12-14x which was the avg P/E in the last two upcycles and ~20% discount to Geely (175 HK).

Strong 5 series demand

Demand for new 5 series remains strong. Sales of its high-end model 530, which now accounts for 53% of total 5 series shipment (vs. less than 5% in 2016), are still better than the lower model 528, which supports our view that we are in a consumer upgrade cycle. Our channel check indicates strong demand with the wait time remaining at least one month. The company's product mix will further broaden as the new 525 model (entry level) will be introduced in 1H18 to attractive new upgrading buyers. We expect 5 series monthly unit sales to further rise to 15k units in 1Q18 from 12k units in Nov 2017.

Further upside for X3

New X3 will be launched in 1H18. Monthly shipment guidance is ~5-6k units which is double the current import level. In our view, this is too conservative: The global X3 production in the US is limited by capacity constraints and demand should be higher than the current level. For example, its peers Audi and BJ-Benz delivered at least 10k units of Q5 and 9k units of GLC monthly.

Cost efficiency to improve

Recently closed JV with Renault for Dec 2018 launch will help Jinbei pare losses in 2019-2020. New battery factory opened in Oct could help the company secure government support and reduce costs in the long term.

FYE Dec (CNY m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	4,863	5,125	5,477	5,594	5,728
EBITDA	(552)	(604)	(1,249)	(577)	(522)
Core net profit	3,495	3,682	4,862	7,968	9,653
Core FDEPS (CNY)	0.69	0.73	0.96	1.58	1.91
Core FDEPS growth(%)	(35.3)	5.4	32.0	63.9	21.2
Net DPS (CNY)	0.09	0.07	0.10	0.16	0.19
Core FD P/E (x)	25.1	23.9	18.1	11.0	9.1
P/BV (x)	4.4	3.7	3.1	2.5	2.0
Net dividend yield (%)	0.5	0.4	0.6	0.9	1.1
ROAE (%)	19.0	16.9	18.8	25.1	24.4
ROAA (%)	13.9	12.7	14.6	20.4	20.6
EV/EBITDA (x)	nm	nm	nm	nm	nm
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	4,827	7,822	9,776
MKE vs. Consensus (%)	-	-	0.7	1.9	(1.3)

Company Description

Brilliance manufactures and sells mini-buses and automotive components, and BMW vehicles in China through its JV - BMW Brilliance.

Statistics

52w high/low (HKD)	23.80/10.60
3m avg turnover (USDm)	45.8
Free float (%)	57.4
Issued shares (m)	5,026
Market capitalisation	HKD105.0B
	USD13.4B

Major shareholders:

Province of Liaoning (Liaoning)	42.5%
Templeton Asset Management Ltd. (Hong Ko	17.8%
FIL Investment Management (Hong Kong) Lt	2.4%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(3)	0	97
Relative to index (%)	(4)	(7)	43

Source: FactSet

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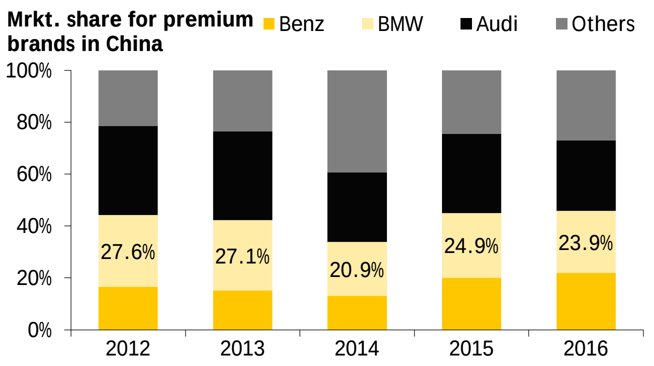
Value Proposition

- Brilliance China has a JV with BMW group (BMW-Brilliance) to produce the BMW 5 series, 3 series, 2 series, and the X1 in China.
- BMW is the 3rd largest premium brand in China. Along with its German competitors, Volkswagen and Mercedes Benz, they account for ~80% of China's luxury market.
- BMW recently lost market share due to stiff competition from Mercedes and a weak model pipeline.
- BMW is enjoying a rising premium car penetration rate in China.
- It has one of the highest profit per unit sale and ROE (i.e. 19% in 2017) among automakers in China.

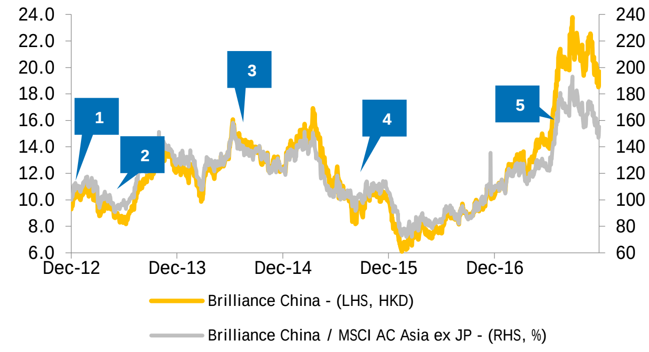
BMW is the third largest premium brand in China



