STRATEGY RESEARCH | Regional

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The Strategist

Bull market in a half-suspended exchange!

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Leverage up the financial sector to deleverage? While margin financing levels fall, the bailout measures have already leveraged up the financial system. Last week, the government provided CNY460b to support the market. Given that 49% of A-share stocks are still suspended, more capital could be required after they resume trading.

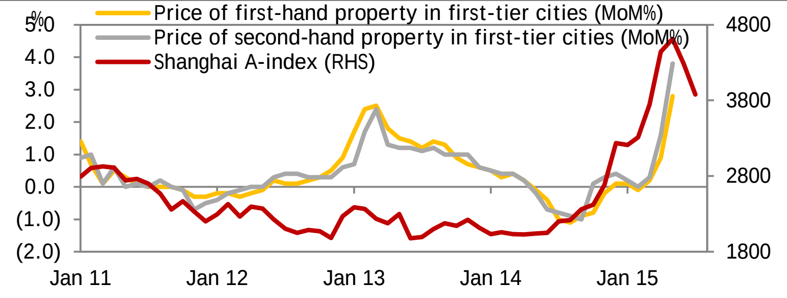
We also believe the intervention has increased systemic risks to the financial sector. Brokerages and government-related funds that bought stocks may need to keep those high-valuation stocks (eg small caps) for a long time because they can't sell their holdings. Banks are to "allow" borrowers to roll over loans backed by shares & adjust their collateral requirements. Many of these share prices have dropped more than 50% from the peak.

Clock is ticking for weaker RMB. Ultimately, we need earnings growth and we see little: exports remain weak and property sales and consumption could slow down after the recent market correction (cover chart). There are fewer levers of economic growth if consumption slows given weak capex and thus far, muted fiscal spending. In our earlier report, we argued that to see a sustainable recovery, we would need to see money supply increase. China will also need to cut RRR more aggressively. All of this will put more pressure on RMB.

First round of sell-off is done, opportunity to sell in rebound. We think the government wants to prevent another crisis and while money supply may increase, market upside is limited. And new rules have created pent up selling. Sell into any strength.

Downgrade China to UW and banks to N; add more to India. We think growth will further slow down, banks will be more cautious towards lending and the market sentiment will be poor. We also reckon chances of the RMB being included into the SDR basket & A-shrs being included into the MSCI have fallen. Downgrade China to UW and China banks to Neutral. We increase our OW to India. We also close the long H, short A relative trade at a loss given A-shares cannot be shorted now.

Property price in first tier cities vs Shanghai A-Index



Source: Wind, Bloomberg, Maybank Kim Eng Research

Leverage up financial sector to deleverage

After the ineffective drastic measures on 5 Jul (*1 step forward, 2 steps backward* 5 Jul 2015), the Chinese government announced more bailout measures from different entities to support the market over the past week, including:

PBOC:

1) Supporting China Securities Finance Corp (CSF) in getting enough liquidity through various channels, such as interbank lending, financial bond issuance, collateralized financing and relending window to ensure no systemic and regional financial risks occur;

China Securities Regulatory Commission (CSRC):

2) The China Securities Finance Corp expanded its buying list to not only blue-chips but also mid and small-caps to relieve the problem of strained liquidity. It has also provided CNY260b of credit lines (the amount is based on the announcement on 8 Jul) to the 21 largest brokerages for them to buy stocks and subscribed to a total of CNY200b of stocks funds from five fund management companies;
3) Banning company shareholders with stakes of more than 5% and senior management executives and directors of companies from selling for the next six months;
4) Ordering all listed companies to choose one out of five measures to protect share prices including: a) major holder stake increase, b) share buyback, c) share purchase by company executives, d) stock ownership incentives and e) employee shareholding program;
5) Cancelling review meetings on IPO and refinancing applications;

China Banking Regulatory Commission (CBRC)

6) Encouraging banks to support listed companies that repurchase their own shares by offering them collateralized loans;
7) Allowing banks to roll over loans backed by shares and adjusting their collateral requirements with their clients;
8) Encouraging banks to offer loans to China Securities Finance Corp;

China Insurance Regulatory Commission (CIRC)

9) Raising limit for insurance funds to invest in a single blue chip from 5% of total assets up to 10%. The limit on their equity assets ratio will be further raised to 40% from the previous 30%;
10) Requiring insurance asset management companies not to force brokerages to repay in advance for businesses related to margin trading and short selling;

State-owned Assets Supervision and Administration Commissions (SASAC) and Ministry of Finance

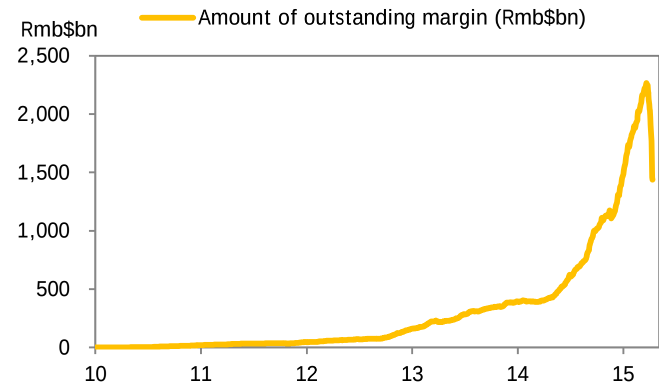
11) The SASAC ordered state-owned firms not to cut holdings in their listed companies and SOEs need to provide a daily report about the amount of their share buyback;
12) The Ministry of Finance will not sell shares of listed companies and it also asked state-owned financial companies administered by the central government not to sell shares in listed firms in which they have controlling stakes.

Also, the Ministry of Public Security (ie police department) will help CSRC to investigate evidence of "malicious" short selling of stocks and indices.

