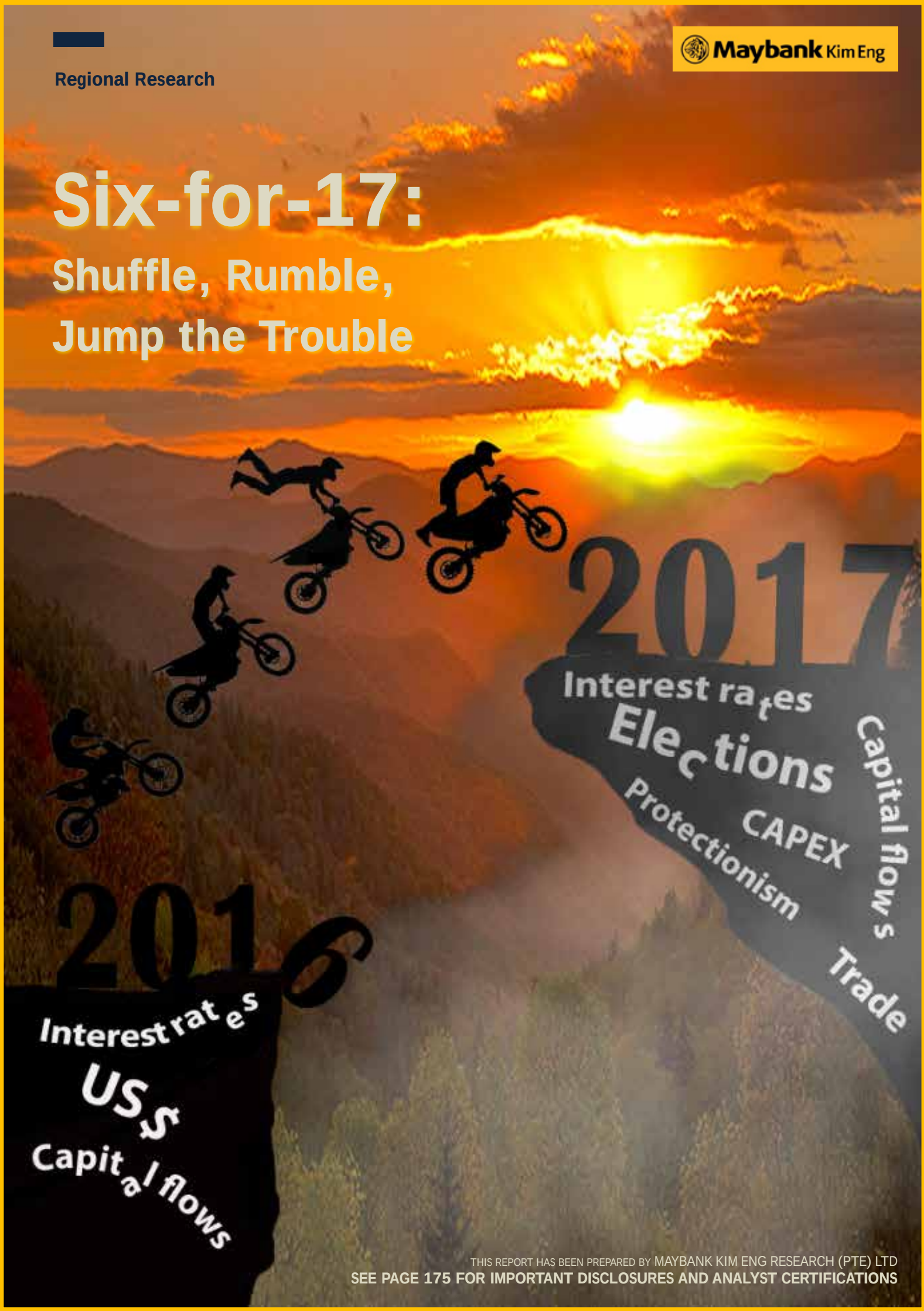
Regional Research

Maybank Kim Eng

Six-for-17:

Shuffle, Rumble, Jump the Trouble



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Unmasking Asia Thematic Research Series

Stress Test Series, September 2015
Regional: I So Wanna Be Resilient
Hong Kong/China: The Devil's in the Details...
India: Asia's Sanctuary
Indonesia: Finding a Foothold
Malaysia: Weathering Through
The Philippines: Stress Cuts Profit But FCF Stays Positive
Singapore: The Growth Conundrum
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Vietnam: Timely Deleveraging

Hong Kong/China Energy: Project Blue Sky, December 2015
Hong Kong/China Electric Vehicles: The Green Race, January 2016

ASEAN Infrastructure: The New Old Thing, April 2016

The Singapore Fix, June 2016

Visibility & Relationships we Need to Know

The leap from 2016 to 2017 will be more arduous, amid poorer geopolitical visibility. Erecting walls and effecting exits from common markets mark a distinct reversal in the wind of change. Maybank's FX strategist, Saktiandi Supaat, projects "USD strength on the back of improved US medium term growth, positive productivity outlook, expansionary infrastructure package … under the Trump administration". But its link to Asia may be tenuous. Protectionism will also up the ante of a trade war with China. ASEAN's openness renders it vulnerable to slower global trade. Asia's overcapacity problem, which was on the mend in 2016, could worsen should revenue slow. To the extreme, de-globalisation may trigger a new world order and relationships. It is early days. None of the above has yet hit GDP, employment or the consumer. As it would take time to unfold, markets may grind precariously higher while in wait.

These shifts break old connections while forging new linkages. For our Year Ahead, we asked each of our Country Heads of Research and macro strategists to propose 6 Relationships that we need to know. And, accordingly, 6 investible ideas. The different relationships assess core macro/industry/company connections and disconnections while anticipating new associations.

Asserting economic & monetary independence

Despite the Fed's guidance of a 75bps hike in benchmark rates for 2017, Suhaimi sees a divergence in US and Asian benchmark interest rates. Their decoupling started in 2010 and became more prominent in 2015-16. Asia continues to ease while the Fed ratchets up. We think emerging Asia's need to support domestic demand may force regional central banks to keep monetary policies accommodative. Asia would respond to any trade barriers by turning to domestic sources of growth and shifting from monetary to fiscal stimulus.

Willie is negative, expecting a sharp correction in 1H17 driven by protectionist concerns, higher US rates, China property woes, European elections and the risk that these factors scuttle Asia's nascent capex and credit cycles. As such, some of his ideas are Relative Value trades. He favours ASEAN over North Asia as its low debt to GDP should provide the balance sheet to support growth. Singapore is also preferred over Hong Kong as it is under less pressure to raise rates owing to more flexible currency management. It is also not as susceptible to reduced capital flows from China. Indonesia is favoured over the Philippines on account of fund inflows from its tax amnesty, its smaller exposure to the US at 1.9% of exports and ongoing economic reforms.

Contending with the Impossible Trinity

At the country level, except for Vietnam, no MKE Head of Research is upbeat about markets in 2017. Even Jigar has mellowed, with the plunge in monetary aggregates following India's inexplicably poor execution of demonetisation. In contemplating the most important relationships for 2017, MKE concludes that those consequential to the management of the unruly trinity - capital leakages, firmer interest rates and weak currencies - are the most significant.

A reliance on foreign funding renders capital outflows particularly tricky for China, Malaysia, Indonesia, the Philippines, Thailand and possibly, Singapore. China has introduced discreet and also not-so-subtle capital tightening. In our view, these would increase cost of capital and compress valuations.

Benign inflation should allow Asia to keep rates accommodative but we think further easing is less likely. Shorter-duration rates may be capped but the yield curve could steepen with long rates proving more sensitive. We are positive on Indonesian banks. Hong Kong, the Philippines, Taiwan and Thailand could be under the most stress to raise rates. China property may be vulnerable. And upside to US rates could narrow the US yield gap with Asia, a precursor to capital exits from the region.

For exporters and USD-denominated assets, translational gains can be gotten from a firmer USD. USD-denominated borrowings have been swapped into local currencies in recent years. But strangely, none of our Heads of Research has claimed tangible improvements to competitiveness and hence, economic output. With tariffs, commodity exports are likely to fare better than manufactured goods.

Infrastructure to fill the gap

Against an uncertain external sector, expectations of pump-priming reverberate across the region. MKE believes that governments can step up to the plate. Malaysia expects its record-high infrastructure awards in 2016 to spill into 2017. In the Philippines, both the Senate and House of Representatives have ratified higher infrastructure spending, to 5.4% of GDP. The country plans to hasten its public-private partnership programme. Infrastructure investment has become a greater reality. India, the Philippines, Malaysia, Indonesia and Vietnam ought to see higher spending. However, Thailand may lag as “cremation, coronation and elections” assume precedence.

Refuge in the consumer

The call on the consumer is more complex due to varied demographics in the region. But Asia’s general pull of young demographics and high employment to stimulate spending is difficult to dispute. Howard advocates tapping into China's baby boom following the rectification of its one-child policy. Around the region, our preference is for consumer discretionary rather than staples. In addition, in developed Asia, consumers are sensitive to convenience and price points. Shilly-shally economic growth and forgettable disposable-income growth have heightened their price sensitivity, accelerating their acceptance of online channels. A reshaping of consumption patterns is in the works.

Maria’s dissent to the consumer call anticipates depressed disposable income. For all that touting of government spending and income growth, Asian governments remain more focused on wealth creation than distribution. In Asia, the Gini coefficient makes for rare discussions. Therefore, for the consumer potential to take root and permeate, we reckon it has to be supported by commodity prices, so that wealth can reach the rural poor. Income elasticity is typically the highest in the lowest income stratum. A rebound in commodity prices since Oct 2016 has strengthened the case for the consumer in China, India, Indonesia, Thailand, Malaysia and Vietnam. The risk is that it is powered solely by supply-side economics. Demand needs to perk up to sustain the rebound, in our view. Isna, the other skeptic on this call, points to demanding valuations for the Indonesian consumer sector.

Conclusion

Our 2017 strategy embraces the comfort of old favourites: infrastructure and consumer. In the short term, the call may work against us for two reasons. First, it is very much consensus, so some uncertainties may have been priced in. Second, given the current US stock-market exuberance and impossible task of pre-empting policy directions, we sense portfolios gravitating towards reaction to big events rather than anticipation. Therefore, risk is on until clarity emerges from the Trump presidency's first-term agenda. Should his pre-election rhetoric on nationalism come to pass, interest should settle for quality domestic names. We advocate staying with Asia's best franchises.

A final word. Political risks are on the rise though regional governments appear better prepared. Voting patterns indicate fatigue with the politics of sameness. Ambitions are loftier and less easily satisfied. The immense income gap - often the elephant in the room - could become a lightning rod for the region's fragile social balance. In an anti-globalisation world where governance and the size of domestic markets have become more pertinent, the performance of regional capital markets should diverge more. Selecting countries and stocks would then assume greater importance.

Summary Table

Name	Ticker	Mkt Cap (USDm)	3mth avg T/O (USDm)	Rating	TP (lcl crcy)	PE (x) FY16E	PE (x) FY17E	PB (x) FY16E	PB (x) FY17E	DY (%) FY16E	DY (%) FY17E	EV/EBITDA (x) FY16E	EV/EBITDA (x) FY17E	RoE (%) FY16E	RoE (%) FY17E
China															
Ping An	2318 HK	92,427	152.0	Buy	52.00	10.5	9.6	1.6	1.4	1.7	1.9	na	na	na	na
China Pacific Ins.	2601 HK	34,776	31.9	Buy	35.20	18.4	14.9	1.6	1.5	2.2	2.7	na	na	na	na
BYD Company	1211 HK	17,768	31.3	Sell	32.00	19.6	23.6	1.9	1.7	1.0	0.8	9.6	10.3	12.0	7.6
Hengan Intl	1044 HK	8,846	23.6	Buy	85.80	15.8	14.3	3.5	3.2	4.0	4.4	9.3	8.5	23.8	22.9
Tingyi	322 HK	6,811	10.7	Sell	5.84	30.0	29.2	1.9	1.8	1.7	1.7	9.9	9.2	6.4	6.2
Biostime	1112 HK	1,946	3.8	Buy	33.00	20.4	14.2	3.5	2.9	1.2	1.5	12.8	9.4	19.0	19.9
India															
HDFC Bank	HDFCB IN	44,847	25.6	Buy	1,500	24.6	20.5	4.2	3.6	0.8	1.0	na	na	na	na
HCL Technologies	HCLT IN	17,156	19.4	Buy	1,020	21.0	14.3	4.2	3.6	2.0	2.6	15.2	9.8	21.3	27.0
Colgate-Palmolive	CLGT IN	3,593	3.9	Sell	797	40.4	37.8	24.4	19.2	1.3	1.5	23.7	23.3	64.9	56.8
Persistent Systems	PSYS IN	731	1.1	Buy	850	16.7	15.1	3.0	2.6	1.3	1.5	13.0	8.9	19.5	18.6
Inox Wind	INXW IN	608	1.0	Buy	359	9.2	7.5	2.3	1.7	0.0	0.0	9.4	5.5	27.9	26.2
Lakshmi Vilas Bank	LVB IN	374	0.7	Buy	180	14.2	11.9	1.4	1.2	2.1	2.3	na	na	na	na
Indonesia															
Astra International	ASII IJ	24,791	18.6	Buy	9,300	20.7	17.6	3.0	2.8	2.2	2.6	15.7	14.8	15.2	16.4
Bank BRI	BBRI IJ	21,314	19.9	Buy	15,000	11.2	10.4	2.0	1.7	2.4	2.6	na	na	na	na
Bumi Serpong Damai	BSDE IJ	2,500	3.4	Buy	2,500	18.9	13.0	1.6	1.5	0.5	0.4	2.0	1.1	9.1	12.0
Pembangunan Perumahan	PTPP IJ	1,749	2.9	Buy	5,500	19.5	16.6	2.0	2.2	1.2	1.2	5.9	5.9	13.9	14.1
Ramayana Lestari	RALS IJ	628	0.8	Buy	2,000	20.9	16.9	2.4	2.2	2.2	2.8	9.4	7.7	11.8	13.6
Adaro Energy	ADRO IJ	4,012	6.5	Buy	2,000	17.7	8.4	1.3	1.2	1.7	3.6	6.5	3.6	7.7	14.8
Malaysia															
Tenaga Nasional	TNB MK	17,514	41.2	Buy	16.4	10.2	10.4	1.5	1.4	2.3	2.9	6.8	6.3	14.8	13.7
Genting Malaysia	GENM MK	5,787	5.4	Buy	5.4	17.4	15.2	1.3	1.2	1.8	2.2	10.3	8.8	14.0	8.3
Gamuda	GAM MK	2,583	3.3	Buy	5.6	18.4	17.0	1.7	1.6	2.5	2.5	29.0	22.8	9.5	9.5
Malaysia Airports	MAHB MK	2,241	2.0	Buy	7.8	227.3	52.7	1.2	1.2	0.6	1.4	9.6	8.2	1.2	2.9
Inari Amertron	INRI MK	718	2.0	Buy	4.1	20.8	15.2	4.7	4.1	2.5	3.0	13.4	10.9	24.3	28.8
RCE Capital Bhd	RCE MK	101	0.3	Buy	1.6	11.0	8.7	1.0	1.2	33.5	2.9	na	na	7.7	12.5
Philippines															
Ayala Corp	AC PM	9,133	6.8	Buy	1,052	18.9	16.6	2.1	2.1	0.7	0.7	14.3	12.5	11.8	13.3
Metro Pacific Invts	MPI PM	4,230	4.2	Buy	8	18.1	15.3	1.4	1.3	0.9	1.0	22.2	21.4	8.5	8.7
Jollibee Foods	JFC PM	4,204	3.0	Buy	240	36.3	30.9	6.0	5.3	1.0	1.1	19.4	16.6	17.6	18.3
Puregold Price Club	PGOLD PM	2,174	1.2	Buy	52	18.8	16.4	2.5	2.2	0.9	1.1	10.9	9.2	14.1	14.3
Robinsons Retail Hldgs	RRHI PM	2,073	1.3	Buy	100	21.9	19.4	2.1	2.0	0.8	0.9	10.3	8.6	10.3	10.6
Manila Water Co.	MWC PM	1,201	1.8	Buy	34	11.9	10.3	1.4	1.3	3.0	3.0	7.8	7.4	12.4	13.0
Singapore															
OCBC Bank	OCBC SP	25,726	34.8	Sell	7.4	10.9	10.9	1.1	1.0	4.0	4.0	na	na	9.9	9.4
Keppel Corp	KEP SP	7,247	18.9	Sell	4.6	12.7	11.9	0.9	0.9	3.1	3.1	16.3	16.2	7.4	7.6
ST Engineering	STE SP	6,923	7.5	Hold	3.2	20.1	18.3	4.6	4.2	4.0	4.1	14.2	12.9	23.2	24.1
SATS	SATS SP	3,726	18.4	Sell	3.8	24.3	22.6	3.6	3.4	3.1	3.3	14.3	16.3	15.0	16.1
CapitaLand Comm. Trust	CCT SP	3,024	10.2	Buy	1.8	18.0	17.5	0.8	0.8	6.0	6.1	32.8	26.2	na	na
Raffles Medical Group	RFMD SP	1,724	1.4	Buy	1.9	33.5	30.6	3.9	3.7	1.5	1.6	28.4	26.3	11.9	12.4
Thailand															
Airports of Thailand	AOT TB	15,886	42.5	Buy	430.0	29.1	26.2	4.7	4.2	1.7	1.9	19.2	18.0	17.0	16.8
Siam Commercial Bank	SCB TB	14,467	33.9	Buy	169.0	11.3	8.9	1.5	1.4	3.3	4.2	na	na	14.3	16.4
Indorama Ventures	IVL TB	4,506	27.7	Buy	40.0	18.5	15.0	1.8	1.7	1.8	2.3	10.6	9.3	21.2	13.7
Bumrungrad Hospital	BH TB	3,685	8.0	Buy	240.0	33.8	30.4	9.0	7.7	1.5	1.6	22.0	19.4	28.5	27.4
Land & Houses	LH TB	3,227	4.9	Buy	12.2	14.3	13.4	2.5	2.4	5.9	6.3	20.7	19.2	17.4	18.0
Thai Union Group	TU TB	2,800	9.9	Buy	26.0	16.3	13.7	2.0	1.9	3.1	3.7	12.2	10.7	12.9	14.2
Vietnam															
Vinamilk	VNM VN	8,006	8.6	Buy	153,300	21.8	19.8	8.6	8.0	4.8	4.8	14.7	13.3	44.5	46.4
Mobile World Inv Corp	MWG VN	1,054	1.4	Buy	192,000	12.5	10.6	5.8	4.1	1.6	1.9	9.3	7.5	56.9	45.8
Cotec Construction	CTD VN	617	1.1	Buy	247,000	9.7	7.4	2.1	1.8	3.0	4.1	4.3	3.4	26.4	27.5
PetroVietnam Power NT2	NT2 VN	342	0.4	Buy	44,000	6.6	7.0	1.5	1.4	7.3	7.3	5.3	5.1	21.3	17.3
Kinh Bac City	KBC VN	286	2.4	Buy	21,500	7.3	6.4	0.8	0.7	0.0	0.0	8.5	5.7	11.5	12.4
Nam Long Investment	NLG VN	139	0.2	Buy	31,500	13.1	16.9	1.3	1.2	1.7	1.3	9.3	9.5	10.8	7.9

Share Price as at 30 Dec, 2016 closing
Source: Maybank Kim Eng

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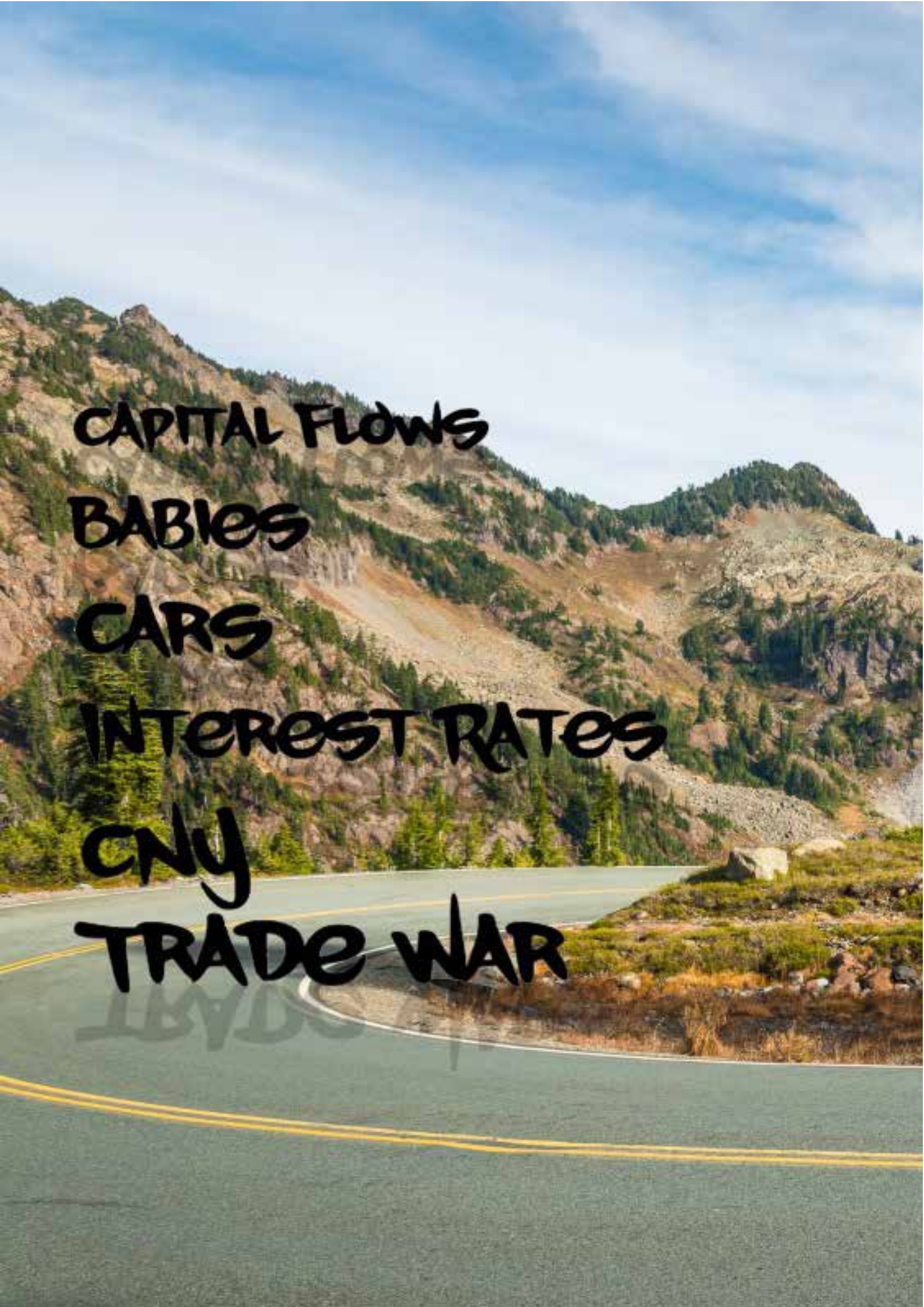
CAPITAL FLOWS
BABIES
CARS
INTEREST RATES
CNY
TRADE WAR

January 2, 2017

Economics: Six-for-17

Business As Unusual…

Politics and policies remain key macro risk events

US President-elect Trump's policies will be closely watched. There are also key political events in Europe to contend with amid the rising tide of inward-looking nationalism and populism, de-globalisation and protectionism e.g. the start of UK-EU "Brexit" talk (target end-Mar 2017) and elections in Italy (1H 2017), Holland (Mar 2017), France (Apr-May 2017), UK (May 2017) and Germany (Sep 2017).

Political events have policy implications

We see four key themes linking politics and policies i.e. US President-elect Trump policies; US Fed upping the pace of interest rate hikes; shift in China's policy focus from "growth stability" to "financial stability"; and policy stimulus to domestic demand in ASEAN as well as the broadening, deepening and strengthening of ASEAN integration with China in the background.

Trade politics and policies main risk in 2017

US President-elect Donald Trump's rhetoric on trade – especially against China - and the nominations of "nationalists" and "trade policy hawks" like Steve Bannon as "Chief Strategist and Senior Counselor" and Wilbur Ross as Secretary of Commerce are risking US-China trade conflict. US and China makes up 40% of global GDP, a quarter of world trade, and between 20% to 60% of Asian economies' exports, implying significant impact to the global and region's growth from a US-China trade shock.

China need to address "financial stability" risk

"Growth stability" in China comes at the expense of "financial stability" amid continued excess leveraging. Fear and risk of financial crisis have led to capital outflows and falling Yuan. Property curbs and capital controls signal policy shift from "growth stability" to "financial stability". But monies "trapped" domestically due to capital controls must be "sterilised" to prevent them from triggering domestic asset and markets bubbles in the search for returns, implying tighter monetary, banking and financial market policies.

Domestic-driven ASEAN growth

Amid the continued uncertainty on the external front, the key growth theme for ASEAN in 2017 is the continuation of domestic-driven growth. Expect the region's monetary policy to stay accommodative notwithstanding US interest rate hikes, coupled with the use of fiscal stimulus, mainly via infrastructure spending and investment.

Stronger, broader, deeper regional integration

The possibility of an "inward-looking" US under Trump Presidency and EU's political uncertainties distracting the group from pursuing trade deals with non-EU countries/regions open up the opportunity for China to play the leading role and be the driving force in Asia's economic integration as initiatives like Regional Comprehensive Economic Partnership (RCEP), One Belt One Road (OBOR) and Asian Infrastructure Investment Bank (AIIB) gain significance. At the same time, ASEAN integration is rising as intra-ASEAN FDI is now the major source of direct capital into ASEAN, while China emerges as the fastest growing source of FDI into ASEAN.

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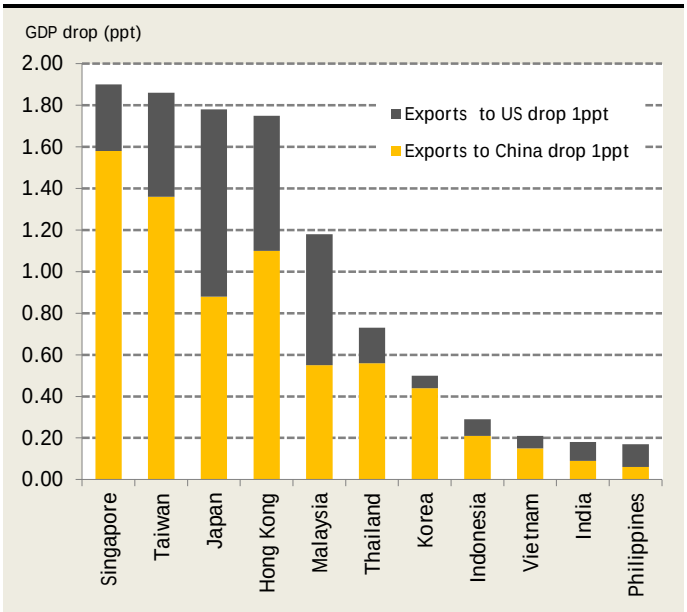
6 Links You Need to Know

Chart 1: Impact on GDP growth of Asian economies from drops in exports to US and China

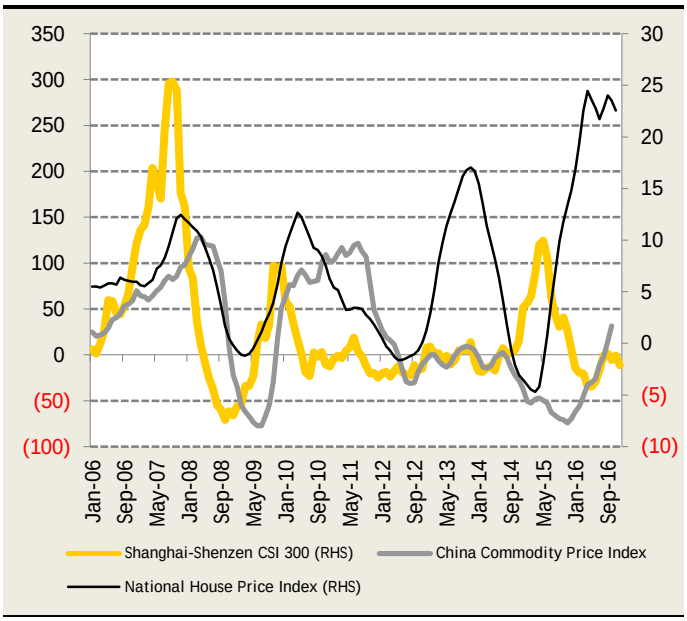
Key risk to regional growth outlook in 2017 is deterioration in trade relationship between US and China



Source: Maybank KE Economics Research

Chart 2: China's property, equity and commodity prices (% chg)

A shift in China's policy from "growth stability" to "financial stability" will impact domestic markets and economic growth



Source: Bloomberg

US-China trade conflict a major risk in 2017

US President-elect Donald Trump's rhetoric on trade – especially against China - and the nominations of "nationalists" and "trade policy hawks" like Steve Bannon as "Chief Strategist and Senior Counselor" and Wilbur Ross as Secretary of Commerce are risking US-China trade conflict.

This could be damaging to the global economy and world trade given that US and China makes up 40% of global GDP and a quarter of world trade. US and China also account for between 20% to 60% of East Asian economies' exports, implying significant impact on the global and region's growth from any disruption in their exports to US and China.

A 10% drop in US-China trade can shave as much as 0.7 percentage point off world GDP growth. In addition, our sensitivity analysis on the impact of declines in exports to US and China showed Japan, Taiwan, Hong Kong and Singapore to be the most affected in terms of GDP growth impact, followed by South Korea, Malaysia and Thailand, with India, Indonesia, Philippines and Vietnam being the least affected.

From "Growth Stability" to "Financial Stability"

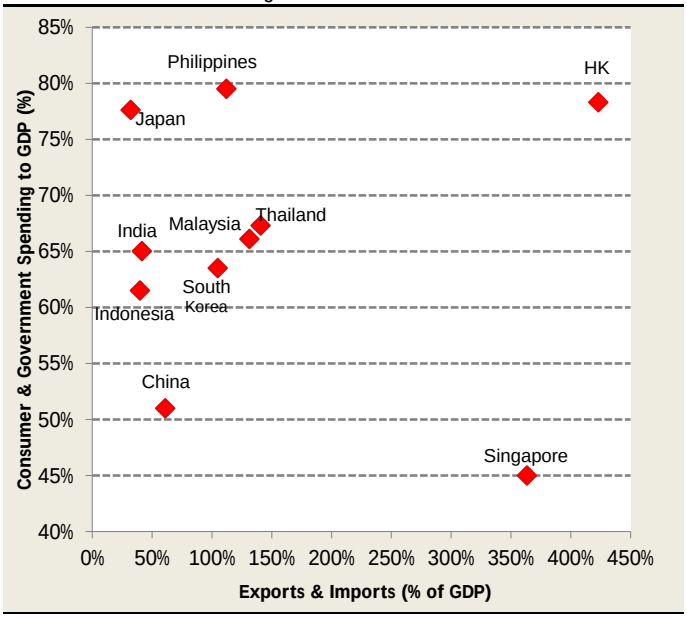
China's real GDP growth has clocked in a steady +6.7% YoY for three quarters in a row i.e. 1Q-3Q 2016. However, this "growth stability" was essentially debt-driven as total social financing growth outpaced both nominal and real GDP growth in 2016.

China's policy should shift towards addressing "financial stability" issue amid excessive leveraging as the fear and risk of financial crisis has caused capital outflows, falling Yuan and declining external reserves. The political need to ensure growth and financial stability is accentuated by the fact that the Communist Party's 19th National Congress in the autumn of 2017 comes with the party's leadership election.

Signaling the intent was the slew of property curbs and capital controls announced over the past few months. But the money "trapped" domestically due to capital controls must be "sterilised". Otherwise, another source of "financial stability" risk (apart from leveraging) will be created via asset and commodity markets, which have been prone to the musical chair of "booms and busts" as money looks for returns. So, in essence, China's monetary, banking and financial market policies may have to be tightened further, underpinning our view of further slowing of annual GDP growth to +6.5% in 2017 (2016E: +6.7%).

Chart 3: Domestic consumption expenditure vs external trade (% of GDP)

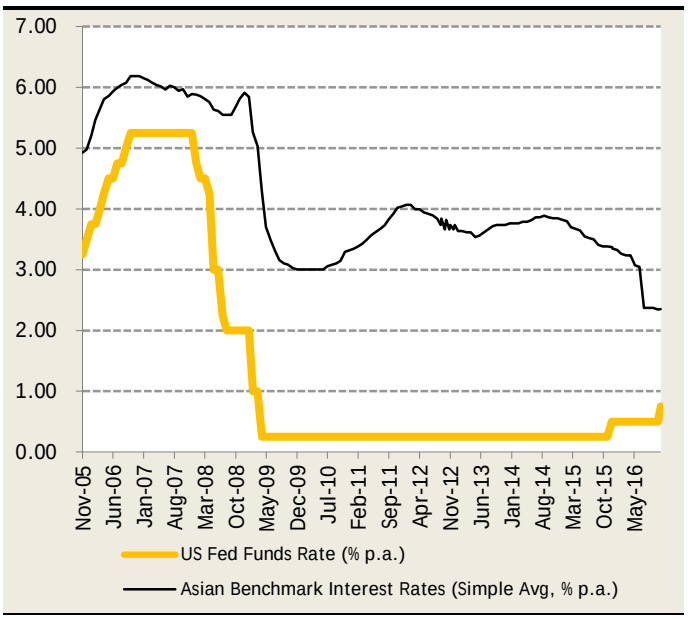
Amid external demand uncertainties, regional economic policy makers have to focus on stimulating domestic demand



Source: CEIC

Chart 4: Benchmark interest rates (% p.a.)

Regional monetary policies can be expected to remain broadly accommodative notwithstanding US fed rate hikes



Source: Bloomberg, CEIC

For ASEAN, stimulate domestic demand amid speculation on external demand

Amid the continued uncertainty on the external front, the key growth theme for ASEAN in 2017 is the continuation of domestic-driven growth, which has been the case in 2016. Domestic consumption expenditure is more than 60% for ASEAN economies, except Singapore, which is most vulnerable in view of the economy's high degree of openness as per the ratio of trade (exports + imports) to GDP.

The key challenge to stimulate domestic demand is the apparent narrowing or limited scope for monetary stimulus via interest rate cuts amid US interest rate hikes, heightened risk of capital outflows, and upsides to inflation from pressures on currencies and revival in commodity prices.

However, ASEAN economies have the room to fiscally stimulate domestic demand given that Government debt to GDP ratios are 50%-60% in Malaysia and Vietnam and sub-50% in the rest of ASEAN ex-Singapore compared with 250% in Japan, over 100% in US and in almost 90% in Europe. That room is being exploited, judging from the rising trend in infrastructure-related spending by ASEAN governments past 2-3 years and the commitment to increase or sustain such spending in 2017. Internally, we estimated that infrastructure spending in ASEAN-6 (Indonesia, Thailand, Malaysia, Singapore, Philippines and Vietnam) in 2016-2020 period will be at least USD614b or USD123b p.a., equivalent to 4% of ASEAN-6's annual GDP.

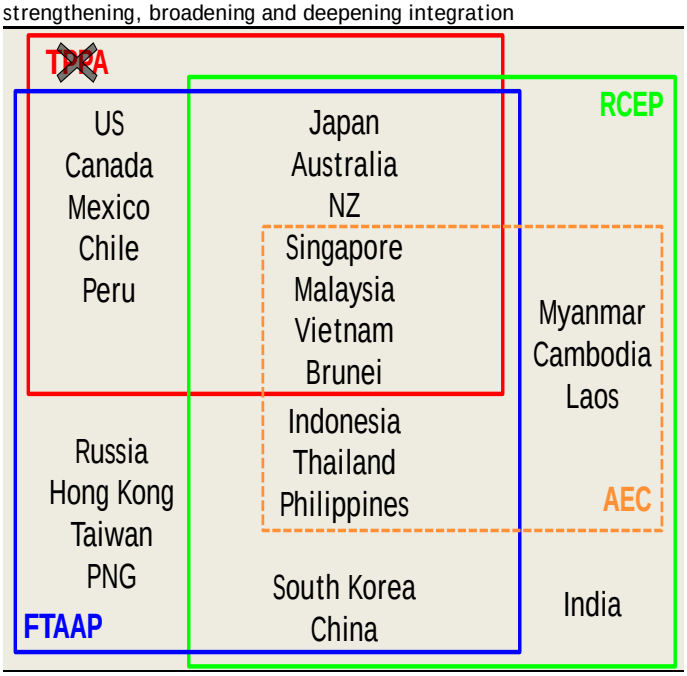
Disconnect between US and regional benchmark interest rates

At the 13-14 Dec 2016 FOMC meeting, Fed guided for +75bps hikes in 2017, up from +50bps indicated at the 20-21 Sep 2016 FOMC meeting, but maintained the projected +75bps hikes for 2018 and cut the forecast for 2019 to +75bps from +100bps previously. Fed is raising the pace of interest rate normalization in 2017 after the single 25bps hikes in 2015 and 2016. However, it is important to note that Fed's rate hike guidance for 2017-2019 remains +225bps in total, and the pace is now expected to be stable at +75bps p.a. as opposed to a stepped up hikes of +50bps in 2017, +75bps in 2018 and +100bps in 2019 previously. Overall, this signals the slowest pace of rate increases since Fed used the target Fed funds rate as the benchmark policy rate.

Historically, US and Asian benchmark interest rates are correlated. However the link seems to have been broken since 2H 2010 onwards amid zero-bound US interest rate but some normalization in Asian interest rates after the earlier cuts in reaction to the Global Financial Crisis. However, extended global economic uncertainties caused by the European sovereign debt crisis and China's economic slowdown, as well as slower inflation due to the slump in commodity prices resulted in renewed interest rate cuts in Asia from 2012 onwards, with the disconnect being more apparent in 2015-2016 as Asian central banks continued to ease despite Fed's gradual rate hikes. The need to support domestic demand suggests regional central banks will keep monetary policy accommodative.

Chart 5: Key multilateral trade agreements involving ASEAN

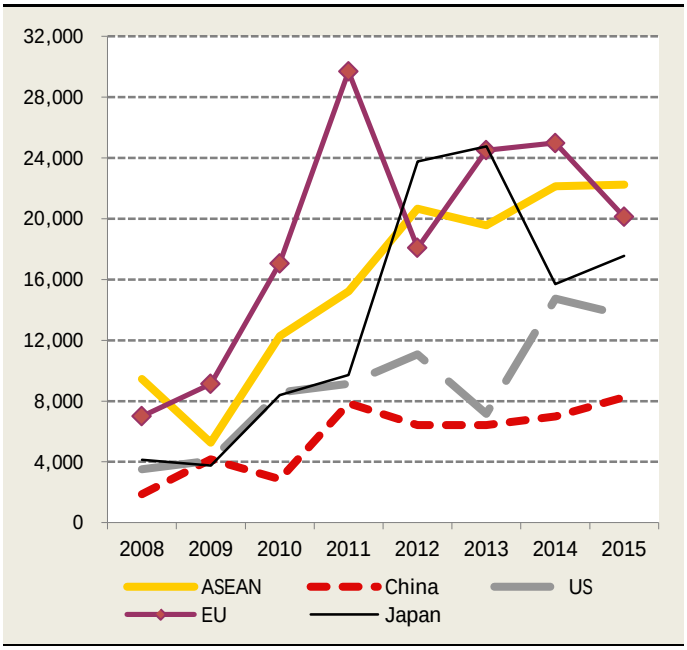
A "political economy" trend to watch in ASEAN is the prospect of strengthening, broadening and deepening integration



Source: Maybank KE

Chart 6: Main sources of FDI into ASEAN (USDm)

ASEAN integration rising with intra-ASEAN FDI as China FDI into ASEAN recorded fastest CAGR



Source: ASEAN Secretariat

Stronger, broader, deeper regional integration…?

With the impending "death" of TPPA, the major multilateral trade agreements left standing that involve and include ASEAN are the Free Trade Area of the Asia Pacific (FTAAP) and the Regional Comprehensive Economic Partnership (RCEP).

The prospect of FTAAP – which include US and China – is uncertain, while RCEP does not include US but has China in it. The possibility of an inward-looking US in terms of its trade and foreign policies under Trump Presidency and political uncertainties in EU that potentially distract the group from pursuing trade deals with non-EU countries/regions open up the opportunity for China to play the leading role and be the driving force in Asia's economic integration as initiatives like RCEP, One Belt One Road (OBOR) and Asian Infrastructure Investment Bank (AIIB) gain significance.

This is also reflective of the need for the region to ensure returns on investment and utilisation of capacities in trade-related commodities, manufacturing and infrastructure.

Rising Intra-ASEAN FDI, surging China FDI into ASEAN

The momentum in ASEAN integration has been rising in the post-Global Financial Crisis years. This is captured by the value of intra-ASEAN foreign direct investment (FDI). Latest available official figures showed intra-ASEAN FDI has risen steadily since the recent low of USD5.3b in 2009 to become the largest source of FDI into ASEAN in 2015 as the USD22.2b invested by ASEAN companies in the region outside their home countries surpassed the historical major investors into the region i.e. EU (2015: USD20.1b) and Japan (2015: USD17.6b).

Meanwhile, although China still lags behind ASEAN, EU, Japan and US as a source of FDI into ASEAN, the amount of its FDI into ASEAN has more than quadrupled to USD8.3b in 2015 from just USD1.9b in 2010, making it the fastest growing source of FDI into ASEAN during the 2008-2015 period with CAGR of almost 40% p.a.

Maybank Kim Eng

STRATEGY

Regional

Strategy: Six-for-17

Implied Volatilities & Relative Value

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Vol will shift from FX to bonds and equities in 2017

We noted the risk of rising FX implied volatility two years ago. Recently, Trump's fiscal policy announcements prompted reflation expectations and a bond sell-off. While we're concerned the global rise in bond yields has increased the cost of capital, implied bond market volatility and VIX are still at relatively low levels compared to FX implied vol. This could be because some central banks are still buying bonds. In 2017, we think the risk is that bond and equity volatility will increase further as more countries shift from monetary to fiscal stimulus.

Divergence signals in different asset classes

The link between global industrials to staples relative performance and Asia ex Japan to US equities appears to have broken down. Usually, when cyclicals outperform in a global equity portfolio, so does Asia. The divergence we reckon is as much to do with fear of protectionism as interest rate differentials. This divergence could start to close in early 2017 with Asia rallying given relative valuations of the region and any pause in the USD. However, we are extremely cautious about the markets in 2017 and we would not be surprised to see a sharp correction in 1H17. (Relative Value for A Bumpy Ride)

Risks to credit and capex growth

Our investment theme is about finding sustainable capex and credit cycles as Asia improved marginally in 2016. This indicates a reduction of overcapacity which has helped to improve EBIT margins. However, protectionism and rising US rates are risks that could scuttle this recovery. In Relative Value for A Bumpy Ride, we highlight where we see sustainable capex growth in each country.

China: credit growth, property and credit spreads

China's aggregate capex and credit cycles are in reverse. Domestic credit growth has already been trending down, and as such we think property prices will be under pressure soon. Also, AAA corporate bond spreads have widened to Apr 2016's levels due to the liquidity problem in the market, and consequently there is rising risk of corporate bond defaults. Main risks to watch out for in 2017 are CNY, bonds, property bubbles and a potential trade war in our view. We are underweight China and would short China autos, long China household and personal products.

ASEAN rules

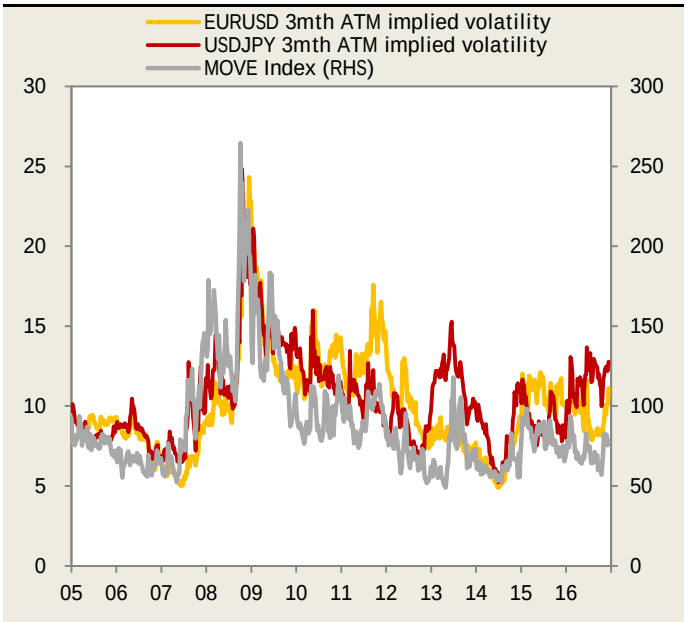
We favour ASEAN because the region can still expand their balance sheets to support growth as they have lower debt-to-GDP ratios. We have the following two relative value trades: long Singapore, short Hong Kong and long Indonesia, short the Philippines.

Short Tech, Long Telecom

Tech was the best-performing sector and telecom was one of the worst in 2016 and their relative P/BV valuation has hit the top-end of the range. Given strong USD and plus smartphone margin headwinds together with telecom's defensive characteristics and its 4G story, we think 2017 will be better for Telecoms than Tech.

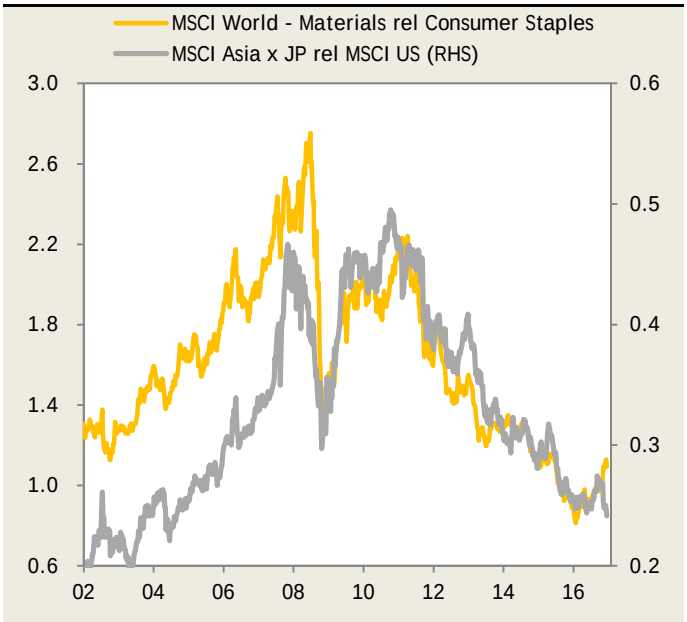
6 Links You Need to Know

Chart 1: EUR-USD and USD-PY implied volatility vs MOVE index



Source: Bloomberg, Maybank KE

Chart 2: MSCI world materials relative to consumer staples vs MSCI AxJ relative to MSCI US



Source: MSCI, Bloomberg, Maybank KE

From FX vol in 2014 to bond and equities vol in 2017

Our first chart shows implied volatility of US bonds and EUR-USD and JPY-USD implied volatility. We excluded the VIX and this too is correlated to implied volatility in the other asset classes.

While we're concerned the sharp rise in bond yields has increased the cost of capital, implied bond market volatility measured by the MOVE index on Bloomberg remains relatively low. Note that the VIX even hit 11.4 before Christmas. This could be because some central banks are still buying enough bonds making the sell-off somewhat more "orderly" under a QE environment.

With bond yields not moving fast enough due to central bank buying, the pressure valve we think has been the FX market.

However we might see more countries switching to fiscal policy from monetary policy and rising pressure on interest rates in 2017. In particular, not just the US, but given the political risks in Europe, we could see greater fiscal plans as well which has been mooted. We think the risk is that bond vol and VIX will further rise.

We think a key call for 2017 is the rising FX vol of the past two years spreading to bonds and equities vol.

Cyclical-defensive relationship between sectors and countries

The cyclical-defensive relationship between global materials and consumer staples is highly correlated to Asia ex Japan and US equity market calls. When investors rotate from defensive sectors like consumer staples to cyclical sectors like materials, we see Asia ex Japan outperforming the US. That is, for global investors, the US is a defensive market. It is where there is arguably greatest transparency, macro data and liquidity.

Therefore, it is interesting to see the recent divergence between country and sector allocations. Historically, any divergence closes rapidly.

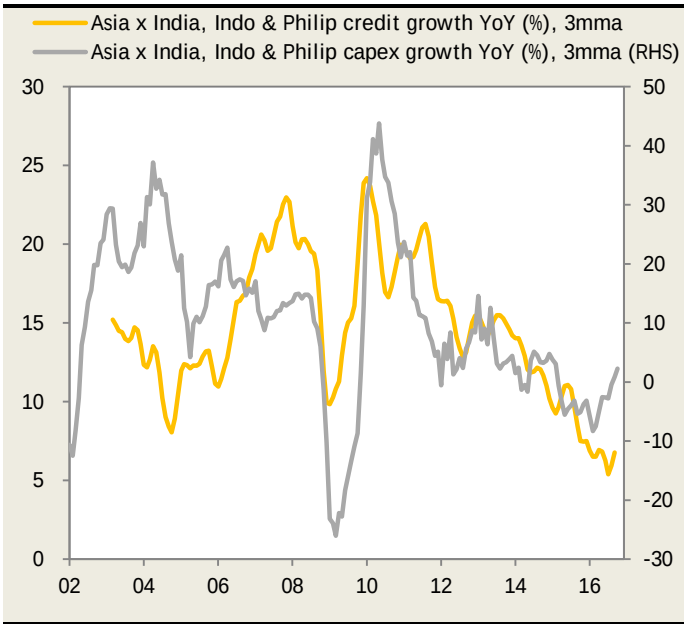
Based on history, investors should be buying rather than selling Asia ex Japan if they favour cyclical plays.

One interpretation is that it's temporary and will close. That could happen if Trump backs down from protectionism. Or if investors decide that indeed, as US growth picks up, Asia ex Japan assets will benefit too.

Indeed, we think this divergence could close in the first two months of the new year as relative valuations favour Asia and if the USD pauses from its recent rise.

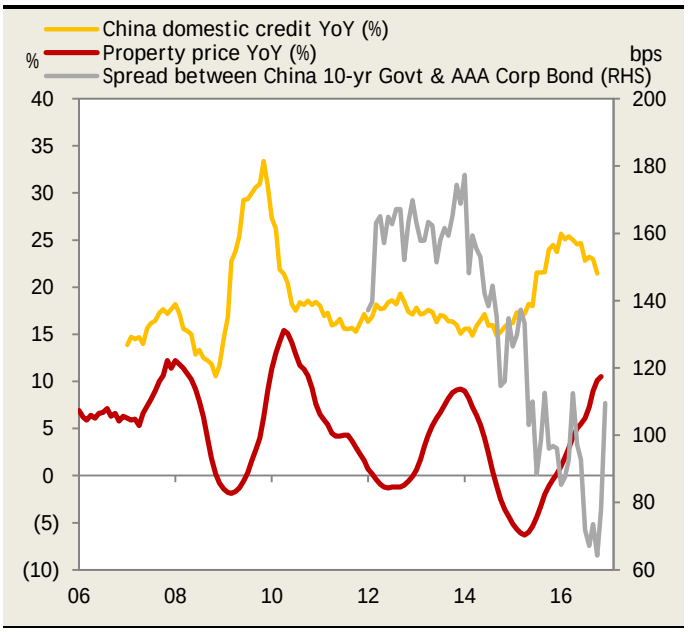
However, we are cautious on Asia and emerging markets and we would not be surprised to see a sharp correction in 1H17 given protectionism fears, European elections, rising interest rates in the US and a rollover in Asia's capex and credit cycles.

Chart 3: Asia x India, Indonesia & the Philippines' credit and capex growth YoY, 3mma



Source: CEIC, Maybank KE

Chart 4: China domestic credit growth, property price and corp bond spread



Source: CEIC, Wind, Bloomberg, Maybank KE

Risks to credit and capex growth

Asia's credit and capex growth showed signs of improvement in 2016. We measure capex growth using imported capital goods. The recovery indicates an ease in Asia's overcapacity problem and also improving EBIT margins.

However, protectionism will cause revenue growth to slow and will worsen the overcapacity problem again. It will also slow down cross-border capital flow for some countries. We have already seen net FDI slow down sharply in China.

A core pillar of our strategy is to find places where the capex and credit cycles are self-sustaining. However, protectionism and rising US rates are risks that could scuttle this recovery but will offer opportunities.

At a macro level, the sustainable aggregate capex and credit cycles we think are in ASEAN, including the Greater Mekong Sub-region (including Vietnam and Thailand companies who benefit).

At the sector level, in Relative Value for A Bumpy Ride, we have a table from our Heads of Research to highlight where we see sustainable capex growth in each country, including healthcare in Singapore; environmental-related sectors such as electric vehicles in China; and non-listed manufacturing, oil and gas, services, and rail development in Malaysia.

China: credit growth vs property price and corporate bond spread

The chart shows the relationship between credit growth, property price and corporate bond spread in China.

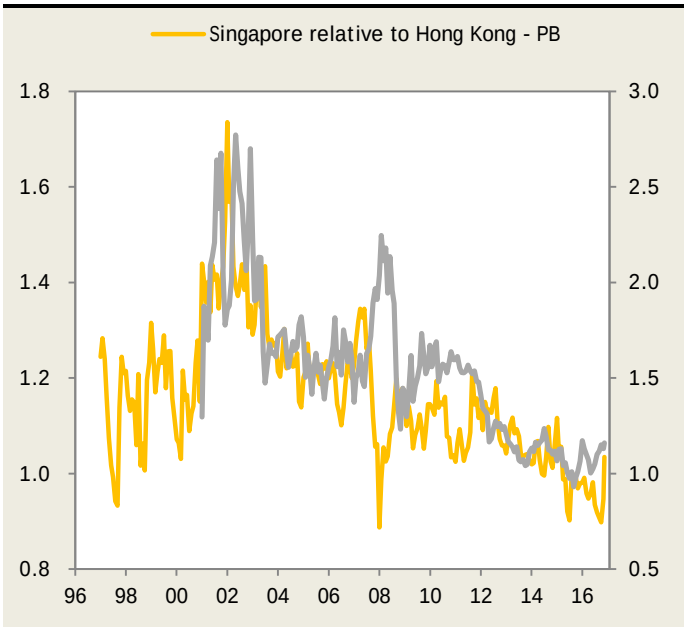
When credit growth expands, property price increases around six months later. The credit-spread history is shorter but recently narrowed as credit growth increased. In short, investors have been risk-on.

However, domestic credit growth has recently rolled over, and as such we would not be surprised to see property prices being under pressure soon. Also, the AAA corporate bond spread has widened to Apr 2016's levels due to the liquidity problem in the market. We see a rising risk of corporate bond defaults.

We have a negative stance toward China. Main risks to watch out for in 2017 are CNY, bonds, property bubbles and a potential US-China trade war in our view.

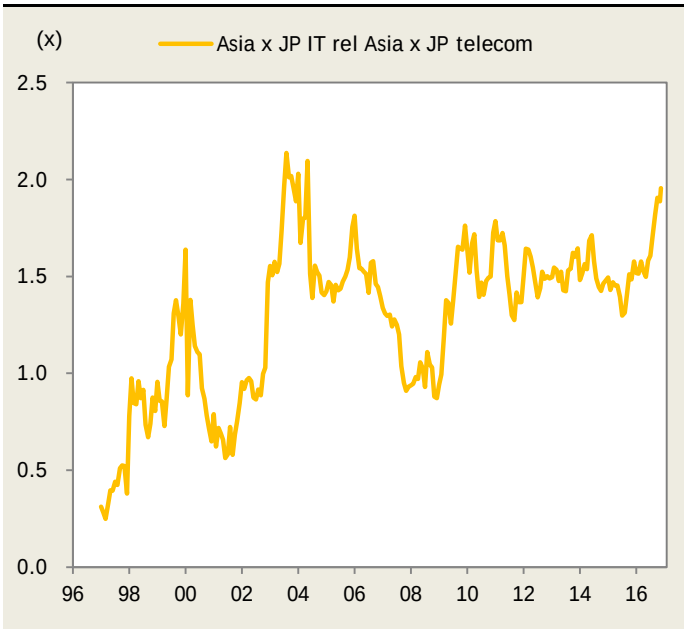
Within China, we have one relative trade: short China autos, long China household and personal products. KL Lo, our China consumer discretionary analyst, has a SELL rating on Great Wall Motor. Within China household & personal products, our China consumer staples analyst, Jacqueline Ko, has a BUY rating on Goodbaby International.

Chart 5: Singapore relative Hong Kong, and Indonesia relative Philippines



Source: MSCI, FactSet, Maybank KE

Chart 6: MSCI Asia x Japan IT relative telecom, P/BV



Source: MSCI, FactSet, Maybank KE

Two Country Pairs: Long Singapore, Short Hong Kong; Long Indonesia, Short the Philippines

We favour ASEAN because they can still sustainably expand their balance sheets to support growth.

We are cautious on Hong Kong because of the rising pressures of CNY depreciation, less capital flow from China as China tightens its capital account and the pressure to follow the US in raising interest rates. Also, we reckon Singapore's earnings growth is more resilient than Hong Kong's (being exposed to growing ASEAN rather than China) and Singapore also offers the highest dividend yield in the region due to the large universe of REITs.

P/BVs between the MSCI Hong Kong and the MSCI Singapore have been range bound in the past 20 years. Singapore's P/BV is now trading at the low-end of the range relative to Singapore.

Within ASEAN, we favour Indonesia over the Philippines. Real interest rate differential between Indonesia and US vs the Philippines and US shows that Indonesia is under less pressure than the Philippines to follow the US in raising rates. In Indonesia, the tax amnesty programme, the reform and fiscal spending on infrastructure projects could support economic growth and mitigate some of the downside risks to the Indonesian rupiah. Also, Indonesia's percentage of exports to the US is the lowest within Asia, so it is more resilient under the uncertain trade environment. On the other hand, the Philippines has continuously recorded net FDI outflows and valuations remain stretched. A lot may be priced in already and Michael Bengson, our Philippines Research Head, notes a further depreciation of the PHP may affect listed companies with USD-denominated debts and/or operating expenses.

Therefore, we have the following two relative trades: long Singapore, short Hong Kong, and long Indonesia, short the Philippines.

Short Tech, Long Telecom

Our overall caution on the markets in 2017 has also driven us to be more relative-value focused.

Within the region, Tech was the best-performing sector and Telecom was one of the worst-performing sectors in 2016.

The chart shows that MSCI Asia x JP IT relative telecom's P/BV valuation has already hit the top-end of the range. Stefan Chang, our technology analyst, believes a strong USD will have a big negative impact on smartphone makers given many of them are barely breaking even or only have single digit % operating margins. Also, India's demonetization is another negative impact on the smartphone market given 90% of transactions in India is on a cash basis. India already accounts for 8-10% of global smartphone shipments and is the key growth market.

We continue to favour Telecom for its defensive characteristics and the 4G story. Also, in China, operational rebound and the potential tower IPO in 2017 are catalysts to the sector. While there has been much discussion over how defensive the telco's are, there may be a case to argue that such concerns may largely have been priced in, particularly relative to Tech.

We therefore recommend investors to Short Tech, Long Telecom. Mitchell Kim, our telecom analyst, has a BUY rating on China Mobile and Stefan Chang, our technology analyst, has a SELL rating on Catcher and MediaTek.

Maybank Kim Eng

FX

Regional

FX: Six-for-17

PPP – Of *P*olitical Uncertainty; *P*olicy Changes; Rising *P*rice Pressures

Higher growth, rising inflation, higher yields, higher Dollar…

We see USD strength on the back of improved US medium term growth, positive productivity outlook, expansionary fiscal infrastructure package, changes in the regulatory environment and tax reforms (i.e. lower taxes) under the Trump administration.

Policy Divergence To Drive EUR, JPY Lower

Widening yield differentials to accentuate EUR and JPY's role as key funding currencies as ECB and BOJ are the only key central banks committed to ease in 2017.

Rise of the Commodities To Lend Buffer To Some

Stronger US growth trajectory, expansionary fiscal plans around the world that accompany fresh infrastructure projects suggest rise in demand for commodities. AUD, NZD, CAD, RUB and MYR stand to benefit from their upswing.

Which Asian Economy Will Fare Better With Trump as President?

We examine the openness of the ASEAN economies and their ability to withstand any protectionist measures that could be put in place by the Trump administration. Singapore remains the most vulnerable to any protectionist/anti-globalization measures as reflected by openness of its economy. The least vulnerable economies are Indonesia and Philippines, due to their large domestic economy.

USDJPY, USDMYR Highly Sensitive To UST Yields

Our analysis shows that amongst the USD/Asian FX, USDJPY, USDMYR and USDSGD are highly sensitive to changes in UST yields. In addition, we observed that most USD/Asian FX react more to changes in longer-end UST yields (i.e. 10Y), as compared to shorter-end UST yields (i.e. 2Y). With markets expecting higher inflation and thus more room for Fed to raise rates, we expect UST yields to stay firm, and this is expected to exert further upside pressure on USDJPY, USDMYR and USDSGD.

Political Stresses in Europe May Pressure EUR

The 5Y European CDS Itraxx index (as a proxy for political risk) shows an inverse relationship with the EUR/USD. In particular during the Italian Referendum in Dec, UK's referendum on EU membership in Jun and European banking stresses in Feb, the 5Y CDS soared while EUR came under pressure. We expect to see potential pick-up in European CDS around those election periods ibn 2017 and potentially, the EUR to come under temporary downside pressure.

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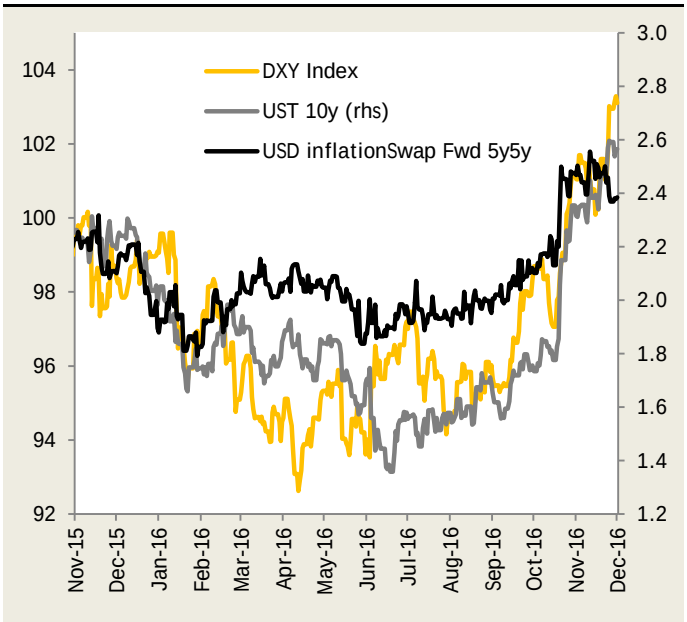
6 Links You Need to Know

Chart 1: Higher growth, rising inflation, higher yields, higher Dollar…

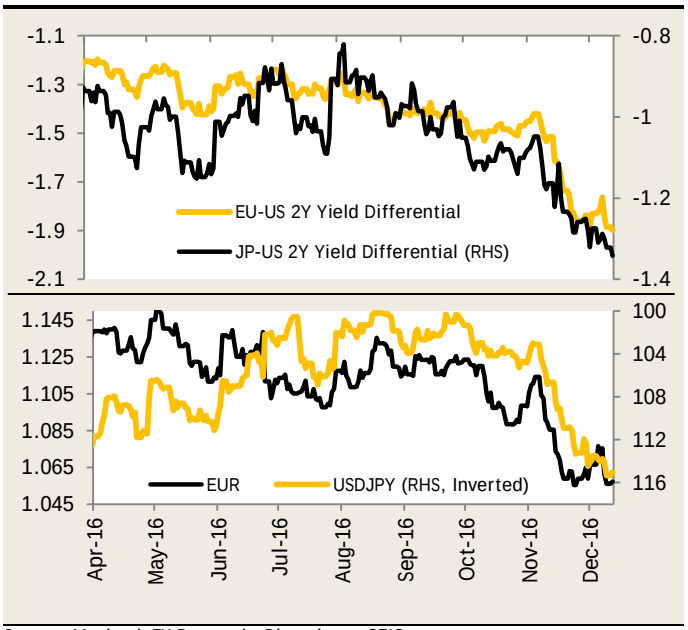
Look Out For More USD Strength…



Source: Bloomberg, Maybank FX Research

Chart 2: Widening Monetary Policy Divergence To Drive EUR and JPY Lower

EUR and JPY should weaken more against the USD



Source: Maybank FX Research, Bloomberg, CEIC

USD Strength To Persist into 2017

We see USD strength on the back of expectations of an improved US medium term growth. Positive productivity outlook on the back of expectations of a targeted fiscal infrastructure package, changes in the regulatory environment and tax reforms (i.e. lower taxes) under the Trump administration could lend support to the greenback.

Fiscal boosts could lead to concerns of faster inflationary pressures and as such affect the Fed rate hike trajectory. In other words, there will still be some policy uncertainty for the most part of 2017. In 1H 2017, we expect on average a steepening of the UST curve with the back end rising faster than the front end (higher nominal rates).

Rising growth, fiscal boosts, higher yields should lead to broad USD strength as we move into the new year, notwithstanding potential lags in fiscal policy loosening and immigration curbs, residual slack in labour market and disinflationary impact of higher US yields and a stronger dollar that could temper the Fed hawks.

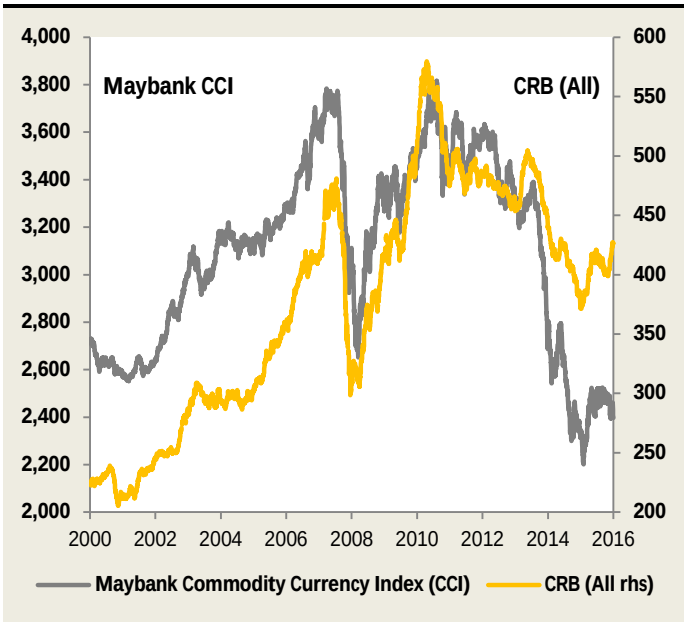
Fed Hikes As ECB and BOJ Retain Easing Mode

While the Fed raises its target rate one year after its first rate move, ECB extended its quantitative easing program from Mar 2017 to the end of the year. BOJ also reiterate its commitment to continue increase its balance sheet until Japan reaches its 2% inflation target. Policy divergence (of US vs. EU and Japan) has never been so clear and that could solidify EUR and JPY's role as key funding currencies for 2017.

Recent FOMC statement saw an adjustment to its dots plot projection higher to 3 hikes in 2017 (vs. 2 hikes in 2017). This suggests there is room for UST yields to rise further and drive monetary policy divergence between the Fed and those on monetary easing bias (in particular the ECB and BoJ) further, which is expected to lend further support for the USD vs. EUR and JPY.

Chart 3: Rise of the Commodities To Lend Buffer To Some

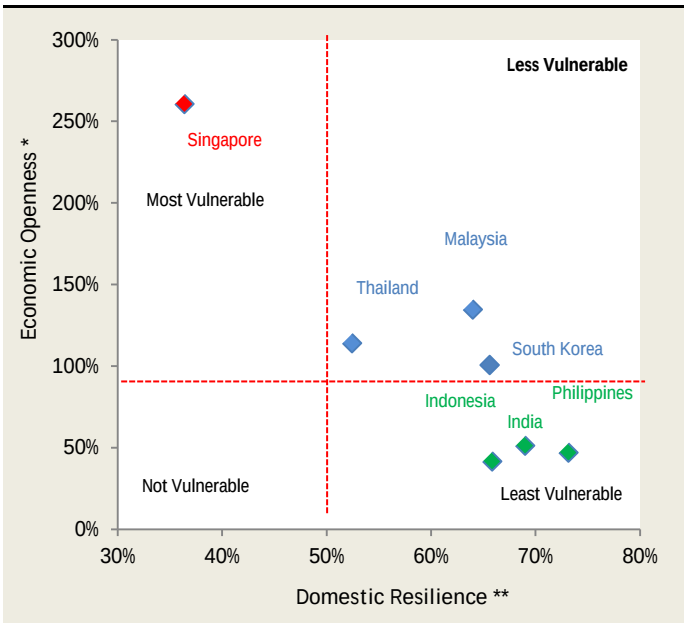
Commodity prices have bottomed and their rebound shall lift the AUD, NZD, RUB, CAD and MYR



Source: Maybank FX Research, Bloomberg
Note: The Maybank Commodity Currency Index comprise of equally weighted commodity-linked currencies based against the USD including AUD, NZD, MYR, RUB, CAD.

Chart 4: Which Asian Economy Will Weather Trump Better?

India, Indonesia and Philippines most resilient, Singapore most vulnerable...



Source: Maybank FX Research, Bloomberg, CEIC

The Commodity Boost

The downtrend of commodity prices is nearing the end as investors priced in the bulk of the various supply glut and overcapacity issues. Prices are likely to react to any pick-up in demand next and as we move into a world of more fiscal stimulus out of the US and China, greater infrastructure needs from One Belt One Road, expect risks to commodity prices to be to the upside. That should lend AUD, NZD, MYR, RUB and CAD a fair buffers as they are highly sensitive to these price movements.

This chart shows how the various commodity currencies (which are depicted by the equally-weighted Commodity Currency Index line) have a reasonably strong correlation with commodity prices (Commodity Research Bureau (CRB) index). Currencies tend to overshoot and the rebound could be substantial when it comes.

How will Asia fare with Trump as US President?

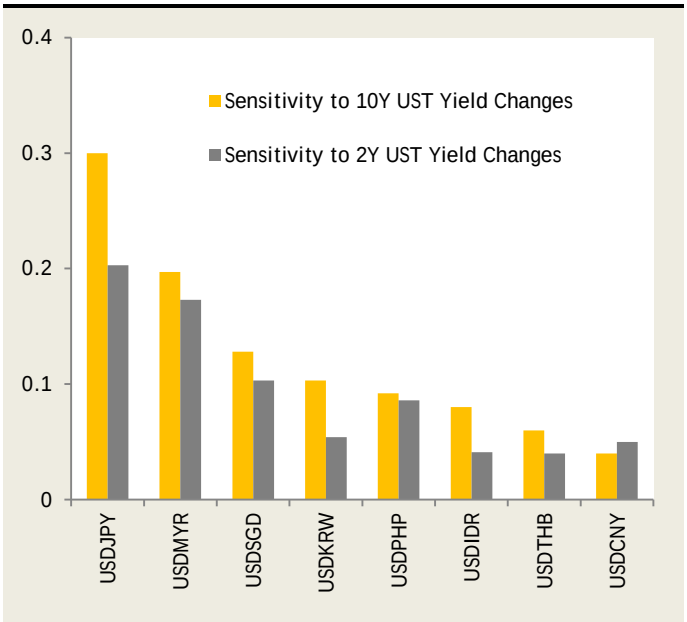
Much has been made about the protectionist bent of the incoming Trump administration. The flames of concern were fanned by the intention of the incoming Trump administration to repudiate the TPP and the threat of a trade war with China.

We examine the openness of the ASEAN economies and their ability to withstand any protectionist measures that could be put in place by the Trump administration. Our grid shows that Singapore remains the most vulnerable to any protectionist/anti-globalization measures as reflected by openness of its economy. Moreover, its private consumption as percent of GDP is the smallest among the ASEAN peers, which increases its vulnerability. The least vulnerable economies are Indonesia and Philippines, due to their large domestic economy. India stands out to us especially because of its sizeable domestic economy and higher yielding bonds, notwithstanding the recent growth-crimping demonetization efforts.

On relative value basis, we see opportunity to long INR, IDR and PHP against the SGD.

Chart 5: USDJPY, USDMYR Highly Sensitive to UST Yields

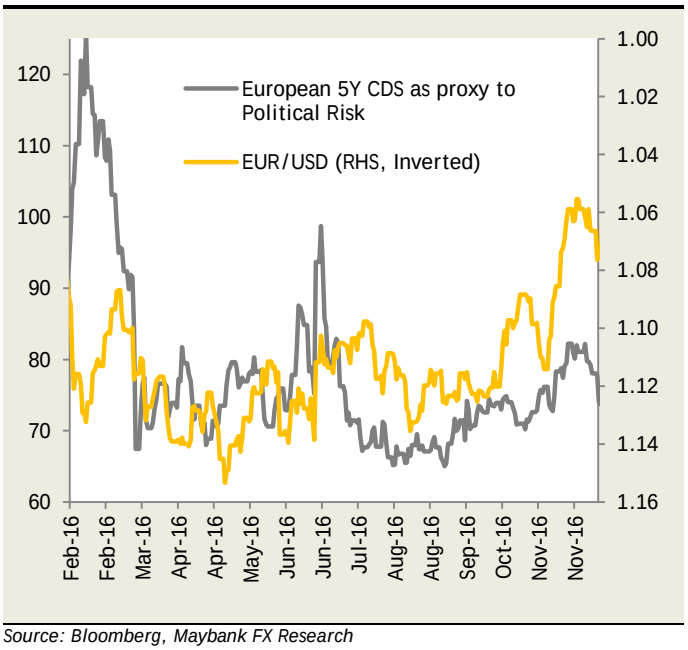
Higher UST Yields, Higher USD/Asia FX



Source: Maybank FX Research Estimates, Bloomberg

Chart 6: Political Stresses in Europe May Pressure EUR

Inverse Relationship between European 5Y CDS and EUR/USD



Source: Bloomberg, Maybank FX Research

Which Asian FX Are More Sensitive to UST Yields?

In anticipation of President-elect Trump's policies – expansionary fiscal policies (tax cuts, infrastructure spending) and trade protectionism measures, the past few weeks have seen markets re-price their expectation for US nominal rates higher.

In the above chart, we look at the betas of USDAsia FX to daily changes in UST yields over the past 1 year, using OLS regression. And our analysis shows that amongst the USD/Asian FX, USDJPY, USDMYR and USDSGD are highly sensitive to changes in UST yields. In addition, we observed that most USD/Asian FX react more to changes in longer-end UST yields (i.e. 10Y), as compared to shorter-end UST yields (i.e. 2Y). With markets expecting higher inflation and thus more room for Fed to raise rates, we expect UST yields to stay firm, and this is expected to exert further upside pressure on USDJPY, USDMYR and USDSGD.

That said we caution that markets risk getting ahead of themselves as expectations have yet to materialize. Data and policy disappointment (i.e. slower pace of pick-up in inflation and/or Fed not as hawkish as expected) could see rates softening, and result in subsequent pullback in USD/Asia FX.

EUR Not Immune to Political Contagion

Europe is facing a very crowded election calendar in 2017 with scheduled Presidential elections for Netherlands in Mar, French Presidential elections in Apr-May, German Federal election in Aug-Oct. Potentially in Italy, an election could be called as early as in Feb-Mar. There are also other political risk events such as Italy Constitution court decision on electoral laws in Jan as well as UK's trigger of Article 50 by end Mar (which could potentially be delayed).

While our base case is for no Euro-area break-up, we caution for the risk of political contagion as Far-Right parties in Europe are expected to take the opportunity to stoke anti-EU sentiment, and this could lead to political stresses (expresses via opinion polls and CDS index) and undermine the future of the Euro-club. We expect heightened political stresses around those risk event dates to see higher level of FX volatility and this is likely to exert temporary downside pressure on the EUR in the lead-up.

The 5Y European CDS Itraxx index (as a proxy for political risk) shows an inverse relationship with the EUR/USD. In particular during the Italian Referendum in Dec, UK's referendum on EU membership in Jun and European banking stresses in Feb, the 5Y CDS soared while EUR came under pressure. We expect to see potential pick-up in European CDS around those election periods ibn 2017 and potentially, the EUR to come under temporary downside pressure.

CAPITAL FLOWS
BABIES
AUTOS
INTEREST RATES
CNY
TRADE WAR

Maybank Kim Eng

STRATEGY

China/HK

China: Six-for-17

Buckle Up & Snuggle In…

Path of least resistance

2017 will likely be another year of volatility. The investment world is on edge over policy directions of the new US administration, elections in France & Germany, and the 19th National People's Congress in China. If rhetoric were to be believed, China could be one of Trump's bogeymen. Its domestic problems with the Impossible Trinity would only accentuate its woes, in our view. We urge investors to take a bottom-up approach in the next 12 months, with the insurance and baby sectors as our top picks.

Devaluation, capital control & trade war

The Chinese economy could be in for a choppy ride. About 18% of China's exports go to the US directly. US protectionism could slam global trade, from which China has been benefiting since its WTO ascension in 2000. Monetary easing in recent years has failed to reignite its economic charge. With the global rate cycle turning north, the Chinese government faces mounting pressure on its currency. Our strategist believes that Beijing could impose more capital controls. A hawkish stance on loan growth and social financing would exert pressure on its property sector. Against these adversities, we identify four investment themes for 2017: two positive, two negative.

Time to make babies again

China's upcoming baby boom is one positive theme. After its announcement of a 2-child policy, a baby boom was observed in 1H16. The government is expecting the birth rate to jump by a third in 2016 and 2017. We expect incremental spending of CNY10b on baby food and products in the next two years. Our top picks are Biostime (1112 HK, BUY) and Hengan (1044 HK, BUY), as we think they have the ideal product exposure to profit from surging demand for infant products and maternal supplements.

Bargains in an underpenetrated market

The second positive is a potential re-rating of the Chinese insurance sector. Agency expansion should support strong life insurers' value-of-new-business growth in an underpenetrated market. An upturn in interest rates and stable liability costs should restore investment spreads. Ping An (2318 HK, BUY) and CPIC (2601 HK, BUY) are our recommendations for their superior business quality and growth prospects.

Avoid F&B & auto

We advise caution on the F&B and auto sectors. An unfolding downturn in the property sector has been prompting migrant workers to leave cities and return to their hometowns. We think this demographic change will hit the revenue of F&B operators like Tingyi (322 HK, SELL). A reversal of polices should dampen the auto sector. Other than a partial scale-back of tax rebates, the electric-vehicle industry will face consolidation after 50% reduction in subsides. We have a SELL on BYD (1211 HK) with a street low price target.

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Exports to the US account for 4% of China's GDP

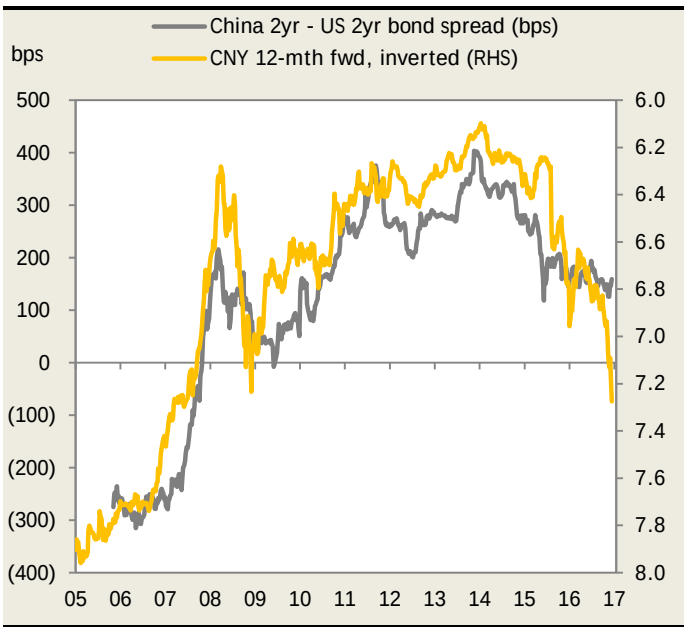
Although China's exports to GDP ratio was only 22% in 2015, 18% of its exports went to the US directly. Any trade war with the US could stress its capex-cycle recovery and economic growth.