Source: CAAM

Price Drivers

Historical share price trend



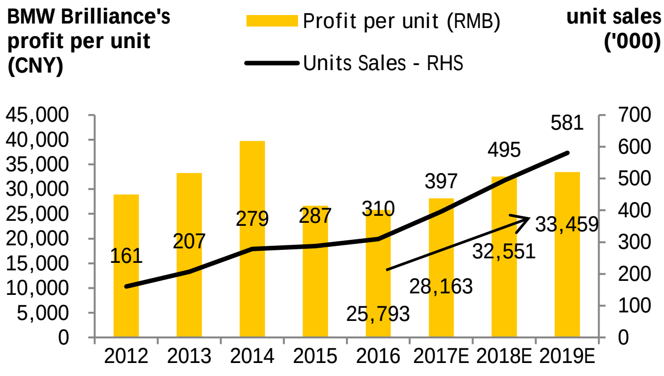
Source: Bloomberg, Company, Maybank Kim Eng

1. 1H12 results meet market expectation.
2. Due to the mild growth in China's auto sector, FY12 results missed market expectations.
3. Stock surged 21% in Jan-Jul 2014 on strong 1H14 results. Shares fell in 2H14 due to rising concerns about competition and operating costs.
4. Net profit plunged 47.3% YoY in 1H15 as it lost market share to Mercedes.
5. New long wheel base BMW 5 series debuted.

Financial Metrics

- Key share price driver will be the strong model pipeline in 2017-18, including the 1 series, X1 PHEV, and the new 5 series and X3.
- Overall, sales and profit will accelerate in 2017 after the new models are launched.

Profit per unit sale fell in 2016 due to discounting



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- More new BMW models to localize in China under BMW Brilliance's production.
- Further cost saving in 2019 as the new engine plant ramps up.
- Jinbei and Huasong businesses remain challenging, but the JV with Renault could be a new catalyst.

Downside

- Higher than expected ramp up time for the upcoming new model X3.
- Slowdown in domestic consumption.

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Maybank Kim Eng

Energy

China

Huaneng Renewables Corporation

Wheel in the Sky Keeps on Turning

BUY

Share Price	HKD 2.65
12m Price Target	HKD 3.30 (+25%)
Previous Price Target	*HKD 3.30*

Maintain BUY: good quality assets at a low price

Reiterate BUY with DCF-based target price of HKD3.30. Huaneng is one of the key value stocks highlighted in our Year Ahead outlook report. As a beneficiary of favourable clean air policy, the company's improving fundamentals and cheap valuations make this one of the laggard stocks to own in 2018. The company generates best in class utilization hours and low curtailment due to its operationally favorable locations. Utilization hours will further increase with guaranteed utilization hours and commissioning of new UHV lines in 2018. HNR trades at an attractive~5.8x FY18 P/E with 15% earnings growth in 2018.

Wind: winner in the energy space

Wind is economical and scalable and therefore offers a viable alternative to coal. Government policy to stem capacity growth in coal and improve curtailment and utilization should see the wind sector grow faster than overall power demand in the next three years. We believe green shoots have been becoming visible and will get stronger. For example, HNR recorded wind power generation growth of 25% YoY in Nov 2017 or 15% YoY in 11M17.

Best proxy: best IRR, best location and best assets

Around 53% of the company's wind power capacity came from Zone 4, which has the highest utilization and lowest curtailment. As a result, we forecast HNR will have superior IRRs of 12-14% based on high tariff rate of CNY0.57/kWh and low curtailment. We forecast HNR is on its way to deliver the earnings growth of 19.3% in 2018, 11% above 18E consensus.

Solid growth at cheap P/E

HNR's forward P/E trades at 1SD below its 6-year average. We forecast FY18 P/BV of 0.8x whilst we forecast ROE of 15%, which also looks undervalued. We believe the shares trade at a discount to its historical average because of the curtailment problem and overhang from the green certificate scheme. We expect curtailment improvement and utilization hour increases in 1H18 to be a positive catalysts.

FYE Dec (CNY m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	7,357	9,239	10,702	11,824	12,983
EBITDA	6,851	8,370	9,696	10,730	11,646
Core net profit	1,860	2,659	3,348	3,995	4,561
Core EPS (CNY)	0.19	0.27	0.33	0.38	0.43
Core EPS growth (%)	54.2	43.0	19.9	15.4	14.2
Net DPS (CNY)	0.03	0.04	0.05	0.06	0.06
Core P/E (x)	11.5	8.1	6.7	5.8	5.1
P/BV (x)	1.2	1.1	0.9	0.8	0.7
Net dividend yield (%)	1.4	1.9	2.2	2.5	2.9
ROAE (%)	11.0	14.0	14.8	14.8	14.9
ROAA (%)	2.4	3.2	3.7	4.2	4.6
EV/EBITDA (x)	9.6	8.6	7.6	6.9	6.3
Net gearing (%) (incl perps)	248.6	234.2	190.1	165.6	143.4
Consensus net profit	-	-	3,118	3,583	4,136
MKE vs. Consensus (%)	-	-	7.4	11.5	10.3

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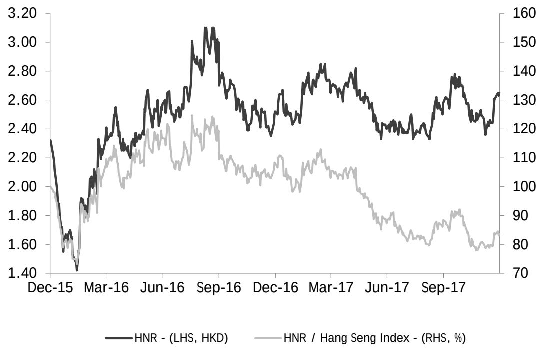
Company Description

Huaneng Renewables Corp. Ltd. mainly engages in wind power generation in China. It also operates solar farm.

