

SEE PAGE 246 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Co. Reg No: 198700034E MICA (P) : 099/03/2012

Six-for-16 is Maybank Kim Eng's first consolidated Year Ahead product. We hope to introduce many more thoughtful and incisive reports through the year as we continue to build and invest in our team.

What is distinctive about our Six-for-16 is a collection of "detachable" Tear-Sheets for the companies we are recommending. These carry our perception of the companies' value proposition, their most essential financial metrics, share-price drivers and swing factors that instigate share prices both up and down. Over time, all our reports should carry such tear sheets, which seek to provide all-you-need-to-know insights into a company on a handy sheet of paper.

HONG KONG
Passive Aggressive 7

INDIA
Cherry Picks for a Challenging Year 24

INDONESIA
Indonesia Rising 39

MALAYSIA
Externally Induced Volatility 65

PHILIPPINES
Smooth Transitioning 86

SINGAPORE
Looking for Undulations in the Flatlands 104

THAILAND
Cautiously Optimistic 133

VIETNAM
Improving Competitive Landscape 161

ECONOMICS
Data-Dependent, Event-Driven… Still 182

FOREIGN EXCHANGE
Juggling Policy Divergence, RMB Adjustments and Trade Downshift 199

EQUITY STRATEGY
Seeing The Shrink 224

Six-for-16: Overview

Six-for-16 is an eclectic collection of important themes and stock recommendations that our regional research teams have curated, believing that these will fuel or feature in Asian stock markets in 2016. The "six" denotes up to six stock recommendations per country in the year 2016, hence "16". Our Chief Economist Suhaimi Ilias, Head of FX Research Saktiandi Supaat and Regional Strategist, Willie Chan, also share their thoughts on the macroeconomic landscape on pages 180 to 242.

Our market outlook is one of stoic optimism

Asian equity markets would be carrying into 2016 their baggage of five years of underperformance. A price still has to be paid for the deadweights of the preceding years, when economies were wrecked by excesses and companies were ill-prepared for disruptive technologies and failed to respond dynamically. Lured by oil prices in excess of USD100/barrel, massive debt and equity were poured into E&P and energy subsectors. Such investments are now being held to account. With few lending opportunities in other sectors, banks' direct/indirect exposure to these sectors is not small. Debt refinancing, delivery deferments and legal posturing have started, but this should be early days. 2016 is likely to shed more.

Our strategist, Willie Chan, has a more optimistic view than he had a year ago. He argues for a bottoming process for Asian markets in absolute terms and relative to global equities, albeit volatile. He finds the data consistent with recessionary environments in many countries but with valuations near lows, he suggests being opportunistic and adding risk to portfolios this year. He also shows rising risk aversion in the US investment-grade corporate bond market, which suggests the Fed may not be all that hawkish on rate hikes and therefore, USD appreciation may not be all that dramatic.

Our country research teams are hopeful too, believing that without black-swan events, their economies are slowly on the mend. Cushioned by momentum in their domestic economies, India, the Philippines and Vietnam expect to be relatively unscathed. Our teams in Singapore, Hong Kong and China believe that with their much bigger exposure to exports, their countries could be staring at heightened risks and uncertainties.

Two common themes from the various country reports

Firstly, almost all markets are looking to their government for shelter and relief amid trifling revenue growth. Having attained currency stability in the last three months despite US interest-rate hikes, our Indonesia, Thailand and India colleagues even believe that their central banks are in a position to cut rates in 2016 or lower reserve requirements. This is supported by Head of FX Research Saktiandi who believes that the Fed may not be overly hawkish. Inflation remains low while capital flight does not seem a mortal threat. Domestic currencies may even strengthen against the USD, having swung to their worse extreme in Malaysia and to a lesser extent, Indonesia, in 2015.

Against weak earnings and slow exports, governments are expected to work on increasing disposable income for lower-income households. Cash transfers (Thailand) and wage reforms (Indonesia) may be on the agenda. Cost reliefs and economic restructuring (Singapore) are some longer-term measures. Other recourse includes the unleashing of long-withheld infrastructure spending, possibly in China, India, Malaysia, Indonesia, Thailand and Vietnam. All are obviously premised on governments' fiscal ability to pump-prime. Fortunately for the region, fiscal finances are at their strongest and most stable in a long time: Our economist, Suhaimi, believes that majority of Asian economies have room to engage in fiscal spending, with perhaps the exception of India and Vietnam. As such, faith in governments may not be misplaced. And assuming mild global headwinds, slightly better equity markets may be envisaged for Asia in 2016.

Secondly, the consumer should make a comeback. After years of pent-up demand, spending on non-discretionary products and services appears to be rising. This should continue, especially on the back of higher disposable income as governments implement or raise minimum wages. Thailand, Indonesia and the Philippines (amid election spending) expect expenditure on cars, electronics, property, cigarettes, personal care and healthcare among others to rise. China's relaxation of its one-child policy should also bolster spending on maternity/baby products. Malaysia's consumer sentiment and spending are expected to improve from mid-2016, six quarters after GST implementation, aided by tapering MYR weakness.

In developed Asia, consumer demand has graduated from goods to services. Demand for travel, medical, wealth-management and education services has been vigorous. Although the 2015 economic retracement has taken out some wind, the trends are intact, we believe. We reckon a rebound of this sector, when economies recover, could outpace others. A nascent e-commerce sector has also created significant spillovers, not exclusive to logistics services. Same-day delivery has almost become a norm; this was alien to the consumer a year or two ago. In developing Asia, service consumption is just about to take off. India expects burgeoning demand for leisure & recreation, education and telco services, among others.

Best ideas from each market

Consistent with the themes emanating from each country, our best picks are: Goodbaby for China; Inox Wind for India; Bank Rakyat Indo for Indonesia; Tenaga for Malaysia; SM Prime for the Philippines; Jumbo for Singapore; Home Product Center for Thailand; and Vinamilk for Vietnam.

2015 was a year when returns from all asset classes either dwindled or turned negative. While that could persist in 2016, in some countries like Singapore, cash accumulation is at an all-time high. The monies will have to find their way into some asset class, be it equity, property or fixed income. Anticipating their directional is where we believe the opportunities will be. As Gregory Yap wrote in his Six-for-16 for Singapore, amid the flatlands, we attempt to find undulations. And as Willie would say: "risk on, judiciously".

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GDP

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Maybank Kim Eng

China's Six-for-16

Passive Aggressive

Analyst

Howard Wong
(852) 2268 0648
howardwong@kimeng.com.hk

STRATEGY

China/HK

Our game plan for 2016: passive aggressive

Few would disagree the Chinese economy is at a very important juncture. The economy is undergoing structural transformation, ridden by excess industrial capacity. The government is hoping consumption, investment and technology innovation can pull it out of the current slump. We don't know the outcome but that doesn't mean we can't generate alpha in a directionless market. And here is our playbook for 2016.

12 months: profit matters in the long run

Growth is rare in the current environment; e-commerce is one of the few sectors that can deliver momentum, and investors should stay invested in this space. However, contrary to the Street, we believe profit and cash flow in the e-commerce sector will become more important in the coming years, as top-line momentum will normalize along with its scale. Alibaba's (BUY, BABA US) asset-lite model will have further reach in China and generate superior margins and cash flow over JD.com (SELL, JD US) and VIP (HOLD, VIP).

6 months: a bet on the house

To drag the country out of the hole, the Chinese government will continue its monetary easing and fiscal investment scheme. As further CNY weakness is almost certain, we believe Goodbaby (BUY, 1086 HK) is a key beneficiary as its revenue is USD and EUR dominated, CNY weakness will boost bottom line. With the recently announced auto subsidies for 1.6 litre engine cars, Geely (BUY, 175 HK) is likely to see strong sales volumes in the coming months.

3 months: blood on the street

In the long run, the world could be filled with autonomous driverless vehicles fuelled by solar cells or electricity; however, between then and 2016, we believe there is still a need for oil. With Brent crude trading at below USD40/BBL and almost half of the global production is generating negative cash flow, the market is poised for a technical bounce. Long the Chinese oil sector for a trade. CNOOC (BUY, 883 HK), Sinopec (BUY, 386 HK) and PetroChina (HOLD, 857 HK).

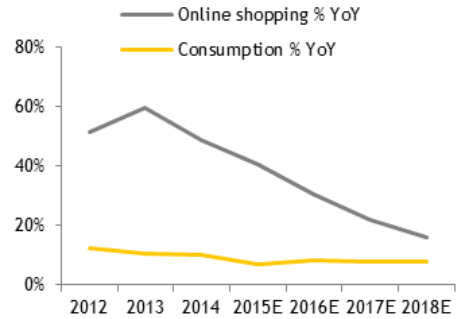
1. Profit matters in the long run, even for e-commerce – prefer Alibaba (BUY)

We recently initiated coverage on the China Internet sector with a NEUTRAL view, and with an emphasis on stock picking, as we rate only Alibaba as a BUY (TP USD109). We have a SELL on JD.com (TP 23.50) and HOLD on Vipshop (TP USD16.5). Our stock calls are contrarian as the Street has strong buys on all three names. We believe our BUY on Alibaba is also out of consensus because our target price is at a 14% premium to the consensus target, and even though 88% of the Street has a buy on the stock, most prefer JD.com over Alibaba. We recommend a sector neutral positioning by longing Alibaba, funded by JD.com.

These three companies make up nearly 90% of China's online shopping GMV (gross merchandise value) market share, and we expect the market to continue to grow at a solid 23% 3-year CAGR, which is a far cry from the 50% CAGR the industry enjoyed over the past three years. For this reason, we believe investors will increasingly focus on companies' ability to monetize on growth going forward.

We derived our view on the e-commerce sector and the three key online shopping platforms by examining three key evaluation criteria:

Fig 1: Online shopping GMV and consumption growth rate YoY



Source: iResearch, Euromonitor, Maybank Kim Eng

1.1 Business model matters!

Which company has the business model that will allow it to target all of China as an addressable market – both urban and rural? We believe Alibaba's asset-lite model makes it the platform for all people for everyday needs. This is the platform with the best chance for sustainable long-term growth, in our view. Added to this, the ultimate winner needs to continue to invest and cultivate innovative ways to serve the population. We think Alibaba is doing that on a much larger scale compared to JD and Vipshop. However, the value of Alibaba's investments is already reflected in the share price, in our view

1.2 Margins matter!

Companies with secular growth are sexy, but the market has already rewarded them for such growth. When growth slows, these companies lose their appeal and only those companies that can demonstrate long-term profitability and FCF generation will be rewarded. We believe only the asset-lite model provides a company with a chance for sustainable long-term profit and FCF growth as asset-heavy models require continued heavy investment in warehouses, logistics, and delivery, while a giant labour force also weakens operating leverage.

1.3 Valuations matter!

We believe DCF is the most appropriate method for valuing the Chinese e-commerce companies because JD is not profitable for the foreseeable future, and the sustainability of Vipshop's profitability over the long term remains questionable. The Street is resorting to P/Rev or P/Gross Profit, some even Value/GMV in the case of JD.com. We believe such multiples are less useful as it is difficult to make an apples-to-apples comparison. Based on our DCF analysis, we believe Alibaba offers the largest upside. The biggest risk to DCF for the e-commerce stocks are the large contributions to overall value from the terminal value (TV), which could pose a risk. In our target prices, JD has the greatest risk with TV making up 73% of the overall equity value, Alibaba is next, and Vipshop the least.

2. A bet on the house

Few would disagree the Chinese economy is at a very important juncture. The final outcome is still unknown but we have no doubt the Chinese government will try every tool at its disposal before it gives up. And we recommend investors to build their portfolios in sync with these policy incentives.

2.1 Monetary easing – further weakness in CNY

The US Federal Reserve has finally raised interest rates for the first time in a decade, whereas Europe, Japan and other emerging countries such as China are still adopting accommodative monetary policies to engineer much-needed growth. Our regional strategist, Willie Chan, believes that the chance of further CNY weakness remains high. In our stress test published in Sep'15, we found that exporters are likely to be the key beneficiaries. Goodbaby (1086 HK, BUY) is our top pick to play CNY weakness, as its forex advantage is well supported by our projected business turnaround in 2016 with the newly installed management.

2.2 Stimulus 2.0 – boost in rural vehicle sales

Similar to the stimulus in 2009, the Chinese government is rumoured to be planning to lower the purchase tax for small-engine vehicles with less than 1.3 litre displacement to boost rural demand. Domestic OEMs are likely to benefit, but Geely (175 HK, BUY), with over 80% of its volume in small vehicles, will be the key beneficiary.

Fig 2: We expect car sales in 2016 to surge 12% after purchase tax cut



Source: CAAM, Maybank Kim Eng

Figure 3: Change in exchange rates

	2016		2016		2016	
	-5%	-10%	-5%	-10%	-5%	-10%
	% change in operating profit		% change in net profit		% change in free cash flow	
TCLCom	97.9	97.6	105.2	104.9	107.8	105.2
Goodbaby	63.3	126.6	72.9	145.8	37.7	82.4
Vtech	21.0	22.8	23.2	25.2	28.2	30.9
ASMP	10.6	21.1	14.1	28.1	26.3	52.3
PacificText	11.1	22.3	8.7	17.5	6.7	13.7
Lenovo	4.1	7.1	6.2	10.7	6.6	11.3
Shenzhou	6.7	13.3	6.2	12.3	0.5	0.8
BestPacific	2.5	4.8	4.4	8.7	15.6	30.9
PetroChina	1.9	3.9	4.3	8.6	(24.9)	(49.9)
Sinopec	3.0	6.0	3.5	6.9	8.8	17.7

Source: Maybank Kim Eng

3. Blood on the street

Crude oil benchmarks are trading at below GFC lows as we draft this thesis; we believe nearly half of the global oil production has difficulty generating positive cash flow at current price levels. Without a catalyst in sight, investors have cleared out their exposure in the Chinese energy sector. Despite the dire sight, we believe a technical rebound is around the corner, and investors can gain exposure through the upstream names such as CNOOC and PetroChina.

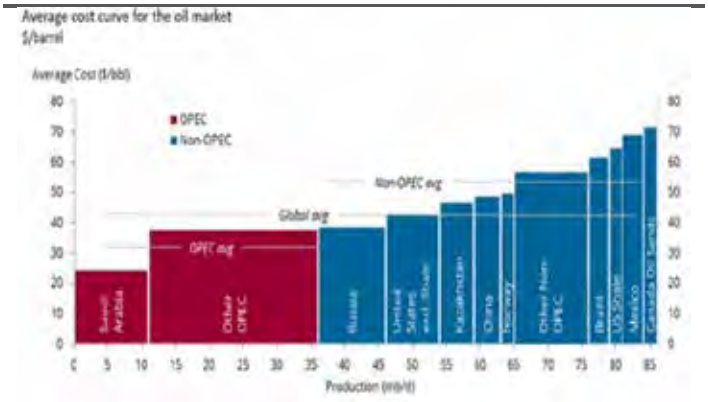
3.2 Darkness before dawn

Cyclicality of the commodity industry is mostly caused by supply rather than demand; due to the scale and time lag, incremental supply normally hits the market while demand is weak, and the oil market is no exception. From the charts below, we can identify that nearly half of the world's oil production are generating negative cash flow at current crude prices. As a result, we have witnessed a drastic reduction in development and exploration capex, particularly on the greenfield projects. Despite the near-term pessmisim, the dearth of investment will eventually lead to tightness in supply.

3.3 Squeeze is around the corner

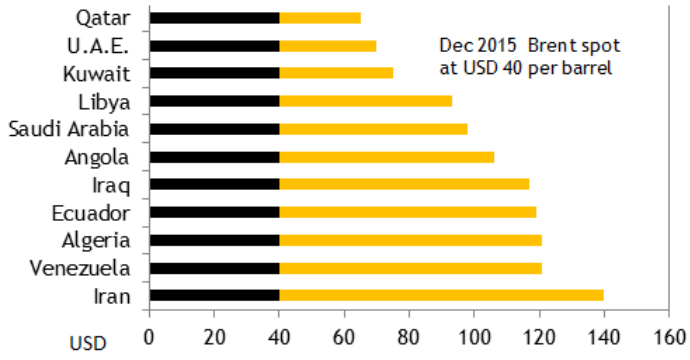
Due to its downstream exposure, Asian-dedicated funds have been using Sinopec to maintain their exposure to the Chinese sectors. From its recent underperformance against its peer, despite weaker crude prices, we believe investors have nearly closed out their exposure in this space. Any technical bounce will create a squeeze, and we believe the best way to gain exposure is via upstream names such as CNOOC and Petrochina.

Fig 4: Global oil production cost curve (USD/BBL)



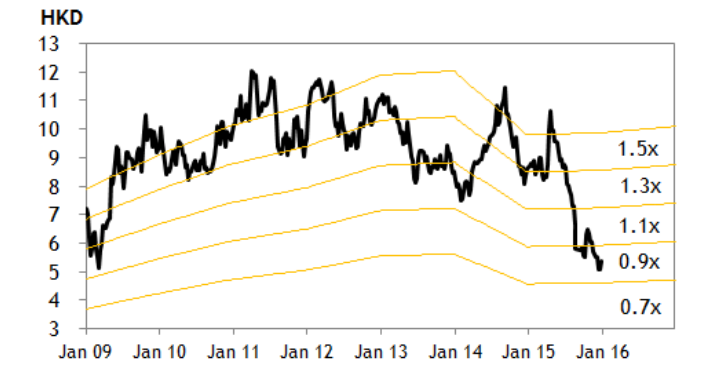
Source: EIA, DOE, IEA, BP, Worldbank, Bloomberg, Rystad Energy, Maybank

Fig 5: OPEC: Breakeven price for fiscal budget* (USD/BBL)



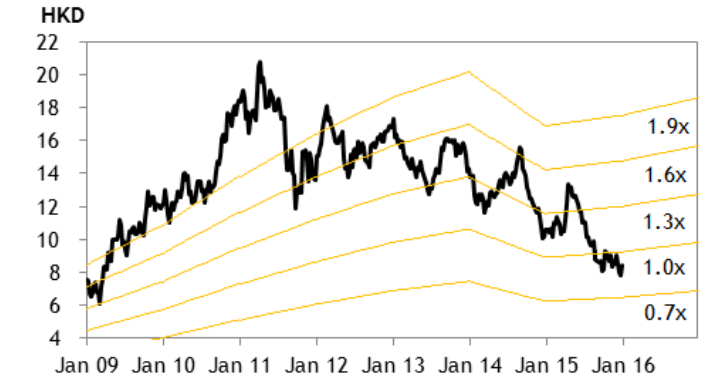
*Source: EIA, DOE, IEA, BP, Worldbank, Bloomberg, Rystad Energy, Maybank *Based on 2014 fiscal budget, 2015 budget numbers will be higher, in particularly in Saudi Arabia, as the country is engaging in conflicts with Yemen.*

Fig 6: PetroChina PB Band



Source: Maybank Kim Eng

Fig 7: CNOOC PB Band



Source: Maybank Kim Eng

January 3, 2016

Internet

China/HK

Alibaba Group (BABA US)

Digging for treasures

BUY

Share Price	USD 81.27
12m Price Target	USD 109.00 (+34%)
Previous Price Target	*USD 109.00*

BUY; prefer BABA over JD.com

Alibaba, China's dominant online shopping platform, is the best positioned among peers for long-term growth due to its high-margin asset-lite model, and the army of 386m buyers. The company has invested nearly USD25b to further expand its platform in the areas of O2O (online to offline), travel, video, healthcare and more. We believe potential upside of the associates has not been priced in. Our BUY call is out of consensus, as the market favours its competitor JD.com (SELL TP USD23.5). Alibaba has underperformed the broader market indices as well as JD.com, in 2015, providing an attractive pair trade opportunity.

Superior asset-lite model

With no pricing and inventory risk, and a relatively leaner workforce, we believe Alibaba could maintain its market leadership even as consumption growth accelerates in rural areas. For this reason, Alibaba will enjoy sustainable long-term top and bottom-line growth, in our view. Alibaba has the highest gross merchandise value (GMV) and revenue per employee among its competitors.

Don't be fooled, Alibaba is no eBay

Amazon was able to overtake eBay because eBay did not have the dominant scale Alibaba has, and eBay was not able to offer reliable shipping options. Alibaba's sellers can ship through Alibaba's logistics partner, Cainiao, who delivers the purchased items in 3 days, on average.

Associate investments not in the price

We value Alibaba's online shopping business at USD95 per ADR, representing 13% upside from the current level on its own, and the company's investment holdings at USD14 per ADR, currently mostly valued on their equity value. There is substantial upside if the value of such assets, such as Alipay and Kaudi Didi, are unlocked.

Company description

Alibaba is the largest ecommerce company in China, with marketplaces in retail and wholesale, as well as cloud computing and other services.

Statistics

52w high/low (USD)	105.03/57.39
3m avg turnover (USDm)	1,460.0
Free float (%)	98.3
Issued shares (m)	2,327
Market capitalisation	USD189.1B
	USD189.1B

Major shareholders:

Temasek Holdings Pte Ltd.	2.1%
Baillie Gifford & Co.	1.7%
Silver Lake Management Co. LLC	1.2%

Price Performance

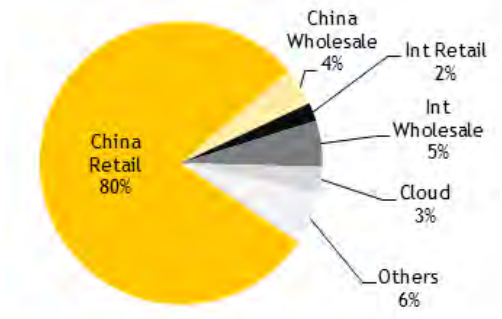


	-1M	-3M	-12M
Absolute (%)	(3)	38	(22)
Relative to index (%)	(1)	31	(16)

Source: FactSet

FYE Mar (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	52,504	76,204	101,112	136,985	176,094
EBITDA	26,574	27,550	36,827	50,972	66,014
Core net profit	28,274	34,981	45,570	59,447	74,404
Core FDEPS (CNY)	12.12	13.99	18.05	23.31	28.89
Core FDEPS growth(%)	108.8	15.4	29.0	29.2	23.9
Net DPS (CNY)	0.00	0.00	0.00	0.00	0.00
Core FD P/E (x)	43.5	37.7	29.2	22.6	18.3
P/BV (x)	28.9	8.4	5.7	4.6	3.7
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	112.5	37.6	24.1	22.8	22.9
ROAA (%)	32.3	19.1	15.0	15.3	15.9
EV/EBITDA (x)	na	42.2	34.9	24.4	17.9
Net debt/equity (%)	20.2	net cash	net cash	net cash	net cash
Consensus net profit	-	-	69,073	36,922	52,706
MKE vs. Consensus (%)	-	-	1.5	10.3	2.8

Alibaba's Revenue Mix (2015E)



Source: Company data, Maybank Kim Eng

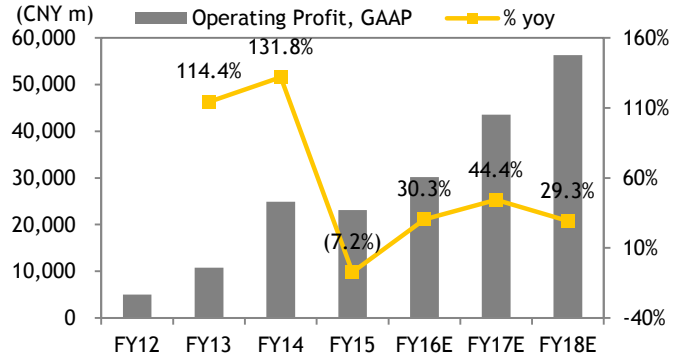
Mitchell Kim
mitchellkim@kimeng.com.hk
(852) 2268 0634

Jeffrey Kwong
jeffreykwong@kimeng.com.hk
(852) 2268 0635

Value Proposition

§ Dominant e-commerce company in China is the best way to capture the strong consumption growth and the rise of SMEs.
§ Its dominant scale and asset-lite business model allows the company to enjoy a sustainable long term growth and broadly maintain market leadership.
§ Estimated to generate FCF yield of 10-15% in the outer years thanks to its high-margin and low capex requirement.
§ The company is investing significantly in the future businesses to broaden its platform. Unlocking the value of such assets could provide further upside.

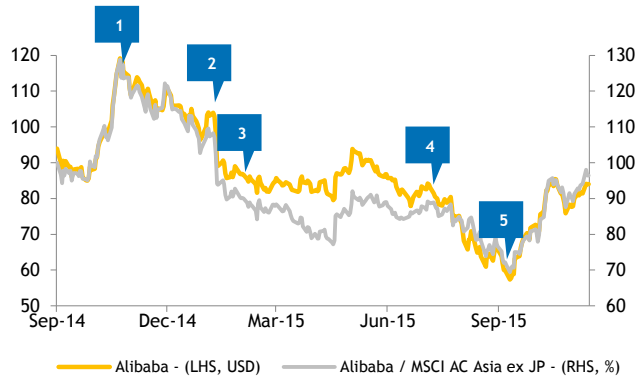
Operating profit to reaccelerate in FY16E



Source: iResearch, Maybank Kim Eng

Price Drivers

Historical share price trend



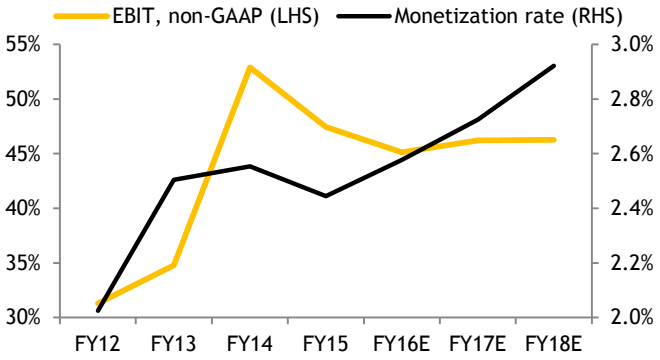
Source: Company, Maybank Kim Eng

1. Post-IPO, investors took some chips off the table selling into stronger-than-expected 3Q15 results.
2. Concerns over allegation of Taobao selling counterfeit goods created an overhang as well as continuing decline of monetization rate.
3. Solid GMV growth at JD prompted investors to switch to JD on concern that JD wins market shares from Alibaba like Amazon did over eBay. BABA shares completely ignored throughout China liquidity run.
4. Weak revenue growth in 2Q15 (1QFY16) led market concerns.
5. BABA outperformed the rebounding market as 3Q15 monetization rate grew YoY for the first time since 2Q14.

Financial Metrics

§ To assess revenue growth, investors need to focus on GMV (gross sales) and monetization rate.
§ Monetization rate shows how much revenue is generated from sales transacted on the platforms.
§ Operating margin: any sign of margin increase with costs containment could be a catalyst for the stock.
§ ROA in the long term to improve from 9% in FY16e to 12.8% by FY20e.

Operating margin and blended monetization rate



Source: Company

Swing Factors

Upside

§ Better than expected monetization rate (PC to stabilize quicker / mobile monetization to improve).
§ Higher margins as associates improve their margins.
§ Listing of key associates or assets in 2016, eg, Alipay and Didi Kaudi.

Downside

§ Loss of major global brand to JD.com due to counterfeit concerns and/or unexpected regulatory update proposed by the government.
§ Slower buyer growth or decline in GMV per buyer as competition intensifies or monetization rate declines.
§ Losses from new investments and associates drag down margins.

January 3, 2016

Internet

China/HK

JD.com, Inc (JD US)

Beauty is only skin deep

SELL

Share Price	USD 32.27
12m Price Target	USD 23.50 (-27%)
Previous Price Target	*USD 23.50*

Long Alibaba, short JD.com

We have the only SELL on the street. We believe the market is overestimating the company's ability to generate profit in the next two years. We believe the company's asset heavy model, similar to Amazon's, limits its ability to turn profitable without sacrificing top line growth. We recommend a pair trade of long Alibaba and short JD (DCF TP USD23.5). Our call is non-consensus.

We prefer asset-lite business model

JD's asset heavy business model requires continuous investments in fulfilment to execute its model. JD is currently capable of delivering 2.5 m packages per day using 36K fulfilment staff. Alibaba is capable of delivering 25 m per day, and its affiliates have 1.4 million fulfilment staff. Already Alibaba generates CNY89m GMV per employeevs. JD's CNY21m. To grab a larger share of China's consumption, the company has to target the underpenetrated lower tier counties and towns. This means lower density, higher costs. In our opinion, costs will have to rise.

Profit still years away

Consensus believes scale automatically leads to margin expansion because of pricing power and productivity gains. Amazon's history tells us this is not the case. For 10 years, its gross margins have been flat, and when margins expanded due to contributions from its cloud business and Kindle, operating margins fell. Consensus is building in gross and operating margin expansion every year to perpetuity. This certainly did not happen for Amazon of US.

Competition is intensifying

Competition is brewing. Alibaba has made a strategic investment in Suning, the largest 3C retailer, to go after JD's core strength in the 3C segment. Suning was the third highest seller on Alibaba's Singles' Day. If competition intensifies, the gross margin expansion the market is anticipating may be further delayed.

FYE Dec (CNY m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	69,340	115,002	178,367	252,003	330,460
EBITDA	(286)	(4,151)	(1,153)	(1,644)	441
Core net profit	224	363	(954)	(1,899)	(266)
Core EPS (CNY)	0.26	0.30	(0.70)	(1.32)	(0.18)
Core EPS growth (%)	nm	13.4	nm	nm	nm
Net DPS (CNY)	0.00	0.00	0.00	0.00	0.00
Core P/E (x)	788.4	694.9	(298.5)	(157.5)	(1,163.4)
P/BV (x)	19.1	6.7	8.0	9.1	9.8
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	2.9	1.6	(2.6)	(5.6)	(0.8)
ROAA (%)	1.0	0.8	(1.3)	(2.1)	(0.3)
EV/EBITDA (x)	na	nm	nm	nm	nm
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	(2,379)	(583)	2,557
MKE vs. Consensus (%)	-	-	(22.4)	(633.4)	(221.1)

Company description

JD.com, Inc. is the second largest B2C online shopping platform in China. The company offers direct sales and marketplace with focus on 3C products.

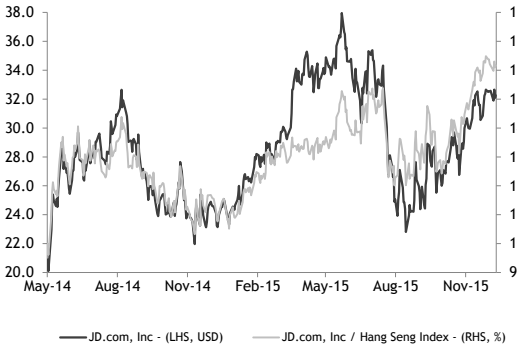
Statistics

52w high/low (USD)	37.95/22.81
3m avg turnover (USDm)	331.2
Free float (%)	98.5
Issued shares (m)	1,115
Market capitalisation	USD36.0B
	USD36.0B

Major shareholders:

Hillhouse Capital Management Ltd. (Hong	12.3%
Tiger Global Management LLC	5.2%
Lone Pine Capital LLC	3.9%

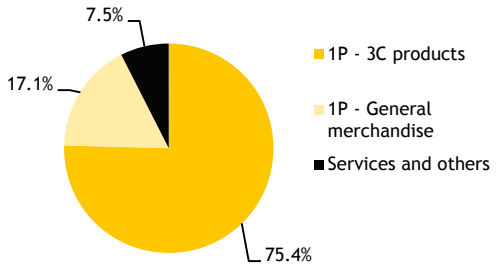
Price Performance



	-1M	-3M	-12M
Absolute (%)	2	22	39
Relative to index (%)	5	16	50

Source: FactSet

JD Revenue Mix



Source: Maybank Kim Eng

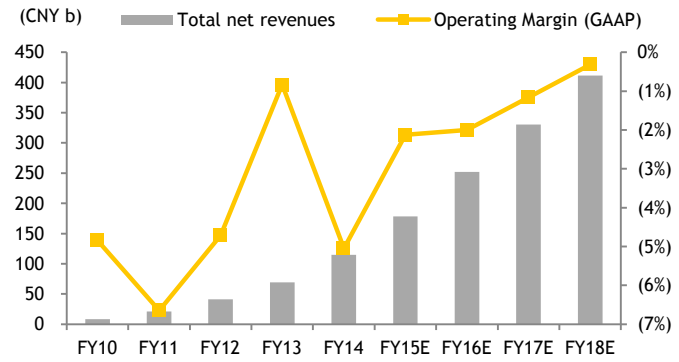
Mitchell Kim
mitchellkim@kimeng.com.hk
(852) 2268 0634

Jeffrey Kwong
jeffreykwong@kimeng.com.hk
(852) 2268 0635

Value Proposition

§ The second largest B2C online shopping platform in China, with sales estimated to grow at a 32% CAGR for next three years, a downshift from the 60% CAGR the last three.
§ In spite of high top line growth, turning profitable will remain a challenge due to the company's asset heavy model.
§ Competition is brewing for JD as Alibaba will look to chip away at JD's core strength—3C products, through investment in Suning. JD's market share and/or gross margins could come under competitive pressure.

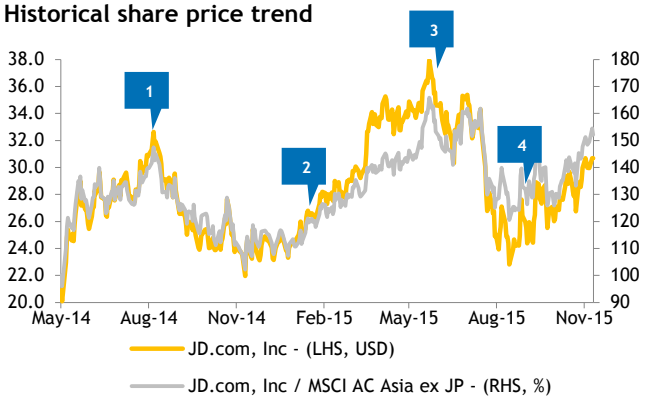
China Online B2C Online Shopping Market Share, 1H15



Source: Company, CECRC

Price Drivers

Historical share price trend



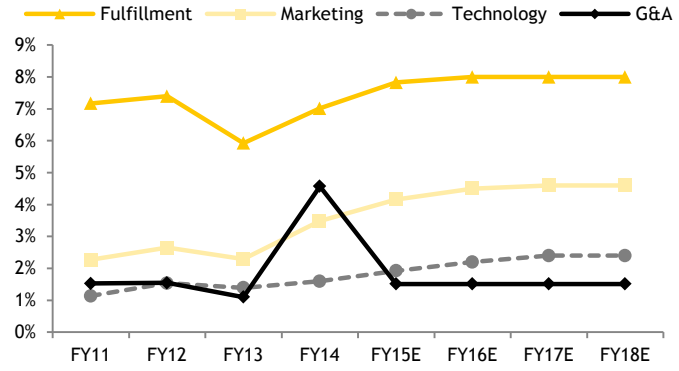
Source: Company, Maybank Kim Eng

1. Post IPO peak reached after solid 2Q15 results but falls with the market thereafter.
2. Solid 4Q14 supported by seasonal sales surge lifts stock. China liquidity rally enhanced stock sentiment.
3. Concerns on China economy raise consumption risk pressures stock after reaching the historical peak.
4. Improving sentiment on MSCI China Index inclusion and better outlook for 4Q15.

Financial Metrics

§ Low gross margin at ~13% and high operating costs keep profits possible only in the long term. Operating margin remains challenged because of its asset heavy business model.
§ To reach our consensus low target price, GM needs to rise from 13% in 2015F to 18.4% in the outer years.
§ Generates low FCF yield 3-4% in the long term because of heavy investment requirement.

High Operating Costs Further Delay Profitability



Source: Company, Maybank Kim Eng

Swing Factors

Upside

§ Better than expected sales mix towards general merchandise and other non-3C products, driving gross margin to above 14% in 2016
§ Recovery in top line growth if the market gains more market share from offline companies and relative to Alibaba.
§ Cooperation with Tencent - if JD benefits from surge in traffic from Wechat as Moments gains higher popularity, or if Tencent is able to direct more of its users to JD's platforms.

Downside

§ Gross margin could come below market expectation given the macro headwinds and competition intensifying. Direct sales margin fell in 3Q15. Further softening in 4Q15 could apply downward pressure.
§ Significant increase in operating costs further delaying profit turnaround due to penetration of lower tier markets.
§ Lower GMV per incremental buyer poses pressure on top line growth.

January 3, 2016

Consumer

China/HK

Goodbaby International (1086 HK)

Strong overseas + steady China = 15% FCF yield in FY16F

BUY on weakness; growth on track

Maintain BUY, TP (pegged to 18x FY16F P/E) and EPS after call update. We see growth on track, highlighted by strong overseas and steady China sales. We believe its recent share-price weakness could be due to profit-taking and general unease that Chairman Mr Song may shift his focus to upcoming listed sister company, Goodbaby China (e-commerce & retail focus), possibly with a larger shareholding there than in Goodbaby Intl'.

Robust overseas sales led by previous M&As

We expect previously-acquired Europe-based CYBEX and US-based Evenflo to continue to lead robust sales growth in 2H15, with new products and market-expansion efforts in 1H15. To recap, CYBEX/Evenflo sales grew 60%/17% YoY in 1H15. We see improving profitability for both on the back of positive operating leverage. CYBEX enjoys EBIT margins of 14-15%; Evenflo has been operating above breakeven levels. In Sep 2015, CYBEX raised its ASPs by 5% amid EUR weakness. Recall that 70% of CYBEX's orders are EUR-denominated. Still, volume was unaffected.

Dorel's order cuts in line; stabilised losses at Urbini

The pace of order cuts in 2H by key client, Dorel, should mirror 1H15's ie full-year orders should drop USD70-80m YoY. That said, Dorel's sales contributions are down to 8-9% from 20%+ in the past. As for Urbini, its sales track expectations of USD30-35m for FY15, though opex is high as it is still in the early brand-building stage and has yet to reach economies of scale. Even then, we believe losses will not exceed FY14's USD5m. We anticipate breakeven for Urbini in FY16 on estimated sales of USD50m+.

Steady PRC sales; lifted by e-commerce

Sales growth slowed moderately in 3Q15 from 1H15. YTD, 30%+ YoY e-commerce sales growth has helped to offset offline weakness. Online makes up 32% of PRC sales while 70% of its offerings do not overlap with offline. Core brand Goodbaby outperforms its China growth, helping to take up the slack from its low-mid-tier brand, Happy Dino (42% of sales), amid strong competition. Overall, rising car-seat sales are lifting GPMs.

FYE Dec (HKD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	4,189	6,116	7,422	8,264	9,274
EBITDA	302	302	515	681	817
Core net profit	171	113	174	279	362
Core EPS (HKD)	0.17	0.10	0.16	0.25	0.33
Core EPS growth (%)	(5.9)	(39.2)	52.3	60.4	29.7
Net DPS (HKD)	0.05	0.00	0.05	0.08	0.10
Core P/E (x)	16.65	27.2	17.9	11.1	8.6
P/BV (x)	1.5	1.3	1.3	1.2	1.1
Net dividend yield (%)	1.9	0.0	1.7	2.7	3.5
ROAE (%)	9.2	5.4	7.4	11.1	13.2
ROAA (%)	5.1	2.3	2.6	4.0	4.9
EV/EBITDA (x)	13.9	15.9	9.5	6.6	5.2
Net debt/equity (%)	net cash	79.4	71.9	51.5	38.7
Consensus net profit	-	-	174	274	350
MKE vs. Consensus (%)	-	-	0.0	1.9	3.5

Jacqueline Ko, CFA
jacquelineko@kimeng.com.hk
(852) 2268 0633

BUY

Share Price	HKD 2.82
12m Price Target	HKD 4.50 (+60%)
Previous Price Target	*HKD 4.50*

Company description

Goodbaby International is engaged in manufacturing and distribution of strollers, car safety seats and other juvenile durables.

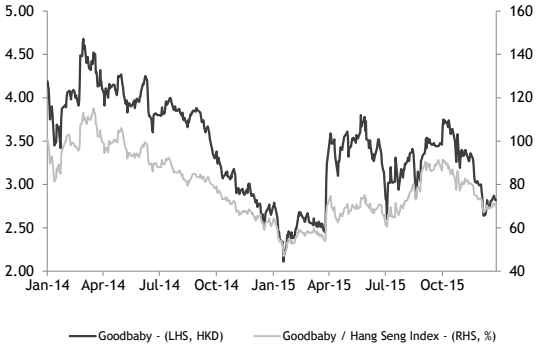
Statistics

52w high/low (HKD)	3.80/2.11
3m avg turnover (USDm)	0.7
Free float (%)	72.0
Issued shares (m)	1,109
Market capitalisation	HKD3.1B USD40M

Major shareholders:

Pacific United Developments Ltd.	23.4%
Pioneer Investment Management Ltd.	10.6%
FIL Investment Management	9.0%

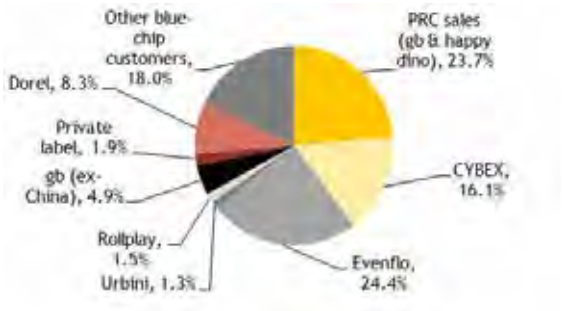
Price Performance



	-1M	-3M	-12M
Absolute (%)	(7)	(18)	4
Relative to index (%)	(5)	(22)	13

Source: FactSet

Goodbaby Intl'-1H15 sales breakdown

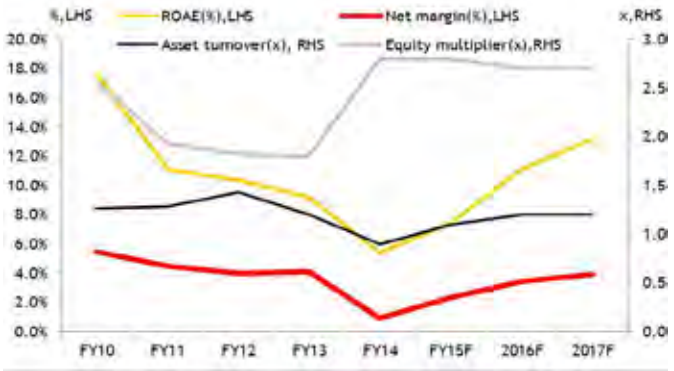


Source: company data Maybank Kim Eng

Value Proposition

§ A leading juvenile-durables manufacturer. Transitioning from a manufacturer to a global juvenile branded operator after two M&As in 2014.
§ Could be re-rated following changes in sales strategies and a more international talent team. We forecast ROE rebounds from trough in FY14 on net-margin uptrend.
§ Strengthening fundamentals, global market share gain and favourable macro factors (CNY weakness, policy) should accelerate NPAT growth ie 61%/30% YoY growth in FY16/17F.

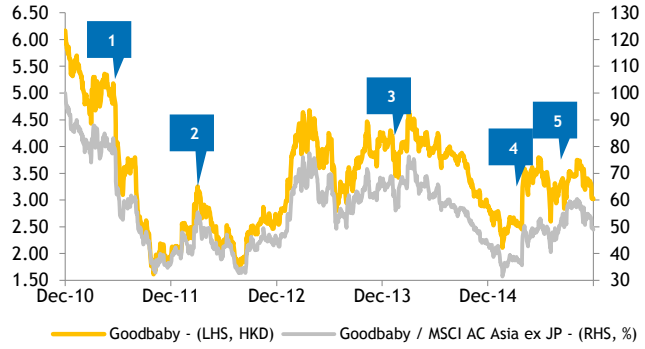
Goodbaby Intl's Dupont analysis(FY10-FY17F)



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



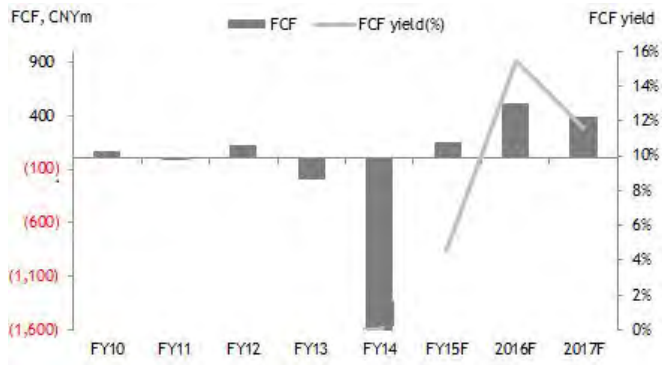
Source: Factset, Maybank Kim Eng

1. Share price corrected on worries over wage hikes, labour shortages, CNY appreciation and raw-material cost pressure. Company reported YoY profit declined in 1H11.
2. FY11 results missed guidance.
3. Share price spiked on CYBEX acquisition announcement.
4. GB announced better-than-expected improvements for acquired brands, with Evenflo breaking even ahead of plan. CYBEX reported over 60% YoY sales growth in 1H14.
5. In late Sep'15, company released positive outlook at its PRC reverse roadshow. In Oct'15, PRC government allowed two children for all couples.

Financial Metrics

§ Sales volume growth and mix changes are key drivers of profitability, as existing margins are extremely thin. Higher utilisation rates should lower its fixed-cost.
§ Structural ROE improvements are mainly attributable to higher net margin and steadily improving return on assets.
§ Rationalisation of cost ratios amid M&A integration should be one of its key growth drivers from FY16F onwards.
§ We expect net margins to almost double in FY15-17F. Net-margin improvements could drive FCF yield to over 15% in FY16 and almost 12% in FY17.

FCF and FCF yields in FY16-17F



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

§ Global sales network drives economies of scale and diversifies single-market risks. Better-than-expected integration helps boost margins.
§ CNY weakness favourable as sales mainly from exports (est. 60% USD-denominated) while production is in China.
§ Has strategically improved both its industrial orders and branded-sales profitability by enhancing value-added functions as well as optimising mix.
§ Less-than-expected order cuts by Dorel could surprise market on the upside. Order cuts from Dorel overhang in last 1-2 years. Sales contributions from Dorel down to 8%.

Downside

§ Failure to integrate newly-acquired brands with existing platform could jeopardise sales. OEM/ODM customers may see conflicts of interest and cut orders.
§ Fast-growing e-commerce shopping trend may challenge local market competitive landscape. GB's low-mid-tier brand Happy Dino seeing more competition.
§ Forex, raw-material cost volatility and labour shortages are risks to earnings.

Oil & Gas

China/HK

Geely Automobile (175 HK)

Stepping up the green strategy

Unveiling the 'Blue Geely Initiative'

Geely unveiled its new energy vehicle strategy in Nov 15. It has a strong product pipeline and it expects new energy vehicles (NEVs) to account for 90% of its sales by 2020. In the near term (2016-17), sales and earnings will be driven not only by favourable government policies for domestic brands and small cars, but also by a series of new SUV models. The first new SUV (NL-3) will debut in early 2016 after the success of the GC9. Maintain BUY. TP HKD4.3 is based on a target PER of 10.3x.

Seeking 90% of new energy vehicle sales

Geely targets pure electric and hybrid vehicles to make up 90% of its total shipments by 2020. After the recent debut of its Emgrand EC7 electric vehicle (EV), Geely will launch various pure electric and hybrid models based on three production platforms jointly developed with Volvo. By 2018-20, technology upgrade will give the future Emgrand models a driving distance of 400-500km on one battery charge, up from 330km for the current model. Emgrand EV is now priced at CNY100-150k after government subsidies (comparable to similar internal combustion engine vehicles). Geely will also introduce plug-in Hybrid EV based on the CMA platform with a turbocharged 1.5L engine, at prices similar to ICE models.

Product pipeline

Although Geely will phase out the traditional ICE vehicles over the long term, it will maintain its competitiveness in this area. Sales of its new B-segment sedan GC9 reached a new high of 5,427 units in Nov 15, which will support its profit mix and hence margin improvement. Geely will launch another SUV model in early 2016 built under the same platform and designed by Peter Horbury who was previously executive design director at Ford and Volvo. The new SUV pipeline will help Geely regain market share in the robust Chinese SUV market. Overall we expect to see 4-5 new models in 2016.

Valuation

The stock is trading at 10.1x FY16F PER, in line with its three-year average of 10.6x but a premium to the sector average of 8-9x. This is justified as sales and earnings in the coming two years will be driven not only by favourable government policies but also by its investment/preparation in the platform design and new energy strategy.

FYE Dec (CNY m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	28,708	21,738	28,962	35,619	40,950
EBITDA	2,935	1,753	2,740	3,281	3,517
Core net profit	2,663	1,431	2,539	2,959	3,092
Core EPS (CNY)	0.37	0.16	0.29	0.34	0.35
Core EPS growth (%)	30.5	(56.4)	77.5	16.6	4.5
Net DPS (CNY)	0.04	0.02	0.03	0.04	0.04
Core P/E (x)	9.3	21.3	12.0	10.3	9.8
P/BV (x)	1.8	1.8	1.6	1.4	1.2
Net dividend yield (%)	1.1	0.6	1.0	1.2	1.2
ROAE (%)	18.4	8.6	13.8	14.2	13.2
ROAA (%)	8.2	4.0	6.6	6.9	6.4
EV/EBITDA (x)	5.6	7.3	7.9	6.4	5.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,542	3,326	3,734
MKE vs. Consensus (%)	-	-	(0.1)	(11.0)	(17.2)

Ka Leong Lo
kllo@kimeng.com.hk
(852) 2268 0630

Benjamin Ho
benjaminho@kimeng.com.hk
(852) 2268 0632

BUY

Share Price	HKD 4.13
12m Price Target	HKD 4.30 (+4%)
Previous Price Target	*HKD 4.30*

Company description

Geely Automobile is engaged in the development, manufacturing and sales of passenger vehicles. It sells most of its products in the China.

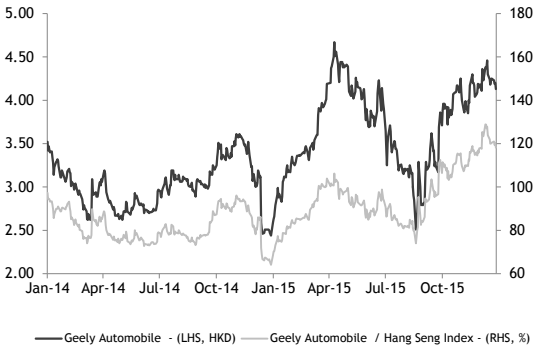
Statistics

52w high/low (HKD)	4.67/2.44
3m avg turnover (USDm)	29.8
Free float (%)	57.0
Issued shares (m)	8,801
Market capitalisation	HKD36.3B
	USD4.7B

Major shareholders:

Zhejiang Geely Holdings Group Co. Ltd.	42.6%
JPMorgan Asset Management (UK) Ltd.	3.0%
JPMorgan Investment Management, Inc.	2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	12	67
Relative to index (%)	3	6	80

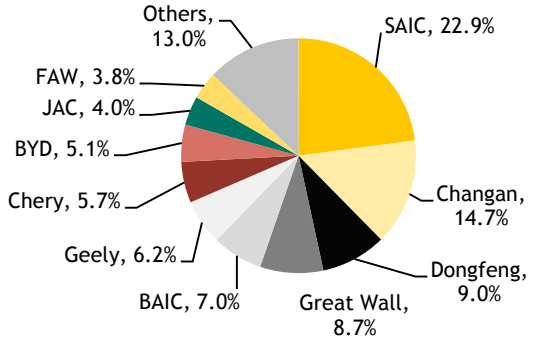
Source: FactSet

Value Proposition

§ Geely is one of the largest privately owned auto companies in China. Has technology collaboration with Volvo Cars as both share the same parent, Zhejiang Geely.
§ To continue to focus on upgrading and expanding its small car portfolio and will introduce a new production platform (Compact Modular Architecture) with Volvo in 2016-17.
§ JV with US-listed Kandi Technologies to develop mini-EVs. Geely's EV sales topped China's NEV market in Nov 15.
§ As part of the Geely Blue initiatives, the company targets to achieve 90% of sales from EVs by 2020.

Geely is the 2rd largest privately owned automaker in China

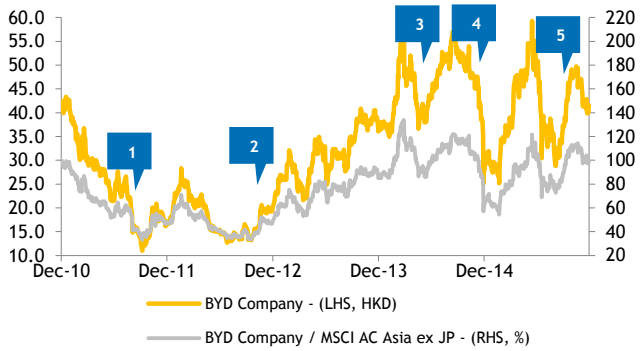
China passenger vehicle (Jan-Oct 15) makers by market share



Source: CAAM and Company

Price Drivers

Share price chart



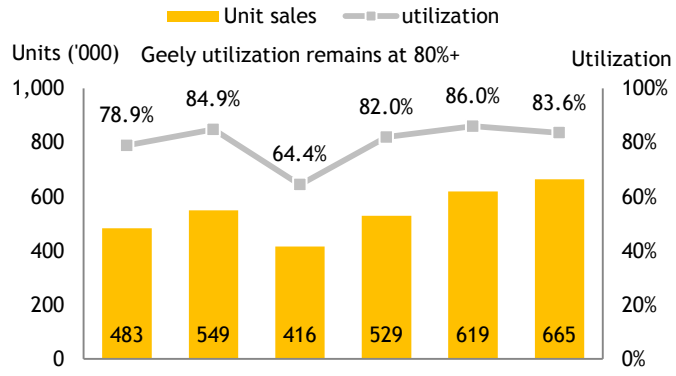
Source: Company, Maybank Kim Eng

1. Geely's unit sales fell 5.2% YoY in 2H11 after the auto stimulus programme expired.
2. Geely's FY12 unit sales beat guidance by 5%.
3. Unit sales fell 29% in 1H14 due to company restructuring. Also, exports slumped due to political and social instability in the Middle East and Eastern Europe.
4. One-off FX loss of CNY648m (45% of FY14 net profit) due to abrupt depreciation of Russian Rouble.
5. Geely's sales rebounded in 3Q15 on strong sales of new model GC9 and purchase tax cut on small cars.

Financial Metrics

§ Sales recovered in 2015 after brand and network consolidation in 2014. Forecast sales to grow by 27%/17% in 2015/16 following cut in purchase tax for small cars.
§ Strong vehicle line up ahead.
§ High utilization rate and steady ASP improvement (via product mix shift) kept gross margin at 18% amid fierce market competition.
§ Geely has a healthy balance sheet. It consistently generates FCF with net cash on hand since 2012.

Geely's unit sales to grow at 16.9% CAGR over 2014-17E



Source: Company

Swing Factors

Upside

§ Continues to upgrade portfolio including introducing more SUVs. This would continue to drive sales.
§ A significant technology upgrade on its production and model pipeline after introduction of the CMA platform in 2016-17.
§ Geely targets 90% of sales from NEVs by 2020. Strong NEV sales would be another key catalyst for the stock.

Downside

§ Failure to rollout the CMA platform (jointly developed with Volvo) in 2017 will delay the product pipeline.
§ Sales contract more than expected in 2017 after the expiration of purchase tax cut at end-2017.
§ Margins may face short-term pressure in 2016 amid new models and CMA platform being ramped up.

January 3, 2016

Oil & Gas

China/HK

CNOOC (883 HK)

The best of its kind: Reiterate BUY

BUY

Share Price	HKD 8.07
12m Price Target	HKD 11.34 (+41%)
Previous Price Target	*HKD 11.34*

Reiterate BUY

CNOOC offers the purest upstream exposure in the Chinese oil & gas sector. Over the past few quarters, the company has demonstrated its superiority in terms of cost and capex management, therefore despite the near-term oil weakness, CNOOC has outperformed its peer. And we believe this is still the best counter to capture our expected technical rebound in the oil market.

Darkness before dawn

Global crude benchmarks are trading at below their GFC lows, and we believe nearly half of the global oil production fails to generate positive cash flows. Despite the near-term pessimism, we believe the drastic reduction in development and exploration capex will curb mid-term oil production, thus current valuations offer great long-term investment opportunities.

Technical rebound around the corner

Despite its defensive nature, Sinopec has underperformed CNOOC and PetroChina on the back of near-term oil weakness. We believe this shows that Asian-dedicated funds have already cleared out their exposure in the Chinese oil & gas sector and hence a technical rebound will trigger a squeeze; CNOOC offers one of the best exposure, in our view.

Target price based on 15x normalized earnings

We adopted 2017 forecasts as normalized earnings, based on the assumption that crude prices, the key earnings driver, should return to a long-term mid-cycle equilibrium. For consistency, we have applied 15x PER to the normalized earnings across the sector, which is in line with the global peers, ex-Russia.

Company description

CNOOC engages in upstream operating activities of the conventional oil and gas, shale oil and gas, oil sands and other unconventional O&G business.

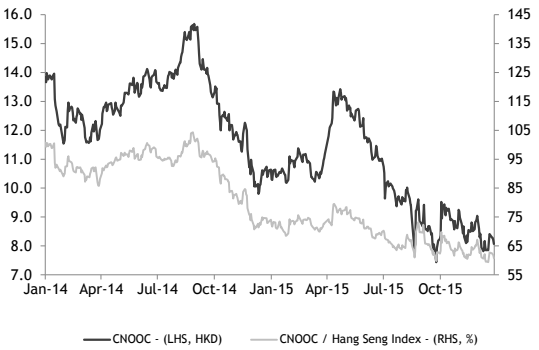
Statistics

52w high/low (HKD)	13.42/7.44
3m avg turnover (USDm)	86.7
Free float (%)	35.6
Issued shares (m)	44,647
Market capitalisation	HKD360.3B
	USD46.5B

Major shareholders:

China State-Owned Assets Supervision & A	64.4%
The Vanguard Group, Inc.	1.1%
BlackRock Fund Advisors	1.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	2	(23)
Relative to index (%)	(7)	(3)	(17)

Source: FactSet

FYE Dec (CNY m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	285,857	274,634	195,449	198,285	224,908
EBITDA	134,959	139,201	96,322	97,428	115,425
Core net profit	56,461	60,199	19,410	16,442	27,616
Core FDEPS (CNY)	1.26	1.35	0.43	0.37	0.62
Core FDEPS growth(%)	(11.3)	6.7	(67.8)	(15.3)	68.0
Net DPS (CNY)	0.45	0.32	0.32	0.28	0.31
Core FD P/E (x)	5.4	5.0	15.6	18.4	11.0
P/BV (x)	0.9	0.8	0.8	0.8	0.8
Net dividend yield (%)	6.7	4.7	4.8	4.1	4.6
ROAE (%)	17.3	16.7	5.1	4.3	7.0
ROAA (%)	10.5	9.4	3.0	2.6	4.4
EV/EBITDA (x)	4.0	3.0	3.9	4.1	3.2
Net debt/equity (%)	11.8	11.8	19.9	25.3	16.3
Consensus net profit	-	-	20,715	24,030	35,320
MKE vs. Consensus (%)	-	-	(6.3)	(31.6)	(21.8)

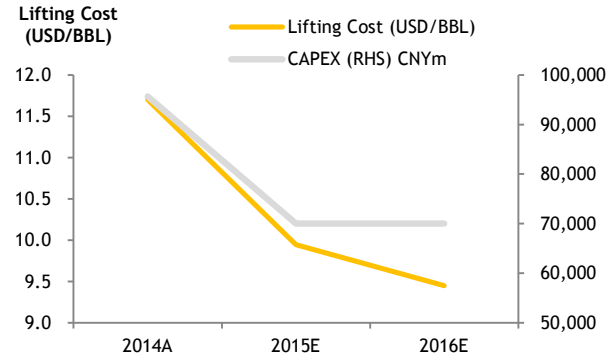
Howard Wong
howardwong@kimeng.com.hk
(852) 2268 0648

Jessie Li
jessieli@kimeng.com.hk
(852) 2268 0642

Value Proposition

§ CNOOC is the largest offshore exploration & production company in China, with daily production > 1.3M BOE; but smallest among the 3 state producers.
§ Like others, CNOOC is going through a very challenging macro environment, but it has displayed superb cost and capex management.
§ Superior cash flow management should allow CNOOC to benefit from the upcoming industry consolidation and expand its assets base.
§ Return of Mr. Yang Hua as chairman of board and Non-Executive Director is also a positive.
§ We expect CNOOC to generate excess return on capital under normalized earnings scenario.

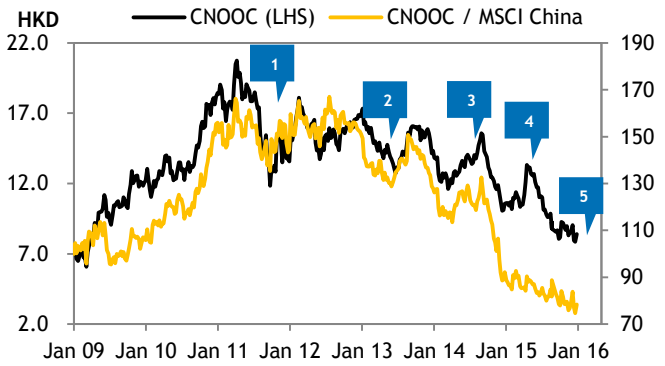
Lifting cost vs. CAPEX



Source: Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. CNOOC experienced a major well spill in Bohai bay, management shuffle followed.
2. De-rating continued due to slippage of project execution, underperformed its country benchmark and peer between 2012 and 2013.
3. Share price rebounded in 1H14 as company target to 15% volume, but rolled over with crude oil prices in 2H14.
4. Spike in 2Q15 was largely liquidity driven, share price faded again in 2H15 as oil dived below USD40/BBL.
5. Despite horrific absolute share price performance, CNOOC being an E&P outperformed its integrated peer due to superior cost and cash flow management.

Financial Metrics

§ The one key element that separates CNOOC from its peer is cash flow management; this is very well displayed in our free cash flow projection.
§ With crude price halved, CNOOC should still have been able to generate positive FCF in 2015 and should be largely neutral in 2016, before rebounding in 2017.
§ Strong balance sheet will allow CNOOC to be a beneficiary in the upcoming industry consolidation.
§ Against near-term pessimism, drastic reduction in E&P capex could curb mid-term oil production. CNOOC is best positioned for expected technical rebound in oil prices.

Free Cash Flow

(CNYm)	2014A	2015E	2016E	2017E
Brent (USD/BBL)	99.45	55.00	52.50	60.00
PBT	82,513	27,795	23,545	39,546
DD&A	57,248	68,527	73,883	75,879
Others	(29,253)	(16,924)	(27,816)	(1,338)
Op.Cash flow	110,508	79,398	69,612	114,087
CAPEX	(95,673)	(70,000)	(70,000)	(72,500)
Free Cash flow	14,835	9,398	(388)	41,587

Source: Maybank Kim Eng

Swing Factors

Upside

§ Rebound in crude oil prices will the most dominant near-term stock driver.
§ Disposal of high cost & poor performing assets will serve as another potential positive.
§ Though unlikely in our view, but the rumour of potential acquisition by other state peer has caused spikes.

Downside

§ Further weakness in oil price will hurt absolute share performance.
§ Production mishap or well incident will cause adverse reaction.
§ Acquisition of non-core asset from parent will not be well received particularly at this point of industry cycle.

January 3, 2016

Oil & Gas

China/HK

PetroChina (857 HK)

Negatives in the price: Upgrade to HOLD

HOLD

Share Price	HKD 5.08
12m Price Target	HKD 4.80 (-6%)
Previous Price Target	*HKD 4.80*

Upgrade to HOLD, TP represents only 6% downside

PetroChina is suffering from low crude prices, as the upstream segment is likely to report losses for 4Q15, on top of the potential assets write-down due to lower crude prices. However, we believe most of the negatives are already in the price, and therefore upgrade to HOLD.

W2E pipeline spin remains key catalyst

The plan to spin-off its trunk pipeline has been announced since 2014, however, little details and execution plan have been disclosed. We believe this is still a key catalyst for PetroChina, as well as development of the natural gas industry in China. And since cash flow has dwindled under low crude prices, the exceptional gain will provide a relief.

High-beta play for the upcoming squeeze

Half of the oil producers are struggling to generate positive cash flow, and we believe Asian-dedicated funds have significantly underweight the sector, and any technical rebound in the oil industry will trigger a squeeze in the China oil & gas sector. As PetroChina has duo leverage from oil and natural gas operations, we believe it can offer investors great trading opportunities.

Target price based on 15x normalized earnings

We adopted 2017 forecasts as normalized earnings, based on the assumption that crude price, the key earnings driver, should return to a long-term mid-cycle equilibrium. For consistency, we have applied 15x PER to the normalized earnings across the sector, which is in line with the global peers, ex-Russia.

Statistics

52w high/low (HKD)	10.64/5.02
3m avg turnover (USDm)	70.5
Free float (%)	13.2
Issued shares (m)	183,021
Market capitalisation	HKD929.7B
	USD120.0B

Major shareholders:

Aberdeen Asset Management (Asia) Ltd.	7.9%
Templeton Asset Management Ltd. (Hong Ko	4.4%
Aberdeen Asset Managers Ltd.	3.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(5)	(41)
Relative to index (%)	(8)	(10)	(36)

Source: FactSet

FYE Dec (CNY m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	2,258,124	2,282,962	1,532,090	1,534,240	1,787,260
EBITDA	352,007	347,296	253,672	244,159	297,723
Core net profit	129,599	107,172	33,618	19,616	48,137
Core EPS (CNY)	0.71	0.59	0.18	0.11	0.26
Core EPS growth (%)	12.4	(17.3)	(68.6)	(41.6)	145.4
Net DPS (CNY)	0.32	0.10	0.08	0.05	0.12
Core P/E (x)	6.0	7.3	23.2	39.7	16.2
P/BV (x)	0.7	0.7	0.7	0.6	0.6
Net dividend yield (%)	7.5	2.3	1.9	1.1	2.8
ROAE (%)	11.8	9.3	2.8	1.6	4.0
ROAA (%)	5.7	4.5	1.4	0.8	1.9
EV/EBITDA (x)	5.3	5.6	6.3	6.9	5.9
Net debt/equity (%)	38.7	39.4	50.2	56.9	62.9
Consensus net profit	-	-	46,446	52,950	90,409
MKE vs. Consensus (%)	-	-	(27.6)	(63.0)	(46.8)

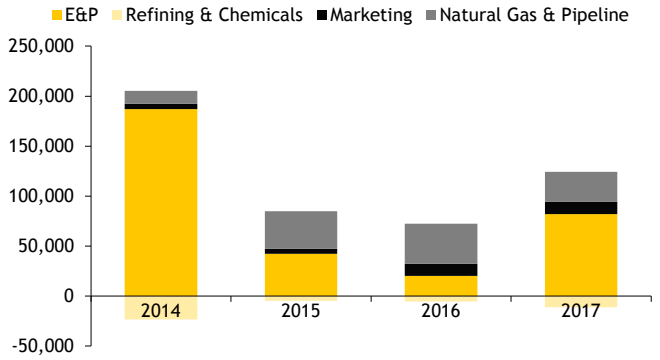
Howard Wong
howardwong@kimeng.com.hk
(852) 2268 0648

Jessie Li
jessieli@kimeng.com.hk
(852) 2268 0642

Value Proposition

§ PetroChina is the largest integrated oil and gas company in China with daily production of ~4.0M BOE; the company is also the largest natural gas distributor in China.
§ Like others, PetroChina is going through a very challenging macro environment, as most of its onshore oil assets are mature, and opex is high with limited flexibility.
§ State Council proposal to restructure all pipeline assets, which includes PetroChina's W2E pipeline; the disposal will be a catalyst and a boost to its tight cash flow.
§ Its downstream assets are not as competitive as Sinopec's, a drag to its return profile, thus we expect it to only cover cost on capital under normalized earnings scenario.

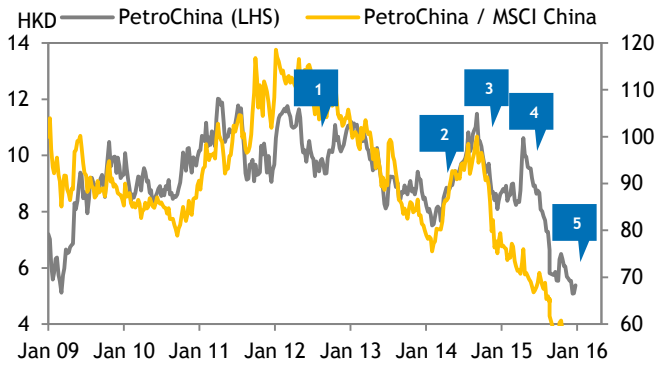
Breakdown of Profit/(Loss) by segment - in CNY mil



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. PetroChina has been a benchmark performer post GFC, hovering along with crude prices.
2. Natural gas industry reform plan and potential spin-off of West-2-East pipeline assets fuelled re-rating in 1H14.
3. Share price pulled back along with crude price, weakness continued after OPEC refused to cut production in Nov 14.
4. Spike in 2Q15 was largely liquidity driven, share price faded again in 2H15 as oil dived below USD40/BBL.
5. Valuation surpassed GFC low, as concerns of poor earnings and asset write off continues to suppress stock.

Financial Metrics

§ PetroChina is entering a rough patch, with low crude prices, high variable upstream cost and marginal downstream assets, cash flow dwindling.
§ Fortunately, PetorChina's gearing is still below global industry average, plus its sovereign status credit rating, room for bank and bond financing is still abundant.
§ As earnings and cash flow are already extremely depressed, PetroChina will offer the highest leverage to any technical rebound in oil prices.

Free cash flow

(CNYm)	2014A	2015E	2016E	2017E
Brent (USD/BBL)	99.45	55.00	52.50	60.00
PBT	178,482	72,732	59,267	106,369
DD&A	177,463	187,638	191,938	199,608
Others	532	(74,960)	(4,080)	(10,883)
Op.Cash flow	356,477	185,411	247,125	295,094
CAPEX	(291,729)	(262,556)	(275,684)	(303,252)
Free Cash flow	64,748	(77,145)	(28,559)	(8,158)

Source: Company

Swing Factors

Upside

§ Rebound in crude oil prices will be the most dominant near-term stock driver.
§ Disposal of West-2-East trunk pipeline assets will be a catalyst.
§ A less than expected reduction in natural gas prices will serve as a potential positive.

Downside

§ Further weakness in oil price will hurt absolute share price performance.
§ Production mishap or well incident will have adverse reaction.
§ Acquisition of non-core asset from parent will not be well received particularly at this point of industry cycle.

GDP

India

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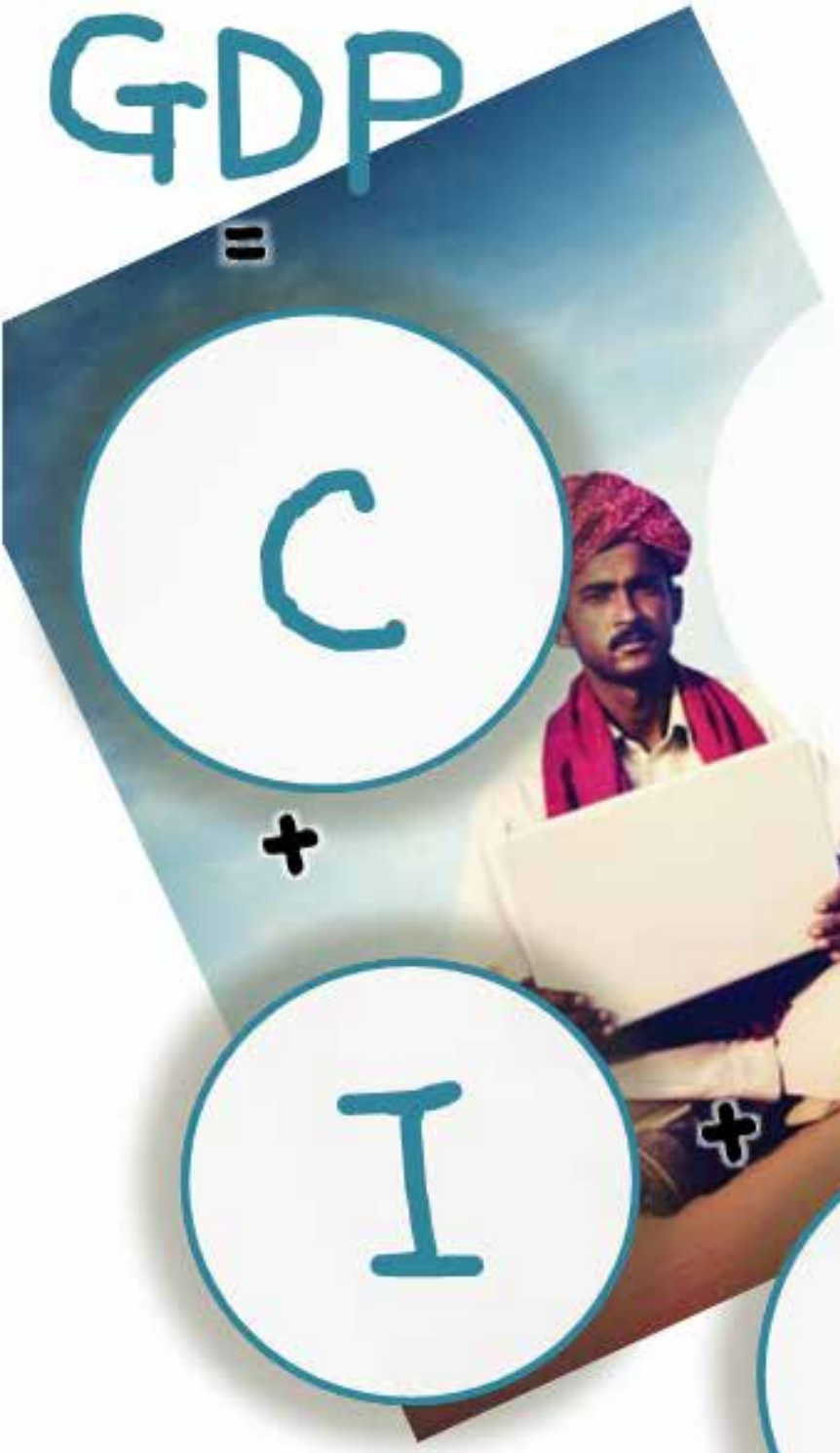
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STRATEGY

India

India's Three-for-16

Cherry Picks for a Challenging Year

Three themes – wind energy, cinema and digital

We are overweight on each of these themes because of: a) scalability of demand; b) significant entry barriers; and c) reasonable valuations. Rising footfalls into cinema theatres, coupled with increased spending on F&B and sponsorships, make cinema chains a multi-year cash-generating machine. We like the wind energy theme because the capacity of wind turbines in India is widely estimated to rise 3x in five years. We expect digital technologies such as cloud, big data, analytics and mobility to drive a paradigm shift for Indian software companies. Some of them are at an inflection stage to gain from large, multi-year deals to deploy digital technologies for global corporations.

Multiplex cinema to boom; India is under screened

India makes 1200 movies in a year despite which its annual box-office collection is a meagre USD2b (1/5th of US and 1/3rd of China). This is due to its old cinemas with poor infrastructure, and outdated sound and picture projection. However, this is changing due to emergence of multiplexes that offer a better experience. The footfalls into multiplexes are rising and so are ticket prices and F&B, creating a large business opportunity for the organized multiplex chains. We like INOL, the second largest multiplex chain in the country with 8% of box-office. We expect it to increase earnings by 115% pa for the next three years. The stock is trading at an EBITDA of 10x FY17F, a 9% discount to market leader PVR.

Wind energy – Indian market to triple in five years

The catalyst for wind turbine demand in India is the friendly policies of the government and private sector recognition of wind power as an attractive asset class for investment. The government is targeting wind power installation of 5-6 GW pa over the next five years vs current total installed capacity of 2 GW. This is being driven by state and central government tax incentives, lesser gestation in setting up wind turbine vs conventional power plants and attractive ROI of 14% even if no incentives are taken into account. INXW is our top pick in the wind energy sector due to its rising market share, stronger financials vs peers and execution track record. Our TP of INR538 implies 49% upside.

Digital - the next inflection point for Indian software

Indian software companies are embracing digital rapidly, which now accounts for 10-30% of their revenue and growing at 25% pa. We expect inflection in this over the next two years, driven by engagements with large independent software vendors, transformational deals and re-skilling of employees. Within our coverage Infosys and Persistent stand out due to their clear strategy on digital and rising engagements.

Analysts

Jigar Shah
(91) 6623 2632
jigar@maybank-ke.co.in

Anubhav Gupta
(91) 6623 2605
anubhav@Maybank-ke.co.in

Neerav Dalal
(91) 6623 2606
neerav@maybank-ke.co.in

Vikram Ramalingam
(91) 6623 2609
vikram@maybank-ke.co.in

Company	Bloom Ticker	Mcap (USDm)	CMP (INR)	TP (INR)	Upside(%)	Reco	P/E (x) FY16F	P/E (x) FY17F	P/B(x) FY16F	P/B(x) FY17F
INOX Leisure Ltd	INOL	341	236	331	40%	BUY	32.7	18.8	3.0	2.6
INOX Wind Ltd	INXW	1141	344	538	49%	BUY	14.4	11.6	4.0	3.0
Infosys	INFO	36150	1053	1300	23%	BUY	17.8	15.5	3.9	3.4
Persistent	PSYS	802	670	770	15%	BUY	17.6	14.0	3.4	2.9

1. Inox Leisure Ltd.

1.1 Attractive valuation; re-rating imminent

BUY with TP of INR331. We believe INOL's rising ROE, healthy net D/E of 0.3x, growing contribution from in-cinema advertising, and high spending on F&B justify a re-rating. INOL is trading at 7.5x EBITDA of our FY17 forecast, 17% below its peers. We value the stock at 10x EBITDA, a 9% discount to market leader PVRL (EV/EBITDA of 11x).

1.2 Surge in footfall led by successful movies

Following a weak FY15, the Indian film industry is showing considerable improvement in FY16. In 1H16, the industry recorded the best-ever box-office performance with footfall increasing 33% YoY to 29m. The unprecedented success of 'Baahubali' and 'Bajrangi Bhaijaan,' which grossed INR4.6b and INR6b respectively, has helped fuel this improvement. Given the impressive pipeline of movies from the Indian film industry, including regional and Hollywood films for FY16 and FY17, we expect more blockbusters that will boost footfall in multiplexes. We forecast INOL's footfall to improve to 68m in FY17 from 41m in FY15.

1.3 Second-largest multiplex chain in India

INOL operates 402 screens across 17 states and 55 cities in India. It accounts for 8% of domestic box-office collections in the industry. However, with only nine screens per million people vs 25 in China, India is highly 'under-screened'. We forecast the company will increase its screen count to 512 by FY18 by adding 63 screens in FY16, 40 screens in FY17 and 37 screens in FY18.

1.4 Catalysts: ancillary income and margin uptick

Contribution of ancillary income sources such as F&B and advertising to total income increased from 21% in FY11 to 27% in FY15. We forecast this contribution to rise to 29% of income in FY17. We forecast INOL's EBITDA margin to rise by 377bps to almost 17% in FY17 from 13% in FY15, supported by: a) 42% increase in advertising in FY16 and FY17 each; and b) increase in F&B income of 60% in FY16 and 25% in FY17.

2. Inox Wind Ltd

2.1 Best play on wind energy boom

Maintain BUY on this leading wind turbine generator producer with a TP of INR538. We forecast INXW's market share to rise to 30% in FY18 from 25% currently, supported by rising backlog, new products, and increased capacity. India's wind energy market should rise at a 20% CAGR for the next five years due to government initiatives, restoration of fiscal incentives, and entry of large investors due to the attractive ROI (14% project IRR ex-incentives). Also, the shares are trading at a 37% discount to the global average PER.

2.2 Bullish on gov't thrust, INXW execution abilities

The government targets to almost treble India's wind power capacity to 60GW by 2022. This will increase annual market size to 5-6GW from 2.3GW currently. Attractiveness of the wind power market has increased due to the entry of large organised investors and increased efficiencies offered by new turbines. INXW is the leading supplier of wind turbines in India because of its turnkey abilities, integrated manufacturing facilities, healthy balance sheet, and access to wind sites in seven states.

2.3 Net profit growth to average 57% YoY through FY18

We forecast average EPS growth of 57% YoY in FY16-18 for INOX, supported by a rising backlog and margin expansion from operating leverage. Backlog of 1,202 MW provides strong revenue visibility through FY18.

2.4 Attractive valuations makes compelling BUY

INXW's PER of 11.7x FY17F is at a significant discount to its peers – Gamesa (21x), Vestas (20x), and Nordex (22x). This is unjustified given strong EPS growth, solid FCF of INR3.8b, and 29% ROE in FY16-18. Also, we forecast INXW's balance sheet will be net cash by FY18. In the past investors were concerned about the sector's growth potential during FY12-15, but recent government initiatives should allay concerns, leading to a rerating of INXW. Our TP of INR538 is based on 18x FY17F PER (in line with the global average).

3. Overweight on Indian IT sector

3.1 Digital technologies to account for 80% of new spends

Industry reports suggest that by 2020 spending towards digital technologies will account for 35% of the total IT spending by enterprises, up from 10% in 2014. The digital spending will be funded partly from savings in the traditional maintenance spending and partly new spending. It is expected to account for 80% of the incremental IT spending, reaching USD1.2t by 2020 from USD275b for 2014, growing at more than 25% pa.

3.2 Digital could add 300-400bps to revenue growth

Currently about 12-37% of revenue for various Indian IT companies comes from digital technologies. We strongly believe Indian IT companies are gearing up well for digital through re-skilling employees, developing products and platforms, and filling gaps in offerings through acquisitions. We believe digital has the potential to add 300-400bps to the industry growth in a steady state. As digital services are premium priced and as automation levers start kicking in we expect margins can improve by 100-200bps.

3.3 FY17 to witness faster growth

1HFY16 showed a marked improvement in revenue performance vs a weaker-than-expected 2HFY15, driven by a rebound in banking, financial services and insurance (BFSI) and healthcare verticals. Going forward, we believe 3Q will be seasonally weak due to fewer working days and higher furloughs impacting volume growth. We expect growth rates to recover in 4Q and a faster revenue increase in FY17, backed by: a) finalization of IT budgets for CY16; b) pick up in digital spending; and c) further large deal wins. We forecast FY17 revenue growth for our coverage universe to improve to 12% from 8% in FY16F.

3.4 Base growth rates to sustain at 12-14%

We expect BFSI to contribute close to 35% of growth for the sector, driven by cost pressure, simplification, digitalization and governance, and risk and compliance, followed by manufacturing of 25%, driven by new technologies of Internet of Things, analytics and 3D printing, and engineering and R&D, and retail at 15% driven by omni-channel, analytics, digital marketing, and ERP rollouts. The other sectors like healthcare and energy & utilities, and telecom will contribute the remaining 25% of the growth. We do not find any reason to believe why the revenue growth for the sector will not sustain at 12-14% on a constant currency basis.

3.5 Risks: Visa restrictions & currency volatility

Temporary work visas in the US (H-1B and L1) form an integral part of the business model of IT services companies in India. A couple of bills have been introduced in the US Senate recently restricting the use of visas as well as reducing the number of visas allotted. As the US elections near, we expect the noise against outsourcing to intensify. However, technology-related unemployment in the US remains at less than 4% and none of the restriction bills have been cleared.

The strengthening of USD against other currencies like Eur/USD/AUD has an adverse impact. On average, 20-35% of revenue is non-USD, which is impacted by cross currency headwinds. Though companies have hedges to partially minimise the impact, the impact will continue.

3.6 Current valuations attractive

We expect the sector to trade at 17-18x PER as its long-term average multiple. We believe the current multiple of 15x looks attractive considering: a) the scope for upgrade from digital; and b) strong balance sheet and return ratios. We see strong cash flow generation (80%+ OCF/NP), and high return ratios (20%+ ROI) We expect return ratios to sustain as companies effectively allocate capital towards acquisitions and dividends. We see scope for upgrades to our forecasts from faster-than-expected growth in digital services, possible acquisitions, and further weakening of USD vs. INR.

3.7 Prefer INFO and PSYS

We prefer INFO due to its clear strategy towards digital enablement through training, acquisitions and strong consulting practice and PSYS, which is ahead of the curve with more than 50% of its revenue coming from new technologies. Overall, we believe 2016-17 will be transition years for a bigger push in from 2018 onwards. We also like TECHM (PER of 14x FY17F) and KPIT (PER of 11x FY17F) due attractive valuations.

January 3, 2016

Industrials

India

Inox Wind (INXW IN)

Powerful winds...

BUY

Share Price	INR 360
12m Price Target	INR 538 (+49%)

Best play on wind energy boom

Initiate BUY on this leading wind turbine generator producer with TP of INR538. We forecast that INXW's market share will rise to 30% in FY18 from current 25%, supported by rising backlog, new products, and increased capacity. India's wind energy market should rise at a 20% CAGR for the next 5 years due to government initiatives, restoration of fiscal incentives, and entry of large investors due to the attractive return on investment (14% project IRR ex-incentives). We forecast net profit growth to average 57% YoY during FY16-18 for INOX supported by a rising backlog, and margin expansion from operating leverage. Also, the shares are trading at a 37% discount to the global avg. PER.

Bullish on gov't thrust, INXW execution abilities

The government targets to almost treble India's wind power capacity to 60GW by 2022. This will increase annual market size to 4-5GW from current 2.3GW. Attractiveness of the wind power market has increased due to the entry of large organized investors and increased efficiencies offered by new turbines. INXW is the leading supplier of wind turbines in India because of its turnkey abilities, integrated manufacturing facilities, healthy balance sheet, and access to wind sites in seven states.

Net profit growth to average 57% YoY through FY18

We forecast avg. EPS growth of 57% YoY in FY16-18 for INOX supported by a rising backlog and margin expansion from oper. leverage. Backlog of 1,202 MW provides strong revenue visibility through FY18.

Attractive valuation makes compelling BUY

INXW's PER of 11.7x FY17F is at significant discount to its peers - Gamesa (21x), Vestas (20x), and Nordex (22x). This is unjustified given strong EPS growth, solid FCF of INR3.8b, and 29% ROE in FY16-18. Also, we forecast INXW's balance sheet will be net cash by FY18. In the past investors were concerned over the sector's growth potential during FY12-15, but recent gov't initiatives should allay concerns, leading to a rerating of INXW. We initiate with TP of INR538, based on a PER of 18x FY17F (in line with global avg).

FYE Mar (INR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	15,668	27,099	48,921	58,493	69,095
EBITDA	1,763	4,259	7,742	9,360	11,259
Core net profit	1,323	2,964	5,281	6,631	8,070
Core EPS (INR)	7	13	24	30	36
Core EPS growth (%)	(82.4)	102.0	78.2	25.6	21.7
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	54.4	26.9	15.1	12.0	9.9
P/BV (x)	16.8	5.7	4.2	3.1	2.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	36.6	32.6	31.9	29.5	27.0
ROAA (%)	10.9	12.6	14.3	14.4	14.4
EV/EBITDA (x)	na	na	10.6	8.6	6.9
Net debt/equity (%)	100.8	9.7	12.3	1.6	net cash
Consensus net profit	-	-	4,960	6,316	7,958
MKE vs. Consensus (%)	-	-	6.5	5.0	1.4

Anubhav Gupta
anubhav@maybank-ke.co.in
(91) 22 6623 2605

Company description

Inox Wind makes WTG & equipment. It provides turnkey solutions for wind projects - Land Sourcing, Installation & commissioning of wind power

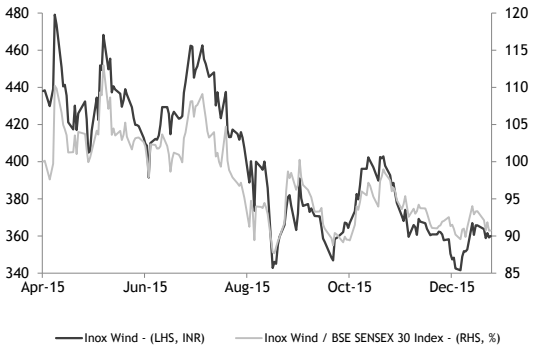
Statistics

52w high/low (INR)	480/325
3m avg turnover (USDm)	1.1
Free float (%)	14.4
Issued shares (m)	222
Market capitalisation	INR78.1B
	USD1.2B

Major shareholders:

Gujarat Fluorochemicals Ltd.	63.1%
Reliance Equity Opportunities Fund.	1.8%
Goldman Sachs India Fund.	1.0%

Price Performance



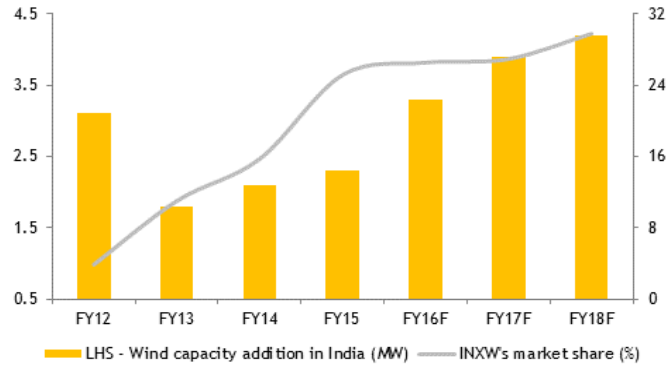
	-1M	-3M	-12M
Absolute (%)	(1)	0	na
Relative to index (%)	(1)	1	na

Source: FactSet

Value Proposition

§ INXW is increasing its dominance in the wind turbine generator space. Market share has doubled in two years to 25% and should get to 30% in the next two.
§ Against weakened competition, its financial strength, ability to provide turnkey solutions, and sophisticated technologies have gained traction with the IPPs.
§ Returns outlook is improving, backed by government's support to expand wind capacity and economic viability of wind as an alternative energy source.
§ Wind power is an economically viable source of alternative energy. Current production cost differential between wind and fossil fuel energy is minuscule and closing.

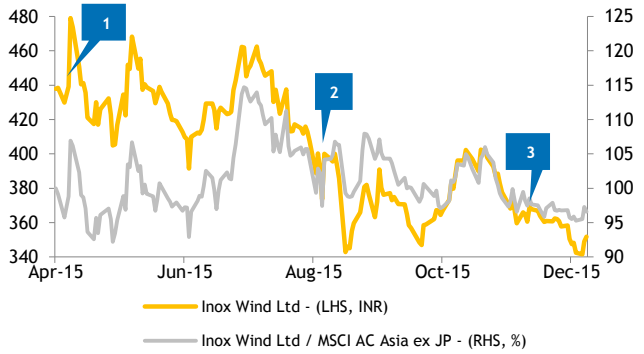
INXW's market share expansion in WTG market (%)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Strong IPO debut in Apr 2015; IPO price was INR325.
2. Pressure on capital goods stocks due to weak industrial production data in 2Q.
3. Investors waiting for 2HFY16 results. 2H is stronger seasonally for the company.

Financial Metrics

§ INXW is riding a visible earnings upcycle. Order book is 1.2x FY16F sales, which would be executed in the next 12-15 months.
§ Expectations of another 4.9GW of new orders will translate into order book growth of 73% the next 2 years.
§ Sales volume will rise 51% in FY16 and 20% in FY17 supported by order book execution. Operational efficiencies will lead to margin improvement.
§ Earnings forecast to rise 78% in FY16, 26% in FY17 and 22% in FY18 backed by revenue growth and margin improvement.

Order book/new inflow (MW)



Source: Company

Swing Factors

Upside

§ Strong order inflow, market share expansion.
§ Launch of more sophisticated products like 113m blade.
§ Entry into solar energy market could boost earnings significantly.
§ Stock trading at 37% discount to avg. sector PER.

Downside

§ Change in regulatory policies could trim market size.
§ Poor financial health of state electricity boards.
§ High exposure to multiple currencies for imports.
§ Rising competition in the domestic market.

Consumer Disc.

India

Inox Leisure (INOL IN)

Exhibiting success

BUY

Share Price	INR 239
12m Price Target	INR 331 (+38%)

Attractive valuation; rerating imminent

Initiate at BUY with PT of INR331. We believe INOL's rising ROE, healthy net D/E of 0.3x, growing contribution from in-cinema advertising, and high spending on food and beverages (F&B) justify a re-rating. INOL trades at an EBITDA multiple of 7.5x for our FY17 forecasts, 17% below its peers. We value the stock at EBITDA multiple of 10x at 9% discount to market leader PVRL (EV/EBITDA of 11x).

Surge in footfall led by successful movies

Following a weak FY15, the Indian film industry is showing considerable improvement in FY16. In 1HFY16, the industry recorded the best ever box-office performance with footfall increasing 33% YoY to 29m. The unprecedented success of 'Baahubali' and 'Bajrangi Bhaijaan,' which grossed INR4.6b and INR6b respectively, has helped fuel this improvement. Given the impressive pipeline of movies from the Indian film industry (see pg. 34), including regional and Hollywood films for FY16 and FY17, we expect more blockbusters that will boost footfall in multiplexes. We forecast INOL's footfall will improve to 68m in FY17 from 41m in FY15.

Second-largest multiplex chain in India

INOL operates 402 screens across 17 states and 55 cities in India. It accounts for 8% of domestic box office collections in the industry. However, with only nine screens per million people vs. 25 in China, India is highly under-screened. We forecast the company will increase its screen count to 512 by FY18 by adding 63 screens in FY16, 40 screens in FY17 and 37 screens in FY18.

Catalysts: ancillary income and margin uptick

Contribution of ancillary income sources such as F&B and advertising to total income increased from 21% in FY11 to 27% in FY15. We forecast this contribution will rise to 29% of income in FY17. We forecast INOL will increase its EBITDA margin by 377bp to 17% in FY17 from 13% in FY15, supported by a) 42% increase in advertising in FY16 and FY17 each and b) increase in F&B income of 60% in FY16 and 25% in FY17.

FYE Mar (INR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	8,688	10,168	15,349	18,643	21,503
EBITDA	1,309	1,310	2,214	3,106	3,686
Core net profit	369	200	693	1,209	1,509
Core EPS (INR)	4	2	7	13	16
Core EPS growth (%)	100.2	(45.8)	245.9	74.3	24.8
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	62.2	114.6	33.1	19.0	15.2
P/BV (x)	5.9	3.4	3.1	2.7	2.3
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	10.3	3.8	9.8	15.0	16.0
ROAA (%)	4.4	2.0	5.8	9.1	10.3
EV/EBITDA (x)	10.1	14.1	11.3	7.7	6.0
Net debt/equity (%)	57.0	32.7	28.5	10.7	net cash
Consensus net profit	-	-	743	1,023	1,367
MKE vs. Consensus (%)	-	-	(6.7)	18.2	10.4

Company description

Inox Leisure Ltd. is engaged in the business of operating and managing multiplexes and cinema theatres in India.

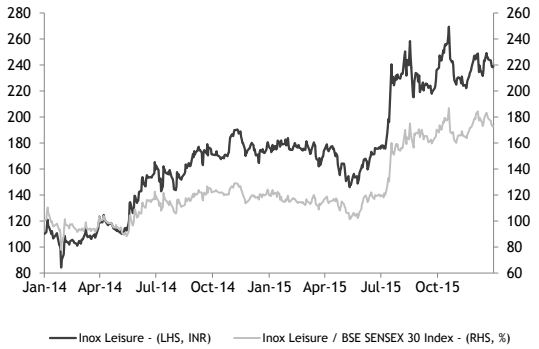
Statistics

52w high/low (INR)	269/146
3m avg turnover (USDm)	1.3
Free float (%)	41.1
Issued shares (m)	96
Market capitalisation	INR22.7B
	USD340M

Major shareholders:

Gujarat Fluorochemicals Ltd.	48.1%
Kuwait Investment Authority	4.7%
Inox Benefit Trust	4.5%

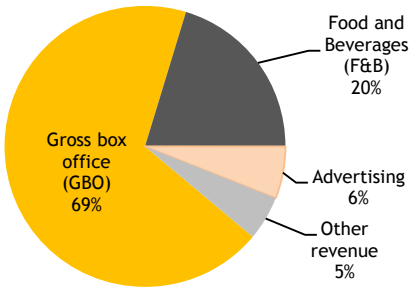
Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	1	33
Relative to index (%)	(3)	1	40

Source: FactSet

Revenue mix in 1HFY16



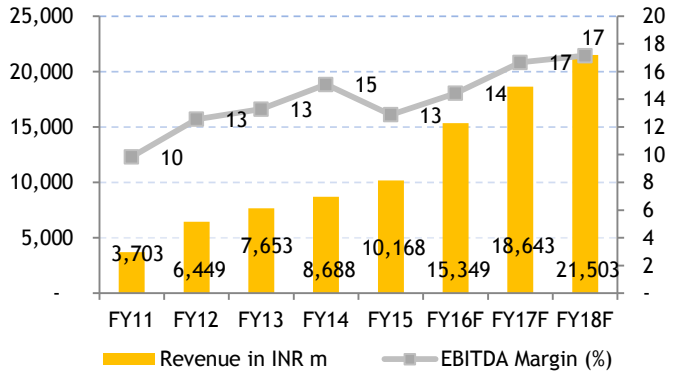
Jigar Shah
jigar@maybank-ke.co.in
(91) 22 6623 2632 32

Vikram Ramalingam
vikram@maybank-ke.co.in
(91) 22 6623 2609

Value Proposition

§ INOL is second-largest multiplex chain in India with 19% of market. Second to PVRL, INOL is opening an average of 3 new screens per month. Footprint is not easily replicated.
§ Growing importance of entertainment in Indian working class and a lack of good cinema exhibition infrastructure should drive INOL's sustainable growth.
§ While GBO collections form the majority of the revenue, INOL is focussing on increasing ancillary income (F&B, advertising) to enhance returns of its assets.
§ Historically, the return on capital has been low but INOL is entering a new and more lucrative phase as its screens mature and turn profitable.

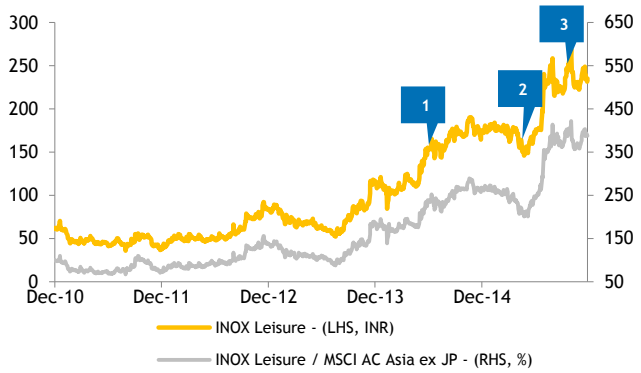
Revenue and EBITDA margin



Source: Industry, Maybank Kim Eng

Price Drivers

Historical share price trend



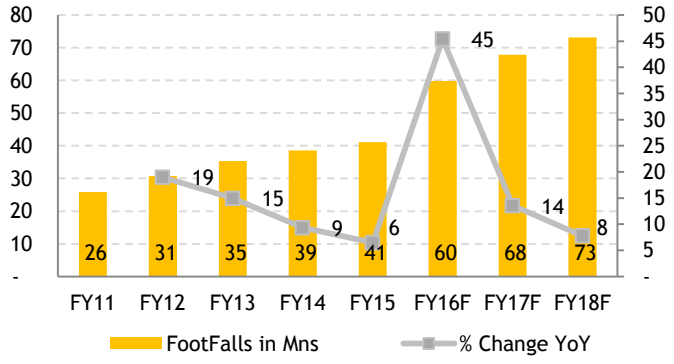
Source: Company, Maybank Kim Eng

1. The company acquired small multiplex chains and also has been adding screens organically. Most recently, it acquired 38 screens from Satyam Cineplexes in FY15.
2. The stock plunged in FY15 because of poor film content leading to pressure on box-office collections.
3. 2Q and 3Q are the best quarters because of festive season and big releases. 4Q is considered a weak quarter for INOL because it coincides with the exam period.

Financial Metrics

§ Footfall slumped in FY15 because of disappointing film content. But 1HFY16 has already registered footfall of 29.1m, a YoY increase of 38%.
§ Higher footfall directly impacts the revenue. In 1HFY16, revenue was INR7b, which is a YoY increase of 41%.
§ The company turned free cash flow positive in FY14 and this can be attributed to the growing contribution from high margin ancillary income.
§ Footfall is highly contingent on film content. We see a strong line-up ahead.

Footfall



Source: Company

Swing Factors

Upside

§ Expansion in number of screens along with high quality and quantity of movies produced.
§ Rising trend of in-cinema advertising.
§ Higher spends on entertainment amounting to increase in ticket prices, footfall and F&B spends.

Downside

§ Poor film content.
§ Increase in entertainment tax.
§ Holding back of discretionary spend by consumers in weak economic environment.

January 3, 2016

Technology

India

Infosys (INFO IN)

Back with rigour

BUY

Share Price	INR 1,103
12m Price Target	INR 1,350 (+22%)
Previous Price Target	*INR 1,300*

Reiterate BUY on improving business outlook

We believe INFO is taking positive steps that should help it to outperform peers, such as large deal wins and acquisitions. Near-term, we forecast the company to match industry growth in 4Q. Key catalysts are large deal wins M&A supported by cash of USD4.8b, and consulting business driving digital services and platforms. We maintain BUY with a revised TP of INR1,350 by upgrading multiple to 20x FY17F EPS, which is inline with its five year average PER of 20x.

Revenue momentum picking up

INFO has outperformed peers in 1HFY16 with QoQ revenue growth of 6.2% (over 2HFY15) vs. the 3.2% average of Indian large cap peers and 3.9% for the Industry. Although 3Q will be seasonally weak, we expect the underlying growth momentum to continue. INFO is witnessing multiple levers playing out, such as growth in top clients and increase in revenue per client, and large deal wins (USD2.3b in LTM).

Better placed to gain from discretionary spending

INFO leads its Indian peers in the consulting space by offering clients ways to save on maintenance spending so they can invest more in discretionary/digital/SMAC. In the upcoming budget cycle, we believe discretionary spending will increase as clients look at adopting newer technologies. With a very strong consulting practice, INFO is well placed to gain from the uptick in discretionary spending. INFO has enabled the product play with its Edge suite of offerings, digital enabled Finacle, automation through the launch of platforms (IIP, IAP), and acquisitions. We believe all this bodes well and should set the stage for consistent growth.

Attractive valuations

We believe INFO's transformation is picking up pace. We forecast a revenue CAGR of 11.2% over FY15-18F vs. 7.6% over FY12-15F, and EBIT margin steadily improving by 80bps to 26.8%. At 15x FY17F EPS, we believe INFO is attractively priced. We maintain BUY with TP of INR1,350 at 20x FY17F EPS, inline with its five year average PER of 20x.

FYE Mar (INR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	501,330	533,190	611,490	679,863	765,704
EBITDA	136,340	149,000	170,703	196,509	222,818
Core net profit	108,668	123,290	134,548	155,158	176,873
Core EPS (INR)	48	54	59	68	77
Core EPS growth (%)	15.3	12.9	9.1	15.3	14.0
Net DPS (INR)	16	22	24	27	31
Core P/E (x)	23.2	20.6	18.8	16.3	14.3
P/BV (x)	5.3	4.6	4.1	3.6	3.2
Net dividend yield (%)	1.4	2.0	2.2	2.4	2.8
ROAE (%)	24.9	24.1	23.2	23.6	23.7
ROAA (%)	21.1	20.0	19.1	19.4	19.6
EV/EBITDA (x)	11.5	14.9	12.7	10.7	9.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	131,991	149,343	170,383
MKE vs. Consensus (%)	-	-	1.9	3.9	3.8

Company description

Infosys Ltd, founded by seven technocrats, is a consulting, technology & outsourcing company. It is second largest India listed IT services company.

