Market Focus

Asia strategy

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 June 2018

Safety First

- **June events shaping up to a volatile 3Q**
- **Recent correction presents bargain hunting opportunities on technical rebound but upside may be limited; market indices unlikely to return to January's peak this year**
- **Picture for 2H doesn't look pretty as global liquidity could tighten further to dampen risk appetite**
- **More upside risks for the US dollar and US bond yields to weigh on Asia equities in 2H18**
- **Be highly selective – Overweight HK/China and Singapore which are relatively safe-haven plays. Despite fears of the trade war escalating, we believe China/HK are relatively safe from further sell off as most companies derive their earnings from the domestic economy and its valuation has fallen below average for the first time in the past 5 years**
- **Neutral on highly volatile EM ASEAN, but not Underweight, due to lower valuations after the recent sharp sell-down. Fundamentals are still strong to support bargain-hunting activities**
- **We have a non-consensus Overweight on Malaysian equities as fiscal and debt concerns are overblown; the overhang will ease when new budgets (2018 revised and 2019) are announced**
- **Favourable risk/return reward in Korea as geopolitical risks ease for now after the US-North Korea summit**
- **India and Taiwan are our Underweights as relative resilience so far pose downside risk and limit upside potential on rebound**
- **Our key stock and sector picks focus on domestic stocks which will not be impacted by trade wars, beneficiaries of rising interest rates and those which are not exposed to currency weakness. Key picks are in the Banks and Oil & Gas sectors as well as several sectors in China which are the focus of reforms.**

Regional equity strategist

Joanne Goh +65 6878 5233
joannegohsc@dbs.com

Regional Research Team
equityresearch@dbs.com

Fig. 1: 3Q18 Asia market recommendations

Overweight	Neutral	Underweight
China/Hong Kong Singapore Malaysia	Philippines Indonesia Thailand Korea China 'A'	Taiwan India

Source: DBS Bank. Notes: Overweight — To hold more weight than the benchmark weight; Neutral — To hold the same as the benchmark weight; Underweight — To hold less weight than the benchmark weight

Fig. 2: Regional markets' earnings growth and PE valuations

	P/E (x)						Earnings growth		
	10-yr Avg	-1SD	+1SD	2018F	2019F	12m Fwd	2017	2018F	2019F
Hong Kong									
HSI	11.1	9.7	12.5	12.4	11.3	11.8	14.2	13.7	9.2
H-share	8.0	5.9	10.1	10.7	9.7	10.1	14.7	13.9	10.5
MSCI China	10.7	8.8	12.6	13.6	11.7	12.6	25.6	17.1	16.0
MSCI HK	14.9	13.5	16.4	16.1	15.1	15.5	15.3	10.3	6.7
China 'A'	13.5	10.6	16.4	14.3	***12.2***	***13.2***	18.8	21.0	16.6
Singapore	13.2	12.0	14.4	13.5	***12.5***	***13.0***	7.3	15.6	8.7
Korea	9.5	8.5	10.4	***8.9***	***8.4***	***8.6***	47.7	17.0	6.0
Taiwan	14.2	10.9	17.4	14.3	***13.3***	***13.8***	14.3	5.5	7.0
India	15.4	13.2	16.6	19.2	16.1	18.3	-0.9	27.6	19.1
Malaysia	14.8	13.5	16.0	16.4	15.4	15.8	-1.4	6.0	6.9
Thailand	12.0	10.0	14.0	15.2	14.2	14.7	11.5	6.6	7.2
Indonesia	13.7	11.7	15.7	15.0	***13.5***	14.2	15.0	12.4	11.7
Philippines	16.4	13.8	19.0	18.0	***16.0***	17.0	3.8	7.7	12.0
Asia ex-J	11.7	10.5	12.9	12.8	***11.6***	12.6	23.4	14.9	11.0
US	14.6	12.5	16.7	17.5	16.0	16.7	11.8	22.1	9.9
Japan*	14.7	11.0	18.3	***12.9***	***12.3***	***13.8***	3.6	9.2	5.1
Europe	12.5	10.3	14.7	14.6	13.5	14.0	15.0	9.0	8.2
DM	13.9	11.9	16.0	16.3	15.0	15.6	16.3	15.4	9.0
EM	11.0	9.8	12.2	12.4	11.1	11.8	22.3	15.9	11.5

Source: IBES, Datastream, DBS Bank. Japan based on March year-end one-year forward. Numbers in bold are lower than average PE. Greyed cell numbers are more than +1SD.*