All-in-all, the above measures mainly aim to 1) provide capital to brokerages and government-related funds to support the market, 2) lower the margin requirement, 3) not allow listed company shareholders, SOEs and government-related funds to sell their holdings and 4) encourage share buybacks.

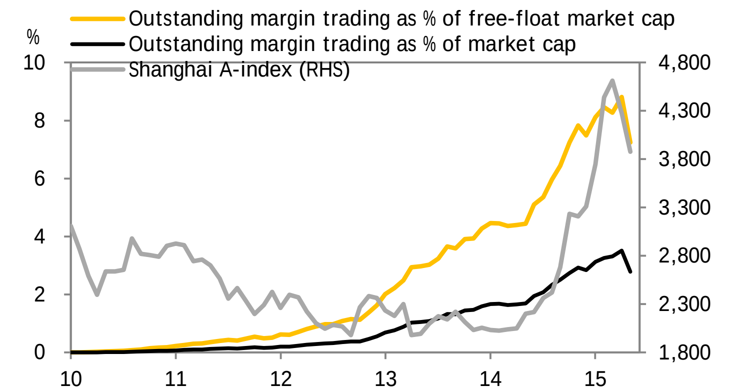
In our earlier report (*The circle game: a wealth effect by retail, for retail, 16 Apr 2015*), we highlighted the risks in A-shares because of increasing margin financing. The following charts show that after all the above measures, the amount of outstanding margin financing has already declined sharply from the peak by 37%. Up to 9 Jul, the amount of outstanding margin financing was CNY1,438b and it accounted for 7.2% of the A-share market's free-float market cap.

Figure 1: Amount of outstanding margin in A-share markets



Source: Wind, Bloomberg, Maybank Kim Eng Research

Figure 2: % of outstanding margin trading in A-share markets



Source: Wind, Bloomberg, Maybank Kim Eng Research

While the deleveraging activities on margin financing (both regulated and unregulated) may continue, the government has already leveraged up the whole financial system aggressively under this bailout program. Up to 9 Jul, the government has provided CNY460b to support the market in the past week - China Securities Finance Corp provided CNY260b of credit lines to brokerages and CNY200b to subscribe to stocks funds from five fund management companies. According to media reports quoting the China Insurance Regulatory Commission, insurance funds have also bought CNY127b. Given that 49% of the companies listed in the A-share market are still suspended, we believe the government needs to provide more capital to support the market after these companies resume trading. The question right now is, how much money does the government need to further leverage to stabilize the market?

Adding risks to the financial sector

We think the bailout measures have stabilized the market in the short term. However, the intervention has increased systemic risks to the financial sector.

In our previous report (*1 step forward, 2 steps backward* 5 Jul 2015), we highlighted that the sharp correction in small caps could drag down the big caps, so the risk is on small caps. The market has started to stabilize after the PBOC provided liquidity to China Securities Finance Corp to let brokerages and government-related funds expand their buying lists from big caps to include small caps. However, we see that they might need to keep those high valuation stocks, especially small caps, for a very long time and some of those small caps might even become worthless in the end.

The banning of major shareholders and senior executives from selling shares has created risk to brokerages and banks. According to Wind Information data, as of 10 Jul, there were 1015 companies that pledged their shares as collateral for loans from banks and brokerages this year. Right now already 680 of them are suspended and most of their share prices have dropped more than 50% from the peak. We still do not know whether brokerages can seize the diminished value of pledged shares from the major shareholders or company's senior executives under this latest measure. However, even if they can, it is clear that brokerages need to keep those pledged shares in their books even after those companies resume trading.

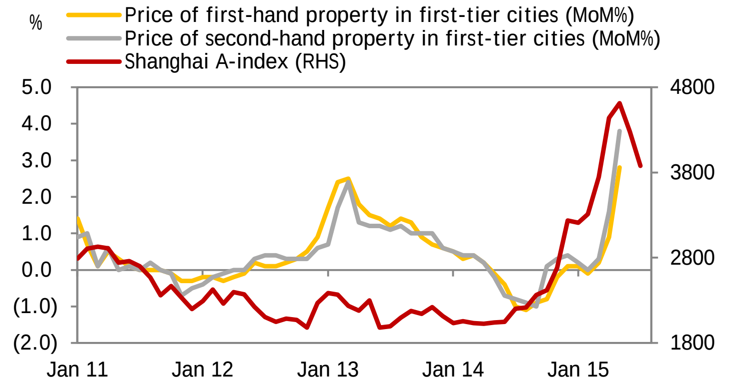
Under the bailout measures, banks are to "allow" borrowers to extend stock mortgage loans and to adjust collateral requirements with their clients. It means that the stock market risk is also transferred to banks given most of the pledged shares are below the loans' value. We see the government trying to limit pressure on investors to sell stocks and contain risks to the financial system from a market rout.

Going forward, the government would setup a Stabilization Fund to buy those stocks that have been bought by brokerages and government-related funds. This is the only way to transfer part of the financial risks that the brokerages and government-related funds are taking on now. In fact, since the PBOC has started to lend capital to China Securities Finance Corp to fund stock purchases on the open market, we think China has started Chinese-style QE already. The question is how much money is enough and what is the meaning of further stake increases in SOEs by the government?

Impact of property sector and wealth effect

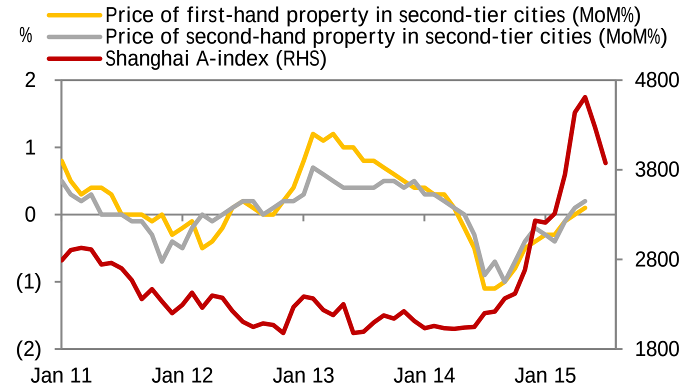
The following charts show that first-hand and second-hand property prices have started to pick up recently in the first-tier and second-tier cities. However, after the recent stock market correction, given we suspect that the same investors are in both asset classes, we think growth in the property sector will slow down again.