Statistics

52w high/low (HKD)	2.85/2.33
3m avg turnover (USDm)	8.5
Free float (%)	100.0
Issued shares (m)	5,031
Market capitalisation	HKD13.3B
	USD1.7B
Major shareholders:	
National Council for Social Security Fun	7.9%
Value Partners Ltd.	6.0%
FIL Investment Management (Hong Kong) Lt	5.8%

Price Performance



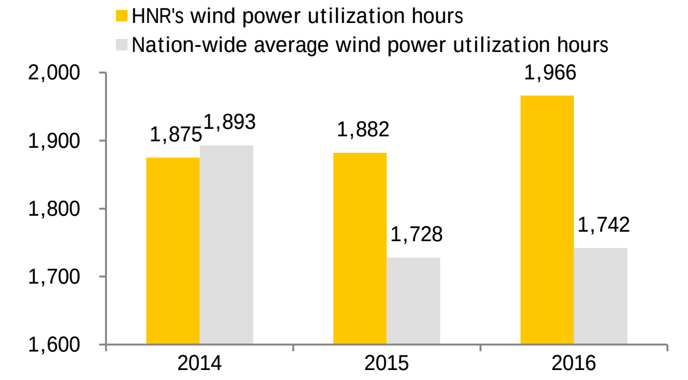
	-1M	-3M	-12M
Absolute (%)	5	3	6
Relative to index (%)	4	(5)	(23)

Source: FactSet

Value Proposition

- We are positive on the Chinese wind power sector as we forecast improving utilization hours. We choose HNR to be our top pick in the sector as it has the best asset quality among peers, in our view.
- We believe the good locations of wind farms with decent wind resources, lower curtailment and higher tariff could enhance the overall HNR projects' IRR.
- Wind farms are largely located in low curtailment regions - East Inner Mongolia (~22% of capacity), Liaoning (~13%), Yunnan (~10%) and Shandong (~9%).
- HNR achieved the high wind utilization hours (1,966 hours) and lowest curtailment rate (11.47%) in the industry (1,742 hours and 17.10%) during 2016.

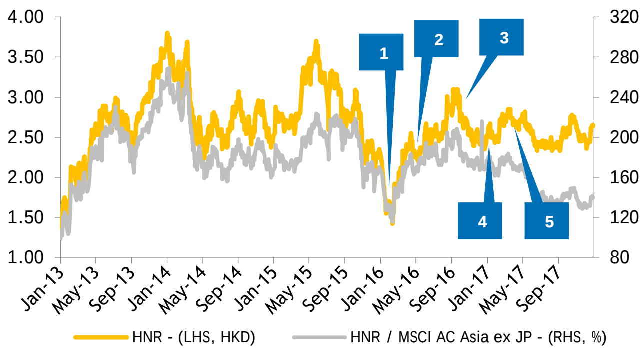
HNR's utilization hours are 13% higher than industry in 2016



Source: Company

Price Drivers

Historical share price trend



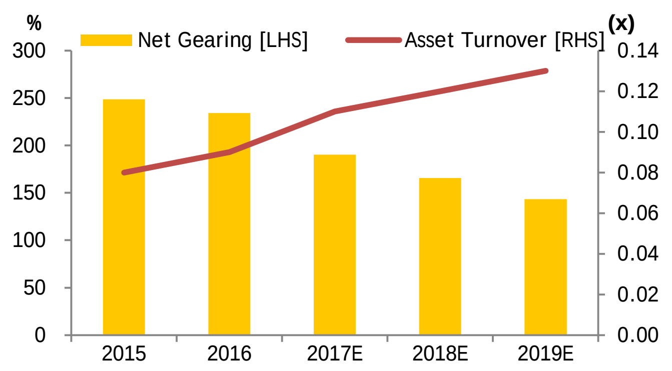
Source: Bloomberg, Maybank Kim Eng

1. NEA announced to restrict new wind power projects in regions with high curtailment.
2. NDRC announced guaranteed purchase utilization hours from 1,800 to 2,000 hours for wind power in nine provinces.
3. NDRC proposed to cut onshore wind tariffs by 3.3% to 6.4% for projects completed after 1 Jan 2017.
4. NDRC unveiled the final tariff cut, which was milder than previously proposed at end of Sep 2016.
5. NEA announced the launch of the renewable energy "green certificate" trial program in July which may replace the feed-in tariff incentive program.

Financial Metrics

- We expect revenue to increase 16% in 2017E mainly driven by a 7% wind power capacity growth.
- We believe HNR will continue to prudently control finance cost given its high gearing.
- We believe deleveraging will remain one of HNR's key objectives. We expect its net gearing to decline to 166% at end of 2018E. We expect the company will have a less aggressive capacity growth target to pursue better profitability.

Deleverage to continue with improving asset turnover



Source: Maybank Kim Eng

Swing Factors

Upside

- Better-than-expected wind tariff discount in regions with direct power sales scheme.
- Better-than-expected monthly gross wind power generation.
- Good control in finance cost and repair & maintenance cost.

Downside

- Delay in grid connection for newly installed capacity.
- Lower-than-expected wind speed, which could dampen the utilization hours of wind farms.
- Potential cut in feed-in tariff.
- Interest rate hike.