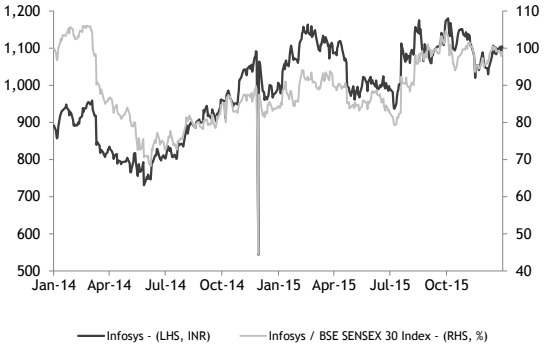
Statistics

52w high/low (INR)	1,181/937
3m avg turnover (USDm)	57.2
Free float (%)	86.8
Issued shares (m)	2,297
Market capitalisation	INR2,533.9B
	USD38.3B

Major shareholders:

Life Insurance Corp. of India	5.5%
OppenheimerFunds, Inc.	2.6%
Abu Dhabi Investment Authority	2.4%

Price Performance



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

Source: FactSet

One year forward PER chart



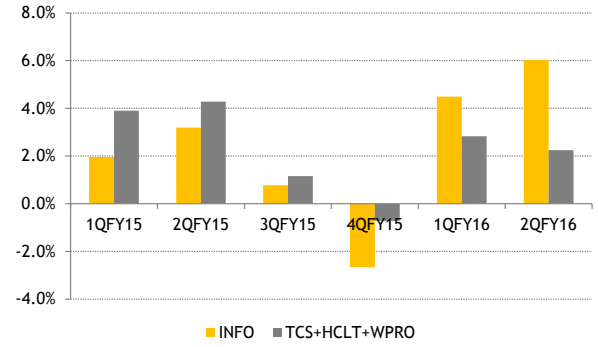
Source: KESI, Bloomberg

Neerav Dalal
neerav@maybank-ke.co.in
(91) 22 6623 2606

Value Proposition

§ INFO is the 2nd largest Indian IT company with strong competencies in consulting, and a formidable presence in banking, manufacturing, and retail industries.
§ To overcome the industry's shift away from a pure cost arbitrage model, INFO will focus more on consulting, and products & platforms to capture a larger share of rising IT discretionary spending.
§ INFO's strategy of targeting large deals and focus on client mining will enable stable growth in traditional services, which still account for 62% of revenue.

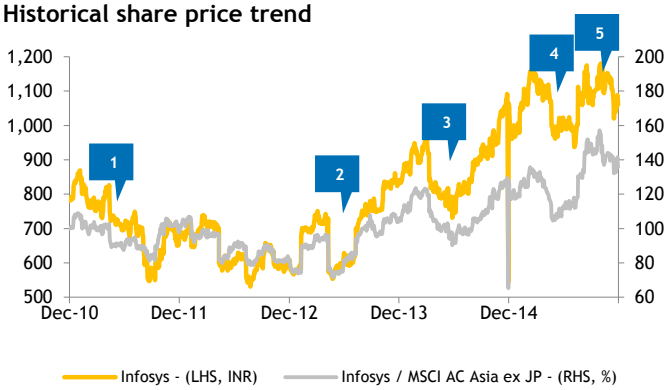
INFO's revenue growth outlook vs peers



Source: Company

Price Drivers

Historical share price trend



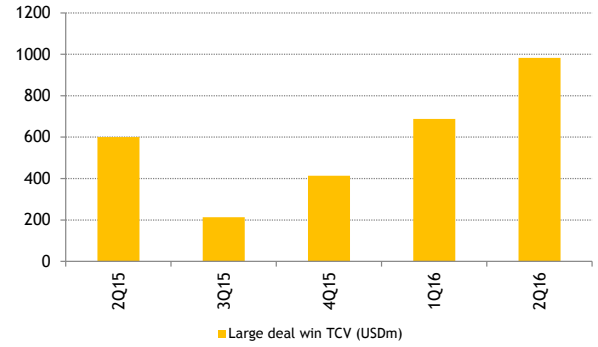
Source: Company, Maybank Kim Eng

1. INFO launches Infosys 3.0 strategy ahead of schedule, focusing on new technologies.
2. Mr Narayana Murthy returns as Executive Chairman post failure of INFO's 3.0 strategy.
3. Mr Vishal Sikka appointed as CEO; Mr Narayana Murthy steps down as Executive Chairman.
4. INFO reports strongest QoQ growth amongst large cap IT companies for 1QFY16.
5. Management disclosed that seasonal weakness in 3Q15 was more serious than earlier anticipated.

Financial Metrics

§ We forecast USD revenue growth of 11.2% over FY15-18F vs. 7.2% for FY12-15 driven by client mining and large deal signings.
§ We forecast EBIT margin to improve steadily to 26.8% for FY18F vs. 25.9% in FY15 backed by the adoption of automation, a bigger share of high margin consulting practice, and improvement in employee utilization.
§ Return ratios to remain strong with high ROE/ROCE/ROIC of 24%/33%/46% buffering high valuation multiple.
§ OCF/Net profit of more than 100% and OCF/EBITDA of 70%.

Improving large deal wins TCV



Source: Company, KESI

Swing Factors

Upside

§ Consistent outperformance on QoQ revenue growth with margin stability/improvement.
§ Continuous announcement of large deals. INFO is targeting quarterly large deal win total contract value (TCV) of USD1.5-2b vs. its current quarterly run-rate of USD0.6-1.0b.
§ Acquisitions that add value or are earnings accretive.

Downside

§ Slowdown in consulting demand and large deal wins.
§ Key management level exits.
§ Loss of key clients, market share loss in client spends.

January 3, 2016

Technology

India

Persistent Systems (PSYS IN)

Niche play

BUY

Share Price	INR 649
12m Price Target	INR 770 (+19%)
Previous Price Target	*INR 770*

Niche play on Indian IT

We maintain Buy with TP of INR770 equal to 16x FY17F EPS driven by upside potential from digital/SMAC and 16% earnings CAGR. Earnings powered by 25-30% increase in enterprise business, supported by growth returning in IP business. Quarterly volatility aside, margins are bottoming out, and we expect digital transformation and IP led business to be the key long term catalysts.

Enterprise business powering ahead

Currently the enterprise business is overshadowed by the weakness in the IP-led and ISV business. We expect PSYS to get back to a sustainable growth path from: a) increasing momentum in the digital transformation led enterprise business; b) Aepona Holdings acquisition in IOT space, and launch of new version of IPs driving IP-led business back to growth; and c) ISV business decline to cease on integration of RGen Solutions acquisition, and traction in business from start-ups.

EBIT margins have bottomed out

Lack of growth, higher onsite revenue share, and higher S&M spends have led to an EBIT margin decline. Underpinned by faster revenue growth, an uptick in IP-led business, a weak INR and better utilization, we expect margins to improve. We forecast EBIT margin improvement from 14.4% to 15.4% for 4QFY16 and 16.6% for 4QFY17.

Maintain Buy on attractive valuation

With more than 55% of revenue coming from SMAC areas, we remain confident on PSYS' long term growth prospects. However, we do expect quarterly volatility in performance to continue due to the project led nature of the business. We strongly believe that the current valuation does not factor in the potential upside from the growth initiatives already in place. We maintain Buy with TP of INR770 at 16x FY17F based on a 33% premium to its historical PER of 12x justified by forecast profit recovery.

Company description

Persistent Systems, is a niche IT company, focused on developing solutions in new technologies: Cloud Computing, Mobility, Analytics & Collaboration.

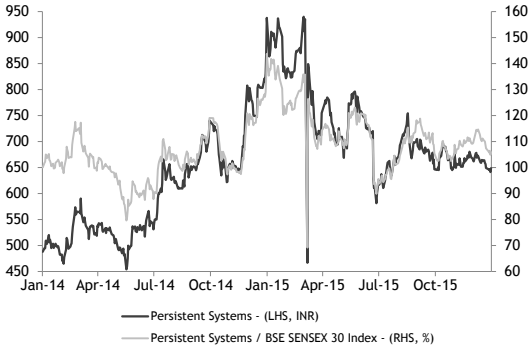
Statistics

52w high/low (INR)	940/467
3m avg turnover (USDm)	0.7
Free float (%)	47.3
Issued shares (m)	80
Market capitalisation	INR51.9B
	USD784M

Major shareholders:

DESHPANDE ANAND SURESH	28.5%
DESHPANDE SURESH PURUSHOTTAM	9.1%
Pspl Esop Management Trust	5.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	0	(25)
Relative to index (%)	(3)	1	(21)

Source: FactSet

FYE Mar (INR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	16,692	18,913	22,234	26,661	31,475
EBITDA	4,303	3,906	4,302	5,328	6,429
Core net profit	2,493	2,906	3,033	3,803	4,508
Core EPS (INR)	31	36	38	48	56
Core EPS growth (%)	32.9	16.6	4.3	25.4	18.5
Net DPS (INR)	12	10	12	14	17
Core P/E (x)	20.8	17.9	17.1	13.6	11.5
P/BV (x)	4.2	3.7	3.3	2.8	2.4
Net dividend yield (%)	1.8	1.5	1.8	2.2	2.6
ROAE (%)	22.3	22.1	20.2	22.2	22.7
ROAA (%)	17.7	17.5	15.9	17.3	17.7
EV/EBITDA (x)	8.6	12.7	10.0	7.6	5.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,020	3,532	4,007
MKE vs. Consensus (%)	-	-	0.4	7.7	12.5

One year forward PER chart



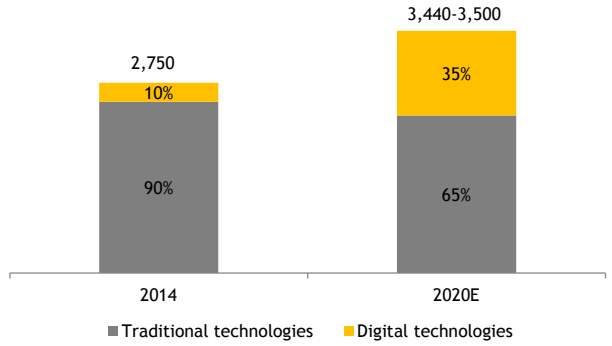
Source: KESI, Bloomberg

Neerav Dalal
neerav@maybank-ke.co.in
(91) 22 6623 2606

Value Proposition

§ PSYS started as a contract software developer for IBM and Microsoft and has since transformed into an enterprise focused services and solutions provider with a niche in the social, mobile, analytics and cloud (SMAC) segments.
§ As outsourcing spend patterns shift from pure labor arbitrage towards cloud solutions, we expect SMAC/digital spends to grow at 25%+ p.a. vs. flat growth for traditional services.
§ PSYS' strength in SMAC space and IP-led strategy positions it to grow faster than the industry average.

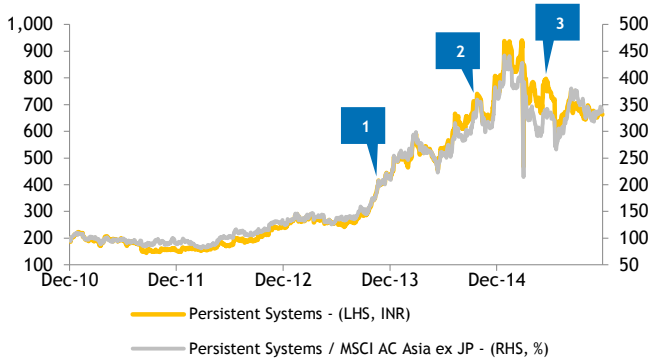
Digital technologies to drive IT spends (USDb)



Source: Industry, KESI

Price Drivers

Historical share price trend



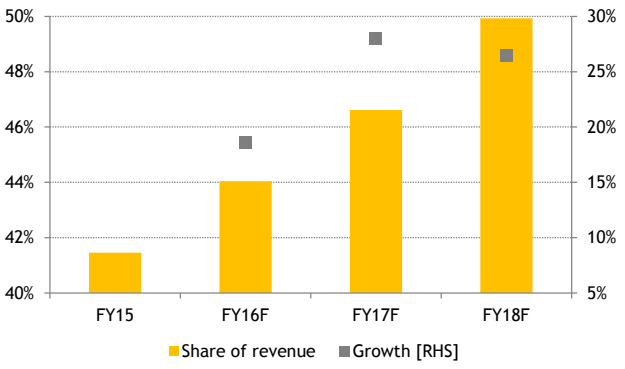
Source: Company, Maybank Kim Eng

1. Price surge backed by 32% average pa earnings growth in FY13-14.
2. PER re-rating from 12x to 20x on expectations of faster revenue growth.
3. PER de-rating due to lack of earnings growth; delay in acquisitions and weakness in top clients leading to downgrade of earnings and PER multiples.

Financial Metrics

§ We forecast a 17% CAGR over FY15-18F faster than the industry average driven by 30% growth in the enterprise business and 16% growth in the IP-led business. Share of enterprise and IP-led businesses to grow to 50% by FY18 from 41% for FY15.
§ Forecast EBIT margins to improve to 16.1% for FY18F from 14.4% in 2QFY16 driven by better realization from higher margin digital services and IP-led businesses.
§ Forecast earnings CAGR of 16% over FY15-18F.
§ Healthy return ratios - ROE of 22% and ROCE of 34% and healthy cash flow generation with OCF/Net profit of 120%+ and 85%+ OCF/EBITDA.

Enterprise + IP-led businesses revenue share and growth



Source: Company, KESI

Swing Factors

Upside

§ Consistent revenue growth (USD terms) of 15-20% on YoY basis.
§ Announcement of acquisitions that will drive the IP-led strategy and in turn revenue growth.
§ PBT margin improvement backed by non-linear growth and improvement in employee utilization leading to margins of above 20% vs. current 18-20%.

Downside

§ Weakness persisting in the ISV business that currently contributes 59% of FY15 revenue.
§ Sluggishness in enterprise business performance, which is the key growth driver.
§ Pressure on margins due to increase in competition and weak revenue growth leading to PBT margins lower than 18%.

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GDP = C + I + G + (X-M)

Indonesia



Maybank Kim Eng

Indonesia's Six-for-16

Indonesia Rising

Analysts
Isnaputra Iskandar, CFA
(62) 21 25571129
isnaputra.iskandar@maybank-ke.co.id

More constructive on the market

We turn more positive on the market as we believe the market has bottomed out, and expect the economy and corporate earnings to gradually recover. The rupiah has been stabilising as well and we do not expect any significant downside risk. Monetary policy easing, tax amnesty and improvement in FDI and infrastructure spending will be the market's main focus.

Monetary policy easing

Following a 50bps cut in the reserve requirement in the monthly meeting in Nov'15, we think Bank Indonesia (BI) will start lowering its benchmark rate in 1Q16, given the high real interest rates and lower external risks. A total 50bps cut is possible in 2016, in our view. ASII and BBI would be the main beneficiaries from the rate cut.

Wage reform: a new key initiative

We welcome the government's new formula for adjusting the minimum wage, which will be based on national inflation and GDP growth. The new scheme will be positive for the investment climate as it will reduce foreign investors' concerns about labour conditions in Indonesia, which have been building up for the past five years. A higher minimum wage will help maintain the purchasing power of low-income earners. GGRM, LPCK and TLKM should be the main beneficiaries of the new regulation.

Infrastructure focus

The government remains committed to infrastructure, as demonstrated by the 8.3% YoY increase in the 2016 infrastructure budget. The budget accounts for 15% of the total 2016 budget, the highest on record, and over 2% of GDP. We like WSKT in the infrastructure sector due to: 1) its strong capital structure; 2) soaring order book; and 3) expansion into toll-road projects.

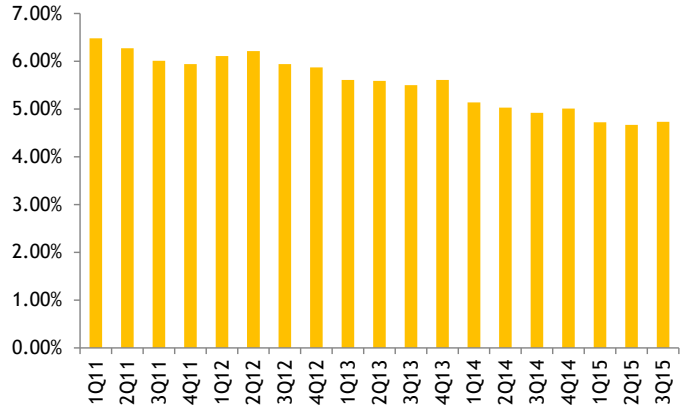
1. Monetary policy easing

1.1 GDP growth stabilising

The economy grew 4.73% YoY in 3Q15, below the government's estimate of 4.85% but slightly above 1Q15's +4.71% and 2Q15's +4.67%. The slight improvement is attributed to rising government spending and investments. Government spending grew 6.56% YoY in 3Q15, beating 2Q15's 2.13% YoY. The increase was felt in domestic cement sales, which started to grow MoM in Aug'15. Investments grew 4.62% YoY in 3Q15, also higher than 2Q15's 3.69%. Although 3Q15 FDI was still down 0.8% YoY, it was up 0.4% QoQ. Another GDP component, non-profit institutions serving households, grew 4.62% YoY, an improvement over 2Q15's 3.69%.

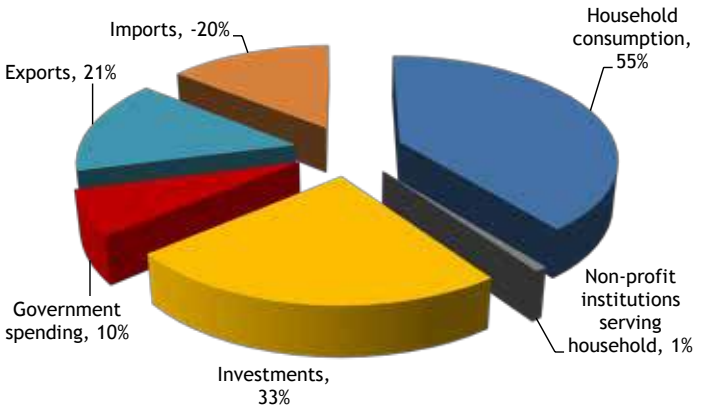
The same cannot be said about household consumption, exports and imports. Household consumption grew 4.96% YoY in 3Q15, slowing slightly from 2Q15's 4.97%. The slowdown was felt in domestic car and motorcycle sales, which fell 17.7% and 11.0% YoY respectively in 3Q15. Exports declined by another 0.69% YoY in 3Q15 (2Q15: -0.09% YoY), following persistently lower commodity prices. Imports fell 6.11% YoY (2Q15: -6.98% YoY) as the domestic economy slowed and the rupiah weakened.

Fig 1: GDP stabilised in 3Q15



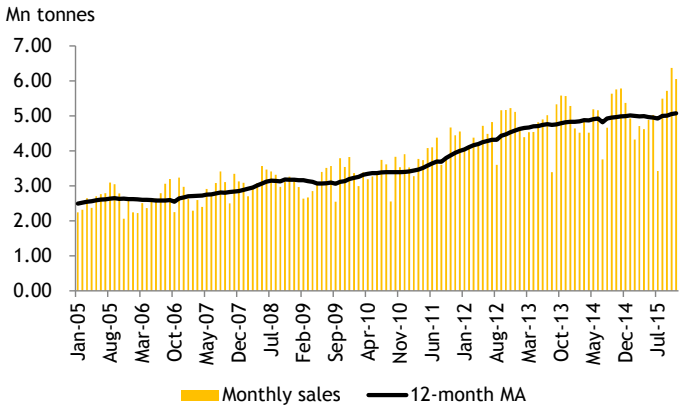
Source: Bloomberg

Fig 2: 3Q15 GDP breakdown



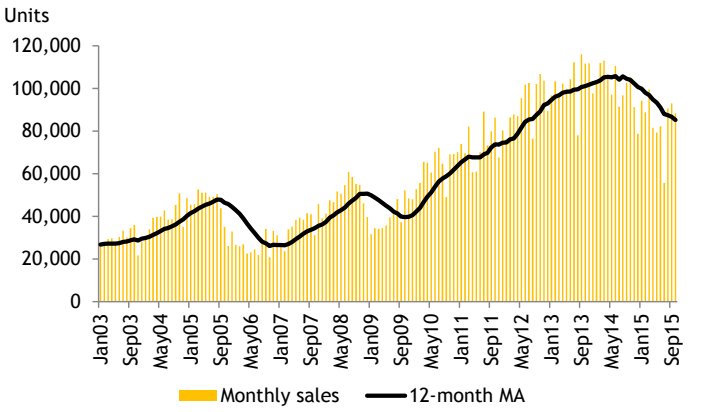
Source: BPS

Fig 3: Domestic cement sales have started to rebound



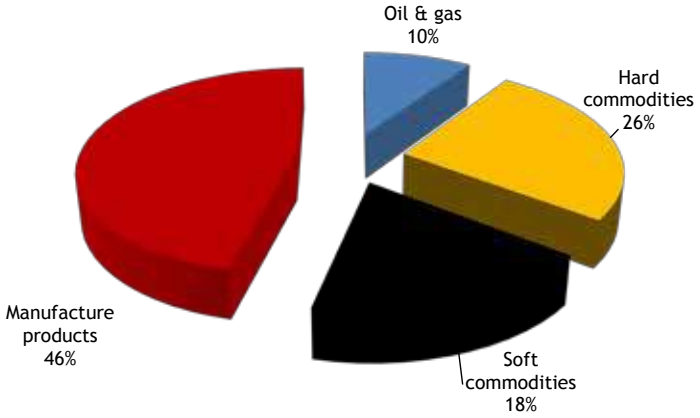
Source: Bloomberg & Maybank KE

Fig 4: Domestic 4W sales have started to pick up



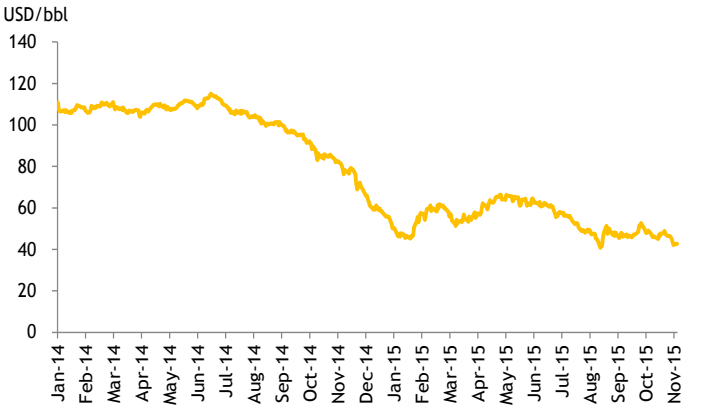
Source: Bloomberg & Maybank KE

Fig 5: More than 50% of exports are commodities



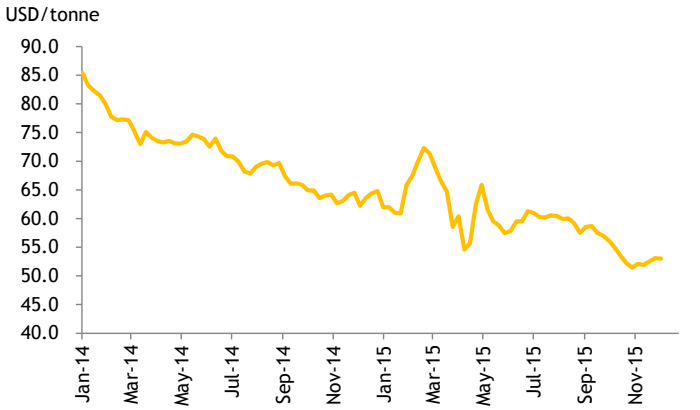
Source: BI & Maybank KE

Fig 6: Oil prices remain weak



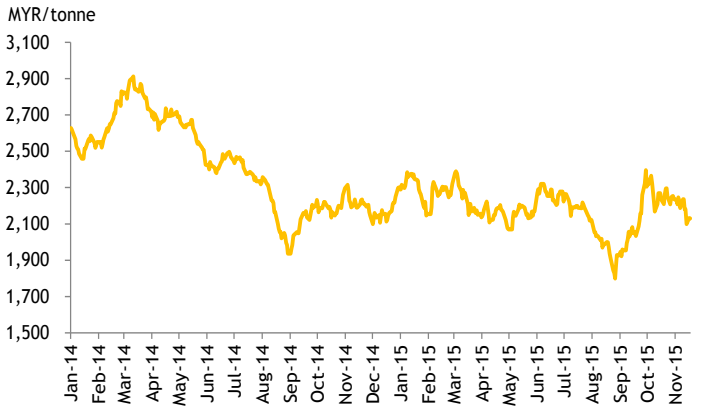
Source: Bloomberg

Fig 7: Coal price has been heading south



Source: Global coal

Fig 8: CPO prices propped up by *El Nino*

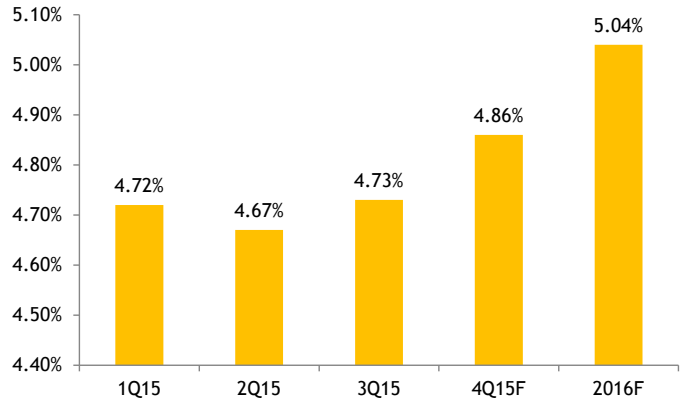


Source: Bloomberg

1.2 Growth to resume gradually

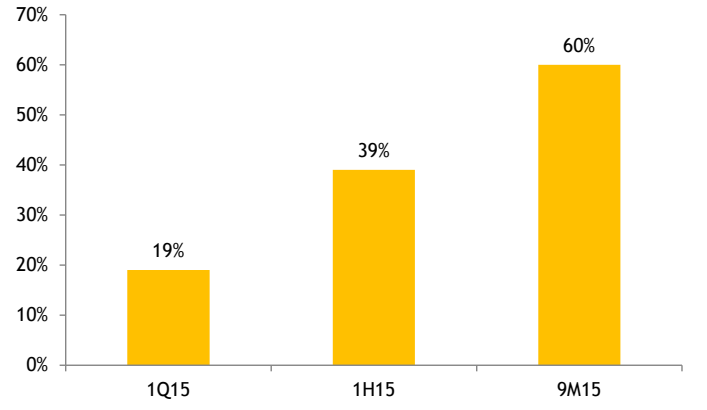
Our economist Juniman (juniman@bankbii.com) estimates the economy grew 4.86% YoY in 4Q15 and forecasts it to rise by 5.04% in 2016. The recovery in 4Q15 was led by higher government expenditure and fiscal stimulus. It should be further supported by improvement in commodity prices and exports, along with improvements in the US and European economies.

Fig 9: GDP started to recover in 4Q15



Source: BPS & Maybank KE

Fig 10: Budget absorption at 60% in 9M15

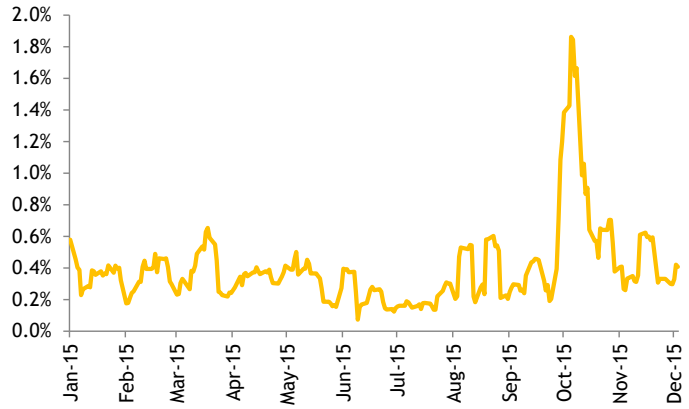


Source: Ministry of Finance & Maybank KE

1.3 A more stable rupiah

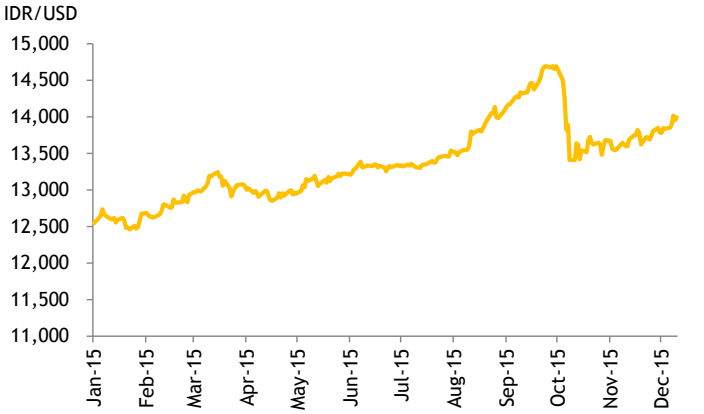
The rupiah has stabilised since the beginning of Oct-15. It does not appear at risk of being tossed and turned by the Fed's rate hike in Dec'15. Its stability is helped, among other things, by an improving current account deficit to 1.9% of GDP in 3Q15, down from 2Q15's -2.0% and 3Q14's -3.0%. BI estimates the current account deficit ended the year at 2% of GDP.

Fig 11: Volatility is back to pre-Oct'15 levels



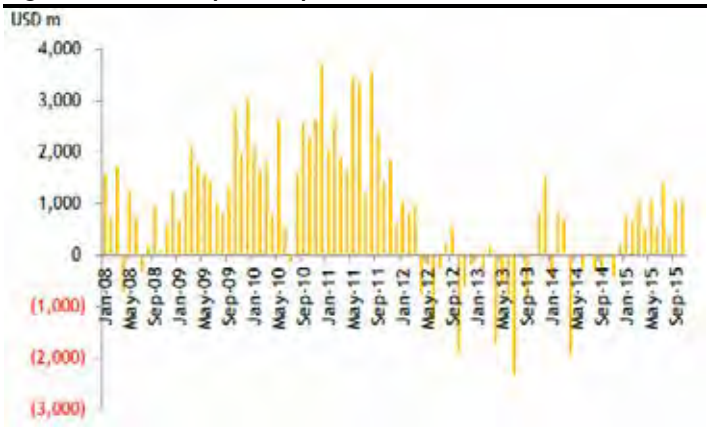
Source: Bloomberg & Maybank KE

Fig 12: A more stable rupiah



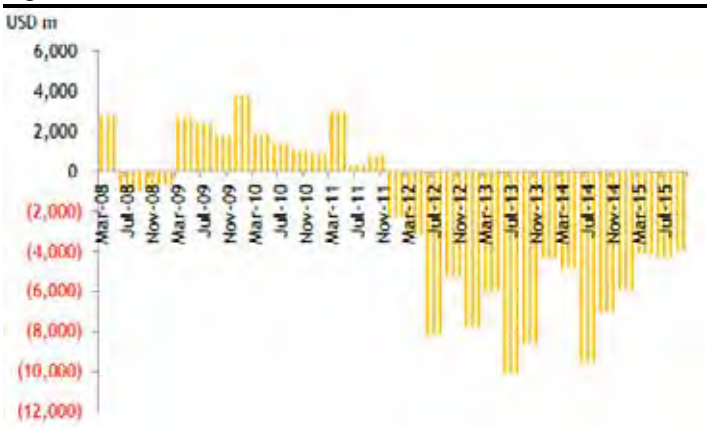
Source: Bloomberg

Fig 13: A trade surplus helps…



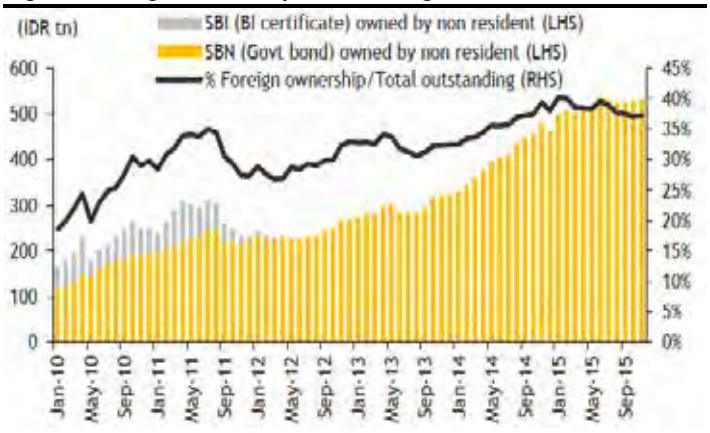
Source: Bloomberg

Fig 14:…as is a lower current account deficit



Source: Bloomberg

Fig 15: Foreign ownership remains high in bond markets



Source: Bloomberg & Maybank KE

Fig 16: Foreign flows into equity markets



Source: Bloomberg

1.4 Low inflation + stable rupiah = lower interest rate?

On a YoY basis, inflation has been on a downward trend. It was 6.25% in Oct'15 and it eased to 4.89% in Nov'15, which was mainly due to the high base effect (the government raised fuel prices in Nov'14). As we expect MoM inflation in Dec was only ~0.5%, YoY inflation will be slightly below 3%, which is in line with BI's estimate.

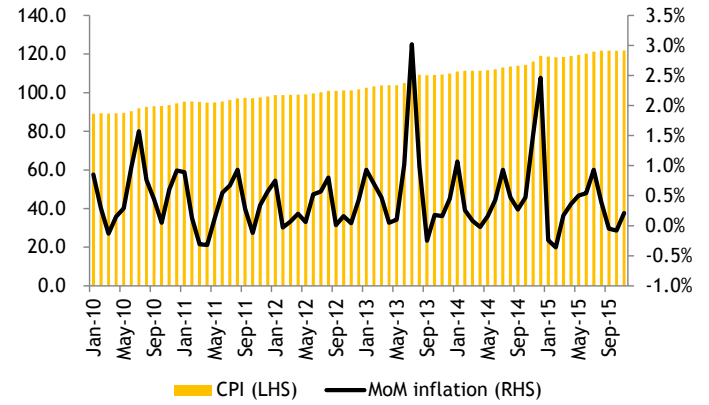
With the BI rate at 7.5% and YoY inflation of 4.9% in Nov'15, the real benchmark rate was 2.5%. If inflation ends the year at 3.0%, the real rate could reach 4.5%.

However, such a high rate may not be sustainable. Monthly real rates in the past six years averaged only 1.0%. Although there were times when the rate breached 3.0%, as in Mar 2000 and Aug 2014, its high levels were not sustainable, lasting, in fact, only one month.

The direction of inflation is more important for BI, in our view, than prevailing inflation. Having said that, we think there is upside to our internal forecast of no rate cut. We think BI might act in 1Q16.

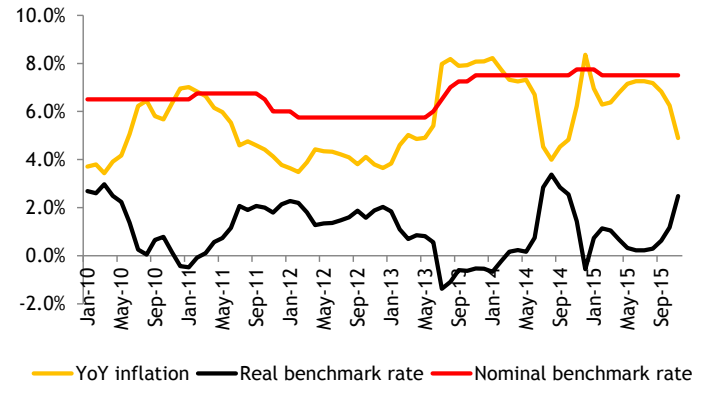
There might be some concerns that rupiah volatility could be an obstacle for the rate cut, especially with the Fed's rate hike in Dec'15. The rate hike has been positive for the currency and equity markets as it has removed an overhang, and this is shown by appreciation of the currency post the hike. On top of that, the latest data suggests that rupiah volatility (based on 5-day moving average) has declined significantly over the past few weeks and we expect volatility to stabilize, if not decline.

Fig 17: CPI & MoM inflation



Source: Bloomberg

Fig 18: Real rates could be higher



Source: Bloomberg & Maybank KE

At its last monthly meeting in Nov'15, the BI kept its benchmark rate at 7.5% but lowered its reserve requirement by 0.5% to 7.5%. We took this to suggest: 1) policy prudence, in view of a looming Fed rate hike in the near term; and 2) its understanding of the need for monetary easing to stimulate the economy.

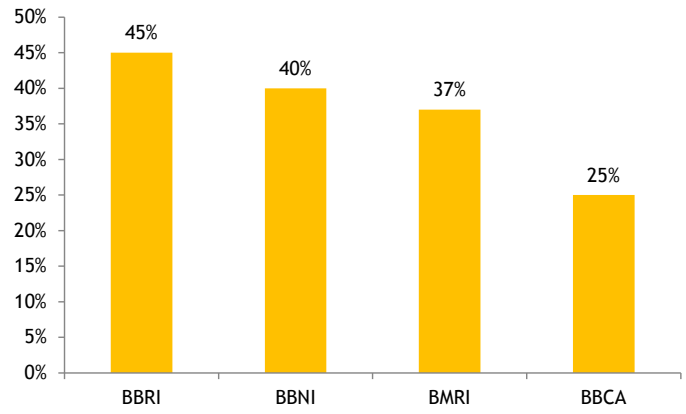
A lower benchmark rate in Indonesia should be positive for ASII, banks and property companies, at least sentiment-wise.

- ASII should benefit as 60-70% of its 2Ws and 4Ws are sold through credit. Lower rates are not only good for its automotive division but also financial services. Note for 9M15, earnings from its automotive and financial services divisions accounted for ~70% of ASII's profit.
- Banks' costs of funds could drop and NIMs temporarily improve, from a time lag in adjusting lending rates. Among the big banks, BBRI has the

most time deposits in its customer deposits, followed by BBNI, BMRI and BBCA.

- Property developers tend to benefit as mortgages account for a chunk of their sales, except for SMRA. BSDE has the highest exposure of 40%, followed by BKSL (36%), CTRA (35%), LPKR (21%), ASRI (21%) and SMRA (5%).

Fig 19: Time deposits to total deposits



Source: Companies & Maybank KE

Fig 20: Customers' payment methods for their properties

Company	Mortgage	Cash installments	Full cash
ASRI	21%	54%	25%
BKSL	36%	51%	13%
BSDE	40%	50%	10%
CTRA	35%	57%	8%
LPKR	21%	59%	20%
SMRA	6%	80%	14%

Source: Companies & Maybank KE

2. Labour-wage reform: a new key initiative

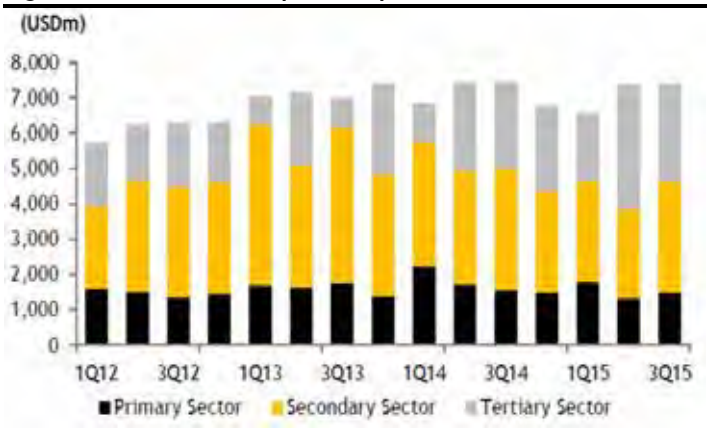
2.1 Stable FDI

FDI has been relatively flat at USD6-7b for the past 15 quarters. There are two key reasons for the flat growth: 1) the long process involved in applying for investment licences; and 2) uncertainties in the labour situation in Indonesia, especially in terms of the increase in annual minimum wage. Indonesia was ranked 109th in the World Bank Doing Business 2016 ranking, below Malaysia (18th), Thailand (49th), Vietnam (90th) and the Philippines (103rd).

Obtaining the necessary licences for investing in Indonesia has been a classic problem for years. The problems range from the types of licences required, to the time needed to obtain such licences. These problems are in addition to other challenges, such as lack of the necessary infrastructure (eg roads and ports etc).

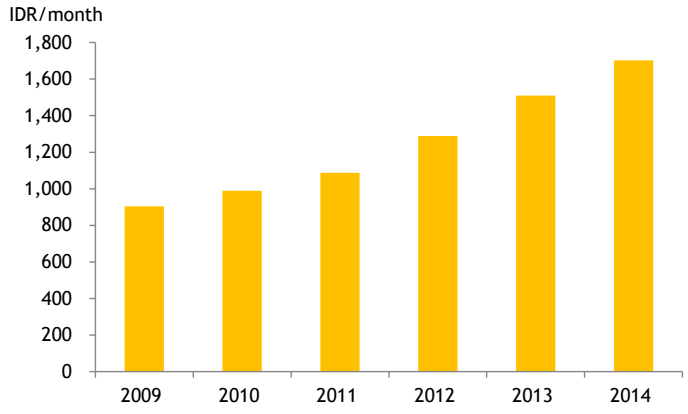
Labour issues have been another major problem since 2010. From 2009-15 the average national minimum wage had increased by a 38.1% CAGR, way above average inflation of ~6%. The problem has become more complicated because of the increasing strength of labour unions.

Fig 21: Stable FDI in the past 19 quarters



Source: Bloomberg & Maybank KE

Fig 22: Average minimum wage up 38.1% CAGR in 2009-15



Source: Ministry of Manpower & Maybank KE

2.2 The stimulus

The government launched several stimulus measures in 2015. Government investment as a component makes up 30-35% of GDP. One initiative taken by the government is to expedite the approval time for investment licences to three hours for those who invest in industrial zones. While we welcome this measure, it remains to be seen whether the initiative will be effectively implemented.

Another initiative by the government is to change the mechanism for adjusting the minimum wage. Currently, the minimum wage is determined by negotiations between the government, companies and labour unions. However, this approach has become ineffective in recent years, as labour unions would simply strike if their demands are not met. Effective 1st Jan'16, annual minimum wage increase will be based on national GDP and national inflation. On top of that, review of components of standard of living will be done only once in five years, much less than the current practise of almost every year.

Fig 23: Economic stimulus

No	Economic stimulus	Potential impact and stock (s) affected
1	Simplification of investment processes (including tax holidays and tax incentives) in Indonesia. There are also incentives for special economic zones.	Positive for Indonesia's investment competitiveness in the long term.
2	Lower income tax rate for exporters who deposit their money in Indonesia.	Positive for the currency as the policy will add dollar supply in domestic market. Mining companies such as ADRO, ANTM, INCO, ITMG and PTBA could be the biggest beneficiaries.
3	Lower retail energy prices (LPG, subsidized diesel and Pertalite).	Positive for inflation and purchasing power, especially that of low-income earners. Companies that target the mass market, such as RALS, INDF, GGRM, will benefit.
4	Lower non-subsidized diesel prices	Coal companies (ADRO & ITMG) will be big beneficiaries of lower diesel prices. PTBA will also benefit but not as much as ADRO and ITMG.
5	Cuts in electricity prices and incentives for consumption during certain periods.	Positive for SMGR, INTP and INDF.
6	Lower jet fuel prices	More competitive domestic jet fuel prices. GIAA will be a big beneficiary as ~35-40% of cost is fuel related.
7	Lower upstream gas prices, which is done through distribution efficiencies and lowering of government's revenue share.	Positive for PGAS as it will remove overhang on the potential cut of its distribution by the government.
8	Adjusting minimum wage based on inflation and economic growth.	Positive as it will: 1) reduce uncertainty in the investment climate; and 2) give better assurance to corporates in terms of expected wage-cost increases. Companies that will benefit from the policy include those with a high proportion of labour costs to total costs, such as AALI, LPPF, MAPI, KLBF and RALS. Industrial-land companies, such as DMAS and BEST will also be beneficiaries.
9	Lower income tax for asset revaluation if it is done until end of 2016. The normal tax rate is 10%, but it can be lowered to 3% (if done until end of 2015), 4% (if done in 1H16) and 6% (if done in 2H16).	Positive, especially for companies that are highly geared, such as Bakrie-related companies, BUMI, VIVA. Telcos, especially TLKM, and also ISAT and EXCL that have high levels of debts could be potential candidates for asset revaluation.
10	Removal of double taxation for REITs issued in Indonesia.	More REIT listings in Indonesia with SMRA, PWON and LPKR being potential candidates.

Source: Maybank

2.3 The impact

The change in the mechanism for adjusting the minimum wage is positive for the investment climate. While the percentage of the annual adjustment will still be higher than inflation, this mechanism should give some level of certainty to investors in terms of annual cost increases that they will face. We believe LPCK will be a beneficiary of this policy.

The new regulation will also help the low-income earners across Indonesia (i.e. the mass market) to maintain their purchasing power. The annual increase will be less than previous years' but the mechanism will be consistent each year. In addition to that, the annual increase will be felt across Indonesia, not only in certain areas/provinces, as the parametres used (GDP and inflation) will be national parametres. Companies that sell to mass markets, such as ICBP, INDF, GGRM, RALS, TELE and TLKM, will be beneficiaries, we believe.

3. Infrastructure focus

3.1 2016 budget: unwavering commitment to infrastructure

The 2016 state budget is not much different from 2015's in its size, sources of income, budget allocations and budget deficit. The 2016 budget is IDR2,096t, up 5.6% YoY. The revenue target is IDR1,823t, up 3.5% YoY. Some 84.9% of this will come from taxes and customs duties. The budget deficit has been set at IDR273t, or 2.2% of GDP.

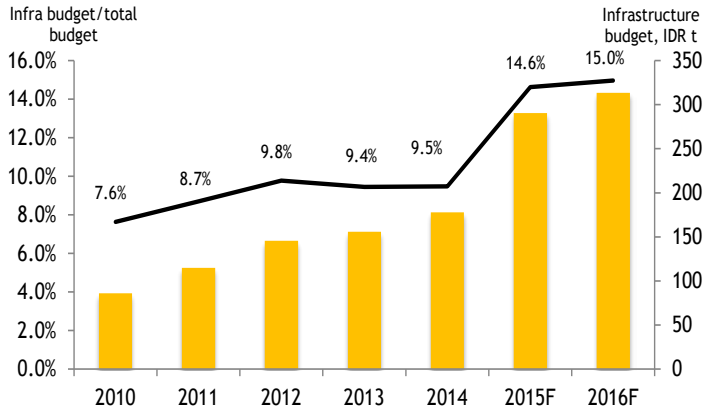
The government continues to allocate money to core productive sectors. Its infrastructure budget is IDR314t, up 8.0% YoY, forming 15.0% of its total budget (the highest in history) and higher than 2.0% of GDP. The budget for subsidies continues to slide, down 13.1% YoY to IDR201t.

Fig 24: 2016 budget not much different from 2015

	2015 (APBNP)	2016 (APBN)	Change
ASSUMPTIONS			
GDP growth	5.7%	5.3%	-0.4%
Exchange rate, IDR/USD	12,500	13,900	11.2%
Inflation	5.0%	4.7%	-0.3%
SPN 3-month rate	6.2%	5.5%	-0.7%
Oil price, USD/barrel	60	50	-16.7%
Oil lifting, 000 bpd	825	830	0.6%
Gas lifting, 000 boepd	1,221	1,155	-5.4%
STATE BUDGET, IDR t			
A. REVENUES	**1,762**	**1,823**	**3.5%**
I. Domestic revenues	1,758	1,821	3.5%
I.1. Tax & custom	1,489	1,547	3.9%
I.1. Non tax & custom	269	274	1.8%
II. Grants	3	2	-39.4%
B. EXPENDITURES	**1,984**	**2,096**	**5.6%**
I. Central government	1,320	1,326	0.4%
I.1. K/L	796	784	-1.4%
I.1. Non K/L	524	541	3.3%
I.1.a. Subsidiies	232	201	-13.1%
I.1.b. Interest payments	156	183	17.8%
I.1.c. Others	137	157	14.7%
II. Tranfer to regions & village funds	665	770	15.9%
C. SURPLUS (DEFICIT)	**223**	**273**	**22.7%**
Deficit to GDP	1.9%	2.2%	0.3%

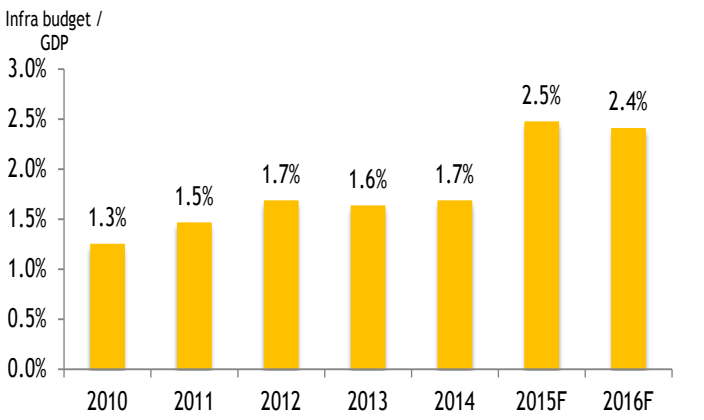
Source: Ministry of Finance & Maybank KE

Fig 25: Infrastructure budget remains high…



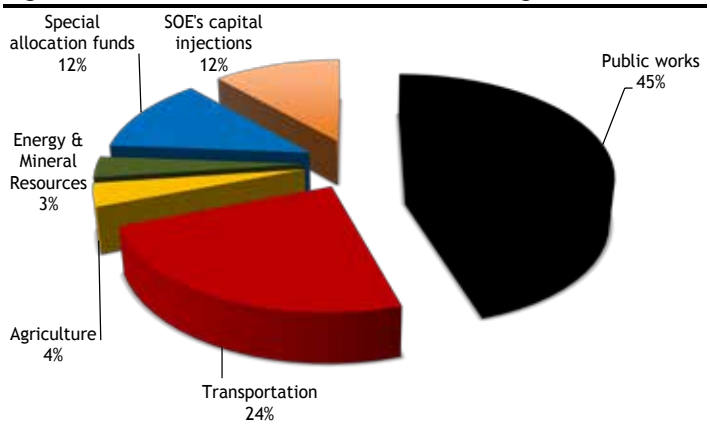
Source: Ministry of Finance & Maybank KE

Fig 26:…at over 2% of GDP



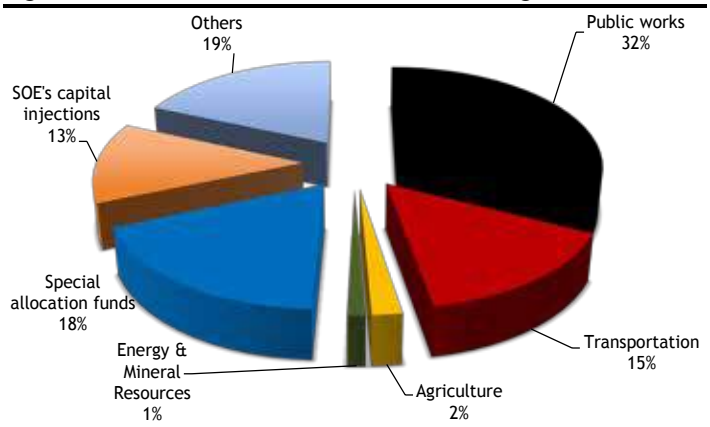
Source: Maybank

Fig 27: Breakdown of 2015 infrastructure budget



Source: Ministry of Finance & Maybank KE

Fig 28: Breakdown of 2016 infrastructure budget



Source: Ministry of Finance & Maybank KE

3.2 Realistic or not?

Given the low achievements this year, is the 2016 budget realistic? Actual 2015 revenue from taxes and customs might be only 80-85% of the 2015 target of IDR1,758t. Without expenditure cuts of at least 7%, we believe the deficit could top 2.5% of GDP this year.

The government has launched or will be launching stimulus measures aimed at meeting its 2016 budget target and stimulating the economy in general. Initiatives include, among other things: 1) a tax amnesty, with the supporting law to be finalised beginning of 2016; 2) a lower tax for asset revaluation; 3) potential cuts in income tax for individuals; and 4) pre-funding of infrastructure projects, which should be positive to stimulate the economy and accelerate economic recovery.

On tax revenues from the tax amnesty and asset revaluation, the government targets IDR60t and IDR10t, respectively. The figure suggests 2.2% and 0.4% of GDP in our estimate. Our conversations with a couple of state-owned listed companies suggest that they are interested in participating in the asset revaluation programme, enticed by its lower tax rates. Meanwhile, the effectiveness of the tax amnesty will partly depend on government guarantees that the assets brought into Indonesia will not be exposed to future lawsuits, in our view.

3.3 Major projects

Below are lists of major infrastructure projects (power plants, sea ports, airports and toll roads) in Indonesia. The breakdown of the projects is taken from Maybank KE reports "Indonesia Construction: Busy Days Ahead" dated May 4th, 2015 by our infrastructure analyst, Pandu Anugrah (pandu.anugrah@maybank-ke.co.id).

3.3.1 Power plants

The government has set an ambitious target to build 35,000MW of power plants by 2020 from around 50GW currently. This is in line with the government's plan to raise the electrification ratio to more than 90% by 2019 from around 82% currently.

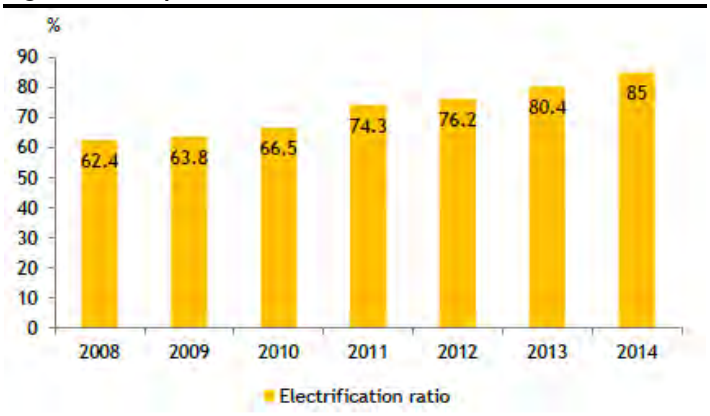
The government recently announced its road map in which 38% (13.7GW) of total new capacity will be built by state-owned electricity company Perusahaan Listrik Negara (PLN), while the remaining 22-25GW will be done through the IPP scheme. Recent response from private investors has been very positive, as commitments from private investors, particularly from Japan, have reached around 15GW out of the total 25GW offered through the PPP scheme. Total estimated capital outlay for the 35GW power plant would be IDR700t.

Fig 29: Electrification ratio for Asian developing countries



Source: PLN

Fig 30: Development of Indonesia's electrification ratio



Source: PLN

3.3.2 Sea ports

While the concept of a sea toll road has existed since the previous government, President Jokowi has made sea port development a high priority under its infrastructure programme over the next five years to improve logistics costs. Total capital outlay for the sea toll road project is estimated to reach close to IDR700t (USD56b) which includes vessel purchases and small boats. In Mar 2015, during Jokowi's visit to Japan and China, Jokowi offered sea port projects to investors, but so far only China has expressed interest. Note that state-owned operator Pelindo will be highly involved in the seaport development as well.

Out of the total 24 new port projects in the pipeline, four main seaports are currently under construction and are set to operate at full capacity in 2018. These ports are Kuala Tanjung (North Sumatra), New Tanjung Priok (Jakarta), Teluk Lamong (Surabaya, East Java), and New Makassar (South Sulawesi), with total investment requirement of IDR55.6t. Teluk Lamong will complement Tanjung Perak, which is located very close to each other. On the most eastern part of Indonesia, the government is currently conducting a feasibility study on Sorong Port Papua. Completion of Sorong would allow better access for shipment of goods from the west to the eastern part of Indonesia on a regular basis. This should help to improve Indonesia's high logistics costs.

Fig 31: 24 new seaports (sea toll roads)



Source: Pelindo

3.3.3 Airports

At this juncture, most of the airport projects consist of facility upgrades such as airport expansion, runway extension, and new aprons. The project closest to completion in the airport segment is the Soekarno – Hatta new Terminal 3 with total investment cost of IDR5t and ready for commencement in 2015.

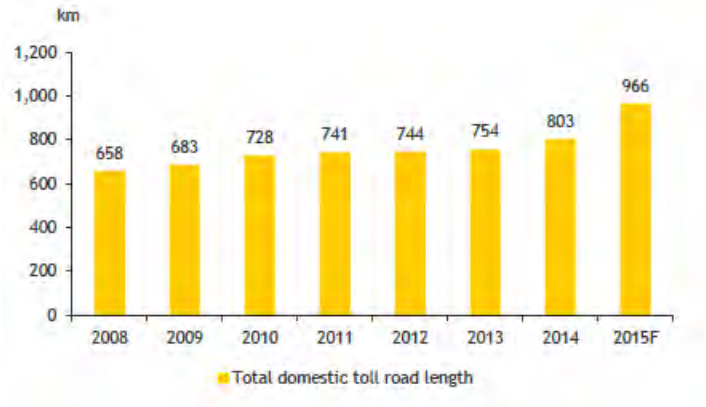
For greenfield projects, the government is currently at an early stage of developing new airports in several main cities within Java Island, such as Semarang, Yogyakarta and Bandung. Hurdles remain on permit and design approval. While it may take time for ground breaking, we believe it is only a matter of time. Recently, the Ministry of Transportation announced plans to build new airports in 19 locations. In terms of size, they may not be as big as the airports planned in big cities, but would undoubtedly help to ease capacity congestion.

3.3.4 Toll roads

Growth in new toll road length has been at a snail pace over the past 10 years. On top of the classic hurdle of land acquisition, difficulty in securing financing on several sections has resulted in significant delays. Several policies have been modified over the past few years, particularly on the land acquisition process, but execution continued to face hurdles.

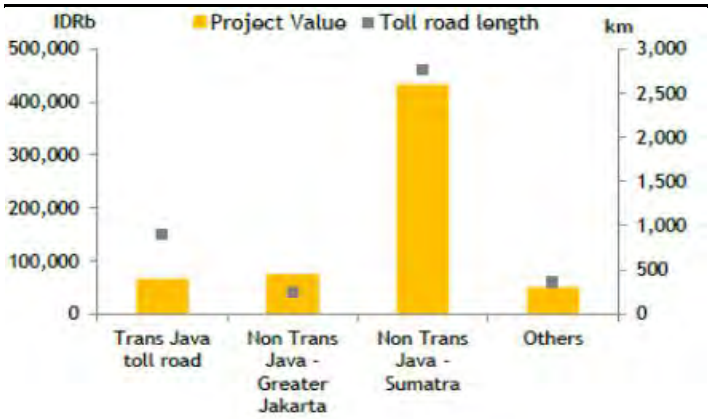
Over the past seven years, we only witnessed 144km of new toll road completion, translating to average annual growth of only 5%. Going forward, we expect faster progress on new toll road development, particularly for concessions in Java and Sumatra. Total project value from the toll road segment is significant at an estimated IDR624t.

Fig 32: Domestic toll-road length



Source: BPJT, JSMR & Maybank KE

Fig 33: Toll road projects in the pipeline



Source: BPJT & Maybank KE

Consumer Disc.

Indonesia

Astra International (ASII IJ)

A Comeback Tour

BUY

Share Price	IDR 6,000
12m Price Target	IDR 7,500 (+25%)
Previous Price Target	*IDR 7,500*

Maintain BUY; TP IDR7,500

We continue to like ASII as we believe the share price has priced in the weak automotive demand as suggested by ~25% decline in the share price since its peak in March. Our SOTP-driven target price of IDR7,500 suggests 16.0x 2016 PER, in line with three-year mean of 15.8x. Catalysts to the share price might include monetary easing, gradual automotive-volume improvements and new product launches.

Automotive sales have bottomed

Domestic 4W and 2W volume sales bottomed out in June-July; they have since improved gradually. We expect a demand recovery along with gradual improvements in the economy, potential interest-rate cuts and new products lined up. We forecast 12% demand growth for both 4W and 2W in 2016, and expect ASII to maintain 50% and 68% respective market shares.

17% FY16-17 EPS growth

We forecast earnings growth of 17.1% and 17.4% for 2016-17, led by its automotive, financing and plantation units. On top of higher auto volume and margins, we are anticipating higher CPO prices and IDR stability.

Financial services: Stronger comeback

A strong database and control over distribution channels should help its financial-service arm contain its NPL ratio at the 0.05% level in FY16-17, while recent LTV regulations and higher used-car prices are expected to bump up financing volume. Total assets are expected to grow at a 17.9% 3-year CAGR on the back of lower down payments and financing rates.

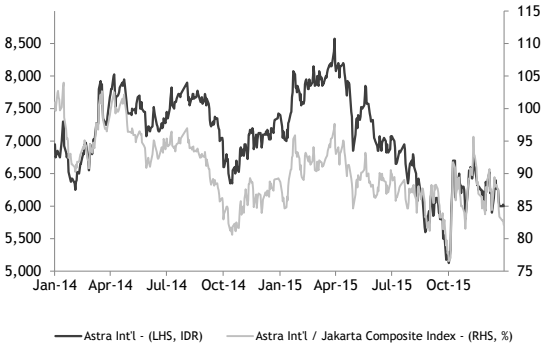
Company description

Astra International is a conglomerate with business interest in automotive, finacial services, heavy equipments, contract mining, palm oil, and others.

Statistics

52w high/low (IDR)	8,575/5,125
3m avg turnover (USDm)	16.9
Free float (%)	49.9
Issued shares (m)	40,484
Market capitalisation	IDR242.9T
	USD17.6B
Major shareholders:	
Jardine Cycle & Carriage	50.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	15	(19)
Relative to index (%)	(2)	6	(8)

Source: FactSet

FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	193,880	201,701	180,269	204,067	228,044
EBITDA	25,690	28,811	25,310	26,859	27,879
Core net profit	19,417	19,181	16,168	18,930	22,220
Core EPS (IDR)	480	474	399	468	549
Core EPS growth (%)	(0.0)	(1.2)	(15.7)	17.1	17.4
Net DPS (IDR)	184	184	153	179	210
Core P/E (x)	12.5	12.7	15.0	12.8	10.9
P/BV (x)	2.9	2.5	2.3	2.1	1.9
Net dividend yield (%)	3.1	3.1	2.5	3.0	3.5
ROAE (%)	25.0	21.4	16.2	17.3	18.4
ROAA (%)	9.8	8.5	7.0	8.1	9.0
EV/EBITDA (x)	13.2	12.8	11.9	11.4	11.1
Net debt/equity (%)	49.5	45.4	31.9	30.6	27.8
Consensus net profit	-	-	16,711	19,032	21,523
MKE vs. Consensus (%)	-	-	(3.2)	(0.5)	3.2

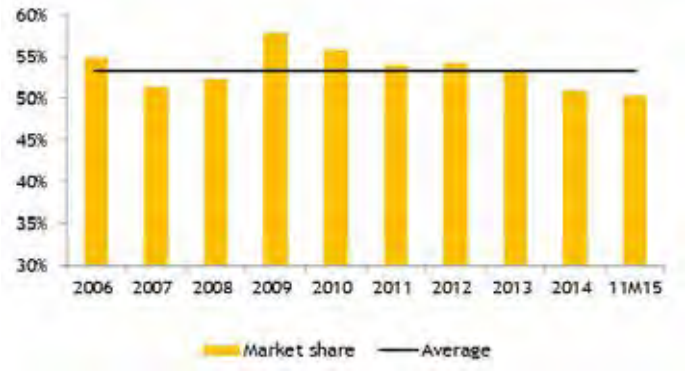
Isnaputra Iskandar, CFA
isnaputra.iskandar@maybank-ke.co.id
(62) 21 2557 1129

Stephanie Boenawan
stephanie.boenawan@maybank-ke.co.id
(62) 21 2557 1214

Value Proposition

§ Astra owns the passenger distributorships of Toyota and Daihatsu, the largest auto franchises in Indonesia with extensive distribution chains.
§ Astra has aggregated ~50% market share for auto market.
§ The heavy equipment division has strong presence in both heavy equipment and contract mining markets.
§ Financial services division, whose objective is to complement and support the auto business, has ~18% and ~22% shares in the 2W and 4W markets.
§ The entire value chain erects formidable entry barriers and enhances pricing power that enables Astra to post ROE above cost of equity.

Astra's consistent market share of above 50% in automotive



Source: Company & Maybank KE

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

1. Avanza (the highest selling product) new model was launched.
2. ASII launched low-cost cars under Toyota and Daihatsu brands.
3. Automotive demand declined due to weakening currency and intensifying competition.
4. 4W demand and distribution margin have started to pick up.

Financial Metrics

§ Profitability to recover going forward at 17.4% CAGR (2015-17) on strong auto and financial services divisions. Monetary easing and product launches will be key drivers.
§ Auto-related segments to continue to be main earnings drivers (~70% of earnings). Heavy equipment and plantation units anaemic as commodity prices remain lacklustre.
§ Maintaining a robust balance sheet with continuously lower debt/capital ratio in the next 3 years at ~31.5%, while sustaining a stable dividend payout ratio of 45%.

4W sales vs. benchmark rate



Source: Gaikindo & Bloomberg

Swing Factors

Upside

§ Toyota becomes more aggressive in new product launch.
§ Strong rebounds in coal and CPO prices which would be positive for heavy equipment and plantation divisions.
§ Successful diversification in infrastructure which could offset declining earnings contribution from heavy equipment and plantation units.

Downside

§ Increasing competition in the oversupplied automotive sector, leading to margin compression.
§ Diversification into infrastructure takes a lot of capital and longer payback period.
§ Continued decline in commodity prices.

Banks

Indonesia

Bank Rakyat Indonesia (BBRI IJ)

Low NPLs, High ROEs; Top BUY

BUY

Share Price	IDR 11,425
12m Price Target	IDR 13,000 (+14%)
Previous Price Target	*IDR 13,000*

BUY for attractive ROE

We expect the banking sector to grow along with the economy. Our top BUY is BBRI for its strong consumer lending business with PT at IDR13,000 (12.3x FY16 P/E, 2.4x P/BV), implying 20% upside potential from current price. Based on our estimate, BBRI should be able to endure a prolonged period of high credit cost while maintaining an attractive 21% ROE next year.

Strong growth in consumer lending

Of its three business segments, consumer lending generates the highest yields vs corporates and SMEs. BBRI has a 15% consumer market share, the largest in the country. We estimate this segment of its business will grow 15% YoY next year, underpinning a 12% YoY expansion in its loan book. The bank should also benefit from government-related infrastructure projects next year in addition to its big trading portfolio.

Growth in retail savings to keep NIMs high

Not only does consumer lending generate high yields for BBRI, it provides a huge base of cheap retail savings, mostly from the micro sub-segment. This is a feature unique to BBRI that allows the bank to stay ahead of the others in their expansion into this lucrative segment. With little pricing competition from the big players, we expect BBRI to maintain its NIMs close to 8% in 2016.

Low NPLs support attractive ROEs

Most importantly, BBRI's consumer segment forms 50% of its portfolio. It has the lowest NPL ratio of 1.5%. This and its 150% NPL coverage should keep the bank's total bad-debt ratio below 2.5%. With this, we expect its fat NIMs to translate into an attractive 21% ROE for 2016.

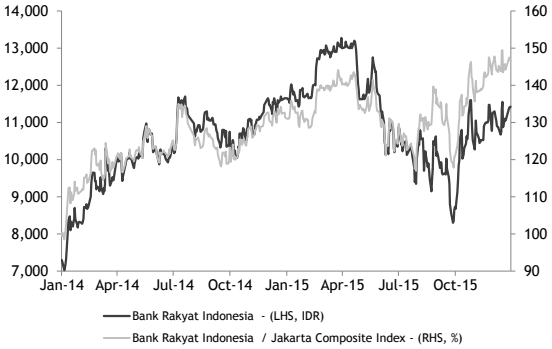
Statistics

52w high/low (IDR)	13,275/8,300
3m avg turnover (USDm)	19.5
Free float (%)	43.0
Issued shares (m)	24,669
Market capitalisation	IDR281.8T
	USD20.4B

Major shareholders:

Government of Indonesia	57.0%
na	na
na	na

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	32	(2)
Relative to index (%)	3	21	12

Source: FactSet

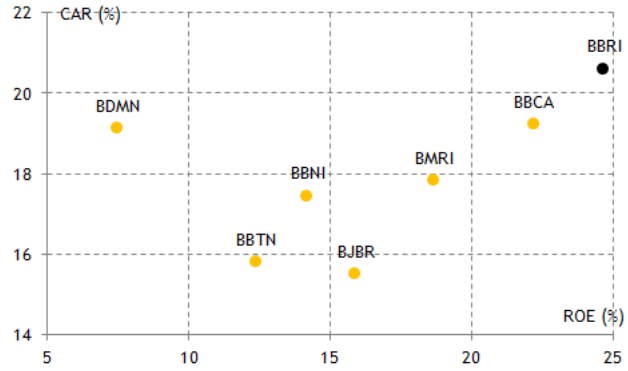
FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Operating income	52,661	60,789	67,895	73,653	80,306
Pre-provision profit	30,069	34,084	38,553	41,390	44,829
Core net profit	21,344	24,242	24,687	26,086	27,860
Core EPS (IDR)	865	983	1,001	1,057	1,129
Core EPS growth (%)	14.3	13.6	1.8	5.7	6.8
Net DPS (IDR)	234	265	270	286	305
Core P/E (x)	13.2	11.6	11.4	10.8	10.1
P/BV (x)	3.6	2.9	2.5	2.1	1.8
Net dividend yield (%)	2.0	2.3	2.4	2.5	2.7
Book value (IDR)	3,209	3,955	4,655	5,395	6,186
ROAE (%)	29.7	27.4	23.2	21.0	19.5
ROAA (%)	3.6	3.4	3.0	3.0	2.9
Consensus net profit	-	-	24,295	26,815	29,102
MKE vs. Consensus (%)	-	-	1.6	(2.7)	(4.3)

Rahmi Marina
rahmi.marina@maybank-ke.co.id
(62) 21 2557 1128

Value Proposition

§ BBRI possesses one of Indonesia's best consumer franchises. Being government-owned, the bank is also in a good position to fund government-related projects.
§ Consumer is 50% of the book. BBRI has 15% consumer market share. The low consumer delinquency and high CASA allow the bank to translate its higher NIMs into 20% sustainable ROE, 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.

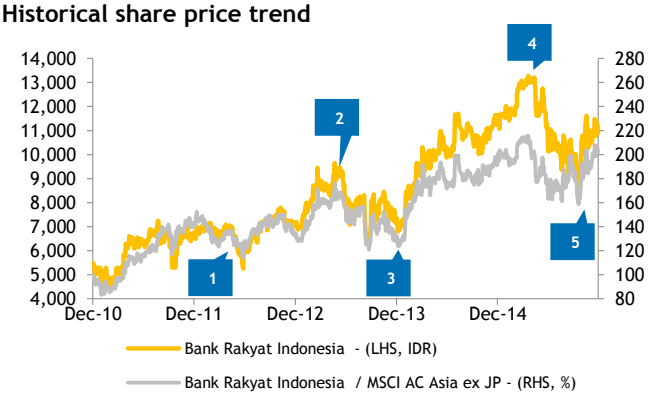
Indonesia banks ROE vs. CAR comparison



Source: Company

Price Drivers

Historical share price trend



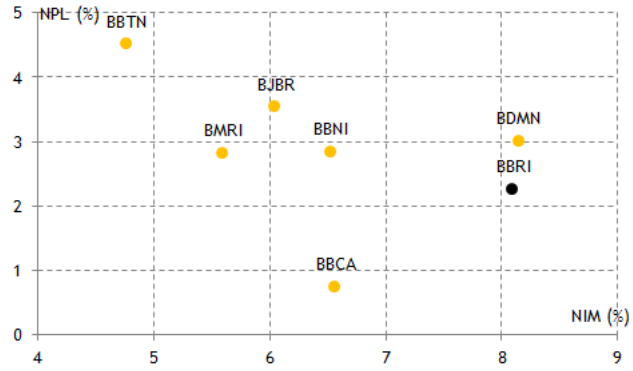
Source: Company, Maybank Kim Eng

1. 2Q12 results showed a significant improvement in loan quality, with NPL dropping to below 2%.
2. Weakening IDR led to NPL concern.
3. NIM recovery as BBRI passes on the rising BI rate to borrowers.
4. Weak 1Q15 earnings due to high CoF, followed by NPL concern on rapid IDR depreciation.
5. 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 7.5% vs. the sector's average of 4.5%.
§ Efficiency is expected to improve following the launch of BBRI's satellite in 2H16.
§ NPL should stay below 3% on improvement in credit origination standard. Lower exposure to more vulnerable corporate and SME segments.
§ These metrics and BBRI's prudential coverage allow the bank to maintain higher ROE compared to peers.

Indonesia banks NIM & NPL comparison



Source: Company

Swing Factors

Upside

§ BI rate cut will lead to lower CoF. As most of BBRI's loan portfolio is in fixed rates, the bank should be able to maintain higher NIM longer than peers.
§ Acceleration in corporate and SME loan demand, driven by stable currency.
§ Better-than-expected NPL.

Downside

§ Government intervention in KUR lending rate to a level that the subsidized loans cannibalize BBRI's micro credit product.
§ Lower-than-expected credit demand from the corporate segment due to a prolonged weakening in the economy.
§ Higher-than-expected CoC on deteriorating asset quality.

Banks

Indonesia

Gudang Garam (GGRM IJ)

Solid pricing power

BUY

Share Price	IDR 55,000
12m Price Target	IDR 60,000 (+9%)
Previous Price Target	*IDR 60,000*

Maintain BUY with TP of IDR60,000

Reiterate BUY with TP of IDR60,000 (18x PER FY16F) on the back of potential benefits from industry growth and shift in consumer preference. GGRM's valuation also appears undemanding at ~60% discount to peer HMSP's 36x PER (based on Bloomberg consensus).

Tax hike to be passed on to consumers

We expect GGRM to continue to raise ASP towards the end of the year to partially pass on the excise tax increase next year. We estimate ASP increase of 10-12% YoY pa over 2015-16F, which should lead to stable EBIT margins over the period. Lower clove prices (-33% YoY) are expected to lend some support to profitability at the gross margin level but we also see competition stiffening, which may lead to higher A&P spending.

Volume recovery expected

Relatively more stable macroeconomic conditions along with easing pressure on the IDR and milder inflation are expected to lead to improved affordability and drive cigarette volume growth recovery. We estimate GGRM's volumes declined (-5.2% YoY) in FY15F, followed by a slight recovery (+0.2% YoY) next year. Consumers' shift in preference from hand-rolled to machine-rolled cigarettes is likely to continue in the longer run and this will benefit companies with greater exposure to machine-rolled cigarettes, such as GGRM (~85-90% volume).

Turn to positive free cash flow

We believe GGRM's capex cycle has ended and the company will turn positive free cash flow from 2015F. The debt level by end-FY15F is likely to remain high due to the timing of working capital debt. After the regulation change in 2015, companies are required to settle their tax receivables by Dec (vs 2 months credit term allowed previously). But over the longer run, we still see continuous decline in its leverage.

FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	55,437	65,186	68,981	75,935	84,091
EBITDA	7,758	10,018	10,779	11,854	12,891
Core net profit	4,329	5,369	5,529	6,334	7,180
Core EPS (IDR)	2,250	2,790	2,873	3,292	3,731
Core EPS growth (%)	7.8	24.0	3.0	14.6	13.4
Net DPS (IDR)	680	850	850	935	1,020
Core P/E (x)	24.4	19.7	19.1	16.7	14.7
P/BV (x)	3.6	3.2	2.9	2.6	2.3
Net dividend yield (%)	1.2	1.5	1.5	1.7	1.9
ROAE (%)	15.5	17.2	15.8	16.3	16.5
ROAA (%)	9.4	9.9	9.3	10.1	10.7
EV/EBITDA (x)	11.9	13.3	11.3	10.2	9.3
Net debt/equity (%)	39.6	50.0	42.4	35.3	29.7
Consensus net profit	-	-	5,435	6,023	6,809
MKE vs. Consensus (%)	-	-	1.7	5.2	5.4

Statistics

52w high/low (IDR)	63,700/40,500
3m avg turnover (USDm)	4.4
Free float (%)	24.5
Issued shares (m)	1,924
Market capitalisation	IDR105.8T
	USD7.7B

Major shareholders:

PT Suryaduta Investama	69.3%
PT Suryamitra Kusuma	6.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	12	31	(9)
Relative to index (%)	9	20	3

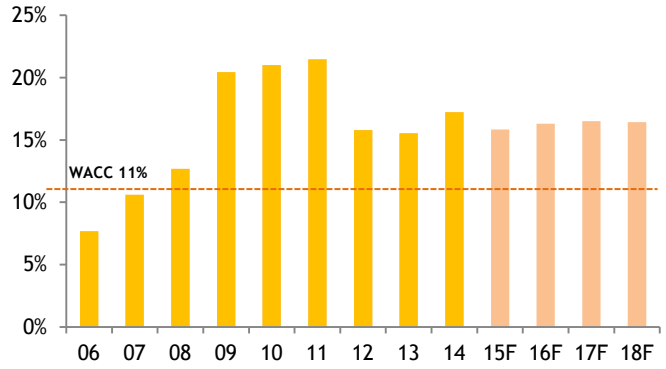
Source: FactSet

Janni Asman
janni.asman@maybank-ke.co.id
(62) 21 2953 0784

Value Proposition

§ For Indonesia's 24%-market share cigarette producer, long term business sustainability is about cultivating customer loyalty and reaching to pass through higher excise duty into ASP.
§ Relative price inelasticity helps revenue accretion even as the addressable market experiences slow expansion.
§ The clove cigarette blends are unique and cultivates its product differentiation and customer following.
§ GGRM's return on capital now is also running above its cost of capital (WACC at 11%). Widening net margins are primarily responsible for positive ROE trend.

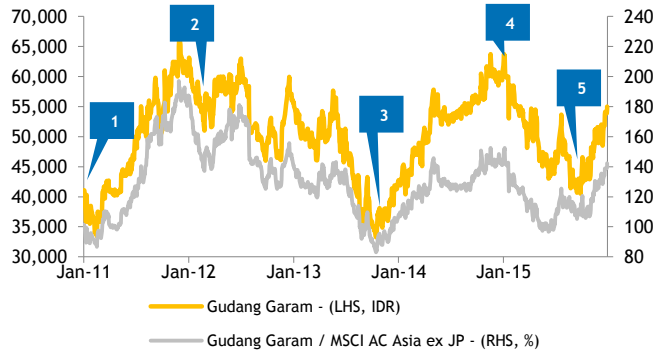
GGRM ROE



Source: Company, Maybank KE

Price Drivers

Historical share price trend



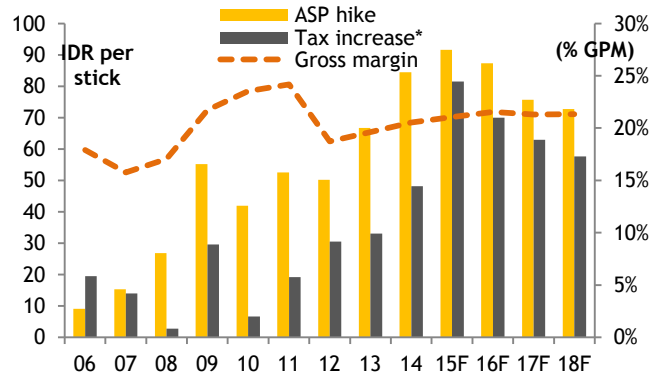
Source: Company, Maybank Kim Eng

1. GGRM underwent a restructuring that improve profitability. Earnings CAGR at 38% over 2008-2011.
2. Margin pressure on higher clove price (+200-250% YoY in 2011). Earnings dropped 18% YoY in 2012.
3. Change in packaging triggered rumour of change in flavour, resulting in volume decline of -7-10% YoY for one of the major product.
4. New product launching drove a stronger volume growth.
5. Weak performance due to economic slowdown and underperformance of its new product.

Financial Metrics

§ Excise tax hike is likely to be more than fully passed on to consumers. Margins will likely be stable/wider, assuming raw material prices remain benign.
§ Our 10% revenue CAGR over 2015-18F mainly assumes slow 1.4% volume growth but 8.2% ASP hike.
§ A&P spending to revenue is likely to increase to on the rising competition as most major cigarette players are trying to gain traction in machine rolled segment.
§ Capex cycle has ended so GGRM should be FCF positive from 2015F.

GGRM's pricing power allows sustainable margin



Source: Company, Maybank KE
** Tax increase refer to aggregate excise tax, VAT, and cigarette tax.*

Swing Factors

Upside

§ If new product managed to gain traction among consumers.
§ If raw material price fall further along with bumper harvest.
§ More restriction in A&P which may lead to faster than expected industry consolidation and lower opex.

Downside

§ If the government increase the tax rate higher than estimates.
§ Higher health awareness that lead to decline in number of smokers.
§ If there's change in consumer preference, such as shift back to hand-rolled cigarettes.

Real Estate

Indonesia

Lippo Cikarang (LPCK IJ)

Finishing strong amid slowdown in industry

BUY

Share Price	IDR 7,250
12m Price Target	IDR 11,000 (+52%)
Previous Price Target	*IDR 11,000*

Successful launch of fifth apartment tower

On 5 Dec 2015, Lippo Cikarang successfully launched Glendale Park, the fifth apartment tower in the Orange County (OC) project where 556 units were fully sold out with proceeds of IDR530b. With this, we estimate LPCK's YTD presales to be around IDR2,500b, achieving our FY15 presales target. Management targets FY15 presales of IDR3,000b. Glendale Park will be the last launch for 2015.

Ample land bank to sustain growth

We estimate LPCK will have a land bank of 615ha at the end of FY15, comprising residential land, industrial land and its OC project. OC occupies 280ha, which will be sufficient for over 20 years of development. LPCK has also formed a 51:49 JV in Delta Silicon 8, an industrial estate, with 100ha of net land bank. We believe all this can sustain its long-term growth.

Expect product mix to change

With the success of OC, we expect the company to focus on high-rise properties to maximise the efficiency of its land bank. However, we expect its margins to be slightly diluted as non-industrial land properties have lower margins. There is minimal cost of sales for selling industrial land. We expect net margin to be 40% in FY17, down from 49% in FY15.

Valuation and risks

We maintain BUY with TP of IDR11,000, which implies 51% discount to RNAV. Lippo Cikarang is our Top Buy for the Indonesian property sector. The company is currently undervalued, trading at only 5.0x PER 2016 and 1.1x P/BV 2016. We expect catalysts from more successful launches and strong FDI inflow in 2016. Risks to our call include a delay in economic growth recovery, weak FDI inflow, regulatory risks and interest-rate hike.

Company description

PT Lippo Cikarang engages in the industrial estate & real estate businesses.

Statistics

52w high/low (IDR)	12,250/6,250
3m avg turnover (USDm)	0.4
Free float (%)	57.8
Issued shares (m)	696
Market capitalisation	IDR5.0T
	USD366M
Major shareholders:	
Kemuning Setiatama	42.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	9	(30)
Relative to index (%)	(4)	(0)	(21)

Source: FactSet

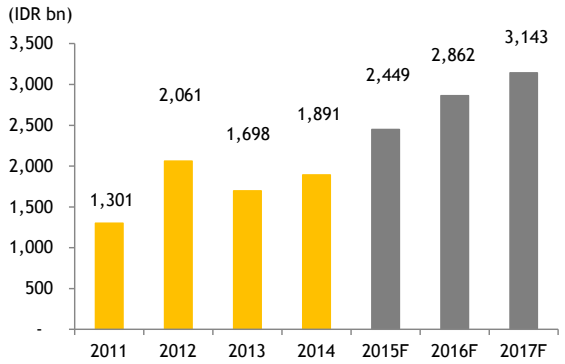
FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	1,327	1,792	1,946	2,246	2,508
EBITDA	641	925	996	1,066	1,088
Core net profit	591	836	968	995	1,015
Core EPS (IDR)	849	1,201	1,391	1,429	1,458
Core EPS growth (%)	45.2	41.5	15.8	2.7	2.0
Net DPS (IDR)	0	0	0	0	0
Core P/E (x)	8.5	6.0	5.2	5.1	5.0
P/BV (x)	2.8	1.9	1.4	1.1	0.9
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	38.8	37.3	30.8	24.1	19.8
ROAA (%)	17.7	20.5	19.8	16.2	13.7
EV/EBITDA (x)	4.8	7.6	4.5	3.8	3.6
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	950	994	1,121
MKE vs. Consensus (%)	-	-	1.9	0.0	(9.5)

Aurellia Setiabudi
Aurellia.Setiabudi@maybank-ke.co.id
(62) 21 2953 0785

Value Proposition

§ Lippo Cikarang is one of the leading industrial estate developers, located in Cikarang with area of 3,261ha, West Java; the most prime industrial area in Indonesia.
§ The company is backed by the strong expertise of its parent company in developing integrated city.
§ Return on capital of LPCK is high at 30% in 2015F due to its high margin business and low land book value.
§ We believe this is sustainable as LPCK is well positioned to ride with the positive outlook of FDI inflow to Indonesia and economic growth.

Annual presales of Lippo Cikarang



Source: Company data, Maybank KE

Price Drivers

Historical share price trend

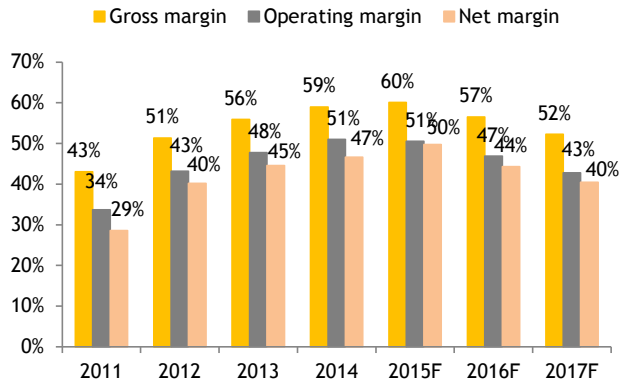


Source: Company, Maybank Kim Eng

1. Presales doubled in 2011 from strong sales of industrial land driven by strong FDI inflow.
2. LPCK expected to have another strong presales growth in 2012.
3. First successful launching of new mega project called Orange County.
4. Government finally removes the overhang on property tax regulation and introduces economic stimulus to promote industrialisation.

Financial Metrics

§ Being in the property sector allows LPCK to earn high margins driven from its low land bank cost and healthy price growth. It has also started to build vertically to further maximise its land bank.
§ The diversification strategy the company is implementing will increase the efficiency of its land bank and sales volume. However, it will slightly dilute the margins as selling apartments have more cost of sales than just land.
§ We expect LPCK to continue operate with no leverage and growth will be fully supported using its internal cash.



Source: Company data, Maybank KE

Swing Factors

Upside

§ Strong future presales take up for its condominiums.
§ Strong FDI inflow triggering purchase of industrial land.
§ Promotion of industrialisation and simplification for doing business by foreign enterprise in the country.

Downside

§ Restriction on size of industrial estates by the Government which will limit expansions.
§ Restriction on number of foreign workers in Indonesia.
§ More industries listed as negative list investments, limiting the number of industries which can be foreign-owned in Indonesia.

Telecommunications

Indonesia

Telekomunikasi Indonesia (TLKM IJ)

Best positioned

BUY

Share Price	IDR 3,105
12m Price Target	IDR 3,500 (+13%)
Previous Price Target	*IDR 3,500*

BUY with TP of IDR3,500

Benign competition has allowed TLKM to follow the sector in raising tariffs, particularly for voice and data, where growth continues. Room for further price adjustments remains ample for data, particularly as TLKM's tariffs are the lowest among operators in Asia. Additional growth could come from data as the outlook remains promising given continued deployment of 3G and the early stage of 4G LTE. TLKM is the best positioned, as it has the lowest net debt among peers, ensuring rapid capex to help sustain its No. 1 position. TP of IDR3,500 using DCF-based valuation.

Easing competition leads to price rationalization

Fierce competition has gradually abated and room to increase data prices remains ample. All the key indicators suggest this growth will persist, which would help TLKM to continue to achieve double-digit revenue expansion (12% p.a) and the country's highest EBITDA margin.

Data traffic to continue to surge

Strong data consumption will remain the main underpinning growth factor for TLKM, as we expect data traffic growth of 49% CAGR in FY16-2017F. TLKM has the widest network coverage and consistent network rollouts in Indonesia. This will continue to support its leading position, particularly as it has the lowest gearing. While higher smartphone penetration will continue to spur rollout in 3G network, early stage deployment of 4G BTS suggests more upside for data payload.

Lowest net gearing for swift expansion

A strong capital structure will continue to underpin TLKM's ability to stay ahead of competitors. The upcoming completion of re-farming (i.e. government reallocation of spectrum) would require spending if 4G handset penetration turns out to be faster than expected. TLKM's marginal net gearing (only 1.5% in 9M15 vs. 170% sector) suggests it has the ability to fund network expansion the quickest among its competitors.

Statistics

52w high/low (IDR)	3,135/2,600
3m avg turnover (USDm)	15.9
Free float (%)	47.4
Issued shares (m)	100,800
Market capitalisation	IDR313.0T
	USD22.7B
Major shareholders:	
Government	52.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	17	8
Relative to index (%)	3	8	23

Source: FactSet

FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	82,967	89,696	100,714	112,736	126,077
EBITDA	41,086	44,965	49,732	56,369	63,130
Core net profit	14,205	14,638	15,384	17,280	19,796
Core EPS (IDR)	141	145	153	171	196
Core EPS growth (%)	10.5	3.0	5.1	12.3	14.6
Net DPS (IDR)	83	99	87	92	103
Core P/E (x)	22.0	21.4	20.3	18.1	15.8
P/BV (x)	5.2	4.6	4.2	3.8	3.4
Net dividend yield (%)	2.7	3.2	2.8	2.9	3.3
ROAE (%)	25.3	22.8	21.6	22.0	22.7
ROAA (%)	11.9	10.9	10.2	10.3	10.7
EV/EBITDA (x)	5.7	7.0	6.8	6.1	5.4
Net debt/equity (%)	1.0	8.5	7.7	7.6	3.3
Consensus net profit	-	-	16,168	18,258	20,468
MKE vs. Consensus (%)	-	-	(4.9)	(5.4)	(3.3)

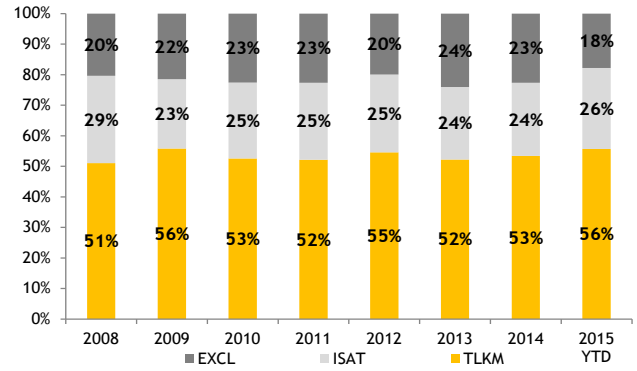
Pandu Anugrah
pandu.anugrah@maybank-ke.co.id
(62) 21 2557 1137

Emanuella Clarissa
emanuella.clarissa@maybank-ke.co.id
(62) 21 2557 1135

Value Proposition

§ Supported by the widest and most superior network coverage in Indonesia, TLKM dominates both fixed-line and mobile with subscriber market share of more than 50%.
§ Captures high-value subscribers vs. competitors' low to mid-end subscribers. TLKM's return profile may improve further as it is best positioned to capture 4G opportunity.
§ Sustainable ROE above 20%, the highest in the sector. Diversified income streams with additional growth trajectory from broadband and digital.
§ Strong capital structure enables consistent capex deployment to further extend its lead from the competition.

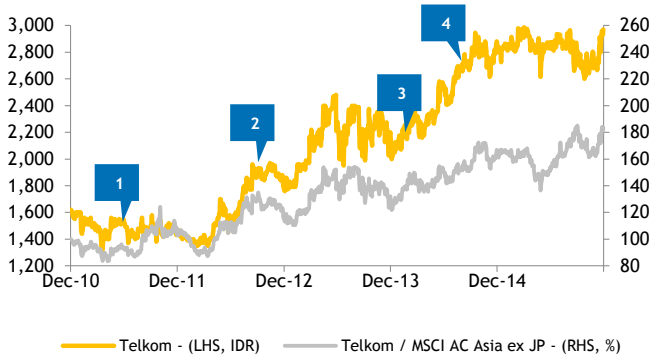
Market share based on number of subscribers



Source: Company

Price Drivers

Historical share price trend



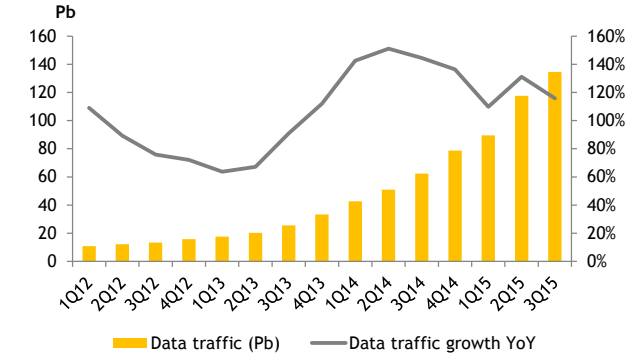
Source: Company, Maybank Kim Eng

1. Benign competition with growth saturation concern on legacy business resulted in flat share price movement.
2. Early adoption of smartphones, underpinning growth in data cellular.
3. Share swap announcement on TLKM's tower business with TBIG. While the deal was recently cancelled, TLKM is planning alternative strategy to unlock its tower business.
4. Data cellular continued to show robust growth.

Financial Metrics

§ Data is key driver for TLKM to rebalance growth saturation in legacy business of voice and SMS.
§ Moderation in competition should see data upside from firmer pricing, improving growth and profitability profile.
§ ARPU improvement to IDR45k was followed by strong revenue growth of 21% YoY in 3Q15, suggesting a healthy competitive environment.
§ Our EBITDA margin recovery assumption in 2016 (to 50% from 49% in 2015) is a result of higher price adoption in voice and data.

Data traffic growth



Source: Company

Swing Factors

Upside

§ Higher and faster-than-expected pace of increase in data price.
§ Further increase in voice tariff to negate the impact of growth saturation in traffic.
§ Announcement of new strategy to unlock its tower division of Mitratel, which could be implemented through different scenarios such as divestment or IPO.
§ Potential winning on 10MHz spectrum auction on 2100MHz frequency.

Downside

§ Competition heats up again, particularly in data.
§ Faster-than-expected adoption of data voice apps, as this could potentially result in a swift growth deceleration in legacy business of voice.
§ Policy implementation on tower sharing and lower interconnection fee.

January 3, 2016

Construction

Indonesia

Waskita Karya (WSKT IJ)

Raising the bar

BUY

Share Price	IDR 1,670
12m Price Target	IDR 2,200 (+32%)
Previous Price Target	*IDR 2,200*

Top sector pick; BUY with TP of IDR2,200

Recent decision to enter the toll-road industry should support estimated net-profit growth of 48% YoY in FY16 (EPS +19% YoY on rights issue), potentially the strongest in the sector. WSKT is our top pick in the sector with catalysts expected from: i) backlog growth of 74% YoY; ii) early-stage expansion into higher-margin businesses; and iii) recurring income from toll-road subsidiary. Our TP is based on 25x 2016 P/E, in line with the sector.

Evolving into toll-road operator

WSKT's latest acquisition of the 54km Ciawi – Sukabumi has turned it into the second-largest toll-road operator. New concessions in the pipeline total 204km; toll roads in operation total 35km. Its diversification to toll roads should result not only in revenue from construction work but also recurring income, longer term. This could improve margins, as toll roads have typical gross margins of 20-25% vs 10-12% for general construction.

Strong backlog to support growth

Order wins are close to IDR30t (+33% YoY) in 2015, the strongest in the sector. This should translate into a backlog of IDR32t (+74% YoY), more than enough to support double-digit earnings growth, in our estimation. WSKT's new-order momentum is underpinned by its participation in infrastructure projects.

Strong funding access

Net cash of IDR4t estimated for 2015 should be supportive of expansion. Further funding could come from any bond issuance and its bank-loan facilities.

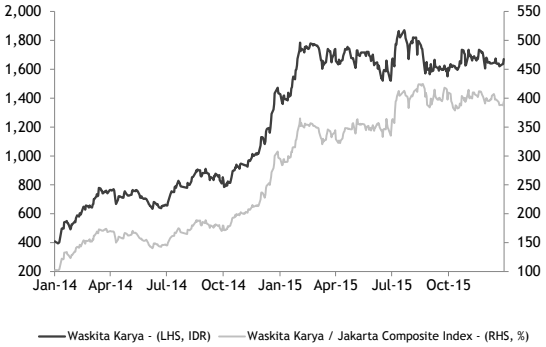
Statistics

52w high/low (IDR)	1,870/1,360
3m avg turnover (USDm)	3.7
Free float (%)	29.0
Issued shares (m)	13,572
Market capitalisation	IDR22.7T
	USD1.6B

Major shareholders:

Government of Indonesia	71.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	8	17
Relative to index (%)	1	(1)	33

Source: FactSet

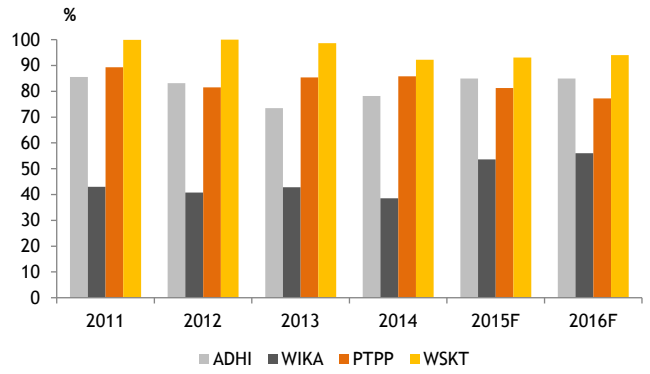
FYE Dec (IDR b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	9,687	10,287	14,711	20,454	26,402
EBITDA	724	913	1,294	1,971	2,689
Core net profit	368	501	799	1,181	1,434
Core EPS (IDR)	38	52	73	87	106
Core EPS growth (%)	44.9	36.2	40.9	19.9	21.5
Net DPS (IDR)	2	11	9	12	17
Core P/E (x)	44.1	32.4	23.0	19.2	15.8
P/BV (x)	6.8	5.7	2.1	2.3	2.0
Net dividend yield (%)	0.1	0.7	0.5	0.7	1.0
ROAE (%)	16.8	19.2	13.7	12.6	13.7
ROAA (%)	4.3	4.7	4.8	5.2	5.2
EV/EBITDA (x)	6.0	16.9	11.0	10.9	8.4
Net debt/equity (%)	20.1	51.5	net cash	net cash	0.2
Consensus net profit	-	-	751	1,043	1,296
MKE vs. Consensus (%)	-	-	6.5	13.2	10.7

Pandu Anugrah
pandu.anugrah@maybank-ke.co.id
(62) 21 2557 1137

Value Proposition

§ Pure construction play, with >90% revenue from general construction, highest in the sector.
§ Highest exposure to government-related projects with 60% market share in toll road construction work, mainly due to long-term strategy of investment participation in toll road concession.
§ Recent forays as toll road operator should provide stable recurring income and transforming risk-return profile, providing room for earnings growth acceleration.

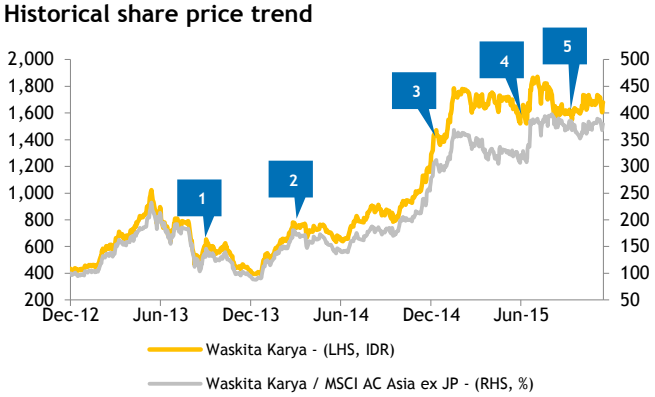
Revenue contribution from construction



Source: Company

Price Drivers

Historical share price trend



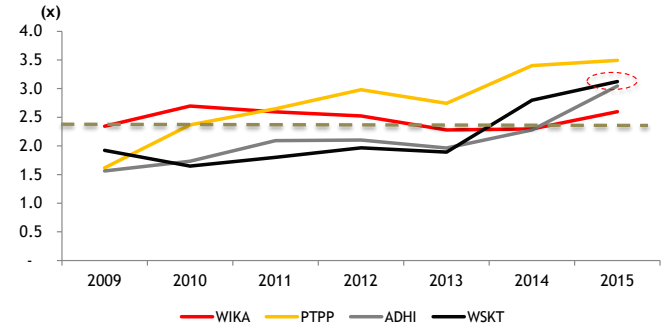
Source: Company, Maybank Kim Eng

1. Concern on higher raw material prices from the weakening IDR.
2. Concern of higher raw material costs was overdone, as contractor is well-equipped to pass on the higher cost.
3. Positive hopes on the structural reform of infrastructure outlook given removal of fuel subsidy.
4. Rights issue completion with exercise price of IDR1,450.
5. Share price range-bound on awaiting full impact from WSKT's recent strong contract winning to earnings.

Financial Metrics

§ Backlog project and order book to revenue provide indications about forward earnings. WSKT's order book to revenue will sustain at more than 3x over the period of 2016F-2017F, 2nd highest in the sector.
§ Construction margins, typically razor thin, should improve as WSKT recently turned toll road operator as well.
§ WSKT has the strongest capital structure, more than adequate to take up sizeable projects ahead without sacrificing net margin.

Order book to revenue



Source: Company

Swing Factors

Upside

§ Faster than expected capacity expansion higher margin business profile of pre-cast segment.
§ Further significant job winning in 2016.
§ Indicative announcement of further government capital injection.

Downside

§ Higher than expected loan withdrawal which would result in higher interest expense and potential erode thin razor net margin profile of contractor.
§ Margin erosion from further significant swing in IDR currency.
§ Lower than expected traffic volume on its toll road portfolios.

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GDP

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STRATEGY

Malaysia

Malaysia's Six-for-16

Externally Induced Volatility

Externally induced volatilities

We expect volatility to persist, largely externally induced; headwinds are US' monetary policy normalisation, China's structural slowdown, and the impact to EMs. A wild card for Malaysia is crude oil price. Our end-2016 KLCI target is 1,800 (+6.3% upside), tagging to mean valuations (implying 15.6x 2017 PER). We continue to advocate a defensive core equity portfolio with value and thematic stocks for the outperformance.

Pressure points

Crude oil price has fallen to USD35/bbl (Brent) and this represents a new pressure point. We expect real GDP growth to ease to 4.5% (2015E: 4.9%) on slower domestic demand due to moderating consumer spending and private investment, cushioned by public investment rebound. We expect inflation to pick up to 3.0-3.5% (2015E: 2.2%) and the USDMYR to move within the 3.95-4.15 range and average 4.11 amid dissipation of internal political risks, countered by the external headwinds and fluid crude oil price situation. Slower growth, rising inflation and soft MYR will render the OPR "immobile" at 3.25%. For the corporates, we forecast 7.5% core earnings growth for the KLCI in 2016, 7.7% in 2017. Earnings risk remains on the downside; pressure points are at the banks, consumer, plantation.

Positives and key thematics

The Trans-Pacific Partnership could be a game-changer for Malaysia as it will strengthen Malaysia's niches and open up more engines of long term growth. Malaysia is also a strategic beneficiary of China's One Belt One Road initiative. Investors should raise their holdings in stocks which are beneficiaries – largely in the export sectors, construction – over time. For 2016, we outline three key thematics: (i) substantial construction awards relating to infrastructure, government land developments, (ii) continued weakness in the MYR, and (iii) Shariah investing.

Malaysia's top six

Our top value BUY picks for 2016 are Tenaga (which has strong re-rating potential with the overhang on M&A now cleared), GENT (deep in value), and MCIL (significantly undervalued). Within the thematics, our top picks are Gamuda (a key beneficiary of major infra works), Top Glove (new bellwether in the glove sector), Inari (proxy to Avago's bright prospects).

Analyst
Wong Chew Hann
(603) 2297 8686
wchewh@maybank-ib.com

(Please refer to our macro and strategy write-up entitled, *"2016 Outlook & Lookouts"* dated 14 Dec 2015 for more details)

Stock	Bloomberg Code	Mkt Cap (USD m)	Rating	Price (MYR)	TP (MYR)	Upside (%)	PER (x)		P/BV (x)		Dividend Yield (%)	
							CY15E	CY16E	CY15E	CY16E	CY15E	CY16E
Tenaga Nasional	TNB MK	17435.8	Buy	13.26	16.00	20.7	9.0	9.1	1.5	1.4	2.5	3.1
Genting Bhd	GENT MK	6401.5	Buy	7.34	9.05	23.3	17.4	14.8	1.0	0.9	0.4	0.5
Gamuda	GAM MK	2623.4	Buy	4.68	6.00	28.2	14.5	16.5	1.6	1.7	2.7	2.6
Top Glove	TOPG MK	1992.5	Buy	13.62	16.60	21.9	23.7	20.9	5.0	4.5	1.9	2.4
Inari Amertron	INRI MK	838.5	Buy	4.78	5.35	11.9	17.8	16.4	5.6	4.9	2.2	2.4
Media Chinese International	MCIL MK	235.9	Buy	0.60	0.73	21.7	6.7	7.3	1.2	1.1	6.5	6.7

Source: Maybank KE

1. Idea 1: Action packed year for construction

1.1 Record infrastructure job awards

2015 has been an eventful year with four project delivery partners named for four major projects worth a total MYR80b – KVMRT2, KVLRT 3, Penang Transport Master Plan, Pan Borneo Sarawak Highway. Into 2016, we expect an action packed year based on our estimate of MYR83b worth of infra jobs to be awarded, which will be a record high after MYR46b in 2012. This would offset slower property-related construction jobs due to the soft property market. Beyond 2016, the KL-SG HSR and KVMRT 3 are the major infrastructure projects to sustain construction jobs momentum.