Table of Contents

Fig. 3 — Top stock ideas for Singapore and Hong Kong

Company	Bloomberg Code		Price (S$) 25-Jun	12-mth Target Price (S$)	% Upside	Rcmd	PE (x) 18F	P/BV (x) 18F	Div Yield (%) 18F	EPS Growth (%) 18F
SINGAPORE										
UOB	UOB SP Equity	S$	26.22	33.20	27%	BUY	10.4x	1.1x	3.8%	10.0%
UOL Group	UOL SP Equity	S$	7.45	10.23	37%	BUY	12.3x	0.6x	2.3%	-17.9%
Ascendas REIT	AREIT SP Equity	S$	2.58	3.00	16%	BUY	17.3x	1.2x	6.2%	0.6%
Dairy Farm (US$)	DFI SP Equity	S$	8.89	9.77	10%	BUY	23.2x	6.2x	2.4%	8.4%
Sheng Siong	SSG SP Equity	S$	1.02	1.21	19%	BUY	21.0x	5.2x	3.3%	7.7%
Thai Beverage Public	THBEV SP Equity	S$	0.75	1.02	36%	BUY	17.6x	3.2x	3.0%	21.2%
Keppel Corp	KEP SP Equity	S$	7.15	10.20	43%	BUY	13.0x	1.1x	3.1%	22.9%
Sembcorp Marine	SMM SP Equity	S$	2.02	2.90	44%	BUY	79.2x	1.7x	1.0%	127.7%
CDL Hospitality Trust *	CDREIT SP Equity	S$	1.61	2.00	24%	BUY	16.3x	1.1x	6.3%	4.1%
Genting	GENS SP Equity	S$	1.20	1.49	24%	BUY	19.0x	1.8x	3.3%	5.3%
CHINA / HONG KONG										
Ping An Insurance	2318 HK	HK$	74.50	115.00	54%	BUY	n.a.	11.8x	2.6%	2.1%
AIA Group	1299 HK	HK$	67.20	90.68	35%	BUY	n.a.	18.7x	1.8%	2.2%
Yixin Group Limited	2858 HK	HK$	3.33	5.80	74%	BUY	n.a.	265.2x	0.0%	1.1%
China Construction Bank	939 HK	HK$	7.31	10.56	44%	BUY	8.7x	5.8x	5.2%	0.8%
China Merchants Bank	3968 HK	HK$	29.55	38.70	31%	BUY	14.3x	7.8x	4.0%	1.2%
CNOOC Ltd	883 HK	HK$	12.64	16.00	27%	BUY	132.2x	8.2x	4.9%	1.1%
Yangtze Optical Fibre and	6869 HK	HK$	31.35	48.70	55%	BUY	13.9x	12.3x	0.0%	2.2%
China Yuhua Education Corp	6169 HK	HK$	5.80	6.50	12%	BUY	12.1x	35.6x	1.4%	4.2%
China Traditional Chinese	570 HK	HK$	6.90	7.40	7%	BUY	10.4x	19.7x	1.6%	1.7%
China Resources Land	1109 HK	HK$	26.50	34.50	30%	BUY	7.2x	7.4x	4.6%	1.2%
Yuexiu Property	123 HK	HK$	1.52	2.08	37%	BUY	5.6x	0.1x	607.4%	0.0%

DPU / DPU Growth
Source: DBS Bank, DBS Vickers, Bloomberg Finance L.P.

Fig. 3 — Top stock ideas for ASEAN markets (Cont'd)