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Financials

China

January 2, 2018

Maybank Kim Eng

China Pacific Insurance (2601 HK)

Benefiting from High Interest Rates & Better Quality

BUY

Share Price	HKD 37.55
12m Price Target	HKD 52.00 (+38%)
Previous Price Target	*HKD 52.00*

Attractive valuation, high-quality life operations

In our Year Ahead Outlook report, we highlighted the life sector as a beneficiary of the high-rate environment and CPIC as our top pick in the sector. The stock still trades at an ex-growth 2018E P/EV of 0.9x, likely due to concerns on its business strategy under the new leadership. CPIC's 2018 strategic plan reflects new management's promises to prioritise quality and deliver above-peers VNB growth to maintain sustainable value creation. CPIC's valuation is attractive, and investors' gradual recognition of its high-quality life unit should support a further re-rating. Our SOTP-based TP implies 1.23x P/EV, 2.29x VNB.

Aiming for above-peers growth; prioritising quality

In 2018, CPIC will strive to achieve: 1) above-peers regular NB FYP and VNB growth; and 2) more stable quarterly growth throughout the year to reduce seasonal volatility. Given the sizable agent force (900k by Nov17), management only aims for 10% headcount growth in 2018E in order to prioritise agency quality and mix, and allocate more resources towards existing agents and sales managers. Agency mix will also be optimised with an increasing focus on central urban areas and upselling and financial advisory sub-channels to cater to higher-end customers.

Pre-sales have met the target, despite headwinds

Although facing sector-wide sales uncertainties (Document 134) and its own high base in 1H17 (agency NB APE +51% YoY), CPIC's 1Q18 pre-sales have largely met its internal target, and management remains confident in achieving positive VNB growth during the open-year season. 1Q18 products have slightly higher margins vs 1Q17 due to product upgrades, and CPIC will sell more protection products to enhance overall margins. Given CPIC's strong focus on agency and product quality, its mid-term VNB outlook remains intact amid the life sector's secular uptrend.

Re-rating on gradual recognition of business quality

Despite the sector-wide re-rating in 2017, CPIC still trades at an ex-growth valuation of 0.9x 2018E P/EV vs its 5Y avg. of 1.0x. We believe a key reason for investors' hesitation is the leadership changes, which raise doubts on the continuity of its proven strategy. With the layout of 2018 strategic plans, we see the new management is executing on its promises of value creation. In our view, the gradual recognition of CPIC's high quality life operations should support its re-rating in 2018.

FYE 31 Dec	FY15A	FY16A	FY17E	FY18E	FY19E
Net earned premiums	189,376	219,573	254,463	300,779	353,512
Core profit (CNY m)	17,728	12,057	14,352	19,120	22,879
Core EPS growth (%)	60.4	(32.0)	19.0	33.2	19.7
P/E (x)	16.1	25.3	21.0	15.8	13.2
BVPS (CNY)	14.7	14.5	15.4	16.7	18.0
P/B (x)	2.1	2.3	2.2	2.0	1.8
EVPS (CNY)	22.7	27.1	31.9	37.5	44.2
PEV (x)	1.4	1.2	1.0	0.9	0.8
VNBPS (CNY)	1.3	2.1	3.0	3.7	4.6
VNB multiple (x)	6.5	3.1	0.5	(1.1)	(2.4)
ROE (%)	14.2	9.1	10.6	13.2	14.6
ROA (%)	2.0	1.2	1.3	1.6	1.6
Consensus net profit			14,742	18,631	21,946
MKE vs. Consensus (%)			(2.6)	2.6	4.2

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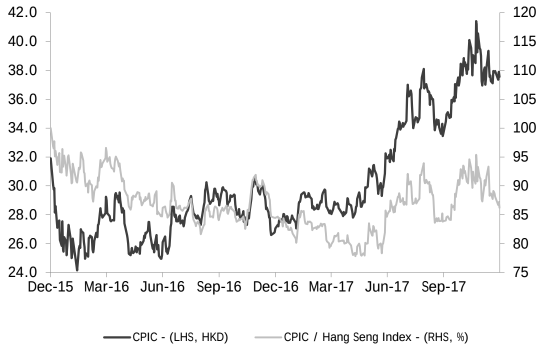
Company Description

CPIC is an integrated insurance service provider. It offers life and property & causalty insurance products in China.

Statistics

52w high/low (HKD)	41.40/27.05
3m avg turnover (USDm)	78.9
Free float (%)	61.3
2601 HK Issued shares (m)	9,062
2601 HK Market cap	HKD340.3B
	USD43.5B
601601 CH Issued shares (m)	6,287
601601 CH Market cap	CNY260.4B
	USD40.0B
Major shareholders:	
Shanghai SASAC	18.6%
Baosteel Group	14.9%
Ministry of Finance	5.2%

Price Performance



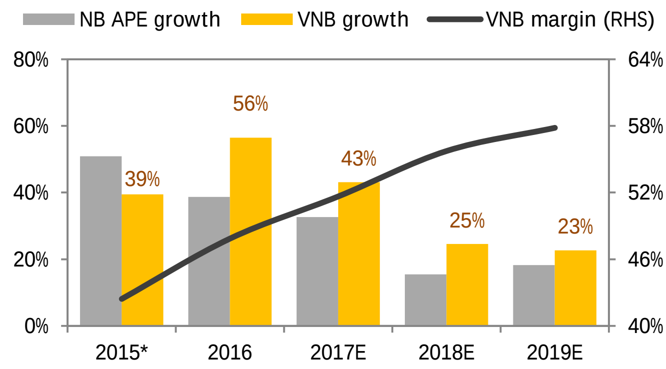
	-1M	-3M	-12M
Absolute (%)	(4)	12	40
Relative to index (%)	(5)	3	2

Source: FactSet

Value Proposition

- Multi-line insurer with eighth-largest share of China's life market (4%) and third-largest share of P&C market (11%).
- CPIC only offers 2.5%-guaranteed participating annuities for 2017-18 open-year sales (vs 4.025% in 2016), and margin should improve with increasing protection sales.
- Value-driven agency strategy, strong VNB outlook and rising mortality earnings contributions should support premium valuations.
- P&C business still weak across the industry but only accounts for 7% of our valuation vs life segment's 89%.

