

Dividend harvesting in ASEAN

Asia Pacific equities

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- As bond yields fall amid a rate-cutting cycle, stocks with high dividend yields have the potential to re-rate and outperform.
- With Southeast Asian (ASEAN) markets offering an average dividend yield of 4.6% for 2025E, dividend harvesting could enhance investors' total returns over the long term and presents a defensive strategy for investing in the region.
- This EPL focuses on quality companies in ASEAN that offer high dividend yields and consistent dividend-paying track records backed by strong free cash flows. The list aims to outperform the MSCI ASEAN Index by 3% every year.



Source: Shutterstock

Sustainable dividend yielders to do well when bond yields fall

Dividend investing, as a theme, should gain greater relevance as rates fall in the second half of 2024. Just as bond prices are inversely correlated with interest rates, so are stock prices of high-dividend yielders. As inflation and growth slow in the US, we expect the Federal Reserve to embark on a rate-cutting cycle from September 2024, with Asian central banks likely to follow its lead. In our view, this presents an environment for high dividend yielders to re-rate and outperform on a total return basis.

With an average 2025E dividend yield of 4.6%, we think Southeast Asian (ASEAN) markets offer attractive opportunities for income investors. High dividend yield stocks are likely to re-rate as rates fall and yield spreads expand. In addition, we see USD strength fading on Fed rate cuts and concerns over US deficit spending and high debt levels. Historically, a weaker USD has been positively correlated with Asian equities' outperformance versus their global peers.

Selection list as of 10th July 2024

Most Preferred			
Company	Ticker	Sector	Dividend yield (%)
Advanced Info	ADVANC TB	Comm services	4.4
Bank Central Asia	BBCA UJ	Financials	2.7
Bank Mandiri	BMRI UJ	Financials	5.5
Bank Philippine	BPI PM	Financials	3.4
CIMB Group Hldg	CIMB MK	Financials	5.8
DBS Group Hldg	DBS SP	Financials	5.9
Fraser's Centerpoint Trust	FCT SP	Real estate	5.6
Mapletree Industrial Trust	MINT SP	Real estate	6.4
Netlink Trust	NETLINK SP	Comm services	6.5
PTT Exploration & Production	PTTEP TB	Energy	5.8
Tenaga Nasional	TNB MK	Utilities	3.1
United Overseas Bank	UOB SP	Financials	5.5
United Tractors	UNTR UJ	Industrials	8.4

Source: Bloomberg, CIO

Dividend sustainability reflects balance sheet robustness and operational stability, and is a hallmark of "quality," a trait we favor in our equity strategy. For the "Dividend harvesting in ASEAN" theme, we have identified high-quality dividend yielders with consistent dividend-paying track records. Their dividend coverage is backed by strong free cash flows, which supports the sustainability of payouts.

Seeking dividends – Why now?

Conservative rate cut expectation presents attractive entry opportunity. Market expectations for Fed rate cuts have dropped from 6–7 at the start of 2024 to under two at the time of writing, a result of the delay in disinflation in early 2Q. Although inflation has resumed its decline in the US, markets are still pricing in much higher long-term rates than the Fed. So we see an opportunity to position in yield stocks and bond proxies before the likely start of the Fed's rate cut cycle in late 2024.

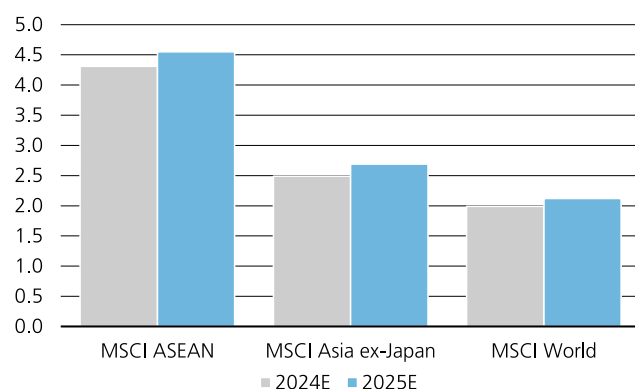
Falling bond yields bode well for dividend yielders.