1.2 Watch out for the China factor

Malaysia is a strategic beneficiary of China's One Belt One Road initiative. Chinese contractors have expressed interest in the rail projects, specifically, the Gemas-JB double track rail and KL-SG HSR. Malaysian contractors could partner them in bidding for the projects. With the Chinese's ability to offer attractive financing packages, this would raise their chances of winning the projects while at the same time, it would allay concerns on project funding. The Chinese has also invested in Kuantan, Iskandar Malaysia and stated their interests in Bandar Malaysia and Melaka Gateway, which would further drive construction activities.

1.3 Local content to stay; costs remain favourable

With growing foreign investments, foreign contractors' participation has also risen. We believe the local content requirement for major infrastructure projects would still be preserved. The Trans-Pacific Partnership Agreement (TPPA), that mandates the liberalisation of government procurement of construction services to TPPA countries, would have a neutral impact as the key infrastructure projects could be exempted. Elsewhere, building material costs remain favourable to contractors with the domestic cement industry in overcapacity and continuous dumping activities in the long steel sector.

1.4 Positive on construction; stock picks

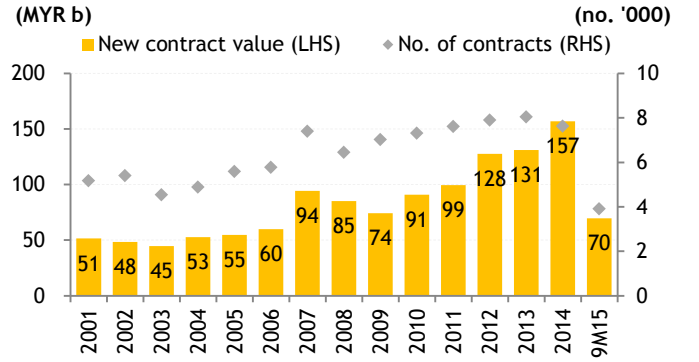
We are positive on the construction sector. We prefer players with niche expertise and strong track records, as they would be the key beneficiaries of the slew of job awards in 2016. Our sector Top BUY is Gamuda, while SCG is our preferred mid-cap pick. We continue to like IJM due to its substantial order book and priced assets.

Summary of upcoming projects in Malaysia

	Value (MYR b)	
Public transportation		
KVMRT line 2 (52.2km)	28.0	PDP awarded. Tenders have started, awards in mid-2016. Works expected to start in 2H16.
KVLRT 3 (Bandar Utama-Shah Alam-Klang, 36.0km)	9.0	PDP awarded. Tenders have started, awards in mid-2016. Works expected to start in 2H16.
Electrified double track rail (Gemas-JB)	7.1	Tender is ongoing.
KL-Spore High Speed Rail (400km)	40.0	RFI ongoing. Works to be awarded in 2017 and construction to start in 2018.
Penang Integrated Transportation Plan (includes LRT and highways)	27.0	PDP awarded. Tenders to start in end-2016 and works to start in 2017.
KL-Klang BRT line	1.0	Construction to start in 2016 and complete in 2018.
KVMRT line 3	NA	Pending.
Johor LRT	1.2	Pending.
ERL extension to Melaka	8.0	Pending.
Monorail extension	3.0	Pending.
Freight Relief line (Serendah - Port Klang - Seremban)	3.0	Pending.
East Coast Railway	30.0	Pending.
Other infrastructure		
West Coast Expressway (WCE) – 276km (remaining)	2.2	MYR2.8b was awarded to IJMC.
Pan-Borneo Highway – 1,663km (936km in Sarawak, 727km in Sabah)	27.0	Sarawak portion's PDP awarded. Tenders to start soon. Sabah's portion PDP still not awarded yet.
Damansara-Shah Alam Highway (DASH) - 47km	4.2	Tender is ongoing.
Sungai Besi-Ulu Klang Expressway (SUKE) - 59km	5.3	Tender is ongoing.
Jalan Tun Razak traffic dispersal project	0.9	Announced in National Budget 2016.
RAPID, Pengerang	NA	Tendering for sub-contracts ongoing.
Baram and Balleh hydro power plants, Samalaju combined cycle power plant	NA	Feasibility studies ongoing.
Major property developments	**GDV**	
KL118 Tower (Warisan Merdeka)	6.0	Samsung-UEM won the MYR2.1b superstructure works.
Bukit Bintang City Centre (BBCC)	8.7	EPF, Uda Land and Eco World to jointly develop the land. Construction to start soon.
Tun Razak Exchange (TRX)	27.0	Signed agreement with Lend Lease to develop mixed commercial development, Indonesia's Mulia Group to develop the Signature Tower, LTH for a residential plot, Veolia Water Technologies to provide water recycling and treatment plant and Affin Bank for commercial development. Tenders for infrastructure works are ongoing.
Kwasa Damansara Township	50.0	Land tenders have been progressing. First package of infrastructure works was awarded recently and more packages would be awarded.
Bandar Malaysia	20.0	Tender for property development partner ongoing.
Cyber City Center, Cyberjaya	11.0	Announced in National Budget 2016.
KLIA Aeropolis	7.0	Announced in National Budget 2016.
Malaysian Vision Valley	5.0	Announced in National Budget 2016.
Sepang International City	48.0	GuocoLand's project.
Malacca Gateway	43.0	Investments from China to develop a mixed development with the largest private marina.

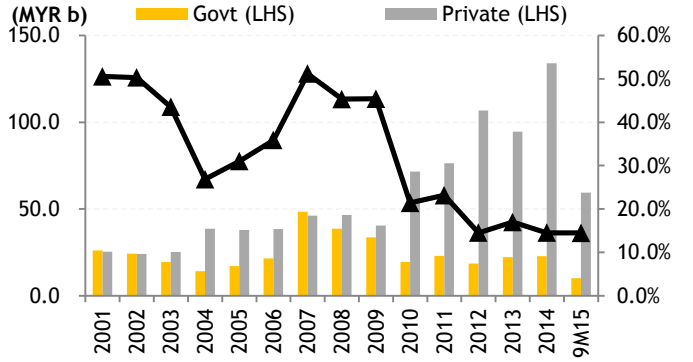
Source: Various, compiled by Maybank KE

New contracts reported to CIDB, MYR69.5b in 9M14



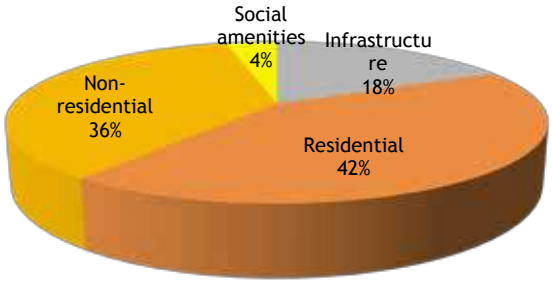
Source: CIDB (Construction Industry Development Board)

Government versus private sector jobs award



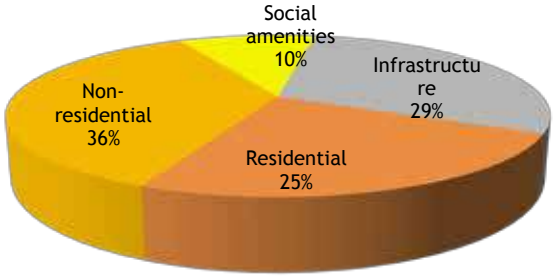
Source: CIDB

Category of new contracts 9M15



Source: CIDB

Category of new contracts 2007-2014



Source: CIDB

Construction Sector

Stock	Rec	Share price	Mkt Cap	TP	PER (x)			PBV (x)		ROE (%)		Net dividend yield (%)
		(MYR)	(MYR m)	(MYR)	CY15E	CY16E	CY17E	CY15E	CY16E	CY15E	CY16E	CY16E
Cahya Mata Sarawak	Buy	5.10	5479.3	5.35	22.3	18.1	17.2	2.7	2.4	11.9	13.5	2.2
Eversendai Corp	Buy	0.78	599.9	1.00	10.6	9.3	9.2	0.6	0.6	5.9	6.4	2.2
Gamuda	Buy	4.68	11259.7	6.00	16.5	16.6	15.8	1.8	1.7	10.6	10.4	2.6
Hock Seng Lee	Buy	1.92	1163.9	2.15	13.7	11.3	10.9	1.6	1.5	11.9	13.1	1.7
IJM Corporation	Buy	3.37	12046.2	3.70	18.8	17.6	15.3	1.3	1.3	7.0	7.4	2.2
Kimlun Bhd	Hold	1.40	420.8	1.20	8.6	11.6	11.1	1.0	0.9	11.2	7.9	2.3
Lingkaran Trans Kota	Hold	5.00	2610.3	4.90	15.7	10.8	9.7	4.4	3.5	27.9	32.9	4.0
Sunway Construction Group	Buy	1.37	1771.3	1.50	14.6	12.3	11.9	4.9	3.9	33.3	31.5	2.8
WCT Holdings	Buy	1.63	1957.3	2.30	19.1	14.5	13.3	0.8	0.8	4.3	5.9	3.8

Source: Maybank Kim Eng

2. Idea 2: Continued weakness in the MYR

2.1 To remain volatile

After retracing about 26% against the USD since Aug 2014, we expect the MYR to average 4.11 per USD in 2016, a further weakening from the average 3.91 in 2015. On a quarterly basis, our FX Research team sees a temporary strengthening in MYR versus USD to 3.95 at end 1Q16 primarily on dissipating internal political risks and expected repatriations by GLCs/ GLICs in response to Aug 2015's policy announcement encouraging them to bring back overseas investment income. However, further US interest rate hikes post the Dec 2015 lift-off will reassert its impact in the subsequent three quarters of 2016, to result in the USDMYR moving to the 4.10-4.15 range. The fluid crude oil price situation could rekindle concerns on fiscal and current account balances, impacting the MYR.

2.2 Export-related sectors to do well

The continued weakness in the MYR will mean that export-related sectors like glove, semiconductor, petrochemical, etc, will continue to do well in earnings, while the domestic net importers like automotive, consumer, etc, will continue to see margins under pressure. For the consumer related sectors, it would be compounded by subdued consumer sentiment and spending which we expect to last into mid-2016, at least. Also, companies with high USD debt will continue to see volatile forex gains/ losses (although at a lesser extent than in 2015) at each financial quarter end. Big cap PLCs affected in 2015 were IOI, AirAsia, Tenaga, PGas, Astro.

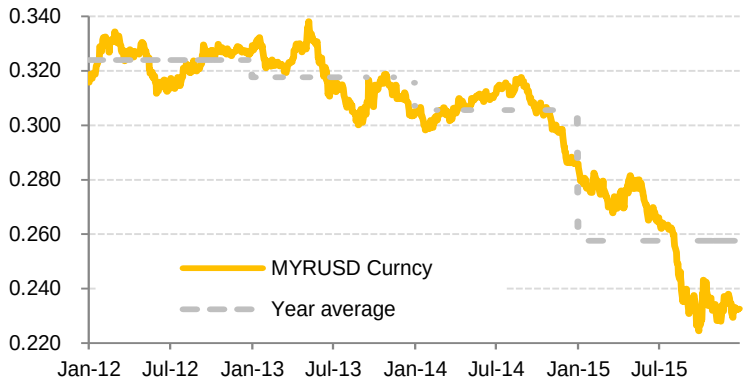
2.3 Playing to the tune

We are positive on the glove, semiconductor and petrochemical sectors, which are net USD beneficiaries. For the glove makers, almost all of their sales receipts are USD-denominated while 30-50% of their production costs are in USD (our forecasts impute an average 4.10 USDMYR). As for semiconductor, 90%/65%/85% of Inari/Globetronics/Vitrox's revenues are in USD compared to 70%/70%/30% of their COGS (our base assumption is an average 4.10 USDMYR). As for petrochemical or specifically PCHEM, all of its revenue are USD-denominated, while c.70% of costs are USD linked.

2.4 Stock picks

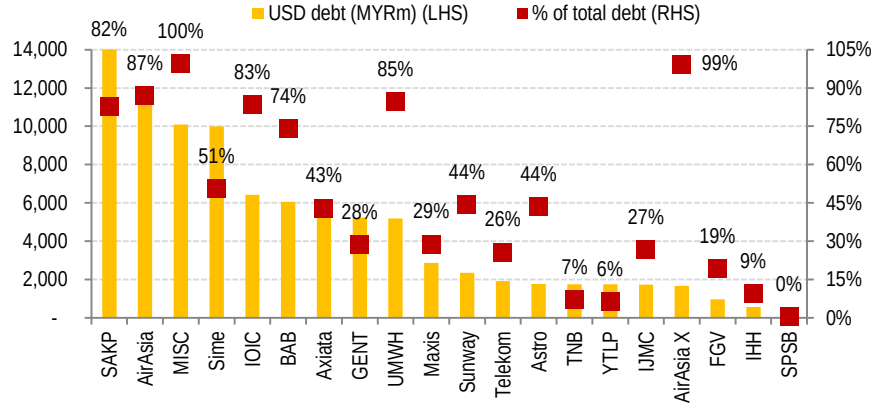
Our top BUY pick in the glove sector is Top Glove, while our top BUY in semiconductor is Inari. Besides being net beneficiaries of a weaker MYR against the USD, Top Glove is also the new bellwether in the glove sector while Inari offers an exposure to Avago's growth prospects. PCHEM, a BUY, also offers organic growth coming from a new plant commissioning in 2Q16. Our other BUYs in this thematic are Kossan, Globetronics, Vitrox.

MYRUSD has weakened for the 3rd year



Source: Bloomberg, Maybank KE (chart)

USD denominated debts of Malaysia PLCs



Source: Maybank KE (computation)

USD net beneficiaries

Stock	Rec	Share price	Mkt Cap	TP	PER (x)			PBV (x)		ROE (%)		Net dividend yield (%)
		(MYR)	(MYR m)	(MYR)	CY15E	CY16E	CY17E	CY15E	CY16E	CY15E	CY16E	CY16E
Top Glove	Buy	13.62	8551.7	16.60	26.4	20.9	20.5	5.0	4.5	19.1	21.5	2.4
Kossan Rubber Industries	Buy	9.17	5863.9	10.20	28.3	25.5	22.6	6.2	5.4	22.0	21.3	1.6
Hartalega	Hold	5.91	9697.5	4.80	36.7	30.9	27.1	6.8	6.0	18.4	19.5	1.5
Inari Amertron	Buy	4.78	3599.0	5.35	19.9	16.7	15.1	6.0	4.9	29.9	29.4	2.4
Globetronics Technology	Buy	6.57	1851.1	7.35	24.1	15.2	13.9	6.3	6.1	26.1	39.9	5.9
ViTrox Corp	Buy	3.49	814.6	3.80	15.8	12.4	12.2	3.9	3.2	24.5	25.6	2.3
Petronas Chemicals	Buy	7.24	57920.0	7.80	20.6	16.5	17.3	2.3	2.2	11.3	13.1	3.0

Source: Maybank Kim Eng

3. Idea 3: Shariah investing

3.1 Moves to a higher level

The Employees Provident Fund Bill (Amendment) 2015 was passed by the House of Representatives on 22 Oct 2015, which among others, provides for election by members for their accounts to be managed according to Shariah. We expect the Bill to be gazetted by mid-2016 after approval by the Senate and royal assent by His Majesty The King. We estimate that members' election could happen from mid-2016, and Shariah investing (for those who elect for it) could start in early-2017.

3.2 Largest Shariah fund ever

EPF's extension into a dedicated Shariah fund was announced by Prime Minister Najib on 23 Apr 2015; it "will create the largest Shariah fund of its kind in the world". This is a significant development, considering that: (i) the size of EPF's investment assets is huge at MYR667.6b as at Sep 2015, (ii) just more than 40% of EPF's asset are Shariah compliant, (iii) about 60% of EPF's members are Malay Muslim *(source for (ii), (iii) is the Sundaily, 27 Apr 2015)*. The impact on the Malaysia capital market can be better gauged when the total asset value of members electing for Shariah investing is known, after the members' election, expected in 2H16.

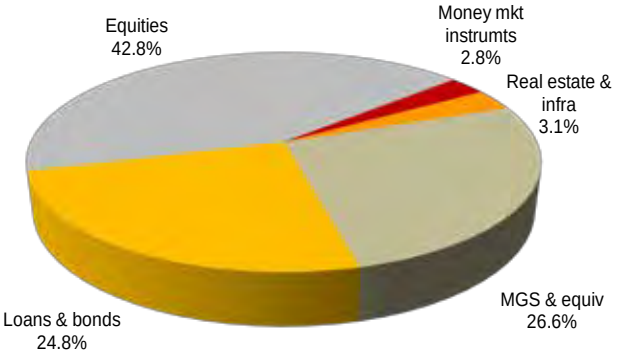
3.3 Higher re-rating potential

The number of Shariah compliant stocks listed on Bursa Securities stood at 667 (74%) as at end-Nov 2015, out of the total 901 listed. We reiterate our view that Shariah stocks have a higher re-rating potential over the longer term as Shariah investing gains prominence. We have highlighted this re-rating potential since 2013, during the run up to the Securities Commission's new Shariah screening methodology to better reflect international practices.

3.4 Stock picks

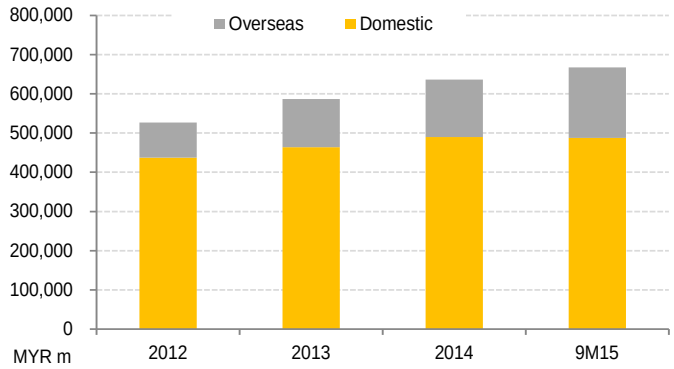
The following sectors under our research coverage are now fully/almost fully Shariah compliant: (i) automotive (ex- Tan Chong), (ii) construction (ex- Eversendai), (iii) glove producers, (iv) oil & gas (ex- Perdana), (v) plantation, (vi) semi-conductor, (vii) property developer, (viii) telco, (ix) non-air transportation and (x) utilities (ex- YTLP). Our top BUY pick for Shariah investing is BIMB, being one of only two Shariah stocks in the financial sector, the other being its 60%-subsidiary, Syarikat Takaful. Tenaga, our top big-cap BUY for the market, is also Shariah compliant.

EPF: Total investments of MYR667.6b as at Sep 2015



Source: Employees Provident Fund, Maybank KE

EPF: Of total of MYR667.6b, 27% were overseas investments



Source: Employees Provident Fund, Maybank KE

Shariah stocks in our BUY list

Stock	Rec	Share price	Mkt Cap	TP	PER (x)			PBV (x)		ROE (%)		Net dividend yield (%)
		(MYR)	(MYR m)	(MYR)	CY15E	CY16E	CY17E	CY15E	CY16E	CY15E	CY16E	CY16E
Financials												
BIMB Holdings	Buy	3.74	5767.9	4.50	10.9	10.7	10.4	1.7	1.5	15.2	14.2	3.3
Auto												
Berjaya Auto	Buy	2.14	2444.8	2.85	11.0	9.4	8.1	4.5	3.6	40.6	38.3	5.3
Construction												
Gamuda	Buy	4.68	11259.7	6.00	16.5	16.6	15.8	1.8	1.7	10.6	10.4	2.6
Hock Seng Lee	Buy	1.92	1163.9	2.15	13.7	11.3	10.9	1.6	1.5	11.9	13.1	1.7
IJM Corporation	Buy	3.37	12046.2	3.70	18.8	17.6	15.3	1.3	1.3	7.0	7.4	2.2
WCT Holdings	Buy	1.63	1957.3	2.30	19.1	14.5	13.3	0.8	0.8	4.3	5.9	3.8
Cahya Mata Sarawak	Buy	5.10	5479.3	5.35	22.3	18.1	17.2	2.7	2.4	11.9	13.5	2.2
Sunway Construction Group	Buy	1.37	1771.3	1.50	14.6	12.3	11.9	4.9	3.9	33.3	31.5	2.8
Glove producers												
Top Glove	Buy	13.62	8551.7	16.60	26.4	20.9	20.5	5.0	4.5	19.1	21.5	2.4
Kossan Rubber Industries	Buy	9.17	5863.9	10.20	28.3	25.5	22.6	6.2	5.4	22.0	21.3	1.6
Media												
Media Chinese International	Buy	0.60	1012.3	0.73	7.5	7.5	6.8	1.2	1.1	16.0	14.3	6.7
Oil & Gas												
Dialog Group	Buy	1.54	8001.1	1.90	29.7	28.3	26.4	3.7	3.4	12.5	12.2	1.4
Icon Offshore	Buy	0.43	506.2	0.42	33.7	16.6	12.5	0.5	0.5	1.4	2.7	0.0
Bumi Armada	Buy	1.04	6100.9	1.20	30.3	27.2	7.6	1.0	0.9	3.2	3.4	0.0
Yinson Holdings	Buy	2.90	3169.1	4.35	16.8	16.3	13.8	1.9	1.7	11.1	10.4	0.7
KNM Group	Buy	0.51	1099.6	0.80	18.0	8.6	6.5	0.4	0.4	2.1	4.7	0.0
Plantation												
Boustead Plantations	Buy	1.43	2288.0	1.56	58.3	33.3	26.0	1.0	1.0	1.7	2.9	2.4
Sarawak Oil Palms	Buy	4.45	1962.3	5.23	28.9	12.8	9.0	1.4	1.3	4.9	10.1	0.9
Ta Ann	Buy	5.00	1853.7	6.90	11.2	11.0	10.0	1.6	1.5	14.4	13.6	4.1
Semiconductor												
Inari Amertron	Buy	4.78	3599.0	5.35	19.9	16.7	15.1	6.0	4.9	29.9	29.4	2.4
ViTrox Corp	Buy	3.49	814.6	3.80	15.8	12.4	12.2	3.9	3.2	24.5	25.6	2.3
Globetronics Technology	Buy	6.57	1851.1	7.35	24.1	15.2	13.9	6.3	6.1	26.1	39.9	5.9
Petrochemical												
Petronas Chemicals	Buy	7.24	57920.0	7.80	20.6	16.5	17.3	2.3	2.2	11.3	13.1	3.0
Property & REIT												
SP Setia	Buy	3.15	8279.3	3.86	12.7	17.8	8.6	1.1	0.9	11.9	7.1	3.4
Eco World Development	Buy	1.47	3475.5	1.68	50.8	29.6	16.2	1.1	1.1	1.7	3.8	0.3
Al-Salam REIT	Buy	0.91	524.9	1.07	nm	0.9	0.5	0.9	0.9	5.5	6.0	5.8
KLCCP Stapled Group	Buy	7.05	12727.6	7.80	17.9	17.4	17.3	1.2	1.4	6.4	8.0	5.3
Logistic												
Westports Holdings	Buy	4.11	14015.1	4.80	27.4	23.4	21.4	7.4	6.9	27.0	29.4	3.2
Harbour-Link Group	Buy	2.94	535.1	3.65	10.0	9.3	9.6	1.8	1.6	18.3	17.5	2.1
MISC Bhd	Buy	9.37	41825.7	10.10	17.0	17.5	18.1	1.4	1.4	8.4	7.8	2.1
Utility												
Tenaga Nasional	Buy	13.26	74834.3	16.00	10.1	9.1	8.8	1.5	1.4	15.1	15.0	3.1
Gas Malaysia	Buy	2.36	3030.2	2.70	24.6	23.9	23.7	3.0	3.0	12.2	12.5	4.2
Malakoff Corporation	Buy	1.62	8100.0	1.95	18.0	13.8	14.7	1.4	1.3	7.6	9.7	5.1

Source: Maybank Kim Eng

Utilities

Malaysia

Tenaga Nasional (TNB MK)

Overhang removed

BUY

Share Price	MYR 13.26
12m Price Target	MYR 16.00 (+21%)
Previous Price Target	*MYR 16.00*

Investment case: Compellingly valued

With the overhang pertaining to potential M&A/bailout having now cleared, investors' attention will likely return to Tenaga's earnings, which have remained at very healthy levels. Valuations (at c.9x forward PER) are compelling, and allow for ample leeway for a possible MYR2b tax charge. Our MYR16.00 TP is derived from DCF, and implies a mere 12.5x FY16 PER. Tenaga is our top big-cap pick for the market.

Catalysts: Delivery of healthy earnings

Tenaga's base-level earnings are likely to trend higher from an improvement in its reference generation mix (a higher proportion of coal-generation which lowers overall unit cost). The market will likely focus on Tenaga's earnings delivery in the upcoming quarters, beginning with 1QFY16 results which should be released at end-Jan 2016.

Valuations: At a discount to the market

Tenaga presently trades at a steep discount to the market on PER, with minimal earnings risk as both coal and LNG prices are presently below reference. Our MYR16.00 TP is derived using DCF, assuming a 7.5% WACC and 1% long-term growth, and implies a mere 12.5x FY16 PER. Tenaga is presently appealing a c.MYR2b tax charge, but we note this represents less than 3% of Tenaga's current market cap.

Risks: A non-functional pass-through mechanism

Tenaga is not meant to take on fuel price risk under the IBR. The key risk with Tenaga thus centres on the pass-through mechanism hypothetically not functioning, particularly during an environment of rising fuel prices. Rising coal prices would likely raise initial doubts over the effectiveness of the pass-through mechanism. Meanwhile, Tenaga making a provision for its c.MYR2b tax charge could also potentially dampen sentiment.

Company description

Tenaga Nasional engages in the generation, transmission, distribution and sale of electricity and the provision of other related services.

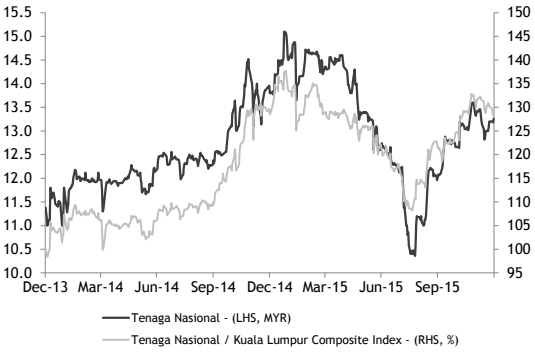
Statistics

Shariah status	Yes
52w high/low (MYR)	15.10/10.36
3m avg turnover (USDm)	35.7
Free float (%)	99.6
Issued shares (m)	5,644
Market capitalisation	MYR74.8B
	USD17.4B

Major shareholders:

Khazanah Nasional Bhd	32.4%
Employees Provident Fund	13.8%
Permodalan Nasional Bhd	11.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	10	(5)
Relative to index (%)	(2)	6	(1)

Source: FactSet

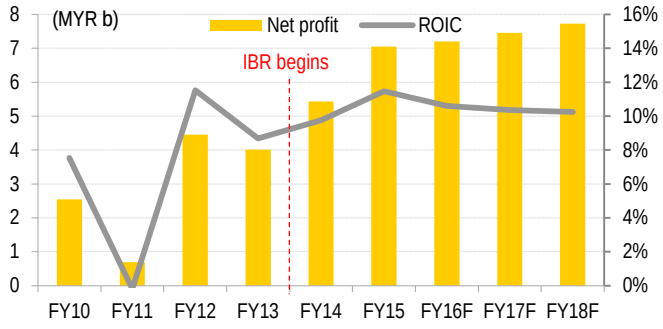
FYE Aug (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	42,792	43,287	46,735	48,120	49,546
EBITDA	11,704	13,922	15,812	16,247	16,677
Core net profit	5,428	7,051	8,156	8,446	8,753
Core EPS (sen)	96.2	124.9	144.5	149.7	155.1
Core EPS growth (%)	33.6	29.9	15.7	3.6	3.6
Net DPS (sen)	29.0	29.0	39.4	43.4	49.5
Core P/E (x)	13.8	10.6	9.2	8.9	8.5
P/BV (x)	1.7	1.6	1.4	1.3	1.1
Net dividend yield (%)	2.2	2.2	3.0	3.3	3.7
ROAE (%)	13.9	15.6	16.3	15.0	14.1
ROAA (%)	5.2	6.2	6.8	6.7	6.6
EV/EBITDA (x)	7.2	5.7	5.6	5.4	5.0
Net debt/equity (%)	31.7	33.4	26.6	20.6	13.6
Consensus net profit	-	-	6,965	7,067	7,198
MKE vs. Consensus (%)	-	-	17.1	19.5	21.6

Tan Chi Wei, CFA
chiwei.t@maybank-ib.com
(603) 2297 8690

Value Proposition

§ Vertically integrated national electricity utility operating across generation (c.50% share of capacity), transmission (monopoly) and distribution (monopoly).
§ The industry is highly-regulated and tariff changes require Cabinet approval; this has resulted in the occasional negative EVA for Tenaga in the past.
§ Recent regulatory reforms (implementation of IBR) have enhanced and stabilised returns. Improved risk-return profile has seemingly not been fully priced-in.
§ The generation segment is open to new entrants, but high capital requirements coupled with diminishing returns mean Tenaga will likely retain a dominant position.

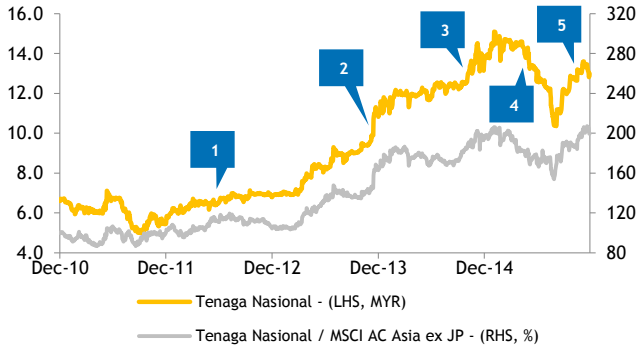
Net profit and ROIC



Source: Company, Maybank KE

Price Drivers

Historical share price



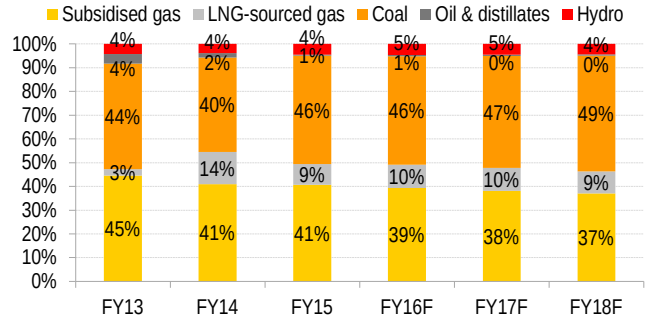
Source: Company, Maybank Kim Eng

1. The Government will compensate Tenaga for the use of high-cost alternative fuels, both retrospectively (FY11) and going forward.
2. The 14.9% tariff hike from the implementation of IBR (the new tariff framework) was significantly accretive to Tenaga's earnings.
3. Tenaga was reporting supernormal profits as coal prices stayed low.
4. Concerns arose over Tenaga potentially overpaying for selected domestic generation assets.
5. Bailout concerns eventually dissipated as the assets in question were eventually sold to a foreign party.

Financial Metrics

§ Share price has tended to track earnings - Tenaga's key earnings drivers are tariffs and fuel mix.
§ With the IBR now in place, a review in base tariff will only occur in 2018 at the earliest, although there could be slight shifts from minor movements in demand mix.
§ The more pertinent driver is thus the generation mix, where a shift towards coal (currently the cheapest fuel source) will lower overall unit generation cost.
§ Peninsular Malaysia's incoming capacity is presently skewed towards coal. Every 1ppt increase in % coal generation could boost net profit by c.4%.

Peninsular Malaysia's generation mix



Source: Company, Maybank KE

Swing Factors

Upside

§ The fuel cost pass-through mechanism becomes fully automatic, with tariffs no longer subject to Cabinet approval.
§ A review of Tenaga's dividend policy to allow for higher absolute payouts.
§ The resolution of a MYR2b tax dispute in Tenaga's favour.

Downside

§ Evidence that the fuel cost pass-through mechanism is no longer functional.
§ A spike in coal prices, which would likely introduce doubts over the effectiveness of the pass-through mechanism.
§ Adverse regulatory developments, such as the introduction of windfall taxes.

Gaming

Malaysia

Genting Bhd (GENT MK)

Still has plenty of upside potential

BUY

Share Price	MYR 7.34
12m Price Target	MYR 9.05 (+23%)
Previous Price Target	*MYR 9.05*

Investment case: Apt time to own this blue-chip

2015 was probably one of GENT's worst years but to be fair, many of the factors behind the earnings decline (e.g. low VIP hold rate and bad debts) were not structural and we expect them to normalise in 2016. Furthermore, Resorts World Genting (RWG) will undergo capacity expansion in 4Q16 and the Banten independent power plant (IPP) will commence earnings contributions in 2017. With GENT trading at a steep 35% discount to our SOP/sh, we believe that its risk-reward profile is stacked towards reward. Maintain BUY call and MYR9.05 SOP-based TP.

Catalysts: Normal VIP hold rates, GITP, Banten IPP

2015 was marred by low VIP hold rate at Genting UK coupled with low VIP hold rate and bad debts at Resorts World Sentosa. That said, these declines were not structural and we expect them to normalize in 2016. Furthermore, RWG will also expand its capacity in 4Q16 under the Genting Integrated Tourism Plan (GITP). To boot, we expect Banten IPP to boost 2017 core net profit by MYR300m-MYR350m. Construction of the Banten IPP is expected to be completed by 4Q16.

Valuation: Trading at >-1SD discount to LT mean

GENT is trading at 35% discount to our SOP/sh valuation, which is more than -1SD to its long-term mean (since 2000) of 21% discount to SOP/sh. We gather that the wide discount was due to the aforementioned low VIP hold rates and bad debts. Again, we expect them to normalize in 2016 and the steep discount to SOP/sh valuation to narrow as a result. As it is, GENT is already cheaper than its major subsidiaries (49%-owned GENM is trading at >15x PER while 53%-owned GENS is trading at >20x PERs).

Risks: Exposure to China via Genting Singapore

(i) Prolonged slowdown in the Chinese economy causing GENS and therefore, GENT earnings outlook to remain suppressed; (ii) Construction delays and cost overruns for its GITP projects; (iii) Further slowdown in Malaysian consumer sentiment causing GENM visitor arrivals growth to remain suppressed; (iv) Additional gaming taxes, although we view this as unlikely given the GST that has been implemented since 1 Apr 2015.

FYE Dec (MYR m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	17,112	18,216	18,260	19,322	21,836
EBITDA	6,116	6,628	5,650	6,747	8,482
Core net profit	1,681	1,777	1,428	1,849	2,770
Core FDEPS (sen)	45.5	46.2	35.3	44.8	65.4
Core FDEPS growth(%)	(27.2)	1.5	(23.5)	26.7	46.1
Net DPS (sen)	37.5	4.0	3.1	3.9	5.7
Core FD P/E (x)	16.1	15.9	20.8	16.4	11.2
P/BV (x)	1.1	1.0	1.0	0.9	0.9
Net dividend yield (%)	5.1	0.5	0.4	0.5	0.8
ROAE (%)	7.2	6.8	5.2	6.4	9.0
ROAA (%)	2.5	2.5	1.9	2.4	3.6
EV/EBITDA (x)	8.5	7.3	7.8	6.9	5.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,662	1,934	2,162
MKE vs. Consensus (%)	-	-	(32.4)	(4.4)	28.1

Company description

Genting Bhd. is an investment holding and management company, which engages in the leisure and hospitality, oil palm plantations, property development, biotechnology, and oil and gas.

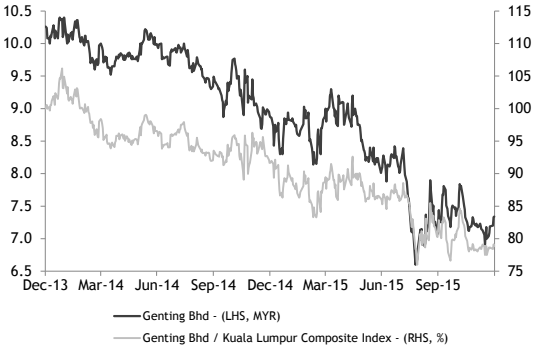
Statistics

52w high/low (MYR)	9.30/6.60
3m avg turnover (USDm)	6.7
Free float (%)	59.1
Issued shares (m)	3,743
Market capitalisation	MYR27.5B
	USD6.4B

Major shareholders:

LIM FAMILY	36.4%
OppenheimerFunds, Inc.	7.0%
Summit International Investments, Inc.	3.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	1	(18)
Relative to index (%)	1	(3)	(14)

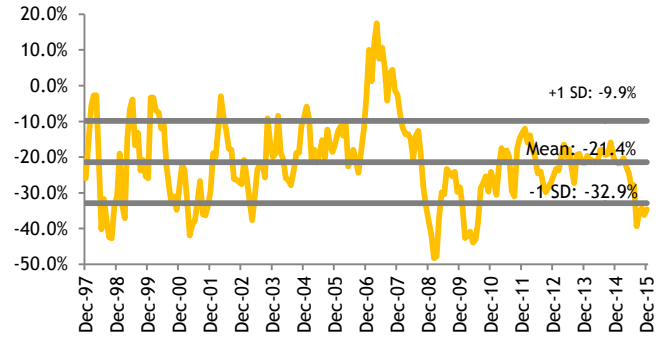
Source: FactSet

Yin Shao Yang
samuel.y@maybank-ib.com
(603) 2297 8916

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), operate Resorts World Genting (RWG) and Resorts World Sentosa (RWS).
§ ROEs have fallen from >10% pre-2012 to ~5% in 2015 due to RWS being pressured by the weak Chinese economy.
§ That said, valuations are attractive at -35% to SOP/sh or more than 1SD below its post-2000 mean of -21%.
§ 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.

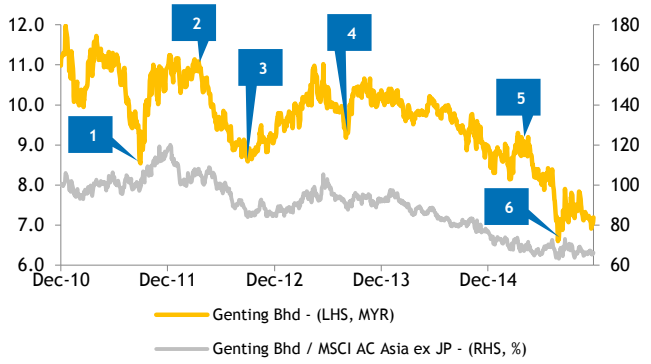
Historical (discount)/premium to SOP/sh



Source: Company, Maybank KE, Bloomberg

Price Drivers

Historical share price trend



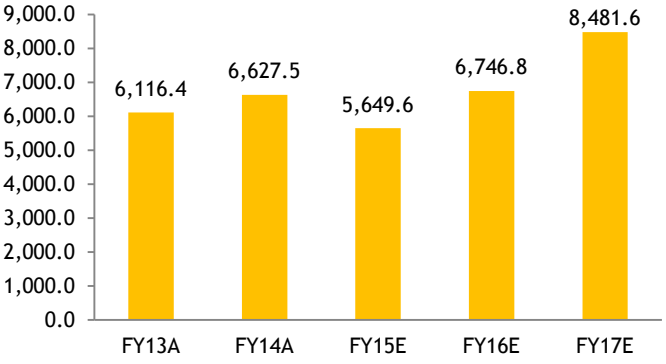
Source: Company, Maybank Kim Eng

1. GENS' 2Q11 EBITDA fell 35% QoQ as VIP volume fell 13% QoQ and VIP hold rate fell 30% QoQ.
2. CRA issued two junket licenses to GENS but they did not positively impact VIP volumes.
3. Disposed of Genting Sanyen and entered into 25-year PPA with PT PLN for a 660MW coal-fired Banten IPP.
4. Announced 50sen special DPS and offered 1 warrant at MYR1.50 for every 4 existing shares.
5. Foreign fund outflows driven by the weak MYR pressured GENT's share price due to its high foreign shareholding.
6. GENS reported 2Q16 net loss due to derivative and foreign exchange losses.

Financial Metrics

§ Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
§ Forecast FY15E EBITDA to fall 15% YoY on poor VIP hold rates at GENUK and RWS; and record bad debts at RWS.
§ Forecast FY16E EBITDA to recover to MYR6.7b on normalising VIP hold rate and bad debts.
§ Forecast FY17E EBITDA to grow strongly on (i) maiden contributions from Banten power plant (ii) additional capacity from the GITP (iii) less bad debts at RWS.
§ Due to the aforementioned, we estimate that the FY17E ROE will return to ~9%.

EBITDA (MYRm)



Source: Company, Maybank KE

Swing Factors

Upside

§ VIP volume and hold rate - tend to be volatile especially at GENS and can greatly influence GENT's earnings.
§ 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.
§ USDMYR exchange rate - most of GENT's financial assets are denominated in USD.

Downside

§ VIP volume and hold rate - tend to be volatile especially at GENS and can greatly influence GENT's earnings.
§ Bad debts - Chinese account for 33-50% of GENS VIP volume but gambling debts are not enforceable in China.
§ CPO and oil prices - plantations and oil & gas account for <10% of group EBITDA but low CPO and oil prices can negatively impact earnings nonetheless.
§ Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.

Construction

Malaysia

Gamuda (GAM MK)

Proven track record

BUY

Share Price	MYR 4.40
12m Price Target	MYR 6.00 (+36%)
Previous Price Target	*MYR 6.00*

Investment case: Best proxy to infrastructure play

Gamuda remains the best proxy to infrastructure play in Malaysia. 2016 would be a record year in terms of construction job wins which could lift its outstanding order book to another record high. We value Gamuda on SOP deriving MYR6.00 TP. The stock is our top BUY pick in the construction/infrastructure sector.

Catalysts: Major wins to lift order book to new highs

2015 has been a meaningful year for Gamuda having clinched two out of the four project delivery partner (PDP) roles in the country. 2016 will see these being realised into job wins. Given the positive outcome of the two PDP wins, we think Gamuda is set to bag the MYR6b KVMRT 2 tunnel package and MYR4.5b Penang Transport Master Plan's LRT works which will lift its order book to ~MYR10.5b (versus MYR800m at end-Oct 2015). Other potential wins are the KVLRT 3, Pan Borneo Sarawak Highway and Gemas-JB double track rail sub-packages which would add on MYR1-2b each and raise its orderbook. Elsewhere, conclusion of SPLASH's water deal would see MYR2.8b cash added onto Gamuda's coffers.

Valuation: Substantial discount

Share price has retraced 8% in 2015 largely due to broad-based foreign selling. As at end-Nov 2015, Gamuda's foreign shareholding has fallen 26-ppts to 22% (which is the lowest ever since the AFC) from a high of 48% in May 2013. We value the stock on SOP, with the construction business on PER, property development on RNAV and concessions on DCF. Our SOP-TP implies 21x 2016 PER, undemanding considering its rich assets and strong long-term proposition.

Risks: Dependent on major job wins

An unexpected deferment in the take-off of the major projects due to funds availability or failure in obtaining the necessary approvals.

Company description

Gamuda Bhd engages in engineering and construction, property development and water and expressway concessions.

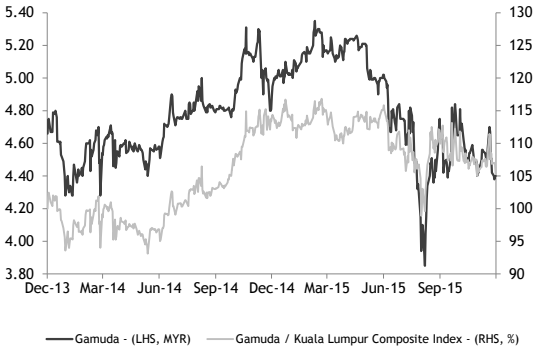
Statistics

Shariah status	Yes
52w high/low (MYR)	5.35/3.85
3m avg turnover (USDm)	3.7
Free float (%)	87.6
Issued shares (m)	2,406
Market capitalisation	MYR10.6B
	USD2.5B

Major shareholders:

Employees Provident Fund	11.2%
Massachusetts Mutual Life Insurance Co.	7.8%
Lembaga Tabung Haji	5.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(7)	(9)
Relative to index (%)	0	(6)	(7)

Source: FactSet

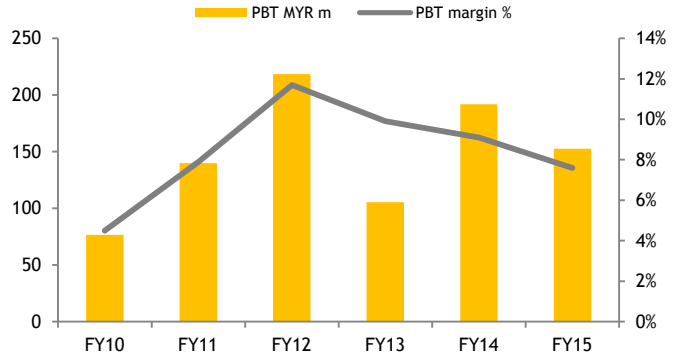
FYE Jul (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,636	2,400	2,588	3,117	3,413
EBITDA	775	638	770	828	877
Core net profit	712	682	664	701	728
Core EPS (sen)	31.0	28.9	27.6	29.1	30.3
Core EPS growth (%)	4.9	(6.6)	(4.6)	5.6	3.9
Net DPS (sen)	12.0	12.0	12.0	12.0	12.0
Core P/E (x)	14.2	15.2	15.9	15.1	14.5
P/BV (x)	1.8	1.6	1.7	1.6	1.5
Net dividend yield (%)	2.7	2.7	2.7	2.7	2.7
ROAE (%)	13.8	11.6	10.5	10.7	10.5
ROAA (%)	7.6	5.8	4.9	4.9	4.8
EV/EBITDA (x)	17.2	22.7	18.4	17.3	16.2
Net debt/equity (%)	30.1	43.7	49.8	47.5	42.2
Consensus net profit	-	-	637	717	763
MKE vs. Consensus (%)	-	-	4.2	(2.2)	(4.6)

Chai Li Shin, CFA
lishin.c@maybank-ib.com
(603) 2297 8684

Value Proposition

§ Leading infrastructure construction player who has carved niche expertise in highly technical tunnelling works.
§ It has also built a strong track record in managing major infrastructure projects as the Project Delivery Partner (PDP) for KVMRT 1.
§ With these capabilities, Gamuda is well positioned in the construction upcycle to clinch key infrastructure projects and gain above industry average construction margins.
§ It has also accumulated strategic property landbank in the Klang Valley that would benefit from the upcoming rails and highways.

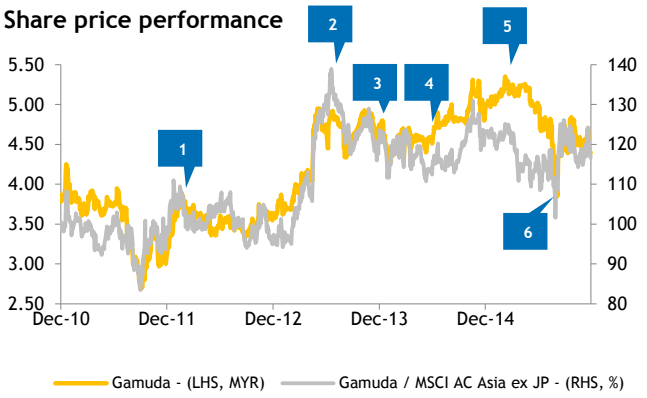
Construction division pretax profit and margins



Source: Company

Price Drivers

Share price performance



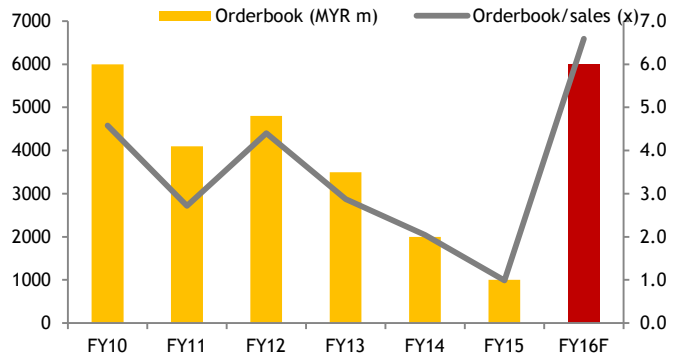
Source: Company, Maybank Kim Eng

1. Signed KVMRT 1 PDP agreement.
2. Approval for KVMRT 2 from federal government was delayed.
3. Growing concern on the invocation of Section 114 of Water Services Industry Act 2006 that could force Gamuda to sell its water assets.
4. S114 invocation was deferred.
5. Clinched KVMRT 2 PDP.
6. Foreign shareholding fell to its lowest ever level at 22%.

Financial Metrics

§ Expect Gamuda to be key beneficiary of the infrastructure projects including rails and highways in FY16.
§ With its experience in KVMRT 1, it is in a strong position to clinch the MYR6b tunnelling works from KVMRT 2.
§ Other potential job wins include KVLRT 3 (~MYR1b), Gemas-JB double track rail and Pan Borneo Highway (~MYR1-2b).
§ Latest MYR800m order book is at its 10-year low as its single major job, KVMRT 1, is close to completion.
§ The potential job wins would lead to significant replenishment to its orderbook. We only imputed the MYR6b tunnelling job in our earnings forecasts.
§ Meanwhile, growing property sales and its stable concession earnings would support its earnings growth.

Outstanding construction orderbook



Source: Company, Maybank Kim Eng

Swing Factors

Upside

§ Obtain approval for its next key mega project - Penang Transport Master Plan from federal government.
§ Higher-than-expected construction job wins from KVLRT 3, Pan Borneo Highway and Gemas-JB double track rail as we only factored in KVMRT 2 in our earnings forecasts.
§ Recovery in local property sales or stronger-than-expected overseas property sales.

Downside

§ Delay in implementation of the key infrastructure projects.
§ Water assets under SPLASH being sold significantly below its NAV.

January 3, 2016

Top Glove (TOPG MK)

Deserves big brother valuation

BUY

Share Price	MYR 13.62
12m Price Target	MYR 16.60 (+22%)
Previous Price Target	*MYR 16.60*

Investment case: Robust earnings, room to upgrade

Top Glove remains the best proxy for rising global healthcare spending, strong USD/MYR and soft rubber prices. FY8/16 will be a record year, in terms of profitability and we see room for further upgrades due to the persistently high USD/MYR. We think the market has yet to fully-recognise Top Glove's newly-gained bellwether status (sector's highest profitability) given its CY16 PER of only 21x, compared to its big-cap peers' 26-31x. We value the stock at MYR16.60, at 25x 2016 PER target.

Catalysts: Potential earnings revisions

We believe the strong earnings momentum could sustain into FY8/16 given the persistently strong USD/MYR. We have assumed for USD/MYR to average 4.10 in FY8/16-18, compared to the average of 4.29 in FY8/16 YTD and the current spot rate of 4.29. We estimate that for every 10% increase in USD/MYR, our bottomline estimate will rise by 30%, without any corresponding adjustments to its ASPs. Our net profit forecasts incorporate 13%/10%/10% sales volume growth in FY16/FY17/FY18.

Valuation: Highest profitability, cheapest valuation

Top Glove has regained its bellwether status since 3 quarters ago with the sector's highest profitability and its financial metrics (EBITDA margin: 23%, ROE: 26%) are also comparable to that of Hartalega and Kossan. However, Top Glove's valuation is still at a discount to its big-cap peers with its CY16 PER at 21x (Hartalega: 31x, Kossan: 26x). Additionally, its 1-for-1 bonus issue (target completion in mid-Jan 2016) could provide additional impetus to share price.

Risks: Volatility in USD and rubber prices

Key risks to earnings lie in USD/MYR and rubber prices. Also, its nitrile glove segment (32% of sales volume) may face margin pressure if competition intensifies on the commercialisation of new capacity by the other players in 2016-17.

Company description

Top Glove is world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

Statistics

Shariah status	Yes
52w high/low (MYR)	13.84/4.52
3m avg turnover (USDm)	6.9
Free float (%)	54.8
Issued shares (m)	628
Market capitalisation	MYR8.6B
	USD2.0B

Major shareholders:

LIM WEE CHAI	29.4%
Firstway United Corp.	5.1%
Kumpulan Wang Persaraan	5.0%

Price Performance

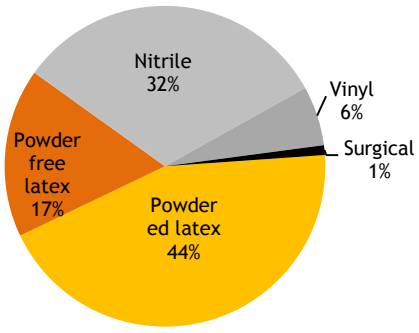


	-1M	-3M	-12M
Absolute (%)	40	69	201
Relative to index (%)	39	62	214

Source: FactSet

FYE Aug (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,275	2,511	2,972	3,116	3,272
EBITDA	298	454	624	637	647
Core net profit	181	280	401	411	418
Core EPS (sen)	29.1	45.1	64.6	66.2	67.3
Core EPS growth (%)	(8.2)	55.0	43.3	2.4	1.7
Net DPS (sen)	16.0	23.0	32.3	33.1	33.7
Core P/E (x)	46.8	30.2	21.1	20.6	20.2
P/BV (x)	6.1	5.3	4.7	4.2	3.8
Net dividend yield (%)	1.2	1.7	2.4	2.4	2.5
ROAE (%)	13.3	18.6	23.5	21.5	19.7
ROAA (%)	9.8	12.1	14.2	13.4	12.7
EV/EBITDA (x)	9.4	10.1	13.1	12.6	12.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	397	411	425
MKE vs. Consensus (%)	-	-	1.0	0.0	(1.8)

Sales volume breakdown: 4QFY8/15



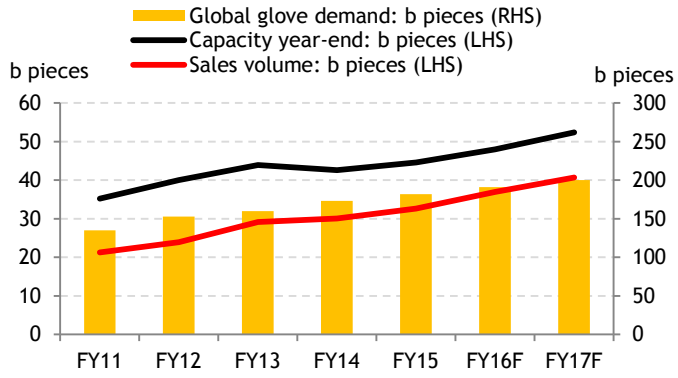
Source: Company

Lee Yen Ling
lee.yl@maybank-ib.com
(603) 2297 8691

Value Proposition

§ World's largest glove manufacturer (global market share: c.18%) and still riding on global growth cycle (5-6% pa). Beneficiary of strong USD/MYR and soft commodity prices.
§ High barriers to entry for medical gloves which necessitate stringent compliance with regulatory requirement. Scale of business makes ASPs highly competitive.
§ High cash generating capability; annual operating cashflow of MYR450-500m against MYR200m capex. Headroom for dividends; growing cash reserves for M&A opportunities.
§ Sales volume growth (4-year CAGR: 8%) could accelerate on the exit of smaller glove players.

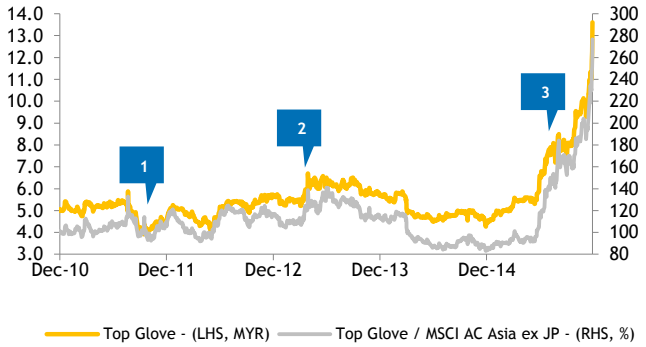
Expands capacity to capture new demand growth



Source: Company, Maybank KE

Price Drivers

Historical share price



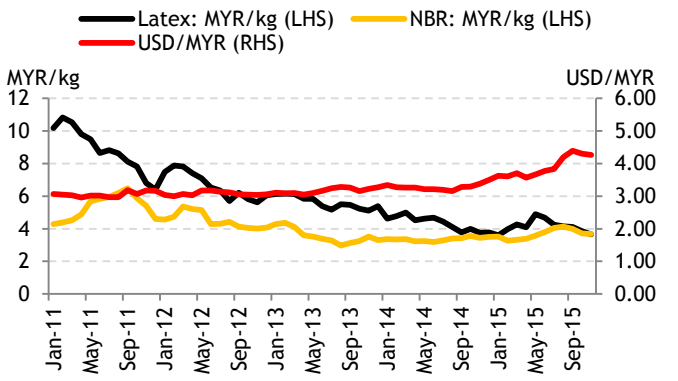
Source: Company, Maybank Kim Eng

1. Earnings halved in FY11 following the collapse of H1N1-fuelled demand for latex gloves and high rubber prices.
2. Earnings recovered partially in FY12 on the normalisation of demand and lower rubber prices.
3. Staged strong earnings growth in FY15 on high USD/MYR, low rubber prices and limited competition in latex gloves segment.

Financial Metrics

§ Largest profit base. EBITDA margins of 18-21% amongst the widest in the sector.
§ Anticipates high earnings on persistently high USD/MYR and low rubber prices. Our forward assumptions are 4.10 for USD/MYR and MYR3.90/kg for latex price.
§ Every 10% increase in USD/MYR and latex price will have 30% positive impact and 5% adverse impact on our FY8/16 bottomline respectively, assuming no corresponding adjustments to ASPs.

Rubber prices and USD/MYR trends



Source: Bloomberg, Maybank KE

Swing Factors

Upside

§ Changes in the lenient regulatory requirements in developing markets which could accelerate global glove demand growth.
§ Lower-than-expected rubber prices and stronger-than-expected USD/MYR rates.
§ Greater-than-expected direct government tender orders under TPPA.

Downside

§ Sharp fall in USD/MYR.
§ Substantial rise in rubber prices.
§ Intensive competition in nitrile glove segment.

January 3, 2016

Technology

Malaysia

Inari Amertron (INRI MK)

SEA's biggest testing house

BUY

Share Price	MYR 4.78
12m Price Target	MYR 5.35 (+12%)
Previous Price Target	*MYR 4.60*

Investment case: Proxy to Avago's growth

Inari is a key Electronic Manufacturing Services (EMS) provider to US-listed Avago Technologies (AVGO US, Not Rated) with core competencies in the testing and packaging of radio-frequency (RF) chips and fibre-optic transceivers. Riding on Avago's success as a key OEM supplier to Tier-1 mobile device brands such as Apple, Samsung and LG, Inari's growth momentum will be driven by (i) demand for smart devices and (ii) higher RF dollar content in mobile devices to power the rising adoption of faster cellular networks as the world moves from 3G to LTE/LTE to LTE-A.

Catalysts

Installed-base of 3G, LTE and LTE-Advance networks is still low globally. As dollar content rises (Avago expects a ~+20% CAGR in RF dollar content over the next few years) on higher adoption of faster network, ASPs for Inari's RF division should see upside.

Higher plant utilisation as wafer shipment from Avago gradually rises as the latter's new wafer fab facility optimises production.

Potential new contract award from Broadcom (concluding merger with Avago in 1Q16), Osram (EUR3b investment in Kulim by 2020).

90%/70% of Inari's revenue/COGS is denominated in USD. The weak MYR against USD is beneficial to Inari as our sensitivity analysis suggests that for every 1% change in our base of USD1/MYR4.10, Inari's bottomline will be impacted by 2% p.a., ceteris paribus.

Valuation: Undemanding

Valuations are undemanding at 15.2x CY17 PER with a PEG of just 0.68x. We see potential upside to earnings from (i) higher ASPs from the RF division (we conservatively project a 3% decline p.a.), (ii) potential new contract wins and (iii) weaker MYR against USD.

Risks: Single customer, demand

Two key risks are: (i) single customer risk, with 85% of Inari's revenue derived from Avago, (ii) lower-than-expected demand for smart devices.

FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	794	933	1,345	1,398	1,505
EBITDA	135	187	259	291	328
Core net profit	103	152	207	221	250
Core EPS (sen)	14.1	20.3	27.7	29.6	33.5
Core EPS growth (%)	137.7	44.1	36.3	7.0	13.2
Net DPS (sen)	6.8	8.9	11.1	11.8	13.4
Core P/E (x)	33.9	23.6	17.3	16.1	14.3
P/BV (x)	13.5	6.6	5.4	4.5	3.8
Net dividend yield (%)	1.4	1.9	2.3	2.5	2.8
ROAE (%)	49.4	38.1	34.5	30.4	28.8
ROAA (%)	23.6	22.7	22.3	20.3	20.1
EV/EBITDA (x)	15.7	11.9	13.2	11.5	9.7
Net debt/equity (%)	6.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	197	235	253
MKE vs. Consensus (%)	-	-	4.7	(5.9)	(1.1)

Ivan Yap
ivan.yap@maybank-ib.com
(603) 2297 8612

Company description

Inari Amertron is the biggest semiconductor player in M'sia and one of Avago's top EMS providers in the thriving wireless division.

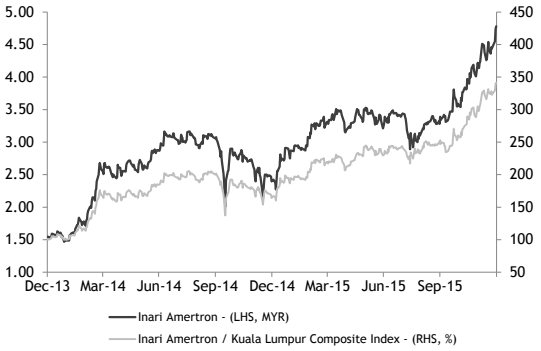
Statistics

Shariah status	Yes
52w high/low (MYR)	4.78/2.27
3m avg turnover (USDm)	3.6
Free float (%)	65.0
Issued shares (m)	753
Market capitalisation	MYR3.6B
	USD839M

Major shareholders:

Insas Bhd.	26.9%
Kumpulan Wang Persaraan	7.3%
Norges Bank Investment Management	5.1%

Price Performance



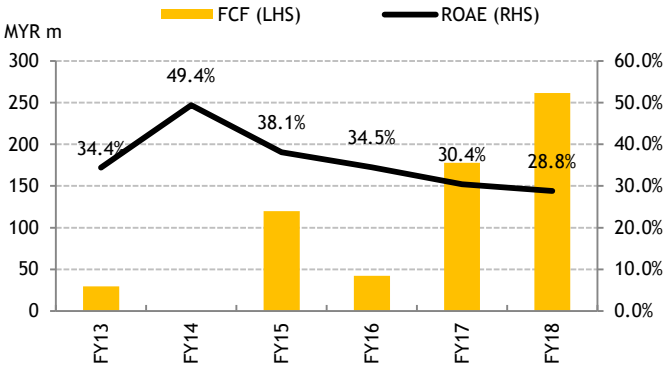
	-1M	-3M	-12M
Absolute (%)	13	41	100
Relative to index (%)	12	35	108

Source: FactSet

Value Proposition

§ Inari is the biggest semiconductor player in M'sia. One of Avago's top EMS providers in the thriving wireless division. Owns >650 units of test handlers, the largest in SEA.
§ Cost competitiveness and manufacturing efficiency from economies of scale power Inari as Avago's key EMS vendor.
§ Largely cash generative with sustainable ROE of ~30%. More upside potential as Avago group continues to outsource more of its manufacturing processes.
§ Returns hinge on Avago's orders which have good visibility. Avago enjoys tailwind from network transition (3G to LTE) and growing data server farms to power IoTs.
§ USD/MYR forex fluctuations largely dictate margins. High single customer exposure is another risk.

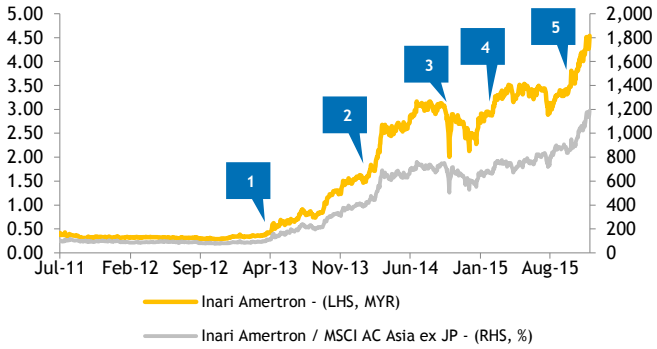
FCF vs ROAE



Source: Company

Price Drivers

Historical share price



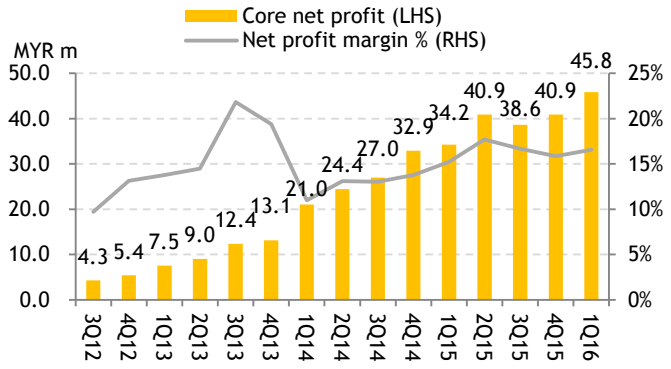
Source: Company, Maybank Kim Eng

1. First official coverage by a local research house.
2. 62% QoQ jump in FY6/14 earnings from larger outsourcing by Avago and first time consolidation of Amertron.
3. Inari announced 1-for-8 rights issue to expand its operation on higher orders from Avago.
4. Stronger USD against MYR improved profit outlook.
5. Amid slow global semiconductor sales, Avago announced (i) stronger results (due to higher RF content) and (ii) upbeat outlook wireless division (~20% in RF content).

Financial Metrics

§ Volume growth and ASPs for RF products (premised on introduction of faster cellular network) and stable USD/MYR are key to Inari's earnings.
§ EBIT margin can widen as higher orders and potential new job wins optimise utilisation of Inari's plants in Malaysia, the Philippines and China.
§ Visible quarterly growth as wafer shipment from Avago is projected to be up. Expect higher utilisation to meet Avago's demand and new clients in RF related products.

Quarterly net profits and margins trend



Source: Company

Swing Factors

Upside

§ Forex: MYR's further weakness against USD - positive revenue impact. 1% change in our base assumption of USD1/MYR4.10 for FY16-17 will impact earnings by 2%.
§ Further outsourcing from Avago post-merger with Broadcom, to conclude in 1QCY16.
§ Faster-than-expected adoption of LTE-A (from LTE) would improve earnings visibility for Avago and Inari.
§ Potential new contract wins from Osram which has earmarked EUR3b investment in Kulim (~60km away from Inari's plants in Penang) by 2020.

Downside

§ Drastic fall in global Tier-1 smartphone shipment will hamper orders for Avago's premium RF products and weaken Inari's earnings visibility.
§ Failure to renew pioneer status by end-2017 would see lower profitability on higher tax charges.
§ Single customer risk; >80% of Inari's group revenue derived from Avago. In the event where Inari fails to deliver to Avago, Inari may see its partnership revoked.

Services

Malaysia

Media Chinese International (MCIL MK)

Too cheap for earnings resilience

BUY

Share Price	MYR 0.60
12m Price Target	MYR 0.73 (+22%)
Previous Price Target	*MYR 0.73*

Investment case: Ability to manage costs effectively

MCIL is our top BUY pick in the media sector for 2016. Our TP of MYR0.73 is pegged to 1.3x end-CY16 P/BV. Going into CY16 or FY3/17, we expect the Summer Olympics and UEFA Euro Cup to boost adex sentiment. Furthermore, MCIL has saved a lot by cutting its newsprint consumption significantly to ~120k tonnes p.a. currently. Valuations are very low at <8x CY16 PER and <4x CY16 EV/EBITDA. While we wait for a topline turnaround, MCIL offers attractive dividend yields of >7%.

Catalysts: Sporting events to aid adex

Moving into 2QCY16 or 1QFY3/17, we expect the Summer Olympics and UEFA Euro Cup, which are traditionally adex friendly, to boost adex sentiment. From then on, we expect adex to revert to growth after more than two years of YoY contractions. Our CY16 or FY3/17 sector-wide adex growth forecast is 5% YoY. Elsewhere, MCIL's cash position is expected to turn positive by end-FY3/16 giving it the ability to sustain its DPR of 50% and dividend yields of at least 7%.

Valuation: Cheap with attractive yields to boot

Our TP of MYR0.73 is pegged to 1.3x end-CY16 P/BV. Despite delivering great 2QFY3/16 results and raising its DPR to 50% from 40%, valuations are still undemanding at <8x CY16 PER and <4x CY16 EV/EBITDA. Dividend yields are also attractive at >7%. Compared to other media companies under our coverage, MCIL has a more resilient earnings base due to its ability to cut its newsprint consumption significantly from ~150k tonnes in FY3/14 to ~120k tonnes p.a. currently.

Risks: Dependent on MYR/USD exchange rate

Downside risk could stem from higher-than-expected newsprint cost, dependent on the MYR/USD exchange and larger annualized newsprint consumption. Our forecasts currently impute average newsprint price of ~USD500/tonne and ~120k tonnes newsprint consumption in CY16 or FY3/17. Earnings might also underperform if adex growth deteriorates more than expected. We currently forecast adex growth of -12% YoY for FY3/16 and +5% YoY for FY3/17.

FYE Mar (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,531	1,589	1,450	1,511	1,538
EBITDA	287	268	244	249	262
Core net profit	158	144	132	137	152
Core EPS (sen)	9.3	8.6	7.8	8.1	9.0
Core EPS growth (%)	(8.2)	(8.3)	(8.9)	4.1	11.0
Net DPS (sen)	4.7	3.4	3.9	4.1	4.5
Core P/E (x)	6.4	7.0	7.7	7.4	6.7
P/BV (x)	1.4	1.3	1.2	1.0	1.0
Net dividend yield (%)	7.8	5.7	6.5	6.8	7.5
ROAE (%)	23.3	19.4	16.0	14.9	15.0
ROAA (%)	10.5	9.4	8.1	8.4	9.3
EV/EBITDA (x)	6.0	4.5	4.0	3.5	3.1
Net debt/equity (%)	21.9	5.9	net cash	net cash	net cash
Consensus net profit	-	-	123	131	137
MKE vs. Consensus (%)	-	-	6.6	4.1	11.0

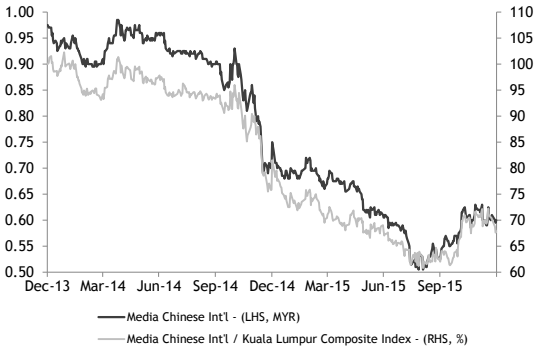
Company description

MCIL publishes Chinese newspapers and magazines in South East Asia, Greater China and North America and offers travel and travel related services.

Statistics

Shariah status	Yes
52w high/low (MYR)	0.75/0.51
3m avg turnover (USDm)	0.1
Free float (%)	31.6
Issued shares (m)	1,687
Market capitalisation	MYR1.0B
	USD236M
Major shareholders:	
Progresif Growth Sdn. Bhd.	19.3%
Conch Co Ltd	15.0%
TIONG HIEW KING	9.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	14	(14)
Relative to index (%)	(4)	9	(11)

Source: FactSet

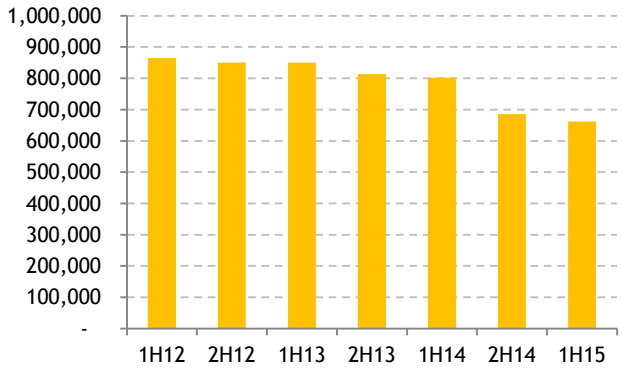
Yin Shao Yang
samuel.y@maybank-ib.com
(603) 2297 8916

Jade Tam
jade.tam@maybank-ib.com
(603) 2297 8687

Value Proposition

§ MCIL has >95% market share of Malaysia's Chinese newspaper circulation. Market is mature but dominance is likely to be challenged. Listed on Bursa and HKSE.
§ Classifieds, a more defensive revenue source, account for roughly 50% of total adex revenue. Improved cost management should provide some cushion for net profit.
§ MCIL's digital platforms, e-commerce website, Logon and news portal, Pocketimes, aim to capture digital savvy consumers. But digital revenue has been minimal.
§ Unless MCIL reinvents itself or digital media initiatives start to show results, long term business franchise may be under threat.

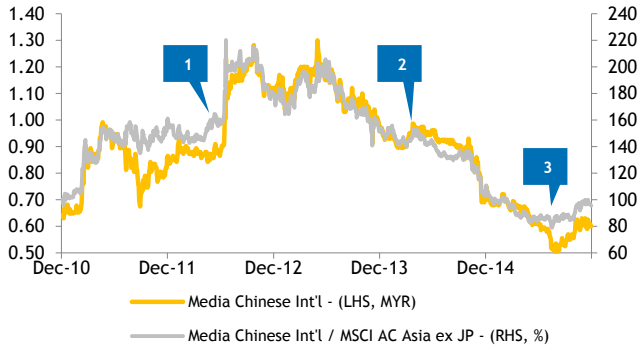
Total circulation of Chinese newspapers in Malaysia



Source: Audit Bureau of Circulations Malaysia

Price Drivers

Historical share price trend



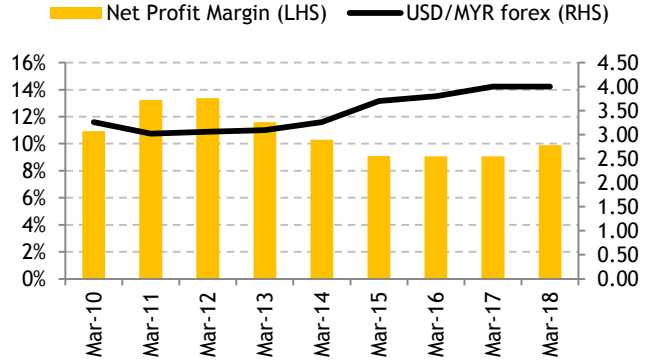
Source: Company, Maybank Kim Eng

1. Proposed special dividend via a capital reduction of MYR0.41/share.
2. MH370 and MH17 aviation disasters caused significant ad revenue loss throughout 2014 as advertisers cancelled/postponed ad campaigns.
3. Re-rated since its strong 1QFY3/16 results.

Financial Metrics

§ Ad spend and lower newsprint cost/tonne in MYR terms are critical elements of MCIL's earnings.
§ Poor adex sentiment and shrinking circulation contribute to weakness in revenue.
§ Conservatively expect FY16 newsprint consumption of ~120k tonnes, down 13% YoY. But volume newsprint savings may be offset by strength in USD/MYR.
§ We expect net earnings to remain suppressed in CY16 but return to growth from CY17 onwards as consumer sentiment improves in Malaysia.
§ We expect MCIL to turn net cash by FY3/16, sustaining its attractive dividend yields of >6%.

Net profit margin vs USD/MYR



Source: Company, Maybank Kim Eng

Swing Factors

Upside

§ Reduced newsprint cost per metric tonne in MYR terms.
§ Lower newsprint consumption. MCIL consumes the largest amount of newsprint amongst its peers.
§ Quicker than expected recovery in adex sentiment.
§ Higher dividend payout ratio (DPR). Current DPR is 50%.
§ Better ability to monetise digital media through e-paper subscriptions, online video portal (Pocketimes) and e-commerce website (Logon).

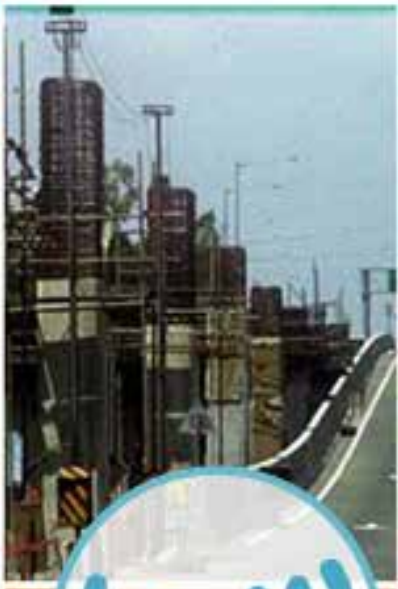
Downside

§ Further weakness in MYR against USD will increase newsprint cost in MYR terms.
§ Poor consumer sentiment leading to subdued adex growth.
§ Increased migration of readership from hardcopy newspapers to digital news platforms negatively impacting circulation revenue.

GDP = C + I + G + (X-M)

Philippines















STRATEGY

Philippines

Philippines's Six-for-16

Smooth Transitioning

2016 polls another step in a strengthening economy

This year will be eventful with national and local elections set for 9 May 2016. The race to succeed President Benigno Aquino III is a five-way contest. All candidates profess to strengthen economic reforms, improve infrastructure, reduce criminality, and address the Mindanao issue. We believe policies that have led to improving economic fundamentals over the years will be maintained. What will differentiate each candidate is the focus and speed of implementing their programs. As the government transition occurs, the central bank is likely to gradually tighten monetary policy, since economic growth remains healthy. Indeed, this is spurring corporate investments. As a result, the equity market may be buoyant in 1H16, but give back gains in 2H16. Even as we are NEUTRAL, we see counters that may benefit in the run-up to and after the May polls in the consumer, media and infrastructure sectors.

Lengthy track records aid in policy continuity

Four of the five presidential candidates have long political records. Mar Roxas not only is in Aquino's cabinet, but served three administrations and was in Congress. Jejomar Binay is the sitting vice president, and was Makati City mayor for 21 years. Miriam Santiago was a trial court judge, served in the first Aquino administration, and is a three-term senator. Rodrigo Duterte has been Davao City mayor for 22 years and spent one term in Congress. Senator Grace Poe was elected in 2013 and chaired the Movie and Television Review and Classification Board for two years. We believe such backgrounds lend a high probability to policy continuity.

Basic consumer and media plays proven winners

Thousands of candidates are vying for positions. Spending on campaign ads and distribution of freebies as they tour the country should lift sales for firms, such as ABS, JFC, and SMPH. Recently listed CNPF is also likely to benefit.

Longer shots are value infrastructure plays

Infrastructure inadequacy is a hot-button issue. Examples include horrendous road congestion and slow internet speeds. Part of the solution rests on resolving regulatory hurdles. If contractual obligations are honoured and consumer welfare prioritized, MPI and PLDT could recover.

Analysts

Luz Lorenzo
(63) 2 849 8836
Luz_Lorenzo@maybank-atrke.com

Michael Bengson
(63) 2 849 8840
Michael_Bengson@maybank-atrke.com

Lovell Sarreal
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com

Rommel Rodrigo
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com

Jaclyn Jimenez
(63) 2 849 8842
Jaclyn_Jimenez@maybank-atrke.com

Stock	Bloomberg Code	Mkt cap (USDm)	Rating	Price (PHP)	TP (PHP)	Upside (%)	P/E (x) 15E	P/E (x) 16E	P/B (x) 15E	P/B (x) 16E	Div yld (%) 15E	Div yld (%) 16E
CNPF	CNPF PM EQUITY	782	BUY	16.48	20.00	21.4	19.5	15.7	3.8	3.2	1.2	1.5
ABS-CBN	ABS PM EQUITY	1,120	BUY	61.90	80.00	29.2	19.2	13.8	1.9	1.7	1.5	1.7
JFC	JFC PM EQUITY	4,982	BUY	219.00	250.00	14.2	43.2	36.3	7.6	6.7	0.8	0.9
SMPH	SMPH PM EQUITY	13,328	BUY	21.70	27.20	25.3	27.1	23.7	2.9	2.7	1.0	1.2
MPI	MPI PM EQUITY	3,084	BUY	5.20	6.70	28.8	16.7	17.2	1.3	1.2	0.7	0.7
PLDT	TEL PM EQUITY	9,466	BUY	2060.00	2400.00	16.5	13.0	12.6	3.4	3.6	7.4	5.8

1. Initiating coverage on CNPF: A rare catch

1.1 BUY – Attractive valuation and prospects

Century Pacific Food Inc (CNPF) is the largest food canner in the Philippines, deriving revenues from its branded consumer food products, such as canned fish, canned meat, milk, and food mixes. We like CNPF due to its: 1) superior ROE relative to peers; 2) market leadership; and 3) EPS growth prospects, which we forecast at 19.7% CAGR in FY14-17E.

In Oct 2015, CNPF acquired Century Pacific Agricultural Ventures Inc (CPAVI), a high-margin non-branded business in the faster-growing health-and-wellness segment. We expect the acquisition to be 8% EPS-accretive in FY16. CNPF is also deepening its footprint in the dairy business with more product launches, improving its cost structure as facilities investment come on stream, and may gain from election-related spending.

We initiate coverage of CNPF with a BUY rating and PHP20 TP based on 19x 2016F P/E, the average valuation of the Philippine consumer sector.

1.2 Strong core business with forays into diversification

We expect CNPF's primary branded businesses to provide long-run stability in earnings and cash flows. Through its track record of capitalising on emerging market trends and continuous innovation of products, the company should be able to solidify its dominance of the domestic canned and preserved food industry.

Faster growth can be expected from emerging segments, such as dairy and its recently acquired coconut business, CPAVI. CNPF aims to expand in dairy with its recent launch of *Birch Tree Fortified Milk*. CPAVI is already profitable with a focus on the production of higher-value products, such as coconut water and virgin coconut oil. Global demand is growing for both due to their health benefits. We expect the acquisition to provide synergies to CNPF, given its expertise in the private label export business, and track record in managing relationships with both foreign customers and regulators.

1.3 Financial strength supports expansion

Even after CNPF's PHP4.5b CPAVI acquisition, 50% of which was debt-funded, we expect CNPF will end 2016 in a net cash position. This allows for financial flexibility in undertaking potential major acquisitions or investments that could complement current operations. We forecast stable cash flows and minimal capital expenditure needs for the next few years, supported by its recent expansion (including completion of a new tin can facility). CNPF may acquire brands competing with its existing businesses to solidify its market positioning. It may also look into entering shelf-stable categories it is currently not present in to further diversify its branded portfolio. One possibility is frozen products, particularly frozen meat, as parent CPGI is handling the operations of *Swift*'s frozen meat products.

2. Winning plays in an election year

2.1 ABS-CBN – Political ads and new initiatives

During election years ABS-CBN Corp (ABS/ABSP) gets a significant share of political ad spending by candidates. At the same time, regular advertisers take advantage of stronger consumption and accelerate their ad spending. Since 1998, ABS's airtime revenue growth has averaged 20% during election years compared with 6% in non-election years.

The share price has appreciated an average of 43% YoY during election years since 2001, while dropping 5% on average in non-election years. Valuation-wise, the stock has climbed as high as 2SD above its nine-year average forward PER during election seasons, and reached a high of 33x PER in the previous presidential elections.

Supported by the ramp-up of operations in its other initiatives, such as *Kidzania Manila* and digital TV via *TVplus*, we expect FY16E consolidated revenues to increase 11% to PHP42.4b, and earnings 39% to PHP3.8b. Our PHP80 TP is based on 17.8x FY16E PER, above ABSP's nine-year average forward PER of 15.8x.

2.2 JFC – Pulling ahead with top/bottom line growth

As the largest restaurant chain in the country, JFC will be a winner regardless of the outcome of the 2016 elections. The simple average of JFC's share price appreciation from 1994 to 2014 is 20% YoY. The average was 10% during non-election years, but a much higher 40% in election years. We don't think there is any reason 2016 will be different, which should again provide a strong upside catalyst for the shares.

Estimated same-store-sales growth (SSSG) of flagship *Jollibee* brand was stronger in four of five election years since 2000 vs. the preceding year's level. We expect healthy SSSG of 6-9% in 2016E and forecast earnings to rise 19%, supported by stronger sales growth and better margins. We raise our target price by 16% to PHP250 or 41x PER. This is at a 10% discount to JFC's peak valuation achieved in Jan-Feb 2015.

2.3 SMPH – Campaign spending benefits top mall operator

SMPH, the top mall operator in the Philippines by a wide margin, is a big beneficiary of rapid growth in consumer spending during normal years, and especially so in election years when SSSG jumps. In addition, it is now reaping synergies from other recurring incomes, such as from office and hotels/leisure, while the residential business is recovering well. We forecast a three-year net profit CAGR of 17% in 2014-2017F driven by mall operations and new real estate developments.

SMPH remains dominant in the market by building four to five new malls per year that we estimate will increase retail GLA by a 13% CAGR in 2014-2017F, underpinning a 17% CAGR in net profit over the same period. Our TP of PHP27.20 is at roughly a 10% discount to our estimated NAV of PHP29.80/sh because of its leadership in mall operations. Malls contribute 71% of NAV.

Potential upside could come from proposed major Metro Manila reclamation projects, the new consortium to develop properties in the Ortigas CBD, and asset injections, such as office buildings of the Net Quad group now owned by the Sy family holding company.

3. Issues holding back infra development

3.1 Public spending less than target, PPP program delayed

Infrastructure inadequacy is a hot-button issue and the most egregious example is road congestion where motorists can be tied up for hours in traffic. There are many reasons why infrastructure improvement has lagged, but slow government spending is certainly one. The aim was to raise public infrastructure spending to 5% of GDP by 2016 from 1.8% in 2010, and to keep the overall budget deficit at 2%. This has not been the case. In 2014, infrastructure spending was only 2.2% of GDP and was 2.5% as of 9M15. The 2% budget deficit target was met only in 2011.

The Aquino government had an ambitious PPP program with a list of 54 projects when the program was announced in 2010. To-date 12 have been bid out as of end-2015, with only the first project awarded in 2011 completed in Jul 2015 (the four-km Manila-Cavite Expressway).

PPP projects, both prospective and those awarded, have been wrecked by controversy. Some of the more prominent examples are contractually agreed toll road rate hikes that have not been given when scheduled, water concession agreements being reinterpreted, and government deliverables on a hospital construction project unduly delayed to the extent that the private-sector proponent returned the project to the government.

3.2 New administration may go for quick wins

These delays and controversies are some of the issues being raised by presidential candidates opposing the ruling Liberal Party. Of course, the promise is they will do better. It is possible that to make a positive and quick impact, whoever is elected president will act on some of these issues immediately, especially those not complex, such as toll road tariff increases. Another could be the reallocation of frequency for telecoms companies, which will not only improve internet speeds, but also raise potentially significant revenues for the government.

3.3 MPI – Overdue rate hikes after May elections?

MPI could have been a stock market darling because it provides direct exposure to Philippine infrastructure, with stakes in water and electricity distribution, railways, toll roads, and hospitals. However, uncertainty on the timing of rate hikes led to the share price trading at a substantial discount to NAV.

MPI was due contractually inflation-linked rate hikes on toll roads it operates in 2012 and 2014, but these were not given by the regulator. Still, MPI has been able to report decent earnings due to strong volume trends. It is possible that there will be no immediate improvement after the May elections, but we have already factored that in by assuming a toll hike sometime in 2017. Two scenarios involving earlier adjustments show incremental earnings and NAV upgrades. Our forecasts yield a TP of PHP6.70, a 20% discount to our estimated NAV of PHP8.40, in line with the conglomerate average. Maintain BUY.

3.4 PLDT – Oversold and with 5.8% dividend yield

PLDT's share price is at a four-year low, weighed down by concerns over its ability to retain market share and Telstra's possible entry via a JV with San Miguel Corp. Given that steps have been taken to reverse the market share slide, while no deal has been signed by Telstra yet, the ~30% correction YTD looks excessive. Even if the SMC-Telstra JV materializes, we see little impact to PLDT's FY16 profit. But earnings may be helped by election related spending in 2016 that could lift revenues.

PLDT has applied with the National Telecommunications Commission for equitable allocation of the 700MHz frequency now assigned to SMC and affiliates. The frequency is attractive for cost-efficient mobile internet access. It could be a key factor in whether or not the SMC-Telstra JV proceeds. The NTC takes time in resolving issues, and this one is likely to be taken up by officials appointed after the May 2016 elections.

With 17% share price upside to our DCF-based TP of PHP2,400 and the highest dividend yield of 5.8% among PSEi constituents, we maintain BUY.

January 3, 2016

Consumer Staples

Philippines

Century Pacific Food Inc (CNPF PM)

A Rare Catch

BUY

Share Price	PHP 16.48
12m Price Target	PHP 20.00 (+21%)

Initiate with BUY on largest canner in Philippines

We initiate coverage of CNPF with a BUY rating and PHP20 TP, based on 19x 2016F P/E, the average valuation of the Philippine consumer sector. CNPF is the largest food canner in the Philippines, deriving revenues from its branded consumer food products, such as canned fish, canned meat, milk, and food mixes. We like CNPF owing to its: 1) superior ROE relative to peers; 2) market leadership; and 3) EPS growth prospects we forecast at a 19.7% CAGR during FY14-17E.

Entering new categories for growth

We expect CNPF's core branded businesses, canned fish and meat, to underpin its long-run earnings and cash flows. Faster growth can be expected from emerging segments, such as dairy and its recently acquired coconut business, CPAVI. CNPF aims to expand dairy with its recent launch of *Birch Tree Fortified Milk*. We see opportunities for synergies with CPAVI and breakthrough into faster-growing health-and-wellness segments.

Healthy balance sheet to support expansion

Even after its PHP4.5b coconut acquisition, we believe debt ratios could remain healthy in FY15 and beyond (net cash from FY16E). This would give CNPF the financial flexibility for future acquisitions. Stable operating cash flows and reasonable capex needs in the next few years after its recent expansion should bolster this flexibility. CNPF may acquire brands that compete with its existing businesses to solidify its market positioning or may penetrate other shelf-stable categories to diversify its branded portfolio.

Catalysts: acquisitions, election boost, margins

We see short-term catalysts from its: 1) CPAVI acquisition that should add 8% to FY16E EPS; 2) increasing traction in powdered milk; 3) a potential election boost to consumption; and 4) an improving cost structure through economies of scale and backward integration.

Company description

CNPF is primarily engaged in the manufacture and distribution of branded consumer foods such as canned fish, canned meat and dairy products.

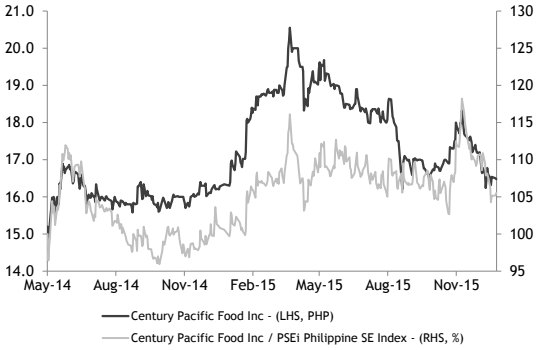
Statistics

52w high/low (PHP)	20.55/16.20
3m avg turnover (USDm)	0.2
Free float (%)	15.8
Issued shares (m)	2,360
Market capitalisation	PHP38.9B
	USD827M

Major shareholders:

Century Pacific Group Inc	73.7%
Arran Investment Pte Ltd	10.4%
JP Morgan Chase and Co	1.6%

Price Performance

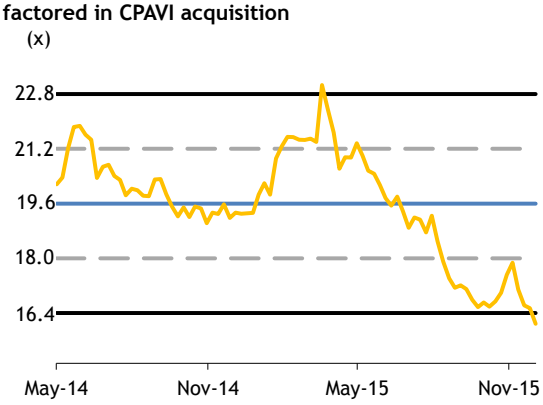


	-1M	-3M	-12M
Absolute (%)	(5)	0	1
Relative to index (%)	(4)	(0)	5

Source: FactSet

FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	19,023	20,439	23,085	28,388	32,020
EBITDA	1,104	2,255	2,683	3,636	4,209
Core net profit	744	1,592	1,885	2,481	2,883
Core EPS (PHP)	0.50	0.71	0.85	1.05	1.22
Core EPS growth (%)	na	43.8	18.5	24.4	16.2
Net DPS (PHP)	0.00	0.00	0.20	0.24	0.32
Core P/E (x)	33.2	23.1	19.5	15.7	13.5
P/BV (x)	8.7	5.6	3.8	3.2	2.7
Net dividend yield (%)	0.0	0.0	1.2	1.5	1.9
ROAE (%)	na	33.8	22.4	22.2	21.8
ROAA (%)	na	16.5	13.0	12.9	13.0
EV/EBITDA (x)	na	15.6	13.9	10.6	8.8
Net debt/equity (%)	67.4	net cash	6.0	net cash	net cash
Consensus net profit	-	-	1,943	2,214	2,503
MKE vs. Consensus (%)	-	-	(3.0)	12.1	15.2

12-month forward P/E band; share price has not fully factored in CPAVI acquisition



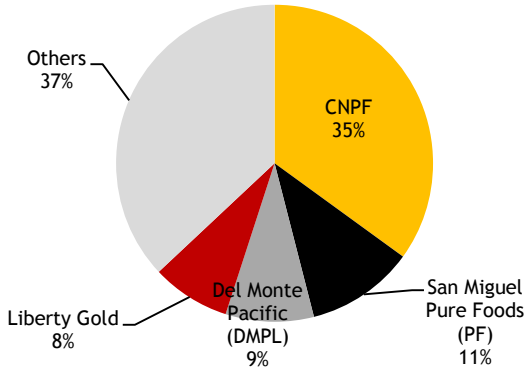
Jaclyn Jimenez
Jaclyn_Jimenez@maybank-atrke.com
(63) 2 849 8842

Lovell Sarreal
lovell_sarreal@maybank-atrke.com
(63) 2 849 8841

Value Proposition

§ Among the leading branded consumer food producers in the Philippines and the dominant food canner. Offers multi-brand, multi-category product portfolio.
§ Successful brand management has led to >20% ROEs. Riding on its brand development capabilities, aims to gain traction in bigger dairy industry.
§ Recent acquisition of high-margin coconut business increases scale and adds a new dimension to private-label export business.
§ Cash-generative. Future cash generation may be used for acquisitions to expand portfolio.

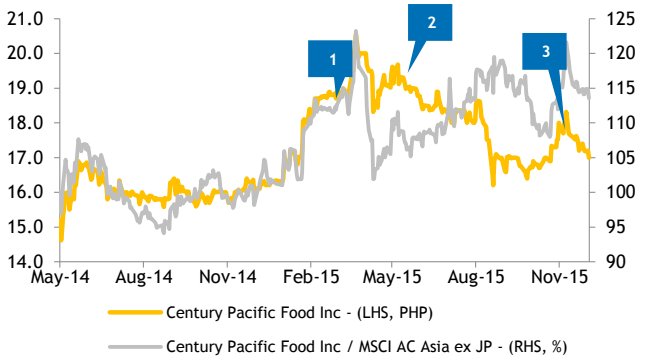
Leader in canned food



Source: Company, Euromonitor

Price Drivers

Share price since IPO



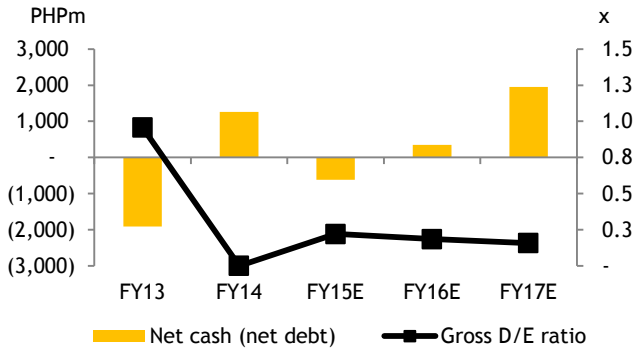
Source: Company, Maybank ATR Kim Eng

1. CNPF acquires CGC from parent CPGI for nominal USD100. CGC holds the various brands (*Century Tuna/ Argentina*), trademarks & group intellectual property.
2. Parent CPGI completes PHP2.7b placement of 143.4m outstanding CNPF shares to the public at PHP18.75 each.
3. CNPF acquires Century Pacific Agricultural Ventures Inc (CPAVI), a producer of private-label coconut products, from parent CPGI for PHP4.5b.

Financial Metrics

§ FCF the most important metric. Stable cash flows from core businesses to support potential growth opportunities. Positive FCF expected from FY15 onwards.
§ Barring cost/FX volatility, core branded businesses should provide earnings stability. Combined EBIT for canned fish and meat to grow 13% CAGR in FY14-17E.
§ Powder milk drinks a wild card, as CNPF counts on its brand management abilities to break into a market long dominated by multinationals.

Healthy gearing to support potential acquisitions



Source: Maybank ATR Kim Eng

Swing Factors

Upside

§ Expanding in fast-growing dairy market through faster rollout of *Birch Tree Fortified,* a powder-milk drink.
§ Increasing consumption of core canned foods, supported by continuous development of premium products.
§ New coconut business to provide synergies & opportunities in high-growth health and wellness segment.
§ Future acquisitions supported by healthy balance sheet.

Downside

§ Volatile raw-material prices and foreign currencies. Supply shortages, particularly of tuna.
§ Intensified competition in core branded categories could result in market-share losses, increased A&P spending.
§ Drastic changes in consumers' eating habits such as less food consumption at home and more dining out.

January 3, 2016

Broadcasting

Philippines

ABS-CBN (ABS PM)

Winning bet in FY16

BUY

Share Price	PHP 61.90
12m Price Target	PHP 80.00 (+29%)
Previous Price Target	*PHP 80.00*

FY16 a banner year for ABS

Maintain BUY on ABS-CBN Corp (ABS/ABSP), the leader in the Philippine broadcasting industry in terms of nationwide audience share, revenues and earnings. We expect FY16E net income to jump 39% to PHP3.8b, boosted by election-related spending, accelerated regular ad growth, and ramp-up of new initiatives. Our PHP80 TP is based on 17.8x FY16E PER, above ABSP's nine-year average forward PER of 15.8x.

Election spend boosts airtime revenues…

With television still the preferred medium for content-viewing by the majority of Filipinos, media companies, such as ABS are winners during election years, obtaining a significant share of political ad spending by candidates. At the same time, regular advertisers, such as fast-moving consumer goods companies take advantage of stronger consumption and accelerate their ad spending. Since 1998, ABS's airtime revenue growth has averaged 20% during election years, while posting average growth of 6% in non-election years. For FY16E, we forecast airtime revenues will rise 16.5% to PHP23.7b, with political ads totalling PHP2.7b. Regular airtime revenue growth may accelerate to 8% in FY16E from the estimated 4% increase in FY15E.

…and stock price usually surges

ABS's strong fundamentals have also translated to stock price outperformance during election years, beginning in 2001 (43% YoY appreciation vs. 5% avg. drop in non-election years.) Valuation-wise, the stock has climbed as high as 2SD above its nine-year average forward PER during election seasons, reaching a high of 33x PER in the previous presidential elections.

39% earnings growth in FY16E

Supported by the ramp-up of operations in its other initiatives, such as *Kidzania Manila* and digital TV via *TVPlus*, we expect consolidated revenues to increase 11% to PHP42.4b, and earnings 39% to PHP3.8b. Incremental costs incurred in the coverage of elections are likely to be minimal. Hence, we believe a huge portion of election-related revenues will flow directly through to profits.

FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	33,378	33,544	38,278	42,414	40,086
EBITDA	7,352	7,566	8,815	10,868	10,215
Core net profit	2,142	2,383	2,770	3,847	3,071
Core EPS (PHP)	2.50	2.78	3.23	4.49	3.58
Core EPS growth (%)	20.9	11.2	16.2	38.9	(20.2)
Net DPS (PHP)	0.35	0.58	0.90	1.05	1.45
Core P/E (x)	24.8	22.3	19.2	13.8	17.3
P/BV (x)	2.2	2.1	1.9	1.7	1.6
Net dividend yield (%)	0.6	0.9	1.5	1.7	2.3
ROAE (%)	10.3	9.6	10.5	13.3	9.8
ROAA (%)	3.9	3.8	4.1	5.6	4.4
EV/EBITDA (x)	4.6	6.5	7.3	6.0	6.1
Net debt/equity (%)	17.9	28.7	36.3	34.1	23.2
Consensus net profit	-	-	2,774	3,799	2,982
MKE vs. Consensus (%)	-	-	0.0	1.4	3.1

Company description

Primarily involved in television and radio broadcasting as well as in the production of television and radio programming for domestic and international audiences and other related businesses.

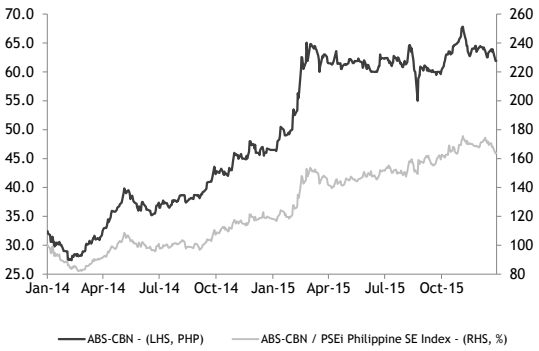
Statistics

52w high/low (PHP)	67.80/46.30
3m avg turnover (USDm)	0.0
Free float (%)	43.2
Issued shares (m)	851
Market capitalisation	PHP52.7B
	USD1.1B

Major shareholders:

Lopez Inc	56.5%
ABS-CBN Holdings Corp	38.7%
RBS Luxembourg	0.5%

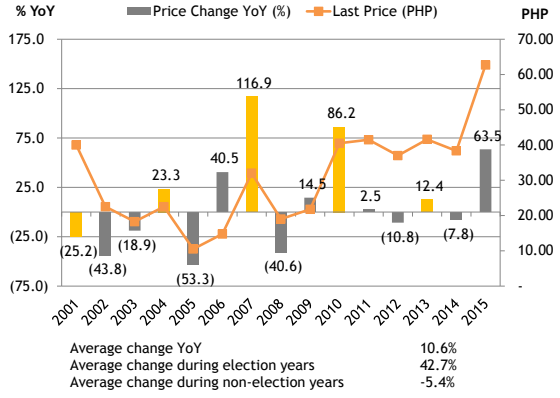
Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	3	33
Relative to index (%)	(2)	2	38

Source: FactSet

ABSP's historical share price change YoY



Average change YoY	10.6%
Average change during election years	42.7%
Average change during non-election years	-5.4%

Note:Annual share price as of end-June

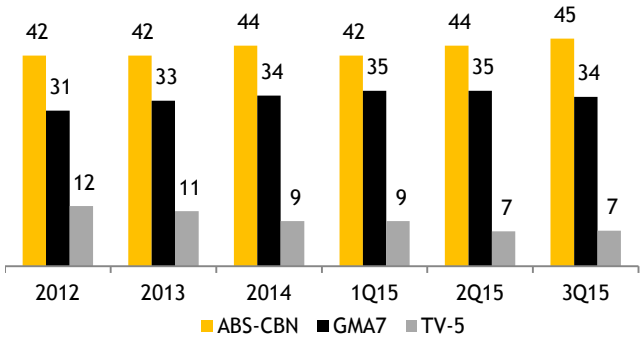
Jaclyn Jimenez
Jaclyn_Jimenez@maybank-atrke.com
(63) 2 849 8842

Lovell Sarreal
lovell_sarreal@maybank-atrke.com
(63) 2 849 8841

Value Proposition

§ ABS demonstrates sustained leadership in Philippines's nationwide TV household audience share.
§ Its movies and free-to-air/cable content exhibit deep understanding of the Filipino masses. Home-grown talent development is another of ABS's strengths.
§ Expanding various platforms to monetize content on mobile, pay TV, theme parks and sound stages.
§ Below-average ROA of <6% as new initiatives, pay TV continue to be in ramp-up mode. Expect returns to improve once new initiatives turn profitable.