Figure 3: Property price in first tier cities (MoM%) vs Shanghai A



Source: Wind, Bloomberg, Maybank Kim Eng Research

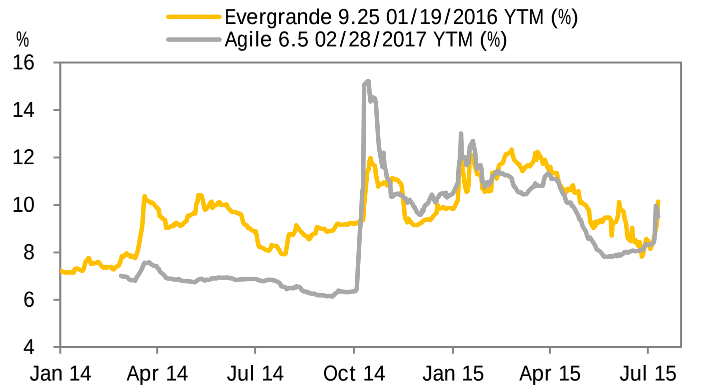
Figure 4: Property price in second tier cities vs Shanghai A



Source: Wind, Bloomberg, Maybank Kim Eng Research

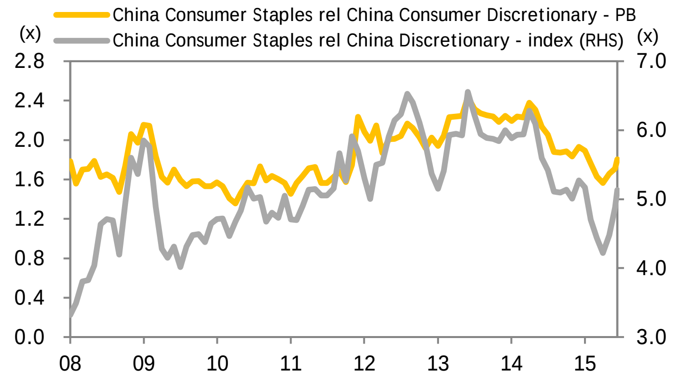
The following chart shows the recent correction in Chinese high-yield property bonds. Given most of these bonds were sold to retail or private banks, it could indicate that some of those high net worth individuals also need to unwind their holdings in those bonds to meet margin calls from the stock markets. Therefore it won't be surprising that growth in the consumer discretionary sector will continue to slow down. We maintain our long consumer staples and short consumer discretionary relative trade.

Figure 5: Evergrande and Agile property bond, yield-to-maturity



Source: Bloomberg, Maybank Kim Eng Research

Figure 6: Staples rel discretionary, rel PB & index

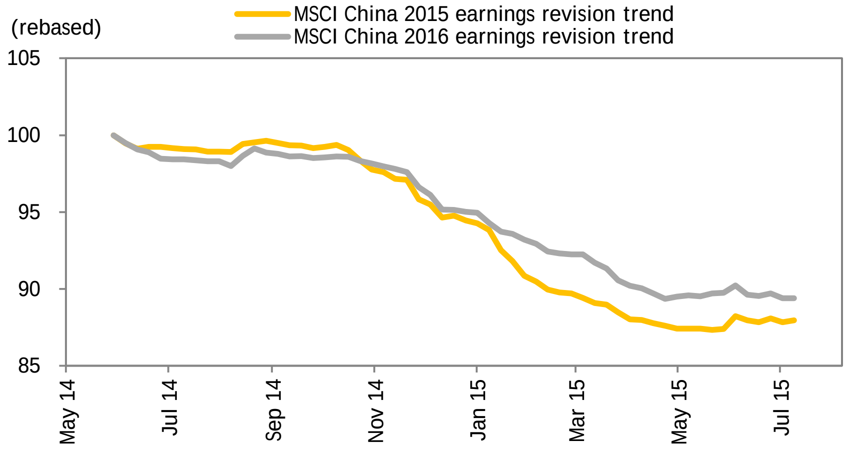


Source: Wind, Bloomberg, Maybank Kim Eng Research

Clock is ticking for weaker RMB

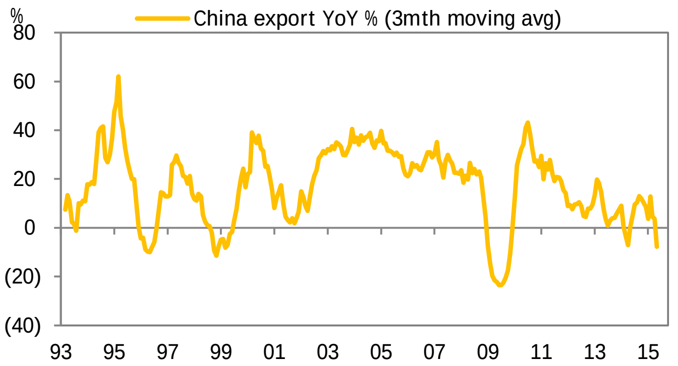
As we keep highlighting in all our previous reports, China's economic data remains uninspiring and overcapacity means capex remains muted. Also, we find there is no earnings growth: external growth remains weak, fiscal spending has just started to pick up slightly this year but it remains at low levels. We think after the recent A-share correction, the coming retail sales growth, especially the luxury sector, and property sales would slow down as well.