We expect dividend yielders to do well in an environment of falling interest rates. Falling benchmark yields lead to yield spread expansion, a potential re-rating catalyst. Furthermore, Bloomberg consensus estimates for our stock selection list project a compounded annual growth of 7.6% in dividends over the next two years, further elevating their appeal relative to risk-free rates.

ASEAN provides ample opportunities for income investors, in our view. The region (MSCI ASEAN) offers an average 2025E dividend yield of 4.6% versus Asia ex-Japan's 2.7% and MSCI AC World Index's 2.1%.

Figure 1 - ASEAN offers attractive dividend yield opportunities

Dividend yields: ASEAN vs. Asia ex-Japan vs. World



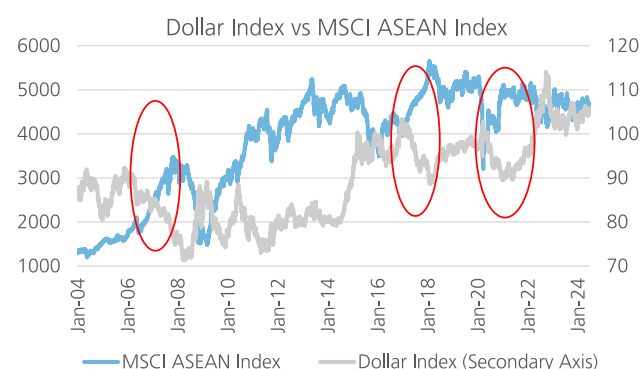
Source: Bloomberg, UBS

Fading USD strength bodes well for emerging market equities.

A strong USD has historically been a headwind for emerging market equities. Conversely, our back-testing analysis finds that Asia stands out as one of the strongest relative performers during periods of USD weakness. The fading of USD strength into a US rate-cutting cycle should favor ASEAN equities in general and especially dividend yielders.

Figure 2 - Historically, dollar weakness has been a tailwind for MSCI ASEAN

DXY Index vs. MSCI ASEAN



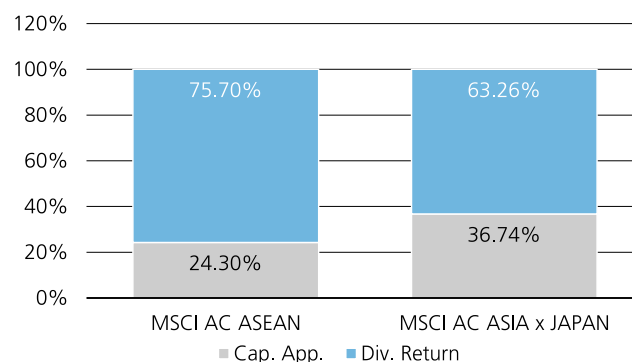
Source: Bloomberg, UBS

Dividends account for lion's share of long-term total shareholder returns in ASEAN.

Since 2000, dividend returns have accounted for 63% of total shareholder returns in Asia ex-Japan equities. In ASEAN, the contributions of dividends have been even more substantial at 76% of total returns. This shows yield stocks have the potential to enhance investors' total returns over the long term.

Figure 3 - Dividends contribute the bulk of total shareholder returns in Asia, especially in ASEAN

Composition of total returns since 1 January 2000



Source: Bloomberg, UBS

Risks

Higher-for-longer rates. Strong US economic data and renewed inflation pressure could prompt the Fed to delay rate cuts. In such a scenario, this key catalyst for dividend yielders would be delayed. That said, unless the Fed resumes its aggressive hiking cycle, such a risk would delay, but not derail, our investment thesis.

Earnings recession. Our stock selection is projected to deliver 7.6% dividend growth over the next two years by Bloomberg consensus, supported by resilient earnings and cash flows. Dividends could be reduced if earnings decline, for instance in the event of a recession.

A faster-than-expected rate cut trajectory may also pressure net interest margins (NIM) and weigh on interest income for banks—although banks in our selection are guiding for benign NIM pressure, which can be mitigated by improved fee income or loans growth.