Source: CEIC, Maybank KE

6 Linkages You Need to Know

Chart 1: China and US 2-year bond spread vs 12-month forward CNY

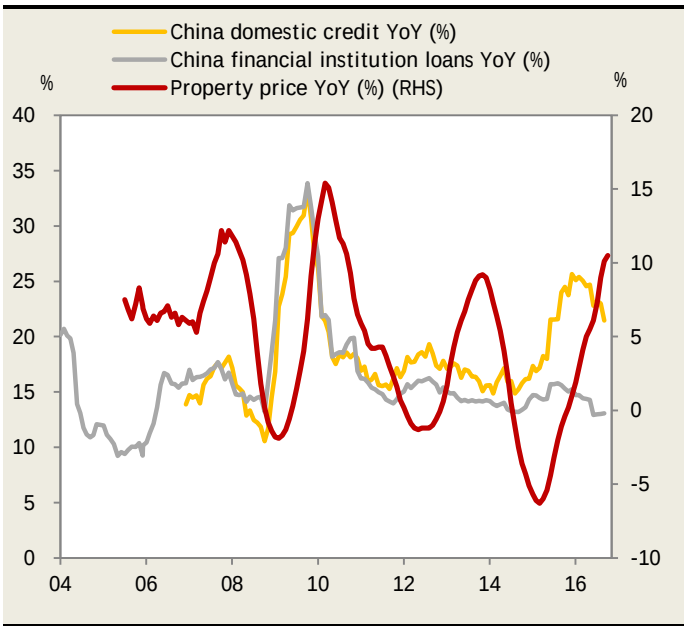
The spread between China's 2-year bond yield and the US' 2-year bond yield has a strong link with the 12-month forward CNY



Source: Bloomberg, Maybank KE

Chart 2: China's credit growth YoY and changes in property prices YoY

Chinese domestic credit and loan growth (YoY %) vs property prices (YoY %)



Source: Wind, CEIE, Maybank KE

Closing the gate to stop the leak

Rising US interest rates would exert depreciation pressure on the CNY. Cross-border capital leakages, already a problem, could worsen.

The Chinese authorities recently tightened capital-outflow channels, including overseas transfers and cross-border CNY lending. UnionPay ATM withdrawals in Macau have been limited to MOP5k per transaction, down from MOP10k. China is likely to tighten its capital account further to stem more outflows.

CNY's potential weakness is behind our caution on industries with foreign debts and currency mismatches, particularly those with domestic sales but import their raw materials. In our universe, F&B names should be the most affected.

Bad news for property; but positive for insurance sector

The latest Central Economic Work Conference indicates that the government will be more hawkish on credit in 2017. It could implement a property tax in the longer run.

Our chart above maps the relationship between domestic credit growth and property prices. Domestic credit growth has already been trending down. Given that it leads property prices by six months or so, we would not be surprised if property prices succumb to pressure soon. Other than the direct impact on the monetary system and banking industry, the sluggishness has been also prompting more migrant workers to leave cities for their hometowns. This trend has a knock-on impact on instant-noodle and beverage sales. (Fig 5)

On the flip side, a recovery in domestic interest rates and higher allocations to non-standard assets & high-dividend equities may help Chinese insurers defend their investment spreads. Along with better growth prospects from agency expansion, we believe the sector could be re-rated in the coming quarters. Ping An (2318 HK; BUY; TP HKD57) and CPIC (2601 HK; BUY; TP HKD38) are our top picks for their strong VNB momentum and better business quality.

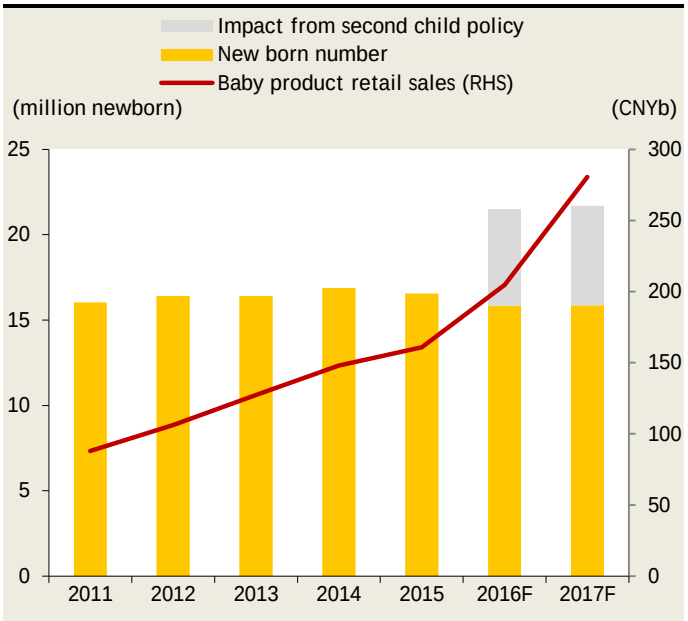
Chart 3: MSCI China auto relative to MSCI China household & personal products, P/BV

The divergence has hit the top end of its 10 year range, the reversal in auto policies should warrant a mean reversion trade

Source: MSCI, Maybank KE

Chart 4: No. of newborns forecast for 2011-17E after relaxation of 1-child policy versus baby product sales

Number of newborns in 1H16 leapt 6.9ppts YoY to 8.31m. It is expected to surge to 13.2m in 2H16 as the policy impact gathers momentum. Baby product sales should surge on the back of new born.



Source: Health & Family Planning Commission; Euromonitor, Maybank KE

Mean reversion in 2017?

The relative P/BV of MSCI China auto and MSCI China household and personal products has already hit the top end of its 10 year range.

Auto's strong performance in 2016 was boosted by tax incentives and robust electric-vehicle sales; while consumer staples continued to be battered by overcapacity and much slower migrant-worker growth.

In 2017, we expect a reversal of favourable policies for the auto sector. We also see the 2-child policy fanning the consumption of baby and pregnancy-related goods. With this, we think a mean-reversion trade is warranted.

KL Lo, our China consumer discretionary analyst, has a SELL on BYD while our China consumer staples analyst, Jacqueline Ko, recommends BUYs on Biostime and Hengan.

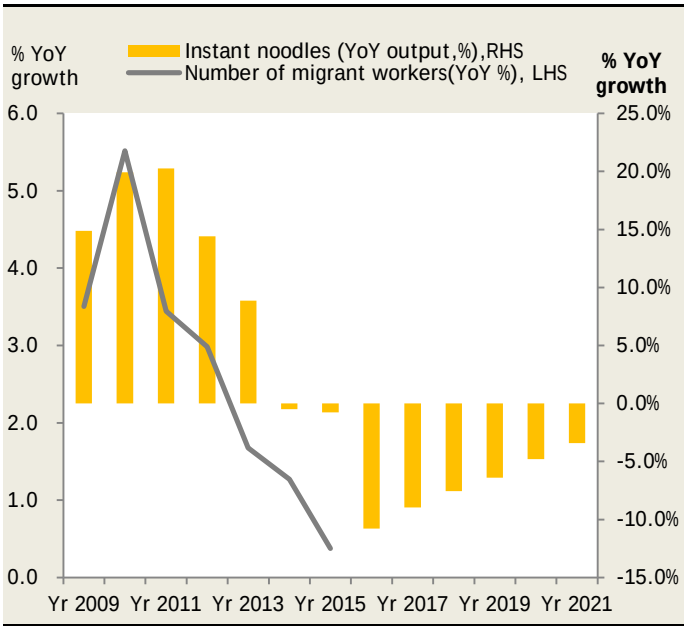
Baby, baby, one more time…

We recommend stocks that can benefit from an impending jump in the birth rate, which the market appears to be unaware of. After the announcement of its 2-child policy, the National Health and Family Planning Commission noted a 6.9% ppts in chart 4 increase in newborns in 1H16, while the number of pregnancies also went up in 2H16. This should bump up the birth rate in 2017. Ironically, industry experts are expecting higher preterm births and maternal mortality due to the rising age of mothers. As such, we expect increasing spending on body checks, pregnancy supplements and formula.

As an additional 4-5m births could translate into an additional CNY10b spending on baby and parent-related care, we are bullish on diapers, infant formulas and pregnancy-related supplements. Our top picks are Biostime and Hengan.

Chart 5: Instant noodle sales vs changes in the number of migrant workers

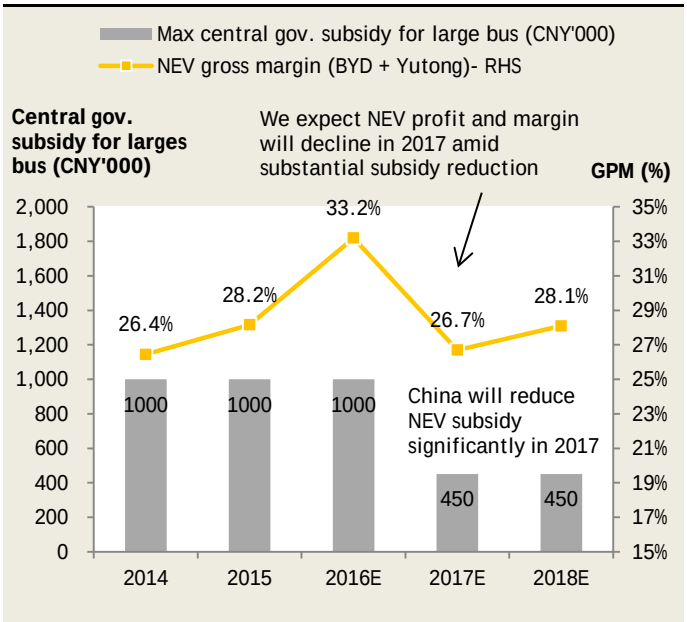
Instant noodle sales growth tracks changes in the number of migrant workers in Chinese cities



Source: National Bureau of Statistics; Euromonitor, Maybank KE

Chart 6: Electric-vehicle industry could be veering towards consolidation

2017 central-government subsidies for large electric buses (CNY'000/unit) vs gross margins of the market leaders



Source: Ministry of Finance; D1Ev.com; Maybank KE

Heading home

We attribute a recent break between industry sales volume growth and China's robust consumption partly to dwindling growth of migrant workers. These are the customer targets of companies in our universe. Their number was last estimated at 277m, in 2015. As the economy undergoes structural changes, this group faces stagnant wages and tougher employment prospects.

Fig 5 charts a positive correlation between Tingyi's revenue growth and changes in the migrant-worker population. Overall, we expect F&B sales volumes to slip further, except for dairy, as we don't expect consumer behaviour to change much or corporates to revamp their portfolios dramatically.

And as we detect risks of input price inflation and currency mismatches for F&B players in 2017, we recommend caution. Our top SELL is Tingyi (322 HK, SELL, TP HKD5.84). We believe prospects for its mainstream products are uncertain as growth has been contracting for several years. Valuations are also rich at 30x FY17E P/E against its Chinese peers.

Tide has turned…

2016 was a bumper year for auto makers. Tax incentives and subsidies for electric vehicles for both conventional and electric auto makers sparked strong volume growth and stock performances. We see a reversal in 2017.

Firstly, the government will be cutting tax incentives by half, increasing the sales tax from 5% to 7.5%. Although not back to its original 10%, brought-forward demand would mean lower sales in 2017.

Secondly, in order to raise the threshold for commercial electric vehicles producers, the government has reduced subsidies for commercial vehicles by 50%. We estimate that at such levels of profitability, only market leaders would survive while unqualified players will be weeded out.

Long term, this should be positive for the market leaders, though near-term pain appears unavoidable. As such, we have a SELL rating on BYD (1211 HK) with street low price target, as we believe consensus has yet to factor in the potential earnings hit. We have left our estimates 30% below consensus.

Maybank Kim Eng

Automotive

China

BYD Company (1211 HK)

Speed bump ahead

SELL *[Prior:HOLD]*

Share Price	HKD 40.85
12m Price Target	HKD 32.00 (-22%)
Previous Price Target	*HKD 54.00*

De-rating risk on 50% NEV subsidy cut; D/G to SELL

2016 was a great year for BYD driven by significant profitability improvement thanks to the electric vehicle boom. However, China cut the subsidy for commercial vehicles by 50% after the fraudulent claim investigation. We view this as a long-term positive for the market leaders due to market consolidation, however near-term pain is inevitable. We expect this will drag down BYD's FY17F earnings by 17% YoY. Thus we have downgraded BYD from HOLD to SELL.

Earnings cut by 29% mainly due to subsidy reduction

We agree BYD is in a good position to mitigate the impact from the possible subsidy reduction given its in-house battery production. However, we believe this advantage is well known by the market and the stock will come under pressure due to the lofty valuation. We now expect FY17F earnings to fall 17% YoY vs our previous forecast of 17% growth. We assume the 2017 subsidy for passenger vehicles will fall 40% YoY (vs. prior -20% YoY), while the subsidy for eBuses will be slashed by 38% (implying a decline of 50% YoY), in line with our assumption for Yutong (600066 CH, HOLD). We project BYD's NEV unit sales will grow by 43% YoY in 2017 (vs guidance of 50%).

Other risks are emerging as well for BYD

Other risks include: 1) intense competition in the passenger vehicle market amid rising new offerings by peers (e.g. Geely's [175 HK, BUY]] PHEV and BMW's X1 PHEV); 2) BYD's cost advantage over NEV peers will be reduced as China is planning to open up the battery market to foreign players who are likely to offer more mature technology in lithium manganese oxide battery targeting the PV market; 3) BYD's FCF will remain negative given expansion in monorail projects, which require heavy working capital and capex *(see report "Takeaways from site visit", 17 Oct 2016)*.

Valuation could fall to the long-term average

FY16 EPS grew 64% YoY, but the stock fell 3% during 2016. Our SOTP-based TP of HKD32 is derived from EV/EBITDA of 10x vs 13x previously for its NEV business. This is to reflect the lower forecast earnings due to the subsidy cut. This target multiple is similar to the long-term average for China's renewable sector.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	55,366	77,612	103,785	142,977	187,905
EBITDA	4,522	7,621	13,407	13,204	15,391
Core net profit	434	2,823	5,124	4,241	5,283
Core EPS (CNY)	0.18	1.14	1.87	1.55	1.93
Core EPS growth (%)	(25.5)	551.3	64.2	(17.2)	24.6
Net DPS (CNY)	0.00	0.00	0.37	0.31	0.39
Core P/E (x)	209.2	32.1	19.6	23.6	19.0
P/BV (x)	3.6	2.8	1.9	1.7	1.6
Net dividend yield (%)	0.0	0.0	1.0	0.8	1.1
ROAE (%)	1.8	9.8	12.0	7.6	8.8
ROAA (%)	0.5	2.7	3.8	2.5	2.7
EV/EBITDA (x)	20.7	16.8	9.6	10.3	9.5
Net gearing (%) (incl perps)	88.9	86.2	33.2	41.1	50.4
Consensus net profit	-	-	5,093	6,301	7,283
MKE vs. Consensus (%)	-	-	0.6	(32.7)	(27.5)

Statistics

52w high/low (HKD)	56.50/32.35
3m avg turnover (USDm)	30.2
Free float (%)	69.0
1211 HK Issued shares (m)	915
1211 HK Market cap	HKD37.4B
	USD4.8B
002594 CH Issued shares (m)	1,561
002594 CH Market cap	CNY77.6B
	USD11.2B

Major shareholders:

Berkshire Hathaway, Inc.	24.6%
CITIC Capital Investment Management Ltd.	7.5%
LL Group LLC	6.3%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(13)	(20)	(6)
Relative to index (%)	(9)	(14)	(6)

Source: FactSet

Related report

China Electric Vehicles: Earnings shortfall from subsidy cut

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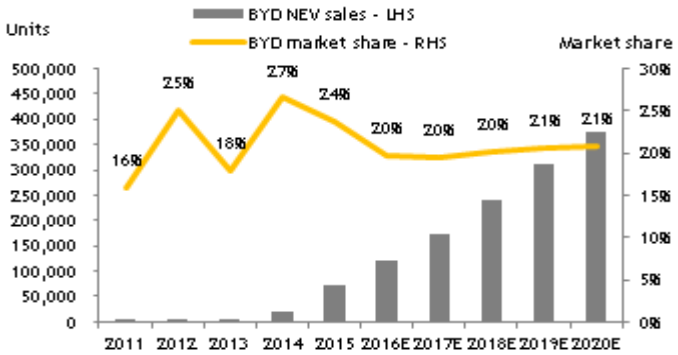
Value Proposition

§ BYD is a vertically integrated manufacturer of low-cost automobiles (including EVs) and rechargeable batteries.

§ In 2015, BYD accounted for 24% of the total China NEV market and its market share in in hybrid electric vehicles reached 80%.

§ China's NEV market is set to take off due to gov't support. NEV population should jump from 451k to 3.1m from 2015-18F; BYD is at the forefront of a big secular cycle.

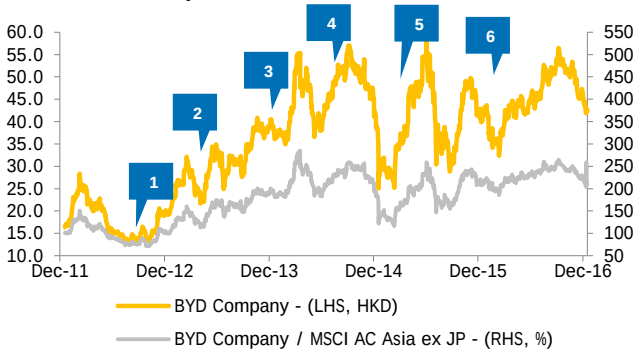
China targets 5m NEVs on the road by 2020



Source: Company, Maybank Kim Eng estimates

Price Drivers

Historical share price trend



Source: Bloomberg, Company, Maybank Kim Eng

1. State Council set the national NEV penetration target for 2015-20.
2. China did not renew the NEV subsidy after it expired in Dec 12.
3. In Sep 13, Beijing renewed the subsidy programme.
4. H-share placement.
5. Speculation of Warren Buffett reducing his holding.
6. China cuts tax rate on new small car purchases; BYD posts strong NEV sales growth.

Financial Metrics

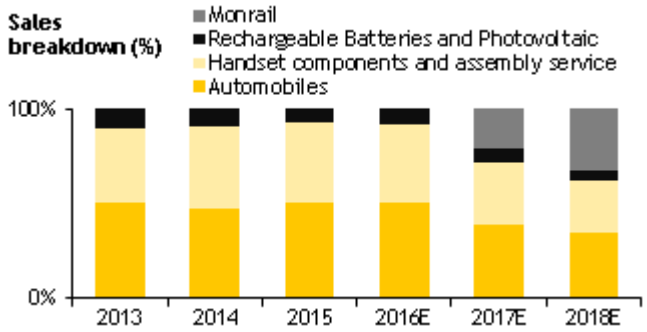
§ BYD's Automobile business, especially NEV sales, will be the key earnings driver. NEV sales contribution will jump from 5% in 2014 to 41% of group vehicle unit sales by 2018E.

§ Its core EPS grew at a 223% CAGR over 2014-16E on the back of: 1) sales expansion; and 2) margin improvement. However, we expect core EPS to fall 17% YoY in 2017 due to the subsidy reduction.

§ BYD is trading at 23.6x and 10.1x FY17 PER and EV/EBITDA, much higher than its auto and renewable peers.

§ BYD recently raised CNY15b via an A-share private placement to fund its battery expansion, after which its net gearing ratio decreased to 33.2% in 2016E from 86.2% in 2015.

BYD sales breakdown



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

§ Faster than expected ramp up of battery capacity to fulfil strong NEV orders.

§ BYD streamlining its core operations (rechargeable batteries and automobiles).

§ Disposals of low-margin mobile components and assembly service businesses.

§ Higher than expected profitability of the monorail business.

Downside

§ Scale benefit and battery cost reduction unable to offset the reduction of government subsidies.

§ Rising competition in the PHEV segment.

§ Higher than expected ramp up cost and expenses of the monorail business.

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Maybank Kim Eng

Ping An Insurance (Group) (2318 HK)

Best-in-Class; Fintech Pioneer

BUY

Share Price	HKD 38.80
12m Price Target	HKD 52.00 (+34%)

Initiate with BUY; top pick in sector

Ping An is our most preferred Chinese insurer, on account of its best-in-class life operations, strong synergies among subsidiaries, exposure to the fintech sector and receding risks from its non-life businesses. A potential spin-off of Lufax and Ping An Doctor may also provide TP upside and re-rating catalysts, in our view. Initiate with BUY and TP of HKD52, implying 1.1x 2017E P/EV.

Best-in-class lifer

Ping An is China's best-in-class life insurer by earnings quality and growth prospects, in our opinion. VNB grew 43% YoY in 1H16 and 61% YoY in 3Q16, stoked by agency sales. While margins for most Chinese peers suffered in 1H16, Ping An's rose. We also think its focus on protection products and pricing discipline render it less vulnerable to lower investment yields than peers. This is already demonstrated by its falling VIF sensitivity to investment yields. Its fintech and non-life units may also provide customer-migration and cross-selling opportunities. We forecast a sector-leading VNB CAGR of 28% for 2015-18E.

Potential spin-offs to unlock value

Ping An intends to list Ping An Securities, Lufax Holding and potentially Ping An Doctor at some point. Based on their latest round of financing, we estimate that a listing of Lufax and Ping An Doctor could lift Ping An's valuation by HKD3.20/share and HKD0.82/share respectively. We only apply 0.8x 2017E P/BV to its "other segment", including fintech subsidiaries, in our TP.

Reducing non-life risks

We expect its P&C combined ratio to reach 95.0-96.7% in 2016-18E from industry weakness and a phasing-out of high-margin credit and guarantee insurance (CGI). CGI's phase-out should help offload risks from its P&C segment. Ping An Bank remains the group's Achilles heel because of its NPLs and weak capital position. That said, NPLs stabilised in 3Q16: NPL ratio was flat, SML ratio improved while new-NPL formation rate slowed. CET1 CAR was 8.6% in 3Q16, and we expect it to remain stable at 8.8% in 2016-18 amid slower RWA expansion.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Net earned premiums	288,779	349,846	421,637	507,683	603,681
Core profit (CNY m)	39,279	54,203	61,093	67,266	79,871
Core EPS growth (%)	38.7	20.9	11.3	9.5	19.0
P/E (x)	12.6	10.9	10.5	9.8	8.2
BVPS (CNY)	16.3	18.3	21.3	24.3	27.9
P/B (x)	1.9	1.8	1.6	1.5	1.3
EVPS (CNY)	25.8	30.2	35.9	42.7	50.6
PEV (x)	1.2	1.1	1.0	0.8	0.7
VNBPS (CNY)	1.2	1.7	2.4	2.9	3.5
VNB multiple (x)	4.3	1.3	(0.5)	(2.5)	(4.3)
ROE (%)	16.6	17.4	16.8	15.9	16.6
ROA (%)	1.1	1.2	1.2	1.1	1.2
Consensus net profit	-	-	60,774	63,892	74,485
MKE vs. Consensus (%)	-	-	0.5	5.3	7.2

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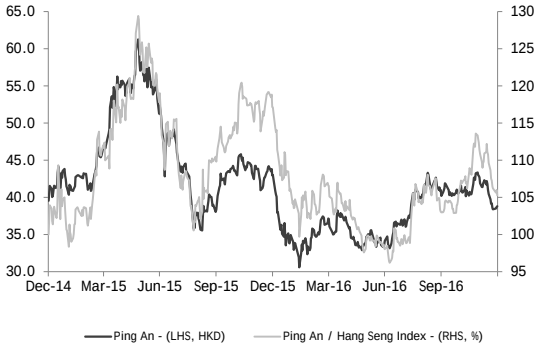
Statistics

52w high/low (HKD)	43.35/30.60
3m avg turnover (USDm)	149.7
Free float (%)	75.9
2318 HK Issued shares (m)	18,280
2318 HK Market cap	HKD709.3B
	USD91.5B
601328 CH Issued shares (m)	39,251
601328 CH Market cap	CNY226.5B
	USD32.6B
Major shareholders:	
Charoen Pokphand Group	13.4%
UBS Group AG	5.4%
Shenzhen Investment Holdings	5.3%

Price Performance



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

Source: FactSet

Related report

China insurance sector: Bridging The Quality Gap

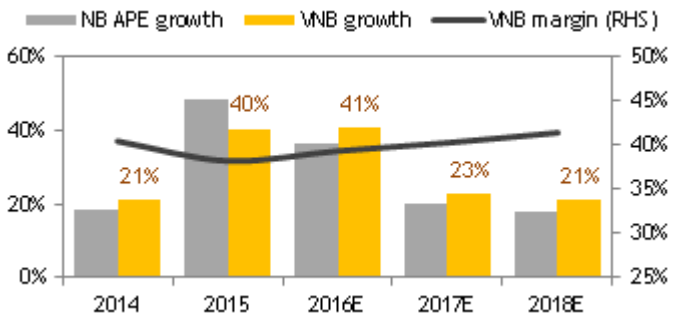
Financials

China

Value Proposition

- § Financial conglomerate with the second-largest 10% share of China's life market, second-largest 19% share of P&C market and banking & fintech operations.
- § Life VNB should benefit from favourable demographics, a growing agency and product shift towards protection.
- § Protection focus and pricing discipline should shield Ping An more from low interest rates than peers.
- § Non-life units provide cross-selling opportunities for life products. Potential spin-offs of fintech subsidiaries could unlock value.
- § Phasing out CGI should reduce risks in non-life operations. Bank NPLs stabilising.

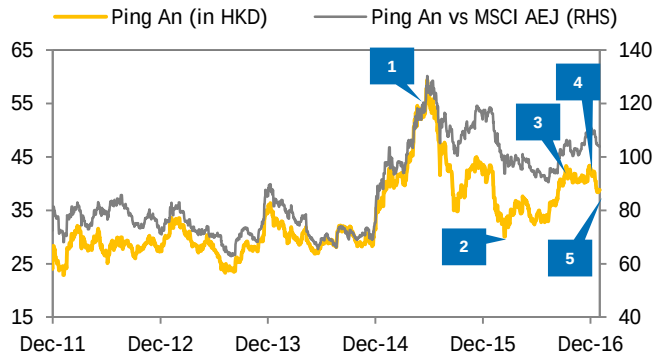
VNB drivers



Source: Company data, Maybank Kim Eng

Price Drivers

Historical share price trend



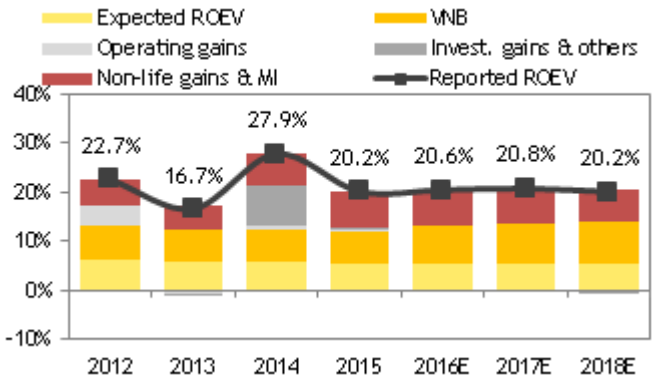
Source: Bloomberg, Maybank Kim Eng

1. Strong marked-to-market gains from A-share rally.
2. Sharp correction in A-share market. Investors also feared negative spreads from falling interest rates.
3. CIRC tightened regulation of HCV products to curb irrational pricing by emerging insurers.
4. Recovery in domestic interest rates, easing concerns on yield pressure.
5. CIRC's crackdown on emerging insurers' aggressive stock investments and sales of universal life products.

Financial Metrics

- § We forecast a VNB CAGR of 28% for 2015-18E, from a new-premium CAGR of 24% and margin expansion of 3.2ppts.
- § We forecast a 20-21% group ROEV for 2016-18E, from VNB growth, returns on its in-force business and non-life units.
- § We set cost of capital at 11.5%, higher than Ping An's own 11.0%, to reflect macro risks.
- § In our TP valuation, we set long-term investment yields at 3.9% vs Ping An's own 5.5%. We also apply an 12% valuation discount for balance-sheet risks.

Group ROEV drivers



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- § Strong VNB growth and continuous margin expansion.
- § Listing of non-life subsidiaries such as Ping An Securities, Lufax and Ping An Doctor.
- § Stronger A-share market and recovery in interest rates.

Downside

- § Deterioration in Ping An Bank's asset quality.
- § Capital replenishment by Ping An Bank.
- § Weak P&C combined ratio and premium growth.

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Maybank Kim Eng

China Pacific Insurance (2601 HK)

High Quality of Life

BUY

Share Price	HKD 27.05
12m Price Target	HKD 35.20 (+30%)

Initiate with BUY; premium valuations justifiable

CPIC is trading at the high end of its peer range of 0.5-0.9x 2017E P/EV. We believe this can be justified by its focus on the value-accretive agency business, strong VNB/ROEV and rising mortality earnings. We see a further re-rating from these. Although its P&C business could remain weak, it only accounts for 9% of our valuation vs life's 86%. Initiate with BUY and a SOTP-based TP of HKD35.2, implying 1.1x 2017E P/EV.

Agencies powering VNB growth, creating value

CPIC Life has been and will increasingly focus on the agency channel to sell long-term regular-premium products. Agencies accounted for 98% of its VNB in 1H16, the highest among Chinese peers. Its VNB margins were also the highest at 43.8% in 1H16, thanks to strong protection sales. With an expanding agency force, a better channel mix and more disciplined product pricing, we expect an above-peers VNB CAGR of 28% for 2015-18.

Disciplined pricing

CPIC has been more disciplined in product pricing than its Chinese peers. Given its high base in 3Q15, it sold some HCV products with quota restrictions in Aug 2016 to boost volume. However, we believe its value focus has not changed. For 2017 jumpstart sales, its major product would be 2.5%-guaranteed annuities vs 4.025% previously. This should benefit margins. Our VIF sensitivity analysis also suggests that it has gradually shifted from investment spreads to mortality gains. This should add to its resilience to lower investment yields.

P&C weak but valuation impact limited

CPIC P&C's profitability has underperformed Ping An P&C and PICC P&C. We do not expect a turnaround soon, as we expect the P&C sector to enter an underwriting downcycle. We think that its P&C combined ratio could remain weak at 99.9-101.2% in 2016-18E. However, P&C only forms 10% of our valuation vs life's 85%. We only value CPIC P&C at 0.8x 2017E P/BV vs PICC P&C's 1.1x to factor in a weaker profit outlook.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Net earned premiums	172,891	189,376	220,406	254,323	297,113
Core profit (CNY m)	11,049	17,728	11,972	14,734	18,480
Core EPS growth (%)	19.3	60.4	(32.5)	23.1	25.4
P/E (x)	17.8	11.6	18.3	15.2	11.1
BVPS (CNY)	12.9	14.7	14.9	16.0	17.4
P/B (x)	1.7	1.6	1.7	1.6	1.3
EVPS (CNY)	18.9	22.7	25.3	29.0	33.2
PEV (x)	1.1	1.0	1.0	0.9	0.7
VNBPS (CNY)	1.0	1.3	1.9	2.3	2.8
VNB multiple (x)	2.8	(0.0)	(0.6)	(1.8)	(3.8)
ROE (%)	10.2	14.2	8.9	10.5	12.2
ROA (%)	1.4	2.0	1.2	1.4	1.5
Consensus net profit	-	-	13,117	16,941	18,018
MKE vs. Consensus (%)	-	-	(8.7)	(13.0)	2.6

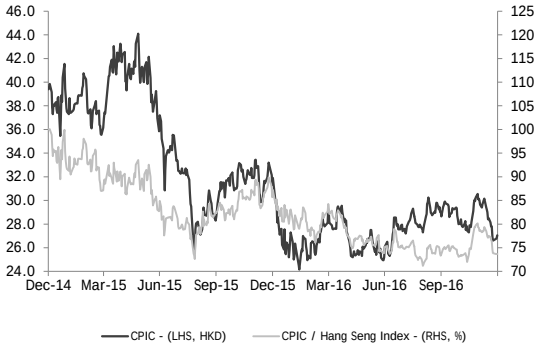
Statistics

52w high/low (HKD)	31.90/24.15
3m avg turnover (USDm)	31.4
Free float (%)	61.3
2601 HK Issued shares (m)	9,062
2601 HK Market cap	HKD245.1B
	USD31.6B
601601 CH Issued shares (m)	6,287
601601 CH Market cap	CNY174.6B
	USD25.1B

Major shareholders:

Shanghai SASAC	18.6%
Baosteel Group	14.9%
Ministry of Finance	5.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(6)	(14)
Relative to index (%)	(7)	(0)	(14)

Source: FactSet

Related report

China insurance sector: Bridging The Quality Gap

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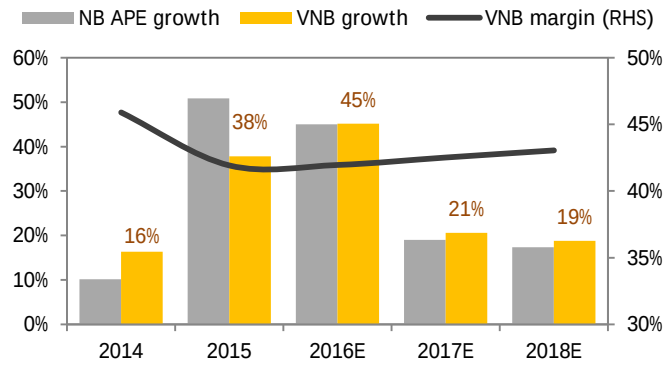
Financials

China

Value Proposition

- § Multi-line insurer with eighth-largest 4% share of China's life market and third-largest 11% share of P&C market.
- § CPIC has been shifting to protection sales, which should yield higher VNB margins and reduce EV sensitivity to lower investment yields.
- § Value-driven agency business, strong VNB/ROEV and improving mortality contributions should support premium valuations.
- § P&C business still weak across the industry but only accounts for 10% of our valuation vs life segment's 85%.

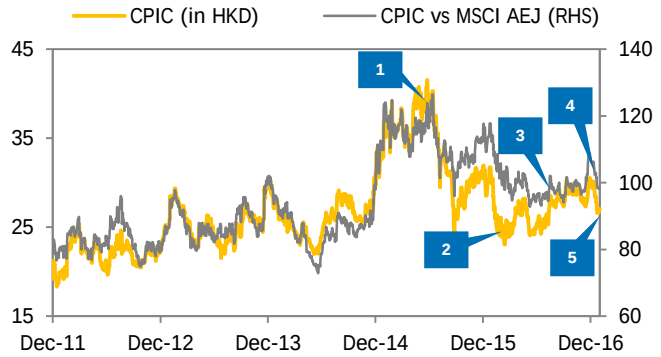
VNB drivers



Source: Company data, Maybank Kim Eng

Price Drivers

Historical share price



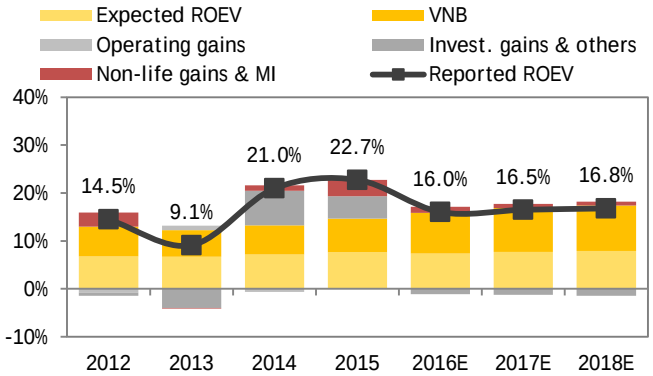
Source: Bloomberg, Maybank Kim Eng

1. Strong marked-to-market gains from A-share rally.
2. Sharp correction in A-share market. Investors also feared negative spreads from falling interest rates.
3. CIRC tightened regulation of HCV products to curb irrational pricing by emerging insurers.
4. Recovery in domestic interest rates, easing concerns on yield pressure.
5. CIRC's crackdown on emerging insurers' aggressive stock investments and sales of universal life products.

Financial Metrics

- § We forecast a VNB CAGR of 28% for 2015-18, from a new-premium CAGR of 27% and margin expansion of 1.1ppts.
- § We forecast a 16-17% group ROEV for 2016-18, from VNB growth and returns on its in-force business.
- § We assume a higher cost of capital of 11.2% than CPIC's own 11.0%, to reflect macro risks.
- § In our valuation, we set long-term investment yields at 3.9% vs CPIC's own 5.2%. We also apply a 10% valuation discount for balance-sheet risks.

Group ROEV drivers



Source: Company data, Maybank Kim Eng

Swing Factors

Upside

- § Strong VNB growth and recovery in agency VNB margins.
- § Increase in mortality earnings contributions, indicated by improvements in VNB/EV sensitivity.
- § Stronger A-share market and recovery in domestic interest rates.

Downside

- § Further launch of high-guaranteed / HCV products.
- § Weak life net profits due to high reserve charges.
- § Worst-than-expected P&C combined ratios and P&C premium growth.

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Maybank Kim Eng

Consumer Staples

China

Biostime (1112 HK)

Top Beneficiary of Baby Boom

BUY

Share Price	HKD 23.95
12m Price Target	HKD 33.00 (+38%)
Previous Price Target	*HKD 33.00*

Reiterate BUY, two-pronged growth drivers

We maintain our upbeat forecast and TP based on 12x EV/EBITDA for both healthcare and infant formula segments. Two key catalysts: i) reversal of IMF sales decline in recent years and return to growth amid baby boom and industry consolidation; and ii) better sales visibility for its healthcare segment as impact of policy-led destocking abates. Overall, we see Biostime as a one-stop nutrition provider to families that will benefit from a secular rise in health awareness and affordability.

IMF back on growth trajectory; new products boost

Biostime reported a strong rebound in its IMF sales in 3Q16 and we believe the positive growth should be sustainable after seeing declines in a number of quarters. The company should benefit from the baby boom as it ranks no.6 in this category and it has strong presence in the fast growing baby store channel. Investors have for a long time had low expectations for this segment — due to stagnant number of newborns on top of oversupply and increasing competition — and as such, any confirmed sales recovery should drive a re-rating. In Dec 2016, Biostime further tapped into organic IMF and liquid IMF drinks, which expanded its portfolio to cater to more sophisticated demand.

Swisse to see better sales visibility

We expect the destocking led by changes in cross-border e-commerce (CBEC) regulations to be completed in 3Q-4Q16, and the extended grace period for its execution should allow Swisse to diversify its sales via enlarged active sales and new offline sales that will offset any potential drop in daigou sales. Biostime earlier proposed to buy the remaining 17% of Swisse (minority shares) for AUD311m (21/16x FY16/17 P/E), and we believe the deal should be mildly earnings accretive if completed. We also believe Swisse's new CEO possesses a strong background.

Other new opportunities not yet factored in

Biostime and Swisse have exposure to the following categories which have high growth potential: i) pregnancy formula and supplements; ii) sports nutrition (30% CAGR 2015-2020 per Euromonitor); and iii) skincare.

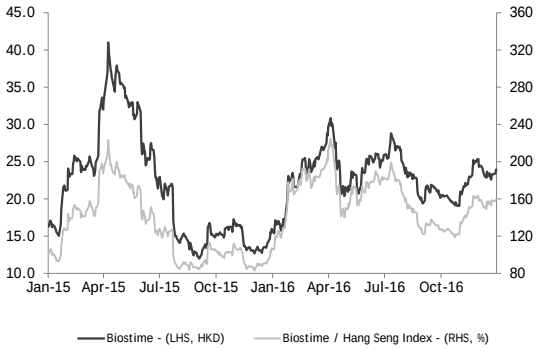
Statistics

52w high/low (HKD)	30.85/15.38
3m avg turnover (USDm)	3.8
Free float (%)	28.2
Issued shares (m)	630
Market capitalisation	HKD15.1B
	USD1.9B

Major shareholders:

Biostime Pharmaceuticals (China) Ltd.	71.4%
The Vanguard Group, Inc.	0.7%
Templeton Asset Management Ltd. (Hong Ko	0.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	19	56
Relative to index (%)	(2)	26	55

Source: FactSet

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,732	4,819	6,456	7,225	7,896
EBITDA	988	523	1,530	1,982	2,268
Core net profit	807	251	664	953	1,146
Core EPS (CNY)	1.33	0.41	1.05	1.51	1.82
Core EPS growth (%)	(18.3)	(69.3)	157.4	43.5	20.2
Net DPS (CNY)	0.53	0.00	0.26	0.33	0.40
Core P/E (x)	16.1	52.4	20.4	14.2	11.8
P/BV (x)	4.6	4.1	3.5	2.9	2.4
Net dividend yield (%)	2.5	0.0	1.2	1.5	1.9
ROAE (%)	29.7	7.7	19.0	19.9	20.0
ROAA (%)	14.3	2.5	4.5	5.6	6.0
EV/EBITDA (x)	6.9	28.2	12.8	9.4	7.8
Net gearing (%) (incl perps)	net cash	175.5	132.7	89.2	59.8
Consensus net profit	-	-	633	656	722
MKE vs. Consensus (%)	-	-	19.2	45.4	58.7

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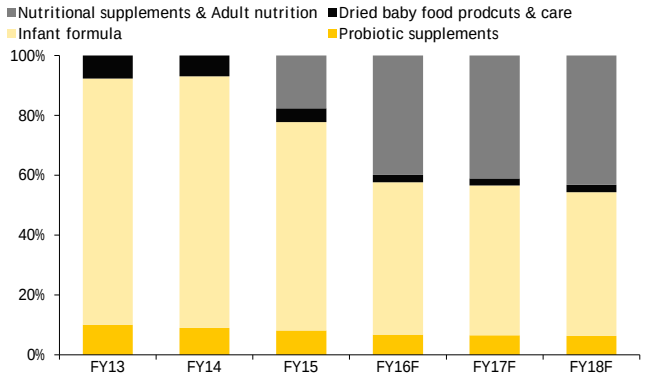
Value Proposition

- § Acquired Swisse Wellness in Sep15 to diversify from infant food to health foods to capture mid/high-end consumers. Products featured are mainly imported overseas products.
- § IMF competition heating up. Biostime looking for growth alternatives, such as fast-growing health supplements.
- § Loyalty programme, Mama100, with over 2m active members in 9M15. Precise database-driven A&P boosts A&P efficiency and cross-selling potential.

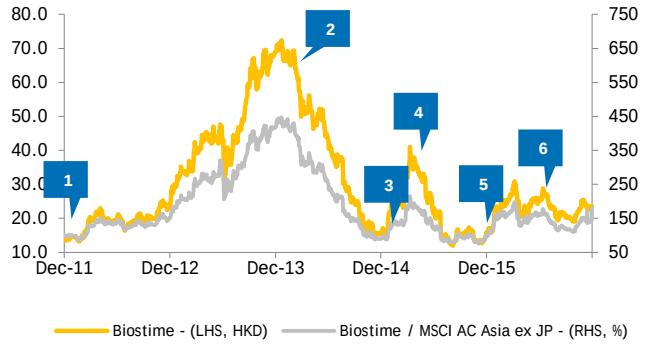
Transition from pure baby play to one-stop nutrition name



Source: Bloomberg, Maybank Kim Eng estimates

Price Drivers

Share-price movement vs. market



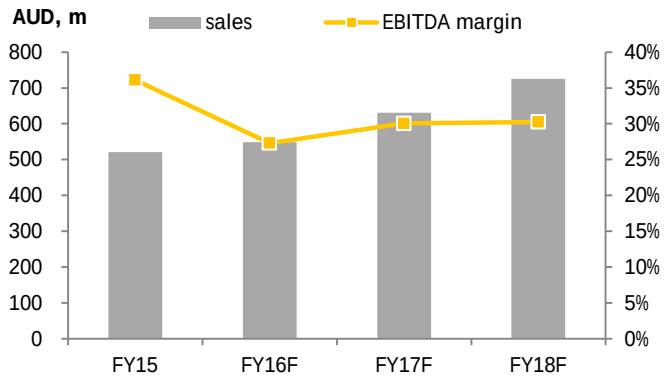
Source: Factset, Maybank Kim Eng

1. Listed on 17 Dec 2010, raising HKD1.6b.
2. Share price peaked in early 2014. Gradual de-rating on structural issues: more imported products available in the market, channel strength shift.
3. Market expects Biostime to benefit from weak euro.
4. Corrected on first earnings decline in FY14 since listing and absence of special dividends.
5. Announced acquisition of 83% stake in Swisse Wellness.
6. PRC government announced new CBEC regulation and health foods filing/registration measures.

Financial Metrics

- § Margin-accretive new VDS business to power sales and profitability. ROEs should improve to 19-20% in FY16-18F (FY15:8%).
- § Sales performance of Swisse on Alibaba platforms (Tmall and Taobao) worth monitoring as they represent majority of its country sales.
- § In response to regulatory uncertainty, Swisse is expanding its active sales, reformulating products as well as launching new products tap offline market.
- § Potential offline sales of filing-approved SKUs and general foods in Biostime's existing network (~40k POS) will help offset negative sales impact mentioned above.

Sales/EBITDA margin forecast for Swisse (2016F-18F)



Source: Company data, Maybank Kim Eng estimates

Swing Factors

Upside

- § Weak EUR (50-60% of COGS)/ strong AUD (~40% of sales)/strong CNY boost profit.
- § Larger addressable markets from policy and structural demographic trend- aging, one-child relaxation, etc.
- § Growing demand for overseas health foods and current low penetration.
- § IMF sales recovery and better-than-expected contributions from VDS business.
- § New launches from 2H16: organic IMF under "Healthy Times" brand and sports nutrition products.

Downside

- § FX risks (eg, AUD weakness against CNY), given our estimate that 45% of EBITDA is denominated in AUD.
- § Regulatory risks for new cross-border e-commerce (CBEC) and CFDA health foods product legislation, eg, fewer-than-expected number of SKUs eligible for sale.
- § Longer-than-expected restoration of IMF sales.

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Maybank Kim Eng

Consumer Staples

China

Hengan International (1044 HK)

Quality Stock at Big Bargain; Set to Re-rate in FY17

BUY

Share Price	HKD 56.95
12m Price Target	HKD 85.80 (+51%)
Previous Price Target	*HKD 85.80*

Share price correction on CFO change unjustified

Hengan has corrected 14% in one month without much negative news. We believe this is mainly due to the recent CFO change while the market has ignored various positive initiatives. In December, the two largest shareholders and founders Mr Sze and Mr Hui bought 1.2m and 8.2m shares, lifting shareholdings by 0.83%. Hengan is trading at 14x FY17 P/E, vs. mid-high teens for other staples peers. In 2017, we see the baby boom and improving outlook for other core segments as key catalysts.

Mid-Dec conf call reaffirmed our positive view

Hengan hosted a group call on 12 Dec, in which Mr Hui Lin Chit (CEO) said sales performances of all its divisions were extremely healthy and were moving in the right direction. Furthermore, he expects Hengan's overall e-commerce sales (including Wechat stores) to grow by a very respectable rate next year. Regarding key input cost outlook, the surge in packaging material prices may persist and Mr Hui estimated gross profit could decline CNY70m (ie 70bps) in FY17F. However, the wood pulp price rally in the last several months is unlikely to continue given the new capacity coming online in the next two years.

Diapers' weakness could be reversed ahead

We note the decline in diaper sales should narrow in 2H vs. 1H16, driven by new cross-border e-commerce tax that will reduce competitors' price attractiveness over Hengan's offerings. Also, Hengan has initiated a strategy to focus resources on SKUs with the right pricing across different maternity stores to improve sales efficiency. Furthermore, with incremental newborns of 10m in FY16-17F on top of annual births of 15-16m, we see the boost benefitting Hengan's diaper sales.

Further EBIT margin upside is possible

Our upbeat forecast differs from the market on profitability as we see benefit from i) further room for mix upgrade, ii) streamlined distribution; and iii) implementation of SAP ERP system firmwide.

Company Description

Hengan is a leading player in PRC household and personal care(HPC) market, key segments include tissue paper, sanitary napkins and disposable diapers.

Statistics

52w high/low (HKD)	74.35/55.05
3m avg turnover (USDm)	23.2
Free float (%)	58.3
Issued shares (m)	1,205
Market capitalisation	HKD68.6B
	USD8.9B

Major shareholders:

HUI LIN CHIT	19.3%
SZE MAN BOK	19.0%
The Vanguard Group, Inc.	1.8%

Price Performance

	-1M	-3M	-12M
Absolute (%)	(7)	(11)	(21)
Relative to index (%)	(3)	(6)	(22)

Source: FactSet

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	20,026	20,547	20,423	21,513	22,593
EBITDA	5,454	5,849	6,448	6,899	7,328
Core net profit	3,291	3,404	3,935	4,292	4,655
Core EPS (CNY)	3.19	3.31	3.23	3.56	3.86
Core EPS growth (%)	5.5	3.9	(2.5)	10.3	8.4
Net DPS (CNY)	2.00	2.09	2.04	2.24	2.43
Core P/E (x)	16.0	15.4	15.8	14.3	13.2
P/BV (x)	3.6	3.6	3.5	3.2	2.9
Net dividend yield (%)	3.9	4.1	4.0	4.4	4.8
ROAE (%)	20.5	22.5	23.8	22.9	22.7
ROAA (%)	8.7	9.9	11.6	12.1	12.6
EV/EBITDA (x)	12.2	10.7	9.3	8.5	7.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,706	3,895	4,185
MKE vs. Consensus (%)	-	-	6.2	10.2	11.2

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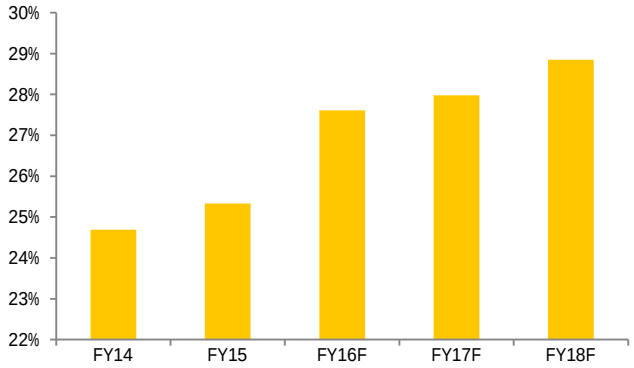
Value Proposition

- § Hengan is a leading manufacturer in China of sanitary napkins, tissue papers and disposable diapers. It covers over 1m points of sales nationwide.
- § Company derives 50-60%+ of its operating profit from sanitary napkins, around one third from tissue paper, rest from disposable diapers.
- § Risks include: i) tissue industry oversupply & weak brand loyalty ii) narrowing price competitiveness of its diapers & sanitary napkins to MNCs' iii) channel strength shift.
- § We have seen more positive and active change in new products and sales strategy, therefore we expect Hengan can maintain its first-class return and solid sales outlook.

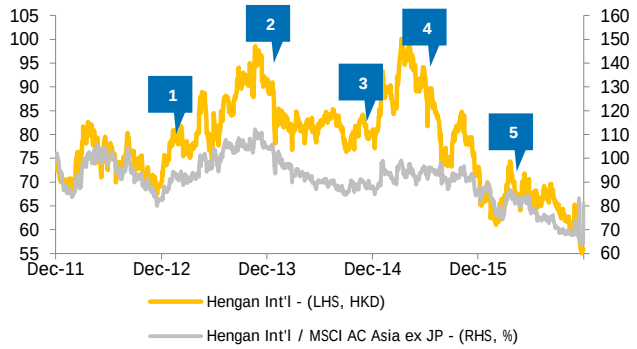
Hengan-ROIC (%) trend



Source: Company data, Maybank Kim Eng estimates

Price Drivers

Hengan's historical share price trend



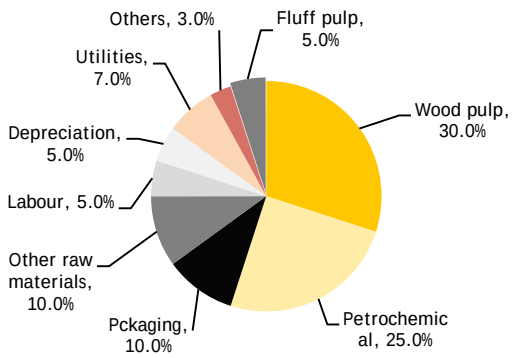
Source: Factset, Maybank Kim Eng

1. Re-rated on expectation of huge net profit jump YoY in 2012 results. FY12 net profit surged 33% YoY.
2. Oversupply in tissue industry emerged; softwood pulp (NBSK) price rebounded after 4Q13.
3. Rally on theme of beneficiary of low petrochemicals cost along with oil price correction.
4. Management guided down Street's sales expectation given the destocking of sanitary napkins in 1H15.
5. Share price corrected on concerns over further CNY weakness. 2Q-3Q strength in wood pulp price could hit 4Q's tissue GPM.

Financial Metrics

- § Hengan's EBIT margin will likely stay high at 28% or above over FY16-18F. FCF yield is expected at 5-7%.
- § We see competition in sanitary napkins space less worrying than we had anticipated, as market remains fragmented and MNCs still don't have a meaningful presence yet.
- § We expect upcoming full completion of SAP system roll-out on group-level in 2017F to shave 50bps off the distribution cost to sales ratio.

Hengan's COGS breakdown.



Source: Company data, Maybank Kim Eng estimates

Swing Factors

Upside

- § Soft raw materials cost (wood pulp, petrochemicals) and CNY vs USD strength are positive to Hengan's earnings. Key raw materials account for over half of its COGS.
- § Faster-than-expected industry consolidation in the oversupplied tissue sector; trade-up demand for sanitary napkins and diapers benefits segments' profitability.
- § Completion of operation process upgrade (IT, logistics, and inventory management) and warehouse-sales channel integration in FY16F could help cost savings.

Downside

- § Any unexpected rebound in wood pulp and petrochemical prices could squeeze margins. Any irrational price competition from peers could pressurize its sales.
- § Hengan sells 70%+ of its products to distributors. Further sales shift to online channel is negative to Hengan given its limited e-commerce sales presence.
- § Unexpected market share loss may threaten the current rich margin and return.

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Maybank Kim Eng

Consumer Staples

China

Tingyi (322 HK)

Structurally Negative

SELL

Share Price	HKD 9.43
12m Price Target	HKD 5.84 (-38%)
Previous Price Target	*HKD 5.84*

Declining customer group a main issue

We maintain our negative stance on Tingyi, as we believe the contracting number of migrant workers — its key target group — and growing health awareness should reduce the addressable market size structurally. Strong 3Q beat was driven by re-launch of certain product SKUs that filled market demand and drove utilization rate. Nonetheless, those were mostly low-price SKUs and we think Tingyi's product portfolio will go against the secular trend of a growing middle class.

Margin risk highest among all staple peers

Given reversal of the raw materials cost trend and negative product mix shift, we believe Tingyi's gross margins will be vulnerable in FY17, as history has proven it has no bargaining power to lift prices. While Tingyi did launch some high-end noodles priced at CNY5-7/ pack during 4Q16, management conceded its push into the high-end market is still a trial, subject to performance of its mainstream products. We believe its sales growth prospects remain at risk as instant noodles volume should continue to decline and the uptick in mid-high end noodles sales is still not yet meaningful enough (5-10% of Tingyi's noodles sales).

Pepsi's better profitability to offset noodles

We forecast Pepsi bottling's profitability will rise from 0.8% (before M.I) in FY15 to 1.9%/3.0%/3.5% in FY16/17/18F, as we expect integration efforts in the last several years to pay off, even though we expect a flattish gross margin on slow product mix upgrade and higher input cost. However, overall we project a flattish net margin of 2.7-2.8% in FY16-18F as we expect the instant noodle segment's net margin to decline from 7.6% in FY15 to 5.7%/5%/4.9% in FY16/17/18F amid increased marketing effort for brand building and surge in raw material costs.

Asset disposals coming up but big special div unlikely

Management earlier reiterated FCF was its top priority, and other than that, it should further improve capital structure primarily to reduce USD-denominated debts from 70% of total currently. Also, Tingyi is looking to dispose some of its idle assets in the near future; we believe investors should not speculate about a big special dividend given the uncertainty.

FYE Dec (CNY m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	62,861	56,711	57,967	59,433	60,590
EBITDA	7,349	6,789	6,254	6,473	6,574
Core net profit	2,459	1,597	1,578	1,625	1,722
Core EPS (CNY)	0.44	0.28	0.28	0.29	0.31
Core EPS growth (%)	(2.9)	(35.1)	(1.2)	2.8	5.7
Net DPS (CNY)	0.22	0.14	0.14	0.14	0.15
Core P/E (x)	19.2	29.7	30.0	29.2	27.6
P/BV (x)	1.9	2.0	1.9	1.8	1.7
Net dividend yield (%)	2.6	1.7	1.7	1.7	1.8
ROAE (%)	9.9	6.5	6.4	6.2	6.3
ROAA (%)	4.5	2.9	2.9	3.0	3.0
EV/EBITDA (x)	12.9	9.9	9.9	9.2	8.7
Net gearing (%) (incl perps)	35.6	36.9	31.0	18.5	7.0
Consensus net profit	-	-	1,310	1,775	2,071
MKE vs. Consensus (%)	-	-	20.5	(8.4)	(16.8)

Company Description

Tingyi is a dominant market share leader in the PRC instant noodles and beverages sector.

Statistics

52w high/low (HKD)	11.06/6.51
3m avg turnover (USDm)	10.5
Free float (%)	33.1
Issued shares (m)	5,603
Market capitalisation	HKD52.8B
	USD6.8B

Major shareholders:

WEI FAMILY	33.6%
Sanyo Foods Co., Ltd. (Tokyo)	33.1%
OppenheimerFunds, Inc.	2.9%

Price Performance

	-1M	-3M	-12M
Absolute (%)	2	5	(14)
Relative to index (%)	6	11	(15)

Source: FactSet

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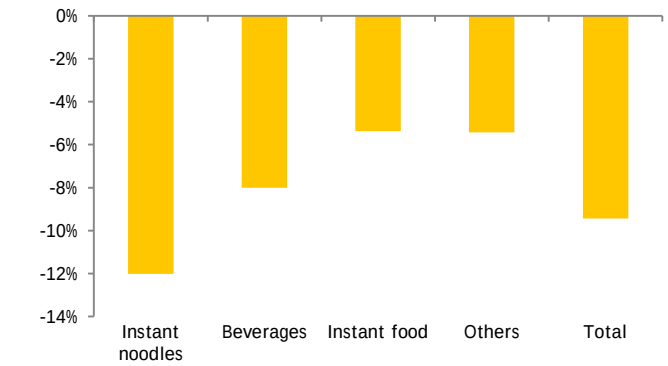
Value Proposition

- § Tingyi is a leading F&B branded manufacturer with dominant market shares. It has comprehensive product portfolios (instant noodles, beverages and instant food).
- § Tingyi also exclusively carries the Pepsi's beverage business in China, and it is about to cooperate with Starbucks in the ready-to-drink coffee market in China.
- § Company envisions serving mass markets, but at the same time plans to adjust to the growing middle class population by upgrading its products from time to time.
- § Given top line uncertainty, Tingyi is more disciplined on capex and focused on FCF. It has been disposing of idle assets and making relevant impairments.

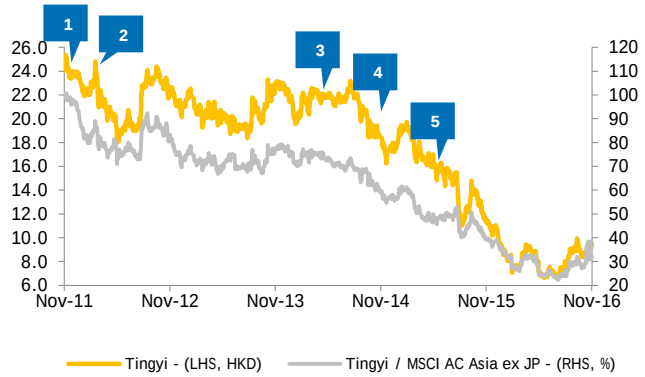
YoY USD sales growth of Tingyi's key sub-categories(9M16)



Source: Company data

Price Drivers

Historical share price trend



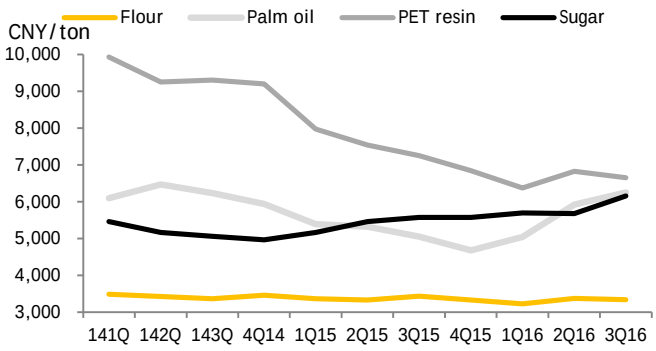
Source: Factset, Maybank Kim Eng

1. Announced 5-year plan, target 20-25% earnings CAGR.
2. Announced to form strategic alliance with Pepsi in Nov 2011. Deal closed on 31 March 2012.
3. Tingyi removed free sausage from its instant noodles in 3Q2014 to end a war with competitors.
4. Issued CNY1b worth of notes at 4.375% due 2018.
5. Tingyi issued a profit warning for FY15 in Feb 2016, as noodles sales plunged in 4Q15 after price-hike action

Financial Metrics

- § We expect net margin to be largely stable at 2.8% over FY15-FY18F due to resumption of certain low-priced volume products since 2Q16 to support utilization rate.
- § We expect ROE to maintain low at 6-7% during 2016-18F given limited push on mix upgrade.
- § Tingyi will switch its reporting currency from USD to CNY from 2017 onwards to avoid the translation loss.
- § We believe Tingyi is most vulnerable to input cost rally given its major sales presence to mass market products.

Input cost rally a major risk in 2017F



Source: Company PPT

Swing Factors

Upside

- § Launch of "Youyue" and classical packaging for "Zhenpinle" noodles help to fill the blank price range.
- § Benefit from further integration with Pepsi from sharing supply chain, back office expense, refrigerators at end-points, human resources, and sales channel, etc.
- § Sales upside from tapping into high growth markets- RTD coffee with Starbucks, natural mineral water, room temperature yogurt drinks.

Downside

- § Failure to adapt to fast consumption pattern change and shortening product life cycle. Innovation progress behind peers may mean more market shares loss.
- § Rebound in raw materials cost hurts margins.
- § Negative operating leverage given assets-heavy and thin margins.
- § Cultural conflicts internally given cooperation with multinational companies.

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MI
CAPITAL Flows
IPR

Maybank Kim Eng

STRATEGY

India

India: Six-for-17

Several Macro Headwinds

Few safe havens as market sell-off not over yet

We believe Indian equities will underperform in the aftermath of the historic de-monetisation on 8 Nov. It has sold off 7% since then but we believe another 8-10% downside is on the cards. This is because there is a perceptible slowdown in the economy, which is not yet priced into stock earnings and valuations. Other macro head winds are: a) foreign investor sell-off due to narrowing interest rate differential; b) delay in GST implementation; and c) state elections in UP, Punjab. In the macro section of this note, we highlight: 1) how M1 and industrial growth are correlated; 2) the relationship between real effective exchange rate (REER) and how the pharma and IT sector outperform when the INR weakens; 3) why short fast-moving consumer goods (FMCG) and long the IT sector; 4) strong possibility of widening of the valuation gap between private and state-owned banks; and 5) a surge in the prospects of the renewable sector. Our TOP FIVE BUYs for 2017 are: HDFCB, LVB, HCLT, INXW and PSYS. TOP SELL is CLGT.

Recovery in economy at best by Mar-17

According to our correlation analysis of M1 with the index of industrial production (IIP), a contraction is very likely till the currency is fully replenished. The government expects this would happen by Feb/Mar 2017. However, it is unclear whether this would lead to a full reversal because about 20-30% of the demand, which came from cash using the informal sector, will not return so soon. There is a structural slowdown in property, jewellery and SMEs, and they have laid off people, and shut down units or cut production. This will take longer to resume and their demand will be postponed for quite some time.

Recommend long IT sector and short FMCG

For several years, the FMCG sector has traded at a 70-80% premium valuation to the IT sector because of superior earnings. However, judging by the slowdown in consumer demand we anticipate the gap in earnings between the two sectors will narrow to 500bps vs 1,000bps earlier. The valuation premium for FMCG has to thus correct. Another argument in favour of the IT sector is its outperformance along with the pharma sector whenever the INR weakened vs the USD. Based on our analysis of the REER of INR, it appears close to the top.

Private banks and renewables are sustainable stories

In the current turbulence, private banks and renewables are relatively better opportunities. We like private banks because there is scope for valuation expansion vis a vis state-owned banks due to superior ROE and rising market share. Renewables are set for a sustained increase in their share of India's total energy capacity, with rising investments and narrowing tariff compared to other energy sources. Despite this, the listed companies in the sector are undervalued and a large number of them are still unlisted, which could lead to a surge in listings going forward.

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Top BUYs / SELLs

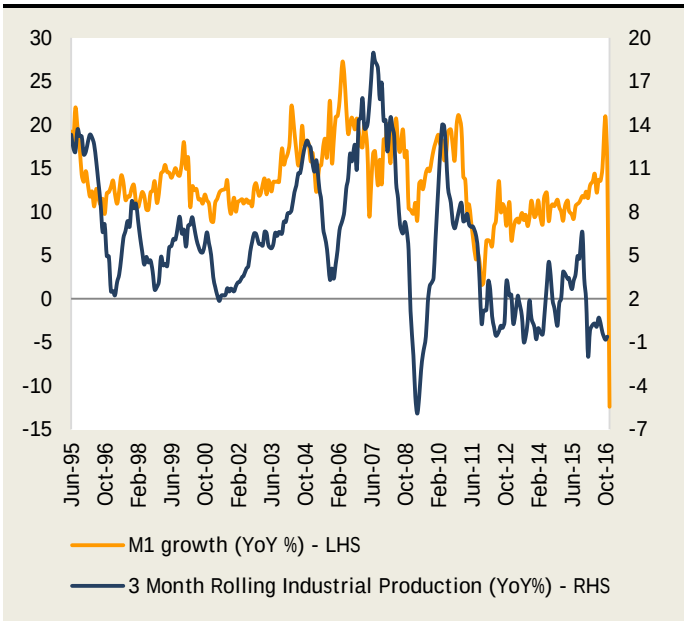
Name	Ticker	CMP	TP	Upside (%)	Rating
Colgate-Palmolive	CLGT IN	906	797	-12	SELL
HCL Technologies	HCLT IN	827	1,020	23	BUY
HDFC Bank	HDFCB IN	1,204	1,500	25	BUY
Inox Wind	INXW IN	182	359	97	BUY
Laxmi Vilas Bank	LVB IN	142	180	27	BUY
Persistent Systems	PSYS IN	615	850	38	BUY

Source: MKE

6 Linkages You Need to Know

Chart 1: M1 growth and industrial production

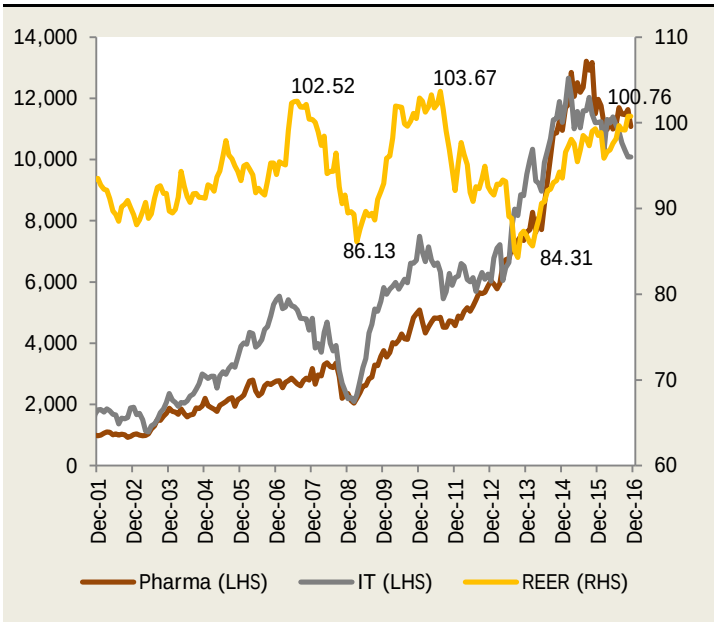
Sharp drop in M1 growth post demonetisation of high value currency notes, with re-monetisation industrial growth may limp back in 1HFY18



Source: RBI, MOSPI

Chart 2: REER* vs IT/ pharma

The broader market usually peaks together with high REER; and pharma & IT outperformed in the past two instances



Source: Bloomberg. Real Effective Exchange Rate (REER): the weighted average of a country's currency relative to an index or basket of other major currencies, adjusted for the effects of inflation.

M1 and industrial growth highly correlated

Narrow money supply (M1) and industrial production have a strong correlation, as indicated by historical data.

Twenty days after announcement of the demonetisation of high-value currency notes M1 growth has dropped 12% YoY. Given the lag impact on industrial growth we expect a weaker trend for industrial production over the next 4-6 months. The market expects a 50-100bps drop in 2017 GDP to 6.5-7% from 7.5% prior to demonetisation.

The government expects M1 in the system to be fully restored by March'17, the government estimates. Industrial growth is will limp towards normal only a few months later. The growth, however, will be slow to recoup because about 20-30% of the demand from the informal sector will not return immediately as it was heavily dependent on cash.

The affected sectors include consumer staple, consumer discretionary, property, jewelry, small and medium enterprises, non-banking financial services etc. Those with lasting impact include property, jewelry and small/medium enterprises in rural areas which used maximum cash for their day-to-day operations.

IT/pharma offer valuation cushion

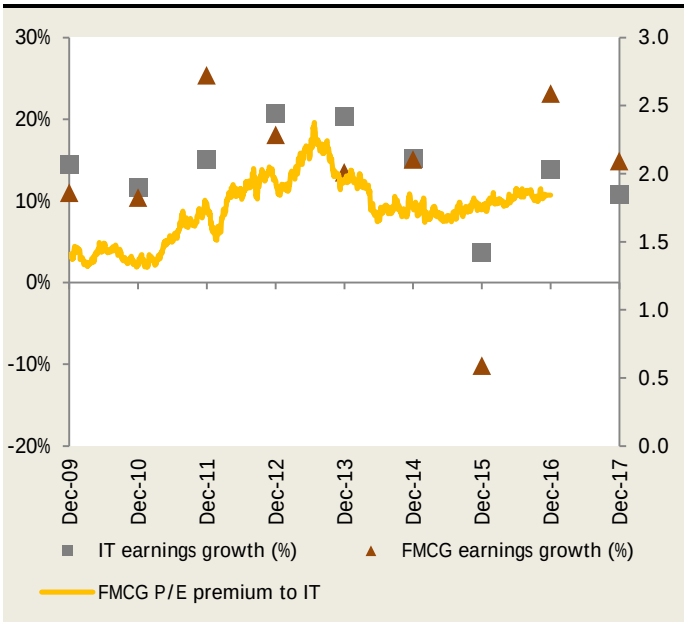
The REER is close to its peak after a gap of five years. It could correct from here given that rising inflation expectation due to rise in oil prices and implementation of GST in India scheduled in 2017 which is generally inflationary. The, liquidity, though is easy and the Reserve bank has a room to cut rates by another 50bp in 1H2017. However, interest rate reduction will increase foreign outflows (in Nov'16 foreigners' outflows reached USD2.6b). INR is already near its weakest but has so far done well relative to other EM currencies in the past two years. This stability is now under a threat if the strength in REER reverses.

If the REER corrects downwards, it will also put pressure on the INR and in such a situation, the pharma and IT sectors generally do well as they are major exporters.

Weak INR is negative for auto, oil and gas, metals, and capital goods sector.

Chart 3: NSE, FMCG* and IT Index's earnings growth and P/E

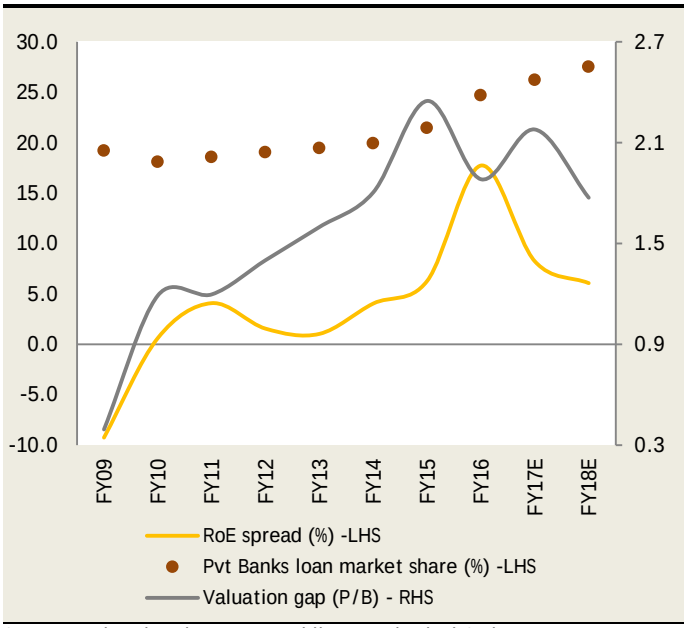
Valuation gap between FMCG and IT to decline



*Source: Bloomberg. *Fast-moving consumer goods (FMCG) Index; National Stock Exchange of India (NSE).*

Chart 4: Private banks gaining market share

Valuation gap between Pvt. and PSBs* still have room for expansion



*Source: Banks, Bloomberg, RBI. *Public sector banks (PSBs)*
Note: RoE spread = ROE of private banks – ROE of public sector banks
Valuation gap = P/B of private banks – P/B of public sector banks

IT offers better risk/reward vs FMCG

Over the past seven years, NSE FMCG P/E has on average traded at a 70% premium over the NSE IT P/E. Currently it is trading at an 80% premium over the NSE IT P/E. We believe this premium should narrow, driven by the fall in the earnings growth differentials between the two sectors.

Indian consumer firms earn 30-50% of their revenue from the rural and informal sectors, which are affected by the demonetisation. However, PE does not factor in the expected cuts in earnings of FMCG companies following the Indian government's demonetisation drive.

For FY17E and FY18E the difference in earnings growth rate for the IT sector and FMCG sector could narrow to just 500bps from 1,000bps historically. This would call for a downward adjustment in the FMCG P/E.

We recommend going long on HCL Tech in the IT sector and short on Colgate in the consumer sector.

Private banks have better ROEs vs PSBs

Demonetisation in general has a mixed impact on the bank sector. While it will increase the proportion of low cost deposits, it decreases the loan growth rate in the near term. In our view, private banks will seize this opportunity to enroll more customers using their technological edge. They would also capture market share in loans from state owned banks due to better capitalisation.

Private banks' share of the loan market rose to 25% in FY16 from 18% in FY10. We expect further market share gain to 28% by FY18E. Greater geographic expansion, technology preparedness and a higher capital base will lead to market-share gains by private banks.

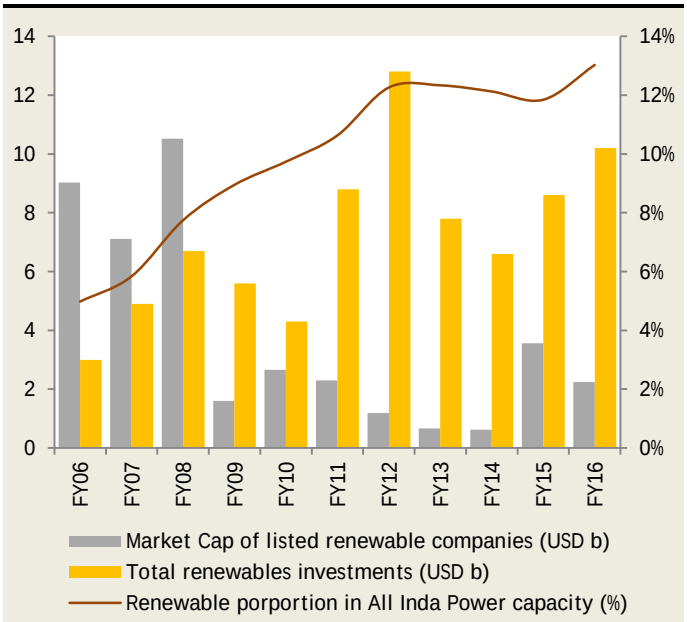
The valuation gap (on a P/B basis) between private banks and public sector banks (PSBs) has moved in tandem with ROE spread and gain in loan market share. FY16 was an exceptional (ROE gap at all-time high) as PSBs reported losses on higher credit costs.

We expect the ROE spread between private banks and PSBs to improve by 100-150bps over its long run average during FY17-18, which is a more normal scenario. Despite this the valuation gap is at 30% below peak levels. In our view, private banks should trade above previous peak levels on continued ROE expansion and market share gains.

We recommend going long on HDFC Bank and short on SBI.

Chart 5: Renewable sector investments in India

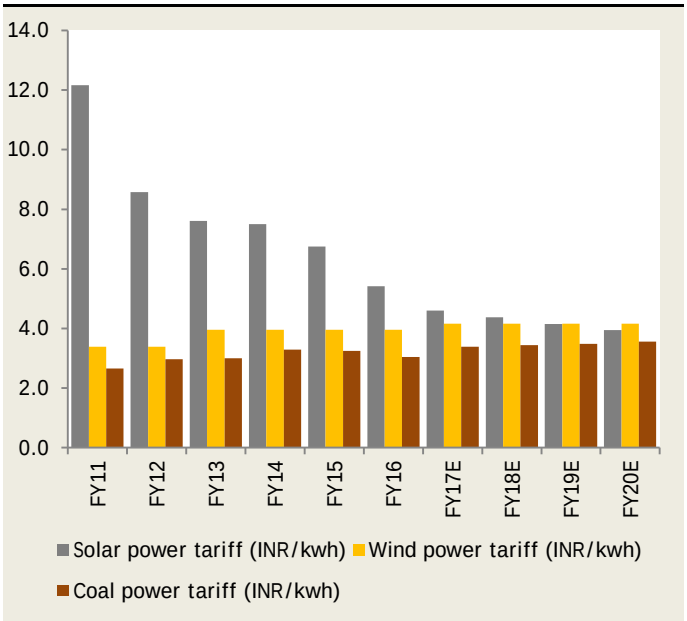
Investment in the renewables sector in India has consistently risen driving its share of total power capacity higher



Source: Bloomberg, Central Electricity Authority

Chart 6: Tariffs of renewables

Declining solar power tariff has made it more attractive; solar power tariff has only moderately increased



Source: Central Electricity Regulatory Commission, NTPC , MKE

Expect rise in renewables sector listing/IPO

The proportion of renewables in India's total power capacity has increased from 5% in FY06 to 15% as on 1HFY17. The government targets to add 160GW (100GW solar and 60GW wind) of renewable capacity and to increase the share of renewables in the energy mix to 40% by 2030.

Over the past five years, the renewable sector in India has attracted annual investments of USD8-12b. Consistency in the investment is led by government policies to boost renewable capacity and due to the fall in the prices of power supplied by renewables.

The sector investments are primarily marked by private equity, venture capital and unlisted corporates. The listed market cap of the renewable sector is equivalent to only 2% of the cumulative investment of USD100b (mainly wind turbine makers are listed now).

We expect a surge in renewable companies (solar and wind power producers, solar and wind gear makers and other related businesses) approaching the market for value-unlocking through listings in the coming years.

Renewables pricing is narrowing the gap

The cost to set up renewable power projects has fallen. Reduction in PV module (60% of solar power project cost) prices has led to fall in the tariffs of power supplied from solar plants. Solar tariff has fallen from INR12+/kwh to INR4.6/kwh in FY16.