Figure 7: MSCI China earnings revision



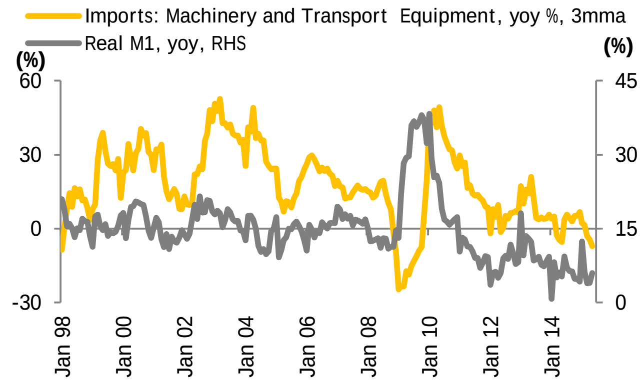
Source: MSCI, FactSet, Maybank Kim Eng Research

Figure 8: Export growth YoY%



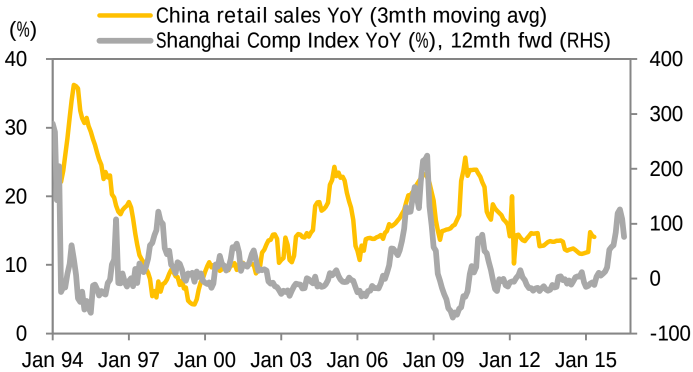
Source: CEIC, Maybank Kim Eng Research

Figure 9: Real M1 and imported capital goods



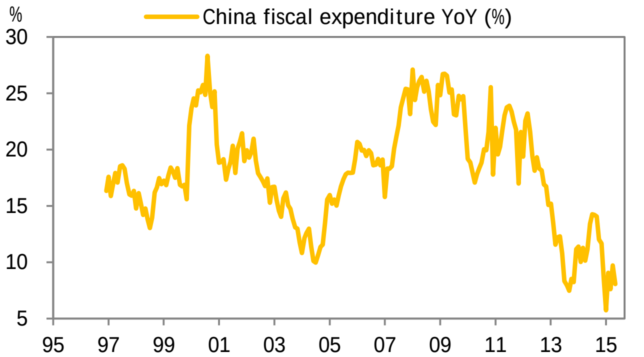
Source: CEIC, Maybank Kim Eng Research

Figure 10: China retail sales & Shanghai A-share



Source: CEIC, Bloomberg, Maybank Kim Eng Research

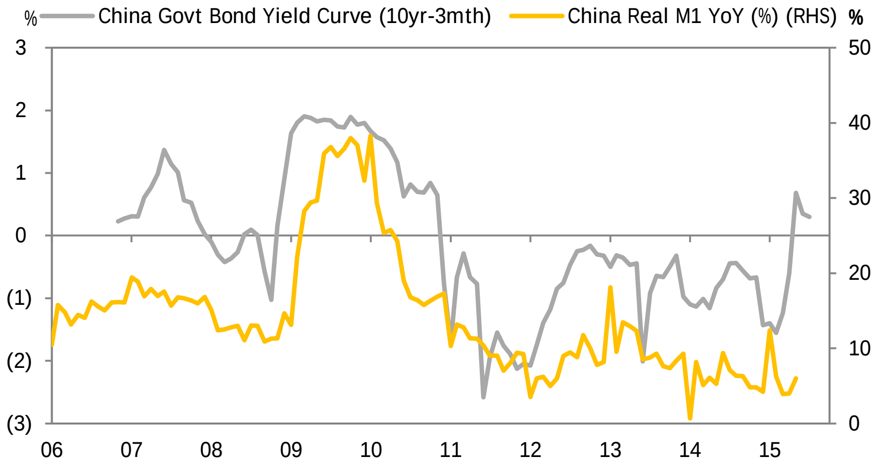
Figure 11: China fiscal expenditure YoY (%)



Source: CEIC, Maybank Kim Eng Research

In our previous report (*The Beijing put? A little market sell-off and a rate cut already? 29 Jun 2015*), we argued that to see a sustainable recovery, we would need to see money supply increase. We also expect China will need to cut RRR more aggressively. All of this will put more pressure on the RMB going forward and the clock is ticking.

Figure 12: China money supply and bond yield curve



Source: CEIC, Bloomberg, Maybank Kim Eng Research

First round of sell-off is done, opportunity to sell in rebound

Given the sell-off in small cap stocks has subsided after the government started buying them, we think the first round of sell-off should be finished. The MSCI China is not expensive and is trading at 9.3x 2016 PE. Therefore, the market should rebound after the sharp correction in a short time.

However, we recommend investors to take this opportunity to sell their holdings in this rebound because of the following reasons:

1) Up to 10 Jul, there were still 1399 companies under suspension. We think suspended once the suspended stocks resume trading, the market may be dragged down. Therefore we think the government may need to prepare more capital to support the market once those suspended companies resume trading;

2) We see the government launched many drastic measures when the Shanghai A-index was below 3,500 levels, however, brokerages could start to trim their holdings when the index is above 4,500 levels;

3) The government will continue to support the stock market, maybe even launch QE. However, we think the government wants to prevent another crisis rather than to have another crazy run going forward. As such we see that market upside is limited; and

4) The upcoming 2Q earnings in July and 1H reporting in August could disappoint the market. In addition, some companies might even need to book stock-market-related losses in their coming earnings.