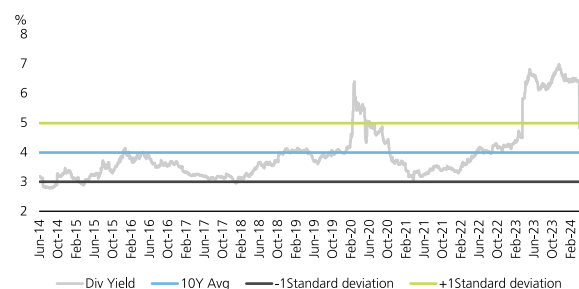
Regulatory restrictions. In a more extreme scenario, regulators could cap dividend payments temporarily, such as during the COVID-19 pandemic when regulators, including the Monetary Authority of Singapore, restricted banks' dividend payouts to conserve capital for loss absorption and credit creation. That said, such top-down directives are a black swan event.

Valuations

We believe investors seeking equity exposure to ASEAN markets should integrate dividend strategies into their portfolios to enhance overall returns. The "Dividend harvesting in ASEAN" EPL is focused on delivering superior risk-adjusted returns by investing in quality companies in ASEAN that offer high dividend yields.

Our stock selection list is projected by Bloomberg consensus to deliver 2-year (2023–2025) earnings CAGR of 5.1% versus MSCI ASEAN's 8.3%. It also trades at a 12-month forward P/E of 14.2x versus the benchmark's 13.0x, as the list consists of more mature/defensive companies with higher dividend payouts. The basket of stocks in the EPL is estimated to pay an average 2025E dividend yield of 5.6%, 110 basis points above the benchmark's dividend yield.

Figure 4 - Dividend yield: EPL trades 1 SD above historical average



Source: Bloomberg, UBS

Valuations

Company	ISIN	Currency	Price	Market capitalization in USD	Average daily trading volume in '000s	P/E (x)	3 year EPS CAGR (%)	P/B (x)	ROE (%)	Dividend Yield (%)	YTD Total returns (%)
Advanced Info Service	TH0268010Z03	THB	210.00	17,075	4,894.94	19.6x	11.4%	6.6x	33.6%	4.4%	-3.2%
Bank Central Asia	ID1000109507	IDR	9,950.00	75,355	108,330.41	22.9x	13.3%	4.6x	20.3%	2.7%	5.9%
Bank Mandiri	ID1000095003	IDR	6,425.00	36,472	136,166.92	10.7x	14.8%	2.1x	19.9%	5.5%	6.2%
Bank of the Philippine Islands	PHY096751694	PHP	119.00	10,720	1,727.88	10.7x	13.9%	1.5x	13.8%	3.4%	14.6%
CIMB Group Holdings Berhad	MYL10230O000	MYR	6.95	15,787	21,178.60	9.8x	12.7%	1.0x	10.5%	5.8%	18.8%
DBS Group Holdings	SG1L01001701	SGD	37.42	78,590	4,263.97	10.1x	8.6%	1.6x	16.3%	5.9%	23.2%
Frasers Centrepoint Trust	SG1T60930966	SGD	2.12	2,842	2,870.59	19.4x	-2.4%	0.9x	4.8%	5.6%	-6.2%
Mapletree Industrial Trust	SG2C32962814	SGD	2.11	4,432	5,833.96	15.9x	1.1%	1.2x	7.4%	6.4%	-15.9%
NetLink NBN Trust	SG1DH9000006	SGD	0.83	2,396	4,149.89	30.8x	-0.4%	1.3x	4.3%	6.5%	-1.2%
PTT Exploration & Production	TH0355A10Z04	THB	152.50	16,551	8,688.24	7.9x	3.1%	1.1x	14.0%	5.8%	2.0%
Tenaga Nasional	MYL53470O009	MYR	14.22	17,554	9,288.87	20.5x	5.1%	1.3x	6.5%	3.1%	41.6%
United Overseas Bank	SG1M31001969	SGD	32.50	40,262	2,817.06	9.2x	10.4%	1.2x	12.5%	5.5%	14.2%
United Tractors	ID1000058407	IDR	23,800.00	5,310	4,947.21	5.1x	-9.2%	1.0x	19.3%	8.4%	5.2%