For the wind sector, the cost of setting up 1 MW capacity ranges from INR55-65m. However, the efficiency has increased to 26-30% from 18-20% five years back. The industry is confident of pushing the efficiency to 40% in another 3-5 years.

The most attractive aspect of wind and solar projects is that it is possible to sign 20-25 year contracts because the underlying assumptions of cost do not change unlike coal or LNG. We believe this aspect will lead to more critical size for renewable power plants and bring them to mainstream energy.

Declining tariff, short gestation and attractive return on investment of 15% makes renewables a better play vis a vis conventional energy sources. We recommend BUY on Inox Wind and Suzlon in the sector.

Maybank Kim Eng

Consumer Discretionary

India

Colgate-Palmolive (India) (CLGT IN)

Too much optimism

SELL

Share Price	INR 906
12m Price Target	INR 797 (-12%)
Previous Price Target	*INR 763*

Expensive valuation relative to growth

The Indian government's demonetization drive, coupled with rising competition from natural remedy based competitors such as 'Patanjali', will put pressure on CLGT's earnings growth. Given CLGT's modest earnings CAGR of 11% during FY16-19E, we believe the shares are overvalued at a PER of 34x FY18E. Maintain SELL, but raise TP 4% to INR797 based on a slight upwards revision to a target PER of 30x FY18E(earlier 29x), which is a 21% discount to its five-year average PER of 38x reflecting forecast modest growth.

Demonetization to disrupt recovery in sale

CLGT's revenue would be affected by the government's demonetization drive in the short term. Our channel checks indicate that demonetization has disrupted wholesale trade distribution, putting pressure on FMCG growth in rural markets. Importantly, the recovery in rural demand, previously expected in 2HFY17 after two years of decline, will be delayed by this disruption. CLGT's initiatives of pushing rural growth through its new herbalal ingredients based product launch Cibaca Vedshakti could also witness some setback due to the disruption in the trade.

Rising competition to affect profitability

The rising competition from herbal ingredients based company 'Patanjali' will limit CLGT's pricing power. Additionally, it will also lead to increase in ad-spending during the next two years. We believe limited pricing power and higher ad-spending will put pressure on CLGT's profit margins in the coming years.

Valuation should correct with slowing earnings

The demand revival remains uncertain during the next 6-12 months due to the reduction in cash in hands both with distributors and consumers. Additionally, competition remains intense. In such a scenario, outperforming our forecast of 11% net profit CAGR during FY16-19E will be difficult. We therefore maintain SELL on the stock valuing it at 30x FY18E PER.

FYE Mar (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	39,548	41,322	45,845	52,722	60,630
EBITDA	8,222	9,294	10,076	11,202	13,045
Core net profit	5,590	6,079	6,486	7,224	8,362
Core EPS (INR)	21	22	24	27	31
Core EPS growth (%)	17.6	8.7	6.7	11.4	15.7
Net DPS (INR)	14	12	14	15	18
Core P/E (x)	44.1	40.5	38.0	34.1	29.5
P/BV (x)	32.0	24.5	19.2	15.5	12.7
Net dividend yield (%)	1.6	1.3	1.5	1.7	2.0
ROAE (%)	81.6	64.9	56.8	50.4	47.5
ROAA (%)	35.0	33.3	30.3	28.1	27.2
EV/EBITDA (x)	33.0	23.7	23.4	20.6	17.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	6,302	7,281	8,422
MKE vs. Consensus (%)	-	-	2.9	(0.8)	(0.7)

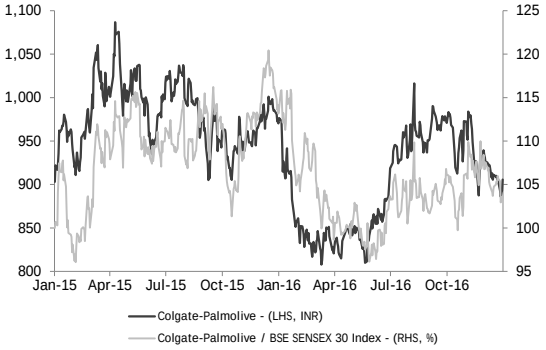
Statistics

52w high/low (INR)	1,016/808
3m avg turnover (USDm)	3.9
Free float (%)	49.0
Issued shares (m)	136
Market capitalisation	INR123.2B
	USD1.8B

Major shareholders:

Colgate-Palmolive Co.	51.0%
Arisaig Partners (Asia) Pte Ltd.	4.0%
Life Insurance Corp. of India	2.7%

Price Performance



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

Source: FactSet

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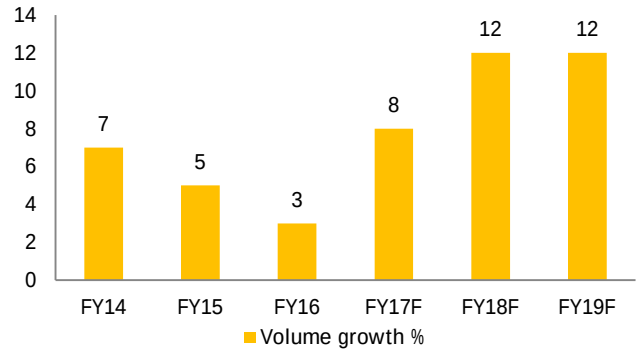
Value Proposition

- Colgate is India's largest oral care products company with ~55% market share in toothpaste. The no.2 competitor has >20% market share.
- Colgate offers toothpaste, toothpowder and toothbrushes across various price points with leadership in these categories.
- Colgate has very strong brand name and brand equity, which has been developed over decades through advertisements.
- Company is focusing on innovation to develop premium products like mouthwash and herbal toothpastes to compete with new entrants like 'Patanjali'.

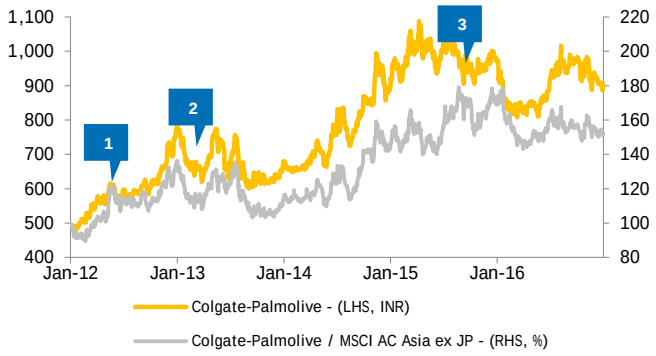
Volume growth (%) for Colgate



Source: Company, MKE Estimates

Price Drivers

Historical share price trend



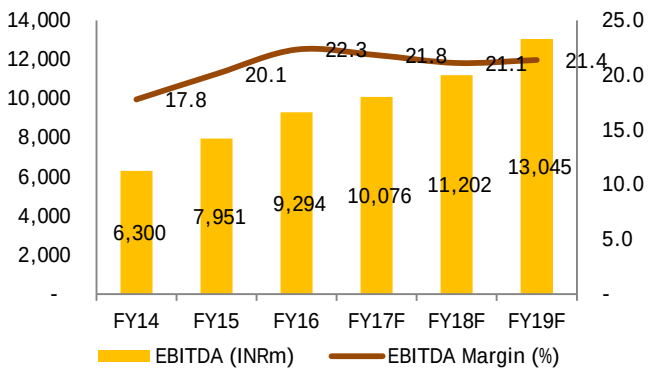
Source: Factset, MKE.

1. Significant improvement in sales and volume growth aided by margin expansion shown in Q4FY12 results led to surge in stock price.
2. Decline in price after entry of a fierce competitor P&G in oral care and expected increase in marketing expenses.
3. Announces bonus issue in the ratio1:1.

Financial Metrics

- We forecast 8% YoY volume growth in FY17 and 12% in FY18E, sales CAGR of 13% during FY16-FY18, and muted EPS CAGR of 9% for the same period.
- We expect higher ad-spending at 18.5% of net sales in FY17E and at 18% in FY18E compared to 16.6% in FY16.
- Higher ad-spending will keep pressure on EBITDA margin, which we expect to be at 21.4% in FY18E, 400bps lower compared to FY16.

EBITDA (INRm) and EBITDA margin (%)



Source: Company, MKE

Swing Factors

Upside

- Strong improvement in volume growth led by rural demand
- Gain in market share backed by it's new launch of herbal based toothpastes.

Downside

- Loss of market share to 'Patanjali'
- Steep increase in ad-spends, to counter 'Patanjali'
- Continued moderation in rural demand triggering price war.

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Technology

India

HCL Technologies (HCLT IN)

Best growth within the sector

BUY

Share Price	INR 827
12m Price Target	INR 1,020 (+23%)
Previous Price Target	*INR 1,020*

Leading the pack

Maintain BUY driven by strong order book and prospects of market share gain in the upcoming contract renewals in 2017. Revenue from both infrastructure management services (IMS) and engineering services (ER&D) is witnessing faster than group growth. The FY17 revenue guidance of +11-13% is encouraging given macro concerns and industry growth guidance of 8% thereby leading the revenue growth amongst the larger Indian IT companies. Our TP of INR1,020 is based on a PER Of 15x FY18E, a slight discount to its five-year average PER of 16x to factor lower earnings growth.

Best placed in key segments, acquisitions add flavour

Of the top four in Indian IT, HCLT is the only one with improved YoY revenue for four quarters (5.1-11.5%). HCLT is best placed in two key segments: IMS, driven by contract renewals, and ER&D, driven by internet of things. Further, the 15-year IP partnership with IBM is expected to add USD40-45m in FY17E, which holds good promise for future scalability. Finally, HCLT also continues to do tuck-in acquisitions like Volvo's external IT business, Geometric and Butler America Aerospace LLC, enhancing its offerings and revenue. We maintain USD revenue-growth forecasts of 12.5% YoY for FY17 and 13.1% for FY18, up from 5.2% in FY16.

EBIT margin guidance instils confidence

HCLT has given an EBIT margin guidance of 19.5-20.5% for FY17 vs 20.5% in FY16. We believe this has removed uncertainty and instilled investor confidence. Higher share of fixed-price contracts and improvement in employee utilisation will help minimise the headwind from wage hike. We forecast 20.2% for FY17 and 20.7% EBIT margin for FY18, backed by operating efficiencies.

Top Pick in IT sector

At 11.9x FY18E EPS, we believe HCLT is attractively priced against a potential 13% EPS CAGR for FY16-19E and 27% ROE. Earnings upside could stem from faster-than-expected benefits from its IBM partnership and its yet-to-be-consummated Geometric acquisition. HCLT remains our Top BUY in the sector.

FYE Jun (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	370,620	311,360	472,142	534,276	597,661
EBITDA	87,020	68,150	103,169	119,730	136,037
Core net profit	72,560	55,700	81,692	94,907	107,273
Core EPS (INR)	52	39	58	67	76
Core EPS growth (%)	13.4	(23.5)	46.7	16.2	13.0
Net DPS (INR)	17	17	22	26	30
Core P/E (x)	16.0	21.0	14.3	12.3	10.9
P/BV (x)	4.8	4.2	3.6	3.1	2.7
Net dividend yield (%)	2.1	2.1	2.6	3.1	3.6
ROAE (%)	33.2	21.3	27.0	27.0	26.5
ROAA (%)	22.2	14.9	18.5	18.2	18.0
EV/EBITDA (x)	13.7	15.2	9.8	8.2	6.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	81,348	90,140	98,391
MKE vs. Consensus (%)	-	-	0.4	5.3	9.0

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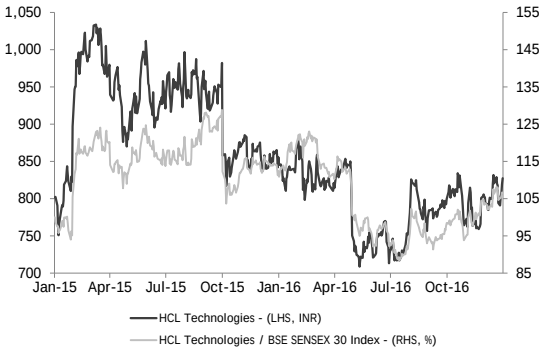
Statistics

52w high/low (INR)	879/709
3m avg turnover (USDm)	19.8
Free float (%)	39.6
Issued shares (m)	1,411
Market capitalisation	INR1,167.6B
	USD17.2B

Major shareholders:

Vama Sundari Investments (Delhi) Pvt Ltd	42.5%
NADAR SHIV	16.9%
ICICI Prudential Asset Management Co. Lt	1.3%

Price Performance



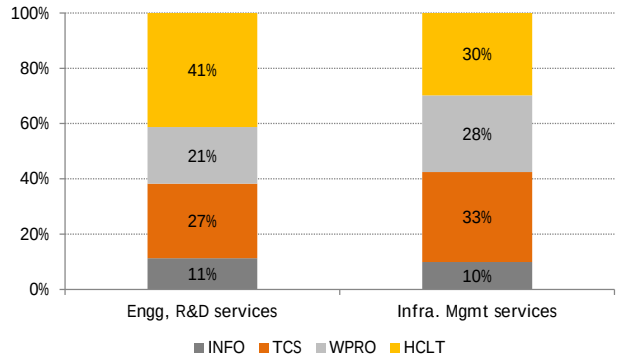
	-1M	-3M	-12M
Absolute (%)	3	3	(2)
Relative to index (%)	3	8	(4)

Source: FactSet

Value Proposition

- § Leading IT services company in IMS, which contributes more than a third of its revenue.
- § Perfect storm of currency volatility, lower billing rates, one-off deal cancellations, and higher overheads should be over.
- § Leader in two of the fastest-growing services in Indian IT: IMS and ER&D. Revenue visibility strong, backed by consistent deals of more than USD1b per quarter.
- § Industry has USD116b of contracts up for renewal in 2017. Expect HCLT to maintain its 15%+ growth in IMS.

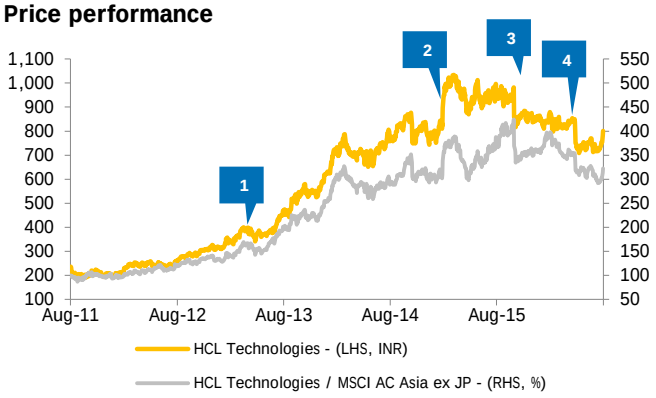
Strong positioning in engineering R&D and IMS practices



Source: Company

Price Drivers

Price performance



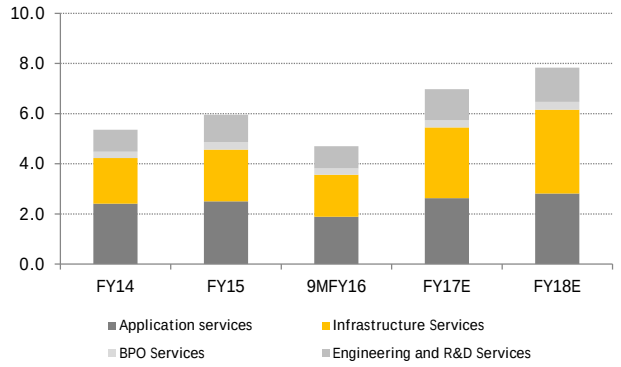
Source: Factset, MKE.

1. Earnings growth of 50%+.
2. Announcement of bonus issue of 1:1.
3. Profit warning after the cancellation of a contract and delays in transitioning of large deals.
4. Below par revenue and margin performance in 3QFY16.

Financial Metrics

- § 12.5% CAGR forecast for revenue from FY16-19F, driven by +15% pa in IMS and ER&D.
- § EBIT margin should improve as operating efficiency, like higher offshore shift and improvement in employee utilisation, starting to play out.
- § 1% change in USD/INR affects net profit by 1.5%.
- § ROCE to remain strong at 35%+ and ROE, 27%+.

Revenue contribution from segments (USDb)



Source: Company, MKE Estimates

Swing Factors

Upside

- § IMS business getting back to consistent growth of 15%+.
- § Application service growth currently 5-6%, matching industry growth rates.
- § Large deals of more than USD1b.

Downside

- § Market-share losses in IMS and ER&D.
- § EBIT margins declining from pricing pressure and delays in transitioning of large deals.
- § Failure to win large deals or loss of clients.

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Banks

India

HDFC Bank (HDFCB IN)

In a league of its own

BUY

Share Price	INR 1,204
12m Price Target	INR 1,500 (+25%)
Previous Price Target	*INR 1,500*

Consistent performance across cycles

HDFCB has delivered strong EPS growth across cycles. Strong underwriting leading to low NPLs, diversified loans, higher cross sell and better efficiencies has led to its success. Within retail banking it is the market leader is most segments such as credit cards, and automobile and SME loans. On the digital front, 75% of transactions are done through internet and mobile-based banking. We feel confident about its ability to grow market share profitably. Our EPS growth forecast is 21% over FY17-19E with ROEs of 20%. Maintain BUY with TP of INR1,500 based on a PER of 3.9x FY18E, premium to the 3.5x year average to reflect slower/faster earnings growth forecast.

Digitally ahead of peers

HDFCB is one of the early adaptors of digital banking. It offers multiple channels to customers such as mobile, internet, wallets etc. It enjoys highest transactions through the non-branch mode (>75%). Its analytics team provides personalised recommendations for clients; lower turnaround time and risk-based lending. With over 4,500 branches (55% in rural and semi-urban), it has the largest branch network amongst private banks. All this will help gain market share in both loans and deposits.

Dominant position in retail business

As highlighted, HDFCB is the market leader in categories such as credit cards, and automobile and SME loans. Well-balanced loans with lower dependence on any one segment make it less prone to NPL risks. Retail loans have performed well post establishment of the credit bureau in 2009. On the liabilities side, it has the best CASA ratio in the industry at over 40%. We expect HDFCB to maintain its dominance in the retail segment leading to profitable growth.

Consistent earnings delivery with high ROEs

HDFCB's ability to deliver consistent earnings across cycles warrants the premium. With a strong capital base, it is well placed to grow ahead of the industry over the next couple of years. We forecast 20% EPS CAGR over FY16-19. Sustainable ROE of 20% with low NPLs will help sustain valuations. Maintain BUY with TP of INR1,500.

FYE Mar (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	313,920	383,432	460,094	553,958	663,146
Pre-provision profit	174,045	213,635	258,155	315,388	380,970
Core net profit	102,159	122,962	147,777	178,574	216,632
Core EPS (INR)	41	49	58	71	86
Core EPS growth (%)	15.3	19.3	20.2	20.8	21.3
Net DPS (INR)	8	10	12	15	15
Core P/E (x)	29.5	24.8	20.6	17.0	14.1
P/BV (x)	4.9	4.2	3.6	3.1	2.7
Net dividend yield (%)	0.7	0.8	1.0	1.2	1.2
Book value (INR)	247	287	332	385	453
ROAE (%)	19.4	18.3	18.9	19.7	20.4
ROAA (%)	1.9	1.9	1.9	1.9	1.9
Consensus net profit	-	-	147,655	179,148	216,965
MKE vs. Consensus (%)	-	-	0.1	(0.3)	(0.2)

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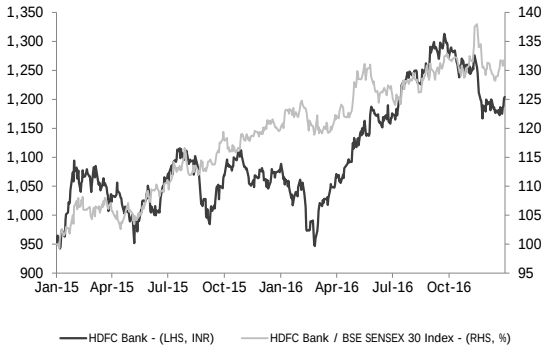
Statistics

52w high/low (INR)	1,313/947
3m avg turnover (USDm)	25.9
Free float (%)	77.3
Issued shares (m)	2,555
Market capitalisation	INR3,077.2B
	USD45.3B

Major shareholders:

Housing Development Finance Corp. Ltd.	22.5%
Life Insurance Corp. of India	4.7%
Capital Research & Management Co. (World	3.7%

Price Performance



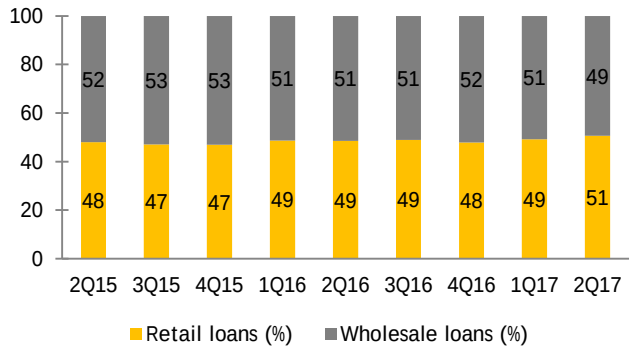
	-1M	-3M	-12M
Absolute (%)	0	(5)	12
Relative to index (%)	0	(1)	9

Source: FactSet

Value Proposition

- High share of retail loans (51% of loans) ensures high margins and low asset-quality risks.
- No exposure to stressed sectors in corporate segment has kept NPLs under control. Net NPLs benign at 0.3%.
- High low-cost deposits (CASA ratio of 40%) ensure lowest funding cost in the industry at sub 6%.
- NIMs in range of 4.2-4.4% owing to high-yielding products (retail loans) and low funding cost.
- Consistency and management's proven track record in past 20 years.

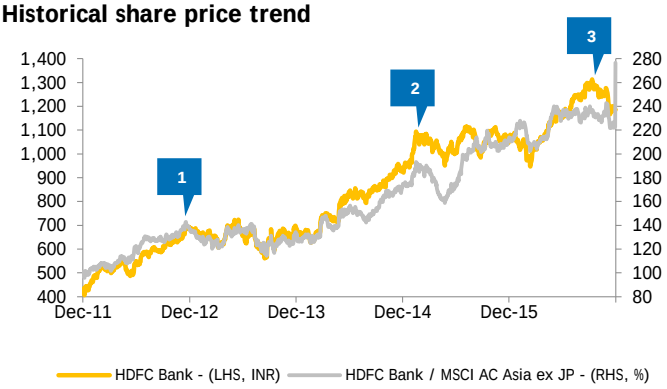
Balanced loan mix



Source: Company

Price Drivers

Historical share price trend



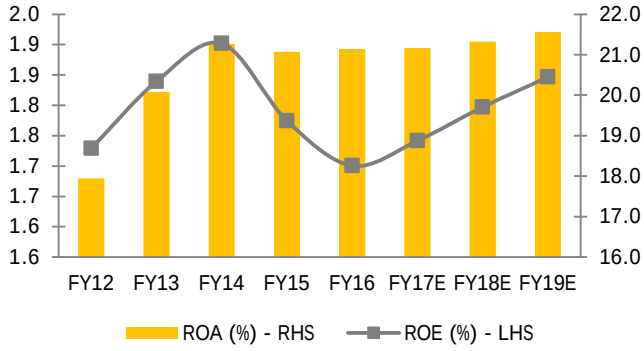
Source: Factset, MKE.

1. Consistent strong results across cycles with lower NPLs have ensured sustained appreciation in stock price.
2. The bank continues to gain market share in loans and deposits.
3. Stock price rising in line with earnings delivery.

Financial Metrics

- Loan growth to outpace industry at 2x rate. We forecast loans to grow at 22% CAGR over FY17-19.
- NIMs to remain in band of 4.2-4.4% as funding cost continues to fall.
- Benefits of operating leverage will accrue as the bank moves more transactions to digital medium. Cost-income ratio to improve by 1.2% over FY16-18E.
- Sustainable ROEs to be in the range of 19-20%, amongst the best in industry.

Strong return ratios



Source: Company, MKE.

Swing Factors

Upside

- Higher-than-anticipated market share gains in lending segment. Retail loan demand can get booster on higher consumption-led growth.
- Faster migration of transactions to digital channels can bring about cost savings.

Downside

- Asset quality has behaved well in retail lending for the industry. Higher delinquencies in this segment can have negative impact as HDFCB has large exposure.
- Fintech companies can take away market share in consumer lending.
- Competition from new small finance banks in rural areas for low-cost deposits can dent CASA ratio.

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Industrials

India

Inox Wind (INXW IN)

Well placed to ride wind boom

BUY

Share Price	INR 182
12m Price Target	INR 359 (+97%)
Previous Price Target	*INR 359*

Valuation attractive given healthy earnings growth

INXW is the leading wind turbine generator producer with ~25% market share. A low fixed-cost business model places INXW in a strong position to ride the growth wave in the wind sector. INXW's order book is gaining traction and has visibility for the next 15 months. With continued thrust from the government for renewables and INXW's strong franchise entailing it with repeat orders from its customer, we forecast its earnings to rise by 20% CAGR over FY16-19. INXW is trading at 7x FY18E EPS; which is inexpensive considering its double-digit earnings growth and FY18E ROE of 21%. Our TP of INR359 at 12x FY18F PER (30% discount to global peer group) to account for risk to earnings growth from regulations in India.

Robust order flow to drive 20% earnings CAGR

Current backlog of 1.4GW provides earning visibility for the next 15 months. The domestic wind market is expected to rise 12% p.a. for the next two years with an average annual capacity addition of 4.1-4.2GW. For INXW we forecast revenue growth of 13% for FY17 and 18% for FY18. Given high operating leverage, we expect net profit growth of 23% for FY17 and 20% for FY18.

FCF expected in positive territory

IWL's balance sheet is impacted from elongated working capital (WC) cycle. But with the rollout of Gujarat's tariff policy, we expect wind-turbine deliveries to accelerate and the concern on WC to ease in the next 2 qtrs. INXW would be a net debt free company with FCF of INR2-3b by end of FY17. This implies FCF yield of 5%, which was negligible in FY16.

Catalysts ignored, stock cheap at 7x FY18 PER

Regulatory tailwinds would continue to be the key driver for the wind sector. Catalysts for the wind-power industry are central-government tenders and its hybrid policy, which is due for implementation in a few months. Strict enforcement of renewable-power obligations by the government under its UDAY scheme is another event to watch out for. Moreover, we think the stock's earnings risks from delayed execution and working-capital disappointments have been priced in.

FYE Mar (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	27,099	44,141	53,475	60,773	72,024
EBITDA	4,259	7,106	8,601	9,990	11,625
Core net profit	2,964	4,519	5,556	6,641	7,907
Core EPS (INR)	13	20	25	30	36
Core EPS growth (%)	102.0	52.4	23.0	19.5	19.1
Net DPS (INR)	0	0	0	0	0
Core P/E (x)	13.6	8.9	7.3	6.1	5.1
P/BV (x)	2.9	2.2	1.7	1.3	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	32.6	27.9	26.2	24.3	22.9
ROAA (%)	12.6	11.3	11.0	11.8	12.5
EV/EBITDA (x)	na	9.4	5.4	4.4	3.5
Net gearing (%) (incl perps)	9.7	49.3	25.7	11.4	1.5
Consensus net profit	-	-	4,550	5,098	5,982
MKE vs. Consensus (%)	-	-	22.1	30.3	32.2

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Company Description

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

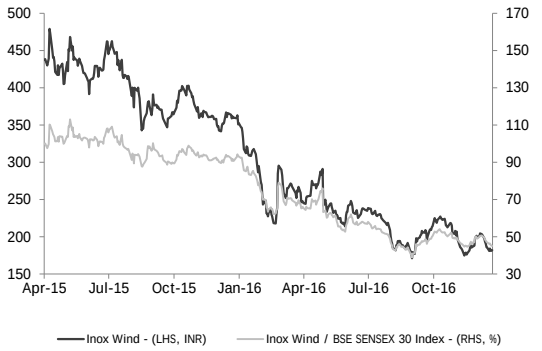
Statistics

52w high/low (INR)	363/171
3m avg turnover (USDm)	1.0
Free float (%)	14.4
Issued shares (m)	222
Market capitalisation	INR40.4B
	USD595M

Major shareholders:

Gujarat Fluorochemicals Ltd.	68.7%
Devansh Trading & Finance Pvt Ltd.	5.6%
Inox Chemicals Pvt Ltd.	5.6%

Price Performance



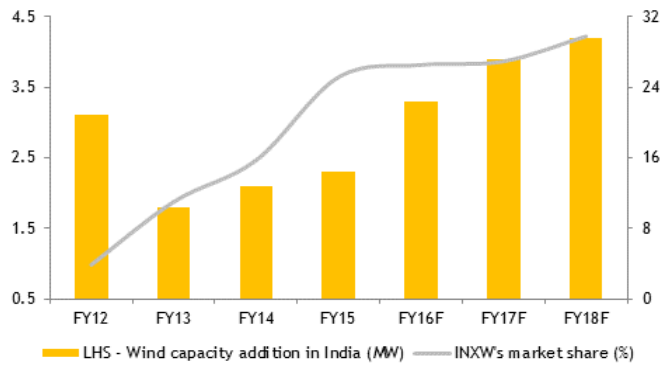
	-1M	-3M	-12M
Absolute (%)	(5)	(9)	(50)
Relative to index (%)	(5)	(5)	(51)

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 grow to 30% in the next two years.
- § Against weakened competition, its financial strength, ability to provide turnkey solutions and sophisticated technologies has 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.

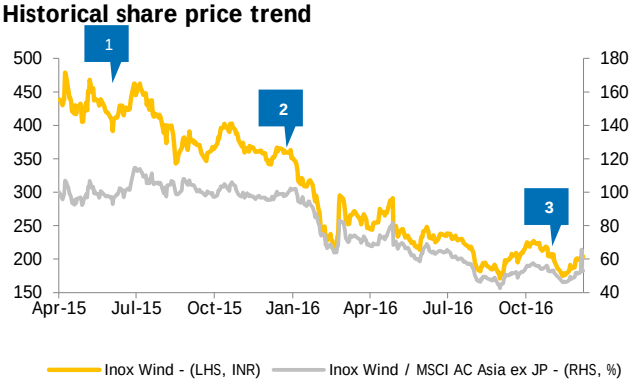
INXW's market share expansion in WTG market (%)



Source: Company, MKE Estimates.

Price Drivers

Historical share price trend



Source: Factset, MKE.

1. Strong IPO debut in Apr 2015; IPO price was INR325
2. Pressure on capital goods stocks due to weak industrial production data
3. Feeble 2QFY17 result led by lower commissioning of wind turbine, laid pressure on the stock.

Financial Metrics

- § INXW is riding a visible earnings upcycle. Order book of 1.4GW would be executed in the next 15 months.
- § Expectations of industry order book of 4-4.5GW /annum and improvement in INXW market share will lead to continued business.
- § Sales will rise 13% YoY in FY17 and 18% YoY in FY18, supported by order book execution. Operational efficiencies will lead to margin improvement.
- § Earnings forecast to rise 23% YoY in FY17 and 20% in FY18, backed by revenue growth and margin improvement.

Order book/new inflow (MW)

Source: Company, MKE Estimates.

Swing Factors

Upside

- § Strong order inflow, market share expansion.
- § Launch of more sophisticated products like 113m blade, which improves yield by 20% vs 100m currently.
- § Entry into solar energy market could boost earnings significantly.
- § Stock trading at 30% 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.

Maybank Kim Eng

Lakshmi Vilas Bank (LVB IN)

Building brick by brick

BUY

Share Price	INR 142
12m Price Target	INR 180 (+27%)
Previous Price Target	*INR 180*

Right strategy with steady execution

A lot has been achieved since the CEO joined a year ago. LVB has filled in the gap in its top management by hiring resources to lead key business segments. The bank is focused on growing in the retail and SME segments. It has tied up with multiple third parties to boost its fee income and CASA base. Asset-quality issues are largely behind. With impending capital infusion, the bank is well placed to grow. Maintain BUY with TP of INR180 based on a PER of 1.4x FY18E (comparable to peers with 14-15% RoEs).

Retail and SME focused

LVB plans to develop its business around retail and SME segments. Geographically, it plans to retain focus on South India. It will grow its mortgage book before aggressively venturing into other retail products, which we think is the right approach. It plans to increase contribution of retail and SME loans in overall loans to 75% by 2020 from 55% currently. The corporate loan book will grow at a slower pace and done only opportunistically. We forecast loan growth of 17% p.a. over FY17-19F.

Filling gaps in product suites

LVB has implemented a customer-centric approach from a product-centric approach. Increase in branch network and technology spends will aid customer acquisition. LVB has added more products, such as travel and credit cards, and complete product suites. This will have a positive impact on fee income and CASA deposits. We expect CASA ratio of 25% by FY20 vs. 17% in 1HFY17. Fee income proportion to overall revenue will improve to 30% by FY19 vs. 25% in FY16.

Constructive long term

LVB is taking steps to shed its image as an old-generation bank. We remain constructive on its long-term prospects. Capital infusion will have a positive impact on growth and its balance sheet. We forecast core EPS growth of 19% YoY for FY17 and 36% YoY for FY18. In the medium term, we forecast ROEs of 14-15%.

FYE Mar (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	8,107	9,498	12,668	15,122	18,106
Pre-provision profit	3,657	4,071	6,062	7,262	8,716
Core net profit	1,215	1,802	2,538	3,455	4,435
Core EPS (INR)	7	10	12	16	21
Core EPS growth (%)	20.7	36.1	18.8	36.1	28.4
Net DPS (INR)	2	3	3	4	5
Core P/E (x)	19.2	14.1	11.9	8.7	6.8
P/BV (x)	1.6	1.4	1.2	1.1	1.0
Net dividend yield (%)	1.4	2.1	2.3	2.9	3.2
Book value (INR)	87	98	114	126	141
ROAE (%)	9.6	10.9	12.1	13.5	15.6
ROAA (%)	0.5	0.7	0.8	1.0	1.1
Consensus net profit	-	-	2,413	3,096	4,291
MKE vs. Consensus (%)	-	-	5.2	11.6	3.4

Company Description

Lakshmi Vilas Bank is a Chennai based private sector bank. Under the new CEO, the bank plans to create retail and SME businesses.

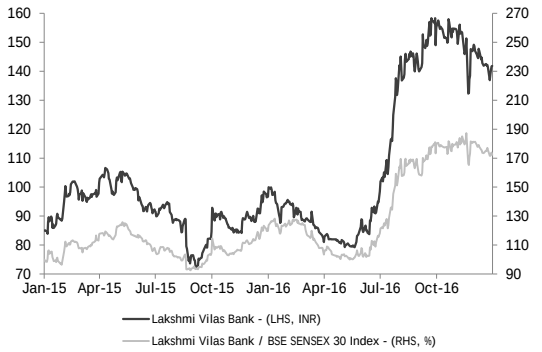
Statistics

52w high/low (INR)	158/79
3m avg turnover (USDm)	0.7
Free float (%)	67.3
Issued shares (m)	179
Market capitalisation	INR25.4B
	USD375M

Major shareholders:

Stupendors Traders Pvt. Ltd.	4.5%
M.N. Dastur & Co. Pvt Ltd.	3.8%
Max Life Insurance Co. Ltd.	2.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(9)	46
Relative to index (%)	(5)	(4)	42

Source: FactSet

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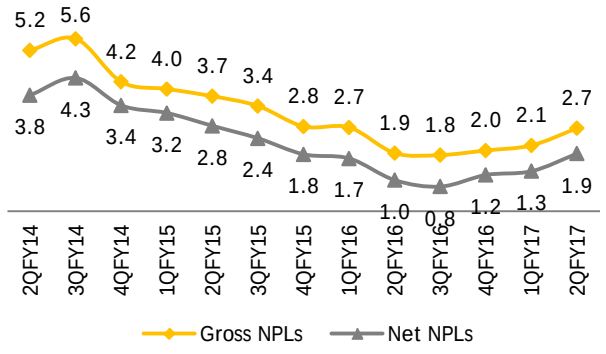
Banks

India

Value Proposition

§ Sharp NPL improvement in the past two years due to changes in the underwriting process and sale of bad loans. With the bulk of the write-offs in the past, NPLs should remain stable.
§ Loan growth above industry rate to continue. Growth focused on secured collateral-based sectors, such as mortgages and small business loans.
§ New CEO with deep experience from a large private bank will help improve the liability side and bring about better cost control.

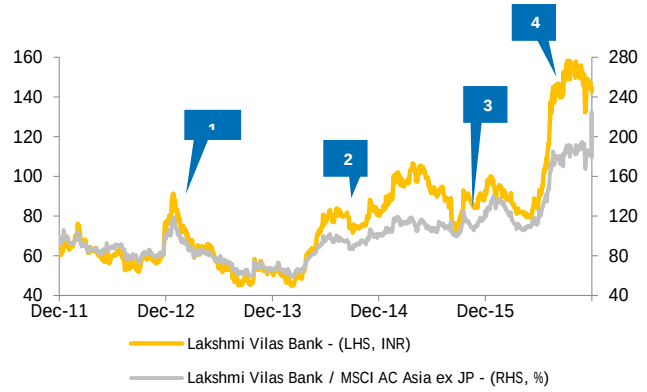
Asset quality has witnessed consistent improvement



Source: Company

Price Drivers

Historical stock price trend



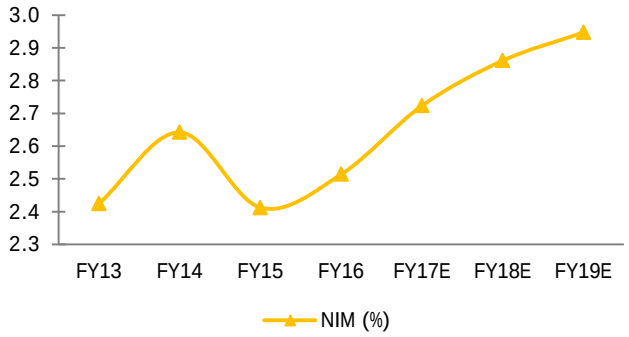
Source: Factset, MKE.

1. Sharp improvement in asset quality in FY12 led to strong earnings growth and re-rating of the stock.
2. Under the previous CEO, performance in key business parametres improved leading to stock re-rating.
3. Previous CEO's resignation led to crash in stock price.
4. Appointment of new CEO from Axis Bank led to rally in stock price. Strong quarterly results have helped improve stock price performance.

Financial Metrics

§ Margin expansion of 30bps to 2.9% over FY16-18E on lower funding cost as share of CASA deposits inches up and on low NPLs.
§ Growth in non-interest income to rise as tie up with life and general insurance companies provides an opportunity for cross selling. Forecast 15-18% YoY growth.
§ Credit cost to fall to 80bps in FY18E from 110bps in FY17 as fresh additions to NPLs decline.
§ ROA to improve to 1% by FY18 from 0.7% in FY16.

NIM expansion as benefits of low funding cost accrue



Source: Company, MKE

Swing Factors

Upside

§ New CEO's ability to further transform the bank earlier than expected could lead to upside.
§ Ability to keep credit costs under control could help further re-rate the stock.
§ Higher-than-expected improvement in productivity could lead to lower cost-income ratios.

Downside

§ Slower-than-expected execution under new CEO.
§ Inability to keep costs under control.
§ Increase in NPLs due to poor underwriting.

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Maybank Kim Eng

Technology

India

Persistent Systems (PSYS IN)

At inflection point

BUY

Share Price	INR 615
12m Price Target	INR 850 (+38%)
Previous Price Target	*INR 850*

Best digital proxy

Maintain BUY driven by upside potential from IBM partnership and digital/SMAC. With 35% of full-year revenue accruing in 3Q for IBM Watson partnership, we believe, PSYS is entering the stronger half. The digital transformation business revenue should continue to grow at 25-30% and the IP business returning to growth. Margins are bottoming out. Quarterly volatility aside, we expect digital transformation and IP-led business to be the key long-term catalysts. Our TP of INR850 is based on a PER of 16x FY18E EPS, premium to its five-year average PER of 12x to factor faster earnings growth. .

Revenue drivers in place

3Q is the strongest quarter for the IBM – IOT partnership where 35% of annual revenue is earned. Management has maintained its FY17 guidance of USD50m from the partnership leaving USD28m (6.4% of FY17E) for 2H. The impact of dropping non-strategic clients has largely been factored in 2Q. Going ahead, management expects the traditional product engineering services business to grow in 3Q. We believe the enterprise digital business will continue its growth momentum in 3Q backed by a new deal secured in 2Q as well as from deals that were pushed to 3Q due to delays in decision making. Overall, we forecast revenue increase of 24% for FY17 and 16.4% for FY18.

EBIT margin to trend up

PSYS has made upfront investments for the IBM-IOT partnership, which has dented its margins. Entering a stronger quarter, we believe EBIT margins have bottomed out and we expect 2H EBIT margins of 12% vs 10.4% in 1H. Overall, with revenue pick-up, we expect operating efficiencies to kick in. We forecast EBITDA margins of 16.4% for FY17 and 17.7% for FY18.

Best mid-cap IT bet

We believe PSYS is at an inflection point and we expect earnings performance to pick up after few quarters in investment mode. Niche offerings and earnings growth of 19% over FY16-19 (highest amongst the mid-cap IT sector) make it the best bet in mid-cap IT. At 11.7x FY18E, we believe the stock is attractively priced. Maintain BUY.

FYE Mar (INR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	18,913	23,123	29,199	33,992	39,960
EBITDA	3,906	4,171	4,786	6,023	7,411
Core net profit	2,906	2,974	3,279	4,113	4,975
Core EPS (INR)	36	37	41	51	62
Core EPS growth (%)	16.6	2.3	10.3	25.4	21.0
Net DPS (INR)	10	8	9	12	14
Core P/E (x)	16.9	16.5	15.0	12.0	9.9
P/BV (x)	3.5	3.0	2.6	2.3	1.9
Net dividend yield (%)	1.6	1.3	1.5	1.9	2.2
ROAE (%)	22.1	19.5	18.6	20.3	21.0
ROAA (%)	17.5	15.3	14.3	15.4	16.0
EV/EBITDA (x)	12.7	13.0	8.8	6.6	4.9
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	3,090	3,671	4,290
MKE vs. Consensus (%)	-	-	6.1	12.0	16.0

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Company Description

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

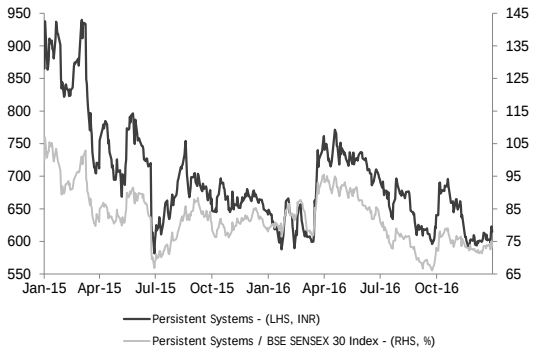
Statistics

52w high/low (INR)	771/588
3m avg turnover (USDm)	1.1
Free float (%)	53.1
Issued shares (m)	80
Market capitalisation	INR49.2B
	USD725M

Major shareholders:

DESHPANDE ANAND SURESH	28.5%
DESHPANDE SURESH PURUSHOTTAM	8.7%
SAIF Advisors Pvt Ltd.	5.3%

Price Performance



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

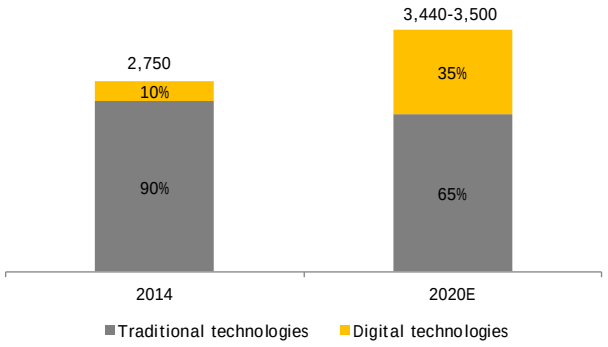
Source: FactSet

Source: Bloomberg, MKE

Value Proposition

- § Started as an outsourced product developer for IBM and Microsoft. Has since transformed into an enterprise-focused service and solution provider.
- § As outsourcing spending shifts from pure labour arbitrage to cloud solutions, we expect SMAC/digital spending to grow at 25%+ pa vs flat traditional services.
- § Given its niche in social, mobile, analytics and cloud (SMAC) & IP, PSYS should grow faster than industry.
- § A new alliance with IBM could catapult PSYS from an outsourcing partner to an end-to-end service provider.

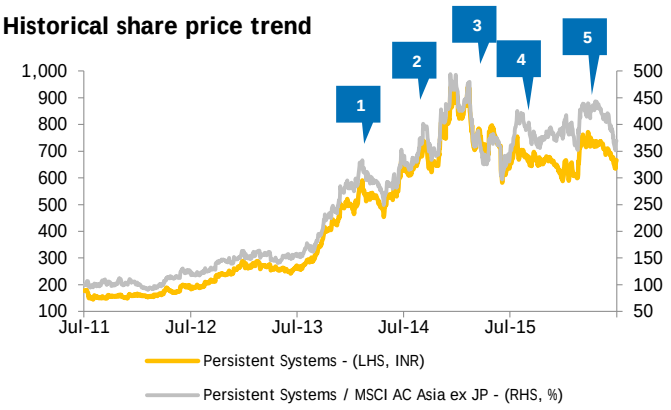
Digital technologies to fuel IT spending (USDb)



Source: Company , Industry reports

Price Drivers

Historical share price trend



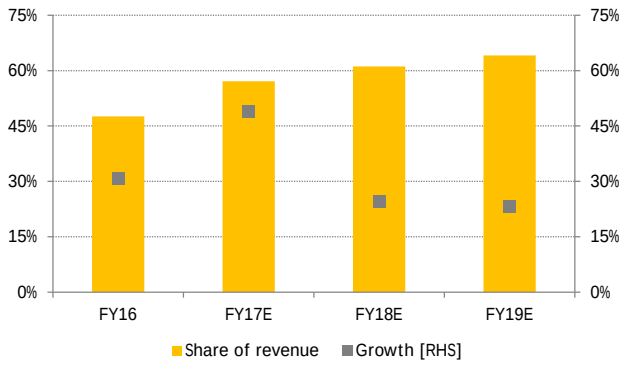
Source: Factset, MKE.

1. 32% average annual earnings growth in FY13-14.
2. Re-rated from 12x to 20x P/E on expectations of faster revenue growth.
3. 1:1 bonus issue.
4. Lacked earnings growth, delayed acquisitions and weakness among top clients triggered earnings cuts and de-rating.
5. Announcement of IBM Watson collaboration led to rally.

Financial Metrics

- § 19% EPS CAGR for FY16-19F is above industry average: +34% from enterprise, +40% from IP & new IBM alliance. Their share to grow to 64% by FY19F from 48% in FY16.
- § EBIT margins to improve to 12.5% in FY18E after declining to 11.3% in FY17E, backed by higher-margin digital services and IP-led business.
- § Healthy return ratios: 20% ROE, 30% ROCE. Operating cash flow to net profit of 85% and to EBITDA of 61%.

Enterprise + IP-led + IBM alliance: revenue share/growth



Source: Company, MKE

Swing Factors

Upside

- § Announcements of acquisitions to support IP growth.
- § Better-than-expected revenue growth and EBIT margins from recent alliance with IBM for its IBM Watson platform.

Downside

- § IBM alliance could take time to ramp up, pressurising margins.
- § Sluggish enterprise business, one of its fastest-growing segments.
- § Increased competition and weak revenue growth, pulling down margins.

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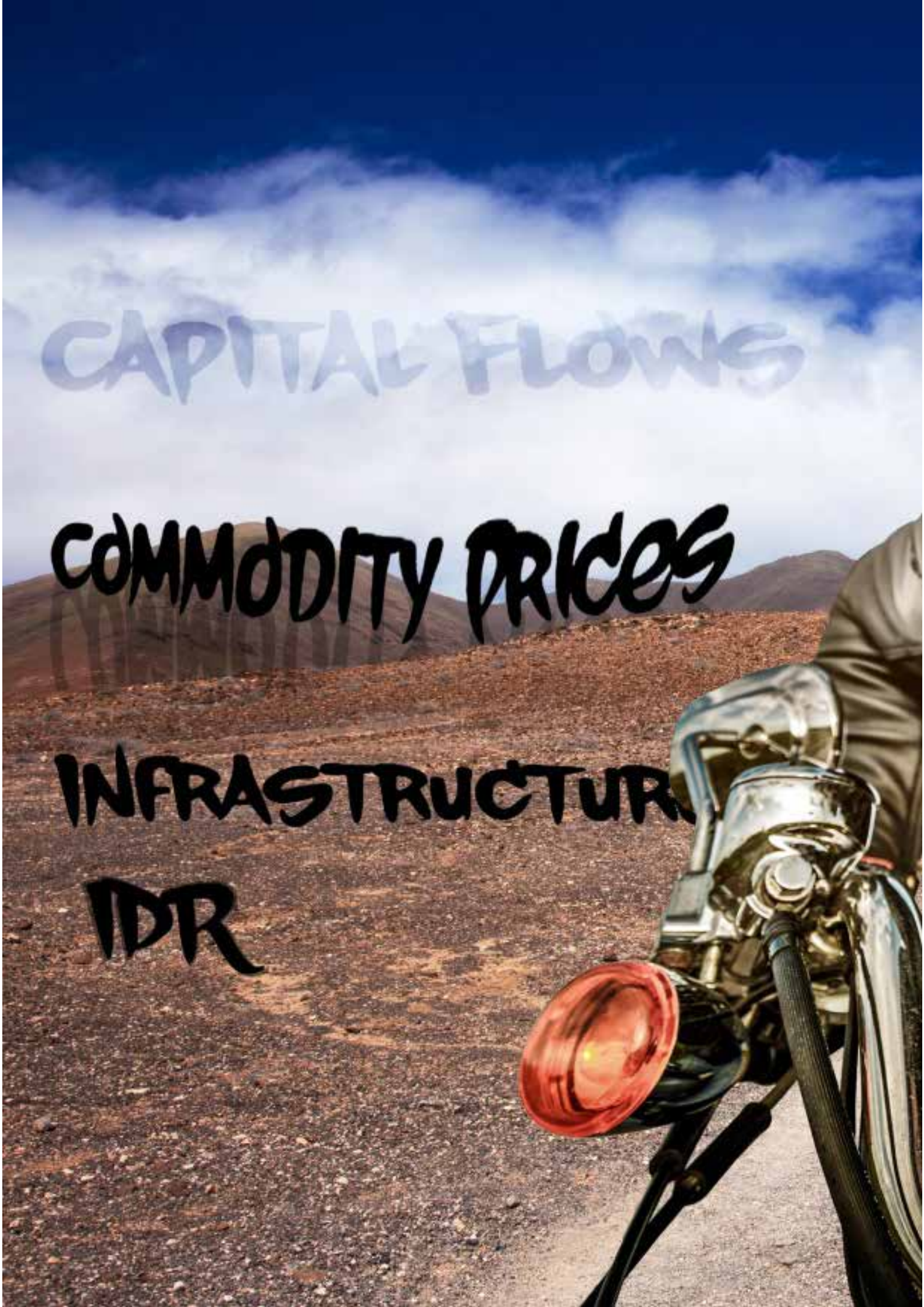
CAPITAL FLOWS
COMMODITY PRICES
INFRASTRUCTURE
IDR

Maybank Kim Eng

STRATEGY

Indonesia

Indonesia: Six-for-17

Be Opportunistic!

Selective picks

We believe the Indonesian economy is defensive enough against global uncertainties. JCI valuations, at 16x 2017E P/E and 2.3x P/BV, appear reasonable as they are 1SD below their respective 7-year means. Our index target for 2017 is 6,500, based on 18x FY18E P/E, 1SD of its 7-year mean. Expecting market catalysts from gradual macro improvements, we recommend stocks with a strong domestic presence and in selective commodity sectors that have trading opportunities. Our top picks are: ADRO, ASII, BBRI, BSDE, PTPP and RALS.

Focus on currency

The IDR should be the focus in 2017. Fundamentally, we don't think it will depreciate much from its current 13,500/USD because of: 1) its strong correlation with commodity prices; 2) lower than perceived risks for foreign ownership of government bonds; and 3) fund inflows from the repatriation amnesty.

Inflation up, though still low

We see limited room for BI to cut interest rates due to: 1) higher inflation from commodity prices; and 2) potentially higher US treasury yields. Still, current rates are considered low relative to recent history. ASII, BBRI, BSDE and RALS are our picks for exposure to still-low inflation and interest rates.

Return of outer-Java demand

We expect coal, nickel and tin prices to remain strong in 2017 owing to supply tightness and stable demand. This should be positive for the economy as commodity-producing regions contribute 20-25% to GDP. Companies that are expected to profit are miners - ADRO is our preferred pick - and those with high revenue exposure to outer Java such as BBRI and RALS.

Opportunities in banking...

We see opportunities in the banking sector relative to the consumer sector. Consumer P/BV to banking P/BV has increased 116% in the past seven years, while their ROE ratio has only increased 29%.

...and property & construction

We also spot more opportunities in the construction and property sectors than cement due to continued cement overcapacity. Although cement ROE to construction & property ROE has declined 53% in the past seven years, their P/BV ratio has only contracted 23%.

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6 Links You Need to Know

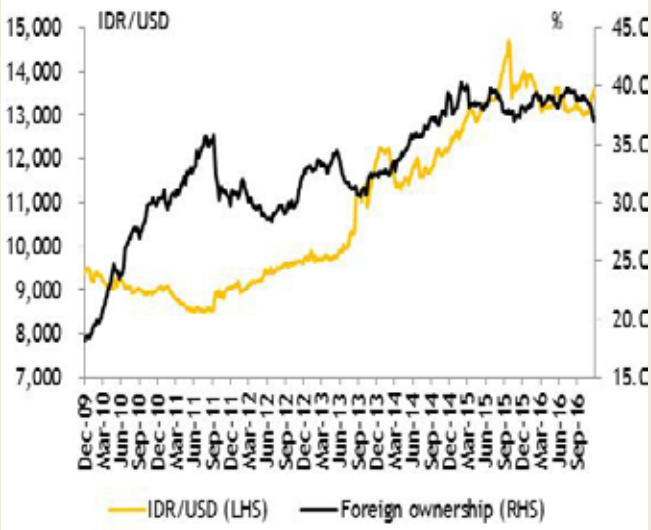
Chart 1: IDR vs coal prices

A pick-up in coal prices is expected to anchor IDR stability

Source: Bloomberg, Global Coal

Chart 2: IDR vs foreign ownership

High foreign ownership of bonds doesn't necessarily mean high IDR risks



Source: Bloomberg, Maybank KE

IDR vs coal prices

The IDR closely tracks coal prices. We expect IDR to be stable in 2017 as coal prices are likely to remain strong at about USD75/tonne. This is on the back of supply issues and stable demand. IDR stability should keep interest rates low as the currency is one of the variables considered by BI in its monetary decisions.

IDR/USD's correlation with coal has been strong in the past 10 years. We attribute this to a number of reasons: 1) at 12% of Indonesian exports, the mining sector has a definite influence on Indonesia's trade accounts; and 2) 20-25% of Indonesia's domestic demand stems from its resource-producing regions.

We recommend ASII for exposure to high commodity prices and low interest rates as more than 50% of its earnings emanate from these segments. For direct exposure to commodities, ADRO is our top pick as 75% of its sales are export sales. It also has a low-cost structure and strong balance sheet. For indirect exposure to the commodity sector, our top picks are RALS and BBRI, with 30-40% of their revenue coming from outer Java.

IDR vs foreign ownership of government bonds

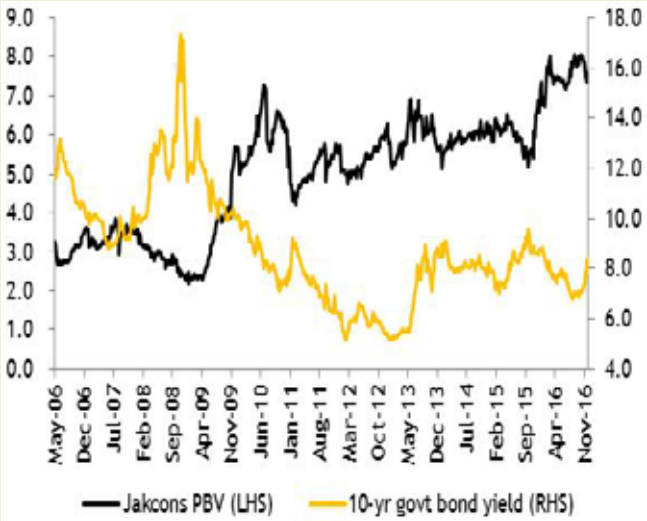
There have been some concerns in the market that high foreign ownership of government bonds, at 37% or so, pose a risk to the IDR. While valid, the correlation between foreign ownership and currency depreciation is also high ie foreign ownership tends to increase when IDR depreciates and vice versa.

In the past seven years, their correlation has been a strong 0.76. We think one of the reasons is, some 7% of the foreign owners are governments and central banks. They are not likely to liquidate their positions when the currency depreciates, which lowers risks, in our view.

As currency stability tends to support purchasing power and thus, consumer sentiment, we think the mass market will be a winner. RALS is our top pick for exposure to the mass market on account of its continuing business transformation.

Chart 3: Consumer P/BV vs 10-year government bond yields

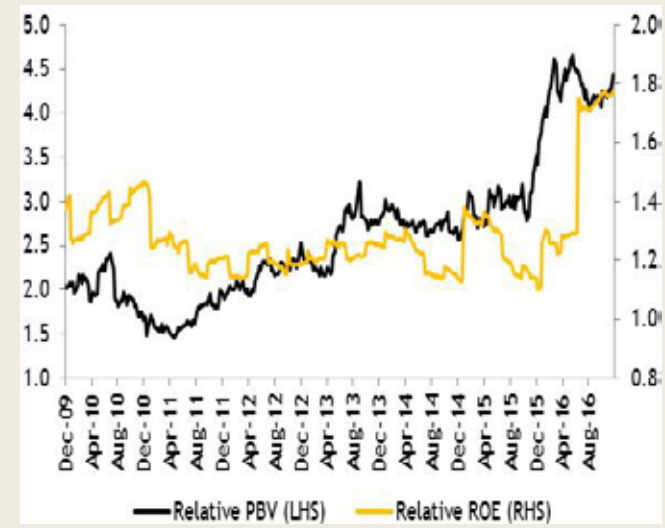
As we expect bond yields to remain low, consumer P/BV should continue to climb…



Source: Bloomberg, Maybank KE

Chart 4: Consumer vs financial P/BV

… with this, financial P/BV has turned interesting relative to the consumer sector



Note: relative figures are calculated based of PBV and ROE of the consumer sector divided by those of the banking sector
Source: Bloomberg, Maybank KE

Consumer P/BV vs 10-year bond yields

P/BV valuations of the consumer sector have been tracking 10-year government bond yields inversely for 10 years. We think the biggest reason for this negative correlation is, bond yields are a reflection of inflation in Indonesia. When inflation is low, other things being equal, bond yields are low. Low inflation maintains purchasing power.

We think their negative correlation will persist. Given our expectations of a stable IDR and 4% inflation in 2017, we expect bond yields to remain low and consumer companies to benefit. This suggests that the sector's P/BV could continue to climb.

But while we still see much potential in Indonesia's consumption, we think the sector is becoming very expensive. Its P/BV has almost tripled from 3.0x to 8.0x in the past seven years while bond yields have declined less than 2%. We would only cherry-pick stocks with ample catalysts and reasonable valuations. RALS is our top pick in the sector for its ongoing business transformation and 2.2x P/BV valuations.

Consumer vs financial P/BV

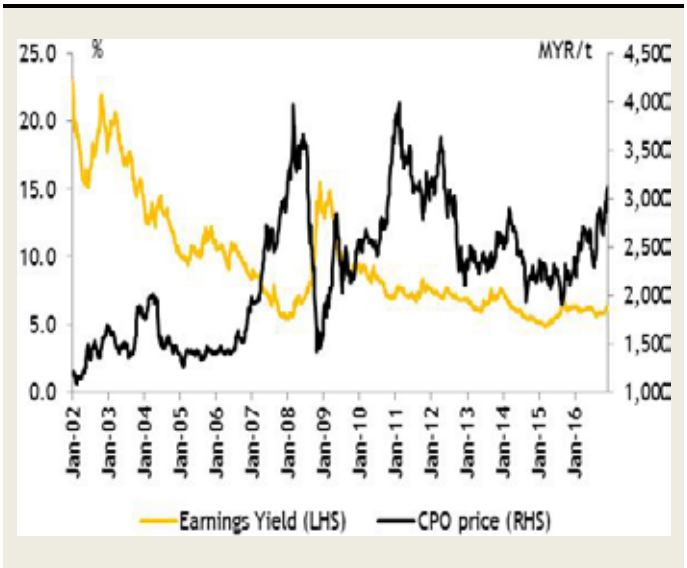
The banking sector has turned attractive relative to the consumer sector. In the past seven years, consumer P/BV to banking P/BV has increased 116%, from 2.0x to 4.4x. Among the probable reasons are problems in the banking sector: declining ROEs, potential government intervention, NPLs etc. However, over the same period, consumer ROE to banking ROE has only increased 29%, from 1.4x to 1.8x.

We think this is an interesting situation as sharply higher valuations are not compensated by sufficiently higher returns. While we still like consumption in Indonesia, we recommend a switch to the banking sector and selected consumer names.

BBRI is our top pick on account of its unique SME business model and strong fundamentals NIM. In the consumer sector, RALS is our top recommendation.

Chart 5: CPO prices vs earnings yields

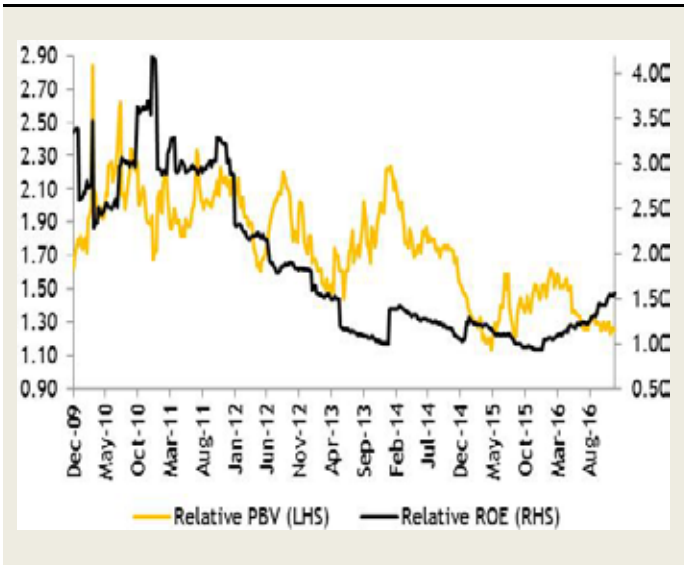
Sustainably strong CPO prices to support rural employment and the economy



Source: Bloomberg, Maybank KE

Chart 6: JAKBIND P/BV vs JAKPROP P/BV

JAKBIND should trade lower given persistent competition and declining margins



Note: relative figures are calculated based of PBV and ROE of the cement sector divided by those of the property & construction sector
Source: Bloomberg, Maybank KE

CPO prices vs earnings yields

CPO prices have a strong negative correlation with the market's earnings yields in the past 14 years. The reasons: 1) unemployment in the agriculture sector, which accounts for 40% of total unemployment; and 2) 20-25% of GDP is contributed by resource-producing regions.

Next year, we foresee continued CPO price strength, even though prices might drift down to MYR2,400/tonne following anticipated output spikes. Such a level would still be in line with their 12-year mean. We see limited downside as Indonesia's biodiesel programme should bump up demand when prices drop to a certain level.

ASII and RALS provide good exposure to outer-Java demand and the mass market. ASII also provides exposure to the overall market with its index weight and business diversification.

JAKBIND P/BV vs JAKPROP P/BV

The cement sector (JAKBIND) has a strong correlation with the property & construction sector (JAKPROP), since both are considered beneficiaries of infrastructure development in Indonesia. While true, the cement sector has been facing competition and margin issues.

An interesting part of their relationship is, cement ROE to property/construction ROE has declined 53% in the past seven years, although their P/BV ratio has only contracted 23%. With continued overcapacity in the cement sector, we expect their P/BV ratio to fall further.

BSDE and PTPP are our top picks for the property & construction sectors. We like BSDE's big landbank and PTPP's consistent double-digit order-book growth.

Maybank Kim Eng

Metals & Mining

Indonesia

Adaro Energy (ADRO IJ)

Strong Momentum

BUY

Share Price	IDR 1,695
12m Price Target	IDR 2,000 (+18%)
Previous Price Target	*IDR 2,000*

Top pick in coal sector

ADRO is our top pick for exposure to coal-price strength which we believe should spill into 1Q17, at least. This is due to its good export/domestic market mix, low cost structure, strong balance sheet and earnings diversification. Our SOTP TP of IDR2,000 implies 10.2x 2017E P/E, below its 8-year mean of 14.2x. Persistently strong coal prices and consensus earnings upgrades should provide catalysts for the stock, in our view.

Strong EPS growth in 2017-18E

We forecast 2017-18 EPS growth of 110.7%and 25.0% YoY from potentially higher ASPs of USD56/59.80/tonne. We also assume conservatively volume growth of 5% pa to 53.5-56.2m tonnes. We don't think ADRO will aggressively raise volume next year as it is still unclear whether the coal-price strength will last more than two years.

Coal-price sensitivity

Coal prices are the biggest impetus of ADRO's earnings. *Ceteris paribus*, we estimate that our 2017-18 EPS would change by 2.7% and 2.5% for every 1% change in our coal-price assumptions.

Higher costs offset by higher ASPs

We also forecast a 20.8% increase in ex-royalty production costs to USD31.2/tonne for 2017 as we believe ADRO will increase its strip ratio (6.0bcm/tonne in our assumption) to take advantage of higher coal prices and maintain its coal reserves. Still, we are not worried as this should be more than compensated by higher ASPs. We estimate that every 1% increase in ASPs and production costs would lift our 2017-18 EPS by 0.4%.

Company Description

ADRO is an integrated coal company in Indonesia which has the largest market share in the domestic market.

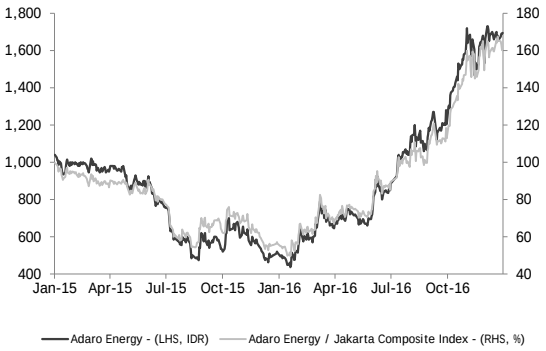
Statistics

52w high/low (IDR)	1,730/437
3m avg turnover (USDm)	6.4
Free float (%)	42.9
Issued shares (m)	31,986
Market capitalisation	IDR54.2T
	USD4.0B

Major shareholders:

Adaro Strategic Investments	43.9%
Commissioners and directors	13.2%
na	na

Price Performance



	-1M	-3M	-12M
Absolute (%)	11	41	229
Relative to index (%)	8	42	185

Source: FactSet

FYE Dec (USD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	3,325	2,684	2,308	3,242	3,623
EBITDA	877	735	775	1,234	1,451
Core net profit	218	196	227	478	597
Core EPS (cts)	0.7	0.6	0.7	1.5	1.9
Core EPS growth (%)	(14.1)	(9.9)	15.6	110.7	25.0
Net DPS (cts)	0.2	0.2	0.2	0.4	0.6
Core P/E (x)	18.5	20.5	17.7	8.4	6.7
P/BV (x)	1.5	1.4	1.3	1.2	1.0
Net dividend yield (%)	1.9	1.9	1.7	3.6	4.5
ROAE (%)	6.5	5.4	7.7	14.8	16.3
ROAA (%)	3.3	3.2	3.8	7.7	9.1
EV/EBITDA (x)	4.8	3.3	6.5	3.6	2.6
Net gearing (%) (incl perps)	31.6	23.1	14.8	net cash	net cash
Consensus net profit	-	-	251	349	368
MKE vs. Consensus (%)	-	-	(9.5)	37.1	62.4

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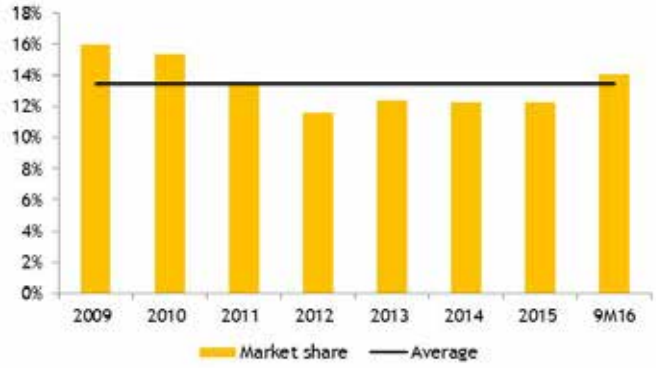
Value Proposition

- § ADRO is the second largest coal company, in terms of production, in Indonesia with a stable market share of ~15%. In domestic coal market, ADRO is the largest player.
- § The contract mining subsidiary, Saptaindra Sejati, has a ~8% share of national coal production.
- § The power unit has the largest power station project in Indonesia and will help ADRO to diversify earnings.
- § The logistics unit, whose objective is to support the coal mining business, has helped ADRO's efficiency.
- § Despite ADRO's low cost structure, ROE has been dragged down to below cost of equity due to coal-price volatility.

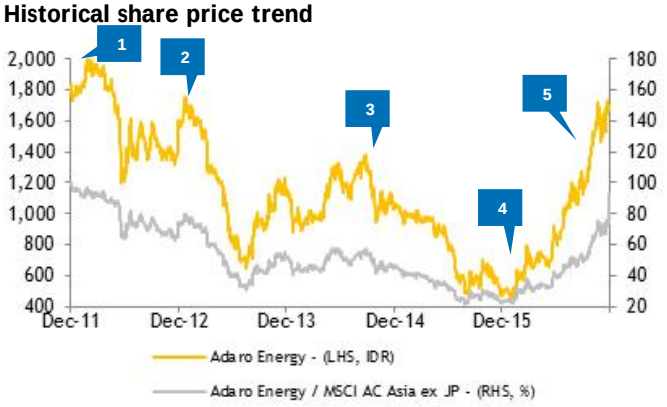
Dominant player in coal industry



Source: Company

Price Drivers

Historical share price trend



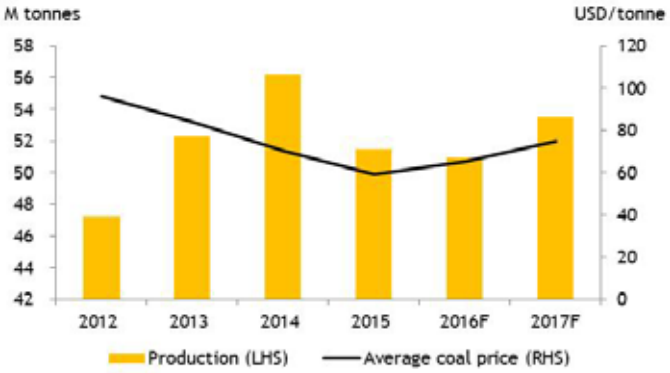
Source: Bloomberg, Maybank Kim Eng

1. Acquisition of Mustika Indah Permai, a coal asset located in South Sumatera.
2. Overall coal markets became depressed with coal prices below USD100/tonne.
3. News on potential asset impairment on the back declining coal prices.
4. Financial closure of 2,000MW Batang coal-fired power plant.
5. Acquisition of 75% stake at IndoMet Coal (coking-coal asset in Kalimantan) from BHP Billiton.

Financial Metrics

- § Earnings to start picking up in 2016 on the back of coal-price recovery, and will continue to improve at 62% CAGR due to higher ASPand stronger volume.
- § Low production cost to sustain driven by relatively low strip ratio.
- § Sustain a robust balance with low net debt/capital, enabling 30% dividend payout ratio.

Production will ramp up along with coal prices



Source: Company, Maybank KE

Swing Factors

Upside

- § Sustainably strong rebound in coal prices positive for ADRO given its high exposure to seaborne market (75% of volume).
- § Fruitful diversification into power business, reducing earnings volatility which is driven by coal-price movements.
- § Successful monetization of coking-coal asset.

Downside

- § Unsustainable coal-price recovery.
- § Delay in execution of Batang coal-fired power project.
- § Higher royalty and tax rates as some of ADRO's mines are based on IUP (Ijin Usaha Pertambangan/Mining Business License)-type of contract, which is exposed to changes in government regulations.

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Maybank Kim Eng

Consumer Discretionary

Indonesia

Astra International (ASII IJ)

All-Round Improvements Expected

BUY

Share Price	IDR 8,275
12m Price Target	IDR 9,300 (+12%)
Previous Price Target	*IDR 9,300*

Maintain BUY

We maintain our SOTP-based TP of IDR9,300, implying 19.7x 2017E P/E, a 13% premium to our JCI target multiple. We see catalysts from an improving economy and strong coal prices. Current valuations of 16.5x 2017E P/E and 2.6x 2017E P/BV are at -1SD of its 5-year mean and below its 5-year mean of 3.1x respectively, not demanding.

Better macro outlook

Maybank Kim Eng expects Indonesia's economy to grow 5.1% in 2017, despite global uncertainties. This is because its economy is heavily powered by consumption while its export-GDP ratio is lower than 20%. Inflation may climb to 4% but this would still be low by the country's standard, which is good for consumer confidence. ASII is expected to sell more cars and mining services with an improving economy. Coal prices are also likely to remain strong next year, positive to drive outer-Java demand.

4W momentum continues

Industry automotive sales in November grew another 4% MoM, led by new launches. We forecast volume growth of 8-10% YoY for 2017 and are confident that ASII will be able to maintain its above-50% market share from the full impact of its new launches in 3Q16.

Heavy equipment's & Pama's upside potential

While heavy equipment's earnings growth may not be spectacular, we see upside potential as we are modelling an average coal price of USD75/tonne for 2017, up from 2016's USD65. We also think Pama's coal and overburden-removal volume and fees could surprise positively.

Company Description

Astra International is a conglomerate with business interest in automotive, financial services, heavy equipment, plantations, and others.

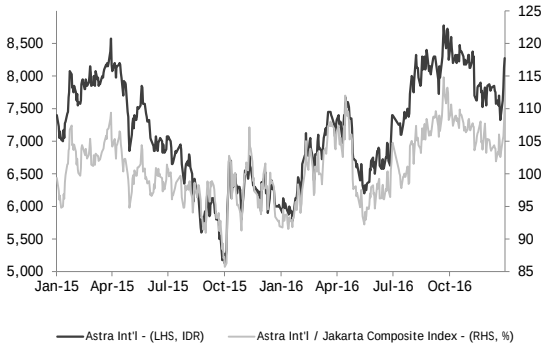
Statistics

52w high/low (IDR)	8,775/5,775
3m avg turnover (USDm)	18.3
Free float (%)	49.9
Issued shares (m)	40,484
Market capitalisation	IDR335.0T
	USD24.9B

Major shareholders:

Jardine Cycle & Carriage	50.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	10	0	38
Relative to index (%)	7	2	20

Source: FactSet

FYE Dec (IDR b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	201,701	184,196	194,332	217,098	223,927
EBITDA	28,811	26,777	25,980	28,026	29,016
Core net profit	19,191	14,464	16,163	19,070	21,596
Core EPS (IDR)	474	357	399	471	533
Core EPS growth (%)	(1.2)	(24.6)	11.7	18.0	13.2
Net DPS (IDR)	216	216	180	212	240
Core P/E (x)	17.5	23.2	20.7	17.6	15.5
P/BV (x)	3.5	3.3	3.0	2.8	2.5
Net dividend yield (%)	2.6	2.6	2.2	2.6	2.9
ROAE (%)	21.4	14.6	15.2	16.4	17.0
ROAA (%)	8.5	6.0	6.5	7.4	7.9
EV/EBITDA (x)	13.0	11.6	15.7	14.8	14.4
Net gearing (%) (incl perps)	40.7	34.4	34.7	35.1	32.8
Consensus net profit	-	-	16,369	19,480	21,998
MKE vs. Consensus (%)	-	-	(1.3)	(2.1)	(1.8)

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Value Proposition

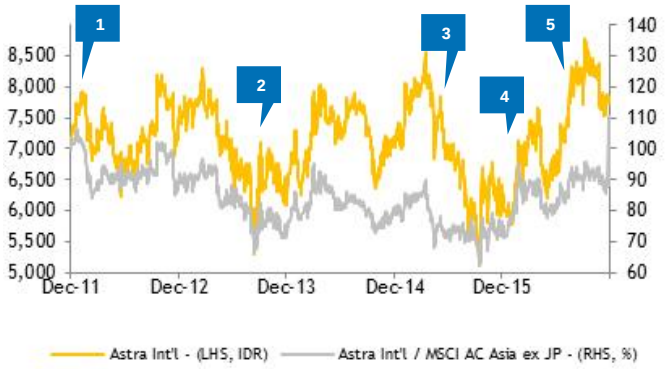
- § Astra owns the passenger distributorships of Toyota and Daihatsu, the largest auto franchises in Indonesia with extensive distribution chains.
- § Astra has aggregated ~50% market share for auto market.
- § The heavy equipment division has strong presence in both heavy equipment and contract mining 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: Gaikindo & Maybank KE

Price Drivers

Historical share price trend



Source: Bloomberg

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
5. Earnings recovery

Financial Metrics

- § Profitability to recover going forward at 14.8% CAGR (2015-17) on strong auto and financial services divisions. Product launches and margin improvements will be key drivers.
- § Auto-related segments to continue to be main earnings driver (~70% of earnings) but catalysts for commodity segment to come from currently strong coal / CPO prices.
- § Maintaining a robust balance sheet with continuously lower debt/capital ratio in the next 3 years at ~28.5%, 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.

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Maybank Kim Eng

Bank Rakyat Indonesia (BBRI IJ)

Higher ROEs than Peers

BUY

Share Price	IDR 11,675
12m Price Target	IDR 15,000 (+28%)
Previous Price Target	*IDR 15,000*

Valuation gap should narrow

We expect continued thick NIMs and stable asset quality from micro lending in 2017. This should support higher ROEs than peers, providing catalysts. The bank is also building up its buffer for NPL risks. Our IDR15,000 TP remains based on 2.2x FY17E P/BV vs. its 2.5x 10-year average as we take into account its ROE consolidation in 2017-18F.

NPL concerns overplayed

We think fears about potential kitchen-sinking by its incoming CEO in 2017 are overdone. Our simulation suggests that any jump in NPLs should only reach 70bps vs potential 100-130bp increases at BBNI (BUY; TP IDR7,000) and BMRI (SELL; TP IDR9,000). At that point, BBRI would still have the lowest NPLs among SOE peers. Its risk profile is lower owing to the 34% micro loans in its portfolio. These have NPLs of below 1.7% even during economic downturns. With coverage above 150%, we think BBRI should be able to absorb greater risks while keeping its end-2017 NPL ratio at 2.3%.

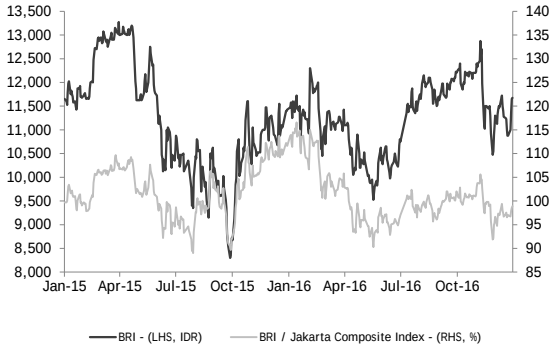
Highest ROE among SOEs

We take into account a potential 2ppt lower lending rate for the Kredit Usaha Rakyat or government-subsidised loan programme, to 7% for the customer portion in 2017. We also assume that the subsidy rate will stay at 10%. In this scenario, BBRI should still be able to book a 7.9% NIM, which we estimate can support 7.6% YoY EPS growth in FY17E and an 18% ROE. This compares well with a 13% average estimated for the other big SOE banks. Maintain BUY.

