Maybank Kim Eng

December 5, 2014

The Strategist

Must… FiX… This…

Strategists
Sadiq Currimbhoy
(65) 6231 5836
sadiq@maybank-ke.com.sg

Willie Chan
(852) 2268 0631
williechan@kimeng.com.hk

This is our first strategy report and over the coming weeks, we will be broadening out our investment themes for Asia and beyond.

Our inclination is to be positive Asian equities; Valuations are attractive, the large oil price decline amounts to a stimulus and policy makers in the region also have more scope to ease with real economic impact.

But we find ourselves being held back.

Currencies & Equities

The issue is the potential strength of the USD and weakness of the Japanese Yen. We built a model to understand how currency trends and growth impact markets, and whether there is a threshold level that impacts valuation.

This model's conclusion is that global currency moves are already enough to result in a return-to-trough valuations, or down about 30% from current levels.

For the S&P 500, we find that implied currency volatility in the Euro$ has actually led US equities over the past 10 years. If the USD goes on a tear, the risk is a de-rating for equities.

Like India, Vietnam, Philippines

We think Asian currencies are likely to weaken further and with inflation easing, interest rates are set to decline.

For Asia ex Japan investors, the investment environment implies staying with the structurally positive stories of India, Vietnam and the Philippines. We would avoid Indonesia on valuation.

We also would emphasize relative-valuation trades. On price to book, Asia ex Japan financials are trading close to their lowest historical valuation levels to the non-financials in 25 years. From a risk-reward perspective, we would be long financials, short tech. Relative value also implies long consumer goods, short tech.

China's External Risk

We have set China to Neutral. The bottom-up analysis confirms that returns on capital have been declining and over-capacity is pervasive. Economic indicators are weak and policy makers are rightly easing, and are likely to ease more. We like banks tactically. We think China's property sector is likely to fade.

Left to itself, we suspect China will muddle through its long work-out. The real risk is that we are under-estimating the global USD rally. There has been a dramatic increase in foreign borrowing by Chinese companies. If the USD attracts more capital, a weaker RMB represents a core risk.

SEE PAGE 36 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

The Summary

This is our first strategy report and the focus is for Asia ex Japan investors. Over the coming weeks, we shall be broadening out our investment themes for Asia and beyond, adding more themes and trades. For this report our summary is:

1) We would like to be positive on Asian equities but are held back given the strength and outlook for the USD. In particular, the Yen has been weak for over two years (Figure 4). The Asian DXY index is already at four-year lows (Figure 25).
2) We wanted to understand what is priced in given the exchange rate movements so far. We built a model combining specifically the Japanese Yen Real Effective Exchange Rate and the copper price. We found that given what has already happened, there is more downside to Asia ex Japan equities (Figure 7).
3) We found three things: One, FX trends matter, so moves need to be extended. Two, moves need to be large enough for threshold effects to kick in. We have had both for almost two years. And last, and importantly, the impact on equities can take about, yes, two years, forcing valuations to historically trough levels.
4) For the US, we find that directional changes in Euro$ Implied Volatility leads the S&P 500, though the link works for just the past 10 years. Higher currency volatility, which has already started, not necessarily a currency war, has usually been enough to de-rate equities (Figures 15 and 16).
5) Our concern is that given the weakness in the European and Japanese economies, more USD strength is ahead. From a very long-term perspective, the charts suggest the DXY is close to breaking a 30-year downtrend (Figure 13).
6) The good news is that the Asian region is in much better shape from a current account and policy flexibility perspective (Figures 17 and 18). The oil price is another positive. And equity valuations are not expensive.
7) However, the currency risk is the issue and we suspect a lot of companies have borrowed USD given low interest rates and on the expectation that the USD would continue to depreciate (Figure 19).
8) This is particularly true for China where BIS data shows borrowing increased an impressive 4.5x over the past five years (Figure 20). While external debt to GDP is manageable from a level perspective, the acceleration is a cause for concern in a world where exchange rates are driven by capital rather than current account flows.
9) Our analysis of Chinese corporate returns reveals that there is overcapacity through much of the listed sector, including the consumer space. Furthermore, returns on equity would have been even lower had leverage not sharply increased. Falling margins, falling asset turnover, falling ROAs, rising leverage, falling ROEs are not great combinations (Figures 34, 39 and 42).
10) We suspect it was weak growth and a strong USD that encouraged the PBoC to surprise the market and cut rates. Left to itself, Chinese policy making credibility is high enough that the work-out can be

achieved. The risk is that external pressures, via a stronger USD, attracts capital away and we see downward pressure on the RMB. This keeps us underweight Chinese properties. We would be Neutral China.

11) The near-term outlook is mixed: the oil price move is positive but the inventory cycle deterioration is a concern (Figure 27). With the effectiveness of economic policy in the developed world unconvincing, we reckon the greatest pressure on Asian equities is in 1H15.

12) From an investment perspective, the characteristics we are looking for is to stay long structural stories such as India, the Philippines and Vietnam. And to stay away from extended and vulnerable areas such as Indonesia.

13) We would also emphasize Relative Valuation. Interestingly, financials are about as cheap to non-financials since the Asian Crisis and the TMT bubble (Figure 31). With lower interest rates ahead, we like financials from a risk-reward perspective.

14) Similarly, consumer goods are attractive to tech, as are financials to tech (Figures 32 and 33). The market is too bullish tech relative to sectors that will benefit with lower rates. Long consumer goods, financials, short tech. That effectively makes us underweight technology, and Taiwan.

15) Finally, and back to relatively valued financials, while there are many issues, China is doing the right thing by cutting rates. The yield curve is yet to steepen and we suspect they will have to do more (Figures 47 and 48). That could be positive for the banks, which are under-weighted by the investment community. Tactically buy Chinese banks.

Figure 1: Investment strategy Opening Salvos

Theme	Trades
USD Strength	Selective Asia
Structurally Positive	Long India Long Vietnam Long Philippines
Cyclical Concerns	Long China, Short Taiwan Avoid Indonesia
Relative Value in Asia ex Japan	Long financials, short non-financials Long banks, short tech Long consumer goods, short tech
China Long Work Out + Policy Ease	Tactically long Chinese banks, Fade Property

Source: MKE Strategy

From FX to equity valuation

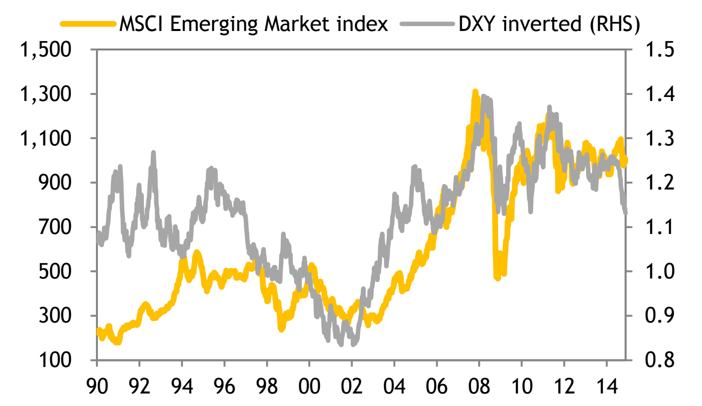
With so much discussion about the Dollar's impact on markets, we really wanted to build a framework to see how much has been priced in and whether there is a "threshold" level of a move that matters for the Asian equity markets. The end result is a composite indicator that combines both the currency and global growth impact on markets and valuation. We then broadened the analysis to identify our trades for 2015.

Basics FX and markets charts: the bigger trend matters

The standard charts are the ones below showing the DXY, that is the USD trade weighted index, against Asian or Emerging Market (EM) equities. We have put the DXY into an inverted scale below. The link has been particularly good in recent years, but not very good prior to the Asian Crisis.

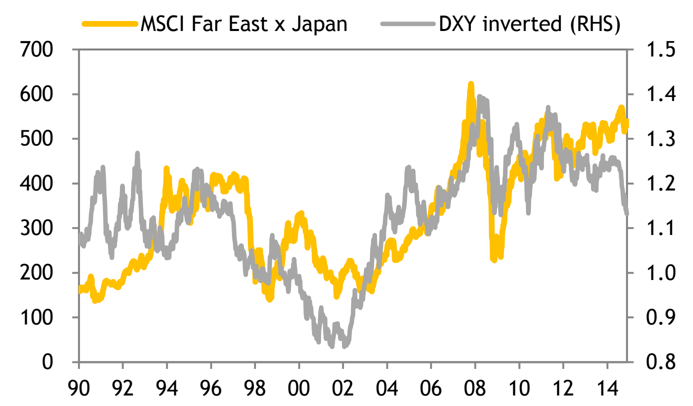
Furthermore, short-term counter trend moves in the DXY don't appear to have much impact on equity markets. The best example being 2005 when the USD strengthened for a full year and MSCI Far East ex Japan saw USD returns of 12%.

Figure 2: MSCI EM and DXY



Source: Bloomberg, CEIC, Maybank Kim Eng Research

Figure 3: MSCI Far East x Japan and DXY



Source: Bloomberg, CEIC, Maybank Kim Eng Research

Extent and duration of FX moves matter

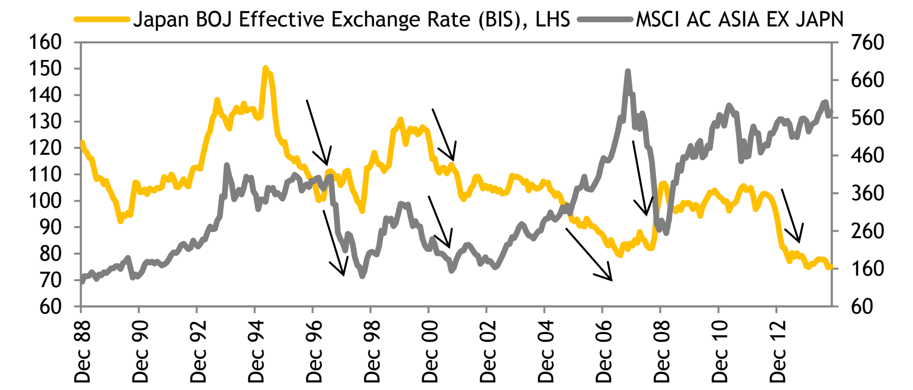
To understand the impact on Asia, rather than the DXY, we used the Japanese Yen. In particular, the Bank of Japan (BoJ) measure of the Real Effective Exchange Rate (JPY REER). The logic is that Japan remains a competitive force in the region (particularly for North Asia which dominates benchmark weightings) as well as a supplier of liquidity.

Fundamentally, the currency impact on economic activity can take well over a year. From a trade perspective, orders are placed far in advance so adjustments can be very slow, measured in months and quarters. If there are decisions to be made over capex and the location of businesses, then this can take even longer, usually years.

We plotted the JPY REER against Asian equity markets below. What is particularly interesting is:

1) How "large" moves that persist for some time in the JPY REER appear to have an impact on equity markets. Smaller moves have little or no impact.
2) So, there needs to be a trend and within that trend, there is some threshold level after which the currency move seems to impact markets.
3) The impact on equities looks to have a lag, sometimes of two years. This is not unreasonable from a fundamental perspective outlined above in that the transmission of big FX moves by competitors can take some time to impact the home economy.

Figure 4: MSCI Asia ex Japan and BOJ REER

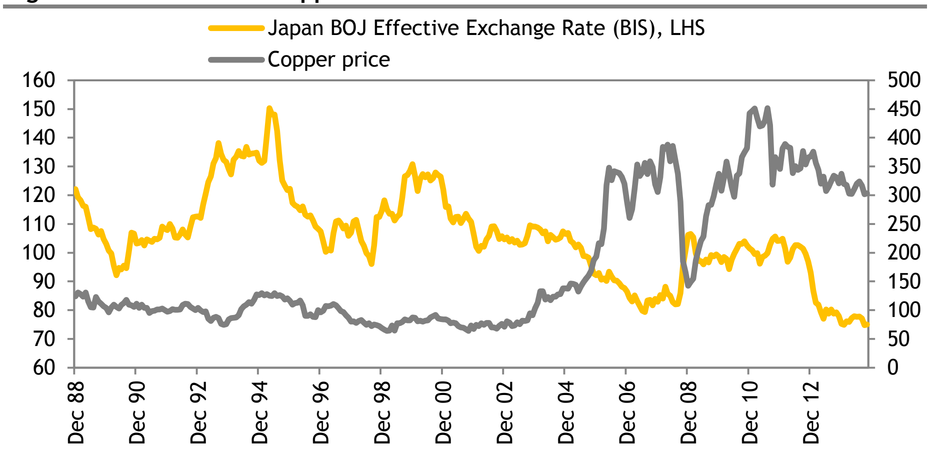


Source: Bloomberg, CEIC, Maybank Kim Eng Research

Liquidity and the carry trade

The other aspect of the Japanese Yen is that it has been a funding currency as well. The Yen carry trade in the mid -2000s arguably played a role in the financial boom before the Global Financial Crisis (GFC). This is why we think the thresholds matter. Intuitively, some weakening of Yen is a positive from a liquidity standpoint. However, too much and it appears the risk to the Asian markets increases. The chart below shows the Yen with copper (3month futures), the latter acting as a proxy for the global economy.

Figure 5: JPY REER and copper



Source: Bloomberg, Maybank Kim Eng Research

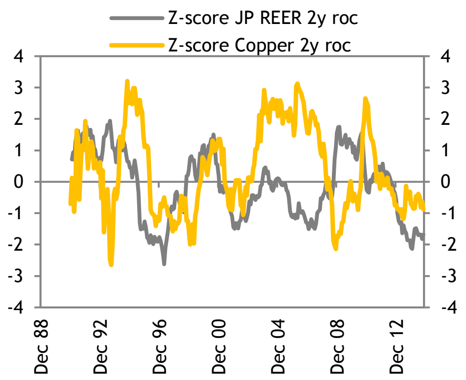
Trends and thresholds: model results

Given the preceding analysis, we looked at the two-year rates of change (in logarithms) for both the JPY REER and the copper price. The two-year rates of change attempt to avoid short-term counter trend moves. The spot Yen:USD high was in Nov 2011, though the sharp weakening began in 4Q12. Also, whereas the mid-2000s Yen move coincided with a global growth boom, currently, the economic environment is tepid, at best.

We then normalized both series into z-scores with mean 0 and variance 1, given how large the copper swings are relative to the Yen moves. This is shown in the margin chart to the right. Averaging the two gives our cumbersomely titled Composite Indicator of Competitiveness and Growth (CICG).

This indicator is shown below. There have been very few instances of -2 standard deviation moves. We are currently at one, and have been since Feb 2013. The last time the CICG was below 2 standard deviations for this long was for almost two years prior to the Asian Crisis. According to this model, there is as much pressure on the Asian markets now as we had going into the Asian Crisis.

Figure 6: Z-scores of JPY REER and copper



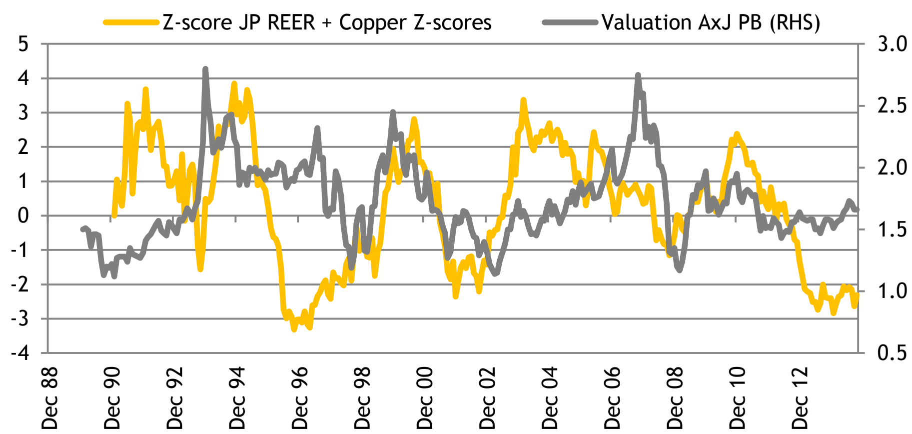
Source: Bloomberg, MKE Research

Tipping points and valuation

But really what we want to know is how much is priced in. So, we compared the Composite Indictor to the Valuation of Asia ex Japan Price to Book.