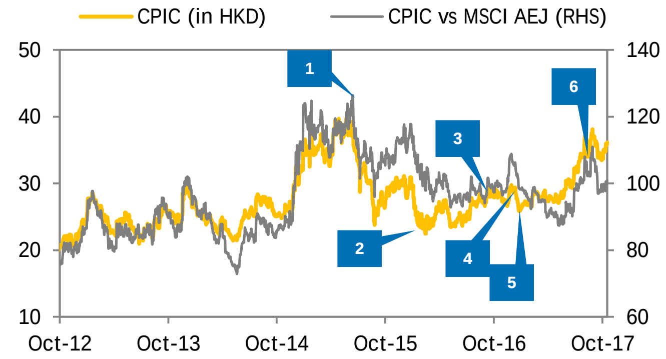
VNB drivers



Source: Company data, Maybank Kim Eng.
**C-SI-based 2014 figures are used for 2015 YoY comparison*

Price Drivers

Historical share price trend



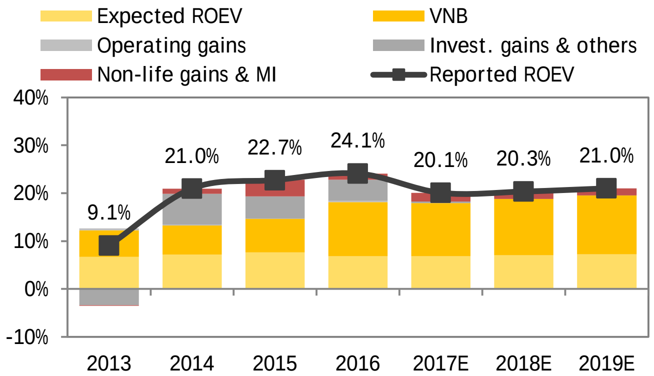
Source: Bloomberg, Maybank Kim Eng

1. Strong marked-to-market gains from A-share rally.
2. Sharp correction in A-share market. Investors also feared negative spreads from falling interest rates.
3. CIRC tightened regulation of HCV products to curb irrational pricing by emerging insurers.
4. Interest rate recovery eased concerns on yield pressure.
5. CIRC's crackdown on emerging insurers' aggressive stock investments and sales of universal life products.
6. Strong 1H17 results with VNB growth of 59% YoY, driven by strong agency new sales and significant margin uplift.

Financial Metrics

- We forecast a VNB CAGR of 30% for 2016-19, from a new-premium CAGR of 22% and margin expansion of 10.0ppts.
- We forecast a 20-21% group ROEV for 2017-19, from VNB growth and returns on its in-force business.
- We assume a higher cost of capital of 12.3% than CPIC's own 11.0%, to reflect macro risks.
- In our valuation, we set LT investment yields at 4.6% vs CPIC's own 5%.

Group ROEV drivers



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- Strong VNB growth and margin expansion.
- Strong agency force expansion in terms of headcount and productivity.
- Recovery in P&C combined ratio and earnings.

Downside

- Significant slowdown in 1Q18 open-year new business sales for life business.
- Sharp decline in A-share market or domestic bond yields.
- Worst-than-expected P&C combined ratios and premium growth, leading to a decline in P&C earnings.

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Performance and Valuation Summary

Fig 1: Equity performance by Country (in local currency terms)

			--- Absolute performance (local currency) ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	513		0	2	5	10	22	2	5	22
MSCI Emerging Market	1,158		2	3	7	15	34	3	7	34
MSCI Asia Pac (inc JP)	174		1	2	8	12	29	2	8	29
MSCI Asia Pac x JP	570		1	3	8	13	34	3	8	34
MSCI Asia x JP	713		1	3	8	14	39	3	8	39
MSCI Far East x JP	672		1	2	8	14	39	2	8	39
MSCI ASEAN	856		2	4	8	11	26	4	8	26
MSCI Emerging Asia	587		1	3	8	15	40	3	8	40
MSCI EM Latin America	2,828		2	4	(3)	11	21	4	(3)	21
MSCI EMMEA	296		3	7	11	17	21	7	11	21
MSCI Frontie	638		0	3	5	13	28	3	5	28
MSCI Asia x JP Small Cap	1,203		2	2	10	13	31	2	10	31
China - Shanghai Composite	3,307	6.5	0	(0)	(1)	4	7	(0)	(1)	7
China - H-shares	11,709	7.8	0	2.0	7	13	25	2	7	25
Hong Kong - HSI	29,919	7.8	1	3	9	16	36	3	9	36
Taiwan - TAIEX	10,643	29.8	1	1	3	2	15	1	3	15
Korea - KOSPI	2,467	1,070.6	1	(0)	3	3	22	(0)	3	22
Singapore - STI	3,403	1.3	1	(1)	6	5	18	(1)	6	18
Malaysia - KLCI	1,797	4.0	2	5	2	2	9	5	2	9
Thailand - SET	1,754	32.6	1	3	5	11	14	3	5	14
Indonesia - JCI	6,356	13,567.5	2	7	8	9	20	7	8	20
Philippines - PSEi	8,558	49.9	1	4	5	9	25	4	5	25
India - Sensex	34,057	63.8	0	3	9	10	28	3	9	28
Vietnam - Ho Chi Minh	984	22,709.0	3	4	22	27	48	4	22	48
Australia ASX 200	6,065	1.3	(0)	2	7	6	7	2	7	7
New Zealand - NZX50	8,398	1.4	0	3	6	10	22	3	6	22
Japan - Nikkei 225	22,765	112.6	(1)	0	12	14	19	0	12	19
Japan - TOPIX	1,818	112.6	(1)	1	9	13	20	1	9	20
S&P 500	2,674	1.0	(0)	1	6	10	19	1	6	19
Russell 2000	1,536	1.0	(0)	(1)	3	8	13	(1)	3	13
FTSE 100	7,688	0.7	1	5	4	5	8	5	4	8
Euro Stoxx	3,504	0.8	(1)	(2)	(3)	2	6	(2)	(3)	6