Statistics

52w high/low (IDR)	12,875/9,525
3m avg turnover (USDm)	19.7
Free float (%)	43.0
Issued shares (m)	24,669
Market capitalisation	IDR288.0T
	USD21.4B
Major shareholders:	
Government of Indonesia	57.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	7	(4)	2
Relative to index (%)	4	(3)	(11)

Source: FactSet

FYE Dec (IDR b)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	60,789	70,688	82,389	90,733	99,608
Pre-provision profit	34,084	39,403	44,865	47,541	50,999
Core net profit	24,242	25,398	25,772	27,723	30,303
Core EPS (IDR)	983	1,030	1,045	1,124	1,228
Core EPS growth (%)	13.6	4.8	1.5	7.6	9.3
Net DPS (IDR)	265	280	282	303	332
Core P/E (x)	11.9	11.3	11.2	10.4	9.5
P/BV (x)	3.0	2.6	2.0	1.7	1.5
Net dividend yield (%)	2.3	2.4	2.4	2.6	2.8
Book value (IDR)	3,955	4,574	5,952	6,739	7,599
ROAE (%)	27.4	24.1	19.8	17.7	17.1
ROAA (%)	3.4	3.0	2.8	2.7	2.7
Consensus net profit	-	-	25,507	27,648	30,717
MKE vs. Consensus (%)	-	-	1.0	0.3	(1.3)

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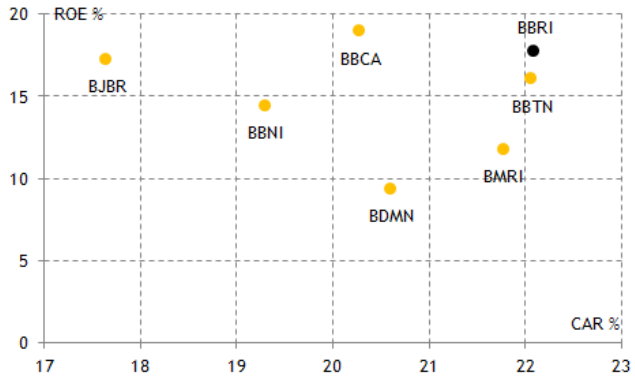
Banks

Indonesia

Value Proposition

- § BBRI has one of Indonesia's best consumer franchises. Being government owned, the bank is also in a good position to fund state-related projects.
- § BBRI has 15% consumer market share. Low consumer delinquency and high CASA allow the bank to translate its higher NIMs into a sustainable ROE of 18%, 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.

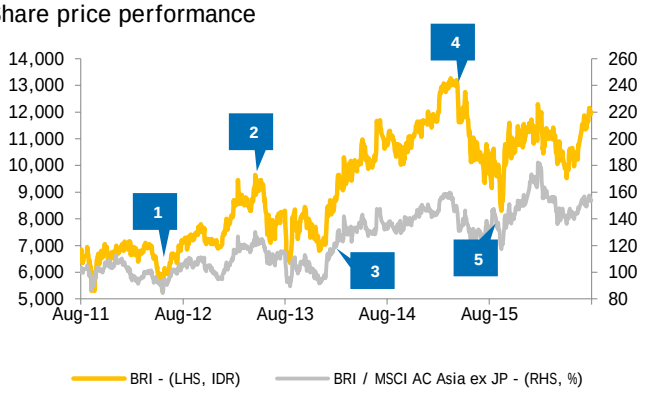
Indonesia banks ROE vs. CAR comparison



Source: Company

Price Drivers

Share price performance



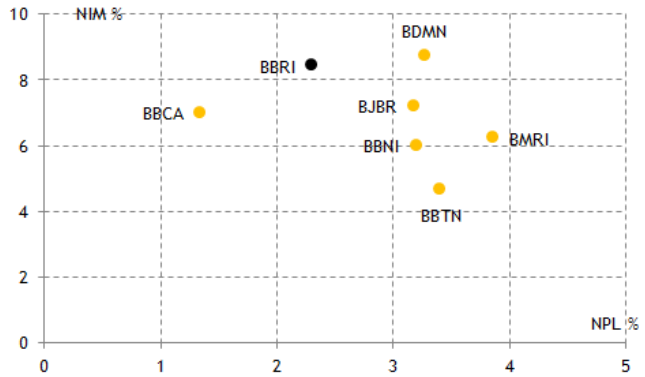
Source: Factset, Maybank Kim Eng

1. 2Q12 result showed a significant improvement in loan quality as NPL dropped below 2%.
2. Weakening IDR lead to NPL concerns.
3. NIM recovery as BBRI passed on the rising BI rate to borrowers.
4. Weak 1Q15 earnings due to high CoF, followed by NPL concerns 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 5.6%.
- § Efficiency is expected to improve following the launch of BBRI's satellite in 2H16.
- § NPLs should stay below 3% on improving credit origination standards. Lower exposure to more vulnerable corporate and SME segments.
- § These metrics and BBRI's prudent coverage allow the bank to maintain higher ROE compared to peers.

Indonesia banks NIM & NPL comparison



Source: Company

Swing Factors

Upside

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

Downside

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

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Maybank Kim Eng

Real Estate

Indonesia

Bumi Serpong Damai (BSDE IJ)

Best Positioned for 2017

BUY

Share Price	IDR 1,755
12m Price Target	IDR 2,500 (+42%)
Previous Price Target	*IDR 2,500*

Will achieve FY16 pre-sales target; Maintain BUY

In the midst of developers' disappointing FY16 pre-sales, we believe BSDE will still be able to meet the Street's FY16 pre-sales expectations. Going into FY17, we think BSDE will be able to weather the changing macro outlook through its high exposure to the low-mid segment. Additionally, we are looking at stronger earnings growth in FY17 on the back of the 19ha land sale to its JV with Mitsubishi. Reiterate BUY on BSDE as we remain positive on its outlook. Our TP of IDR2,500 is based on 30% disc. to RNAV, implying 2.0x P/BV FY17F, on par with its 5-yr mean.

Will continue to monetize its large land bank

BSDE announced a new JV with Mitsubishi to develop a mixed-use project (19ha in BSD City) that will start next year. BSDE will have a 40% stake in the project. This land plot sale is valued at IDR1.4t (21% of FY16 target), which will be booked as pre-sales this year and recognized as revenue next year. As of 9M16, BSDE still owned total land bank of c.4,100ha with the largest land bank located in BSD City (c.2,300ha).

Should remain highly profitable

Despite the disappointing revenue recognition in 9M16, BSDE managed to sustain its high gross margins and opex growth which helped to maintain its net margin at 27% (9M16). Opex in 9M16 grew 5% (YoY) mainly from efficiencies in its G&A expenses. We expect FY16 net margin of 30% (lowest since 2011) but expect a recovery in FY17 to 34%. Management continues to target having net margin above 30%.

Successful "Price Amnesty" sales event

BSDE saw MoM pre-sales improvement since Oct 2016 from its "Price Amnesty" sales program to promote its ready-to-sell inventories. These units are typically large size units (IDR3b-5b). Management said that they have booked ~IDR1t (15% of FY16 target) from the event. The pre-sales as per 11M16 is IDR5.2t (76% of FY16 target).

FYE Dec (IDR b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	5,572	6,210	5,921	7,649	8,312
EBITDA	2,783	3,098	2,898	3,918	4,271
Core net profit	3,820	2,139	1,786	2,607	2,922
Core EPS (IDR)	208	111	93	135	152
Core EPS growth (%)	35.2	(46.5)	(16.5)	46.0	12.1
Net DPS (IDR)	15	15	8	7	10
Core P/E (x)	8.4	15.8	18.9	13.0	11.6
P/BV (x)	2.1	1.8	1.6	1.5	1.3
Net dividend yield (%)	0.9	0.9	0.5	0.4	0.6
ROAE (%)	29.9	12.5	9.1	12.0	12.0
ROAA (%)	15.0	6.7	5.2	7.6	7.9
EV/EBITDA (x)	1.5	1.6	2.0	1.1	0.5
Net gearing (%) (incl perps)	6.4	7.4	28.9	19.4	9.0
Consensus net profit	-	-	1,856	2,287	2,604
MKE vs. Consensus (%)	-	-	(3.8)	14.0	12.2

Company Description

The company engages in the real estate development business. Its main project is the BSD City, which is one of the largest townships in Indonesia.

Statistics

52w high/low (IDR)	2,330/1,600
3m avg turnover (USDm)	3.3
Free float (%)	35.4
Issued shares (m)	19,247
Market capitalisation	IDR33.8T
	USD2.5B

Major shareholders:

PT Paraga Artamida	26.6%
PT Ekacentra Usahamaju	26.5%
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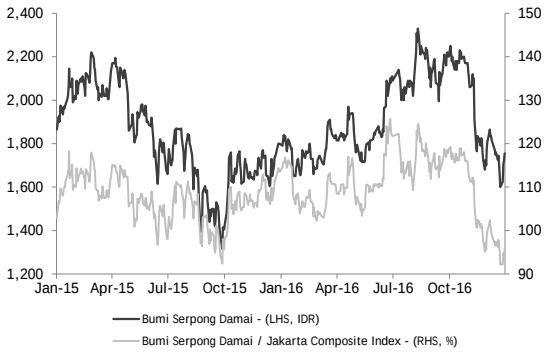
Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(20)	(3)
Relative to index (%)	0	(19)	(15)

Source: FactSet

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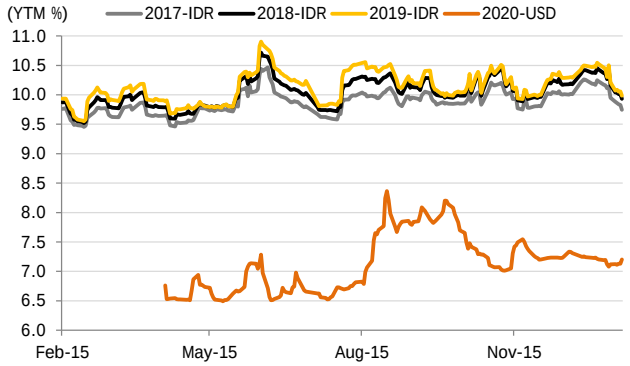
Value Proposition

- § Largest township developer. Its 5,000ha BSD City in prime suburban West Jakarta was acquired at low costs in the 1980s. Should be sufficient for more than 15 years.
- § Best positioned to benefit from property upcycle should interest rates be cut in FY16, thanks to exposure to mass market housing segment.
- § Large land bank allows for efficient township planning. Buyers are swayed by developers' commitment.
- § Plans to diversify outside BSD City.
- § Has a USD225m bond but WACC has been trending down. YTM of its three IDR debt securities is stable, affirming investors' confidence in its cash generation.

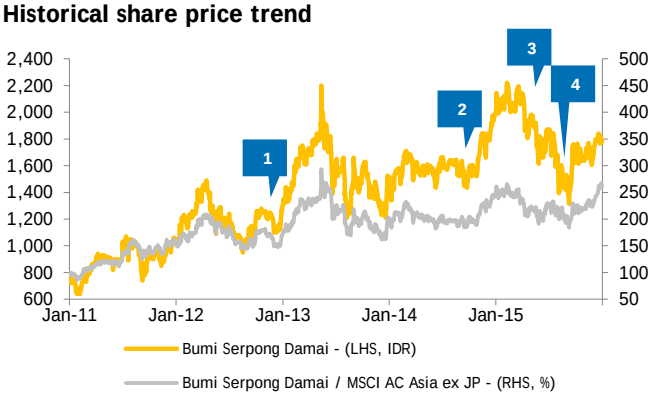
YTM of BSDE's debt securities



Source: Bloomberg

Price Drivers

Historical share price trend



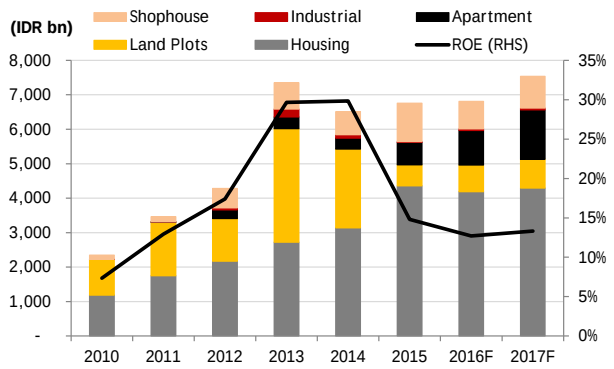
Source: Company, Maybank Kim Eng

1. Strong presales growth target in 2013.
2. Expectations of property-market recovery following weak presales in 2014.
3. Selling pressure from Feb 2015 following regulatory overhang in property sector.
4. Hopes of interest-rate cuts in early 2016.

Financial Metrics

- § Expect flat FY16 presales, before recovery in FY17. ASPs to grow 7-10%.
- § Given low land costs, high margins may be sustainable.
- § ROEs diluted by equity-raising in 2014-2015 for acquisitions. Leverage to be manageable after USD225m bond in 2015 for retail-mall construction in Jakarta.
- § Cash flow to be underpinned by progress payments for presales.
- § Slightly geared. Expect further deleveraging. Plans to hedge FX risks for USD bond.

Presales by property type and ROEs



Source: Company, Maybank KE

Swing Factors

Upside

- § Interest-rate cuts could stimulate property demand.
- § Better-than-expected property-development presales.
- § Acquisitions of strategic assets could boost NAV.

Downside

- § More regulatory noise on property sector.
- § FX risks from its USD225m bond. Sharp FX volatility may swing quarterly EPS.
- § Delayed recovery in property demand.

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Maybank Kim Eng

Construction

Indonesia

Pembangunan Perumahan (PTPP IJ)

Upside Potential

BUY

Share Price	IDR 3,810
12m Price Target	IDR 5,500 (+44%)
Previous Price Target	*IDR 5,228*

Top sector pick; BUY with IDR5,500 TP

PTPP's share-price overhang should be removed by its near-term completion of a IDR4.4t rights issue. It should be able to take on more projects with its stronger capital and possibly expand its pre-cast business to support public-housing projects. A bigger exposure to the power segment could further raise its chances of participating in a government 35GW project in the next five years. Maintain BUY and IDR5,500 TP, at its 3-year mean of 24x P/E.

2016 on track

PTPP should soon complete its rights issue. YTD new contracts of IDR29t are on track to meet our full-year target of IDR31t, up 16% YoY. What should differentiate 2016 from previous years is its smaller exposure of 20% to private-sector projects, down from 40-50% historically. As government projects account for only 9.3%, it appears that SOEs are playing a more significant role in the development of Indonesia's infrastructure.

Another record in 2017?

We expect FY17 order-book replenishment to break another record of IDR37t, up 17% YoY. Most of the new contracts should continue to stem from government-related projects. PTPP's recent investments as a minority shareholder in toll roads should underpin its order-book growth. It plans to increase its exposure to power plants as well with an aim of building 2 x 200MW capacity in Aceh worth IDR7.3t. We see upside potential as the second phase of the Kalibaru port is likely to be awarded in 2017. PTPP was the sole contractor in the first phase with a contract value of IDR11.7t. With the bulk of its equipment already on site, we wouldn't be surprised if it emerges as the lowest bidder.

Company Description

PTPP is one of the largest SOE contractors with a focus on high-rise building, civil works, and property investment.

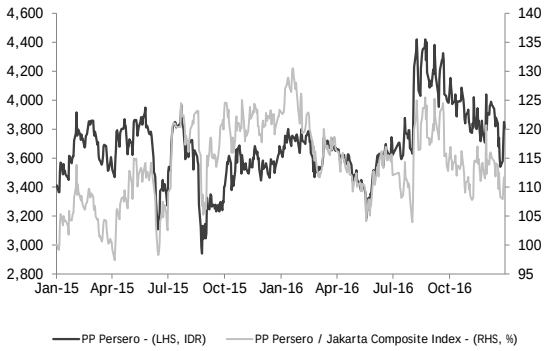
Statistics

52w high/low (IDR)	4,420/3,184
3m avg turnover (USDm)	2.8
Free float (%)	43.9
Issued shares (m)	4,842
Market capitalisation	IDR18.4T
	USD1.4B

Major shareholders:

Government of Indonesia	51.0%
Koperasi Karyawan Pemegang Saham	5.0%
na	na

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(4)	3
Relative to index (%)	(8)	(3)	(10)

Source: FactSet

FYE Dec (IDR b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	12,427	14,217	20,069	25,395	30,826
EBITDA	1,505	1,745	2,587	3,302	4,127
Core net profit	534	740	968	1,420	1,902
Core EPS (IDR)	110	153	195	229	307
Core EPS growth (%)	26.8	38.8	27.8	17.2	34.0
Net DPS (IDR)	32	23	45	47	69
Core P/E (x)	34.6	24.9	19.5	16.6	12.4
P/BV (x)	7.9	4.2	2.0	2.2	1.9
Net dividend yield (%)	0.8	0.6	1.2	1.2	1.8
ROAE (%)	24.7	22.0	13.9	14.1	16.7
ROAA (%)	4.0	4.4	4.1	4.6	5.2
EV/EBITDA (x)	11.2	10.8	5.9	5.9	4.4
Net gearing (%) (incl perps)	17.8	6.8	net cash	net cash	net cash
Consensus net profit	-	-	955	1,271	1,597
MKE vs. Consensus (%)	-	-	1.4	11.7	19.1

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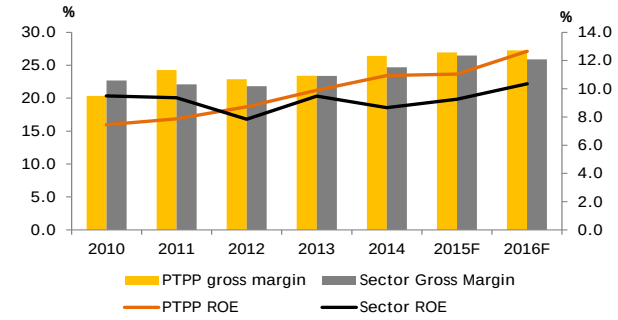
Value Proposition

§ Most efficient SOE contractor with highest return in the sector. PTPP has a strong foothold in high rise building, port development, and property investment.

§ Backlog suggests stable growth of above 20%, making PTPP the SOE contractor with the most sustainable earnings growth.

§ Early stages of a massive expansion into the property segment should raise ROIC. Property has higher gross margin of 30%-35% vs. 12% in construction.

PTPP gross margin & ROE vs. sector



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend

Source: Company, Maybank Kim Eng

1. Buoyant construction sector on spate of government infrastructure projects.
2. Structural reform in which government shifted from fuel subsidy to higher infrastructure budget.
3. PP property was listed with PTPP announcing greater focus in the property segment.
4. Share price has moved sideways as the market awaits greater clarity on government capital injection

Financial Metrics

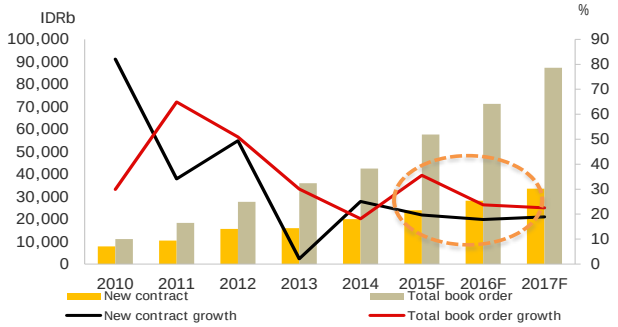
§ Contribution from the property sector will gradually increase from 5% to 15% by 2017. Profit margin should expand from the current 13% to 13.5% in 2016F-2017F.

§ Construction projects will be mostly driven by PTPP's strong exposure to the private segment and SOE infrastructure projects.

§ Higher order book to revenue indicates potential to grow faster than the sector. Expect revenue CAGR of 28% for 2016F-2017F.

§ Healthy capital and should be sufficient to support working capital requirement for future projects.

Backlog project



Source: Company, Maybank Kim Eng

Swing Factors

Upside

§ Higher than expected contribution from higher margin property segment.

§ Secure higher than expected job awards for power plants.

§ Approval of government capital injection from parliament.

Downside

§ Failure to secure new projects, should competitors bid aggressively to generate recurring income.

§ Longer than expected slowdown in the development of high rise buildings.

§ Potential impairment provision from the slowdown in the property sector in 2015, as PTPP has the highest exposure to the private segment.

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Maybank Kim Eng

Consumer Discretionary

Indonesia

Ramayana Lestari (RALS IJ)

Positive Outlook Ahead

BUY

Share Price	IDR 1,195
12m Price Target	IDR 2,000 (+67%)
Previous Price Target	*IDR 2,000*

Maintain BUY with TP of IDR2,000

We maintain BUY on RALS with TP of IDR2,000, based on 24x P/E FY18E or +1SD above 3Y mean. We believe the continuous revamping of its fashion and supermarket businesses is likely to lead to consistent solid performance in the medium term and drive re-rating.

Transformation for stronger growth

We expect the transformation in the fashion and supermarket businesses to lead to stronger earnings growth for RALS. For FY15-18E, we forecast earnings CAGR of 20% vs. -8% over 2012-15, supported by better operational leverage along with stronger sales growth and higher margins from change in business mix for both the fashion and supermarket businesses as well as lower shrinkage for its supermarket.

Better merchandising for fashion

As per 9M16, direct purchase outperformed with 12.5% YoY sales growth vs 4.1% YoY for consignment and 1% YoY for supermarket. Direct purchase generates 39.1% 12M rolling GPM vs 37.7% as per September last year. We believe the new merchandising & marketing strategy and exclusivity to several items have helped RALS gain greater consumer traction and improved its basket size. We see further upside to sales growth potential for its fashion business on continuous improvements in merchandising, store layout, visual merchandising, and customer service going forward.

Supermarket revamp on track

As per Oct 2016, RALS has 20 supermarkets in SPAR format (out of 95 to be converted). Supermarket was operating at IDR48b loss as per 9M16 vs. IDR97b loss in 9M15. With the completion of a new distribution centre in the next 12-18 months, we see better fresh-food offerings, which may lead to better growth and margins for the segment.

Company Description

Ramayana Lestari Sentosa operates and manages department stores and supermarkets.

Statistics

52w high/low (IDR)	1,370/555
3m avg turnover (USDm)	0.8
Free float (%)	40.4
Issued shares (m)	7,096
Market capitalisation	IDR8.5T
	USD629M

Major shareholders:

PT Ramayana Makmur Sentosa	55.9%
Paulus Tumewu	3.7%
na	na

Price Performance

	-1M	-3M	-12M
Absolute (%)	0	9	85
Relative to index (%)	(2)	10	61

Source: FactSet

FYE Dec (IDR b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	7,942	7,786	8,452	9,528	10,744
EBITDA	753	579	686	834	972
Core net profit	355	336	406	501	586
Core EPS (IDR)	50	47	57	71	83
Core EPS growth (%)	(9.1)	(5.4)	20.9	23.4	16.9
Net DPS (IDR)	23	22	27	33	39
Core P/E (x)	23.9	25.2	20.9	16.9	14.5
P/BV (x)	2.5	2.5	2.4	2.2	2.0
Net dividend yield (%)	1.9	1.9	2.2	2.8	3.2
ROAE (%)	10.8	10.0	11.8	13.6	14.7
ROAA (%)	7.9	7.4	8.6	9.9	10.6
EV/EBITDA (x)	5.2	4.7	9.4	7.7	6.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	399	457	504
MKE vs. Consensus (%)	-	-	1.8	9.7	16.3

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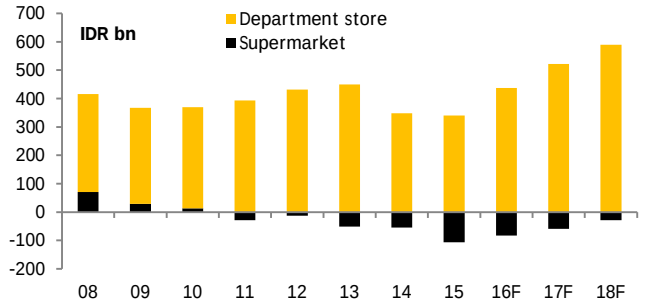
Value Proposition

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

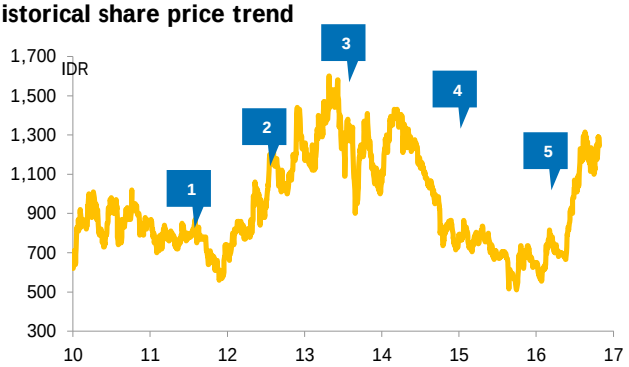
RALS EBIT breakdown



Source: Company, Maybank KE

Price Drivers

Historical share price trend



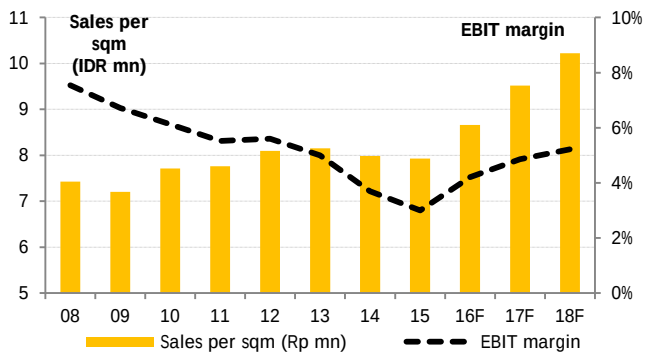
Source: Bloomberg, Company, Maybank Kim Eng

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

Financial Metrics

- Revenue to grow 9-13% over FY16-17F on 0-5% larger sales area and 9-10% yield increase, supported by consumption recovery and supermarket restructuring initiatives.
- Department store to remain as sole profit contributor in FY16-17F. Supermarket to breakeven by FY19F.
- Converted 15 supermarkets (vs. 95 to be converted) in 2015. Plans to convert another 35 stores over 2016-17F, leading to significant improvement in growth and margins.
- Forecast 30-52% EBIT growth over 2016-17F.
- Likely to remain debt free. RALS has higher asset base than peers as it owns ~25-30% of the sales area.

Yield improvement may lead to better profitability



Source: Company, Maybank KE

Swing Factors

Upside

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

Downside

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

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MYR
OIL
CONSTRUCTION
TOURISM
CONSUMPTION

Maybank Kim Eng

STRATEGY

Malaysia

Malaysia: Six-for-17

Cautiously Constructive

Mild pick-up in growth

We expect a mild pick-up in Malaysia's macro growth (2017E real GDP: +4.4%, 2016E: +4.2%), on sustained consumer spending growth, stronger growth in investments and rebound in government consumption. The wild card is external trade due to the risk on US-China trade relation, although the rise in crude oil price and firming of commodity prices will provide some buffer. MYR will stay volatile but the downside is mitigated by BNM measures to stabilise the MYR and the rise in crude oil price.

Positives amid the external headwinds

(i) A major pressure point has eased; OPEC-led's deal to cut oil output will sustain higher oil prices and ease the pressure on the government's P&L and MYR; (ii) Tourist arrival growth looks set to continue; positive in driving private consumption amid weakness still in domestic sentiment due to rising cost of living; (iii) Bilateral ties with China remain strong; positive for trade and investments; (iv) PLC earnings downtrend have tapered, signalling potential resumption of growth; (v) An early 14GE could lift sentiment and spur spending, benefiting many sectors.

1,750 end-2017 KLCI target (mean)

Regionally, the KLCI is no longer the "most expensive by a huge valuation premium" after closing its PER gap with its peers. Rather, we think the external view on Malaysia equities in 2017 will be very much a view on the MYR too. While our house view remains of an undervalued currency, the MYR remains vulnerable to capital flows, driving its volatility. We still think that an early 14GE would lift sentiment which will be positive for equities; it has the potential of bringing forward our YE KLCI target.

Positioning in 2017

We continue to maintain a defensive core equity portfolio. Within the defensives, we still OVERWEIGHT Utilities and REITs. We also retain Construction and Aviation as OVERWEIGHT; UNDERWEIGHT Cement and Property. At Oil & Gas Services, we see risk-reward outlook improving and believe the sector has seen its bottom; this underpins our contrarian lift of the sector (on 19 Dec 2016) to a tactical OVERWEIGHT. We maintain our NEUTRAL call on the other sectors, with bottom-up stock picking to be the driver for overall equities outperformance in 2017.

Thematic investing

(i) Construction plays, the added angle being new major infrastructure projects relating to China's OBOR initiative (eg ECRL, Kuantan Port, Melaka Gateway and even KL-SG HSR); (ii) Higher tourist arrivals with 2017 being Visit ASEAN@50 Year and as Malaysia hosts the 2017 SEA and Para ASEAN Games; (iii) FX (USDMYR, JPYMYR) proxies; (iv) Oil price proxies; (v) Small-mid caps; (vi) General election plays.

Top 6 BUYs for Seventeen

Our top BUY list takes a cue from our weights for the sectors (Tenaga, Gamuda), expected thematics (GENM, MAHB), values (Inari, RCE).

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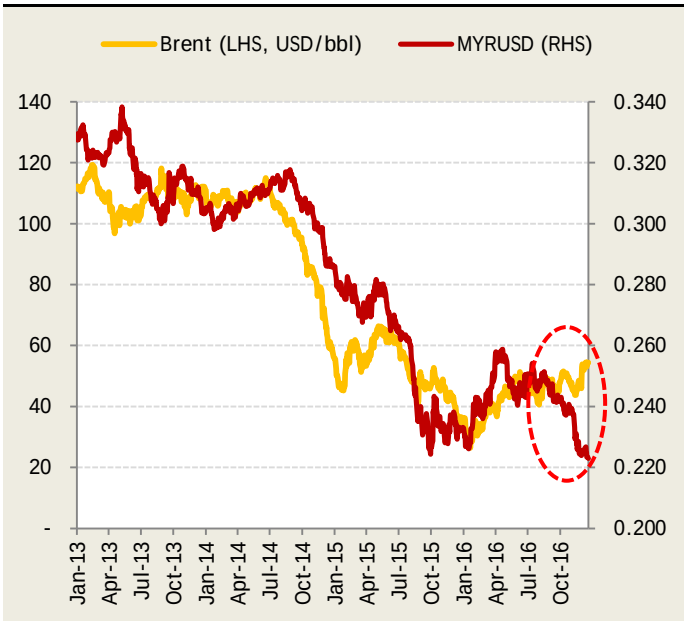
6 Links You Need to Know

Chart 1: MYR vs. crude oil price

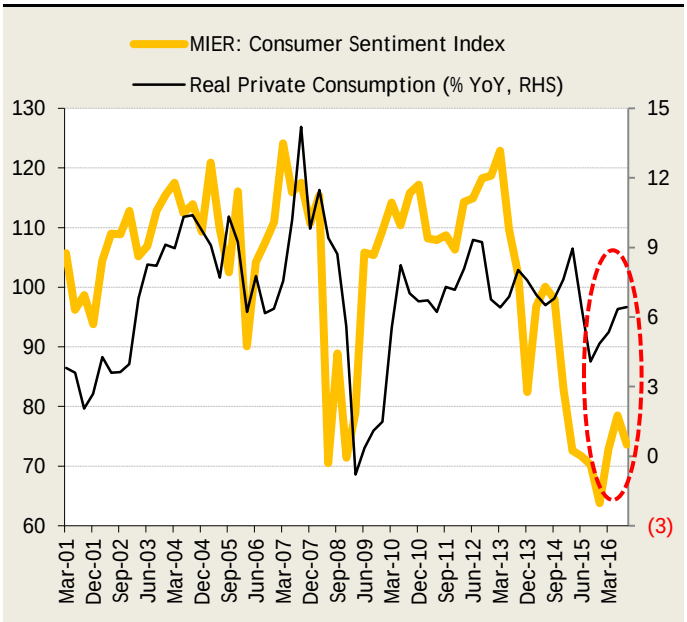
Divergence of correlation



Source: Bloomberg (data), Maybank KE (chart)

Chart 2: Real private consumption vs. consumer sentiment

Consumption growth continues amid weak consumer sentiment



Source: Department of Statistics, MIER, Maybank KE (chart)

MYR vs CPO

MYRUSD weakness since Sep 2014 was highly correlated with global crude oil price fall, on concern over the impact to government's oil-related revenue and hence budget deficit. However, the contribution of oil-related revenue to the government's coffers has fallen from 31.2% in 2013 to 14.6% in 2016E. GST implementation in Apr 2015 has helped to diversify the government's revenue base.

MYRUSD's Nov 2016 weakness and its divergence from crude oil price direction highlight the influence of "speculative" offshore MYRUSD NDF on onshore spot rate. BNM's measures effective 5 Dec 2016 to promote onshore FX hedging as alternative to offshore FX hedging via the NDF market, and the repatriation of export earnings, are aimed to stabilise the MYR, boost external reserves. That said, the MYR remains vulnerable to capital flows, driving its volatility in Dec 2016 and into 2017.

OPEC-led's deal to cut oil production by a total 1.76m bpd starting Jan 2017, if all parties deliver on their commitments, should be supportive to the MYR and broad sentiment. To note, every USD1/bbl rise in full-year average crude oil price boosts the government's oil-related revenue by MYR400m. Our house view remains for firmer oil prices in 2017. We forecast average USD55/bbl in 2017 vs. USD44/bbl in 2016 (dated Brent).

Real private consumption vs. consumer sentiment

Despite weak consumer sentiment (MIER's Consumer Sentiment Index [CSI] has stayed at <100 since 1Q15, just before the GST implementation in Apr 2015, with 3Q16 index having weakened again QoQ by 4.9pts to 73.6), real private consumption growth has been sustaining its uptrend since 4Q15 as the GST effect diminished (9M16: +6.0% YoY).

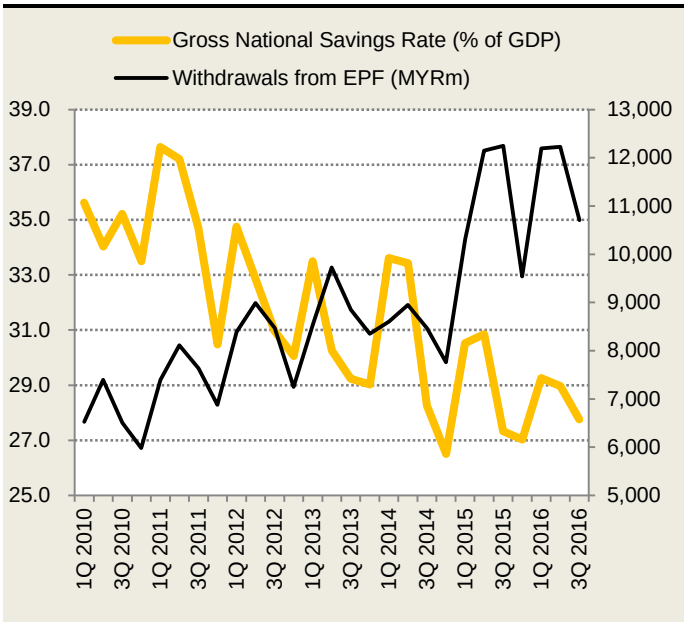
Measures to boost disposable income have supported private consumption growth, with the effect to roll into 2017: (i) increase in the targeted cash handouts or BR1M, (ii) 3ppts cut in workers' contribution to the EPF for the period Mar 2016 to Dec 2017, (iii) 2017's full-year impact of Jul 2016's minimum wage hike and revision in civil service remuneration package, (iv) higher/additional personal income tax reliefs in 2016-2017.

Also, recovery in tourist arrivals (8M16: +3.8%, 2015: -6.3%) has helped, with tourist arrivals expected to rise in 2017, especially with events like Visit ASEAN@50 Year and Malaysia playing host to the 2017 SEA Games and Para-ASEAN Games. Spending by foreign visitors to Malaysia accounts for 12% of GDP.

We expect real private consumption growth to sustain at +5.9% YoY in 2017 (2016E: +6.1%), supporting our real GDP growth forecast of +4.4% for 2017 (2016E: +4.2%), alongside stronger growth in investments and rebound in government consumption. Domestic demand contributes about 92% to total GDP, of which 54% comes from private consumption alone (12% from public consumption and 26% from investments).

Chart 3: Gross Savings Rate & EPF withdrawals

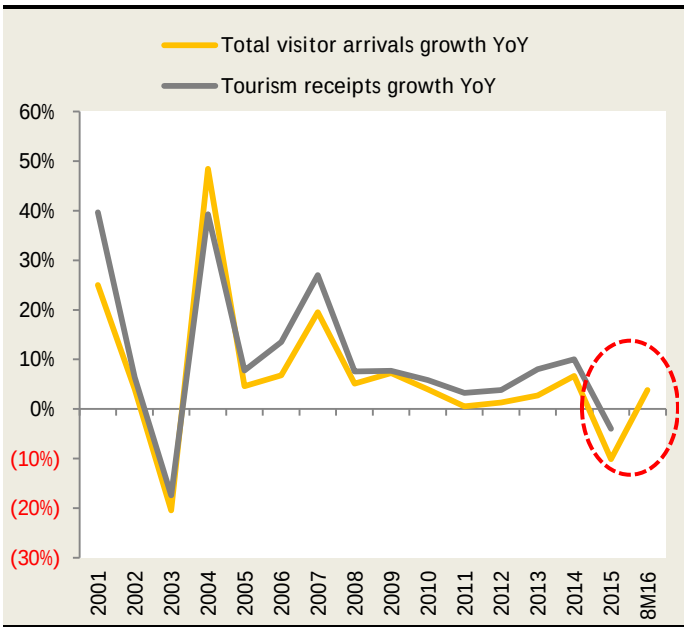
The umbrella opens up in rainy days...



Source: Bank Negara, EPF, Maybank KE

Chart 4: Tourist arrivals vs consumption

Primed for an upcycle



Source: Tourism Malaysia, Maybank KE

Gross Savings Rate & EPF withdrawals

The faster-than-expected recovery in post-GST consumer spending (continuing on from chart 2) is also due to "dis-savings" by individuals, besides the measures to boost consumers' disposable income.

Gross national savings rate has consistently run below 30% of GDP since 3Q15 until the latest data for 3Q16, compared with the long-term pre-GST average of 35%.

The decline in savings rate coincided with elevated level of withdrawals from the Employees Provident Fund (EPF), averaging over MYR11b per quarter since 1Q15 compared with the MYR6b-MYR9b range per quarter in the preceding five years.

Malaysia's population is not yet ageing to explain for the surge in EPF withdrawals i.e. only 6% of total population is in the 65 years and above age group.

The "dis-savings" trend is also consistent with weak consumer sentiment as people have to make tap onto their savings, indicating income growth that is not commensurate with rising cost of living.

Tourist arrivals vs consumption

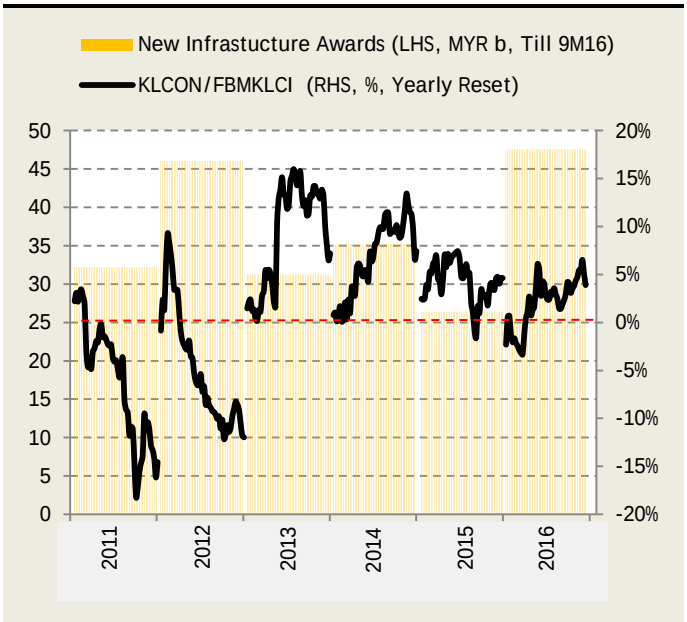
Tourist arrivals recovered 3.8% YoY in 8M16 (2015: -6.3% YoY). Arrivals from Thailand and China jumped 34.8% YoY and 26.3% YoY during the same period, with August being a record month in terms of arrivals from China with 218k pax. The robust growth in arrivals from China was due to Malaysia offering 15-days visa free and e-visas to Chinese tourists from Mar 2016.

Promotional efforts are ongoing by the government including extending e-visas to more nationalities. These are supported by the airlines with new routes and chartered flights especially from China. Budget 2017 targets an even higher 32m tourists (+5% YoY) for 2017 being Visit ASEAN@50 Year, and as Malaysia plays host to the 2017 SEA Games and Para-ASEAN Games. The higher arrivals should translate into higher tourism receipts.

PLCs offering a direct exposure to higher tourism activities are MAHB (MAHB MK; BUY), AirAsia (AIRA MK; BUY), AirAsia X (AAX MK; HOLD), GENM (GENM MK; BUY), Atlan (ALM MK; Not Rated), Only World Group (OWG MK; Not Rated), Shangri-la (SHMB MK; Not Rated) and Landmarks (LMK MK; Not Rated). Also, M-REITs with hotels and/or shopping mall assets like PavREIT (PREIT MK; HOLD), KLCCP (KLCCSS MK; BUY), IGB REIT (IGBREIT MK; BUY), Sunway REIT (SREIT MK; HOLD), CMMT (CMMT MK; HOLD), Al-Salam REIT (SALAM MK; BUY) could see a rise in hotel occupancy rates, shopper traffic, mall tenant sales. GENM and MAHB are our top BUY picks under the tourism thematic.

Chart 5: KLCON's relative performance vs construction wins

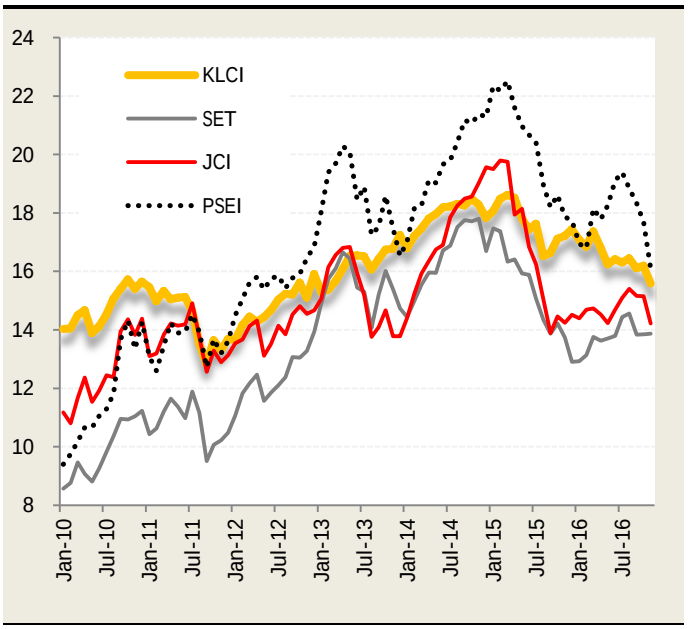
Strong jobs momentum to continue



Source: Bloomberg, Construction Industry Development Board, press articles

Chart 6: KLCI's 1Y forward PER vs. ASEAN EM peers

KLCI's valuation premium has about halved



Source: Bloomberg (data), Maybank KE (analysis, chart)

KLCON's relative perf. vs construction wins

The KLCON Index has outperformed the KLCI for the 4th consecutive year in 2016, led by sustained strong construction job awards, particularly infrastructure related. The total value of new infrastructure work awards has climbed to a new high of MYR47b in 9M16, driven by the KVMRT2, Pan Borneo Sarawak, DASH and SUKE jobs, vs. a previous high of MYR46b in 2012.

Into 2017, several major infrastructure projects will see awards – KVLRT 3 (e.MYR9b), Gemas-JB double track rail (e.MYR7b), Pan Borneo Sabah (e.MYR13b), and the balance of KVMRT 2 (e.MYR5b), Pan Borneo Sarawak (e.MYR6b) works. International tender for the 350km KL-SG HSR (e.MYR60b) will start end-2017 while tenders for the 620km East Coast Rail Line (e.MYR55b) sub-contracting will likely be ongoing throughout 2017.

We remain positive on the construction sector and expect another year of outperformance in 2017. We think Gamuda (GAM MK; BUY) will remain the biggest direct beneficiary of the mega infrastructure projects; the other beneficiaries are IJM (IJM MK; BUY), Sunway Construction (SCGB MK; BUY) and WCT (WCTHG MK; HOLD). As construction of the Pan Borneo Sarawak gathers momentum, CMS (CMS MK; BUY) will benefit being the largest building material supplier in Sarawak. Our top BUY in the sector is Gamuda.

KLCI's 1Y forward PER vs. ASEAN EM peers

The KLCI has underperformed for the 3rd consecutive year. Since end-2013, the KLCI has retraced -12.7% (and -13.9% from its 1,893 record high on 8 Jul 2014), driven by foreign selling. Cumulative foreign net buy since early-2010/post-GFC has tapered to just MYR4.3b as at 14 Dec 2016 vs. a high of MYR49.2b end-May 2013.

Consequently, the KLCI's 1Y forward PER valuation premium over its ASEAN EM peers have narrowed considerably. From 3.3x above the JCI, 5.1x above SET and 4.6x above PSEi in early-2010, the gaps have closed to just 1.3x above the JCI and 1.8x above SET, and reversed to -0.5x below PSEi on 14 Dec 2016. Regionally, the argument that the KLCI is the "most expensive by a huge valuation premium", no longer holds.

At 16.0x 1Y forward PER end-2016, the KLCI's valuation has reverted closer to its mean of 15.8x since 2001 (1SD: 1.8x). Positive triggers include the resumption of earnings growth after three years of flattish growth (we project +7.3% KLCI core earnings growth in 2017), firmer crude oil prices and a stable MYR. An early 14th general election (not due till Jun 2018) could also lift the KLCI, based on historical observations.

Maybank Kim Eng

Utilities

Malaysia

Tenaga Nasional (TNB MK)

Still the bellwether

BUY

Share Price	MYR 13.90
12m Price Target	MYR 16.40 (+18%)
Previous Price Target	*MYR 16.40*

Compellingly valued

Tenaga continues to be among our top picks for the market, given its compelling valuation (c.10.5x PER) and stable earnings profile. Regulatory developments would likely hog the limelight for Tenaga in 2017, but unlikely to adversely impact Tenaga's profitability in our view. Upside in dividend payouts (we impute 30% of normalised net profit vs Tenaga's target of 30%-50%) is a catalyst. Reiterate BUY with a MYR16.40 TP, based on a DCF assuming 7.5% WACC and 1% long-term growth.

Regulatory developments come to the fore

The first regulatory period of the IBR tariff framework ends in Dec 2017. The regulator would have to review and validate a new set of input assumptions to determine base tariffs for the second regulatory period (Jan 2018 to Dec 2020). The key parameter would be the regulatory WACC (now 7.5%), although the impact to Tenaga's profitability from any reduction could theoretically be offset by the still-rising asset base.

Possible reduction in 2H17 tariff rebate

Coal prices (Newcastle active contract) have retreated back to USD80+/t after recently climbing above USD100/t. Nevertheless, this remains c.30% above Tenaga's MYR-denominated reference price. At the current fuel price run-rate and taking into account 1H17's unchanged tariff rebate, we estimate the regulator would have limited buffer remaining for 2H17. We expect tariff rebate to be reduced or removed for 2H17.

Possible risks

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. Separately, while remote, there remains a possibility of Tenaga's profitability (in the second regulatory period) being adversely impacted from a change in input assumptions.

FYE Aug (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	43,287	44,532	48,471	49,810	51,219
EBITDA	13,922	14,794	15,567	15,927	16,319
Core net profit	7,051	7,726	7,550	7,666	7,652
Core EPS (sen)	124.9	136.9	133.8	135.8	135.6
Core EPS growth (%)	29.9	9.6	(2.3)	1.5	(0.2)
Net DPS (sen)	29.0	32.0	40.1	40.7	40.7
Core P/E (x)	11.1	10.2	10.4	10.2	10.3
P/BV (x)	1.7	1.5	1.4	1.2	1.1
Net dividend yield (%)	2.1	2.3	2.9	2.9	2.9
ROAE (%)	13.5	14.8	13.7	12.7	11.6
ROAA (%)	6.2	6.2	5.6	5.5	5.3
EV/EBITDA (x)	5.7	6.8	6.3	6.0	5.7
Net gearing (%) (incl perps)	33.3	32.6	33.7	27.8	20.6
Consensus net profit	-	-	7,497	7,581	7,653
MKE vs. Consensus (%)	-	-	0.7	1.1	(0.0)

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Company Description

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

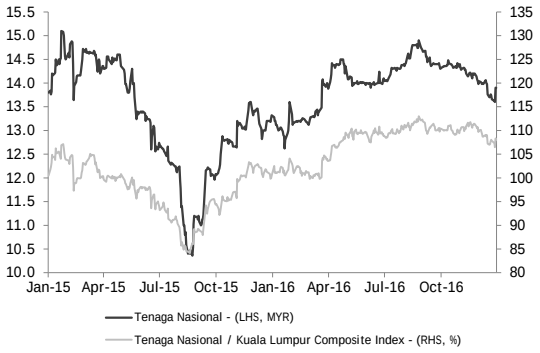
Statistics

Shariah status	Yes
52w high/low (MYR)	14.90/12.62
3m avg turnover (USDm)	39.6
Free float (%)	99.6
Issued shares (m)	5,652
Market capitalisation	MYR78.6B
	USD17.5B

Major shareholders:

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

Price Performance



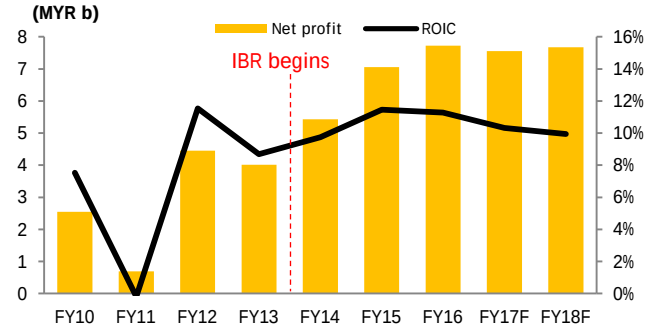
	-1M	-3M	-12M
Absolute (%)	(1)	(3)	5
Relative to index (%)	(2)	(2)	8

Source: FactSet

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 means Tenaga will likely retain a dominant position.

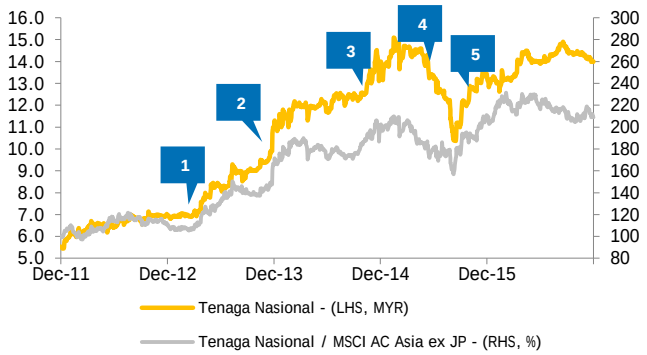
Net profit and ROIC



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



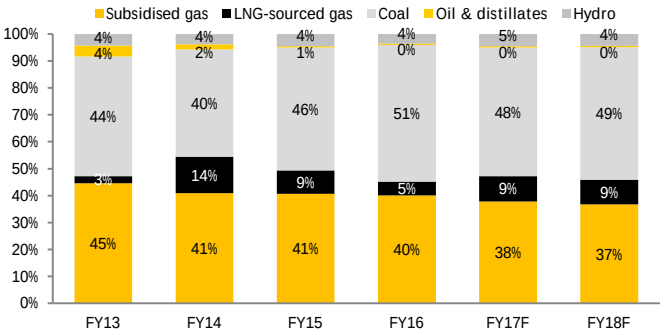
Source: Company, Maybank Kim Eng

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 movements in demand mix.
- § Another pertinent driver is 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 generation mix



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- § The fuel cost pass-through mechanism becomes fully automatic, with tariffs no longer subjected to Cabinet approval.
- § The resolution of a MYR2b tax dispute in Tenaga's favour.

Downside

- § Evidence that the fuel cost pass-through mechanism is no longer functional.
- § Emergence of doubts over the effectiveness of the pass-through mechanism.
- § Adverse regulatory developments, such as the introduction of windfall taxes.

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Maybank Kim Eng

Gaming

Malaysia

Genting Malaysia (GENM MK)

It is show time!

BUY

Share Price	MYR 4.58
12m Price Target	MYR 5.35 (+17%)
Previous Price Target	*MYR 5.35*

Rate GENM at BUY with MYR5.35 SOP-based TP

The Genting Integrated Tourism Plan (GITP) will herald long term secular growth for Resorts World Genting (RWG). RWG contributes ~80% to group EBITDA. Thanks to the GITP, we forecast robust FY16E-FY18E EBITDA CAGR of 17% p.a.. The share prices of Asian gaming operators since 2009 reveal that share prices appreciate pre-opening of new properties in 82% of instances. On that premise, we are confident GENM's share price will appreciate pre-opening of key GITP properties in 1Q17.

GITP to bear fruits starting 1Q17

The GITP will not only rejuvenate but also expand RWG. The Sky Avenue mall partially opened in Dec 2016 and will ramp up operations in 2017. Furthermore, Sky Plaza will open in 1Q17. We understand that Sky Avenue and Sky Plaza have been fully tenanted at premium rental rates of ~MYR20 psf. Although GENM does not own Genting Highlands Premium Outlet (50% owned by Genting Plantations), we believe that it will drive visitor arrivals growth to RWG too, when it opens in 1Q17.

Gaming to receive multiple catalysts

We also expect gaming activity at RWG to receive a significant boost from FY17 onwards due to data-mining efforts by the Rainmaker Group and more domestic visitor arrivals due to the weak MYR. Furthermore, Mainland Chinese visitor arrivals to Malaysia are at record highs (8M16: +26% YoY). They are known the world over to be avid gamblers. There is also a residential construction boom within 15 minutes' drive from RWG that will accommodate more visitors and by extension, gamblers.

Risks are present but manageable

Key risks are (i) weaker than expected average spend per visitor at RWG, (ii) capital controls in China impairing the ability of Chinese VIPs to repay debts at GENUK, (iii) USD274m invested in First Light Resort & Casino promissory notes may not be repaid if the property remains unbuilt. The first risk can be managed by attracting more visitors to RWG with the GITP properties to moderate less average spend per visitor. The second risk can be managed by extending less credit to Chinese VIPs.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	8,229	8,396	8,941	9,978	11,572
EBITDA	2,248	2,016	2,405	2,811	3,312
Core net profit	1,358	1,158	1,490	1,712	2,095
Core FDEPS (sen)	23.9	20.4	26.2	30.1	36.9
Core FDEPS growth(%)	(20.8)	(14.8)	28.5	14.9	22.3
Net DPS (sen)	6.5	7.1	8.5	9.9	11.7
Core FD P/E (x)	19.1	22.4	17.5	15.2	12.4
P/BV (x)	1.6	1.4	1.3	1.2	1.1
Net dividend yield (%)	1.4	1.6	1.8	2.2	2.5
ROAE (%)	7.5	7.1	14.0	8.3	9.5
ROAA (%)	6.7	4.8	5.4	6.1	7.3
EV/EBITDA (x)	9.7	12.3	10.3	8.8	7.3
Net gearing (%) (incl perps)	net cash	0.1	net cash	net cash	net cash
Consensus net profit	-	-	1,456	1,724	1,967
MKE vs. Consensus (%)	-	-	88.2	(0.7)	6.5

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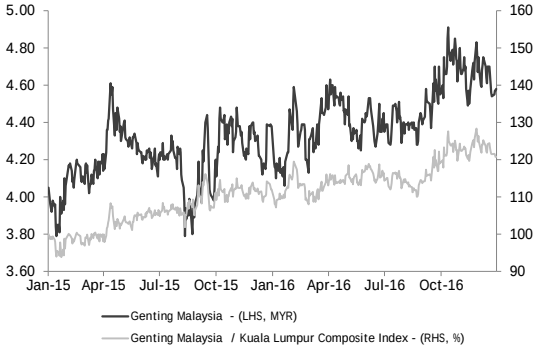
Statistics

52w high/low (MYR)	4.91/4.06
3m avg turnover (USDm)	5.2
Free float (%)	48.4
Issued shares (m)	5,938
Market capitalisation	MYR27.2B
	USD6.1B

Major shareholders:

Genting Bhd.	47.1%
Genting Malaysia Bhd.	4.5%
International Value Advisers LLC	4.1%

Price Performance



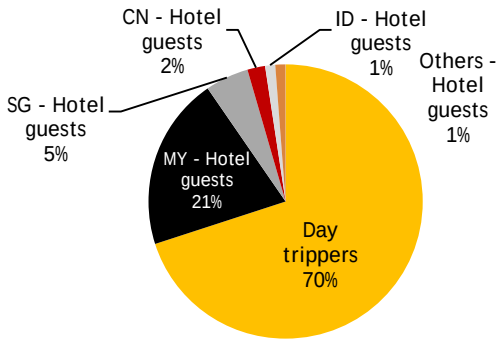
	-1M	-3M	-12M
Absolute (%)	(2)	1	5
Relative to index (%)	(3)	1	8

Source: FactSet

Value Proposition

- § Owns and operates Resorts World Genting (RWG), Msia's only integrated resort. Also owns Genting UK (GENUK), Resorts World NY City and Resorts World Bimini (RWB).
- § RWG is ~80% of group earnings and resilient. RWG is expanding via the Genting Integrated Tourism Plan (GITP).
- § GITP involves 1,536 hotel rooms, 20th Century Fox World, indoor theme park, mall, plaza and new cable car line.
- § ROEs fell to <10% after 2013, dragged by start-up losses at RWB. Rationalising RWB operations to improve ROEs.
- § ROE<WACC but should inch higher due to the GITP and rationalised RWB operations.

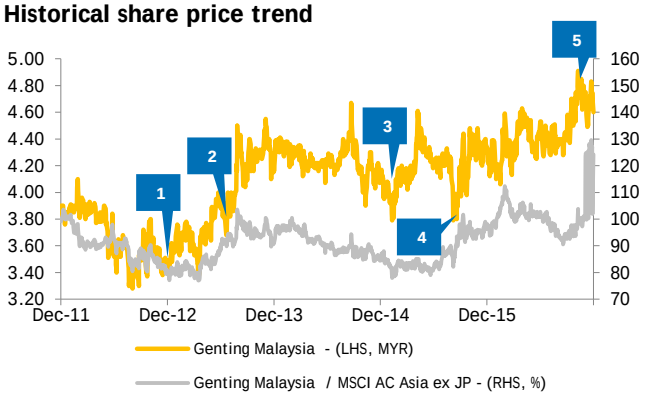
2015 RWG visitor arrivals breakdown



Source: Company

Price Drivers

Historical share price trend



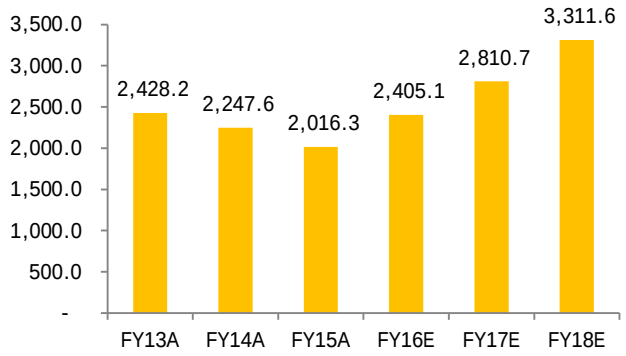
Source: Company, Maybank Kim Eng

1. Announced plans to revamp Outdoor Theme Park into 20th Century Fox World as part of the MYR5b GITP.
2. Bimini Superfast and Resorts World Bimini, both in the Bahamas, opened.
3. Failed to secure an upstate New York casino license despite submitting two bids.
4. 2Q15 results were below expectations due to low VIP hold rate and bad debts at GENUK.
5. Investor enthused by opening of new properties at RWG, driven by the GITP.

Financial Metrics

- § Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- § Forecast FY16E EBITDA to grow 19% YoY on normalising VIP hold rate and bad debts at GENUK and RWG expansion.
- § Forecast FY17E EBITDA to grow 17% on continued RWG expansion.
- § Forecast FY18E EBITDA to grow another 18% on continued RWG expansion.
- § Largest capex is budgeted for the GITP at MYR10.4b, of which ~MYR3b has been invested.
- § That said, expect balance sheet to be net cash/marginally net debt due to OCF of >MYR2b p.a..

EBITDA (MYRm)



Source: Company, Maybank KE

Swing Factors

Upside

- § VIP volume and hold rate – tend to be volatile especially at GENUK and can influence GENM 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.

Downside

- § VIP volume and hold rate – tend to be volatile especially at GENUK and can influence GENM earnings.
- § Bad debts – Chinese account for the majority of GENUK's VIPs but gambling debts are not enforceable in China.
- § Regional expansion – new jurisdictions often require high capex commitments without guaranteeing returns.

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Maybank Kim Eng

Construction

Malaysia

Gamuda (GAM MK)

Construction bellwether

BUY

Share Price	MYR 4.78
12m Price Target	MYR 5.55 (+16%)
Previous Price Target	*MYR 5.55*

Reiterate as sector's top big-cap BUY

Gamuda's record high outstanding orderbook will support earnings growth resuming in FY17. Not resting on its laurels, Gamuda continues to eye for new job wins from KVLRT 3, Gemas-JB double track rail, and Pan Borneo Sabah in 2017, to add onto its existing KVMRT 2 and PTMP where it has PDP role. We remain positive and reiterate the stock as the sector's top big-cap BUY with an unchanged RNAV-based TP of MYR5.55.

Record high orderbook to spur earnings growth

Gamuda has enjoyed a good year in FY16 with a construction orderbook replenishment of MYR8.7b consisting of the KVMRT 2 underground works (MYR7.7b) and Pan Borneo Sarawak (MYR1b), bringing its outstanding orderbook to a new high of MYR8.9b. With works on KVMRT 2 and Pan Borneo Sarawak beginning to take off, we do expect earnings growth to resume in FY17 as works recognition accelerate. Gamuda also maintained its property presales target of MYR2.1b for FY17 (FY16: MYR2.1b) on the back of 1) higher sales from Gem Residences in Singapore and 2) maiden launches of Kundang, Gamuda Gardens and Twentyfive.7, domestically.

Stay tuned, more to come!

Gamuda is targeting MYR3b-MYR4b of new job wins over the next 18M from the KVLRT 3, Gemas-JB double track rail and Pan Borneo Sabah – all which we have yet to impute into our forecasts. Assuming a value of at least MYR1b each, this would add >MYR3b onto Gamuda's orderbook lifting its outstanding job value by one-third based on MYR8.9b outstanding at end-Nov 2016. For the longer term, Gamuda is vying for contracts related to the East Coast Rail Link project (MYR55b) announced in the recent Budget 2017, in addition to the KVMRT 3, KL-SG HSR and PTMP, of which Gamuda is a joint PDP.

SPLASH resolution in 2017?

With regards to the sale of its stake in SPLASH, the federal government has seeked independent consultants to value SPLASH, which it believes should be at a 15% discount to the book value of MYR3.2b. Assuming a MYR2.72b price tag, Gamuda's 40% stake works out to be MYR1.09b or 45sen/shr. We still do not rule out some distribution of sale proceeds back to shareholders. The sale is expected to complete by 2QCY17.

FYE Jul (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	2,400	2,122	2,970	3,890	3,841
EBITDA	638	549	710	824	917
Core net profit	682	626	680	761	819
Core EPS (sen)	28.9	26.0	28.1	31.4	33.8
Core EPS growth (%)	(6.6)	(10.2)	8.2	11.8	7.6
Net DPS (sen)	12.0	12.0	12.0	12.0	12.0
Core P/E (x)	16.5	18.4	17.0	15.2	14.1
P/BV (x)	1.8	1.7	1.6	1.5	1.4
Net dividend yield (%)	2.5	2.5	2.5	2.5	2.5
ROAE (%)	11.6	9.5	9.5	10.0	10.1
ROAA (%)	5.8	4.6	4.7	5.1	5.3
EV/EBITDA (x)	23.4	29.0	22.8	19.9	17.2
Net gearing (%) (incl perps)	47.9	55.2	54.3	51.9	40.8
Consensus net profit	-	-	706	796	910
MKE vs. Consensus (%)	-	-	(3.6)	(4.4)	(10.0)

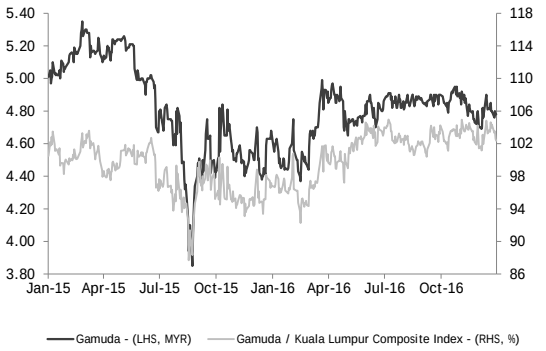
Statistics

Shariah status	Yes
52w high/low (MYR)	4.99/4.37
3m avg turnover (USDm)	3.2
Free float (%)	87.2
Issued shares (m)	2,424
Market capitalisation	MYR11.6B
	USD2.6B

Major shareholders:

Permodalan Nasional Bhd.	15.7%
Employees Provident Fund	12.1%
Kumpulan Wang Persaraan	6.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(2)	2
Relative to index (%)	(2)	(2)	5

Source: FactSet

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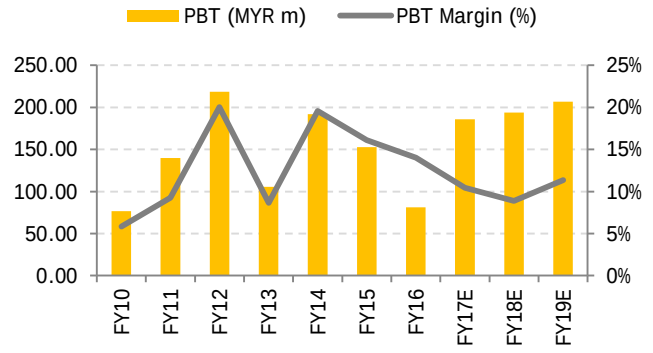
Value Proposition

- 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 rail lines and highways.

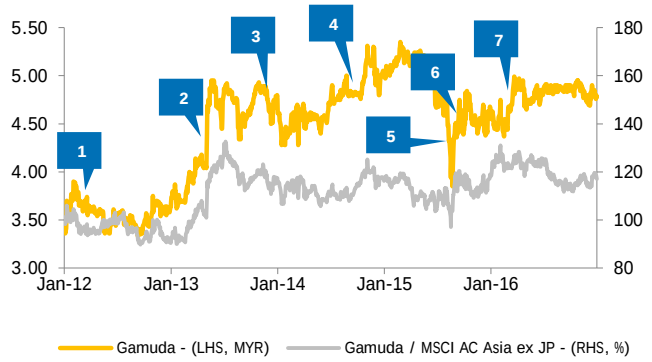
Construction division pretax profit and margins



Source: Company

Price Drivers

Historical share price trend



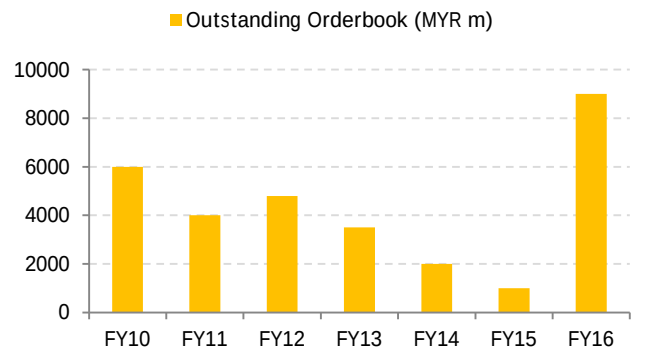
Source: Company, Maybank Kim Eng

1. Signed KVMRT 1 PDP agreement.
2. News flow on approval of KVMRT 2 expected in Jul-13.
3. Growing concern on the invocation of Section 114 of Water Services Industry Act 2006 that could force the sale of Gamuda's water assets.
4. Clinched KVMRT 2 PDP.
5. Foreign shareholding fell to its lowest ever level at 22%.
6. Gamuda's 60%-owned SRS Consortium appointed PDP for Penang Transport Master Plan (PTMP).
7. Cinched KVMRT 2 underground works.

Financial Metrics

- Expect Gamuda to be key beneficiary of the infrastructure projects including rails and highways in FY17.
- Other potential job wins in FY17 include KVLRT 3 (~MYR1b), Gemas-JB double track rail and Pan Borneo Sabah (~MYR1-2b), which we have yet to factor in our earnings forecasts.
- Latest MYR8.9b orderbook is at record high after MYR8.7b jobs wins in FY16 from KVMRT 2 (MYR7.7b) and Pan Borneo Sarawak (~MYR1b).
- Meanwhile, stable property sales and its stable concession earnings would support its earnings growth

Outstanding construction orderbook



Source: Company

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 Sabah 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 oversea property sales.

Downside

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

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Maybank Kim Eng

Transport

Malaysia

Malaysia Airports (MAHB MK)

Headed the right path

BUY

Share Price	MYR 6.06
12m Price Target	MYR 7.80 (+29%)
Previous Price Target	*MYR 7.80*

Reiterate as aviation sector's top BUY

The aviation sector has recovered and recorded double-digit YoY passenger growth rates since Sep 2016. We are confident that it has morphed away from the 2014 triple disasters and is now playing catch-up. Passenger demand is buoyant and airlines are committed to deploy more capacity. Maintain BUY, with no change to our DCF-based TP of MYR7.80 (WACC: 9.6%, terminal growth: 2%).

Earnings recovery set in motion

MAHB's earning was lacklustre in 1H16 but showed solid improvements in 3Q16 due to strong passenger growth and reduction in unit cost. It will continue to achieve economies of scale with growing passenger numbers as majority of cost are fixed. We estimate MAHB will achieve a net gain of MYR0.41 (+3.6%) in 2017 and MYR0.60 (+5.3%) in 2018 for unit passenger service charges (PSC)/pax. This is from the revised PSC announced by the Malaysian Aviation Commission (MAVCOM) in Oct 2016.

Strong performance to continue into 2017

The industry landscape has much improved and Malaysian carriers are deploying more aircraft and adding more frequency. More promising, majority of the new route launches are international centric, which favours MAHB immensely due to higher PSC charges and retail revenues as only international passengers are allowed to purchase duty-free items. Higher tourist numbers which Malaysia is targeting will benefit MAHB.

Things looking good, BUY

We are positive on MAHB for the following reasons: 1) the incremental gain in PSC/pax for 2017-18 will boost earnings and cash flows; 2) there is a clear strategy to focus on attracting international passengers; and 3) MAVCOM's daringness to instil unconventional changes in an industry plagued with outdated legacy practices. We believe the regulatory trend has improved and we can afford to be more optimistic on the future.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	3,344	3,871	4,225	4,592	4,928
EBITDA	815	1,342	1,509	1,674	1,802
Core net profit	147	(118)	44	191	244
Core EPS (sen)	10.9	(7.4)	2.7	11.5	14.7
Core EPS growth (%)	(62.9)	nm	nm	330.9	27.9
Net DPS (sen)	10.4	0.9	3.4	8.3	9.0
Core P/E (x)	55.7	nm	227.3	52.7	41.2
P/BV (x)	1.1	1.1	1.2	1.2	1.2
Net dividend yield (%)	1.7	0.1	0.6	1.4	1.5
ROAE (%)	9.8	0.5	1.2	2.9	3.5
ROAA (%)	0.9	(0.5)	0.2	0.9	1.2
EV/EBITDA (x)	15.8	10.1	9.6	8.2	7.2
Net gearing (%) (incl perps)	58.6	52.2	51.3	42.8	32.9
Consensus net profit	-	-	49	171	323
MKE vs. Consensus (%)	-	-	107.9	45.3	(6.7)

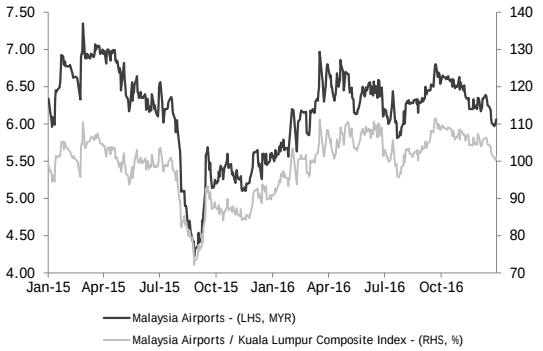
Statistics

52w high/low (MYR)	6.97/5.50
3m avg turnover (USDm)	1.9
Free float (%)	60.5
Issued shares (m)	1,659
Market capitalisation	MYR10.1B
	USD2.2B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.7%
Permodalan Nasional Bhd.	17.7%
Employees Provident Fund	12.1%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	(7)	9
Relative to index (%)	(6)	(7)	13

Source: FactSet

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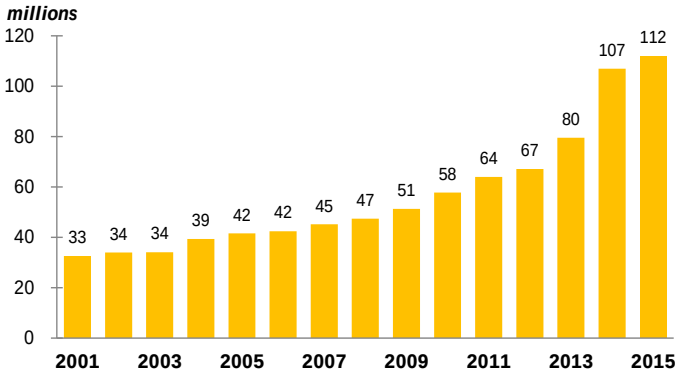
Value Proposition

- § Exposure to Malaysia's air travel industry, MAHB has a virtual monopoly on the country's airport chain with no risk of a new competitor.
- § Also owns Turkish Sabiha Gökçen Airport (ISG), which is the fastest growing airport in 'Europe'.
- § Monetizing its land-bank adjacent to the KLIA with retail and commercial ventures. Plenty of development projects in the pipeline.
- § Sufficient infrastructure to cater to future growth, unlike its regional rivals that are growth constrained.

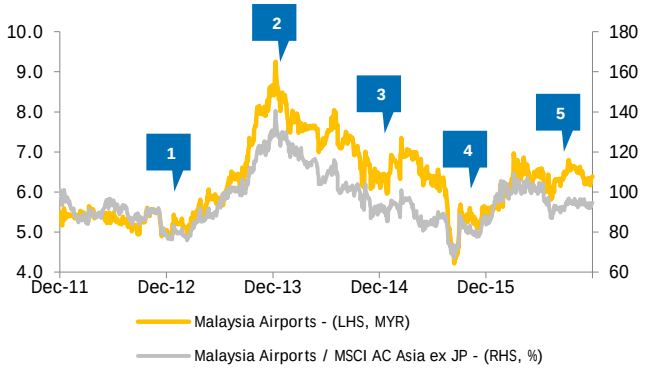
MAHB total passenger traffic



Source: Company

Price Drivers

Historical share price



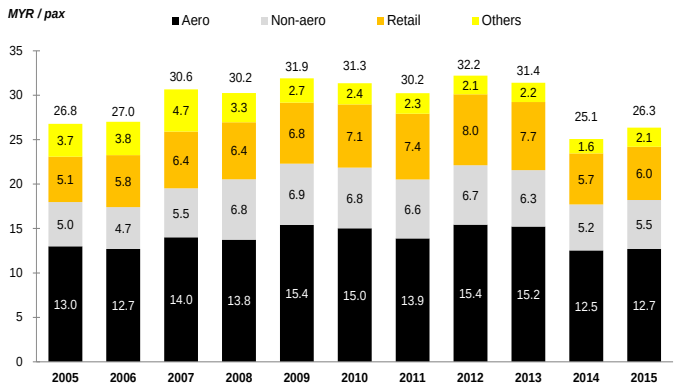
Source: Company, Maybank Kim Eng

1. MAHB did two equity issuances during the period.
2. Stock re-rated on upbeat traffic growth projections and positive strides in KLIA2 development.
3. MH370 incident and later MH17, dented the sector's rating.
4. MAHB announced a shocking loss in 3Q15, first loss since listing.
5. Stock price recovered in tandem with the market.

Financial Metrics

- § Average revenue per user (ARPU) has decreased in 2014 due to new ISG addition which altered its mix.
- § ARPU has since reverted to a normal growth rate of 4-5% p.a. since 2015.
- § The completion of KLIA2 and acquisition of ISG have caused gearing to surge to 0.8x due to debt funded Capex.
- § Our 2017 earnings forecast is premised on 8% traffic growth with 3.5% growth in revenue per user as retail sales improve and the average aircraft size increases.

MAHB unit revenue per segment



Source: Company

Swing Factors

Upside

- § Any recovery in Malaysia's average airport traffic growth to historical norms of 9% pa will re-rate the stock favourably.
- § Rising competition among the domestic airlines will spur more services and traffic volumes.
- § Better-than-expected tourist arrivals, which have been languishing over the past 2.5 years.

Downside

- § Persistent negative perception from the effect of the triple air disasters that struck Malaysia in 2014.
- § Erratic cost spikes that will further erode our earnings projections.
- § Dividend cuts as MAHB opts to reduce its gearing ratio.

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Maybank Kim Eng

RCE Capital Bhd (RCE MK)

Much room to grow

BUY

Share Price	MYR 1.36
12m Price Target	MYR 1.60 (+18%)
Previous Price Target	*MYR 1.60*

Attractively valued

RCE Capital is principally involved in the provision of general financing services, the ultimate borrowers being government civil servants. With an estimated market share of the civil servant financing market of just about 1% currently, there is room to grow, especially amid sustained demand for personal loans. We expect ROEs to trend up and current valuations are attractive. BUY with TP of MYR1.60, based on a CY17F P/BV of 1.25x (ROAE: 14%).

Resuming its growth path

Having seen its loan book contract in FY11-14 due to increased competition and regulatory controls over personal financing, RCE Capital has spent the past few years restructuring, tightening credit controls, and improving its capital structure. Asset quality is greatly improved, and financially, the group is on a much sounder footing to resume its growth path. With demand for personal financing holding up, we estimate loan growth to average 14% over the next three years (FY16-FY19).

Healthy earnings growth, superior returns

We project a 3-year net profit CAGR of 19%, backed by robust loan growth and higher commission income, mitigated in part by narrower margins and higher credit cost assumptions. We project RCE Capital's ROE to rise to 14.5% in FY18 from 7.7% in FY16. This compares favourably against sub-10% earnings growth and ROEs of 10% for the banking sector.

Valuations are not demanding

The stock trades at a CY17 P/E of just 7.8x, about in line with AEON Credit and a 32% discount to the banks, despite a higher 3-year net profit CAGR of 19% vs AEON Credit's 9% (consensus) and the banking sector's 4%. Undoubtedly a discount to the banks is warranted given that its business is riskier but we expect this valuation gap to narrow as the market slowly recognizes RCE Capital's strengthened asset position, improved earnings quality, stronger growth prospects and better returns.