Whenever the Composite Indicator got to below even -1 standard deviation for more than just a month, which since the early 90s was three times, on each occasion, Price to Book valuations would eventually drop below 1.3x to trough levels. At a current multiple of 1.7x, this model suggests that the downside could be over 30% for equities.

Figure 7: What's priced in?



Source: Bloomberg, CEIC, Maybank Kim Eng Research

One additional factor: that the indicator was "only" 1 standard deviation below during the Global Financial Crisis is not necessarily surprising. We reckon this was due to the indicator capturing real economic forces (competitiveness measure and global growth proxy) rather than a financial crisis measure.

In sum, the USD and Yen moves, combined with tepid global growth, have already been large enough to put downward pressure on valuations.

A New World for G3 FX

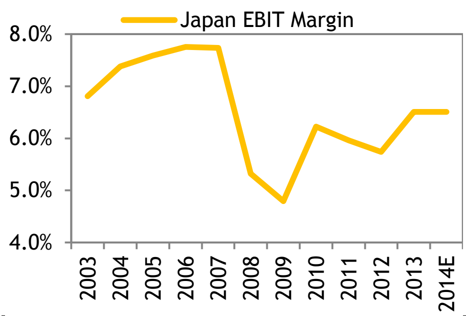
Forecasting currencies is always tricky and the consensus is for USD strength given the divergent monetary policy. We'd like to add to this analysis by taking a different approach and looking at corporate data to understand which of the G3 could attract capital.

A glimpse of Japan from the corporate sector

Maybank's Head of FX Strategy Saktiandi Supaat reckons the Yen will depreciate further (please see *FX Mthly*, *CNY: PBOC eases*, *China CNY* and *FX Weekly - Global*). In the context of a weak Japanese economy that still needs significant money printing, this is not too surprising. Japan's issues go deeper than just demographics and Abenomics' Third Arrow is something we are still waiting for.

One of the inputs we use in our investment process is the Dupont ROE Decompositions. In Japan's case, what is striking about the non-financial corporate sector is how poor operating margins are. Levels of 7% are much lower than in Europe or the US (see Appendix 1 for the full tables).

Figure 8: Japan non-financials operating margins



Source: Factset, MKE Research

Wage growth with low margins?

The macro argument for generating inflation in Japan is to raise inflation expectations. This will result in higher wage offers thereby beginning the inflation cycle. While we learnt that in economics class, with such low margins, the likelihood of companies giving higher wages we would have thought is very low. Without real structural change that forces an improvement in operating margins, the odds of Arrows 1 and 2 succeeding were pretty low to begin with. Furthermore, companies have also been shifting capacity out of Japan and so with a weaker Yen, we get higher corporate profits but not necessarily higher economic activity. We shall see if as in the US, capacity is brought back into Japan. Policy missteps don't help either. We shall discuss Japan in future issues but our sense is that we may need to see an even weaker Yen to attract capital back to Japan.

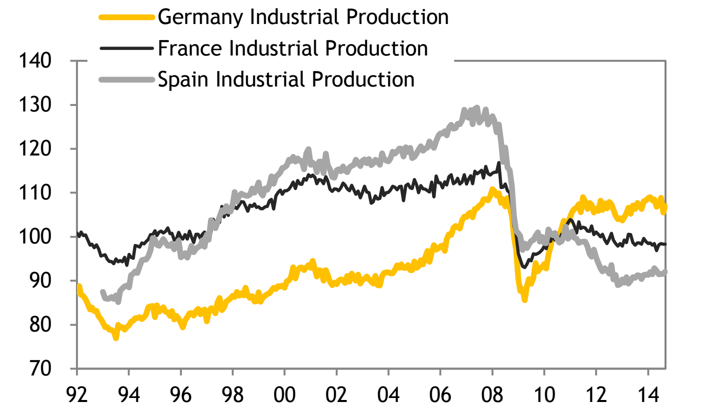
European woes

European economic performance has been very disappointing. Two charts below illustrate this.

The first chart underscores the problems in Europe. It shows the levels of the Industrial Production (IP) Indices of Germany, France and Italy, not the growth rate. In the US for example, the IP index in level terms has exceeded the Global Financial Crisis high as of October last year. That is, industrial output in level terms is at new highs. In Germany, amazingly, this has yet to happen, though we are getting close. Even more amazing, the levels in Italy and France are nowhere near past levels. Essentially, the macro problems in Europe are so great that the broader economy appears to be sitting on significant spare capacity.

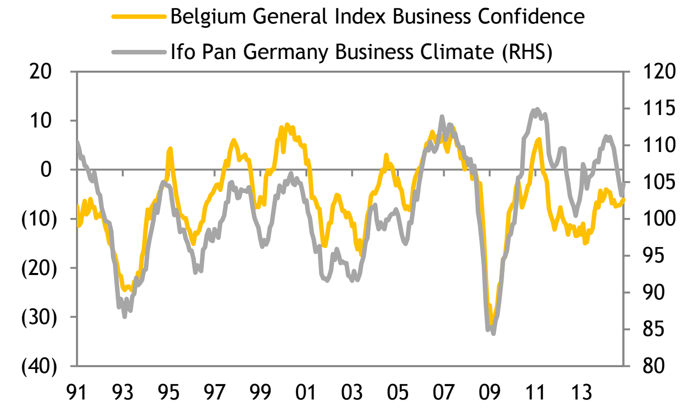
The second shows the cyclical rollover in the Belgian Business Confidence Index and the German IFO Index. So, not only is output at low levels, cyclical indicators for the region are deteriorating. Unsurprisingly, the ECB is expected to announce a round of quantitative easing. That could drive the Euro lower, and the USD higher.

Figure 9: Selected European industrial production



Source: Bloomberg, Maybank Kim Eng Research

Figure 10: Belgian & German cycle indicators



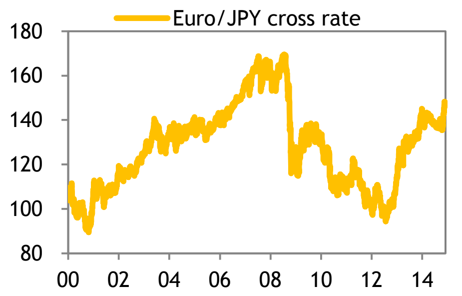
Source: Bloomberg, Maybank Kim Eng Research

The European economy also faces pressure from the Yen move. The EuroYen cross rate has had a dramatic move in the past two years, with the Euro falling almost 60% to the Yen.

For European equities, a round of QE may not be negative. The table below shows the drivers of ROE for the listed European non-financials (so there is arguably a bias towards the better companies). While operating margins are not close to the levels of the mid-2000s, for the listed corporate sector, companies have still managed nearly 10% over the past two years. Asset turns are also higher than the 2009 levels but lower than they were in the early 2000s, consistent with some excess capacity.

We shall roll out our global strategy in coming weeks, but a weaker Euro will help exporters. Like the experience of Japan, where a weaker exchange rate was positive for equities, we reckon European equities will benefit too (though in Euros).

Figure 11: Euro-Yen Cross



Source: Bloomberg, MKE Research

Figure 12: Non-financials ROE decomposition for Europe

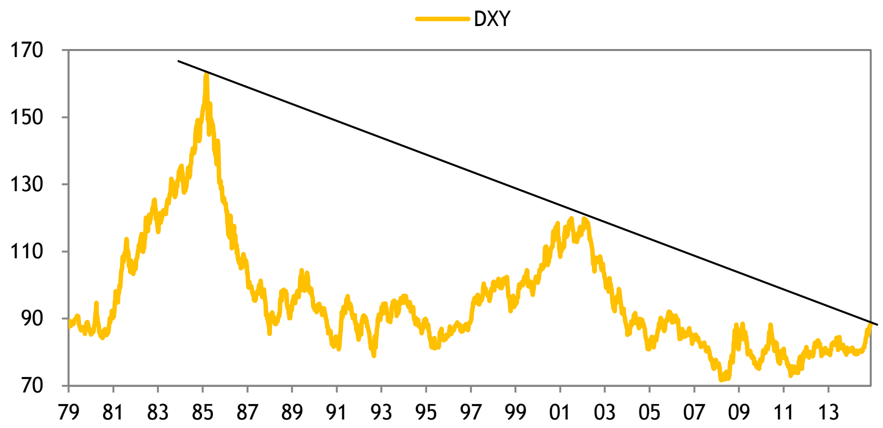
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E
EBIT Margin	7.6	8.7	11.1	11.3	11.7	10.8	9.5	11.0	10.9	9.9	9.5	10.8
Interest Burden	1.9	1.6	1.6	1.7	1.8	2.0	2.1	1.6	1.5	1.5	1.5	1.5
Asset Turnover	56	80	79	77	76	78	66	72	73	75	73	73
Gearing	308	315	308	307	306	321	326	306	300	301	300	284
Tax Burden	37	35	34	34	31	37	34	31	35	38	31	29
ROE	**6.1**	**11.6**	**15.1**	**15.1**	**15.7**	**14.0**	**10.7**	**14.4**	**13.4**	**11.8**	**12.0**	**13.6**
# of companies	256	259	260	260	264	268	269	270	270	270	270	270

Source: Factset, Maybank Kim Eng Research. Calculation is done as if the universe is one company. Interest burden defined as Interest expense divided by Sales. Asset Turnover is total sales divided by average total assets. Gearing is average total assets divided by average total shareholders equity. The tax burden is a residual calculation.

The USD breakout from a 30-year downtrend?

The preceding analysis summarizes the argument that we cannot rule out a currency war. In this context, the DXY actually looks like it is about to breakout out of a multi-decade downturn. This is shown in the chart below. For many investors, who have been told repeatedly that the USD was going to get less relevant in the world, this presents a potentially very different environment.

Figure 13: The DXY since 1979

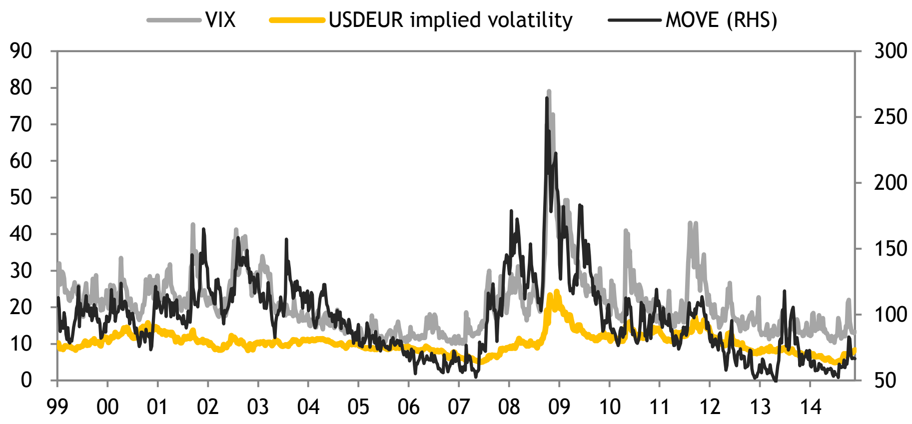


Source: Bloomberg, Maybank Kim Eng Research

Implied FX volatility and equity valuation

The competitive QE efforts of Japan and Europe will, we think, mean much higher G3 FX volatility. Historically, that can mean higher bond and equity market volatility. But not necessarily as implied volatility in the asset classes can diverge and move at different speeds. This is shown below via the VIX, Euro$ 3-month ATM Implied Vol and the MOVE index.

Figure 14: Implied volatility of equities, bonds and currencies



Source: Bloomberg, Maybank Kim Eng Research

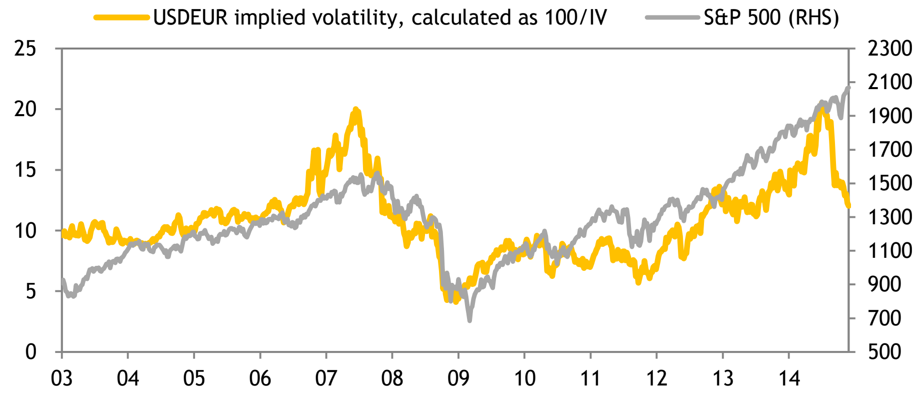
Furthermore, it is not a stretch to argue that in a globalized world, FX volatility is important for asset price valuation. For example, the S&P 500 is frequently cited as being a market reflecting the global economy, rather than just the US. Almost 50% of revenues are reportedly from outside the US. These companies hedge, and a weaker USD is typically positive for translation gains. Furthermore, low currency volatility allows for easier and more predictable calculations of returns on investment and is therefore consistent with lower risk.

We therefore plotted Implied FX volatility with equity prices and valuations. The best fit turned out to be Eur-USD three-month implied volatility with S&P 500. The chart below shows FX Implied Vol effectively as in inverse scale – higher volatility means lower prices. We also did this with S&P 500 forward PER.

Over the past 10 years or so, when arguably, the world has become much more globalized, lower FX vol meant higher prices and multiples. Prior to 2003, the link was not as good and we wondered if this was due to the Nasdaq Bubble and the aftermath of 9/11. But since the rapid development of China and other emerging economies, the link appears pretty good.

What is particularly interesting is that in this relatively short history of 10 years, FX volatility appears to lead movements in the S&P 500.

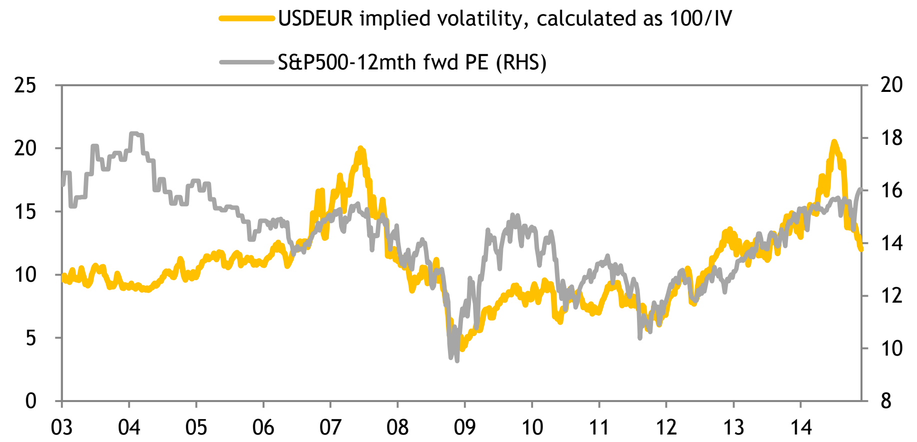
Figure 15: Currency Implied Vol and the S&P 500



Source: Bloomberg, Maybank Kim Eng Research

In conclusion, with the S&P not exactly cheap from a CAPE (or Cyclically Adjusted PE) or Shiller PE perspectives, the US equity market looks vulnerable to large USD moves. In short, you may not need a full-scale currency war, just enough FX volatility to create a US equity market de-rating.