Figure 13: MSCI China 12-mth forward PE

Source: MSCI, FactSet, Maybank Kim Eng Research

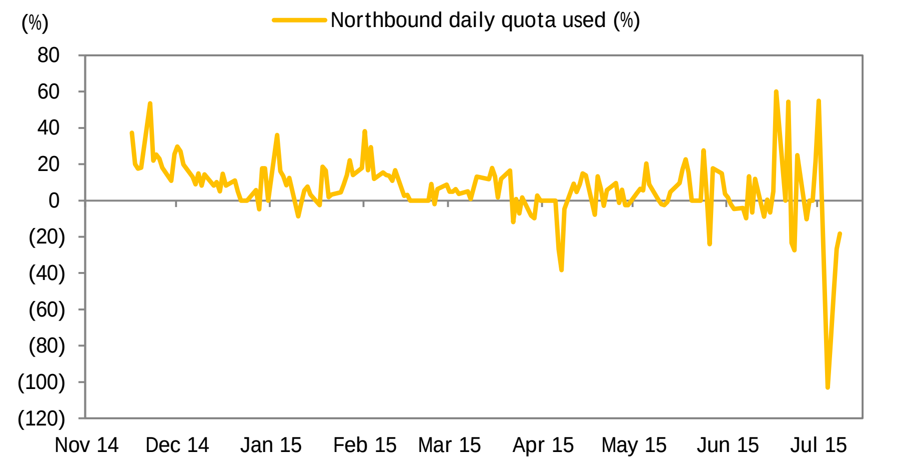
Downgrade China to UW, downgrade China banks to Neutral and add more to India

Going forward, we think both earnings and economic growth will further slow down, banks will be more cautious towards lending and investors' view of the market will be low potentially for the next few years. This will make it difficult for corporates to use the stock market to deleverage.

Also, we think there is limited chance of the RMB being included into the SDR basket in the coming review in November this year. The opportunity for China A-shares to be included into the MSCI benchmarks in the short term has also decreased. The latest data from the Hong Kong-Shanghai Connect has already indicated that foreign money is leaving the A-share market.

Therefore, we downgrade China from Neutral to Underweight.

Figure 14: Hong Kong Shanghai Connect - northbound daily quota used (%)



Source: Bloomberg, Maybank Kim Eng Research

In sum, we think the bailout measures have stabilized the market in the short term but have increased risks to the financial system. In this case, the cost of capital to the financial sector has increased. Given the ROE of China banks is going to slow down, we see it is difficult for China banks to justify trading significantly above 1x PB. Therefore, we downgrade China banks from Overweight to Neutral.

Figure 15: MSCI China Bank PB

Source: MSCI, Maybank Kim Eng Research

We further increase our Overweight to India at the expense of China's downgrade. Jigar Shah, our India Strategist, sees catalysts for the economy from improving industrial growth, expected approval of land and GST bills this quarter and normal monsoon/possible rate cuts. He sees there is growing evidence of firm recovery in 2H FY16. (*India growth story; Execution twist*, 26 May 2015)

We also closed the long Hong Kong H-index, short Shanghai A-index relative trade because investors are not allowed to short the A-share market now.

Performance and valuation summary

Figure 16: Equity performance by country (in local currency terms)

Name	Index level	FX rate	--- Absolute performance (local currency) --- -1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	423		(0)	(2)	(3)	3	(1)	(0)	(0)	1
MSCI Emerging Market	933		(3)	(5)	(10)	(3)	(12)	(4)	(4)	(2)
MSCI Asia Pac (inc JP)	141		(4)	(4)	(7)	2	(4)	(4)	(4)	2
MSCI Asia Pac x JP	457		(3)	(5)	(10)	(3)	(8)	(4)	(4)	(2)
MSCI Asia x JP	562		(4)	(5)	(10)	(1)	(4)	(4)	(4)	(0)
MSCI Far East x JP	527		(4)	(6)	(10)	(1)	(5)	(5)	(5)	(0)
MSCI Emerging Asia	453		(4)	(6)	(11)	(2)	(5)	(5)	(5)	(1)
MSCI EM Latin America	2,457		(1)	(4)	(6)	(8)	(28)	(2)	(2)	(10)
MSCI EMMEA	269		(2)	(1)	(8)	(2)	(19)	(3)	(3)	(1)
MSCI Frontie	571		(1)	(3)	(4)	(4)	(19)	(1)	(1)	(7)
MSCI Asia x JP Small Cap	1,061		(4)	(7)	(8)	3	(4)	(6)	(6)	4
China - Shanghai Composite	3,878	6.2	5	(24)	(4)	18	90	(9)	(9)	20
China - H-shares	11,859	7.8	(6)	(13)	(15)	(2)	14	(9)	(9)	(1)
Hong Kong - HSI	24,901	7.8	(4)	(7)	(9)	4	7	(5)	(5)	5
Taiwan - TAIEX	8,914	31.0	(5)	(4)	(7)	(3)	(7)	(4)	(4)	(4)
Korea - KOSPI	2,031	1,130	(3)	(1)	(3)	6	1	(2)	(2)	6
Singapore - STI	3,280	1.4	(2)	(1)	(6)	(2)	0	(1)	(1)	(3)
Malaysia - KLCI	1,716	3.8	(1)	(1)	(7)	(1)	(9)	1	1	(3)
Thailand - SET	1,485	33.9	(0)	(1)	(4)	(3)	(2)	(1)	(1)	(1)
Indonesia - JCI	4,859	13,314	(2)	(2)	(12)	(7)	(5)	(1)	(1)	(7)
Philippines - PSEi	7,393	45.1	(2)	0	(9)	(0)	7	(2)	(2)	2
India - Sensex	27,661	63.4	(2)	3	(4)	1	9	(0)	(0)	1
Vietnam - Ho Chi Minh	627	21,810	2	9	13	10	7	6	6	15
Australia ASX 200	5,492	1.3	(1)	0	(8)	0	1	1	1	1
New Zealand - NZX50	5,725	1.5	(2)	(1)	(2)	3	12	(0)	(0)	3
Japan - Nikkei 225	19,780	122.7	(4)	(1)	(1)	15	30	(2)	(2)	13
Japan - TOPIX	1,584	122.7	(4)	(3)	(0)	15	26	(3)	(3)	13
S&P 500	2,077	1.0	(0)	(1)	(1)	2	6	1	1	1
Russell 2000	1,252	1.0	0	(1)	(1)	6	8	(0)	(0)	4
FTSE 100	6,673	1.6	1	(2)	(6)	3	0	2	2	2
Euro Stoxx	3,529	1.1	3	0	(8)	16	12	3	3	12