FYE Mar (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Operating income	107	121	140	166	186
Pre-provision profit	65	80	101	123	140
Core net profit	36	40	54	62	67
Core EPS (MYR)	0.09	0.12	0.16	0.18	0.20
Core EPS growth (%)	748.3	35.9	27.3	15.1	8.7
Net DPS (MYR)	0.06	0.46	0.04	0.05	0.05
Core P/E (x)	15.0	11.0	8.7	7.5	6.9
P/BV (x)	0.8	1.0	1.2	1.0	0.9
Net dividend yield (%)	4.4	33.5	2.9	3.3	3.7
Book value (MYR)	1.70	1.34	1.17	1.31	1.46
ROAE (%)	6.0	7.7	12.5	14.5	14.2
ROAA (%)	2.8	2.8	3.1	3.0	2.9
Consensus net profit	-	-	50	56	67
MKE vs. Consensus (%)	-	-	8.0	10.6	(0.0)

Company Description

RCE Capital is principally involved in the provision of general loan financing services.

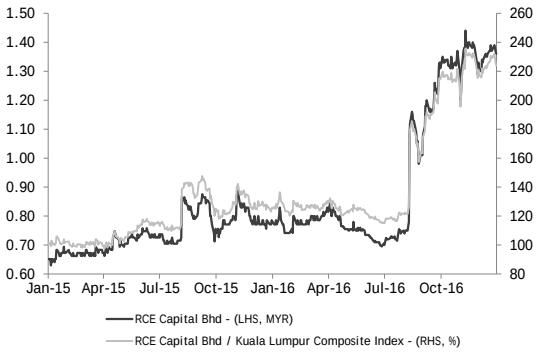
Statistics

52w high/low (MYR)	1.44/0.70
3m avg turnover (USDm)	0.3
Free float (%)	20.7
Issued shares (m)	348
Market capitalisation	MYR473.4M
	USD106M

Major shareholders:

Cempaka Empayar Sdn. Bhd.	60.2%
RCE Capital Bhd.	4.5%
Aras Kreatif Sdn. Bhd.	4.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	4	76
Relative to index (%)	4	5	82

Source: FactSet

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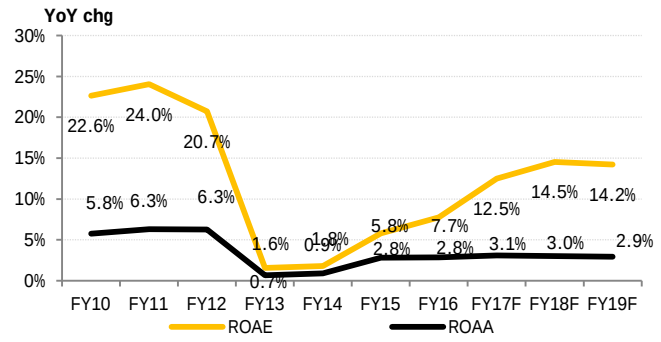
Banks

Malaysia

Value Proposition

- § RCE Capital is principally involved in the provision of personal financing, the ultimate borrowers being civil servants.
- § With a loan portfolio of just MYR1.4b in size, its market share among its personal finance market peers is estimated to be just about 1%, providing much room for growth.
- § With decent earnings growth, we forecast RCE Capital's ROEs will rise and surpass that of the average for the overall banking industry.

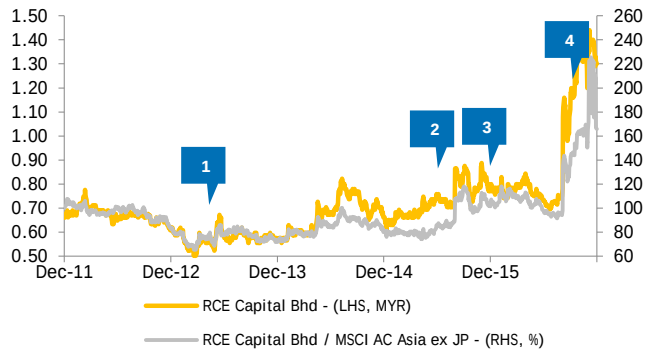
ROAE and ROAA trends



Source: Maybank KE

Price Drivers

Historical share price trend



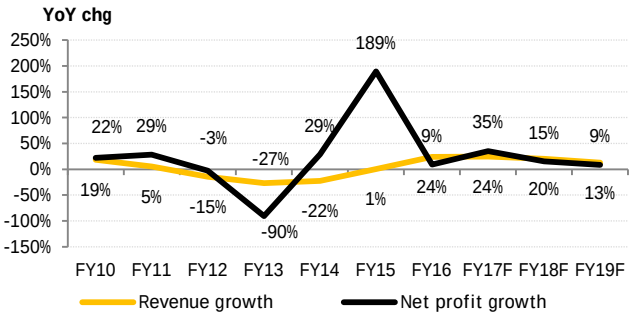
Source: Maybank KE

1. BNM imposed a 10-year tenure cap on personal financing and a debt service ratio of 60%.
2. Proposed a special interim DPS of 10.5sen.
3. Proposed a capital repayment of MYR0.075 for each ordinary share of MYR0.10 and a 4-into-1 share consolidation.
4. Strong 1QFY17 results – revenue rose 39% YoY, while net profit jumped 86% YoY.

Financial Metrics

- § Having introduced a more comprehensive credit scoring model in 2013, the company is once again on a growth path, with loan growth expected to average 14% YoY over the next 3 years.
- § With proper credit controls in place, asset quality is much stronger than before, with newer loans that are smaller in size and NPL ratios that are less than 2%.
- § As it is not a deposit-taking institution, RCE Capital will have to leverage up to support business growth, but we do expect gearing levels to remain manageable.
- § Looking forward, we project a 3-year revenue and net profit CAGR of 19% respectively.

Revenue and profit growth trends recovering from FY13



Source: Maybank KE

Swing Factors

Upside

- § Growth in the Government workforce and ongoing financial support from the Government are factors that will continue to support personal loan demand.
- § Competitors have eased off their lending activity, thus providing more room for RCE Capital to gain market share.
- § Lower interest rates could enhance margins if funding costs can decrease.

Downside

- § Rising household debt could crimp repayment ability.
- § RCE Capital does not have access to CCRIS just yet, which makes the assessment of a borrower's total indebtedness difficult.
- § MFRS9 takes effect from Jan 2018 and could result in higher credit cost moving forward.
- § Asset-liability duration mismatch may be a funding concern if there is a liquidity crunch.
- § Without deposit-taking capabilities, RCE Capital will have to leverage up for growth.

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Maybank Kim Eng

Banks

Malaysia

Inari Amertron (INRI MK)

Winning never gets old

BUY

Share Price	MYR 3.32
12m Price Target	MYR 4.10 (+23%)
Previous Price Target	*MYR 4.10*

Size does matter

Inari's partnership with semiconductor giant, Broadcom, has time and again been proven to be positive with consistent job wins for various product segments. Since listing in July 2011, Inari's market value has burgeoned 22-fold to MYR3.2b and today, Inari is a test powerhouse with over 700 testers in place (largest in SEA) and undoubtedly, Malaysia's largest listed semiconductor player. Stable growth alongside Broadcom with new forays present an attractive investment case for Inari whose valuations remain undemanding (14x CY17 PER). Reiterate BUY with an unchanged MYR4.10 TP, pegged at 17.5x CY17 EPS (+1SD).

Fulfilling the insatiable needs for data

It is almost inevitable that consumers constantly pursue faster and better technology applications (i.e. cloud computing, ultra high-definition streaming) which mainly centralise on the availability of speedy network data. The need to enable faster network and bigger data centres will continue to fuel demand for Broadcom's range of products. Coupled with its continuous acquisition (averaging 2 acquisitions per year since 2014) to broaden/enhance its product coverage and market position, these are factors which will benefit its trusted vendors, Inari, among others.

Levelled up!

The story of Inari does not end with Broadcom. Having unlocked to a certain operational scale and financial position over the years, Inari is now able to leverage on its success and experience to open up new opportunities. Its recent investment in Taiwan's PCL Technologies (4977 TT, Not-rated) and venture into higher-end Infrared (IR) LED segment are just the beginning of much potential which could be unveiled in the future. Having said that, it is not without risks as Inari is contained within the cyclical semiconductor industry which requires constant updates/improvements in technology within proper time frames.

Our top BUY pick in the sector

We like Inari as a growth stock (estd. 3-year earnings CAGR of 19%) which could see further boost from (i) new ventures (i.e. fibre-optics and IR LED divisions) and (ii) persistent USD strength against MYR.

FYE Jun (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	933	1,041	1,406	1,589	1,665
EBITDA	187	203	285	344	365
Core net profit	148	156	214	250	265
Core EPS (sen)	15.9	16.0	21.8	25.6	27.1
Core EPS growth (%)	37.1	0.5	36.9	17.1	6.0
Net DPS (sen)	7.1	8.4	9.8	11.5	12.2
Core P/E (x)	20.9	20.8	15.2	13.0	12.2
P/BV (x)	5.7	4.7	4.1	3.5	3.0
Net dividend yield (%)	2.1	2.5	3.0	3.5	3.7
ROAE (%)	38.4	24.3	28.8	28.8	26.2
ROAA (%)	22.1	18.2	22.4	22.6	21.1
EV/EBITDA (x)	11.9	13.4	10.9	8.8	8.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	188	221	250
MKE vs. Consensus (%)	-	-	13.7	13.3	5.9

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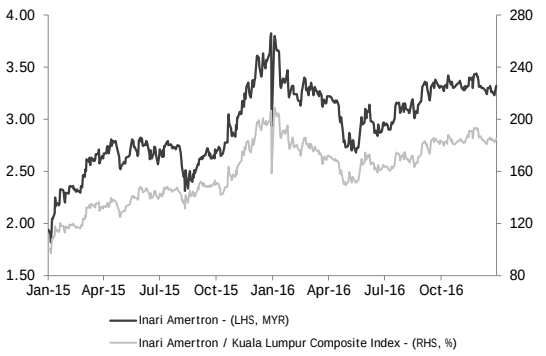
Company Description

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

Statistics

Shariah status	Yes
52w high/low (MYR)	3.80/2.68
3m avg turnover (USDm)	2.0
Free float (%)	69.6
Issued shares (m)	971
Market capitalisation	MYR3.2B
	USD718M
Major shareholders:	
Insas Bhd.	20.9%
Employees Provident Fund	8.6%
Kumpulan Wang Persaraan	5.0%

Price Performance



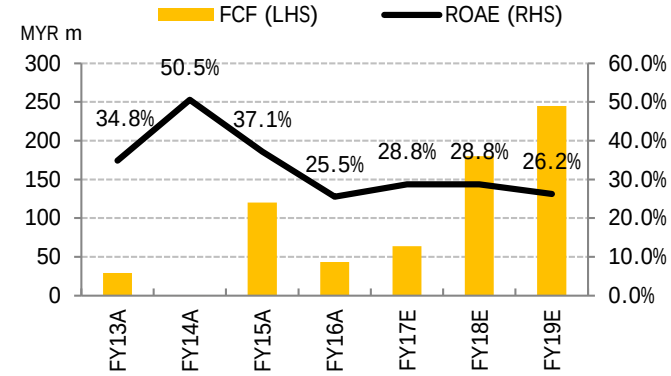
	-1M	-3M	-12M
Absolute (%)	(3)	0	(13)
Relative to index (%)	(4)	1	(10)

Source: FactSet

Value Proposition

§ Inari is the largest semiconductor player in Malaysia. One of Broadcom's top OSAT providers in the thriving wireless division. Owns >700 units of testers, the largest in SEA.
§ Cost competitiveness and manufacturing efficiency from economies of scale, Inari is Broadcom's key OSAT vendor.
§ Largely cash generative with sustainable ROE of 20+%. More upside potential as Broadcom group continues to outsource more of its manufacturing processes.
§ Returns hinge on Broadcom's orders which have good visibility. Broadcom enjoys tailwind from network transition (3G to LTE/LTE-A) and growing data server farms to power IoTs.
§ USD/MYR forex fluctuations largely dictate margins. High single customer exposure is another risk.

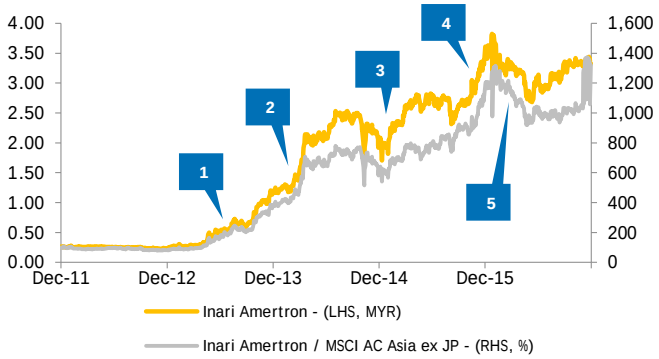
FCF vs ROAE



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



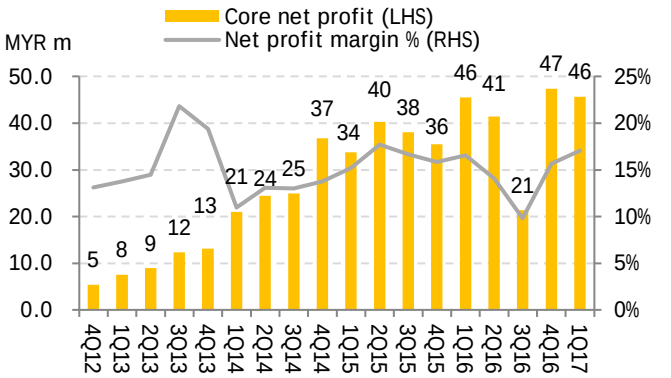
Source: Factset, Maybank Kim Eng

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

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 optimises utilisation of Inari's plants in Malaysia, the Philippines and China.
§ Visible quarterly growth as RF content in smart devices is projected to be up. Expect higher utilisation to meet Broadcom's demand and new clients in RF products.

Quarterly net profits and margins trend



Source: Company, Maybank Kim Eng

Swing Factors

Upside

§ Forex: MYR's further weakness against USD – positive revenue impact. 1% change in our base assumption of USD1/MYR4.15 for FY17 will impact earnings by 1+%.
§ Faster-than-expected adoption of LTE-A (from LTE) would improve earnings visibility for Broadcom and Inari.
§ Potential contract wins from Osram which has earmarked EUR3b investment (EUR1b for chip plant) 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 Broadcom'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 is derived from Broadcom. In the event where Inari fails to deliver, it may see its partnership revoked.

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CRP
EMPLOYMENT
INFRASTRUCTURE
CONSUMPTION

Maybank Kim Eng

STRATEGY

Philippines

Philippines: Six-for-17

Go Defensive

Stick to consumer & infrastructure

Domestic-policy concerns and growing protectionism abroad have contributed to the PSEi's 16% correction from its 2016 high of 8,102.3. President Duterte's anti-US rhetoric and allegations of extra-judicial killings in connection with the government's crackdown on illegal drugs are also behind the PHP's depreciation against USD. As we believe the same concerns will haunt the market in 2017, stock-picking should be key. We have an index target of 7,350 for end-2017, based on 17.2x 2017E P/E, an 11% discount to the PSEi's 5-year average of 19.3x. To outperform, we think companies must meet four criteria: 1) high earnings visibility and above-market growth; 2) strong operating cash flow and manageable net gearing; 3) unrivalled domestic franchises; and 4) reasonable valuations. We recommend RRHI, PGOLD, JFC, MWC, MPI and AC.

Inclusive growth to thrust basic consumption

The government has committed itself to delivering not just strong but inclusive growth. This is captured in the Department of Finance's tax-reform centerpiece. In Package 1, the government plans to reduce personal income tax for most of the 5.6m taxpayers, except for the very high flyers. We estimate that those with annual income of PHP140,000-800,000 can save 15-20%. We reckon they will spend this on consumer goods and services. The government also plans to alleviate the impact of new revenue sources through various social-protection schemes. Package 1 may be passed into law by mid-2017 and implemented by 2018. We believe the best way to position for this is through grocery retailers, RRHI and PGOLD, and QSR operator, JFC. RRHI and PGOLD are also adding stores and pushing into modern grocery, where the Philippines still lags Thailand and Malaysia.

Infrastructure build-out all set to happen

Both the Senate and House of Representatives have ratified the 2017 budget, which includes an increase in infrastructure spending to 5.4% of GDP. The government next plans to hasten its PPP programme. It is now open to unsolicited proposals. We understand that PPP for regional airports is next up for bidding, in 1Q17. We think project developers stand to benefit, including MPI and AC. MWC should also benefit from growth opportunities in bulk-water and water distribution infrastructure, particularly outside Metro Manila.

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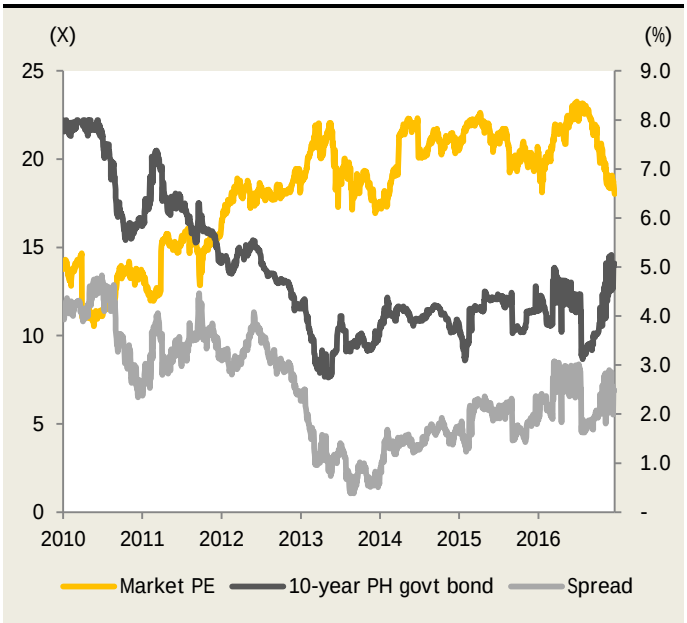
Stock	Bloomberg code	Mkt Cap (USDm)	Rating	Price (PHP)	TP (PHP)	Upside (%)	P/E (x)		Div yld (%)		ROE (%)	
							16E	17E	16E	17E	16E	17E
RRHI	RRHI PM	2,077	BUY	74.3	100.0	34.7	21.9	19.4	0.8	0.9	10.3	10.6
PGOLD	PGOLD PM	2,178	BUY	39.0	52.0	33.3	18.7	16.4	0.9	1.1	14.1	14.3
JFC	JFC PM	4,212	BUY	194.0	240.0	23.7	36.3	30.9	1.0	1.1	17.6	18.3
MPI	MPI PM	4,237	BUY	6.7	8.1	21.6	18.1	15.3	0.9	1.0	8.5	8.7
MWC	MWC PM	1,203	BUY	29.0	34.0	17.2	11.9	10.3	3.0	3.0	12.4	13.0
AC	AC PM	9,149	BUY	730.5	1,052.0	44.0	19.0	16.6	0.7	0.7	11.8	13.3

6 Links You Need to Know

Chart 1: PSEi vs 10-year bond yields

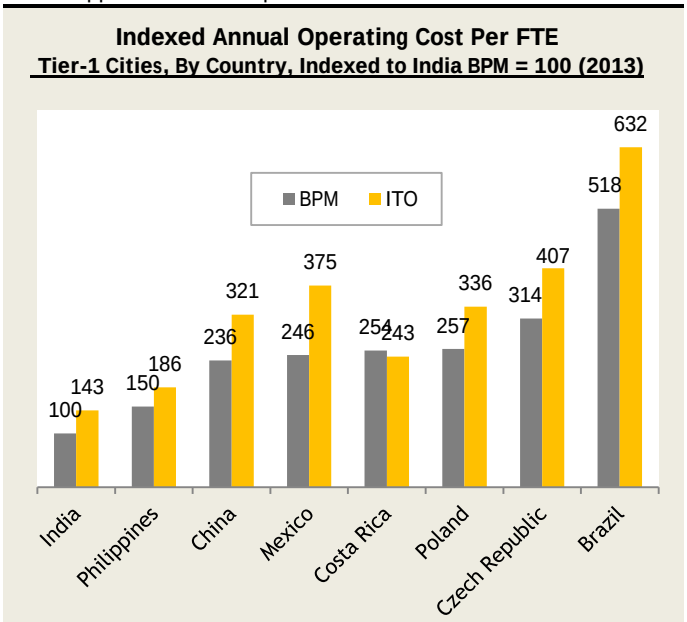
Risks have risen, going by an increase in 10-year bond yields



Source: Companies, Maybank KE

Chart 2: Indexed annual operating costs per full-time employee (FTE)

The Philippines is cost-competitive in BPO



Source: IBPAP, Department of Science and Technology

Increased risk premium

Domestic-policy concerns have contributed to a 16% decline in the PSEi from its 2016 peak of 8,102.3. These include President Duterte's anti-US rhetoric and allegations of extra-judicial killings in relation to the government's crackdown on illegal drugs. A net USD500m of foreign equity has flowed out since Jul 2016. Our FX team also attributes PHP weakness to these same bogeymen. Fund outflows and a dwindling current-account surplus dragged the country's balance of payments to a negative USD183m in Oct 2016 and negative USD1,671m in November. Our FX team expects the PHP to weaken further to 51.80/USD1 by 2Q16.

Yields on the 10-year PHP bond, the basis of our risk-free rate assumptions for DCF computations, have climbed to 5.0% from 4.1% at the beginning of the year. We currently assume a risk-free rate of 4.25%. Tracking this, the PHP bond spread over 10-year US Treasuries has yawned to 2.5% from 1.9%.

As we don't see a market re-rating in 2017, stock-picking should be crucial. We recommend companies with defensive characteristics, particularly a high degree of earnings visibility.

BPO a pillar of healthy consumption

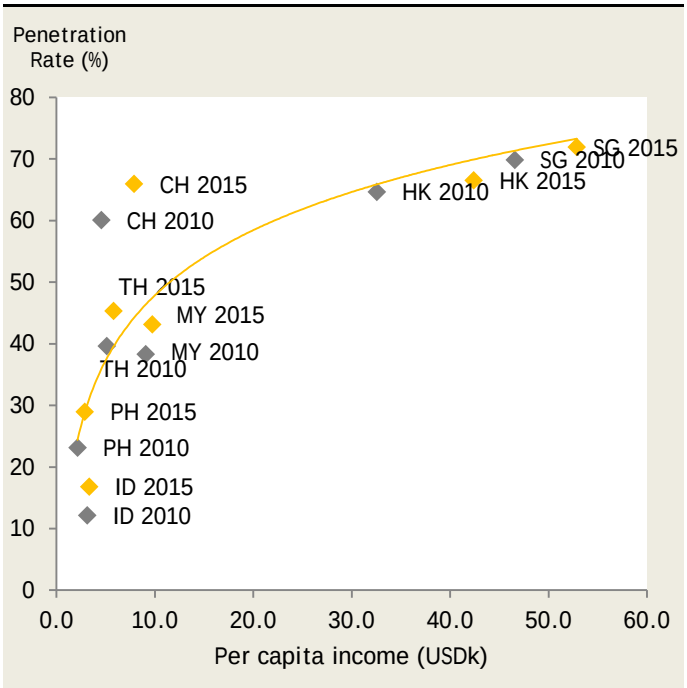
In the global business process outsourcing or BPO industry, the Philippines is the leader in voice contact centre outsourcing and second only to India in non-voice IT-business process management, by revenue and number of employees, according to Everest Research. This is supported by its competitive advantages in costs and talent that are surpassed only by India.

The IT and Business Process Association of the Philippines (IBPAP) projects a 9.2% CAGR for industry revenue from an estimated USD22.9b in 2016 to USD38.9b in 2022. It estimates industry full-time employees of 1.15m for 2016 from only 138k in 2005, before potentially heading to 1.8m by 2022. BPO operators are expanding not just in Metro Manila but also top-tier provincial cities. And where they are located, property developers and retailers - including fast-food chains – follow suit. This spurs commerce and local employment.

Thanks to this expansion and its multiplier effects, unemployment ebbed to 6.3% in 2015 from 8.8% in 2005. It was 4.7% in Oct 2016 and appeared to be heading for 5.5% for the full year. This would still be below the government's 6.5-6.7% target and our 5.8%. For 2017, we see 5.5%. Income has also been improving, as broadly reflected by a 6.5% CAGR in GDP per capita from 2009 to 2015. With more people getting employed, consumers have been splurging out more, fuelling economic growth.

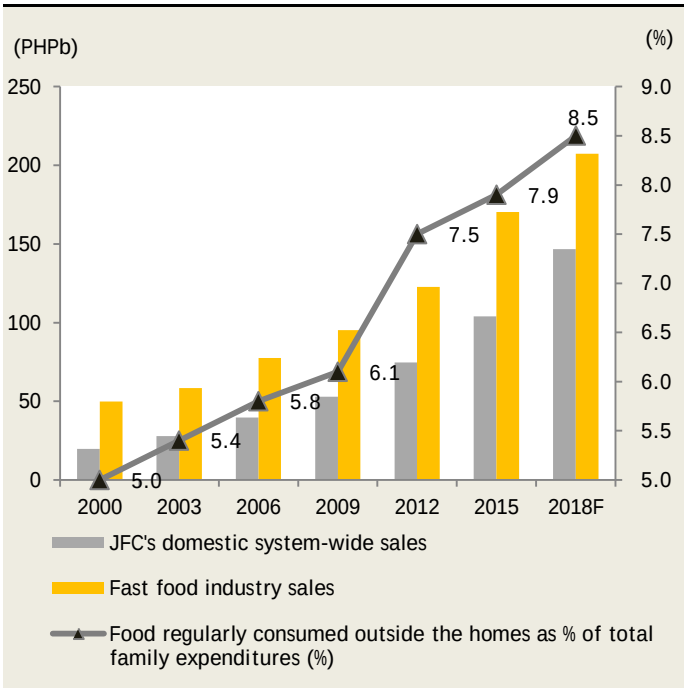
Chart 3: Modern grocery retailing penetration and per capita income in Asia in 2010 and 2015

Growth potential for grocery retailers as income rises



Source: Euromonitor, World Bank

Chart 4: Family expenditure on food that is regularly consumed at home, fast-food sales and JFC's domestic sales



**note: for 2000 fast food industry sales, we used 2001 data*
Source: Family Income and Expenditure Surveys, JFC, Euromonitor, Maybank Kim Eng estimates

As income grows, modern retailing expands

BPO expansion, falling unemployment and rising income augur well for modern retailers like Robinsons Retail Inc (RRHI PM, PHP74.25, Buy, TP PHP100) and Puregold Price Club Inc (PGOLD PM, PHP39, Buy, TP PHP52). They are among our top picks in the market. As income rises, we see consolidation in local retailing, led by the modern segment. This would mirror the experience of more developed countries.

Euromonitor estimates that in grocery retailing, the Philippines' most important retailing segment, modern grocery penetration was 29% in 2015. In Thailand where per capita income is 2x the Philippines', penetration was 45%. In China, the numbers were 2.7x and 66% respectively. 2016 modern-grocery penetration in the Philippines is estimated at 30%. This is expected to march up to 30.7% in 2017 and 31.2% in 2018.

RRHI and PGOLD are leading modern retailers in the country. RRHI has multiple retailing formats, with groceries accounting for half of its net sales. PGOLD focuses on groceries. Both have been adding stores and snapping up smaller players to sustain their lead in the industry.

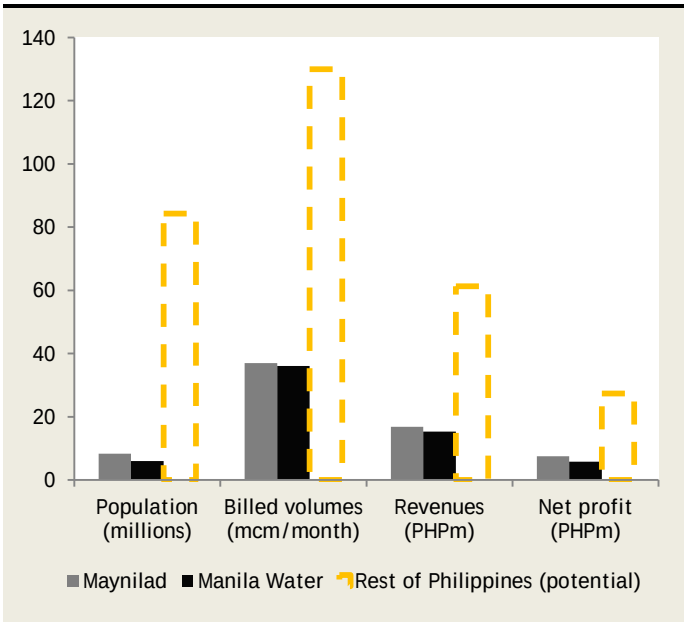
Filipinos eating out more

With more people employed, especially in the BPO industry, lifestyles have changed, primarily gathering pace. Supported by higher income, Filipinos are increasingly eating out. Spending on outside food already went from 5% of household expenditure in 2000 to 7.5% in 2012, in the latest 2012 data on family income and expenditure compiled by the government, every three years. By value, spending was PHP309b in 2012, after expanding at a 10.9% CAGR clip from 2000. We believe the share of food consumed outside the home will continue to climb. It could have increased to 7.9% in 2015 and could possibly reach 8.5% by 2018E, on a linear basis.

This has helped spearhead the growth of the fast-food industry, led by Jollibee Foods Corp (JFC PM, PHP194, Buy, TP PHP240). Fast-food industry sales expanded at a 9.3% CAGR between 2003 and 2015. Along with this, JFC's domestic sales improved an 11.6% CAGR. For 2016-2020, Euromonitor estimates that fast-food sales will grow at a 6.3% CAGR. For JFC, we are estimating domestic sales growth of 11.3% in 2017E and 11.2% in 2018E, from a forecast PHP118.6b in 2016E.

Chart 5: Population and water-consumption potential

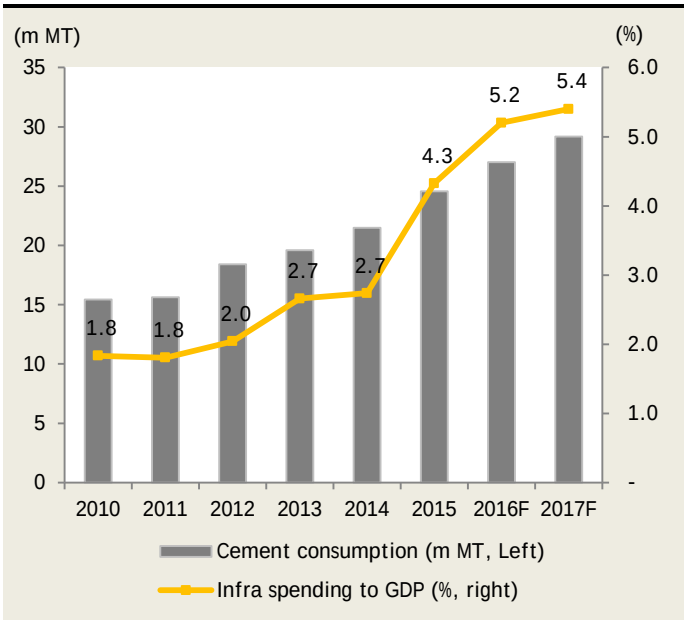
Water distribution in the country leaves much to be desired



Source: Companies, Maybank KE

Chart 6: Cement consumption and infrastructure outlay

Public infrastructure spending is expected to prop up cement demand



Source: Companies, Maybank KE

Many underserved areas

Water infrastructure remains grossly inadequate in the Philippines. According to the Asian Development Bank, infrastructure outside the capital is handled by local governments and small-scale community organisations. Sustainability is a challenge as capability is weak and tariffs, usually too low to cover costs. This is an opportunity for private concessionaires to penetrate the under-served areas, in our view. Currently, Metro Pacific Investments Corp's (MPI PM, PHP6.66, BUY, TP PHP8.10) Maynilad and Manila Water Company, Inc (MWC PM, PHP29, BUY, TP PHP34) serve only 14m Filipinos. Theoretically, both can expand to reach the remaining 84.3m. McKinsey estimates that this population can generate 129.9mcm of billed volume, which is 4x Maynilad's and MWC's current billed volumes. If executed successfully, we believe the two can grab a share of the potential revenue pie of PHP61.3b and net-income pie of PHP27.4b outside their concessions.

MWC has already expanded its non-east-zone businesses to catch such growth potential. Its footprint now spans ASEAN, consisting of eight domestic operations - including one vertically-integrated water-solutions business - and five in the region.

It has guided for an increase in net income before preferred dividends to PHP11.5b by 2020. We think this is achievable, based on its non-east-zone expansion. The latter's contribution to net income could potentially jump from under 20% to 50% by 2020E.

Unprecedented infrastructure spending

Public infrastructure spending in the last 10 years averaged 2% of GDP. The Duterte administration aims to take this to an unprecedented 5.4% in 2017. It says the number could even rise to 7% by the end of President Duterte's term. If so, cement sales should balloon. In 2015, when public infrastructure spending leapt 25% YoY, cement sales grew 14%.

There is a desperate need for new toll roads, to ease the horrendous traffic in Metro Manila. Such roads would include MPI's Connector road project. Among its businesses, toll roads appear to hold the biggest promise. Completion of the Connector should equally translate into traffic gains for the North Luzon Expressway (NLEX) and Cavite Expressway (Cavitex). Similarly, the construction of Segments 9-10 could boost NLEX's traffic. Finally, the construction of CALAX could benefit Cavitex's traffic.

We are also positive on Ayala Corp's (AC PM, PHP730.5, BUY, TP PHP1,052) new businesses, specifically in infrastructure and energy. We expect these new businesses to contribute 7-8% to its core income in 2016-2018E. We model 58% EPS growth for AC's infrastructure unit, premised on higher LRT ridership and MCX traffic. As for AC Energy, we see growth from the operation of SLTEC. We forecast 20% profit growth for this segment for 2017.

Maybank Kim Eng

Consumer Discretionary

Philippines

Robinsons Retail Holdings (RRHI PM)

No let up on healthy sales and earnings

BUY

Share Price	PHP 74.25
12m Price Target	PHP 100.00 (+35%)
Previous Price Target	*PHP 100.00*

Good growth prospects, attractive valuation. BUY

We reiterate BUY with forecasts unchanged, and believe RRHI can sustain double-digit sales and earnings growth in 2017-18. Our TP of PHP100 is based on 12.5x FY17F EV/EBITDA, slightly above the 12.1x average of retailers in the region. Higher revenues will be driven by decent SSSG and sales from new stores. Suppliers are likely to raise selling prices but RRHI will pass this on to consumers. Balance sheet and cash flows remain solid. More upside could come from acquisitions.

Double-digit top-line growth sustainable

We expect RRHI to sustain double-digit revenue growth for at least the next two years, driven by higher same-store sales and contribution from new stores. We forecast SSSG of 3.2% for 2017 and 4.4% for 2018 across all formats. These are lower versus our estimate of 7% for 2016 due to the absence of the election-related spending boost. From our estimate of RRHI's 3,511-store network across all formats in 2016 (including 1,903 TGP drugstores), we expect it to add 266 stores in 2017 and 275 stores in 2018. More stores will be opened outside Metro Manila where modern trade penetration is lower than the national average of about 30%.

Higher ASP from suppliers to be passed on

The Philippine central bank expects consumer inflation to rise to 3% in 2017 from 1.8-2% in 2016, partly driven by higher global prices for fuel and higher cost of imported goods due to the weaker peso against the USD. We think 3-4% inflation is manageable and will not impede healthy consumer spending in the country. We think it is likely that RRHI's suppliers will raise prices to mitigate higher costs and this will be passed on by RRHI to consumers. By stocking more inventories ahead of the price hike, RRHI's margins could even have a temporary uplift.

Cheaper versus retailers in the region

Even with attractive growth prospects, RRHI is trading at valuations lower than the current average for retailers in the region of 21x PER and 12.1x EV/EBITDA for 2017F. There is also potential upside from acquisitions as we expect the Philippine retail industry to further consolidate. RRHI had PHP6.4b cash and PHP20.5b in liquid available-for-sale financial assets (AFS) as of end-Sep 2016, while bank debts stood at PHP4.8b. RRHI's cash and AFS can be used for major acquisitions.

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	80,401	90,883	107,011	122,920	137,860
EBITDA	5,768	6,376	7,663	8,993	10,337
Core net profit	3,561	4,342	4,698	5,305	6,050
Core EPS (PHP)	2.61	3.13	3.39	3.83	4.37
Core EPS growth (%)	29.7	20.3	8.2	12.9	14.1
Net DPS (PHP)	0.41	0.53	0.63	0.68	0.77
Core P/E (x)	28.5	23.7	21.9	19.4	17.0
P/BV (x)	2.6	2.4	2.1	2.0	1.8
Net dividend yield (%)	0.6	0.7	0.8	0.9	1.0
ROAE (%)	9.4	10.4	10.3	10.6	11.0
ROAA (%)	6.5	7.1	6.7	6.8	7.0
EV/EBITDA (x)	13.1	9.9	10.3	8.6	7.2
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	4,725	5,405	6,033
MKE vs. Consensus (%)	-	-	(0.6)	(1.9)	0.3

Company Description

Operates through the following segments: supermarkets, department stores, DIY stores, convenience stores, drug stores, and specialty stores.

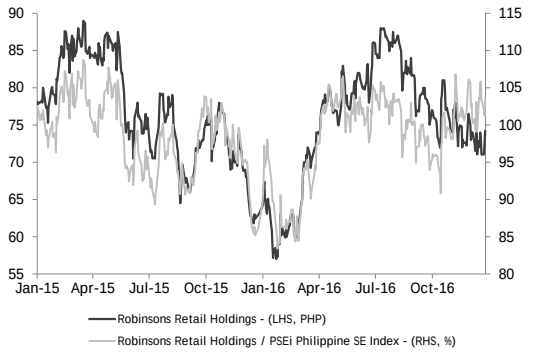
Statistics

52w high/low (PHP)	88.00/57.00
3m avg turnover (USDm)	1.2
Free float (%)	37.6
Issued shares (m)	1,385
Market capitalisation	PHP102.8B
	USD2.1B

Major shareholders:

JE HOLDINGS SDN BHD	35.0%
GOKONGWEI LANCE YU	11.7%
GOKONGWEI-PE ROBINA YU	7.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(1)	18
Relative to index (%)	2	10	20

Source: FactSet

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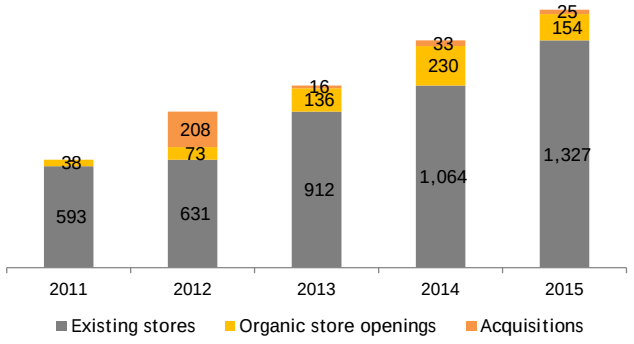
Value Proposition

§ Ranks #3 among Philippine retailers and is more diversified than bigger peers. Presence in department stores, supermarkets, DIY stores, drugstores, convenience and specialty stores.
§ Should benefit from rising income and increasing urbanization that supports deeper modern distribution channels.
§ Strategy is to leverage on its multi-format platform, expand store network, improve efficiency, enter new formats, and pursue acquisitions for sustainable growth.
§ Organic expansion can be funded by operating cash flows.
§ ROE of 10% could rise with the deployment of the PHP28b net cash and available-for-sale portfolio (as of 1H16) through a major acquisition.
§ Anchor tenant in Robinsons Land's malls. Preferred tenant in non-affiliated malls for its scale and variety of formats.

Expanding store network organically and from acquisitions



Source: Company

Price Drivers

Historical share price performance

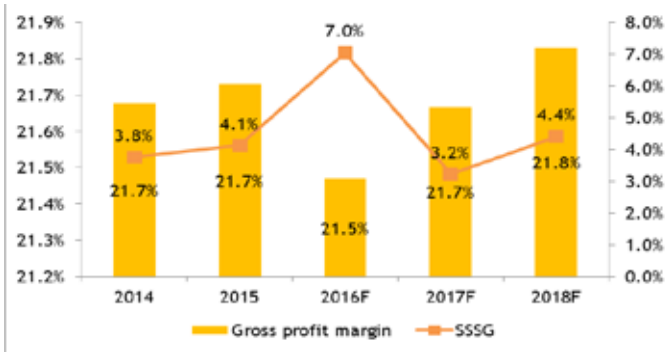
Source: Bloomberg, Maybank ATR Kim Eng

1. Acquires 67% stake in Visayas based big-box hardware chain AM Builders Depot.
2. Acquires Batangas based pharmaceutical chain Chavez Pharmacy with seven drug stores.
3. 1Q15 operating income up only 4% due to higher opex from new stores in ramp-up period.
4. FY15 reported 22% YoY net income growth due to higher other income and robust SSSG in early FY16.
5. RRHI buys 51% stake of *The Generics Pharmacy* (TGP), Philippines's largest and fastest growing generic drugstore with over 1,800 stores.

Financial Metrics

§ SSSG is an important metric as it affects turnover and operating leverage. Sustainable blended SSSG estimated at 2-3%.
§ Gross floor area ex-acquisitions are expected to increase 8-12% annually in 2017-18F.
§ Gross profit margin per segment targeted to expand 10-20bps to be driven by bigger discount from suppliers and better scale of operations.
§ Cash conversion cycle increased to 9.3 days at end-9M16 from -15 days at end-2015 due to seasonality, but typically returns to negative territory by year-end.

Steadily increasing gross margin; stable SSSG



Source: Company, Maybank ATR Kim Eng

Swing Factors

Upside

§ Stronger SSSG could lift sales, margins and earnings.
§ Faster sales ramp-up of new stores will also help improve margins and lift earnings.
§ Rebound in underperforming segments, particularly convenience and specialty fast fashion could help accelerate earnings growth.
§ Value-accretive acquisitions and entry into new attractive segments could be catalysts.

Downside

§ Intensifying competitive environment may hurt SSSG, sales ramp up in new stores, and reduce margins.
§ Higher store closures, such as in convenience and specialty fast fashion segments, could result in loss provisions and diminished scale of operations.
§ Store openings in less ideal locations, such as in highly competitive areas or those with low consumer purchasing power could drag down margins and profits.

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Maybank Kim Eng

Consumer Discretionary

Philippines

Puregold Price Club (PGOLD PM)

No slowdown in store expansion

BUY

Share Price	PHP 39.00
12m Price Target	PHP 52.00 (+33%)
Previous Price Target	*PHP 52.00*

Attractive growth prospects; Undervalued. BUY

We are optimistic on PGOLD's prospects and forecast earnings to grow 14-15% YoY in FY17-18, driven by higher sales. We maintain our forecasts, BUY and TP of PHP52, which is based on 12.5x FY17F EV/EBITDA, a 10% discount to the average for grocery retailers in the region due to tougher competition and higher execution risk for S&R.

Opening 25 Puregold and 2 S&R stores annually

PGOLD is not slowing down on its store openings. As in 2016, the target is to open 25 *Puregold* stores and two *S&R* stores. Most of the new stores will be outside Metro Manila where modern grocery penetration is less than the 30% national average. Combined with decent SSSG, which we forecast at 3% for *Puregold* and 3.5% for *S&R*, we expect net sales to grow 12% YoY from our estimate of PHP112.9b for 2016. We believe consumer spending will continue to be healthy even without the boost from election-related spending in 2017.

Passing on higher costs to depend on pricing strategy

Consumer inflation is expected by the Philippine central bank to go up 3% in 2017 from 1.8-2% in 2016, partly to be driven by higher global prices for fuel and higher cost of imported goods due to the weaker peso versus the USD. At this level, we think it is manageable and healthy consumer spending will continue. Suppliers are likely to raise selling prices and Puregold is likely to pass most of the increases on to consumers. For S&R, which accounts for 20% of PGOLD's net sales (30% of EBITDA), about 60% of products are imported. Normally, higher costs will be passed on to customers. But S&R is in the midst of a new pricing strategy ("everyday low prices") to broaden its customer base. Management is open to absorbing part of the higher costs. The impact to earnings could be mitigated by potentially higher sales and better operating leverage.

Attractive valuations versus retailing peers

We forecast earnings to increase 14-15% YoY pa in 2017-18, driven mainly by higher sales. Upside could also come from acquisition of smaller groceries as we expect further consolidation of the grocery retailing industry in the country. Given the attractive growth prospects, we believe PGOLD is priced at a bargain at 19.3x PER and 8.6x EV/EBITDA for 2017F versus the 24x PER and 14x EV/EBITDA average for grocery retailers in the region. Reiterate BUY on PGOLD.

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	84,697	97,172	112,653	126,673	141,983
EBITDA	7,663	8,404	9,604	10,958	12,434
Core net profit	4,520	5,002	5,753	6,580	7,570
Core FDEPS (PHP)	1.63	1.81	2.08	2.38	2.74
Core FDEPS growth(%)	14.2	10.7	15.0	14.4	15.0
Net DPS (PHP)	0.30	0.30	0.36	0.42	0.48
Core FD P/E (x)	23.9	21.6	18.7	16.4	14.2
P/BV (x)	3.2	2.8	2.5	2.2	2.0
Net dividend yield (%)	0.8	0.8	0.9	1.1	1.2
ROAE (%)	13.9	13.8	14.1	14.3	14.6
ROAA (%)	8.8	8.9	9.4	9.8	10.4
EV/EBITDA (x)	13.7	11.4	10.9	9.2	7.8
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	5,614	6,225	6,985
MKE vs. Consensus (%)	-	-	2.5	5.7	8.4

Company Description

Engaged in the business of buying, selling, distributing, and marketing wholesale or retail goods and commodities

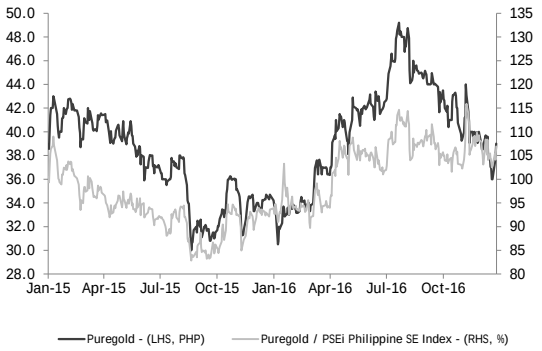
Statistics

52w high/low (PHP)	49.20/30.50
3m avg turnover (USDm)	1.2
Free float (%)	32.6
Issued shares (m)	2,765
Market capitalisation	PHP107.8B
	USD2.2B

Major shareholders:

Cosco Capital Inc	51.0%
CO FAMILY	16.0%
CAPITAL RESEARCH	4.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(8)	12
Relative to index (%)	(1)	2	14

Source: FactSet

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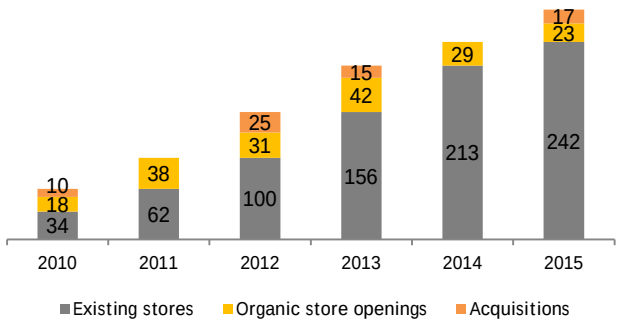
Value Proposition

- Second-largest modern grocery retailer in the Philippines. Benefits from 27-30% penetration of modern retailing.
- Puregold brand has solid standing with middle-class consumers for its value-for-money products.
- Also captures niche market via Aling Puring, an incentive programme that caters to mom and pop (sari-sari) stores.
- S&R is the only warehouse membership club for upper-middle class consumers. Will open more stores and use new pricing scheme to protect market share.
- PGOLD's success is built on competitive pricing, cost efficiency and brand strength.
- Long-term returns on capital likely to improve with sustained expansion, store maturity and sales ramp-up.

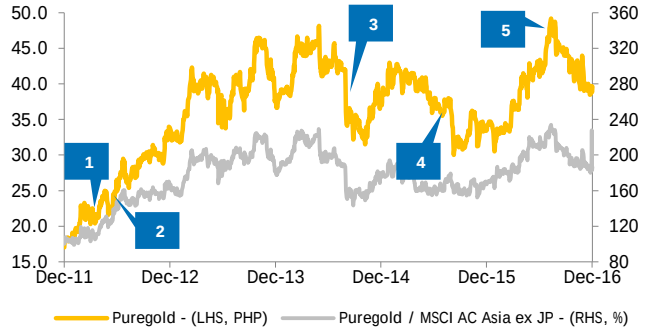
New store openings, acquisitions to power its topline



Source: Company, Maybank ATR Kim Eng

Price Drivers

Historical share price trend



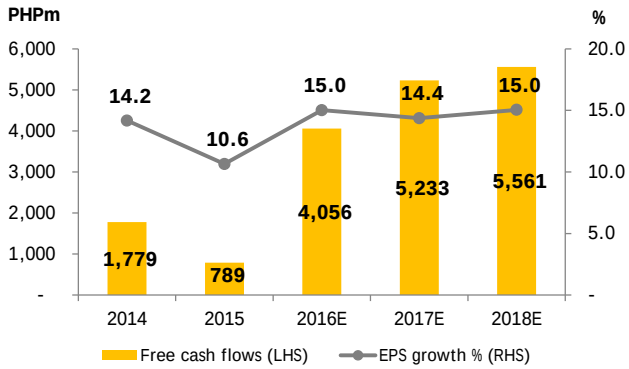
Source: Company, Bloomberg, Maybank ATR Kim Eng

1. Acquisition of Kareila Management Corp, operator of S&R Membership Shopping warehouses.
2. Acquisition of Gant Group, which owns 19 Parco supermarkets in Luzon
3. 2Q14 profits down 12% YoY due to delayed booking of *Aling Puring* supplier discounts
4. Flat 1H15 SSSG for S&R and guidance of lower gross margins for 2015 due to the change in pricing scheme to "everyday low prices".
5. PGOLD's 9M16 net income went up 13.8% YoY attributable to healthy sales mainly from *Puregold* stores with SSSG of 6.6%.

Financial Metrics

- 2015-16 were consolidation years as S&R adjusted pricing scheme, which lowered SSSG and margins.
- FCF to improve steadily when new stores are ramped up, along with cost savings from scale.
- Sustainable net cash supports organic and acquisition growth.
- Margins and SSSG less stable in competitive environment, while acquisitions and aggressive expansion are on-going.
- Efficiency initiatives could offset higher operating costs from S&R's expansion.

Steady FCF along with normalizing EPS growth



Source: Company, Maybank ATR Kim Eng

Swing Factors

Upside

- Success of S&R's new "everyday low prices" pricing scheme that broadens market and cements its leadership in the upper middle class market.
- Synergies from recent *PurePadala* initiative could corner a chunk of grocery spending backed by remittances from overseas Filipinos.
- Could secure prime locations for future stores, which target middle class consumers via partnership with Ayala Land Inc through *Merkado* supermarkets.

Downside

- Competition may undermine margins and SSSG, as would a rise in rental expenses.
- Securing prime locations for convenience stores may be difficult, especially in Metro Manila.
- Opening of S&R stores in provincial areas where consumers have less pricing power may result in smaller ticket sizes and slower sales ramp-up.

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Consumer Staples

Philippines

Jollibee Foods (JFC PM)

Overcoming higher costs in 2017

BUY

Share Price	PHP 194.00
12m Price Target	PHP 240.00 (+24%)
Previous Price Target	*PHP 240.00*

Strong sales and higher ASP to beat cost increases

We expect JFC's costs to go up in 2017. But we also expect JFC to overcome this by sustaining strong sales and by raising prices. JFC is in the best position versus peers to raise prices because of its market dominance and strong franchise. Our forecasts, BUY rating and PHP240 TP are unchanged. Our TP is based on 38x PER 2017F, equivalent to 0.5SD above its five-year mean to reflect JFC's positive sales and earnings growth outlook.

Double-digit sales growth likely to be sustained

JFC is expected to sustain double-digit system-wide sales growth (combined sales of franchised and company-owned stores) in the next few years. This will be driven organic store expansion and healthy SSSG. JFC is maintaining its 300 gross store opening target (200 local, 100 overseas). SSSG is expected to be sustained at 6-7% from both higher volume and ASP. In the Philippines, which accounts for 80% of system-wide sales, JFC expects demand for its products to remain strong due to product innovation and effective marketing amid healthy consumer spending.

Expenses likely to be higher in 2017…

Based on our initial estimates, JFC's raw material cost could go up by 3-4% in 2017. The weak peso is partly to blame. For the Philippine operations, about 30% of raw material cost comes from imported products, such as beef, potatoes, pork and dairy. Operating expenses could also rise. JFC is beefing up its store headcount to maintain or improve store service levels in anticipation of higher sales.

… Gradual price hikes to mitigate impact to margins

JFC will raise ASP to mitigate higher costs. We believe JFC is in the best position in the fast food industry to raise prices because of the group's leadership and strong franchise. Nonetheless, the price hikes will be in small increments of usually less than 1% so that they won't be felt by customers. In 2016, JFC's various domestic brands raised ASP by less than 1% in Mar-Apr, and then again in Oct-Nov and in Dec. Based on indications, domestic store SSSG remained strong in 4Q16.

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	90,671	100,780	113,409	126,709	141,877
EBITDA	9,323	8,781	10,600	12,302	13,770
Core net profit	5,362	4,928	5,722	6,714	7,698
Core EPS (PHP)	5.04	4.61	5.35	6.28	7.20
Core EPS growth (%)	13.5	(8.5)	16.1	17.3	14.7
Net DPS (PHP)	1.47	1.78	1.86	2.09	2.40
Core P/E (x)	38.5	42.1	36.3	30.9	27.0
P/BV (x)	7.6	6.8	6.0	5.3	4.7
Net dividend yield (%)	0.8	0.9	1.0	1.1	1.2
ROAE (%)	21.6	17.0	17.6	18.3	18.6
ROAA (%)	10.7	8.3	8.4	9.1	9.7
EV/EBITDA (x)	24.5	26.4	19.4	16.6	14.6
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	6,241	7,197	8,227
MKE vs. Consensus (%)	-	-	(8.3)	(6.7)	(6.4)

Company Description

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

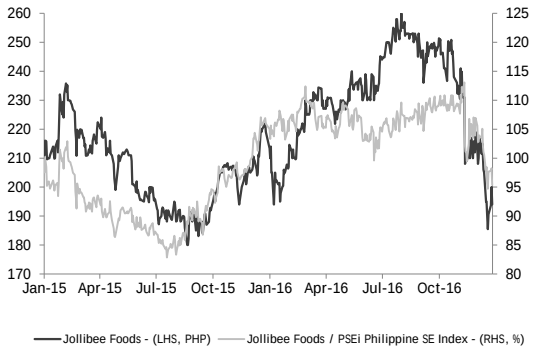
Statistics

52w high/low (PHP)	260.00/185.50
3m avg turnover (USDm)	3.0
Free float (%)	42.6
Issued shares (m)	1,075
Market capitalisation	PHP208.6B
	USD4.2B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(10)	(21)	(11)
Relative to index (%)	(11)	(12)	(10)

Source: FactSet

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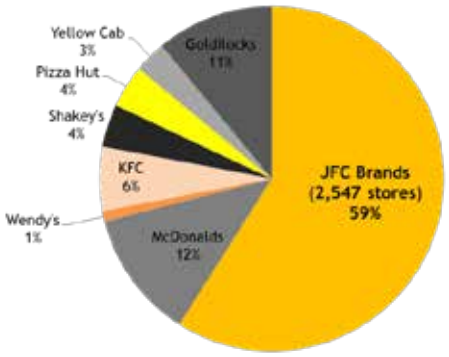
Value Proposition

- Through multiple brands, JFC is the country's biggest restaurant chain operator with 2,547 stores in the Philippines and 674 outlets overseas as at end-9M16.
- *Jollibee* is an iconic Filipino brand that connects with Filipinos all over the world.
- JFC has the distinction of beating global QSRs in their home markets, including McDonalds and KFC.
- Initiatives to raise international contribution to 50% of sales from 20% currently will enhance risk-return profile.
- Value creation highlighted by 11.4% earnings CAGR from 2005-2015, while ROE averaged 19.1%.

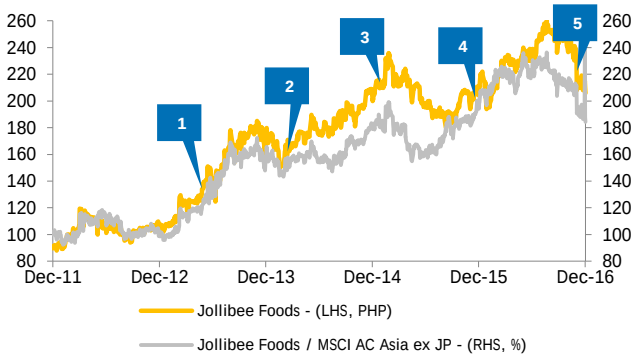
Store network market share (end-9M16)



Source: Company

Price Drivers

Historical share price trend



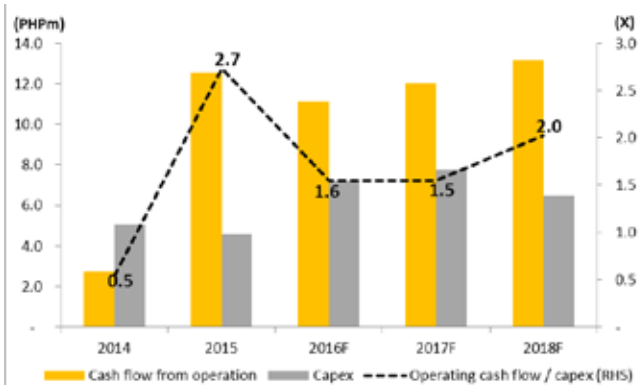
Source: Company, Factset, Maybank ATR Kim Eng

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. Announced in October 2015 the acquisition of an initial 40% stake in US-based *Smash Burger* for USD339m.
5. 3Q16 EBIT was down 7% YoY dragged by higher operating costs, driven mainly from higher store crew related expenses.

Financial Metrics

- SSSG is an important metric as it affects turnover and operating leverage.
- Sustainable annual SSSG targeted at 6-7%.
- Potential for ROE to expand, already among the highest in Philippines for listed companies, with increasing scale, especially from overseas operations.
- Profit in FY17-18F expected to exceed 11-12% historical growth average, driven by stronger sales and better margins.
- Healthy FCF, with operating cash flow of PHP12-13.2b in FY17-18F against PHP6.5-7.8b of capex, mainly for new stores, store renovations and central kitchen expansion.

Healthy operating cash flows funding capex



Source: Company

Swing Factors

Upside

- Higher than 6-7% SSSG would boost operating leverage.
- Faster depletion of expensive 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

- Sharp inflation could adversely affect currently healthy consumption and soften JFC's sales and margins.
- Sharp jump in commodity prices, especially for beef and chicken, JFC's two biggest raw materials.
- Unexpected supply chain or logistics issues that could adversely affect sales and/or increase costs.
- 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 to BV.

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Maybank Kim Eng

Financials

Philippines

Metro Pacific Investments (MPI PM)

Infrastructure bet for 2017

BUY

Share Price	PHP 6.66
12m Price Target	PHP 8.10 (+22%)
Previous Price Target	*PHP 8.10*

Best conglomerate in infra sector

MPI is one of the best infrastructure-focused Philippine names. It has the ability to acquire failing companies and turn them around into profitable assets. For 2017, we forecast that MPI's growth drivers will be power, toll roads, healthcare and rail with earnings rising 18% YoY. We have a BUY rating on MPI as we expect it will be one of the main beneficiaries of the new administration's infrastructure development programme. MPI shares have performed well YTD and we see further upside to our TP of PHP8.10, which is based on a 20% disc to our SOTP-NAV based valuation.

Power to drive growth in FY17F

We expect the contribution from power assets to drive 18% income growth for FY17. Recall that MPI acquired Global Business Power (GBP not listed) this year. For FY17, we forecast full-year income of around PHP1.9b from this new asset. Meanwhile, earnings contribution from Manila Electric Co. (MER; HOLD TP PHP315.00) should decline due to the lower rates for the fourth regulatory period. Total power portfolio (GBP and MER combine) will contribute ~47% of operating income.

Positive long-term potential for toll roads

We expect toll road income to rise by 16.4% YoY in FY17F as we expect traffic growth to be sustained at a high single digit rate (7-9%). Toll roads are likely to account for ~26% of MPI's FY17 operating profit. Over the long term, we think earnings growth will be more tilted towards toll roads given the various developments that we haven't factored in. We see the following three factors providing upside potential i) The expansion of the current concession (segment 10 in NLEX); ii) the construction of CALAX, Connector and Cebu Cordova; and iii) the potential gains from tariff hikes/longer concessions from the government.

Solid earnings growth in FY17F; attractive valuation

We estimate 2017 could be a banner year for MPI with solid earnings growth of 18% YoY. Core businesses power, toll road, hospitals and water utility are seen to have earnings YoY growth of 15.1%/16.4%/16.7% and 6.5%, respectively. Note that our assumption is a worst case scenario of no tariff increases, especially in the water business. The shares are inexpensive, trading at a PER of 14.2x FY17E, which is 1SD below its five-year average of 16x.

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	33,832	37,239	38,255	41,035	42,801
EBITDA	18,225	19,559	21,073	22,834	23,951
Core net profit	8,604	9,546	11,556	13,667	15,033
Core EPS (PHP)	0.33	0.34	0.37	0.43	0.48
Core EPS growth (%)	19.4	3.6	7.1	18.3	10.0
Net DPS (PHP)	0.03	0.06	0.06	0.07	0.08
Core P/E (x)	20.1	19.4	18.1	15.3	13.9
P/BV (x)	1.7	1.5	1.4	1.3	1.2
Net dividend yield (%)	0.5	0.9	0.9	1.0	1.1
ROAE (%)	8.7	8.5	8.5	8.7	8.9
ROAA (%)	4.0	3.6	3.6	3.9	4.0
EV/EBITDA (x)	15.2	19.1	22.2	21.4	21.1
Net gearing (%) (incl perps)	25.4	40.6	40.8	39.2	36.9
Consensus net profit	-	-	11,862	13,037	13,343
MKE vs. Consensus (%)	-	-	(2.6)	4.8	12.7

Company Description

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

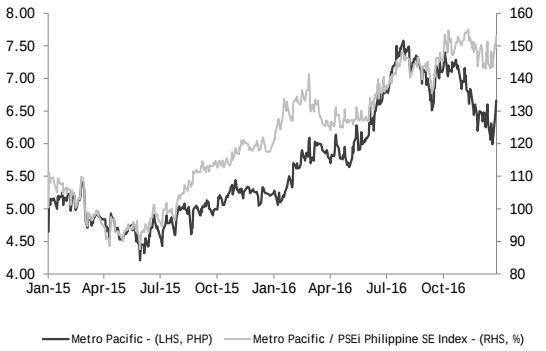
Statistics

52w high/low (PHP)	7.58/5.06
3m avg turnover (USDm)	4.1
Free float (%)	38.0
Issued shares (m)	31,504
Market capitalisation	PHP209.8B
	USD4.2B

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 (%)	7	(6)	28
Relative to index (%)	6	5	30

Source: FactSet

PER band (2010-2016)

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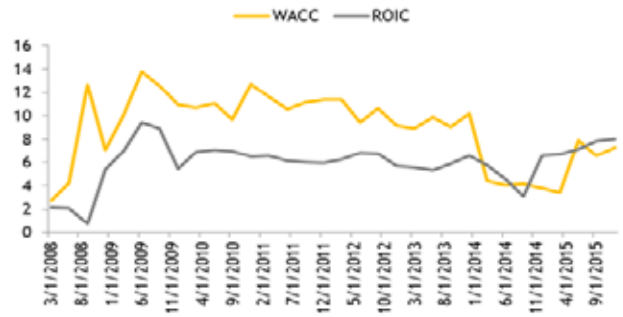
Value Proposition

- § Owns stakes in water and power, railways, toll roads and hospitals. Derives ~92% of operating income from regulated businesses with 60-70% EBITDA margins.
- § Core businesses are defensive with stable cash flows. Recent failure to secure rate increases has stalled growth and returns.
- § Superior management demonstrated through numerous value-accretive acquisitions, enhanced operating efficiency, and earnings quality.
- § EBITDA margin improved to 55% in 2016F/2017F from 16% in 2008.
- § ROIC has improved over WACC since 2014 from its higher EBITDA margin and sales volumes.

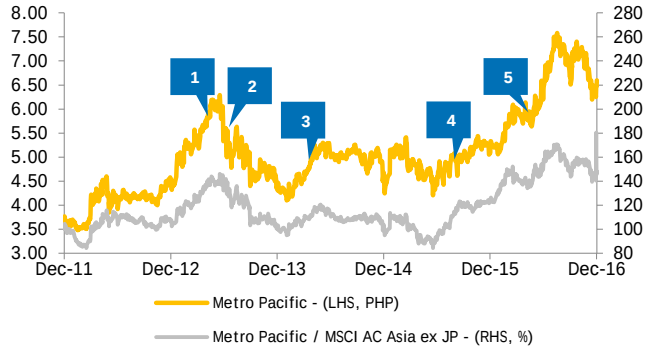
ROIC vs WACC



Source: Company

Price Drivers

Historical share price performance



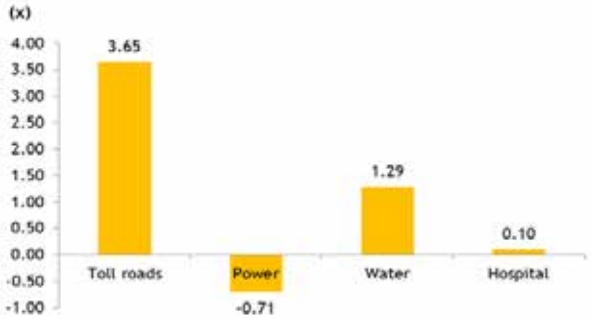
Source: Bloomberg, Maybank Kim Eng

1. Maynilad submitted a business plan for rate rebasing, asking for PHP8.58/m^3 increase in water rates.
2. MWSS-RO denied Maynilad's petition and ordered a PHP1.46/m^3 cut in rates.
3. MPI received a favourable decision in its arbitration case.
4. MPI-Ayala Corp consortium took over LRT 1 operations.
5. MPI purchases additional stake in Beacon, and Beacon increases stake in Global Business Power then sells shares to GTCAP.

Financial Metrics

- § Inability to raise tariffs has depressed returns. EBITDA margin is higher than other conglomerates, but high operating leverage weighs on ROIC.
- § We expect tariff increases for toll roads and water or an extension of its concession period after the May elections.
- § Low net gearing and steady dividends from subsidiaries imply capacity to take on debt for more/larger projects.
- § A key ratio to monitor is net debt to EBITDA of subsidiaries, which shows it takes only 1-3 years for subsidiaries to pay off debts.

Net debt to EBITDA for MPI's units



Source: Company

Swing Factors

Upside

- § Grant of tariff increases for water or toll roads.
- § If the regulator awards tariff hikes for toll roads, our NAV/share increases by 6% and earnings 10%.
- § If the regulator extends its toll-road concession period, our NAV increases by 7%. Earnings the same.
- § New project wins like bulk water supply will be NAV-accretive.

Downside

- § Further delays in tariff hikes, affecting earnings growth and capital structure.
- § Sliding EBITDA/EBIT margins due to lower tariffs.
- § Unfavourable regulatory rulings for other concessions.

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Maybank Kim Eng

Utilities

Philippines

Manila Water Co. (MWC PM)

"A refreshing" portfolio in place for future development

BUY

Share Price	PHP 29.00
12m Price Target	PHP 34.00 (+17%)
Previous Price Target	*PHP 34.00*

Optimistic on new ventures; Reiterate BUY

MWC under its fully own subsidiary, Estate Water will do the piping and water supply to two of the country's biggest developers Ayala, Inc (ALI; BUY; TP PHP50) and SMDC (not listed). Estate Water is part of MWC's Philippine Ventures non-east zone businesses that will contribute 50% of MWC's net income guidance of PHP11.5b by FY2020. We forecast MWC's EPS growth to increase 16%/34% in 2017F and 2018F driven by its non-east zone businesses. We reiterate BUY with unchanged TP of PHP34 based on our SOTP valuation.

Robust growth for non-east zone businesses

Profits of the non-east zone business doubled YoY to PHP320m in 3Q16, and increased 39% YoY to PHP755m during 9M16. For 2017, we are expecting the non-east zone to contribute 25% of MWC's net profit with 42% YoY growth. This will be mainly driven by the Philippine Ventures, particularly Laguna Concession and Estate Water with a combined contribution of 11% to MWC's bottom-line in 2017. MWC has beefed up its Philippine Venture business through JVs and agreements to provide services with other developers and water districts. We expect more such deals to come into play in order to support its 2020 strategy.

Manila Concession awaiting Supreme Court decision

Manila Concession (East) is still expected to generate the lion's share of MWC's 2017 earnings despite flat growth, based on our estimates. We have not factored in any tariff rate hike until 2020 given the pricing case still pending with the Supreme Court (SC) and the International Arbitration (IA). We believe the market has priced in a negative outcome on the case so any decision to the contrary would be a potential positive catalyst.

Street earnings revisions likely

In our opinion, the street continues to underestimate the growth potential of the non-east zone businesses. Going forward, we expect upwards revisions to consensus earnings forecasts, which could result in a re-rating of the stock. Currently, MWC trades at a PER of 10.6x 2017E, which is a meaningful discount to its five-year historical mean of 12x. We reiterate BUY with moderate upside to our unchanged TP of PHP34, with main catalysts the non-east zone and upward revisions to consensus estimates.

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	16,332	16,936	16,807	18,168	22,357
EBITDA	11,297	11,139	11,163	12,112	14,991
Core net profit	4,857	5,005	5,013	5,792	7,770
Core EPS (PHP)	2.37	2.43	2.44	2.82	3.78
Core EPS growth (%)	35.4	2.7	0.2	15.6	34.1
Net DPS (PHP)	0.82	0.83	0.87	0.87	0.94
Core P/E (x)	12.2	11.9	11.9	10.3	7.7
P/BV (x)	1.7	1.5	1.4	1.3	1.1
Net dividend yield (%)	2.8	2.9	3.0	3.0	3.2
ROAE (%)	15.1	13.8	12.4	13.0	15.5
ROAA (%)	6.6	6.4	5.9	6.3	7.8
EV/EBITDA (x)	7.0	6.4	7.8	7.4	6.0
Net gearing (%) (incl perps)	54.2	48.8	58.9	58.6	53.2
Consensus net profit	-	-	5,752	5,574	5,923
MKE vs. Consensus (%)	-	-	5.4	22.7	50.2

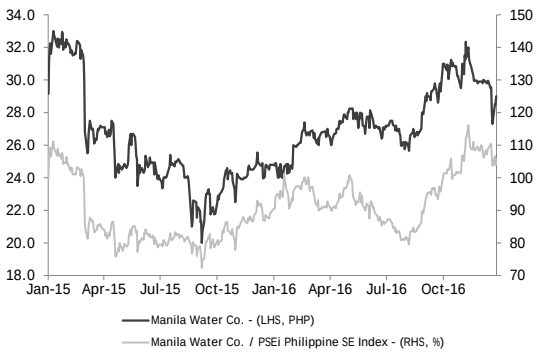
Statistics

52w high/low (PHP)	32.35/24.00
3m avg turnover (USDm)	1.8
Free float (%)	58.5
Issued shares (m)	2,054
Market capitalisation	PHP59.6B
	USD1.2B

Major shareholders:

Ayala Corp.	39.3%
Commonwealth Bank of Australia	6.8%
Aberdeen	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(1)	17
Relative to index (%)	(4)	10	19

Source: FactSet

MWC five year PER bands

Source: Maybank Kim Eng

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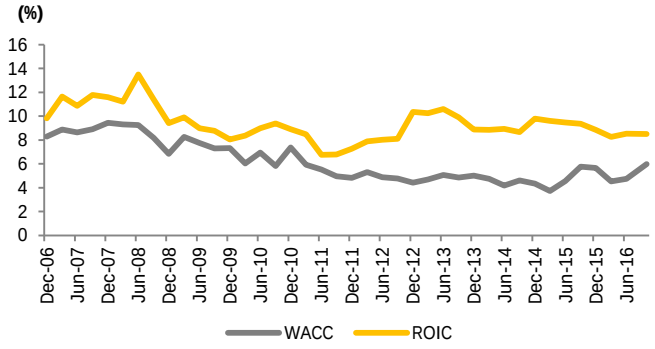
Value Proposition

- § MWC is a water concessionaire in the Philippines, expanding its business beyond the east zone concession through new bulk water contracts, water supply agreements, and international concessions.
- § Management targets PHP11.5b in net income by 2020 from PHP6b in FY15A/16E; the east zone concession is to contribute 50% and the new businesses the other 50%.
- § MWC's ROIC has been above its WACC for many years, which we attribute to the East zone concessions tariff scheme. This has allowed MWC to earn a fixed return above its WACC.

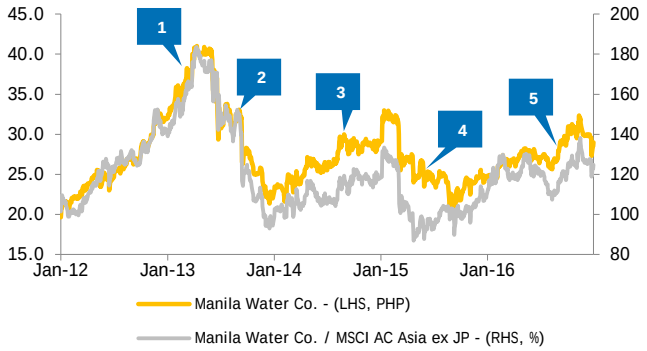
ROIC vs WACC



Source: Maybank Kim Eng, Bloomberg

Price Drivers

Historical share price trend



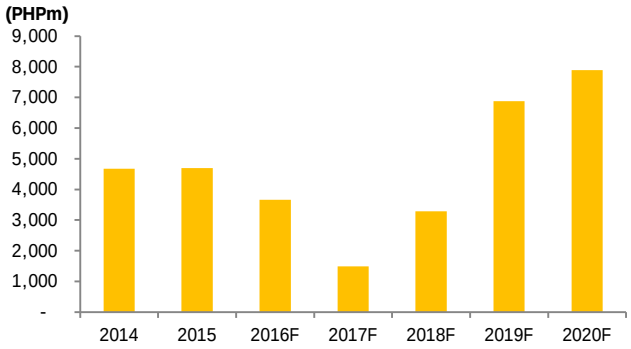
Source: Bloomberg, Maybank Kim Eng

1. Market anticipates higher tariff rates for east concession as MWC submitted its business plan to Manila Waterworks Sewerage System Regulatory Office (MWSS-RO).
2. MWSS-RO denies MWC's petition for a rate hike and imposes a 29.5% cut in tariffs. MWC proceeds to arbitration against MWSS.
3. Market anticipates a favourable arbitration decision.
4. MWC gets removed from the PSEi and receives an unfavourable decision from the arbitration.
5. MWC announces 2020 guidance to investors.

Financial Metrics

- § Net income CAGR in 2015-2020 will be 4% for East zone and 48% for the non-east zone businesses.
- § We anticipate annual capex to rise from PHP300m to PHP1-1.3b because of the expansion.
- § Due to heavier capex, we think free cash flows will decline over 2016F to 2017F, then recover in 2018, 2019 and 2020 due to higher net income.

Free cash flows



Source: Company, Maybank Kim Eng forecasts

Swing Factors

Upside

- § New businesses, such as bulk water or new concessions outside the east zone.
- § Tariff increases in the rate-rebasing of non-east zone concessions, such as Boracay.
- § Income tax holidays on new businesses and further margin improvement.

Downside

- § Another tariff cut from rate rebasing in the East zone.
- § Unfavourable decision in the Supreme Court case regarding the recoverability of income tax.
- § Slower-than-expected ramp-up of non-east zone businesses.

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Maybank Kim Eng

Industrials

Philippines

Ayala Corp (AC PM)

A proxy for a burgeoning domestic economy

BUY

Share Price	PHP 730.50
12m Price Target	PHP 1,052.00 (+44%)
Previous Price Target	*PHP 1,052.00*

Strong macro leverage; Maintain BUY

AC remains a conglomerate proxy for the growing Philippine domestic economy with its diversified interests in banking, property, telecoms, utilities, power, infrastructure, industrial technologies and automotive. We forecast 14% YoY earnings growth in FY17, driven by higher profits from its subsidiaries Ayala Land Inc (ALI-BUY, TP PHP50) and Manila Water Company Inc (MWC-BUY, TP PHP34), which will contribute 48% of income. Given the strong earnings growths from its core subsidiaries, we maintain BUY on AC.

2020 guidance strategy on track

We believe AC is on track to meet its guidance of doubling net income to PHP50b by Y2020 from PHP22b in 2015. We concur that earnings growth is likely to continue to be driven by its traditional core business, such as ALI, Bank of the Philippine Islands (BPI-HOLD, TP PHP98) and Manila Water Company Inc. ALI will benefit from its higher recurring income, which will underpin its high double-digit growth in 2017. MWC is expanding its concession outside the east zone and the Philippine itself, which will help the firm reach its 2020 guidance. In addition, we see steady earnings contributions from Globe telecoms (GLO-HOLD. TP PHP1,900) and BPI.

New businesses to provide healthy growth in 2017

For AC's new businesses, we estimate earnings growth of 19% YoY in 2017. AC's infrastructure division is expected to grow by 52% in 2017 due to higher LRT ridership and Muntinlupa and Cavite Expressway (MCX not listed) traffic. Meanwhile, its energy division is expected to have an earnings growth of 21% YoY due to the contribution of its new power plants. Moving forward, we expect income contribution of 7-8% from these new businesses.

Conglomerate discounts will narrow

AC has traded at a narrower discount to NAV of about 22% during 2012 to 2015 versus 31.4% in 2016. We expect the discount will narrow again as AC continuously reports steady earnings growth over the next two years driven by strong earnings growth of ALI and MWC. Our TP of PHP1,052 is based on a 10% discount to NAV (WACC 7-9%, long-term growth 1-4%). Reiterate BUY.

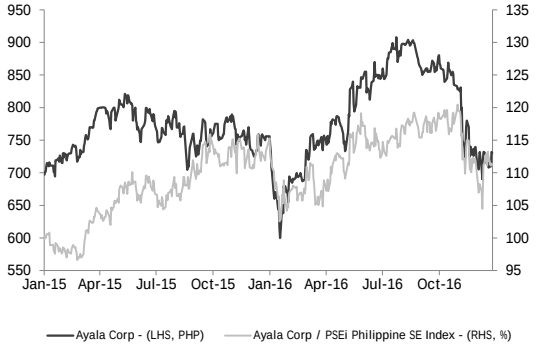
Statistics

52w high/low (PHP)	908.00/600.00
3m avg turnover (USDm)	6.8
Free float (%)	40.1
Issued shares (m)	620
Market capitalisation	PHP453.1B
	USD9.1B

Major shareholders:

MERMAC INC.	49.0%
MITSUBISHI CORP.	10.2%
COMMONWEALTH BANK OF AUSTR	3.2%

Price Performance

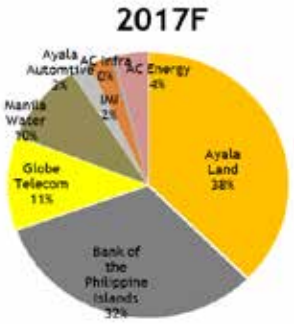


	-1M	-3M	-12M
Absolute (%)	1	(15)	(3)
Relative to index (%)	(0)	(5)	(2)

Source: FactSet

FYE Dec (PHP m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	156,416	174,035	208,567	238,697	260,763
EBITDA	37,474	42,365	53,949	63,716	75,195
Core net profit	17,148	20,998	23,934	27,319	31,910
Core FDEPS (PHP)	28.31	33.75	38.47	43.91	51.29
Core FDEPS growth(%)	14.5	19.2	14.0	14.1	16.8
Net DPS (PHP)	4.80	4.80	4.80	4.80	0.00
Core FD P/E (x)	25.8	21.6	19.0	16.6	14.2
P/BV (x)	2.4	2.2	2.1	2.1	2.1
Net dividend yield (%)	0.7	0.7	0.7	0.7	0.0
ROAE (%)	10.9	11.1	11.8	13.3	15.4
ROAA (%)	2.6	2.8	2.9	3.2	3.6
EV/EBITDA (x)	18.5	18.6	14.3	12.5	11.0
Net gearing (%) (incl perps)	58.6	55.1	49.2	47.4	42.8
Consensus net profit	-	-	24,453	26,513	31,192
MKE vs. Consensus (%)	-	-	2.5	7.7	6.3

AC Net income breakdown



Source: Maybank Kim Eng

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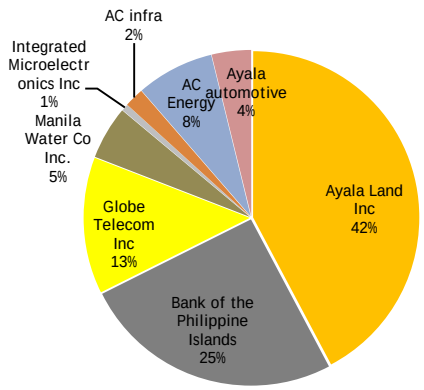
Value Proposition

- § AC is one of the largest conglomerates in the Philippines and is a proxy for the Philippine economy with a well-diversified income stream.
- § AC's NAV is comprised of its equity ownership in ALI, BPI, GLO and MWC.
- § The company is ramping up investments in power and infrastructure (hard infrastructure). These will be a key driver of earnings going forward.
- § AC arguably ranks in the upper tier of companies with regard to governance and management.