Figure 16: Currency Implied Vol and the S&P500 Valuation



Source: Bloomberg, Maybank Kim Eng Research

Return to Asia

First, the good news

In Asia itself, while the pressures on the markets may be similar to those seen just prior to the Asian Crisis, the underlying fundamentals are not as poor. The table below shows that with the exception of India and Indonesia, all the economies run current account surpluses.

Figure 17: Current accounts, reserves and fiscal balances

Country	GDP, USD , 2013 World Bank, bn	Current account 14E	Current account 15E	FX reserves, USD b	Fiscal balance 14E	Fiscal balance 15E
China	9240	2.3	2.1	3888	-2.1	-2.1
Korea	1304	5.8	5.0	364	0.9	1.0
Taiwan	513	11.6	10.7	421	-1.5	-1.4
Hong Kong	274	1.8	2.5	325	1.0	0.7
Singapore	298	18.0	18.0	264	0.5	0.4
Malaysia	312	5.2	5.3	127	-3.5	-3.0
Thailand	387	1.9	1.3	153	-2.8	-2.5
Indonesia	868	-3.0	-2.5	106	-2.4	-2.1
Philippines	272	3.1	3.0	79	-1.4	-1.8
Vietnam	171	4.4	3.6	37	-5.8	-5.4
India	1877	-2.7	-2.8	315	-4.6	-4.1

Source: Bloomberg, World Bank, Maybank Kim Eng Research

In many countries of the developed world, real policy rates are negative. Asian real policy rates, while not high, could still decline. Furthermore, inflation in some countries could fall further with the decline in fuel prices. So, nominal interest rates could fall as well through much of the region. That some countries are reducing or removing fuel subsidies is another structural positive.

Figure 18: Real Interest Rates

Country	Policy Rate	Lending Rate	CPI Inflation latest	3m Interbank Rate	10year Bond Yield	Real Policy Rate	Real Lending Rate	Real 10year Bond Yield
China	2.25	5.6	1.6	4.2	3.5	0.7	4.0	1.9
Korea	2.00	4.0	1.2	2.1	2.6	0.8	2.8	1.4
Taiwan	1.88	5.0	1.1	0.9	1.6	0.8	4.0	0.5
Hong Kong	0.50	5.0	5.2	0.4	1.8	-4.7	-0.2	-3.4
Singapore	0.40	5.4	0.1	0.4	2.2	0.3	5.3	2.1
Malaysia	3.25	6.9	2.8	3.8	3.9	0.5	4.1	1.1
Thailand	2.00	6.8	1.5	2.2	3.1	0.5	5.3	1.6
Indonesia	7.75	14.5	4.8	7.2	7.7	3.0	9.7	2.9
Philippines	6.00	4.4	4.3	1.3	4.1	1.7	0.1	-0.2
Vietnam	9.00		2.6	4.0	6.9	6.4		2.9
India	8.00	14.8	5.5	8.7	8.1	2.5	9.3	2.6

Source: Bloomberg, Maybank Kim Eng Research

Then the question marks

While current accounts may be in surplus, capital account movements have arguably been far greater drivers of the currency markets. As a consequence, we look at capital flows and external liabilities. The table below shows external debt (as of 2013 from the World Bank) and Bank of International Settlements (BIS) data on International Claims on Asian Countries. Except for Malaysia, external debt ratios are very manageable as a percentage of GDP. In Malaysia too, 54% of local debt is held by foreigners, which also poses risks should the USD stage a strong rally.

Figure 19: External Debt

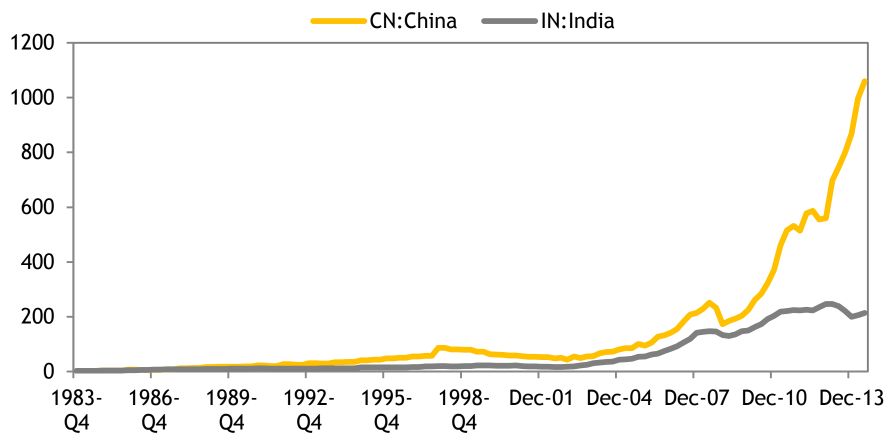
Country	External Debt, USDb	International Claims, BIS, Jun-14, USDb	Change from Jun-09 to Jun-14, USD b	% Change from Jun-09 to Jun-14	% of Local Debt held by Foreigners
China	863	1060	867	451%	2%
Korea	429	202	9	4%	15%
Taiwan	192	127	86	211%	n/a
Hong Kong	n/a	402	249	162%	n/a
Singapore	n/a	322	155	92%	n/a
Malaysia	211	82	45	122%	23%
Thailand	144	57	35	164%	18%
Indonesia	292	111	60	120%	38%
Philippines	58	29	12	65%	10-15%
Vietnam	59	33	20	164%	n/a
India	450	214	79	58%	4%

Source: Bloomberg, Bank of International Settlements, Maybank FX Research, Maybank Kim Eng Research

The issue is rather the acceleration of debt. We compared the latest numbers, as of June 2014, to five years ago. The rise in many countries over this period is over 150%. The total increase is from just over USD1tr to over USD2.6tr now. The biggest increase is from China where liabilities rose from USD203b in June 2009 to USD1.06tr as of June of this year. That represents an increase over 4.5 times. For Hong Kong, the increase was USD249b over the same period, or over 160%. Taiwan too saw a big rise in percent terms. In short, the biggest question marks are in Greater China.

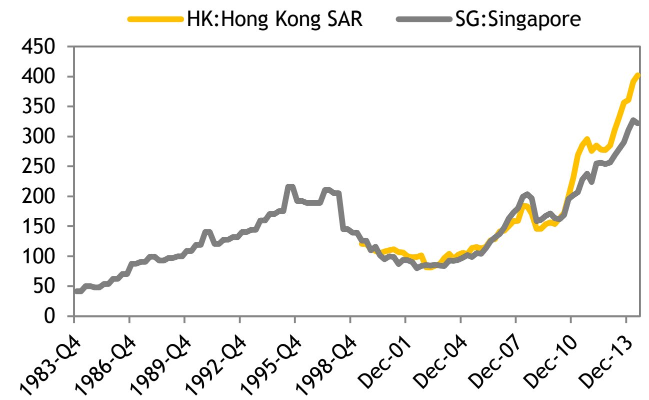
The charts below show the history for each country. The odd date scales is due to the frequency of the data changing from half yearly to quarterly.

Figure 20: International claims on China and India, USD b



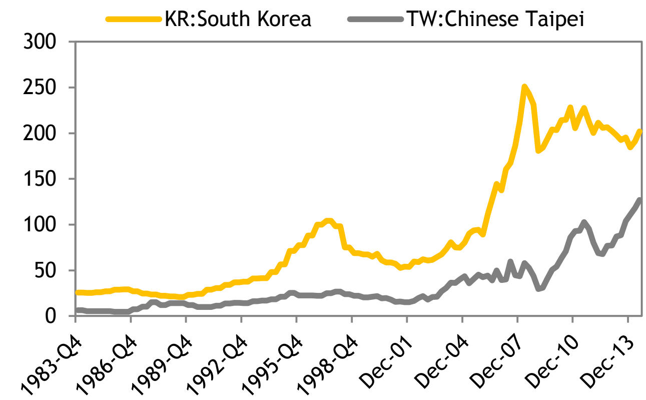
Source: Bank of International Settlements, Maybank Kim Eng Research

Figure 21: Int'l claims on HK & S'pore, USD b



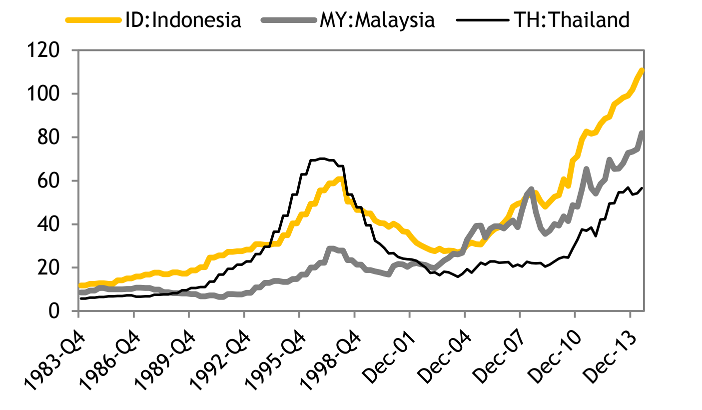
Source: Bank of International Settlements, Maybank Kim Eng Research

Figure 22: Int'l claims on South Korea & Taiwan



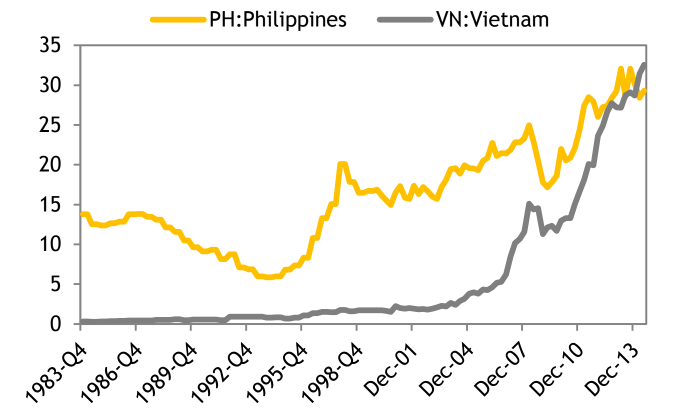
Source: Bank of International Settlements, Maybank Kim Eng Research

Figure 23: Int'l Claims Indo, Thai, M'sia, USD b



Source: Bank of International Settlements, Maybank Kim Eng Research

Figure 24: Int'l Claims Phils, Vietnam, USD b



Source: Bank of International Settlements, Maybank Kim Eng Research

Given where USD interest rates are and have been, and the chatter about the demise of the USD, it is not surprising that companies have chosen to raise USD funding. Should the USD continue its rise, this could put pressure on companies to hedge positions, thereby putting pressure on domestic currencies.

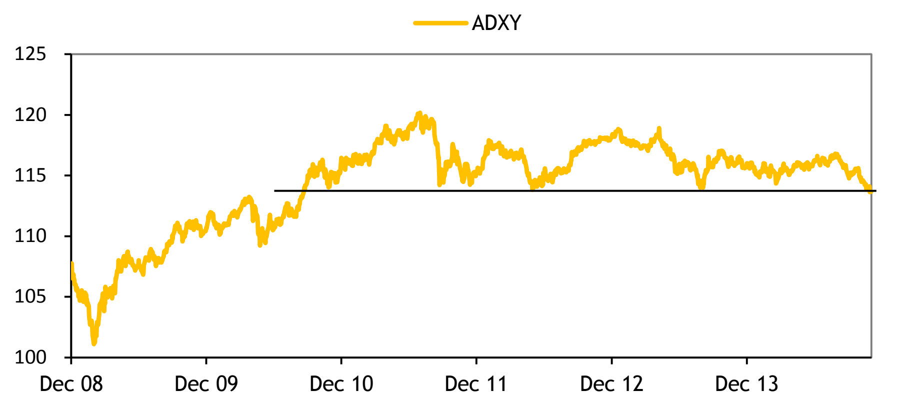
FX reserves not that useful

A frequent argument is that the large FX reserves provides cushion. This is only correct to an extent. On the central bank balance sheet, FX reserves are an asset against which are liabilities, including currency in circulation. By intervening in FX markets to support the currency, central banks take local currency out of the system. This has the effect of reducing the supply of local currency and forcing interest rates higher. While central banks may tolerate this for a while, given the constraints on their own balance sheets, there is little incentive to defend the currency too much if growth momentum domestically is poor.

The ADXY now

In sum, the stronger the USD, the greater the pressure is on the currencies in this region. Indeed, the ADXY, an index on 10 Asian Emerging Market Currencies, is already at four-year lows.

Figure 25: Asian DXY Index

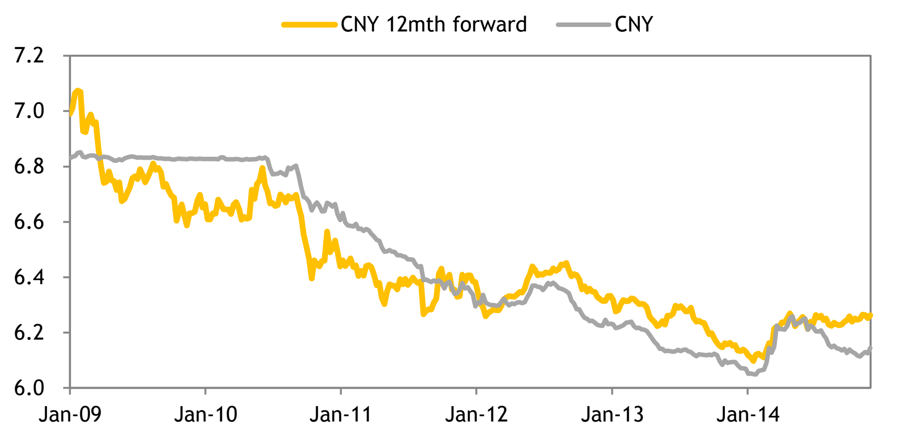


Source: Bloomberg, Maybank Kim Eng Research

Some thoughts on the RMB

While many investors would not be surprised by some weakening in most Asian currencies, we reckon the RMB will be most interesting in 2015. We suspect that one reason for the surprise interest rate cut on Nov 21 was the strength of the USD and how slow the Chinese economy has been (see the next chapter on China). In order to work through the excess capacity and the excess leverage, the economy needs top-line growth. With the cyclical slowdown, we think the PBoC did the right thing in cutting interest rates. Given the low returns on capital, more easing can be expected.

Figure 26: CNY and CNY forwards



Source: Bloomberg, Maybank Kim Eng Research

However, it is difficult to cut interest rates and maintain a strong exchange rate. Capital will go to where returns are greatest and if interest rates were to fall further, the RMB could depreciate. This is not necessarily negative at all, but would potentially surprise a market used to appreciation rather than the reverse. Recently, foreign exchange reserves have plateaued despite a current account surplus. And despite the large foreign borrowing by Chinese companies which constitutes an inflow of capital. Without this inflow, the capital account would probably have been in a deficit.

It's the external pressure!

China needs time to work through its excess and left to its own devices, the strength of the policy makers means this is plausible. The risk is that the USD move attracts capital away from China. That puts pressure on the currency to depreciate. For companies who have borrowed in USD, and not hedged, this is potentially a big issue.

The need to be a reserve currency

What could buy China time is the RMB becoming more and more of a reserve currency. The implied rise in the transaction demand for RMB will likely mean that China will see greater inflow allowing lower interest rates to not adversely impact the currency. While the desire for the internationalization of the RMB may have been driven by geo-political considerations, the tangible economic benefits can be large when the economy is trying to work through excess.