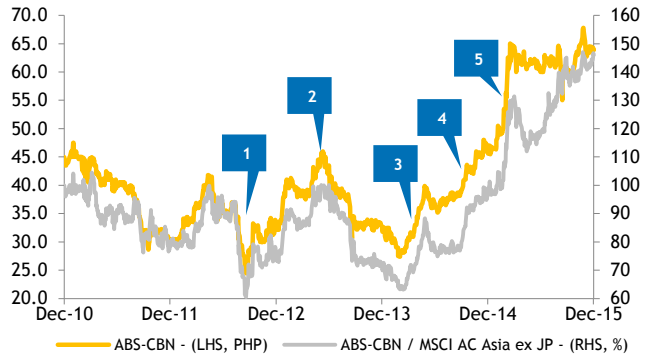
Dominance in nationwide total day audience share (%)



Source: Kantar, Maybank ATR Kim Eng

Price Drivers

Historical share price trend



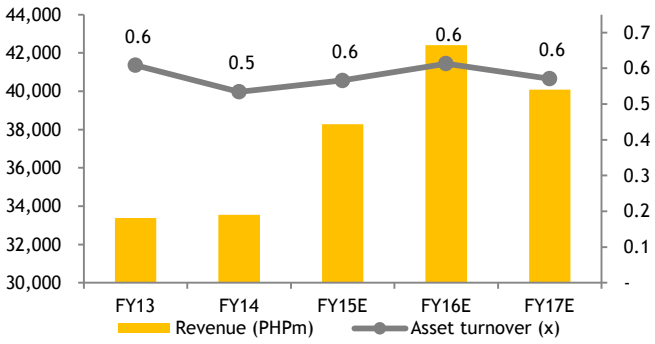
Source: Company, Maybank Kim Eng

1. From a 7.6% drop in 1H12 profits, ABS earnings increased >50% in 3Q12 owing to higher TV ratings, and cable revenues.
2. Investors took profits after the company announced a 68% YoY increase in 1Q13 earnings, boosted by election-related airtime revenues.
3. The board approves share buyback program of ABS and ABSP shares of up to PHP500m.
4. Cost management initiatives bear fruit as 9M14 opex remained flattish, helped by reduced production costs.
5. ABS pioneers the switch to digital TV with the launch of *TVplus*. It also aims to improve audience share in areas with poor ABS analog reception.

Financial Metrics

§ Asset turnover is ABS's key financial metric to monitor as this is a high operating leverage business. Earnings are highly sensitive to efficiency of asset utilization.
§ Revenue tracks economic cycles, but enjoys an election boost every three years. The long-term trend should be more stable as revenue sources are diversified.
§ High degree of operating leverage to lead to earnings volatility. Profit growth in FY15/16E is 16/39%.
§ Asset turnover remains steady at 0.6x during forecast period. Steady growth in TV and studio operations lift non-core businesses, which are still in investment mode.

FY16 revenues boosted by elections; asset T/O steady



Source: Maybank ATR Kim Eng

Swing Factors

Upside

§ Higher airtime revenues. Multinational advertisers could allocate more ad budget to their Philippine operations to take advantage of a sustained healthy economy.
§ Higher TV household ratings, helped by digital TV rollout could also translate to higher airtime revenues, based on new price scheme with advertisers.
§ Production cost savings upon completion of sound stages.
§ Turnaround of new initiatives — improving visitor attendance for *Kidzania* and an increasing number of *TVPlus* digital boxes sold.

Downside

§ Potential lower TV household rating that could result in market share grab by closest competitor in core free-to-air segment.
§ Lower-than expected subscriber take-up could lead to sustained losses on *ABS-CBN* Mobile.
§ Intensifying competition in pay TV spurred by new technologies.

Consumer Staples

Philippines

Jollibee Foods (JFC PM)

Pulling ahead with top/bottom line growth

BUY

Share Price	PHP 219.00
12m Price Target	PHP 250.00 (+14%)
Previous Price Target	*PHP 215.00*

JFC wins with higher share price and stronger sales

Regardless of the outcome of the 2016 presidential elections, we believe JFC will be a winner. As the largest restaurant chain in the country, it benefits from healthy consumption that likely will be boosted by election-related spending. We expect 2016F earnings to increase 19% supported by stronger sales growth and better margins. We raise our target price 16% to PHP250 or 41x PER.

Share price goes up faster during election years

The simple average of JFC's share price appreciation from 1994 to 2014 is 20% YoY. It has averaged 10% during non-election years, but a much higher 40% in election years. We don't think there is any reason 2016 will be different, which should again provide a strong upside catalyst for the shares.

Support comes mainly from stronger sales

As the country's largest restaurant chain operator with 2,393 local stores out of a 3,023-total store network worldwide as of end-Sep 2015, JFC should be among the main beneficiaries of this year's elections. We expect stronger consumption to be boosted by election-related spending. Based on historical performance, our estimated same-store-sales growth (SSSG) of flagship *Jollibee* brand was stronger in four of five election years since 2000 vs. the preceding year's level. Already, JFC's SSSG has started to strengthen from 4% in 1H15 to 7.6% in 3Q15, and this has been sustained in 4Q15 based on indications. We expect healthy SSSG of 6-7% in 2016F. We also expect faster 28% EBIT growth due to better margins as costs and expenses normalize after raw materials and IT-related costs rose sharply since 2014.

TP raised 16% to PHP250, maintain BUY

We raise our target price 16% to PHP250 based on 41x PER. This is a 10% discount to JFC's peak valuation achieved in Jan-Feb 2015. Taking into account that 2016 is an election year, JFC's historical price trends, and expectations of healthy sales and earnings growth, we believe the share price can exceed our previous DCF-based TP of PHP215. Maintain BUY with potential share price upside of 14%.

Company description

Engaged in the development, operation, and franchising of quick-service restaurants in the Philippines and worldwide

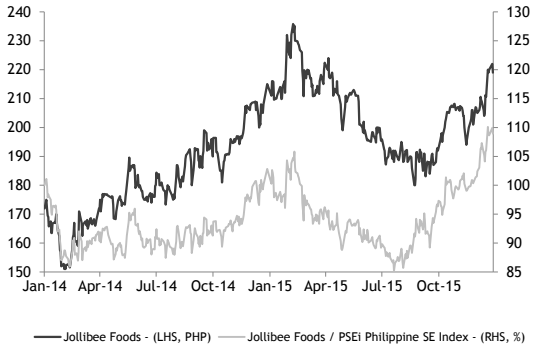
Statistics

52w high/low (PHP)	235.80/180.00
3m avg turnover (USDm)	3.5
Free float (%)	38.1
Issued shares (m)	1,052
Market capitalisation	PHP230.5B
	USD4.9B

Major shareholders:

Hyper Dynamic Corp.	25.6%
Honeysea Corp.	12.0%
Winall Holding Corp	5.1%

Price Performance

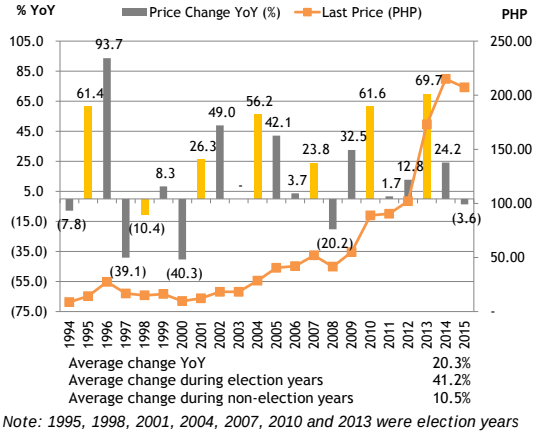


	-1M	-3M	-12M
Absolute (%)	6	14	2
Relative to index (%)	7	13	6

Source: FactSet

FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	80,283	90,671	100,650	114,105	128,707
EBITDA	9,004	9,323	10,052	12,278	14,204
Core net profit	4,672	5,362	5,405	6,435	7,621
Core EPS (PHP)	4.44	5.03	5.07	6.03	7.14
Core EPS growth (%)	24.7	13.3	0.8	19.1	18.4
Net DPS (PHP)	3.07	1.46	1.69	2.01	2.38
Core P/E (x)	49.4	43.6	43.2	36.3	30.7
P/BV (x)	10.2	8.6	7.6	6.7	5.8
Net dividend yield (%)	1.4	0.7	0.8	0.9	1.1
ROAE (%)	21.5	21.6	18.6	19.5	20.3
ROAA (%)	10.6	10.7	9.6	10.6	11.4
EV/EBITDA (x)	19.7	24.6	22.8	18.6	15.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	5,617	6,606	7,832
MKE vs. Consensus (%)	-	-	(3.8)	(2.6)	(2.7)

JFC's YoY share price appreciation



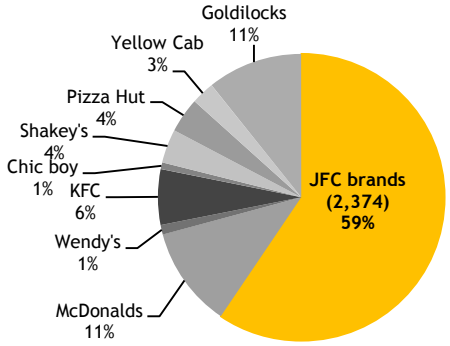
Note: 1995, 1998, 2001, 2004, 2007, 2010 and 2013 were election years

Lovell Sarreal
lovell_sarreal@maybank-atrke.com
(63) 2 849 8841

Value Proposition

§ Through multiple brands, JFC is the biggest restaurant chain operator with 2,393 stores in the Philippines and 630 outlets overseas.
§ *Jollibee* is an iconic Filipino brand that connects with Filipinos all over the world.
§ JFC has the distinction of beating global QSRs in its home market, including McDonalds and KFC..
§ Initiatives to raise international contribution to 50% of sales (20% currently) will enhance risk-return profile.
§ Value creation highlighted by 13% earnings CAGR from 2004-2014, while ROE averaged 19%.

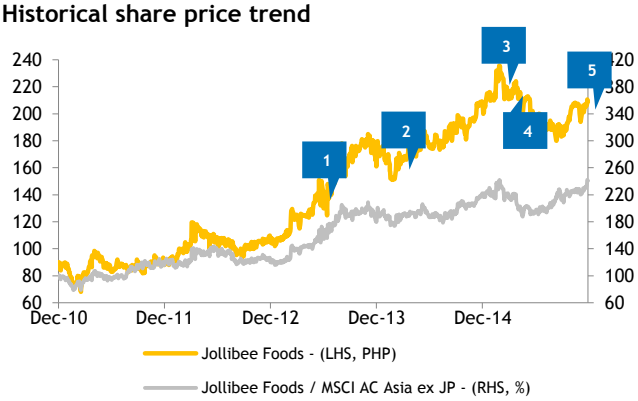
Domestic store network market share as of end-1H15



Source: JFC

Price Drivers

Historical share price trend



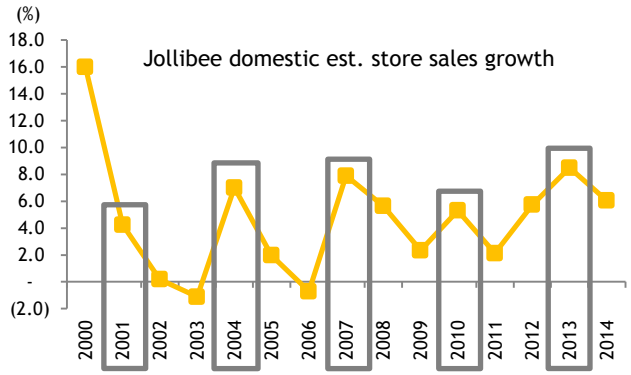
Source: Company, Maybank ATR Kim Eng

1. Started the 2013 election year with robust interim results. 1Q13 net income grew 33% YoY driven by strong sales and better margins.
2. In Feb 2014, the company disclosed a 24.5% jump in 2013 net income. Robust sales were sustained as evident by 8-9% SSSG. But 4Q15 saw raw material costs increasing.
3. Formed JV in Dec 2014 to open and operate *Dunkin Donuts* stores in certain territories in China.
4. 4Q14 EBIT declined 14% and only +3.5% for 2014, dampened by higher raw material costs and jump in IT-related expenses.
5. Announced in October the acquisition of an initial 40% stake in US-based *Smash Burger* for USD339m.

Financial Metrics

§ Same-store sales growth is an important metric as it affects turnover and operating leverage.
§ Estimated SSSG of flagship *Jollibee* brand normally strengthens in an election year.
§ Potential for ROE, already among the highest in listed Philippines, to expand with increasing scale especially from overseas operations. Expected profit growth of 19% in 2016F to be driven by stronger sales and better margins.
§ Operating cash flow expected at PHP11.1b vs PHP6.7b capex mainly from stores and central kitchen expansion.

***Jollibee*'s SSSG accelerates during election year**



Source: Company and Maybank ATR Kim Eng estimates

Swing Factors

Upside

§ Higher than 6-7% SSSG would enjoy benefits of better operating leverage
§ Faster depletion of high costing raw materials could result in higher margins.
§ Early turnaround of 50%-owned Vietnam JV for *Highlands Coffee* and *Pho 24*
§ New acquisition that is value-and earnings-accretive.

Downside

§ Weak consumption in spite of the presidential elections adversely affecting JFC's sales.
§ Sharp jump in commodity prices, especially for beef and chicken, JFC's two biggest raw materials.
§ Unexpected supply chain or logistics issues that can adversely affect sales and/or increase costs and expenses.
§ Higher-than-normal store closures. In 2012, JFC closed 101 non-performing stores in the Philippines and overseas and recognized a one-time PHP369m hit.

January 3, 2016

Real Estate

Philippines

SM Prime Holdings (SMPH PM)

Campaign spending benefits top mall operator

Reiterate BUY, top pick in the property space

Reiterate BUY rating on SMPH, the top mall operator in the Philippines by a wide margin. It is a big beneficiary of rapid growth in consumer spending during normal years, and especially so in election years. In addition, it is now reaping synergies from other recurring incomes, such as office and hotels/leisure, while the residential business is recovering well. We forecast a three-year net profit CAGR of 17% in 2014-2017F driven by mall operations and new real estate developments. NAV of PHP29/sh does not include upside from reclamation projects and development of the Ortigas properties.

Retailing strength more evident in election years

As the top Philippine mall operator, SMPH accounts for 65% of the sector GLA under our coverage, and is also the second biggest landlord retailer in ASEAN. SMPH remains market dominant by building four to five new malls per year that we estimate will increase retail GLA by a 13% CAGR in 2014-2017F, underpinning a 17% CAGR in net profit over the same period. SMPH experiences spikes in same-store sales growth (SSSG) coinciding with election years, likely due to election-related spending from thousands of political candidates giving away basic goods and other freebies during the campaign season.

Recovery in residential and new mega projects

The residential business has been successfully turned around with quarterly take-up growing at double digit rates YoY since 2Q13. We expect office GLA to more than double to 322k sqm by 2017 and hotel room count to reach 2,268 from 1,015 in 2014.

Further upside from other ventures

Our TP of PHP27.20 is at about a 10% discount to estimated NAV of PHP29.80/sh because of its mall leadership. Malls contribute 71% of NAV. Potential upside could come from proposed major Metro Manila reclamation projects, the new consortium to develop properties in the Ortigas CBD, and asset injections, such as office buildings of the Net Quad group now owned by the Sy family holding company.

FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	59,794	66,240	75,111	81,531	92,585
EBITDA	30,117	34,266	40,013	44,887	50,415
Core net profit	17,551	19,035	23,136	26,446	30,435
Core EPS (PHP)	0.63	0.66	0.80	0.92	1.05
Core EPS growth (%)	8.3	4.3	21.5	14.3	15.1
Net DPS (PHP)	0.18	0.19	0.22	0.26	0.30
Core P/E (x)	34.3	32.9	27.1	23.7	20.6
P/BV (x)	3.7	3.1	2.9	2.7	2.4
Net dividend yield (%)	0.8	0.9	1.0	1.2	1.4
ROAE (%)	11.3	10.5	11.2	11.7	12.4
ROAA (%)	5.7	5.3	5.6	5.7	6.0
EV/EBITDA (x)	16.2	17.2	18.6	17.1	15.5
Net debt/equity (%)	47.9	47.2	53.2	58.4	57.4
Consensus net profit	-	-	22,450	25,362	29,118
MKE vs. Consensus (%)	-	-	3.1	4.3	4.5

Rommel Rodrigo
rommel_rodrigo@maybank-atrke.com
(63) 2 849 8839

BUY

Share Price	PHP 21.70
12m Price Target	PHP 27.20 (+25%)
Previous Price Target	*PHP 27.20*

Company description

SM Prime Holdings, Inc. operates malls, residential projects, offices and hotels

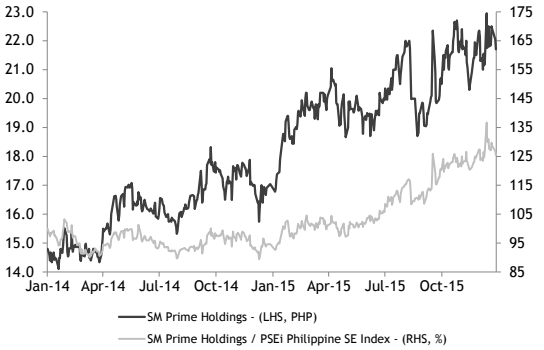
Statistics

52w high/low (PHP)	22.95/16.78
3m avg turnover (USDm)	6.2
Free float (%)	22.8
Issued shares (m)	28,879
Market capitalisation	PHP626.7B
	USD13.3B

Major shareholders:

SM Investments Corp.	50.9%
SY HENRY SR	4.4%
OppenheimerFunds, Inc.	2.8%

Price Performance



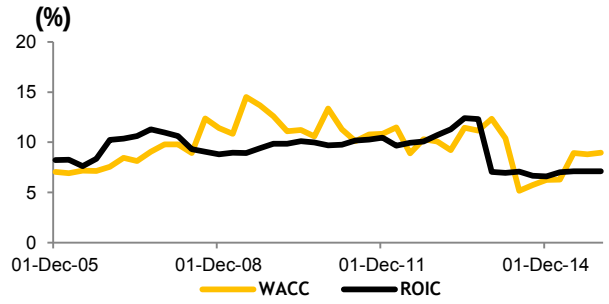
	-1M	-3M	-12M
Absolute (%)	(3)	5	27
Relative to index (%)	(1)	4	32

Source: FactSet

Value Proposition

§ SMPH is the market leader in mall space by a wide margin, with 5.6m sqm GLA. It accounts for 65%/62% of total property sector retail GLA/revenues.
§ Sustaining leadership position. Expanding its mall GLA at 13% CAGR to 7.5m sqm in 2017F.
§ Lowest risk in our coverage universe. Recurring income is 82% of EBITDA. Possesses pricing power by virtue of its dominant position.
§ Cost of capital may edge slightly with US rate hikes. WACC has been trending lower since 2008, but so has ROIC.

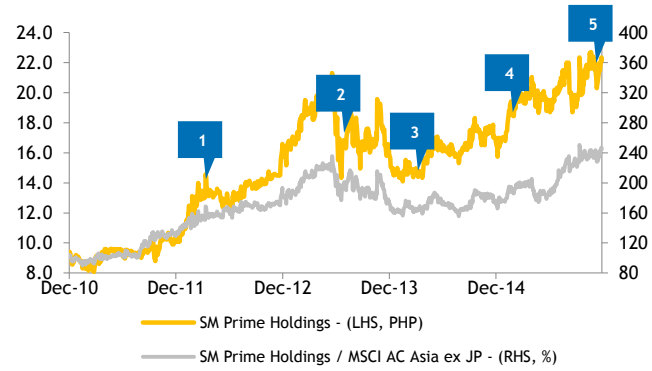
SMPH's WACC and ROIC (2005-2015)



Source: Factset

Price Drivers

Historical share price trend



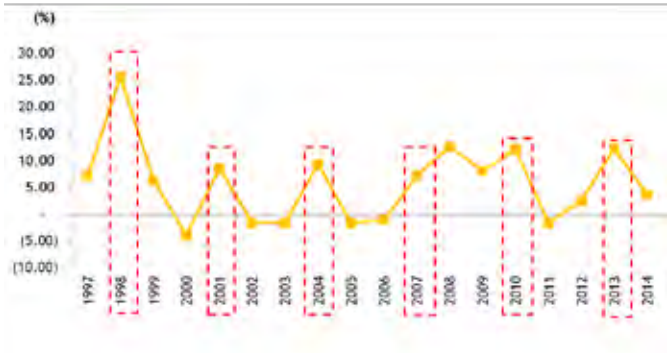
Source: Factset

1. SMPH raises PHP5b in debt for mall expansions.
2. Shares correct after SMPH announces merger with SMDC.
3. Regulators approve merger.
4. SMPH clarifies unsold inventory figures of residential unit SMDC, most of which are not ready for occupancy.
5. SM opens *SM Seaside Cebu*, SM's largest mall outside Luzon.

Financial Metrics

§ We forecast EBITDA margin to normalise to 55% from 50% because of the strong recurring components.
§ Same-store sales surge during election years. Similarly, SMPH's share price appreciates during election years based on historical data.
§ Healthy balance sheet with 55% net gearing below peer average.
§ Our RNAV per share of PHP29.80 and target price of PHP27.20 takes into account the mall expansion and modest residential sales.

Estimated same-store-sales growth (red are election years)



Source: Maybank ATR KE estimates

Swing Factors

Upside

§ Additional mall pipeline, higher-than-expected variable lease rates.
§ Further details on the Ortigas joint venture with Ayala Land Inc.
§ Updates on the reclamation projects.
§ Favourable results from the Swiss challenge of the Bonifacio South Property.
§ Sustained high growth in sales take-up.

Downside

§ Delays in project completions, especially large malls
§ Unexpected build-up in residential inventory from slower reservation sales.
§ Sudden weakening in same-store-sales growth.

Financials

Philippines

Metro Pacific Investments (MPI PM)

Shares oversold on rate hike concern

BUY

Share Price	PHP 5.20
12m Price Target	PHP 6.70 (+29%)
Previous Price Target	*PHP 6.70*

Reiterate BUY, worst case priced-in

MPI could have been a stock market darling because it provides direct exposure to Philippine infrastructure, with stakes in water and electricity distribution, railways, toll roads and hospitals. However, uncertainty on the timing of rate hikes and even a re-interpretation of its water concession agreement have led to the share price trading at a substantial discount to NAV. Taking the worst-case scenarios into account, we estimate NAV is PHP8.40, to which the shares are trading at a 38% discount. It is likely issues on the regulatory environment have led to the shares underperforming, despite MPI posting respectable earnings under less than favourable conditions. Reiterate BUY.

Tariff approvals are upside catalysts

MPI was due contractual inflation-linked rate hikes on the toll roads it operates in 2012 and 2014, but these were not given by the regulator. A rate hike granted MPI's water unit through arbitration also has not been implemented by the regulator. Still, MPI has been able to report decent earnings due to strong volume trends. When MPI obtains the rate increases it is entitled to, more likely after the May 2016 election, negative sentiment may turn.

Potential improvement after elections

Severe infrastructure inadequacy, especially transport, is an issue highlighted by most presidential candidates. Thus, we think the regulatory environment may improve when new officials are appointed by the next administration. We have prepared two scenarios for toll roads: (1) the regulator awards the overdue tariff hikes; and (2) extension of MPI's toll road concession. Under (1), we estimate upside to our earnings and NAV forecasts are 10% and 6%, respectively. Under (2), NAV could increase 7%.

Price already reflects regulatory difficulties

It is possible there will be no immediate improvement after the May elections, but this is what we have already factored into our forecasts. Even with these conservative assumptions, MPI still trades significantly below our estimated NAV. We believe investors are overlooking the potential upside from tariff hikes, while overestimating the negatives.

FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	30,877	33,832	34,575	37,283	39,761
EBITDA	16,537	13,927	16,594	18,169	19,661
Core net profit	7,209	7,940	8,681	8,417	9,056
Core EPS (PHP)	0.28	0.31	0.31	0.30	0.33
Core EPS growth (%)	13.0	10.1	2.1	(3.0)	7.6
Net DPS (PHP)	0.03	0.03	0.03	0.03	0.00
Core P/E (x)	18.8	17.0	16.7	17.2	16.0
P/BV (x)	1.4	1.3	1.3	1.2	1.1
Net dividend yield (%)	0.6	0.6	0.7	0.7	0.0
ROAE (%)	8.3	8.0	8.1	7.3	7.4
ROAA (%)	3.9	3.7	3.4	3.0	3.1
EV/EBITDA (x)	15.7	19.9	18.6	18.2	18.0
Net debt/equity (%)	35.9	31.8	21.7	23.5	26.4
Consensus net profit	-	-	9,802	9,832	10,369
MKE vs. Consensus (%)	-	-	(11.4)	(14.4)	(12.7)

Company description

Metro Pacific Investments Corp. has interest in water distribution, toll roads, railway, hospitals and electric distribution.

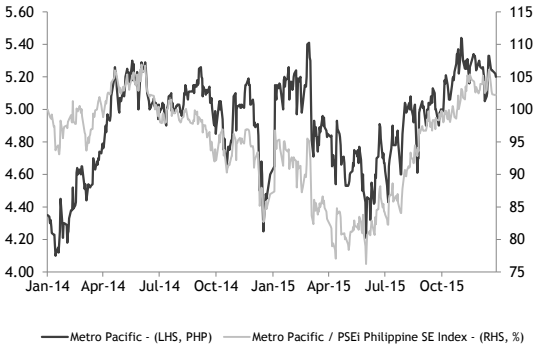
Statistics

52w high/low (PHP)	5.44/4.21
3m avg turnover (USDm)	2.7
Free float (%)	38.0
Issued shares (m)	27,861
Market capitalisation	PHP144.9B
	USD3.1B

Major shareholders:

First Pacific Co. Ltd.	52.0%
Cartica Management LLC	5.0%
Norges Bank Investment Management	1.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	4	13
Relative to index (%)	(0)	3	18

Source: FactSet

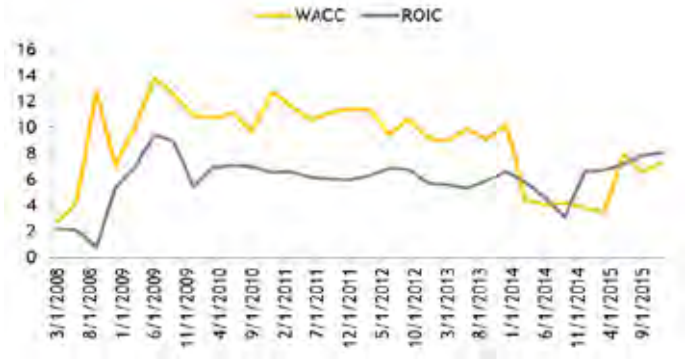
Rommel Rodrigo
rommel_rodrigo@maybank-atrke.com
(63) 2 849 8839

Michael Bengson
Michael_Bengson@maybank-atrke.com
(63) 2 849 8840

Value Proposition

§ MPI owns stakes in water and power utilities, railways, toll roads and hospitals. Derives ~92% of operating income from regulated businesses with high EBITDA margin.
§ Core business segments are defensive and generate stable cash flows. But failure to secure rate increases has stalled growth and returns.
§ Superior management quality can be demonstrated by value creation in numerous acquisitions.
§ MPI enhanced operating efficiency and earnings quality to foster value creation. EBITDA margins improved to 57% in 2014 from 16% in 2008.
§ ROIC has improved over the WACC since 2014 because of higher EBITDA margins and improved sales volume.

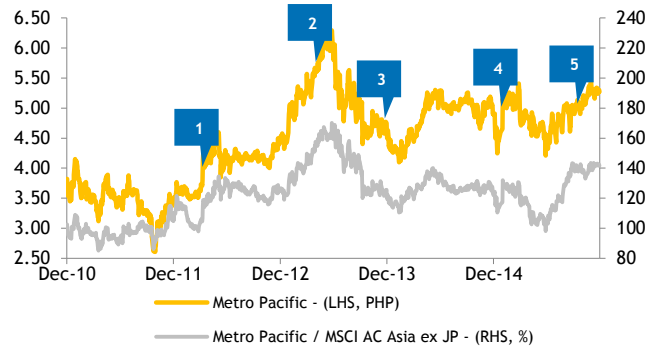
ROIC vs WACC



Source: Bloomberg

Price Drivers

Historical share price trend



Source: Company, Factset

1. MPI announced partial sale of stake in Maynilad Water Services Inc. to Marubeni Corp.
2. Maynilad submitted a business plan for rate rebasing, asking for PHP8.58/m^3 increase in water rates.
3. MWSS-RO denied Maynilad's petition and ordered a PHP1.46/m^3 cut in rates.
4. MPI received favourable decision on arbitration case.
5. MPI-Ayla Corp consortium took over LRT 1 operations.

Financial Metrics

§ The inability to get tariff increases has depressed returns. EBITDA margin of ~54% is high relative to other conglomerates, but high operating leverage weighs on ROIC.
§ We expect tariff increases in toll roads and water or an extension of the concession period when a new administration is in place. Low net debt-equity and steady dividend streams from subsidiaries to the parent implies more capacity to take on debt for project expansions. A key ratio to monitor is net debt to EBITDA of subsidiaries, which shows it takes only 1-3 years for MPI's subsidiaries annual cash flows to pay-off debts for each unit.

Net debt to EBITDA ratio of MPI's units



Source: Company Data

Swing Factors

Upside

§ Grant of tariff increase in water or toll roads.
§ If the regulator awards the tariff hike for toll roads, our estimates will increase for NAV/PS by 6% and earnings by 10%.
§ If the regulator decides to extend the concession, we forecast NAV will increase by 7% and earnings will be the same.
§ New project wins for the conglomerate, like bulk water supply, will be NAV-accretive.

Downside

§ Further delays in tariff hikes will hamper earnings growth and capital structure.
§ Decline in EBITDA/EBIT margins due to lower tariffs.
§ Unfavourable regulatory ruling in other concessions will depress our NAV estimate.

Telecommunications

Philippines

Philippine Long Distance Tel (TEL PM)

Shares oversold, plus 5.8% div. yield

BUY

Share Price	PHP 2,060.00
12m Price Target	PHP 2,400.00 (+17%)
Previous Price Target	*PHP 2,400.00*

30% correction excessive, valuations attractive

PLDT's share price is at a four-year low, weighed down by concerns over its ability to retain market share and Telstra's possible entry via a JV with San Miguel Corp. Given that steps have been taken to reverse the market share slide, while no deal has been signed by Telstra, the ~30% correction YTD looks excessive. Even if the SMC-Telstra JV materializes, we see little impact to PLDT's FY16 profit. But earnings may be helped by election-related spending in 2016, which could lift revenues. With 17% share price upside to our DCF-based TP of PHP2,400 and the highest dividend yield of 5.8% among PSEi index constituents, maintain BUY.

Measures to stem market share decline

PLDT is increasing spending to update the network. Also, there have been management changes, and continuing marketing efforts to better differentiate each mobile brand. Results are not yet visible, but these steps to stem the market share decline will likely be positive longer-term.

Little impact from new entrant in FY16

If the SMC-Telstra JV pushes through and launches its service offering next year, we believe the impact to PLDT's profit will be minimal in FY16. The threat to incumbents is over the long-term as a new entrant cannot put up base stations and invest in its core network and backhaul overnight. There are other significant challenges: (1) there is no tower sharing in the Philippines; (2) interconnection costs are high; and (3) ARPUs in the Philippines are much lower than in developed countries.

Regulatory issue needs to be resolved

PLDT has applied with the National Telecommunications Commission for equitable allocation of the 700MHz frequency now assigned to SMC and affiliates. The frequency is attractive for cost-efficient mobile internet access. It could be a key factor in whether or not the SMC-Telstra JV proceeds. The NTC takes time in resolving issues, and this one is likely to be taken up by officials appointed after the May 2016 elections.

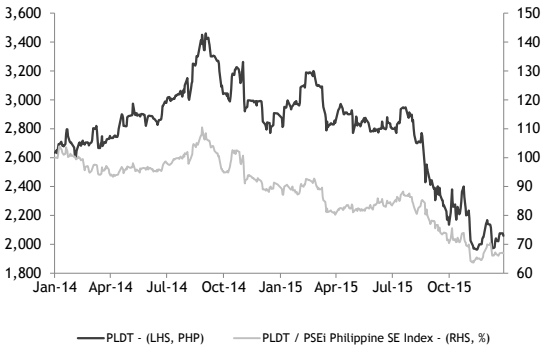
Statistics

52w high/low (PHP)	3,200.00/1,964.00
3m avg turnover (USDm)	6.3
Free float (%)	45.9
Issued shares (m)	216
Market capitalisation	PHP445.1B
	USD9.5B

Major shareholders:

NTT DoCoMo, Inc.	14.5%
Philippine Telecommunications Investment	12.1%
Metro Pacific Co. Ltd.	10.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(6)	(29)
Relative to index (%)	(2)	(6)	(26)

Source: FactSet

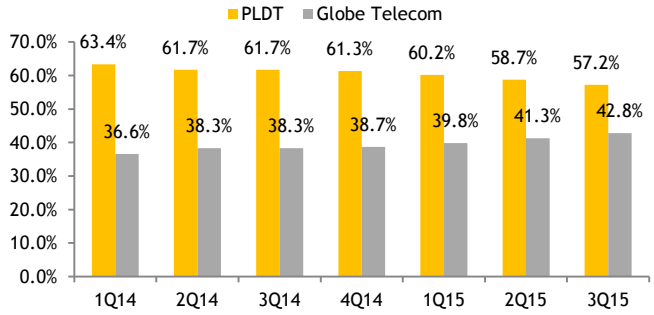
FYE Dec (PHP m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	168,331	170,962	175,280	179,836	185,275
EBITDA	74,140	73,033	73,617	75,026	76,195
Core net profit	38,684	37,410	34,365	35,247	33,884
Core EPS (PHP)	179.05	173.16	159.06	163.15	156.84
Core EPS growth (%)	4.7	(3.3)	(8.1)	2.6	(3.9)
Net DPS (PHP)	175.00	185.00	152.00	119.00	119.00
Core P/E (x)	11.5	11.9	13.0	12.6	13.1
P/BV (x)	3.2	3.3	3.4	3.3	3.2
Net dividend yield (%)	8.5	9.0	7.4	5.8	5.8
ROAE (%)	27.4	27.6	26.0	26.6	24.9
ROAA (%)	9.6	9.0	7.9	8.0	7.6
EV/EBITDA (x)	8.8	10.0	7.4	7.3	7.1
Net debt/equity (%)	52.6	77.0	77.4	74.5	70.5
Consensus net profit	-	-	34,383	33,265	33,382
MKE vs. Consensus (%)	-	-	(8.3)	(2.8)	(7.3)

Michael Bengson
Michael_Bengson@maybank-atrke.com
(63) 2 849 8840

Value Proposition

§ PLDT is the larger player in a currently duopolistic Philippine telco market. Its business is non-cyclical, high-FCF generative, and generates a high return on capital.
§ Flat/stable cash flow cushioned by robust data revenue (~35% smart phone penetration), offsetting declining ILD & NLD revenues.
§ But risks have spiked. Potential new entrant, a JV between Telstra and San Miguel, may threaten market share, growth, and potential returns.
§ Such developments have put PLDT on the defensive. Yet, we believe this has been priced-in and valuations have turned attractive in light of the 30% y-t-d drop in price. Election-related spending may provide a marginal boost to profit in 1H15. In previous elections, campaigning was done through SMS and prepaid load was given away.

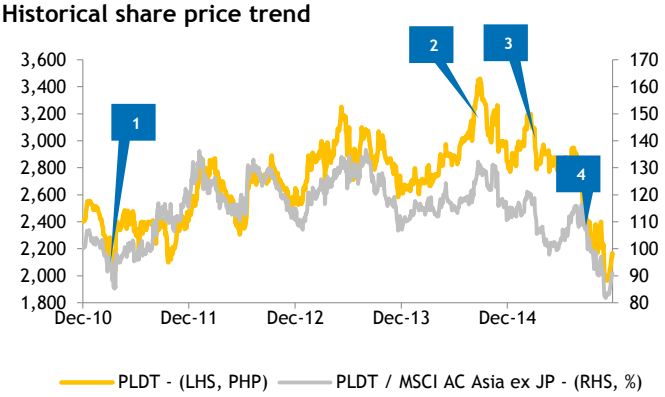
Market share - total mobile subscribers



Source: Company

Price Drivers

Historical share price trend



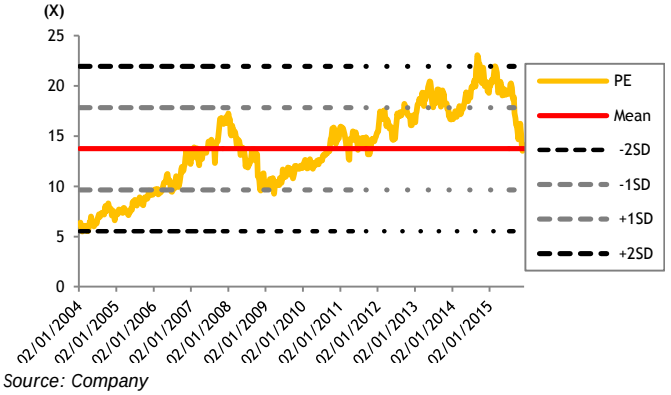
Source: Company, Maybank Kim Eng

1. Announces acquisition of Digitel.
2. Acquires minority stake in Rocket Internet for EUR333m.
3. Cuts pay-out ratio to 90% from over 100%, also reduces core net income guidance to PHP37b, and increases 2015 capex guidance to PHP39b.
4. Telstra confirms discussion with SMC for a wireless joint venture.

Financial Metrics

§ Data growth should steady EBITDA margin at 41-42% and FCF yield stay relatively high at ~7% in 2016-17 in spite of higher capex assumptions.
§ DCF valuation is PHP2,400/sh, which already assumes higher capex for 2016-17. The stock trades below its 10-year average P/E.
§ Dividend yield at 5.8% is the highest in the market.
§ We see minimal impact on FY16 profit from a new entrant given the length of time and high cost required to build out base stations and backhaul in the Philippines.

P/E band



Source: Company

Swing Factors

Upside

§ SMC-Telstra JV does not push through.
§ National Telecommunications Commission and judiciary support more equitable distribution of 700 MHz frequency.
§ Election-related spending boosts revenue.

Downside

§ A credible third player disrupts the market.
§ Reallocation of 700 MHz frequency is not implemented.
§ Market share continues decline in spite of measures to reverse such trend.

GDP

Singapore



STRATEGY

Singapore

Singapore's Six-for-16

Looking for Undulations in the Flatlands

Looking for undulations in the flatlands

Singapore could face an old conundrum in 2016. Domestic growth has hit a wall. Many attempts have been made to beat this: remaking the landscape with glitzy casinos; intoning the productivity mantra; participation in AEC and TPP, the region's latest cracks at economic cooperation. The "Committee on the Future Economy" spearheaded by the new Finance Minister is studying longer-term solutions and its report should be out sometime in late 2016/early 2017. Meanwhile, while we can't reform the flatlands, we can attempt to look for undulations that could provide investor interest. Our three ideas for 2016 are:

Breaking out with Brand Singapore

Singapore companies need a hinterland and to do things not just better but uniquely. Their advantage is they have brands that are highly regarded in the region for providing good, clean deals. We propose two companies – one in F&B and the other in healthcare - that are breaking out of familiar grounds, riding powerful brands honed and refined in the most open economy of all: Jumbo Group (JUMBO SP, BUY, TP SGD0.58) and Raffles Medical (RFMD SP, BUY, TP SGD5.22).

More M&As expected

After identifying the offshore industry as a major Achilles heel in our Unmasking Singapore stress tests last year, subsequent debt renegotiations and loss provisions drive home the point. For 2016, we see M&As accelerating in the oil service industry, where some stocks are so devalued that owners may just decide to privatise. Think PACC Offshore (POSH SP, BUY, TP SGD0.47) and Sembcorp Marine (SMM SP, SELL, TP SGD1.53). Also, we have identified possible M&As in property & REITs, where depressed asset values could precipitate more value-unlocking. Finally, we identify Cordlife (CLGL SP, BUY, TP SGD1.72) as a potential takeover candidate in healthcare.

When extremes meet: SGD1.60/USD + 4 rate hikes

The only sector that wholly benefited from USD strength and the bogeyman of higher interest rates in 2015 was manufacturing. But what if these two gather steam in 2016, instead of petering out? As the pain intensifies for companies, we would expect more aid from the government in Budget 2016. The only sector that could emerge a winner on all counts is still manufacturing, in our view. Hence, our top pick of Venture Corp (VMS SP, BUY, TP SGD10.70). That said, we caution that everything is better in moderation; excessive USD strength could hurt end-demand, affecting topline growth.

Analysts

Singapore Research Team

Derrick Heng
(65) 6231 5843
derrickheng@maybank-ke.com.sg

Gregory Yap
(65) 6231 5848
gyap@maybank-ke.com.sg

John Cheong
(65) 6231 5845
johncheong@maybank-ke.com.sg

Joshua Tan
(65) 6231 5850
joshuatan@maybank-ke.com.sg

Ng Li Hiang
(65) 6231 5840
nglihiang@maybank-ke.com.sg

Yeak Chee Keong
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg

Stock	Bloomberg Code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x) 15E	P/E (x) 16E	P/B (x) 15E	P/B (x) 16E	Dividend yld (%) 15E	Dividend yld (%) 16E
Cordlife	CLGL SP	272	BUY	1.45	1.72	19	46.5	41.3	1.6	1.6	10.6	1.6
Jumbo	JUMBO SP	190	BUY	0.43	0.58	36	18.0	16.2	6.2	4.9	1.7	1.8
POSH	POSH SP	392	BUY	0.3	0.47	57	(12.5)	6.0	0.3	0.3	0.0	5.0
Raffles Medical	RFMD SP	1,700	BUY	4.18	5.22	25	36.4	33.1	4.3	3.9	1.5	1.6
SembCorp Marine	SMM SP	2,600	SELL	1.77	1.53	-14	16.4	11.4	1.2	1.1	2.3	4.5
Venture	VMS SP	1,600	BUY	8.16	10.70	31	14.2	12.9	1.2	1.2	6.2	6.8

1. Setting the tone

1.1 External, domestic risks rising

In 2016, Singapore could face a cocktail of risks, from China's slowdown and oil-price weakness to further Fed-rate hikes which could dampen global demand. The government thinks the economy would grow just 1-3%. As 2015 GDP growth is expected to be "close to 2%", it appears to be hedging its bets by providing an equal buffer around this midpoint.

Domestically, cost escalations continue to haunt corporates as the economy relies less and less on low-wage foreign workers, turning instead to an emphasis on productivity gains. Higher interest rates could worsen a slowing property market. Singapore may have escaped a technical recession in 3Q15 but the odds of one as we head into 2016 are growing. In other words, we are expecting more of the same issues in 2016; things may get worse before they get better.

1.2 Small comforts

To be sure, lower energy prices would help. So would a less restrictive monetary policy and expansionary budget. A stronger US economy should also support exports and counteract part of the soft demand from Singapore's other trading partners. Before that, US demand for Singapore's output has to pick up. So far, it has not.

Still, all this merely kicks the can down the road and does not provide long-term solutions.

1.3 Government trying to find more rabbits in the hat

The government is, as usual, on its toes and has set up a new economic review committee, its third in 12 years, to nail down long-term solutions. The past two committees were the Economic Review Committee (ERC) in 2001 and the Economic Strategies Committee (ESC) in 2009. In 2001, in the aftermath of the US tech-bubble burst and rising competition from other Asian economies, the ERC focused on economic restructuring to boost growth and cost-cutting to stay competitive. In 2009, amid slower growth after the 2007-2008 global financial crisis, the ESC recommended a shift to productivity-driven growth.

The latest Committee on the Future Economy (CFE) will study and recommend how Singapore can climb the ladder from value-addition to value-creation. It is headed by the new Finance Minister, Heng Swee Kiat, and co-Minister for Trade and Industry (Industry), S Iswaran, with Acting Minister for Education (Higher Education and Skills) Ong Ye Kung, National Development Minister Lawrence Wong and NTUC secretary-general and Minister in the Prime Minister's Office Chan Chun Sing also on the committee.

1.4 For 2016, we look for undulations in the flatlands

We believe the CFE has its work cut out for it. The economy has matured, with growth plateauing. The committee aims to submit its report by the end of 2016. Its findings and recommendations would be highly anticipated by the market and surely find their way into government policies in the next few years. In the interim, while we may not be able to reform a flat landscape, we believe the following themes could rise in prominence in 2016.

- **One, help companies find bigger MARKETS.** Minister Heng has framed Singapore's economic challenges in terms of jobs, companies, resources, technology and markets. In his own words, the future of markets is important because "if we transcend the Singapore market, we achieve scale". Hence, we look out for companies that are successfully exporting their brands to bigger markets. We pick Jumbo Group and Raffles Medical as two companies that are likely to gain overseas traction in future.
- **Two, help COMPANIES adapt to new realities.** According to the minister, the future of companies is also being affected by the rise of disruptive business models and competition from abroad. To stay competitive, Singapore companies need to explore "cooperative platforms" across entire clusters of companies in order to maximise capabilities. For 2016, we would anticipate more-than-usual corporate restructuring, privatisations or takeovers. Such events are always on-going but given the challenges ahead, 2016 could see a big bump-up. We think these could be found in the property and healthcare sectors, but especially offshore & marine which we first flagged in our Unmasking Singapore stress tests last year. We identify PACC Offshore, Sembcorp Marine and Cordlife as the biggest privatisation prospects.
- **Three, give more RESOURCES.** Amid rising economic challenges, SGD is likely to weaken further. Our economists' forecast is SGD1.47/USD ie up about 5%. Accustomed to scenario-testing as analysts, we think it is equally relevant to ask "what-if": what if SGD weakens beyond current expectations, say 10% to SGD1.60? This is not inconceivable. If so, Singapore companies could be disadvantaged and Budget 2016 may have to include more aid for them, even if only pre-emptive. In such a scenario, the only sector that should emerge a winner on all fronts should, again, be manufacturing. Hence, our top pick of Venture Corp.

2. Breaking out with Brand Singapore

2.1 Going global to circumvent Singapore conundrum

Breaking into new hinterlands has always been the holy grail of Singapore companies stuck with a tiny domestic market. We can think of two brands that struck out earlier than most, by now truly global: Singapore Airlines and Banyan Tree. Big property developers followed suit, such as CapitaLand which moved quickly into China. Just as there is a Raffles City shopping mall in Singapore, there are now eight Raffles City malls in China. A third wave is being led by consumer companies such as OSIM, BreadTalk, Raoul by FJ Benjamin and Thai Express, until today.

2.2 No scarcity of capital, just too much hubris

Going global or even regional is no stroll in the park. Several high-profile Chinese brands have hit road bumps in their internationalisation efforts. Sportswear group, Li Ning, failed in the US as it tried to run before it could walk. Xiaomi, best-known for its cheap smartphones in China, has not really made a dent overseas, apart from India and Africa. Even Alibaba, which got extensive global media coverage during its IPO in 2014, is still seen by the world more as a stock to trade in than trade with. Their biggest problem, as we see it, is not capital, but underestimation of overseas operating and regulatory risks. Difficulties in managing overseas expansion or integrating acquisitions are hurdles which companies lacking in experience or discipline tend to trip over.

2.3 Slow-and-steady wins the race

We believe Singapore companies have a higher probability of success. While critics have been quick to accuse Singapore companies of being slow in deal-making out of fear of breaking rules, we believe that their systems and practices actually serve them well, especially in vast markets such as China. They can usually move fast whenever they feel the need to. How they stack up against international best practices in building brands or expanding overseas is summarised below.

Fig 1: International best practices in going global

Key challenges	International best practices
Brand vision & strategy	Clear visions and mandates
	Defined strategies for value creation
	Aligned stakeholder and management interests
Management capabilities	Able to inspire and explain visions
	Understand own brand value and financial strength
	Mindful of regulatory and governmental considerations in overseas deals
	Clear decision-making process and communications (external and internal)
Use of external resources and research	Understand own skills and limitations
	Select advisors & consultants with relevant experience and the ability to work closely as a team

Source: KPMG, OgilvyPR, Fleishman Hillard, Burson-Marsteller

2.4 Two Singapore companies that stack up

We propose two companies – one in F&B and the other in healthcare - that are doing just that: Jumbo Group and Raffles Medical. Both are expanding in China. Both are harnessing their powerful brands created and refined in Singapore, arguably the most open economy in the world. Despite their shortcomings, Singapore companies' most powerful weapon is the respect they command in the region for providing good, clean deals.

Fig 2: How Jumbo and Raffles Medical stack up against international best practices

Best practices	How Jumbo stacks up	How Raffles Medical stacks up
Clear brand vision & mandates	Tagline of "Bonding people through food" runs alongside vision of being "the leading innovative F&B group advocating Singapore food culture".	Executive Chairman and Founder Dr Loo Choon Yong has a philosophy of "patients come first, profits come later". This has served both patients and shareholders well and generated more than 20 years of consistent revenue & profit growth.
Well-defined strategies for value creation	CEO Ang Kiam Lim, also the primary founder's son, works with professional management to execute local and overseas expansion with ROI as key benchmark.	Has a long-term double-digit growth target, supported by local and increasingly, overseas expansion. Another target is to have >50% of profits coming from overseas. We expect maiden contributions from its hospital venture in Shanghai, China in mid-2018.
Stakeholder and management interests aligned	Three of six directors on its board are independent, with over 60% of outstanding shares owned by founders and related parties.	Five out of eight directors on its board are independent, with over 50% of outstanding shares owned by the founder and related parties.
Management able to inspire and explain vision, understands brand value and financial strength	Founded by family and friends who love eating, especially seafood. But restaurant business is dependent on professionals, such as chefs and operational people. Recently roped in a CFO to raise standards in finance functions.	Founded in 1976 by Dr Loo and Dr Alfred Loh with just two clinics, Raffles Medical has grown into a multi-disciplinary private tertiary hospital with more than 80 private clinics in Singapore. It serves over 2m patients annually and more than 6,500 corporate clients. Assisted by a professional management team, Dr Loo remains actively involved in management, spearheading strategic expansion.
	Major partnerships in restaurant sites, ie landlords such as National Parks Board in Singapore, Capitaland Mall Asia and Sun Hung Kai in China. Management service agreements with Japanese and Singapore partners for Singapore Seafood Republic and Yoshimaru Ramen, as well as Breadtalk in China seafood ventures.	Intends to operate new Shanghai hospital under its own brand and operating model. Rebranding all 10 clinics to Raffles Medical brand after acquiring International SOS MC Holdings.
Mindful of regulatory and governmental considerations in overseas deals	Fully aware.	Fully aware. Studied the Chinese market for more than three decades before venturing in and took more than two years from signing of MOU to obtaining all the approvals for its Shanghai hospital.
Clear decision-making process and communications	Clear allocation of roles.	Clear allocation of roles.
Use of external resources and research	Receptive. In 2006, a food technology consultant was brought in to ensure that its famed chilli crab dish could be replicated overseas "without losing its flavour and texture" before they expanded overseas.	Receptive. Keen to partner reliable partners for its China venture. It partnered a Chinese government-linked company, Shanghai Lujiazui Group, for its first hospital in Shanghai.

Source: Maybank Kim Eng

3. More M&As expected in 2016

3.1 Rise of disruptive business models

Uber and GrabTaxi in taxi hailing, RedMart in grocery shopping, Alibaba and qoo10 in retailing, AirBnB in accommodation… there is a long list of disruptive technology-enabled innovations. The future of companies is being affected by the rise of such disruptive business models and competition from abroad. To stay alive and thrive, Singapore companies have to explore "cooperative platforms" across entire clusters of companies in order to maximise their capabilities, in the words of our Finance Minister. To this end, we anticipate more-than-usual corporate restructuring, privatisations and takeovers in 2016. Of course, such events are always on-going but given the challenges ahead, 2016 could see a big bump-up. But in which sectors? Property, healthcare and especially, offshore & marine, in our reckoning. We first flagged O&M in our Unmasking Singapore stress tests in Sep 2015.

Broadly speaking, M&As can occur for four main reasons:

- Industry consolidation due to overcapacity.
- Converging a fragmented industry.
- Acquiring new markets, new products or new technologies.
- Privatising companies with unwarranted valuations.

The most notable deal recently is CMA CGM's offer for Temasek's 65% stake in NOL (NOL SP, Not Rated) at SGD1.30/sh, 33% premium to its 3-month VWAP. Container shipping continues to struggle with overcapacity, depressed freight rates and subdued demand. Acquiring NOL would give CMA CGM a higher chance of surviving through economies of scale and a boost in Asia.

3.2 Accelerated M&As in 2016

We think that M&As could accelerate in 2016 for the following reasons:

- The oilfield service industry needs to consolidate to cut costs for survival as well as long-term profitability.
- Many corporates are seeking growth in emerging Asia as developed markets slow.
- Companies will look for avenues to boost depressed earnings, unlock value or streamline operations through divestments. More assets or company units could be up for sale.
- A depressed equity market has devalued companies to the extent that some are now primed for takeover or privatisation, in our view.

Fig 3: Selected M&A deals in Singapore in 2015

Type	Date of Announcement	Target	Acquirer	Seller	Announced Value (USDm)	Payment Type	EV/EBITDA	Deal Status
M&A	07/12/2015	Neptune Orient Lines Ltd	CMA CGM	Temasek Holdings	5,016.59	Undisclosed	16.0	Pending
M&A	04/11/2015	Biosensors International	CITIC Private Equity Funds		576.59	Cash	10.56	Pending
M&A	31/10/2015	Saizen REIT's Japan portfolio	Triangle TMK/Lone Star	Saizen REIT	370.01	Cash		Pending
INV	28/08/2015	Olam International Ltd	Mitsubishi Corp		650.46	Cash	6.39	Pending
INV	28/08/2015	Olam International Ltd	Mitsubishi Corp	Kewalram Chanrai Group	437.19	Undisclosed	6.44	Pending
M&A	27/08/2015	EMAS CHIYODA Subsea	Chiyoda Corp	Ezra Holdings Ltd	180	Cash		Pending
M&A	22/07/2015	CWT Ltd	Potential Buyer		952.45	Undisclosed	6.56	Proposed
M&A	15/07/2015	Bedok Mall	CapitaLand Mall Trust	CapitaLand Ltd	581.95	Cash and Stock		Completed
M&A	05/06/2015	Asia Square Tower 1	Potential Buyer	BlackRock Inc	2,580.36	Cash		Proposed
M&A	19/05/2015	Universal Terminals	Potential Buyer	Hin Leong Trading	500	Undisclosed		Proposed
M&A	31/03/2015	Keppel Land Ltd	Keppel Corp Ltd		234.04	Cash	14.33	Completed
M&A	17/02/2015	APL Logistics Ltd	Kintetsu World Express Inc	Neptune Orient Lines	1,200	Cash		Completed
INV	23/01/2015	Keppel Land Ltd	Keppel Corp Ltd		2141.21	Cash	15.04	Completed
M&A	14/01/2015	Popular Holdings Ltd	Grand Apex Holdings Pte Ltd		139.46	Cash	5.47	Completed

Source: Bloomberg

3.3 Sectors most likely to see M&As

1. Oilfield service sector needs to consolidate

- Clearly, oilfield services share similarities with the shipping sector and a consolidation wave is expected.
- Offshore shipyards are reeling under order droughts while asset owners are suffering from low asset utilisation and 15-30% charter-rate cuts.
- Many small players are over-leveraged due to prior debt-funded expansion. They face the threat of bankruptcy if the downturn is extended.
- The industry needs to cut costs and reduce capacity for long-term profitability.

Globally, consolidation has been set in motion by two potential mega-mergers: the USD35b Halliburton-Baker Hughes deal and USD15b Schlumberger-Cameron merger. The offers were made at c.56% premiums. In Singapore, there could be more targets than acquirers as most players are small and highly leveraged.

2. Undervalued property assets may attract buyers or motivate divestments

Property stocks are trading at 20-40% discounts to their RNAV, pricing in the risk of further price falls. We think that developers may look for ways to generate shareholder returns through asset disposals in 2016. Depressed valuations are also likely to attract buyers. We see opportunities in:

- **City Developments.** Stock trades at a c.40% discount to our RNAV estimate of SGD12.72. Company could unlock the value of its assets conservatively held at depreciated costs. In Dec 2014, it booked a gain of SGD331m by injecting its Sentosa assets into Profit Participation Securities (PPS). One year later, in Dec 2015, it established its second PPS to unlock SGD1.1b of Sentosa asset value for shareholders. We expect the company to continue with its quest and expect the market to take any progress positively. Since then, it has been on the lookout for similar deals. According to The Business Times in Aug 2015, CDL was exploring opportunities to monetise its industrial properties. We expect the market to take any progress positively, as it would likely book handsome gains on assets conservatively held at cost.
- **Ho Bee.** The Metropolis, Ho Bee's office building in Buona Vista, is worth SGD1.58b, in our estimation. Unlike prime office assets that face an impending supply glut, we believe The Metropolis could benefit from: 1) further office decentralisation; and 2) Jurong's development into the next major commercial centre. (Buona Vista is only three MRT stations away from Jurong).

3. REITs may be ready for value-unlocking

On 31 Oct 2015, Saizen REIT (SZREIT SP, Not Rated) proposed the sale of its entire property portfolio at a 3.4% premium to valuation, implying a net offer price of SGD1.17 vs NAV of SGD1.14. This represented a 36.9% premium to its pre-announcement trading price of 85.5 Scts. The move could signal that smaller SREITs - Saizen's market cap before its announcement was c.SGD250m - trading at steep discounts to NAV or peers may be ready to unlock shareholder value. We see potential in the following:

§ Among industrial REITs, there are six REITs with <SGD1b in market cap and three above SGD2.5b. Those below SGD1b trade at 8.2-10% historical yields and 0.69-0.94 P/BVs. These compare with larger peers' 6.2-7.4% yields and 0.99-1.15 P/BVs. Their valuation gap underscores the importance of scale in achieving fairer valuations.

§ Small industrial SREITs with weak sponsors and therefore a limited growth pipeline could trade at permanent discounts. Asset sales might represent their best hope of accruing value to shareholders. Sabana REIT (SSREIT SP, Not Rated) could do just that. Its NAV is SGD1.06 per unit and it trades at 0.68x P/BV and 9.8% indicative yields on an annualised 3Q15 DPU of 1.77 SGD cts.

§ We estimate that the market is ascribing 21%/19%/18% discounts to the underlying asset values of Keppel REIT (KREIT SP, HOLD, TP SGD0.90), CapitaLand Commercial Trust (CCT SP, HOLD, TP SGD1.25) and Suntec REIT (SUN SP, SELL, TP SGD1.33), at their current valuations of 0.68x/0.75x/0.73x P/BV. Given impending weakness expected for prime office rents, we think REITs may be range-bound in the near term. This could make them attractive to longer-term investors interested in their underlying assets.

4. Banks seeking new growth avenues

We do not think any big M&A deals will be on the plate for Singapore banks. However, we do not discount the occasional acquisition of smaller Asian assets, especially private banking assets, from European banks which have been winding down their exposures in Asia in recent years to focus back to Europe. All of them are also interested in expanding their footprint in Indonesia. If the regulatory environment is relaxed, Singapore banks are likely to become active in Indonesia.

DBS is currently in talks to acquire RBS's India unit, which appears to be non-material (no details but sources say it could fetch USD200m). Since its successful acquisition of Societe Generale's Asian private banking business in 2014 and an unsuccessful attempt to acquire RBS Coutts's Asian operations early this year, DBS has been actively looking into building its wealth management business. Recently, there was speculation that it is a potential bidder for Barclays' Asian private wealth business, valued at about USD600m.

5. Situational: takeover still likely for Cordlife

Healthcare service provider Cordlife, in our opinion, is a perfect candidate for takeover. Its shareholding register is fragmented, with no single shareholder owning more than 11%. It is cash-rich, with net cash of 32 SGD cts or c.32% of its market cap, even after paying a generous special dividend of 13 SGD cts from the sale of its valuable stake in CCBC.

The two biggest cord blood bank operators in China – China Cord Blood Corporation (CCBC) and Zhongyuan Union Cell - already own 9.8% and 7.0% of Cordlife respectively. Kunlum is its third-largest Chinese shareholder to

emerge recently and it did so aggressively. It bought 33m shares or a 12.8% stake in a mere one day, at a 20% average premium to Cordlife's market price or SGD1.70. It has since built up its stake to 41.7m or 16.1%. And this was after the payment of its special dividend!

The burning question is, why are the Chinese jostling for a position in Cordlife?

We believe Cordlife is valuable to Chinese cord blood bank operators such as Zhongyuan Union Cell and CCBC or even healthcare players interested in this space regionally. Cordlife has technologies and standards that are globally-recognised as well as markets in the rest of Asia that we believe Chinese players are eyeing to hedge their bets on their home market. While Cordlife operates and competes in open Asian markets, the advantage of the Chinese is only tenuously secured by licensing, a regime that can change overnight.

We think they realise this risk and Cordlife, being the biggest Asian player, is a prime candidate to hedge this risk.

Fig 4: Analysts' qualitative screens of potential corporate actions/M&As

Company	M&A Target	M&A Acquirer	Privatisation	Disposal/ Divestment	Rationale *Why is it possible?*	Possible deterrents *Why not?*	Shareholding structure	MBKE's views on likelihood*
Offshore & Marine								
Ezion Holdings (EZI SP, BUY, TP SGD1.28)	ü				· A lucrative liftboat market that industry players may want to gain access to. · Assets are highly utilised at 80-90%. **Potential acquirers:** Offshore asset owners, existing liftboat players (eg. GMS LN).	· Highly leveraged at 1.1x net gearing. Buyers may be unwilling to assume the debt. · Major shareholders may be reluctant to sell. A high premium could be needed	· Chew Thiam Keng (CEO/Founder) – 13% · First State Investments – 9% · Quek Leng Chan – 6%	M&A target « «
PACC Offshore (POSH SP, BUY, TP SGD0.47)		ü	ü		· In an industry that needs consolidation to survive. · Net gearing of 0.4x, lower than most peers' c.1.0x. · Parent owns more than 80%, has strong financials and can easily privatise it or acquire other players. **Potential targets:** Other OSV owners to reap scale benefits or gain access to wider markets.	· Poor sector prospects may deter buyers in the near term. · Buyers may be more interested in assets at depressed prices than buying the company.	· Kuok Group – 60% · Maybulk – 21%	Privatisation « « « M&A acquirer «
Pacific Radiance (PACRA SP, SELL, TP SGD0.33)	ü				· In an industry that needs consolidation to survive. · Highly leveraged at 1.0x net gearing, with poor earnings. May need to be bailed out if downturn persists. **Potential acquirers:** OSV asset owners looking for economies of scale and access to Asia & Indonesia.	· Poor sector prospects may deter buyers in the near term. · Highly leveraged at 1.0x net gearing. Buyers may be unwilling to assume high debt. · Buyers may be more interested in assets at depressed prices than buying the company.	· Pang Yoke Min (Executive Chairman) – 67% · Mok Weng Vai (Executive Director/Co-founder) – 6.5%	M&A target «
Sembcorp Marine (SMM SP, SELL, TP SGD1.53)			ü		· If valuations are sufficiently depressed. We would be negative on SCI if it acquires SMM above our SGD1.75 TP. · Allows 49%-Temasek-owned SCI to have full control of one of Singapore's key strategic industry (rigbuilding). · Allows more efficient capital allocation and for longer-term growth for SMM. **Potential acquirers:** Sembcorp Industries, Temasek	· Various industry and operational problems which SCI may not want to inherit. · SCI will likely need to assume more debt to finance the acquisition unless it chooses an all-shares offer. Issuance of new shares could be dilutive to SCI shareholders. · It may derail SCI from its goals of growing its utilities business.	· Sembcorp Industries – 61%	Privatisation « « «
Vard Holdings (VARD SP, SELL, TP SGD0.23)	ü		ü		· Poor contract outlook and operational difficulties in Brazil. Is looking at restructuring Brazil exposure. · Parent Fincantieri is a state-linked cruise-ship builder in Italy and owns 56% of Vard, acquired at SGD1.22/sh in 2013. · Parent may be interested in acquiring Vard and restructuring it to fit into cruise-ship construction. · Several Italian funds have been increasing their exposure to the company amid poor earnings. **Potential acquirers:** Fincantieri	· Poor sector prospects and operational issues may deter buyers in the near term. · Highly leveraged at over 2x net gearing. Buyers may be unwilling to assume debt.	· Fincantieri – 56% · Kairos Partners SGR SpA – 9% · Fideuram Investimenti SGR SpA - 1.7%	Privatisation « « M&A target «
Triyards (ETL SP, Not Rated)	ü				· Parent Ezra's core business under pressure. But Triyards has been profitable and delivering. · Ezra just sold half of its subsea unit to Japan's Chiyoda. May need to divest more units. **Potential acquirers:** Other shipyards which want established exposure to offshore asset building or asset owners interested in upstream integration eg. Ezion had wanted to take a stake in Triyards previously.	· Parent may be unwilling to sell a profitable unit. · Poor sector prospects may deter buyers in the near term.	· Ezra – 61% · Lee Chye Tek, Lionel (Ezra's Chairman) – 5.7%	M&A target « « «

Company	M&A Target	M&A Acquirer	Privatisation	Disposal/ Divestment	Rationale Why is it possible?	Possible deterrents Why not?	Shareholding structure	MBKE's views on likelihood*
Property								
City Developments (CIT SP, BUY, TP SGD10.64)				ü	· Management intends to monetise assets. · Expect significant gains as its assets are conservatively held at cost.	· Depends on the price offered and structure offered to potential investors.	· Kwek family – 37%. · Aberdeen – 22%.	Disposal of assets « « «
Ho Bee (HOBEE SP, BUY, TP SGD2.90)				ü	· While management has not expressed its intention to monetise its office assets, we think it could be an avenue to recycle its capital into new developments. · It disposed of its industrial properties in 2015 and could take similar steps if opportunities arise.	· Depends on the price offered.	· Chua Thian Poh family – 69%.	Disposal of assets «
REITs								
CapitaLand Commercial Trust (CCT SP, HOLD, SGD1.25)				ü	· Current unit price of CapitaLand Commercial Trust implies 19% discount to its underlying asset value. · Reportedly seeking buyers for Wilkie Edge.	· Potential buyers may be reluctant to offer high prices for its assets given a toppish office market.	· CapitaLand – 32%	Disposal of assets « « «
Keppel REIT (KREIT SP, HOLD, TP SGD0.90				ü	· Current unit price of Keppel REIT implies 21% discount to its underlying asset value. · At 42.6%, the REIT has one of the highest leverage in the sector. Management may dispose of some assets to deleverage.	· Potential buyers may be reluctant to offer high prices for its assets given a toppish office market.	· Keppel Corp – 46%	Disposal of assets « « «
Sabana Shariah Compliant Industrial REIT (SSREIT SP, Not Rated)	ü				· Smallest industrial SREIT. · No sponsor pipeline, limited growth opportunities. · Trading at nearly 10% yields, far above property yields of c.7%, making equity-funded acquisitions non-accretive unless mixed with debt. · Limited headroom for debt as gearing is 38%, not too far from 45% limit. Bad feedback loop: at current valuations and gearing, growth is impeded. Without growth, the REIT continues to trade at low valuations.	· Sponsors may want to hang onto the REIT has it still generates recurring fees. · Industrial sector outlook for 2016 is challenging but should markedly improve from 2017 as supply will turn tight. Sponsors may want to wait for the cycle turn.	· Vibrant Group - 8.75% · Tong Jinquan - 6.33%	M&A target « «
Suntec REIT (SUN SP, SELL, TP SGD1.33)				ü	· Current unit price of Suntec REIT implies 18% discount to its underlying asset value. However, management has not expressed intentions for M&As.	· Potential buyers may be reluctant to offer high prices for its assets given a toppish office market.	· Straits Trading – 6%	Disposal of assets «
Situational								
Cordlife (healthcare) (CLGL SP, BUY, TP SGD1.72)	ü				· Fragmented shareholder register, comprising three financial investors with stakes of 7-11% each and no large founding shareholding. Cash-rich balance sheet makes it a prime target for takeover. · We think Cordlife's globally-recognised technology and access to Asian markets are valuable assets for any expansion-minded PRC healthcare player intent on gaining an international presence.	· Depends on price and structure offered eg investors may be unwilling to accept if shares in a PRC listco are offered instead of cash	· Kunlum - 16.1% · Tai Tak Estates - 11.3% · Bonvests - 11.1% · CCBC – 9.8% · Zhongyuan – 7.0% · Fidelity – 6.9%	M&A target « « «

* « « « Very likely | « « Likely | « Unlikely

Source: Maybank KE

3.4 Our highest-conviction M&A bets

1. **PACC Offshore (POSH SP, BUY, TP SGD0.47).** We see POSH as a strong privatisation candidate.

   § The stock was listed in Apr 2014 at SGD1.15/share, raising SGD290m. Share price has been down since, partly due to missed earnings and the oil-price downturn.

   § Trading liquidity is low and we see no need for tapping equity markets as parent Kuok Group is financially strong.

   § Kuok Group owns 81% of the company. Based on our estimates, it will need less than SGD150m to buy up PACC's remaining shares even at a 30% premium to its current price of SGD0.33.

   § Furthermore, company has been buying back its shares in 52 of the 104 trading sessions from 11 Aug 2015 to 30 Dec 2015. A total of 7.2m or 4% have been snapped up.

2. Sembcorp Marine (SMM SP, SELL, TP 1.53). SMM is facing its greatest set of challenges in this industry downturn. We think that if conditions deteriorate further, SMM may require additional funding to sustain its operations. We see a possible privatisation by its 61%-owned parent, Sembcorp Industries or even Temasek Holdings. The rationale to do this could be because:

§ Instead of injecting capital into SMM through a rights issue, privatisation allows SCI to take full-control, and allocate capital more efficiently.

§ SCI could use its balance sheet to support SMM's working capital needs and finance construction activities until the industry turns around for SMM to monetise the assets.

§ Rigbuilding is a key strategic industry for Singapore. SCI's majority shareholder Temasek Holdings may have strong long-term strategic plans for the company. A Temasek-led privatisation will also relieve SCI of the additional strain that it may have to carry if it were to undertake the privatisation.

3. Cordlife (CLGL SP, BUY, TP SGD1.72). We see mother-and-child healthcare services provider Cordlife as a potential takeover target.

§ The chess game on Cordlife is not over. Its valuable stake in CCBC has been sold for remarkable returns and the generous special dividend we were expecting has been paid. But two aggressive Chinese parties have emerged in recent months with 7% (Zhongyuan Union Cell) and 16% stakes (Kunlum). Both were willing to pay premiums to market prices.

§ We think Cordlife's globally-recognised technology and Asian markets are valuable for any expansion-minded Chinese healthcare player intent on climbing onto the international stage.

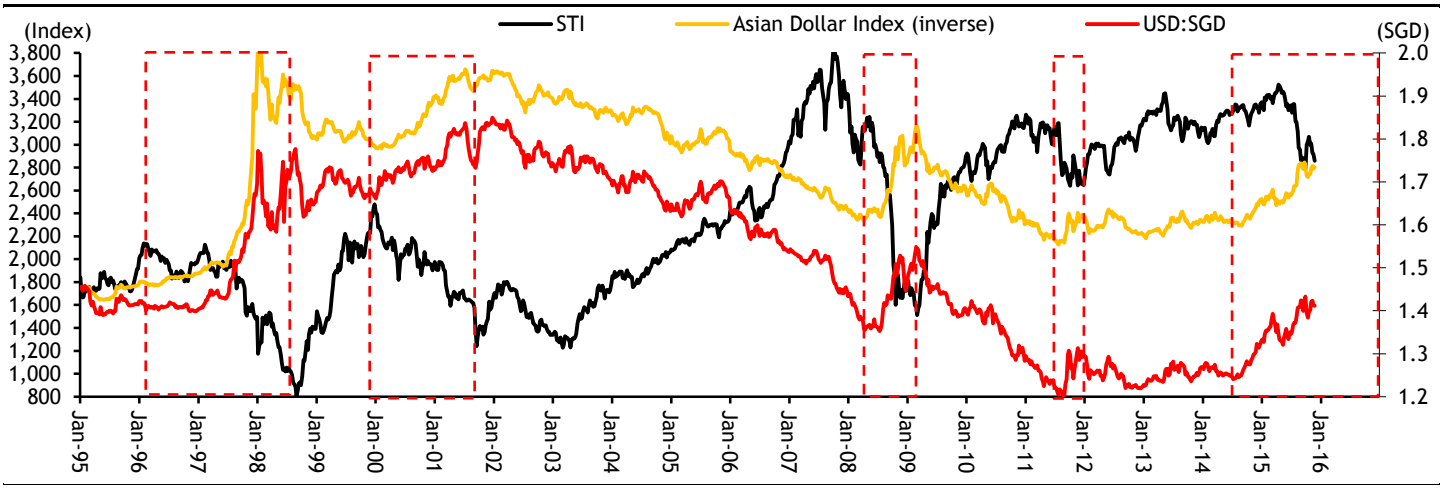
§ Cordlife's fragmented shareholdings - three financial investors with stakes of 7-11% each and no large founding shareholder - and cash-rich balance sheet make it a prime target for a takeover, in our view.

4. When extremes meet: SGD1.60/USD + 4 rate hikes

Now that the Fed has started raising rates and is signalling four more in 2016, SGD could weaken further against USD. Maybank's Global FX team is forecasting two more rate hikes and SGD1.47/USD by 4Q16. Consensus forecasts seem to agree with our FX team's forecasts, thus there is a possibility of the market being surprised by a more hawkish Fed. Unwinding effects from seven years of easy monetary policy as capital leaves low-yielding asset classes such as bonds and real estate are unpredictable. Headwinds against the Singapore economy could spiral.

Historically, Singapore stocks have an uneasy relationship with USD strength. In the last 20 years, the inverse relationship has been tight. During previous bouts of USD strength in the magnitude of 9-25% - Asian financial crisis, dot-com bust, global financial crisis and eurozone crisis - the STI gave up 29-55%. On average, a 1% appreciation of the USD is accompanied by a -2.9% move for the STI. In this cycle, both have moved in greater lockstep: USD has appreciated 14% against the SGD while STI has fallen 14%. Going by their tight inverse correlation, investors may do well to position defensively for 2016.

Fig 5: STI's inverse relationship with strong USD



Source: Maybank Kim Eng

Fig 6: 1% gain in USD/SGD is historically associated with a 2.9% fall in the STI

	USD/SGD	STI	1% chg USD implies % chg STI
Previous USD strengthening cycles:			
2Q96-3Q98: Asian Financial Crisis	25%	-55%	-2.2%
1Q00-3Q01: Dot-com bust, 9/11	9%	-29%	-3.3%
2Q08-1Q09: Global Financial Crisis	11%	-47%	-4.3%
2Q11-4Q11: Growth risks, EZ crisis	9%	-17%	-1.9%
Avg:	**13%**	**-37%**	-2.9%
Current USD strengthening cycle			
3Q14-now: Fed normalisation, weak Asia relative to USA	14%	-14%	-1.0%

Source: Maybank Kim Eng

With a challenging year ahead, we think Budget 2016 should be supportive of companies, especially since it will be Mr Heng Swee Kiat's first Budget as Finance Minister. We would not be surprised if he includes a comprehensive package of reliefs for companies to tide them over.

Sectors under coverage which stand to benefit from a strong USD and higher rates include oil services, property developers and manufacturers. Manufacturers may be best able to ride USD strength. Stocks include Venture, Innovalues, ST Engineering, SIAEC, Riverstone, and UG Healthcare. Sectors under coverage that could be hurt by USD strength are retail REITs as regional currency depreciation would affect demand. Consumer stocks with regional operations could also fall victim to translational losses.

The only sector that we think could emerge a winner on all fronts is manufacturing. Hence, our top pick is Venture Corp. Venture's revenue is entirely in USD and it has no USD debt. Oil service companies and property developers are expected to benefit as well, up to a certain extent. Investors may still angst over high gearing while excessive rate hikes would dampen demand for property.

4.1 Sector comments

- **Banks**

Singapore banks are naturally hedged to USD as their USD book is funded with USD liabilities. From a translational perspective, a strong USD will boost earnings for all three. **DBS (DBS SP, SELL, TP SGD16.05)** and **OCBC (OCBC SP, SELL, TP SGD8.65)** have larger USD and HKD exposure as both currencies together form 44% and 38% of their total loan book respectively. Strength in the MYR, which was unusually weak in 2015, would also positively impact OCBC and **UOB (UOB SP, HOLD, TP SGD21)**.

While banks can benefit from interest rate hikes, the impact on NIM is modest. We estimate that for every 50 bps increase in SIBOR, customer margins will rise by 4.6 to 7.2bps. Higher margins may be offset by higher cost of funding and credit costs. Asset quality may deteriorate further as borrowing burden increases.

§ **Consumer**

Consumer companies with large exposure to countries such as Malaysia with depreciating currencies against USD will be hurt by currency translation. In our universe, these include **Super Group (SUPER SP, BUY, TP SGD1.42)** and **OSIM International (OSIM SP, HOLD, TP SGD1.49)**. Their exposure to countries with depreciating currencies is significant at more than 20% of revenue. The exception is **Courts (COURTS SP, BUY, TP SGD0.44**). Although Malaysia accounts for 35% of its revenue, it has been able to counteract MYR weakness with its successful credit campaign and focus on fast-moving products such as digital wearable devices.

§ **Developers**

Interest-rate hikes would give the Singapore government more leeway to review property-cooling measures. While rate hikes are a demand dampener, a roll-back of policy measures should be the overarching theme for the sector in 2016. RNAV discounts could narrow and stocks could be re-rated. We stay positive and see **Wing Tai (WINGT SP, BUY, TP SGD2.25)** and **City Developments (CIT SP, BUY, TP SGD10.64)** as the best proxies for a possible roll-back of cooling measures. **OUE (OUE SP, HOLD, TP SGD1.92)** could also profit from revaluation of its office building in the US Bank Tower at 15% of GAV.

§ **Manufacturers**

Innovalues (IP SP, BUY, TP SGD1.02) and **Venture Corporation (VMS SP, BUY, TP SGD10.70)** should be winners of: 1) overwhelmingly large revenue exposure of 90-100%; and 2) lower operating costs as their factories are in countries with depreciating currencies against USD. USD-denominated borrowings are also minimal. Innovalues even adopts a forex-volatility-sharing revenue formula whereby for every 3% change in USD against SGD, half of the delta will be shared with its customers. While this reduces its gain or pain in both directions, Innovalues still comes out a net winner of USD appreciation. On the flip side, an appreciating USD could weaken sales for their American customers as it makes their products less competitive globally. This renders USD strength a double-edged sword.

Riverstone (RSTON SP, BUY, TP SGD2.60) and **UG Healthcare (UGHC SP, BUY, TP SGD0.41)** are beneficiaries on account of their 70-100% revenue exposure to USD while costs are denominated in MYR. Positives could be wiped out by their USD-denominated raw-material costs. We estimate that every 10% increase in USD/MYR will lift Riverstone's and UG's earnings by 3-6% and 1-2%, respectively.

§ **Industrials**

ST Engineering (STE SP, BUY, TP SGD3.60) and **SIA Engineering (SIE SP, HOLD, TP SGD3.61)** are beneficiaries due to their USD revenue and local-currency costs. Positives for ST Engineering, however, are erased by its USD-denominated borrowings.

§ **Offshore & Marine**

USD strength is typically mildly positive for oil service providers as contracts are usually in USD. Exceptions are companies with high net USD debt that is unmatched by cash and receivables. However, we believe that lower-for-longer oil prices, pricing and asset utilisation pressure will weigh more heavily on the sector, negating any gains from USD strength.

§ **REITs**

As the USD appreciates against the SGD, the SGD is also appreciating against the IDR, MYR, AUD, and EUR. These are the currencies of four of Singapore's top five sources of in-bound tourism. Their depreciation does not augur well for retail SREITs as it would discourage tourist arrivals and encourage locals to shop abroad. We have SELLs on retail REITs **CapitaLand Mall Trust (CT SP, TP SGD1.66), Frasers Centrepoint Trust (FCT SP, TP SGD1.63), and Mapletree Commercial Trust (MCT SP, TP SGD1.11)**.

At the same time, rising interest rates will increase interest costs, especially for **Keppel REIT (KREIT SP, HOLD, TP SGD0.90).** It has the highest leverage among our REITs, at 42.6%. While interest-rate hikes could jack up their borrowing costs, 72% of their borrowings have been hedged through fixed rates.

January 3, 2016

Healthcare

Singapore

Cordlife Group (CLGL SP)

No Shortage of Suitors

BUY

Share Price	SGD 1.45
12m Price Target	SGD 1.72 (+19%)
Previous Price Target	*SGD 1.54*

Still believing in a takeover

We believe control of Cordlife will provide value to Chinese buyers hoping to gain traction outside China and spread their China risks, through Cordlife's globally-recognised technology and markets in Asia. Our view was reinforced recently by the entry of Kunlum as its single largest shareholder. Kunlum paid SGD1.70, a hefty premium over Cordlife's market price and entered even after the latter paid its special dividend. We raise our TP to SGD1.72 as we raise core P/E to 41x, the low end of peers' range of 41-46x. Even then, this is still at the low-end of our estimated takeover offer range of SGD1.62-2.09.

At least three Chinese parties now in Cordlife

Two Chinese investors have emerged as big shareholders even as early investors such as China Cord Blood Corp (CCBC) keep its skin in the game. Zhongyuan Union Cell owns 7% through China Minsheng while Kunlum, the latest, owns 16.1%. Just as Minsheng is a known front for Zhongyuan, we suspect Kunlum could represent another party. Kunlum is managed by private equity fund Lighthouse Capital. CCBC and Zhongyuan are the two biggest cord blood bank operators in China.

No intention for GO… yet

Kunlum has told Cordlife that it currently does not have intentions to make a GO. This is probably true, as we believe it is the ultimate buyer behind the purchase that should harbour such an intention. To go from a zero shareholding to the single largest in such a short time seems to suggest a thought-out end-game. In the meantime, we estimate free float has dwindled from 62% to 29% and downside is limited, in our view.

Opens doors to Asia, hedges risks

In our view, control of Cordlife offers instant access to Asian markets to any Chinese buyer. Cordlife is a top player in Asia, already honed and refined in the toughest market of all. It can offer internationally-recognised technology and market access to the most important markets in Asia. In addition, Chinese players will be able to hedge their risks in China where their advantage stems from a malleable licensing policy.

FYE Jun (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	49	58	64	71	80
EBITDA	11	8	12	13	15
Core net profit	8	7	8	9	10
Core EPS (cts)	3.1	2.8	3.1	3.5	4.0
Core EPS growth (%)	7.9	(9.4)	9.5	12.4	15.1
Net DPS (cts)	2.0	2.0	15.2	2.3	2.4
Core P/E (x)	46.3	51.1	46.6	41.5	36.1
P/BV (x)	2.7	2.3	1.7	1.6	1.6
Net dividend yield (%)	1.4	1.4	10.5	1.6	1.7
ROAE (%)	7.5	4.8	4.1	4.0	4.5
ROAA (%)	5.3	2.8	2.6	3.1	3.5
EV/EBITDA (x)	25.0	51.6	26.2	23.8	20.3
Net debt/equity (%)	net cash	61.4	net cash	net cash	net cash
Consensus net profit	-	-	8	9	10
MKE vs. Consensus (%)	-	-	0.4	0.3	(0.1)

Company description

Cordlife operates stem cell banks with cryopreservation facilities in Singapore, HK, India, Indonesia, Philippines & Malaysia.

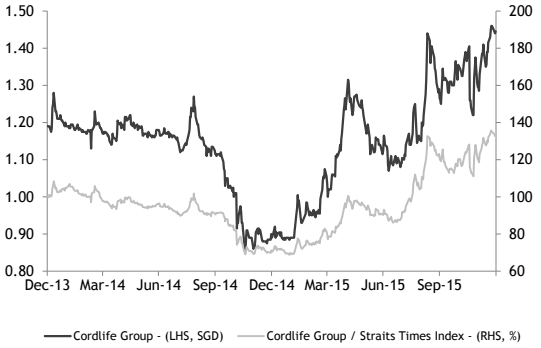
Statistics

52w high/low (SGD)	1.46/0.89
3m avg turnover (USDm)	1.5
Free float (%)	62.0
Issued shares (m)	267
Market capitalisation	SGD386.3M
	USD273M

Major shareholders:

Kunlum Investment Holding Ltd.	16.1%
Tai Tak Estates Sdn. Bhd.	11.3%
Bonvests Holdings Ltd.	11.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	14	61
Relative to index (%)	10	10	87

Source: FactSet

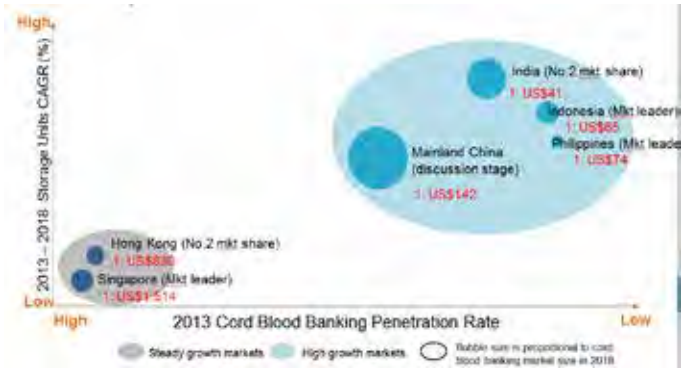
John Cheong, CFA
johncheong@maybank-ke.com.sg
(65) 6231 5845

Gregory Yap
gyap@maybank-ke.com.sg
(65) 6231 5848

Value Proposition

§ Allows parents to freeze their children's stem cells at a reasonable price, assured of their storage safety and longevity by a financially-strong company.
§ Valued for its relationships with gynaecologists, obstetricians & parents. Demand is inelastic while service is a near monopoly in markets such as Singapore.
§ Attractive for any buyer looking for instant leadership in Asia with Cordlife's market access, recognised technology and fragmented shareholdings.

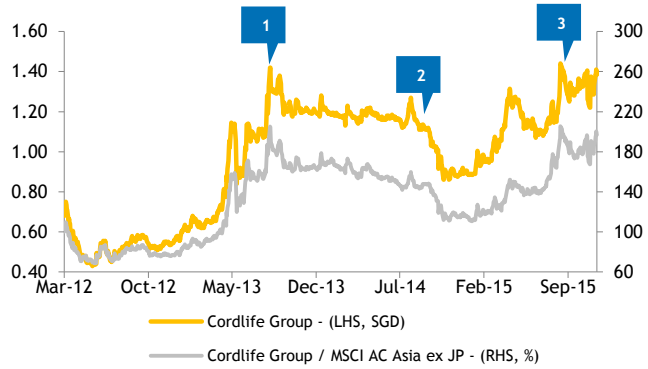
Leading market shares in important Asian countries



Source: Company

Price Drivers

Historical share price



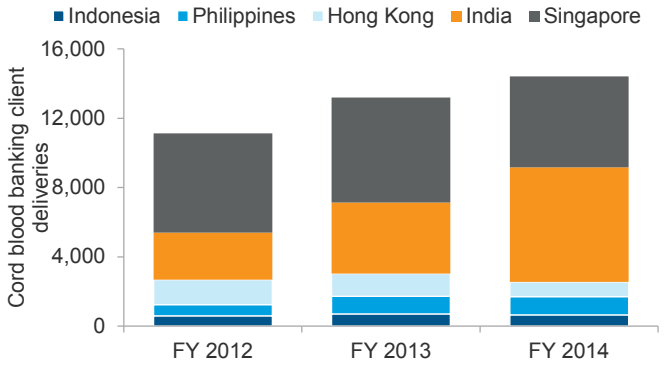
Source: Company, Maybank Kim Eng

1. Jun 2013: acquired cord blood and cord tissue banking business in Philippines, India and Indonesia.
2. Aug 2014: extended SGD60m loan to chairman of CCBC to acquire CCBC convertible bonds.
3. Sep 2015: shareholders approved sale of entire CCBC stake to Golden Meditech, netting Cordlife SGD98m in investment gains.

Financial Metrics

§ Client deliveries in India, Philippines and Indonesia to be main revenue drivers. Expect 15-20% growth in emerging markets vs 8-9% in mature Singapore/HK.
§ Expect EBIT margins to improve in FY16 as A&P spending in India peters off after major expansion.
§ A&P spending in Indonesia and Philippines to rise as more marketing resources will be channelled there after India but should be below India's.

Cord blood banking client deliveries in key markets



Source: Company

Swing Factors

Upside

§ Expect news flow on ventures into China to provide catalysts.
§ Earnings-accretive M&As with net cash of SGD57m as of Sep 2015 or SGD0.32/share after payment of special dividend.
§ Higher-than-expected growth rates in emerging markets, currently estimated at 15-20%.

Downside

§ Failure to collaborate with new partners and/or regulatory risks in China.
§ Losing share in highly-competitive markets such as India.
§ Slower-than-expected acceptance of private cord blood storage services in emerging markets.

January 3, 2016

Consumer Staples

Singapore

Jumbo Group Ltd (JUMBO SP)

Give Me More Of This Crab

BUY

Share Price	SGD 0.43
12m Price Target	SGD 0.58 (+36%)

Initiating coverage: BUY to SGD0.58 TP

Jumbo's highly-profitable seafood restaurants and signature crab dishes are much loved in Singapore and now, being successfully exported to China where it has three outlets. With its far bigger market potential and high ROI, there is room to add one new outlet in China a year as new outlets fully recoup investments in just 1-3 years. Jumbo deserves a premium to peers for its uniquely-Singapore brand and product and first-mover advantage in China. We initiate coverage with a BUY and DCF-P/E blended TP of SGD0.58.

Bringing a uniquely Singapore dish to China

Jumbo's expansion in China is just beginning. The mainland Chinese have taken to chilli crabs in droves, and we think this expansion will provide years of double-digit growth to come. We project accelerating earnings growth of 9%/11%/20% in FY16E-18E, driving China from a 10% market now to 32% of revenue by FY18E. By our estimates, its China outlets are capable of generating ROI of 32-86% with a relatively short payback period of 1-3 years which reduces risk.

More than just crabs that can travel

Jumbo has demonstrated that it can successfully replicate its seafood-restaurant business in China. But it has other dining concepts (eg hotpot, Teochew cuisine, bak kut teh) that can be exported overseas as well, not just in China but the rest of South-east Asia. Gross margins for all its brands run in the 40-60% range, and with scale, we see room for upside.

Deserving of a tasty premium

We value Jumbo at SGD0.58 for c.40% potential upside. We use blended P/E and DCF valuations to capture the full value of its mid-term expansion potential. This values Jumbo at 25x FY16E, 22x FY17E and 19x FY18E EPS, a slight premium to its regional peers. Our DCF valuation of SGD0.65 is conservative, assuming a higher-than-usual 10% market return and 1.2x beta for possibly higher risks from its China expansion.

FYE Sep (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	112	123	147	169	191
EBITDA	19	18	22	25	31
Core net profit	13	14	15	17	20
Core EPS (cts)	2.1	2.1	2.3	2.6	3.1
Core EPS growth (%)	39.8	3.0	8.6	11.1	20.5
Net DPS (cts)	0.0	8.1	0.7	0.8	0.9
Core P/E (x)	20.4	19.8	18.3	16.4	13.6
P/BV (x)	5.8	4.8	6.3	4.9	3.9
Net dividend yield (%)	0.0	19.0	1.6	1.8	2.2
ROAE (%)	31.8	26.4	29.8	33.7	31.8
ROAA (%)	20.8	17.8	18.5	19.2	19.0
EV/EBITDA (x)	na	na	10.3	9.1	7.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	na	na	na
MKE vs. Consensus (%)	-	-	na	na	na

Gregory Yap
gyap@maybank-ke.com.sg
(65) 6231 5848

Company description

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

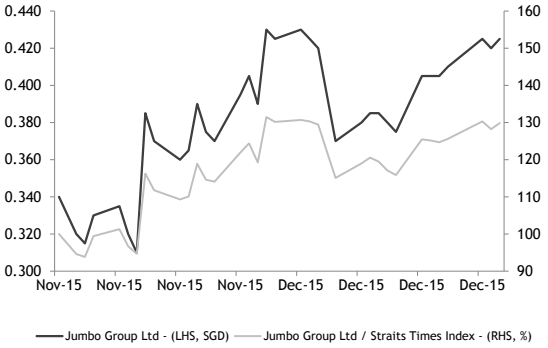
Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	3.8
Free float (%)	24.3
Issued shares (m)	641
Market capitalisation	SGD272.6M
	USD193M

Major shareholders:

JBO Holdings	57.9%
Mr Tan Gee Jian	6.6%
Orchid 1 Investments	6.2%

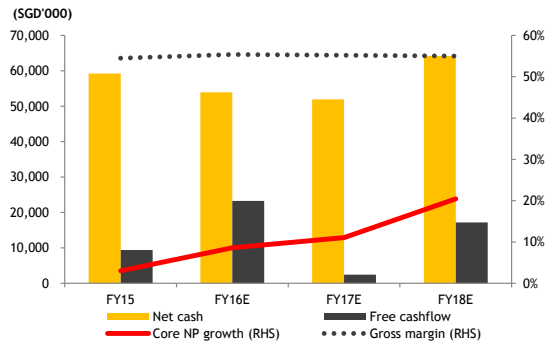
Price Performance



	-1M	-3M	-12M
Absolute (%)	8	na	na
Relative to index (%)	6	na	na

Source: FactSet

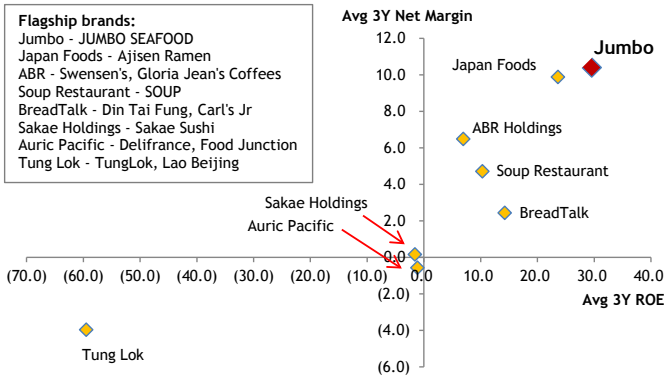
Good growth, high margins, strong cashflow: What more can you ask for?



Value Proposition

§ A restaurant operator whose greatest value proposition is ability to generate high demand for its business with reasonable prices and consistent taste.
§ Iconic dishes, footprint of outlets in ideal locations, strong brands and effective front- and back-end operations provide high defensible margins.
§ Branding and identity that hinge on signature seafood such as chilli crab, a national dish. Helps it stand out in crowded markets especially when expanding overseas.
§ Low-cost cash business financed by suppliers' credit. High FCF generation supports aggressive expansion plans yet provides future dividend support for shareholders.

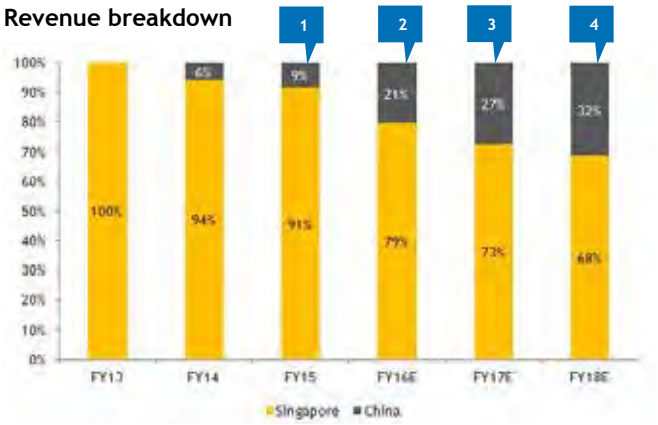
How Jumbo stacks up on profitability & returns



Source: FactSet estimates, Maybank Kim Eng

Price Drivers

Revenue breakdown



Source: Company data, Maybank Kim Eng estimates

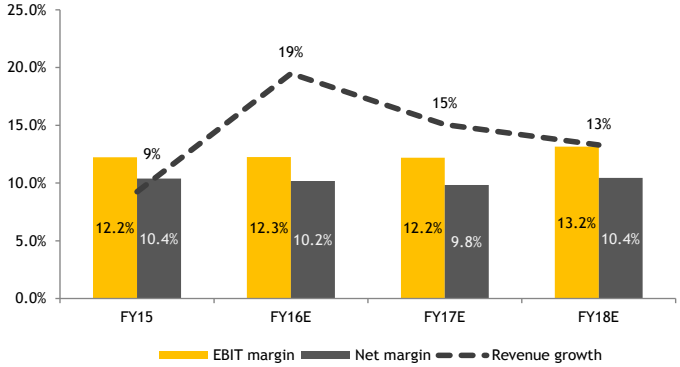
Listed just in Nov 2015, trading history is too short to identify inflexion points. We believe market will focus on its opening of new outlets in China and/or introduction of new dining concepts.

1. Second China JUMBO SEAFOOD outlet opened in Raffles City Shanghai in Aug 2015.
2. Third China outlet opening in IFC Mall in Jan 2016.
3. Fourth China outlet assumed to open in Oct 2016.
4. Fifth China outlet assumed to open in Oct 2017, fourth JPOT outlet in Singapore assumed to open in mid-FY17

Financial Metrics

§ Revenue growth. Given two new JUMBO outlets in China, would expect to see increasingly stronger topline growth in next 3-4 quarters, unless other brands underperform.
§ EBIT & net margins. Gross margin (excluding direct costs such as food & rental) is controllable. There may be quarters of higher start-up costs where margins fall below trend, but generally expect good indirect cost management and efficient tax planning.
§ Watch for deteriorating asset & liability turns. Strong FCF generation comes from AP days far exceeding AR and stock days. Don't be alarmed if FCF is dragged down by capex.

Strong revenue growth with stable margins expected



Source: Company data, Maybank Kim Eng estimates

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.

Downside

§ Any changes in China's food safety laws that could affect China's import of mud crabs.
§ Shortage of critical ingredients for its signature dishes: crabs, other seafood.
§ Epidemics or health scares that can damage its reputation or cuisine eg mass food poisoning, salmonella.

January 3, 2016

Oil & Gas

Singapore

PACC Offshore Services Holdings

Better as a private company

BUY

Share Price	SGD 0.30
12m Price Target	SGD 0.47 (+57%)
Previous Price Target	*SGD 0.50*

No compelling reason to keep listing

Since its listing in Apr 2014, stock has been on a downward spiral. On top of missing earnings, the oil service industry downturn has severely affected POSH's utilisation and charter rates, bringing the latter down by 15-30%. It now trades at 0.3x P/BV and 0.6x our estimated replacement value. With strong financial backing and low trading liquidity, this downturn may just present opportunities to privatise POSH, in our view. BUY for likelihood to emerge as future winner and de-listing potential. TP drops to SGD0.47 after our EPS cut for impairment charges, still at 0.5x FY16 P/BV.

Less than SGD150m to buy up remaining shares

POSH was listed in Apr 2014 at SGD1.15/share, raising SGD290m. Parent Kuok Group still owns 81% (incl. Maybulk) of the company. We estimate that it would require less than SGD150m to snap up POSH's remaining 346m shares even at a 30% premium. In fact, POSH could be de-listed if Kuok Group brings its stake above 90%, when it would not make any more sense for investors to hold on to the outstanding 10%. The company has been buying back its shares. From 11 Aug to 30 Dec 2015, it bought back 7.2m (4%) in 52 of the 104 trading sessions. This may signal privatisation intentions, in our view.

Restructuring much needed by OSV sector

Taking the company private may make it easier for the company to streamline costs and restructure its business in preparation for the next upturn. We believe that POSH has the ability to survive this downturn and emerge a winner in a new cycle as weaker players fail.

Factoring in impairment; TP falls to SGD0.47

Following POSH's profit warning on 15 Dec 2015, we are incorporating a USD60m impairment charge in our FY15 forecasts. This may be higher if POSH decides to kitchen-sink more charges. Consequently, our FY15 net profit turns to a loss of USD31m, while TP dips from SGD0.50 to SGD0.47, still based on 0.5x FY16 P/BV.

FYE Dec (USD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	237	234	297	365	391
EBITDA	114	113	31	136	156
Core net profit	73	53	(31)	66	86
Core EPS (cts)	4.0	2.9	(1.7)	3.6	4.7
Core EPS growth (%)	37.1	(27.4)	nm	nm	30.1
Net DPS (cts)	0.0	1.1	0.0	1.1	1.1
Core P/E (x)	5.3	7.2	(12.3)	5.9	4.5
P/BV (x)	0.4	0.3	0.3	0.3	0.3
Net dividend yield (%)	0.0	5.1	0.0	5.1	5.1
ROAE (%)	9.6	5.1	(2.6)	5.5	6.8
ROAA (%)	4.6	2.9	(1.7)	3.5	4.4
EV/EBITDA (x)	na	11.5	30.6	6.8	5.6
Net debt/equity (%)	92.2	45.2	47.8	44.4	38.2
Consensus net profit	-	-	31	61	60
MKE vs. Consensus (%)	-	-	(202.1)	8.3	41.4

Company description

PACC Offshore Services operates a fleet of OSVs that supports the offshore oil and gas industry

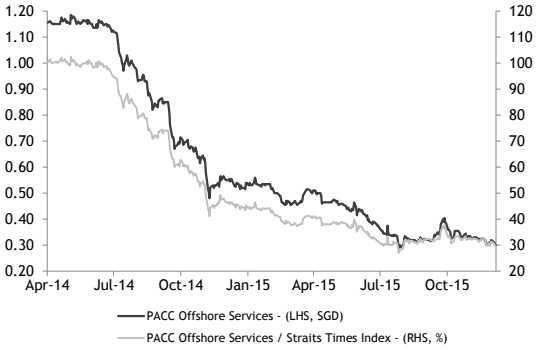
Statistics

52w high/low (SGD)	0.56/0.29
3m avg turnover (USDm)	0.2
Free float (%)	16.5
Issued shares (m)	1,820
Market capitalisation	SGD546.0M
	USD386M

Major shareholders:

Kuok Group	59.8%
Malaysian Bulk Carriers Bhd.	21.2%
Camsward Pte Ltd.	0.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(9)	(6)	(46)
Relative to index (%)	(10)	(9)	(37)

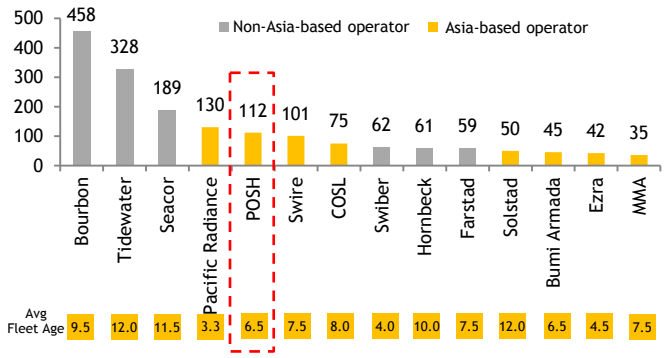
Source: FactSet

Yeak Chee Keong
yeakcheekeong@maybank-ke.com.sg
(65) 6231 5842

Value Proposition

§ Established Asia-based OSV operator with long-term relationships with global strategic charterers.
§ 80% owned by Kuok Group, POSH has access to capital. No concerns of financial stress like other players. Should survive downturn and emerge as future winner.
§ Access to parent's affiliated shipyards allows for quick turnaround, quality vessels at reasonable prices, cost advantages and flexibility in deferring deliveries in downturn.
§ Economies of scale from diverse fleet of more than 100 vessels, including JVs.
§ Preferential demand for its young fleet averaging 6-7 years.

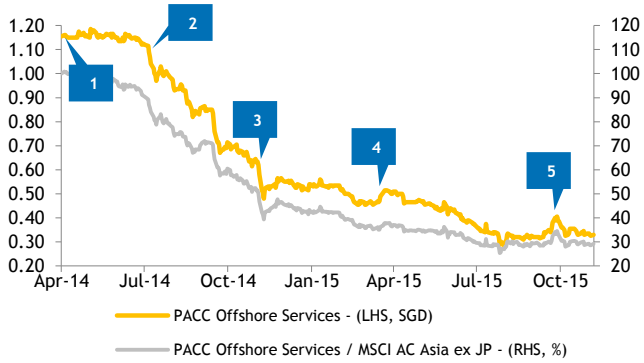
POSH is one of the largest Asia-based OSV operators



Source: Company, various, as at Dec 2013

Price Drivers

Historical price chart



Source: Company, Maybank Kim Eng

1. Listed at SGD1.15/share in Apr 2014
2. Company guided that market's forward EPS expectations were too high
3. Mexico JV reported further losses due to unsettled operational hiccups
4. Oil-price downturn pressurised asset utilisation and charter rates, leading to earnings disappointments.
5. Short-term oil-price rebound towards USD60/bbl which fizzled out subsequently.

Financial Metrics

§ Less concerned about balance sheet and cashflows due to strong parentage.
§ Charter rates and asset utilisation are most important operational metrics. Charter rates have dipped 15-20% from peak as clients ask for discounts to weather the downturn.
§ New offshore accommodation assets could help to cushion OSV weakness.
§ Expect sustainable recovery only in FY17E. Should emerge stronger with higher market share as weaker players are weeded out.