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 Dec 2017

Fig 2: Equity performance by Country (in USD terms)

Name	Index level	FX rate	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
			--- Absolute performance (USD) ---							
MSCI All Country World	513		0	2	5	10	22	2	5	22
MSCI Emerging Market	1,158		2	3	7	15	34	3	7	34
MSCI Asia Pac (inc JP)	174		1	2	8	12	29	2	8	29
MSCI Asia Pac x JP	570		1	3	8	13	34	3	8	34
MSCI Asia x JP	713		1	3	8	14	39	3	8	39
MSCI Far East x JP	672		1	2	8	14	39	2	8	39
MSCI ASEAN	856		2	4	8	11	26	4	8	26
MSCI Emerging Asia	587		1	3	8	15	40	3	8	40
MSCI EM Latin America	2,828		2	4	(3)	11	21	4	(3)	21
MSCI EMMEA	296		3	7	11	17	21	7	11	21
MSCI Frontie	638		0	3	5	13	28	3	5	28
MSCI Asia x JP Small Cap	1,203		2	2	10	13	31	2	10	31
China - Shanghai Composite	3,307	6.5	1	1	1	8	14	1	1	14
China - H-shares	11,709	7.8	0	1.9	7	13	24	2	7	24
Hong Kong - HSI	29,919	7.8	1	2.4	9	16	35	2	9	35
Taiwan - TAIEX	10,643	29.8	2	1.6	5	5	25	2	5	25
Korea - KOSPI	2,467	1,070.6	2	1.3	10	10	37	1	10	37
Singapore - STI	3,403	1.3	1	0.1	7	9	28	0	7	28
Malaysia - KLCI	1,797	4.0	3	5.7	7	8	21	6	7	21
Thailand - SET	1,754	32.6	1	3.5	7	16	25	4	7	25
Indonesia - JCI	6,356	13,567.5	2	6.5	7	7	19	6	7	19
Philippines - PSEi	8,558	49.9	2	4.4	7	10	25	4	7	25
India - Sensex	34,057	63.8	1	3.8	11	12	36	4	11	36
Vietnam - Ho Chi Minh	984	22,709.0	3	4	22	27	48	4	22	48
Australia ASX 200	6,065	1.3	1	5	6	8	16	5	6	16
New Zealand - NZX50	8,398	1.4	1	6	4	7	24	6	4	24
Japan - Nikkei 225	22,765	112.6	0	(0)	12	13	23	(0)	12	23
Japan - TOPIX	1,818	112.6	0	1	8	12	24	1	8	24
S&P 500	2,674	1.0	(0)	1	6	10	19	1	6	19
Russell 2000	1,536	1.0	(0)	(1)	3	8	13	(1)	3	13
FTSE 100	7,688	0.7	2	5	5	9	18	5	5	18
Euro Stoxx	3,504	0.8	0	(1)	(1)	7	21	(1)	(1)	21