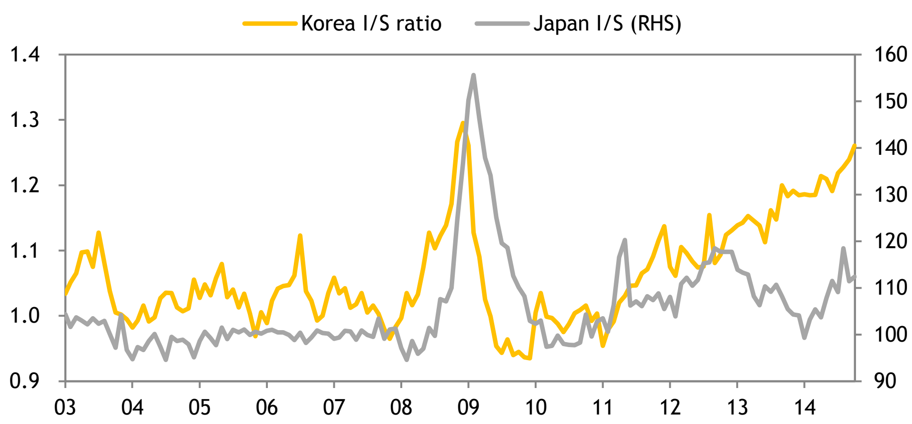
In recent years, it has been the Euro that has laid claim to being an alternative reserve currency to the USD. The coming few months, when we could potentially see quantitative easing, could further test the exchange rate. Were China less overbuilt and overleveraged, we suspect the flow to the RMB would have been powerful. But with this overhang, and that the fall in oil prices could negatively impact global FX reserve growth by commodity producing nations, it may be some time before China truly benefits from this flow. That makes the currency in 2015 very interesting. While most observers think that the currency is unlikely to move, we think the more the USD strengthens, and global FX reserves don't grow, the greater the downward pressure on the RMB. For Asian investors this represents a core – not tail – risk in 2015.

Investment implications

Where are we in the Cycle?

The chart below shows the Korea and Japan inventory to shipment (I/S) ratios. In Korea's case, we have seen a rise in the I/S ratio to levels close to the 2009 global financial crisis. In Japan, despite the aggressive easing and weaker Yen, I/S ratios are very high compared to history. But even with policy already so loose, the growth outlook remains very questionable.

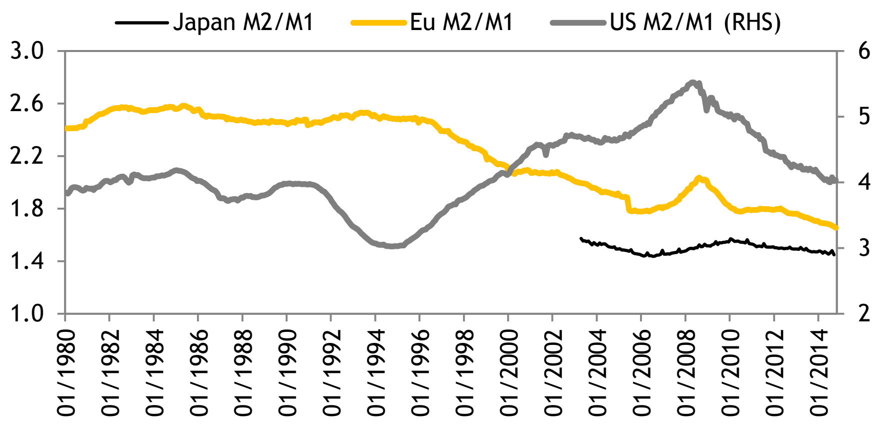
Figure 27: Korea and Japan inventory cycle



Source: CEIC, Bloomberg, Maybank Kim Eng Research

Typically, the high inventory levels together with weak Chinese momentum usually mean significant easing by central banks ahead. But the signs are that policy in the developed economies is less effective. The chart below shows a measure of the money multiplier, namely M2 divided by M1. Quantitative easing does not always translate into large amounts of global liquidity flooding the economy. Despite more money at the short end, broad money measures over narrow money as a ratio has been deteriorating and not really showing signs of recovery.

Figure 28: G3 Money Multipliers



Source: CEIC, Maybank Kim Eng Research

The real positive is the lower oil prices already constitute an interest rate cut for many countries, which we think translates into lower inflation and therefore the ability of Asian central banks to cut rates.

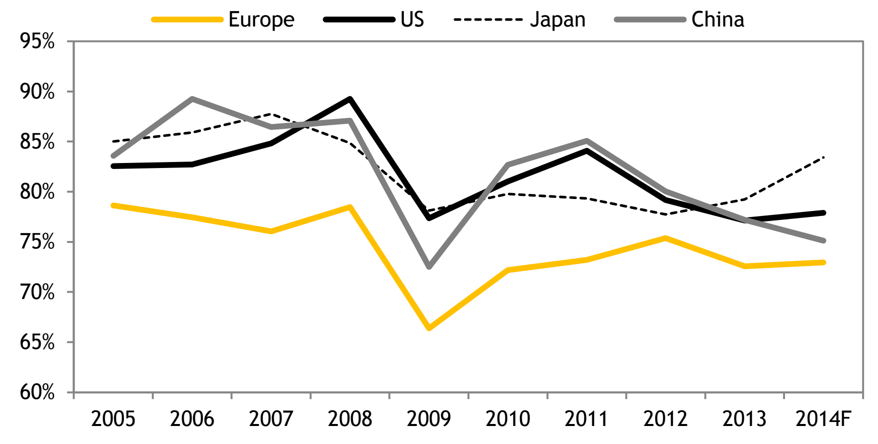
And where is the inflation?

Furthermore, more QE has not really translated to global inflation. We offer two reasons.

Not letting companies go bust

One reason is illustrated by the Dupont ROE calculations. By cutting rates to zero and allowing more companies to carry greater debt, many companies did not go bust and cut capacity. If that is the case, then asset turnover should be weak. This is shown in the chart below. By keeping companies going, excess capacity has not been eliminated. The deterioration in China is a particular concern.

Figure 29: Asset turnovers of the four key markets



Source: Factset, Maybank Kim Eng Research

Deflationary technology

Second, by keeping long-term interest rates very low, monetary policy encouraged investment into long duration assets. Consequently, given the “Information Age” we appear to find ourselves in, we have seen an acceleration of investment into the technology sector.

Many areas are of interest, including Big Data and Robotics. Some of this additional investment encourages growth, such as the deployment of tech and telecom products in Frontier Markets, a theme we will return to in future notes. Others such as robotics are designed to further increase productivity and replace workers. The speed of deployment might mean that some of these workers cannot re-train fast enough and end up being unemployed for a long time.

In the developed world, the deflationary impact of services going onto the web is fascinating. In the 2000s, the development of the internet for goods (by companies such as eBay) meant that tradable items became cheaper as unwanted items could be sold to effectively anyone on the web. The low inflation readings we think helped keep the Fed from raising rates faster. This time around, services are deflating prices. Uber is in some markets allowing cheaper car rides. AirBnB is allowing excess living space to be offered to the market. PeoplePerHour allows buyers to hire skilled workers for specific projects or for a block of time for a variety of different services. That allows many in the economy to effectively work part-time. Essentially, people are comfortable enough to offer their “own capacity,” resulting in a rise in supply for these services. That deflates the price of these services. With low interest rates driving money into the tech sector, companies in these spaces have seen greater capital flow into them, accelerating these trends.

In sum, and amazingly, central bank policy could have kept inflation in check. It meant that old-economy companies were kept going resulting in excess capacity. And new-economy companies saw excess capital allowing an acceleration of investment into sectors that are good for growth, but deflationary.

Putting it together: investing environment

We think the environment is therefore one of:

1) Strong USD
2) Lower oil prices, lower inflation, so lower interest rates in Asia
3) More easing out of Europe and Japan, with questionable effect on growth
4) Good chance greatest pressure on the Asian markets in 1H15

The investment characteristics we are looking for:

1) Low interest rates will continue to benefit structurally positive stories: India, Philippines and Vietnam.
2) Avoid countries that are expensive and exposed: Indonesia

3) Greater emphasis on relative valuation: exporters may benefit, but what's priced in? Financials are attractive to technology. Long consumer goods, long financials, short tech.

4) There is not much pricing power: Like companies with sustainable margins

5) Sectors that are under-appreciated and could benefit from lower costs: financials, again. Industrials provide a mixed picture.

6) Avoid assets that have large USD funding issues: China property and why China is not an Overweight

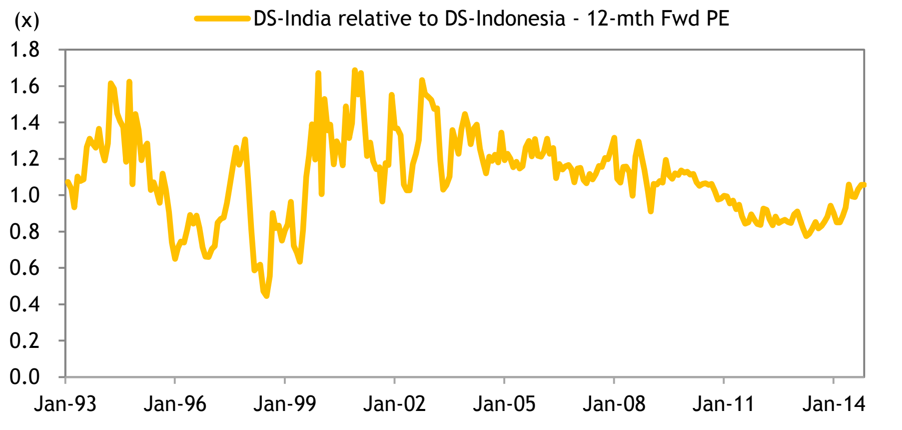
Over time, we shall further explore the AEC or ASEAN Economic Community theme, which is an internal growth driver and what the different demographic trends mean for sectors such as healthcare.

Country thoughts

Our country Heads of Research in India and the Philippines recognize the valuation headwinds for their markets but remain structurally positive. In the Philippines, Luz Lorenzo cites the strength of the external accounts and spreading out of economic activity into the 2nd and 3rd Tier cities is broadening out the strong domestic growth trends. Amplifying growth particularly in 2015 is renewed public spending that was held back this year because of a Supreme Court decision that disallowed certain disbursement schemes of the government. Luz argues that the issue is addressed by the 2015 budget and that the government has sufficient financial resources to pursue basic infrastructure and social spending while the bidding and awards of big-ticket PPP is picking up.

In India, Jigar Shah awaits further reforms and the government has been given a boost with the falling oil prices (see India Strategy, 16 Oct 2014). With interest rates set to fall with inflation, that could support market multiples and it's really about execution of an economic plan. The Modi government has a clear mandate and the ability in parliament to be able to push through reforms. A real difference is that India wants to attract capital and the strength of the Reserve Bank of India Governor Rajan's credibility is a key positive. Historically, India had "good micro" but "bad macro." This is the first time we can say that it has the potential for both micro and macro to be supportive.

Figure 30: India to Indonesia, relative forward PER



Source: Datastream, Maybank Kim Eng Research

What is interesting to us is despite the different potential trajectories, Indian equities are not overly expensive to Indonesia. In Indonesia, new President Jokowi faces a number of constraints, including a potentially unhelpful parliament. While the recent fuel price hike is a clear positive, the risk is greater protection of domestic industries. This does not sound like the economy is eager to attract capital and that implies that given its twin deficits, real interest rates may be slow in coming down. Our Head of Research Wilianto Ie expects a tricky next few months (see his *note*). We prefer India to Indonesia and in a long only portfolio would be underweight the latter.

The environment of benign global inflation and therefore, low bond yields is likely to favour Frontier Markets and we like Vietnam. Inflation looks under control, the current account is in surplus and the country has by far the highest real policy interest rates (see Figure 18). Given the ongoing deleveraging, that is understandable. The team, led by Lien Le, is looking for reforms in the financial sector and SOEs to drive market sentiment next year (see her *note*). With elections set for 1H16, Vietnam is likely to continue to perform.

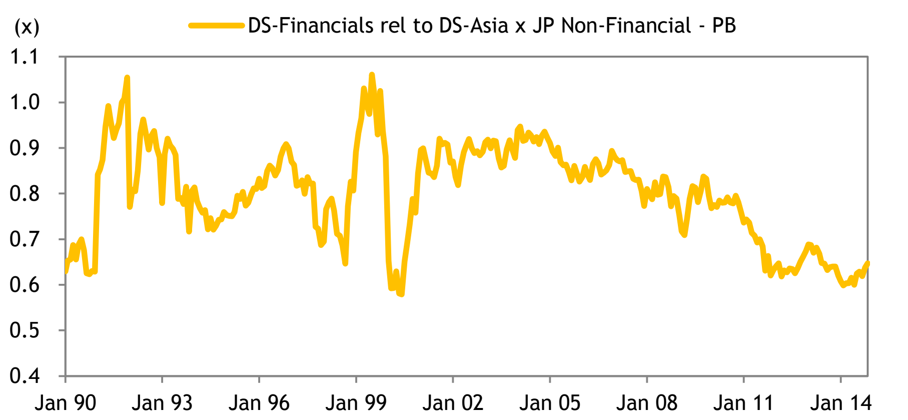
Relative valuations

Given our outlook for 2015, relative valuation is a focus. Datastream produces sector indices with a long history and we show some of the more interesting ones below.

The first chart shows the relative PB of the financials in Asia ex Japan to the non-financials. We are at the lowest relative valuation since the 2000 DotCom Bubble in the aftermath of the Asian Crisis. A lot of negativity on the financials appears to have been priced in.

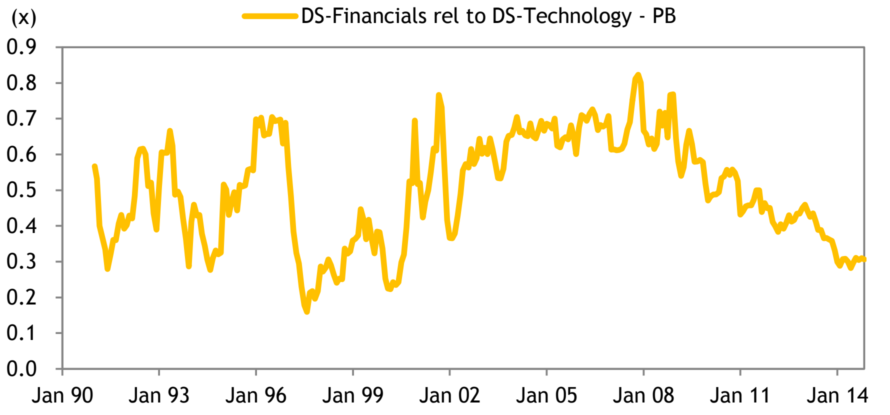
Furthermore, lower interest rates reflect concern over the global economy, particularly after so many years of aggressive easing. In this region, policy makers are largely likely to let currencies weaken in order to keep local rates low. That should benefit banks relative to other sectors. Our favourite banks are in our structurally preferred markets. However, from a tactical standpoint, we would add Chinese banks to this list given the change in policy and investors' relative underweight position (see the next section).

Figure 31: Financials to non-financials, relative PB



Source: Datastream, Maybank Kim Eng Research

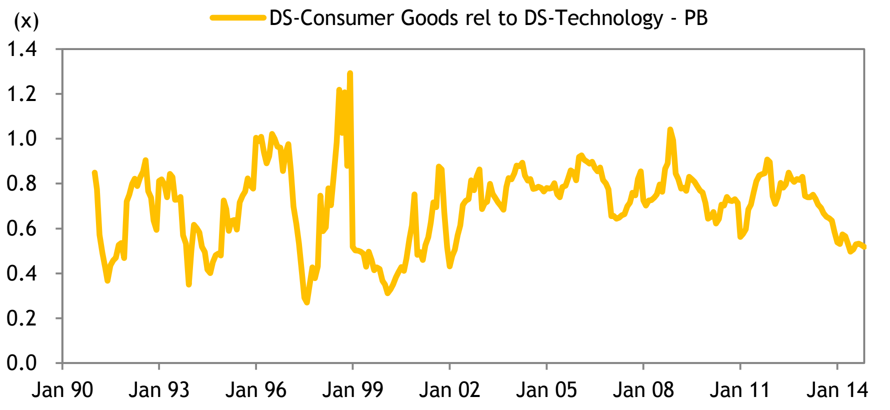
Figure 32: Financials to technology, relative PB



Source: Datastream, Maybank Kim Eng Research

Even the consumer goods sector, whose primary customers benefit from lower local interest rates and lower oil prices is underappreciated to the more global growth driven tech sector. Far too much good news appears to have been priced in the latter and we would be underweight tech, explained further in the next chapter.