Source: Maybank Kim Eng, Factset, MSCI, data as of 10 July *2015*

Figure 17: Equity performance by country (in USD terms)

			--- Absolute performance (USD) ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	423		(0)	(2)	(3)	3	(1)	(0)	(0)	1
MSCI Emerging Market	933		(3)	(5)	(10)	(3)	(12)	(4)	(4)	(2)
MSCI Asia Pac (inc JP)	141		(4)	(4)	(7)	2	(4)	(4)	(4)	2
MSCI Asia Pac x JP	457		(3)	(5)	(10)	(3)	(8)	(4)	(4)	(2)
MSCI Asia x JP	562		(4)	(5)	(10)	(1)	(4)	(4)	(4)	(0)
MSCI Far East x JP	527		(4)	(6)	(10)	(1)	(5)	(5)	(5)	(0)
MSCI Emerging Asia	453		(4)	(6)	(11)	(2)	(5)	(5)	(5)	(1)
MSCI EM Latin America	2,457		(1)	(4)	(6)	(8)	(28)	(2)	(2)	(10)
MSCI EMMEA	269		(2)	(1)	(8)	(2)	(19)	(3)	(3)	(1)
MSCI Frontie	571		(1)	(3)	(4)	(4)	(19)	(1)	(1)	(7)
MSCI Asia x JP Small Cap	1,061		(4)	(7)	(8)	3	(4)	(6)	(6)	4
China - Shanghai Composite	3,878	6.2	5	(24)	(4)	18	90	(9)	(9)	20
China - H-shares	11,859	7.8	(6)	(13)	(15)	(2)	14	(9)	(9)	(1)
Hong Kong - HSI	24,901	7.8	(4)	(7)	(9)	4	7	(5)	(5)	6
Taiwan - TAIEX	8,914	31.0	(5)	(4)	(7)	(0)	(10)	(5)	(5)	(2)
Korea - KOSPI	2,031	1,130	(4)	(3)	(6)	2	(9)	(3)	(3)	3
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Malaysia - KLCI	1,716	3.8	(2)	(3)	(10)	(7)	(24)	(0)	(0)	(10)
Thailand - SET	1,485	33.9	(1)	(2)	(8)	(6)	(7)	(2)	(2)	(4)
Indonesia - JCI	4,859	13,314	(2)	(2)	(14)	(11)	(17)	(1)	(1)	(14)
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Australia ASX 200	5,492	1.3	(2)	(4)	(11)	(9)	(21)	(3)	(3)	(8)
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Japan - Nikkei 225	19,780	122.7	(4)	(1)	(3)	11	7	(3)	(3)	11
Japan - TOPIX	1,584	122.7	(4)	(3)	(2)	11	4	(3)	(3)	10
S&P 500	2,077	1.0	(0)	(1)	(1)	2	6	1	1	1
Russell 2000	1,252	1.0	0	(1)	(1)	6	8	(0)	(0)	4
FTSE 100	6,673	1.6	1	(2)	(0)	5	(9)	1	1	1
Euro Stoxx	3,529	1.1	3	(1)	(3)	9	(8)	3	3	4

Source: Maybank Kim Eng, Factset, MSCI, data as of 10 July *2015*

Figure 18: Equity performance by country – relative performance

			--- Relative performance to MSCI Asia x Japan ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	423		3	3	7	4	3	4	4	2
MSCI Emerging Market	933		1	0	0	(2)	(8)	0	0	(2)
MSCI Asia Pac (inc JP)	141		0	1	3	3	0	1	1	3
MSCI Asia Pac x JP	457		0	0	(0)	(2)	(4)	0	0	(2)
MSCI Asia x JP	562									
MSCI Far East x JP	527		(0)	(1)	(0)	(0)	(1)	(0)	(0)	(0)
MSCI Emerging Asia	453		(0)	(1)	(1)	(1)	(1)	(0)	(0)	(1)
MSCI EM Latin America	2,457		3	1	4	(8)	(24)	2	2	(10)
MSCI EMMEA	269		2	4	3	(1)	(15)	1	1	(0)
MSCI Frontie	571		3	2	6	(3)	(15)	3	3	(6)
MSCI Asia x JP Small Cap	1,061		(0)	(2)	3	4	(0)	(1)	(1)	4
China - Shanghai Composite	3,878	6.2	9	(19)	6	19	94	(5)	(5)	20
China - H-shares	11,859	7.8	(2)	(8)	(5)	(1)	18	(4)	(4)	(1)
Hong Kong - HSI	24,901	7.8	(1)	(2)	1	5	11	(1)	(1)	6
Taiwan - TAIEX	8,914	31.0	(1)	1	3	0	(6)	(1)	(1)	(2)
Korea - KOSPI	2,031	1,130	(0)	2	4	3	(5)	1	1	3
Singapore - STI	3,280	1.4	2	3	6	(2)	(4)	3	3	(4)
Malaysia - KLCI	1,716	3.8	2	2	0	(6)	(20)	4	4	(10)
Thailand - SET	1,485	33.9	3	3	2	(5)	(3)	2	2	(4)
Indonesia - JCI	4,859	13,314	1	4	(4)	(11)	(13)	3	3	(13)
Philippines - PSEi	7,393	45.1	2	5	(0)	0	7	2	2	2
India - Sensex	27,661	63.4	2	9	4	(0)	7	4	4	0
Vietnam - Ho Chi Minh	627	21,810	6	14	22	9	8	10	10	13
Australia ASX 200	5,492	1.3	2	1	(1)	(8)	(16)	1	1	(8)
New Zealand - NZX50	5,725	1.5	2	(3)	(3)	(11)	(11)	3	3	(12)
Japan - Nikkei 225	19,780	122.7	0	4	8	12	11	2	2	11
Japan - TOPIX	1,584	122.7	(0)	2	8	12	8	1	1	10
S&P 500	2,077	1.0	4	4	9	2	10	5	5	1
Russell 2000	1,252	1.0	4	4	9	6	12	4	4	4
FTSE 100	6,673	1.6	5	3	10	6	(5)	5	5	1
Euro Stoxx	3,529	1.1	7	4	7	10	(4)	8	8	4