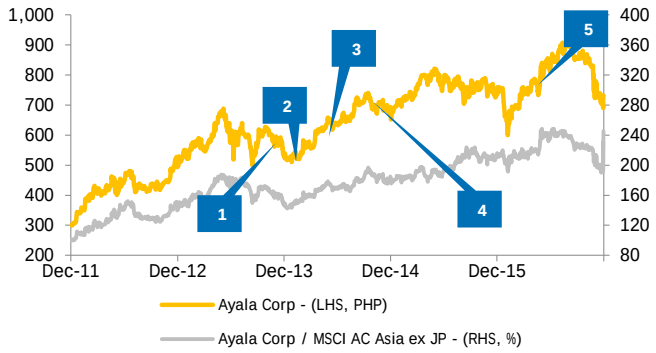
Target NAV breakdown



Source: Company, Maybank Kim Eng estimates

Price Drivers

Five-year price chart



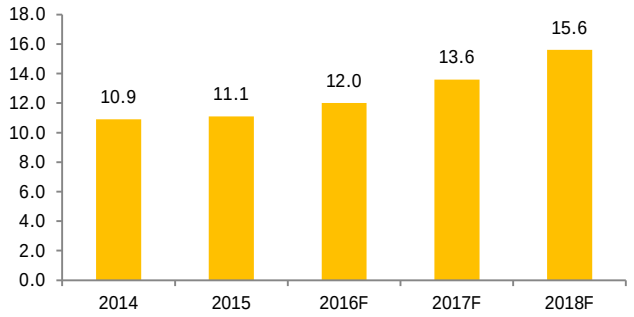
Source: Bloomberg, Maybank Kim Eng

1. In Sep 2013, the MWSS-RO's determination was MWC's 2013-17 rate rebasing is not a recoverable expense. In Dec 2013, AC bought 5.7% of MWC from Mitsubishi.
2. On Nov. 12, 2013 AC and GIC purchased a 9.9% stake in BPI from DBS for PHP29.6b. Also, AC participated in BPI's PHP25b rights offering intended to strengthen the latter's equity base for future growth.
3. In Jan 2014, AC sold a 29% interest in Stream Global Services to Convergys for a gain of USD145m.
4. In Nov 2014, AC raised USD275m in a placement to fund power and infra projects. In Apr 2014, AC issued USD300m bonds exchangeable into ALI shares.
5. In March 2016, Ali reports 20% growth in 2015 net income, exceeding income guidance

Financial Metrics

- § AC has targets of growing net income by a CAGR of 15% per year and deriving an income contribution from its unlisted businesses to ~10% of equity earnings.
- § ROE is expected to rise going forward, driven partly by an increase in income contribution from investments in power and infrastructure.
- § AC expects ROE to rise to the mid-teens level.

ROE



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- § With regard to ALI, stronger-than-expected sales take up would be a positive.
- § For BPI, better-than-expected loan growth and/or net interest margins.
- § For MWC, a favourable decision by the Supreme Court on whether income tax is a "recoverable" expense.

Downside

- § A broader and more pronounced slowdown in the residential property development sector is a key downside risk.
- § For BPI, stronger-than-expected cost growth due to higher manpower and/or IT-related costs.
- § With regard to telco sector, heightened competition in the medium term due to aggressive pricing from a third player and no reallocation of the 700 MHz frequency.

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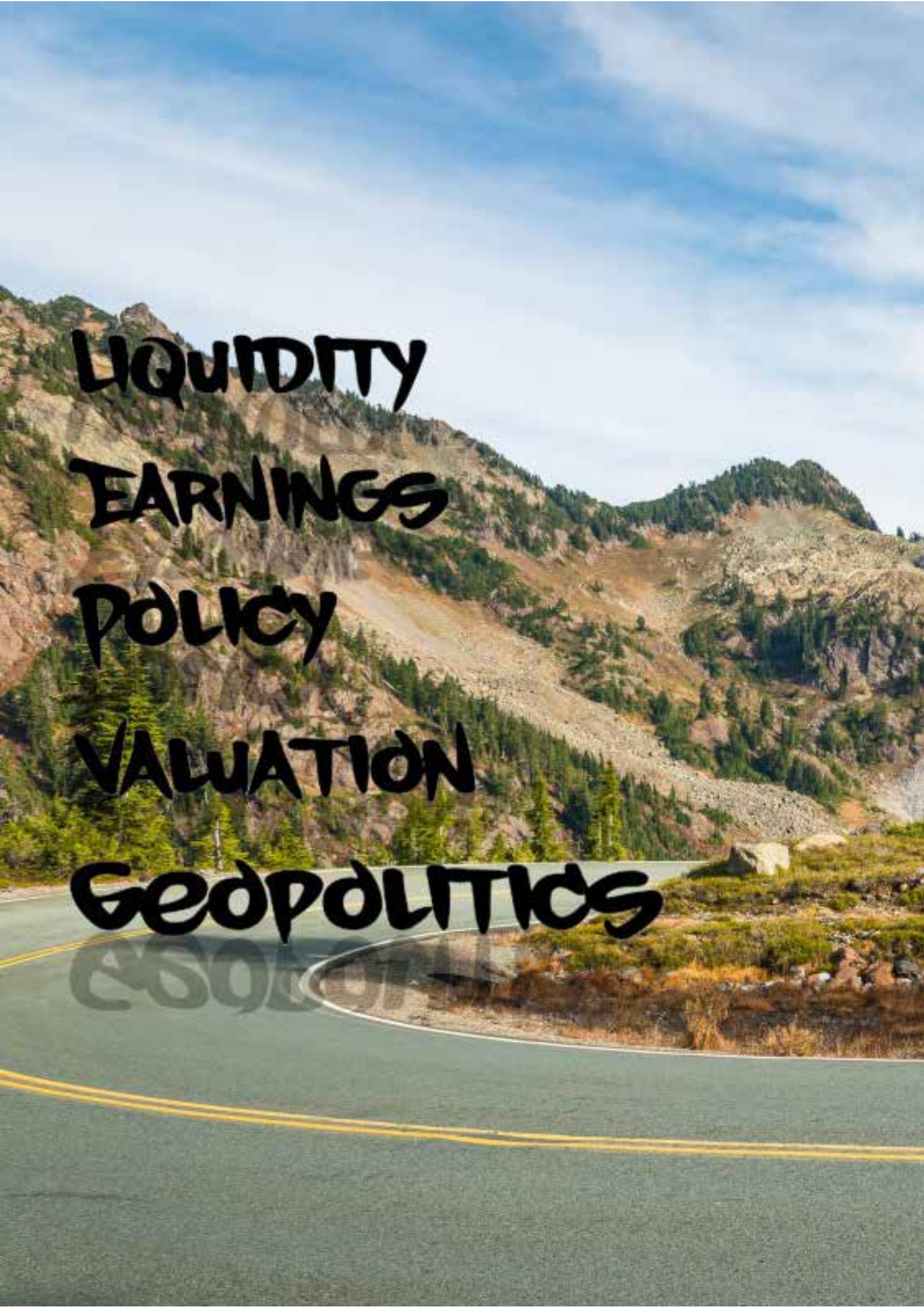
LIQUIDITY
EARNINGS
POLICY
VALUATION
GEOPOLITICS

Maybank Kim Eng

STRATEGY

Singapore

Singapore: Six-for-17

Rocky Road: Bottom-up Prevails

Makings of another lacklustre year

The outlook is mediocre to poor for all the five factors we deem important for market performance. Economic growth is sluggish, index valuations not compelling, earnings expectations weak with downside risks, liquidity risks with the region tightening capital outflows and risks of protectionism in the West. Against this backdrop, we have a bias for capital preservation over growth and secular over cyclical drivers. . Our end-2017 index target is 3,000, based on bottom-up and top-down (trailing 13.5x mean P/E) approaches that yield a 2,943-3,168 range. Our top BUYs are Raffles Medical & CapitaCommercial Trust, after screening for low earnings cyclicality, cashflow stability, manageable interest-rate exposure and low balance-sheet risks. Top SELLs: OCBC, Keppel Corp and SATS.

Backdrop challenging

Singapore faces tepid global growth and domestic demand. Retail sales are sputtering, consumer confidence weak and tourist growth slowing too. Interest rates are inching up with expected US hikes and there is downside to low unemployment and inflation. The government is eyeing 2017 GDP growth of 1-3% while we forecast 1.8%.

Seemingly cheap FSSTI not so

FSSTI's trailing P/E of 12.5x appears attractive, at almost 1SD below its 3- and 5-year means. But this is largely due to banks' structurally de-rating post-GFC Ex-banks, FSSTI trades at a small premium to its means while the broader FSTAS index, at 15.2x, is almost 1SD above. In ASEAN, FSSTI offers the best dividend yields but growth is lacking. Consensus earnings for 2017 point to modest 4.7% growth - 5.2% for MKE's universe - but we see risks given market downgrades almost every year.

Stock-picking should outperform a flat index

Our end-2017 FSSTI target is 3,000, based on bottom-up and top-down (trailing 13.5x mean P/E) approaches that yield a 2,943-3,168 range. This holds barely 2% upside. But we believe stock-picking could provide 10%+ returns, as demonstrated in 2016 when, against a flat YoY FSSTI, roughly a third of our coverage delivered double-digit returns from stock-specific drivers. Our top BUYs are Raffles Medical and CapitaCommercial Trust. Top SELLs OCBC, Keppel Corp and SATS. We also highlight ST Engineering – albeit a HOLD – which should be one of the biggest beneficiaries of USD strength among FSSTI constituent stocks.

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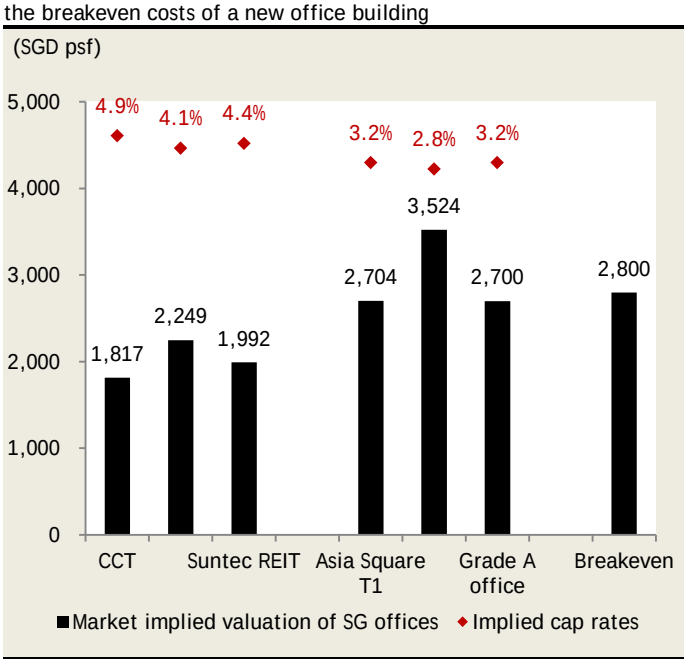
Blbg Code	Mkt Cap USDm	Rating	Price SGD	TP SGD	Upside %	P/E (x) FY16e	P/E (x) FY17e	P/E (x) FY18e	DY (%) FY16e	DY (%) FY17e	P/BV (x) FY17e	RoE (%) FY17e
CCT SP	3,172	Buy	1.48	1.81	22.3	18.3	17.8	17.8	5.9	6.0	0.9	nm
RFMD SP	1,791	Buy	1.43	1.85	29.4	34.1	31.2	27.8	1.5	1.6	3.8	12.4
KEP SP	6,917	Sell	5.79	4.57	(21.1)	11.8	11.1	11.0	3.3	3.3	0.8	7.6
OCBC SP	26,741	Sell	8.92	7.40	(17.0)	11.0	11.0	10.5	4.0	4.0	1.0	9.4
SATS SP	3,745	Sell	4.85	3.76	(22.5)	23.9	22.3	21.6	3.1	3.4	3.4	16.1
STE SP	7,265	Hold	3.23	3.17	(1.9)	20.6	18.8	17.4	3.9	4.0	4.3	24.1

Source: Maybank KE, Bloomberg

6 Links You Need to Know

Chart 1: Implied market values and cap rates of offices

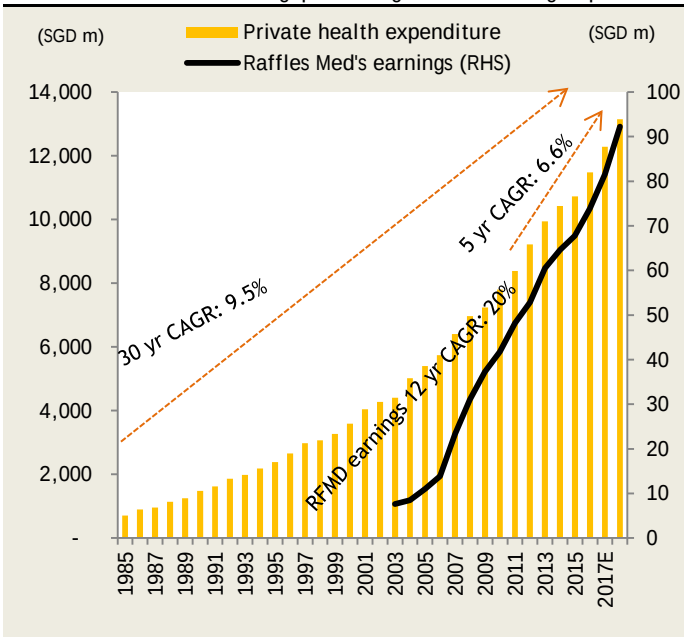
Office REITs cheap compared to recent physical-market valuations and the breakeven costs of a new office building



Source: Companies, CBRE, The Business Times, Maybank KE

Chart 2: Personal healthcare spending and RFMD's earnings

Rising healthcare spending by an ageing population and medical tourism to benefit one of Singapore's largest healthcare groups



Source: Companies, Maybank KE, SingStat

Office REITs over-discounting on-ground reality

The physical market faces another tough year, in our view. A deluge of office and residential space will hit the market in the coming 18 months, which could impede meaningful price appreciation. That said, REITs, particularly office REITs, appear to have more than adequately discounted this. They trade at discounts to recent physical transactions in the market.

Against this backdrop, we constructively position office REITs ahead of a potential bottom in early 2018. Low new supply of prime office space expected in 2018-20 should give the market ample time to absorb excess space, in our view.

Furthermore, we find valuations of office REITs attractive. Current unit prices imply market values of SGD1,800-2,200 psf and cap rates of 4.1-4.9%. They look cheap against prices in the physical market and breakeven costs of a new office building.

CCT (CCT SP, SGD1.48, BUY, TP SGD1.81) and KREIT (KREIT SP, SGD1.02, BUY, TP SGD1.21) are our preferred exposure as they have strong WALEs and low lease-expiry profiles in the near term.

Healthcare tapping the silver dollar

Singapore's healthcare sector has been harnessing structural growth drivers like rising affluence, an ageing population and growing medical tourism.

With GDP growth averaging c5% in the past decade, median income in the country has been climbing. Rising affluence is typically accompanied by demand for better-quality services and shorter waiting & treatment times. This tends to lift healthcare spending per capita.

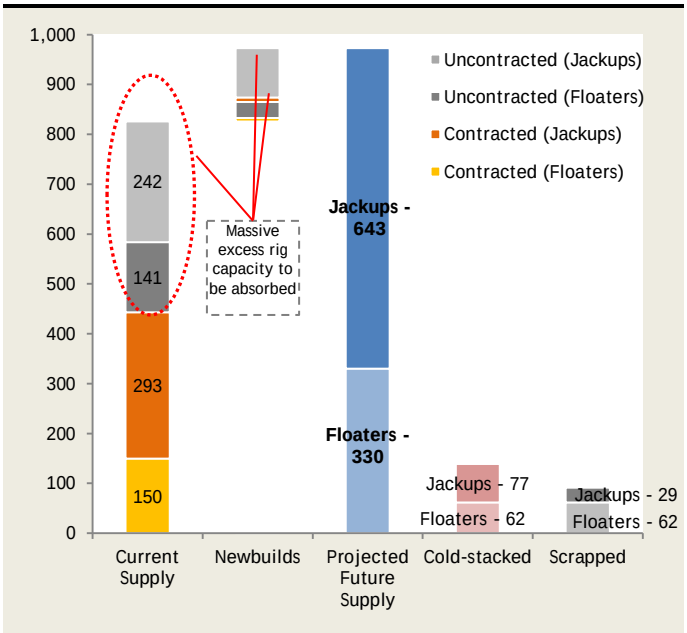
In the past decade, the population has aged too. The number of citizens aged 65 years and above went from one in 11 in 2005 to one in eight in 2015. Based on the government's 2013 Population White Paper, this is expected to increase further to one in six by 2020.

Singapore's reputed high-end medical infrastructure and expertise in complex procedures have also been drawing in medical tourists. Medical tourism revenue grew at a 10% CAGR in the last decade, to around SGD1b currently.

As one of the country's largest healthcare services groups, we think Raffles Medical (RFMD SP, SGD1.43, BUY, TP SGD1.85) is well-positioned to take advantage of structural domestic demand. It is also expanding overseas to in Hong Kong, China and Japan. .

Chart 3: Offshore rig fleets, status and new supply

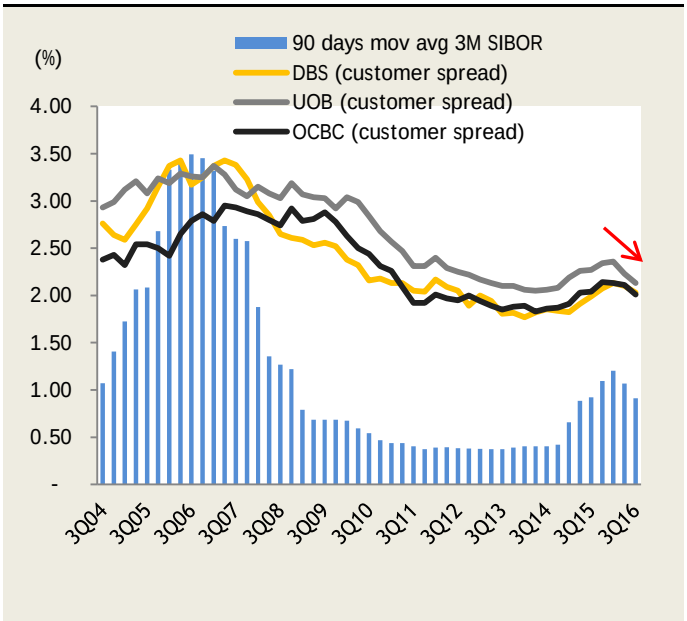
Excess capacity may take years to get absorbed, as active rigs are just 50% utilised, with another 15% under construction



Source: Noble, IHS Petrodata, Maybank KE

Chart 4: Banks' customer spreads

While rising SGD interest rates can bump up customer spreads, they can also hit borrowers' ability to repay



Source: Bloomberg, Companies, Maybank KE

Oil-price relief not enough for rigbuilders

OPEC's decision to cut crude production in Nov 2016 was a sentiment booster for almost the entire value chain of oil & gas.

But for offshore rigbuilders in Singapore, overcapacity has reached a scale not seen in decades. This differentiates the current stark reality from 2010, when there was a sharp post-GFC recovery. We think the rigbuilders will continue to have a hard time replenishing depleting order books, regardless of whether oil prices rally in the next 12-18 months. Even if Brent reaches USD50-55/bbl in 2017 as our house is predicting, we think this is unlikely to trigger a strong return in offshore drilling and new field development, given higher breakeven levels for most geographies from elevated acreage and equipment costs in 2010-15.

Average utilisation of both jack-ups and floaters has dived to 50% from 70% a year ago. This is a level not encountered in the past 15 years. Moreover, rigs under construction make up 15% of the current global active fleet. The excess rigs may take years to be absorbed, going by rig owners' decisions to defer the delivery of their new rigs to 2019-20.

Revenue for rigbuilders like Keppel Corp (KEP SP, SGD5.79, SELL, TP SGD4.57) and Sembcorp Marine (SMM SP, SGD1.38, SELL, TP SGD1.00) is in structural decline, in our view. Both are grappling with yard right-sizing as they fend off competition from similarly order-hungry Korean and Chinese builders. No doubt order-cancellation risks may fade if balance returns to the oil market. But a sustained shipyard re-rating has to be underpinned by order wins, in our view, which we do not see happening in 2017.

Rate benefits overrated, NPA risks underrated

Fundamental negatives for Singapore banks include a sluggish economy, lacklustre loan demand and worsening asset quality amid a turning credit cycle.

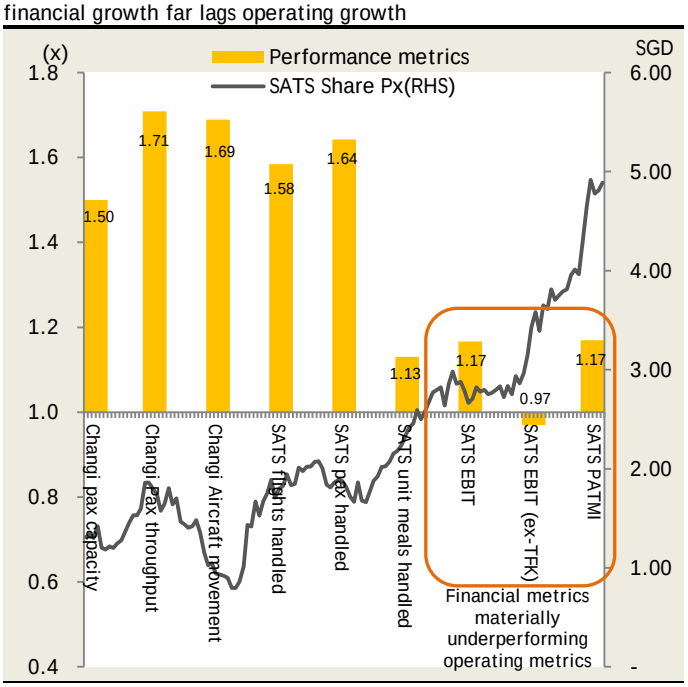
As interest rates rise, we see higher default risks. Banks are likely to set aside more provisions as the credit cycle turns, especially for the oil & gas, commodity and SME sectors.

We assume average credit costs of 44bps/41bps for FY17/18E, higher than FY16E's 39bps. For every 10bp decline in credit costs, we estimate that banks' FY17-18E net profits could increase 6-7%, *ceteris paribus*. While rising rates can help offset a fall in customer spreads through the repricing interval, there seems to be a lack of repricing in credit-risk premiums currently.

Moreover, banks are likely to face pricing pressures to retain market shares, especially for large corporate and consumer loans. We estimate loan growth of 1-2% for FY17E, in view of weak loan demand and the possibility that banks may be unwilling to take on higher risks. We remain NEGATIVE on the sector, with UOB (UOB SP, SGD20.40, HOLD, TP SGD18.36) as our preferred pick. It has lower exposure to oil & gas & China and a bigger general-provision buffer. Avoid OCBC (OCBC SP, SGD9.92, SELL, TP SGD7.40) given its greater reliance on volatile non-interest income and risks that its provisions may be inadequate to cover rising NPLs.

Chart 1: Changi Airport's and SATS' performance metrics in FY06-16

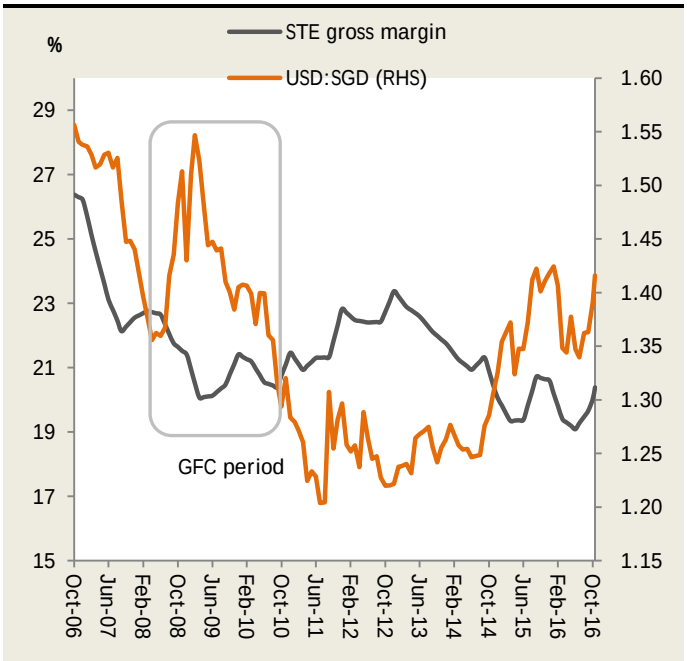
SATS has been re-rated in a big way in the past decade, although its financial growth far lags operating growth



Source: Company, Changi Airport Group, Maybank KE estimates

Chart 6: STE's rolling 3Q16 gross margins vs USD/SGD

STE's gross margins appear to move directionally with USD/SGD with a 1-2 quarter lag



Source: Company, Bloomberg, Maybank KE estimates

When volume linkage to profit is weak

SATS (SATS SP, SGD4.85, SELL, TP SGD3.76) has been one of the best-performing large caps, providing a 26% total shareholders' return and outperforming the FSSTI by 20% in 2016. Its long-term performance - in the past decade - is even more eye-catching, at around 4x, although its core Singapore operations have grown at a lower 1.6-1.7x while EBIT and net profit grew at a far more underwhelming 1.2x.

More-recent optimism on the stock appears to stem from expectations of continued margin improvements and growth in passenger statistics from net additional capacity of 28% after the opening of Changi Airport's T4 in late 2017 - expectations which we believe are misplaced against its operating realities.

The quantum of margin improvements seen in FY16/YTD FY17 is unlikely to be repeated as the lion's share of this came from its divestment of an unprofitable food-distribution operation. History also suggests that growth in passenger and aircraft traffic has a watered-down impact on profits, from market competition and airlines' continuous pursuit of cost-cutting. Additionally, lead air-traffic indicators like tourist arrivals have been trending down after a good 1HCY16.

Finally, Changi's T4 opening is unlikely to move the needle in the near term since we believe terminal-handling capacity is not a major handicap to growth today. The new terminal will initially largely serve existing customers moving over from the older terminals.

Best industrial proxy for USD strength

Singapore's industrial sub-sectors of aerospace, O&M construction & services and export-oriented manufacturing should profit from a stronger USD, since many of the firms operate international businesses with a chunk of their contracts priced in or linked to the USD.

Of these, we think aerospace is the best proxy for USD strength due to the sector's high regulation, high entry barriers and generally sticky customer relationships. O&M is currently buried under problems like industry overcapacity, customers' delivery deferment and poor order wins. These could persist for 1-2 years at least and overwhelm the benefits of USD strength. Meanwhile, manufacturing exporters are more exposed to competition and short product cycles than aerospace.

ST Engineering (STE SP, SGD3.23, HOLD, TP SGD3.17) is our preferred aerospace pick as 55-60% of its revenue is linked to USD, much higher than peer SIA Engineering (SIE SP, SGD3.37, HOLD, TP SGD3.70). This is because SIA Engineering's largest customer and parent is Singapore Airlines (SIA SP, SGD9.67, HOLD, TP SGD9.70) and its contracts with SIA Engineering are priced in SGD. We gauge that 25-30% of ST Engineering's operating costs are also USD-linked.

While ST Engineering is active in M&As which can skew its margin trends, rolling three quarter average gross margins have moved directionally with USD strength in the past decade, barring GFC in 2008–10 which was due to cuts in operating fleets by airlines and a drop in discretionary spending to bare minimum levels.

Maybank Kim Eng

REITs

Singapore

CapitaLand Commercial Trust (CCT SP)

Steady Ride for the Rough Road

BUY

Share Price	SGD 1.48
12m Price Target	SGD 1.81 (+22%)
Previous Price Target	*SGD 1.81*

Top office pick

CCT is our top sector pick. With strong WALE of 6.8 years and just 8% of office leases due for renewal in 2017, we think CCT is well-positioned to ride through near-term headwinds in the sector. Incremental contributions from CapitaGreen should drive a 3-year DPU CAGR of 1.8% into 2018E. Unlike distributions for its office peers that are supported by non-core distributions, CCT's reflects the underlying fundamentals of its properties. We find valuation attractive with its forward yield of 5.9% offering a generous 3.5ppt spread over SGS 10Y bond yield. We rate CCT as BUY with SGD1.81 TP, based on a target yield of 5.0%.

Cheap against the physical market

CCT's current price implies a generous cap rate of 4.9% and market value of SGD1,800 psf for its Singapore offices. This looks cheap compared to transactions in the physical market. Office buildings are being transacted at low-3% cap rates and we believe its discount to assets could narrow on any asset sales. Furthermore, high land prices puts the replacement cost of a new office building at SGD2,800 psf.

Value creation from Golden Shoe's redevelopment

Management is finally redeveloping the Golden Shoe Car Park into a commercial building with 1m sf GFA. We view this positively as it should allow CCT to capture a potential recovery in the office market when completed in 2021. If all approvals are granted, redevelopment will commence in 2H17. However, we caution that project feasibility is still limited by the amount of differential premium (DP) payable to change the property's use from transport to commercial. This will form the bulk of its development cost. Recall that SGD651m of the SGD1.3b cost to redevelop its former Market Street Carpark to CapitaGreen relates to DP and other land-related costs.

Risks

Sharper-than-expected declines in office rents of occupancy.

Cost overruns in the redevelopment of Golden Shoe.

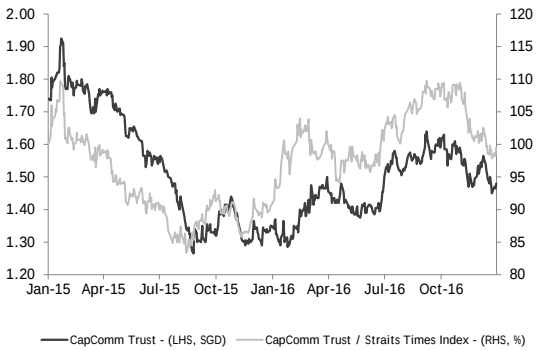
Statistics

52w high/low (SGD)	1.64/1.29
3m avg turnover (USDm)	10.0
Free float (%)	67.1
Issued shares (m)	2,963
Market capitalisation	SGD4.4B
	USD3.0B

Major shareholders:

CapitaLand Ltd.	31.9%

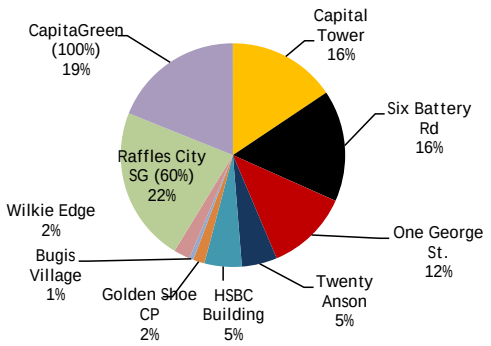
Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(7)	10
Relative to index (%)	(2)	(7)	10

Source: FactSet

FYE Dec (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	263	273	285	349	351
Net property income	205	213	224	277	279
Core net profit	370	241	252	259	261
Core EPU (cts)	12.2	7.9	8.2	8.4	8.5
Core EPU growth (%)	44.4	(35.8)	4.6	2.7	0.3
DPU (cts)	8.5	8.6	8.8	9.1	9.1
DPU growth (%)	3.9	1.9	2.2	2.9	0.3
P/NAV (x)	0.8	0.8	0.8	0.8	0.8
DPU yield (%)	5.7	5.8	6.0	6.1	6.1
ROAA (%)	5.8	3.7	3.5	3.3	3.3
Debt/Assets (x)	0.19	0.19	0.32	0.32	0.32
Consensus DPU	-	-	9.0	9.0	9.1
MKE vs. Consensus (%)	-	-	(2.1)	0.7	0.2



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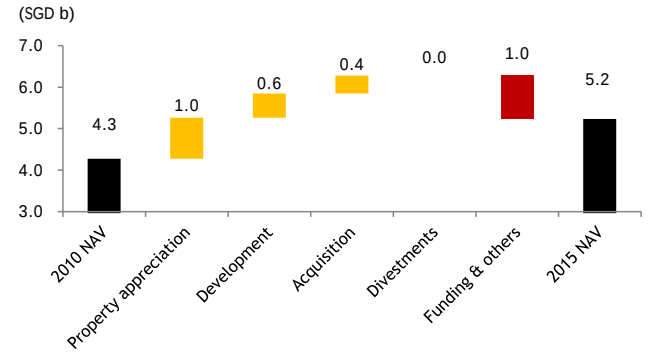
Value Proposition

- § CCT is a commercial REIT with most of its office buildings in Singapore's CBD. Backed by CapitaLand, one of the largest property developers in Singapore.
- § Good proxy for Singapore's commercial property market with SGD7.5b of assets. Singapore's office market is midway through a downcycle.
- § Record of value creation for unit holders. Redeveloped Market Street Carpark into a new office building, CapitaGreen.
- § Potential redevelopment of Golden Shoe Carpark is a possible avenue of value creation in the future. Another is acquisition of stabilised office assets from its sponsor.

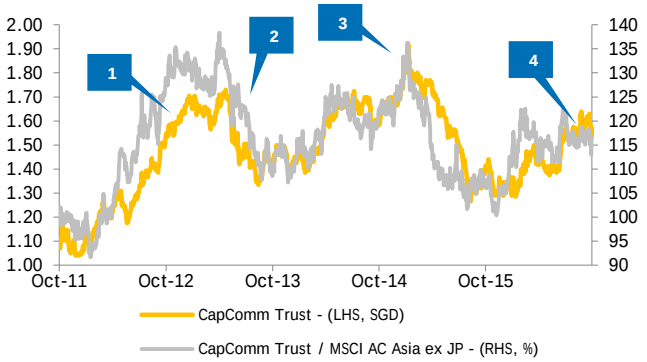
NAV changes



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



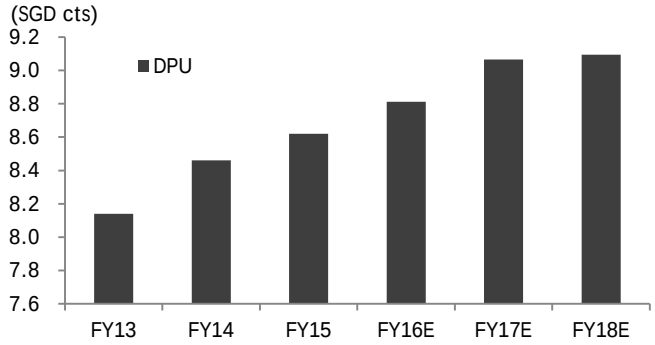
Source: Company, Maybank Kim Eng

1. Falling vacancies & low interest rates.
2. Fed raised interest rates. Global yield assets sold off.
3. Office rents peaked in Singapore. Concerns about oversupply.
4. Sharp fall in bond yields on heightened risk aversion after Brexit. Rotation to stable income-producing properties.

Financial Metrics

- § We forecast rising DPUs as incremental contributions from CapitaGreen should boost income.
- § Aggregate leverage remains comfortable at 37.8% after acquiring the balance 60% of CapitaGreen.
- § Unlike peers, DPUs reflect underlying property income. Keppel REIT & Suntec REIT are supported by non-core capital distributions.
- § Distribution yields could continue to contract on narrowing office cap rates.

DPU trajectory



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- § Appreciation in capital value of its properties.
- § Redevelopment of assets such as Golden Shoe Carpark.
- § Earlier-than-expected rebound in office rents.

Downside

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

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Health Care

Singapore

Raffles Medical Group (RFMD SP)

Resilient Base, Good Long-term Potential

BUY

Share Price	SGD 1.43
12m Price Target	SGD 1.85 (+30%)
Previous Price Target	*SGD 1.85*

Solid foundation

RFMD now operates over 100 clinics in 13 cities in five countries, serving over 2m patients annually. Profit growth has also been consistent for more than 20 years. From this foundation, it has expanded overseas, particularly in China. It aims to generate at least half of its earnings from overseas over the long term vs. less than 5%. Maiden contributions from China are expected in FY19. Maintain BUY & DCF TP of SGD1.85 (WACC 7.1%, LTG 1.5%). We anticipate catalysts from overseas expansion growth. Risks to our view include delays in overseas projects and expansion cost overrun.

Exciting Chinese ventures

RFMD is positive on China's private healthcare industry and the value that 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. It has also gained on-the-ground experience since it started its first medical centre in Shanghai in 2010. After its International SOS acquisition in 2015, it now operates seven clinics in China. With this beachhead, it is unlikely to stop at one hospital. It is in discussions for more projects in Beijing and Shenzhen.

ASEAN expansion possible too

Although China is its key focus, RFMD does not rule out fast-growing emerging ASEAN countries. It has dipped its toes into Vietnam and Cambodia through International SOS and could expand further in these countries after building up market knowledge.

Positive on growth; maintain BUY

We are positive on its long-term growth and believe its strong track record will mitigate execution risks. Maintain BUY. Our DCF-based TP is SGD1.85 (WACC 7.1%, LTG 1.5%). Singapore operations are valued at SGD1.47 and its upcoming Shanghai Hospital, SGD0.38. Stock is trading at 32x FY17E P/E, which we think has yet to account for China earnings contribution given that the 5-year average has been around 30x.

FYE Dec (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	375	411	468	511	572
EBITDA	90	93	87	96	108
Core net profit	65	68	74	82	92
Core FDEPS (cts)	3.7	3.8	4.1	4.5	5.0
Core FDEPS growth(%)	4.7	3.8	7.4	9.5	12.2
Net DPS (cts)	1.8	2.0	2.2	2.3	2.5
Core FD P/E (x)	38.9	37.5	34.9	31.8	28.4
P/BV (x)	4.5	4.1	3.9	3.7	3.5
Net dividend yield (%)	1.3	1.4	1.5	1.6	1.7
ROAE (%)	13.4	12.2	11.9	12.4	13.1
ROAA (%)	10.5	9.3	8.6	8.7	9.2
EV/EBITDA (x)	22.6	25.0	28.4	26.3	23.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	0.7	net cash
Consensus net profit	-	-	73	82	92
MKE vs. Consensus (%)	-	-	1.2	(0.9)	(0.0)

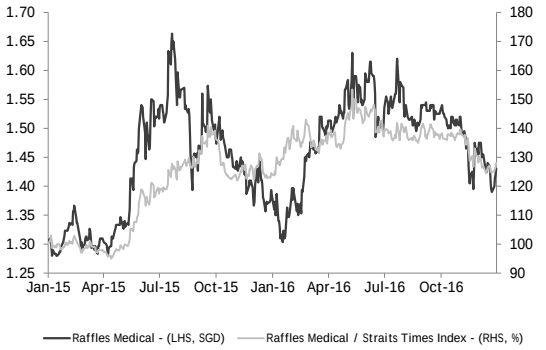
Statistics

52w high/low (SGD)	1.63/1.30
3m avg turnover (USDm)	1.4
Free float (%)	46.3
Issued shares (m)	1,748
Market capitalisation	SGD2.5B
	USD1.7B

Major shareholders:

LOO CHOON YONG	48.4%
S&D Holdings Pte Ltd.	3.2%
Aberdeen Asset Management (Asia) Ltd.	3.0%

Price Performance



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

Source: FactSet

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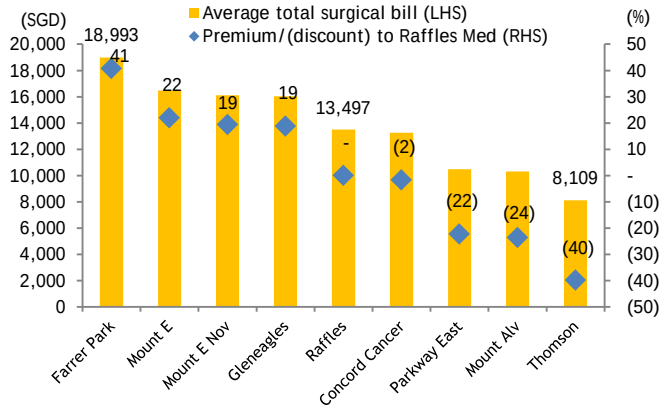
Value Proposition

- Provides private medical services that fill the gap between cheap-but-slow public services and fast-and-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.

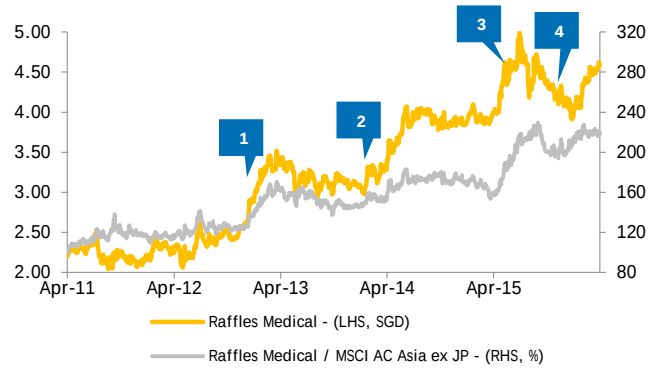
Affordable pricing of Raffles Medical vs peers (2014)



Source: Singapore Ministry of Health, Maybank KE

Price Drivers

Historical share price



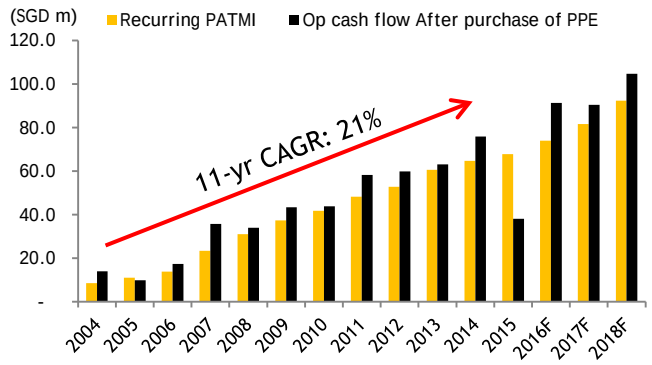
Source: Bloomberg, Maybank Kim Eng

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 end-2018.
- Revenue growth of high single digit expected, on 1) opening of a new floor in Raffles Hospital, 2) 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.

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Maybank Kim Eng

Oil & Gas

Singapore

Keppel Corp (KEP SP)

When Reality Bites

SELL

Share Price	SGD 5.79
12m Price Target	SGD 4.57 (-21%)
Previous Price Target	*SGD 4.57*

Prepare for disappointments

Despite O&M accounting for only 26% of its 9M16 net profits, the market still treats Keppel as a proxy to oil price. This is evidenced by its strong run-up post OPEC production cut on 30 Nov 2016, even ahead of pure-play rigbuilder, Sembcorp Marine (SMM SP, SELL, TP SGD1.00). In our view, this is a set up for disappointment in 2017 as we envisage several de-rating catalysts from EPS downgrades, provisions and dividend miss. Maintain SELL and SOTP TP of SGD4.57.

Rig overcapacity is the problem

Sector's biggest problem is the massive rig overcapacity, fuelled by the previous boom. Only c.50% of active rigs are utilised and another 15% of newbuilds are in the yards. On our assumption of a USD50-55/bbl oil price in 2017, offshore drilling activities would still not be attractive and therefore it could take several years for the excess capacity to be absorbed. Adding to this is competition from order-hungry Korean and Chinese yards. Weak order replenishments and deferment could already reduce Keppel's FY16E O&M revenue by more than half from the SGD6.2-8.6b in FY13-15. If the order drought persists and O&M revenue drops to SGD1.6-1.8b levels, the segment may sink into operating losses.

Provisions a near-term risk

Furthermore, we think that Keppel may need to make more asset provisions when it releases its FY16 results in 1Q17. The weaker rig utilisation suggests that asset values and incentives for rig owners to take delivery are unlikely to have improved despite the positive sentiments from the recovery in oil prices.

No longer a yield play

Keppel is also no longer a yield play as it has lost its cash generator, the O&M segment. Therefore it would have stronger cash needs to support operations and investments in its other segments, especially Property. On our below-consensus dividend forecasts, its yield is only 3%, which is unattractive relative to its 5-6% history.

FYE Dec (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	13,283	10,296	6,747	6,779	7,365
EBITDA	2,639	1,761	1,116	1,141	1,144
Core net profit	1,875	1,525	827	883	889
Core FDEPS (cts)	102.4	83.2	45.3	48.4	48.7
Core FDEPS growth(%)	32.2	(18.7)	(45.6)	6.8	0.7
Net DPS (cts)	48.0	34.0	18.0	18.0	18.0
Core FD P/E (x)	5.7	7.0	12.8	12.0	11.9
P/BV (x)	1.0	0.9	0.9	0.9	0.8
Net dividend yield (%)	8.3	5.9	3.1	3.1	3.1
ROAE (%)	18.7	14.2	7.4	7.6	7.3
ROAA (%)	6.1	5.0	2.9	3.1	3.1
EV/EBITDA (x)	8.4	10.8	16.3	16.2	15.9
Net gearing (%) (incl perps)	11.2	53.4	55.7	55.0	50.5
Consensus net profit	-	-	894	963	1,001
MKE vs. Consensus (%)	-	-	(7.4)	(8.3)	(11.1)

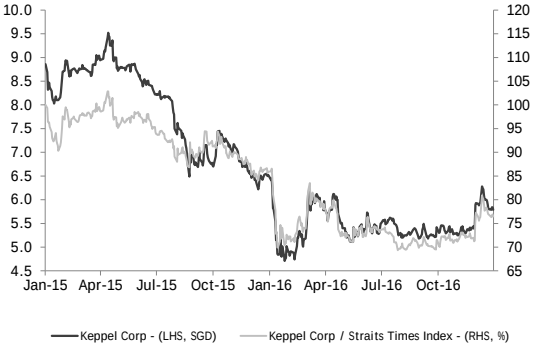
Statistics

52w high/low (SGD)	6.51/4.71
3m avg turnover (USDm)	18.4
Free float (%)	78.5
Issued shares (m)	1,818
Market capitalisation	SGD10.5B
	USD7.3B

Major shareholders:

Temasek Holdings	20.7%
Aberdeen Asset Management	5.0%
BlackRock Fund Advisors	1.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	7	(11)
Relative to index (%)	7	7	(11)

Source: FactSet

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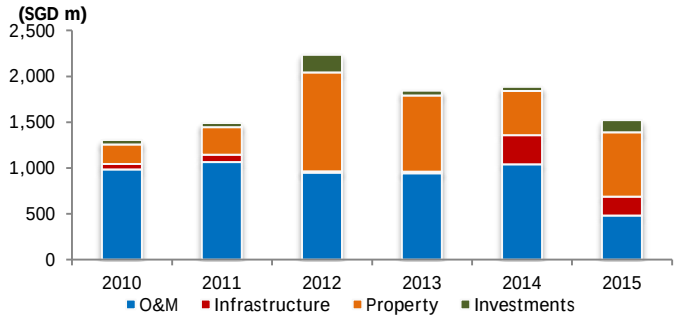
Value Proposition

- § Conglomerate with businesses in offshore & marine, property, infrastructure and investments. Group allocates capital for most efficient cost-return.
- § Associated more with rig building capabilities. Strong execution and customer relationship lead to superior market share and margins.
- § Privatised KepLand in Apr 15. Property segment gaining importance over O&M as the latter's value proposition is under threat.
- § ROIC on the decline with raised debt levels from KepLand privatisation and O&M's increased working capital needs and no net earnings growth.

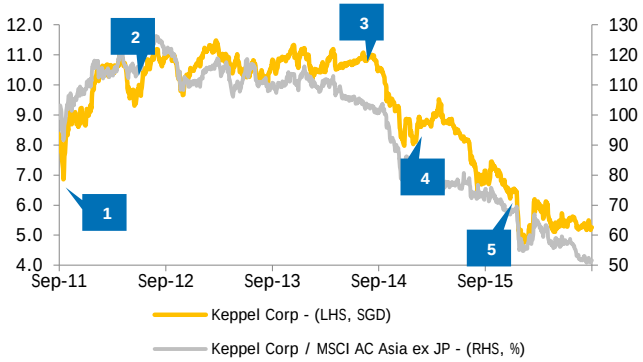
Keppel Corp's segment net profits



Source: Maybank KE

Price Drivers

Historical share price



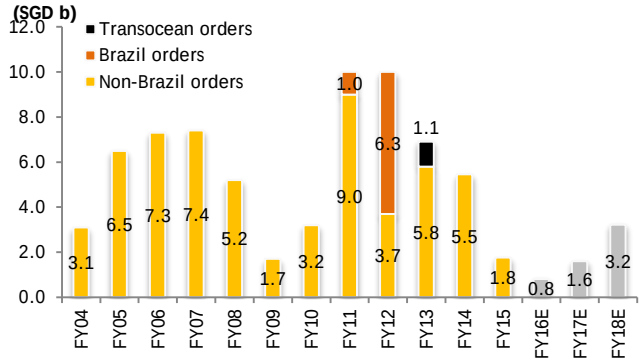
Source: Factset, Maybank KE

1. Brent crude fell from more than USD120/bbl to under USD90/bbl.
2. Secured 5 more semisub contracts worth USD4.0b from Sete Brasil following the first unit in Dec-2011.
3. Start of current oil downturn with prices cascading more than 60% from peak as US pumps record oil while OPEC refuses to cut supply.
4. Privatised Keppel Land at SGD4.38/sh, now owns almost 100% of the business unit.
5. News emerged that Sete Brasil may file for bankruptcy, which would jeopardise its USD4.9b contract.

Financial Metrics

- § O&M order wins and backlog momentum are key metrics to watch. Operating margins also an important measure of backlog quality.
- § Order win momentum slowed down significantly in FY15 with zero drilling rig orders and made up mainly of offshore & conversion orders.
- § Expect order drought over FY16-17 to deplete its FY15 net orderbook of SGD9.0b. Also about 40% of orderbook consists of Sete Brasil orders, which are at risk of cancellations.

Offshore & Marine segment order wins



Source: Company, Maybank KE

Swing Factors

Upside

- § Sete Brasil settles its financing woes, is able honour all its contracts and pays Keppel its dues.
- § Ability to turn contract cancellations around by re-selling and making better profits because of forfeiture of original client's deposit.
- § Asset divestments that results in significant gains and value unlocking, which is possible in Keppel T&T and infrastructure segments.

Downside

- § Sete Brasil files for bankruptcy, dishonouring all its six semisub contracts with Keppel O&M.
- § Contract cancellations by other drilling rig owners, resulting in asset write-downs and losses.
- § Property segment fails to compensate for drop in O&M segment profits.

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Maybank Kim Eng

Banks

Singapore

OCBC Bank (OCBC SP)

A Bumpy Ride Ahead

SELL

Share Price	SGD 8.92
12m Price Target	SGD 7.40 (-17%)
Previous Price Target	*SGD 7.40*

Wider credit spreads is important

Based on our quantitative analysis, we found OCBC's NIMs to be more sensitive from pass through in credit risk premium in an unfavourable lending environment. However, we have not seen any wider credit spreads despite a heightened risk environment. We estimate that for every 20bps increase in credit spreads, its NIMs will increase by 2.2bps on average. Weak loan demand and OCBC's unwillingness to undertake higher risks also meant slower loan growth. In constant currency terms, its loan growth was flat YoY as at 3Q16 (DBS: 5%, UOB: 7.3%).

More reliant on non-interest income

OCBC's earnings are more reliant on volatile non-interest income (non-II) contribution, especially from Great Eastern's (GEH SP, Non Rated) profits from life assurance. For 9M16, GEH's contributions formed c.14% (2015: 19%) of non-interest income and c.6% (2015: 7%) of total income. If GEH's portfolio is hit by unrealized mark-to-market losses from weaker capital markets, this can result in lower profits for OCBC. Earnings momentum may not sustain in weaker economic conditions.

Provision coverage may be inadequate

With current provision coverage at 101%, this may look inadequate with rising NPLs. We currently assume credit costs at 39bps for FY17-18E. We estimate that if our FY17-18E credit cost estimate is lowered by 10bps, FY17-18E net profits will increase by c.6%, *ceteris paribus*.

Key risks to our call

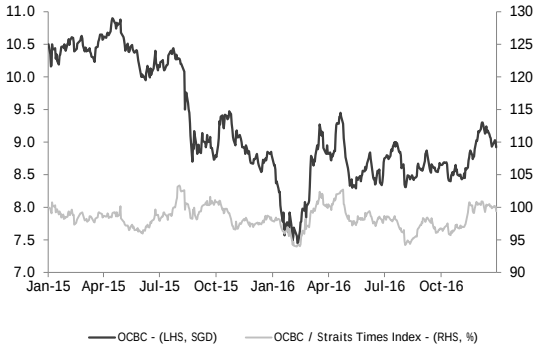
OCBC is currently trading at ~1x FY17E P/BV. Our TP of SGD7.40 is based on ~0.8x FY17E P/BV, close to 2SD below historical mean to reflect our forecast for ROE to remain below the 2008-2015 mean. Key risks to our call would be: 1) NIM improvement from higher interest rates; 2) higher non-II from wealth management and GEH's contributions; and 3) better-than-expected benign credit costs.

FYE Dec (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	8,340	8,722	8,563	8,781	9,102
Pre-provision profit	5,008	4,960	4,612	4,659	4,815
Core net profit	3,363	3,710	3,380	3,379	3,544
Core EPS (SGD)	0.8	0.9	0.8	0.8	0.9
Core EPS growth (%)	8.2	6.9	(8.9)	(0.0)	4.9
Net DPS (SGD)	0.4	0.4	0.4	0.4	0.4
Core P/E (x)	10.6	9.9	10.9	10.9	10.4
P/BV (x)	1.2	1.1	1.1	1.0	0.9
Net dividend yield (%)	4.0	4.0	4.0	4.0	4.0
Book value (SGD)	7.44	8.02	8.48	8.94	9.44
ROAE (%)	12.6	11.8	9.9	9.4	9.4
ROAA (%)	0.9	0.9	0.9	0.8	0.9
Consensus net profit	-	-	3,499	3,574	3,820
MKE vs. Consensus (%)	-	-	(1.8)	(3.9)	(5.8)

Statistics

52w high/low (SGD)	9.45/7.45
3m avg turnover (USDm)	34.1
Free float (%)	74.2
Issued shares (m)	4,194
Market capitalisation	SGD37.4B
	USD25.9B
Major shareholders:	
Lee Foundation	19.8%

Price Performance



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

Source: FactSet

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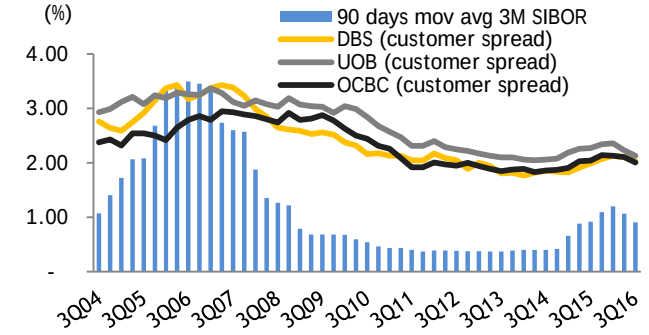
Value Proposition

- Second-largest Singapore bank by assets. Present in Malaysia, Indonesia and Greater China.
- Acquired ING Asia Private Bank and Barclays's wealth units in HK and Singapore to build up wealth management.
- 87.7% subsidiary Great Eastern is a leader in Singapore's life insurance. Close partnership also makes OCBC a leader in Singapore's bancassurance market.
- Lending profile and competencies are not as distinctive as UOB (SMEs) and DBS (large corporates).
- Bought Wing Hang Bank in HK in 2014 to strengthen presence in Pearl River Delta. Execution risks remain, due to fierce competition.
- Likely to reduce expansion plans due to restraints in fully-loaded CET1, asset impairments and limited M&A activities. CDS has been rising.
- Expect ROE compression in 2016E to 9.9% from higher asset impairments.

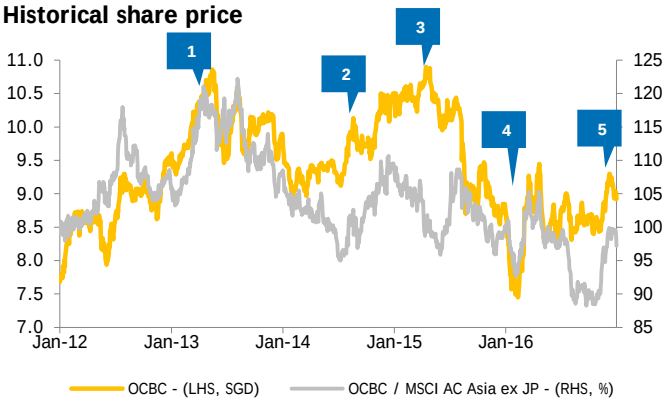
OCBC's customer spreads lower than UOB's



Source: Bloomberg, Companies, Maybank Kim Eng

Price Drivers

Historical share price



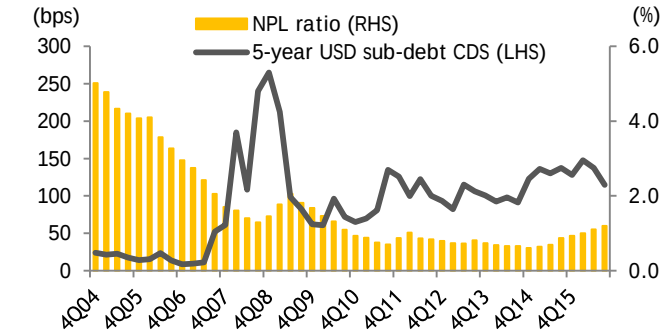
Source: Factset, Maybank Kim Eng

1. 2012 earnings up 24% YoY from record income and higher contributions from GEH.
2. Acquired and privatised Wing Hang Bank for USD5b. Issued rights to raise SGD3.3b.
3. 2014 core net profit up 25% YoY from robust lending and strong income growth. Included progressive consolidation of OCBC Wing Hang.
4. Sharp CNY devaluation in August 2015. O&G, commodities and China's NPL worries.
5. Share price rallied on positive sentiment from expectation of Fed rate hike, USD strength and oil.

Financial Metrics

- Greater China a core business to Group. Integration with WHB boosts region's contribution to pretax profit from a mere ~6% in 2013 to 20% in 2015. Loans more than doubled to form 27% of total loans.
- Expect stable NIMs for FY16-18 at 1.67-1.68%.
- Provision coverage fell from 121% in 3Q15 to 101% in 3Q16 as NPLs increased.
- Fully-loaded CET1 is 12.8% as at 3Q16. As the bank's comfort level is 11.4%, we see little room for growth. Expect flat loans growth in FY16-17.
- Cost of capital a major consideration. Sector contagion risks may be reflected in corporate papers or CDS.

NPL ratio tracked CDS spreads with a lag during GFC



Source: Bloomberg, Company

Swing Factors

Upside

- Widening credit spreads from repricing of assets at higher interest rates.
- Higher non-interest income from wealth management and higher contributions from GEH.
- Sharp and sustained rebound in commodity prices.
- Better-than-expected asset quality through proactive restructuring of loans, with no major credit slippages.
- Better demand for Singapore mortgages from easing of property-cooling measures.

Downside

- Oil prices stay low, sparking more NPLs in O&G support services.
- Job losses in Singapore become pervasive, hurting its mortgage portfolio.
- Sharp decline in value of trading securities and shocks in fixed-income portfolio.
- Lack of liquidity of a funding currency.
- Translation losses from MYR/IDR depreciation.
- Emergence of dominant financial competitors in Singapore.
- Capital-raising by peers may depress sentiment.

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Maybank Kim Eng

Aviation

Singapore

SATS (SATS SP)

Fully Priced, Take Profit

SELL

Share Price	SGD 4.85
12m Price Target	SGD 3.76 (-22%)
Previous Price Target	*SGD 3.76*

Too much to pay; maintain SELL

While SATS is viewed as a good proxy for aviation growth in the region, we believe its stock is priced for perfection, with valuations at 21x FY18E P/E, near its 10-year peak. Reiterate SELL. Our TP remains SGD3.76, at 17x FY18E EPS, about 0.5SD above its 5-year mean, to account for stable EPS growth. A low 3% yield does not look attractive either. Upside risks to our view would be accretive acquisitions and stronger-than-expected air-traffic growth.

Strong margin expansion unlikely to be repeated

The group's performance was lifted by strong margin expansion over the past year. However, we believe further material improvements will be difficult. Its margin expansion was primarily led by the deconsolidation of its low-margin food-distribution business to a JV. This will not be repeated. Furthermore, with the need to invest in automation to replace expensive labour, capex and depreciation could trend up. As such, we believe consensus forecast for an 180bp expansion in EBIT margins for FY16-19E is too bullish.

Not expecting big traffic jump from T4

The impending opening of Singapore's fourth airport terminal - T4 - should support air-traffic growth in the long term. However, we believe terminal-handling capacity is not a limitation to growth today and do not expect the opening to raise air traffic materially. Tourism data points are not exciting either, with a marked deceleration in visitor growth in recent months.

Recent share sale by Temasek could cap upside

Lastly, we think the recent sale of 23m shares by Temasek, its major shareholder, could cap further upside. With the stock trading above Temasek's sale price of SGD4.75 apiece, we cannot rule out further share sales to capitalise on its strong performance in the past year.

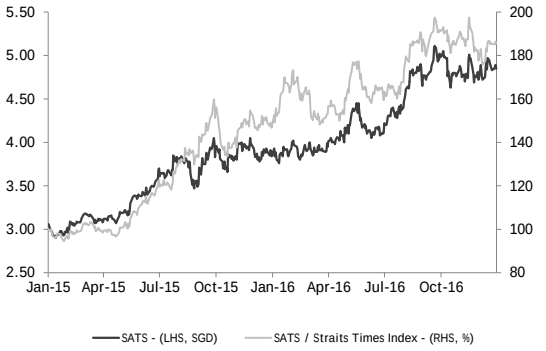
Statistics

52w high/low (SGD)	5.11/3.76
3m avg turnover (USDm)	18.1
Free float (%)	54.9
Issued shares (m)	1,124
Market capitalisation	SGD5.5B
	USD3.8B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co	42.6%
Capital Research & Management Co. (Globa	2.2%
Aberdeen Asset Management (Asia) Ltd.	2.0%

Price Performance



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

Source: FactSet

FYE Mar (SGD m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	1,753	1,698	1,778	1,836	1,891
EBITDA	246	285	307	316	327
Core net profit	196	221	238	245	255
Core EPS (cts)	17.6	19.9	21.4	22.1	23.0
Core EPS growth (%)	7.5	13.1	7.5	3.2	3.8
Net DPS (cts)	14.0	15.0	16.0	17.0	18.0
Core P/E (x)	27.5	24.3	22.6	21.9	21.1
P/BV (x)	3.7	3.6	3.4	3.3	3.2
Net dividend yield (%)	2.9	3.1	3.3	3.5	3.7
ROAE (%)	13.7	15.0	16.1	15.3	15.2
ROAA (%)	9.7	10.7	11.0	10.9	11.0
EV/EBITDA (x)	13.0	14.3	16.3	15.8	15.1
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	244	252	274
MKE vs. Consensus (%)	-	-	1.1	(2.8)	(7.1)

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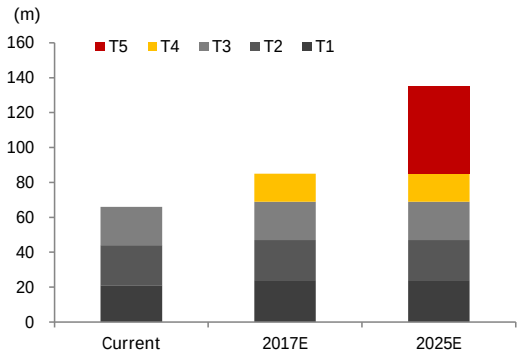
Value Proposition

- § Leading gateway and food solutions provider in Changi Airport, SATS has equity interests in several similar Asian companies. Beneficiary of higher regional air traffic.
- § Lower ticket prices in response to depressed oil price should stimulate demand for air traffic growth near term.
- § Longer term growth is supported by Changi Airport's plan to double annual terminal handling capacity to 135m passengers by mid-2020 and third runway in early-2020.
- § Armed with a strong balance sheet, SATS is on an acquisition spree to drive inorganic growth.
- § Stable business, net cash in balance sheet and largely cash generative, SATS offers sustainable dividend yield of 3-4%.

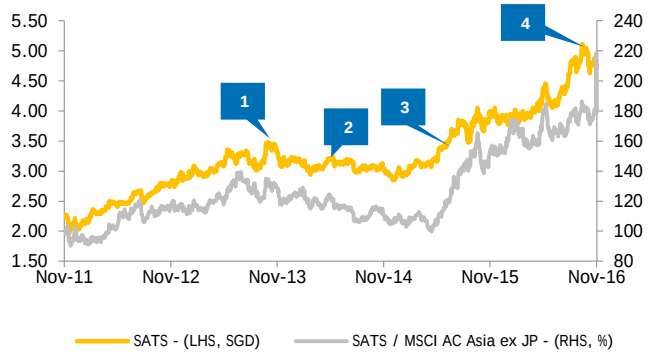
Capacity expansion at Changi Airport



Source: Changi Airport Group

Price Drivers

Historical share price trend



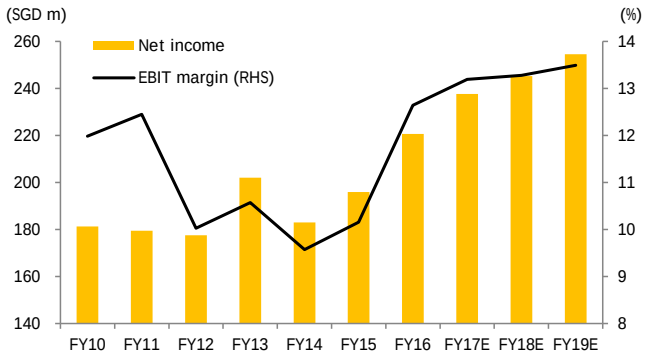
Source: Factset, Maybank Kim Eng

1. Stock rallied on possible acquisition of Singapore Cruise Centre in Sep 2013.
2. Earnings miss in May 2014. DPS cut.
3. Three positive events:
   a. Changi Airport announced reduction in airport charges (Apr 2015);
   b. ASIG, third ground handler, terminated contract with Jetstar, its only airline customer (Jun 2015);
   c. TFK, SATS's Japan inflight catering unit, signs on major customer Delta Air (Jun 2015).
4. Temasek sold 23m shares at SGD4.75 in Oct 16.

Financial Metrics

- § Growth to moderate after strong EPS growth of 13% in FY16.
- § Near-peak P/E valuation multiple may be difficult to find market support despite potential for decent earnings delivery.
- § Strong margin expansion in FY16 due to deconsolidation of its low-margin food distribution business, positive operating leverage on higher revenue and workload from higher air traffic. Limited upside to margins from here.
- § Solid FCF should support consistent dividend distribution.

Slight margin expansion to drive earnings upside



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- § Higher than expected growth in air traffic.
- § Inorganic growth from acquisitions.
- § Higher dividend payout. Payout ratio had been capped at 80% despite large cash hoard. Upside to payout is possible to drive efficient use of capital.

Downside

- § Stagnant or contraction in air traffic.
- § Poor execution from new acquisitions. For example, earnings drag from its recently acquired 34% stake in Brahim's inflight catering business.
- § Market expects margins and EPS to rise as the company drives scale across the group. Inability to contain cost increase could lead to disappointment.

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Maybank Kim Eng

Industrials

Singapore

ST Engineering (STE SP)

USD beneficiary

HOLD

Share Price	SGD 3.23
12m Price Target	SGD 3.17 (-2%)
Previous Price Target	*SGD 3.17*

Maintain HOLD, though tailwinds may be developing

We rate STE HOLD, but highlight the stock as a key beneficiary of USD strength amongst Singapore's key index constituents. STE may also benefit from higher US spending on infrastructure and defense, although this will depend on its success in contract wins. Our profit outlook for its largest division, aerospace, is flat in 2017, while electronics should post double-digit growth; land systems and will likely see low single-digit growth and marine a decline. Price Target of SGD3.17 is based on 18x FY17 EPS, 0.5SD below the 5-year mean to reflect soft near-term demand.

Trump factors directionally positive for STE

STE benefits from a strong USD as we estimate c55-60% of its contracts are USD denominated, relative to around 25-30% of USD costs. A likely positive from the Trump administration is increasing spending on defense and infrastructure - STE is an approved defense contractor in the US. Growth in salvage, rescue ship, oceanographic vessel fleets, and highway maintenance works may lead to opportunities for STE's US subsidiaries that build marine custom vessels and road pavers.

Aerospace likely to see a stable year

We expect engines and component MRO to remain under some pricing pressure from industry overcapacity for CFM56 engines. On the other hand, we expect passenger-to-freighter conversions to gradually pick up steam, and a number of airlines to be retiring older passenger aircraft for new long range ones over the next 12-24 months. STE is particularly optimistic about the growth potential for its on-going A330-300 conversion program, with DHL as the launch customer.

Mixed outlook for other divisions

Land systems completed house-cleaning by closing its unprofitable Chinese commercial vehicles arm; our low single digit growth outlook is predicated on higher weapons and munitions sales. Marine is faced with a weak oil services sector, but an increasing US Coast Guard business could be the wild card. Electronics should deliver double-digit growth with milestone completions of projects already underway.

FYE Dec (SGD m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	6,539	6,335	6,751	7,125	7,339
EBITDA	720	698	721	791	844
Core net profit	532	529	499	547	589
Core EPS (cts)	17.1	17.0	16.1	17.6	19.0
Core EPS growth (%)	(8.7)	(0.5)	(5.4)	9.5	7.7
Net DPS (cts)	15.0	15.0	12.9	13.2	14.2
Core P/E (x)	18.9	19.0	20.1	18.3	17.0
P/BV (x)	4.7	4.7	4.6	4.2	3.9
Net dividend yield (%)	4.6	4.6	4.0	4.1	4.4
ROAE (%)	25.0	24.8	23.2	24.1	23.9
ROAA (%)	6.2	6.4	6.1	6.5	6.8
EV/EBITDA (x)	14.1	13.7	14.2	12.9	12.0
Net gearing (%) (incl perps)	net cash	3.1	5.4	1.7	net cash
Consensus net profit	-	-	455	525	557
MKE vs. Consensus (%)	-	-	9.8	4.2	5.8

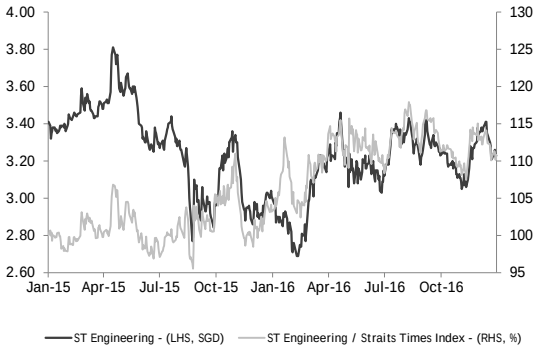
Statistics

52w high/low (SGD)	3.46/2.69
3m avg turnover (USDm)	7.3
Free float (%)	48.5
Issued shares (m)	3,122
Market capitalisation	SGD10.1B
	USD7.0B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Co	49.8%
Aberdeen Asset Management (Asia) Ltd.	9.1%
Capital Research & Management Co. (Globa	5.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	0	6
Relative to index (%)	(4)	(0)	6

Source: FactSet

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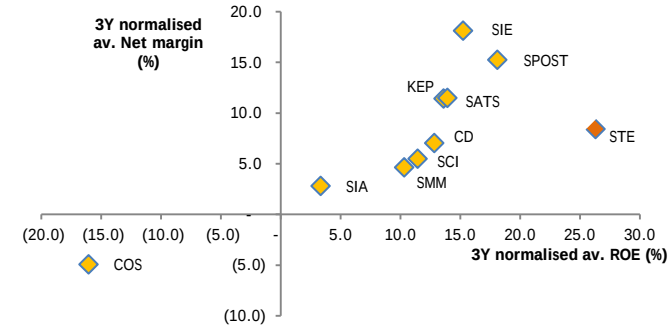
Value Proposition

- § STE has a c50 year history as Singapore's primary defence contractor. In the past couple of decades it has successfully evolved to tap the commercial marketplace. At present the split between commercial and defence revenues stands at roughly 70:30.
- § Given its defence roots, the company's DNA is engineering focussed, and its M&A philosophy is usually technology acquisition driven than for scale.
- § The company's four divisions are aligned by product type – aerospace, electronics, land systems and marine.
- § STE is one of the largest aerospace maintenance, repair and overhaul (MRO) providers in the world and the largest independent one with a global network of 18 centres.

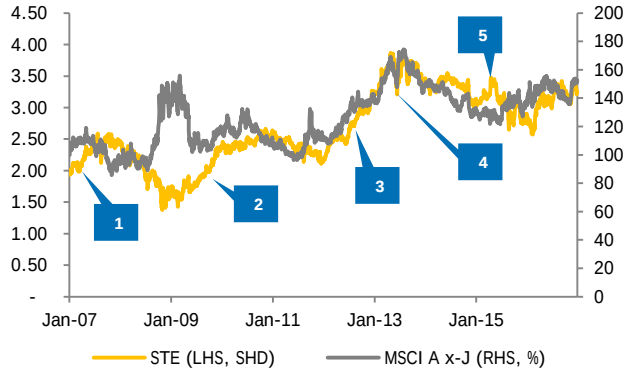
SG large cap industrials ROE and NI margin comparison



Source: Bloomberg, Maybank KE

Price Drivers

Historical share price trend



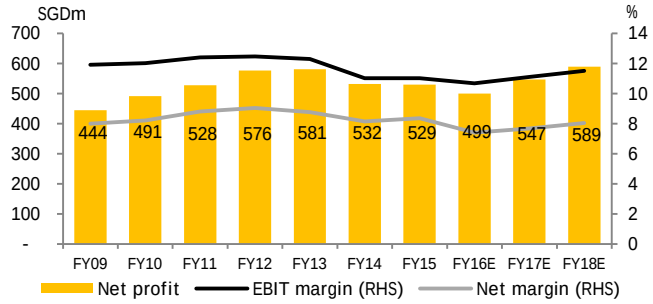
Source: Bloomberg, Maybank KE

1. Start of US recession leading up to the GFC, which affected STE's US operations.
2. End of US recession.
3. Acquisition of 35% stake in Elbe Flugzeuwerke Gmbh for Euro 100.5m to establish an important MRO beach-head in Western Europe.
4. Substantial contract announcements across business lines in 1H13 leading to one of the best years for contract wins post-GFC.
5. Guidance and growth outlook downgraded from demand slowdown and higher competition.

Financial Metrics

- § Two key factors drive our expectation of a modest blended margin recovery in FY17/FY18 – growing higher-margin aerospace PTF contribution and lower drag from non-profitable land systems units post recent restructuring.
- § The margin expansion from aerospace and land systems combined with growth in electronics profits drives our expectation for c7-9% p.a. profit recovery for FY17 / FY18.
- § The competitive landscape for aerospace and marine in 12 months will determine if the stock can re-rate back to its 5 year mean PER of c19.5x.
- § STE has historically paid out a high 80-100% of core profit as dividend in recent years; we forecast a slightly lower 75% payout ratio in FY17/FY18 due to higher working capital from LCC growth.

STE profit and margins



Source: Company, Maybank KE

Swing Factors

Upside

- § Acceleration of PTF work from airlines upgrading their passenger fleets.
- § Meaningful recovery in the marine business from a demand rebound for oilfield services vessels and specialised ship repair.
- § Order book growth from US defence and infrastructure project wins.

Downside

- § Intensifying price competition in aerospace driven by smaller players struggling with excess capacity.
- § Structural threat from aircraft OEM's, like Boeing and Airbus aggressively encroaching into the MRO space.
- § Reversal of the USD strength that will benefit STE's margins.

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COMMODITY PRICES
CORONATION
ELECTIONS
TRADE
TOURISM

Maybank Kim Eng

STRATEGY

Thailand

Thailand: Six-for-17

Another Year of Low Expectations

Sensitive to global movements

Although companies under our coverage should be able to withstand external volatility given their mostly sound financials, this may not mean a smooth ride for the SET, which still reacts to external gyrations. With FY17E EPS forecast at THB113, we expect the SET to close at 1,684 points by end-2017. This is 1SD above its 10-year mean, implying 10% upside potential and 3.2% dividend yields. We have a bottom-up index target of 1,684 for end-2017. Given low expectations, our picks are companies with strong domestic franchises - SCB, LH, BH and AOT - and strong overseas market positioning - IVL and TU.

Big buffer, though still volatile

Economic expectations are already low and high foreign reserves of USD175b and a 12x import cover should provide a margin of safety, in our view. Corporate net gearing is only 0.42x and net debt/EBITDA, 1.67x, affording room for borrowing. However, the SET remains vulnerable to external gyrations.

Mind the Thai yield gap

Externally, what happens to interest rates is still important for the SET. Rising rates in the US would narrow the Thai yield gap. This could be a precursor to a SET correction, in our view.

Subsidies must come to the rescue

Despite a flurry of project bidding ahead of the Cabinet's reshuffle, we maintain that infrastructure spending will only be THB100-150b/year. To coax more economic growth, we believe the government must roll out more stimulus and/or cash transfers to households. Slow exports may not reverse anytime soon while kinks in Thailand's 4.0 development plan would need time to be ironed out. Household earnings could remain flat or worse, deteriorate as farm income succumbs to soft commodity prices.

Generally low leverage risks

Although operating cashflows could be marginally lower in 2017, we see low risks from capex plans, even if the likes of SCC, PTT, BANPU, TU and CP Group acquire overseas. But if input costs jump faster than product prices – remember that Thai companies are price takers while the government is heavy-handed with price controls, then their THB95b FCF buffer could be wiped out. A 5-10% hike in input costs, in our sensitivity analysis, has the potential to fell gross margins by 300bps. On the other hand, we see room for higher leverage, though there are companies under our coverage with a Z-score below the 1.8 Altman baseline that may require careful consideration: TRUE, THAI, WHA, BANPU, CKP, ITD, CK, ERW, DTAC and QH.