Figure 33: Consumer goods to technology, relative PB



Source: Datastream, Maybank Kim Eng Research

3. The external pressures China

Given all the macro concerns over China's overbuilt capital stock, we used the listed corporate sector to understand what a decomposition of the ROE reveals. The bottom line is that excess capacity appears to be pervasive, including in the consumer sector.

We think the recent PBoC rate cut reflects the weakness of the economy, USD strength and given where returns are, the right thing to do. With yield curves barely moving, we expect more easing ahead.

Left to itself, the credibility of Chinese policy makers is likely to be enough to successfully achieve a (long) work-out. The risk is that the external sector, via a strong USD rally, attracts capital away from China.

Tactically, we would long banks, short tech and Taiwan. Banks are trading at 0.9x P/BV with 6.4% DY, the cheapest valuation among other sectors while technology is a crowded trade and is trading at 24x 12-mth forward PER or 7x P/BV. We are underweight Taiwan because the tech sector accounts for 57% weighting within MSCI Taiwan.

The degree of excess capacity

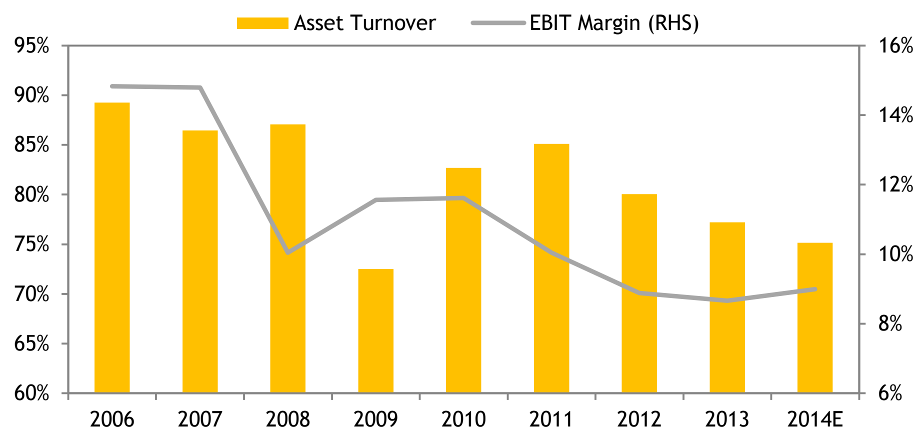
From a macro perspective, the discussion on overcapacity in China is well known. In this section, we used the listed corporate sector to examine the degree of deterioration in returns. We did a Dupont ROE of the non-financials using Factset data. The full tables are in the Appendix 1.

The aggregate chart is shown below in Figure 34. The black line is operating margins, effectively a proxy for pricing power, which shows a steady decline. The 2009-10 stimulus only marginally improved margins. The bars show asset turnover, calculated as total sales divided by average aggregate balance sheet assets. This is used as a proxy for capacity utilization. There has also been a steady decline in asset turn, that is, every $ of balance sheet generates less sales, consistent with excess capacity and deteriorating pricing power.

Note on the data

The size of the universe is 150 companies with a total market capitalization of USD1.1tr. We are using what Factset has for consensus estimates of margins and asset turns. There are pros and cons of this and we decided to only use this year's estimate. In part this is due to our finding that analysts typically almost always have margins rising in their estimates. Rather, as we are headed to year end, we reckoned that this year's estimates may be less prone to error. Also, the calculation is done by taking the aggregate EBIT and dividing by aggregate sales, so the number is as if the entire sample is one company.

Figure 34: China EBIT margin & Asset Turns



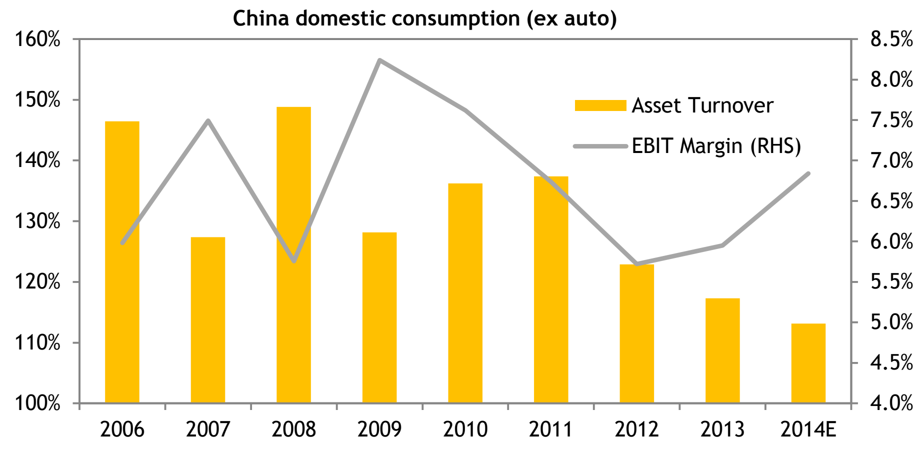
Source: Factset, Maybank Kim Eng Research

Looking at sectors

We are able to break it down to the sector level. Indications of excess capacity are not only in the capex heavy sectors, such as materials and industrials, but also in the consumer space. These sectors recorded the biggest correction in both asset turnover and EBIT margin between 2007 and 2013.

The aggressive post GFC stimulus resulted in a surge in consumer company capex. With asset turns last year more than 20%-points below even levels in 2011, we'd be surprised if the operating margins could rise as dramatically as expected by consensus.

Figure 35: China consumption margins & Asset Turns

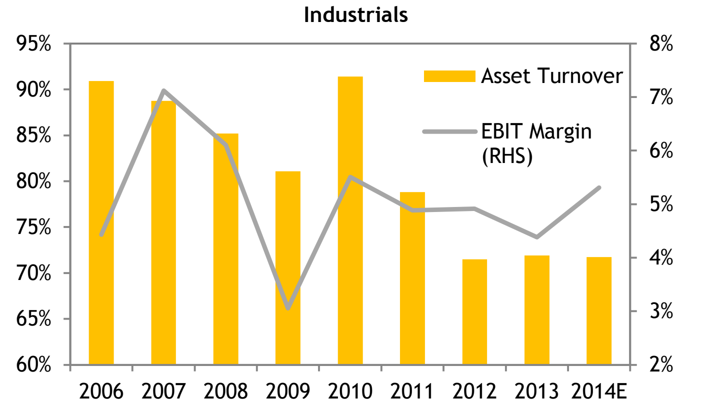


Source: Factset, Maybank Kim Eng Research

Old-economy sectors

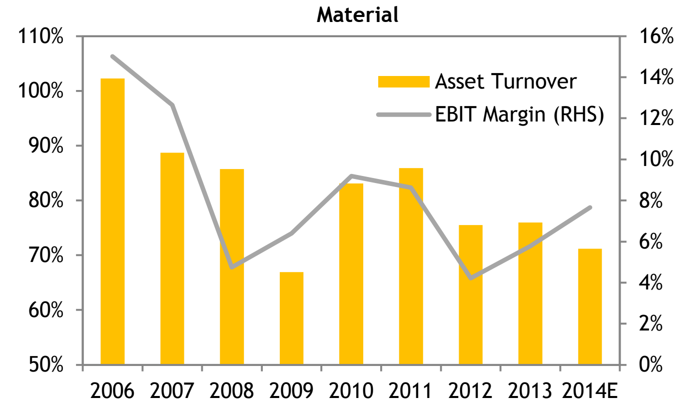
The industrials and materials sectors have arguably more predictable trends. Once again the margin estimates for this year appear aggressive given where asset turns are and the fact that the PBoC recently cut rates. For both these sectors, margins are very low.

Figure 36: China industrials



Source: Factset, Maybank Kim Eng Research

Figure 37: China materials



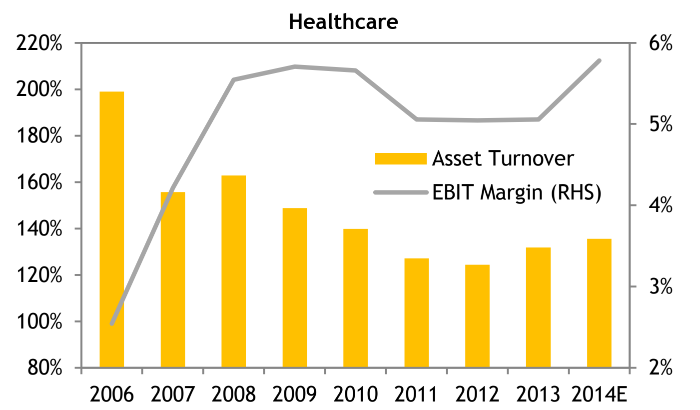
Source: Factset, Maybank Kim Eng Research

Healthcare & technology

Only the healthcare and technology sectors show margins higher than the 2007 levels. Healthcare is a sector we shall return to in future reports as it is a key structural story supported by demographic trends.

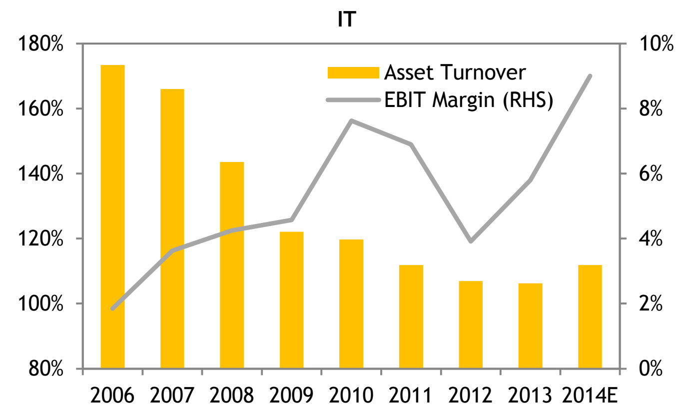
For tech, this particular sample size is a small eight companies and increasingly dominated by Tencent. As the tech sector broadens out to more than just hardware, the operating margin improvement is rising even as investment is. The internet space is set to be particularly interesting as the largest companies take advantage of very favourable valuations to build war chests with which to compete against each other.

Figure 38: China healthcare



Source: Factset, Maybank Kim Eng Research

Figure 39: China IT

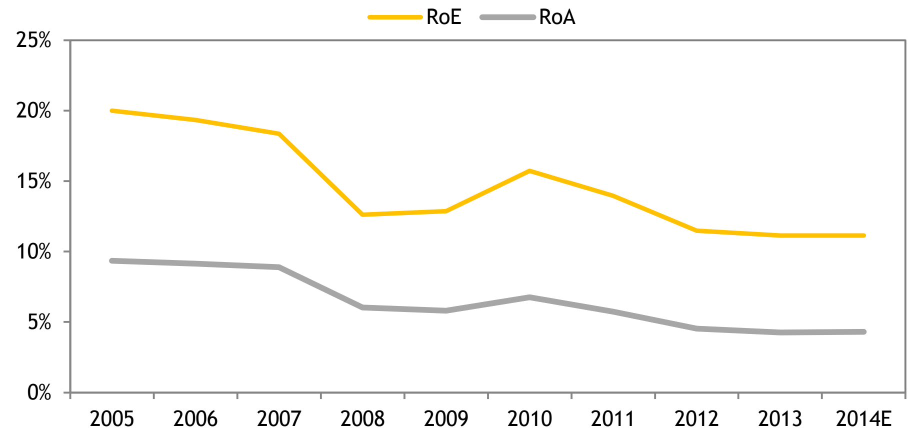


Source: Factset, Maybank Kim Eng Research

Returns on capital

For the universe as a whole, the excess capacity and poor pricing power mean lower ROAs and ROEs, particularly for the old-economy sectors. The chart below shows the decline in ROA for the 150 listed companies used in the analysis.

Figure 40:China aggregate ROE and ROA

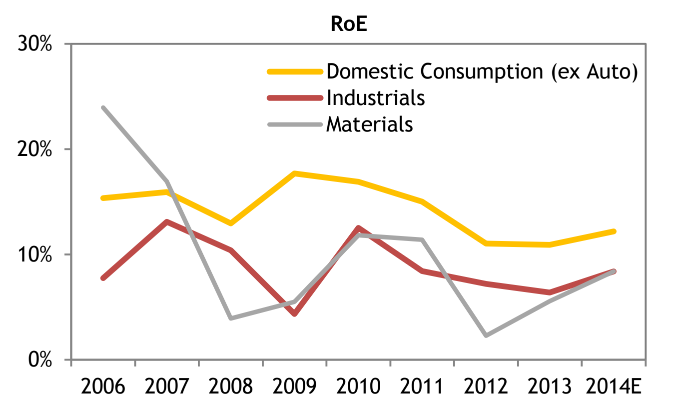


Source: Factset, Maybank Kim Eng Research

Sector levels

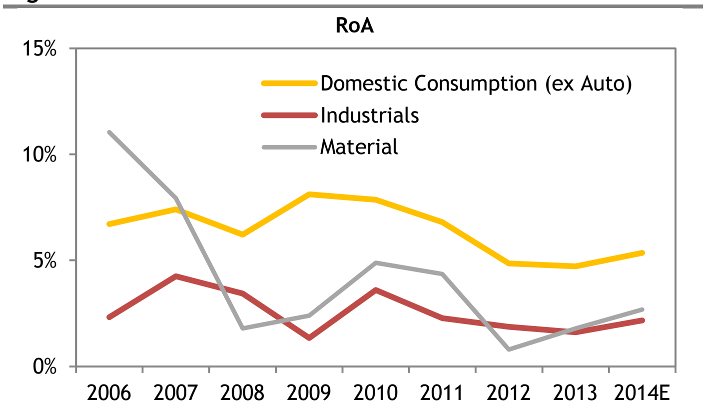
Looking at the domestic consumption (excluding auto), the decline in ROA occurred from 2009/10 onwards. This re-enforces the intuition that the consumer companies expanded dramatically following the 2009/10 stimulus. With returns low, there is little incentive for more investment. ROAs for industrials and materials have fallen as well and are not far from 2008/9 lows. These sectors also face a long work out.

Figure 41: Selected sector ROEs



Source: Factset, Maybank Kim Eng Research

Figure 42: Selected sector ROAs

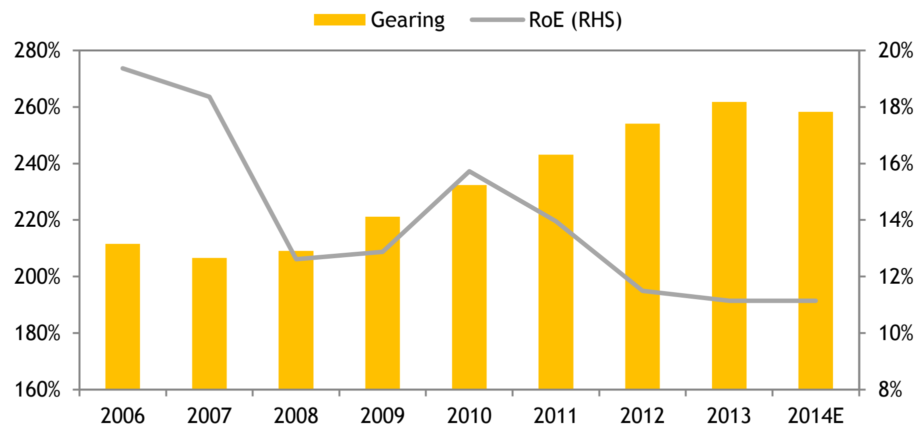


Source: Factset, Maybank Kim Eng Research

Leveraging up to boost ROE

After 2008, gearing (here defined in the broadest sense of average total assets divided by average total liabilities) in China began to rise rapidly. Despite the rise in gearing, ROEs still fell. That illustrates how much ROA fell for this particular universe.