Key operating metrics for wholly-owned vessels

FYE Dec	FY15E	FY16E	FY17E
OSV			
No. of vessels	27	29	29
Average charter rates (USD/day)	15,326	15,851	16,393
Average utilisation (%)	70%	72%	76%
T&I			
No. of vessels	35	37	37
Average charter rates (USD/day)	5,453	5,448	5,466
Average utilisation (%)	47%	53%	56%
Offshore Accommodation			
No. of vessels	8	9	9
Average charter rates (USD/day)	48,147	53,481	54,123
Average utilisation (%)	72%	80%	85%
Harbour services & emergency response			
No. of vessels	16	16	16
Average charter rates (USD/day)	10,000	10,000	10,000
Average utilisation (%)	50%	50%	56%

Source: Company

Swing Factors

Upside

§ Privatisation by parent, Kuok Group, due to depressed valuations.
§ Securing firm charters for its two SSAVs at rates above USD150k/day.
§ Turns around losses for its 11 Mexico JV vessels which have now been transferred to its full ownership.
§ Margin surprise from better-than-expected cost cutting.
§ Demand recovery from an oil-price rebound, accelerated sector consolidation or bankruptcy of peers.

Downside

§ Fails to secure charter for newbuild SSAV Arcadia by Apr 2016 and renew charter for SSAV Xanadu due in Dec 2016.
§ Utilisation and charter rates deteriorate further or clients back out of committed contracts.
§ Weak and desperate players undercut on pricing to survive, further destroying industry profitability and extending downturn.

Healthcare

Singapore

Raffles Medical (RFMD SP)

Exporting Uniquely Singapore Healthcare Brand

Singapore provides solid foundation…

Founded in 1976 by Dr Loo and Dr Alfred Loh with two clinics in central Singapore, RFMD has grown strength to strength. Today, it operates over 80 clinics in 13 cities in five countries, serving over 2m patients annually. Dr Loo's philosophy of "patients come first, profits later" has served stakeholders well, by generating more than 20 years of consistent growth. From this foundation, RFMD has expanded overseas. In 2015, it started to construct a 400-bed Shanghai Hospital, acquired International SOS MC Holdings to gain immediate access to 10 cities in three countries, and opened a new medical centre in Osaka, Japan. It aims to generate at least half of its earnings from overseas, up from <5%. Maiden contributions from China are expected in FY18E.

…for breaking into China…

RFMD is positive on China's private healthcare industry and the value its "Raffles model" can bring. This emphasises teamwork, transparent pricing, thorough case-auditing and high-quality treatment. Management studied the Chinese market for more than three decades before venturing there. Now that it has a toehold, it is unlikely to stop at one hospital. We understand that it is in discussions with several parties for projects in Beijing and Shenzhen.

…and expansion in ASEAN…

Although China will be its main focus, RFMD does not rule out fast-growing emerging ASEAN countries. It has dipped its toes in Vietnam and Cambodia through clinic acquisitions and could expand further in these countries after building up market knowledge.

…to sustain its growth

We are positive on its long-term growth, especially now that it has accelerated overseas expansion. We believe its strong track record and brand will mitigate execution risks.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	341	375	409	451	506
EBITDA	103	86	95	112	134
Core net profit	61	65	68	75	86
Core FDEPS (cts)	10.5	11.0	11.4	12.5	14.3
Core FDEPS growth(%)	12.6	4.8	2.9	9.9	14.2
Net DPS (cts)	5.0	5.5	6.0	6.5	7.0
Core FD P/E (x)	39.7	37.9	36.8	33.5	29.3
P/BV (x)	4.9	4.4	4.2	4.0	3.7
Net dividend yield (%)	1.2	1.3	1.4	1.6	1.7
ROAE (%)	14.1	12.8	12.2	12.7	13.7
ROAA (%)	11.3	10.5	10.1	9.9	10.2
EV/EBITDA (x)	14.1	23.6	25.0	22.4	18.6
Net debt/equity (%)	net cash	net cash	net cash	13.4	8.2
Consensus net profit	-	-	69	78	92
MKE vs. Consensus (%)	-	-	(1.7)	(3.4)	(6.0)

John Cheong, CFA
johncheong@maybank-ke.com.sg
(65) 6231 5845

BUY

Share Price	SGD 4.18
12m Price Target	SGD 5.22 (+25%)
Previous Price Target	*SGD 5.22*

Company description

Raffles Medical Group Ltd. engages in the operation of medical clinics and other general medical services.

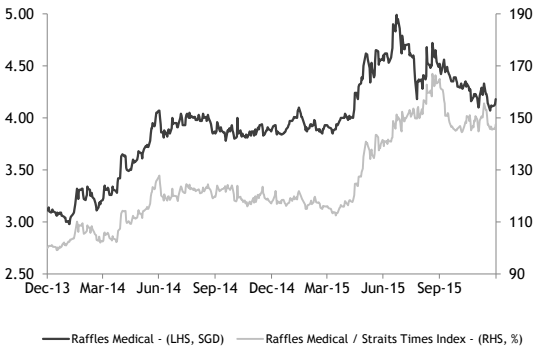
Statistics

52w high/low (SGD)	4.99/3.84
3m avg turnover (USDm)	1.7
Free float (%)	44.7
Issued shares (m)	575
Market capitalisation	SGD2.4B
	USD1.7B

Major shareholders:

LOO CHOON YONG	49.6%
Aberdeen Asset Management (Asia) Ltd.	6.8%
S&D Holdings Pte Ltd.	3.3%

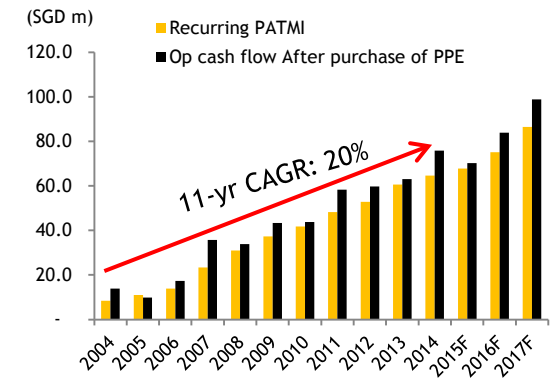
Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(8)	8
Relative to index (%)	(1)	(11)	26

Source: FactSet

Recurring profit and operating cash flow

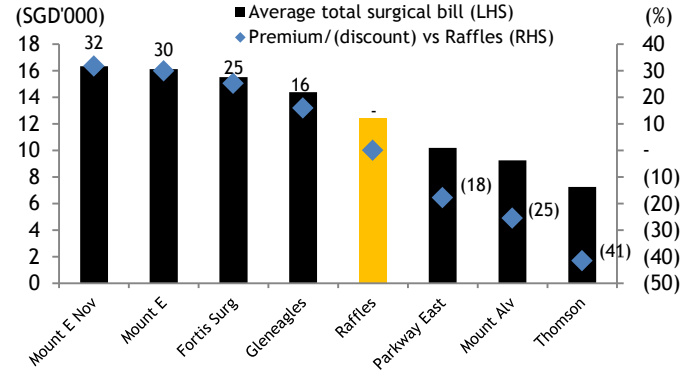


Source: Company, Maybank KE

Value Proposition

§ Provides private medical services that fill the gap between cheap-but-slow public services and fast-&-affordable private healthcare.
§ Proven operating and expansion track record of Singapore's renowned hospital and clinics under the "Raffles Medical" brand.
§ Unique group practice model which employs all the doctors and stringent auditing process ensure greater collaboration, consistent quality and fair pricing.

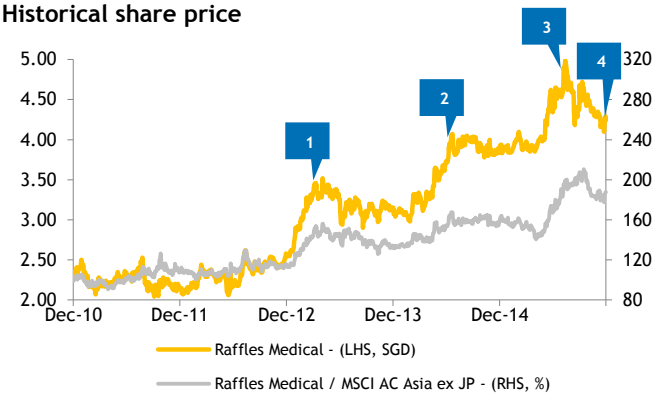
Affordable pricing of Raffles Medical vs peers (2014)



Source: Singapore Ministry of Health, Maybank KE

Price Drivers

Historical share price



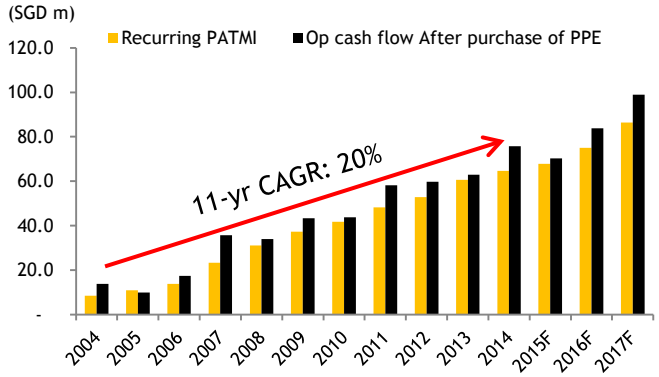
Source: Company, Maybank Kim Eng

1. Feb 2013: letter of intent with China Merchants Shekou to develop a 200-bed hospital in Shenzhen. 4Q12 earnings up 14% YoY vs 7-10% in preceding three quarters.
2. Jan 2014: agreed to acquire land next to its Singapore hospital for extension. Also acquired office building in Holland Village to redevelop into a medical centre.
3. May 2015: formed JV with Shanghai LuJiaZui Group to develop a 400-bed hospital in Shanghai.
4. 3Q15 results below expectations, up only 1% YoY due to high start-up costs and softer revenue.

Financial Metrics

§ 2015/2016 earnings growth expected to be slower due to costs for Raffles Hospital's extension in mid-2017 and Shanghai hospital in mid-2018.
§ Revenue growth of high single digits expected, on 1) opening of a new floor in Raffles Hospital, 2) opening of a new medical centre in Shaw Centre, and 3) acquisition of International SOS MC Holdings.
§ Longer-term reversion to sustainable revenue and earnings growth of 10%.

Recurring profit and operating cash flow



Source: Company, Maybank KE

Swing Factors

Upside

§ Further progress in second hospital in China, which could be in Shenzhen or other top cities. Shenzhen hospital first announced in Feb 2013.
§ Faster-than-expected breakeven for Singapore expansion. Normal breakeven is one year.
§ Medical tourism in Singapore could recover from 2015 weakness as RFMD is constantly seeking new source markets.

Downside

§ Execution risks for Shanghai hospital, its first outside Singapore.
§ Higher-than-expected start-up costs in major expansion markets such as China.
§ Structural decline of medical tourism in Singapore.

Oil & Gas

Singapore

Sembcorp Marine (SMM SP)

SCI to the rescue?

SELL

Share Price	SGD 1.77
12m Price Target	SGD 1.53 (-13%)
Previous Price Target	*SGD 1.75*

Greatest challenges ever

SMM is arguably staring at the greatest set of challenges in its history: 1) limp rig demand; 2) rig oversupply; 3) order-cancellation and payment risks; 4) uncertainties over its SGD1b new-yard investment and USD5.6b 7-drillship contract in Brazil due to Petrobras' corruption probes; and 5) enlarged capacity at its Tuas yard. It now trades below its GFC trough P/BV of 1.3x. Maintain SELL with TP cut to SGD1.53, now based on 1x FY16 P/BV (from 0.55x EV/backlog).

May need more financing

SMM granted backend-loaded payment terms of 20:80 and even 5:95 to compete with Chinese yards prior to the downturn. Customers are now delaying deliveries or terminating contracts and SMM cannot monetise construction work it has done. Having had net cash since 1988, it turned net-debt in 2015, with 3Q15 net gearing of 0.64x. If the rig market worsens and it cannot collect due payments, it may require more financing. A rights issue cannot be ruled out.

SCI or Temasek to the rescue?

But instead of injecting capital through rights, we think it may make sense for SCI to privatise SMM. Privatising would allow SCI to use its balance sheet to support SMM's working-capital needs until an industry turnaround. Based on our analysis, SCI has the means to do so. Another possibility is Temasek's purchase of the remaining 39% SMM stake. Temasek may want to do this if it sees rig and ship building as a strategic industry in Singapore.

Maintain Sell but privatisation possible near 1.0 P/BV

We switch from EV/backlog to P/BV valuation as its backlog momentum is non-existent with the risk of write-downs. We now value SMM at 1.0x FY16 P/BV, below its GFC trough. This yields a TP of SGD1.53, down from SGD1.75 (0.55x EV/backlog). Maintain SELL. If industry conditions worsen, requiring cash calls, or its stock price drops nearer to its book value, we believe a privatisation is highly likely.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	5,526	5,833	4,630	4,591	4,968
EBITDA	745	822	496	601	633
Core net profit	556	560	225	322	354
Core EPS (cts)	26.6	26.8	10.8	15.4	16.9
Core EPS growth (%)	3.2	0.8	(59.9)	43.3	10.0
Net DPS (cts)	13.0	13.0	4.0	8.0	8.0
Core P/E (x)	6.6	6.6	16.4	11.5	10.4
P/BV (x)	1.4	1.2	1.2	1.2	1.1
Net dividend yield (%)	7.4	7.4	2.3	4.5	4.5
ROAE (%)	21.7	19.9	7.6	10.4	10.7
ROAA (%)	8.5	7.2	2.7	3.7	4.0
EV/EBITDA (x)	11.4	9.3	12.3	9.1	8.2
Net debt/equity (%)	net cash	22.3	75.9	49.7	38.1
Consensus net profit	-	-	226	352	362
MKE vs. Consensus (%)	-	-	(0.6)	(8.5)	(2.2)

Yeak Chee Keong, CFA
yeakcheekeong@maybank-ke.com.sg
(65) 6231 5842

Company description

Sembcorp Marine provides integrated solutions in ship repair, shipbuilding, ship conversion, rig building and offshore engineering & construction.

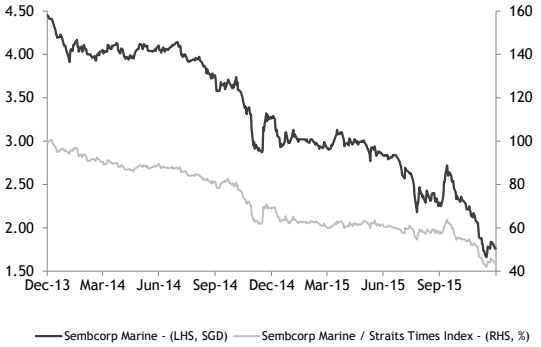
Statistics

52w high/low (SGD)	3.29/1.66
3m avg turnover (USDm)	3.9
Free float (%)	34.0
Issued shares (m)	2,090
Market capitalisation	SGD3.7B
	USD2.6B

Major shareholders:

Sembcorp Industries Ltd.	61.0%
DBS Group Holdings Ltd.	4.1%
APG Asset Management NV	1.2%

Price Performance



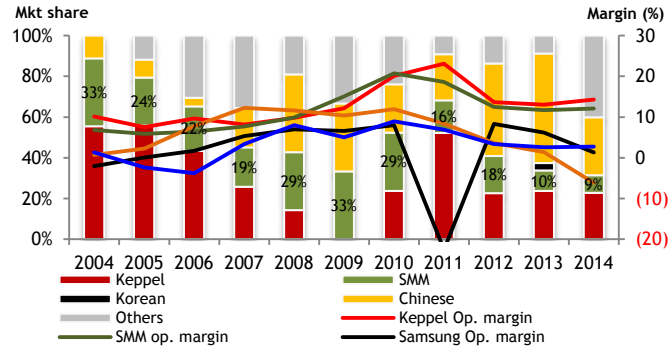
	-1M	-3M	-12M
Absolute (%)	(14)	(23)	(46)
Relative to index (%)	(15)	(25)	(37)

Source: FactSet

Value Proposition

§ One of the world's leading offshore rig builders - especially jackups - and FPSO conversion specialists, known for quality, customisation and on-time deliveries.
§ Operates a major ship-repair centre thanks to Singapore's advantageous position along major shipping routes.
§ Books higher margins than Korean and Chinese competitors due to cheap but skilled foreign labour, focus on higher-value contracts & strong execution.
§ SGD1b investment in a new shipyard in Brazil uncertain due to oil-price downturn and corruption probes involving Petrobras.
§ Value proposition may be under threat, especially if the cyclical downturn turns secular.

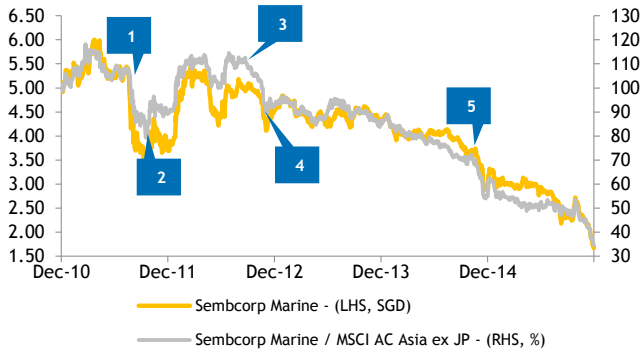
Jackup-rig market shares and overall EBIT margins



Source: Company

Price Drivers

Historical share price



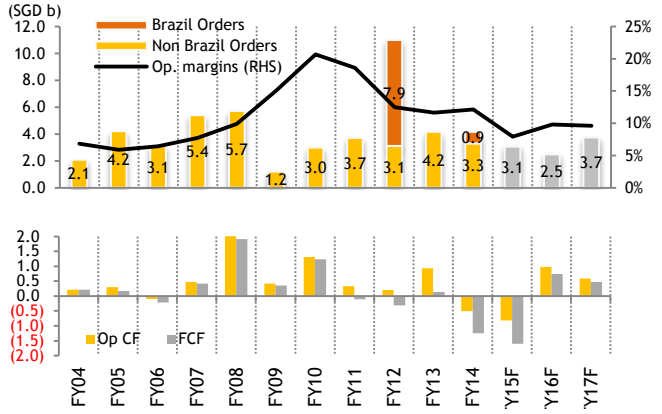
Source: Company, Maybank Kim Eng

1. Euro-zone sovereign-debt crisis slammed equity markets. Peak pessimism in Aug 2010.
2. Concerns over euro zone dissipated as rig orders also built up.
3. Brent crude fell from more than USD120/bbl to under USD90/bbl.
4. Secured USD4.0b drillship contracts from Sete Brasil in Aug 2012, followed by a 7th unit in Nov 2012.
5. Start of current oil downturn with prices cascading more than 60% from peak as US pumps record oil while OPEC refuses to cut supply.

Financial Metrics

§ Order wins and backlog momentum in an upcycle. Operating margins also an important measure of backlog quality.
§ In a downcycle, cashflows may be more important. Working-capital needs are high as revenue receipts tend to be backend-loaded with increased payment risks.
§ FCFs should be referenced to prior years as they may simply stem from a collection of huge backend payments when vessels are delivered.

Order wins, operating margins & cashflows



Source: Company

Swing Factors

Upside

§ Parent company Sembcorp Industries decides to privatise SMM at a premium.
§ Sete Brasil manages to secure financing to pay SMM its dues and expresses confidence that its contracts will be intact.
§ SMM manages to sell Marco Polo rig and North Atlantic drilling rigs for huge profits like when it did during GFC.

Downside

§ Sete Brasil cancels orders for seven drillships worth USD5.6b and cannot pay dues.
§ More contract cancellations requiring write-down of its SGD11.6b order book as of 3Q15.
§ Order drought or price sacrifices to secure orders in 2016.

January 3, 2016

Technology

Singapore

Venture (VMS SP)

Net Beneficiary of USD Gains

BUY

Share Price	SGD 8.16
12m Price Target	SGD 10.70 (+31%)
Previous Price Target	*SGD 10.70*

What if USD gains 10% plus four rate hikes?

We expect Venture to be a net beneficiary of a higher USD while there is zero impact from higher interest rates.

Further USD gains would be net positive on paper

If USD gains 10% against SGD, we expect Venture to benefit on paper. As revenue is all in USD, it will be worth more in SGD. Direct costs such as materials at 80% of its COGS are also in USD. A 10% boost to its topline in FY16 should flow straight to its bottom line, all else being equal. The net effects will depend on currency changes in the countries where it manufactures: Malaysia and China. The impact should be minimal as local operating and factory costs are not large, at c.10% of COGS. Inflation in rentals, salaries, utility charges and transport costs among its indirect costs would also reduce its gains.

Though customer demand could be hit

However, customer demand may be dampened by further USD strength as Venture's customers are overwhelmingly American. A strong USD will affect their price competitiveness in the global marketplace and curtail consumption. We cannot capture this in our forecasts.

No impact from higher interest rates

We foresee little impact from interest-rate hikes, even if they come four in a row. First, Venture has low debt and its SGD350-400m cash far outweighs short-term debt of SGD150-160m in 12-month bank borrowings. Interest income exceeds interest expense. Second, all its cash is now kept in USD, given USD's rising strength.

Company description

Electronic manufacturing services provider with manufacturing facilities in Singapore, Malaysia and China.

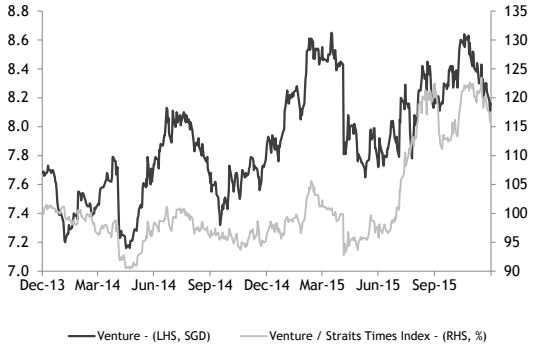
Statistics

52w high/low (SGD)	8.65/7.65
3m avg turnover (USDm)	3.5
Free float (%)	60.3
Issued shares (m)	275
Market capitalisation	SGD2.2B
	USD1.6B

Major shareholders:

Aberdeen Asset Management (Asia) Ltd	8.9%
Sprucegrove Investment Management Ltd	8.0%
Wong Ngit Liong	7.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(2)	4
Relative to index (%)	(4)	(5)	22

Source: FactSet

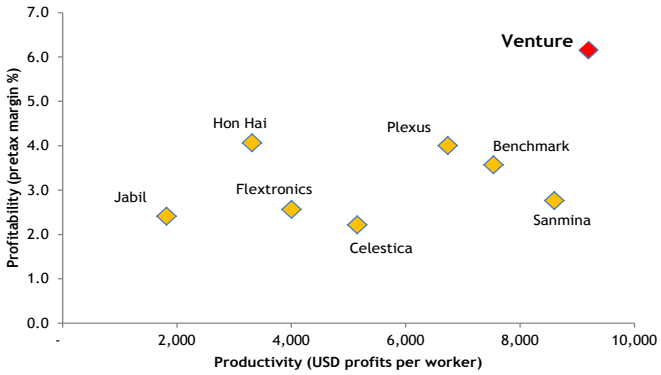
FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	2,330	2,465	2,664	2,843	3,036
EBITDA	177	192	224	243	281
Core net profit	131	140	156	173	216
Core EPS (cts)	47.8	50.9	57.0	62.9	78.7
Core EPS growth (%)	(6.1)	6.6	11.9	10.3	25.1
Net DPS (cts)	50.0	50.0	50.0	55.0	55.0
Core P/E (x)	17.1	16.0	14.3	13.0	10.4
P/BV (x)	1.2	1.2	1.2	1.2	1.2
Net dividend yield (%)	6.1	6.1	6.1	6.7	6.7
ROAE (%)	7.2	7.6	8.5	9.5	11.7
ROAA (%)	5.4	5.6	6.2	6.7	8.2
EV/EBITDA (x)	10.6	10.1	9.3	8.6	7.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	154	170	185
MKE vs. Consensus (%)	-	-	1.7	1.5	16.6

Gregory Yap
gyap@maybank-ke.com.sg
(65) 6231 5848

Value Proposition

§ EMS provider that helps OEMs bring the "right" products to market faster, not just the "cheapest". Value-add to customers in reducing "overall" cost of product delivery, measured not just in dollars but also effort and time.
§ Able to price services to optimise return on capital, unlike many EMS companies. As such, it is an industry leader in profitability & productivity despite fierce competition.
§ New-age, high-growth segments such as Life Sciences rising over old-world, GDP-linked segments such as retail store solutions.

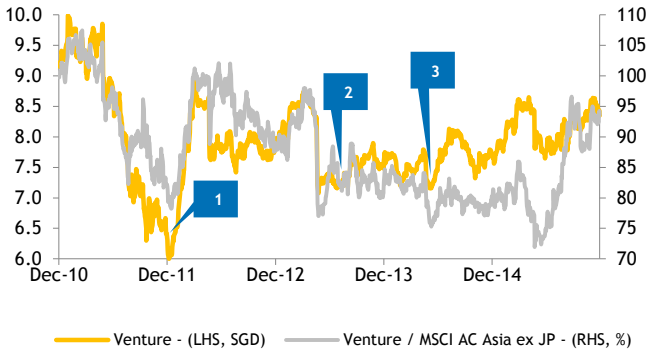
Industry leader in profitability and productivity



Source: FactSet

Price Drivers

Historical share price



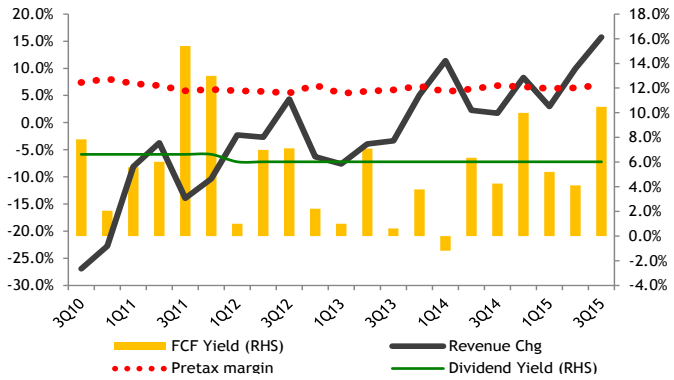
Source: Company, Maybank Kim Eng

1. Business in 2011 was disturbed by US economic weakness and M&As among its customers eg Hypercom and Radiant were acquired by Verifone and NCR respectively.
2. Business volume in 2012 was disturbed by further US economic weakness and M&As. Intermec, Talaris and IBM POS were acquired by Glory, Toshiba TEC and Honeywell.
3. Tide turned in 2014 when US economy improved, USD strengthened and further customer M&As turned out to be positive for Venture.

Financial Metrics

§ Revenue growth has been picking up since 2013. Expect further momentum, especially with USD remaining strong against Asian currencies.
§ Pretax margins should continue to rise as Venture extends its value-adding partnerships with more OEM customers.
§ Balance sheet and cash flow have always been strong. With capex trending down from FY15 peak, there is potential to raise already-generous dividends.

Rising profitability, cash flow ramping back up



Source: Company

Swing Factors

Upside

§ Strength in US economy, especially in segments that Venture is exposed to.
§ Continued strength in USD due to Venture's 100% revenue exposure to this currency.
§ Faster-than-expected growth in 3D printing, a promising segment that has lagged others such as Life Sciences.

Downside

§ M&As among customers. Acquisitions of Venture's customers by others could disrupt or discontinue orders.
§ USD strength may erode competitiveness of Venture's customers in the global marketplace, lowering orders for Venture.
§ Increased customer demand for Venture to hold more inventory at major hubbing sites, which would tie down cash that could be used to pay more dividends.

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GDP

Thailand

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Maybank Kim Eng

Thailand's Six-for-16

Cautiously Optimistic

Analyst

Maria Lapiz
(66) 2257 0250
Maria.L@maybank-ke.co.th

Disposable income to rise

Slow economic activity, stagnant wages and an absence of wealth creation amid high debt-servicing burdens have been weighing on consumer confidence and spending in the past three years. We hold the contrarian view that disposable income will start to improve in 2016, fostered by cash stimulus, higher government spending together with tax relief schemes for lower tax brackets. Better take-home pay should flow into consumption given pent-up demand in the last three years amid low confidence. Products to highlight are white goods: electrical & electronics, machinery, and home-improvement and repair items. We see potential beneficiaries in the consumer, household & consumer-finance sectors, banks, retailers and some material companies producing products for repair. Our top picks are credit-card provider TCAP (BUY, TP THB40) and home-improvement retailer HMPRO (BUY, TP THB9.1). Our EPS forecast is THB108, +6% YoY, while our index target is 1,555, at +1SD of the SET's 10-year mean.

Infrastructure rollout

Our new Economics Team has dubbed 2016 the Year of Investment. We see renewed commitment to roll out long-delayed infrastructure projects with a pared-down list that seems more realistic, involving 20 projects and THB1.8t. Obviously, taking physical and financial capacity into account, it is not possible to execute the projects in a short period of time. However, we do expect projects worth c.THB350b to be open for bidding in 2016, at least pumping THB100b into the system during the year. We believe that not only would this boost income but also confidence in the private sector to jump-start shelved capex plans. The latter is crucial for adding on to stimulus, in our view. Contractors, sub-contractors and material companies should benefit. Big banks are also obvious beneficiaries given the financing commitments required. We recommend civil contractor CK and quasi-state bank KTB for the best exposure.

Competition to intensify

Despite an improving outlook, slack capacity and high inventories carried from 2015 could keep competition high in the domestic market. In 2016, ASEAN Economic Community (AEC) integration will increase the competitive heat. In Thailand, we see the HHI ratio falling for a number of industries: property, telco, banking and leasing. Sectors with rising HHI are healthcare and retailing. Companies with weakening market power have been diversifying into other industries or countries. Favourite sectors are hotels, restaurants and retailing. Favorite destinations are Cambodia, Myanmar, Laos and Cambodia (CLMV). Thai FDI into these areas has risen nearly 10%. But even as AEC opens opportunities, it can intensify competition, at least during the transition. We pick vertically-integrated BDMS and diversified energy stock BCP as our BUYs for this exposure.

Year of the Monkey: cautiously optimistic

Another credit crisis, another turf war will probably happen again in 2016. In Thailand, we have to tackle a number of issues: the move back to a democratic form of government, a new constitution & its referendum and clawing back the country's reputation in international trade and relations. With the economy already into its third year of economic malaise, manageable leverage and forex reserves of USD178b, the eighth highest globally, there is really very little macro risk, in our view, even at the micro level.

We are warming to the idea of a dynamic stock market, especially after its recent correction that has taken P/E valuations to about 12.4x. We are moving from Neutral to Positive on the market, tempering our optimism as global events could still affect the stock market. For instance, the confidence crisis in emerging markets could work its way into Thailand via outflows of higher-than-history foreign holdings of debt securities and equities. We saw this in 2015 and could see it again in 2016. It is possible, though, that the foreign exit from debt securities will find its way into equities on an improved economic outlook and a number of positive Talking Points.

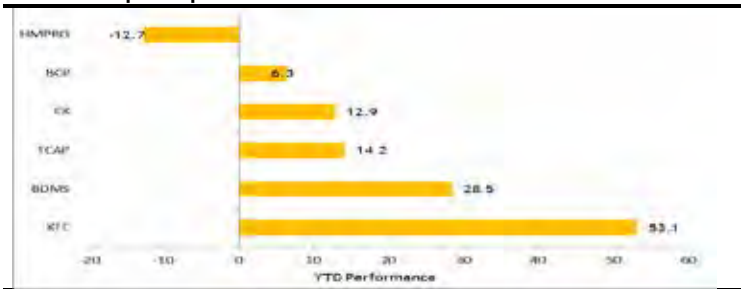
Maybank Kim Eng posits the view that disposable income will rise and the incremental wealth will go into consumption to feed pent-up demand. Initially, the spending could focus on mid-priced consumer goods and bite-sized home-improvement and repair items. Nothing spectacular like big-ticket purchases but there is mass here which should make the effects powerful. **For this, we pick HMPRO and TCAP.** The rollout of infrastructure projects could add to the uplift and revive fading confidence in the private sector. **For this, we recommend CK and KTB.** AEC is both a threat and an opportunity, in our view. Thai corporates are already there, ahead of their ASEAN peers. The opening of the market will expand opportunities, for sure. Unfortunately, it could also worsen competition that not all can handle. For some Thai corporates, the additional heat would add to the rivalry they face at home. **We think the best exposure to AEC can be provided by contractor-cum-utility provider CK and vertically-integrated BDMS.**

Six for Sixteen

Stock	Mkt cap	Liquidity	Price	TP	U/D Side	P/E (x)		P/B (x)		ROE	Div yld (%)		Beta
	(USDm)	(USDm)	(LC)	(LC)	(%)	15E	16E	15E	16E	15E	15E	16E	
HMPRO	2,443	3.0	6.7	9.1	35.1	25.6	23.5	4.6	4.3	18.5	2.0	2.1	1.1
TCAP	1,179	4.4	36.5	40.0	9.6	8.5	7.3	0.9	0.8	10.3	4.4	5.2	0.9
KTB	6,472	15.3	16.7	19.3	15.6	8.5	7.7	0.9	0.9	11.5	4.5	4.9	1.1
CK	1,339	5.3	28.5	33.5	17.5	37.8	33.4	2.4	2.3	6.5	1.1	1.2	1.2
BDMS	9,450	12.3	22.0	22.5	2.3	46.0	39.7	6.8	6.2	15.2	1.1	1.3	0.8
BCP	1,317	2.3	34.5	40.0	15.9	8.5	8.5	1.3	1.2	14.8	4.9	4.8	1.0
SET						**13.0**	**12.6**	**1.7**	**1.6**	**10.9**	**4.0**	**3.7**	

Source: Bloomberg as of 28 Dec 2015, MKE-ISR

YTD share-price performances



Closing 28 Dec 2015; Sources: Bloomberg, MKE-ISR

Recent profitability

NP growth	3Q%QoQ	3Q%YoY	9M%YoY
HMPRO	-2.1	4.8	3.1
TCAP	-2.8	12.5	8.4
KTB	-36.7	-42.2	-13.7
CK	-82.8	-76.4	26.4
BDMS	40.0	8.3	6.6
BCP	-84.5	13.4	33.2

Source: MKE-ISR

2016 talking points

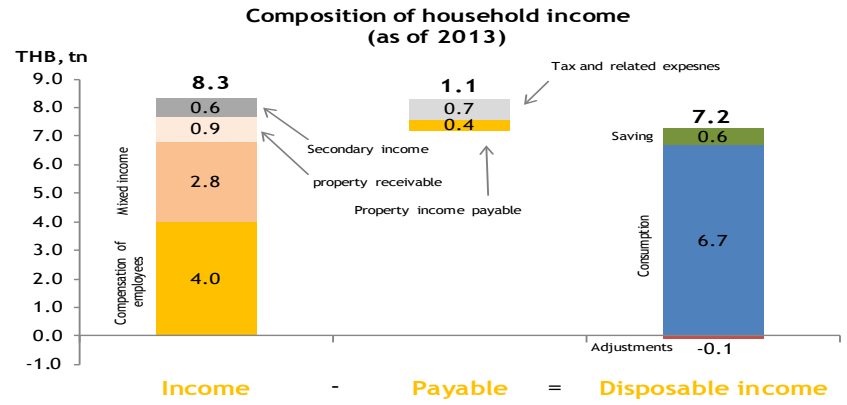
1: Higher disposable income

Slowing growth in disposable income has been behind weak consumption. An insipid economy, stagnant wages and an absence of wealth creation amid high debt servicing weigh on consumer confidence and spending.

We now take a non-consensus view that disposable income - defined as total income minus payable obligations such as interest rates and taxes - will start to improve in 2016, fostered by higher government spending, cash stimulus and tax relief schemes for lower tax brackets. Higher economic activity should translate into better take-home pay, in our opinion.

Thailand's household disposable income is mainly made up of wages & salaries and mixed sources of income from self-employment & others. Combined, these two categories account for 80% of household income. In the past decade, although there has been a noticeable rise in income from property and other secondary sources, the ratio remains small, at around 10% for each.

Compensation and mixed sources of disposable income

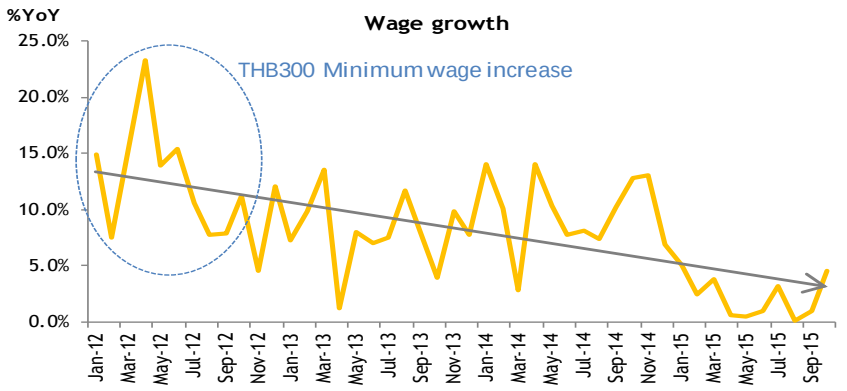


Source: NESDB, MKE-ISR

We believe that take-home pay will improve in 2016 from the following:

1) After two years of freeze, the annual adjustment mechanism for the minimum wage will resume in 2016. It will revert to the old system of using varying escalation rates, depending on province and the cost of living. After sequential monthly declines this year, wages are finally climbing. We believe the pace will hasten next year.

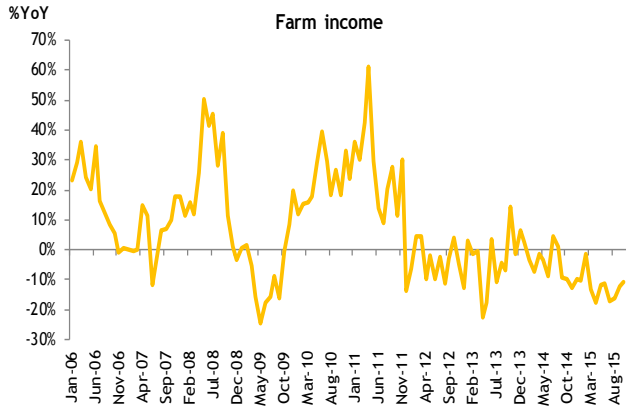
Wages ticking up



Source: BOT, MKE-ISR

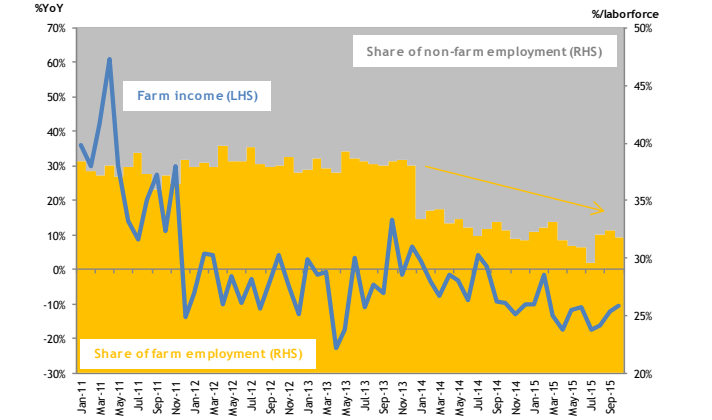
2) With agricultural prices expected to enter their third-year low, we expect more farmers to search for alternative income. Since 2013, 3m farmers have moved out of the farm sector. An estimated 2m have entered non-farm labour: 37% in manufacturing, 20% in hospitality & food services and 9.5% in retail & wholesale trade.

Sluggish farm income for years…



Source: OAE, BOT

… has compelled farmers to seek a living elsewhere



Source: OAE, MKE-ISR

3) "Mixed income" should also benefit from the government's stimulus measures, especially those designed to support small enterprises. Other cash-transfer measures include village-fund support, cash handouts and the promotion of small development projects.

Static payable obligations and savings ratio

As absolute income increases, obligations are likely to drop, especially with programmes like farm-debt moratoriums and a planned cut in the personal income tax for lower tax brackets.

Options for tax-burden reduction proposed by the Revenue Department

I.	Lowering the top tax bracket from 35%
II.	Raising the THB150k exemption cap on taxable income
III.	Lifting the annual deduction of expenses of 40% but not more than THB60k
IV.	Changing the tax bracket structure

Source: Local news, MKE-ISR

While the amount may be small at THB20-30b, it should be meaningful enough to those in the lower tax brackets. Moreover, as the tax changes are permanent, they are likely to trigger durable changes in consumption and encourage more economic production. More importantly, as lower-income households have a high marginal propensity to consume, the multiplier effects could be high and enduring.

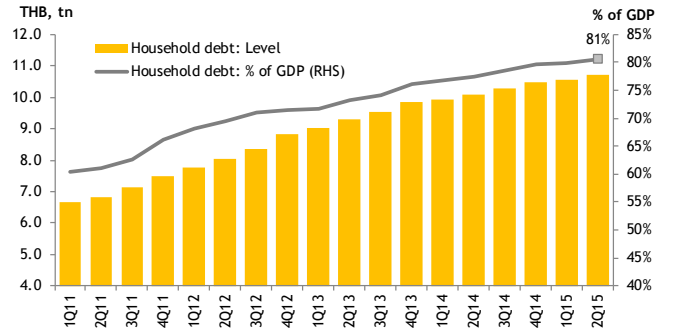
What of leverage? High household leverage has been a hot topic in the last two years, with high servicing burdens partly blamed for weak consumption. At first, we thought that when income starts improving, households would choose to deleverage rather than consume. We have re-considered our view for the reasons below.

Firstly, while household debt is high, it is not high enough to scare banks off. Debt has been rising still, although its delta is lower. Thailand does not have a sophisticated financial system and banks are the main source of debt. For 2016, banks are projecting fairly healthy loan growth. On expectations that the economy would grow 3% and 2.5% respectively, KBANK and SCB are eyeing loan

growth of 6-7% and 4-6%. They expect better growth in retail and SME lending than in large corporate lending. We expect other banks to target similar growth.

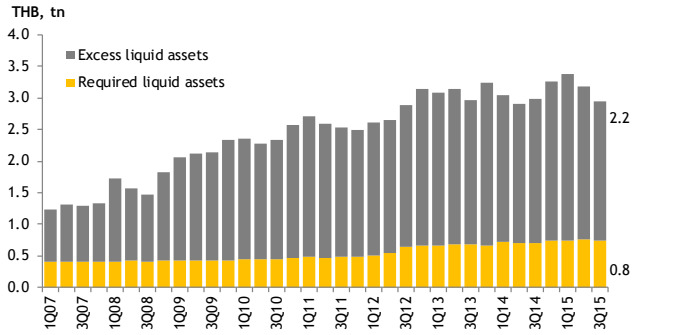
We are eyeballing loan growth of 5.6%, up from 5.2% this year. With ample credit supply, households need not raise their savings ratios.

Household debt continues to rise but with a lower delta



Source: BOT, NESDB, MKE-ISR

Abundant liquidity eases the pressure on market rates

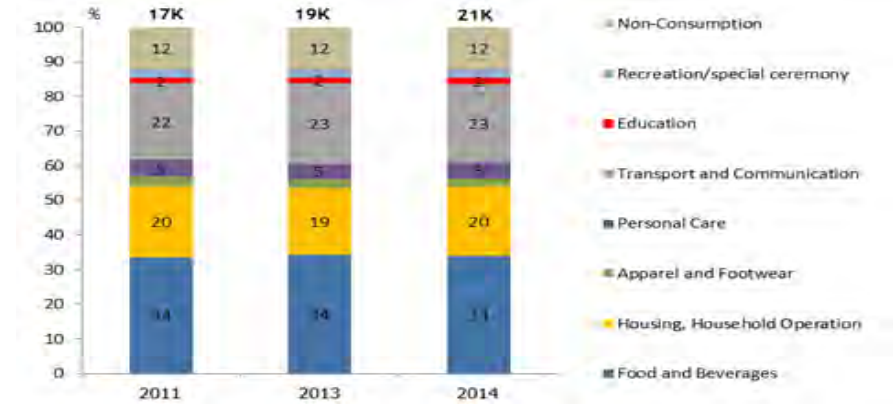


Source: BOT, MKE-ISR

Secondly, we do not expect interest rates to rise dramatically as excess liquidity in the system is still quite high. As of Sep 2015, all domestic commercial banks held about THB3t of liquid assets, exceeding the Bank of Thailand's THB0.8t requirement. The THB2.2t "excess liquidity" should be able to meet the funding needs of both the private and public sectors. As we anticipate still-low interest rates and better income, household savings should rise.

An examination of the various components of household expenditure suggests that not only has its composition been the same, spending on F&B, housing/household operations, apparel and personal care still accounts for 60%.

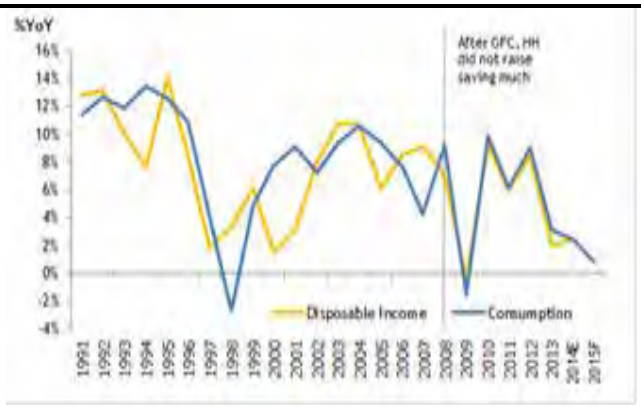
Monthly household expenditure



Source: NSO, MKE-ISR

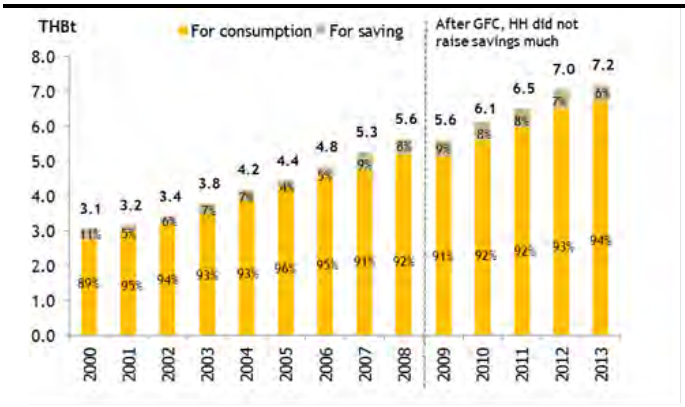
Since 2008, disposable income has been underwriting consumption. Savings remain largely unchanged. Given this, we turn more positive on consumption in 2016.

Consumption is underwritten mainly by disposable income



Source: NESDB, MKE-ISR

Since 2009, the Thai household has not been saving more



Source: NESDB, MKE-ISR

Replacement cycle could start in 2016

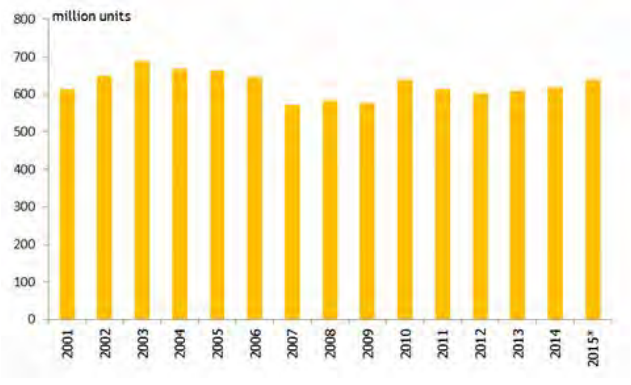
Depressed consumption for nearly three years could have created pent-up demand in some segments, we believe. We are anticipating the start of a replacement cycle, first, in mid-priced products that do not need high debt financing such as electrical and electronic gadgets and home-improvement items, basically consumer white goods. This could be followed by motorcycles, before spreading to higher-ticket items like farm tractors and automobiles.

Statistics from the Office of Industrial Economics suggest that domestic sales of consumer goods have been flat since 2011, the year Thailand was devastated by floods.

Home improvement & renovation is an area where we expect pent-up demand. After growing 9% YoY in 2012, mainly due to reconstruction demand, spending has stayed mostly flat.

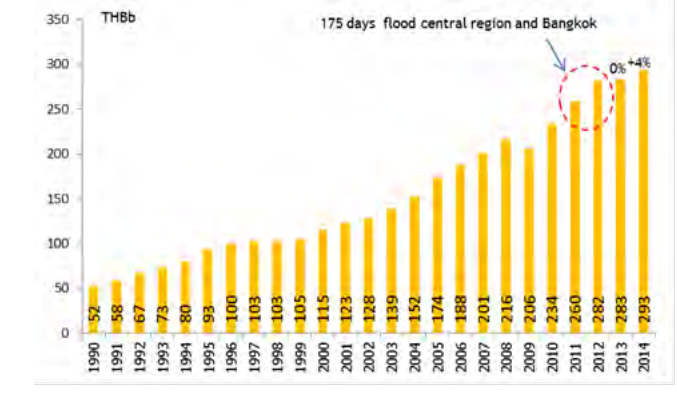
With 22-23m homes in Thailand and assuming incremental home-improvement/renovation spending of THB6,000 per household or THB500 per month, incremental household renovation spending could amount to THB132b. This would be another 1% of nominal GDP.

Flat domestic sales of consumer goods



Source: OAE

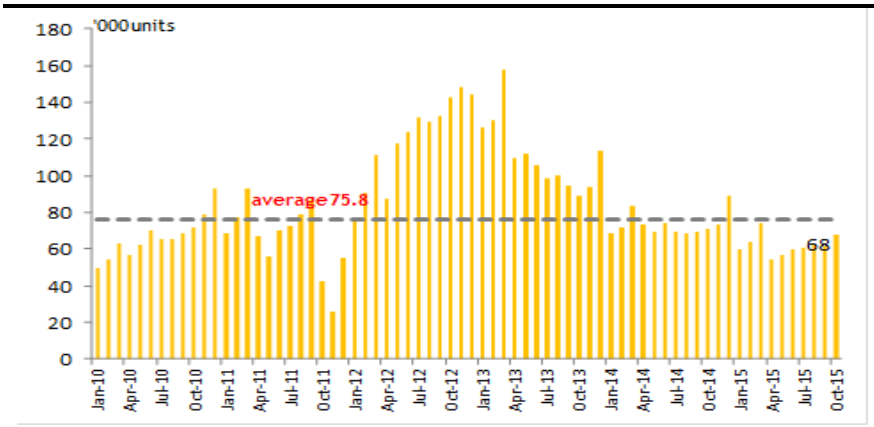
Home-improvement spending



Source: NESDB

Our optimism extends to automotive sales. This is bold, as 10M15 domestic auto sales contracted 14% YoY to 621,742 units. However, when we compare this to pre-2012 levels, the monthly average this year is 62K units, approaching what we can deem their natural replacement rate of 75K per month. This is equivalent to a 2.4% replacement rate on a stock of 35.5m registered units.

Monthly car sales are normalising



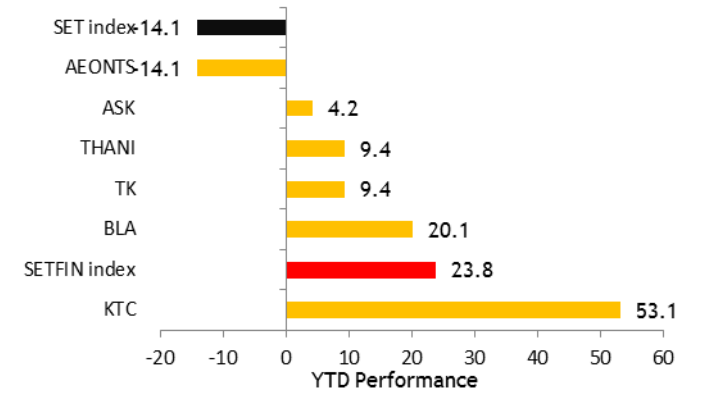
Source: Thailand Automotive Institute

Companies that could benefit are HMPRO, GLOBAL, DCC, SCC, KYE and SNC, in our view. Consumer-finance companies AEON, SINGER, TCAP, THANI and KTC could also cater to the small amount of financing required. Our top picks are **TCAP** and **HMPRO**.

YTD stock performances of potential beneficiaries…



…and consumer finance



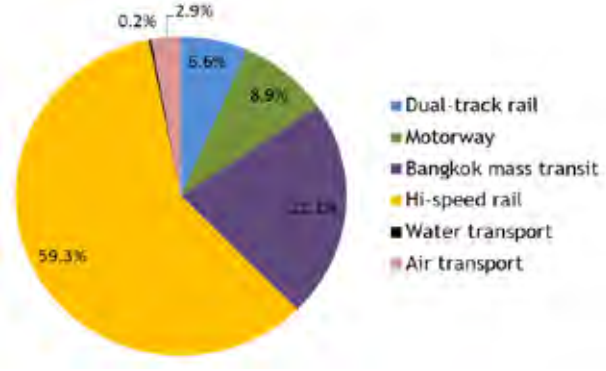
Closing 28 Dec 2015; Sources: Bloomberg, MKE-ISR

2: Infrastructure pick-up

The government touts 2016 as a year of investment with 20 infrastructure projects lined up worth THB1.8t. Thailand's infrastructure plan was drafted in the early 1990s. The 1997 Asian Financial Crisis put the master plan on the back burner. It was given a makeover in 2003 when the Thaksin government prepared for its second term. At the time, its total amount was THB2.5t, for what were dubbed mega-projects. Since then, the projects have become a rallying cry for many revolving-door governments, but few have been implemented. The bigger projects are the Bangkok mass transit system and motorways.

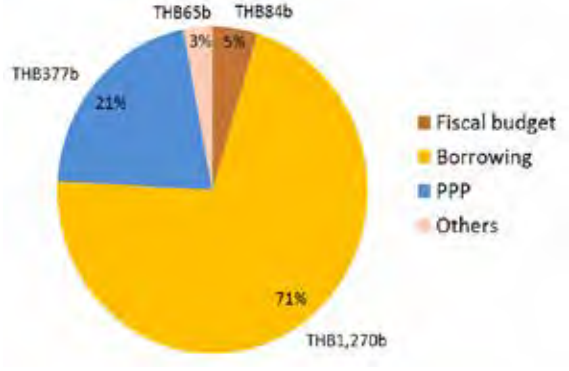
We welcome the dynamism of the present economics team led by Dr. Somkid Jatusripitak. Infrastructure rollout, especially of projects that traverse multi-provinces, can involve rural populations and lift rural disposable income.

Most investments will be on rail transport...



Source: Ministry of Transport

... funded mainly by borrowings



Source: Ministry of Transport

Financing for the 20 projects will come from: 1) the government's fiscal budget of THB84.1b or 5%; 2) borrowings of THB1,270b or 71%; and 3) PPP schemes worth THB377b or 21%. We believe there is ample domestic liquidity to underwrite the projects without funding-cost pressures. During the last auction of a 15-year government bond for capex, the coupon was 3.85%. This has since stayed flat.

Since 80% of the funding will come from borrowings, we think big banks such as **KTB**, **BBL**, **SCB** and **KBANK** will benefit. In particular, quasi-state-owned **KTB** could be at the forefront, given its close ties to the government. **BBL**, with its THB2.9t assets and 79% LDR, should also be well-placed to pick up market share, especially in corporate lending. This is its core competency.

The government also plans to establish a Thailand Future Fund to provide funding. This will be offered to the public in 2Q16. Its initial size of THB100b is small relative to the amount required but should provide a good start. A successful offering, tacitly implying attractive returns, could make such funds effective fund-raising vehicles for the government.

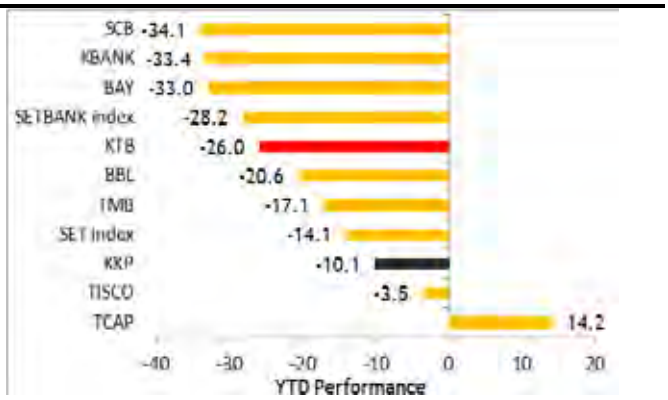
As many of the 20 projects are either large and/or cover multiple provinces, we believe the contracts will be awarded on a turnkey basis. This is for ease of monitoring and qualification assessment. Large contractors **STEC**, **CK**, **ITD** and **UNIQ** are likely to benefit. We also think that sub-contractors such as **CNT**, **NWR**, **SYNTEC** and **TRC will pick up some of the work. As the projects are implemented**, cement manufacturers such as **SCC**, **SCCC** and **TPIPL**, and construction-material & foundation-work providers such as **TASCO**, **PYLON**, **SCP** and **SEAFCO** should form the next line of beneficiaries. The multiplier effects should filter down via subcontracting work that will require manpower and material resources in the provinces.

In our opinion, the best exposure is provided by diversified contractor, **CK** and quasi-state-owned bank, **KTB**.

YTD share prices of the companies that could benefit…



… and the big commercial banks



Closing 14 Dec 2015; Sources: Bloomberg, MKE-ISR

We believe the first up for bidding in 1H16 will be three motorways worth THB160.4b and three water and air transport projects worth THB55.5b. Combined, their amount is THB215.9b. We think this can be accommodated by the FY16-17 fiscal budget. The Orange Line mass transit system valued at THB110b is likely to be the next open for bidding, sometime in 3Q16.

Assuming this timeline is met, a total of THB100b could make their way into the economy in 2016, jacking up economic growth by as much as 1%. These investments would shore up disposable income and provide additional impetus for our recovery hypothesis. It could also entice the private sector to start a new capex cycle, especially in real estate.

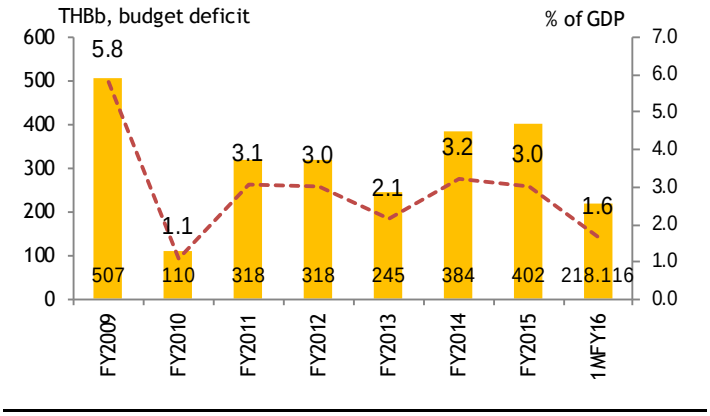
Caveats

Because of the numerous false starts to the infrastructure programme over the years, it is prudent to flag caveats.

1) Thai governance faithfully adheres to fiscal discipline. The law stipulates a maximum ceiling of 60% for public debt to GDP. Most governments commit to 50%. As of Oct 2015, the ratio was closer to 45%. There is also a fiscal-deficit limit of 3% of GDP. In the 2014-2015 fiscal year, the ratio was over 3% most of the time due to low tax collection and economic limpness, although it managed to close the year at the ceiling. In the first month of FY15-16, the fiscal deficit was 1.6%.

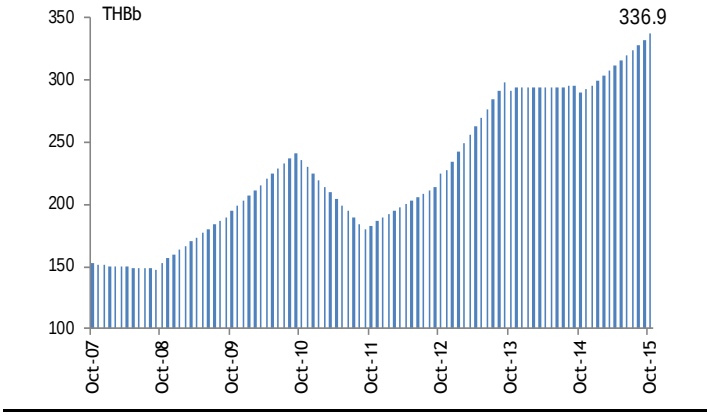
2) Government agencies are increasingly unable to execute their capex plans, as can be seen in the persistent rise in the carry-over budget on a 12-month rolling basis since 2011. This could be a sign that political instability has finally affected the functioning of the government machinery. If so, the obstacle could take a much longer time to rectify. The present anti-corruption platform has created a super board in the State Enterprises Policy Commission to supervise various state enterprises. This is a major overhaul of the system that could take time to reach smooth operations.

Fiscal-deficit position



Source: Budget Bureau

Carry-over budget



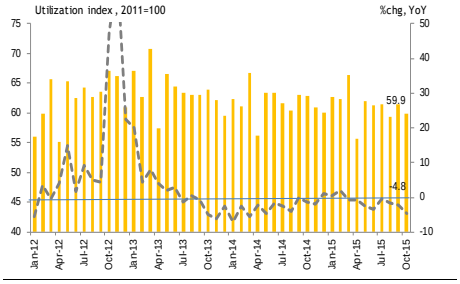
Source: Budget Bureau

3: Competition to worsen under AEC

Amid a general view that Thailand is losing global competitiveness, we believe that listed Thai corporates are competitive in terms of manpower, market efficiency and innovation. They could be at the forefront of benefits that Thailand will enjoy after it becomes better connected with the Greater Mekong Sub-region of Cambodia, Laos, Myanmar, Vietnam (CLMV) and China's southern province of Yunnan.

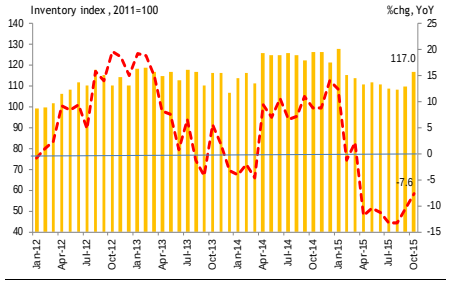
Still, with excess production capacity and high inventories going into 2016, competition could be intense, especially as players try to grab market share.

General utilisation rates - contracting



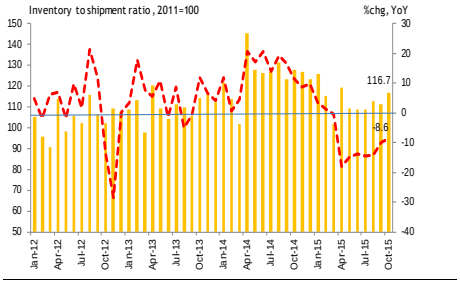
Source: OIE, MKE-ISR

Inventories - high



Source: OIE, MKE-ISR

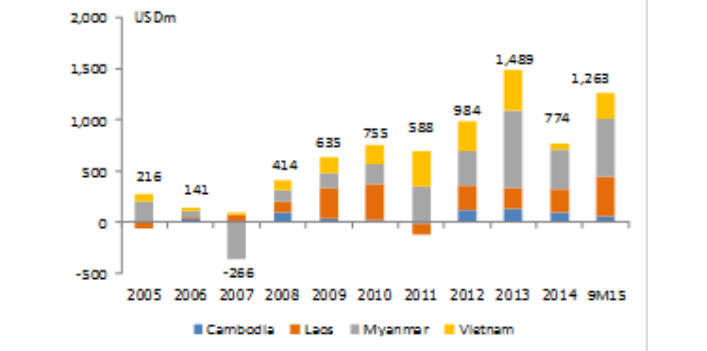
Inventory to shipment ratios - rising



Source: OIE, MKE-ISR

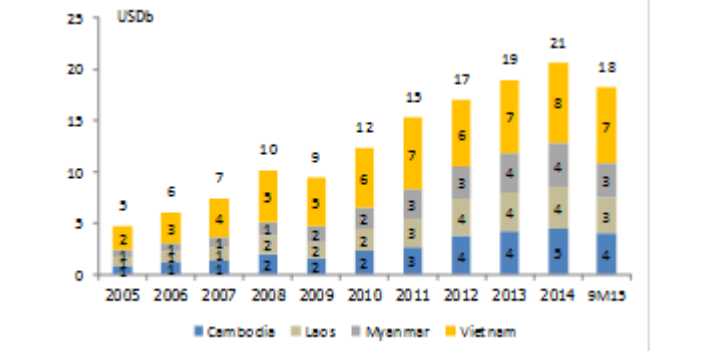
A good number of Thai corporates have kept their utilisation rates high by exporting. Their favourite destination is North ASEAN. With AEC in 2016, we expect competition to intensify. And with the new players setting low performance hurdles in these frontier markets in exchange for market share, the competitive threat to Thai players could increase in both domestic and overseas markets.

Thai FDIs to CLMV



Source: BOT

Exports to CLMV



Source: BOT

Thai businesses have also been diversifying into new lines with high growth and cash-flow potential.

In Thailand, we observe operators of hotels, restaurants, department stores and community malls expanding. The most visible example is **LH, which is** increasing its focus on shopping malls after the success of its Terminal 21 commercial complex. In the past year, the Singha Group – second-largest beverage player in Thailand - also sought a backdoor listing for its property arm, **Singha Estates (S TB, Not Rated)**.

The trend is no longer limited to the big players. Recent press reports suggest that small property developers such as **NUSA**, **PACE**, **SIRI** and **MBK** are planning to launch new hotels and restaurants in 2016.

Business diversification and overseas expansion

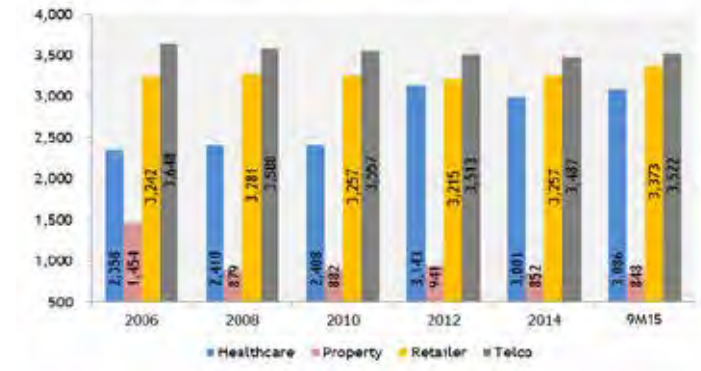
Sector	Business diversification	Overseas expansion
Banking	In both interest and non-interest income segments. New and differentiated products	CLMV
Construction material	Expanding to retailers of home-related products, advisories of home builders and high-value-added products	ASEAN, CLMV
Energy	Diversifying to renewable energy business and power plants	Regional, Global
Healthcare	Penetrating hospital-related products such as saline, drug stores, laboratories, imported medical equipment	Myanmar, Cambodia, Mongolia
Ind.Estates	Expanding power plants	Vietnam, Myanmar
Media	Diversifying to hotels and office buildings	Myanmar, Cambodia, Laos
Property	Expanding to hotels, retailing, renewable energy, restaurants, hospitals, department stores and community malls	ASEAN

Source: MKE-ISR

The Herfindahl-Hirschman Index (HHI) for healthcare and retailing has been rising since 2006, indicating higher business concentration. In the case of retailing, the HHI increased after CPALL's acquisition of MAKRO.

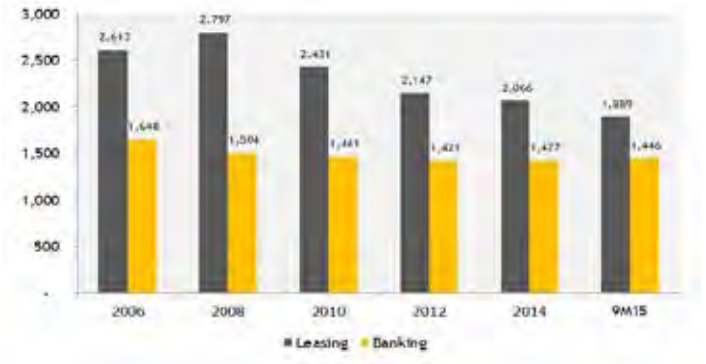
HHI for the telco sector is starting to dip. If 4G licensing allows for a fourth private provider of mobile-phone services, it could shrink further. Banking HHI has been falling while leasing HHI is mostly flat. AEC liberalisation could trigger changes for all these industries, intensifying competition as it opens up the playing field. Even if Thai corporates are the most prepared for AEC, the opening of the market will still require adaptation that could pinch profitability initially.

HHI – Healthcare, Property, Retailer, Telcos



Source: MKE-ISR

HHI – Banking, Leasing



Source: MKE-ISR

Companies that have been diversifying yet retaining financial flexibility are **AMATA, KBANK, LH, BCP, MAJOR, PTT** and **SCC**. Our top picks are the vertically-integrated **BDMS** and well-diversified **BCP**.

Many other Thai corporates have also ventured into CLMV. Market cap for the listed entities that have done so has reached USD173b, or 49% of the SET's total. Given the stock market's high degree of exposure to CLMV, the opening of the market and the rising competition that accompanies this could lead to very interesting times for Thai corporates. At this point, we are not concerned about the earnings impact of the competition as profit contributions are still quite small, at less than 10%. We are more interested in how these corporates grab future growth opportunities.

Listed stocks invested in CLMV

Symbol	Cambodia	Laos	Myanmar	Vietnam	Mktcap (USD m)	% to SET mktcap
Agro & Food Industry						
CBG	√		√	√	949	0.3
CM			√		41	0.0
CPF		√		√	3,797	1.1
KSL	√	√			451	0.1
M				√	1,431	0.4
MINT	√	√	√	√	4,361	1.2
OISHI			√		321	0.1
SNP	√				380	0.1
STA			√	√	365	0.1
TF	√				778	0.2
TLUXE				√	81	0.0
TU				√	2,235	0.6
Total					**15,191**	**4.3**
Consumer Products						
IFEC	√				382	0.1
PRANDA				√	56	0.0
SITHAI				√	165	0.0
SUC		√			308	0.1
TOG				√	75	0.0
TR		√			182	0.1
WACOAL			√		166	0.0
Total					**1,333**	**0.4**
Financials						
AEONTS	√	√	√	√	646	0.2
BAY		√			6,064	1.7
BBL	√	√	√	√	8,119	2.3
BKI	√	√			1,053	0.3
CIMBT		√			728	0.2
CNS		√			145	0.0
GL	√	√			708	0.2
KBANK		√	√	√	10,047	2.9
KTB	√	√	√		6,467	1.9
SCB	√	√	√	√	11,240	3.2
TK	√	√			136	0.0
TMB		√			2,934	0.8
Total					**48,285**	**13.8**
Industrials						
CTW				√	91	0.0
EASON				√	24	0.0
IRC				√	105	0.0
MILL			√		97	0.0
PK				√	45	0.0
SPG			√		193	0.1
SSSC				√	59	0.0
STANLY		√		√	361	0.1
TOPP				√	25	0.0
TPC				√	703	0.2
TYCN				√	44	0.0
WG			√		73	0.0
Total					**1,820**	**0.5**
Technology						
DRACO				√	26	0.0
FORTH				√	198	0.1
HANA	√				786	0.2
INTUCH	√	√			4,731	1.4
SAMART	√				429	0.1
SIM		√			185	0.1
THCOM	√	√			888	0.3
Total					**7,245**	**2.1**

Symbol	Cambodia	Laos	Myanmar	Vietnam	Mktcap (USD m)	% to SET mktcap
Property & Construction						
AMATA				√	367	0.1
CK		√			1,326	0.4
GEL			√		82	0.0
HEMRAJ		√			1,172	0.3
ITD	√	√	√	√	1,090	0.3
NWR	√		√		93	0.0
PS				√	1,592	0.5
SCC	√	√	√	√	15,029	4.3
SCCC	√				2,001	0.6
SEAFCO			√		78	0.0
STEC		√			1,048	0.3
TASCO	√				1,593	0.5
TTCL			√	√	247	0.1
Total					**25,718**	**7.4**
Resources						
AKR	√	√	√	√	51	0.0
BANPU		√			1,123	0.3
CKP		√			398	0.1
DEMCO		√	√		142	0.0
EGCO		√			2,217	0.6
GLOW		√			3,010	0.9
GUNKUL			√		736	0.2
MDX		√	√		66	0.0
PDI		√		√	73	0.0
PTT	√	√	√	√	18,995	5.4
PTTEP	√		√	√	6,325	1.8
RATCH	√	√			1,908	0.5
SGP				√	260	0.1
SUSCO	√	√	√		85	0.0
TOP				√	3,604	1.0
Total					**38,992**	**11.2**
Services						
AAV	√			√	679	0.2
BA	√	√	√		1,338	0.4
BDMS	√		√		9,443	2.7
BEAUTY	√	√	√	√	466	0.1
BEC			√		1,649	0.5
BECL		√			965	0.3
BIGC		√			4,560	1.3
BJC		√	√	√	1,522	0.4
CENTEL				√	1,702	0.5
FE			√		27	0.0
GRAMMY			√	√	202	0.1
KAMART	√	√	√	√	122	0.0
LOXLEY		√			142	0.0
MAJOR	√				822	0.2
MAKRO				√	4,855	1.4
MC		√	√	√	270	0.1
MEGA	√		√	√	396	0.1
MIDA		√			63	0.0
MONO				√	174	0.0
NOK			√		115	0.0
PRAKIT	√		√	√	25	0.0
RCL				√	119	0.0
ROBINS				√	1,308	0.4
SHANG			√		265	0.1
SPC	√		√	√	338	0.1
SPI	√		√		335	0.1
SVH			√		817	0.2
THAI	√	√	√	√	511	0.1
TTA				√	384	0.1
Total					**33,615**	**9.6**

Closing 28 Dec 2015; Source: SET, MKE-ISR

Company highlights

HMPRO: Thailand's largest home-improvement retailer with 76 *HomePro* stores for end-users and six *Mega Home* stores for construction companies and small repair contractors. Growing at a rate of 4-5 stores per year. With its high national penetration, it should be well-placed to cater to increased demand for home-improvement and repair goods. About 15% of its merchandise mix is consumer white goods. *Mega Home* is a new format that has been successful so far. It can be exported to CLMV. HMPRO has already exported its *HomePro* format to Malaysia with a store in Kuala Lumpur.

TCAP: Domestic new-car sales should stabilise this year, after demand was brought forward by the first time car buyer scheme. Buyers under the scheme will be eligible to sell their cars next year; we believe that some of them will do so. Better car sales should boost the bank's lending. Moreover, THB5b of expected tax gains thanks to its SCIB deal in 2010 should support its bottom line for the next few years.

KTB: A prime beneficiary of upcoming government infrastructure investments. As the government is trying to reduce its contingent liabilities and specialised financial institutions are being transferred to the Bank of Thailand for stringent regulation, KTB should be the main conduit for public spending. This offers loan-growth upside. A deal to sell THB10b worth of land is ongoing and could be another catalyst next year.

CK: A Class A contractor that has diversified to quasi-utilities: mostly concessions that cushion earnings should big civil-work contracts fail to come through. Its investments span water, hydropower, underground mass transit and expressway companies.

BDMS' 41% share of the Thai healthcare market by revenue and its national network of hospitals as well as diversification into ancillary medical businesses provide strong barriers to entry. However, we reckon this will not be enough amid a trend of medicine without frontiers where patients shop for the best services region-wide. BDMS is moving into CLMV where growth is arguably high.

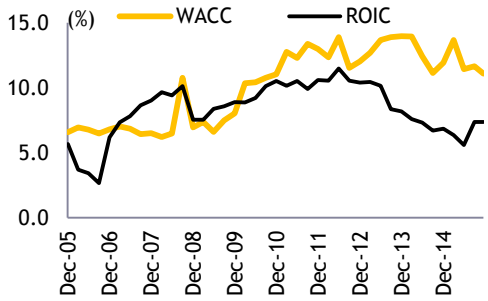
BCP. Most diversified downstream energy entity. Should benefit from healthy gross refinery margins (GRM), expansion into renewable capacity and retailing using its 1,000 or so petrol stations as a springboard.

Six for Sixteen

Stock	Mkt cap	Liquidity	Price	TP	U/D Side	P/E (x)		P/B (x)		ROE	Div yld (%)		Beta
	(USDm)	(USDm)	(LC)	(LC)	(%)	15E	16E	15E	16E	15E	15E	16E	
HMPRO	2,443	3.0	6.7	9.1	35.1	25.6	23.5	4.6	4.3	18.5	2.0	2.1	1.1
TCAP	1,179	4.4	36.5	40.0	9.6	8.5	7.3	0.9	0.8	10.3	4.4	5.2	0.9
KTB	6,472	15.3	16.7	19.3	15.6	8.5	7.7	0.9	0.9	11.5	4.5	4.9	1.1
CK	1,339	5.3	28.5	33.5	17.5	37.8	33.4	2.4	2.3	6.5	1.1	1.2	1.2
BDMS	9,450	12.3	22.0	22.5	2.3	46.0	39.7	6.8	6.2	15.2	1.1	1.3	0.8
BCP	1,317	2.3	34.5	40.0	15.9	8.5	8.5	1.3	1.2	14.8	4.9	4.8	1.0
SET						**13.0**	**12.6**	**1.7**	**1.6**	**10.9**	**4.0**	**3.7**	

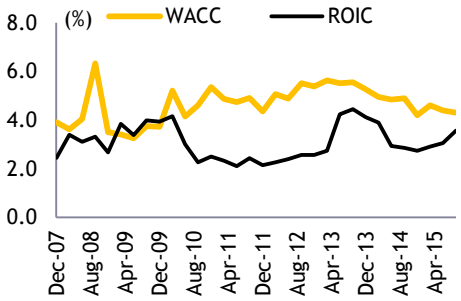
Performance snapshots

ROIC and EVA spread - HMPRO



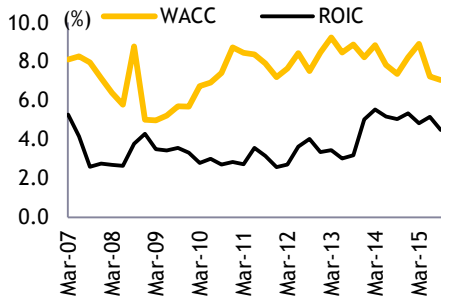
Source: Bloomberg

ROIC and EVA spread - TCAP



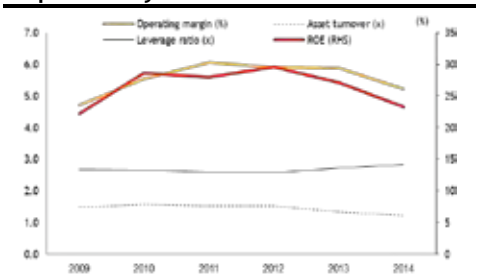
Source: Bloomberg

ROIC and EVA spread - KTB



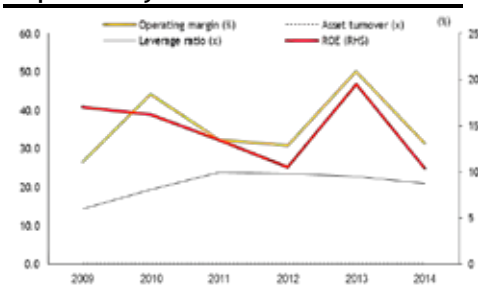
Source: Bloomberg

Dupont analysis - HMPRO



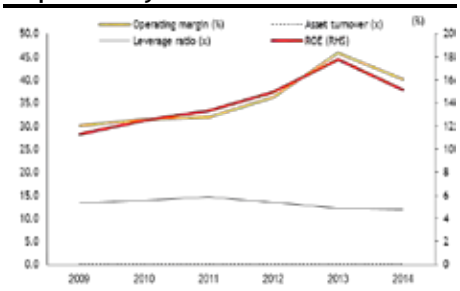
Source: Bloomberg

Dupont analysis - TCAP



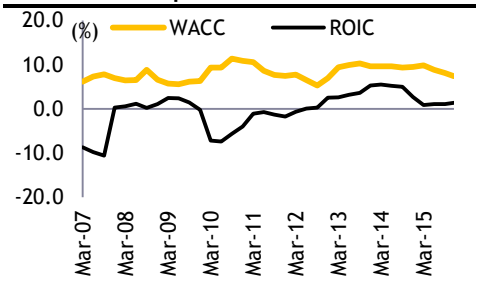
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Dupont analysis - KTB



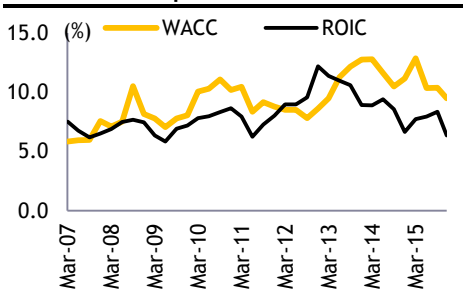
Source: Bloomberg

ROIC and EVA spread - CK



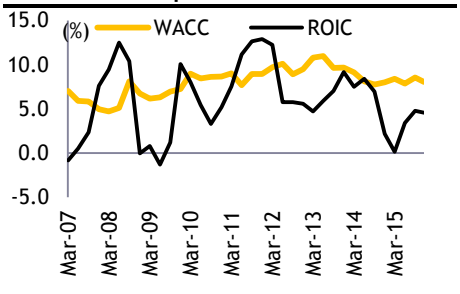
Source: Bloomberg

ROIC and EVA spread - BDMS



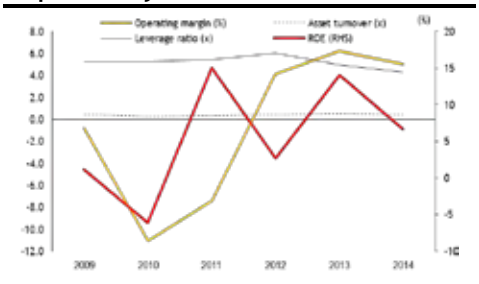
Source: Bloomberg

ROIC and EVA spread - BCP



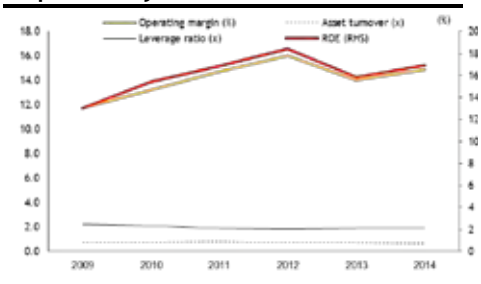
Source: Bloomberg

Dupont analysis - CK



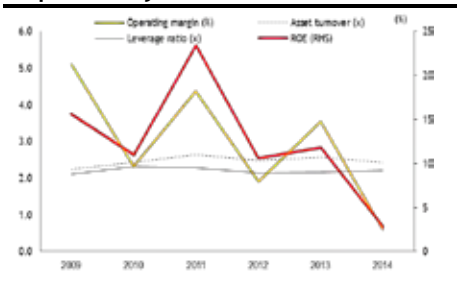
Source: Bloomberg

Dupont analysis - BDMS



Source: Bloomberg

Dupont analysis - BCP



Source: Bloomberg

January 3, 2016

Materials

Thailand

Home Product Center (HMPRO TB)

Return of SSSG

BUY

Share Price	THB 6.80
12m Price Target	THB 9.05 (+33%)
Previous Price Target	*THB na*

Growth years coming

We take the contrarian view that a replacement cycle for consumer and home-improvement goods will start in 2016, underwritten by higher disposable income. HMPRO is the largest home-improvement retailer with a national footprint in Thailand. We see the recent dramatic uptick in wages supporting home improvement and renovation. BUY with TP at 31x FY16F P/E, its 1SD above 10-year average.

SSSG returns

In the last three years when the home-improvement and repair market was sluggish, HMPRO retained its earnings resilience by opening new stores to take market share. But SSSG contracted from 1Q15 for the first time since 2007 amid slightly higher financing costs. With this, its market allure started to fade and HMPRO has underperformed the SET in the last six months. That said, we believe higher disposable income will lead to incremental spending of THB132b on home improvement/renovation in 2016. Assuming full effects in 2H16 and a 15% market share for HMPRO, its revenue growth could potentially double our forecast of 12%.

Flows to the bottom line

As most costs stay the same, the bulk of incremental sales should flow directly to the bottom line. This opens room for deleverage from its current 51% and cash dividends, in our view. HMPRO already has the stores and market knowledge, with 80% sales made to the renovation industry. All it needs is to fine-tune its merchandising mix to catch coming opportunities, in our view.

Exportable format

HMPRO has two formats: *HomePro* catering to end-users and *Mega Home* catering to construction companies and repair contractors. *HomePro* has started in Kuala Lumpur, Malaysia with one store. *Mega Home* is on pilot in Thailand and looks successful. CLMV is a natural market for this format, in our view.

FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	40,007	47,965	54,854	61,289	69,462
EBITDA	3,065	3,638	3,895	4,290	4,793
Core net profit	3,068	3,313	3,440	3,749	4,151
Core EPS (THB)	0.32	0.27	0.26	0.29	0.32
Core EPS growth (%)	(15.6)	(16.0)	(2.7)	9.0	10.7
Net DPS (THB)	0.34	0.28	0.13	0.14	0.16
Core P/E (x)	21.3	25.3	26.0	23.9	21.5
P/BV (x)	5.1	5.3	4.8	4.3	3.9
Net dividend yield (%)	5.1	4.1	1.9	2.1	2.3
ROAE (%)	27.1	23.3	20.0	19.1	19.0
ROAA (%)	9.9	8.3	7.4	7.3	7.3
EV/EBITDA (x)	21.3	25.6	24.7	23.3	21.1
Net debt/equity (%)	66.6	53.7	50.3	51.1	50.4
Consensus net profit	-	-	3,436	3,952	4,607
MKE vs. Consensus (%)	-	-	0.1	(5.1)	(9.9)

Company description

HMPRO operates home improvement retail outlets under the name HomePro and Mega Home nationwide. HomePro format is exported starting in Malaysia.

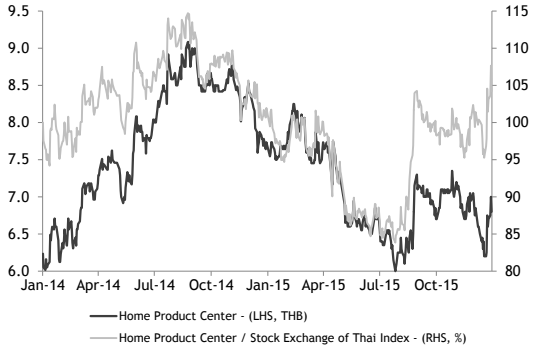
Statistics

52w high/low (THB)	8.25/6.00
3m avg turnover (USDm)	3.1
Free float (%)	41.8
Issued shares (m)	13,151
Market capitalisation	THB89.4B
	USD2.5B

Major shareholders:

Land & Houses Public Co., Ltd.	26.9%
Quality Houses Public Co. Ltd.	17.6%
OSATHANUGRAH NITHI	4.2%

Price Performance



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

Source: FactSet

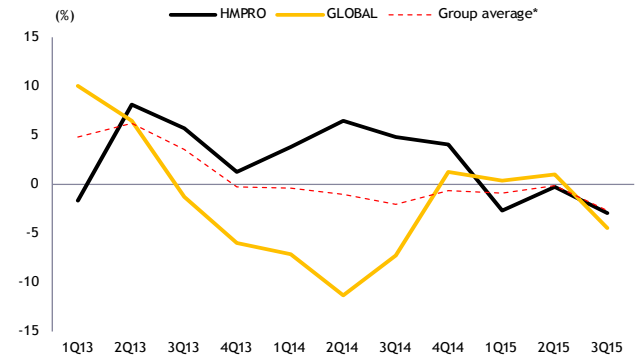
Maria Lapiz
maria.l@maybank-ke.co.th
(66) 2257 0250

Suttatip Peerasub
suttatip.p@maybank-ke.co.th
(66)-2658-6300 ext 1430

Value Proposition

§ Thailand's pioneer and largest HI retailer, with 76 HomePro and six Mega Home outlets. Market share is 35% among modern retailers and 17% for the entire HI market.
§ Scale and large distribution footprint are entry barriers. Horizontal (more outlets) and vertical (private brand) expansion is difficult to rival.
§ Should be able to replicate its Thai success in CLMV. Formats are exportable to ASEAN.
§ WACC spiked in 2010-13 as HMPRO was operationally and financially extended. With sluggish ROICs, EVA was negative. But 2015 EVA upturn was achieved despite contracting SSS.

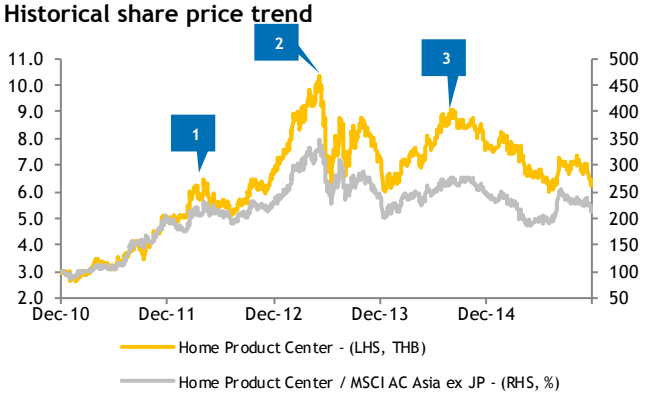
SSSG higher than or on par with peers



Source: Company, Avg of ROBINS, MAKRO, BIGC, HMPRO, GLOBAL, CPALL

Price Drivers

Historical share price trend



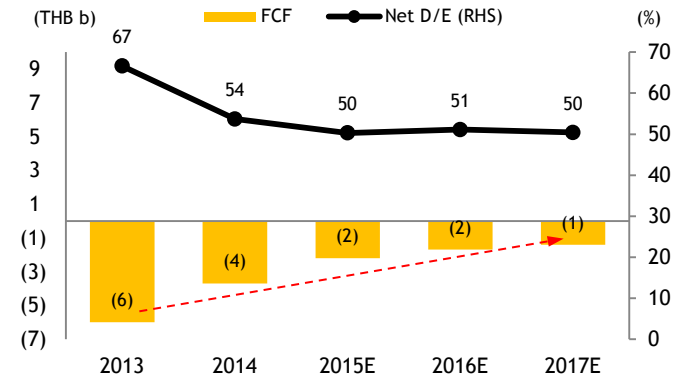
Source: Company, Maybank Kim Eng

1. Spikes in 2010-12 due to double-digit SSSG.
2. Increased demand for home improvement and renovation following 175-day floods in central region and Bangkok.
3. SSS started contracting in 1Q15.

Financial Metrics

§ SSSG a powerful driver.
§ Volume should rebound with income growth, after shrinking for three quarters. Expect tighter margins on start-up of Mega Home and slow HI demand in provinces.
§ After increasing retail space by 2.4x in 2010-15, additions likely will be modest. Expect fading cashflow drags from new initiatives.
§ As FCF is improving on a mature portfolio and gearing declines from 51%, there is room for higher dividends.
§ With financial/cashflow stability, HMPRO could expand overseas.

FCF gradually rising, higher payouts possible



Source: Bloomberg

Swing Factors

Upside

§ Return of SSSG will expand margins.
§ Cash dividends will be constructive.
§ Mega Home breaks even this year and starts to produce net profits in 2016.
§ If Mega Home tips the economies scale, margins could expand dramatically.

Downside

§ Wrong merchandising mix delays SSS recovery and affects margins.
§ Rising competition affects its SSSG as well as margins. Main competitors are Siam Global (GLOBAL TB, HOLD, TP THB11) and Thai Watsadu (Central Group).

January 3, 2016

Thanachart Capital (TCAP TB)

Time for Loan-Book Expansion

BUY

Share Price	THB 36.50
12m Price Target	THB 40.00 (+10%)
Previous Price Target	*THB 35.00*

BUY for potential loan revival & tax shield

Reiterate BUY on the stock with a higher GGM TP. After two years of loan contraction, we believe its loan book will expand next year. Tax benefits should also cushion earnings. TCAP is our top pick among the small banks.

Commercial car sales growing on rising investment

While passenger car sales remain lacklustre, commercial car sales continue to improve. With improving domestic investment, we see the potential for stronger demand next year. This should be supported by economic expansion in the provinces where roads provide the main means of transport. As the biggest hire-purchase lender with 25% of its loans tied to commercial car sales, we expect TCAP to benefit. Furthermore, we think that passenger car sales will stabilise as some buyers under the first car buyer scheme will be eligible to sell their cars next year. We believe that some will do so after five years of usage.

Tax shield to support bottom line

Bottom line should also be bolstered by tax gains related to TBANK's acquisition of SCIB in 2010. TCAP classified the deal as a loss investment and has been allowed to reverse taxes paid in the past. This means that TBANK's future revenue totalling an estimated THB23b will be tax-free. This could translate into an additional THB5b net profit for TCAP.

Top pick among small banks

We reiterate TCAP as our top pick among the small banks. We believe that TCAP will dedicate all its tax benefits to strengthening its coverage and capital base. This would make it the strongest of the small banks. Our GGM TP is now THB40 (0.87x FY16 P/BV, 11.5% ROE). Following its recent correction along with the broader market, upside potential is now 20%.

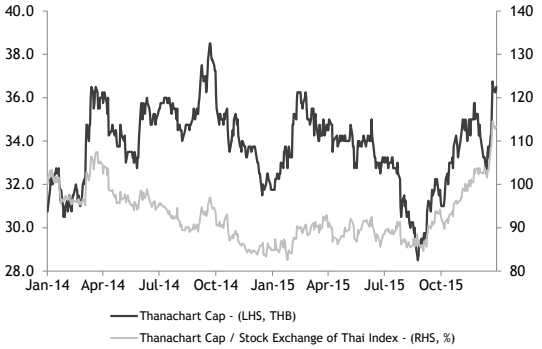
Statistics

52w high/low (THB)	36.75/28.50
3m avg turnover (USDm)	4.5
Free float (%)	82.0
Issued shares (m)	1,278
Market capitalisation	THB46.6B
	USD1.3B

Major shareholders:

Thai NVDR	12.7%
MBK	10.2%
Thanachart Capital	8.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	17	15
Relative to index (%)	11	22	34

Source: FactSet

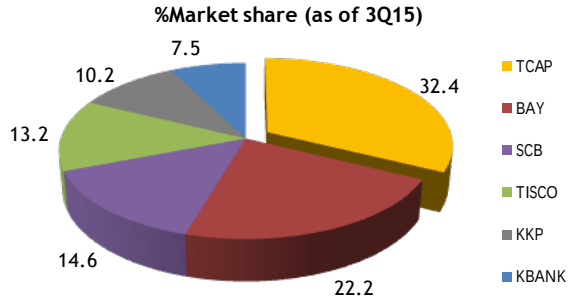
FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Operating income	53,478	39,644	40,000	41,404	45,250
Pre-provision profit	32,002	19,814	19,773	20,571	23,584
Core net profit	9,231	5,120	5,490	6,421	7,809
Core EPS (THB)	7.2	4.0	4.3	5.0	6.1
Core EPS growth (%)	72.0	(44.5)	7.2	17.0	21.6
Net DPS (THB)	1.6	1.6	1.6	1.9	2.3
Core P/E (x)	5.1	9.1	8.5	7.3	6.0
P/BV (x)	1.0	0.9	0.9	0.8	0.7
Net dividend yield (%)	4.4	4.4	4.4	5.2	6.3
Book value (THB)	37.07	40.19	42.88	46.01	49.82
ROAE (%)	20.3	10.4	10.3	11.3	12.8
ROAA (%)	0.9	0.5	0.5	0.6	0.7
Consensus net profit	-	-	5,471	6,027	6,654
MKE vs. Consensus (%)	-	-	0.4	6.5	17.4

Maria Lapiz
maria.l@maybank-ke.co.th
(66) 2257 0250

Value Proposition

§ Leader in fixed-rate hire purchase, at 52% of book. Strong in financing commercial vehicles (25% of HP loans), faster-growing segment.
§ Focus on under-served markets to avoid head-on competition with universal banks. Wide network and tie-ups with dealers are entry barriers.
§ Expanding CASA base to improve NIMs and profitability. Operating costs partly inflated by investment in digital banking, which should ease.
§ Aims to lead in retail digital banking through a new IT system, especially among the younger Thais.

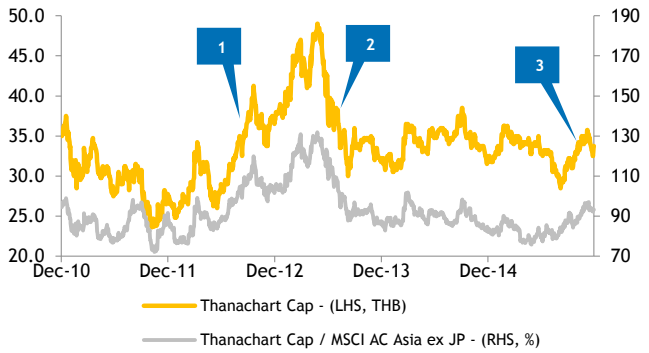
Largest HP lender in Thailand in 3Q15



Source: Company

Price Drivers

Historical share price trend



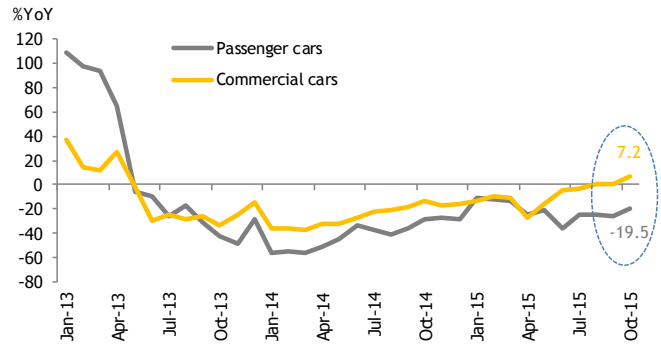
Source: Company, Maybank Kim Eng

1. TCAP sold bancassurance unit to Prudential, improving its capital base.
2. Car sales plummeted following expiry of first-time car buyer scheme.
3. Tax gains from SCIB deal in 2011 boosted bottom line.

Financial Metrics

§ Domestic car sales. November sales grew 4.6%, for the first time in more than two years. Commercial vehicle sales outpaced passenger car sales.
§ Interest rates. Expect BOT to keep rates unchanged throughout 2016. NIMs should improve but fixed-rate assets are sensitive to interest-rate changes.
§ Tax shield provided by SCIB acquisition. We assume write-backs to lift net profits by 25% pa in next few years.
§ Lower NPLs. For four years, takers of the first-car scheme have been servicing HPs and lowering loan values. These can sell their vehicles in 2016, reducing default risks.

Sales of commercial cars outpacing passenger cars



Source: Company

Swing Factors

Upside

§ Buyer for subsidiary TBANK, which could lead to a revaluation of this asset.
§ Firmer prices for used cars which could lift gains from non-performing asset sales.
§ Government measures, under serious consideration, to boost vehicle sales.

Downside

§ Slow income growth forces Thais to lean towards more-affordable used cars, slowing down new-car sales.
§ Rate hikes will hurt profitability as hire-purchase loans are primarily fixed-rate assets.
§ Car manufacturers decide to provide direct financing, affecting TCAP's market share.

Banks

Thailand

Krung Thai Bank (KTB TB)

Get in early

BUY

Share Price	THB 16.70
12m Price Target	THB 19.30 (+16%)
Previous Price Target	*THB 19.30*

Outlook brightening as catalysts await

Reiterate BUY. Catalysts (bigger role in the infrastructure investment and gains from Krisadanakorn asset sales) are coming to KTB. And the recent correction provides a great opportunity to accumulate the stock.

Prime beneficiary from upcoming govt investment

KTB will play a more important role in facilitating and financing the government's upcoming infrastructure investment and stimulus spending as Specialized Financial Institutions will fall under Bank of Thailand's regulation (although they may remain under the radar for some time yet). Moreover, the government is trying to reduce its contingent liability, as suggested by its actions to fast-tack the Private-Public Partnership scheme. Therefore, KTB should be the top destination for the government in facilitating and financing the public spending.

Hidden gems await KTB

Another significant catalyst is that the bank is likely to book gains from the liquidation of Krisadanakorn's assets in the months ahead. KTB's CEO expects the deal to be concluded in 1Q16 and the bank could gain in excess of THB10b (about one-third of FY16F provisions and net profit). If the deal is finalized, it will substantially reduce the need for the bank to make provisions to ramp up the coverage ratio, which had been damaged by the SSI (Sahaviriya Steel Industries) bad-debt fiasco.

BUY with TP THB19.30

It is too early determine the full impact from those two catalysts to KTB's bottom line. But we believe when more details are released into the market (expected to happen within 1H16), the stock price will react suddenly and strongly. Thus, we believe the recent correction provides a great opportunity for medium-term investment. Upgrade to BUY from HOLD. For now, we maintain our GGM-based TP at THB19.30, pegged to FY16F 1.01x P/BV at 11.9% ROE.

FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Operating income	91,092	93,412	107,777	111,052	116,364
Pre-provision profit	51,507	49,780	59,782	58,738	59,865
Core net profit	34,512	33,196	27,619	30,348	34,810
Core EPS (THB)	2.5	2.4	2.0	2.2	2.5
Core EPS growth (%)	25.5	(3.8)	(16.8)	9.9	14.7
Net DPS (THB)	0.9	0.9	0.8	0.8	0.9
Core P/E (x)	6.8	7.0	8.5	7.7	6.7
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	5.3	5.4	4.5	4.9	5.6
Book value (THB)	14.74	16.60	17.83	19.18	20.73
ROAE (%)	17.7	15.2	11.5	11.7	12.5
ROAA (%)	1.4	1.3	1.0	1.0	1.1
Consensus net profit	-	-	28,475	31,282	35,766
MKE vs. Consensus (%)	-	-	(3.0)	(3.0)	(2.7)

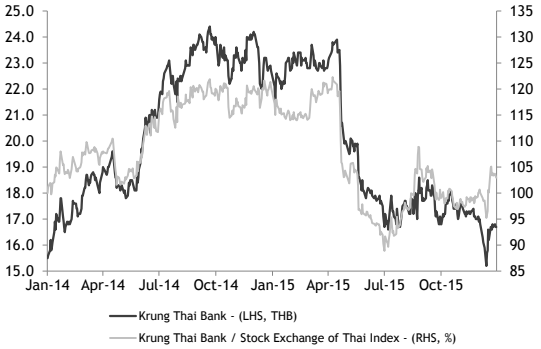
Statistics

52w high/low (THB)	23.90/15.20
3m avg turnover (USDm)	14.7
Free float (%)	44.9
Issued shares (m)	13,976
Market capitalisation	THB233.4B
	USD6.5B

Major shareholders:

Financial Institutions Development Fund	55.1%
Thai NVDR	5.2%
State Street Bank Europe Limited	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(1)	(26)
Relative to index (%)	3	4	(14)

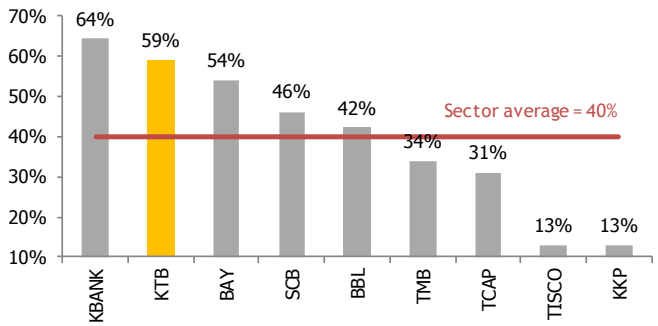
Source: FactSet

Maria Lapiz
maria.l@maybank-ke.co.th
(66) 2257 0250

Value Proposition

§ Thailand's biggest commercial bank by assets. State owned, KTB has natural advantage to government-related funding, which comprises 6% of lending assets.
§ Captive customers in civil servants as their salary accounts are administrated by KTB; they are a large and stable source of deposits/lending. CASA at 59% (40% for industry).
§ Widest branch network facilitates access to provincial customers. But social and policy funding might have compromised efficiency/returns.
§ ROE/ROA lower than industry average. If it can fully realize its potential, the biggest bank could be far bigger.