Source: Maybank Kim Eng, Factset, MSCI, data as of 10 July *2015*

Figure 19: Equity performance by MSCI Asia ex Japan sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	**562**	**(4)**	**(5)**	**(10)**	**(1)**	**(4)**	**(4)**	**(4)**	**(0)**
Energy	**541**	**(5)**	**(6)**	**(11)**	**(3)**	**(19)**	**(6)**	**(6)**	**(2)**
Materials	**286**	**(5)**	**(6)**	**(9)**	**(0)**	**(14)**	**(6)**	**(6)**	**0**
Industrials	**177**	**(2)**	**(4)**	**(7)**	**7**	**(3)**	**(3)**	**(3)**	**6**
Capital goods	165	(2)	(4)	(6)	10	(6)	(3)	(3)	9
Transportation	214	(2)	(4)	(11)	(4)	5	(3)	(3)	(2)
Consumer discretionary	**442**	**(4)**	**(5)**	**(17)**	**(12)**	**(27)**	**(4)**	**(4)**	**(12)**
Automobiles & Components	677	(6)	(7)	(21)	(19)	(31)	(7)	(7)	(17)
Retailing	275	(4)	(3)	(9)	(1)	(9)	(3)	(3)	(2)
Consumer staples	**439**	**(3)**	**(1)**	**(6)**	**4**	**(1)**	**(3)**	**(3)**	**5**
Food/staples retail	120	(2)	(1)	4	6	(9)	(3)	(3)	5
Food/beverage/tobacco	365	(1)	(1)	(8)	(4)	(12)	(1)	(1)	(3)
Health care	**800**	**1**	**(0)**	**(10)**	**8**	**19**	**0**	**0**	**10**
Financials	**328**	**(4)**	**(7)**	**(9)**	**1**	**7**	**(5)**	**(5)**	**1**
Banks	264	(5)	(7)	(7)	(1)	2	(5)	(5)	(2)
Diversified financials	620	(7)	(14)	(13)	8	18	(10)	(10)	9
Insurance	318	(4)	(6)	(10)	8	29	(6)	(6)	9
Real estate	191	(3)	(5)	(11)	(2)	1	(4)	(4)	(0)
Technology	**353**	**(4)**	**(4)**	**(12)**	**(2)**	**(8)**	**(4)**	**(4)**	**(1)**
Software services	1824	(4)	(3)	(9)	3	6	(3)	(3)	11
Tech hardware	174	(4)	(4)	(14)	(5)	(11)	(4)	(4)	(5)
Semiconductors/equipment	345	(5)	(5)	(10)	(3)	(9)	(4)	(4)	(5)
Telecoms	**151**	**(2)**	**(2)**	**(10)**	**(0)**	**6**	**(2)**	**(2)**	**1**
Utilities	**222**	**(2)**	**(4)**	**(10)**	**(6)**	**(7)**	**(4)**	**(4)**	**(6)**

Source: Maybank Kim Eng, Factset, MSCI, data as of 10 July 2015

Figure 20: Equity performance by MSCI Asia ex Japan sector – relative performance

		--- Relative performance MSCI Asia ex Japan ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	**562**								
Energy	**541**	**(2)**	**(1)**	**(1)**	**(2)**	**(15)**	**(2)**	**(2)**	**(2)**
Materials	**286**	**(1)**	**(1)**	**1**	**0**	**(10)**	**(1)**	**(1)**	**0**
Industrials	**177**	**2**	**1**	**3**	**7**	**1**	**1**	**1**	**7**
Capital goods	165	2	1	4	11	(2)	2	2	9
Transportation	214	1	1	(1)	(3)	10	1	1	(1)
Consumer discretionary	**442**	**(0)**	**(0)**	**(7)**	**(12)**	**(23)**	**0**	**0**	**(12)**
Automobiles & Components	677	(2)	(2)	(10)	(18)	(27)	(3)	(3)	(17)
Retailing	275	(1)	2	1	0	(5)	1	1	(2)
Consumer staples	**439**	**0**	**4**	**4**	**5**	**3**	**2**	**2**	**5**
Food/staples retail	120	1	4	14	7	(5)	2	2	6
Food/beverage/tobacco	365	3	4	2	(3)	(8)	3	3	(3)
Health care	**800**	**4**	**5**	**0**	**9**	**23**	**4**	**4**	**10**
Financials	**328**	**(1)**	**(2)**	**1**	**2**	**11**	**(1)**	**(1)**	**1**
Banks	264	(1)	(2)	3	(1)	6	(1)	(1)	(2)
Diversified financials	620	(4)	(9)	(3)	9	22	(6)	(6)	9
Insurance	318	0	(1)	0	9	33	(2)	(2)	9
Real estate	191	1	0	(1)	(1)	5	0	0	(0)
Technology	**353**	**(0)**	**1**	**(1)**	**(1)**	**(4)**	**0**	**0**	**(1)**
Software services	1824	0	2	1	4	10	1	1	12
Tech hardware	174	0	1	(4)	(4)	(7)	0	0	(5)
Semiconductors/equipment	345	(1)	0	0	(2)	(5)	(0)	(0)	(5)
Telecoms	**151**	**2**	**3**	**0**	**1**	**10**	**2**	**2**	**1**
Utilities	**222**	**1**	**1**	**(0)**	**(5)**	**(3)**	**1**	**1**	**(6)**