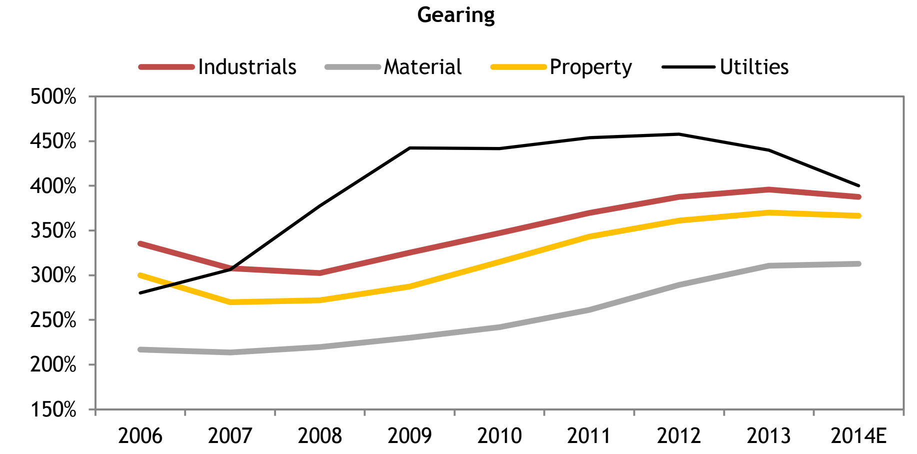
Figure 43: China aggregate gearing and ROE



Source: Factset, Maybank Kim Eng Research

The chart below shows four sectors where gearing levels in particular rose by more than 100%-points. These are the predictable industrials, materials, property and utilities.

Figure 44: Gearing by sector



Source: Factset, Maybank Kim Eng Research

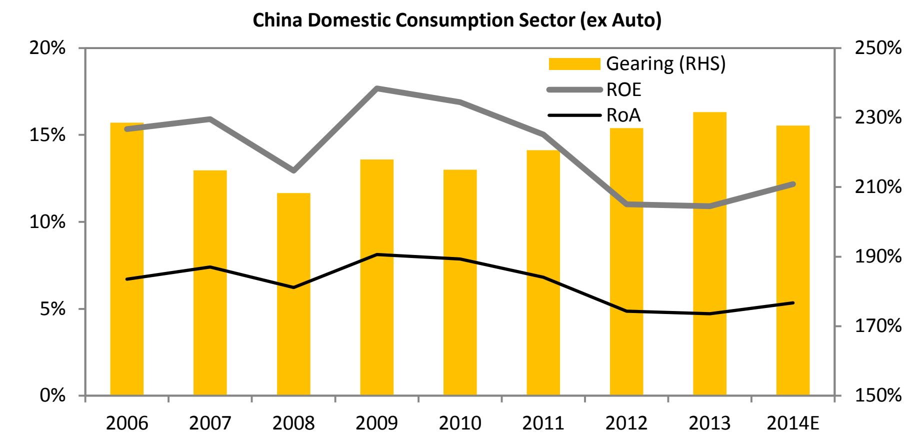
The bottom-up data, insofar as this universe of listed companies captures the underlying economic trend, implies that the excess capacity is pretty pervasive. ROEs have risen thanks to sharply higher gearing but are still lower than 2010 levels.

The interesting and inefficient consumer sector

The consumer sector appears overbuilt but there has not been a significant rise in leverage. In fact many consumer staples are in net cash positions. And we would argue this means they have inefficient balance sheets. Stable earnings streams allow for high levels of leverage. With no real balance sheet constraints and with competitive pressures rising, top line growth is the greater concern. Even then, these companies have the potential to leverage up to increase shareholder returns via buy-backs and higher dividends.

Going into 2015, this sector could benefit from greater consumer demand should interest rates fall. Our consumer analyst, Jacqueline Ko, remains focused on turnaround stories and companies with strong balance sheets (see *note*). Her favourite stocks are China Foods, Ajisen and Uni-President China. China Foods benefits from turnaround and SOE reform. Ajisen has a very strong balance sheet and offering amongst the highest FCF yield (4.1% 14x FCF yield vs 1.8% on average) within the Asia x Japan food services companies. Uni-President has new products to launch in 4Q14 and their EBIT margin will benefit from softening raw material prices. Interestingly, she has a SELL rating on Mengniu because of rising competition from imported dairy products.

Figure 45: The under-geared consumer sector



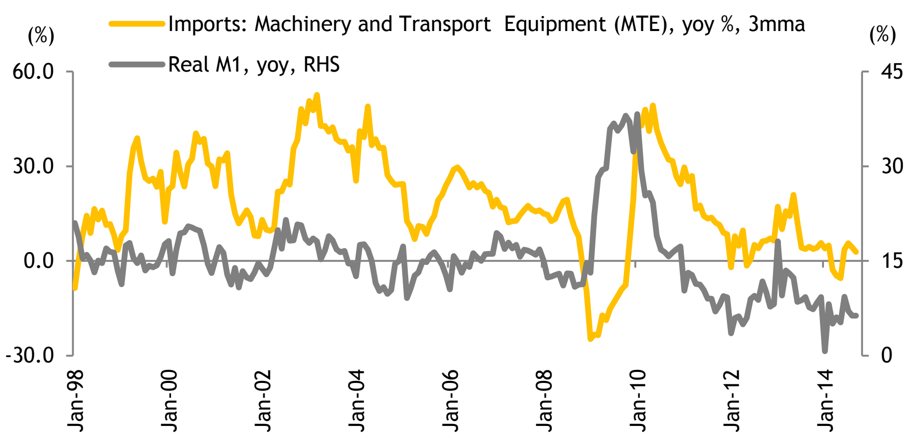
Source: Factset, Maybank Kim Eng Research

Need top line, cut capex, generate Cash, rebuild returns

All this suggests a long work out as the corporate sector needs top-line growth – and very little investment – to rebuild returns on capital.

There is data consistent with this decline in investment. China's real M1 growth has been a good leading indicator of China's imports of machinery and transportation equipment, a proxy for capex. The chart below shows this. Investment growth by this measure has been anaemic. On this measure, capex growth has averaged 1.4% YoY in 2014.

Figure 46: Real M1 and imported capital goods



Source: CEIC, Maybank Kim Eng Research

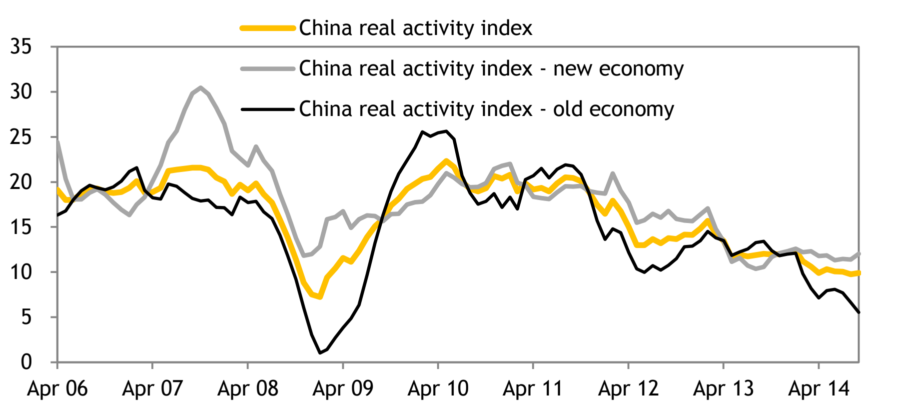
Government policy evolves

Furthermore, this data suggests that "targeted easing" always had a very low chance of success. If the excess capacity was not so pervasive, forcing some sectors to adjust via a credit tightening might work.

Only selected new-economy sectors, such as technology and healthcare, have room to increase capex and these are likely to continue to do so. However, their size is arguably still not big enough to support the economy. From an equity investment perspective, the two sectors account for a 20% weighting in MSCI China.

Fiscally, to boost growth, the government is trying to launch different infrastructure projects, such as the new Silk Road, alternative energy and high-speed railway projects. The total amount of these investments will be about USD600b over the next 4-5 years, or about 1.5-2% of China GDP per year.

Figure 47: The old and the new



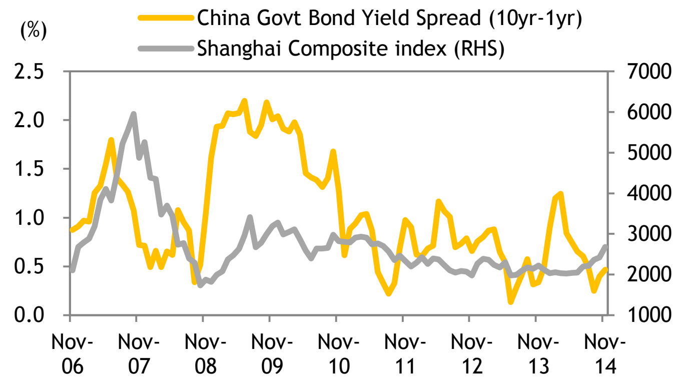
Source: Bloomberg, Maybank Kim Eng Research

Long term or short term?

Given low returns on capital, the weakness in global growth and the strength of the USD, China needed to cut interest rates. And with returns on capital so low, and with the lagged effects of monetary policy, more may be needed. The odds of another capex up-cycle are very low.

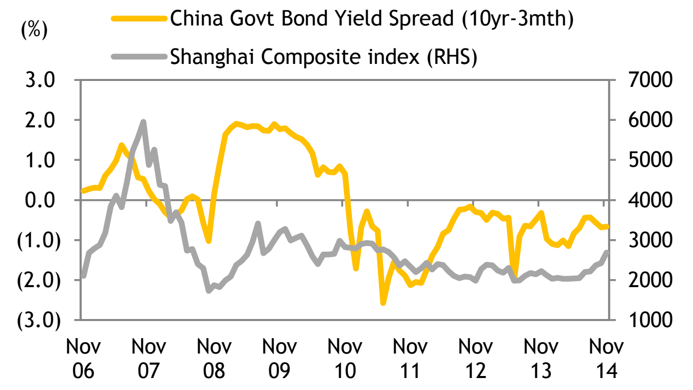
We will need to watch aggregate loan numbers in coming weeks and months. If policy makers over-do it, and the pressure on the corporate sector to restructure comes off, this ultimately raises longer term risks.

Figure 48:China bond curve and equities I



Source: Bloomberg, Maybank Kim Eng Research

Figure 49: China bond curve and equities II

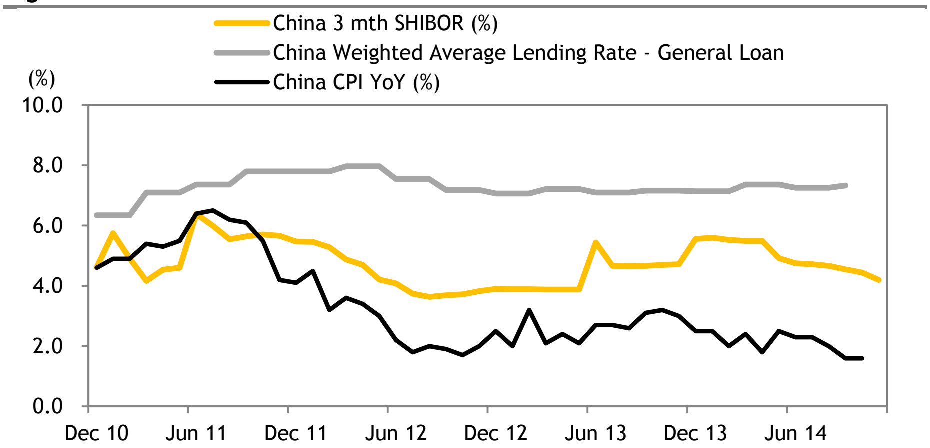


Source: Bloomberg, Maybank Kim Eng Research

Message from the bond and money markets

In the near term, the easing itself has yet to have the desired effect. Figures 48 and 49 above show two different yield curves and their relationship to Shanghai A-shares. The first, 10-year government bond less three-month Shibor has been a reasonably good lead indicator for the stock market. The inversion of this curve has been lessening but is still far from suggesting a better environment. The second curve is the 10-year bond less one-year bond. This suggests economic conditions remain very strained. Neither curve moved much following the surprise rate cut.

Figure 50: China real interest rates

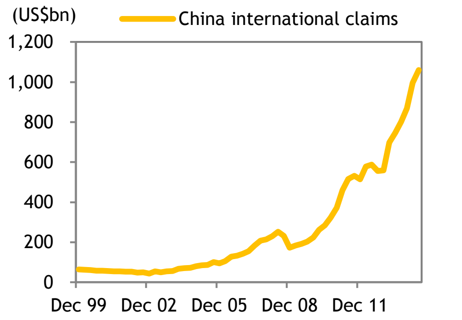


Source: CEIC, Maybank Kim Eng Research

The FX risk, again

In the previous section, we discussed the RMB risks. After 2008, many companies raised a lot of offshore money because of the expectation of RMB appreciation, cheaper overseas funding costs and the difficulty of getting financing inside China. The latest BIS data shows that the amount of international claims has increased by 6.1 times to USD1060b. If USD keeps strengthening, companies that have not hedged their USD-denominated debt might have difficulty refinancing.

Figure 51:International claims on China



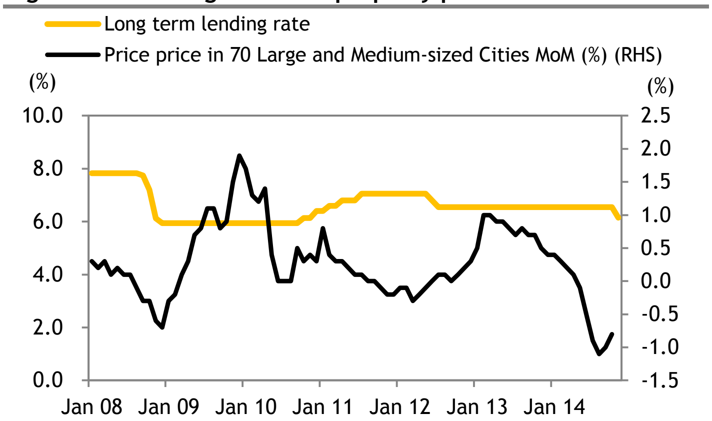
Source: Bank of International Settlements, MKE Research

Property sector likely to fade

One sector that has been borrowing aggressively is the property sector. In recent months, in an effort to take the pressure off asset price deflation, the government relaxed different policies to lift up the housing market. These included allowing more local governments to relax home-purchase restrictions, accelerating *Hukou* reform and easing mortgage policy by redefining the definition of first-time home buyers.

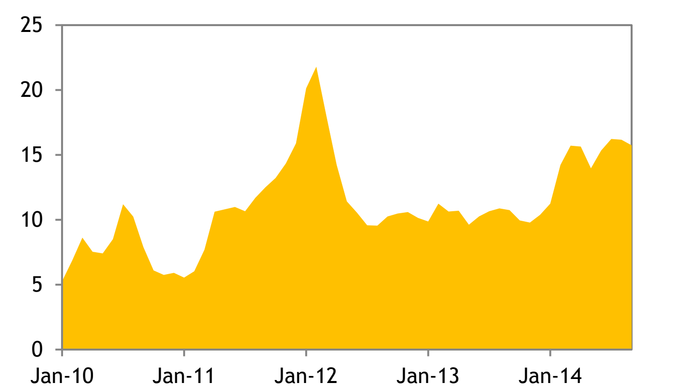
The recent interest rate cut sends a clear signal the government is trying to reflate the property sector again to boost economic growth. As in 2012, we think the rate cuts are likely to have a positive short-term impact on property prices. However, like 2012, higher housing inventory is a problem. Unless activity really picks up, we suspect housing inventory is high enough that prices will fade again. With the stocks having rallied already, and the likelihood of significant cash calls to rebuild balance sheets, we would be selective. Karen Kwan, our property analyst, likes COLI, GZ R&F and Sino-Ocean. The latter two have meaningful exposure to Tier 1 cities, which she prefers to Tier 2 and 3 cities exposure. COLI still has a corporate restructuring angle as it awaits asset injection from its parent. She has a SELL rating on SOHO China, as she expects the company's turnaround from a commercial developer to a China landlord to take time.