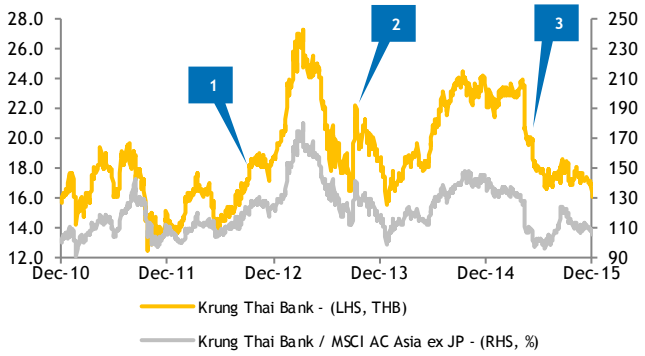
CASA comparison (as of Dec14)



Source: Company

Price Drivers

Historic share price trend



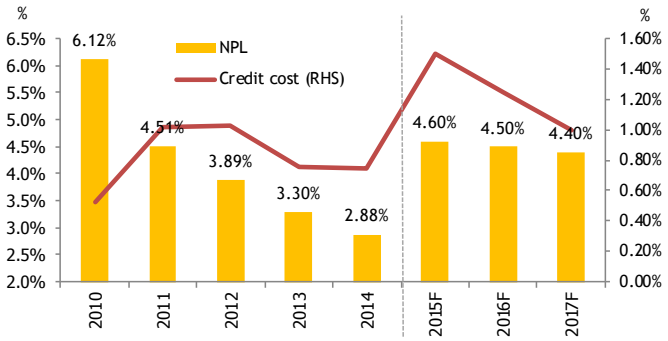
Source: Company, Maybank Kim Eng

1. KTB announced a 4:1 rights offer at THB12.60/share to fund fast-growing business expansion.
2. The bank failed to deliver high expectation due to worse-than-expected credit quality, leading to larger provisions.
3. Concern mounted on deteriorating credit quality, led by the potential SSI default.

Financial Metrics

§ All eyes on credit costs. Oversized provisions, partly for SSI bad debt, could double in 15F. NPLs should remain elevated at 4.5% in 16F, 10bps down from 15F.
§ But positive about loan expansion (5% in 16F vs. 2% in 15F), solid NIM (2.93% next year vs. 2.99% this year) and lower credit cost (1.25% in 16F vs. 1.50% in 15F).
§ Bad-debt recovery, not included in our projections, could be a positive surprise next year as KTB is negotiating to sell a plot of land held as collateral for up to THB10b.

NPL and credit cost are factor to watch



Source: Company

Swing Factors

Upside

§ Bad debt recovered from the Krisadanakorn case could exceed THB10b, equivalent to one third of 16F provisions and net profit.
§ Upside risk on loans as KTB is now the last resort for the government to fund the stimuli, including infrastructure investment, as regulation of SFIs will come under the BOT.

Downside

§ Deterioration in credit quality due to weaker-than-expected economic recovery.
§ The government decides to transfer mediocre assets from the other agencies (such as the loans of civil servants/teachers) to the bank's book.
§ Moral suasion by the government to embark on social or populist lending that does not meet credit standards.

January 3, 2016

Health Care

Thailand

Bangkok Dusit Medical Svcs (BDMS TB)

Winner Takes All

BUY

Share Price	THB 22.30
12m Price Target	THB 22.50 (+1%)
Previous Price Target	*THB 22.50*

More to come

M&As and capacity expansion across the region could intensify competition. Thailand will not escape. We prefer BDMS because of its national network, diversification into hospital-related businesses and CLMV expansion that should support margin and net-profit growth. Maintain BUY with a DCF-based TP of THB22.50 (WACC 9.5%).

National network

BDMS is the largest private-hospital operator in Thailand by patient service revenue, volume and capacity. It has 40 hospitals in Thailand and two in Cambodia under six brands. Such network strength and brand diversification should result in: i) less volatile volume growth; ii) the ability to share resources; and iii) improved efficiency from consistent standards. They could also create barriers to entry and bargaining power with suppliers and patients.

Most diversified hospital

BDMS is investing more in related businesses such as central laboratories, IT services, pharmaceutical and saline manufacturing, insurance, catering and patient transportation. Revenue from these sources has been growing at a 3-year CAGR of 20% with 200bp higher EBITDA margins than hospital services. These ancillary businesses should become sources of strength during times of limited growth and intense competition in the hospital business.

CLMV expansion

BDMS has a hospital in Cambodia. It is scrutinising the region, notably Myanmar and Laos, for opportunities. It is running feasibility studies on rules & regulations and payment systems in these countries. In the interim, BDMS will use its hospitals in border areas to service patients from CLMV.

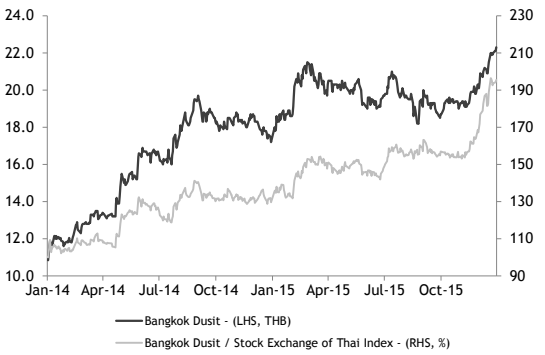
Statistics

52w high/low (THB)	22.30/17.80
3m avg turnover (USDm)	12.6
Free float (%)	46.4
Issued shares (m)	15,491
Market capitalisation	THB345.4B USD9.6B

Major shareholders:

Dr. Prasert Prasatthongosoj	19.7%
Wichai Thongtang	6.7%
Bangkok Airways Co. Ltd.	6.5%

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	19	30
Relative to index (%)	17	25	51

Source: FactSet

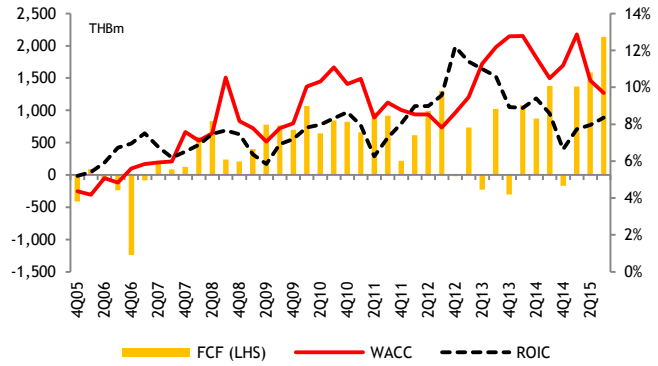
FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	49,170	54,341	59,585	66,775	74,820
EBITDA	10,914	12,872	13,618	15,433	18,103
Core net profit	6,261	7,394	7,404	8,594	10,281
Core EPS (THB)	0.40	0.48	0.48	0.55	0.66
Core EPS growth (%)	(20.4)	18.1	0.1	16.1	19.6
Net DPS (THB)	0.02	0.24	0.24	0.28	0.33
Core P/E (x)	55.2	46.7	46.7	40.2	33.6
P/BV (x)	8.5	7.4	6.8	6.2	5.6
Net dividend yield (%)	0.1	1.1	1.1	1.2	1.5
ROAE (%)	16.2	16.9	15.2	16.2	17.6
ROAA (%)	8.6	8.7	7.8	8.5	9.4
EV/EBITDA (x)	18.6	22.9	27.6	24.4	20.7
Net debt/equity (%)	45.6	55.7	54.7	51.2	42.7
Consensus net profit	-	-	7,705	8,797	10,217
MKE vs. Consensus (%)	-	-	(3.9)	(2.3)	0.6

Sittichai Duangrattanachaya
sittichai.d@maybank-ke.co.th
(66) 2658 6300 ext 1393

Value Proposition

§ Largest hospital chain in Thailand with 40% share of the market by revenue.
§ With six brands under its belt, 40 hospitals in Thailand and best-in-class facilities, BDMS appeals to price-insensitive premium customers.
§ Negative spread between ROIC and WACC does not reflect potential. In 2-3 years, 14 new hospitals would graduate from gestation and potentially enhance returns.
§ Strong operating cash flows of about THB2.6b a quarter should be able to support investments. Room to borrow THB50b.

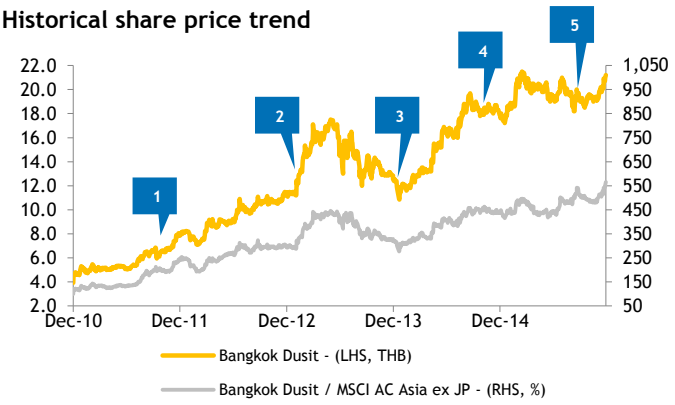
WACC, ROIC and FCF



Source: Maybank Kim Eng

Price Drivers

Historical share price trend



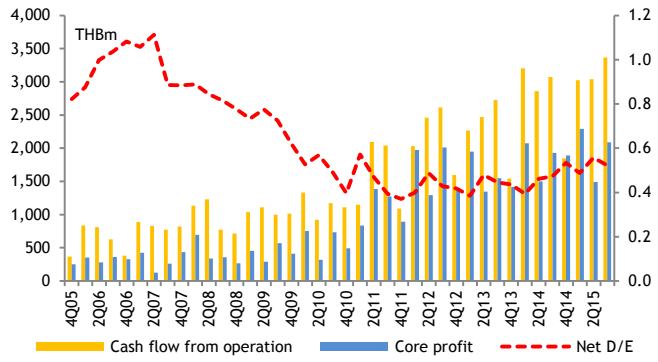
Source: Company, Maybank Kim Eng

1. Investments in: i) Krungdhon, Paolo and Phayathai Hospitals; and ii) ANB Laboratory (saline manufacturer).
2. Increased stake in Bumrungrad Hospital (BH TB) to 20.3% from 6.3%.
3. EBITDA margins slipped to 20% (-350bps YoY) in 3Q15. Net profit dropped 23% YoY from aggressive expansion.
4. Acquisition of: i) Sanamchan and Phuket international hospitals; and ii) Save Drug Center (drugstore).
5. Bought 44.7% of General Hospital Products (saline manufacturer) for THB350m.

Financial Metrics

§ Operating cash flow, core EBITDA and core profit grew by 5-year CAGRs of more than 20%.
§ FY16-17 EPS to be lifted by 300 beds in new facilities and 1,200 in existing facilities, from 5,500.
§ Strong balance sheet. Interest coverage of 12.1x in 3Q15, up from 11x in 2011-2013. Net gearing of 0.5x below covenant's 1.75x.
§ Payouts in 2010-2014 averaged 46%.

Operating cash flow, net profit and gearing



Source: Maybank Kim Eng

Swing Factors

Upside

§ Faster-than-expected ramp-up of new beds.
§ Six M&As and two greenfield projects in the pipeline.
§ Rising price intensity and case-mix index.

Downside

§ Regulatory risks for drug prices and size of medical bills.
§ Domestic economic slowdown could reduce cash patients from middle class (~20% of EBITDA).
§ Delays in expansion.

Oil & Gas

Thailand

Bangchak Petroleum (BCP TB)

Year ahead: from dirt to heat

BUY

Share Price	THB 33.00
12m Price Target	THB 40.00 (+21%)
Previous Price Target	*THB 40.00*

Ready for AEC battle

Rising competition after commencement of the Asean Economic Community is unlikely to pose a huge threat to BCP given its business diversification. Its refining and marketing businesses should benefit from rising oil demand due to sustainably low oil prices. Meanwhile, its long-term strategy is to focus on expanding its renewable portfolio to 500MW (from 118MW) and utilizing its existing petrol stations by leasing out more retail space. Maintain SOTP TP of THB40, with catalysts anticipated from successful diversification.

Complementing core businesses

BCP is a leading refiner in Thailand with a capacity of 120KBD. Its 1,061 petrol stations also make it the second-largest oil retailer in Thailand. Sustainably low oil prices and gas-price reforms have lifted local oil demand by 6% YTD vs a 4-year average of 2%; we expect further improvements. In response to refining's cyclicality, the company is tapping the solar business. This now accounts for over 20% of its EBITDA. We see support from renewable energy during oil's downcycle.

Renewable business: getting ready for take off

BCP intends to rely on renewable energy as one of its long-term sources of growth. It recently restructured this business in preparation for a potential IPO to fund capacity expansion to 500MW from 118MW by 2020. The Thai government is promoting power generation from renewable energy, aiming to increase such contributions from 8% to 15-20% by 2036. We see opportunities for BCP.

Oil marketing: focus on high-margin non-oil business

Given fierce competition among petrol stations, BCP aims to expand into higher-margin non-oil businesses. It is offering rental space, opening retail outlets like Inthanin Coffee shops and partnering Big C to operate convenience stores at its stations.

Company description

BCP runs a leading refinery and is also the second-largest petro-station operator in Thailand. Renewable energy is its new growth area

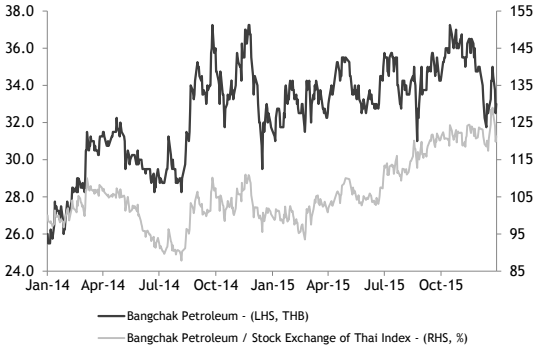
Statistics

52w high/low (THB)	37.25/31.00
3m avg turnover (USDm)	2.4
Free float (%)	62.7
Issued shares (m)	1,377
Market capitalisation	THB45.4B
	USD1.3B

Major shareholders:

Social Security	14.3%
Ministry of Finance	10.0%
Vayupak Fund	15.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(4)	4
Relative to index (%)	(1)	1	21

Source: FactSet

FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	186,490	183,016	162,156	161,857	167,659
EBITDA	10,377	4,252	12,745	13,692	15,107
Core net profit	5,443	(46)	5,576	5,616	6,103
Core EPS (THB)	3.95	(0.03)	4.05	4.08	4.43
Core EPS growth (%)	71.1	nm	nm	0.7	8.7
Net DPS (THB)	1.35	1.00	1.69	1.63	1.77
Core P/E (x)	8.3	(983.5)	8.1	8.1	7.4
P/BV (x)	1.3	1.4	1.2	1.1	1.0
Net dividend yield (%)	4.1	3.0	5.1	4.9	5.4
ROAE (%)	16.3	(0.1)	15.7	14.3	14.2
ROAA (%)	7.5	(0.1)	6.6	5.6	5.6
EV/EBITDA (x)	5.2	15.8	5.8	6.1	5.3
Net debt/equity (%)	42.2	67.9	74.4	90.8	74.2
Consensus net profit	-	-	5,803	5,888	6,103
MKE vs. Consensus (%)	-	-	0.0	(4.6)	0.0

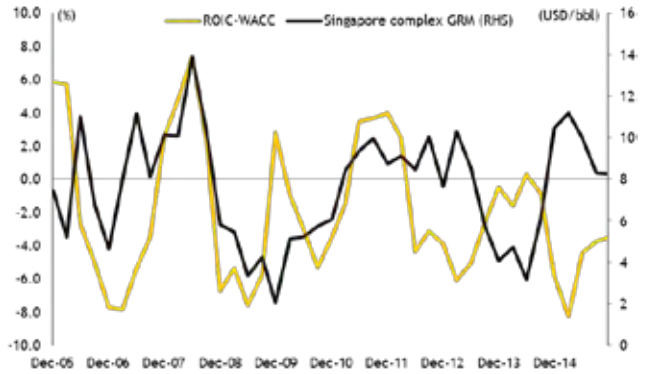


Yupapan Polpornprasert
yupapan.p@maybank-ke.co.th
(66) 2658 6300 ext 1395

Value Proposition

§ Key player in the Thai energy sector, especially in refinery and petrol stations. BCP is making a big push into renewable energy.
§ Returns from the refinery business are cyclical, contingent on GRM and dominate the return profile. Of concern is longer cycle RoIC has been lower than the WACC.
§ However, overtime, its return profile should be enhanced by upgrading of its refineries, investments in renewable energy and expansion of the retail business.

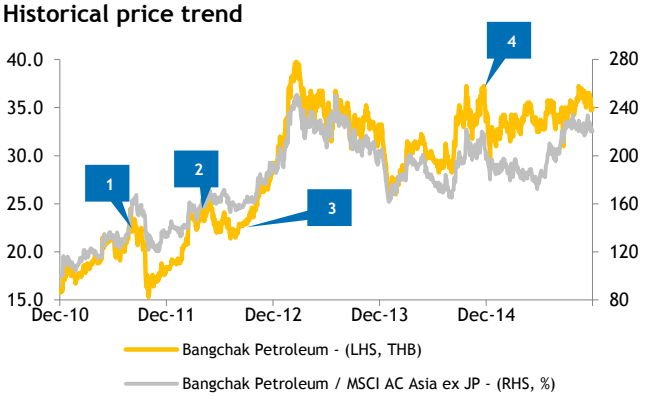
BCP's ROIC over WACC spreads vs Singapore complex GRM



Source: Bloomberg

Price Drivers

Historical price trend



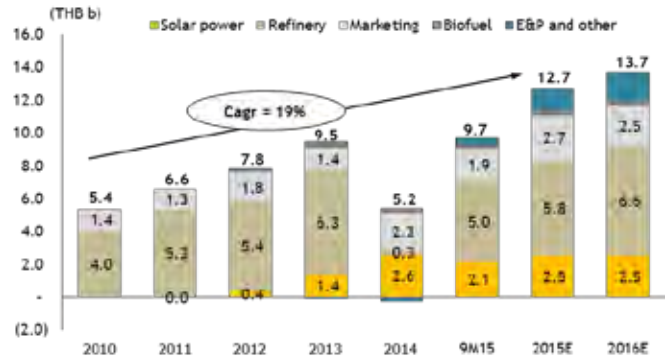
Source: Company, Maybank Kim Eng

1. Flooding in Oct'11 delayed start-up of solar farm phase 1 which dampened the share price.
2. Stock rallied on anticipation of commencement of solar farm phase 1 in Apr'12.
3. Stock rallied due to announcement of refinery upgrade after the explosion on July '12. Another catalyst was expectation of commencement of solar farm phase 2&3.
4. Oil price plunged and rumour that PTT would sell its stake created an overhang on the stock.

Financial Metrics

§ GRM is the key metric to watch as refinery makes up >50% of EBITDA. Expect GRM to remain strong with favourable demand-supply landscape.
§ FY16F EBITDA to rise 8% YoY. EBITDA upside potential from additional renewable capacity.
§ Total capex of up to THB90b over the next five years. 56% of total capex will be invested in new businesses. This includes renewable, E&P and biofuel.
§ Healthy financial position and on-going EBITDA generation needed to fund its aggressive investment plan.

EBITDA by business trend



Source: Company

Swing Factors

Upside

§ Required by law to keep 30 days of crude inventory. So, sudden rise in oil price would lead to stock gain. This is a non-cash item but has big impact on earnings/sentiment.
§ M&A and investment opportunities.
§ Successful IPO of its renewable business.

Downside

§ Plunge in crude oil price would lead to one-off stock losses and would create overhang on the stock.
§ Value-destroying acquisitions and investments that would alter its long-term business prospects.
§ Economic downturn, which would reduce oil demand and consequently pressure product prices and margins.

January 3, 2016

Construction

Thailand

CH. Karnchang (CK TB)

Best bet with cushion

BUY

Share Price	THB 29.00
12m Price Target	THB 33.50 (+16%)
Previous Price Target	*THB 33.50*

Top play on the Thai Infra story

On the belief that the roll-out of some infrastructure projects will be accelerated in 2016 and with investor friendly PPP framework plus new funding schemes via Infra Fund, we pick CK as our top infrastructure play. As a Tier 1 qualified civil contractor with a strong balance sheet, it can undertake sizable contracts, either on a turnkey or subcontract basis. Share prices of Contractor companies are very much news flow-driven, and in this regard we anticipate a very positive backdrop, at least in 1H16.

CK has the size

CK has the resources and the balance sheet to underwrite sizable contracts. With an outstanding YE backlog of c. THB100b, spanning 3-4 years of implementation, it can accommodate more projects, extending revenue visibility to as far as five years from three years currently.

Investments also its growth avenue

CK's investments in utilities/infrastructure operating companies: Bangkok Mass Transit (BMCL), Bangkok Expressway (BECL), Thai Tap Water (TTW), CK Power (CKP) are also in an expansionary mode. In fact, the amalgamation of BMCL and BECL into BEM was designed to gain greater financial flexibility to pursue more operating/concession contracts.

Operating downside is well-supported

While we believe that 2016 will be the Year of Investment for Thailand and that news flow and the new order pipeline will be positive, we cannot rule out risk of delays. That said, CK is well-cushioned to this downside given expansion plans of its subsidiaries and affiliates.

Company description

CH. Karnchang is a Tier 1 civil contractor & is among the largest. It also has stakes in utilities/infra companies such as BMCL, BECL, TTW, CKP.

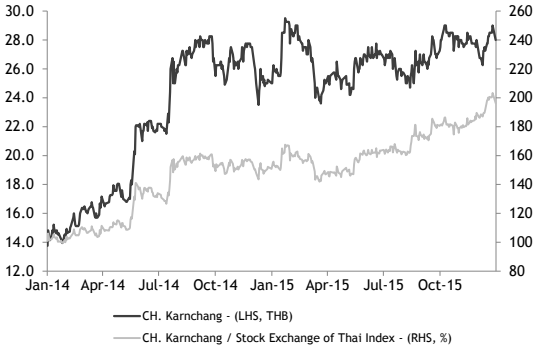
Statistics

52w high/low (THB)	29.50/23.60
3m avg turnover (USDm)	5.3
Free float (%)	56.8
Issued shares (m)	1,694
Market capitalisation	THB49.1B
	USD1.4B

Major shareholders:

TRIVISVAVET FAMILY	36.0%
Bangkok Bank Public Co. Ltd.	2.3%
Kasikorn Asset Management Co., Ltd.	1.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	8	15
Relative to index (%)	10	14	34

Source: FactSet

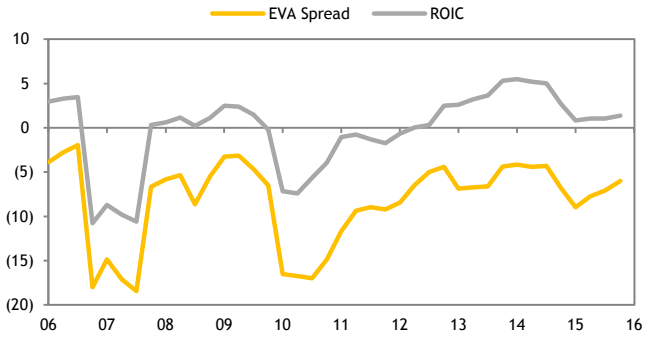
FYE Dec (THB m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	32,788	32,951	34,241	34,991	36,040
EBITDA	3,642	3,749	4,031	4,227	4,476
Core net profit	1,063	992	1,276	1,447	1,501
Core EPS (THB)	0.64	0.59	0.75	0.85	0.89
Core EPS growth (%)	1,732.9	(8.9)	28.6	13.4	3.7
Net DPS (THB)	0.23	0.23	0.30	0.34	0.35
Core P/E (x)	45.1	49.5	38.5	33.9	32.7
P/BV (x)	2.9	2.6	2.5	2.3	2.2
Net dividend yield (%)	0.8	0.8	1.0	1.2	1.2
ROAE (%)	8.6	5.6	6.5	7.1	7.0
ROAA (%)	1.7	1.3	1.6	1.8	1.8
EV/EBITDA (x)	18.3	23.6	23.8	22.7	21.5
Net debt/equity (%)	250.1	237.6	231.0	221.7	213.6
Consensus net profit	-	-	2,572	1,355	1,575
MKE vs. Consensus (%)	-	-	(50.4)	6.8	(4.7)

Maria Lapiz
maria.l@maybank-ke.co.th
(66) 2257 0250

Value Proposition

§ CK is a Tier 1 civil contractor mainly involved in government contracts.
§ Thailand has not had an infra push since the 1990s, which led CK to diversify into utilities and other infrastructure related companies.
§ With higher government infrastructure spending, CK should be actively engaged. Expect a build-up of the orderbook and participation via the investment portfolio.
§ Poor history of value creation, but with investments approaching maturity, investment gains and dividends may augment construction cashflow pushing EVA spread higher.

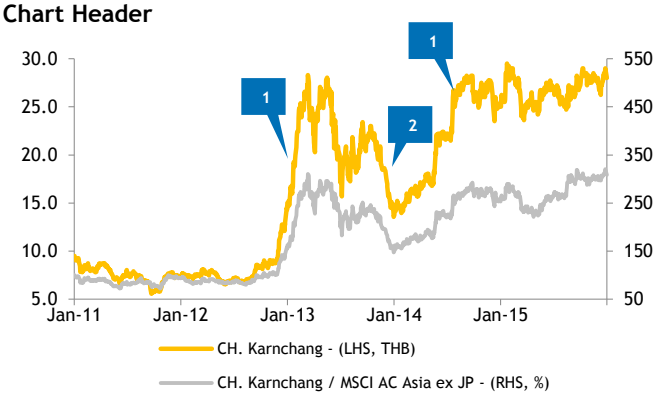
EVA spread trending higher: healthy orderbook, investments



Source: Bloomberg

Price Drivers

Chart Header



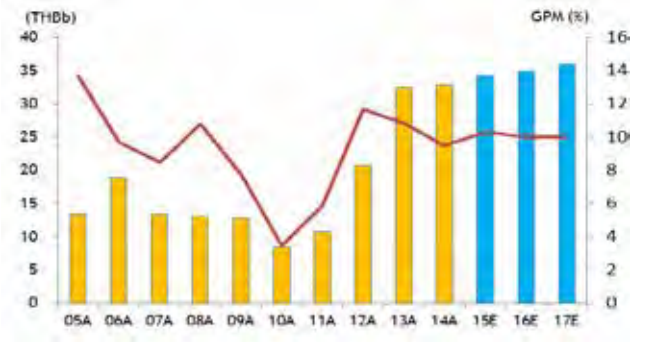
Source: Company, Maybank Kim Eng

1. Share price appreciated in 2012 on the news that the THB2.5 trillion Infrastructure Plan will be rolled out during the next ten years.
   Share price recovery into 2014 was related to the announced commitment of the Military Government to continue with infrastructure implementation plan.
2. The collapse in the share price was due to political instability that could have delayed the planned implementation.

Financial Metrics

§ Outlook on the orderbook – pipeline is the driver. This makes the stock highly news flow driven.
§ Outstanding order backlog is a secondary variable influencing the share price, but it is not a strong driver.
§ CK's revenue generation lept to a new high post 2010, thanks to the expansion of subsidiaries and affiliates. At that time, workflow from government projects was low with average Gov't capex to GDP at 3.6%.
§ Going forward, CK will experience a rising orderbook that should boost revenue levels as Gov't capex to GDP ratio rises to as high as 5.7% to GDP, based on our estimates.
§ Under a benign outlook in materials prices, targeted GM at 8-10% bids are likely to be realised, allowing overall GPM to remain healthy at 10%, as per our forecast.

Baseline view: high revenues, healthy GPM



Source: MKE-ISR

Swing Factors

Upside

§ New contracts – 186 km dual tracking of the railway supported the recent share price rally.
§ Baseline expectation is that CK wins 25% of the total amount of projects put on fast track roll-out.

Downside

§ Political instability that can impair the capacity of the current government to rollout projects.
§ Major spike in raw material prices will cast a negative overhang on profitability – not our base case scenario.

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$$GDP = C + I + G + (X - M)$$

STRATEGY

Vietnam

Vietnam's Three-for-16

Improving Competitive Landscape

Sustaining stronger growth momentum

Vietnam's six-year high GDP growth of 6.88% in 2015 was undoubteldly the direct result of the 'hard-regained' macro stability achieved over the past three years and more importanlty, the unprecedented level of institutional reform since the opening up of the country in 1986. Reforms of SOEs, the financial sector and public spending have likewise contributed to Vietnam's ultra-high growth. Market-wise, 2016 is likely to be another exciting year. This is due to a shortened settlement cycle, the launch of derivatives, further progress on lifting foreign ownership limits, a large pipeline of IPOs, more stringent disclosure requirements and a potential introduction of intraday trading.

New era of rising infrastructure development

Despite maintaining a high ~9% infrastructure investment/GDP ratio to support rapid growth in 1995-2010, infrastructure in Vietnam is still inadequate to meet strong FDI into the country and domestic demand. Infrastructure investment in 2016-20 is estimated to double compared with that of 2011-15. We like HPG Steel (BUY, VND41,900), the largest manufacturer of steel in Vietnam. HPG has expanded its market share by 2.5x due to new capacity, ultra-modern steel plants and industry consolidation. Additional capacity from phase 3 of the complex in 2016 will help HPG to capitalize on rising demand for steel and to further increase market share.

TPP – biggest beneficiary among membership countries

The World Bank estimates the Trans-Pacific Partnership (TPP) agreement could add 8% to Vietnam's GDP and 17% to its real exports over the next 20 years. An indirect beneficiary of rising FDI and manufacturing activities is Coteccons (CTD VN, BUY, VND173,000). CTD is a well-known constructor of high-quality residential and industrial buildings. Many garment and textile companies have selected CTD as their contractors, including Texhong, Tainan Spinning, Brotex and Nameson Group etc. Textile and garment producers are also beneficiaries of the TPP, as the duty on Vietnam's textile imports to the US will be cut to 0% from 17%.

2016 – a year of IPOs and new listings

Around 400 companies have listed in Vietnam between 2011 and 2015, meeting more than 70% of the plan. 2016 could be another remarkable year as the rest will be listed. Also, importantly the government will further divest in companies it had partially sold but still maintains control or influence in. We expect 45% of VNM (VNM, BUY, VND146,500) to be sold, giving investors more opportunities to participate in one of the most successful SOEs as the company operates efficiently and has expanded strongly after being equitized.

Institutional research

(84) 8 4 555 8888
Institutional.rs@maybank-kimeng.com.vn

Vietnam economy – 2016 forecasts

Population (m people)	91
Nominal GPD (USDb)	200
Real GDP growth (%YoY)	6.7
CPI (%YoY)	2.0
Real retail sales (%YoY)	9.0
VND/USD (%YoY)	-3.0
Current account (% of GDP)	-0.3
BoP surplus (% of GDP)	3.0
Foreign reserves (USDb)	40.0
Fiscal deficit (% of GDP)	5.4

Source: MKE

Vietnam market – 2016 forecasts

Market cap (USDb), year-end	58
VN-Index, year-end	670
VN-Index (% YoY)	+15.7
ADTV (USDm, 2 bourses)	180
2016 P/E, year-end	13.5
2015 EPS growth (% YoY)	12.5
2016 EPS growth (% YoY) (MKE coverage)	11.8

Source: MKE, EPS growth and P/E based on top 60 companies

1. New era of infrastructure development

1.1 Why now?

Vietnam's under-developed infrastructure, both in terms of physical infrastructure and administrative procedures (or the so-called 'soft infrastructure), has often topped the list of factors deterring private investors from further investing in the country despite lower labour costs and a relatively more stable political regime. Inadequate roads and ports, coupled by lengthy administrative procedures and ambiguous regulations have been widely cited as major problems with doing business in Vietnam.

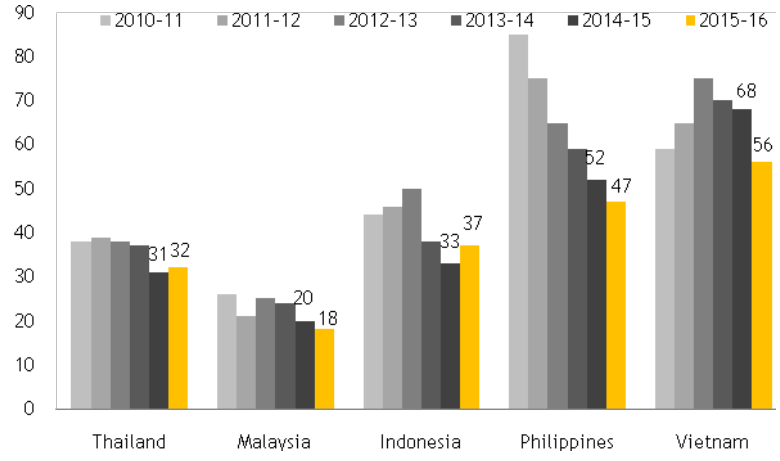
Fig 1: Key problems cited by foreign co's of doing business in Vietnam

	% correspondents
Manufacturing firms	
Underdeveloped infrastructure	69.2%
Troublesome and complicated administrative procedures	50.0%
Under-developed economic and legal systems and arbitrary legal management and application	46.2%
Uncertain and unclear policy management of local governments	38.5%
Troublesome and complicated tax practices	23.1%
Non-manufacturing firms	
Under-developed infrastructure	76.9%
Insufficient office space and rent increases	69.2%
Under-developed economic and legal systems and arbitrary legal management and application	57.7%
Troublesome and complicated administrative procedures	46.2%
Uncertain and unclear policy management of local governments	42.3%

Source: Japanese External Trade Organization, 2007 Survey

Recognizing this, the government has made improving infrastructure its top priority, along with attempts to regain macro stability as the country had undergone a period of high inflation between 2008-11. Over the past three years, Vietnam has achieved the most improvement under the World Economic Forum's competitiveness index, moving up 19 positions to 56 in the latest 2015-16 ranking out of 144 countries. About two-thirds of this was gained over the past 12 months.

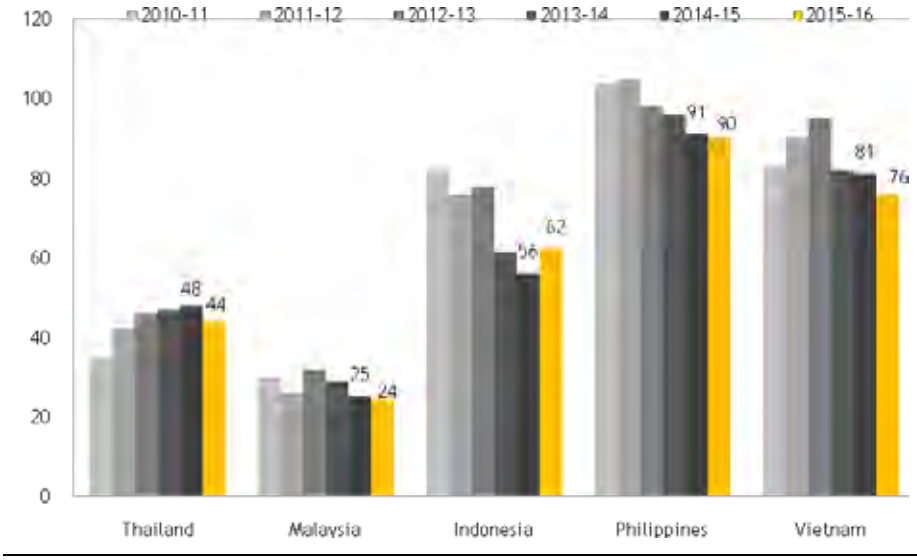
Fig 2: Vietnam's competitiveness index has improved the most



Source: WEF. The lower the score, the more competitive the country is

Despite the improved competitiveness, which has been more driven by macro stability, Vietnam's infrastructure remains poor, ranking it only above the Philippines when compared to the so-called ASEAN-4, which also comprises of Malaysia, Thailand and Indonesia.

Fig 3: Still a long way to catch up with neibouring countries in terms of hard infrastructure



Source: WEF. The lower the score, the more competitive the country is

Vietnam appears to be more positive when it comes to the so-called 'soft infrastructure', which is measured by Ease of Doing business, as ranked by the World Bank. Vietnam improved to 90th position out of 185 countries and regions in World Bank Doing Business 2016 with a score of 62.1, higher than that of the Philippines (60.1) and Indonesia (58.1). This is however still below the average of 67.2 for the ASEAN-4.

Fig 4: Vietnam still lags ASEAN-4 in terms of 'Ease of Doing Business'



Source: World Bank Doing Business 2016

1.2 Record-high infrastructure investment in 2016-20

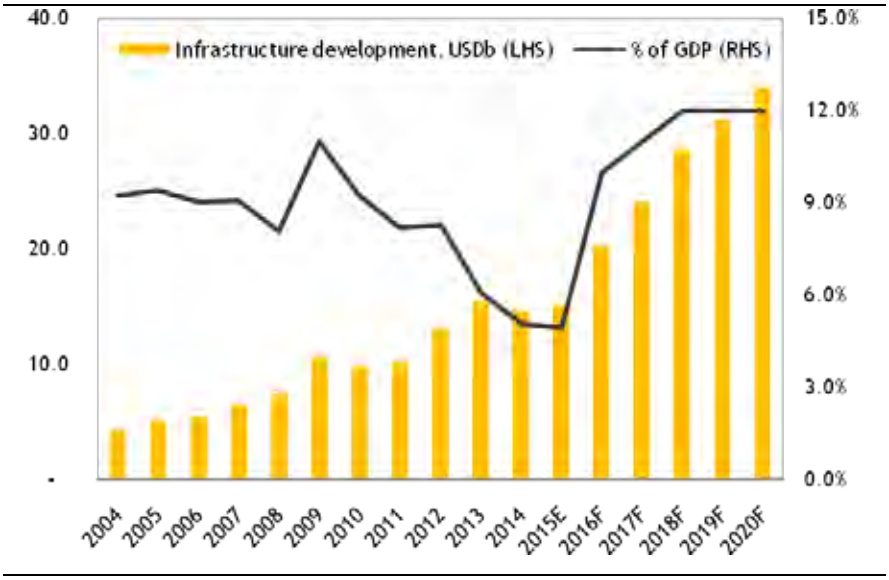
The government has demonstrated its determination to further improve the country's competitiveness through resolution 19/NQ-CP/2015. The resolution aims to reduce the bureaucracy for starting a business in Vietnam, simplifying the procedure for securing contruction permits,

further lowering tax payment periods and rapidly shortening the processing time for clearing exports and imports of goods. The government expects to close the gap with the ASEAN-4 in terms of 'Ease of Doing Business' by the end of 2016, which is also crucial to Vietnam's sucessful transition in the context of the ASEAN Economic Community.

For hard infrastructure it is more difficult given the huge capital needed to be poured in to compete with Malaysia, Thailand and Indonesia, and in order to fully unleash Vietnam's potential from existing as well as upcoming free trade agreements, including the Vietnam-Korea FTA (effective from 20 Dec 2015), the Vietnam-EU FTA (effective from Jan 2018) and the TPP (which was concluded on 4 Oct 2015).

According to the Ministry of Investment and Planning, total investment in infrastructure during 2000-10 was USD80b, or about 9% of GDP. It has slowed down due to the low efficiency of infrastructure projects undertaken by the public sector, and the lack of legal frameworks to encourage private investors to participate. This will change over the next five years after regulations, including a decree on public private partnerships (PPP), have been amended and major projects resume to meet economic demand.

Fig 5: High infrastructure development to meet economic growth



Source: Ministry of Investment and Planning, World Bank and others

The biggest investments will be in transportation and utilities, including new and upgraded airports, railways and ports, new refineries (Vietnam currently has only one refinery, which meets less than one-third of local demand for refined oil), and energy and power plants. Among these, power plants are the most urgent due to imminent electricity shortages as construction of most of the large thermal plants, particularly in the southern region, have been delayed over the past five years.

1.3 Public-private partnership (PPP), a new boost to infrastructure developments

The Public Investment Law, the first-ever in Vietnam, was passed on 18 Jun 2014, and it became effective from 1 Jan 2015. The law is promulgated to improve the efficiency, publicity and transparency of planning and execution of public investments. It was later followed by Decree 15, calling for Public Private Partnerships (PPP) in infrastructure

projects, which took effect from 10 Apr 2015. Both regulations are central to Vietnam's attempt to close the infrastructure gap that has been held back by rapid economic growth and further challenged when Vietnam became a 'middle-income' country from 2014, aka fewer soft loans from foreign governments. Out of the USD100b required for infrastructure development, only half can be met by the State budget and other forms of official development assistance. The law on public investment seeks to define the scope and approach of government-financed projects while the PPP decree aims to provide a framework enabling private companies to invest in public projects. PPP certainly is also expected to reduce the burden on the widening fiscal deficit and ultimately to improve efficiency of infrastructure projects.

Decree 15 is said to have plugged several shortfalls previous regulations failed to address, such as more investment types (Build-Transfer-Lease, Build-Lease-Transfer, Build-Operation-Transfer vs. only Build-Transfer), widened scope of projects to include telecom and technology etc., specified eligibility requirements, process, PPP contracts, transfering entirely or partially PPP projects (allowing for securization of PPP projects), use of foreign law (vs Vietnamese law only) for foreign investors, collaterals, project finalization (within 06 months vs. years that has been taken for projects used by public budget) and identified roles & responsibilities of private partners vs. the State in PPP projects.

Fig 6: Key infrastructure projects in 2016-20

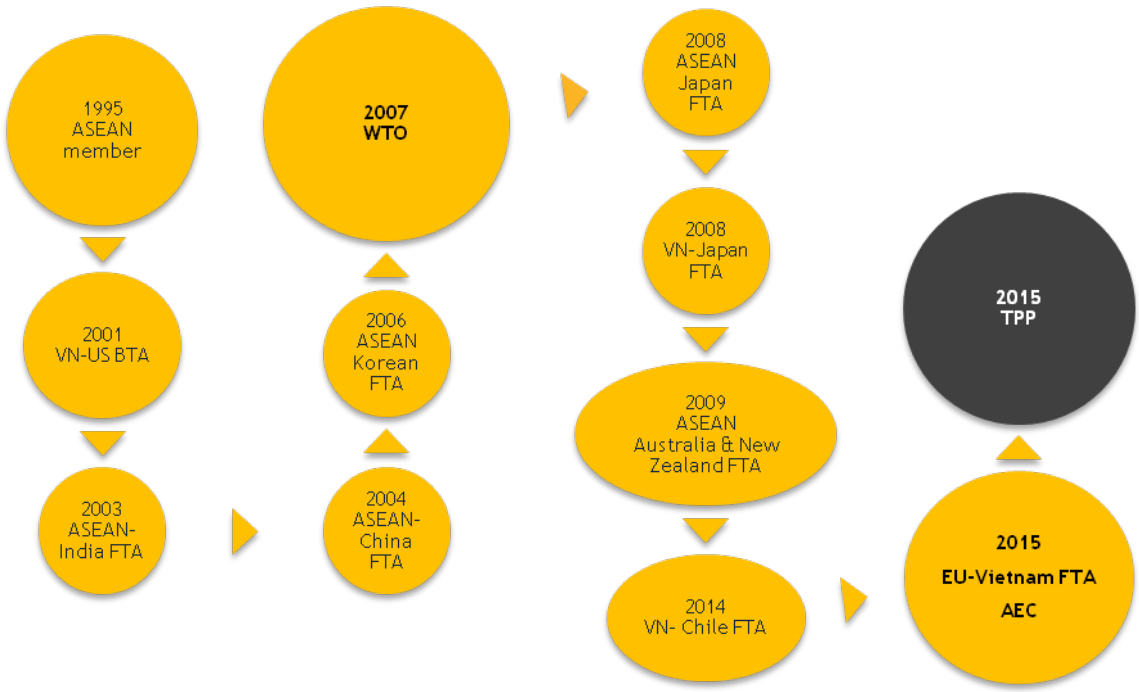
Name	Type	USDb
Long Thanh airport	Airport	16
Block B - O mon	Natural gas	10
Nghison refinery	Refinery	10
Long Son refinery	Refinery	4.5
New railway, Hanoi - Vinh	Railway	10.2
New railway, Hochiminh - NhaTrang	Railway	9.9
1st 5 Metrolines in Hanoi and Hochiminh	Railway	3.9
CaiMep cluster deep seaport	Sea port	3
LachHuyen cluster deep seaport	Sea port	1.5
VungAng 2	Power	2
Hai Duong	Power	2
Nam Dinh 1	Power	2
Van Phong	Power	2
Vinh Tan 3	Power	2
DuyenHai 2	Power	2
Quang Tri	Power	2
Dung Quat	Power	2
Long Phu 2	Power	2
Sub-total		87

Source: various

2. TPP – the biggest beneficiary among membership countries

The TPP was finally concluded in early Oct '15 after more than five years of negotiations. The combined GDP of the TPP market is around USD28t per year, or 36% of the world's GDP and over a quarter of world trade.
Vietnam's participation from the earlier days of the pact is in line with its determination towards global integration, wider trade openess following its already major trade liberalization efforts over the past two decades. The TPP, together with other FTAs that Vietnam has signed (such as with the EU and Korea) will further create trade diversion as Vietnam's exports are expected to replace an increasing share of Chinese exports to the US and Japan, a trend already started even before the TPP conclusion.

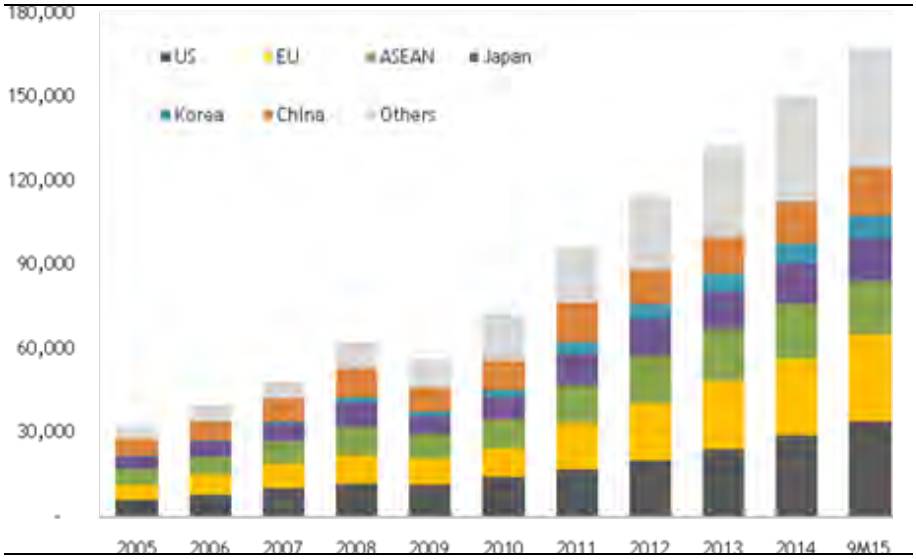
Fig 7: Vietnam's greater trade openess with major economies



Source: various

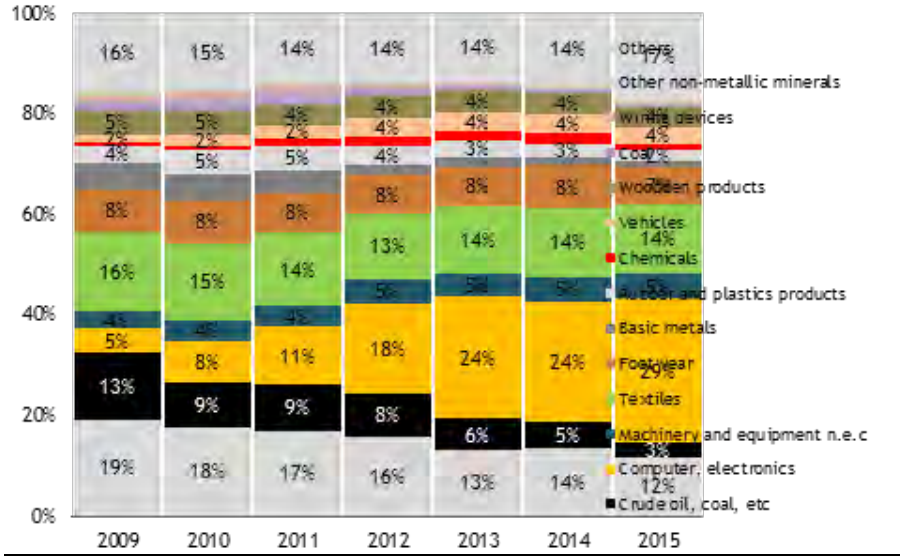
Our discussions with Baker & McKenzie (Vietnam) indicate that, on balance, the more trade agreements there are, the better for Vietnam. In other words, these trade agreements do not necessarily compete with one another. We have indeed observed unrivalled robust export performance as a result of multi FTAs and BTAs. Export growth averaged nearly 20% in 10 years leading to 2014 before slowing down amid slower global trade but still much higher than regional peers. The requirements of origin in both TPP and FTA with the EU will enhance the domestic supply chain while stimulating domestic private firms to integrate more into global value chains, further boosting value-added exports.

Fig 8A: Vietnam's unrivalled export performance (USDb)…



Source: GSOSourcSource: Customs department

Fig 8B: ...being led by high-tech exports

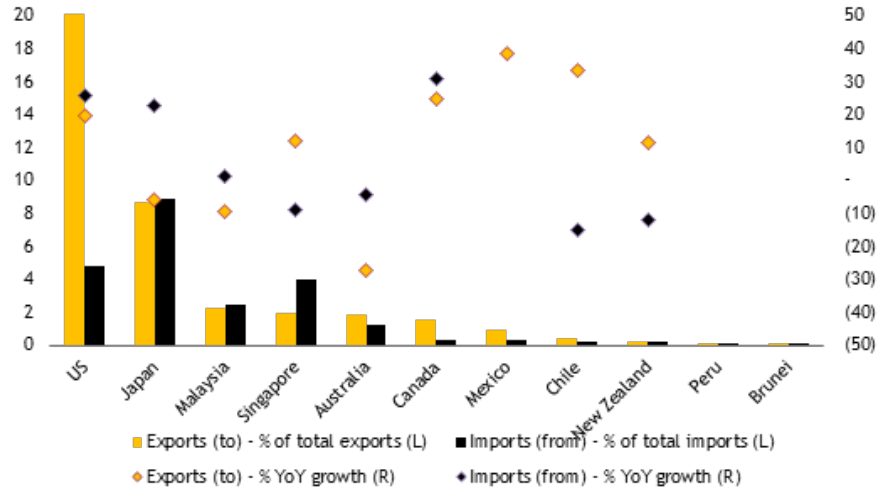


Source: GSO, Customs department

Assuming the pact is passed in the US, we think potential growth from US exports will outweigh any rise in TPP-originated imports, due to a huge reduction in US tariffs. In other words, the impact on the trade balance will most likely be positive in the short/medium term from lower import tariffs. It should also be positive in the long run as well as TPP is considered a high-standard trade agreement as Vietnam has to implement wide-ranging commitments on regulatory quality, intellectual property rights, investor protection, competition, SOE management, labour and environmental standards, public procurement and liberalization services including financial services and telecommunications. The same requirements are set in the FTA with the EU, explaining why there is two years of preparation before the FTA takes effect in early 2018.

Vietnam's 11 TPP partners accounted for 39% and 22% of its 10M15 exports and imports, respectively. Exports to these partners grew 8% YoY, largely led by the US. Imports from them grew 12% YoY, led by Japan and the US.

Fig 9: Vietnam's trade with TPP partners



Source: GSO, Vietnam Customs, Maybank KE

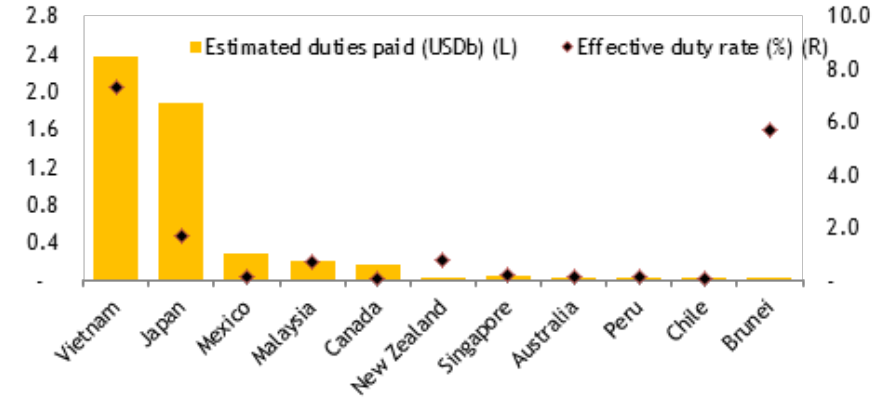
We think investors looking for potential TPP beneficiaries should focus on US-bound exporters or those providing support such as industrial-estate (KBC VN) or logistics operators (GMD VN), due to the following:

- Vietnam's trade surplus with the 11 TPP partners has essentially been the result of its trade surplus with the US only.
- The US is Vietnam's No. 1 export destination, accounting for 21% of its export value and 40% of its YoY export growth in 10M15.
- The US is said to be the world's most protectionist country. This should make it a primary point of focus, more so than any other country, once a "free-trade" pact such as the TPP lowers trade barriers.
- Export growth has also been strong in other American markets such as Canada, Mexico and Chile. However, Vietnam's export mix to these countries mirrors its mix to the US.

We do not rule out that exporters to other countries may benefit, such as the Hoa Sen Group (HSG VN). Hoa Sen faces as high as 25% tariffs in Mexico. Nevertheless, we believe that US-bound exporters will stand to benefit more over the longer term, given the size of the US market.

With the US in mind, we look closely at the import tariffs imposed by the US on different countries and products, using data from the US International Trade Commission. Vietnam appears to be able to reap the most from lower trade barriers in the US.

Fig 10: US import duties paid by other TPP countries, 10M15



Source: US International Trade Commission, US Department of Commerce

We combed through 10M15 data and screened for Vietnamese export products to the US that have grown ≥5% YoY and pay average duties of ≥5%.

Fig 11: Vietnam's key exports to the US (YoY growth ≥5%, average duties ≥5%)

Product Group		NAICS Code	10M15 CIF Import (USDm)	10M15 CIF Import (% YoY)	Average Effective Duties Rate (%)
Food & Kindred Products	Soybean Oil And By-Products	311222	0.02	44.40%	5.90%
	Frozen Fruits, Juices And Vegetables	311411	4.67	43.90%	9.09%
	Dried And Dehydrated Foods	311423	0.56	38.30%	7.58%
	Seafood Products, Prepared, Canned And Packaged	**311711**	**177.66**	**10.90%**	**5.34%**
	Prepared Flour Mixes And Dough	311822	0.08	23.70%	9.12%
	Flavoring Extracts & Syrups	311930	0.05	58.90%	5.70%
Textiles & Fabrics	Narrow Fabrics	313221	7.45	17.70%	5.13%
	Knit Fabrics And Lace	313249	4.70	13.30%	8.14%
Textile Mill Products	Curtains And Linens	31412	19.87	22.00%	6.36%
	Other Household Textile Products	314129	17.58	26.50%	5.89%
	Ropes, Cordage, And Twine	314991	10.59	25.90%	6.45%
	All Other Miscellaneous Textile Products	314999	36.60	8.70%	6.05%
Apparel & Accessories	Hosiery And Socks	31511X	13.88	24.40%	13.01%
	Men's And Boys' Apparel	**31522**	**3231.98**	**14.40%**	**17.90%**
	Women's And Girls' Apparel	**31523**	**5567.96**	**12.80%**	**18.50%**
	Infants' Apparel	**315291**	**195.32**	**16.60%**	**12.43%**
	Hats And Cap	**315991**	**148.81**	**25.20%**	**7.24%**
	Gloves & Mittens	315992	62.14	15.50%	11.69%
Leather & Allied Products	**Footwear**	**31621**	**3780.54**	**23.40%**	**12.75%**
	Luggage	**316991**	**584.42**	**5.40%**	**13.10%**
	Women's Handbags And Purses	**316992**	**214.70**	**33.30%**	**10.96%**
	Personal Leather Goods (Except Women's Handbags And Purses)	316993	73.80	33.90%	6.68%
Chemicals	Pesticides And Other Agricultural Chemicals	325320	1.97	4901.50%	6.14%
	Inorganic Dyes And Pigments	325131	9.64	1.10%	5.77%
Others	Glass Products, Nesoi	327215	18.87	21.09%	5.49%
	Ball And Roller Bearings	332991	8.37	9.40%	7.64%
	Automatic Environmental Controls For Residential, Commercial, And Appliance Use	334512	1.74	783.20%	11.47%
	Silverware, Platedware And Hollowware	339912	57.38	47.10%	6.79%
	Costume Jewelry And Novelties	339914	30.01	56.30%	9.59%

** Products with 10M15 exports exceeding USD100m are highlighted in bold*
Source: US International Trade Commission, US Department of Commerce

By widening the screen to products with 2-5% duties, maintaining our ≥5% YoY growth criterion, about 30 additional product groups would be

included, including tyres (CSM VN, BUY, VND30,000), lighting fixtures (DQC VN, Not Rated), batteries (PAC VN, Not rated) and wood products (TTF VN, Not Rated and GDT VN, Not Rated).

A look at imported textiles and apparel products (NAICS 313-315) from TPP countries into the US suggests that:

- Vietnam is the largest exporter of such products to the US among TPP countries, with 8M15 CIF imports of USD7.6b, followed by Mexico (USD3.6b), Canada (USD1.2b), Peru (USD0.4b), Malaysia (USD0.4b) and Japan (USD0.4b).
- Mexico's, Canada's or Peru's textiles and apparel do not seem poised to benefit from TPP as they are already paying fairly low tariffs of c.0.6%. For them, their US market has been growing in low single digits or even contracted.

Fig 12: US textile & apparel imports from Vietnam, Malaysia andJapan, 10M15

Product		Vietnam			Malaysia			Japan		
		CIF Import (USDm)	% YoY	% Duties	CIF Import (USDm)	% YoY	% Duties	CIF Import (USDm)	% YoY	% Duties
Textiles & Fabrics	Yarns	6.31	-52.70%	8.92%	0.0		7.79%	2.54	-11.70%	4.55%
	Threads	0.30	6.20%	10.92%	0.0	62.30%	9.42%	3.71	22.30%	9.29%
	Broadwoven fabrics	19.51	13.90%	1.64%	6.3	-7.60%	13.18%	107.14	4.70%	8.58%
	Narrow fabrics	7.45	17.70%	5.13%	0.7	26.60%	4.37%	34.95	-7.10%	5.21%
	Nonwoven fabrics	0.34	-4.00%	0.27%	3.2	388.20%	0.00%	56.05	-5.20%	0.23%
	Knit fabrics and lace	4.70	13.10%	9.59%	0.0	143.30%	9.98%	17.91	-0.70%	8.75%
	Textile and fabric finishing mill products				0.2	-7.30%	3.73%	0.16	62.70%	4.79%
	Coated fabrics	20.17	7.80%	3.52%	0.0	-72.40%	1.98%	134.97	7.00%	3.84%
Textile Mill Products	Carpets & rugs	0.34	-42.90%	3.00%	1.5	234.10%	0.02%	1.24	-25.70%	5.21%
	Curtains and draperies	2.29	-4.00%	9.96%	9.7	43.60%	10.84%	0.22	73.30%	10.30%
	Other household textile products	17.58	26.50%	5.89%	0.2	5.50%	5.33%	5.91	-4.60%	6.51%
	Textile bags and canvas	23.14	5.20%	7.75%						
	Textile sacks and bags	14.21	-21.20%	7.78%	0.0	180.60%	3.56%	0.20	-68.70%	7.07%
	Canvas and related products	19.16	39.80%	2.22%	1.7	21.90%	0.20%	0.07	6.60%	5.98%
	Ropes, cordage, and twine	10.59	25.90%	6.45%	1.9	-39.80%	3.74%	6.75	11.90%	6.38%
	Tyre cords and tyre fabrics	241.97	-0.60%	3.49%		-1		11.80	-23.30%	3.55%
	All other miscellaneous textile products	36.60	8.70%	6.05%	3.9	-0.40%	5.41%	27.13	-1.10%	3.70%
Apparel & Accessories	Hosiery and socks	13.88	24.40%	13.01%	0.1	-35.60%	13.93%	1.92	17.10%	13.37%
	Men's and boys' cut and sew apparel	0.25		5.87%				0.01		5.88%
	Men's and boys' underwear and nightwear	404.35	14.20%	8.63%	2.8	-26.60%	11.38%	0.79	49.70%	16.54%
	Men's and boys' suits, coats, and overcoats	171.51	28.00%	19.34%	0.4	37.90%	14.24%	4.26	45.30%	15.49%
	Men's and boys' shirts (except work shirt)	1103.22	14.40%	20.85%	176.9	-4.00%	19.05%	7.25	54.20%	17.50%
	Men's and boys' trousers, slacks and jeans	535.60	9.40%	18.39%	65.8	49.70%	18.19%	6.36	37.80%	16.13%
	Men's and boys' other outerwear	1017.05	15.20%	17.90%	43.8	0.90%	23.65%	3.42	85.80%	15.23%
	Women's and girls' lingerie, loungewear and nightwear	323.46	10.30%	11.83%	32.0	28.60%	12.22%	0.79	5.60%	14.14%
	women's and girls' blouses and shirts	1570.28	5.40%	18.28%	74.4	-2.80%	19.34%	4.83	13.90%	17.28%
	Women's and girls' dresses	618.30	9.80%	13.85%	4.9	-26.10%	13.52%	2.68	21.30%	12.30%
	Women's and girls' suits, coats, tailored jackets, and skirts	604.94	2.90%	17.67%	7.8	-5.40%	16.49%	5.05	17.00%	16.35%
	Women's and girls' other outerwear	2450.98	22.30%	20.90%	42.6	2.00%	21.69%	5.00	-28.70%	16.59%
	Women's girls' and infants' cut and sew apparel	0.19		5.82%				0.02		5.79%
	Infants' apparel	195.32	16.60%	12.43%	7.6	-16.30%	13.83%	0.11	81.90%	12.33%
	Fur and leather apparel	13.01	-21.00%	4.42%	0.0	7196.00 %	5.88%	0.74	1.40%	5.50%
	Hats and caps	148.81	25.20%	7.24%	0.1	36.30%	7.57%	0.53	6.80%	7.24%
	Gloves & mittens	62.14	15.50%	11.69%	29.4	9.10%	9.11%	1.25	56.80%	11.37%
	Men's and boys' neckwear	0.90	-6.00%	13.54%				0.10	-21.20%	6.51%
	Other apparel accessories	69.33	37.60%	3.05%	3.1	24.70%	3.92%	4.07	-5.80%	5.21%

Source: US International Trade Commission, US Department of Commerce

- Tariffs for remaining TPP countries are generally high in the high-value-added apparel category (e.g men's and women's clothing). However, their US market is very small.

  This would leave Malaysia and Japan as the two most likely rivals to Vietnam when it comes to grabbing textile market share in the US. Figure 12 suggests that **finished clothing** could be the segment with the biggest potential for Vietnam, considering its market share, growth momentum and potential tariff cuts. Thanh Cong Textile (TCM VN, Not

Rated) is already exporting finished clothing such as T-shirts to US retailers such as Costco and JC Penney. In our view, it will likely comply with the "yarn forward" rule.

Other concerns regarding TPP

While we are generally bullish on TPP and agree that the overall income gains would be the highest for Vietnam, we caution that:

- Economic impact from TPP would be broad-based. To join TPP, Vietnam would have to liberalise and modernise many aspects of its economy, from reducing SOE dominance to upholding tighter intellectual-property standards. As such, stocks that appear to be TPP beneficiaries may not necessarily be straightforward BUYs, as Vietnam is required to level the playing field on a widespread scale.

  In other words, if Vietnamese exporters enjoy freer trade, other FDI businesses will also have better access to Vietnam's competitive cost base and compete for the same TPP opportunities. This could, for example, make it easier for foreign textile/fabric companies to access the US market, provided they comply with the yarn-forward rule. Some are already present in Vietnam such as Shenzhou, Eclat and Texhong.

- More imports will compete with domestic production. Besides opening up its attractive labour market to FDI competition, Vietnam's imports will increase, from consumption goods such as food to services such as banking. These will fiercely compete with domestic production. As Vietnam's supply chain becomes more integrated into the world economy, domestic suppliers will also face increased pressure.

  Distributors of TPP-originated imports such as Japanese cars may appear to be beneficiaries, as lower tariffs under the TPP will spur consumption. However, their competitive advantages may not be sustainable as entry barriers for distributors under the TPP seem low.

- Political risks from the US are considerable. Even if it is possible for fewer than 12 members to carry on with the pact, as long as their total GDP surpasses a certain threshold, the size of the US market alone makes it the most important country for an agreement. Any unfavourable voting by Congress, which could be influenced by presidential prospects, may derail the TPP. At this stage, we understand that Donald Trump is 100% against the TPP while Hilary Clinton's view on the pact remains fuzzy.

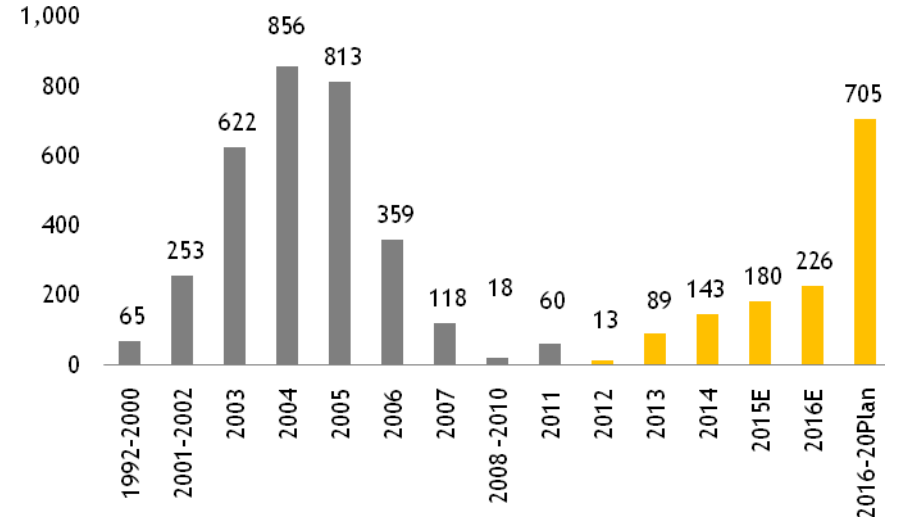
3. 2016 – Year of IPOs and new listings

3.1 Pick-up in equitization of SOEs

Equitzation plays a vital role in the overall restructuring of the state sector as it's well-known for low productivity, non-core investments and in many cases debt-ridden companies, which in turn contributed to high NPLs that have crushed the banking system in the past five years.

Important to note is the significant improvement in the number of IPOs in the past 2 years, in stark contrast to the preceding 5 years. While only 30% of the central government's listing target for 2009-2013 was met at the end of the period, by the end of 2015, that target has been 70% achieved. In other words, the last 2 years saw more IPOs than the preceding 5. Further, the listing plan was arguably too ambitious as it had targeted to equitize as many as 531 SOEs between 2011 and 2015 compared with only 136 between 2007 and 2010.

Fig 13: New wave of IPOs in SOEs



Source: various

Other common complaints are that often the size of actual offerings to the public are not large enough to attract institutional investors as the State remains the dominant shareholder in many cases. In the latest IPO of Aviation Corporation of Vietnam for example, only less than 4% stake was offered to the public. The same was the case for the IPOs of Vietnam Airlines, PetroVietnam GAS and Bank for Investment and Development of Vietnam.

While this was true, we have to acknowlege that various regulations and decisions have been made to accelerate the whole process. They include subsequent sales to effectively reduce the State's stake after the IPO, mandatory listing or guidance on divestments in cases where market prices are less than face values or book values. The latest decision 1787 dated 8 Oct 2015 to divest completely out of well-performing, much-sought-after corporates like Vinamilk, FPT telecom and FPT Corp is an important signal to the market that the government is willing to remove its influence in sectors or companies it previously considered "sensitive". While this does not guarantee that foreign investors could participate when State Capital Investment Corporation (SCIC) sells these investments, it is an important step towards being more open to them in the future.

3.2 Tackling the bottlenecks in IPOs of SOEs

The significant slowdown in IPOs between 2008-12 was attributed to less favourable market conditions both externally and domestically, but admittedly mostly due to: (1) lofty valuations, including deadlocks when market prices were below the book value or face value (for subsequent divestments of the State after the initial offerings); and (2) delayed listing after the IPO. The IPO concept in Vietnam often refers more to the State selling its stake in SOEs partially or entirely, while the actual listings on the stock exchange may follow after months or even years.

A series of regulations have been introduced to solve the problems:

- Decree 59/2011 on equitization of SOEs.
- Decision 704/2012 on improvement of corporate governance.
- Decision 929/2012 on 2012-15 SOE restructuring plan including divesting completely out of non-core activities.
- Decree 99/2012 on specifying the responsibilities of each owner (e.g. a ministry, SCIC, a local authority) in SOEs. Previously, poor performance in SOEs was sometimes not specifically addressed to any specific entities.
- Decree 189/2013: allowing stakes to be sold to strategic investors prior or together with IPOs (previously only after and at higher prices).
- Decree 51/2014: requirement to list on UpCOM (a tier-II stock exchange) within three months and the other main boards within 12 months, but still allows for "exceptional cases".
- Decision 51/2014: allowing for state divestments at below par value or BVPS (both of which were strictly not allowed before); more flexible 2nd offering pricing (e.g. lower price) if not fully subscribed in the 1st offering.
- Document 1787/2015: state to divest completely out of previously "sensitive sectors" such as dairy, insurance, construction materials, infrastructure and real estate etc. including Vinamilk, FPT telecom, FPT Corp., and Bao Minh insurance etc.
- Decision 40/Jun'15: Nine areas/bottlenecks to solve relating to IPOs of SOEs incl. revising Decree 59; enforcing a listing on a stock exchange (e.g. if management is found to be deliberately avoiding a listing, a forced sale to reduce state ownership to 0% or a forced bankruptcy as a last resort would be conducted).
- Circular 180/Nov'15, effective from 1 Jan 2016, requiring mandatory listing at least on the UpCOM for ALL public companies, ie. having more than 100 shareholders.

  The last regulation, Circular 180 dated Nov'15, is the most important in our view as it may totally change the dynamics of Vietnam's equity market. If implementation is enforced properly, which has been the case so far based on our understanding from talking to various related authorities, it would mean hundreds of companies would be listed on the UpCOM. Larger companies that meet higher listing requirements of the Hochiminh or Hanoi stock exchange would likely list on the main board for a better reputation and for more market liquidity. Our back-of-the-envelop calculation indicates that another USD21b could be added to the current market capitalization of ~USD50b once the top 30 larger equitized companies are listed (see Figure 14 below) in 2016-17. Recently the over-subscribed (1.5x) IPO of Aviation Corporation of Vietnam (priced at a more reasonable 1.4x P/BV vs regional peers of 1.8x on average) is an example of more positive responses from investors (Click here for our ACV unrated note). In one of the last

announcements of the year on 25 Dec'15, Mobifone's IPO plan will be submitted to the Prime Minister shortly after several years of delay. Mobifone is the second largest telco in Vietnam with around USD1.7b in sales, USD330m of profit and 49.35% ROE in 2015.

Fig 14: Key IPOs and new listings in 2014-17

Name	Industry	Date	est Mcap / charter capital
Vietnam Urban and Industrial Zone Development Investment corp	Industrials	2015	n/a
IDICO Urban and Industrial Zone Development Co., Ltd.	Industrials	2015	n/a
IDICO Construction Co., Ltd.	Industrials	2015	n/a
Viet Bac Mining	Resources	2015	n/a
Vinacomin-Ship building	Resources	2015	n/a
Nha Trang Vaccine Company	Pharmaceutical	2015	n/a
Vaccine Pastuer Dalat ltd	Pharmaceutical	2015	n/a
Hanoi Pharmaceutical university's Pharma Company	Pharmaceutical	2015	n/a
Central Pharmaceutical Company 1 Ltd	Pharmaceutical	2015	n/a
Central Pharmaceutical company 2 Ltd	Pharmaceutical	2015	n/a
Central Pharmaceutical company 3 Ltd	Pharmaceutical	2015	n/a
Vinatea	F&B	Oct-15	50.0
Vilico	F&B	2015	n/a
Mobifone	Telecom	2015	4,400
Saigon Beverage Company (Sabeco)	Beer	2015-2017	3,767
Satra Group		2015-2017	3,041
Binh Son Refining and Petrochemical	Refinery	2015-2017	1,647
Vietnam Airlines	Airlines	2014	1,400
Vietnam Airport Corporation (AVC)	Aviation	Dec-15	1,430
Power Generation Corporation 1	Utilities	2015	587
Power Generation Corporation 3	Utilities	2015-2017	464
Saigon Tourist		2015-16	427.68
Power Generation Corporation 2	Utilities	2015-2017	387
Vissan Company	Packed food	2015-2017	349
Vinacomin-Electricity	Utilities	2015	320
Vinacomin Power	Power	2015	316
Ca Mau Fertilizer	Chemical	11-Dec-14	304
Viet Nam Textile	Textile	22-Sep-14	298
Vietnam Southern Food Corporation	F&B	2015	222
Vietnam Northern Food Corporation	F&B	2015	205
Vietnam Cement	Materials	2016	178
Viglacera	Industrials/ Const	12-Feb-14	152
Haiphong port	Port operation	14-May-14	307
Saigon airport	Retailing	18-Sep-14	119
Vocarimex Cooking Oil	Consumer	25-Jul-14	109
Vietnam National Coal - Mineral Industries	Resources	2015	64
Vietnam Seafood (Seaprodex)	F&B	12-Dec-14	59
Construction corporation 1	Construction	2015	52
Licogi Corp.	Construction	2015	42
Vietnam Water Sewage and Environment	Utilities	5-Mar-14	39
Building Materials Corporation No.1 Ltd	Materials	2015	29
Subtotal			**20,764**

Source: company data, various media sources

Construction

Vietnam

Cotec Construction (CTD VN)

A robust FY16 ahead

BUY

Share Price	VND 153,000
12m Price Target	VND 173,000 (+13%)
Previous Price Target	*VND 173,000*

Why we are writing this and recommended action

CTD has been Vietnam's best performing stock among the rated universe, according to Bloomberg. While we have already raised our earnings estimates and are now pegging our TP at 12x FY16 P/E (on par with its regional peers), up from 10x, we think it is still a BUY with catalysts expected from further new orders and margin strength. A strong FY15E backlog and the current upcycle provide us with confidence in the FY16-17E outlook.

Design-and-build a catalyst amid growing orders

To recall, we believe design-and-build (D&B) work will continue to be its strongest catalyst, as its reputation in winning a string of greenfield-development mandates may lead to even more orders from other developers in the market. Growing orders amid a strong construction industry should also underpin its earnings.

More shares for foreigners expected in Jan 2016

According to its latest prospectus dated 24 Nov, 1.8m new shares or roughly half of what CTD plans to issue for swapping with its subsidiary, Unicons, will be available to foreigners by 11 Jan 2016. This is 35 working days following its share issuance license granted on 23 Nov.

3Q15 earnings review: a historical high

3Q15 revenue and PATMI grew 78% YoY and 123% YoY, respectively. PATMI, in fact, reached a historical high of VND199b. 9M15 top and bottom line grew 64% and 76% YoY, respectively. Effective cost management – SG&A even down 17% YoY in 3Q15 - and a push towards higher-margin D&B work jacked up 3Q15 net margins to 5.2%, its highest since 1Q14 (Fig 1).

Company description

Cotec Construction JSC provides general contractor and design-and-build services, and builds apartments, shopping malls and factories.

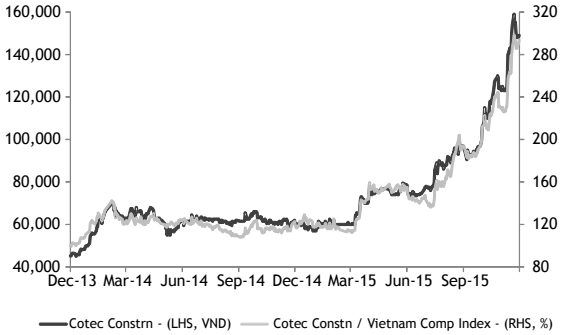
Statistics

52w high/low (VND)	159,000/57,000
3m avg turnover (USDm)	0.4
Free float (%)	41.5
Issued shares (m)	43
Market capitalisation	VND6.6T
	USD294M

Major shareholders:

Kusto Group	46.6%
The Ton Poh Thailand Fund	5.8%
Chairman	5.1%

Price Performance

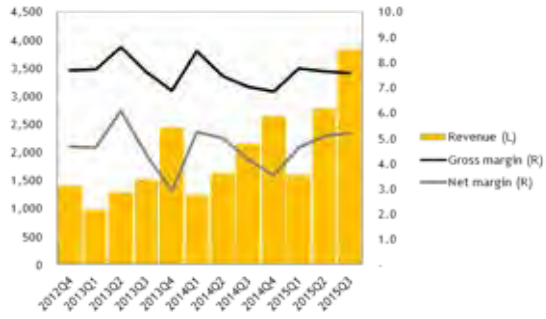


	-1M	-3M	-12M
Absolute (%)	3	55	168
Relative to index (%)	2	51	153

Source: FactSet

FYE Dec (VND b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	6,190	7,634	11,069	14,943	18,679
EBITDA	288	359	659	740	925
Core net profit	259	327	543	684	855
Core EPS (VND)	6,137	7,762	12,701	14,443	17,836
Core EPS growth (%)	9.7	26.5	63.6	13.7	23.5
Net DPS (VND)	2,000	2,000	4,000	4,500	5,500
Core P/E (x)	24.9	19.7	12.0	10.6	8.6
P/BV (x)	2.8	2.6	2.2	1.9	1.7
Net dividend yield (%)	1.3	1.3	2.6	2.9	3.6
ROAE (%)	11.8	13.5	18.8	19.4	20.7
ROAA (%)	6.3	6.9	9.8	9.8	10.2
EV/EBITDA (x)	2.2	4.1	8.1	7.9	6.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	577	798	855
MKE vs. Consensus (%)	-	-	(6.0)	(14.3)	0.0

Topline (VNDb) and margins (%)



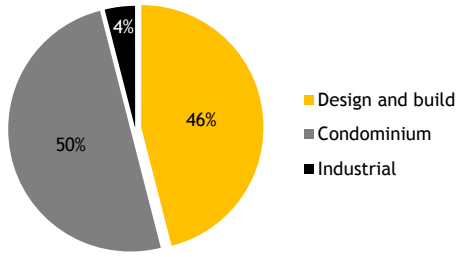
Source: Company
Our FY16E EPS takes into account its enlarged capital from new shares issued to swap with Unicons.

THAI Quang Trung, CFA
trung.thai@maybank-kimeng.com.vn
(84) 844 55 58 88 x 8180

Value Proposition

§ Evolved from a subcontractor to general contractor and design-and-build (D&B) contractor.
§ Focus on quality build, securing contracts for high-quality projects from its early days. Enjoy widening margins through D&B work.
§ Difficult for local competitors to develop similar brand strength and D&B capabilities at this stage, as CTD was an early mover.
§ Stable management and a highly efficient workforce. Developers increasingly favour reliable contractors that can consistently deliver large-scale projects.
§ Beneficiary of and proxy to construction industry upcycle.

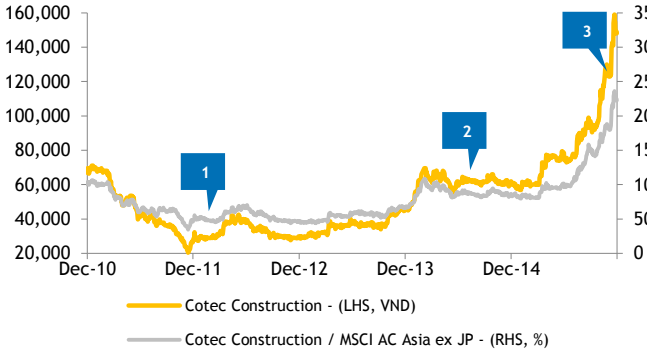
Contract value signed in FY14, delivered in FY15-16



Source: Company

Price Drivers

Historical share price trend



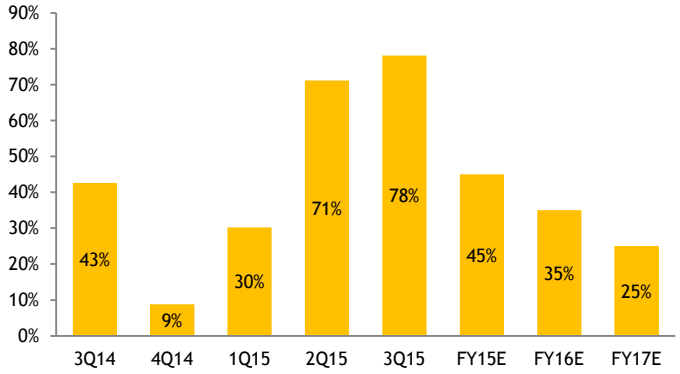
Source: Company, Maybank Kim Eng

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).

Financial Metrics

§ Revenue growth the most important metric for CTD, being a growth stock. 9M15 revenue grew 64% YoY.
§ FY15E backlog estimated at VND13.5T, about twice that in FY14E. This is the basis for our FY15-17E earnings CAGR of 26%.
§ Net margins also crucial. We expect the company to ward off growing competition in the industry with its D&B focus, keeping net margins at 4.5-5.0%.
§ Receivable days, which declined from c.100 in FY13-14 to only 46 in 3Q15. Function of rigorous project cash management.

Robust revenue growth (YoY basis)



Source: Company

Swing Factors

Upside

§ Higher-than-expected margins, especially for D&B jobs. Mix of in-house and outsourced architects may keep workforce lean and bump up margins more than expected.
§ Stronger-than-expected order-book growth, from a growing residential property market. FY15 backlog is expected to be VND13.5t, nearly twice FY14's.
§ Potentially 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

§ Cyclicality of construction industry, especially one in a frontier market.
§ Increased price competition.
§ Capital-intensive infrastructure work can be a risk. Regionally, we have seen many contractors bearing losses due to poor infrastructure execution.
§ Any profit-taking on the back of CTD's low-ish liquidity may force the stock down.

Steel

Vietnam

Hoa Phat Group (HPG VN)

Risks priced in; stay BUY

BUY

Share Price	VND 29,200
12m Price Target	VND 41,900 (+43%)
Previous Price Target	*VND 41,900*

What's our view

We want to re-emphasise HPG as one of our top picks and a beneficiary to the construction upcycle in Vietnam. The stock has traded range-bound throughout 2015 as investors are concerned over the uncertainties caused by Chinese steel and the company's foray into animal feeds. Our rigorous stress test and Monte Carlo simulation add comfort to our forecasts and suggest that growth potential outweighs risks. HPG remains our most investable idea along the construction/infrastructure theme.

What's new

Since our last report dated Aug'15, several things have changed: (1) HPG has increased capacity in some of its steel factories and expanded its industrial estates, both which largely contributed to our FY15E earnings upgrades, (2) the prospect of an influx of Chinese steel imports into Vietnam, confirmed by HPG's chairman, has prompted us to downgrade domestic ASP even further.

Risks priced in

We prudently assume FY16E ASP and EPS will drop by about 20%, following a ~18% ASP decline in FY15 YTD, to account for the impending Chinese imports and potentially further selling pressure from Taiwan-based Formosa Group. While key inputs (iron ore, coke, scrap) could fall by more than the decline in ASP, they only make up ~70% of COGS, leading to pressure on margins. Note that strong earnings frontloaded in FY15E offset the FY16 outlook, leaving our TP little changed.

Fundamentals remain strong

Even if steel stocks are generally out of favour, we are fairly comfortable with HPG's underlying FY16-17E fundamentals: 8% FCF yield on average, 10% dividend yield on average, 5x average EV/EBITDA, 7x core PER, on top of a committed and hardworking management team. Legacy businesses (furniture, refrigerators, industrial estates, etc – about 20-25% of revenue) are stable and provide downside protection.

FYE Dec (VND b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	18,934	25,525	26,905	29,112	32,755
EBITDA	3,609	5,566	6,103	5,534	6,475
Core net profit	1,760	2,759	3,704	2,987	3,552
Core EPS (VND)	2,435	3,817	5,054	4,076	4,847
Core EPS growth (%)	76.0	56.8	32.4	(19.4)	18.9
Net DPS (VND)	1,304	1,304	3,000	2,500	3,000
Core P/E (x)	12.0	7.6	5.8	7.2	6.0
P/BV (x)	2.2	1.8	1.5	1.4	1.2
Net dividend yield (%)	4.5	4.5	10.3	8.6	10.3
ROAE (%)	20.0	25.9	28.1	19.9	21.7
ROAA (%)	8.4	12.2	15.3	11.3	12.4
EV/EBITDA (x)	6.2	5.4	3.9	4.8	4.0
Net debt/equity (%)	53.3	35.7	15.6	30.6	24.6
Consensus net profit	-	-	3,608	3,780	4,508
MKE vs. Consensus (%)	-	-	4.4	(18.9)	(20.7)

Company description

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

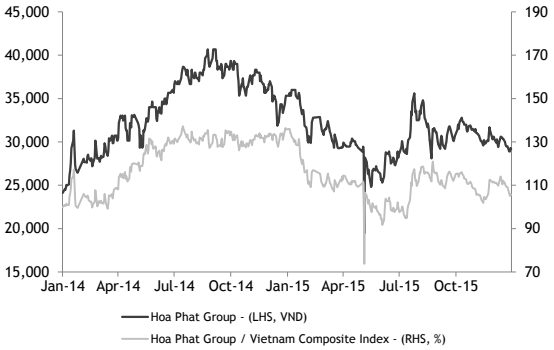
Statistics

52w high/low (VND)	36,000/19,467
3m avg turnover (USDm)	1.9
Free float (%)	57.2
Issued shares (m)	733
Market capitalisation	VND21.4T
	USD952M

Major shareholders:

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

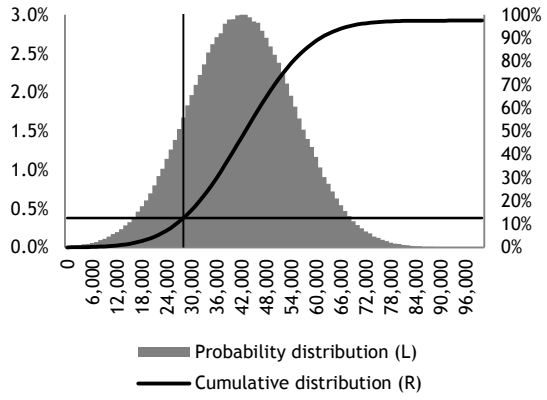
Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(4)	(17)
Relative to index (%)	(5)	(7)	(22)

Source: FactSet

Target price histogram using Monte Carlo



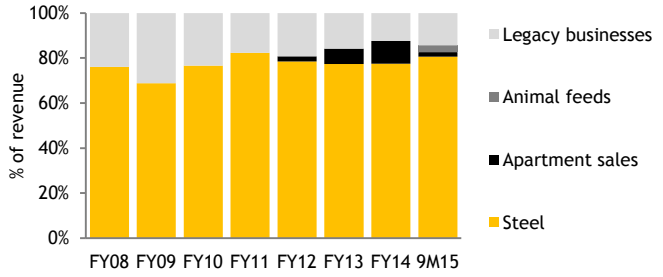
Source: Maybank

THAI Quang Trung, CFA
trung.thai@maybank-kimeng.com.vn
(84) 844 55 58 88 x 8180

Value Proposition

§ Positioned as Vietnam's ultimate integrated steelmaker, allowing it to minimise dependence on scrap metal (which Vietnam lacks) and diversify input material sources.
§ Market leader with 22% market share, up from 9% in 2009. Improvement attributed to strong supply chain and focus on underdeveloped northern Vietnam.
§ Market dominance and upcycle of domestic construction industry support secular growth story.
§ Entry barriers include established distribution channel, 12% tariff on Chinese steel via the ASEAN-China FTA, and a cost structure fairly similar to Chinese companies.
§ Legacy businesses (furniture, industrial estates, etc ~20-25% of revenue) are stable and cushion downside.

Steel is key driver but legacy businesses protect downside



Source: Company, Maybank

Price Drivers

Price evolution



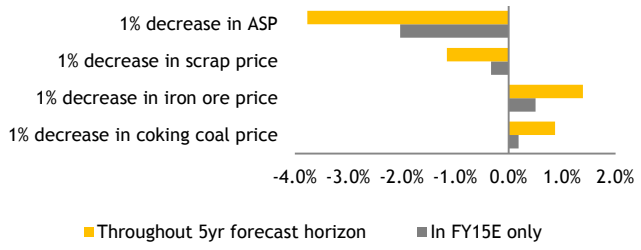
Source: Company, Maybank Kim Eng

1. Start of re-rating from FY14E PER of 6.0x due to expectations of strong steel sales.
2. BankInvest, a long-standing shareholder, sold about 4.4m shares within about three months, exerting selling pressure.
3. Selling pressure was seen by funds under VinaCapital; a new foray into animal feeds was also announced.

Financial Metrics

§ ASP is important to note, as the company's enterprise value is highly sensitive to changes in ASP.
§ On the chart below, our analysis shows a 1% decrease in ASP over a 5-year forecast horizon lowers our TP for HPG by about 4%.
§ We estimate GPM was >20% in FY15, as ASP declines were more than offset by raw materials. GPM could compress to 17-18% due to increased pressure from competition.
§ Inventory days dropped to 120, beating our expectations and bolstering operating cash flows.

Changes in our TP given changes in key inputs…



Source: Company, Maybank

Swing Factors

Upside

§ The government is working to prevent Chinese steel dumping (e.g. specifically taxing steel alloyed with boron)
§ An upcycle in the construction and real estate industry in Vietnam may surprise on the upside
§ Expansions of legacy businesses may also boost earnings

Downside

§ ASP declines: Formosa, Chinese steel and soft outlook for commodities may depress share price (see changes in our TP given changes in key variables in the chart on the left)
§ Animal feeds business is a question mark and may slow overall business growth
§ VND devaluation may add further stress via imported materials and USD borrowings (VND3.4t as at 1H15)

January 3, 2016

Consumer Staples

Vietnam

Vinamilk (VNM VN)

Solid business in growing industry

BUY

Share Price	VND 126,000
12m Price Target	VND 148,100 (+18%)
Previous Price Target	*VND 141,600*

Unrivalled market leader in dairy

As largest dairy company (with approx. 50% market share) and wide range of products, VNM is ideally placed to capture the huge potential of local industry. With the rapidly changing lifestyle in Vietnam, VNM has been able to grow at 23% CAGR in sales and as high as 28% CAGR in NPAT

Dairy daily consumption expected to grow

Despite rapid growth in the last decade, Vietnamese's consumption remains low, around 16-18kg per annum per capita (vs. that of 40kg in Thailand or over 26kg in China). With the continuingly rising awareness about health benefit of milk, favourable demographics, coupled by recent regulation to abandon 2-children policy and (3) stronger pick up in domestic consumption, supported by higher disposal income, industry growth is expect to grow at double digit in at least next 5 years.

High profitability yet competition has also been more intense

Vinamilk has benefited largely from the slump of global powder milk since May'14. Gross margin has been improved from around 32% in 9M15 to 38% in 4Q14 and further rose to 39.6% on average in 9M15. However VNM has also experienced more fierce competition from No. 2 and No. 3 industry competitors namely Dutch Lady and Nestle (in powder and liquid milk segment) and other local producers such as TH Milk, Da Lat Milk, Moc Chau Milk (in fresh milk) in last 3 years, resulting in higher SGA/sales. We estimate net margin to still stay at high level of 18-20% in next 5 years, which is 2x that of regional average.

Still compelling valuation

VNM is trading at 17.7x 2016 PER compared with that of 23x by similar companies in the region, yet offering more superior return from higher gross margin, 2x ROE and net margin. Our TP based on DCF model is VND148,100, which is 15.7% higher than closing price on 31 Dec 2105. A catalyst in 2016 may come from uplifting foreign ownership limitation (FOL) in VNM, making it more easily for foreign institutional investors to purchase the share.

FYE Dec (VND b)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	30,949	34,977	40,615	45,839	51,980
EBITDA	8,082	7,850	10,180	10,886	11,678
Core net profit	6,534	6,068	7,961	8,582	9,239
Core EPS (VND)	5,444	5,056	6,626	7,151	7,699
Core EPS growth (%)	12.3	(7.1)	31.1	7.9	7.7
Net DPS (VND)	4,000	4,000	4,500	5,000	6,000
Core P/E (x)	23.1	24.9	19.0	17.6	16.4
P/BV (x)	8.6	7.7	7.1	6.7	6.4
Net dividend yield (%)	3.2	3.2	3.6	4.0	4.8
ROAE (%)	39.6	32.6	38.9	39.0	40.0
ROAA (%)	30.7	24.9	29.3	29.4	30.2
EV/EBITDA (x)	13.1	11.2	14.1	13.1	12.1
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	7,862	8,680	9,561
MKE vs. Consensus (%)	-	-	1.3	(1.1)	(3.4)

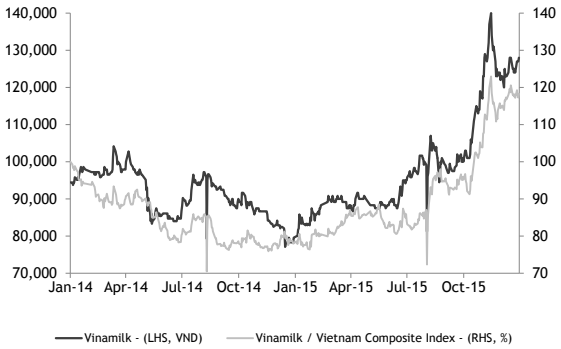
Statistics

52w high/low (VND)	140,000/80,000
3m avg turnover (USDm)	5.7
Free float (%)	23.4
Issued shares (m)	1,200
Market capitalisation	VND153.6T
	USD6.8B

Major shareholders:

State Capital Investment Corporation	45.0%
F&N Dairy Investments Pte Ltd	11.0%
Dragon Capital Markets Limited (DC)	7.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	28	61
Relative to index (%)	2	24	52

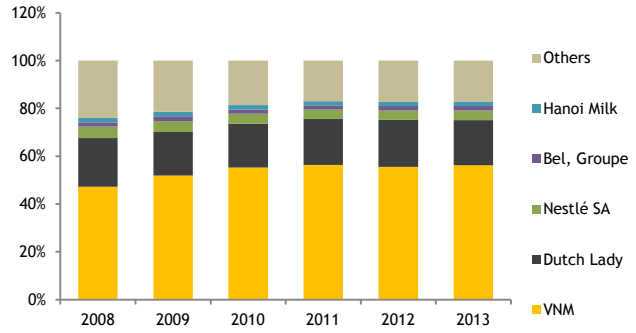
Source: FactSet

LE Hong Lien, ACCA
lien.le@maybank-kimeng.com.vn
(84) 844 55 58 88 x 8181

Value Proposition

§ No. 1 national consumer brand. Leading dairy player (~50% market share). Dominant across product range: powder milk, yogurt, liquid milk and condensed milk.
§ Changing dietary habit among Vietnamese population towards higher dairy consumption secures secular growth.
§ Robust demand enables industry players to pass on higher input costs to consumers and benefit when material prices trend down, which have preserved/enhanced returns.
§ Commencement of USD23m factory in Cambodia (yogurt: 3Q15, condensed milk: 4Q15) opens more opportunities to CMLV market.
§ But may be entering phase of more mature and moderate growth. Operations are still highly cash generative. We see higher dividend payout and more attractive yields ahead.

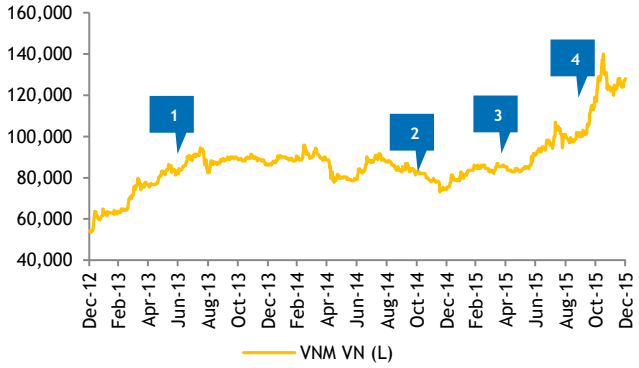
VNM: market leader in Vietnam's dairy industry



Source: Company

Price Drivers

Historical share price trend



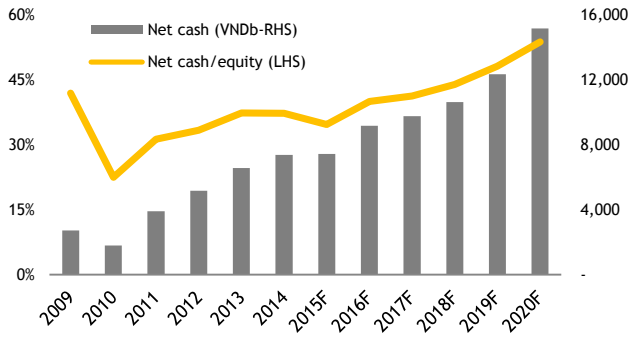
Source: Company, Maybank Kim Eng

1. Commissioning of new mega factory resolving capacity constraints which limited growth in 2011-13, especially export contracts
2. Underperformance in 2014 due to earnings contraction for the first time after strong expansion in 2005-13
3. Improved gross margin in 4Q14, which continued into 2015 thanks to lower input costs
4. Expected relaxation in foreign ownership limit

Financial Metrics

§ Raw material prices and VNM. Softer raw material prices should result in further gross margin improvement in 2016. VNM imports nearly 70% of its input milk materials.
§ Success of export initiatives and positive margins.
§ USD370m net cash even after completion of major factory capex requirements (totalling USD210m) that doubled liquid milk and increased powder milk capacity by 4x.

VNM's cash rich status



Source: Company

Swing Factors

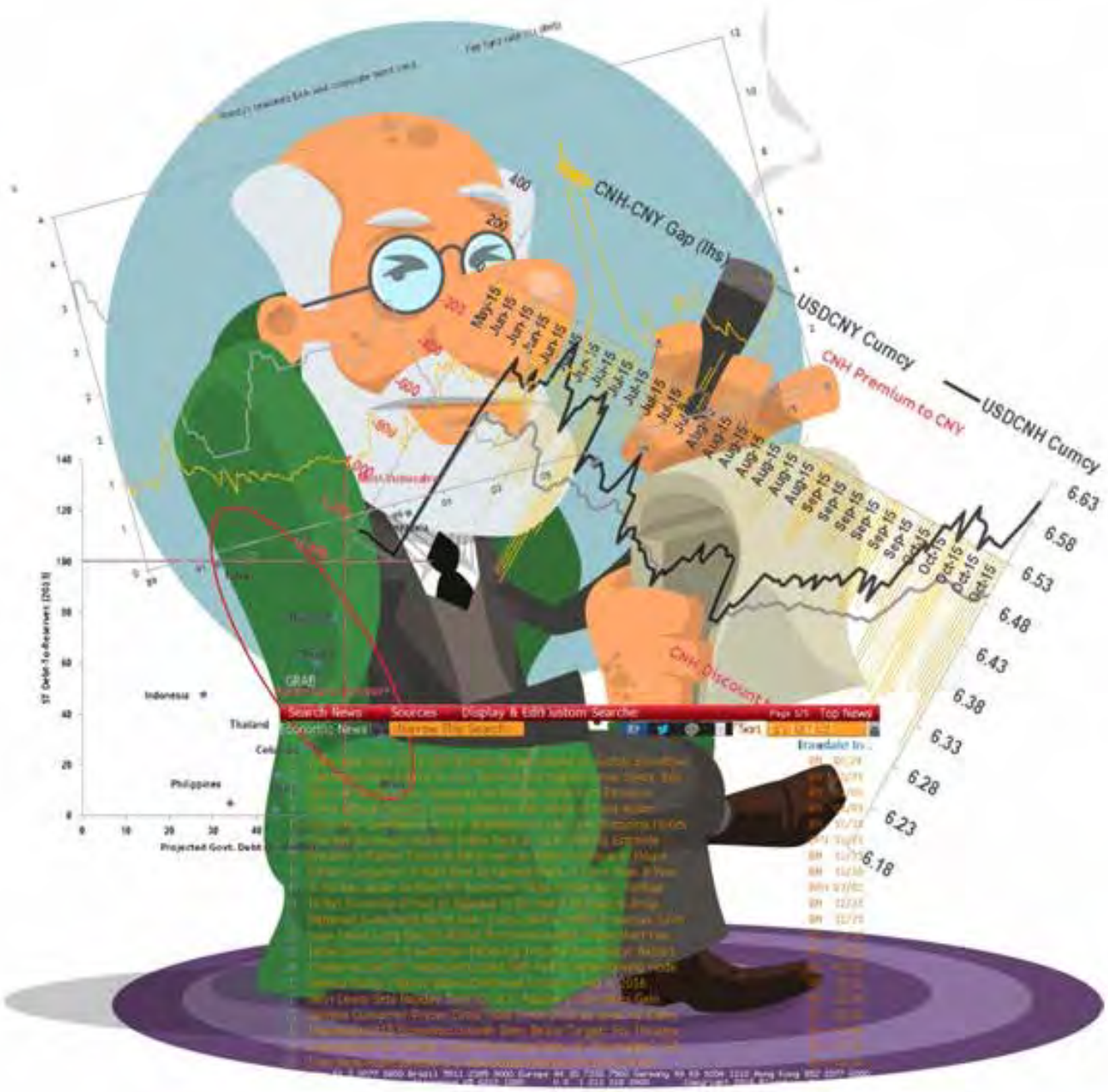
Upside

§ Progress on increasing the amount of foreign ownership allowed in listed stocks in general and VNM in particular
§ Potential positive M&A announcement to boost VNM's future sales
§ Stronger penetration in healthy non-dairy drinks such as green tea, juice etc.

Downside

§ Price shock, aka sharp recovery of global powder milk, which VNM may not be able to pass on to end consumers completely.
§ Strong management of chair lady, Ms Mai Kieu Lien, leads to concerns regarding her successor.
§ Any event or issue that tarnishes brand/product image may cost the company a fortune.

The Macro View



ECONOMICS

Regional

2016 Outlook & Lookouts

Data-Dependent, Event-Driven … Still

World's real GDP growth of 3.2% in 2016 is at the low end of the 3.0%-5.7% range in 2002-2014 (ex-2009 recession year), reflecting growth divergences among economies. Policy-wise, US is "normalizing" its interest rate policy; ECB and BoJ are continuing their zero-bound/negative interest rates and QEs; regional economies are making use of available policy spaces to stimulate growth via monetary and fiscal stimulus. On the currency front, the USD is expected to remain firm mainly at the expense of EUR, AUD and Asia ex-Japan currencies.

Consequently, global outlook and lookouts are still data-dependent and event-driven, feeding into continued market volatility and macro uncertainty. There are a few things to note: (i) continued "guessing game" on the post-liftoff timing and quantum of US interest rate hikes, (ii) China's economic and currency outlook and its impact on the region given their exposure to China (mainly via trade) and their currencies' sensitivity to CNY, (iii) capital flow overhang in EMs, which have yet to see a major reversal to the influx since 2009.

For Malaysia, the key influences to its outlook and lookout are GST, commodity prices and MYR. We expect real GDP growth to ease to 4.5% on slower domestic demand due to moderating consumer spending, private investment. Public investment will however rebound on higher development spending and GLCs-GLIFs' capex into major infrastructure and investment projects. Growth in exports and imports will be better. But, inflation will pick up to 3.0%-3.5%. Slower growth, rising inflation, soft MYR render the OPR "immobile" at 3.25%. Our FX Research Team expects USDMYR to move within the 3.95-4.15 range and average 4.11 in 2016 amid dissipation of internal political risk which is countered by the above external issues and the fluid crude oil price situation.

We trim our end-2016 KLCI target to 1,800 (from 1,830), as we continue to tag the KLCI to, at about its mean valuation. Bottom-up, we derive 1,790. We forecast 7.5% KLCI core earnings growth in 2016, 7.7% in 2017. Earnings risk however remains on the downside; pressure points are at the banks, consumer and plantation sectors. A market re-rating should come when corporate earnings show a firmer uptrend, commodity prices recover on a sustained manner.

We continue to advocate a defensive core equity portfolio in 2016 with the thematic and value stocks to provide the outperformance. Key thematics are substantial construction awards, continued weakness in the MYR, Sarawak's state election, a strong El Nino, Shariah investing. For longer term, investors should strengthen their holdings of stocks which will benefit from the TPPA, and China's One Belt, One Road.

Analysts

Suhaimi B Ilias
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Wong Chew Hann (Equity Strategy)
(+603) 2297 8686
wchewh@maybank-ib.com

Winson Phoon (Fixed Income)
(+603) 2274 7176
winsonphoon@maybank-ib.com

Lee Cheng Hooi (Regional Chartist)
(+603) 2297 8694
chenghooi.lee@maybank-ib.com

Malaysia Research & Economics Team
(please refer to page 136 for the full list)

www.maybank-keresearch.com

ECONOMICS: Divergence, data-dependent, event-driven … still

Globally, persistent divergences in growth, policy and currencies. World's real GDP growth of 3.2% in 2016 (2015E: 3.1%) is at the low end of the 3.0%-5.7% range in 2002-2014 (excluding the recession year of 2009) as it drifted lower post-GFC, reflecting divergences among economies i.e. steady growth in US and India; slow recoveries in Eurozone and Japan; slowdown in China; recessions in Brazil and Russia; mixed trends across Asian NIEs and ASEAN. Policy-wise, US is "normalizing" of its interest rate policy; ECB and BoJ are continuing with their zero-bound/negative interest rate policies and QEs; while regional economies are making use of available policy spaces to stimulate growth via monetary and fiscal stimulus. On the currency front, USD is expected to remain firm mainly at the expense of EUR, AUD and Asia ex-Japan currencies.