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 Dec 2017

Fig 3: Equity performance by Country – relative performance

Name	Index level	FX rate	--- Relative performance to MSCI Asia x Japan ---							
			-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	513		(1)	(1)	(3)	(4)	(17)	(1)	(3)	(17)
MSCI Emerging Market	1,158		0	1	(1)	1	(4)	1	(1)	(4)
MSCI Asia Pac (inc JP)	174		(1)	(1)	(0)	(2)	(10)	(1)	(0)	(10)
MSCI Asia Pac x JP	570		0	0	(0)	(1)	(5)	0	(0)	(5)
MSCI Asia x JP	713									
MSCI Far East x JP	672		0	(0)	(0)	0	0	(0)	(0)	0
MSCI ASEAN	856		1	2	0	(3)	(12)	2	0	(12)
MSCI Emerging Asia	587		(0)	0	0	1	1	0	0	1
MSCI EM Latin America	2,828		0	1	(11)	(3)	(18)	1	(11)	(18)
MSCI EMMEA	296		2	4	3	3	(18)	4	3	(18)
MSCI Frontie	638		(1)	0	(3)	(1)	(11)	0	(3)	(11)
MSCI Asia x JP Small Cap	1,203		1	(0)	2	(1)	(8)	(0)	2	(8)
China - Shanghai Composite	3,307	6.5	(0)	(1)	(7)	(6)	(25)	(1)	(7)	(25)
China - H-shares	11,709	7.8	(1)	(1)	(1)	(1)	(15)	(1)	(1)	(15)
Hong Kong - HSI	29,919	7.8	(0)	(0)	1	2	(4)	(0)	1	(4)
Taiwan - TAIEX	10,643	29.8	0	(1)	(3)	(9)	(14)	(1)	(3)	(14)
Korea - KOSPI	2,467	1,070.6	1	(1)	2	(4)	(1)	(1)	2	(1)
Singapore - STI	3,403	1.3	(0)	(3)	(1)	(5)	(11)	(3)	(1)	(11)
Malaysia - KLCI	1,797	4.0	2	3	(1)	(6)	(17)	3	(1)	(17)
Thailand - SET	1,754	32.6	(0)	1	(1)	2	(14)	1	(1)	(14)
Indonesia - JCI	6,356	13,567.5	1	4	(1)	(7)	(20)	4	(1)	(20)
Philippines - PSEi	8,558	49.9	1	2	(1)	(4)	(14)	2	(1)	(14)
India - Sensex	34,057	63.8	(1)	1	3	(3)	(3)	1	3	(3)
Vietnam - Ho Chi Minh	984	22,709.0	2	1	15	13	10	1	15	10
Australia ASX 200	6,065	1.3	(0)	2	(2)	(6)	(23)	2	(2)	(23)
New Zealand - NZX50	8,398	1.4	0	4	(4)	(7)	(14)	4	(4)	(14)
Japan - Nikkei 225	22,765	112.6	(1)	(3)	4	(1)	(15)	(3)	4	(15)
Japan - TOPIX	1,818	112.6	(1)	(2)	1	(2)	(15)	(2)	1	(15)
S&P 500	2,674	1.0	(2)	(2)	(2)	(4)	(19)	(2)	(2)	(19)
Russell 2000	1,536	1.0	(2)	(3)	(5)	(6)	(26)	(3)	(5)	(26)
FTSE 100	7,688	0.7	1	2	(3)	(5)	(21)	2	(3)	(21)
Euro Stoxx	3,504	0.8	(1)	(4)	(9)	(7)	(17)	(4)	(9)	(17)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 Dec 2017

Fig 4: Equity performance by MSCI Asia x Japan Sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	713	1	3	8	14	39	3	8	39
Energy	659	0	4	10	21	29	4	10	29
Materials	393	3	5	8	17	35	5	8	35
Industrials	164	1	1	3	3	20	1	3	20
Capital goods	150	1	0	2	2	18	0	2	18
Transportation	217	2	3	5	8	27	3	5	27
Consumer discretionary	578	2	5	9	13	39	5	9	39
Automobiles & Components	949	2	2	10	13	34	2	10	34
Retailing	260	(1)	5	4	(2)	28	5	4	28
Consumer staples	514	1	6	15	13	30	6	15	30
Food/staples retail	165	1	5	20	17	34	5	20	34
Food/beverage/tobacco	403	0	6	11	8	23	6	11	23
Health care	914	5	8	20	23	36	8	20	36
Financials	386	1	3	10	14	35	3	10	35
Banks	307	1	4	9	12	32	4	9	32
Diversified financials	586	1	0	5	8	20	0	5	20
Insurance	394	1	4	17	22	49	4	17	49
Real estate	242	3	3	4	17	46	3	4	46
Technology	596	1	1	7	18	59	1	7	59
Software services	3,461	(1)	1	11	30	79	1	11	79
Tech hardware	285	3	(1)	2	6	45	(1)	2	45
Semiconductors/equipment	520	1	1	6	13	41	1	6	41
Telecoms	137	1	1	2	(0)	9	1	2	9
Utilities	225	0	0	2	4	14	0	2	14

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 Dec 2017

Fig 5: Equity performance by MSCI Asia x Japan Sector – relative performance

		--- Relative performance MSCI Asia x Japan ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	713								
Energy	659	(1)	2	2	7	(10)	2	2	(10)
Materials	393	1	2	0	2	(4)	2	0	(4)
Industrials	164	0	(2)	(5)	(11)	(19)	(2)	(5)	(19)
Capital goods	150	(0)	(2)	(6)	(12)	(21)	(2)	(6)	(21)
Transportation	217	1	0	(3)	(6)	(12)	0	(3)	(12)
Consumer discretionary	578	0	2	1	(1)	1	2	1	1
Automobiles & Components	949	1	(0)	2	(1)	(5)	(0)	2	(5)
Retailing	260	(2)	3	(4)	(16)	(11)	3	(4)	(11)
Consumer staples	514	(0)	3	7	(1)	(9)	3	7	(9)
Food/staples retail	165	0	2	12	3	(5)	2	12	(5)
Food/beverage/tobacco	403	(1)	4	3	(6)	(15)	4	3	(15)
Health care	914	4	6	12	8	(3)	6	12	(3)
Financials	386	(0)	1	2	(0)	(4)	1	2	(4)
Banks	307	(0)	1	1	(2)	(6)	1	1	(6)
Diversified financials	586	(0)	(2)	(3)	(6)	(18)	(2)	(3)	(18)
Insurance	394	(0)	1	9	8	10	1	9	10
Real estate	242	2	1	(3)	3	7	1	(3)	7
Technology	596	(1)	(2)	(1)	4	20	(2)	(1)	20
Software services	3,461	(2)	(1)	3	16	40	(1)	3	40
Tech hardware	285	1	(3)	(6)	(8)	7	(3)	(6)	7
Semiconductors/equipment	520	0	(2)	(2)	(1)	2	(2)	(2)	2
Telecoms	137	0	(1)	(6)	(14)	(30)	(1)	(6)	(30)
Utilities	225	(1)	(2)	(6)	(10)	(25)	(2)	(6)	(25)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 Dec 2017