Source: Maybank Kim Eng, Factset, MSCI, data as of 10 July 2015

Figure 21: MSCI country valuation

	PE (x)			EPS growth YoY (%)			ROE(%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	13.5	12.4	11.2	8	9	10	12	11	11	1.6	1.4	1.3	2.6	2.7	3.0
China	10.9	10.5	9.3	6	7	13	14	13	13	1.5	1.4	1.2	3.0	2.9	3.3
Hong Kong	14.0	16.5	15.0	31	(18)	10	10	8	8	1.4	1.3	1.2	3.4	2.9	3.1
Taiwan	14.6	12.4	11.6	28	11	7	13	13	13	1.9	1.6	1.5	2.9	3.9	4.2
Korea	12.3	9.7	9.1	(8)	28	6	9	10	9	1.1	0.9	0.9	1.4	1.6	1.8
Singapore	13.9	13.6	12.6	15	0	8	10	9	10	1.4	1.3	1.2	3.5	3.7	4.0
Malaysia	17.3	15.9	14.5	4	7	10	12	11	11	2.0	1.8	1.7	3.0	3.2	3.4
Thailand	18.3	14.7	12.9	(23)	21	14	12	13	14	2.2	2.0	1.8	2.8	3.1	3.4
Indonesia	17.3	15.1	13.3	11	4	14	20	18	18	3.5	2.7	2.4	2.2	2.5	2.7
Philippines	22.7	19.8	17.5	23	13	13	14	14	14	3.3	2.8	2.5	2.0	1.9	2.0
India	21.4	19.8	16.7	9	14	19	15	15	16	3.2	3.1	2.7	1.4	1.5	1.7
Japan	17.2	15.8	14.2	20	14	12	9	9	9	1.5	1.4	1.3	1.7	1.9	2.1
US (S&P 500)	18.2	17.5	15.7	5	5	12	14	15	16	2.8	2.7	2.5	2.0	2.1	2.2
Europe (Euro Stoxx)	18.6	15.2	13.7	15	38	11	9	9	9	1.5	1.5	1.5	3.7	3.5	3.8

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 10 July 2015

Figure 22: MSCI Asia ex-Japan sector valuation

	PE (x)			EPS growth YoY (%)			ROE(%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	13.5	12.9	11.7	8	10	10	12	11	12	1.6	1.5	1.3	2.6	2.6	2.9
Energy	12.6	14.6	11.3	(22)	(11)	29	9	7	9	1.1	1.1	1.0	3.1	2.4	3.0
Materials	19.0	14.7	12.6	(13)	46	16	6	8	9	1.1	1.1	1.1	2.5	2.6	2.7
Industrials	20.6	15.8	13.7	14	53	16	7	9	9	1.4	1.4	1.3	2.8	2.1	2.3
Capital goods	18.7	15.3	13.0	15	51	17	7	8	9	1.3	1.3	1.2	3.1	2.0	2.2
Transportation	25.2	27.9	17.1	15.5	11	61	10	6	9	9	1.6	1.5	1.4	2.1	2.4
Consumer discretionary	11.1	12.0	11.0	9.8	(5)	5	12	14	13	13	1.7	1.4	1.3	2.3	2.5
Automobiles & Components	8.3	8.7	7.7	7.0	(5)	6	11	15	14	13	1.3	1.1	0.9	1.7	2.2
Retailing	18.0	16.4	14.1	(2)	22	17	8	9	10	1.5	1.5	1.4	1.8	1.6	2.0
Consumer staples	25.3	26.5	23.6	20.5	5	24	15	12	13	13	3.1	3.0	2.7	1.8	1.8
Food/staples retail	25.3	26.7	26.1	21.7	(16)	34	20	7	8	9	2.0	2.0	1.9	1.8	1.8
Food/beverage/tobacco	22.5	23.1	19.9	17.5	6	21	13	12	12	13	2.6	2.4	2.2	2.1	2.1
Health care	29.3	28.2	22.7	28	23	24	14	15	16	4.2	4.3	3.7	0.8	0.8	0.9
Financials	11.0	11.0	10.1	14	9	9	11	11	11	1.3	1.2	1.1	3.1	3.1	3.3
Banks	8.8	8.8	8.2	9	7	7	14	13	13	1.2	1.1	1.0	3.9	3.7	4.0
Diversified financials	15.3	15.9	15.2	13.6	51	36	12	12	14	14	2.0	2.1	1.9	2.3	2.6
Insurance	17.1	16.7	14.9	41	15	12	12	11	11	2.0	1.8	1.7	1.3	1.4	1.6
Real estate	13.3	13.3	12.0	7	(1)	11	7	6	7	0.9	0.8	0.8	3.3	3.2	3.4
Technology	14.3	12.7	11.6	6	9	10	16	15	15	2.3	2.0	1.7	1.8	2.3	2.5
Software services	29.3	32.0	27.7	22.8	28	21	21	25	23	23	7.9	6.5	5.3	0.8	0.9
Tech hardware	10.8	10.8	9.9	9.1	37	5	8	13	13	12	1.4	1.2	1.1	2.1	2.6
Semiconductors/equipment	13.2	13.8	11.5	10.7	48	13	8	20	20	19	2.8	2.3	2.0	2.2	3.1
Telecoms	18.8	16.9	15.6	0	9	8	12	12	12	2.3	2.1	1.9	3.2	3.4	3.6
Utilities	9.4	11.1	12.5	100	(14)	(11)	16	13	11	1.6	1.4	1.3	2.8	3.0	3.2

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 10 July 2015

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