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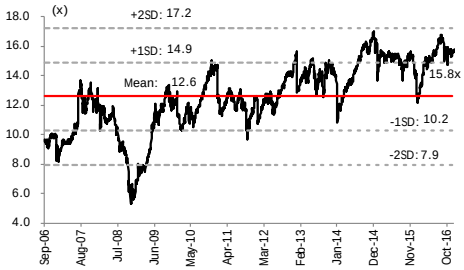
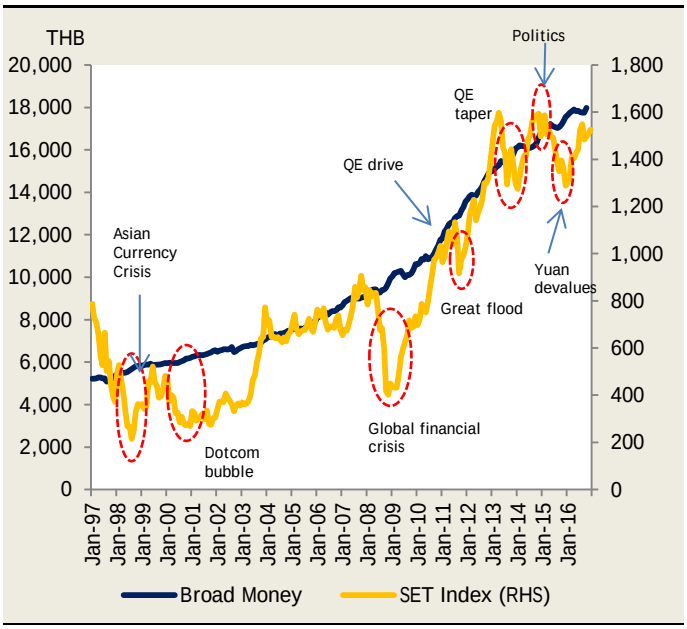
SET at over 1SD above 10Y mean



6 Links You Need to Know

Chart 1: Thailand is flush with domestic liquidity

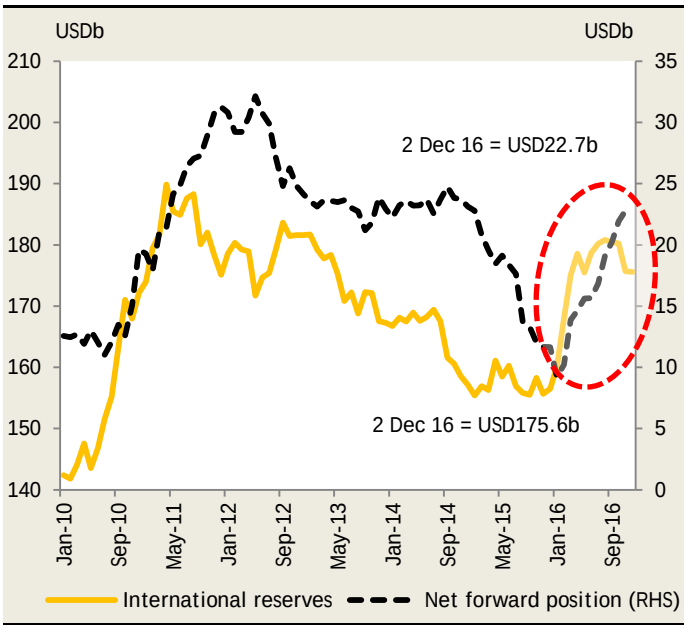
SET responds to global events, though we think domestic liquidity should kick in at some point, driving a rebound



Source: BOT, Maybank KE

Chart 2: It has a generous foreign-reserve buffer

We are not perturbed by the 3% drop in FX reserves in Oct-Dec as nearly half of that amount went into debt repayment



Source: BOT, Maybank KE

SET gyrates with the world

During the AFC in mid-1997, the SET collapsed as it captured the bankruptcy of several financial companies and near bankruptcy of banks and companies in the real sector. The SET started recovering in earnest in 2003 when the Miyasawa–IMF bailout loan was fully repaid, signalling a restoration of the country's balance sheet.

Since then, Thailand has been more conservative in its financial management and the Bank of Thailand has been very hawkish in regulating financial institutions. That said, the SET remains vulnerable to gyrations in global markets: witness its 490pt or 54% implosion during the 2008 GFC.

We expect the SET again to be influenced by external events come 2017. Domestically, the impact of three major events - cremation, coronation and elections - is likely to be benign, unable to take economic growth beyond the forecast range of 3.0-3.5%.

We are NEUTRAL on the market with the index projected to close at 1,684 pts by end-2017 for 10% or so potential upside.

Forex-reserve buffer

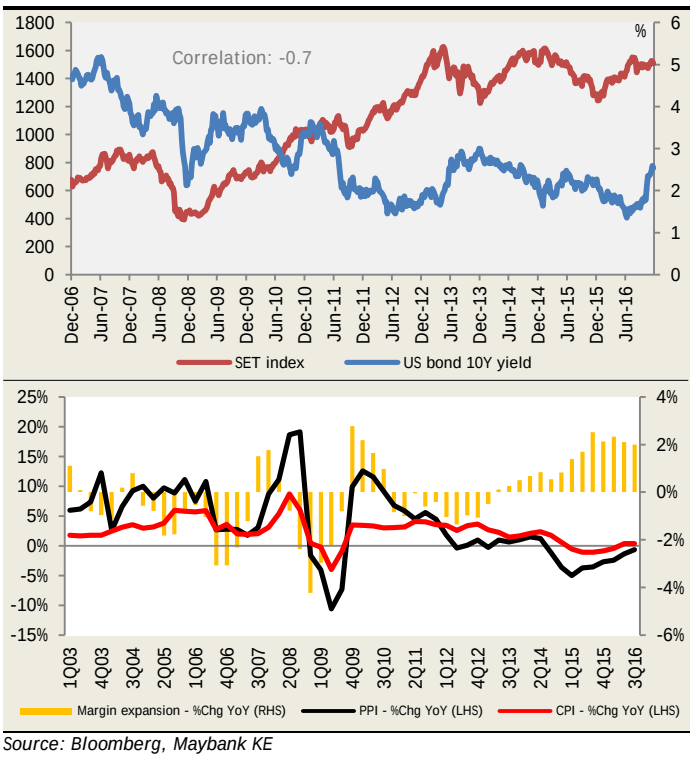
Foreign reserves dropped 3% in Oct-Dec or USD5b. The intensity and duration of the drop may look alarming but we are unfazed. About 67% of the outflows from the money market was for debt repayment, money from the sale of local equities & bonds or money for the purchase of foreign financial assets by local banks.

According to the BOT, foreigners hold 7% of the bond market or USD21b. It estimates that 10% or USD2.1b could exit Thailand after the US interest-rate hike. On our part, we look at USD160b as our "next" landing for Thailand's foreign-reserve balance ie we basically assume a reversal of the inflows since Jan 2016. At this level, it affords Thailand about 11 months cover, which is a good level of cushion. This should still be a manageable change, even with mild THB weakening.

As for the SET, it had defied foreigners' selldown in Oct-Dec. Any further synchronised selloff of the Thai market with global markets is expected to produce short-term shocks to the SET. As 2017 could be marked by continued volatility, we recommend tactical buys and sells ie buy underperformers and sell outperformers.

Chart 3: Mind the gap

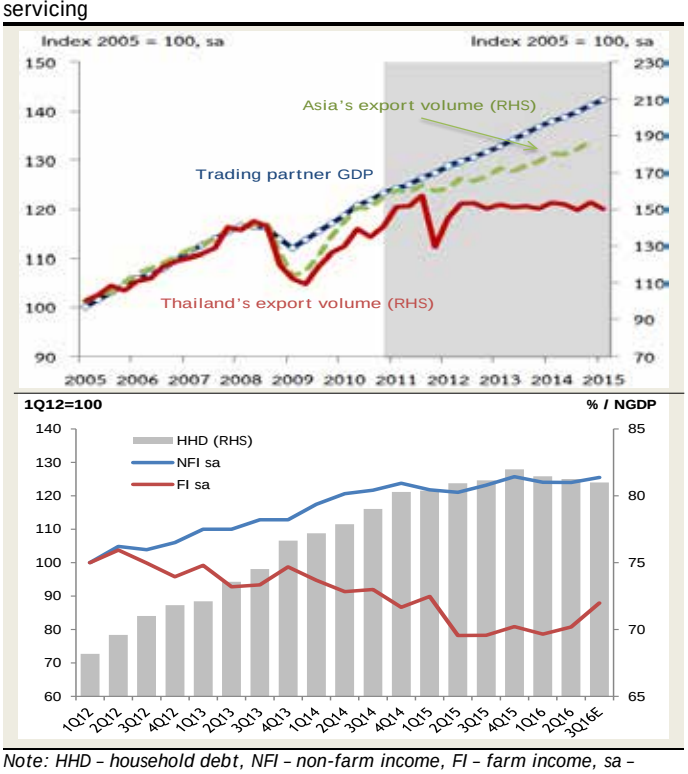
The rising interest rate in the US reduces attractiveness of the yield in Thailand leading to SET correction



Source: Bloomberg, Maybank KE

Chart 4: Fault lines are poor exports & income and high household debt

Thai exports have been contracting more than implied by the global slowdown. This has negative ramifications for income and debt servicing



Note: HHD – household debt, NFI – non-farm income, FI – farm income, sa – seasonally adjusted
Source: BOT, Maybank KE

Rising interest rates is negative for the market

Rising interest rates in the US have a negative effect on the SET via its indirect influence on the attractiveness of the market yield. There is a time lag in the adjustment, of around two months.

Earnings-wise, we doubt that banks can benefit as much from higher lending rates as loan demand is expected to be anaemic: +6% estimated for 2017E vs 3% in 2016 for our nine banks. Inflationary pressures are also likely to crimp profits as the PPI rises faster than CPI amid lacklustre demand, weak disposable income and extensive price controls. Based on previous episodes of input price inflation, 5-10% increases in the PPI can wipe about 300bps off gross margins.

Potentially weaker operating profits would further dampen companies' fair values, exacerbated by rising interest rates in our cost-of-capital assumptions for DCF valuations and cost-of-equity assumptions for Gordon Growth. These are our most common valuation methodologies. At this point, the above are perceived risks in 1H17 that could precipitate profit-taking.

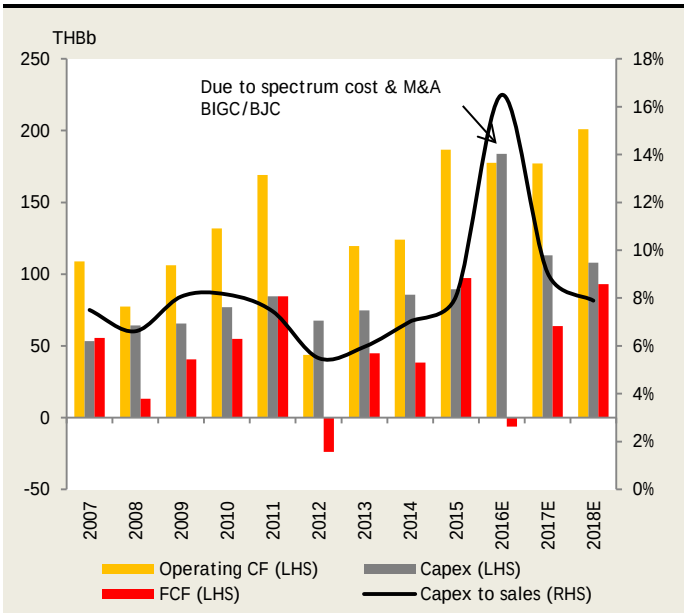
Income under pressure

It is a misconception that Thai exports are weak because of global weakness. BOT's recent study suggests that Thai exports have been weaker than the economies of its trading partners and far weaker than Asia's. From this, it would appear that its export slowdown is structural. If so, it eludes quick fixes. We believe that Thailand's 4.0 development initiative centred on 10 industries and clustered development has been designed to revive its export vitality. However, kinks in its investment strategies, especially against a backdrop of old regulatory regimes, will need time to iron out.

Weak exports are transmitted to the economy by SMEs which are behind 42% of GDP and 30% of exports and wages. Wages in Thailand jumped in 2013-2014 after hikes in the minimum wage to THB300/day. Since then, they have been under pressure from slower exports. A THB5-10/day minimum-wage increase starting 2017 is unlikely to arrest shrinking disposable income, in our assessment. Weak non-farm wages eliminate the natural buffer for rural income when farming is affected by the price softness of soft-bulk commodities, like now. This is likely to prevail over an anticipated boost in spending by borrowers liberated from financial obligations after the expiry of the 2012-2013 first-car buyer scheme.

Chart 5: Private sector's lacklustre capex

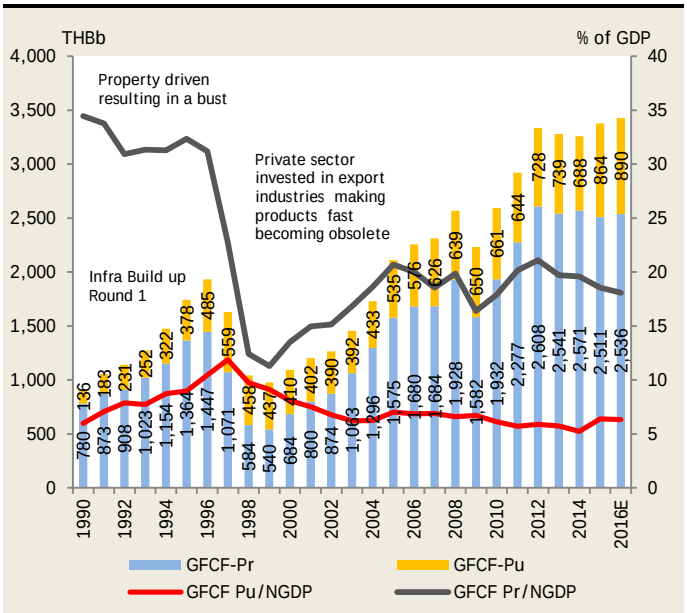
Manageable capex even if operating cashflows are threatened



Source: Bloomberg, Maybank KE

Chart 6: Investments remain sluggish

Capital formation in the doldrums; Thailand sitting on its laurels?



Source: NESDB, Maybank KE

Low capex, low leverage risks

Capex to sales for listed stocks averaged just 7.1% in 2007-2015, flattening gross fixed capital formation in the private sector. Its 16% ratio in 2016 was an aberration, in our view, exaggerated by 4G's high spectrum costs, capex to build networks and the overseas acquisitions of Thai companies, particularly Thai Union Group's USD700m spending and CP Foods' USD1.1b. We forecast a 9.1% ratio for 2017, on the back of continued telco capex.

Despite rising interest rates, we believe that Thai corporates will continue to snap up assets. Domestically, we do not see the potential for big domestic transactions like the THB204b acquisition of BIGC by BJC. Instead, corporates are likely to acquire overseas. Think Siam Cement, PTT Group, Banpu, CP Foods and Thai Union Group. Such investments, though, reap no major benefits for Thailand.

For 2017, the market's operating cashflow is expected to dip marginally, under still-weak earnings for telcos and higher working-capital needs for resource companies, particularly energy. Although we have over THB95b of FCF to act as buffer should input costs rise faster than product prices, under very high reflation as in 2004-2006, this cushion would not be much. A 300bp contraction in gross profits from a 5-10% spike in input costs could slash FCF by a third. In this scenario, we see three options: 1) delayed capex; 2) postponed acquisitions; and/or 3) higher leverage. Generally, none is an issue. End-2016 net gearing was only 0.42x and net debt/EBITDA, 1.7x. That said, companies under our coverage that have a Z score below the 1.8 Altman baseline are, in ascending order: TRUE, THAI, WHA, BANPU, CKP, ITD, CK, ERW, DTAC and QH. These names require more deliberation when it comes to funding needs.

No meaningful capital formation

Thailand's gross fixed capital formation to GDP has stopped growing since 2005 both in its public and private sectors. The default explanation is a lack of political stability that inhibits investments. We saw mild improvements in private-sector gross fixed capital formation in 2012-2013. We think this had to do with the reconstruction and replacement of plants damaged by floods in mid-2011 which stretched to mid-2012.

Under-investments in the public sector can explain its fading export sector, in our view. Worse, many of the facilities built in the early 2000s are producing less now as products are rendered obsolete by fast-changing technologies.

Stunted gross fixed capital formation in the public sector also has to do with the way the government decides on investments. They are pegged to a certain portion of nominal GDP which, in turn, is determined by government revenue. In 2015-2016E, public-sector gross fixed capital formation to nominal GDP was bumped up marginally by investments in infrastructure such as motorways, dual-track railways and the development of special economic zones. In our view, the investments need to be speeded up. Projects have already been identified and their costs estimated at THB1.7-1.9t. What is left is execution. We believe that if public-sector investments are ratcheted up, private investments will follow. But we do not see this happening in 2017. Our estimate for project rollout next year is only THB100-150b. This could lift public-sector gross fixed capital formation to THB900-950b.

Maybank Kim Eng

Transport

Thailand

Airports of Thailand (AOT TB)

Best Proxy for Recovery

BUY

Share Price	THB 398.00
12m Price Target	THB 430.00 (+8%)
Previous Price Target	*THB 430.00*

Best proxy for tourism recovery

Although the crackdown on zero-dollar Chinese tourism affected arrivals from China in 4Q16, arrivals from all other markets rose. A recovery in passenger traffic on the back of the government's various tourism promotions could catalyse AOT's share price in 1H17, in our view. In addition, we believe AOT could benefit from airline competition. Maintain BUY and DCF-based TP of THB430 (WACC 10%, LTG 3%).

Tourism taxis towards a recovery

The government's crackdown on Chinese zero-dollar tours, higher visa-on-arrival fees and mourning for the King dealt a triple whammy to 4Q16 arrivals from China. But we think the impact could be short-lived as inbound tourism has been on the rise from all markets, except China. We expect a gradual recovery in 1Q17. Higher tourist spending and the government's promotions should reignite tourism, bolstered by a more favourable exchange rate.

Benefits from airline competition

Outbound and inbound tourism should indirectly benefit from rising competition among airlines and hotel room oversupply as these would lower costs of travelling, potentially stimulating travel demand in FY17. As AOT's airports receive 87% of Thailand's arrivals, AOT should indirectly benefit.

Ready for new capex cycle

AOT has a plan to more than double its passenger capacity to 200m. As its investment budget is above THB200b, it is likely to require THB70b of funding in 2019-2022, in our estimation. Although its gearing could double to 0.65x in 2021E from 0.3x in 2015, this should still be in line with peers' leverage of 0.6x. We think it can manage its new capex cycle without liquidity risks.

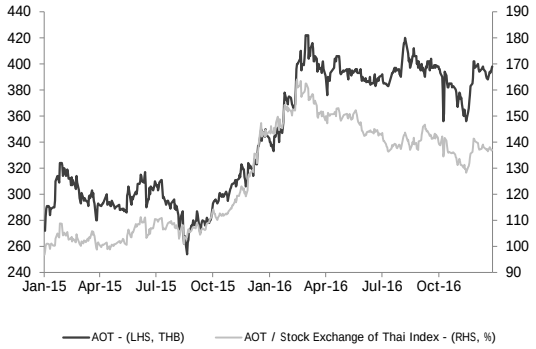
Statistics

52w high/low (THB)	422.00/333.00
3m avg turnover (USDm)	42.1
Free float (%)	30.0
Issued shares (m)	1,429
Market capitalisation	THB568.6B
	USD15.9B

Major shareholders:

Ministry of Finance	70.0%
Thai NVDR	5.1%
State Street Bank Europe Limited	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(0)	15
Relative to index (%)	(3)	(4)	(4)

Source: FactSet

FYE Sep (THB m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	43,969	50,962	54,821	61,621	67,379
EBITDA	26,880	31,024	33,616	37,980	41,500
Core net profit	16,042	19,571	21,691	24,441	25,983
Core EPS (THB)	11.23	13.70	15.18	17.11	18.19
Core EPS growth (%)	31.6	22.0	10.8	12.7	6.3
Net DPS (THB)	6.54	6.83	7.59	8.56	9.10
Core P/E (x)	35.4	29.1	26.2	23.3	21.9
P/BV (x)	5.2	4.7	4.2	3.8	3.6
Net dividend yield (%)	1.6	1.7	1.9	2.1	2.3
ROAE (%)	18.2	17.0	16.8	17.0	16.9
ROAA (%)	10.2	11.8	11.7	11.9	11.9
EV/EBITDA (x)	16.0	19.2	18.0	16.0	14.5
Net gearing (%) (incl perps)	27.0	21.5	27.0	24.7	22.3
Consensus net profit	-	-	22,107	24,780	26,213
MKE vs. Consensus (%)	-	-	(1.9)	(1.4)	(0.9)

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Value Proposition

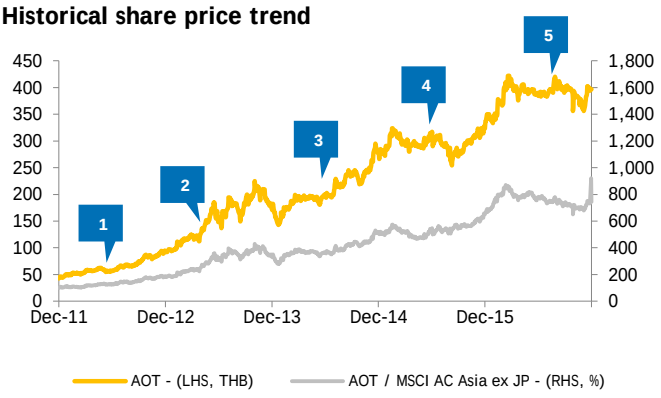
- With a near monopoly, AOT is a proxy of Thai tourism. Passenger throughput via its six airports is >90% of Thailand's air traffic.
- Expansion mode. Annual capacity will be >172m by 2035 from 83.5m in 2015 with six airports in the pipeline.
- Focus on non-aeronautical revenue (40% of revenue) by increasing commercial rental areas. Aims to build retail zones, hotels and sport complex within six airport sites.
- Capacity expansion and initiatives on non-aeronautical business should feed through to enhance ROE in 2020.
- Strong CF generation of THB20b annually should support new capex cycle and maintain financial flexibility.

Passenger capacity growth outlook

Source: Company, MKE-ISR

Price Drivers

Historical share price trend



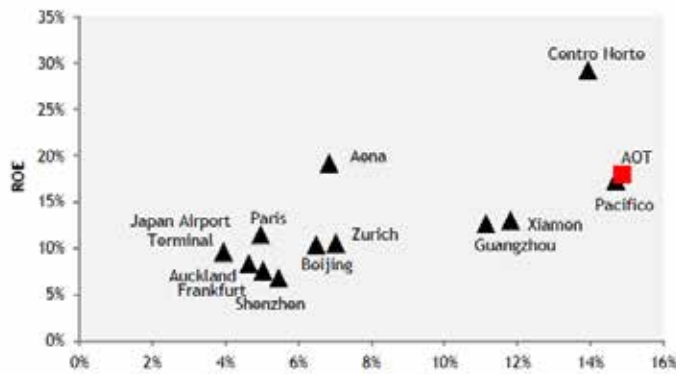
Source: Company, Maybank Kim Eng

1. Because of flooding in Oct11, the Don Muang airport was closed. Don Muang airport reopened in Mar12.
2. Government ended the single airport policy and relocated LCCs to Don Muang. Traffic recovery 2013 (+20% YoY).
3. Political instability, as well as PDRC called for rallies. Suvarnbhumi airport traffic fell 12% YoY in 1H14; underperform Asia Pacific airports that grew 5% YoY.
4. Board gives nod to Phase 2 expansion plan. AOT eyes control of three state run airports (Krabi, Udon Thani, and Ubon Ratchathani) out of total 28 airports.
5. AOT slashed THB2.7b from investment budget for Suvarnabhumi airport (Phase 2) in Apr16.

Financial Metrics

- Riding on strong tourism; Outlook remains robust. Traffic and tourist spending are the key growth drivers.
- AOT has the highest ROE (17%) and ROIC (15%) in the Asian airport sector (10% and 8%). This is due to AOT's higher EBITDA margin of 55-65% vs. regional peers 45-50%. Margin outlook stable in 2016-18, despite rising depreciation expense, supported by healthy traffic growth.
- Net D/E was 0.2x in Sep16. It will increase to 0.7x in 2020 after the all the projects are completed.

At the top of global airport rankings in ROE and ROIC



Source: Respective companies, MKE-ISR

Swing Factors

Upside

- Faster-than-expected Chiang Mai airport pax capacity expansion to 15m per year from 8m per year in 2015.
- Government and AOT's board approve the increase in passenger service charges (PSC) for both international (+15%) and domestic (+50%) travellers
- The possibility of AOT to run the three largest state-run airports in the next few years.
- Duty-free and commercial areas management contract term will be up for renewal in 2020.

Downside

- Delay in the Suvarnabhumi airport expansion plan from the expected 2020 completion date.
- Delay in PSC hike in 2018 (45% of revenue).
- A notable economic slowdown in China could have a negative impact on spending and inbound tourism.

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Maybank Kim Eng

Health Care

Thailand

Bumrungrad Hospital (BH TB)

Muscle to Withstand Downturn

BUY

Share Price	THB 181.00
12m Price Target	THB 240.00 (+33%)
Previous Price Target	*THB 240.00*

Maintain BUY

Although the UAE is developing healthcare infrastructure, we think BH can withstand a potential downturn in patient arrivals from the Middle East because of the compensating potential of the CLMV market, its collaboration with local hospital networks and balance-sheet strength. FCF and net-profit growth are expected to remain strong in 2017-2018. Maintain BUY with catalysts expected from international patient recovery and potential growth from CLMV. Maintain BUY with DCF-based TP of THB430 (WACC 9% and LTG 3%).

Limited risks from domestic market

BH has more than 30 specialty centres that tap traffic from its domestic market, which forms 35% of its revenue. It is also fortifying its cooperation with 36 local hospitals. This could potentially support its patient-traffic growth and case complexity. International patients are also expected to pick up after oil's recovery in the Middle East and coal's recovery in Mongolia as patients from these countries contributed for 22% of hospital revenue.

The promise of CLMV

Oversupply in Thailand is unlikely in the next three years as supply growth will be limited at 3-5% YoY while patient growth has been trending towards more than 5% pa. As Middle-Eastern countries are developing their healthcare infrastructure, BH is turning to CLMV markets to counteract patient losses from the UAE (currently 8% of revenues; YTD UAE patient revenue fell 18% YoY). We think existing healthcare facilities and personnel in CLMV cannot support high-complexity cases and patient demand. BH could potentially benefit from this.

Net-cash hospital chain

As at end-3Q16, BH was sitting on THB8.2b of cash and a net-cash balance. Interest coverage improved to 21x in 9M16 from 19x on average in the past three years with continuous operating cashflows. We think this will allow BH to pursue its capacity expansion that is expected to cost THB12.8b. Its healthy balance sheet should also cushion it against any weaker-than-expected patient-traffic growth.

FYE Dec (THB m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	15,630	17,660	19,426	21,758	23,933
EBITDA	4,470	5,286	5,973	6,899	7,629
Core net profit	2,684	3,390	3,903	4,342	4,663
Core FDEPS (THB)	2.91	3.67	4.23	4.71	5.05
Core FDEPS growth(%)	8.8	26.3	15.1	11.3	7.4
Net DPS (THB)	1.95	2.35	2.67	2.97	3.19
Core FD P/E (x)	62.2	49.3	42.8	38.5	35.8
P/BV (x)	12.1	10.4	9.0	7.7	6.7
Net dividend yield (%)	1.1	1.3	1.5	1.6	1.8
ROAE (%)	26.7	29.1	28.5	27.4	25.5
ROAA (%)	14.7	16.8	17.6	17.9	17.5
EV/EBITDA (x)	22.7	28.7	22.0	19.4	17.3
Net gearing (%) (incl perps)	net cash	net cash	net cash	9.2	net cash
Consensus net profit	-	-	3,613	3,939	4,446
MKE vs. Consensus (%)	-	-	8.0	10.2	4.9

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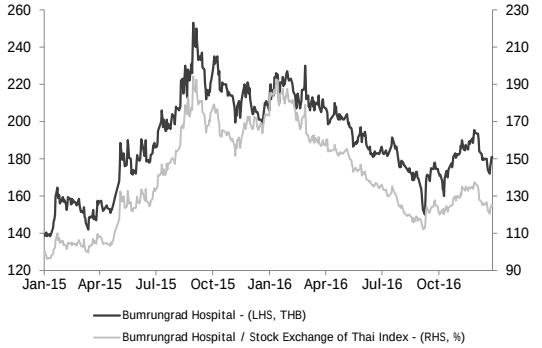
Statistics

52w high/low (THB)	230.00/150.00
3m avg turnover (USDm)	7.9
Free float (%)	35.2
Issued shares (m)	729
Market capitalisation	THB131.9B
	USD3.7B

Major shareholders:

Bangkok Dusit Medical Services	24.0%
Bangkok Insurance	14.7%
Sinnsuptawee Asset Management	6.3%

Price Performance



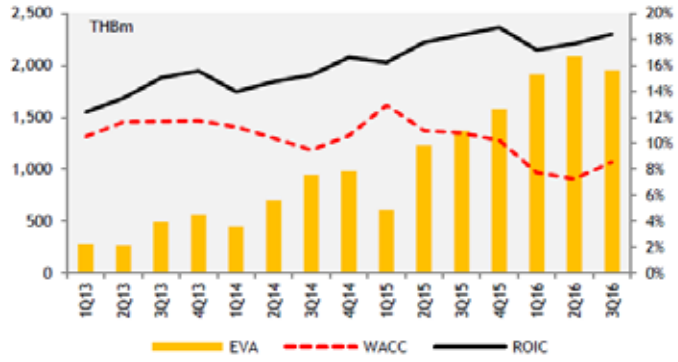
	-1M	-3M	-12M
Absolute (%)	(6)	4	(14)
Relative to index (%)	(8)	(0)	(28)

Source: FactSet

Value Proposition

- § Leading private hospital (580 beds) in premium segment where demand and price are inelastic. Strong brand recognition with focus on high-intensity healthcare.
- § Balanced portfolio of international patients (65% of revenue) and Thai (35% of revenue) patients.
- § Positioning facilitates to have largest EVA spread (7%) in the sector, helped by rising volume and firmer price since 2012.
- § Strong cash flow from operation (THB1.5b/quarter) and large cash on hand (THB4.8b) would fund three projects in the pipeline (THB12b).
- § Large cash flows and large cash position have kept cost of capital stable despite large capex.

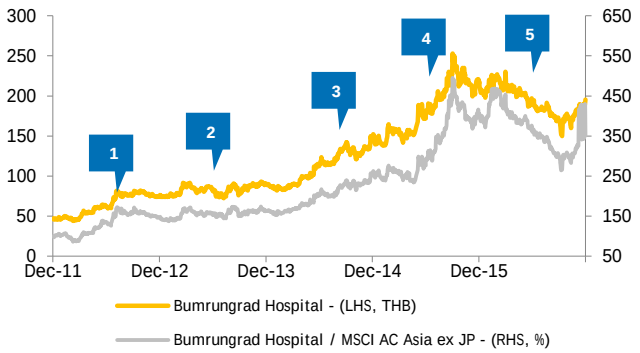
ROIC, WACC and EVA



Source: Company, MKE-ISR

Price Drivers

Historical share price trend



Source: Factset, MKE-ISR

1. BDMS raised stake in BH to 20.3% from 14.3%. BH sold the shares in BCH with pre-tax gain of THB790m.
2. BH acquired Ulaanbaatar Songdo Hospital (98 beds) in Mongolia with total investment of USD15.3m. Improving sentiment from MSCI Thailand index inclusion.
3. EBITDA margin hits record high of 32.3% (+470bps YoY) in 1Q15. Net profit surged 52% YoY.
4. Solid 2Q-3Q15 supported by seasonal patient traffic surge and rising case-mix index (intensity +15%/12% YoY).
5. CEO announced his retirement in Sep 2016. Revenue from UAE patient dropped 20% YoY in 1Q16.

Financial Metrics

- § Expect NPAT CAGR of 11% for 2015-18 from higher patient traffic and price intensity.
- § Margin outlook is stable for 2016-17. Had the highest EBITDA margin in 2013-15 at 27-30% (vs 22-24% for industry, 19-20% for regional peers).
- § Additional 220-280 beds to the existing 580 would see capex jump from ~THB1.5b in 2015 to ~THB8b in 2017-2018. Even then, FCF should remain strong.
- § Estimate utilisation rate to fall from 78% currently to 65% in 2019 when the new beds come on stream.

Operating cashflow, net profit and gearing

Source: Company, MKE-ISR

Swing Factors

Upside

- § Rising trend of price intensity and case-mix index.
- § Faster than expected ramp-up of new beds that could ease volume-growth constraint.
- § Delay in expansion plan among competitors such as RSU international hospital (300 beds).

Downside

- § Decline of Middle East patients (20% of revenue) after the fall in oil price. Middle East countries could cut healthcare spending.
- § Delay in expansion plans, such as Soi1 outpatient facilities, BI tower bldg. renovation and Petchburi project could raise concern on capacity constraint.
- § Competition in the private healthcare sector, especially in premium segment, continues to intensify the risk of losing patients/clients to competitors.
- § Shortage of doctors and healthcare personnel such as nurses, pharmacists and technicians.

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Maybank Kim Eng

Oil & Gas

Thailand

Indorama Ventures (IVL TB)

Polyester Juggernaut

BUY

Share Price	THB 33.00
12m Price Target	THB 40.00 (+21%)

Bigger & ready to roll; initiate with BUY

After multiple acquisitions and capacity expansion in the last five years, IVL is now the world's largest integrated polyethylene terephthalate (PET) producer. We think it has the scale, cost competitiveness from integration, and speed-to-market to cash in on a nascent pure terephthalic acid (PTA) upcycle. We forecast core net profit to grow at a 26% 2-year CAGR (FY17/18), with FCF potentially turning positive from 2017. Initiate coverage with a BUY and TP of THB40, based on 9.7x FY17E EV/EBITDA, in line with the Asian peer group average.

Capturing polyester's entire value chain

IVL is a leading producer of polyester, a basic raw material for packaging and textile products with wide-ranging consumer uses, with plants in four continents. Since 2012, its profits and returns have been growing even when industry spreads were below cash costs. This has been made possible by its value-accretive acquisitions that provide integration and penetration into the North America and HVA markets where margins are high and less cyclical.

Stronger integrated spreads, multi-year growth

FY17E core profit is expected to rise 23% YoY on the back of full-year contributions from Cepsa Spain, BP Amoco beginning in 2Q16, and Rotterdam PTA expansion from 1H17. FY18E growth should strengthen to 28% after the start-up of a mixed-feed cracker in 4Q17. With higher integration and PTA spreads expected, we estimate that IVL's EBITDA/t could reach USD100 by 2018E, up 19% from FY16E.

Better returns

With its strong profit momentum, IVL's core ROE should rise to 15.8% in FY18E from 10.1% in FY16E. Net gearing should also decline to 0.7x by 2018E, and FCF turn positive by 2017 given the limited capex.

More legs to the share rally

A 55% rally in the past 12 months has led to its 29% outperformance against the SET. Still, we see more legs to the rally from stronger profits in the next two years. P/E valuation of 14.8x is at a premium to peers, but we think this can be justified by its strong profit-growth prospects and competitive position.

FYE Dec (THB m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	243,907	234,698	286,494	343,982	376,686
EBITDA	16,692	21,774	25,911	29,772	34,565
Core net profit	4,886	6,487	8,701	10,728	13,751
Core EPS (THB)	1.01	1.35	1.81	2.23	2.86
Core EPS growth (%)	145.8	32.8	34.1	23.3	28.2
Net DPS (THB)	0.38	0.48	0.60	0.78	1.06
Core P/E (x)	32.5	24.5	18.3	14.8	11.6
P/BV (x)	2.2	2.0	1.8	1.6	1.5
Net dividend yield (%)	1.2	1.5	1.8	2.4	3.2
ROAE (%)	2.8	10.8	21.2	13.7	15.8
ROAA (%)	2.5	3.1	3.6	4.0	4.9
EV/EBITDA (x)	10.6	9.2	10.5	9.2	7.4
Net gearing (%) (incl perps)	84.1	96.3	103.5	96.1	71.8
Consensus net profit	-	-	14,654	10,048	12,455
MKE vs. Consensus (%)	-	-	0.6	6.8	10.4

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Company Description

World's leading integrated producer in polyester value chain with operating plants in every key region

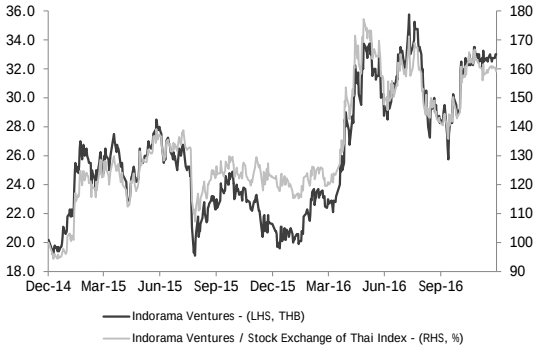
Statistics

52w high/low (THB)	35.75/19.60
3m avg turnover (USDm)	26.9
Free float (%)	33.5
Issued shares (m)	4,814
Market capitalisation	THB158.9B
	USD4.4B

Major shareholders:

Indorama Resources Ltd.	63.7%
Thai NVDR Ltd.	5.8%
Bangkok Bank PCL.	4.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	16	55
Relative to index (%)	(2)	12	29

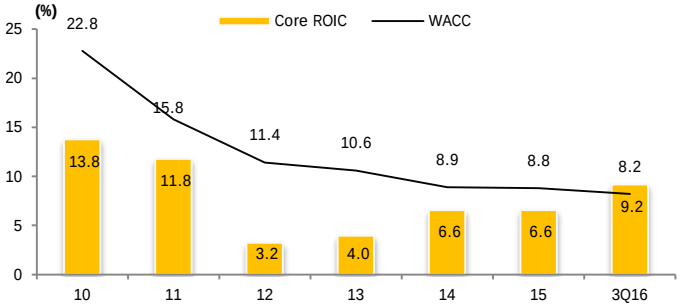
Source: FactSet

For full initiation report dated Jan 2, 2017

Value Proposition

- World's largest integrated polyester producer with plants in four continents. Penetration of West and HVA products accounts for its high margins.
- A series of acquisitions has completed its polyester value chain and cemented its market leadership.
- Advantageous acquisition prices of below replacement costs lifted its returns and enabled IVL to generate profits despite PET industry weakness.
- ROIC is gradually improving while cheaper funding costs have lowered WACC. By 3Q16, returns started to beat cost of capital.
- Returns vs cost of capital should continue to rise from strong profit growth.

ROIC vs WACC



Source: Company

Price Drivers

Historical share price trend

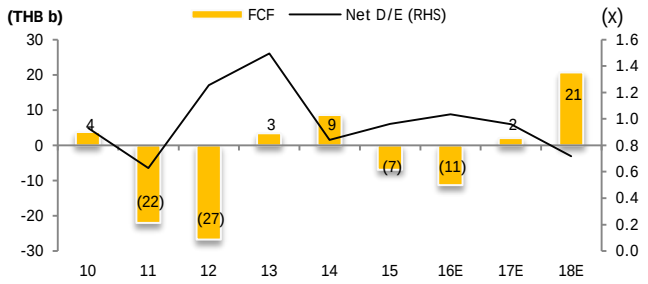
Source: Company, Maybank Kim Eng

1. Announced purchase of Old World, a MEG plant in the US, its largest acquisition since 2008. MEG offset a collapse in Asia PTA margins and lifted its profitability.
2. Asia PTA margins bottomed at USD71/t in Oct 2013.
3. Start of big acquisitions: Performance Fiber, Cepsa Canada, Cepsa Spain and BP Amoco.
4. Reflecting market expectations of strong profit growth from acquisitions in early 2016 and nascent recovery in spreads

Financial Metrics

- Core profit expected to grow a 26% CAGR in FY17-18E from higher EBITDA margins, volume and integration of acquisitions.
- Volume to rise 6% in FY17E as Cepsa Spain and BP Amoco contribute fully. Another 5% increase in FY18E from its US cracker and PTA expansion in Rotterdam.
- Expect EBITDA/t to rise to USD100 from USD84 this year from PTA integration and higher PTA spreads. Asia PTA should climb to USD110/t in FY18E from USD98/t in FY16E.
- Utilisation to improve after resumption of its MEG plant shut down this year.
- With limited capex and rising profits, net gearing should slide to 0.7x in FY18E from 1x in FY16E. FCF to turn positive in FY17E.

FCF vs Net gearing



Source: Company

Swing Factors

Upside

- Further polyester-industry consolidation, especially in China.
- Improved PTA and PET spreads.
- Lower corporate taxes in the US under new president.
- THB weakness which could boost translational earnings.
- More opportunistic acquisitions.

Downside

- Sudden spikes in raw-material prices as supply contracts are negotiated every few years.
- Excess supply that could compress spreads.
- Unplanned shutdowns of plants.
- Anti-dumping measures by importing countries. Big investments that necessitate cash calls.

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Maybank Kim Eng

Real Estate

Thailand

Land & Houses (LH TB)

Solid Brand Protection

BUY

Share Price	THB 9.80
12m Price Target	THB 12.20 (+24%)
Previous Price Target	*THB 12.20*

Turning around

A chronic underperformer to the SET and property sector, we believe LH's stock has bottomed and see catalysts in 2017 from continued momentum in the high-end low-rise market, higher contributions from its investments and extra profits from planned asset spinoffs. Reiterate BUY and SOTP-based TP of THB12.20.

High-end market healthy

We think the high-end residential market, LH's forte, will grow another 7-10% next year as it is only mildly affected by sluggish economic conditions. Demand here is anchored by high purchasing power and limited supply. Of the six developers under our coverage, LH also has the biggest condo backlog of THB11.3b. This towers above its THB7b condo-revenue target for 2016 and should help support revenue growth next year.

Recurring-income pillar

LH will continue to invest in apartments in the US and hotels and shopping malls in Thailand. These should benefit from tourism growth and improve its earnings quality and cashflows. Gearing is only 0.86x, below the sector average of 1.0x, offering debt headroom for expansion.

Potential asset spinoffs

LH plans to spin off Grande Centre Point Rajdamri Hotel to its hotel REIT (LHHOTEL TB, Not Rated) in 1H17. We estimate a sale value of THB3.5-3.8b with a one-time net gain of THB1b, implying 12% upside for our FY17E EPS.

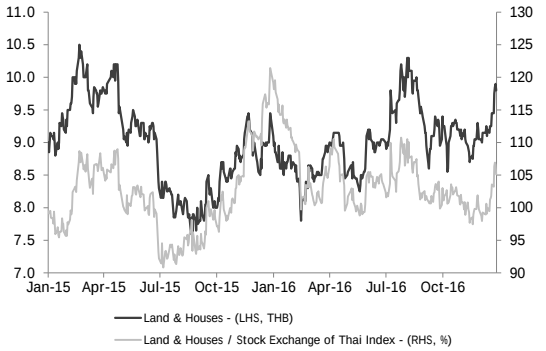
Statistics

52w high/low (THB)	10.30/7.80
3m avg turnover (USDm)	4.9
Free float (%)	42.2
Issued shares (m)	11,779
Market capitalisation	THB115.4B
	USD3.2B

Major shareholders:

Mr. Anun Asawapokin	24.3%
THAI NVDR CO., LTD.	17.7%
GIC PRIVATE LIMITED	16.4%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	9	4
Relative to index (%)	3	5	(13)

Source: FactSet

FYE Dec (THB m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	28,317	26,260	30,811	32,200	33,800
EBITDA	6,950	6,165	7,402	8,000	8,656
Core net profit	8,423	7,920	8,013	8,557	9,020
Core EPS (THB)	0.77	0.68	0.68	0.73	0.77
Core EPS growth (%)	18.7	(11.9)	1.2	6.8	5.4
Net DPS (THB)	0.65	0.60	0.58	0.62	0.65
Core P/E (x)	12.8	14.5	14.3	13.4	12.7
P/BV (x)	2.5	2.5	2.5	2.4	2.3
Net dividend yield (%)	6.6	6.1	5.9	6.3	6.7
ROAE (%)	22.0	17.9	17.4	18.0	18.4
ROAA (%)	10.4	8.6	8.0	8.3	8.6
EV/EBITDA (x)	18.6	23.3	20.7	19.2	17.9
Net gearing (%) (incl perps)	64.2	67.2	77.3	75.2	73.3
Consensus net profit	-	-	7,878	8,708	9,044
MKE vs. Consensus (%)	-	-	1.7	(1.7)	(0.3)

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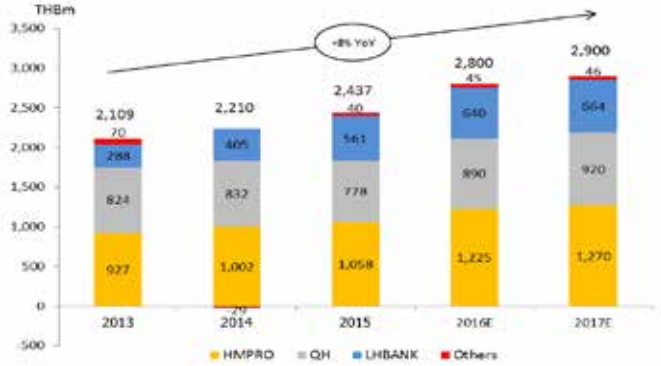
Value Proposition

§ Thailand's largest property developer, targeting middle to high-income earners in high-growth areas of the Bangkok Metropolitan Region.
§ Well known for its high-end detached houses with highest market share of 25% in 9M16.
§ Diversified investment portfolio in three main associates: HMPRO (HMPRO TB; BUY) (30%), QH (25%), and LHBANK (LHBANK TB; Not-rated) (34%).
§ Revenue from investment portfolio accounts for 40% of net profit and support growth, especially during property slowdown.

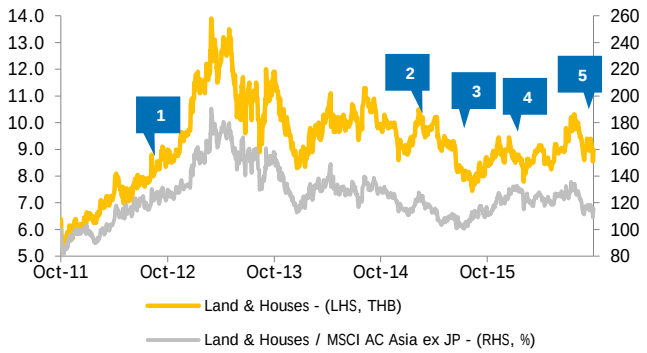
Revenue share from investment in associates



Source: Company, MKE-ISR

Price Drivers

Historical share price trend



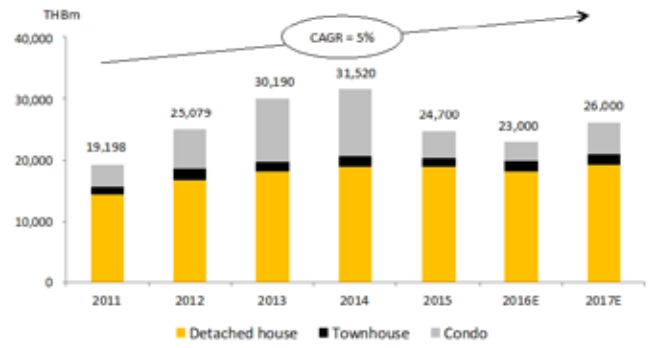
Source: Bloomberg, MKE-ISR

1. Housing boom along mass transit lines.
2. Sales of Terminal 21 shopping mall to REIT in 4Q14, recording net extra gain of THB1.5b or 46% of net profit in the quarter.
3. Bombing in Bangkok in Aug 2015 led to weakening property sentiment and the delay of new project launches.
4. Announced property stimulus measures in Oct 2015, focusing on homes priced at THB3m/unit or below.
5. Sales of Grand Center Point Hotel and apartment in USA in 4Q15, recording net extra gain of THB1.2b or 35% of net profit in the quarter.

Financial Metrics

§ Favourable sales and net profit growth of 9% and 7%, respectively based on 5-year CAGRs.
§ Strong recurring income growth of 23% based on five-year CAGRs from rental businesses and investments in associates to support property business.
§ Strong operating and FCF from 2016-17F for acquiring land and paying out c. 85% of net profit.
§ Improving gearing ratio from 0.89x in 2015 to 0.86x in 3Q16, below the sector average of 1.0x.

Annual presales



Source: Company, MKE-ISR

Swing Factors

Upside

§ Government measures stimulating housing demand and boosting market sentiment.
§ Better cost management resulting in higher GM and NM.
§ Sales of assets, such as shopping malls and apartments with net gain.

Downside

§ Stringent bank lending conditions and rising interest rates resulting in higher mortgage rejection rate.
§ Oversupply of residential properties.
§ Natural disaster or political unrest.

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Maybank Kim Eng

Siam Commercial Bank (SCB TB)

To Capture Consumer Loans

BUY

Share Price	THB 152.50
12m Price Target	THB 169.00 (+11%)
Previous Price Target	*THB 169.00*

Year of consumer loans

SCB has a stronger balance sheet than its big-bank peers which could shield it more from policy risks, including IFRS9, in our view. Consumer loans are expected to continue outperforming the corporate segment. As a leading retail bank, we think SCB will benefit the most. BUY with a GGM-based TP of THP169 (1.53x 2017 P/BV, 15.9% ROE).

Balance sheet to withstand risks

SCB's balance sheet has been strengthened by aggressive provisions in recent years. Its coverage has been brought back to 130%. In the near future, its Sahaviriya Steel Industries bad debt is likely to normalise, potentially adding 30bps to its coverage to make it one of the highest in the industry. At this level, SCB should be enough to withstand future policy risks, particularly IFRS9.

Consumer loans continue to outperform

We expect consumer loan growth to gather steam next year even amid high leverage and limited income-growth prospects. In contrast, corporate lending could remain limp as SMEs struggle with continued weak exports. Among large corporates, loan demand could also be anaemic due to competition from the bond market as interest rates become more attractive. Such an outlook should favour retail banks like SCB.

Top pick

As the balance sheets of banks have mostly been repaired, we reiterate that next year, they are likely to compete at the topline. With a stronger balance sheet, SCB should be more willing to lend. As it also generates the highest ROEs, we expect it to outperform its peers next year.

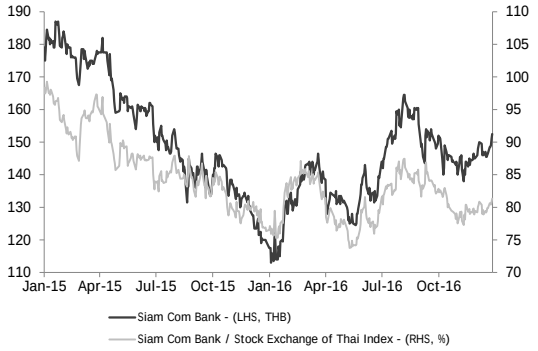
Statistics

52w high/low (THB)	164.50/113.00
3m avg turnover (USDm)	33.4
Free float (%)	62.8
Issued shares (m)	3,395
Market capitalisation	THB517.8B
	USD14.5B

Major shareholders:

Crown Property Bureau	21.3%
Krung Thai Asset Management Public Co.,	11.6%
MFC Asset Management Public Co., Ltd. (I	11.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	3	28
Relative to index (%)	2	(1)	7

Source: FactSet

FYE Dec (THB m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	128,209	137,498	135,291	147,567	156,421
Pre-provision profit	80,121	88,550	83,896	92,573	97,578
Core net profit	53,335	47,182	45,963	58,060	64,463
Core EPS (THB)	15.7	13.9	13.5	17.1	19.0
Core EPS growth (%)	6.2	(11.5)	(2.6)	26.3	11.0
Net DPS (THB)	6.0	5.2	5.1	6.4	7.2
Core P/E (x)	9.7	11.0	11.3	8.9	8.0
P/BV (x)	1.8	1.7	1.5	1.4	1.3
Net dividend yield (%)	3.9	3.4	3.3	4.2	4.7
Book value (THB)	83.94	90.45	98.87	109.55	121.32
ROAE (%)	20.1	15.9	14.3	16.4	16.4
ROAA (%)	2.0	1.7	1.6	1.9	2.0
Consensus net profit	-	-	46,028	52,097	56,365
MKE vs. Consensus (%)	-	-	(0.1)	11.4	14.4

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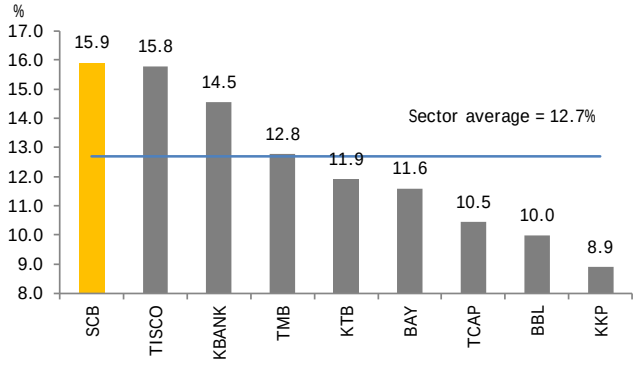
Banks

Thailand

Value Proposition

- First bank in Thailand. Established by the monarchy and still has a close relationship. Crown Property Bureau is the biggest shareholder (21%).
- Heavily used among elites and large conglomerates, regardless of their political beliefs.
- Leader in retail banking with #1 position in mortgages.
- Aims for #1 in high-yield segments, such as SMEs, wealth management and fintech in medium term to maintain its most profitable bank status.
- Also leading player in digital banking, closely behind #1 KBANK (KBANK TB, BUY).

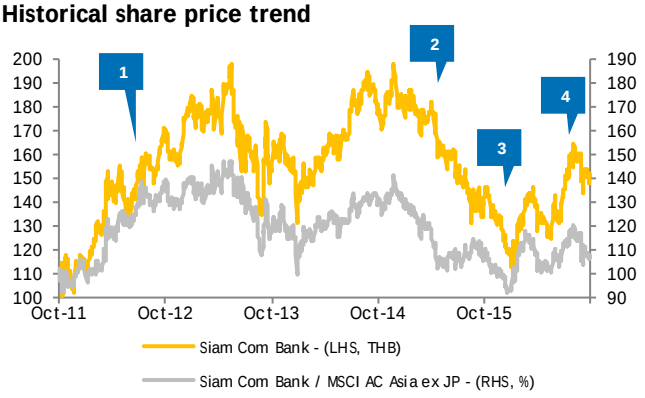
Highest ROE among Thai banks (data 2015A)



Source: Companies

Price Drivers

Historical share price trend



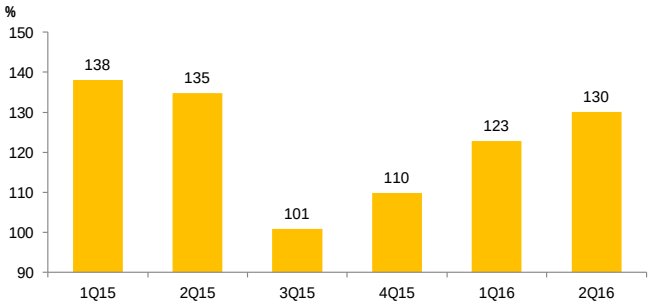
Source: Bloomberg, Maybank Kim Eng

1. Strong domestic consumption, rising loans and the expanding bancassurance business boosted earnings.
2. Credit quality began to deteriorate.
3. Then intensified by SSI's loan default.
4. NPLs improving due to stronger economic recovery. Extra gains from its insurance subsidiary also helped ramp up the coverage ratio damaged by SSI's loan default.

Financial Metrics

- Most profitable bank thanks to its strong retail banking business.
- Concern on credit quality should subside very soon as NPLs are improving. Furthermore, the coverage ratio damaged by SSI's loan default in 3Q15 has been ramped up.
- For the top lines, consumer loans should continue outperform corporate segment. Furthermore, as SCB's balance sheet is stronger than peers, the bank should be more competitive in fierce-competition corporate segment. Lender in JAS's tender offer is a prime example.

Coverage ratio has recovered to above 130%



Source: Company

Swing Factors

Upside

- Potential partner for SCB Life. The gain from the stake sale could be as much as THB35b or equivalent to 80% of SCB's full-year net profit.
- Bad debt recovery from SSI UK as the defaulted loan has been fully provisioned for without collateral considered.

Downside

- NPLs may rise again if the economic recovery loses momentum.
- Negative impact to transaction fees in light of the emergence of PromptPay.

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Maybank Kim Eng

Consumer Staples

Thailand

Thai Union Group (TU TB)

Next Lap of Growth

BUY

Share Price	THB 21.00
12m Price Target	THB 26.00 (+24%)
Previous Price Target	*THB 26.00*

5-year plan to accelerate EPS growth

TU has a bold plan to double its revenue to USD8b by 2020, via organic growth, product innovation and M&As. With resilient cashflow plus low leverage, we see likely success. We forecast revenue growth of 121% from end-2015 to end-2020 and net-profit growth of 146%. BUY with a TP of THB26, based on the average of DCF and GGM valuations (7.31% WACC, 16% 3-year average ROE, 3% LTG).

Strength from scale & diversification

TU has morphed from a predominantly tuna canner to a purveyor of a wide swathe of seafood products. Its operations are also more evenly spread across the US, Europe and Thailand. As a result, its profitability and cashflow should be able to withstand wild swings in input prices and/or supply that are characteristic of resource-based industries. EBITDA is projected to grow from THB12b in 2016E to THB17b in 2018E. With normalised capex of THB3-3.5b, we see room for funding acquisitions.

M&As to provide entry to product, market niches

About 33% of its targeted revenue growth will come from strategic M&As to help TU penetrate deeper into products, logistics and market niches or new ones. For example, its 2006 acquisition of MWB brands in Europe catapulted it to the top position of the European tuna market. Its 2016 acquisitions of Chez Nous in Canada, Rugen Fisch in Germany and Avanti Frozen in India have expanded its frozen/chilled seafood segments. They could potentially help the group break into China's seafood market. Its acquisition of a 25% stake in the over-700-restaurant chain, Red Lobster, with an option to bump it up to 49%, has ensconced the group in food services, starting with the US and Canada where Red Lobster is dominant.

Platform for new products

To exploit its multiple products and markets, TU has built a research & innovation centre in Thailand where it will employ qualified, multidisciplinary scientists in food science, chemistry and fishery. New products - mostly patented – are expected to emerge from this centre that should be responsible for about 28% of its targeted growth. The rest of its growth target or 40% should come organically.

FYE Dec (THB m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	121,402	125,183	148,879	176,412	206,933
EBITDA	10,393	10,108	11,850	13,694	16,746
Core net profit	5,092	5,302	6,153	7,294	9,516
Core EPS (THB)	1.07	1.11	1.29	1.53	1.99
Core EPS growth (%)	71.7	4.1	16.0	18.5	30.5
Net DPS (THB)	0.55	0.63	0.66	0.78	1.02
Core P/E (x)	19.7	18.9	16.3	13.7	10.5
P/BV (x)	2.3	2.2	2.0	1.9	1.7
Net dividend yield (%)	2.6	3.0	3.1	3.7	4.8
ROAE (%)	12.2	11.9	12.9	14.2	16.9
ROAA (%)	4.6	4.7	5.3	5.8	7.0
EV/EBITDA (x)	14.7	12.0	12.2	10.7	8.8
Net gearing (%) (incl perps)	85.5	74.8	76.8	71.5	62.1
Consensus net profit	-	-	5,625	6,725	7,503
MKE vs. Consensus (%)	-	-	9.4	8.5	26.8

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Company Description

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

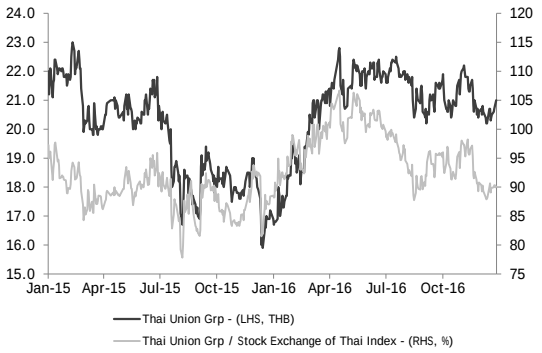
Statistics

52w high/low (THB)	22.80/16.70
3m avg turnover (USDm)	9.8
Free float (%)	45.9
Issued shares (m)	4,772
Market capitalisation	THB100.2B
	USD2.8B

Major shareholders:

Chansiri Family	18.2%
Mitsubishi Corp	7.3%
Niruttinanon Family	6.9%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(2)	22
Relative to index (%)	(1)	(6)	2

Source: FactSet

Value Proposition

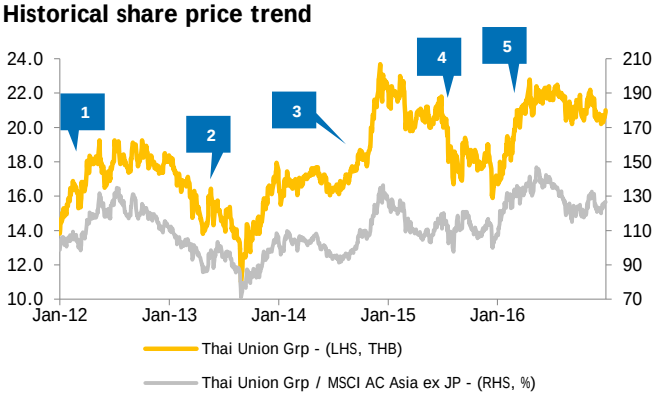
- From mainly a tuna processor, has evolved to become a diversified processor of seafood products (shrimps, salmon, sardines, cephalopods, lobsters, crabs) from canned to chilled to frozen to value added. TU aims to be Seafood Chef of the World.
- The geographical reach of its operations is global covering all the main markets except Middle East/Africa & China – areas that are targeted in the recent expansion push.
- Being a resource-based industry, TU will continuously see swings in supply and/or prices of inputs but with its diversified product base its profit profile is no longer as vulnerable and recovery is faster.
- The next target revenue doubling to USD8b by 2020 will make TU more dominant global player in the seafood arena with multiple growth areas be it in product portfolio, market or distribution channel.

Footprint: to expand penetration in India, China & ME/Africa

Source: Company data

Price Drivers

Historical share price trend



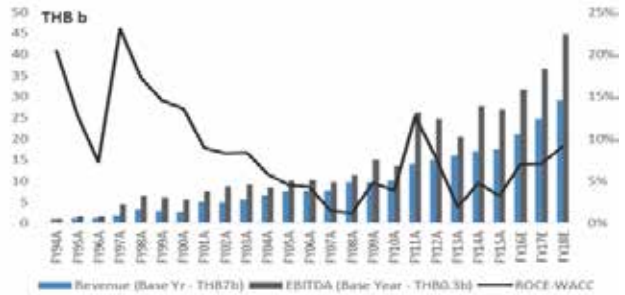
Source: Factset, Maybank Kim Eng

1. Full benefit from the MWB brands acquired in 2010 pushed revenue growth and margins higher
2. Volatile tuna prices, difficulty in shrimp business due to disease hitting Thailand's aquaculture plus negative effect from the rationalization of the US pet food business (one off) capped revenue growth and depressed margins
3. Margins started to recover and TU found ad hoc solution to compensate for low shrimp supply in Thailand
4. Share price performance was depressed again by the prospect of material price hikes depressing margins again for several quarters
5. However, recovery was faster this time as product portfolio has become more diversified

Financial Metrics

- TU will continue M&A to gain wider seafood product portfolio and market penetration. Without acquisition normalised capex is at THB3-4b while EBITDA projected from THB12b in 2016 to c.THB17b in 2018. 2016 acquisitions will put capex closer to THB7b.
- Funding cost via mostly via debentures gives competitive funding cost resulting in widening in ROCE-WACC gap.
- As product portfolio gets more diversified expands into more value added, margin volatility will be less and recovery from adverse price changes in material is expected to be shorter.

Sales up 29-fold, EBITDA up 45 fold; ROCE-WACC rising



Source: Company, MKE-ISR estimates

Swing Factors

Upside

- Gross margin expansion is a powerful share price driver
- Acquisition – even if small - that has clear accretive value also drive share price
- Higher than expected dividends drive share price.

Downside

- Raw material price spikes especially in tuna
- Rising leverage caps share price performance on anticipation of lower dividends
- Drastic swings in European currencies could drag the THB translated performance

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CONSUMER
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Maybank Kim Eng

STRATEGY

Vietnam

Vietnam: Six-for-17

Focus on Ho Chi Minh City and Resilient Demand

Rising income in the service-oriented HCMC

Ho Chi Minh City (HCMC)'s positioning as a service centre has led to a sustainable rise in disposable income. 2017 should be the right time to pick the right consumer stocks, given the tipping points in demographics in 2014-16. Meanwhile, a change in regulation in Nov 2016 will result in less money for the city to spend on infrastructure. This should either expedite public-private partnerships (PPPs), or trigger high-income working adults to migrate towards the CBD. We prefer Vinamilk (VNM VN, BUY), and Mobile World (MWG VN, BUY) for strong physical footprints in the consumer-related playing field, and Coteccons (CTD VN, BUY) for its ability to pick the right CBD-bound developers as well as its potential infrastructure exposure.

Enlarged stock market creates over-excitement

The new government has pushed all state-owned companies to be listed to fulfill liquidity and transparency requirements. Total market cap of all stock exchanges (including UpCOM) surpassed USD80b at end-2016 and is forecast to reach USD100b at end-2017, vs USD49b for the VN-Index a year before. The plan to combine the two bourses may progress in 2017. As the market seems overly excited about new listings, it creates rare compelling valuations for existing winners like Vinamilk (VNM VN, BUY).

Supply shortage in the power sector

Against the backdrop of strong economic growth in Southern Vietnam, led by HCMC and satellite cities, the entire region now faces an electricity shortage. The more severe supply shortage in 2018-19E may expedite government approval for capacity additions in 2017. We think PetroVietnam Power Nhon Trach 2 (NT2 VN, BUY) – a dividend play - provides the best exposure, with probable capacity increases.

Unnoticed outperformer in affordable housing

Within the HCMC theme, we believe NLG is an unnoticed outperformer in affordable housing, as it is difficult for the market to price in pre-sales. Its FY18-20E earnings drivers from projects located near highways should be increasingly visible during 2017 – a reason for us to include this stock in the Year Ahead. We are not overly concerned with increased competition in this segment, per our review of NLG's pre-sales track record. Supply-wise, apartments currently only house ~5% of HCMC's population.

Buy KBC on visible earnings, backed by resilient FDI

We believe the recent share price correction of Kinh Bac City (KBC VN, BUY) was mainly due to profit-taking pressure. This implies a buying opportunity for one of the leading industrial estate developers with visible earnings and limited downside, backed by resilient FDI.

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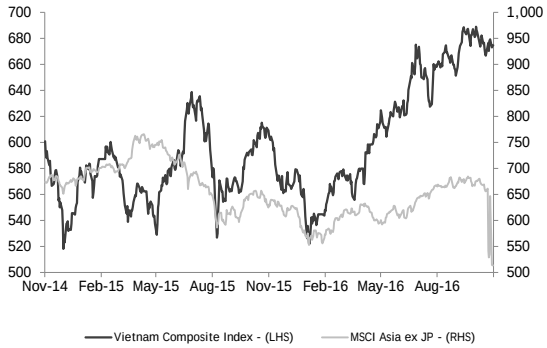
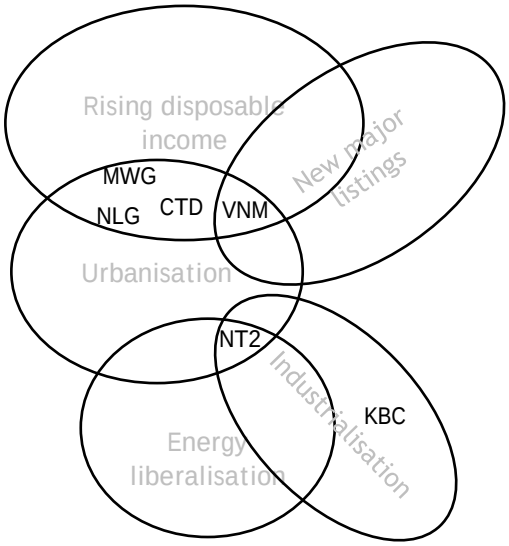
Country Index vs MSCI



Source: Factset

How our stock picks relate to key themes:



Vietnam's 6 for 17

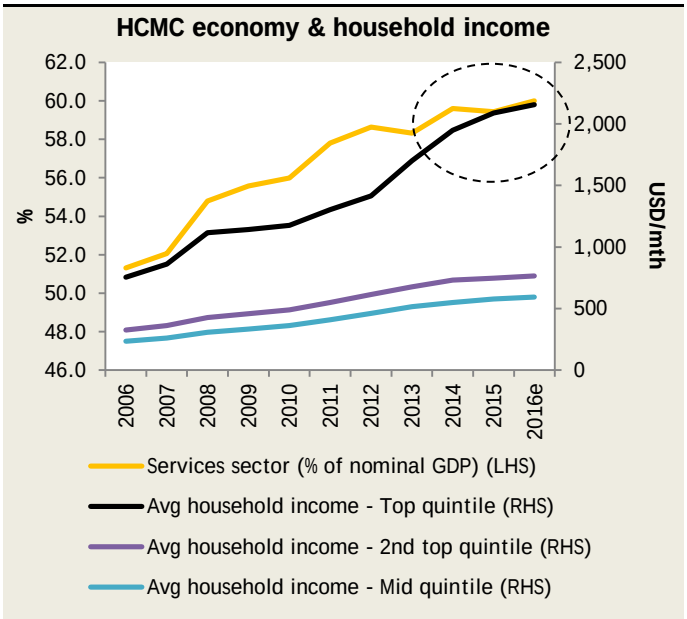
Ticker	Company Name	Mkt cap (USDm)	Price	TP	Up/Down (%)	PE (x)			Core FD EPS gr (%)			P/BV (x)		ROE (%)	
						FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY16E	FY17E
VNM	Vinamilk	8,031	126,000	149,400	19%	20.6	19.0	18.0	27%	8%	6%	8.4	7.7	45%	45%
MWG	Mobile World Investment	1,076	159,200	192,000	21%	12.7	10.8	8.7	64%	18%	25%	5.9	4.2	46%	38%
CTD	Cotec Construction	604	178,800	247,000	38%	9.5	7.3	6.7	70%	30%	8%	2.1	1.8	20%	25%
NLG	Nam Long Investment	133	22,350	31,500	41%	13.2	17.1	11.6	16%	-23%	47%	1.3	1.2	10%	8%
NT2	PetroVietnam Power Nhon Trach 2	355	28,000	44,000	57%	6.8	7.2	6.9	-5%	-6%	4%	1.5	1.4	21%	17%
KBC	Kinh Bac City	286	13,700	21,500	57%	7.2	6.3	6.2	147%	15%	1%	0.8	0.7	11%	11%

Source: Factset, MKE estimates

6 Links You Need to Know

Chart 1: Rising income in the service-oriented HCMC

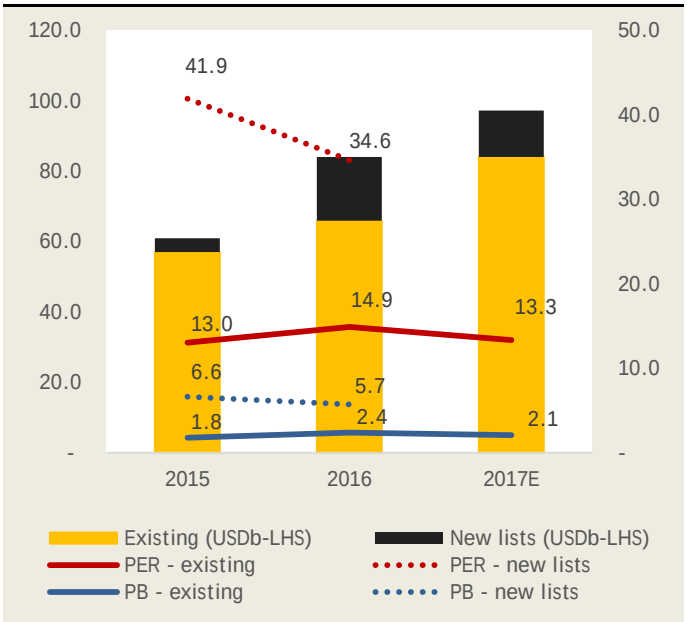
Top-quintile households have seen the strongest income growth



Source: HCMC Statistics Office, World Bank, ADB, MKE estimates

Chart 2: Enlarged stock market creates over-excitement

IPO craze makes existing gems like Vinamilk compelling again



Source: HCMC/Hanoi stock exchanges, MKE estimates, company guidance. 2017 est. for new listcos is not available

Look for the right consumer plays in HCMC

Chart 1 implies two things: (1) customer service, one of HCMC's well-established trademarks among the Vietnamese, should continue to be the city's sustainable economic driver; and (2) the top-quintile households have seen the strongest rise in income, particularly since 2013, as a result of the city's increased focus on the high-margin and scalable services sector.

The top-quintile, which we estimate comprises >350,000 households at end-2015, may have been overlooked. Not until 2015-16 have convenience stores in HCMC (>1,000 outlets per our estimates) seen such strong growth. Their main customers (23% of total, per AC Nielsen in 2015) are students, whose parents probably belong to the top quintile(s).

In 2016, Vinamilk (VNM VN, BUY), a consumer staples name, also launched its own online retailing and retail store network, implying a rising need for convenience among customers.

On the other hand, customers in lower quintiles have also started to benefit from the rise in consumer credit. This credit grew 30% in 2015 vs 20% CAGR in 2006-14, per Banking Strategy Institution. Most consumer credit companies target customers looking to purchase mid-priced items such as motorbikes, electronics and household appliances.

Verdict: Select consumer stocks should outperform, given the tipping points in 2014-16 and rising volatility in 2017. We prefer companies with a strong physical footprint in HCMC. These companies are proactive in bringing convenience to the top-quintile, but are also flexible enough to cater to the lower quintiles. **Top picks:** Mobile World (MWG VN, BUY); Vinamilk (VNM VN, BUY).

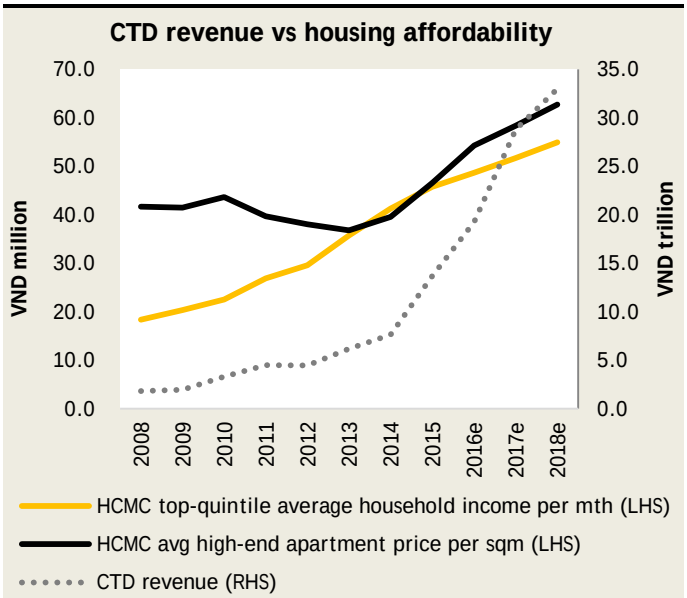
VNM: Underrated growth & margin protection

Towards the end of 2016 the new government aggressively pushed state-owned companies to be listed on the stock exchange and accelerated various plans to divest completely out of listcos that are sought after by investors including Vinamilk, SABECO etc. These actions sent two important messages to the market: (1) there are more investible, large corporates being listed for investors to choose from including those with greater transparency and liquidity and (2) clarity and visibility for all the upcoming IPOs: listings will have to be done within three months (for UpCOM) and 12 months (for the main boards), unlike before. For example Sabeco was first equitized in 2008 but was only listed on 6 Dec 2016. We estimate that total market capitalization will reach the USD100b milestone by year-end 2017, from USD60b in 2015 and USD80b in 2016. Two thirds of the top 15 largest listcos will be replaced by new names such as Sabeco, Mobifone, Airport Corporation (ACV), Vietjet, Novaland etc.

However investors appear to be overly excited about improvement stories when these state assets are sold to the public or strategic investors. SAB, BHN or ACV are trading at excessive 40x, 47x P/E and 5x P/BV. On the other hand stocks with solid, proven fundamentals like Vinamilk are trading at below 18x 2018 P/E, offering 46% ROAE. We also think the general market may have underestimated Vinamilk's ability to extend top line growth momentum and protect margins against the recent global milk powder recovery. We project that VNM will be able to deliver 12% avg. revenues growth and 11% NPATMI avg. growth during 2017-20 with 39.5% avg. gross margin during this period.

Chart 3: CTD to see strong FY17-18E revenue

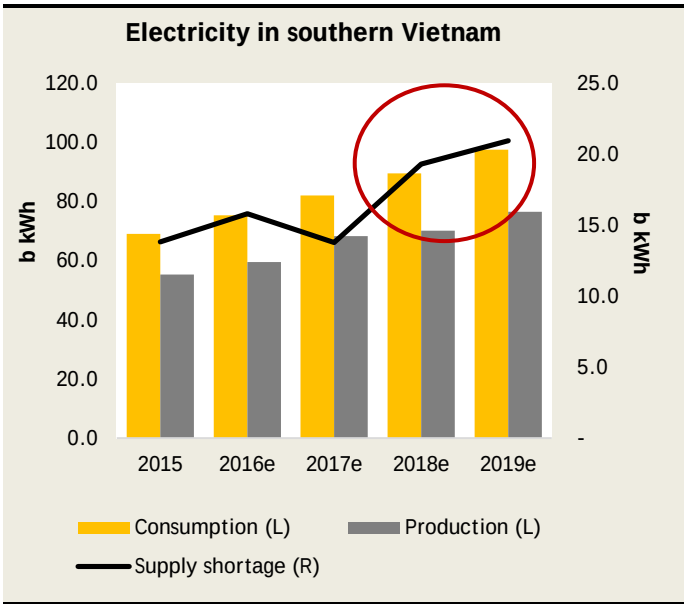
Improved housing affordability bodes well for CTD's developer clients.



Source: HCMC Statistics Office, World Bank, JLL, company data, MKE estimates

Chart 4: Southern Vietnam in need of electricity boost

2018-19E shortage outlook may expedite capacity boost in 2017.



Source: Vietnam Electricity (EVN), MKE estimates

BUY CTD for prime real estate exposure

A change in regulation in Nov 2016 reduces HCMC's ability to expand infrastructure in the short term. This would either expedite PPP or prompt high-income working adults to migrate towards the CBD to avoid the increase in traffic jams.

Chart 3 suggests income for the top ~350,000 households has risen faster than high-end property prices in HCMC. This implied improvement in housing affordability, together with the aforementioned infrastructure constraint, bolsters the investment case for prime real estate in 2017.

Our analysis suggests that mortgage payments should take up ~60% of these households' monthly income (vs their current ~65% savings rate), if they buy a 90sqm high-end apartment, using a 20-year, 70%-LTV mortgage at current rates.

Credit availability plays an important role, as ~70% of high-end apartment buyers in HCMC currently use mortgages, per Vingroup (VIC VN, HOLD) and Novaland (NVL VN, NR). We maintain our previous loan volume forecast, as the government has given commercial banks a long preparation period to comply with the increasingly stringent rules.

Supply-wise, we estimate cumulative high-end apartment completions in HCMC will reach 60,000 units by end-2018 (5x current level). These are mostly in prime locations and should not be difficult for the top households to absorb. We estimate only ~5% of HCMC's population currently lives in apartments.

Our analysis also suggests high-end supply in the secondary market is currently ~20-30% that of the primary market. This would not pose an immediate threat to the top-tier developers.

Verdict: We prefer a contractor with a well-diversified exposure to CBD real estate and potential PPP projects. **Top pick**: Coteccons (CTD VN, BUY). Its new orders have surpassed revenue in FY14-16E, implying a reverse trend in FY17-18E.