Consequently, outlook and lookouts are still data-dependent and event-driven, feeding into continued market volatility and macro uncertainty. There are few things to take note. First is the continued "guessing game" on the post-liftoff timing and quantum of US interest rate hikes, which should remain data-dependent and event-driven amid the divergence between Fed's guidance and market expectations, as well as the divergence between the key variables in Fed's dual mandate of sustainable employment and price stability i.e. job market and inflation. Second, China's economic and currency outlook remains a major lookout, especially for the regional economies and currencies given the exposure to China (mainly via trade) and their currencies' sensitivity to CNY. Third, is the capital flow overhang in the emerging markets, which have yet to see a major reversal to the influx since 2009 given that the more sustained monthly net portfolio outflows only began in July 2015, and 2H 2015 would have marked the first half-yearly net outflows since 2H 2008.

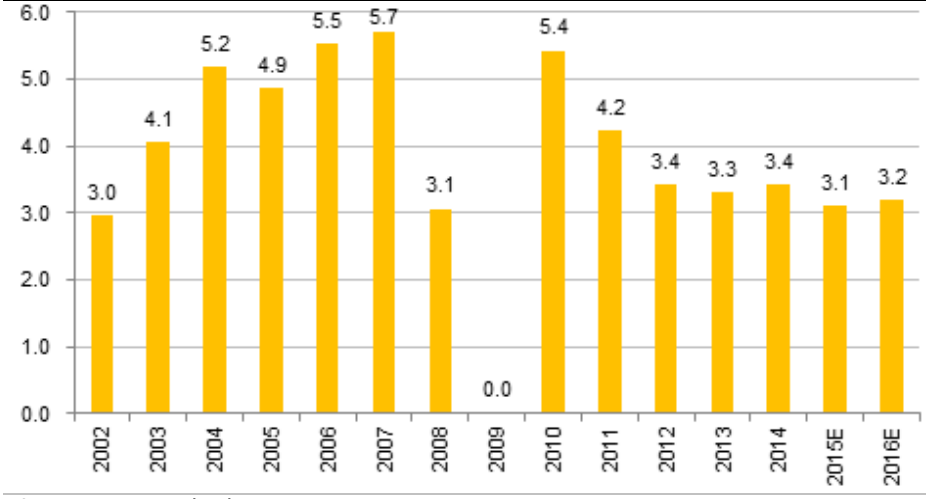
GST, commodity prices and MYR are the key influences on Malaysia's outlook and lookout. Real GDP growth is expected to ease to 4.5% in 2016 (2015E: 4.9%) on slower domestic demand due to moderating consumer spending and private investment amid the aforementioned multiple headwinds. Government consumption is curbed by continued budget consolidation. Public investment will rebound in 2016 after the declines in 2014-2015 on higher Federal Government's development spending and Government-linked companies' and funds' capex into major infrastructure and investment projects. Growth in exports and imports will be better, reflecting the double-sided MYR impact on export competitiveness and import bills, and the relatively flattish commodity prices after the plunge in 2015. Inflation will pick up to 3.0%-3.5% (2015E: 2.2%) despite the tapering GST effect as inflationary pressures will be sustained by further adjustments in subsidies and controlled prices, impact of weak MYR on imported costs, and the 11%-15% increase in Minimum Wages effective 1 July 2016. Slower growth, rising inflation and soft MYR render OPR "immobile" at 3.25%. Our FX Research Team expects USDMYR to move within 3.95-4.15 range and average 4.11 in 2016 (2015E: 3.50-4.45 range; average 3.91) amid dissipation of internal political risk which is countered by the above external issues and the fluid crude oil price situation.

Continued Divergence

Growth Divergence

2016 global growth will remain at the low end of the pre-GFC and post-GFC range. We expect global real GDP growth to marginally improve to 3.2% in 2016 after slowing to 3.1% in 2015 (2014: 3.4%). This is at the low end of the 3.0%-5.7% range recorded in 2002-2014 (excluding the recession year of 2009), and at the same time, global growth has been drifting lower post-GFC (Fig 1).

Fig 1: Annual Global GDP Growth (% chg)



Sources: IMF, Maybank KE

Reflecting divergence in growth among the major and regional economies (Fig 2). Major advanced economies are expected to maintain their growth momentum (2016E: 1.9%; 2015E: 1.9%), underpinned by steady US growth (2016E: 2.3%; 2015E: 2.4%) and sustained – albeit slow – recoveries in Eurozone (2016E: 1.7%; 2015E: 1.5%) and Japan (2016E: 1.0%; 2015E: 0.6%).

In contrast, the large emerging economies are "all over the place" given the slowdown in China (2016E: 6.6%; 2015E: 6.9%), the recessions in Brazil (2016E: -1.1%; 2015E: -3.0%) and Russia (2016E: -0.5%; 2015E: -3.9%), and the expansion in India (2016E: 7.5%; 2015E: 7.4%).

Meanwhile, growth are expected to be firmer in the Asian NIEs (2016E: 2.4%; 2015E: 2.1%) and the ASEAN-5 (2016E: 5.2%; 2015E: 4.7%). However, they mask the uneven growth across the regions. At one end, we have pickups in South Korea (2016E: 2.8%; 2015E: 2.5%), Indonesia (2016E: 5.0%; 2015E: 4.7%), Thailand (2016E: 4.5%; 2015E: 3.0%) and Philippines (2016E: 7.0%; 2015E: 6.0%). At the other end are slowing Malaysia (2016E: 4.5%; 2015E: 4.7%) and sub-2% Taiwan (2016E: 1.8%; 2015E: 1.3%). In between are the relatively stable Singapore (2016E: 2.0%; 2015E: 2.0%), Hong Kong (2016E: 2.3%; 2015E: 2.4%) and Vietnam (2016E: 6.5%; 2015E: 6.4%).

Fig 2: Global Real GDP

% chg	% Share of World GDP	2014	Jan-Sep 2015	2015E	2016E
World		**3.4**	**3.2**	**3.1**	**3.2**
Major Advanced Economies	**60.9%**	**1.8**	**1.8**	**1.9**	**1.9**
US	22.4%	2.4	2.6	2.4	2.3
Eurozone	17.3%	0.9	1.5	1.5	1.7
Japan	6.0%	(0.1)	0.4	0.6	1.0
UK	3.8%	3.0	2.3	2.4	2.2
BRIC	**21.5%**	**5.5**	**4.3**	**4.3**	**4.8**
Brazil	3.0%	0.1	(3.2)	(3.0)	(1.1)
Russia	2.4%	0.6	(3.6)	(3.9)	(0.5)
India	2.7%	7.3	7.3	7.4	7.5
China	13.4%	7.3	6.9	6.9	6.6
Asian NIEs	**3.3%**	**3.2**	**2.2**	**2.1**	**2.4**
South Korea	1.8%	3.3	2.5	2.5	2.8
Taiwan	0.7%	3.7	1.3	1.3	1.8
Hong Kong	0.4%	2.3	2.5	2.3	2.4
Singapore	0.4%	2.9	2.2	2.0	2.0
ASEAN-6 (incl. Singapore)	**3.1%**	**4.5**	**4.5**	**4.6**	**4.9**
ASEAN-5	**2.7%**	**4.6**	**4.7**	**4.8**	**5.2**
Indonesia	1.1%	5.0	4.7	4.7	5.0
Thailand	0.5%	0.7	2.9	3.0	4.5
Malaysia	0.4%	6.0	5.1	4.9	4.5
Philippines	0.4%	6.1	5.6	6.0	7.0
Vietnam	0.2%	6.0	6.7 *	6.7	6.5

** Full-Year*
Sources: IMF, Bloomberg, CEIC, Maybank-KE

Policy Divergence

The Fed awakens… Finally, we have the lift off in the fed funds rate (FFR) which was hiked by 25bps to 0.25%-0.50% at the final FOMC meeting of 2015. This is in line with our long-held view (since Oct 2014) that the normalization in US interest rate will begin before 2015 is over. The fed funds rate (FFR) has been kept at the record low of 0%-0.25% since Dec 2008. The Fed last hiked its benchmark interest rate between June 2004 and June 2006. Furthermore, the majority of FOMC members have actually indicated 2015 as the appropriate time for monetary policy firming since way back in Sep 2012.

Fig 3: Probability of FFR Hikes in 2016, as at 30 Dec 2015

Dates of FOMC Meetings	To 0.50%-0.75%	To 0.75%-1.00%	To 1.00%-1.25%	To 1.25%-1.50%	To 1.50%-1.75%
26-27 Jan 2016	0%	0%	0%	0%	0%
15-16 Mar 2016	52%	0%	0%	0%	0%
26-27 Apr 2016	51%	8%	0%	0%	0%
14-15 June 2016	46%	27%	4%	0%	0%
26-27 July 2016	41%	31%	8%	1%	0%
20-21 Sep 2016	33%	35%	17%	4%	0%
1-2 Nov 2016	28%	34%	21%	7%	1%
13-14 Dec 2016	20%	32%	26%	12%	3%

Source: Bloomberg

In contrast, on 3 Dec 2015, the European Central Bank (ECB) announced a series of measures that effectively expand and extend its quantitative easing (QE). The measures were 10bps cut in its deposit rate to -0.30%; extension of the bond purchase programme to at least until Mar 2017 (vs the original timeline of at least until Sep 2016); expansion of the assets eligible for its purchases under QE to include Euro-denominated marketable instruments issued by Eurozone's regional and local governments; and reinvestments of the principal payments on the securities purchased under QE upon maturity. The moves are to combat deflationary pressures given the latest inflation rate of 0.1% YoY in Nov 2015 and flat 2015 YTD vs ECB's 2% target. ECB expects inflation rate to stay sub-2% in the following two years (2016E: 1.0%; 2017E: 1.6%).

Fig 4: Major Central Banks' Balance Sheets (USDb)

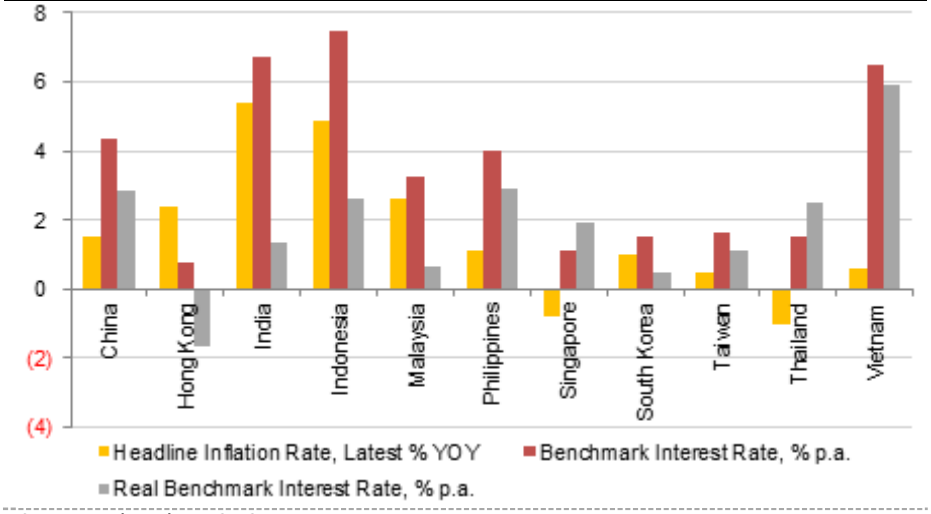


Source: Bloomberg

Most regional economies are making use of available policy spaces to stimulate growth. Regional economies like China, India, South Korea, Taiwan and Thailand have cut their interest rates in 2015, making use of the low or slowing inflation and deflation – hence the high positive real interest rates - to ease their monetary policies. Philippines and Vietnam have rooms to cut interest rates in view of them having the highest real interest rates but have not done so amid growth outperformance relative to regional peers. Malaysia and Indonesia are somewhat constrained by the risk of interest rate cuts adversely affecting their currencies, which are among the worst-performing globally, plus the flow through impact on inflation.

Via interest rate cuts and continued accommodative monetary policy. We expect at least one more interest rate cuts in China and India within 1H 2016, while interest rates are expected to remain stable and accommodative elsewhere, including in Thailand where our Maybank Kim Eng's Economist there sees a possible 25bps hike in 4Q 2016 which will partially reverse the 50bps cuts in 2015. Meanwhile, although Maybank Indonesia's Economics Research does not expect any change in the policy rate, there is risk of political pressures on Bank Indonesia to cut interest rate to boost growth as monthly inflation rate decelerates.

Fig 5: Asia – Inflation Rates, Benchmark Interest Rates, Real Benchmark Interest Rates



Sources: Bloomberg CEIC

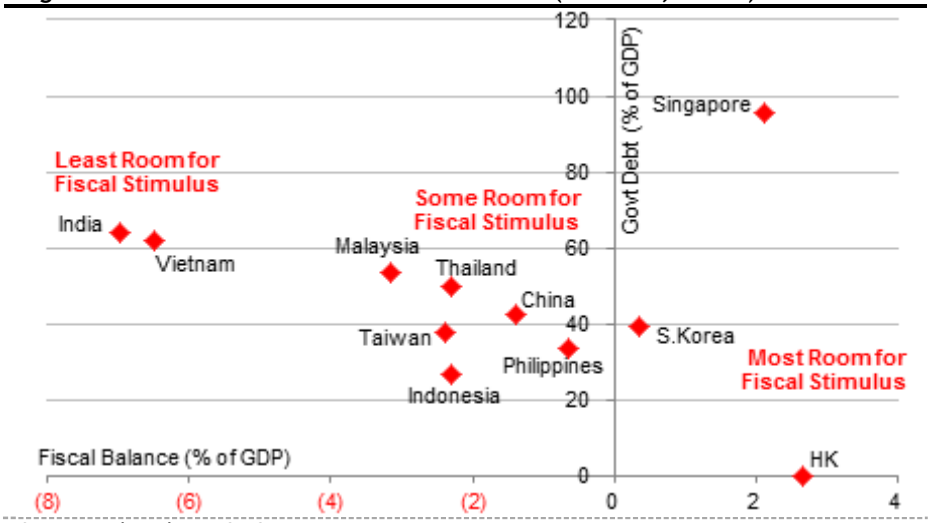
Fig 6: Benchmark Interest Rates (% p.a.)

Country	Benchmark Interest Rate	30 Dec 2015	end 1Q16	end 2Q16	end 3Q16	end 4Q16	Chg in 2015	Chg in 2016
Major								
US	Fed Funds Target Rate	0.25-0.50	0.25-0.50	0.50-0.75	0.75-1.00	0.75-1.25	0.25	0.50-0.75
Eurozone	ECB Main Refinancing Rate	0.05	0.05	0.05	0.05	0.05	0.00	0.00
Japan	BOJ Target Rate	0.10	0.10	0.10	0.10	0.10	0.00	0.00
UK	BOE Bank Rate	0.50	0.50	0.75	0.75	1.00	0.00	0.50
Asia Pacific								
Australia	Cash Rate Target	2.00	2.00	1.75	1.75	1.75	(0.50)	(0.25)
China	1-Year Lending Rate	4.35	4.10-4.35	4.10-4.35	4.10-4.35	4.10-4.35	(1.25)-(1.50)	0.00-(0.25)
India	Repo Rate	6.75	6.75	6.50-6.75	6.50-6.75	6.50-6.75	(1.25)	0.00-(0.25)
Indonesia	Reference Rate	7.50	7.50	7.50	7.50	7.50	(0.25)	0.00
Malaysia	Overnight Policy Rate	3.25	3.25	3.25	3.25	3.25	0.00	0.00
Philippines	Overnight Rate	4.00	4.00	4.00	4.00	4.00	0.00	0.00
S. Korea	Target Overnight Rate	1.50	1.50	1.50	1.50	1.50	(0.50)	0.00
HK	3-Mth HIBOR	0.39	0.51	0.48	0.53	0.57	0.01	0.33
Taiwan	Discount Rate	1.625	1.625	1.625	1.625	1.500	(0.25)	(0.125)
Singapore	3-Mth SIBOR	1.14	1.65	1.89	2.15	2.44	0.68	1.30
Thailand	Repurchase Rate	1.50	1.50	1.50	1.50	1.75	(0.50)	0.25
Vietnam	Refinancing Rate	6.50	6.00-6.50	6.00-6.50	6.00-6.50	6.00-6.50	0.00	0.00-(0.50)

Sources: Bloomberg, Consensus Survey, Maybank KE

Fiscal stimulus are also being deployed, mainly in terms of infrastructure spending. On the basis of budget deficits and Government debts to GDP ratios, majority of Asian economies have some room to engage in fiscal stimulus, with the notable exceptions of India and Vietnam (Fig 7). China is ramping up its fiscal spending. ASEAN economies – namely Malaysia, Indonesia, Thailand and Philippines – are boosting Government expenditure, especially the infrastructure-related spending (Figs 8-13).

Fig 7: Asia – Fiscal Balance & Government Debt (% of GDP, 2016E)



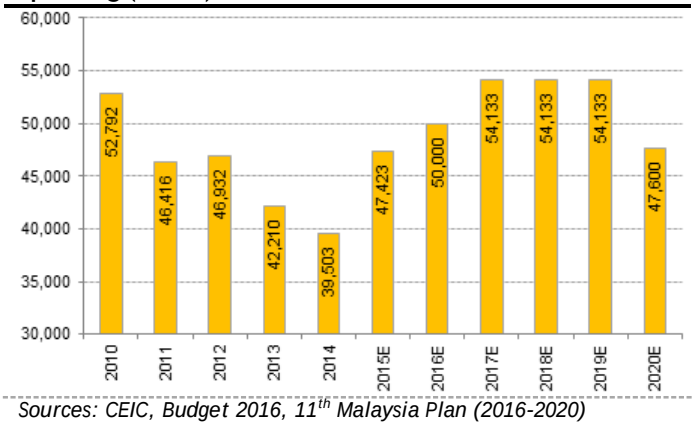
Sources: Bloomberg, CEIC, IMF

Fig 8: China – Fiscal Spending (% YoY)



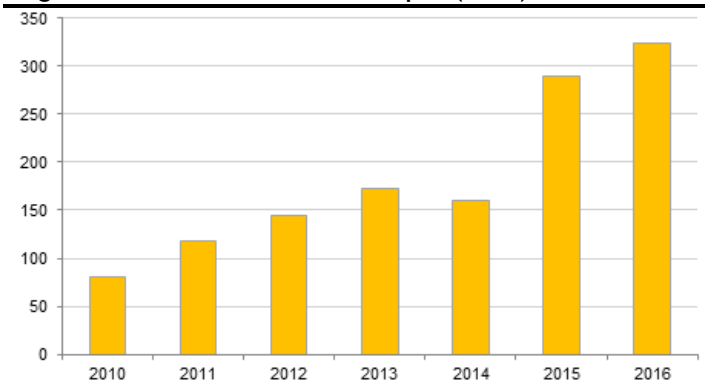
Source: Bloomberg

Fig 9: Malaysia: Federal Government Development Spending (MYRm)



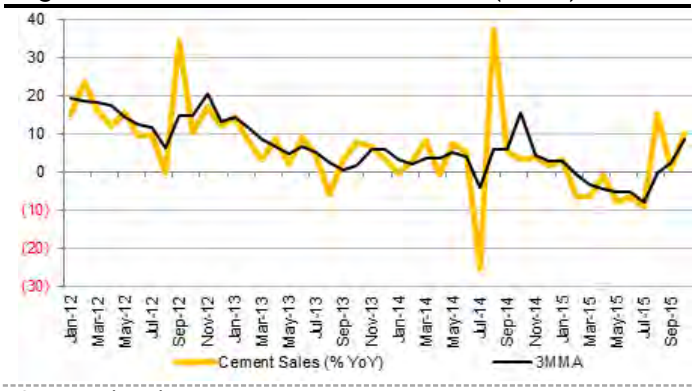
Sources: CEIC, Budget 2016, 11th Malaysia Plan (2016-2020)

Fig 10: Indonesia – Government Capex (IDRtr)



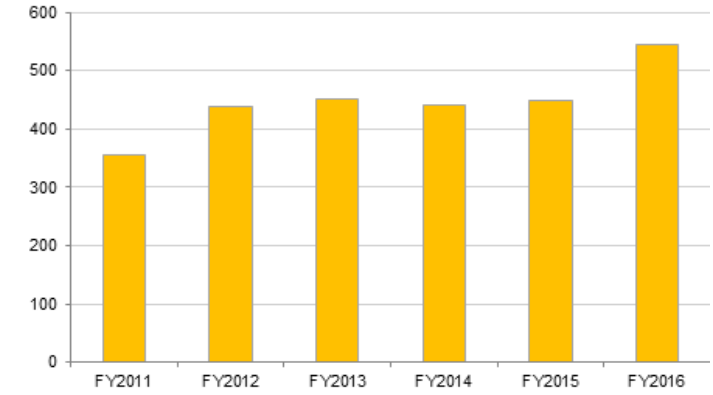
Sources: Ministry of Finance, Maybank Indonesia

Fig 11: Indonesia: Domestic Cement Sales (% YoY)



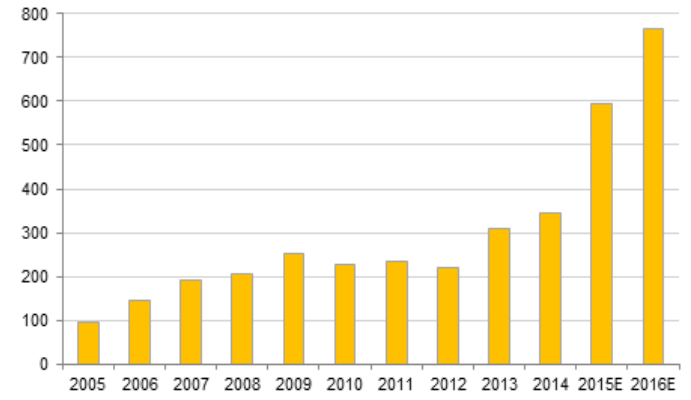
Source: Bloomberg

Fig 12: Thailand – Infrastructure Capex (THBb)



Source: Fiscal Policy Office

Fig 13: Philippines – Public Infrastructure Expenditure (PHPb)



Source: Department of Budget & Management

Currency Divergence

USD vs the Rest. The key impact of the divergence in growth and policies, especially on the monetary policy front, is the continued firm US Dollar in 2016 given the normalization in US interest rate policy and the accommodative monetary policy stance elsewhere. While the FX markets are expected to remain volatile during the course of 2016, our FX Research Team sees the USD Index on average gaining mainly at the expense of EUR, AUD and Asia ex-Japan currencies (Fig 14).

Fig 14: Currencies vs USD

	30 Dec 2015	End 1Q 2016	End 2Q 2016	End 3Q 2016	End 4Q-2016	Average 2015	Average 2016
DXY (Dollar Index)	98.2	101.7	101.6	99.8	98.0	**96.3**	**99.9**
Japanese Yen	120	122	124	122	120	**121**	**122**
Euro	1.09	1.04	1.04	1.06	1.08	**1.11**	**1.06**
Pounds Sterling	1.48	1.56	1.58	1.60	1.62	**1.53**	**1.57**
Australian Dollar	0.73	0.74	0.70	0.68	0.70	**0.75**	**0.71**
Renminbi	6.49	6.55	6.60	6.80	6.70	**6.28**	**6.60**
Indian Rupee	66.44	66.50	67.50	68.00	67.00	**64.14**	**67.09**
HK Dollar	7.75	7.80	7.80	7.80	7.80	**7.75**	**7.79**
Taiwan Dollar	32.94	33.30	33.40	33.40	33.50	**31.77**	**33.31**
Korean Won	1,173	1,140	1,160	1,180	1,200	**1,131**	**1,171**
Singapore Dollar	1.41	1.41	1.42	1.44	1.47	**1.37**	**1.43**
Malaysian Ringgit	4.29	3.95	4.10	4.15	4.15	**3.90**	**4.13**
Indonesian Rupiah	13.788	14,000	14,200	14,400	14,500	**13,393**	**14,178**
Thai Baht	36.01	35.50	36.00	36.50	36.50	**34.25**	**36.10**
Philippines Peso	46.97	48.00	48.00	47.80	47.80	**45.53**	**47.71**
Vietnamese Dong	22,500	22,750	23,000	23,210	23,450	**21,919**	**22,982**

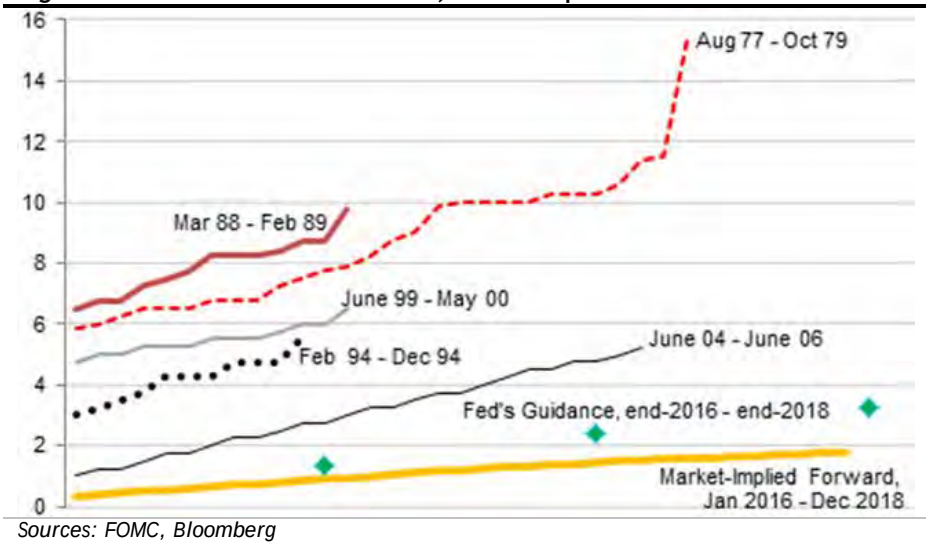
Source: Maybank FX Research

Outlook & Lookout remain data-dependent & event-driven

Growth, policy and currency divergences contributing to persistent market and currency volatilities that could affect growth prospect. There are several key factors behind this i.e. the continuing guessing game on US monetary policy; China's economic and currency policy outlook; and emerging markets' capital flows overhangs.

Continued guessing game on post-liftoff US interest rate. Fed is guiding for an average of 100bps p.a. hikes in 2016-2018 but market is more sanguine about the pace of US interest rate increases, pricing in an average 50bps p.a. rise in 2016-2017 (Fig 15). And as per Fig 3 earlier, markets are expecting the hikes in 2016 to be most likely in Mar or Apr FOMC meetings, to be followed by either Sep or Nov FOMC meetings. We are looking at 50-75 bps hikes in FFR in 2016.

Fig 15: US FFR Hikes: Fed's Guidance, Market Expectations & Historicals



Sources: FOMC, Bloomberg

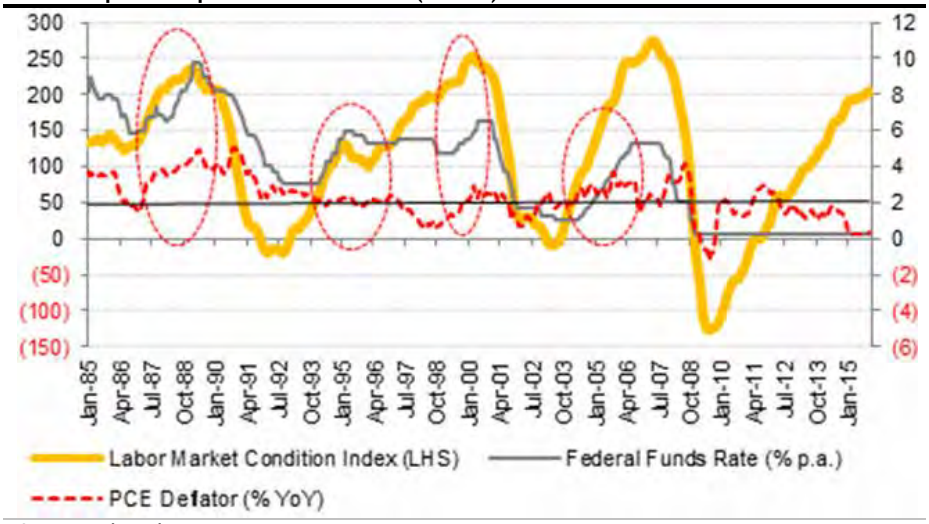
Divergence between Fed's guidance and market expectations on FFR. On both account, this round of FFR hikes is set to be the slowest compared with historical average of +238bps p.a. (based on the last five rounds of FFR hikes). But the divergence between Fed's guidance and market expectation on the way forward for FFR after the anticipated liftoff in Dec 2015 underscore the transmission gap between Fed's communication and market's interpretation i.e. either Fed is "too aggressive" or "over-estimating" or markets are "too conservative" or "under-estimating" on FFR future path.

FFR hikes going forward remain data-dependent. This is amplified by the fact that the US interest rate liftoff is based on the job market data only, as per the trends the Fed's Labour Market Condition Index that are in line with their trends during historical rate hikes. However, the other key economic indicator that matters to Fed's monetary policy dual mandates of stable employment and prices i.e. inflation is not in sync with the levels and trends during previous FFR increases. It diverged from – and remain far below – the 2% target i.e. Fed's preferred measure of inflation, private consumption expenditure (PCE) deflator at 0.4% YoY as of Nov 2015.

In particular, further FFR hikes after the job data-driven liftoff require justification on the inflation front (Fig 16). This may be "challenging" within the context of the "low-for-longer" crude oil price environment given recent development that saw OPEC effectively suspending its 30m bpd output quota at its 4 Dec 2015 meeting, at least until the next scheduled meeting in June 2016. This indicates that the Saudi-led group of major crude oil producers will continue

to pump out crude oil over the suspended quota, especially with the expected additional output from Iran as the prospect of lifting the nuclear-related trade sanctions on the country brightened after the International Atomic Energy Agency (IAEA) closed its investigation into Iran's past nuclear activities. To note, Fed expects – and is confident - that inflation rate will rise towards 2% in the medium term as *"the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further"*. Fed's median inflation rate forecasts are such that the PCE deflator is expected to rise from 0.4% this year to 1.6% next year, 1.9% in 2017 and reach 2% in 2018.

Fig 16: US – FFR (% p.a.), Labour Market Condition Index & Private Consumption Expenditure Deflator (% YoY)



Source: Bloomberg

Fed's monetary policy decision can be event-driven as well. Recall that the delayed liftoff also demonstrated the influence of events on Fed's decisions, notably global financial and currency market volatilities such as the Greece debt crisis, the emerging market turmoil and the China factor during the course of 2015. These events have prompted Fed to include "international developments" as one of the factors in its risk assessment and interest rate decision as per the FOMC statements since Jan 2015. In the latest FOMC statement, the Fed indicated that *"readings on financial and international developments"* are still part of the risk assessment and decision making process.

Further source of market and currency volatility is the "inconclusive" market impact of past FFR hikes. Our study on the market impact during past episodes of FFR hikes (Fig 17) showed mixed impact on USD while the impact on other asset classes like Asian currencies, global equity, global bond and commodity prices were mostly positive than negative. However, the downsides to the asset markets and currencies from then may be triggered by the shift in US monetary policy if it conclusively reverses the "super-cycles" in USD, commodity prices and global bond by adding to other factors like risk-aversion in emerging markets and China slowdown that have caused USD index, commodity price index and global bond index to break their 10-30 year trends (Figs 18-20).

Fig 17: Impact on Currencies, Equities, Bonds & Commodities During US Interest Rate Hikes

Periods of FFR Hikes	US Dollar Index	Asian Currency Index	Emerging Markets Currency Index	MSCI Global Equity Index	JP Morgan Global Bond Index	Global Commodity Price Index
Mar 1988 - Feb 1989	4.9	-	-	15.1	2.4	11.8
Feb 1994 - Feb 1995	(10.1)	0.7	(3.2)	(4.7)	5.0	14.1
June 1999 - May 2000	6.3	0.5	(7.4)	12.6	(1.7)	4.3
June 2004 - June 2006	(4.2)	6.4	8.6	28.9	8.6	12.8

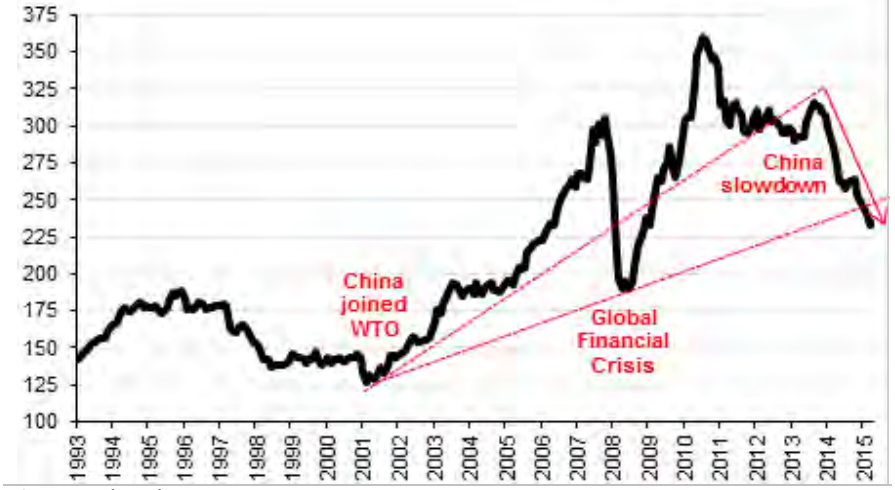
Source: Bloomberg

Fig 18: USD Index



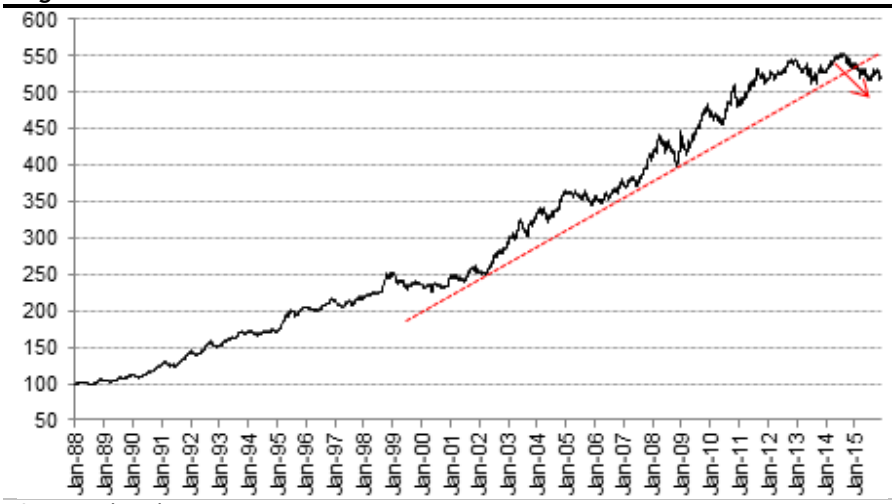
Source: Bloomberg

Fig 19: Global Commodity Price Index



Source: Bloomberg

Fig 20: Global Bond Index

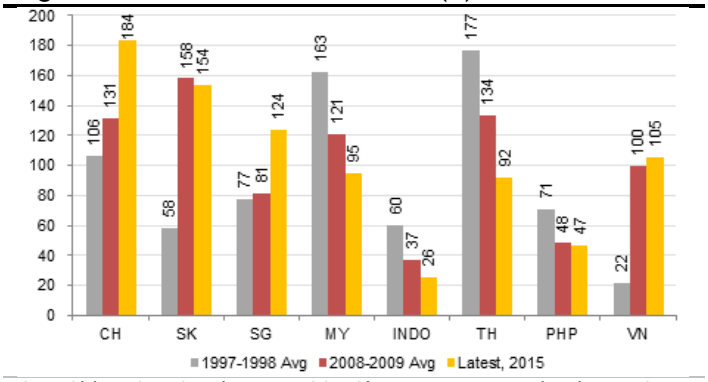


Source: Bloomberg

China's economic and currency outlooks are the other major lookout. China's economy grew by 6.9% YoY in 3Q 2015, the first sub-7% quarterly growth since 1Q 2009. The Government has accepted the reality of sub-7% growth as the "new normal" given the target annual real GDP growth of 6.5% for the 13th Five Year Plan period of 2016-2020.

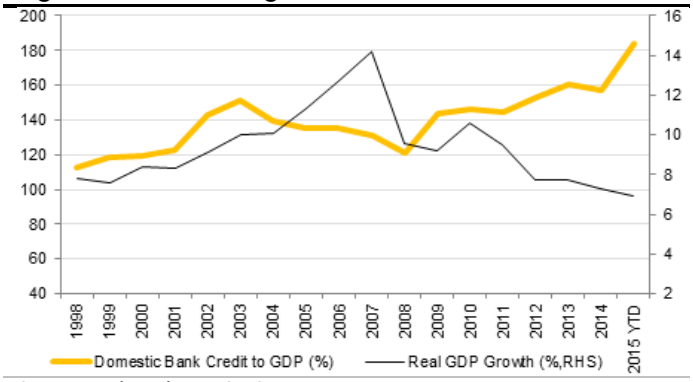
Beginning of sub-7% growth. We expect China's economy to grow by 6.6% in 2016 (2015E: 6.9%). The downside to China's growth outlook is the attendant risk of leveraging. China's current bank credit to GDP ratio already surpassed the highs for Thailand and Malaysia during the Asian Financial Crisis 1997-1998 (Fig 21). At the same time, we are seeing diminishing returns from leveraging on growth given the observed divergence between bank credit to GDP ratio and real GDP growth since 2011 (Fig 22). This in turn raised questions on the efficiency and effectiveness of resource allocation in the economy amid the policy stimulus to boost credit and growth, especially with the rising NPLs (Figs 23-24) which raise the financial imbalance and stability risks.

Fig 21: East Asia: Bank Credit to GDP (%)



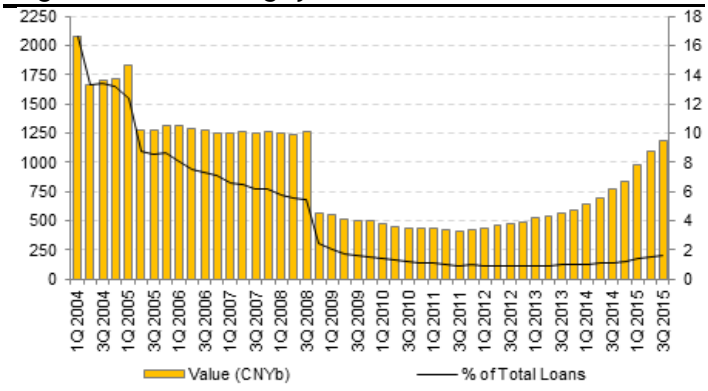
CH – China, SK – South Korea, SG – Singapore, MY – Malaysia, INDO – Indonesia, TH – Thailand, PHP – Philippines, VN - Vietnam
Source: CEIC

Fig 22: China – Leverage Ratio vs GDP Growth



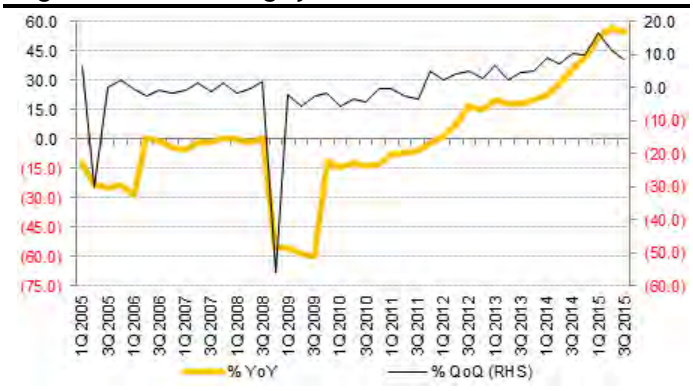
Sources: Bloomberg, CEIC

Fig 23: China – Banking System's NPLs



Source: Bloomberg

Fig 24: China – Banking System's NPLs



Source: Bloomberg

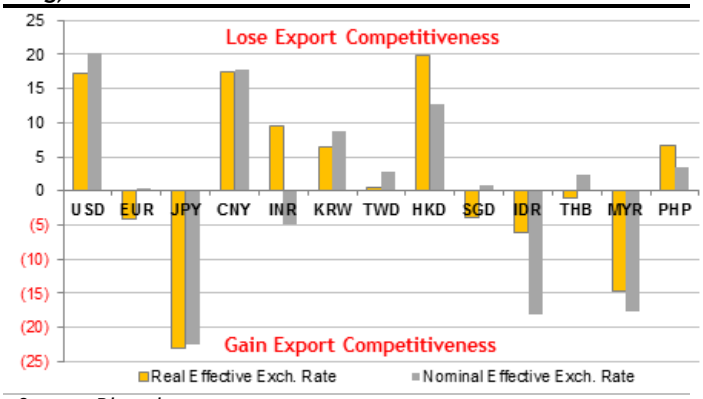
Risk of weaker CNY adding to currency market headwinds. China's aggressive monetary policy easing amid falling exports (Fig 25) in the face of appreciations in CNY's trade-weighted effective exchange rates (Fig 26) and capital outflows (Fig 27) have resulted in renewed pressures on both onshore and offshore USDCNY in late-2015 after the surprised devaluation in early-Aug 2015 (Fig 28) . Weakening CNY can add to the headwinds facing regional currencies from the US monetary policy tightening and strengthening USD. Our FX Research team expects CNY to weaken vs USD to 6.70 by end-2016 from 6.44 as at 10 Dec 2015, and their analysis is that regional currencies like MYR, KRW, IDR, TWD and SGD together with AUD are most sensitive to changes in CNY (Fig 30).

Fig 25: China – Export & Import (% YoY)



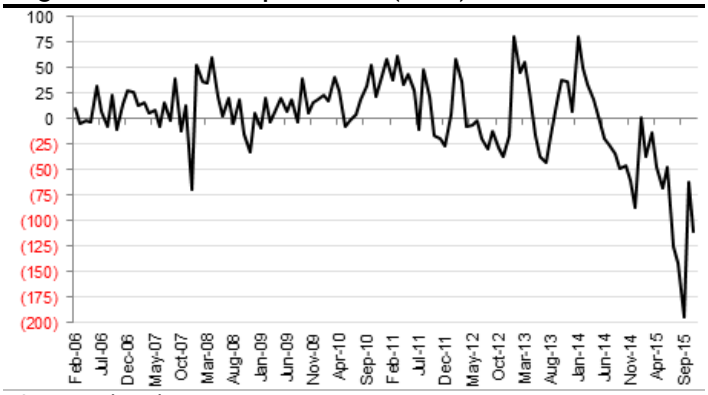
Source: Bloomberg

Fig 26: CNY Real & Nominal Effective Exchange Rates (% chg)



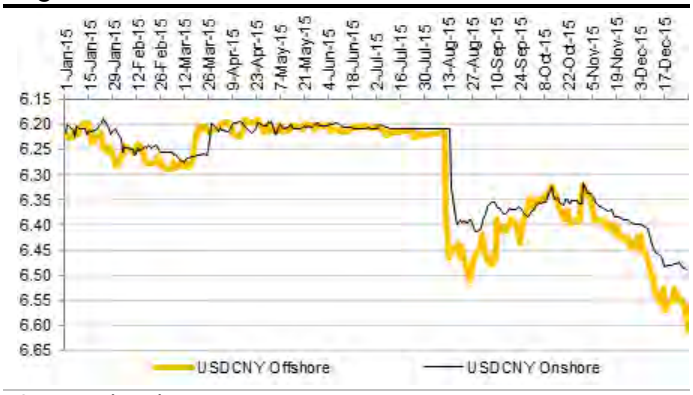
Source: Bloomberg

Fig 27: China – Net Capital Flows (USDb)



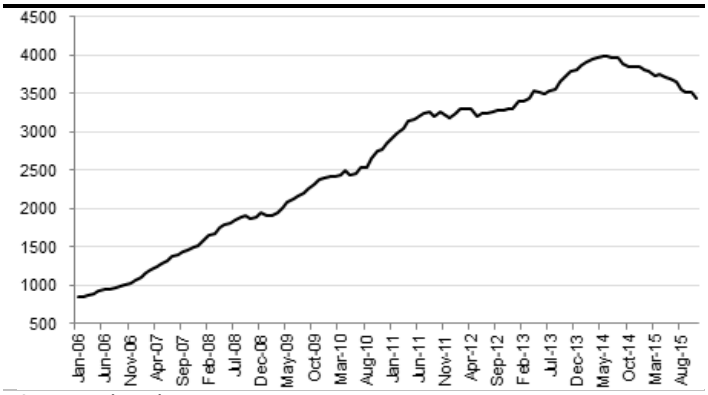
Source: Bloomberg

Fig 28: Onshore & Offshore USDCNY



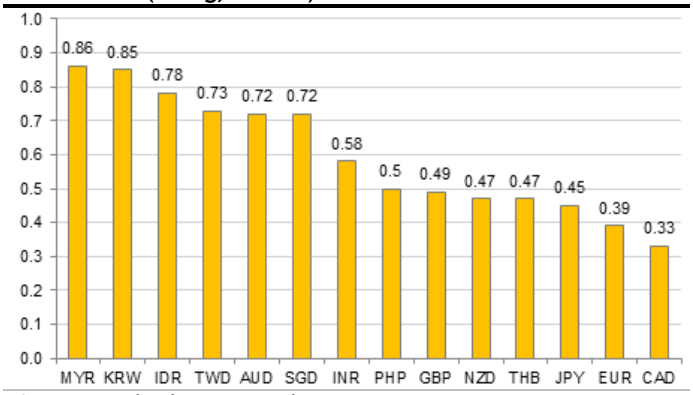
Source: Bloomberg

Fig 29: China – External Reserves (USDb)



Source: Bloomberg

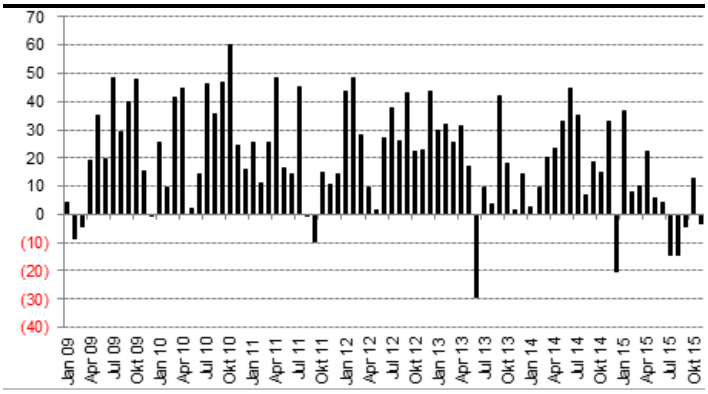
Fig 30: Impact of 1% chg in USDCNY on Major & Regional Currencies (% chg, vs USD)



Source: Maybank FX Research

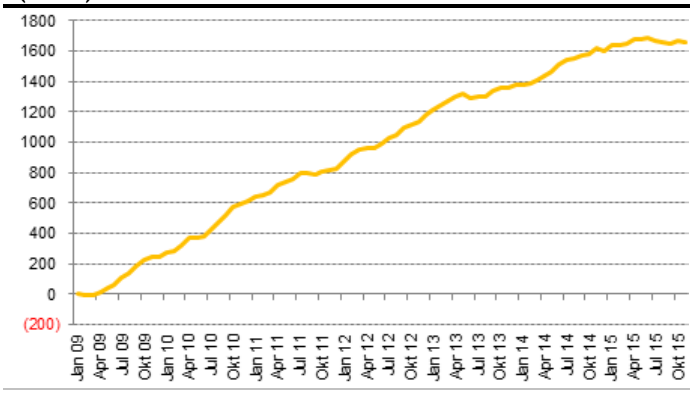
Emerging markets' capital flows "overhang". Emerging markets have experienced a more sustained monthly net portfolio (equity & debt) outflows only since July 2015 up to the latest data as of Nov 2015 (Fig 31), setting 2H 2015 to be the first half-yearly net outflows since 2H 2008. Consequently, on cumulative basis, the emerging markets as a whole have yet to see a major reversal to the earlier influx since 2009 (Fig 32). Notably, the data indicated that only Malaysia has seen significant reversal in the cumulative net portfolio flows (Figs 33) as opposed to the other large and regional emerging markets (Figs 34-36). Such "overhang" represents a risk to the emerging markets in terms of liquidity and funding costs, in turn feeding onto growth, market and currency outlooks, in the event of big shift in risk appetite on the emerging markets causing disorderly market reactions and movements.

Fig 31: Emerging Markets – Net Portfolio Flows (USDb)



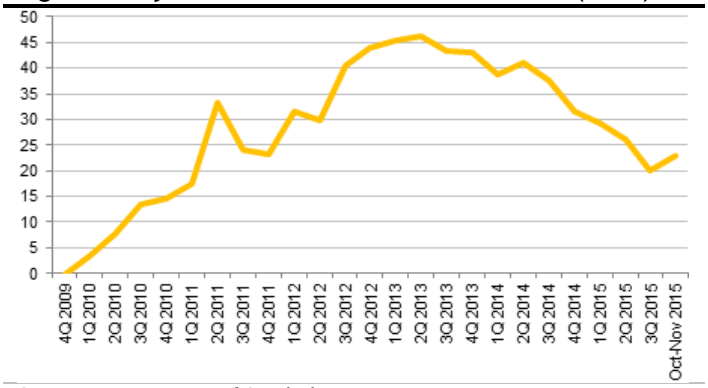
Source: Institute of International Finance (IIF)

Fig 32: Emerging Markets – Cumulative Net Portfolio Flows (USDb)



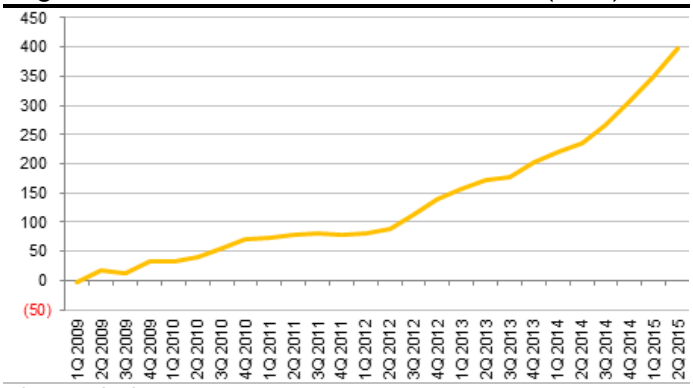
Source: Institute of International Finance (IIF)

Fig 33: Malaysia - Cumulative Net Portfolio Flows (USDb)



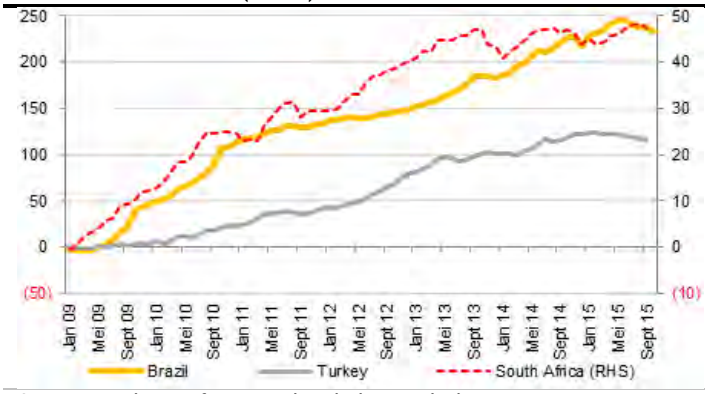
Source: Department of Statistics

Fig 34: China - Cumulative Net Portfolio Flows (USDb)



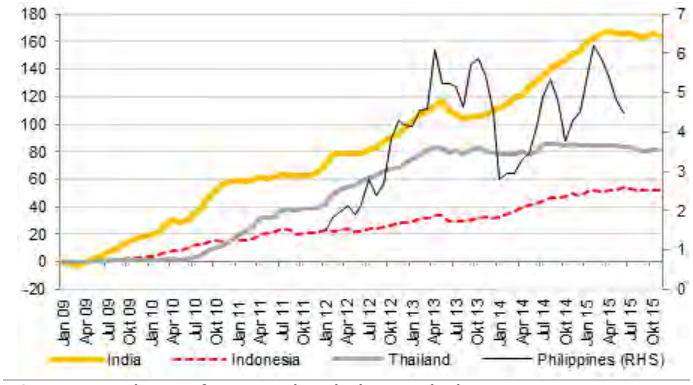
Source: CEIC

Fig 35: Non-Asian Large Emerging Markets - Cumulative Net Portfolio Flows (USDb)



Source: Institute of International Finance (IIF)

Fig 36: Asian Emerging Markets – Cumulative Net Portfolio Flows (USDb)



Source: Institute of International Finance (IIF)

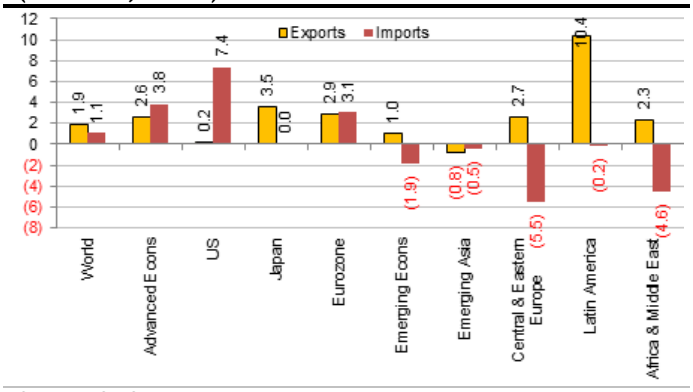
Also keeping our eyes on world trade, which has been a disappointment in 2015. World trade was a drag rather than a drive to the world economy – especially Emerging Asia (Figs 37-40). Major exporting regional economies like Japan, South Korea and Taiwan are seeing rises in their manufacturing inventories-to-sales ratios as China goes through inventory adjustments (Figs 43-45), and trends in these indicators should bear close scrutiny to seek signs of improvement in the moribund world trade. Over the medium-to-long-term, actual and prospective multilateral trade pacts like the Trans Pacific Partnership (TPP), Trans-Atlantic Trade & Investment Partnership (TTIP), Regional Comprehensive Economic Partnership (RCEP) and ASEAN Economic Community (AEC) have the potential to be the catalysts to revive world trade. To note, the last big event on world trade was China's entry into the World Trade Organisation (WTO) in 11 Dec 2001 that integrated China with the world economy and boosted global trade and investment flows.

Fig 37: World Trade Growth (% YoY)



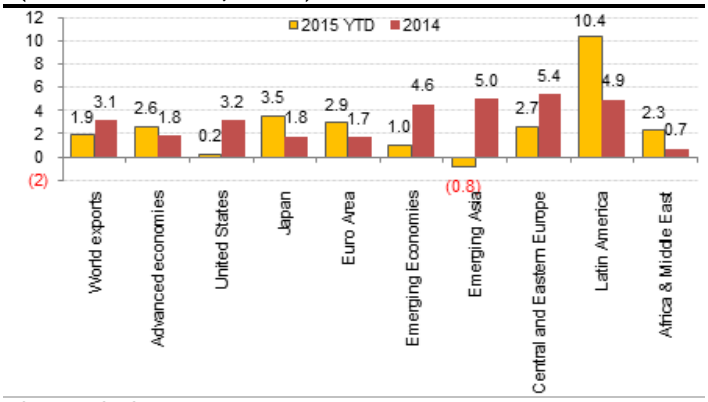
Sources: CEIC, IMF

Fig 38: World Trade Volume by Key Economies & Regions (2015YTD, % YoY)



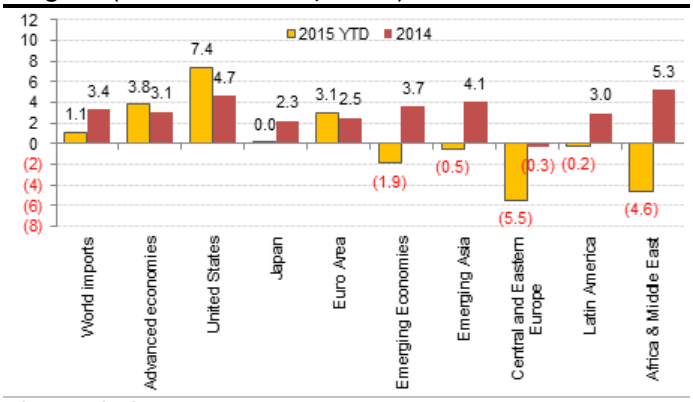
Source: CEIC

Fig 39: World Exports Volume by Key Economies & Regions (2015YTD vs 2014, % YoY)



Source: CEIC

Fig 40: World Imports Volume by Key Economies & Regions (2015YTD vs 2014, % YoY)



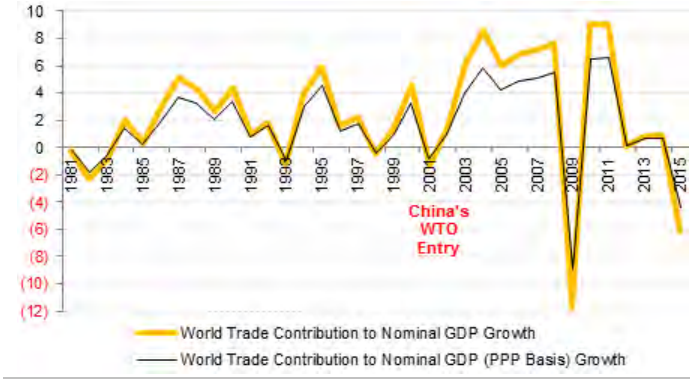
Source: CEIC

Fig 41: World Trade Value as % of Nominal Global GDP



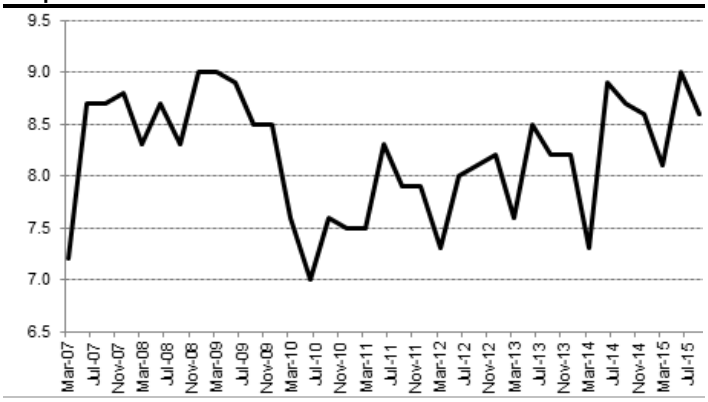
Sources: CEIC, IMF, Maybank KE

Fig 42: Contribution of World Trade Value to Nominal GDP Growth (percentage point chg)



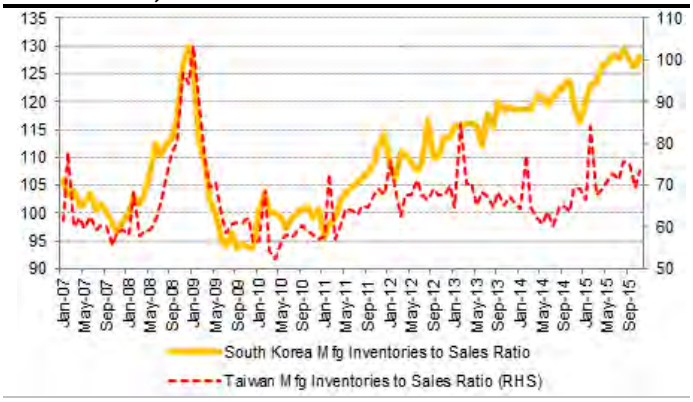
Sources: CEIC, IMF, Maybank KE

Fig 43: Manufacturing Inventories-to-Shipments Ratio - Japan



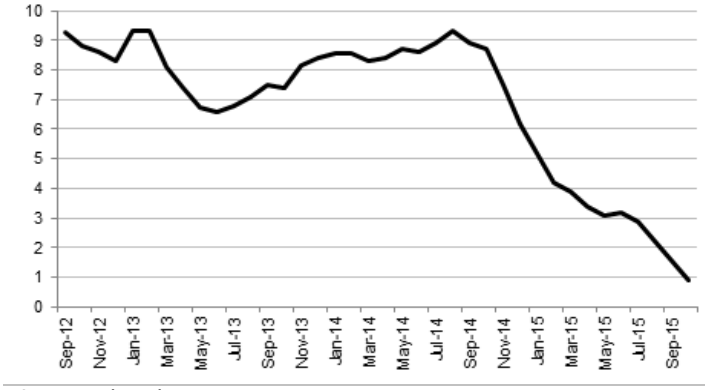
Source: Bloomberg

Fig 44: Manufacturing Inventories-to-Shipments Ratio – South Korea, Taiwan



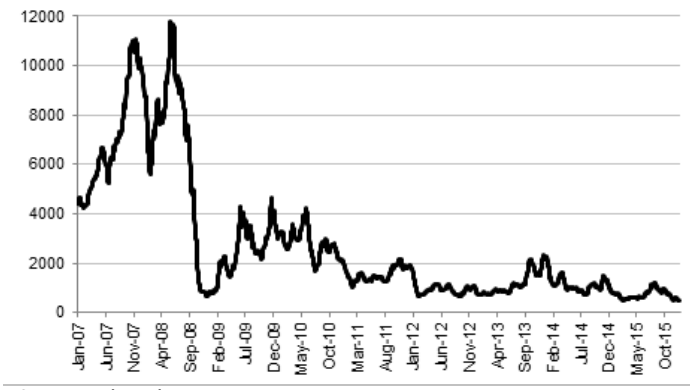
Source: Bloomberg

Fig 45: China's Industrial Inventories (% YoY)



Source: Bloomberg

Fig 46: Baltic Dry Index



Source: Bloomberg

Maybank Kim Eng

FX Outlook & Strategy: 2016

Juggling Policy Divergence, RMB Adjustments and Trade Downshift

Analysts

Saktiandi Supaat
saktiandi@maybank.com.sg
(+65) 63201379

Fiona Lim
fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
leslietang@maybank.com.sg
(+65) 63201378

Christopher Wong
wongkl@maybank.com.sg
(+65) 63201347

Divergence (Policy and Asset Prices); Global Trade downshift; and Potential yuan adjustments will be key themes in 2016.

Pace of Fed tightening is a key FX focus in 2016. In an environment of a global trade downshift, as long as growth between G7 and EM does not diverge too much and too fast, EM will be in a comfortable position. Concerns about yuan adjustments in 2016 could also continue to add to currency volatility. There is downside risk for EM if growth fails to pick up with the risk of worsening debt sustainability a possibility affecting EM FX.

Expect USD to be supported. EUR and JPY to stay soft as risk sentiments remains supported. USD/AXJs to see further upside for currencies with signs of weak domestic demand, lower fiscal capacity and potential idiosyncratic risks.

FX

Regional

Summary

Macro themes in 2016 will continue to be driven next year by a number of key factors. First the pace of the Fed tightening will be a key focus in asset price discovery process. It is likely to lead to continued FX volatility in 2016 at specific intervals. The Fed is likely to reiterate data dependency and gradual tightening rhetoric over the course of next year. Overall US macro policy base case may not be overly hawkish and softer China transitional growth should continue to retain EM growth concerns. There could be potentially downside risks for EM if growth fails to pick up and if debt sustainability concerns emerge from rates increases. The dollar should remain supported from 2Q 2016 onwards. 1Q is likely to see some weakness following expectations of additional stimulus from the ECB, seeing some mild rally in risk proxy currencies suich as AUD. Historically, the dollar tends to soften within 6 months following the first rate hike. Furthermore the next rate hike is only expected in end 2Q 2016.

Second, the extent of global trade downshift and falling global trade elasticities has an impact on the currency outlook next year. Nominal exchange rate volatility might be accentuated if extent of the “expenditure-switching effect” is small due to the falling trade elasticities. The smaller the effect of exchange rate changes on relative prices, and hence on relative demands, the larger the exchange-rate change is required to reach equilibrium. As such, we expect next year to see further exchange rate adjustments if this falling trade elasticities continue. As the markets try to normalise next year, “expenditure reflation” - first phase in the recovery from a slump before the stage of full employment and inflation is reached - requires an increase in total expenditure on goods and services. This phase of reflation, and eventual investment recovery we think will be slower this time round.

Third, China becoming more market determined will have impact on a portion of global currencies. The combination of capital account liberalization and weak fundamentals at the moment simply implies downside pressure for the yuan. With domestic individuals and corporates likely keener (and even encouraged) on investing in overseas assets as opposed to domestic assets, a more liberalized capital account is likely to see more outflows and concomitantly, weaker yuan.

We expect the dollar index to come in at around 98-102 range next year. Generally, affected by (1) the pace of Fed hikes; (2) US growth trajectory and (3) continued central bank monetary policy divergence moves from Japan (potentially more printing) and Eurozone (ECB further QE in 2016).

EUR is expected to face further downside pressure over the next 3 – 6 months amid further monetary easing, as ECB remains worried about subdued inflation. Beyond 6 months, we expect EUR to stabilize around 1.04 levels and gradually inch higher towards 1.08 into 2016-end, as monetary easing slows amid a pick-up in inflation off the back of oil prices stabilizing.

JPY weakness should continue in the near term as stimulus remains (though no further easing measures from the BOJ are expected) and on the imminent Fed fund rate lift-off. In 2016, the risk environment could reverse and lift the JPY higher. The slowdown in global growth and potential US political uncertainty could encourage safe-haven/flight-to-quality plays that could push the JPY higher. Target JPY to end-2015 and -2016 at around 124 and 120 respectively.

In 2016, we expect USD to remain supported and as such we are broadly bullish on the USD & GBP (but with some short term weakness for GBP). We remain negative on low yielding currencies such as the JPY and EUR. Both are expected to remain remain soft as risk sentiment continues in 2016. Risk proxies like AUD could be supported on dips, unless commodity prices decline sharply (worse case scenario).

We are cautious on Asia EM FX. As long as growth differentials between G7 and EM does not diverge too much and too fast, EM will be in a comfortable position. The downside for EM would be worsening debt sustainability arising from rates increase. If G7 growth picks up too fast and inflation rises, not translating into external demand, there will be risks for EM. Domestic demand support remains strongest for Philippines. China yuan depreciation scenario in 2016 remains a concern and may add to volatility on EM FX.

USD/AXJs should still see further upside. We remain bearish on currencies with signs of weak domestic demand, lower fiscal capacity and with uncertain sovereign credit situation as well as those with potential idiosyncratic risks in 2016.

With the December FOMC out of the way, we expect risk appetite to be supported into the turn of the year amid accommodative monetary conditions globally. ECB could be at risk of further monetary easing (if inflation refuses to pick up, due to lower oil prices for longer) while other major central banks including the BoJ, PBoC, BoC, RBA, RBNZ are also not expected to step away from their easing bias any time soon. These should support risk proxies including equities, commodity prices and AXJs (i.e. AUD, KRW, etc.). **USD is expected to have a mixed profile – weaker against risk proxies but firmer against low yielding currencies such as EUR, CHF**.

For 2Q 2016, market expectation for Fed to tighten is expected to be re-built, leading to reduction in risk appetite and a build-up of USD long positioning against risk proxies including AXJs. Our base case assumption for Fed to next hike in 2Q 2016.

For 2H 2016, we turn more cautious on risk appetite and AXJs. Downside risks for EM include worsening debt sustainability amid rising interest rates, especially in an environment where G7 majors (US, UK) growth and inflation picks up faster than expected. These could prompt the respective central banks to adjust their forward guidance with a bias for steeper than expected pace of tightening. Bond positioning will adjust, with debt being sold off while yields rise in tandem. EM could risk a debt sell-off and see portfolio outflows, and these could pose risk to EM debt sustainability (especially if growth between G7and EM diverge).

Some Strategies We Like For 2016:

1. Long Risk Proxies Post-FOMC into Turn of the Year (Tactical Trades)

Against a backdrop of supported risk appetite post-FOMC in Dec 2015 amid accommodative monetary conditions globally and Fed to reiterate gradual pace of tightening rhetoric, we expect potential relief rally in risk proxies including AUD and some AXJs (i.e. KRW). There could even be scope for USDCNH to unwind some of its recent longs, given skewed positioning. We also like to express our view via short EURAUD, given that EUR remains inversely correlated with risk assets (correlation coefficient strengthened since 6 months ago). A supported risk appetite environment should support risk assets and see EUR softer.

- **Sell EUR/AUD on rallies** towards 1.5380 (100 DMA) – 1.5530 (61.8% fibo retracement of Sep high to Dec low), targeting first objective at 1.4850 (200 DMA) before 1.4350 levels (Dec lows). S/L placed above 1.5820 (76.4% fibo).
- **Tactically Sell 3m USDKRW NDF on rallies** towards 1192, targeting a move towards first objective at 1156 (50 DMA), before 1140 (200 DMA). S/L placed above 1215 (Sep highs).

2. AXJ Relative Value Trades on Growth/ Policy Divergence

Within the Asia FX space, we see growth and monetary policy divergence, and this give rise to relative trades. In particular we favour PHP, INR and MYR over THB, IDR, SGD and CNY.

- **Short CNY/INR and on rallies** towards potential double-top of 10.50 (spot-ref), targeting a move towards initial target of 10.20 before 10.00 (100 DMA). SL at 10.66. Increasing growth differentials between the two giant Asian economies and positive yield differentials (positive carry in favour of INR) make this trade viable. This trade thrives on stable oil prices, low inflation and a gradual pace of Fed rate hike trajectory which would benefit the INR more than the CNY.
- **Sell THB/PHP on rallies** towards 1.3250 (200 DMA), targeting 1.2750 objective (Sep low). SL at 1.35. Key drivers for the trade include growth divergence and positive carry in favour of PHP.
- **Sell CNY/MYR on rallies** towards 0.6725 (50% fibo retracement of Oct high to low), targeting an initial move towards 0.63 (200 DMA), before 0.61 levels at end-2016. We see the cross trending lower in 2016 due

to a divergence in the respective currencies outlook (weaker CNY vs. stronger MYR). MYR positivity due to combination of drivers including, slowly dissipating concerns of domestic issues, relative stability in oil prices, resilient domestic demand and these are supporting investor sentiment. CNY negativity drivers include lower growth targets, high debt and a more market determined yuan (which we expect to see further weakness).

- **Buy MYR on dips vs IDR** towards 50 DMA at 3210, targeting 3540 (76.4% fibo retracement of May high to Nov low). SL below 3100 (Nov low), on policy divergence (we expect BI to cut rates twice while BNM is likely to remain on hold in 2016) and relative stability in oil prices. Dissipating concerns of domestic issues should also support MYR while BI easing cycle could resume amid low inflation, sluggish growth and high borrowing costs.
- **Sell SGD/MYR towards 3.10, targeting initial target at 2.90 (38.2% fibo retracement of Sep 2014 low to Oct 2015 high), before 2.8275 objective (50% fibo). SL above 3.15.** We expect continued SGD weakness amid sluggish external demand and ongoing domestic re-structuring efforts to raise productivity. MYR positivity due to combination of drivers including, slowly dissipating concerns of domestic issues, relative stability in oil prices, resilient domestic demand and these are supporting investor sentiment.

3. A Measured CNH Depreciation Trade

We reiterate our 6M USDCNH call spread strategy 6.55/6.75, using a 2:1 call ratio for zero cost structure, entered on 26 Nov 2015. Our long USDCNH view is underpinned by strong USD demand, weak domestic fundamentals, capital account liberalization, tempered by intermittent PBOC intervention.

4. Re-establish USD longs vs AXJs from 2Q 2016

As expectation for Fed to tighten re-builds from 2Q, we expect this to lead to some reduction in risk appetite and a re-establishment of USD long positioning against risk proxies including AXJs. **We look to buy USD vs KRW, SGD, IDR on dips.**

Our Base Assumptions

Our FX outlook is based on the assumption that oil prices will remain at an average price of US$50-60/bbl for 2016. The oil outlook is positive for Asia (medium term) and should boost consumption. A prolonged period of low oil prices could worsen or improve fiscal balance of some regional economies. **We assume a total of 75bps hike over the next 5 quarters (two 25 bps in end 2Q and 4Q 2016) from the start of a hike in Dec 2015.**

USD: Dollar View Remains

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD Index	**101.73** (100.75)	**101.63** (98.03)	**99.81** (96.73)	**98.00** (96.32)

Previous Forecast in Parenthesis

Motivation: We remain mildly bullish on the 2016 dollar outlook. The DXY is currently at 100.14 (as at 30 Nov 2015 @11.30am). Firmer US data and rising expectations of the Fed rate hike in Dec 2015 have been supporting the USD. Further developments out of Eurozone with rising market expectations of an ECB easing in 1Q has led to some changes in EUR and GBP, thus affecting the DXY to some extent via the interest differential perspective. We continue to expect a gradual pace of Fed tightening in 2016 and hence should not see excessive US strength but a rather supported USD. We expect the dollar to strengthen in 1Q towards 102, before moderating in the rest of 2016 and end 2016 at around 98.00, barring no global shocks.

Oil remaining soft could be dollar positive. Global crude oil prices and commodity prices is likely to remain soft and in tight range. Limited upside in long-term interest rates, partly driven by concerns in the global macro outlook could help offset any shocks to the US real economic growth. This remains dollar positive.

Likelihood of a Fed rate hike and rising 2-year rate differentials to support USD. The trade weighted dollar should be stronger if not for the Fed's signaling inconsistencies in between FOMC announcements and lack of 2016 policy forward guidance. In the medium term, there could still be USD trade weighted support as the 2-year rate differentials will rise further from current 0.922 levels (30 Nov 2015).

The recent US economic development supports a medium-term USD bullish view and we continue to expect the USD to strengthen across the board as the US growth gathers momentum in 2016 with pick up in the housing markets, a modest pick-up in inflation and wages and a further improvement in labor market conditions. Thus far, stronger private consumption continues to underpin the US recovery, as households benefitted from lower oil prices, steady employment growth and modest wage increases. Even as new home sales volumes reached a post crisis high in 2015 and inventories for homes available for sale have been pared back, gross fixed capital formation or investment as continued to disappoint. On a sectoral basis, US economic activity seems to have been driven more by services rather than manufacturing which has a higher import content. Our economics team sees **US GDP growth likely to come in at 2.4 % this year and 2.3% in 2016.**

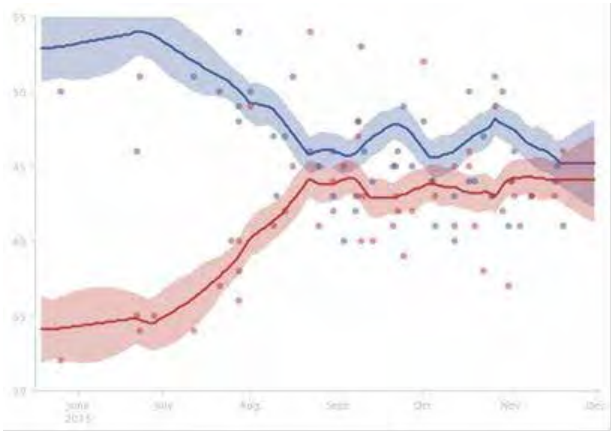
The strong dollar has also led to the ongoing deceleration in US production and net exports. These developments suggest that the moderate recovery in the US may not generate large positive spillovers for the rest of the world including the trade oriented Asian economies. Conversely, weakening growth in emerging market economies may restrain US economic activity somewhat.

Core PCE inflation has also not risen significantly even as headline unemployment rate has fallen to 5.1%. Both CPI and core CPI will likely remain on an uptrend in 2016 close to the Fed's 2% long-term target but weighed by lower energy prices, stronger dollar and food inflation. Other labour market developments, such as decline on labour force participation rate and muted wage growth suggest some

slack still remains. Taking that into consideration any policy moves will be gradual and unlikely to derail growth.

Fiscal sustainability risk continues to weigh on the outlook which will likely be marred by political wrangling, particularly before the Nov 2016 presidential election. In the long term, an improved US economy and manufacturing sector, US shale oil and gas production may improve the US current account leading to dollar support but this is likely to be long drawn and may probably begin only in 2016/2017.

Nov 2016 US General Elections: Trump vs. Clinton



Dollar Index: Next resistance at 101.80 before 109



Note: The HuffPost Model tracks 51 polls from 17 pollsters; last updated as of 8 Nov
Source: Huff Post, Bloomberg, Maybank FX Research

EUR: Downside Pressure to Persist; But No Free-Fall

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
EUR/USD	1.0400 (1.0600)	1.0400 (1.0800)	1.0600 (1.1000)	1.0800 (1.1200)

Previous Forecast in Parenthesis

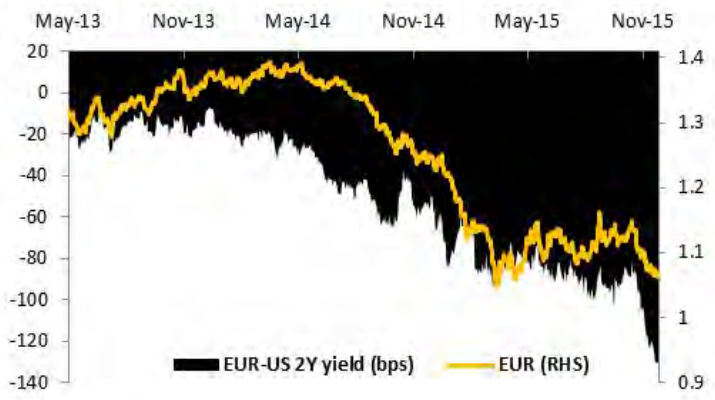
Motivation: Near term weakness (over the next 3 - 6 months) in the EUR, given explicit and concerted comments from ECB officials to *do all it takes* to achieve its mandate of getting inflation back towards 2% target, pursue price stability so as to contribute to economic growth and job creation. But we caution that EUR movements remain inversely correlated to asset price movements. Together with seasonality trends and over-stretched EUR short positioning, EUR could be exposed to upside risks towards end-2015. Looking out beyond 6 months, we expect EUR to stabilize around 1.04 levels and gradually inch higher towards 1.08 into 2016-end, as monetary easing slows amid a pick-up in inflation off the back of oil prices stabilizing.

ECB to cut deposit rate cut at the 3 Dec meeting by about 10-20bps, and further ECB "verbal intervention" - that it stands ready to unleash unorthodox monetary easing - as ECB remains worried about subdued inflation (+0.1% y/y in Oct 2015). But we do not think there is a need for ECB to rush into expending its monetary policy tools at the Dec meeting unless there is a sudden deterioration in risk sentiment (which is not our base line scenario). Looking into 1Q 2016, we see a high likelihood of ECB announcing further monetary easing via an extension of duration and expanding its asset purchase size. Persistent market expectation for ECB to act and monetary policy divergence between ECB and Fed will continue to weigh on the EUR/USD.

While downside risk on the EUR may persist, we do not envisage a free-fall scenario on a few reasons: 1) EUR moves are inversely correlated with risk assets – that means EUR like most "low yielding currencies" (i.e. JPY, CHF) will be supported if risk sentiment worsens (risk aversion flows); 2) Market remains net short EUR with "sell EUR on rally" one of the *popular* trade. This suggests that stretched positioning poses an upside risk should position be unwound; 3) EUR still enjoy a double surpluses in broad balance of payment (BBoP) and current account and this should in theory lead to low unemployment, higher wages, higher inflation and eventually lead to EUR strength. But right now this transmission mechanism is missing unless labor market reforms take shape.

Although economic growth has yet to recover to pre-GFC levels, there are signs (via activity data and forward indicators) that conditions could be stabilizing. Bright spot is in domestic demand, which is expected to benefit from ongoing improvement in financial conditions, weaker EUR and softer oil prices. Other concerns we may have are debt and structural unemployment remain high and could weigh on long-term growth potential.

Growing monetary policy divergence to weigh on EUR



Inverse correlation between EUR and risk proxies remain intact



Source: Bloomberg, Maybank FX Research

GBP: Positive Outlook and Patiently Waiting for BoE

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
GBP/USD	1.5600 (1.5800)	1.5800 (1.6000)	1.6000 (1.6200)	1.6200 (-)

Previous Forecast in Parenthesis

Motivation: Remain positive in GBP outlook over the forecast horizon, notwithstanding some near term weakness towards 1.48-1.50 levels in the next 2-3 weeks before rebounding. Ongoing economic recovery warrants a shift in monetary policy stance at some point in 1H 2016. This will result in monetary policy divergence between BoE and other G7 majors (ECB, BoJ, RBA, RBNZ - which are expected to remain on an easing bias next year). But before that happens, we caution that GBP could face some downside pressure towards 1.48-1.50 levels amid further monetary policy divergence between Fed and BoE. Looking into 2016, downside risk to our outlook includes a slower than expected pick-up in inflation and EU referendum (over Britain's future in EU) which could potentially take place in mid-2016 instead of 2017.

Ongoing economic recovery remains intact, supported by domestic demand and solid labor market. UK is still enjoying its longest streak of continuous growth since falling into GFC in 2008, supported by resilient domestic demand. Labor market continues to improve with unemployment rate falling to 7-year low of 5.4% while wage growth remains on an uptrend.

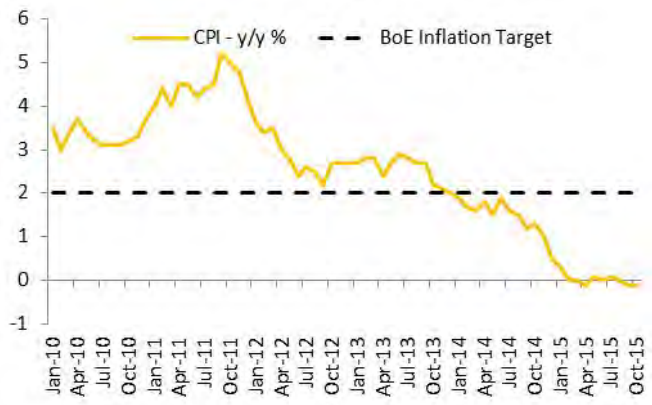
A shift in BoE stance from dovish to hawkish is expected in 1H 2016, and this is expected to lend strength to GBP (interest rate differentials). With market currently pricing a rate hike only sometime in late 2016 - early 2017 (we are more optimistic than consensus), this suggests that the market could be underpricing upside risks. Moreover, CFTC positioning (although this can be fickle) for GBP showed short exposure have re-emerged since Oct 2015, and this reflects a bearish bias in the currency. Taken together, this could pose further upside risks when market rebuilds expectation for BoE to tighten. That said, we believe BoE will continue to be cautious (via dovish talks) to prevent any excessive GBP strength, from derailing economic recovery efforts. As such we do not expect BoE to jump the queue ahead of Fed.

Risks to our GBP outlook are inflation stays low for longer; growth/activity data loses momentum; government borrowing blow-up risks and *Brexit risks.* *Brexit* could pose risk to UK's growth prospects via trade, financial channels and exert downside pressure on GBP. CPI inflation remains subdued (Oct inflation at -0.1% y/y) and could pose a "delay risk" for BoE to make a shift in its monetary policy stance.

GBP short positioning and yield differential suggests upside risk in GBP is underpriced



Subdued inflation poses a 'delay risk' in BoE monetary policy stance



Source: Bloomberg, Maybank FX Research

AUD: Volatile Range Trading Has Begun

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
AUD/USD	0.74	0.70	0.68	0.70

No Change from Previous Forecast

Motivation: We see intermittent spikes on fiscal and monetary boosts from China, keeping AUD in a volatile range with no directional bias for the currency. AUD has been trading in a volatile range within 0.69-0.74 since the start of Sep. The nascent signs of bottoming that we had identified at that point of time has started to play out. Growth is likely to remain sub-par with benefits of a cheaper dollar not entirely feeding through into the economy. Just as we do not expect much upsides to growth, we do not see serious deterioration in the economy as well and the current cash target rate at 2.00% will remain appropriate for the rest of 2016. Key swingers are still China's growth prospects and commodity though much of the commodity slump has been in the price of the AUD.

Growth is below trend. The main driver of growth has been from the household consumption, underpinned by the surprisingly resilient labour market. Downside risks exist as we eye the mortgage rates which have crept higher and its impact on private consumption. Meanwhile, the 3Q CAPEX numbers reveal little positive sentiments from the corporates with lower spending projections made for the year ahead as compared to those made at this time last year. The silver lining in the cloud is the fact that projections made are still higher than those made in the previous quarter, across industries. The cheapened Australian dollar has increased visitor arrivals in Aug and Sep and lower AUD to improve export oriented corporate earnings. An improvement on those fronts, along with a possible upturn in global demand could aid in economic rebalancing towards non-mining sectors.

Sluggish Commodities – Priced In. AUD has been adjusting to the decline in the terms of trade. Much of the commodity slump has been priced in when AUD touched a low of 0.6896 in early Sep. We think the biggest part of the commodity slump (metals and coal) have priced in the drop in demand for China. Even as China stabilized, prices are likely to remain sluggish capping AUD. Expect fiscal measures and possibly more synergies in the One Belt One Road plan that could produce intermittent spikes in the AUD.

RBA To Retain Easing Bias For a Long While. Given the downside risks to growth, RBA is likely to retain an easing bias to growth for most of 2016. A key reason is the fact that we do not see immediate dangers of serious economic deterioration. Australia requires a structural improvement in the economy rather than greater monetary accommodation. Businesses lack the confidence to invest because they have not seen the demand for their goods and services. That could come as the full benefits of a cheaper AUD feeds into the real economy along with a possible improvement in global demand.

Sluggish Commodity is in the Price



Private Consumption Not at Risk of Deterioration



Source: Bloomberg, CEIC, Maybank FX Research

NZD: Turning More Bearish

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
NZD/USD	0.6400 (0.5900)	0.6100 (0.6200)	0.6200 (0.6500)	0.6300 (0.6700)

Previous Forecast in Parenthesis

Motivation: We turned more bearish on the NZD, due to a combination of factors including high risk of current account deficit widening further, declining ToT amid weakening demand, moderating growth outlook, benign inflation, soft dairy prices for longer and growing divergence of monetary policy between Fed and RBNZ. As such, we revised lower our FX forecasts from 2Q to end-2016 to reflect our bias. However we raised our FX forecasts for 1Q 2016 given the recent build-up in NZD long position and RBNZ' which saw the concomitant move in NZD spot.

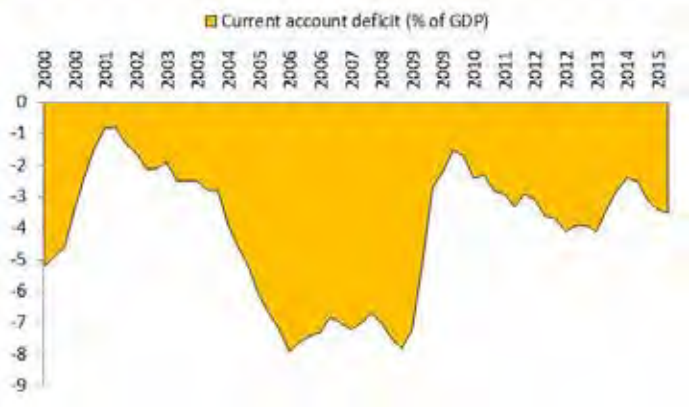
Current account deficit has widened to levels not seen since 2013, and could potentially widen further from current -3.5% of GDP (as of 2Q) given the downshift in trade (NZ experienced 8 trade deficits YTD), and together with falling terms of trade (ToT), this could re-assert further downside pressure on the NZD.

NZ continues to experience a period of structurally low inflation, especially with inflation still near 15-year lows and wage inflation remains benign near 2010 levels. To make matters worse, dairy prices is still on a decline since 2014 highs and remains well below its 5-year average. Dairy prices are expected to remain low for longer until global dairy over-supply and under-demand dynamics adjust. This is unlikely to happen soon, especially with deregulation of US and EU dairy markets (which seen a flush of dairy supply) while demand remains soft as China demand has yet to recover due to rise in domestic production and build-up in inventory while sanctions in Russia also reduce demand.

Growth outlook is expected to moderate further in 2016 as rebuilding activity in Canterbury (post-2010 earthquake) peaked and sluggish dairy prices continue to weigh on exports. Recent domestic data have also disappointed – both manufacturing and services PMIs slipped and unemployment rate inched higher. The only bright spots are in services and construction sectors – which have continued to hold up amid accommodative monetary conditions, strong surge in migrant numbers and tourist arrivals.

Growing divergence in monetary policies between Fed and RBNZ will exert downside pressure on the NZD. Furthermore RBNZ remains in favour for further depreciation to support sustainable growth. With NZD position still net long, there is even bigger risk for further NZD downside.

Current account deficit expected to widen further



Prices remain subdued at multi-year lows



Source: Bloomberg, Maybank FX Research

JPY: Lifts From No Further BOJ Easing, Safe-Haven Plays

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/JPY	122 (125)	124 (125)	122 (125)	120 (125)

Previous Forecast in Parenthesis

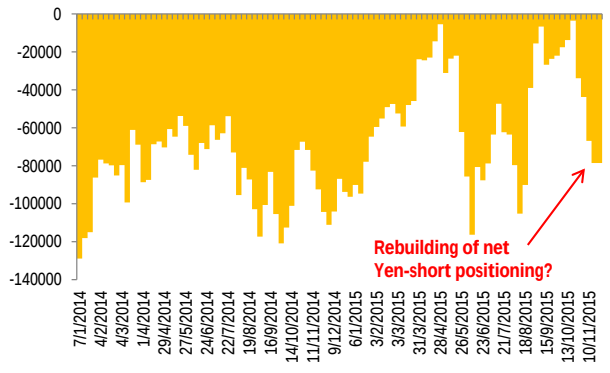
Motivation: We are positive on the JPY outlook in 2016 as we no longer expect any further additional easing measures from the BOJ. Near-term weakness in the JPY by year-end is possible as reflected in market positioning (increase in net JPY-shorts) in anticipation of the Fed lift-off in Dec. This should encourage further fund outflow in search of higher returns, which could prove transitory as China-led global growth and US political risks weigh on the pair. The riskier global environment in 2016 could lead to a flight to quality/safe-haven plays that could weigh on the USD/JPY.

No additional BOJ easing measures are expected in 2016, given the optimistic outlook for the economy as well as the extension of the timing of hitting the 2% inflation target to the latter half of FY 2016, i.e. into 1Q 2017. As well, any bounce in the USD/JPY above the 125-levels could undermine both SMEs' and consumers' confidence, and this could be politically unpalatable especially ahead of the **Upper House election (for half of the 242 seats) in early 2016 summer**. A risk to this outlook though could come from the ECB should it decide to add to its existing QE measures, which could pressure the EUR/JPY lower. A drop in the EUR/JPY below the 125-levels to lows not seen for the past two years could elicit a response from the BOJ.

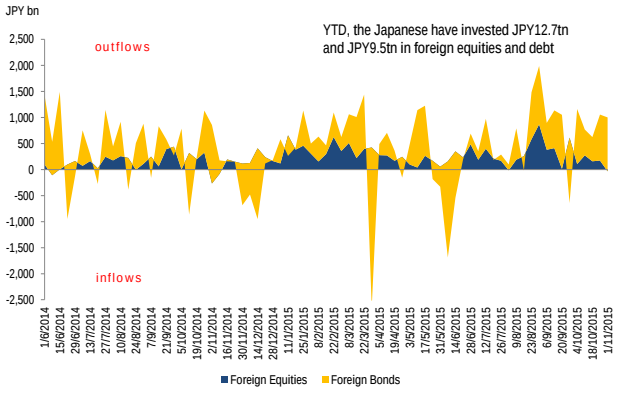
The market continues to position for further JPY weakness ahead as reflected in the latest positioning data where net JPY-short increased to 78611 contracts in the first four weeks of Nov vs. 3639 on 15 Sep. The positioning is likely in anticipation of the Fed lift-off in Dec that should intensify their policy divergence and encourage greater outflows from Japan in search of higher yields. This suggests downside risks to the JPY ahead but the slide lower might not be as large as in the early part of 2014 given the relatively smaller number of contracts compared to Jan 2014. Thus further USD/JPY upmoves should be capped around the 124-levels by year-end.

Deteriorating global risk environment could see flight to quality/safe-haven plays to Japanese assets. The ongoing ultra-loose monetary policy of the BOJ as well as the continued outflow of Japanese funds overseas in search of higher returns to keep the USD/JPY supported. However, risk sentiments could deteriorate in 2016 on a China-led global slowdown and political uncertainty from the US presidential elections in Nov 2016. The resultant negative impact on the Nikkei could drag the USD/JPY along with it, given the positive correlation between the two. Thus, the deteriorating global risk environment could see investors fleeing to safer and higher quality assets, particularly Japanese assets and weigh on the USD/JPY.

Net Yen Short Positioning Is Being Rebuilt



Portfolio Outflows Should Keep USD/JPY Supported



Source: Bloomberg, CEIC, Maybank FX Research

CNY: More Market-Determined = Weaker

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/CNY	6.55 (6.45)	6.60 (-)	6.65 (6.80)	6.70 (-)

Previous Forecast in Parenthesis

Motivation: We are biased towards a weaker CNY outlook in 2016 and PBOC will guide it against a basket of currencies, officially published by CFETS. China will enter the next half of the decade with lower growth targets, high debt and a more market determined yuan. Fragile fundamentals are likely to keep domestic investors keen on overseas investment. Overseas loans and trade credit outflows will rise as China loosens its control over capital account. Upmove of the USDCNY will be checked by sporadic interventions. We see a low risk of another outright devaluation. Current account surplus could prevent the yuan from depreciating more than 7% from the current value of around 6.40. Expect spot to trend higher towards 6.70 by end 2016 as we expect rate hike speculations to spur another round of dollar dominance. Eyes are on the annual NPC and CPPCC in Mar for growth targets.

Lower growth targets, cracks seen in Consumer. Overcapacity issues will remain until One Belt One Road takes flight along with AIIB. That should keep manufacturing sector under pressure. China's consumers have become the pillar of growth but we are concerned about the fall in loan demand index for non-mfg and consumer sentiment. State Council should lower growth targets. Fragile fundamentals would continue to see domestic investors prefer overseas assets. Corporates have also been encouraged to seek higher yielding infrastructure investments overseas that could soak up excess production at home and boost exports.

Of high debt, fiscal reforms, social reforms. Total debt ratio of China is 250-300% of its GDP but China will not deleverage much in 2016. Yet, interest rates must be kept low for corporates to refinance their debt and engage in productive investment. We look for at most another interest rate cut of 25bps to 4.10%. RRR can be cut in intervals by another 200 bps to 15.0% (the low seen during the 2008 crisis period). Fiscal stimulus is key. Expect more local government debt to be converted to municipal bonds and more public private partnerships to crowd in private investment, alleviating the burden of the local governments. That should usher in social reforms.

Capital account liberalization - Slowly But Surely. The FX reform on 11 Aug has successfully converged with the daily USDCNY reference rate to spot prices but USDCNY is still trading at a discount to USDCNH. This gap could persist. Administrative measures have been imposed to discourage speculative bets on yuan depreciation. We expect capital account liberalization to proceed at a piece-meal pace. The State Council has pledged complete capital account liberalization by 2020 and the One Belt, One Road goal that will propel China to be one of the biggest net global creditors.

Falling Appetite for Credit



CNH-CNY Gap Is Likely to Persist



Source: Bloomberg, CEIC, Maybank FX Research

KRW: Dragged by Structural Downshift in Global Trade

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD/KRW	1140 (1120)	1160 (1140)	1180 (1160)	1200 (1180)

Previous Forecast in Parenthesis

Motivation: We maintain a bearish bias in KRW especially from 2Q – 4Q 2016. Risk of economic recovery stalling (dragged by sluggish exports, which could be structural in nature), risk sentiment (KRW remains high beta currency) and growing monetary policy divergence between Fed and BoK are some of the factors that could exert downside pressure on the KRW. But we see some near term respite (1Q 2016) in USDKRW, possibly towards 1140 on a combination of drivers including supported risk sentiment as global central banks are still keeping monetary conditions accommodative and a cyclical recovery in Korea supported by domestic demand amid effects of government supplementary budget measures and low policy rate for longer. That said we continue to caution that risk sentiment remains fickle and USDKRW can trade in a volatile and wide range.

Structural downshift in global trade will burden Korea's growth outlook. Exports have seen the sharpest decline (-15.9% y/y in Nov) and longest stretch of consecutive declines (11 months in a row) since 2009. This is a drag on Korea's economy especially when exports of goods and services make up about 50% of Korea's GDP. To make matters worse, Korea is highly dependent on China as its export destination (Export dependency on China stands at about 25%), and exports to China have been on a downtrend in 2H 2015. We expect slowdown in China demand to persist and this could add to Korea's exports woes, weigh on its growth outlook, and negatively impact KRW.

Domestic demand is expected to partially mitigate KRW's negative outlook. Investments and consumption (both household and government) are expected to lead the cyclical recovery over 4Q 2015 – 1Q 2016 amid government supplementary budgets and accommodative monetary conditions.

Monetary policy rate is expected to remain low, for longer, as inflation (at 0.9% y/y in Oct) remains well below BoK's target range of 2.5 – 3.5%. The inflation target is due for review in mid-Dec 2015. We expect the target range to be lowered towards 2 – 3% for 2016-18. We expect inflation to remain subdued (lowest pace for 16 years) due to low oil prices and low demand-pull inflationary pressures. BoK is expected to maintain a "wait-and-watch" stance and keep policy rate on hold at 1.5% for 2016 amid a cyclical recovery in 1Q 2016. Risk is tilted towards a cut in 2H 2016 should growth and inflation fail to pick up. KRW could is expected to face further downside pressure leading into subsequent FOMC meetings in 2016 (USD positive).

Structural Downshift in Korea Exports to weigh on growth and KRW outlook



BoK policy rate to remain low, for longer amid subdued inflation outlook



Source: Bloomberg, Maybank FX Research

SGD: External & Domestic Challenges To Persist

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/SGD	1.4100 (1.39)	1.4200 (-)	1.4400 (-)	1.4700 (-)

Previous Forecast in Parenthesis

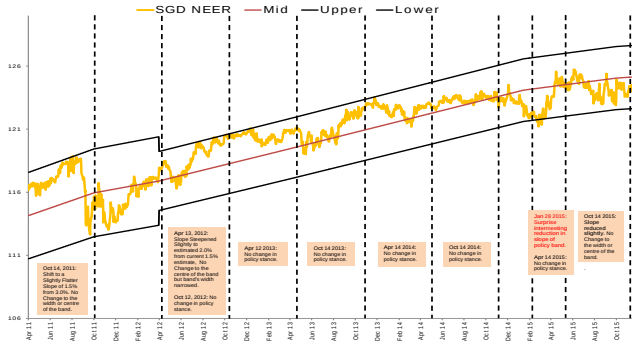
Motivation: The outlook for the SGD remains dim in 2016 even though no further moves by the MAS are expected. Upside moves to the USD/SGD are expected given the SGD remains overvalued as reflected by our UIP model. Downside risks from domestic and external headwinds should put downside pressures on the USD/SGD, though downside should be limited by the persistent balance of payments surpluses.

Hurdles to further MAS policy adjustments remain high after the two easing moves in 2015 that sent the USD/SGD higher above the 1.40-levels currently from the 1.32-levels in early 2015. These moves were unlikely made to support growth but likely due to the changing outlook for inflation given the steady drop in the global oil prices. More easing could come in 2016 if growth underperforms significantly due to some risk event and/or should the pick-up in core inflation continue to stall. For now, core inflation is predicted to tick higher next year due to the fading effects of lower oil prices and the budgetary measures, which should allow the MAS to maintain its "modest and gradual appreciation" stance in 2016.

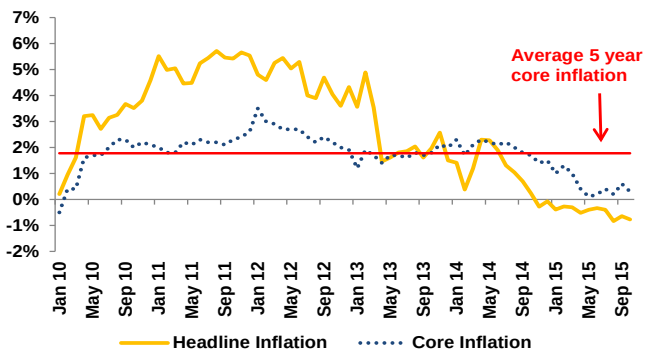
Climb in domestic interest rates could portend further upside risks to the USD/SGD. Our uncovered interest parity (UIP) model, which suggests that the SGD remains overvalued, could see further upside adjustments to the current levels of the spot USD/SGD. The expectations of a Fed fund rate hike in Dec are likely to drive the pair higher. The adjustment is already taking place as reflected in the uptick in the 3M SIBOR to around the 1.07%-levels, though this was off the year's high of 1.14% (end-Sep), but which was still significantly above the 0.4% seen at the start of the year. This rapid jump in the interest rate suggests the potential for further USD/SGD upside ahead.

Risks to the SGD are to the downside as domestic and external headwinds weigh on the economy. Domestically, the ongoing restructuring of the economy away from reliance on foreign labour towards productivity-driven growth has resulted in the economy underperforming. Still soft global crude oil prices should be beneficial to the domestic economy Externally, the sluggish global growth outlook driven by a slowdown in China, the imminent lift-off in the Fed fund target rate, as well as the uncertainty arising from the US presidential election could intensify risk, stir a flight to safety and lead to greater volatility in the FX markets. However, back-stopping the currency is the strong persistent balance of payments surpluses that should limit any SGD sharp decline.

MAS On Hold - SGD NEER To Stay Below The Mid-Point



Higher Core Inflation in 2016 But Could Still Be Well Below Its 5-Year Average



Source: Bloomberg, CEIC, Maybank FX Research

MYR: The Bottom is Nearing

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q2016
USD/MYR	3.9500 (4.1000)	4.1000 (4.2500)	4.1500 (4.3000)	4.1500 (4.3000)

Previous Forecast in Parenthesis

Motivation: We see limited weakness in the MYR and are slightly more optimistic than street estimates on a combination of drivers including, slowly dissipating concerns of domestic issues, relative stability in oil prices (as compared to previous rapid declines in 2014-2015), and these are supporting investor sentiment. We also expect domestic demand to remain resilient (despite some softness) and this is expected to help offset some of the sluggish external demand concerns. Near term outlook for portfolio flows have stabilized and further improvement will help mitigate the negativity surrounding MYR. To add, MYR has fallen by more than 25% (vs. USD) since end-2014, and USD long positioning in the pair could be at over-stretched levels. Unwinding of USD-longs, given an improvement in domestic sentiment could exacerbate the downside move further. In light of the above factors, we revised our USDMYR forecasts lower over the forecast horizon to reflect our optimism.

We continue to reiterate that Ringgit weakness is temporary and is not a reflection of underlying fundamentals (which remain intact). We expect to see some stability returning to Ringgit over the next year or so as political/contingent liability risk subsides, fiscal consolidation/reforms gains traction and oil prices stabilize at lower levels (upside risk on MYR given that Malaysia budget assumes oil price at low of $48/bbl; MBB forecast: $53/bbl).

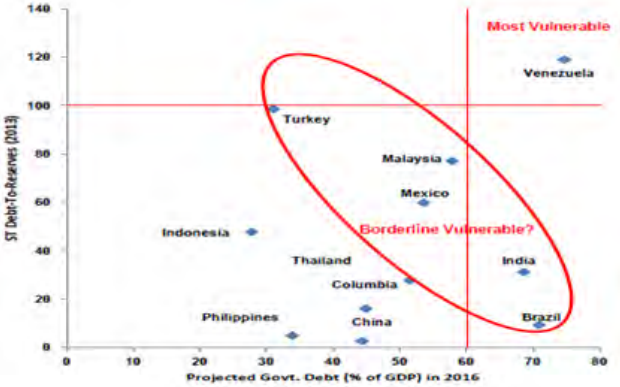
We noted recent shifts in Malaysia's declining dependence in commodities as its net commodity exports are much lower as a share of GDP compared to those of other major EM producers. Malaysia's terms of trade is also somewhat stable. We believe the weaker ringgit could help the competitiveness of Malaysia's manufacturing exports (which account for 60% of total good exports). Thus from both a price and output effect perspective, we would expect the weaker ringgit to be a net positive for the medium term growth outlook.

MYR is not immune to external development. Its high short term external debt and falling FX reserves will continue to weigh on the MYR, should downside risks to EM growth worsens. Malaysia's dependence on foreign fund flows as well as relatively high foreigner ownership of MGS (~46%) are also other sources of vulnerability and could pose downside pressure on MYR, in times of market stresses amid any risk of rapid pace of Fed tightening (not our base line scenario).