Figure 52: Lending rates and property prices



Source: CEIC, Maybank Kim Eng Research

Figure 53: Property inventories for 14 major cities



Source: China Vanke, Maybank Kim Eng Research

Recommended trades: long banks, short tech and Taiwan

Currently, the Chinese bank sector is trading at 0.9x P/BV with 6.4% DY, the cheapest valuation among the sectors. The benchmark rate cuts will likely lower the risk of local governments and corporates debts defaulting next year and help them roll over their debts at a lower funding cost. In addition, the government is pushing the local governments to raise capital from the bond market rather than from the banks. This will allow new debts to come through local government bond issuance rather than from the banks.

The China Banking Regulatory Commission has also allowed five new local asset management companies to set up and buy bad loans from local governments. This can help the banks slow the pace of their NPL increases. Our China banks analyst, Steven Chan, believes the credit costs at most banks should remain stable despite rising NPLs and write-offs. The strong capital positions should help banks sustain high dividend payouts. His favourite banks are China Construction Bank, Bank of China and China Merchant Bank.

Technology issues

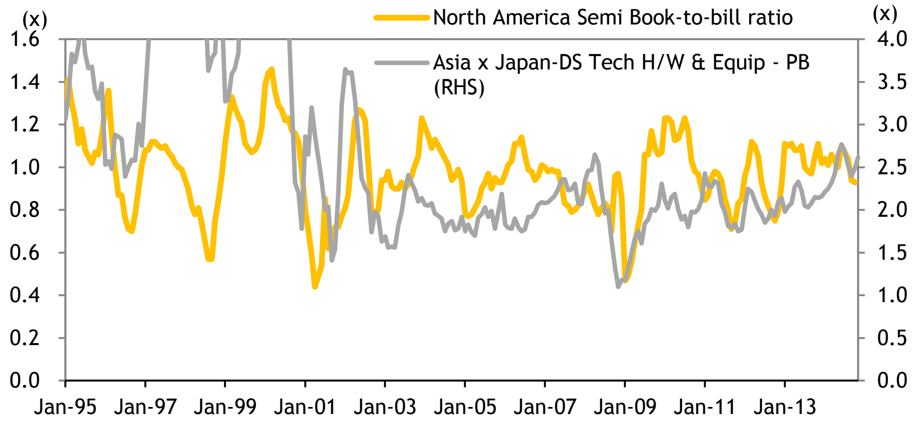
We are negative on the technology sector given the risk-reward profile of the sector on its own and relative to other sectors (Figures 32 and 33). The sector appears to be a crowded trade with expensive valuations, currently trading at 24x 12-mth forward PER or 7x P/BV. The extended valuations for tech relative to other sectors suggests compared to history, a lot of good news appears to be priced.

Our regional tech analyst, Warren Lau, believes tech hardware companies still have momentum on volume but many of them are under pricing pressures and the street consensus have too high expectations on earnings. He recommends defensive tech stocks with high dividend yields like Vtech, which has a strong balance sheet (net cash is 10% of its market cap) and a dividend yield above 6%. Another defensive idea from Warren is Vanguard International, which focuses on mature and mainstream foundry services. Its fundamentals are well supported by favourable demand-supply dynamics, new applications such as Internet-of-Things & smart devices, market share gain and stable earnings growth. The stock yields 6% and generates double-digit FCF yield and net cash could account for 30% of market cap in FY15.

Additionally, Chinese telecom operators have lowered their combined handset subsidies by USD3.9b, or 21% from FY13. Therefore, many of the handset makers have shifted their focus to the low to mid-end segment from the higher margin mid to high-end models. The latest earnings for most of the smartphone plays show that their sales, ASP and gross margin missed consensus numbers.

Also the North America Semi book-to-bill ratio is potentially rolling over, but the PB valuation for the hardware is the most elevated really since right before the GFC.

Figure 54: Book-to-bill and hardware valuation



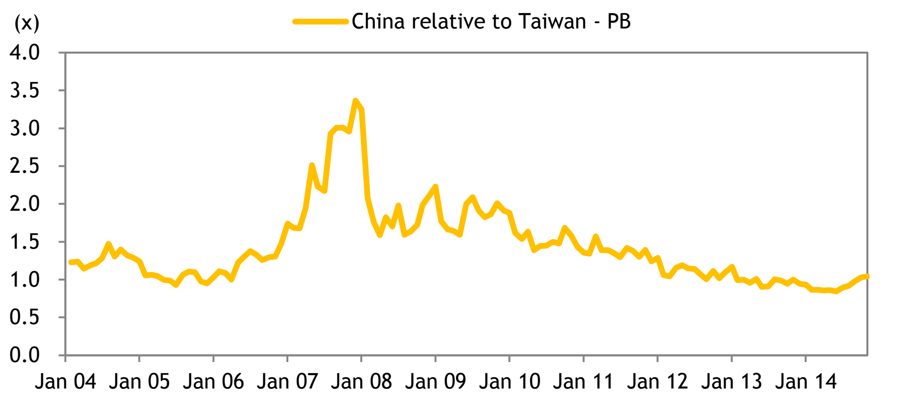
Source: CEIC, Maybank Kim Eng Research

Without doubt, market fascination with stocks in the Internet space could drive tech further. But even in this space, larger companies have been very acquisitive and could start to compete head-on in some areas. When that begins to impact margins could well become clearer in 2015. Our sense is that the risk-reward does not favour the sector given relative value elsewhere.

Taiwan follow-through

Therefore, we also underweight Taiwan as the technology sector accounts for 57% weighting within MSCI Taiwan. Interestingly, the relative value of China is bottoming out relative to Taiwan. In Taiwan, after the recent municipal elections, the ruling party will need to re-examine their government policy and direction. In terms of fundamentals, there are not many catalysts to anticipate in 2015.

Figure 55: Relative value, China to Taiwan



Source: IBES, Maybank Kim Eng Research

Appendix 1

Figure 56: DuPont RoE

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E
Europe										
EBIT Margin	11.1	11.3	11.7	10.8	9.5	11.0	10.9	9.9	9.5	10.8
Interest Burden	1.6	1.7	1.8	2.0	2.1	1.6	1.5	1.5	1.5	1.5
Asset Turnover	79	77	76	78	66	72	73	75	73	73
Gearing	308	307	306	321	326	306	300	301	300	284
Tax Burden	34	34	31	37	34	31	35	38	31	29
ROE	**15.1**	**15.1**	**15.7**	**14.0**	**10.7**	**14.4**	**13.4**	**11.8**	**12.0**	**13.6**
# of companies	260	260	264	268	269	270	270	270	270	270
US										
EBIT Margin	12.6	12.8	13.3	12.5	11.4	13.1	13.5	13.3	13.4	14.6
Interest Burden	1.3	1.4	1.9	1.7	1.9	1.6	1.4	1.4	1.3	1.2
Asset Turnover	83	83	85	89	77	81	84	79	77	78
Gearing	277	271	272	284	295	273	270	274	271	264
Tax Burden	32	33	37	40	24	28	29	28	27	29
ROE	**17.5**	**17.3**	**16.6**	**16.3**	**16.5**	**18.3**	**19.5**	**18.8**	**18.2**	**19.4**
# of companies	338	339	344	348	353	356	356	356	356	356
Japan										
EBIT Margin	7.6	7.8	7.7	5.3	4.8	6.2	6.0	5.7	6.5	6.5
Interest Burden	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Asset Turnover	85	86	88	85	78	80	79	78	79	83
Gearing	291	279	275	281	286	282	281	281	276	266
Tax Burden	39	40	39	53	51	41	47	44	38	35
ROE	**10.5**	**10.3**	**10.4**	**5.2**	**4.6**	**7.5**	**6.4**	**6.3**	**8.2**	**8.7**
# of companies	234	235	237	240	243	245	246	246	248	248
China										
EBIT Margin	16.3	14.8	14.8	10.0	11.6	11.6	10.0	8.9	8.7	9.0
Interest Burden	1.2	1.1	1.1	1.2	1.1	0.9	1.1	1.3	1.3	1.3
Asset Turnover	84	89	86	87	73	83	85	80	77	75
Gearing	214	212	207	209	221	232	243	254	262	258
Tax Burden	26	25	25	21	23	23	25	26	25	25
RoE	**20.0**	**19.4**	**18.4**	**12.6**	**12.9**	**15.7**	**14.0**	**11.5**	**11.1**	**11.1**
# of companies	122	129	138	142	142	147	150	150	150	150

Source: Maybank Kim Eng Research. Factset

Performance and Valuation Summary

Figure 57: Equity performance by Country

Name	Index level	FX rate	--- Absolute performance ---							
			-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	425		(1)	2	(2)	1	7	(0)	2	4
MSCI Emerging Market	986		(3)	(2)	(10)	(5)	(2)	(2)	(2)	(2)
MSCI Asia Pac (inc Japan)	140		(1)	(0)	(6)	(2)	(1)	(1)	(0)	(1)
MSCI Asia Pac (ex Japan)	471		(2)	(2)	(9)	(4)	(0)	(2)	(0)	1
MSCI Asia x JP	567		(2)	(1)	(7)	(1)	2	(2)	0	3
MSCI Far East (ex Japan)	530		(2)	(1)	(7)	(2)	(1)	(2)	(0)	1
MSCI Emerging Asia	460		(1)	(1)	(7)	(1)	2	(2)	0	3
MSCI EM Latin America	2,910		(6)	(6)	(21)	(11)	(8)	(3)	(8)	(9)
MSCI EMMEA	296		(4)	(4)	(11)	(10)	(8)	(2)	(2)	(10)
MSCI Frontie	631		(2)	(6)	(10)	(10)	9	(1)	(10)	6
China - Shanghai Composite	2,780	6.2	7	14	21	36	25	4	18	31
China - H-shares	11,060	7.8	0	4	(2)	7	(3)	(1)	7	2
Hong Kong - HSI	23,429	7.8	(3)	(2)	(7)	1	(2)	(2)	2	1
Taiwan - TAIEX	9,175	31.1	1	2	(3)	1	9	(0)	2	7
Korea - KOSPI	1,970	1,113	(1)	1	(4)	(2)	(2)	(1)	(2)	(2)
Singapore - STI	3,303	1.3	(1)	0	(1)	0	4	(1)	1	4
Malaysia - KLCI	1,758	3.4	(5)	(5)	(6)	(6)	(4)	(3)	(5)	(6)
Thailand - SET	1,595	32.9	0	1	1	10	15	0	1	23
Indonesia - JCI	5,166	12,299	1	2	(1)	5	20	0	1	21
Philippines - PSEi	7,361	44.7	0	1	2	8	19	1	1	25
India - Sensex	28,443	61.9	0	2	5	14	36	(1)	7	34
Vietnam - Ho Chi Minh	575	21,365	(0)	(5)	(10)	3	12	1	(4)	14
Australia ASX 200	5,322	1.2	(1)	(3)	(6)	(3)	1	0	1	(1)
New Zealand - NZX50	2,868	1.3	1	1	3	4	10	1	4	11
Japan - Nikkei 225	17,720	119.7	2	8	13	18	13	1	10	9
Japan - TOPIX	1,430	119.7	2	7	10	16	13	1	8	10
S&P 500	2,074	1.0	0	3	4	8	16	0	5	12
Russell 2000	1,179	1.0	(1)	1	1	5	5	0	7	1
FTSE 100	6,717	1.6	(0)	4	(2)	(2)	3	(0)	1	(0)
Euro Stoxx	3,248	1.2	1	5	1	0	8	(0)	1	4

Source: Maybank Kim Eng, Factset, MSCI, data as of 3 December 2014

Figure 58: Country valuation

	PE (x)			EPS growth YoY (%)			RoE(%)		PB (x)		DY (%)	
	2013	2014	2015	2013	2014	2015	2014	2015	2014	2015	2014	2015
Asia-ex-Japan	12.2	12.9	11.6	12	8	11	12	12	1.5	1.4	2.6	2.8
China	8.8	9.7	8.9	11	7	9	14	14	1.4	1.2	3.4	3.6
Hong Kong	12.1	15.3	14.7	35	11	4	9	8	1.3	1.2	2.9	3.1
Taiwan	14.7	13.9	13.1	22	28	6	13	13	1.9	1.7	3.1	3.4
Korea	13.7	11.8	9.9	(8)	(3)	19	9	10	1.1	1.0	1.3	1.4
Singapore	13.9	14.4	13.3	4	9	8	9	10	1.3	1.3	3.6	3.8
Malaysia	15.9	16.2	15.0	6	6	8	12	12	1.9	1.8	3.2	3.3
Thailand	16.1	15.6	13.8	5	(5)	13	15	15	2.3	2.1	2.8	3.1
Indonesia	17.0	16.5	14.9	12	11	11	20	20	3.3	2.9	2.4	2.6
Philippines	21.8	21.5	19.1	5	23	13	14	15	3.2	2.9	2.1	2.2
India	19.4	19.9	17.3	16	14	15	15	16	3.1	2.7	1.4	1.5
Japan	16.0	16.1	14.6	15	20	10	9	9	1.4	1.3	1.8	1.9

Source: Maybank Kim Eng, Factset, MSCI, data as of 3 December 2014

Research Offices

REGIONAL

WONG Chew Hann, CA
Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

ONG Seng Yeow
Regional Head of Retail Research
(65) 6432 1453
ongsengyeow@maybank-ke.com.sg

Alexander GARTHOFF
Institutional Product Manager
(852) 2268 0638
alexgarthoff@kimeng.com.hk

ECONOMICS

Suhaimi ILIAS
Chief Economist
Singapore | Malaysia
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Luz LORENZO
Philippines
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com

Tim LEELAHAPHAN
Thailand
(662) 658 1420 tim.l@maybank-ke.co.th

JUNIMAN
Chief Economist, BII
Indonesia
(62) 21 29228888 ext 29682
Juniman@bankbii.com

MALAYSIA

WONG Chew Hann, ***CA*** *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com
• Strategy • Construction & Infrastructure

Desmond CH'NG, ***ACA***
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas - Regional • Shipping

ONG Chee Ting, ***CA***
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

Mohshin AZIZ
(603) 2297 8692 mohshin.aziz@maybank-ib.com
• Aviation - Regional • Petrochem

YIN Shao Yang, ***CPA***
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional • Media

TAN Chi Wei, ***CFA***
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, ***CFA***
(603) 2297 8679 weisum@maybank-ib.com
• Property & REITs

LEE Yen Ling
(603) 2297 8691 lee.yl@maybank-ib.com
• Building Materials • Glove Producers

CHAI Li Shin, ***CFA***
(603) 2297 8684 lishin.c@maybank-ib.com
• Plantation • Construction & Infrastructure

Ivan YAP
(603) 2297 8612 ivan.yap@maybank-ib.com
• Automotive

LEE Cheng Hooi *Regional Chartist*
(603) 2297 8694
chenghooi.lee@maybank-ib.com

Tee Sze Chiah *Head of Retail Research*
(603) 2297 6858 szechiah.t@maybank-ib.com

HONG KONG / CHINA

Howard WONG *Head of Research*
(852) 2268 0648
howardwong@kimeng.com.hk
• Oil & Gas - *Regional*

Alexander LATZER
(852) 2268 0647
alexanderlatzer@kimeng.com.hk
• Metals & Mining – *Regional*