BUY NT2 for optimal exposure to electricity

We see electricity generation as an attractive sector. On average, current electricity tariffs in Vietnam are ~35% below neighbouring countries, including the less developed ones, a result of legacy subsidies that will likely not sustain.

In the past 10 years, electricity consumption has grown at a 12.3% CAGR, about twice that of real GDP. This will likely continue given the country's ongoing industrialisation; over half of electricity generated is currently consumed for industrial activity. Besides, increasing urbanisation is also a key driver.

It has been well-noted that the south of Vietnam is where most of its FDI-driven industrial activity is concentrated, yet electricity supply falls short of demand. ~20% of electricity consumed in the south has to be imported from other areas, as seen on Chart 4. This is due to a legacy incongruity between the foundation of energy authorities in the north and the pace of economic development in the south.

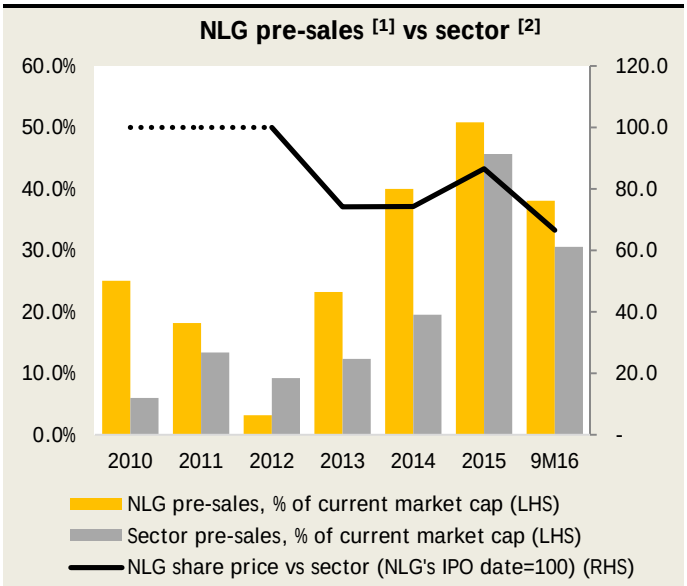
What is important about 2017 is that the government will likely face an urgent need to approve plans to boost capacity, given the expected widening of the demand gap in the south in 2018-19E, and that many power-plant additions are behind schedule.

Verdict: For an optimal exposure to the energy liberalisation theme in Vietnam, we prefer a company that meets the following criteria: (1) located in the South, preferably with proximity to both industrial and residential areas; (2) scalable enough to benefit from volume growth; (3) does not carry high environmental risks; (4) uses a source of input that has a secure supply pipeline, preferably with lower pricing volatility risks.

Top pick: PetroVietnam Power Nhon Trach 2 (NT2 VN, BUY). We believe this broadly meets the above criteria. Approval for capacity additions (NT3, NT4) will be its main 2017 catalyst.

Chart 5: Outperformance by Nam Long (NLG) unnoticed

NLG pre-sales relatively ahead of market but is probably not priced in



[1] Pre-sales estimates = change in customer advances + change in deferred revenue + property sales revenue – change in trade receivables. [2] Sector includes BCI, DXG, HQC , KDH , NBB , NLG, PDR, QCG, SCR, TDH, VIC, VPH.
Source: Company, JLL, MKE est.

BUY NLG on unnoticed outperformance

In Chart 5, our review of balance sheet data suggests Nam Long (NLG)'s pre-sales are relatively ahead of peers. Note that Vietnam Accounting Standards (VAS) require property sales to be recognised on a completion of construction (COC) basis, which makes it difficult for the market to price in pre-sales. NLG's strong 9M16 pre-sales (equivalent to about 40% of the company's market cap, vs sector average of 30%) have probably gone unnoticed; Chart 5 also suggests NLG's share price has underperformed the sector. We view this as a buying opportunity and maintain our rating.

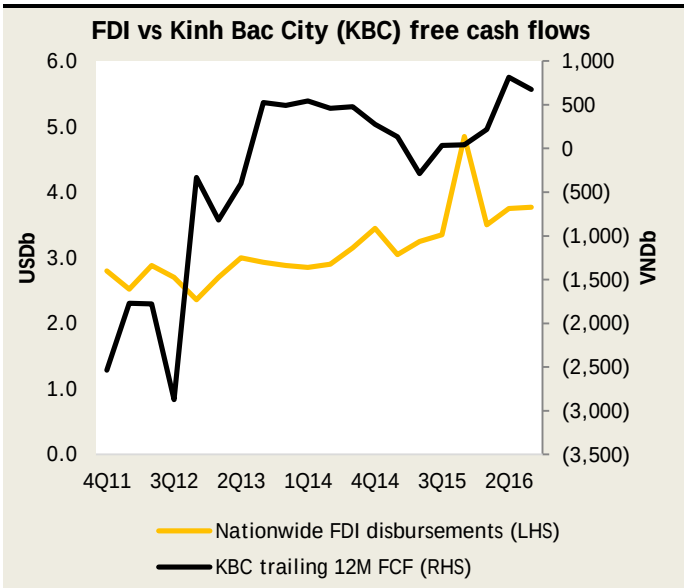
Our confidence is backed by two key major projects, which are FY18-20E earnings drivers: (1) the 18ha Phu Huu project, backed by NLG's successful pre-sales when partnering with Japan's Hankyu Realty and Nishi-Nippon in other projects within the same District 9; and (2) the 37ha Aquamarine project in Binh Chanh District, backed by the generally higher property price levels and NLG's own track record.

Since the above two projects will likely become more visible to the market during FY17, we like NLG as one of our key ideas for the Year Ahead. Even though the infrastructure constraints highlighted in Chart 3 above theoretically do not bode well for non-CBD projects, these two projects under NLG are located near highways and should gain homebuyers' confidence.

Our review of NLG's capital raising cycle also suggests FY17 is a good time to buy. We view NLG's issuance of 7.1m shares and VND500b worth of convertible bonds to Keppel Land in FY15-16 as positive for new investors. Net gearing has dropped to historical lows of 0.1x; further capital raising seems unlikely in the foreseeable future.

Chart 6: KBC sees strong cash flows amid resilient FDI

Strong land sales imply KBC's market share has increased



Source: Factset, company data, MKE

BUY KBC on visible earnings & limited downside

We believe the recent share price correction of KBC was mainly due to profit-taking pressure. Chart 6 implies KBC's market share has increased amid the resilient FDI.

Earnings and cash collection are visible:

- We estimate the deals in Quang Chau Industrial Park (IP) in 3Q16 were worth VND1.2t. Since only VND0.4t of land sales were recognised during the same period, the majority of these have not yet been booked. This IP seems to be hitting critical mass, as noted in our previous report.
- Trang Due 2 and the upcoming Trang Due 3 are seeing rapid progress, with tenants apparently taking up 10-20ha per month, based on our channel checks.
- Even though Vietnam's FDI growth has dropped to single-digit territory, the above sales momentum implies that KBC is gaining market share, which may further spur growth. FDI into manufacturing, excluding Samsung, reached USD13.1b in 11M16, almost similar to that of FY15 even though TPP excitement has subsided this year.

We believe downside is limited:

- KBC is essentially an asset-based story. Its quality of assets has improved over the past few years, and this is evident by the rising tenant inquiries and steady operating cash flows.
- We think it is difficult for P/BV to drop to historical lows in 2013. Fundamentally, that was the period before the landmark LG deal in Trang Due served as the turning point. Our RNAV-based TP, at +1SD historical P/BV, reflects the improved asset-based fundamentals since then.
- The risks identified in our initiation report, such as occasional dilutions and a complex balance sheet, have subsided. The upcoming capital raising appears justifiable.

Maybank Kim Eng

Consumer Staples

Vietnam

Vinamilk (VNM VN)

U/G to BUY on solid topline growth, wider profit margin

BUY *[Prior:HOLD]*

Share Price	VND 128,600
12m Price Target	VND 153,300 (+19%)
Previous Price Target	*VND 149,400*

Market concern about input powder milk price increase overdone; TP raised 3%

We U/G the shares of Vinamilk to BUY due to upwards revision to 2017-20 forecasts for gross margin (avg. 39.5% from 38.7%) and NPATMI (avg. 10.8% from 8.8%). Our TP has also been increased by 3% reflecting higher profit estimates and correspondingly higher DCF (WACC 10.7%, unchanged). The main upside catalyst for the shares during the next 12 months should be the higher-than-expected profit margin and hence earnings growth. We feel more comfortable with VNM's ability to protect its profit margin following its announcement that input costs have been procured at favorable prices until May'17 and the recent 3-4% ASP increase for key UHT milk products.

Shares undervalued on revised forecasts post sell-off

VNM is currently trading at a PER of 20.3x 2017E and 18.0x 2018E vs. 25x 2018E for regional peers. Yet, the company is generating superior returns to peers' (2016E ROE 44.5% and net margin 20.3% vs. peers' 20.0% and 7.4%). The recent sell-off in VNM shares was caused by concern about input cost increases and 4Q16 results, which we believe is overdone when considering its fundamentals and sustainable returns. VNM is our preferred choice in an increasingly volatile investment environment heading into FY17, and it also offers an attractive 4.8% dividend yield.

Pressure easing on global powder milk price

The global dairy index (GDT) has rebounded by 46% since Aug 2016. While it is almost impossible to accurately forecast FY17 pricing, we think key drivers of the recent rally are not sustainable. The drivers include returns of Chinese imports, largely driven by new regulations on infant formulas (effective 1 Oct 2016), tariff-free entry for purchases before Jan 2017, and adverse weather condition in the north island of New Zealand. We also note European Commission upcoming plan to sell-down nearly 380,000t of SMP inventory.

Weak 4Q16 preliminary results price in

VNM announced 4Q16 prelim results on 21 Dec, reporting revenues of VND 11,000b (+6.8% YoY) and NPATMI of VND1,788b (-5.7% YoY), missing consensus by 9% and 23%, respectively. We believe the underperformance was mainly due to accelerated SGA towards the end of the year as market preparation for FY17. During FY17, we forecast SGA/sales to fall back to the FY15 level of 18.7% from 19.2% in FY16.

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	35,072	40,079	46,986	53,455	59,485
EBITDA	7,946	9,870	12,005	13,520	14,689
Core net profit	6,070	7,773	9,519	10,884	11,928
Core EPS (VND)	3,768	4,820	5,903	6,749	7,396
Core EPS growth (%)	(7.0)	27.9	22.5	14.3	9.6
Net DPS (VND)	4,000	6,400	6,000	6,000	7,000
Core P/E (x)	33.5	26.2	21.4	18.7	17.0
P/BV (x)	9.3	8.8	8.5	7.7	7.2
Net dividend yield (%)	3.2	5.1	4.8	4.8	5.6
ROAE (%)	32.6	38.5	45.2	48.2	48.6
ROAA (%)	25.0	29.2	34.0	36.4	36.9
EV/EBITDA (x)	11.2	14.9	14.5	12.7	11.5
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	9,835	10,517	10,978
MKE vs. Consensus (%)	-	-	(3.0)	3.5	8.7

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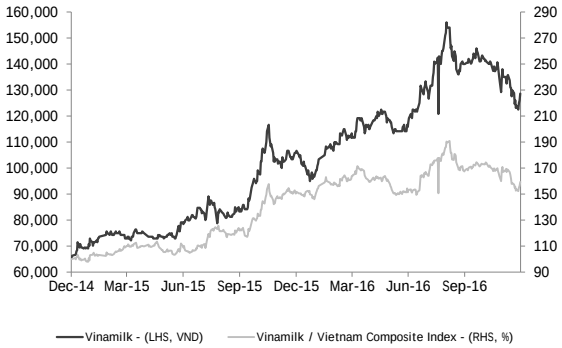
Statistics

52w high/low (VND)	156,000/95,000
3m avg turnover (USDm)	10.4
Free float (%)	23.4
Issued shares (m)	1,451
Market capitalisation	VND186.7T
	USD8.2B

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



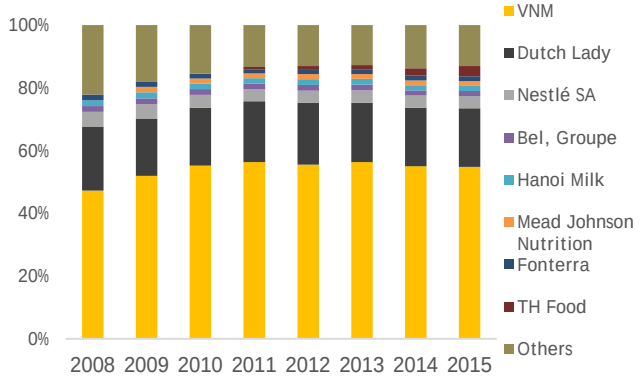
	-1M	-3M	-12M
Absolute (%)	(4)	(8)	22
Relative to index (%)	(5)	(5)	5

Source: FactSet

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 into the CMLV market.
- Operations are still highly cash generative. We see higher dividend pay-out and more attractive yields ahead.

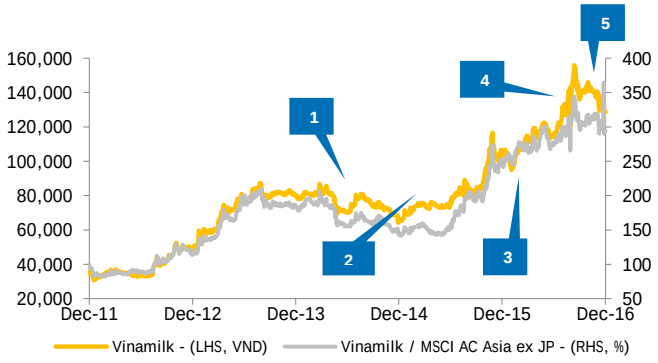
VNM: market leader in Vietnam's dairy industry



Source: Company

Price Drivers

Historical share price trend



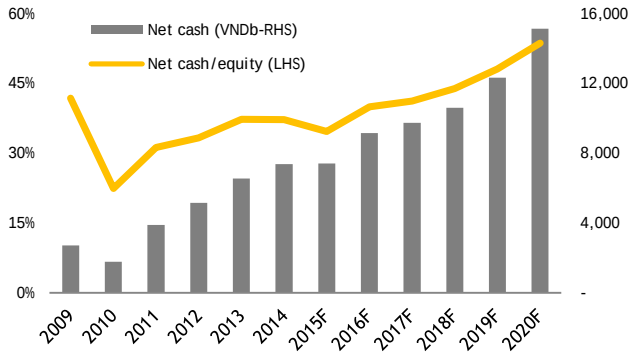
Source: Bloomberg, Company, Maybank Kim Eng

1. Commissioning of new mega factory resolving capacity constraints, which limited growth in 2011-13, especially in 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, coupled by 5:1 share dividend, favoured by retail investors.
4. VNM's ownership stake in FOL was increased, coupled by stronger than expected 1H16 results.
5. Correction following 26% rally in August, coupled by concern about recovery of input powder milk costs, which in turn worsened by under-subscribed 9% state sales and margin calls

Financial Metrics

- Raw material prices and VNM are the key metrics to monitor. Softer raw material prices should result in further gross margin improvement in 2016. VNM imports nearly 70% of its input milk materials.
- Key drivers are the success of export initiatives and an accompanying increase in profit margins.
- USD358m net cash end 3Q16, even after completion of major factory capex totalling USD210m that doubled liquid milk and quadrupled powder milk capacity.

VNM's cash rich status, allowing higher dividend



Source: Company, Maybank Kim Eng forecasts

Swing Factors

Upside

- Positive topline growth and stable profit margins in FY17.
- More stable global powder milk pricing.
- Potential positive M&A announcement to boost VNM's future sales.
- Stronger penetration into healthy non-dairy drinks, such as green tea, juices, bean-based drinks.
- Improved mechanism for remaining divestments of the State, reducing ownership in VNM to 0%

Downside

- Strong management of CEO, Ms Mai Kieu Lien, leads to concerns regarding her successor. Her next 4-year term will be decided in coming 2017 AGM, usually in Apr each year. Investors may adopt a wait-and-see approach for any newly appointed CEO if she decides to resign.
- Any event or issue that tarnishes brand/product image may cost the company a fortune.

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Maybank Kim Eng

Consumer Discretionary

Vietnam

Mobile World Inv't Corp (MWG VN)

Growth Prospects Intact

BUY

Share Price	VND 156,000
12m Price Target	VND 192,000 (+23%)
Previous Price Target	*VND 192,000*

Strong sales expected in FY17E

In our previous report dated 11 Nov, we noted that the increase in advertising spending for the fast-growing *Dien May Xanh (DMX)* prompted us to increase FY16-17E SG&A. We are confident this will eventually help boost DMX sales in 2H16-FY17E and compensate for the loss of revenue from the Samsung Galaxy Note 7 recall. Our FY17E revenue and PATMI are 1% and 6% higher than management guidance, respectively.

SG&A key to watch at this stage

Beyond advertising, we believe SG&A as a whole is the key financial metric to watch at this stage. This is because MWG needs to preserve its leading position in existing businesses and spend on R&D for new businesses, while properly compensating its growing employment base. We understand management expects SG&A to increase to compensate employees for a lower ESOP outlook from FY17E onwards.

Strong growth expected in existing businesses

Overall, management explained that the mainstream business, MW (38% market share) has "completed 80% of its journey", with a potential Cambodia expansion, while progress for DMX (17% market share) is only at 50%. This is in line with our store opening forecasts and indicates these existing businesses still expect strong growth ahead.

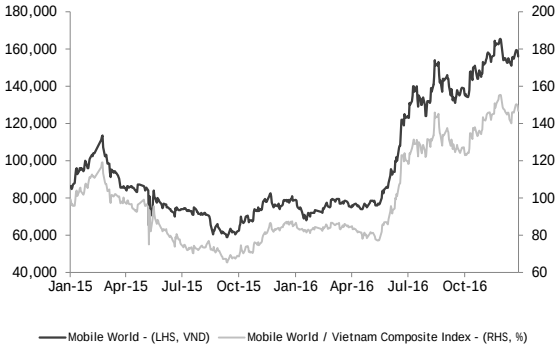
Future growth initiatives to materialise after FY18E

New business initiatives under development include grocery retailing and e-commerce; management carefully monitoring progress and expects them to potentially materialise after FY18E. These businesses have a small weighting in our DCF valuations.

Statistics

52w high/low (VND)	165,500/68,000
3m avg turnover (USDm)	1.9
Free float (%)	38.1
Issued shares (m)	154
Market capitalisation	VND24.0T
	USD1.1B
Major shareholders:	
Founders & related parties	36.0%
Mekong Capital	10.9%
CDH Electric Bee Lim	8.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(5)	12	93
Relative to index (%)	(5)	16	68

Source: FactSet

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	15,757	25,253	44,876	63,990	78,488
EBITDA	923	1,519	2,606	3,326	4,265
Core net profit	668	1,072	1,885	2,342	2,989
Core EPS (VND)	5,006	7,650	12,528	14,744	18,370
Core EPS growth (%)	152.6	52.8	63.8	17.7	24.6
Net DPS (VND)	0	1,500	2,500	3,000	3,500
Core P/E (x)	31.2	20.4	12.5	10.6	8.5
P/BV (x)	14.8	9.2	5.8	4.1	3.0
Net dividend yield (%)	0.0	1.0	1.6	1.9	2.2
ROAE (%)	58.7	54.2	56.9	45.8	40.7
ROAA (%)	23.7	20.1	21.5	18.7	17.6
EV/EBITDA (x)	13.1	8.4	9.3	7.5	5.6
Net gearing (%) (incl perps)	27.3	68.8	17.6	4.6	net cash
Consensus net profit	-	-	1,646	2,296	2,918
MKE vs. Consensus (%)	-	-	14.5	2.0	2.4

Higher SG&A seen from Sep 2016

Indicator	3Q16	9M16
Rev growth (% YoY)	67.4	75.8
EBITDA growth (% YoY)	58.6	73.9
EBIT growth (YoY)	51.5	71.4
PATMI growth (% YoY)	34.8	65.1
Gross margin (%)	16.5	16.3
EBITDA margin (%)	5.6	5.9
EBIT margin (%)	4.7	5.1
PATMI margin (%)	3.5	4.0
Days sales outstanding	1.1	0.9
Days invt. outstanding	57.3	58.1
Days pays. outstanding	23.2	23.0

Source: Company, Maybank Kim Eng

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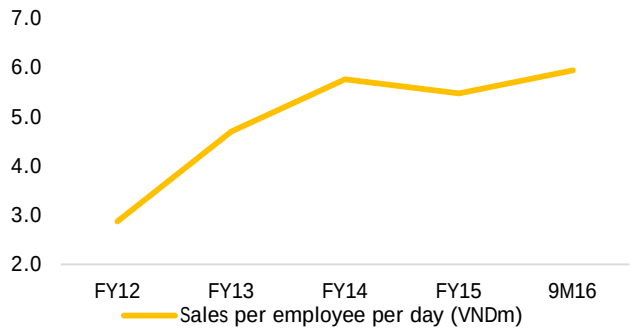
Value Proposition

- § Vietnam's largest retailer by revenue, MWG differentiates by pioneering a customer-centric culture and operating efficiently via an evolving, highly-customised ERP system.
- § Focused products are smartphones and other mobile devices, consumer electronics and home appliances. Also exploring grocery retailing.
- § Competitive strengths are an entrepreneurial yet prudent BOD looking for high-growth areas, on-the-ground local expertise and an efficient workforce.
- § Having seen PATMI leaping 10x during 2010-15, MWG is still looking to reach untapped demand in remote areas across Vietnam with an ongoing store expansion plan.
- § Secular growth story. Smartphone penetration is increasing exponentially in Vietnam. Household appliances and consumer electronics are still seeing modest penetration.

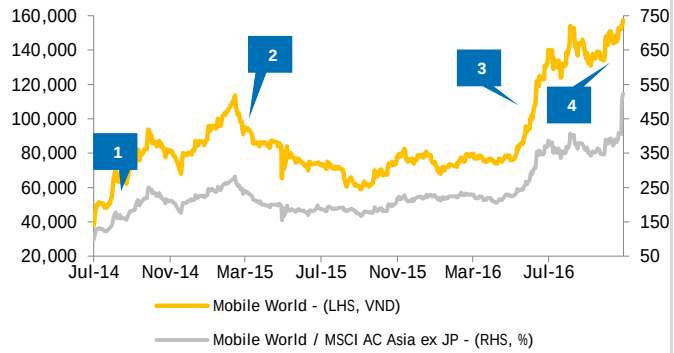
Efficient ERP and competitive pay lift productivity



Source: Company

Price Drivers

Corporate actions and insider selling key drivers



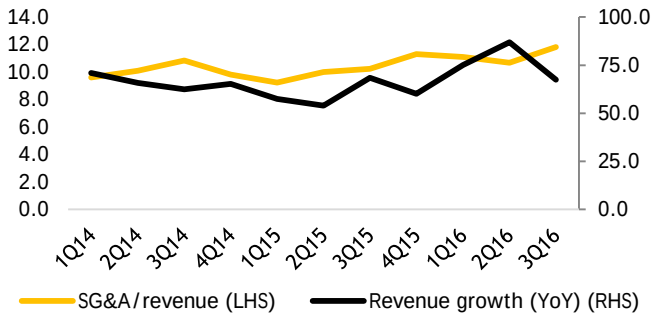
Source: Bloomberg, Maybank Kim Eng

1. Shares well received by the market due to increasing sell-side coverage.
2. Announced generous employee stock ownership program (ESOP), at 5% of outstanding shares with no upfront cost.
3. FY16 AGM saw an aggressive store-opening plan put forward.
4. Series of impressive monthly results culminated in strong 4Q16 and ambitious FY17 guidance.

Financial Metrics

- § Net margin is important, reported monthly, it has historically averaged 4%. Operational efficiency is crucial as a 10bps margin decline leads to a ~2% decline in our DCF-based TP.
- § SG&A is also important, reported quarterly, it is key as MWG seeks to maintain leading positions in existing businesses and experiment with new ones.
- § Cash conversion cycle (~30 days) and current liabilities to inventory (~1x) are now very stable metrics.

Increase in SG&A necessary to maintain revenue growth



Source: Company

Swing Factors

Upside

- § Margin expansion from value-added services, such as providing instalment loans to customers, as well as early payment discounts.
- § Industry consolidation or an exit by trailing competitors (FPTShop, Viettel Store, Vien Thong A) may open up further room for growth.
- § Untapped areas include store expansion towards remote areas, which may unlock demand that competitors have not tapped.

Downside

- § Selling pressure from insiders, employees and long-standing strategic investors is a concern. These shareholders have acquired shares at low costs.
- § The pilot grocery retailing model, if not executed properly, may slow growth.
- § Aggressive store expansion may result in cannibalisation among stores.

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Maybank Kim Eng

Construction

Vietnam

Coteccons (CTD VN)

Vietnam's top growth stock

BUY

Share Price	VND 182,500
12m Price Target	VND 247,000 (+35%)
Previous Price Target	*VND 247,000*

Buy on real estate and infrastructure exposure

Coteccons (CTD VN, BUY) is our top growth stock for Vietnam and one of our top picks for the year ahead, thanks to its exposure to prime real estate and a potential increase in infrastructure exposure. A change in regulation in Nov 2016 reduces Ho Chi Minh City's funding available to spend on infrastructure in the short-term. This would either trigger high-income working adults to migrate towards the CBD (in view of increased traffic jams), or expedite private-public partnership (PPP) infrastructure projects. The former trend bodes well for CTD's major developer clients, whose works are mainly centred around the CBD.

We believe these prominent developer clients should be busy in FY17, given increased housing affordability for the top-quintile households and moderate competition from the secondary market. In addition, CTD has a potential increase in infrastructure exposure, given the new capital it has raised in 4Q16. Our TP is unchanged and remains based on FY17E PER of 10x, in line with historical avg, but a ~30% discount to peers (see bottom-right). Maintain BUY.

Lean workforce bodes well for margin outlook

9M16 results imply the company's lean workforce not only helps control costs during downcycles, but is also scalable enough to handle the increased workload during upcycles. While our forecasts still incorporate mean reversions in both SG&A/sales and gross margin, 9M16 results bode well for the margin outlook. This is further backed by design-build projects (50% of FY17-18E revenue), which boost economies of scale.

Private placement looks set to increase capex

CTD issued 14.4m new shares (22% of outstanding shares) via a private placement during 4Q16, at a minimum of VND153,520/sh. We are convinced the new money will be well spent.

Recent correction a buying opportunity

The recent share price correction appears to reflect concerns over the new share issue and the industry's cyclical nature. We believe these are largely compensated for by CTD's strong earnings visibility.

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	7,634	13,669	19,238	28,785	33,001
EBITDA	359	794	1,492	2,140	2,346
Core net profit	311	633	1,245	1,937	2,180
Core EPS (VND)	5,530	11,077	18,872	24,586	26,644
Core EPS growth (%)	27.9	100.3	70.4	30.3	8.4
Net DPS (VND)	3,750	4,125	5,500	7,500	8,000
Core P/E (x)	33.0	16.5	9.7	7.4	6.8
P/BV (x)	4.1	3.5	2.1	1.8	1.6
Net dividend yield (%)	2.1	2.3	3.0	4.1	4.4
ROAE (%)	13.5	23.1	26.4	27.5	25.6
ROAA (%)	6.6	10.0	12.3	13.3	12.1
EV/EBITDA (x)	4.1	5.2	4.3	3.4	3.0
Net gearing (%) (incl perps)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,405	1,616	1,876
MKE vs. Consensus (%)	-	-	(6.7)	26.2	22.3

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Company Description

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

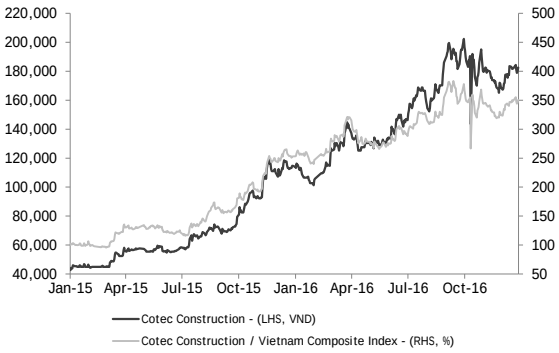
Statistics

52w high/low (VND)	202,275/101,250
3m avg turnover (USDm)	1.2
Free float (%)	45.3
Issued shares (m)	77
Market capitalisation	VND14.0T
	USD617M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(6)	59
Relative to index (%)	6	(3)	39

Source: FactSet

Summary peer valuation table

Indicator	CTD	Regional peers (median)
FY16E Core FD PER	9.3	17.4
FY17E Core FD PER	7.2	14.1
FY16E PEG (*)	0.5	1.1
FY17E P/BV	1.7	1.6
FY17E ROE	24.9%	13.0%
FY17E EV/EBITDA	3.2	7.3
FY17E Div Yield	4.3%	2.3%

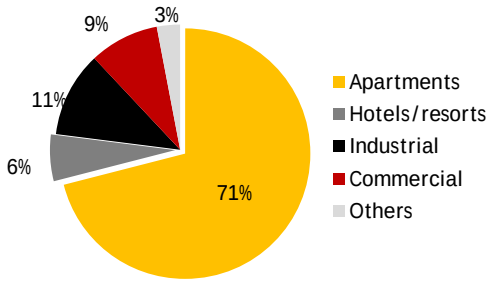
(*) FY16E PER divided by FY16-18E EPS CAGR

Source: Maybank Kim Eng construction stock coverage universe, retrieved via Factset Partners, Oct 21

Value Proposition

- Evolved from a subcontractor to a general and design-and-build (D&B) contractor.
- Focuses on quality builds, securing contracts for high-quality projects from its early days. Enjoys 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. Currently has high exposure to residential construction, but has been known to be defensive during down-cycles.

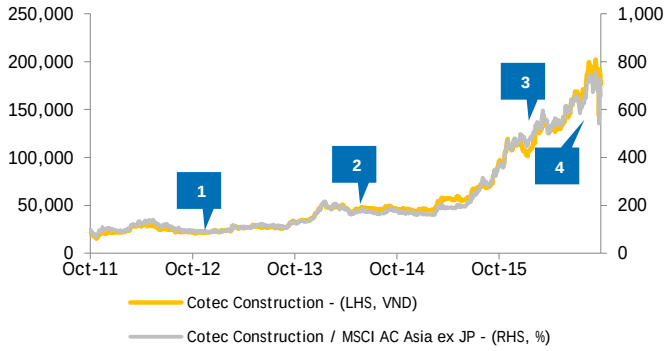
Contract value signed in FY15, delivered in FY16



Source: Company

Price Drivers

Price driven by fundamentals and industry outlook



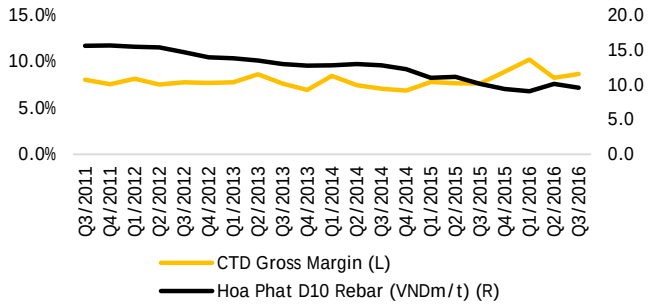
Source: Factset

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

Financial Metrics

- Gross margin is stable (from a local context) and is reflective of the company's strong cost control ability.
- EBIT margin is strong as the company's lean workforce cost model (10% permanent, 90% contract) is both defensive in downcycles and scalable in upcycles.
- FY16E backlog estimated at VND25t, up from VND15t in FY15E. This is the basis for our FY16-18E earnings CAGR of nearly 20%.
- Receivable days, which declined from c.100 in FY13-14 to only 56 in FY16e, is a function of rigorous project cash management.

Gross margin trend is reflective of cost control ability



Source: Company, Vietnam Steel Association

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.
- Potentially more infrastructure jobs. CTD has a foray 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 CTD may force the share price substantially lower, as many investors bought in at a low level.

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Maybank Kim Eng

Real Estate

Vietnam

Nam Long Investment (NLG VN)

Strong pre-sales not priced in; TP raised 30%

BUY

Share Price	VND 22,200
12m Price Target	VND 31,500 (+42%)
Previous Price Target	*VND 24,200*

Pre-sales outperform, but stock underperforms

We reviewed balance sheet data and found that NLG's pre-sales are running ahead of peers. Note that Vietnam Accounting Standards (VAS) require property sales to be recognised on a completion of construction basis, which makes it difficult for the market to price in pre-sales. NLG's 9M16 pre-sales are equivalent to about 40% of the company's market cap vs the sector average of 30%, which has probably gone unnoticed, as indicated by the underperformance of its shares. We view this as a great buying opportunity and reiterate BUY recommendation.

Besides factoring this into ongoing projects, the above also gave us confidence in raising valuations for two future projects that will be FY18-20E earnings drivers: (1) the 18ha Phu Huu project in District 9; and (2) the 37ha Aquamarine project in Binh Chanh. Accordingly, we raise our RNAV-based TP by 30% to VND31,500 using an unchanged 30% discount to RNAV. Despite the FY17E EPS decline due to a revenue recognition time lag, the expected strong pre-sales in FY17E make this a FY17 story.

Swing factor #1: RNAV-accretive developments

We view NLG's issuance of 7.1m shares and VND500b worth of convertible bonds to Keppel Land in FY15-16 as positive. This led net gearing to drop to a historical low of 0.1x; further capital raising seems unlikely in the foreseeable future. Keppel Land's township expertise and the new capital may lead to RNAV-accretive developments. As an example, advanced payments for a potential acquisition near EHome 3, a previously successful project, have been recorded on the balance sheet.

Swing factor #2: Government policies

We see government policies as a swing factor that may affect NLG's prospects. Decent infrastructure development progress is needed, as affordable housing in general is often ~10km from CBD. Also, credit availability is important, as ~80% use a mortgage, per company data.

Swing factor #3: The 355ha Waterpoint project

This project (35km from HCMC) can be advanced if NLG finds the right partner, until which time its value will remain low as progress is slow.

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	867	1,259	2,510	2,581	2,890
EBITDA	117	159	419	417	441
Core net profit	89	192	230	178	261
Core FDEPS (VND)	782	1,462	1,467	1,132	1,661
Core FDEPS growth(%)	262.7	87.0	0.4	(22.8)	46.7
Net DPS (VND)	571	662	379	293	429
Core FD P/E (x)	28.4	15.2	15.1	19.6	13.4
P/BV (x)	1.5	1.4	1.3	1.2	1.1
Net dividend yield (%)	2.6	3.0	1.7	1.3	1.9
ROAE (%)	5.9	9.9	10.8	7.9	10.8
ROAA (%)	2.5	4.3	4.4	3.1	4.4
EV/EBITDA (x)	19.5	21.4	9.3	9.5	8.6
Net gearing (%) (incl perps)	11.5	8.1	13.4	11.9	3.7
Consensus net profit	-	-	276	338	456
MKE vs. Consensus (%)	-	-	(10.4)	(43.4)	(38.6)

Company Description

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

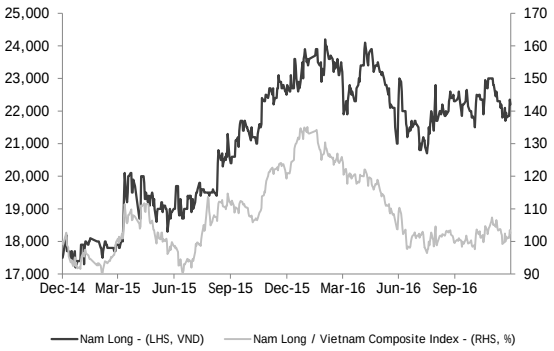
Statistics

52w high/low (VND)	24,200/20,700
3m avg turnover (USDm)	0.3
Free float (%)	35.0
Issued shares (m)	136
Market capitalisation	VND3.0T
	USD132M

Major shareholders:

Major shareholders (>5%)	38.0%
Insiders	28.0%
Others	34.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(0)	(2)
Relative to index (%)	(4)	3	(15)

Source: FactSet

RNAV calculation	*Unit: VNDb unless otherwise noted*
Book value of equity	2,341
Revaluation surplus (less MI & taxes)	3,796
Ongoing projects	*1,401*
Future projects	*2,395*
RNAV	**6,137**
Shares outstanding (m)	136
RNAV/share (VND)	**45,254**
Discount to RNAV	30%
Target price (VND)	**31,500**

We have a street-high TP, which we believe is due to our positive view on future projects. In contrast, our FY16-18E earnings are below consensus, after adjusting for bonus/welfare expenses and minority interest deductions.

Source: MKE estimates, 3Q16

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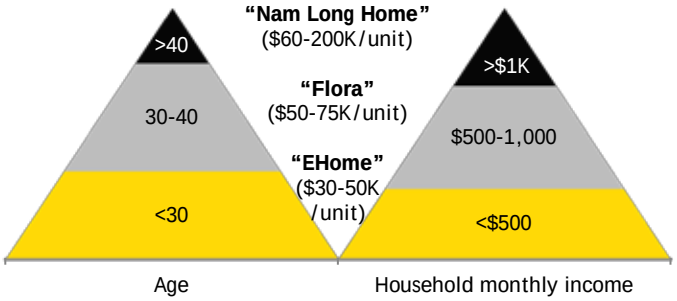
Value Proposition

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

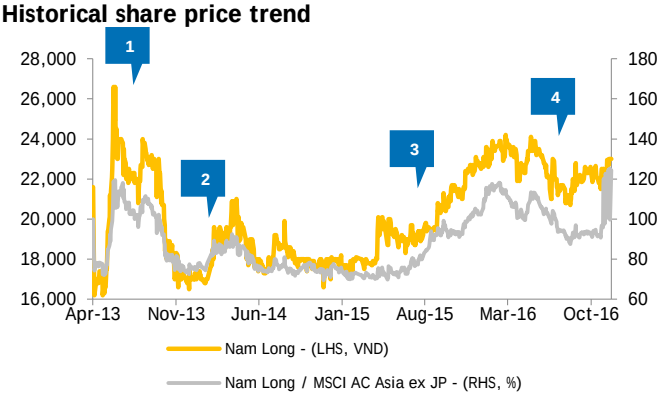
Different brands for different demographic groups



Source: Nam Long presentation detailing its customer profiles in 2014

Price Drivers

Historical share price trend



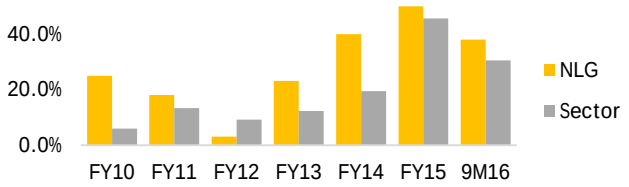
Source: Factset, MKE

1. NLG's share price rallied shortly after its debut on HSX. Much attention was paid to the total land bank size.
2. The market realised the long gestation period of the land bank. Revenue (recognised on a completion of construction basis) cyclically reached a low point.
3. FY15 revenue cyclically reached a high point. Earnings doubled. Difficult for the market to follow pre-sales.
4. FY16 has been an unexciting year in terms of EPS growth due to capital raising (to Keppel Land) and less high-margin land sales in the revenue mix.

Financial Metrics

- Key metric is pre-sales, but is difficult for the market to price in under Vietnam's accounting standards. NLG's high pre-sales reflect its ability to sell the right products.
- Land acquisitions in prior years have driven gross development value of foreseeable pipeline projects within HCMC alone to ~6x FY16E revenue.
- Gross margin has been stable at ~30% and will likely remain at that level as NLG focuses more on apartments as opposed to land plots (>40% GM in the past).
- Net gearing now at historical lows (~0.1x), implying little need for future capital raising.
- Operating cash flows are expected to improve, driven by pre-sales, with FY17-18E FCF in positive territory.

NLG pre-sales[1] vs sector[2], as % of current market cap



[1] Pre-sales estimates = change in customer advances + change in deferred revenue + property sales revenue – change in trade receivables. [2] Sector includes BCI, DXG, HQC , KDH , NBB , NLG, PDR, QCG, SCR, TDH, VIC, VPH.

Source: FiinPro, Factset, company data, MKE estimates, Nov 2016

Swing Factors

Upside

- RNAV-accretive acquisitions. Since early 2016, advanced payments for a potential acquisition near EHome 3 have been recorded on the balance sheet.
- Further accommodative government policies to support affordable housing may also be launched. The government has been supportive, as is the World Bank.
- A 355ha project outside of HCMC (called "Waterpoint"), 35km by highway from HCMC could be unlocked sooner than expected if NLG manages to find the right partner.

Downside

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

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Utilities

Vietnam

PetroVietnam Power NT2 (NT2 VN)

'Hidden Powers'

BUY

Share Price	VND 27,250
12m Price Target	VND 44,000 (+61%)

High dividend yield with catalyst to unlock value

Initiate coverage of PetroVietnam Power Nhon Trach 2 (NT2) at BUY with a DCF-based TP of VND44,000 (WACC 11.4%, terminal growth 1.5%). We believe NT2 provides the most optimal exposure to Vietnam's fast-growing power sector. Compared with other local independent power producers (IPPs), NT2's advantages include high capacity (750MW plus plans to triple it), operational efficiency and a strategic location to address the supply shortage in southern Vietnam. We believe the market under-appreciates NT2's cash flow stability from its Power Purchase Agreement (PPA). A shortage expected in southern Vietnam in 2018 prompts us to recommend this stock for 2017. NT2's plan to triple its capacity is a rerating catalyst for this high-yield stock, and offers further opportunity to participate in the growing energy demand in Vietnam where tariffs remain ~30% cheaper than neighbouring countries.

Cash flow stability underappreciated by market

The market seems to have overly focused on NT2's FX-induced bottom line volatility, as indicated by the stock's movement and media coverage. Our analysis shows that its 10-year PPA ultimately removes all realised FX gains/losses, which indicates highly stable cash flows. This likely explains the alpha implied by our DCF-based TP.

Strategic location: high demand, limited supply

NT2 is located in the south, where most of the country's FDI-driven industrial activities are concentrated and rapid urbanisation is taking place. However, the south faces an electricity shortage and it has to import ~20% of its requirement from other regions. Within the south, NT2 has both the scale advantage over hydropower and the cost advantage over coal-fired plants. New approval of capacity additions in the south, expected to be 1,550 MW, would most likely be given to the likes of NT2, which is proposing two additional plants with compelling economics (i.e. close proximity to demand, stable source of dry gas input, and a strong record of operational efficiency.

Steep discount to regional peers, high dividend yield

NT2 is trading at 5.2x FY17E EV/EBITDA, a ~49% discount to regional peers. We believe this is too steep, given the company's highly stable cash flows and competitive edge in the local market. On top of that, NT2 is likely to maintain its ~7% dividend yield, which is more attractive than the average of 4.5% among regional peers.

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	7,065	6,729	6,063	7,057	7,247
EBITDA	2,415	2,187	2,079	1,982	1,990
Core net profit	644	1,235	1,178	1,108	1,150
Core EPS (VND)	2,261	4,334	4,134	3,889	4,036
Core EPS growth (%)	7,735.3	91.7	(4.6)	(5.9)	3.8
Net DPS (VND)	1,618	2,115	2,000	2,000	2,000
Core P/E (x)	12.1	6.3	6.6	7.0	6.8
P/BV (x)	1.8	1.6	1.5	1.4	1.3
Net dividend yield (%)	5.9	7.8	7.3	7.3	7.3
ROAE (%)	45.2	25.3	21.3	17.3	17.2
ROAA (%)	5.2	10.2	10.4	10.3	11.2
EV/EBITDA (x)	na	5.5	5.3	5.1	4.4
Net gearing (%) (incl perps)	145.6	99.8	63.4	40.0	15.2
Consensus net profit	-	-	1,058	922	999
MKE vs. Consensus (%)	-	-	0.7	1.8	0.7

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Company Description

Nhon Trach 2 (NT2) operates a gas-fired power plant in Dong Nai (25km from HCMC)

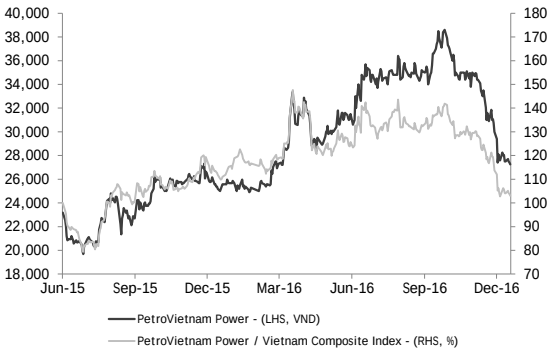
Statistics

52w high/low (VND)	38,600/24,904
3m avg turnover (USDm)	0.5
Free float (%)	27.2
Issued shares (m)	285
Market capitalisation	VND7.8T
	USD341M

Major shareholders:

PETROVIETNAM POWER C	60.0%
TECHNOLOGY DEVELOPME	8.0%
VAN ECK ASSOCIATES C	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(29)	8
Relative to index (%)	(13)	(27)	(6)

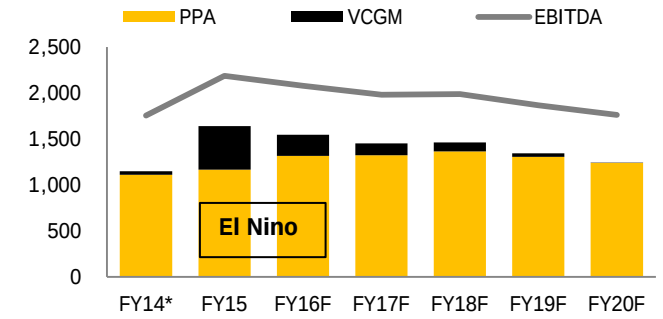
Source: FactSet

For full initiation report dated Jan 2, 2017

Value Proposition

- Largest listed gas-fired combined-cycle generator (750MW) since 2011. Most investable IPP stock.
- High efficiency (~6,500 utilisation hours) and reliability.
- Well-positioned to address supply shortage in the south. Close proximity to industrial and residential areas.
- PPA guarantees gross profit (in absolute terms) for 80-90% of total output until 2020.
- Remaining output is sold via the Vietnam Competitive Generation Market (VCGM), in which NT2 competes with other plants.
- Threat from similar new gas-fired plants will likely be after 2020, per latest master plan.

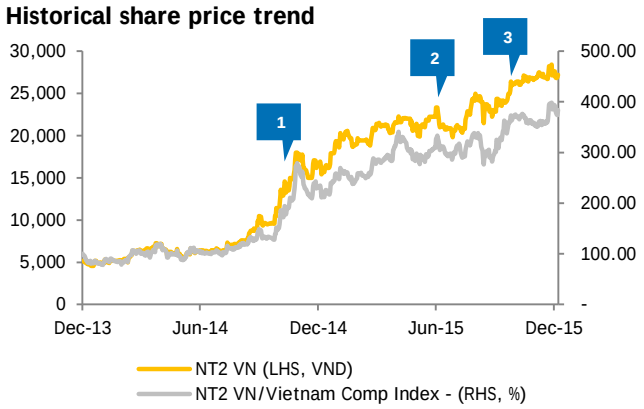
Resilient gross profit & EBITDA (VNDb)



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



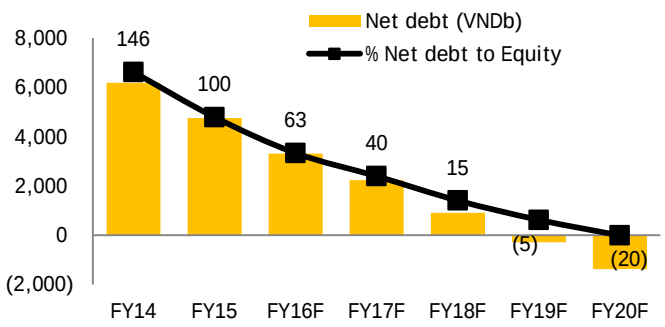
Source: Bloomberg, Maybank Kim Eng

1. Gains from EUR depreciation (VND400b) and VND658b in retrospective payments related to finalised FY11-13 PPA resulted in VND1,590b NPAT vs VND7.5b on avg in FY12-13
2. NT2 officially moved from UpCOM to the mainboard, HSX, with higher listing requirements and liquidity. This was also helped by stronger production and sales volume.
3. Severe El Nino effects led to lower production from hydropower competitors, and a surge in NT2's FY15 electricity generation accordingly (+14.5% YoY).

Financial Metrics

- Sales volume is provided on the company's website monthly, through which investors can estimate NT2's profitability with a decent level of accuracy.
- Leverage has been reduced substantially in recent years and is expected to be in net cash position by FY18. Major FX debts were USD113m & EUR103m at end-1H16.
- FX gains/losses. This may still be the key to watch, even though we believe the recent improvement in the PPA's enforceability for NT2 will smoothen this going forward.

Approaching net cash balance sheet



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Approval for capacity additions (i.e. NT3 and NT4) is on the cards.
- Energy liberalisation may increase the daily trading band for VCGM tariffs at a faster rate than our base-case forecast, in which we assume flat FY17-20 ASP.
- Even when energy liberalisation progress is slow, demand may outstrip supply in the south at a faster rate than expected, resulting in better VCGM ASP/volumes.
- Alternative sources such as hydropower may continue to lose market share, if climate conditions continue to be severe, as was the case in FY15-16

Downside

- Policy risk. PetroVietnam Gas (GAS VN, HOLD, TP VND62,700) is NT2's sole gas supplier. This government-directed framework may not be entirely market-driven.
- Commodity/FX risk. Any adverse movement in the oil price and/or the USD may result in higher input costs that lower NT2's profit for VCGM volumes.
- Operational risk. Technical issues in gas supplies may lower output. This is mitigated by a 25-year contract and rigorous maintenance.
- Sentiment risk. FX volatility may dampen sentiment, even though fundamentals are not impacted

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Maybank Kim Eng

Real Estate

Vietnam

Kinh Bac City (KBC VN)

Oversold again!

BUY

Share Price	VND 13,800
12m Price Target	VND 21,500 (+56%)
Previous Price Target	*VND 21,000*

Fundamentals intact; Reiterate BUY

We materially raise our FY17/18E fully-diluted EPS (+146%/86%) taking into account: (1) higher sales to be recognised in FY17-18E, which were pushed forward from FY16E; (2) the cancellation of a potentially dilutive convertible bond issuance; and (3) longer than expected development timeline for Trang Due 3 based on our site visit, despite strong interest for this project. Note that our FY16E EPS is little changed, as the lower FY16E revenue is offset by the higher-than-expected margins, partly due to the sale of a project. Overall, our TP is little changed (+2.4%) due to point (3) above on Trang Due 3, which extends beyond the forecast horizon and offsets the other positive developments. Our TP remains based on a 30% discount to RNAV (or 1.2x FY17E P/BV). We view the recent share price correction as a great Buying opportunity.

Earnings and cash collection are visible

We estimate the deals in Quang Chau Industrial Park (IP) in 3Q16 were worth VND1.2T. Since only VND0.4T of land sales were recognised during the same period, the majority of these are yet to be booked. This IP seems to be hitting critical mass, as noted in our previous report. Trang Due 2 and the upcoming Trang Due 3 are seeing strong interest.

Solid FDI, despite subsiding TPP expectations

Even though Vietnam's FDI growth has dropped to single-digit territory, the above sales momentum implies that KBC is gaining market share, which may further spur growth. Industrywide, FDI into manufacturing excluding Samsung reached USD13.1b in 11M16, almost similar to that of FY15, despite the subsided TPP excitement this year.

Downside is limited as asset quality has improved

We think it is difficult for P/BV to drop to historical lows in 2013 (currently at historical level vs our 1.2x target). Our RNAV-based TP is 1SD above the historical P/BV, reflecting the improved asset-based fundamentals vs. the historical period. The risks identified in our initiation report, such as occasional dilutive share offerings and a complex balance sheet, have subsided. The upcoming equity raising appears justifiable (as opposed to convertible bonds).

FYE Dec (VND b)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,069	1,458	2,298	3,170	3,327
EBITDA	522	497	1,103	1,383	1,320
Core net profit	272	357	890	1,134	1,144
Core EPS (VND)	754	768	1,895	2,181	2,201
Core EPS growth (%)	79.5	1.8	146.9	15.1	0.9
Net DPS (VND)	0	0	0	0	0
Core P/E (x)	18.3	18.0	7.3	6.3	6.3
P/BV (x)	1.0	0.9	0.8	0.7	0.6
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	6.9	10.0	11.5	12.4	10.9
ROAA (%)	2.1	2.7	6.1	7.1	6.9
EV/EBITDA (x)	20.1	18.7	8.5	5.7	4.1
Net gearing (%) (incl perps)	62.3	28.9	23.9	1.7	net cash
Consensus net profit	-	-	814	674	700
MKE vs. Consensus (%)	-	-	9.4	68.1	63.4

Company Description

Kinh Bac City is Vietnam's largest listed industrial estate developer. The company operates industrial parks and holds urban development land.

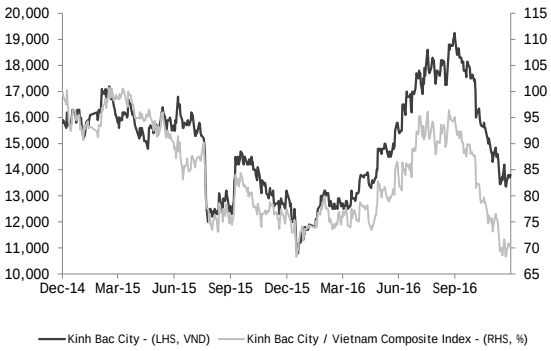
Statistics

52w high/low (VND)	19,250/10,800
3m avg turnover (USDm)	2.7
Free float (%)	58.0
Issued shares (m)	476
Market capitalisation	VND6.6T
	USD288M

Major shareholders:

Chairman and family	15.9%
Kinh Bac Investment	15.0%
PYN Elite Fund	7.0%

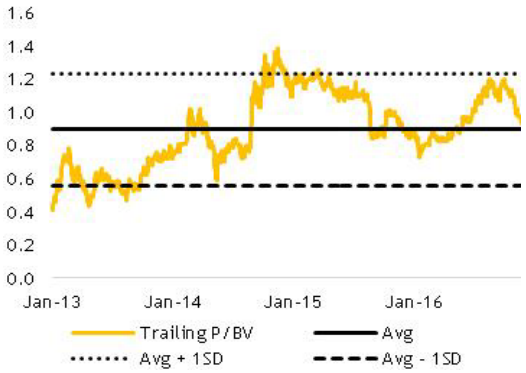
Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(28)	7
Relative to index (%)	(7)	(26)	(7)

Source: FactSet

Kinh Bac City (KBC) 3-year P/BV



Source: Factset

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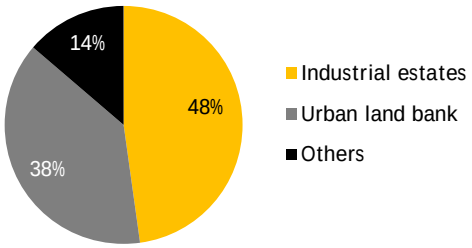
Value Proposition

- Largest listed industrial developer (4,900 ha) in Vietnam, focusing on the north. Local pioneer in serving blue-chip manufacturers and suppliers.
- Tax incentives are unique: (1) most estates secured before tax incentives were cut, and (2) two estates are in a special economic zone (SEZ).
- Acquired land before land prices rose and the government's restraint on new industrial estate supply.
- Also holds 1,400ha of urban mixed-use development land, with revaluation catalysts.
- An asset-rich company, KBC has been focusing on acquiring land. Inventory turnover and ROE have been low due to revenue-recognition lags, but are poised for a turnaround.
- Convoluted shareholding structure, and thus may not be totally transparent.

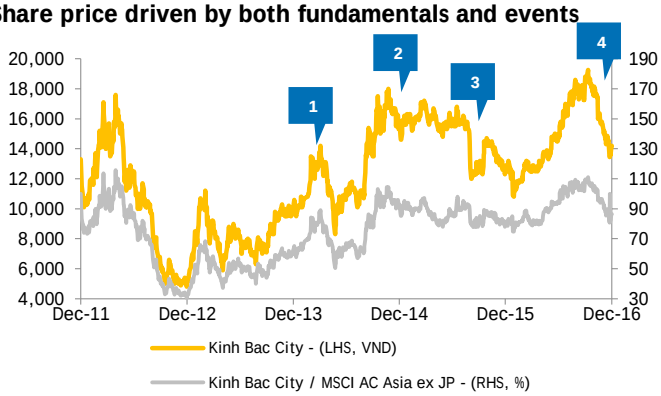
FY16E gross asset value: mainly an industrial story



Source: Company data, MKE estimates

Price Drivers

Share price driven by both fundamentals and events



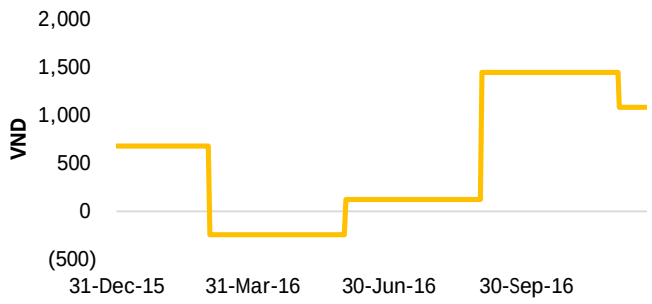
Source: Bloomberg, Company, Maybank Kim Eng

1. Company started to be noticed by the market since late FY13. A new landmark deal with LG, eventually totalling 80ha.
2. High expectations towards end-FY14 on improving land sales, divestment gains, and lower interest expense due to deleveraging.
3. A surprising sell-off was seen in Aug'15. Chairman announced there have been unfounded rumours about business disruptions and registered to buy 5m shares.
4. Rising profit-taking pressure after strong share price performance.

Financial Metrics

- Changes in payables, which include land sales deposits, may be a leading indicator of revenue. Expect payables to increase, given preliminary sales agreements in 2015.
- Gross margins could tighten as newer projects have higher costs. 9M15 gross margin was 35% vs ~50% historically.
- Rapid deleveraging, net gearing fell from 1.0x in 2011-13 to 0.2x in FY16E. This reduces debt, but increases WACC.
- Recapitalisation exercises need watching. Previous issues were moderately dilutive (e.g. Apr'14 debt-equity swap with creditors and Jan'15 CBs, already fully converted).
- FCF has been improving, backed by solid land sales.

FCF/sh on the rise, backed by industrial land sales



Source: Factset, Company data

Swing Factors

Upside

- Hai Phong City, where two projects are located, is seeing visible infrastructure improvements. An extension of one of these projects is also planned.
- Higher land costs and limited room for supply growth could further increase KBC's market share.
- The 860ha Trang Cat project in Hai Phong holds the most potential, located next to a brand new highway, an upcoming deep-sea port, and within an SEZ.
- Two prime sites in Hanoi could be unlocked (4ha Diamond Rice Tower and 2ha Hanoi Complex), which are undeveloped.
- Further land additions could come from expansion of IPs and consolidating associated companies (which we believe the chairman also has stakes in).

Downside

- Complex asset ownership structure; enterprise value highly dependent on chairman.
- Urban land bank potential may not be unlocked on time.
- Occasional dilutive corporate actions.
- Non-core businesses (which are being reduced) could hinder development.

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Appendices:

Global GDP

	World GDP (%)	2014	2015	1H 2016 *	2016E	2017E
World		3.4	3.2	2.7	2.8	3.0
Major Advanced Economies	60.7%	1.9	2.1	1.4	1.5	1.6
US	24.5%	2.4	2.6	1.5	1.6	2.0
Eurozone	15.8%	1.1	2.0	1.6	1.5	1.4
Japan	5.6%	0.0	0.5	0.5	0.6	0.7
UK	3.9%	2.9	2.2	2.1	1.8	1.0
BRIC	22.1%	6.0	5.0	5.0	5.1	5.5
Brazil	2.4%	0.1	(3.8)	(4.6)	(3.3)	0.4
Russia	1.8%	0.7	(3.7)	(0.9)	(1.0)	1.0
India	2.9%	7.2	7.6	7.5	7.5	7.6
China	15.0%	7.3	6.9	6.7	6.7	6.5
Asian NIEs	3.4%	3.4	2.1	1.7	2.0	2.1
South Korea	1.9%	3.3	2.6	2.9	2.6	2.6
Taiwan	0.7%	3.9	0.6	0.8	1.0	1.5
Hong Kong	0.4%	2.7	2.4	1.3	1.3	1.5
Singapore	0.4%	3.3	2.0	1.5	1.8	1.8
ASEAN-6 (incl. Singapore)	3.2%	4.4	4.4	4.5	4.6	4.8
ASEAN-5	2.8%	4.6	4.8	4.9	5.0	5.2
Indonesia	1.2%	5.0	4.8	5.0	5.1	5.1
Thailand	0.5%	0.8	2.8	3.4	3.5	4.5
Malaysia	0.4%	6.0	5.0	4.1	4.1	4.5
Philippines	0.4%	6.2	5.8	6.9	7.0	6.5
Vietnam	0.3%	6.0	6.7	5.9	6.0	6.0

* Jan-Sep 2016 for US, Eurozone, UK, China, South Korea, Taiwan, Singapore, Vietnam

FX Forecast

	Spot	End 4Q-16	End 1Q -17	End 2Q -17	End Q3-17	End 2017
USDJPY	117	105.0	103.0	106.0	105.0	107.0
EURUSD	1.1	1.1	1.1	1.1	1.1	1.1
GBPUSD	1.2	1.2	1.2	1.2	1.2	1.2
AUDUSD	0.7	0.8	0.8	0.8	0.8	0.8
NZDUSD	0.7	0.7	0.7	0.7	0.8	0.8
USDCHF	1.0	1.0	1.0	1.0	1.0	1.0
EURAUD	1.5	1.4	1.4	1.5	1.4	1.4
EURJPY	123.0	115.5	115.4	115.5	115.5	115.6
AUDNZD	1.0	1.1	1.1	1.0	1.0	1.0
AUDJPY	84.5	79.8	80.3	79.5	81.9	83.5

Performance and Valuation Summary

Equity performance by Country (in local currency terms)

			--- Absolute performance (local currency) ---							
Name	Index level	FX rate	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	422		(0)	2	1	6	6	2	1	6
MSCI Emerging Market	862		2	(0)	(5)	3	9	(0)	(5)	9
MSCI Asia Pac (inc JP)	135		0	(0)	(3)	5	2	(0)	(3)	2
MSCI Asia Pac x JP	427		2	(1)	(5)	3	4	(1)	(5)	4
MSCI Asia x JP	514		2	(2)	(7)	2	3	(2)	(7)	3
MSCI Far East x JP	484		2	(3)	(6)	3	4	(3)	(6)	4
MSCI Emerging Asia	419		2	(2)	(6)	3	4	(2)	(6)	4
MSCI EM Latin America	2,341		3	0	(2)	3	28	0	(2)	28
MSCI EMMEA	245		4	7	1	6	16	7	1	16
MSCI Frontie	499		1	3	0	2	(1)	3	0	(1)
MSCI Asia x JP Small Cap	920		1	(2)	(7)	(2)	(4)	(2)	(7)	(4)
China - Shanghai Composite	3,104	6.9	(0)	(5)	3	6	(12)	(5)	3	(12)
China - H-shares	9,395	7.8	2	(5)	(2)	8	(3)	(5)	(2)	(3)
Hong Kong - HSI	22,001	7.8	2	(3)	(6)	6	0	(3)	(6)	0
Taiwan - TAIEX	9,254	32.2	2	0	1	7	11	0	1	11
Korea - KOSPI	2,026	1,207.8	(0)	2	(1)	3	3	2	(1)	3
Singapore - STI	2,881	1.4	0	(1)	0	1	(0)	(1)	0	(0)
Malaysia - KLCI	1,642	4.5	2	1	(1)	(1)	(3)	1	(1)	(3)
Thailand - SET	1,543	35.8	2	2	4	7	20	2	4	20
Indonesia - JCI	5,297	13,472.5	5	3	(1)	6	15	3	(1)	15
Philippines - PSEi	6,841	49.7	4	1	(10)	(12)	(2)	1	(10)	(2)
India - Sensex	26,626	67.9	2	(0)	(4)	(1)	2	(0)	(4)	2
Vietnam - Ho Chi Minh	665	22,771.0	0	(0)	(3)	5	15	(0)	(3)	15
Australia ASX 200	5,666	1.4	1	4	4	8	7	4	4	7
New Zealand - NZX50	6,881	1.4	0	(0)	(7)	(0)	9	(0)	(7)	9
Japan - Nikkei 225	19,114	116.6	(2)	4	16	23	0	4	16	0
Japan - TOPIX	1,519	116.6	(2)	3	15	22	(2)	3	15	(2)
S&P 500	2,239	1.0	(1)	2	3	7	10	2	3	10
Russell 2000	1,357	1.0	(1)	3	8	18	19	3	8	19
FTSE 100	7,143	0.8	1	5	4	10	14	5	4	14
Euro Stoxx	3,291	0.9	1	8	10	15	1	8	10	1

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2016

Equity performance by Country (in USD terms)

			--- Absolute performance (USD) ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	422		(0)	2	1	6	6	2	1	6
MSCI Emerging Market	862		2	(0)	(5)	3	9	(0)	(5)	9
MSCI Asia Pac (inc JP)	135		0	(0)	(3)	5	2	(0)	(3)	2
MSCI Asia Pac x JP	427		2	(1)	(5)	3	4	(1)	(5)	4
MSCI Asia x JP	514		2	(2)	(7)	2	3	(2)	(7)	3
MSCI Far East x JP	484		2	(3)	(6)	3	4	(3)	(6)	4
MSCI Emerging Asia	419		2	(2)	(6)	3	4	(2)	(6)	4
MSCI EM Latin America	2,341		3	0	(2)	3	28	0	(2)	28
MSCI EMMEA	245		4	7	1	6	16	7	1	16
MSCI Frontie	499		1	3	0	2	(1)	3	0	(1)
MSCI Asia x JP Small Cap	920		1	(2)	(7)	(2)	(4)	(2)	(7)	(4)
China - Shanghai Composite	3,104	6.9	(0)	(5)	(1)	1	(18)	(5)	(1)	(18)
China - H-shares	9,395	7.8	2	(5)	(2)	8	(3)	(5)	(2)	(3)
Hong Kong - HSI	22,001	7.8	2	(3)	(6)	6	0	(3)	(6)	0
Taiwan - TAIEX	9,254	32.2	2	(1)	(2)	7	13	(1)	(2)	13
Korea - KOSPI	2,026	1,207.8	(1)	(1)	(10)	(2)	0	(1)	(10)	0
Singapore - STI	2,881	1.4	0	(2)	(5)	(5)	(2)	(2)	(5)	(2)
Malaysia - KLCI	1,642	4.5	1	1	(8)	(11)	(7)	1	(8)	(7)
Thailand - SET	1,543	35.8	3	2	1	5	20	2	1	20
Indonesia - JCI	5,297	13,472.5	5	3	(4)	4	18	3	(4)	18
Philippines - PSEi	6,841	49.7	4	1	(13)	(17)	(7)	1	(13)	(7)
India - Sensex	26,626	67.9	2	1	(6)	(2)	(1)	1	(6)	(1)
Vietnam - Ho Chi Minh	665	22,771.0	0	(1)	(5)	3	13	(1)	(5)	13
Australia ASX 200	5,666	1.4	2	2	(1)	5	6	2	(1)	6
New Zealand - NZX50	6,881	1.4	2	(2)	(10)	(2)	11	(2)	(10)	11
Japan - Nikkei 225	19,114	116.6	(1)	2	1	8	4	2	1	4
Japan - TOPIX	1,519	116.6	(1)	1	(0)	7	1	1	(0)	1
S&P 500	2,239	1.0	(1)	2	3	7	10	2	3	10
Russell 2000	1,357	1.0	(1)	3	8	18	19	3	8	19
FTSE 100	7,143	0.8	2	4	(2)	2	(4)	4	(2)	(4)
Euro Stoxx	3,291	0.9	1	7	3	9	(2)	7	3	(2)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2016

Equity performance by Country – relative performance

			--- Relative performance to MSCI Asia x Japan ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	422		(2)	4	7	4	3	4	7	3
MSCI Emerging Market	862		1	2	2	1	6	2	2	6
MSCI Asia Pac (inc JP)	135		(1)	2	3	3	(1)	2	3	(1)
MSCI Asia Pac x JP	427		(0)	1	1	1	1	1	1	1
MSCI Asia x JP	514									
MSCI Far East x JP	484		(0)	(0)	0	1	1	(0)	0	1
MSCI Emerging Asia	419		0	1	0	1	1	1	0	1
MSCI EM Latin America	2,341		2	3	5	1	25	3	5	25
MSCI EMMEA	245		2	9	8	4	14	9	8	14
MSCI Frontie	499		(0)	5	7	(0)	(4)	5	7	(4)
MSCI Asia x JP Small Cap	920		(0)	1	(1)	(4)	(7)	1	(1)	(7)
China - Shanghai Composite	3,104	6.9	(2)	(3)	6	(1)	(21)	(3)	6	(21)
China - H-shares	9,395	7.8	1	(2)	5	6	(6)	(2)	5	(6)
Hong Kong - HSI	22,001	7.8	0	(1)	1	4	(3)	(1)	1	(3)
Taiwan - TAIEX	9,254	32.2	0	1	5	5	10	1	5	10
Korea - KOSPI	2,026	1,207.8	(3)	1	(3)	(4)	(3)	1	(3)	(3)
Singapore - STI	2,881	1.4	(1)	1	1	(8)	(5)	1	1	(5)
Malaysia - KLCI	1,642	4.5	(0)	3	(2)	(13)	(10)	3	(2)	(10)
Thailand - SET	1,543	35.8	1	4	7	3	17	4	7	17
Indonesia - JCI	5,297	13,472.5	3	6	2	1	15	6	2	15
Philippines - PSEi	6,841	49.7	3	3	(6)	(19)	(10)	3	(6)	(10)
India - Sensex	26,626	67.9	0	3	0	(4)	(4)	3	0	(4)
Vietnam - Ho Chi Minh	665	22,771.0	(2)	2	2	1	11	2	2	11
Australia ASX 200	5,666	1.4	(0)	4	5	3	4	4	5	4
New Zealand - NZX50	6,881	1.4	(0)	0	(4)	(4)	8	0	(4)	8
Japan - Nikkei 225	19,114	116.6	(3)	4	8	6	1	4	8	1
Japan - TOPIX	1,519	116.6	(3)	3	6	5	(2)	3	6	(2)
S&P 500	2,239	1.0	(3)	4	10	5	7	4	10	7
Russell 2000	1,357	1.0	(3)	5	15	16	17	5	15	17
FTSE 100	7,143	0.8	0	6	5	(1)	(7)	6	5	(7)
Euro Stoxx	3,291	0.9	(0)	10	10	7	(5)	10	10	(5)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2016

Equity performance by MSCI Asia x Japan Sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	514	2	(2)	(7)	2	3	(2)	(7)	3
Energy	511	2	2	1	8	17	2	1	17
Materials	292	1	(0)	1	9	16	(0)	1	16
Industrials	137	1	(3)	(7)	(2)	(8)	(3)	(7)	(8)
Capital goods	127	1	(2)	(7)	(1)	(7)	(2)	(7)	(7)
Transportation	170	1	(3)	(9)	(5)	(10)	(3)	(9)	(10)
Consumer discretionary	415	2	(3)	(8)	2	(2)	(3)	(8)	(2)
Automobiles & Components	709	2	2	(8)	2	1	2	(8)	1
Retailing	203	1	(5)	(10)	2	(14)	(5)	(10)	(14)
Consumer staples	397	3	(1)	(10)	(11)	(2)	(1)	(10)	(2)
Food/staples retail	123	1	(1)	(3)	4	16	(1)	(3)	16
Food/beverage/tobacco	327	3	(2)	(9)	(9)	(0)	(2)	(9)	(0)
Health care	674	3	(5)	(11)	(8)	(13)	(5)	(11)	(13)
Financials	287	2	(3)	(4)	5	1	(3)	(4)	1
Banks	232	2	(0)	(2)	7	5	(0)	(2)	5
Diversified financials	487	2	(6)	(8)	(1)	(5)	(6)	(8)	(5)
Insurance	264	0	(8)	(7)	5	(9)	(8)	(7)	(9)
Real estate	166	2	(5)	(13)	(3)	(4)	(5)	(13)	(4)
Technology	375	2	(1)	(6)	8	15	(1)	(6)	15
Software services	1,935	3	(3)	(13)	3	6	(3)	(13)	6
Tech hardware	196	1	0	(0)	14	24	0	(0)	24
Semiconductors/equipment	369	1	(1)	(2)	11	23	(1)	(2)	23
Telecoms	126	2	(2)	(11)	(10)	(5)	(2)	(11)	(5)
Utilities	197	1	(4)	(10)	(8)	(5)	(4)	(10)	(5)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2016

Equity performance by MSCI Asia x Japan Sector – relative performance

		--- Relative performance MSCI Asia x Japan ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	514								
Energy	511	(0)	5	8	6	14	5	8	14
Materials	292	(1)	2	7	7	13	2	7	13
Industrials	137	(1)	(0)	(1)	(4)	(11)	(0)	(1)	(11)
Capital goods	127	(1)	(0)	(0)	(3)	(10)	(0)	(0)	(10)
Transportation	170	(1)	(1)	(2)	(7)	(13)	(1)	(2)	(13)
Consumer discretionary	415	(0)	(1)	(1)	0	(5)	(1)	(1)	(5)
Automobiles & Components	709	1	4	(2)	0	(1)	4	(2)	(1)
Retailing	203	(1)	(3)	(4)	(0)	(17)	(3)	(4)	(17)
Consumer staples	397	1	1	(3)	(13)	(5)	1	(3)	(5)
Food/staples retail	123	(0)	1	4	2	13	1	4	13
Food/beverage/tobacco	327	1	1	(2)	(12)	(3)	1	(2)	(3)
Health care	674	1	(2)	(4)	(11)	(16)	(2)	(4)	(16)
Financials	287	0	(1)	3	3	(2)	(1)	3	(2)
Banks	232	1	2	4	4	2	2	4	2
Diversified financials	487	1	(4)	(1)	(3)	(8)	(4)	(1)	(8)
Insurance	264	(1)	(6)	(0)	3	(12)	(6)	(0)	(12)
Real estate	166	0	(3)	(6)	(5)	(7)	(3)	(6)	(7)
Technology	375	0	1	0	6	12	1	0	12
Software services	1,935	1	(1)	(6)	1	3	(1)	(6)	3
Tech hardware	196	(0)	3	6	11	21	3	6	21
Semiconductors/equipment	369	(1)	1	4	9	20	1	4	20
Telecoms	126	0	(0)	(5)	(12)	(8)	(0)	(5)	(8)
Utilities	197	(1)	(2)	(3)	(10)	(8)	(2)	(3)	(8)

Source: Maybank Kim Eng, Factset, MSCI, data as of 31 December 2016

MSCI Country valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F
Asia-ex-Japan	11.8	13.8	12.3	1	2	12	11	10	11	1.3	1.4	1.3	3.0	2.6	2.8
China	9.3	13.1	11.3	1	2	16	13	11	12	1.2	1.5	1.4	3.3	2.2	2.4
Hong Kong	13.4	14.9	14.6	(22)	(7)	2	8	7	7	1.0	1.1	1.1	3.6	3.4	3.5
Taiwan	12.4	14.3	13.0	4	(2)	10	13	12	12	1.6	1.7	1.6	4.1	3.9	4.2
Korea	10.5	11.1	9.7	14	7	15	9	9	10	1.0	1.0	0.9	1.8	1.8	1.9
Singapore	11.6	13.5	12.8	(4)	(8)	6	9	8	9	1.1	1.1	1.1	4.5	4.1	4.1
Malaysia	16.8	16.8	15.7	0	(5)	7	10	10	10	1.7	1.6	1.5	3.0	2.9	3.1
Thailand	17.5	15.7	14.5	(8)	34	8	10	13	13	1.8	2.0	1.8	3.4	2.9	3.0
Indonesia	17.3	18.0	15.5	(6)	7	16	17	15	16	2.9	2.8	2.5	2.3	2.3	2.5
Philippines	17.7	17.4	16.0	14	14	9	14	13	13	2.5	2.3	2.1	1.9	1.8	1.7
India	19.3	19.0	16.2	2	18	18	15	15	16	2.8	2.8	2.6	1.6	1.5	1.7
Japan	14.1	16.4	14.7	4	8	11	8	8	9	1.1	1.3	1.3	2.3	2.0	2.1
US	18.7	18.6	16.4	-3	8	13	12	15	16	2.8	2.8	2.6	2.2	2.1	2.2
Europe	22.8	14.2	12.7	-14	49	12	7	7	8	1.5	1.4	1.3	3.6	4.0	4.2

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 December 2016

MSCI Asia-ex-Japan Sector valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F	2015	2016F	2017F
Asia-ex-Japan	11.8	13.8	12.3	1	2	12	11	10	11	1.3	1.4	1.3	3.0	2.6	2.8
Energy	15.8	17.7	12.0	(37)	13	47	5	6	8	0.9	1.1	1.0	3.1	2.6	3.0
Materials	17.8	14.3	13.1	8	49	10	6	8	9	1.1	1.2	1.1	2.7	2.7	2.8
Industrials	13.0	14.5	12.8	5	(9)	13	9	8	8	1.2	1.1	1.1	2.4	2.5	2.5
Capital goods	11.5	13.7	12.1	0	(12)	13	9	8	8	1.1	1.1	1.0	2.3	2.1	2.2
Transportation	19.6	17.9	15.9	18	5	13	7	8	8	1.4	1.3	1.3	2.8	3.9	3.6
Consumer discretionary	13.1	15.0	13.1	(12)	13	15	11	11	12	1.5	1.6	1.5	2.4	2.0	2.2
Automobiles & Components	8.8	9.6	8.7	(9)	11	11	12	12	12	1.1	1.1	1.0	2.1	2.1	2.4
Retailing	31.9	48.8	31.8	(13)	29	53	7	5	7	2.2	2.5	2.3	1.1	0.6	0.7
Consumer staples	23.8	22.3	19.7	12	11	13	12	14	14	2.9	3.0	2.8	1.8	2.0	2.2
Food/staples retail	21.3	23.6	21.6	37	7	9	10	12	12	2.2	2.8	2.6	2.0	1.9	2.0
Food/beverage/tobacco	21.1	20.2	17.7	6	11	14	11	12	13	2.3	2.4	2.2	2.1	2.2	2.5
Health care	29.2	27.2	22.6	22	14	19	15	13	14	4.3	3.6	3.2	0.8	0.8	1.0
Financials	8.3	9.8	9.3	7	(3)	6	11	11	11	0.9	1.1	1.0	4.2	3.3	3.4
Banks	6.7	8.5	8.1	4	(2)	4	13	12	11	0.9	1.0	0.9	5.0	3.9	3.9
Diversified financials	10.0	14.3	12.8	44	(21)	12	14	10	11	1.4	1.5	1.4	4.0	2.6	3.0
Insurance	12.2	14.0	12.8	15	5	9	12	10	10	1.4	1.4	1.3	2.2	1.9	2.1
Real estate	10.6	10.8	10.6	(1)	(1)	2	6	7	6	0.7	0.7	0.7	3.9	3.8	4.0
Technology	13.9	17.6	14.3	(5)	7	23	14	14	15	2.0	2.4	2.2	2.2	1.9	2.1
Software services	25.2	28.6	22.8	12	43	26	24	19	20	5.9	5.5	4.6	0.7	0.5	0.6
Tech hardware	10.6	13.2	10.5	(13)	0	26	11	11	12	1.2	1.4	1.3	3.0	2.5	2.8
Semiconductors/equipment	11.5	14.1	12.2	1	(5)	15	19	17	17	2.1	2.4	2.1	3.3	3.4	3.7
Telecoms	15.2	16.5	15.2	7	(2)	8	12	11	11	1.8	1.8	1.7	3.8	3.6	3.8
Utilities	9.1	11.2	11.2	(4)	(16)	0	14	11	10	1.3	1.2	1.1	3.6	3.6	3.7

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 31 December 2016

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