Idiosyncratic risks will drive MYR direction



MYR is not immune to external development



Source: Bloomberg, Maybank FX Research

IDR: Weighed By Rate Cuts In 2016

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/IDR	14000 (14100)	14200 (-)	14400 (-)	14500 (-)

Previous Forecast in Parenthesis

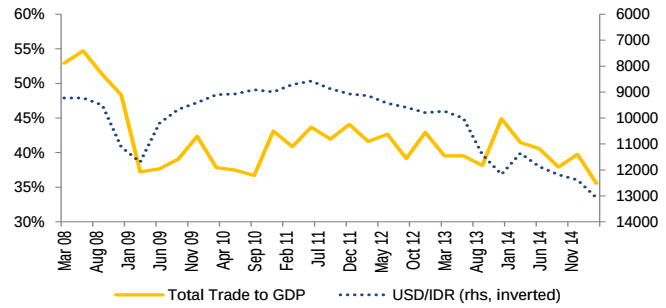
Motivation: The IDR will continue to remain under pressure in 2016 as both domestic and external challenges persist. No rate cut is expected at end-2015 as BI is likely to wait until policy clarity in the US and China becomes clearer. However, two rate cuts are likely in 2016 to complement the series of stimulus measures announced by the government to support the underperforming economy. Meanwhile, the positive carry on government debt that has so far encouraged foreign fund inflows could reverse as these funds seek better returns elsewhere. Risks are thus to the upside for the USD/IDR in 2016.

BI has room to cut rates but is unlikely to do so until policy direction in the US and China is clearer. This is despite expected improvement in the current account deficit, the strengthening of the IDR against the USD since end-Sep and continued moderation in inflation, and political pressure. We believe the central bank should remain on hold in 2015, unless risks sentiments deteriorate significantly. In 2016, the Fed's gradual pace of rate hikes should provide more breathing space for monetary easing, even as the current account deficit bounces back above 2% of GDP. Higher domestic borrowing cost and sluggish growth amid a more benign inflationary environment should prompt the BI to cut the policy rate at least once each in 1H and 2H. These adjustments should weigh on the IDR.

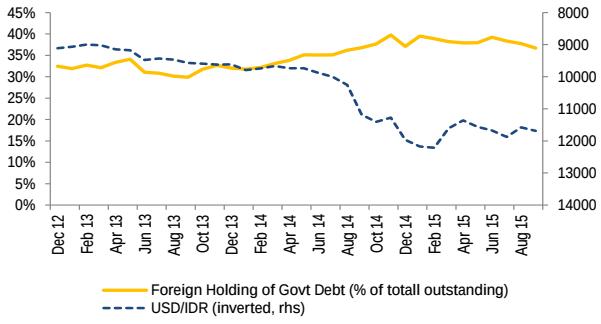
Sub-par macro-fundamentals to persist. Despite the series of measures announced as part of the government's stimulus programme, the outlook for the economy does not look too bright. The economy is expected to expand by just 5.0% in 2016, just marginally improving from this year's expected 4.8%. Execution risks as well as downside risks to growth from the sluggish global environment, particularly the slowdown in China and continued weakness in commodity prices could negatively impact trade and temper growth prospects ahead. These should constrain real GDP below its ten-year average of 5.8% in 2016. The sub-par fundamentals should lift the USD/IDR higher next year.

Portfolio flows into government debt could reverse in 2016 as foreign investors seek higher returns elsewhere. So far, the positive carry from government debt has led to foreign funds adding a net IDR75.8tnn to their outstanding holding of government debt year-to-date. Downside risks come from a China-led global slowdown and when the Fed begins their rate normalization, which could trigger another round of 'bond tantrum'. In the led up to the FOMC meeting in Sep, where expectations was for a Fed fund rate lift-off, market had positioned itself by removing a net IDR14.2tnfrom their holding of government debt in the three-months to Sep. We could see more of such outflows in 2016 that could weigh on the IDR.

Worsening Terms Of Trade Lifting USD/IDR Higher



Fed Rate Hikes Raises Risk of Funds Outflow



Source: Bloomberg, CEIC, Maybank FX Research

PHP: Political Uncertainties To Weigh

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/PHP	48.00 (47.00)	48.00 (47.00)	47.80 (46.80)	47.80 (-)

Previous Forecast in Parenthesis

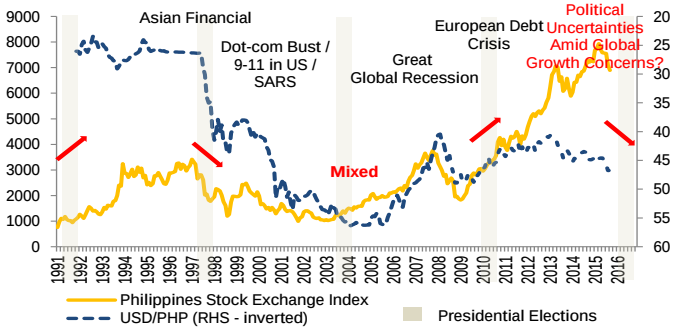
Motivation: We remain bearish on the PHP due to the upcoming presidential and general elections in May 2016, and risks from the El Nino weather phenomenon and possible slowdown in overseas remittances from the weak global economy. The possible bright spot preventing the further depreciation of the PHP against the USD is the BSP keeping rates on hold for 2016. This should act as a backstop for the PHP amid FX market volatility.

Policy rate adjustments by the BSP are unlikely given strong economic fundamentals. Strong current account surpluses, outperforming economic growth (above 5%), healthy import-cover ratio and short-term debt-to-reserve (18.3 months and 6.1 times respectively) make it unnecessary for the central bank to provide added support to the economy. Instead, we expect the BSP to keep its ammunition dry for a rainy day. In fact, unlike most of its regional peers, the BSP has kept its overnight borrowing rate steady so far in 2015. Even the political uncertainty from the presidential election in May 2016 is unlikely to move the BSP. Moreover, the uncertainty in the FX markets from the imminent US Fed lift-off and hikes thereafter should also discourage the central bank from cutting its policy rate anytime soon. Thus, this should provide the PHP with support amid uncertainties from the global economy led by a slowdown in China and domestic general elections.

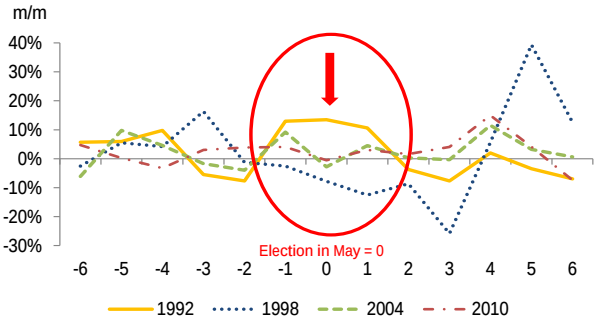
Key risk in 2016 to the PHP is the upcoming presidential and general elections. Examination of the election trends on flows and the domestic currency showed that investors generally are not enthusiastic of the presidential election as incumbents are constitutionally barred from running for a second term. This is particularly true for the upcoming election as there is no certainty that President Aquino's business-friendly policies and reforms would survive beyond his term of office especially if his favoured-candidate fails to win the election. Thus, the equity market is likely to be the main victim of political uncertainties up to six-months after the elections and the outflows should weigh on the PHP as well. Consequently, this could see the USD/PHP climb higher in 1H 2016.

Further risks to our IDR outlook stems from the El Nino weather phenomenon and the possible tapering of overseas remittances from the global slowdown. The El Nino weather phenomenon is expected to be severe in 2H 2016 and could lead to floods and droughts, negatively affecting crops and hence agricultural export earnings and domestic inflation. Sluggish global growth particularly in the G3 could slow the remittances, and put downward pressure on private consumption - the mainstay of economic growth.

Political Uncertainties Supportive Of USD/PHP



Election Year Tends To Be Unfavourable To Equities



Source: Bloomberg, CEIC, Maybank FX Research

THB: Downside Pressure From Domestic Concerns

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/THB	35.50 (37.30)	36.00 (37.50)	36.50 (37.70)	36.50 (-)

Previous Forecast in Parenthesis

Motivation: We continue to expect further upside to the USD/THB in 2016 due to the continued underperformance of the economy, despite the stimulus package. In addition, political uncertainty could weigh on investor sentiments and could put downward pressure on the THB. However, the THB weakness is unlikely to be as severe as its regional peers due to the central bank holding its policy rate steady as well as it persistent current account surpluses.

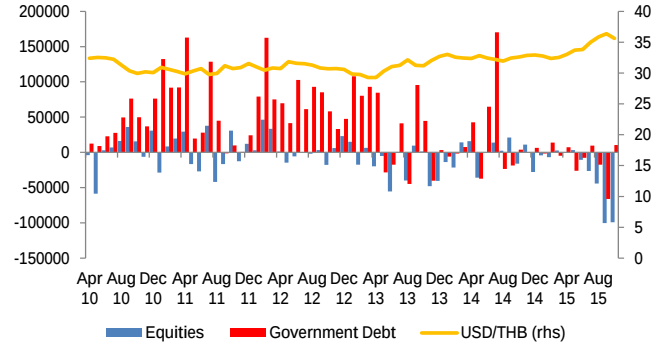
No rate adjustments are expected for the rest of the year and in 2016 because the concomitant weakness in the THB from a rate cut is unlikely to be a panacea to the kingdom's export woes as global demand remains soft; the imminent US Fed fund rate normalization in Dec has almost closed the window to a rate cut; and fiscal policy is a more effective tool to stimulate the economy than lower borrowing rates. This should help to keep the THB supported against the USD in 2015 and 2016. A possible risk to our policy rate outlook is rate hikes in 2016 to stem portfolio outflows in search of higher yields. While this is not our base case, such a move could be supportive of the THB and weigh on the USD/THB in 2016.

Domestic growth should rebound but remain below its 5-year average of 3.9%, supported by the stimulus package. The economy is likely to gain more traction in 2016 though due to the accelerated government spending and the on-going stimulus spending programme of THB54bn. There is unlikely to be a sharp rebound as these should only partially mitigate the drag on the economy from the external environment, increasing downside risks to the THB.

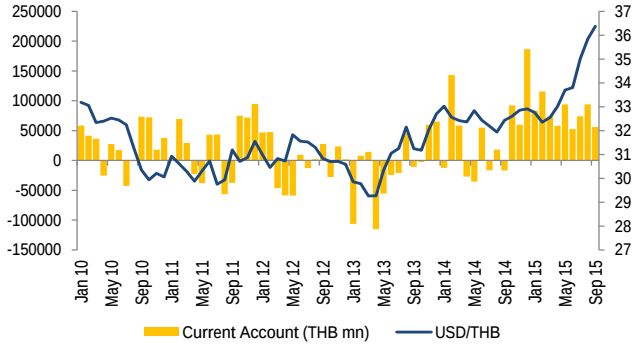
Domestic politics remain a key risk despite the current calm. Underlying political tensions could re-emerge as the drafting of the constitution gets underway again. The planned referendum in 2Q 2016 on the draft constitution could become a referendum on PM Prayuth and the junta instead. No matter which way the referendum goes, the only certainty is that the tenure of the un-elected PM Prayuth and his government could be prolonged. The political uncertainty arising from all of these could weigh on investor sentiments in 2016 and put downside pressure on the THB.

The current account surplus has strengthened to levels not seen in the past 10 years, due largely to the larger contraction in imports compared to exports. However, the surpluses could shrink in 2016 as imports rise on the stimulus package and exports continues to be weighed by the sluggish global economy led by a China-slowdown. This should put downward pressure on the THB.

Portfolio Outflows Weighing On The USD/THB



Current Account Could Shrink In 2016



Source: Bloomberg, CEIC, Maybank FX Research

INR: Of Politics, Inflation and Fed Normalization-

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/INR	66.50 (64.50)	67.50 (65.00)	68.00 (66.00)	67.00 (-)

Previous Forecast in Parenthesis

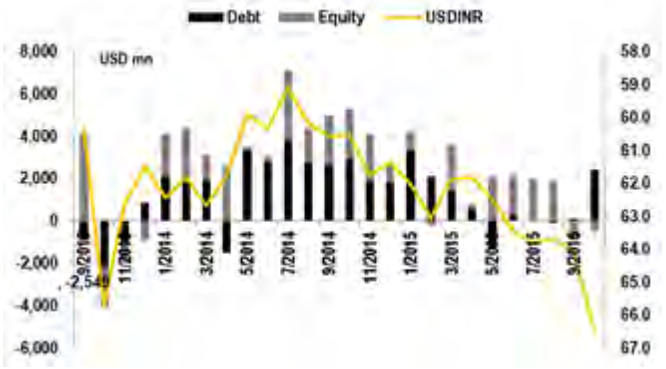
Motivation: Rupee will be at the whims of more election jitters in 2016 with 5 state elections due this year. We see rupee weakness exacerbate in 2H as we anticipate renewed concerns of further Fed hikes then. The run up into the Fed rate hike and apprehension over the current winter parliamentary session and its implications on Modi's GST have seen USD753.1mn of debt and USD434.6mn of equity outflow within Nov alone. In the year ahead, inflation could return on fading base effects, potential global stabilization and El Nino. That should keep RBI on hold for a while, especially after the central bank frontloaded rate cuts in Sep. Sluggish oil prices will continue to benefit private consumption which should have concomitant buffer for the rupee.

Gathering the Political Will. Perhaps the biggest setback of the year for PM Modi was the loss of Bihar election (243 assembly seats out of 4120). There are five more elections in 2016 with 824 more assembly seats at stake. The West Bengal state election will be the litmus test (294 seat). While we are hopeful for BJP to nail the elections this year that should pave the way for the rest of the economic reforms, the presence of elections and the uncertainties of his political progress usually brings fluctuations in the rupee. The election dates are not revealed yet but the confluence of more Fed hikes could take USDINR towards 68.00 sometime in 3Q.

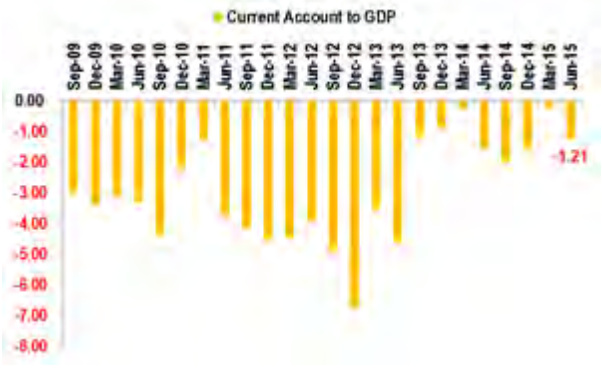
Inflation is Coming. The deflationary global environment had given India the room to frontload rate cuts to boost growth. However, rising food prices amid intensifying El Nino, fading base effects as well as possibly firmer oil prices could raise inflationary pressures in the months ahead, closing the window for further rate cuts. That is still unlikely tilt the RBI towards a rate hike given the absence of private investment. That leaves mild downside risk to the rupee, albeit with support from private consumption starts to provide formidable boost to the economy and as the remnant effects of the rate cuts come through. Another risk to our view is unexpected spikes in oil that could widen India's CAD.

The Pace of Fed Normalization Matters. The rise of the dollar in 2015 had market players pulling out of emerging markets' Asia. Rupee was also weakened, albeit still one of the most resilient in the region. We are watchful of the pace of Fed rate hikes next year and its impact on India's debt, one of the highest in the region.

More Portfolio Swings Ahead



Sluggish Oil Keeps CAD Suppressed



Source: Bloomberg, CEIC, Maybank FX Research

VND: External Headwinds Ahead

Forecast	1Q 2016	2Q 2016	3Q 2016	4Q 2016
USD/VND	22750 (22500)	23000 (22750)	23210 (23000)	23450 (23300)

No Change from Previous Forecast

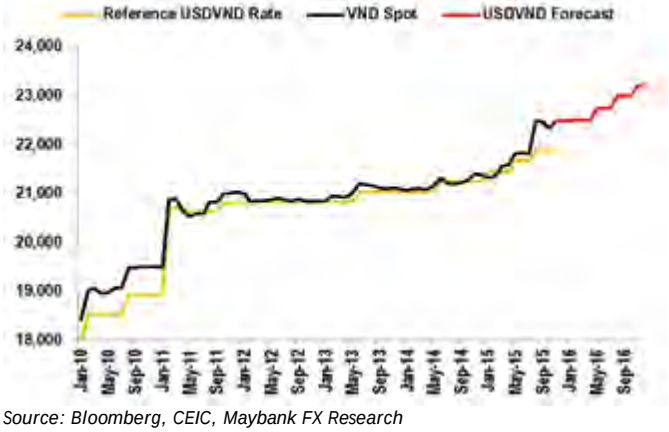
Motivation: The VND is likely to be devalued 4 times next year as we expect slower growth, tightening Fed and weaker CNY. Upside pressure to the USDVND will dominate, especially dragged by the weaker yuan. However, fading base effects and impact of El Nino imply that price pressure could increase this year and that could limit the amount of VND devaluation to 4%.

Headwinds to Growth Remain. We see signs of softening aggregate demand with some deceleration seen in retail sale, exports growth and even imports growth. VND is unlikely to find support from a mild trade deficit. PMI-mfg has been hovering around the benchmark 50.0-level. FDI continues to flow into key sectors – agriculture, forestry and fishery, manufacturing, electricity, gas, air con supply and real estate, which should support growth. Expect sluggish commodity to check price pressures which could rise this year, support private consumption and allow SBV room to devalue the VND around three times next year. Vietnam targets 6.5-7% growth for 2016-2020.

Bending to external pressures of the yuan… Yuan weakness in 2016 should add substantial depreciation pressure to the VND as what we had seen in 2015. SBV was the first to react to the yuan devaluation on 11 Aug for fear of losing exchange rate competitiveness. While we expect another 6% depreciation in the yuan, the SBV might not depreciate the VND accordingly given a likely rise in inflation. Risks are tilted towards a cut for its policy rates as SBV remains growth-focused. We expect at most a 50bps cut to the refinancing-rate to 6.00%. However, the other goal of anti-dollarization also means that the domestic interest rate should not be lowered so as not to discourage residents from holding the VND. The VND will also be susceptible to pressures to the downside

As well as the Fed… The VND will also be at the mercy of the Fed. A cumulative 50bps hike on two separate occasions (2Q and 4Q) from the Fed should be enough to take the USDVND towards 23450.

USDVND – Risks to the Upside



Imports And Exports Slow



Source: Bloomberg, CEIC, Maybank FX Research

Global and Regional FX Outlook & Risks

	ASEAN Debt Risks	A Slower China	Further Easing in DM	Rangy Oil with Upside Risk	TPP	Fiscal Capacity	Domestic Demand	EL Nino	2016 Outlook
USD TWI	🟥	🟥	🟩	🟩	🟩	🟥	🟩	🟩	🟩
EUR	🟩	🟩	🟥	🟨	🟨	🟩	🟩	🟨	🟥
GBP	🟥	🟥	🟩	🟨	🟨	🟥	🟩	🟨	🟩
JPY	🟩	🟥	🟥	🟥	🟩	🟩	🟩	🟨	🟩
CNY	🟥	🟥	🟨	🟨	🟥	🟩	🟨	🟨	🟥
KRW	🟥	🟥	🟨	🟨	🟩	🟥	🟩	🟨	🟥
AUD	🟥	🟥	🟩	🟩	🟨	🟥	🟨	🟥	🟨
NZD	🟥	🟥	🟨	🟨	🟩	🟩	🟨	🟥	🟥
MYR	🟥	🟥	🟩	🟩	🟩	🟨	🟨	🟥	🟨
SGD	🟥	🟥	🟩	🟥	🟩	🟩	🟥	🟩	🟥
IDR	🟥	🟥	🟩	🟩	🟨	🟥	🟩	🟥	🟨
PHP	🟥	🟥	🟩	🟥	🟥	🟩	🟩	🟥	🟥
THB	🟥	🟥	🟩	🟥	🟥	🟩	🟨	🟥	🟥
INR	🟥	🟨	🟩	🟥	🟨	🟨	🟨	🟥	🟥
VND	🟥	🟥	🟩	🟩	🟩	🟨	🟨	🟥	🟥

Source: Maybank FX Research

denotes Positive; denotes Negative; denotes Neutral

2016 FX Outlook Summary

Currency	Direction/ Bias	Motivation
DXY	Mild Bullish	Remain mildly bullish on the 2016 dollar outlook. Firmer US data and rising expectations of the Fed rate hike in Dec 2015 have been supporting the USD. We continue to expect a gradual pace of Fed tightening in 2016 and hence should not see excessive US strength but a rather supported USD.
EUR/USD	Bearish	EUR is expected to face further downside pressure over the next 3 – 6 months amid further monetary easing, as ECB remains worried about subdued inflation. Beyond 6 months, we expect EUR to stabilize around 1.04 levels and gradually inch higher towards 1.08 into 2016-end, as monetary easing slows amid a pick-up in inflation off the back of oil prices stabilizing.
GBP/USD	Bullish	Remain positive in GBP outlook over the forecast horizon, notwithstanding some near term weakness towards 1.48-1.50 levels in the next 2-3 weeks before rebounding. Ongoing economic recovery warrants a shift in monetary policy stance at some point in 1H 2016. This will result in monetary policy divergence between BoE and other G7 majors.
AUD/USD	Neutral	We see intermittent spikes on fiscal and monetary boosts from China, keeping AUD in a volatile range with no directional bias for the currency. Key swings are still China's growth prospects but much of the commodity slump is in the price.
NZD/USD	Bearish	Bearish on the NZD, due to high risk of current account deficit widening further, declining ToT amid weakening demand, moderating growth outlook, benign inflation, soft dairy prices for longer and growing divergence of monetary policy between Fed and RBNZ.
USD/JPY	Bearish	Positive on the JPY in 2016 as no additional easing measures is expected from the BOJ. Near-term weakness by end-2015 is possible as reflected in market positioning (increase in net JPY-shorts) in anticipation of the Fed lift-off in Dec. This should encourage further fund outflow in search of higher returns but could be transitory as China-led global growth and US political risks weigh on the pair. The riskier global environment in 2016 could lead to a flight to quality/safe-haven plays that could weigh on the USD/JPY.
USD/KRW	Bullish	Maintain a bearish bias in KRW. Risk of economic recovery stalling (dragged by sluggish exports, which could be structural in nature), risk sentiment (KRW remains high beta currency) and growing monetary policy divergence between Fed and BoK are some of the factors that could exert downside pressure on the KRW. But in the near term (to 1Q 2016), KRW could see some respite due to supported risk sentiment (global monetary conditions remain accommodative) and cyclical recovery amid budget and monetary stimulus efforts.
USD/CNY	Bullish	We are biased towards a weaker CNY outlook in 2016. China will enter the next half of the decade with lower growth targets, high debt and a more market determined yuan. Prevailiing current account surplus will keep CNY from depreciating more than 7% of current level of around 6.4.

USD/SGD	**Bullish**	**Outlook for the SGD remains dim in 2016 even though no further moves by the MAS are expected. Upside moves to the USD/SGD are expected given the SGD remains overvalued as reflected by our UIP model. Downside risks from domestic and external headwinds should put downside pressures on the USD/SGD, though downside should be limited by the persistent balance of payments surpluses.**
USD/MYR	**Mild Bullish**	Still see MYR weakness but likely to be limited on a combination of drivers including, slowly dissipating concerns of domestic issues, relative stability in oil prices and relatively resilient domestic demand (to offset some external demand concerns).
USD/IDR	**Bullish**	IDR to remain under pressure in 2016 as both domestic and external challenges persist. No rate cut is expected at end-2015 as BI is likely to wait until policy clarity in the US and China becomes clearer but two rate cuts are likely in 2016 to complement the series of stimulus measures announced by the government to support the underperforming economy. The positive carry on government debt that has so far encouraged foreign fund inflows could reverse as these funds seek better returns elsewhere. Risks are thus to the upside for the USD/IDR in 2016.
USD/PHP	**Bullish**	Remain bearish on the PHP due to the upcoming presidential and general elections in May 2016, and risks from the El Nino weather phenomenon and possible slowdown in overseas remittances from the weak global economy. Possible bright spot preventing the further depreciation of the PHP against the USD is the BSP keeping rates on hold for 2016, which acts as a backstop for the PHP amid FX market volatility.
USD/THB	**Mild Bullish**	Expect further upside to the USD/THB in 2016 due to the continued underperformance of the economy, despite the stimulus package. Political uncertainty could weigh on investor sentiments and put downward pressure on the THB. Move lower is unlikely to be as severe as its regional peers due to the central bank holding its policy rate steady as well as it persistent current account surpluses.
USD/INR	**Mild Bullish**	INR will be at the whims of more election jitters in 2016 with 5 state elections due this year. We see rupee weakness exacerbate in 2H as we anticipate renewed concerns of further Fed hikes then. Sluggish oil prices will continue to benefit private consumption which should have concomitant buffer for the rupee.
USD/VND	**Bullish**	The VND is likely to be devalued 4 times next year as we expect slower growth, tightening Fed and weaker CNY. Upside pressure to the USDVND will dominate, especially dragged by the weaker yuan. However, fading base effects and impact of El Nino imply that price pressure could increase this year and that could limit the amount of dung devaluation to 4%.

Source: Maybank FX Research

2016 Asian Monetary Policy Summary

	Policy Measure	Direction/Bias	Maybank Expectations 2016
JPY	Monetary Base	Easing Bias	No additional measures are expected as the BOJ expects the 2% inflation target to be achieved in 2H FY 2016.
CNY	1-Yr Lending Rate	Easing	Expect at most another 25 bps cut to 1Y lending rate, a most direct way to lower cost of financing. RRR to be lowered by 200bps in intervals to support liquidity conditions.
KRW	Base Rate	Easing Bias	BoK is expected to maintain a "wait-and-watch" stance and keep policy rate on hold at 1.5% for 2016 amid a cyclical recovery in 1Q 2016. Risk is tilted towards a cut in 2H 2016 should growth and inflation fail to pick up.
SGD	Exchange Rate	Easing Bias	Hurdles remain high for additional moves by the MAS as core inflation should tick higher and growth is not expected to tank in 2016.
MYR	O/N Policy Rate	Neutral	Expect BNM to keep policy rate on hold at 3.25% for 2016 as BNM sought to maintain accommodate monetary policy to support domestic demand. BNM likely to focus on market liquidity which is in line with moves to encourage "onshoring" of local corporates currency earnings and deposits.
IDR	O/N Reference Rate	Easing	Two rate cuts are expected - once each in 1H and 2H 2016 - to reduce domestic borrowing cost and spur growth amid a more benign inflationary environment.
PHP	O/N Reverse Repo	Neutral	No policy rate adjustments are likely given its the strong economic fundamentals, including current account surpluses, outperforming economic growth, healthy import-cover ratio and short-term debt-to-reserve ratio.
THB	1-Day Repo Rate	Easing Bias	No rate adjustments are expected in 2016 as a weak THB is not seen as a panacea for its export woes; given the imminent Fed fund rate hike; and BoT's views that fiscal policy is more appropriate than monetary policy to stimulate the economy.
INR	Policy Repo Rate	Easing Bias	We do not see further interestrate adjustments amid rising inflation risks and still decent growth prospects.
VND	Refinancing Rate	Easing Bias	Expect SBV to lower refinancing rate by 50bps to 6.00% to support investment and consumption.

Source: Maybank FX Research

2016 FX Forecasts

	End Q1-16 f	End Q2-16 f	End Q3-16 f	End Q4-16 f
USD/JPY	122.00	124.00	122.00	120.00
EUR/USD	1.0400	1.0400	1.0600	1.0800
GBP/USD	1.5600	1.5800	1.6000	1.6200
AUD/USD	0.7400	0.7000	0.6800	0.7000
NZD/USD	0.6400	0.6100	0.6200	0.6300
USD/SGD	1.4100	1.4200	1.4400	1.4700
USD/MYR	3.9500	4.1000	4.1500	4.1500
USD/IDR	14000	14200	14400	14500
USD/THB	35.50	36.00	36.50	36.50
USD/PHP	48.00	48.00	47.80	47.80
USD/CNY	6.55	6.60	6.65	6.70
USD/HKD	7.80	7.80	7.80	7.80
USD/TWD	33.30	33.40	33.40	33.50
USD/KRW	1140.00	1160.00	1180.00	1200.00
USD/INR	66.50	67.50	68.00	67.00
USD/VND	22750.00	23000.00	23210.00	23450.00
EUR/CNY	6.81	6.86	7.05	7.24
EUR/MYR	4.11	4.26	4.40	4.48
SGD Crosses	**End Q1-16 f**	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**
100 JPY/SGD	1.1557	1.1452	1.1803	1.2250
EUR/SGD	1.4664	1.4768	1.5264	1.5876
GBP/SGD	2.1996	2.2436	2.3040	2.3814
AUD/SGD	1.0434	0.9940	0.9792	1.0290
NZD/SGD	0.9024	0.8662	0.8928	0.9261
SGD/MYR	2.8014	2.8873	2.8819	2.8231
SGD/IDR	9929	10000	10000	9864
SGD/THB	25.18	25.35	25.35	24.83
SGD/PHP	34.04	33.80	33.19	32.52
SGD/CNY	4.65	4.65	4.62	4.56
SGD/JPY	86.52	87.32	84.72	81.63
SGD/HKD	5.53	5.49	5.42	5.31
SGD/TWD	23.62	23.52	23.19	22.79
SGD/KRW	808.51	816.90	819.44	816.33
SGD/INR	47.16	47.54	47.22	45.58
Other Crosses	**End Q1-16 f**	**End Q2-16 f**	**End Q3-16 f**	**End Q4-16 f**
EUR/CNY	6.81	6.86	7.05	7.24
EUR/MYR	4.11	4.26	4.40	4.48
JPY/MYR	3.24	3.31	3.40	3.46
MYR/HKD	1.97	1.90	1.88	1.88
MYR/CNY	1.66	1.61	1.60	1.61
GBP/MYR	6.16	6.48	6.64	6.72
AUD/MYR	2.92	2.87	2.82	2.91
NZD/MYR	2.53	2.50	2.57	2.61
MYR/JPY	30.89	30.24	29.40	28.92
MYR/IDR	3544	3463	3470	3494
MYR/INR	15.95	16.36	16.84	16.46
MYR/KRW	289	283	284	289
MYR/PHP	11.59	12.15	11.71	11.52

Source: Maybank FX Research as at 30 Dec 2015.
**These forecasts are meant to be indicative of FX trends and not meant to be point forecasts.*

STRATEGY

Regional

The Year As We See It

Seeing The Shrink

Not So Pessimistic on Asian Equities

We are no longer as pessimistic on Asian equities as we were a year ago. We now think the bottoming process for the Asian markets has begun in both absolute terms and relative to global markets.

The reasons include import breakdown data as readings are consistent with the fact that a number of Asian countries are already in recession. Against this backdrop, we reckon there is a much greater likelihood of more proactive and effective fiscal policy. At the same time, valuations in the region typically only get lower during crises.

Rising Corporate Bond Risk Aversion and the USD

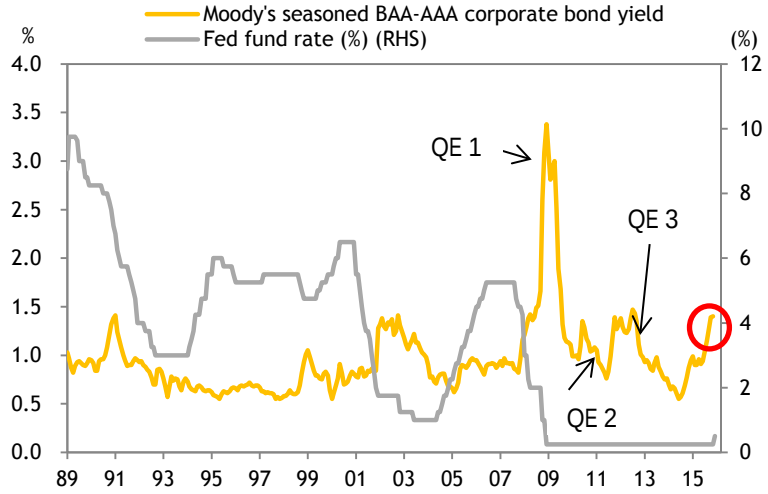
Another reason has to do with us being less bullish on the USD. Our cover chart shows the spread between US Baa and Aaa corporate bonds. This indicator is a measure of risk aversion in the investment grade corporate bond market. The latest observations are consistent with periods of Fed easing rather than tightening! If the Fed is unable to raise rates, we could see a softer USD as carry gets less attractive. Even a flat to mildly rising USD could favour Asian equities.

To be sure there are risks, particularly in 1Q16 when data may be poor and a weaker RMB remains an overhang. And while we reckon equity returns over the full year may be only single digit, by year-end we are likely to be more positive than less so.

Be Opportunistic and Add Risk to Portfolios

We recommend being opportunistic and inclined to add risk to the portfolio rather than be in capital-preservation mode. From a country perspective, we are raising China to Neutral from Underweight. We also raise Indonesia to Overweight from Underweight.

From a sector perspective, we find some relative valuations have gotten too extended. We recommend long industrials (playing to the infrastructure theme), short consumer staples. And long materials, short software and Internet.



Source: Board of Governors of the Federal Reserve System (US), Moody's Seasoned Baa Corporate Bond Yield© [BAA], Moody's Seasoned Aaa Corporate Bond Yield© [AAA],retrieved from FRED, Federal Reserve Bank of St. Louis, Bloomberg, Maybank Kim Eng

Analysts

Willie Chan
(852) 2268 0631
williechan@kimeng.com.hk

Sadiq Currimbhoy
(65) 6231 5836
sadiq@maybank-ke.com.sg

Three Ideas:

Market: This year we think will mark the bottom of Asian equities in both absolute terms and relative to global markets. We would be opportunistically adding risk into portfolios.

Country: Raising China to Neutral; Raising Indonesia from Underweight.

Sector: Long Industrials, Short Staples; Long Materials, Short Software.

Bottoming process for Asian equities

We are not as negative on Asian equity markets as we were a year ago. We think Asian markets are now in a volatile bottoming process, both in absolute terms and relative to global markets.

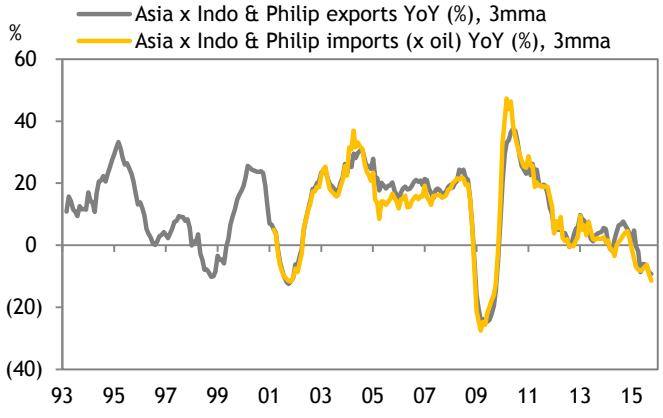
First, several indicators show that some parts of Asia are already in recession. Second, while we remain USD bulls, we suspect upside for the USD may not be very strong in 2016. Third, we see rising pressure on developed markets, especially the US market. Fourth, Asian valuations are near trough levels, suggesting a great deal of bad news has been priced in. We think the market will remain volatile, particularly in 1Q16 as there is likely to be more downside pressure on the economy and earnings. However, all this suggests the bottoming process for Asian equities has begun. We are more inclined to put capital to work opportunistically in 2016 rather than be in capital-conservation mode.

One: On some metrics, much of Asia is already in recession (so governments start to flex fiscal muscle)

The charts below show the trends of Asian exports, imports excluding oil and capital goods imports. All three are at levels where in the past, Asia would be considered to be at recessionary levels. Notwithstanding that some imports are used for re-export, and export growth is weak, the charts show the recent deterioration has occurred even after a few years of lacklustre growth.

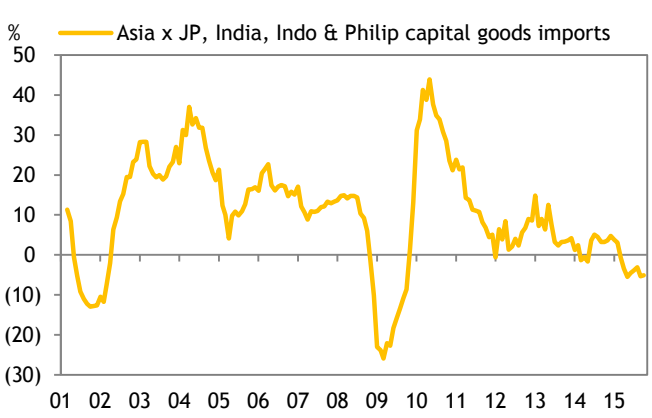
And as a measure of capex trends, the chart of Asia x Japan, India, Indonesia and the Philippines' capital goods imports shows a rate of growth last seen during the 2001 and 2009 global recessions.

Fig 1: Asia x JP, Indo & Philip exports and non-oil imports YoY



Source: CEIC, Maybank Kim Eng

Fig 2: Asia x JP, India, Indo & Philp's capital goods imports



Source: CEIC, Maybank Kim Eng

The table below shows that with the exception of the Philippines, the rest of the Asian countries recorded negative YoY growth of non-oil imports and in November, Indonesia had the biggest decline (-50% YoY). Except Korea and the Philippines, the YoY growth of capital goods imports also shows that Asian capex is firmly in contraction mode.

Fig 3: Exports, imports, non-oil imports & capital goods imports, YoY, 3mma

	Exports YoY (%)	Imports YoY (%)	Non-oil imports YoY (%)	Capital goods imports YoY (%)
China	-6	-16	-12	-6
Hong Kong	-4	-8	-7	-2
India	-22	-26	-15	-8
Indonesia	-19	-24	-50	-15
Korea	-10	-19	-10	3
Malaysia	-16	-23	-20	-15
Philippines	-11	10	15	21
Singapore	-15	-18	-5	-1
Taiwan	-14	-19	-15	-1
Thailand	-7	-18	-13	-7

Source: CEIC, Maybank Kim Eng

Government response & infrastructure

The extreme pressure is resulting in government fiscal action, either in the form of handouts or greater infrastructure spending (Suhaimi Ilias's 2016 Outlook & Lookouts, figure 7, Asia – Fiscal Balance & Government Debt (% of GDP, 2016E), page 8) For example, the Indonesian government will increase the infrastructure budget by 8.3% to IDR314t - it accounts for 15% of the total 2016 budget, the highest in history. The list of infrastructure projects includes power plants, sea ports, airports and toll roads. Our Malaysia Head of Research, Wong Chew Hann, expects an action-packed year based on our estimate of MYR83b worth of infrastructure jobs to be awarded, which will be a record high after MYR46b in 2012. This would offset slower property-related construction jobs due to the soft property market. Beyond 2016, the KL-SG HSR and KVMRT 3 are the major infrastructure projects to sustain construction jobs momentum.

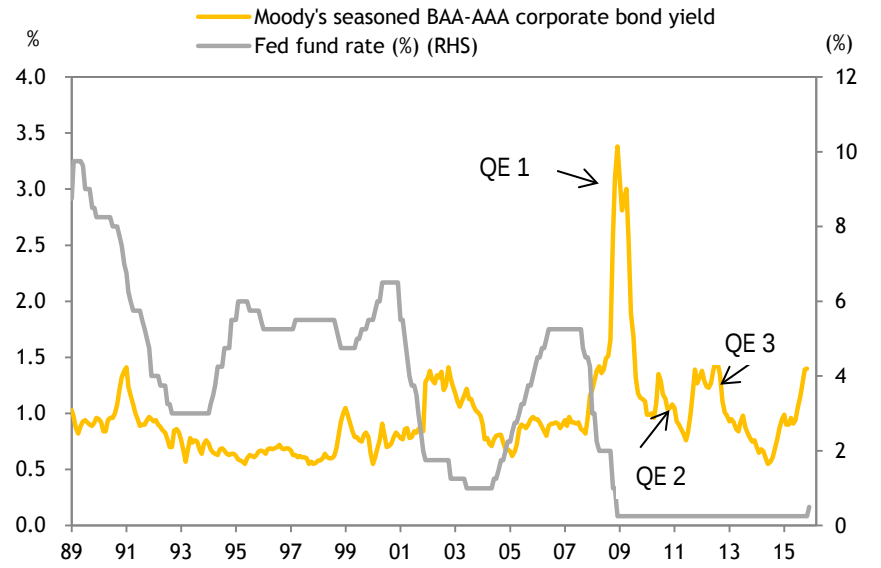
Two: Rate hikes and the USD may not be very strong

Trends in the corporate bond market put into question any Fed rate hikes. While the high-yield market spike has been well documented, we wanted to look at investment grade trends.

The chart below shows Moody's Baa less Aaa corporate bond spreads. This is a measure of risk aversion in the investment grade corporate bond market: a widening spread means investors want AAA (most safe) more than BAA.

In the past, when the investment grade bond yield spread widened to the current levels, the Fed cut rates or even started a new round of quantitative easing. Even in 2002, a widening spread was met with more easing.

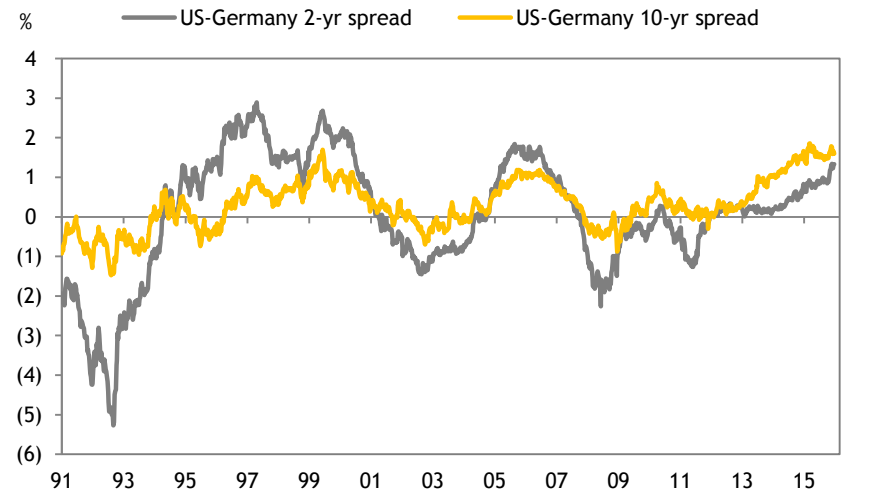
Fig 4: Moody's seasoned Baa-Aaa corporate bond yield & Fed fund rate



Source: Board of Governors of the Federal Reserve System (US), Moody's Seasoned Baa Corporate Bond Yield© [BAA], Moody's Seasoned Aaa Corporate Bond Yield© [AAA],retrieved from FRED, Federal Reserve Bank of St. Louis, Bloomberg, Maybank Kim Eng

In this case, the carry between US and German's 2-year may not improve much from the current levels and further upside for USD would be limited.

Fig 5: US and German bond spreads

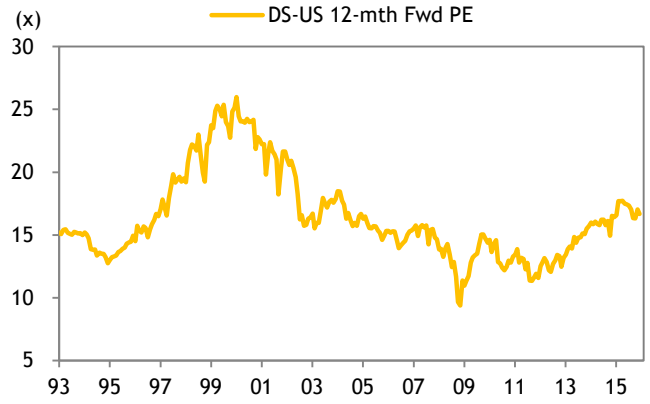


Source: Bloomberg, Maybank Kim Eng

Three: rising pressure on developed markets, especially the US market

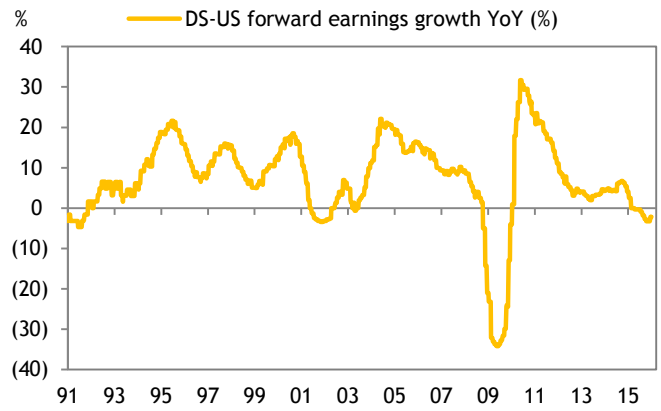
The PE valuation for the US market is not cheap and is back to 2003 levels. However, the current forward earnings growth is far worse than at that time, marking the worst growth since 2009.

Fig 6: DS-US 12-mth forward PE



Source: DataStream, Maybank Kim Eng

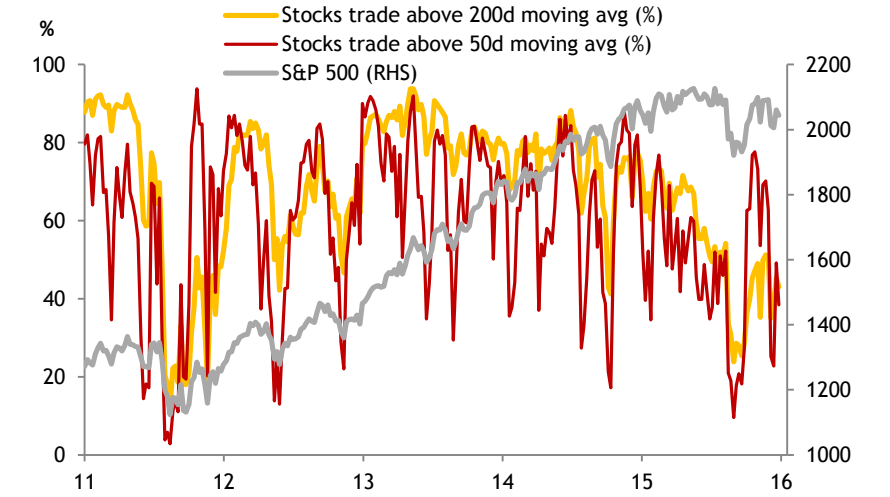
Fig 7: US forward earnings growth YoY (%)



Source: DataStream, Maybank Kim Eng

The S&P has been trading in a narrow range but the number of stocks that are trading at above their 50-day and 200-day moving averages continue to decline. This poor market breadth may cause market volatility in 2016, particularly in 1Q.

Fig 8: Stocks trading above 50D & 200D moving average (US)

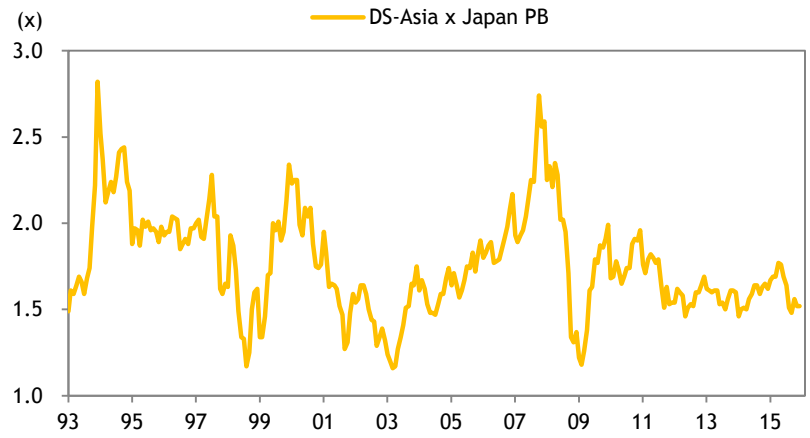


Source: Bloomberg, Maybank Kim Eng

Four: What's Priced in & Asian valuations near trough levels

The following chart shows the DS-Asia ex Japan is trading at below 1.5x PB. The current valuation is at much more attractive levels than last year and typically goes below that during crises.

Fig 9:DS-Asia ex Japan, PB



Source: DataStream, Maybank Kim Eng

Overhangs: Weaker RMB & Global Credit Events

One overhang in Asia remains an overvalued RMB (Dec 2014 "Must… Fix… This…" and August 2015, "RMB: The Force Awakens"). But with a more gradual approach to currency weakening – and an emphasis on closing capital-account loopholes, we may see a more gradual weakening trend. The risk is of course another sharp depreciation.

Second, rising risk aversion in the investment grade corporate bond market (let alone high yield) is a worrying trend. This suggests there could be more bad debts on the horizon. Such a trend could push back loan creation and therefore slow any recovery in global economic activity.

Two Countries: China and Indonesia

China: Raise to Neutral from Underweight

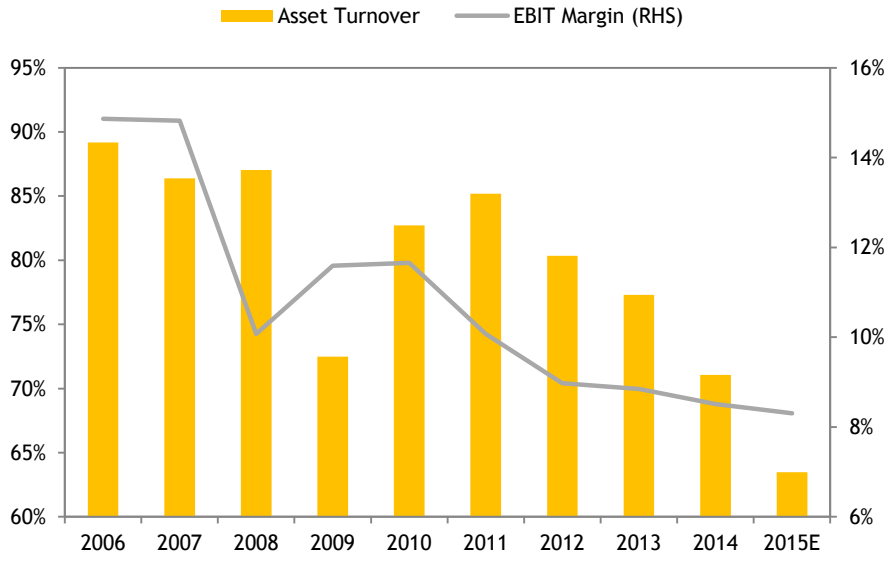
The wild card for Asian equities is China and the potential for a weaker RMB. We continue to think the RMB is set to weaken further but the close monitoring of, and enforcement of some controls on, capital account flows means more gradual currency weakening. Furthermore, a weakening domestic environment will mean more fiscal spending. In short, we think China is set to be lacklustre in 2016 but less of a drag on regional and global assets.

Supply-side reform takes time

During the meeting for the five-year economic plan in Oct 2015, policymakers decided to pursue a significant shift in strategy to spur economic growth. They will implement supply-side reforms that will deal with overcapacity and excess labour in state-owned industries as well as offer tax cuts, among other measures. This comes after their year-long efforts to stimulate demand with aggressive interest-rate cuts and fiscal spending have yielded little results. It is now clear that consumer spending alone won't be enough to drive economic growth. We argued in our first report (Dec 2014 "Must… Fix… This…") that China's overcapacity is pervasive. The following chart shows that EBIT margin has continued to fall and asset turnover has declined sharply, despite all the stimulus measures in the past year. Falling asset turnover means that every dollar on the balance sheet generates less sales. It indicates that the overcapacity problem has not improved at all.

We believe it will take a lot of time and pain to solve this issue. But as shown in figure 3, Chinese capital goods imports are negative now suggesting that capex cuts have already begun.

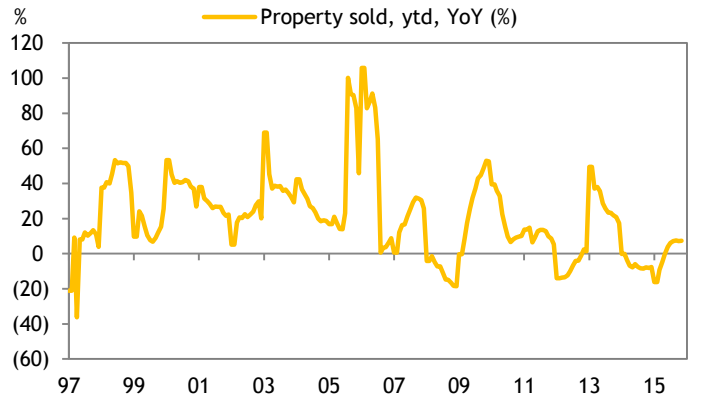
Fig 10: China EBIT margin and asset turnover



Source: Maybank Kim Eng

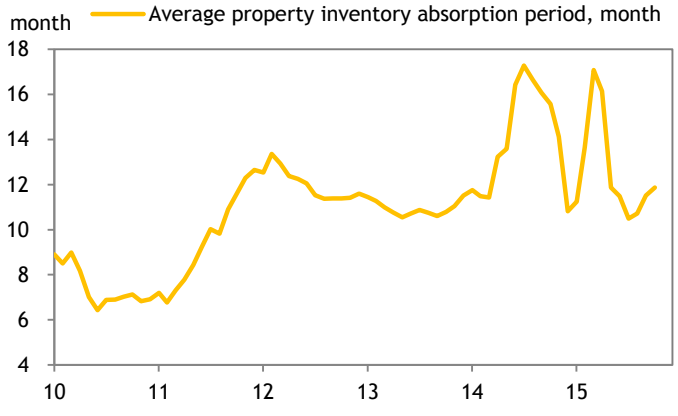
The government is also trying to support the property market again after all the tightening measures in the past few years. The chart on the left shows property sales momentum picked up modestly in the past few months due to policy relaxation and the lower interest-rate environment. Housing inventory in the nine major cities is also back to 2013 levels. On average, it takes around 11 months to absorb property inventory; around 5-10 months in tier-1 cities.

Fig 11:China property sales YoY



Source: CEIC, Maybank Kim Eng

Fig 12: Avg property inventories for China's nine major cities

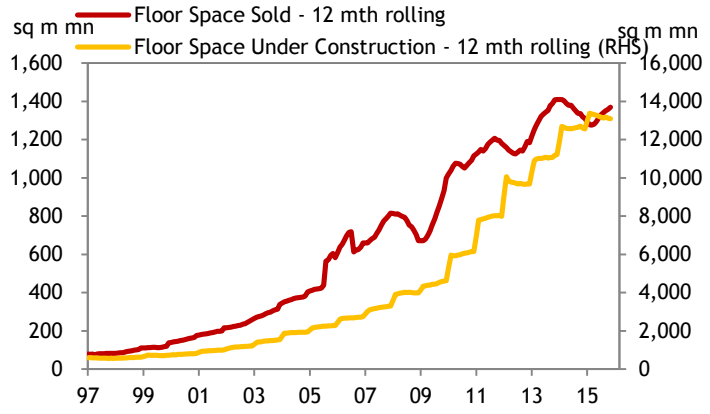


*Source: Bloomberg, Maybank Kim Eng *9 major cities are Beijing, Shanghai, Guangzhou, Shenzhen, Dalian, Fuzhou, Changchun, Hangzhou, Nanchang*

However, the following chart shows that there has been a huge volume of floor space under construction in the past few years. The yellow line shows that there was more than 13 trillion sq metres of floor space under construction in the past 12 months. This means a big potential supply is coming. The chart on the right shows that the floor space under construction is almost 10x more than the floor space sold; it would take a long time to digest the potential new supply. This is why the government is trying to boost property demand and reduce housing

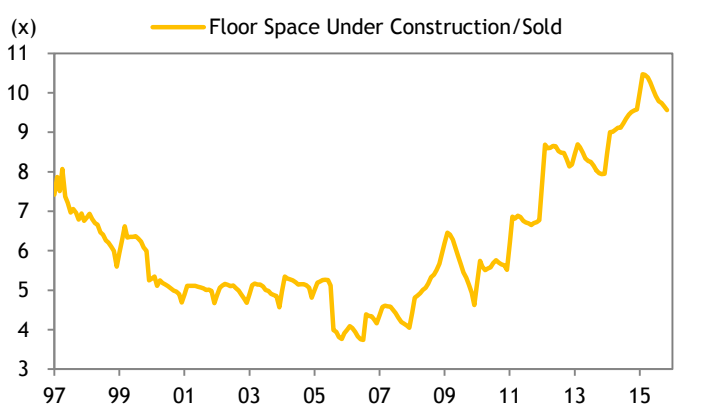
inventory by converting rural migrants into urban residents. We think the government will need to provide subsidies or tax cuts to support people buying properties in the second or third-tier cities, otherwise developers would need to cut prices later. However, we think it will take a lot of time to reduce the inventory unless the economy improves again.

Fig 13: Property under construction & sold



Source: CEIC, Maybank Kim Eng

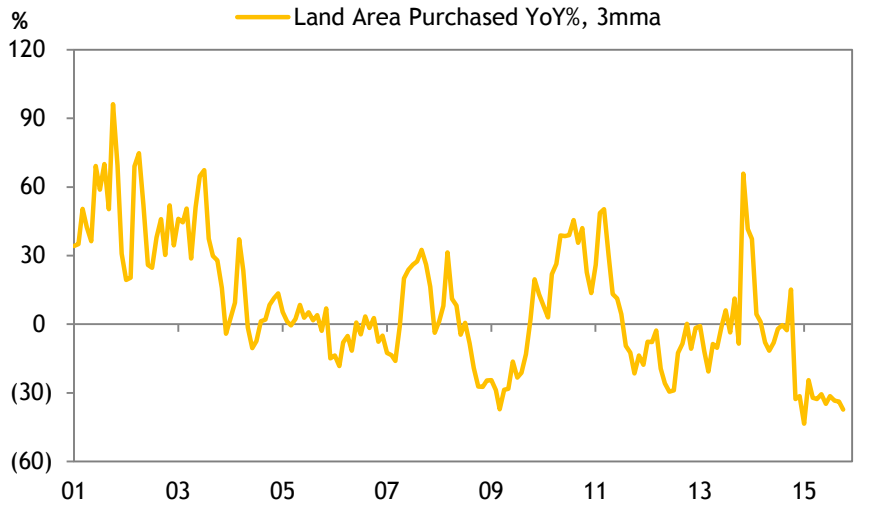
Fig 14: Ratio between floor space under construction & sold



Source: CEIC, Maybank Kim Eng

This can explain why developers do not increase their land banks even though property prices and sales improved in the past few months. Developers are still focused on reducing inventory.

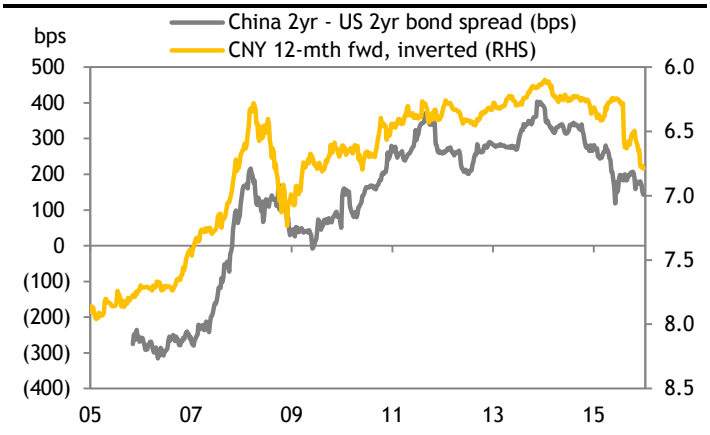
Fig 15: Land area purchased YoY, 3mma



Source: CEIC, Maybank Kim Eng

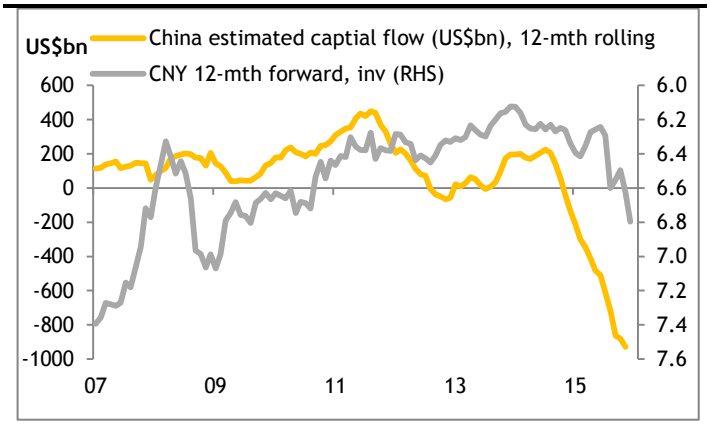
We expect China will maintain a loose monetary policy in 2016. However, we don't expect it will be as aggressive as in 2015, otherwise, the spread between China's 2-year bond yield and the US's 2-year bond yield would narrow further. This could signal deterioration in the carry and could add further pressure on the RMB. Our Regional Economist, Suhaimi Ilias, expects at least one more interest-rate cut in China within 1H16 and we expect the RMB to still be under pressure.

Fig 16: China & US 2-yr bond spread & CNY 12-mth fwd



Source: Maybank Kim Eng

Fig 87:China capital outflow

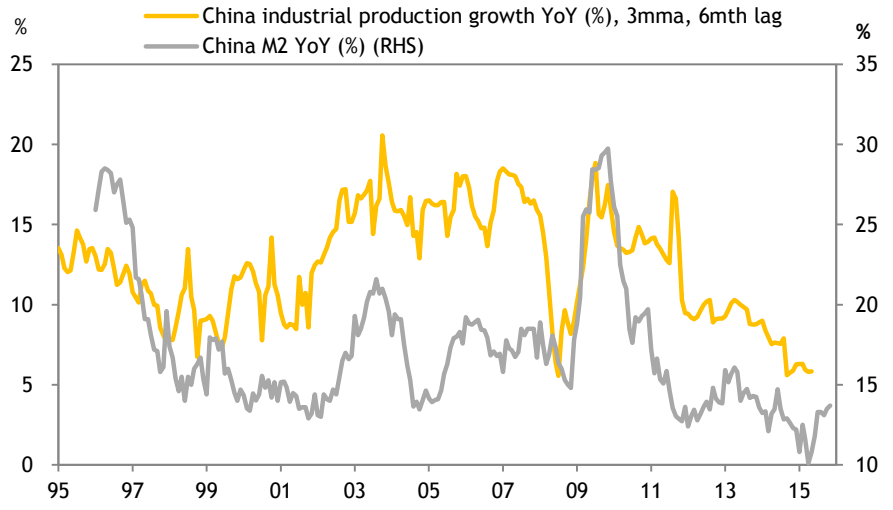


Source: Maybank Kim Eng

Bright spots: industrial production and fiscal expenditure

Even though China's big picture still looks gloomy, there are still some signs of growth stabilization. The latest industrial production growth has stabilized – thanks to the strong production growth of the automobile sector, which jumped 16% YoY in Nov'15. Historically, M2 growth has led industrial production growth by six months. Recently M2 growth improved.

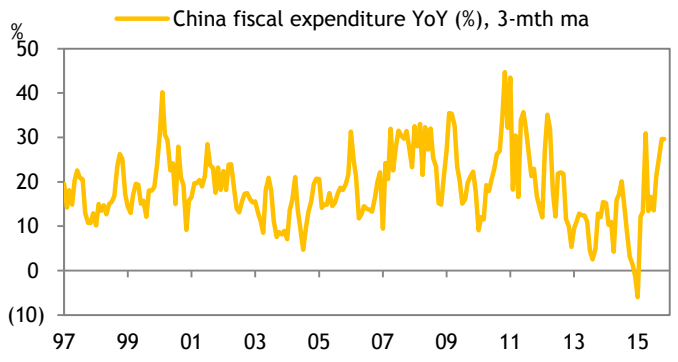
Fig 98: China industrial production and M2 growth, YoY



Source: CEIC, Maybank Kim Eng

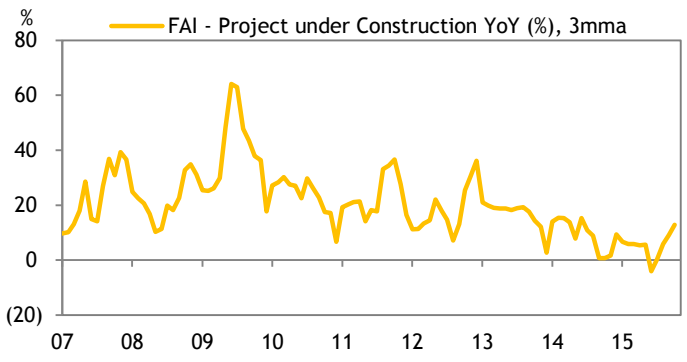
The following chart shows that in the past few months, China's fiscal expenditure was very aggressive (surging 26% YoY in Nov'15), in order to support economic growth. The number of projects under construction has also continued to pick up in the past four months. We continue to favour the machinery sector.

Fig 19: China fiscal expenditure, YoY (%), 3mma



Source: CEIC, Maybank Kim Eng

Fig 20: Projects under construction, YoY (%), 3mma

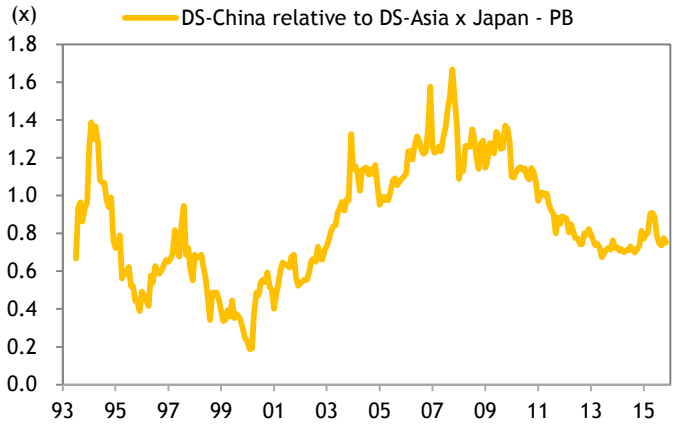


Source: CEIC, Maybank Kim Eng

Upgrade China to Neutral

We upgrade China to Neutral from Underweight. The market may still be range-bound in 1Q16 but we think the market turning point might emerge in 2Q16. We expect there will be more signs of growth stabilization, particularly in industrial production and infrastructure areas. Also, we believe the DXY might not be as strong as the market expects as we don't think the US will aggressively raise rates in 2016, so it is very likely the DXY might be range bound only. This is positive to emerging markets and China. In addition, the downtrend of upgrade/downgrade ratio has stabilized and almost hit the low-end of the range. China is trading at around 1x PB, so it should have already priced in most of the negative factors and therefore we believe the market upside potential has started more than downside potential.

Fig 21: DS-China to Asia x Japan, relative PB



Source: DataStream, Maybank Kim Eng

Fig 22: China's upgrade / downgrade ratio

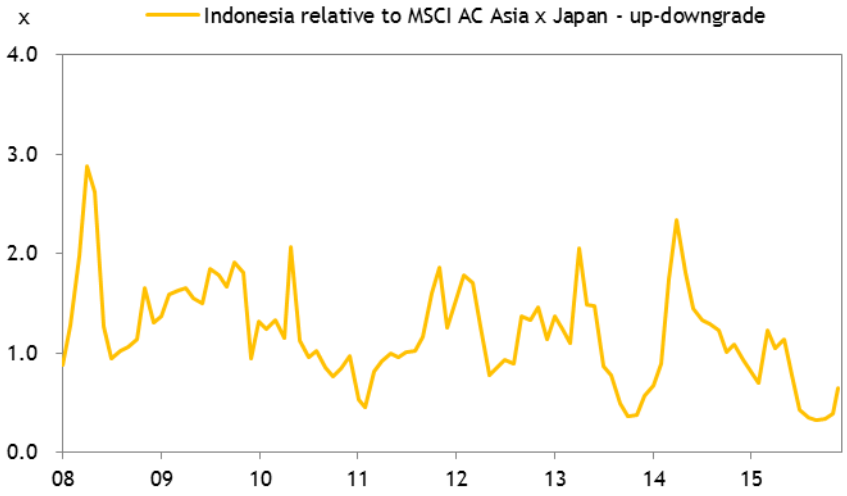


Source: MSCI, Maybank Kim Eng

Closing Negative Stance: Now Overweight and Opportunistic on Indonesia

Within Asia ex Japan, Indonesia was one of the worst performing countries in 2015 in USD terms. However, we would be more opportunistic on Indonesia in 2016. The number of upgrades in Indonesia have improved relative to the Asia x Japan. Isnaputra Iskandar, our Head of Indonesia, expects earnings will start to improve in 4Q15 and 2016, led by domestic sectors. He thinks easing monetary policy, improvements on the FDI front and infrastructure will be the main focus for the market. Our economist thinks Bank of Indonesia will start to cut rates in 1Q16 given high real rates and lower external risks. A total cut of 50bps is possible in 2016.

Fig 23: Indonesia relative to Asia x Japan's upgrade / downgrade ratio



Source: MSCI, Maybank Kim Eng

The government will increase the infrastructure budget by 8.3% to IDR314t - it accounts for 15% of the total 2016 budget. Our infrastructure analyst, Pandu Anugrah, favours Waskita Karya due to: 1) strong capital structure; 2) soaring order book; and 3) expansion into toll-road projects. Refer to Isnaputra and the team's Indonesia Year Ahead on page 42, figure 25.

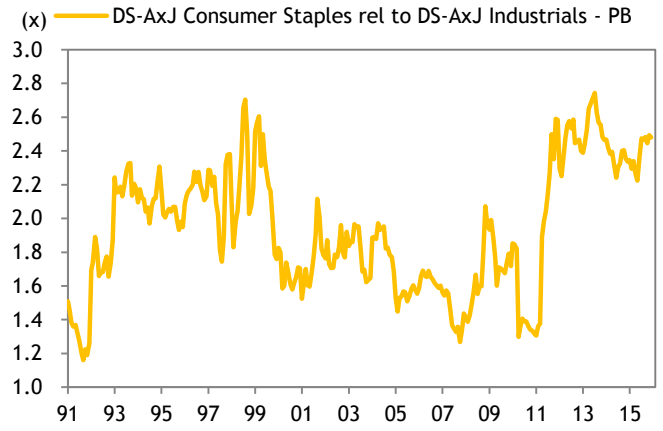
Sector Thoughts

With a more positive disposition towards Asian markets, our sector trades are more cyclically positioned.

Relative trades (i): long industrials, short consumer staples

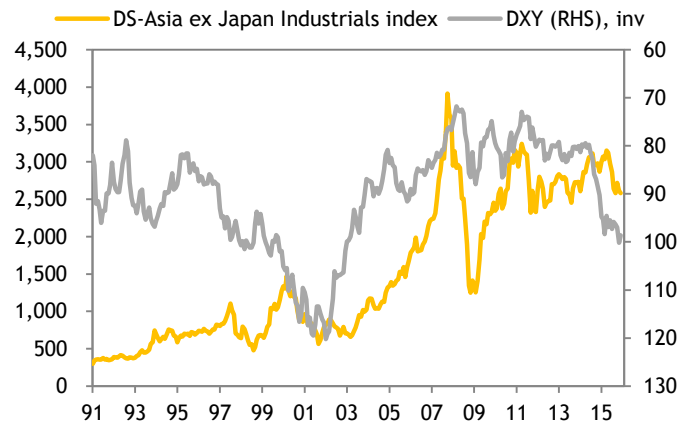
The following chart shows the relative PB of the DS-Asia ex Japan consumer staples relative to industrials has hit almost the peak. In our stress test report in Sep'-15, we highlighted that the consumer sector is less resilient than industrials, a reflection of the adjustment the latter sector has been making given what has been a prolonged regional economic slowdown. (Unmasking Asia: I So Wanna Be Resilient, September 10, 2015). Our consumer staples analyst, Jacqueline Ko, also found her clients are bearish on the consumer staples sector because of rich valuations and uncertain earnings. She expects further downside given the ex-growth prospects of the existing products and demanding valuations (Is the sector structurally dead?, October 30, 2015). We are more positive on the industrial sector, especially the machinery stocks, because of the number of infrastructure projects going to start, as we mentioned earlier. In addition, the bottom right-hand chart shows that if the DXY may not be strong this year, the industrial sector will benefit.

Fig 24: DS-Asia x Japan Consumer staples rel Industrials, PB



Source: DataStream, Maybank Kim Eng

Fig 25: DS-Asia x Japan Industrials & DXY, inverse



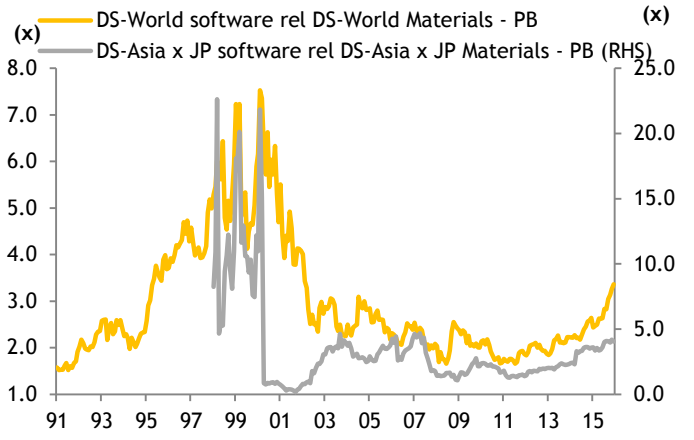
Source: DataStream, Maybank Kim Eng

Relative trades (ii): long materials, short software

The following chart shows the relative PB of the DS-World software relative to materials. We use global data given the availability of history.

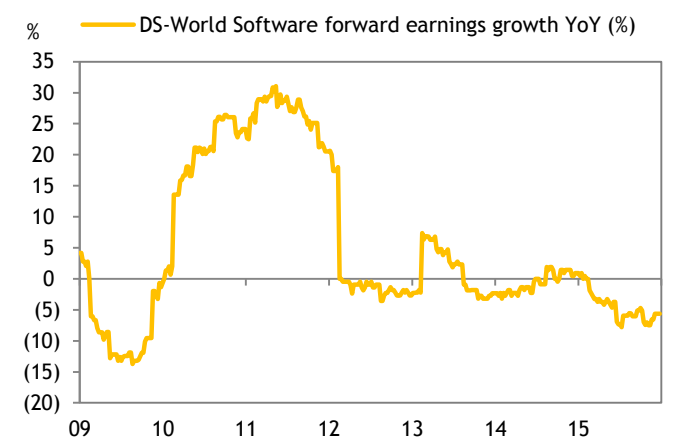
We are at the largest relative valuation divergence for these two sectors since the dotcom bubble in 2000. However, the bottom right-hand chart shows that the forward earnings growth of the DS-World software is on a downtrend. Therefore, we think the current valuation for the software sector is unsustainable.

Fig 106: DS- World & Asia x JP software relative materials, PB



Source: DataStream, Maybank Kim Eng

Fig 117: DS-World software forward earnings growth YoY (%)

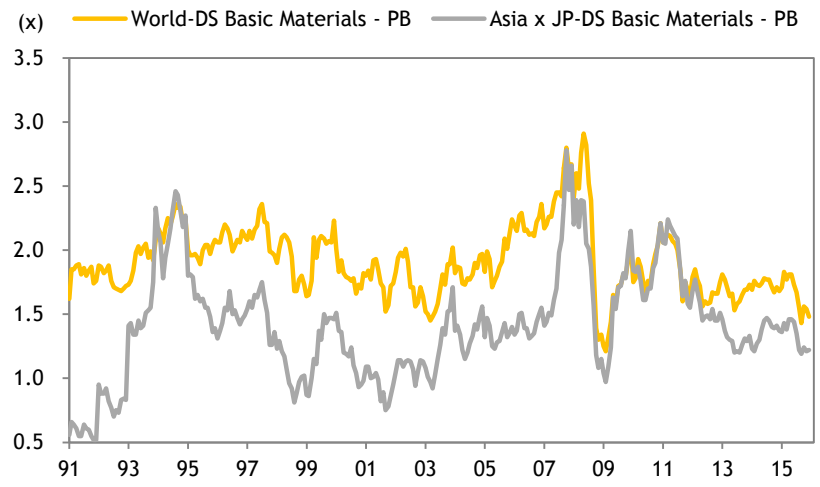


Source: DataStream, Maybank Kim Eng

However, we think a lot of negative news on the materials sector appears to have been priced in - the DS-World materials is trading at 1.5x PB, which is at the bottom valuation range in the past 25 years.

While in relative terms, Asia ex Japan materials to software looks extended, in absolute terms, the PB has been lower. However, our team sees greater infrastructure projects in Asia going forward and a Chinese government that is getting serious about cutting excess capacity, especially in the copper, aluminium and steel sectors. Therefore, if the DXY is going to be range bound only in 2016, materials might have a strong bounce from the current deep valuation.

Fig 28: DS- World & Asia x Japan basic materials PB



Source: DataStream, Maybank Kim Eng

Finally, our Internet analyst, Mitchell Kim, notes that Chinese e-commerce stocks are coming off a 50% 3-year GMV CAGR into a slower 23% 3-year CAGR cycle. As top-line growth slows, he believes visibility on profitability will play an increasingly more important role going forward. He is Neutral on the sector and does not favour JD.com because he believes the market overestimates the company's ability to generate profit in the next two years. The company's asset-heavy model will limit its ability to turn profitable without sacrificing top-line growth. (Dancing with nimble giant, December 8, 2015)

Bond Market Vol and Duration Stocks

One of our central pillars for the 2015 strategy was a rising USD and rising USD volatility.

Our thinking has been that with central banks so fixated on QE and interest rates, the diverging economic performance would be captured in more volatile currencies. Arguably, this is what drove volatility in 2015. Furthermore, higher FX volatility for global companies translates into a higher cost of capital.

Instead for 2016, we suspect we could see more bond market volatility

In 2016, while the Fed is committed to not shrinking the balance sheet, fiscal deficits will need to be funded and that means more private-sector driven bond yields. But by allowing even a bit more market-driven adjustment in bond yields, and we suspect, higher bond market volatility, then this could mean less need for greater FX volatility.

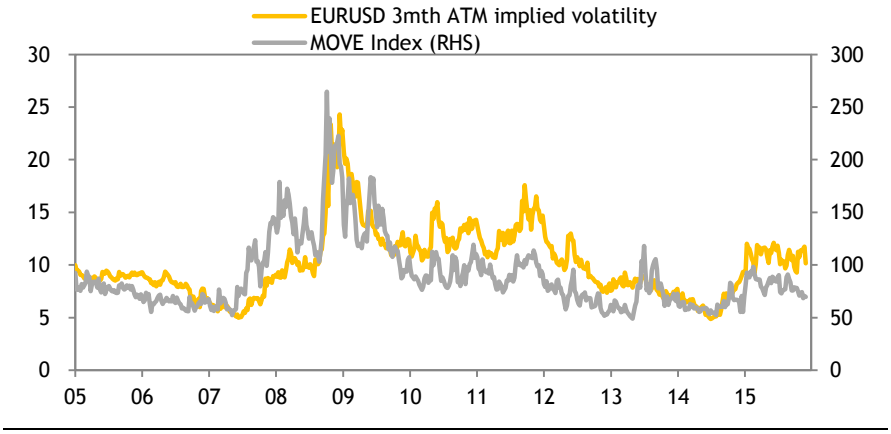
Essentially, while in 2015, we reckon FX volatility drove other asset class volatility, in 2016, we suspect it is likely to be bond market volatility. Eventually, high volatility in one asset class spreads to other asset classes too.

For example, if global growth accelerates, and European and Japanese economic prospects improve, bond prices in Europe (where the curve shows negative yields five years out) and Japan appear too high. Similarly, if global growth slows, then US yields may not be able to rise but could move sharply in the other direction.

Higher bond market volatility = sell duration assets + pressured developed market equities

If we do see higher bond market volatility, we think this implies a negative stance towards duration assets such as Internet companies with steep valuations where earnings are very far out. These companies have moved higher due to lower discount rates thanks to global QE. If the rollback of QE means more volatility along the yield curve, then fair value multiples, given risk-adjusted cost of capital, would be lower. Given the narrow rally breadth (figure 8) in the US that means more pressure on US equities.

Fig 29: EURUSD and MOVE implied volatility



Source: Bloomberg, Maybank Kim Eng

Performance and valuation summary

Figure 30: Equity performance by country (in local currency terms)

Name	Index level	FX rate	--- Absolute performance (local currency) --- -1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	399		(1)	(2)	5	(6)	(4)	(2)	5	(4)
MSCI Emerging Market	794		(1)	(2)	0	(18)	(17)	(2)	0	(17)
MSCI Asia Pac (inc JP)	132		0	0	7	(10)	(4)	0	7	(4)
MSCI Asia Pac x JP	411		(0)	0	5	(14)	(12)	0	5	(12)
MSCI Asia x JP	500		(1)	(1)	3	(15)	(11)	(1)	3	(11)
MSCI Far East x JP	467		(1)	(1)	4	(16)	(12)	(1)	4	(12)
MSCI Emerging Asia	404		(1)	(1)	3	(15)	(12)	(1)	3	(12)
MSCI EM Latin America	1,830		(2)	(5)	(3)	(27)	(33)	(5)	(3)	(33)
MSCI EMMEA	210		(2)	(7)	(9)	(24)	(22)	(7)	(9)	(22)
MSCI Frontie	506		1	(0)	(1)	(12)	(17)	(0)	(1)	(17)
MSCI Asia x JP Small Cap	962		1	0	4	(14)	(6)	0	4	(6)
China - Shanghai Composite	3,539	6.5	(2)	3	16	(17)	9	3	16	9
China - H-shares	9,661	7.8	(3)	(1)	3	(26)	(19)	(1)	3	(19)
Hong Kong - HSI	21,914	7.8	(1)	(0)	5	(17)	(7)	(0)	5	(7)
Taiwan - TAIEX	8,338	32.8	0	0	2	(11)	(10)	0	2	(10)
Korea - KOSPI	1,961	1,172.6	(1)	(2)	(0)	(5)	2	(2)	(0)	2
Singapore - STI	2,883	1.4	0	1	3	(13)	(14)	1	3	(14)
Malaysia - KLCI	1,693	4.3	2	1	4	(1)	(4)	1	4	(4)
Thailand - SET	1,288	36.0	0	(5)	(5)	(14)	(14)	(5)	(5)	(14)
Indonesia - JCI	4,593	13,785.0	2	3	9	(6)	(12)	3	9	(12)
Philippines - PSEi	6,952	47.1	(1)	0	1	(8)	(4)	0	1	(4)
India - Sensex	26,118	66.2	1	(0)	(0)	(6)	(5)	(0)	(0)	(5)
Vietnam - Ho Chi Minh	579	22,485.0	2	1	3	(2)	6	1	3	6
Australia ASX 200	5,296	1.4	2	3	5	(3)	(2)	3	5	(2)
New Zealand - NZX50	6,324	1.5	2	4	13	10	14	4	13	14
Japan - Nikkei 225	19,034	120.3	1	(4)	9	(6)	9	(4)	9	9
Japan - TOPIX	1,547	120.3	2	(2)	10	(5)	10	(2)	10	10
S&P 500	2,044	1.0	(1)	(2)	6	(1)	(1)	(2)	6	(1)
Russell 2000	1,136	1.0	(2)	(5)	3	(9)	(6)	(5)	3	(6)
FTSE 100	6,242	0.7	(0)	(2)	3	(4)	(5)	(2)	3	(5)
Euro Stoxx	3,268	0.9	(1)	(7)	5	(5)	4	(7)	5	4

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2015

Figure 31: Equity performance by country (in USD terms)

Name	Index level	FX rate	--- Absolute performance (USD) --- -1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	399		(1)	(2)	5	(6)	(4)	(2)	5	(4)
MSCI Emerging Market	794		(1)	(2)	0	(18)	(17)	(2)	0	(17)
MSCI Asia Pac (inc JP)	132		0	0	7	(10)	(4)	0	7	(4)
MSCI Asia Pac x JP	411		(0)	0	5	(14)	(12)	0	5	(12)
MSCI Asia x JP	500		(1)	(1)	3	(15)	(11)	(1)	3	(11)
MSCI Far East x JP	467		(1)	(1)	4	(16)	(12)	(1)	4	(12)
MSCI Emerging Asia	404		(1)	(1)	3	(15)	(12)	(1)	3	(12)
MSCI EM Latin America	1,830		(2)	(5)	(3)	(27)	(33)	(5)	(3)	(33)
MSCI EMMEA	210		(2)	(7)	(9)	(24)	(22)	(7)	(9)	(22)
MSCI Frontie	506		1	(0)	(1)	(12)	(17)	(0)	(1)	(17)
MSCI Asia x JP Small Cap	962		1	0	4	(14)	(6)	0	4	(6)
China - Shanghai Composite	3,539	6.5	(2)	1	13	(21)	5	1	13	5
China - H-shares	9,661	7.8	(3)	(1)	3	(26)	(19)	(1)	3	(19)
Hong Kong - HSI	21,914	7.8	(1)	(0)	5	(16)	(7)	(0)	5	(7)
Taiwan - TAIEX	8,338	32.8	(0)	(0)	2	(16)	(14)	(0)	2	(14)
Korea - KOSPI	1,961	1,172.6	(2)	(3)	1	(10)	(4)	(3)	1	(4)
Singapore - STI	2,883	1.4	(0)	1	4	(17)	(20)	1	4	(20)
Malaysia - KLCI	1,693	4.3	2	1	7	(13)	(22)	1	7	(22)
Thailand - SET	1,288	36.0	1	(6)	(4)	(20)	(21)	(6)	(4)	(21)
Indonesia - JCI	4,593	13,785.0	1	4	16	(10)	(21)	4	16	(21)
Philippines - PSEi	6,952	47.1	(0)	1	0	(12)	(9)	1	0	(9)
India - Sensex	26,118	66.2	1	1	(1)	(10)	(9)	1	(1)	(9)
Vietnam - Ho Chi Minh	579	22,485.0	2	1	3	(5)	1	1	3	1
Australia ASX 200	5,296	1.4	2	3	9	(8)	(13)	3	9	(13)
New Zealand - NZX50	6,324	1.5	2	8	21	12	(1)	8	21	(1)
Japan - Nikkei 225	19,034	120.3	1	(1)	9	(4)	9	(1)	9	9
Japan - TOPIX	1,547	120.3	2	0	9	(3)	10	0	9	10
S&P 500	2,044	1.0	(1)	(2)	6	(1)	(1)	(2)	6	(1)
Russell 2000	1,136	1.0	(2)	(5)	3	(9)	(6)	(5)	3	(6)
FTSE 100	6,242	0.7	(2)	(4)	0	(10)	(10)	(4)	0	(10)
Euro Stoxx	3,268	0.9	(1)	(4)	3	(7)	(7)	(4)	3	(7)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2015

Figure 32: 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	399		0	(1)	1	9	7	(1)	1	7
MSCI Emerging Market	794		(0)	(2)	(3)	(3)	(6)	(2)	(3)	(6)
MSCI Asia Pac (inc JP)	132		1	1	3	5	7	1	3	7
MSCI Asia Pac x JP	411		1	1	1	1	(1)	1	1	(1)
MSCI Asia x JP	500									
MSCI Far East x JP	467		(0)	(0)	1	(1)	(0)	(0)	1	(0)
MSCI Emerging Asia	404		(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
MSCI EM Latin America	1,830		(1)	(4)	(7)	(12)	(22)	(4)	(7)	(22)
MSCI EMMEA	210		(2)	(7)	(12)	(9)	(11)	(7)	(12)	(11)
MSCI Frontie	506		2	0	(5)	2	(6)	0	(5)	(6)
MSCI Asia x JP Small Cap	962		2	1	1	0	6	1	1	6
China - Shanghai Composite	3,539	6.5	(1)	2	10	(6)	16	2	10	16
China - H-shares	9,661	7.8	(2)	(1)	(1)	(11)	(8)	(1)	(1)	(8)
Hong Kong - HSI	21,914	7.8	(0)	0	2	(2)	4	0	2	4
Taiwan - TAIEX	8,338	32.8	1	0	(1)	(1)	(2)	0	(1)	(2)
Korea - KOSPI	1,961	1,172.6	(1)	(2)	(2)	5	7	(2)	(2)	7
Singapore - STI	2,883	1.4	0	1	0	(3)	(9)	1	0	(9)
Malaysia - KLCI	1,693	4.3	3	1	3	2	(10)	1	3	(10)
Thailand - SET	1,288	36.0	1	(5)	(7)	(5)	(10)	(5)	(7)	(10)
Indonesia - JCI	4,593	13,785.0	1	4	12	5	(10)	4	12	(10)
Philippines - PSEi	6,952	47.1	0	1	(3)	3	3	1	(3)	3
India - Sensex	26,118	66.2	2	1	(4)	5	2	1	(4)	2
Vietnam - Ho Chi Minh	579	22,485.0	3	2	(1)	10	12	2	(1)	12
Australia ASX 200	5,296	1.4	3	4	6	7	(2)	4	6	(2)
New Zealand - NZX50	6,324	1.5	3	8	18	27	11	8	18	11
Japan - Nikkei 225	19,034	120.3	2	(1)	6	11	20	(1)	6	20
Japan - TOPIX	1,547	120.3	2	1	6	11	21	1	6	21
S&P 500	2,044	1.0	0	(1)	3	14	11	(1)	3	11
Russell 2000	1,136	1.0	(1)	(4)	(0)	5	6	(4)	(0)	6
FTSE 100	6,242	0.7	(1)	(3)	(3)	5	1	(3)	(3)	1
Euro Stoxx	3,268	0.9	(1)	(3)	(1)	8	5	(3)	(1)	5

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2015

Figure 33: Equity performance by MSCI Asia ex Japan sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	**500**	**(1)**	**(1)**	**3**	**(15)**	**(11)**	**(1)**	**3**	**(11)**
Energy	**435**	**(2)**	**(2)**	**5**	**(24)**	**(21)**	**(2)**	**5**	**(21)**
Materials	**251**	**(1)**	**2**	**5**	**(17)**	**(12)**	**2**	**5**	**(12)**
Industrials	**149**	**(1)**	**(2)**	**(2)**	**(18)**	**(10)**	**(2)**	**(2)**	**(10)**
Capital goods	137	(1)	(3)	(2)	(19)	(10)	(3)	(2)	(10)
Transportation	189	1	(0)	0	(15)	(13)	(0)	0	(13)
Consumer discretionary	**422**	**(1)**	**(1)**	**4**	**(8)**	**(16)**	**(1)**	**4**	**(16)**
Automobiles & Components	699	(1)	(1)	4	(4)	(15)	(1)	4	(15)
Retailing	238	(3)	(2)	(3)	(16)	(16)	(2)	(3)	(16)
Consumer staples	**406**	**(0)**	**(1)**	**1**	**(10)**	**(3)**	**(1)**	**1**	**(3)**
Food/staples retail	106	(1)	(8)	(8)	(14)	(7)	(8)	(8)	(7)
Food/beverage/tobacco	328	(0)	(1)	1	(11)	(13)	(1)	1	(13)
Health care	**773**	**2**	**2**	**4**	**(3)**	**6**	**2**	**4**	**6**
Financials	**284**	**(1)**	**0**	**5**	**(18)**	**(13)**	**0**	**5**	**(13)**
Banks	221	(1)	(0)	3	(20)	(18)	(0)	3	(18)
Diversified financials	514	(2)	(2)	6	(25)	(10)	(2)	6	(10)
Insurance	291	(2)	(0)	9	(14)	(1)	(0)	9	(1)
Real estate	174	(1)	2	5	(13)	(10)	2	5	(10)
Technology	**326**	**(1)**	**(2)**	**6**	**(11)**	**(8)**	**(2)**	**6**	**(8)**
Software services	1,827	(0)	(2)	6	(3)	12	(2)	6	12
Tech hardware	158	(2)	(4)	5	(13)	(13)	(4)	5	(13)
Semiconductors/equipment	300	(0)	2	8	(17)	(18)	2	8	(18)
Telecoms	**132**	**(1)**	**(1)**	**(2)**	**(14)**	**(11)**	**(1)**	**(2)**	**(11)**
Utilities	**208**	**1**	**1**	**0**	**(10)**	**(12)**	**1**	**0**	**(12)**

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2015

Figure 34: Equity performance by MSCI Asia ex Japan sector – relative performance

		--- Relative performance MSCI Asia ex Japan ---							
Name	Index	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI Asia ex Japan	**500**								
Energy	**435**	**(1)**	**(1)**	**2**	**(10)**	**(10)**	**(1)**	**2**	**(10)**
Materials	**251**	**0**	**3**	**1**	**(2)**	**(1)**	**3**	**1**	**(1)**
Industrials	**149**	**(0)**	**(2)**	**(5)**	**(3)**	**1**	**(2)**	**(5)**	**1**
Capital goods	137	(1)	(2)	(6)	(4)	1	(2)	(6)	1
Transportation	189	1	0	(3)	0	(2)	0	(3)	(2)
Consumer discretionary	**422**	**(0)**	**(0)**	**0**	**7**	**(5)**	**(0)**	**0**	**(5)**
Automobiles & Components	699	(1)	(1)	1	10	(3)	(1)	1	(3)
Retailing	238	(2)	(1)	(6)	(2)	(4)	(1)	(6)	(4)
Consumer staples	**406**	**1**	**(1)**	**(2)**	**5**	**8**	**(1)**	**(2)**	**8**
Food/staples retail	106	0	(7)	(12)	1	5	(7)	(12)	5
Food/beverage/tobacco	328	1	(1)	(3)	4	(2)	(1)	(3)	(2)
Health care	**773**	**3**	**3**	**0**	**12**	**18**	**3**	**0**	**18**
Financials	**284**	**(0)**	**1**	**1**	**(3)**	**(1)**	**1**	**1**	**(1)**
Banks	221	(0)	1	(1)	(5)	(7)	1	(1)	(7)
Diversified financials	514	(1)	(1)	3	(11)	2	(1)	3	2
Insurance	291	(1)	0	5	1	11	0	5	11
Real estate	174	0	3	2	2	2	3	2	2
Technology	**326**	**(0)**	**(1)**	**3**	**4**	**3**	**(1)**	**3**	**3**
Software services	1,827	1	(1)	3	12	23	(1)	3	23
Tech hardware	158	(1)	(3)	2	2	(2)	(3)	2	(2)
Semiconductors/equipment	300	1	2	4	(2)	(6)	2	4	(6)
Telecoms	**132**	**0**	**(1)**	**(5)**	**1**	**(0)**	**(1)**	**(5)**	**(0)**
Utilities	**208**	**2**	**2**	**(3)**	**5**	**(0)**	**2**	**(3)**	**(0)**

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2015

Figure 35: MSCI country valuation

	PE (x)			EPS growth YoY (%)			ROE(%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	13.5	12.4	11.7	8	5	6	12	11	11	1.6	1.4	1.3	2.6	2.8	2.9
China	10.9	10.8	10.2	6	3	7	14	13	12	1.5	1.4	1.3	3.0	2.9	2.9
Hong Kong	14.0	15.2	13.8	32	(21)	10	10	7	8	1.4	1.1	1.1	3.4	3.1	3.4
Taiwan	14.6	12.1	11.8	28	6	2	13	13	12	1.9	1.6	1.5	2.9	4.1	4.2
Korea	12.3	10.0	10.1	(8)	24	(1)	9	10	9	1.1	1.0	0.9	1.4	1.7	2.0
Singapore	13.9	12.3	11.6	15	(3)	5.7	10	9	9	1.4	1.1	1.1	3.5	4.3	4.4
Malaysia	17.3	16.9	15.5	4	1	9	12	10	11	2.0	1.7	1.7	3.0	3.0	3.2
Thailand	18.3	14.8	12.1	(23)	2	22	12	12	13	2.2	1.7	1.6	2.8	3.5	3.7
Indonesia	17.3	16.3	14.7	11	(5)	11	20	17	17	3.5	2.8	2.5	2.2	2.4	2.5
Philippines	22.7	19.2	17.1	23	11	12	14	14	14	3.3	2.6	2.4	2.0	1.9	1.9
India	21.4	20.4	17.4	9	7	17	15	15	16	3.2	3.1	2.8	1.4	1.5	1.7
Japan	17.2	15.8	14.1	20	11	12	9	8	9	1.5	1.3	1.2	1.7	1.9	2.1
US (S&P 500)	18.3	18.3	17.4	7	-1	11	14	13	15	2.8	2.8	2.7	2.0	2.2	2.2
Europe (Euro Stoxx)	21.5	22.8	15.4	10	1	58	8	8	9	1.5	1.6	1.6	3.4	3.2	3.3

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 December 2015

Figure 36: MSCI Asia ex-Japan sector valuation

	PE (x)			EPS growth YoY (%)			ROE (%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	**13.5**	**12.4**	**11.7**	**8**	**5**	**6**	**12**	**11**	**11**	**1.6**	**1.4**	**1.3**	**2.6**	**2.8**	**2.9**
Energy	**12.6**	**13.8**	**11.6**	**(22)**	**(25)**	**19**	**9**	**6**	**7**	**1.1**	**0.9**	**0.8**	**3.1**	**3.1**	**3.1**
Materials	**19.0**	**16.3**	**13.8**	**(13)**	**18**	**18**	**6**	**6**	**7**	**1.1**	**1.0**	**1.0**	**2.5**	**2.8**	**2.8**
Industrials	**20.5**	**14.3**	**13.4**	**14**	**18**	**6**	**7**	**9**	**9**	**1.4**	**1.2**	**1.2**	**2.8**	**2.3**	**2.5**
Capital goods	18.7	12.7	12.6	15	17	1	7	9	9	1.3	1.1	1.1	3.0	2.2	2.4
Transportation	25.2	27.9	20.8	16	11	21	30	6	7	9	1.6	1.5	1.4	2.1	2.5
Consumer discretionary	**11.1**	**12.0**	**13.0**	**12**	**(5)**	**(7)**	**12**	**14**	**12**	**12**	**1.7**	**1.6**	**1.4**	**2.3**	**2.2**
Automobiles & Components	8.3	8.7	9.2	8	(5)	(5)	13	15	13	13	1.3	1.2	1.1	1.7	2.0
Retailing	18.0	27.6	24.3	(2)	14	13	8	8	9	1.5	2.3	2.2	1.8	0.9	1.1
Consumer staples	**25.3**	**26.5**	**23.9**	**21**	**5**	**16**	**12**	**12**	**13**	**13**	**3.2**	**3.1**	**2.8**	**1.8**	**1.7**
Food/staples retail	25.3	26.8	19.7	20	(11)	53	(3)	9	12	11	2.3	2.4	2.3	1.7	1.8
Food/beverage/tobacco	22.5	23.1	20.9	19	6	9	13	12	11	12	2.6	2.3	2.2	2.1	2.1
Health care	**29.3**	**31.8**	**25.2**	**29**	**24**	**26**	**14**	**15**	**16**	**4.2**	**4.7**	**4.0**	**0.8**	**0.7**	**0.8**
Financials	**11.0**	**9.4**	**9.0**	**14**	**8**	**5**	**11**	**11**	**11**	**1.3**	**1.0**	**1.0**	**3.1**	**3.6**	**3.7**
Banks	8.8	7.6	7.3	9	4	3	14	13	12	1.2	1.0	0.9	3.9	4.5	4.6
Diversified financials	15.3	15.9	11.2	12	51	46	(6)	12	14	12	2.0	1.6	1.5	2.3	3.4
Insurance	17.1	13.9	13.2	41	23	6	12	12	12	2.0	1.7	1.5	1.3	1.7	1.8
Real estate	13.2	11.6	10.3	8	0	13	7	6	7	0.9	0.7	0.7	3.3	3.5	3.7
Technology	**14.3**	**14.2**	**13.5**	**6**	**(1)**	**5**	**16**	**15**	**14**	**2.3**	**2.1**	**1.9**	**1.8**	**2.1**	**2.4**
Software services	29.3	32.0	31.2	25	28	14	24	25	21	21	7.9	6.5	5.3	0.8	0.7
Tech hardware	10.8	10.8	10.1	10	37	(4)	2	13	12	11	1.4	1.2	1.1	2.1	2.9
Semiconductors/equipment	13.2	13.7	11.2	11	48	1	(0)	21	19	17	2.8	2.1	1.9	2.2	3.4
Telecoms	**18.8**	**15.1**	**14.4**	**0**	**10**	**5**	**12**	**12**	**12**	**2.3**	**1.9**	**1.8**	**3.2**	**3.8**	**3.9**
Utilities	**9.4**	**9.8**	**11.7**	**100**	**(8)**	**(16)**	**16**	**13**	**11**	**1.6**	**1.3**	**1.2**	**2.8**	**3.4**	**3.4**

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 December 2015

Research Offices

REGIONAL

Sadiq CURRIMBHOY
Regional Head, Research & Economics
(65) 6231 5836 sadiq@maybank-ke.com.sg

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6231 5839
ongsengyeow@maybank-ke.com.sg

TAN Sin Mui
Director of Research
(65) 6231 5849 sinmui@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_ilias@maybank-ib.com

Luz LORENZO
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(66) 2658 6300 ext 1420
tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, BII
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

STRATEGY

Sadiq CURRIMBHOY
Global Strategist
(65) 6231 5836 sadiq@maybank-ke.com.sg

Willie CHAN
Hong Kong / Regional
(852) 2268 0631 williechan@kimeng.com.hk

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy

Desmond CH'NG, ACA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional • Media

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove • Ports • Shipping

CHAI Li Shin, CFA
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive • Semiconductor • Technology

Kevin WONG
(603) 2082 6824 kevin.wong@maybank-ib.com
• REITs • Consumer Discretionary

LIEW Wei Han
(603) 2297 8676 weihan.l@maybank-ib.com
• Consumer Staples

LEE Cheng Hooi *Regional Chartist*
(603) 2297 8694
chenghooi.lee@maybank-ib.com

Tee Sze Chiah *Head of Retail Research*
(603) 2297 6858 szechiah.t@maybank-ib.com

Cheah Chong Ling
(603) 2297 8767 chongling.c@maybank-ib.com

HONG KONG / CHINA

Howard WONG *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - *Regional*

Benjamin HO
(852) 2268 0632 benjaminho@kimeng.com.hk
• Consumer & Auto

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 kllo@kimeng.com.hk
• Consumer Discretionary & Auto

Mitchell KIM
(852) 2268 0634 mitchellkim@kimeng.com.hk
• Internet & Telcos

Osbert TANG, CFA
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

Stefan CHANG, CFA
(852) 2268 0675
stefanchang@kimeng.com.hk
• Technology

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - *Regional*

Warren LAU
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology – *Regional*

INDIA

Jigar SHAH *Head of Research*
(91) 22 6623 2632 jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605 anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

Abhijeet KUNDU
(91) 22 6623 2628 abhijeet@maybank-ke.co.in
• Consumer

Neerav DALAL
(91) 22 6623 2606 neerav@maybank-ke.co.in
• Software Technology • Telcos

SINGAPORE

Gregory YAP
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG, CFA
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport • Property • REITs (Office)

Joshua TAN
(65) 6231 5850 joshuatan@maybank-ke.com.sg
• REITs (Retail, Industrial)

John CHEONG, CFA
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Isnaputra ISKANDAR *Head of Research*
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Strategy • Metals & Mining • Cement

Rahmi MARINA
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

Pandu ANUGRAH
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infra • Construction • Transport• Telcos

Janni ASMAN
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

Adhi TASMIN
(62) 21 2557 1209
adhi.tasmin@maybank-ke.co.id
• Plantations

Anthony LUKMAWIJAYA
(62) 21 2557 1126
anthony.lumawijaya@maybank-ke.co.id
• Aviation

PHILIPPINES

Luz LORENZO *Head of Research*
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Michael BENGSON
(63) 2 849 8840
michael_bengson@maybank-atrke.com
• Conglomerates

Jaclyn JIMENEZ
(63) 2 849 8842
jaclyn_jimenez@maybank-atrke.com
• Consumer

Arabelle MAGHIRANG
(63) 2 849 8838
arabelle_maghirang@maybank-atrke.com
• Banks

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer • Materials • Ind. Estates

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector • Transport

Yupapan POLPORNPRASERT
(66) 2658 6300 ext 1395
yupapan.p@maybank-ke.co.th
• Oil & Gas

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKRAN
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHAROENKIT
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 6300 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities

THAI Quang Trung, CFA, Deputy Manager, Institutional Research
(84) 8 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, *Head of Retail Research*
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRINH Thi Ngoc Diep
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

PHAM Nhat Bich
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

TRUONG Quang Binh
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

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Ong Seng Yeow | Executive Director, Maybank Kim Eng Research

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Malaysia
Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore
Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

Hong Kong
Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

London
Maybank Kim Eng Securities (London) Ltd
5th Floor, Aldermary House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Indonesia
PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

New York
Maybank Kim Eng Securities USA Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

India
Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines
Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

Thailand
Maybank Kim Eng Securities (Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam
Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Saudi Arabia
In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787

South Asia Sales Trading
Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia
Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

Indonesia
Harianto Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York
Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam
Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

North Asia Sales Trading
Andrew Lee
andrewlee@kimeng.com.hk
Tel: (852) 2268 0283
US Toll Free: 1 877 837 7635

Thailand
Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

India
Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines
Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

www.maybank-ke.com | www.maybank-keresearch.com