Elliott KING
(852) 2268 0635
elliottking@kimeng.com.hk
• Gaming

Jacqueline KO, CFA
(852) 2268 0633 jacquelineko@kimeng.com.hk
• Consumer Staples & Durables

Ka Leong LO, CFA
(852) 2268 0630 kllo@kimeng.com.hk
• Consumer Discretionary & Auto

Karen KWAN
(852) 2268 0640 karenkwan@kimeng.com.hk
• Property & REITs

Osbert TANG, CFA
(86) 21 5096 8370
osberttang@kimeng.com.hk
• Transport & Industrials

Ricky WK NG, CFA
(852) 2268 0689 rickyng@kimeng.com.hk
• Utilities & Renewable Energy

Steven ST CHAN
(852) 2268 0645 stevenchan@kimeng.com.hk
• Banking & Financials - *Regional*

Warren LAU
(852) 2268 0644
warrenlau@kimeng.com.hk
• Technology – *Regional*

INDIA

Jigar SHAH *Head of Research*
(91) 22 6632 2632
jigar@maybank-ke.co.in
• Oil & Gas • Automobile • Cement

Anubhav GUPTA
(91) 22 6623 2605
anubhav@maybank-ke.co.in
• Metal & Mining • Capital Goods • Property

Urmil SHAH
(91) 22 6623 2606 urmil@maybank-ke.co.in
• Technology • Media

Vishal MODI
(91) 22 6623 2607 vishal@maybank-ke.co.in
• Banking & Financials

SINGAPORE

NG Wee Siang *Head of Research*
(65) 6231 5838 ngweesiang@maybank-ke.com.sg
• Banking & Finance

Gregory YAP
(65) 6231 5848 gyap@maybank-ke.com.sg
• SMID Caps – *Regional*
• Technology & Manufacturing • Telcos

YEAK Chee Keong, CFA
(65) 6231 5842
yeakcheekeong@maybank-ke.com.sg
• Offshore & Marine

Derrick HENG
(65) 6231 5843 derrickheng@maybank-ke.com.sg
• Transport (Land, Shipping & Aviation)

WEI Bin
(65) 6231 5844 weibin@maybank-ke.com.sg
• Commodity • Logistics • S-chips

John CHEONG
(65) 6231 5845 johncheong@maybank-ke.com.sg
• Small & Mid Caps • Healthcare

TRUONG Thanh Hang
(65) 6231 5847 hang.truong@maybank-ke.com.sg
• Small & Mid Caps

INDONESIA

Wilianto IE *Head of Research*
(62) 21 2557 1125
wilianto.ie@maybank-ke.co.id
• Strategy

Rahmi MARINA
(62) 21 2557 1128
rahmi.marina@maybank-ke.co.id
• Banking & Finance

Aurellia SETIABUDI
(62) 21 2953 0785
aurellia.setiabudi@maybank-ke.co.id
• Property

Isnaputra ISKANDAR
(62) 21 2557 1129
isnaputra.iskandar@maybank-ke.co.id
• Metals & Mining • Cement

Pandu ANUGRAH
(62) 21 2557 1137
pandu.anugrah@maybank-ke.co.id
• Infrastructure • Construction • Transport

Janni ASMAN
(62) 21 2953 0784
janni.asman@maybank-ke.co.id
• Cigarette • Healthcare • Retail

PHILIPPINES

Luz LORENZO *Head of Research*
(63) 2 849 8836
luz_lorenzo@maybank-atrke.com
• Strategy
• Utilities • Conglomerates • Telcos

Lovell SARREAL
(63) 2 849 8841
lovell_sarreal@maybank-atrke.com
• Consumer • Media • Cement

Rommel RODRIGO
(63) 2 849 8839
rommel_rodrigo@maybank-atrke.com
• Conglomerates • Property • Gaming
• Ports/ Logistics

Katherine TAN
(63) 2 849 8843
kat_tan@maybank-atrke.com
• Banks • Construction

Ramon ADVIENTO
(63) 2 849 8845
ramon_adviento@maybank-atrke.com
• Mining

THAILAND

Maria LAPIZ *Head of Institutional Research*
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399
Maria.L@maybank-ke.co.th
• Consumer / Materials

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1394
Jesada.T@maybank-ke.co.th
• Financial Services

Kittisorn PRUITIPAT, CFA, FRM
(66) 2658 6300 ext 1395
Kittisorn.P@maybank-ke.co.th
• Real Estate

Sittichai DUANGRATTANACHAYA
(66) 2658 6300 ext 1393
Sittichai.D@maybank-ke.co.th
• Services Sector

Sukit UDOMSIRIKUL *Head of Retail Research*
(66) 2658 6300 ext 5090
Sukit.u@maybank-ke.co.th

Mayuree CHOWVIKRAN
(66) 2658 6300 ext 1440
mayuree.c@maybank-ke.co.th
• Strategy

Padon VANNARAT
(66) 2658 6300 ext 1450
Padon.v@maybank-ke.co.th
• Strategy

Surachai PRAMUALCHAROENKIT
(66) 2658 6300 ext 1470
Surachai.p@maybank-ke.co.th
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 6300 ext 1430
suttatip.p@maybank-ke.co.th
• Media • Commerce

Sutthichai KUMWORACHAI
(66) 2658 6300 ext 1400
sutthichai.k@maybank-ke.co.th
• Energy • Petrochem

Termporn TANTIVIVAT
(66) 2658 6300 ext 1520
termporn.t@maybank-ke.co.th
• Property

Jaroonpan WATTANAWONG
(66) 2658 6300 ext 1404
jaroonpan.w@maybank-ke.co.th
• Transportation • Small cap

Chatchai JINDARAT
(66) 2658 6300 ext 1401
chatchai.j@maybank-ke.co.th
• Electronics

VIETNAM

LE Hong Lien, ACCA
Head of Institutional Research
(84) 8 44 555 888 x 8181
lien.le@maybank-kimeng.com.vn
• Strategy • Consumer • Diversified • Utilities

THAI Quang Trung, CFA, Deputy Manager, Institutional Research
(84) 8 44 555 888 x 8180
trung.thai@maybank-kimeng.com.vn
• Real Estate • Construction • Materials

Le Nguyen Nhat Chuyen
(84) 8 44 555 888 x 8082
chuyen.le@maybank-kimeng.com.vn
• Oil & Gas

NGUYEN Thi Ngan Tuyen, *Head of Retail Research*
(84) 8 44 555 888 x 8081
tuyen.nguyen@maybank-kimeng.com.vn
• Food & Beverage • Oil&Gas • Banking

TRINH Thi Ngoc Diep
(84) 4 44 555 888 x 8208
diep.trinh@maybank-kimeng.com.vn
• Technology • Utilities • Construction

TRUONG Quang Binh
(84) 4 44 555 888 x 8087
binh.truong@maybank-kimeng.com.vn
• Rubber plantation • Tyres and Tubes • Oil&Gas

PHAM Nhat Bich
(84) 8 44 555 888 x 8083
bich.pham@maybank-kimeng.com.vn
• Consumer • Manufacturing • Fishery

NGUYEN Thi Sony Tra Mi
(84) 8 44 555 888 x 8084
mi.nguyen@maybank-kimeng.com.vn
• Port operation • Pharmaceutical
• Food & Beverage

APPENDIX I: TERMS FOR PROVISION OF REPORT, DISCLAIMERS AND DISCLOSURES

DISCLAIMERS

This research report is prepared for general circulation and for information purposes only and under no circumstances should it be considered or intended as an offer to sell or a solicitation of an offer to buy the securities referred to herein. Investors should note that values of such securities, if any, may fluctuate and that each security's price or value may rise or fall. Opinions or recommendations contained herein are in form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from the relevant jurisdiction's stock exchange in the equity analysis. Accordingly, investors' returns may be less than the original sum invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Maybank Investment Bank Berhad, its subsidiary and affiliates (collectively, "MKE") and consequently no representation is made as to the accuracy or completeness of this report by MKE and it should not be relied upon as such. Accordingly, MKE and its officers, directors, associates, connected parties and/or employees (collectively, "Representatives") shall not be liable for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Any information, opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward-looking statements. MKE expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

MKE and its officers, directors and employees, including persons involved in the preparation or issuance of this report, may, to the extent permitted by law, from time to time participate or invest in financing transactions with the issuer(s) of the securities mentioned in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. MKE may, to the extent permitted by law, act upon or use the information presented herein, or the research or analysis on which they are based, before the material is published. One or more directors, officers and/or employees of MKE may be a director of the issuers of the securities mentioned in this report.

This report is prepared for the use of MKE's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of MKE and MKE and its Representatives accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Without prejudice to the foregoing, the reader is to note that additional disclaimers, warnings or qualifications may apply based on geographical location of the person or entity receiving this report.

Malaysia

Opinions or recommendations contained herein are in the form of technical ratings and fundamental ratings. Technical ratings may differ from fundamental ratings as technical valuations apply different methodologies and are purely based on price and volume-related information extracted from Bursa Malaysia Securities Berhad in the equity analysis.

Singapore

This report has been produced as of the date hereof and the information herein may be subject to change. Maybank Kim Eng Research Pte. Ltd. ("Maybank KERPL") in Singapore has no obligation to update such information for any recipient. For distribution in Singapore, recipients of this report are to contact Maybank KERPL in Singapore in respect of any matters arising from, or in connection with, this report. If the recipient of this report is not an accredited investor, expert investor or institutional investor (as defined under Section 4A of the Singapore Securities and Futures Act), Maybank KERPL shall be legally liable for the contents of this report, with such liability being limited to the extent (if any) as permitted by law.

Thailand

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information. The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey may be changed after that date. Maybank Kim Eng Securities (Thailand) Public Company Limited ("MBKET") does not confirm nor certify the accuracy of such survey result.

Except as specifically permitted, no part of this presentation may be reproduced or distributed in any manner without the prior written permission of MBKET. MBKET accepts no liability whatsoever for the actions of third parties in this respect.

US

This research report prepared by MKE is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Maybank Kim Eng Securities USA Inc ("Maybank KESUSA"), a broker-dealer registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if MKE is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Maybank KESUSA is permitted to provide research material concerning investments to you under relevant legislation and regulations.

UK

This document is being distributed by Maybank Kim Eng Securities (London) Ltd ("Maybank KESL") which is authorized and regulated, by the Financial Services Authority and is for Informational Purposes only. This document is not intended for distribution to anyone defined as a Retail Client under the Financial Services and Markets Act 2000 within the UK. Any inclusion of a third party link is for the recipients convenience only, and that the firm does not take any responsibility for its comments or accuracy, and that access to such links is at the individuals own risk. Nothing in this report should be considered as constituting legal, accounting or tax advice, and that for accurate guidance recipients should consult with their own independent tax advisers.

DISCLOSURES

Legal Entities Disclosures

Malaysia: This report is issued and distributed in Malaysia by Maybank Investment Bank Berhad (15938-H) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets and Services License issued by the Securities Commission in Malaysia. **Singapore:** This material is issued and distributed in Singapore by Maybank KERPL (Co. Reg No 197201256N) which is regulated by the Monetary Authority of Singapore. **Indonesia**: PT Kim Eng Securities ("PTKES") (Reg. No. KEP-251/PM/1992) is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Thailand:** MBKET (Reg. No.0107545000314) is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Philippines:** Maybank ATRKES (Reg. No.01-2004-00019) is a member of the Philippines Stock Exchange and is regulated by the Securities and Exchange Commission. **Vietnam:** Maybank Kim Eng Securities Limited (License Number: 117/GP-UBCK) is licensed under the State Securities Commission of Vietnam.**Hong Kong**: KESHK (Central Entity No AAD284) is regulated by the Securities and Futures Commission. **India:** Kim Eng Securities India Private Limited ("KESI") is a participant of the National Stock Exchange of India Limited (Reg No: INF/INB 231452435) and the Bombay Stock Exchange (Reg. No. INF/INB 011452431) and is regulated by Securities and Exchange Board of India. KESI is also registered with SEBI as Category 1 Merchant Banker (Reg. No. INM 000011708) **US:** Maybank KESUSA is a member of/ and is authorized and regulated by the FINRA – Broker ID 27861. **UK:** Maybank KESL (Reg No 2377538) is authorized and regulated by the Financial Services Authority.

Disclosure of Interest

Malaysia: MKE and its Representatives may from time to time have positions or be materially interested in the securities referred to herein and may further act as market maker or may have assumed an underwriting commitment or deal with such securities and may also perform or seek to perform investment banking services, advisory and other services for or relating to those companies.

Singapore: As of 5 December 2014, Maybank KERPL and the covering analyst do not have any interest in any companies recommended in this research report.

Thailand: MBKET may have a business relationship with or may possibly be an issuer of derivative warrants on the securities /companies mentioned in the research report. Therefore, Investors should exercise their own judgment before making any investment decisions. MBKET, its associates, directors, connected parties and/or employees may from time to time have interests and/or underwriting commitments in the securities mentioned in this report.

Hong Kong: KESHK may have financial interests in relation to an issuer or a new listing applicant referred to as defined by the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission.

As of 5 December 2014, KESHK and the authoring analyst do not have any interest in any companies recommended in this research report.

MKE may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment and may receive compensation for the services provided from the companies covered in this report.

OTHERS

Analyst Certification of Independence

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Reminder

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct its own analysis of the product and consult with its own professional advisers as to the risks involved in making such a purchase.

Ong Seng Yeow | Executive Director, Maybank Kim Eng Research

Definition of Ratings

Maybank Kim Eng Research uses the following rating system

BUY	Return is expected to be above 10% in the next 12 months (excluding dividends)
HOLD	Return is expected to be between - 10% to +10% in the next 12 months (excluding dividends)
SELL	Return is expected to be below -10% in the next 12 months (excluding dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Malaysia
Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore
Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London
Maybank Kim Eng Securities (London) Ltd
5th Floor, Aldermary House
10-15 Queen Street
London EC4N 1TX, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

New York
Maybank Kim Eng Securities USA Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: (212) 688 8886
Fax: (212) 688 3500

Hong Kong
Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia
PT Maybank Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India
Kim Eng Securities India Pvt Ltd
2nd Floor, The International 16,
Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines
Maybank ATR Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 849 8888
Fax: (63) 2 848 5738

Thailand
Maybank Kim Eng Securities (Thailand) Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam
Maybank Kim Eng Securities Limited
4A-15+16 Floor Vincom Center Dong
Khoi, 72 Le Thanh Ton St. District 1
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888
Fax : (84) 8 38 271 030

Saudi Arabia
In association with
Anfaal Capital
Villa 47, Tujjar Jeddah
Prince Mohammed bin Abdulaziz
Street P.O. Box 126575
Jeddah 21352

Tel: (966) 2 6068686
Fax: (966) 26068787

South Asia Sales Trading
Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank-ke.com.sg
Tel: (65) 6336-5157
US Toll Free: 1-866-406-7447

Malaysia
Rommel Jacob
rommeljacob@maybank-ib.com
Tel: (603) 2717 5152

Indonesia
Harianto Liong
harianto.liong@maybank-ke.co.id
Tel: (62) 21 2557 1177

New York
Andrew Dacey
adacey@maybank-keusa.com
Tel: (212) 688 2956

Vietnam
Tien Nguyen
thuytien.nguyen@maybank-kimeng.com.vn
Tel: (84) 44 555 888 x8079

North Asia Sales Trading
Alex Tsun
alextsun@kimeng.com.hk
Tel: (852) 2268 0228
US Toll Free: 1 877 837 7635

Thailand
Tanasak Krishnasreni
Tanasak.K@maybank-ke.co.th
Tel: (66)2 658 6820

London
Simon Lovekin
simonl@maybank-ke.co.uk
Tel: (44)-207-626-2828

India
Manish Modi
manish@maybank-ke.co.in
Tel: (91)-22-6623-2601

Philippines
Keith Roy
keith_roy@maybank-atrke.com
Tel: (63) 2 848-5288

www.maybank-ke.com | www.maybank-keresearch.com