Note: P/E, P/B, ROE and dividend yield based on 2024 projections as of 10 July 2024

12 month rating history

Release date	Company name	Equity Preference List	Current selection	Previous selection
Aug 22 2023	Bank Central Asia	Asian beneficiaries of Peaking US Fed rates	Not Listed	Most Preferred
Aug 02 2023	Bank Central Asia	Asian beneficiaries of Peaking US Fed rates	Most Preferred	-
Nov 17 2023	Bank Central Asia	Asia New Economy Leaders	Most Preferred	Not Listed
Nov 17 2023	Bank Central Asia	Banks for the next billions	Not Listed	Most Preferred
Nov 17 2023	Bank Central Asia	ASEAN's New Economy	Not Listed	Most Preferred
Nov 01 2023	Bank Central Asia	Investing in Asian titans	Most Preferred	-
Nov 16 2023	Bank Central Asia	Asian growth in addition to MSCI China	Most Preferred	-
Apr 16 2024	Bank Mandiri	Asia New Economy Leaders	Most Preferred	-
Nov 17 2023	Bank Mandiri	Banks for the next billions	Not Listed	Most Preferred
Aug 02 2023	Bank Mandiri	Asian beneficiaries of Peaking US Fed rates	Not Listed	Most Preferred
Nov 16 2023	Bank Mandiri	Asian growth in addition to MSCI China	Most Preferred	-
Nov 17 2023	Bank of the Philippine Islands	Banks for the next billions	Not Listed	Most Preferred
Nov 16 2023	Bank of the Philippine Islands	Asian growth in addition to MSCI China	Most Preferred	-
Feb 28 2024	DBS Group Holdings Ltd	Asia ESG 'Social' leaders trump labour crunch	Not Listed	Most Preferred
Dec 04 2023	DBS Group Holdings Ltd	Asia ESG 'Social' leaders trump labour crunch	Most Preferred	-
Jul 28 2023	DBS Group Holdings Ltd	Asia ex-Japan Focus 20	Most Preferred	Not Listed
Jan 05 2024	DBS Group Holdings Ltd	Greentech goes global	Most Preferred	Not Listed
Sep 12 2023	DBS Group Holdings Ltd	Investing in distributed ledgers, a nascent opportunity	Not Listed	Most Preferred
Nov 17 2023	DBS Group Holdings Ltd	ASEAN's New Economy	Not Listed	Most Preferred
Feb 23 2024	DBS Group Holdings Ltd	Singapore	Most Preferred	Not Listed
Nov 01 2023	DBS Group Holdings Ltd	Investing in Asian titans	Most Preferred	-
Feb 07 2024	Frasers Centrepoint Trust	Singapore	Most Preferred	Not Listed
Jan 10 2024	Mapletree Industrial Trust	Singapore	Most Preferred	Not Listed
Nov 21 2023	NetLink NBN Trust	Singapore	Most Preferred	Not Listed
Aug 22 2023	Tenaga Nasional Bhd	Asian beneficiaries of Peaking US Fed rates	Not Listed	Most Preferred
Feb 28 2024	United Overseas Bank Ltd	Asia ESG 'Social' leaders trump labour crunch	Not Listed	Most Preferred
Dec 04 2023	United Overseas Bank Ltd	Asia ESG 'Social' leaders trump labour crunch	Most Preferred	-
Jul 28 2023	United Overseas Bank Ltd	Asia ex-Japan Focus 20	Not Listed	Most Preferred
Oct 31 2023	United Overseas Bank Ltd	Long and short of Sustainable Investing	Not Listed	Most Preferred
Jan 30 2024	United Overseas Bank Ltd	ASEAN: Expanding the China platform 2.0	Not Listed	Most Preferred
Jan 23 2024	United Overseas Bank Ltd	ASEAN: Expanding the China platform 2.0	Most Preferred	-

Appendix

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We expect the stock to outperform the benchmark in the next 12 months.

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