Fig 6: MSCI Country valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F
Asia-ex-Japan	14.8	13.9	12.5	(1)	20	11	10	12	12	1.5	1.6	1.5	2.4	2.4	2.5
China	14.5	14.8	12.9	(8)	21	15	11	12	13	1.7	1.8	1.7	2.0	2.1	2.1
Hong Kong	15.8	15.6	14.6	(5)	(2)	6	8	8	8	1.2	1.3	1.2	3.1	3.0	3.1
Taiwan	14.8	14.7	13.4	(0)	9	9	12	12	13	1.8	1.8	1.7	3.8	3.8	4.1
Korea	11.9	9.2	8.5	4	49	8	9	12	12	1.0	1.1	1.0	1.8	1.7	1.9
Singapore	14.4	14.1	13.0	(6)	9	8	9	9	9	1.2	1.3	1.2	3.7	3.5	3.7
Malaysia	17.0	17.5	15.7	4	1	12	10	9	10	1.7	1.7	1.5	3.0	2.9	3.1
Thailand	15.6	14.9	13.8	34	6	9	13	13	13	2.0	1.9	1.8	2.9	3.0	3.2
Indonesia	18.1	17.6	15.5	7	16	14	15	16	16	2.8	2.8	2.5	2.2	2.5	2.7
Philippines	18.5	18.8	16.8	0	12	12	13	13	13	2.5	2.4	2.2	1.6	1.5	1.5
India	21.0	20.6	17.4	8	10	18	15	14	15	3.1	3.0	2.7	1.4	1.5	1.6
Japan	16.3	14.3	13.4	8	17	7	8	9	9	1.3	1.3	1.2	2.0	2.1	2.3
US	20.6	18.7	16.7	0	20	12	13	16	17	2.9	3.0	2.8	2.1	2.0	2.2
Europe	21.5	15.7	14.3	3	51	10	8	9	9	1.6	1.6	1.6	3.2	3.1	3.3

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 Dec 2017

Fig 7: MSCI Asia-ex-Japan Sector valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F	2016	2017F	2018F
Asia-ex-Japan	14.8	13.9	12.5	(1)	20	11	10	12	12	1.5	1.6	1.5	2.4	2.4	2.5
Energy	18.0	12.7	11.7	10	43	8	6	9	9	1.1	1.1	1.1	2.7	3.3	3.5
Materials	15.3	13.1	12.4	48	28	5	8	10	10	1.3	1.3	1.2	2.7	2.7	2.7
Industrials	16.3	13.2	12.2	(16)	23	8	7	9	9	1.2	1.2	1.1	2.3	2.2	2.3
Capital goods	15.5	12.2	11.2	(19)	21	9	7	9	9	1.1	1.1	1.1	1.9	2.0	2.2
Transportation	19.5	19.5	17.9	17.3	1	34	3	7	9	9	1.4	1.6	1.5	3.7	3.0
Consumer discretionary	16.9	16.9	14.2	2	12	19	10	11	12	1.7	1.8	1.6	1.9	1.8	1.9
Automobiles & Components	10.9	11.8	9.7	(2)	(0)	21	11	10	11	1.2	1.2	1.1	1.9	2.0	2.3
Retailing	57.3	40.9	28.7	88	50	52	4	6	8	2.5	2.5	2.3	0.6	0.5	0.5
Consumer staples	20.7	23.3	20.6	14	7	13	14	13	14	2.9	3.1	2.8	2.0	2.0	2.2
Food/staples retail	23.5	22.4	19.7	9	8	14	12	11	12	2.7	2.5	2.4	2.0	2.0	2.2
Food/beverage/tobacco	17.7	20.5	18.4	16	11	11	13	12	13	2.3	2.5	2.3	2.3	2.3	2.5
Health care	29.4	26.6	21.6	10	9	21	13	13	14	3.9	3.4	3.0	0.8	0.9	1.0
Financials	10.6	10.6	9.8	(7)	14	9	11	11	11	1.2	1.2	1.1	3.0	3.1	3.3
Banks	9.2	9.3	8.6	(7)	13	8	11	12	11	1.1	1.1	1.0	3.6	3.6	3.8
Diversified financials	15.8	13.7	12.2	(19)	17	13	10	11	11	1.6	1.5	1.4	2.4	2.9	3.2
Insurance	14.8	15.1	13.9	2	15	9	11	11	11	1.6	1.7	1.5	1.7	1.9	2.1
Real estate	12.1	13.4	11.9	1	(14)	12	7	7	7	0.8	0.9	0.8	3.4	3.3	3.5
Technology	18.2	15.5	13.7	6	45	13	14	18	18	2.6	2.8	2.4	1.7	1.6	1.7
Software services	30.6	32.1	25.8	6	31	25	20	21	21	6.0	6.6	5.5	0.5	0.4	0.5
Tech hardware	13.6	9.7	8.9	10	60	9	11	17	16	1.5	1.6	1.4	2.3	2.4	2.6
Semiconductors/equipment	14.2	12.1	11.0	(0)	33	10	17	20	19	2.5	2.4	2.1	3.3	3.0	3.4
Telecoms	17.3	16.9	15.6	(5)	5	8	11	11	12	1.9	1.9	1.8	3.5	4.8	3.8
Utilities	12.3	14.6	12.5	(20)	(7)	16	10	9	10	1.3	1.4	1.2	3.3	3.1	3.5

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 Dec 2017

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