Company	Bloomberg Code		Price (S$) 25-Jun	12-mth Target Price (S$)	% Upside	Rcmd	PE (x) 18F	P/BV (x) 18F	Div Yield (%) 18F	EPS Growth (%) 18F
MALAYSIA										
Public Bank	PBK MK Equity	RM	22.72	26.80	18%	BUY	13.4x	2.0x	3.1%	na
Maybank	MAY MK Equity	RM	9.08	11.50	27%	BUY	11.4x	1.3x	6.6%	7.0%
Hong Leong Bank	HLBK MK Equity	RM	18.12	21.00	16%	BUY	15.1x	1.7x	2.8%	6.6%
Genting Berhad	GENT MK Equity	RM	8.45	11.95	41%	BUY	12.5x	0.9x	0.6%	8.5%
British American Tobacco	ROTH MK Equity	RM	34.10	39.00	14%	BUY	17.0x	23.1x	5.8%	1.0%
Bumi Armada	BAB MK Equity	RM	0.72	1.05	47%	BUY	8.5x	0.7x	3.0%	11.8%
Sapura Energy	SAPE MK Equity	RM	0.66	1.05	60%	BUY	nm	0.4x	0.0%	-11.0%
Hibiscus Petroleum	HIBI MK Equity	RM	0.87	1.46	68%	BUY	6.7x	1.2x	0.0%	na
Wah Seong Corp	WSC MK Equity	RM	1.30	1.90	46%	BUY	8.2x	1.0x	3.7%	4.3%
KPJ Healthcare	KPJ MK Equity	RM	1.01	1.30	29%	BUY	23.4x	2.3x	1.7%	8.4%
SKP resources	SKP MK Equity	RM	1.42	2.30	62%	BUY	13.8x	3.2x	3.6%	38.8%
Unisem	UNI MK Equity	RM	2.48	2.80	13%	BUY	17.5x	1.2x	4.4%	25.8%
INDONESIA										
Bank Central Asia	BBCA IJ Equity	Rp	22,200.00	27000.00	22%	BUY	20.6x	3.6x	1.3%	15.1%
Bank Mandiri	BMRI IJ Equity	Rp	6,700.00	9400.00	40%	BUY	12.5x	1.8x	3.1%	22.2%
Astra International	ASII IJ Equity	Rp	6,600.00	8500.00	29%	HOLD	12.1x	2.0x	3.7%	2.1%
Mitra Adiperkarsa	MAPI IJ Equity	Rp	855.00	970.00	13%	BUY	2.2x	0.3x	4.7%	14.2%
Indofood CBP Sukses Makmur	ICBP IJ Equity	Rp	8,750.00	10200.00	17%	BUY	23.1x	4.6x	2.2%	10.6%
Adaro Energy	ADRO IJ Equity	Rp	1,870.00	2800.00	50%	BUY	7.4x	1.1x	6.8%	5.4%
THAILAND										
AP Thailand	AP TB Equity	Bt	8.80	10.00	14%	BUY	7.9x	1.1x	4.0%	-0.9%
Land & Houses	LH TB Equity	Bt	11.50	12.80	11%	BUY	14.0x	2.6x	6.5%	na
Central Pattana	CPN TB Equity	Bt	69.25	85.00	23%	BUY	24.9x	4.6x	1.6%	na
CP ALL	CPALL TB Equity	Bt	75.25	95.00	26%	BUY	29.8x	7.6x	1.7%	na
Home Products Center	HMPRO TB Equity	Bt	13.40	17.50	31%	BUY	31.1x	8.8x	2.4%	14.3%
CH Karnchang	CK TB Equity	Bt	25.75	30.00	17%	BUY	27.3x	1.8x	1.5%	na
Indorama Ventures	IVL TB Equity	Bt	54.50	71.00	30%	BUY	13.3x	2.1x	2.6%	20.1%
Airports of Thailand	AOT TB Equity	Bt	64.00	75.00	17%	BUY	35.2x	6.1x	0.9%	na
The Erawan Group	ERW TB Equity	Bt	6.60	10.50	59%	BUY	28.7x	3.0x	1.4%	na
PHILIPPINES										
Bank of Philippine Islands	BPI PM Equity	P	87.80	113.00	29%	BUY	13.1x	1.6x	2.3%	13.7%
Ayala Land	ALI PM Equity	P	36.30	49.00	35%	BUY	17.6x	3.0x	1.8%	9.4%
San Miguel F&B	FB PM Equity	P	60.95	95.00	56%	BUY	15.5x	2.0x	1.2%	-4.7%
Megawide Construction	MWIDE PM Equity	P	20.50	29.10	42%	BUY	29.8x	2.7x	0.2%	85.0%
Cirtek Holdings	TECH PM Equity	P	49.00	51.80	6%	BUY	29.1x	10.3x	1.6%	51.3%
Manila Electric	MER PM Equity	P	336.60	352.00	5%	BUY	18.6x	5.1x	5.4%	2.4%

Source: DBS Bank, DBS Vickers, First Metro Securities, Bloomberg Finance L.P.

Events in June shaping up to a volatile 3Q

We believe the numerous political and economic events in June will shape the market outlook in the second half of the year. G7 meeting in Quebec, followed by President Trump's summit with Leader Kim Jong Un in Singapore, the meetings of the four central banks namely the Federal Reserve, ECB, BOJ and PBOC, and US opening salvo on trade war with the imposition of a 25% tariff on $50 billion of Chinese exports followed by China's swift retaliation. Street is also concerned that the strong growth surveys at the start of the year may be moderated.

We reckon the outlook is not going to be pretty in the second half. Save for a technical rebound in the 3Q, we think most Asia indices are unlikely to return to their January's peak this year. Tightening global liquidity, rising interest rates, USD strengthening, slowing growth, escalating global trade war disputes which are unlikely to end before US mid-term elections in November will continue to test investors' nerves. As risks have increased, investors should be more prepared for volatility.

Fig. 4: key event risks in 2H18 to watch out for

	Trade war	Bond yields / dollar	Political risks
July	Trade war to turn to Europe and NATO countries	Fed stepped up QT to US$24bn, watch for bond yields to rise	Italy, Spain, Greece, Turkey Brazil, Argentina
August			
September		US 25bps rate hikes expected	Japan leadership elections
October		EZ reduces QE	
November	Mid-term elections to see if Trump trade policy uncertainty will fade		
December		EZ QE ends, watch for EZ bond yields to rise; Fed hikes 25bps, guidance for rate hikes 2019	
2019	End of growth cycle, crisis of confidence on Trump/ US, geopolitical risks in ME, China's debt building and deleveraging,		

Source: DBS Bank

Global liquidity – US and Europe tightened, BOJ continues easing, PBOC injects liquidity

Following the meeting in June, Fed is sticking to its interest rate normalising plan with two more rate hikes this year and the quantitative tightening schedule with accelerating balance sheet reduction. The ECB has also announced at its meeting the reduction by half, its bond buying to EUR15 billion a month by October and terminate the QE program entirely by year-end. Notwithstanding the continuous easing by BOJ and the latest RRR (reserve requirement ratio) cut by PBOC, we think global liquidity will continue to tighten in Q3.

US Bond yields holding up with risks to the upside

US bond yields have stayed at below the 3% psychological level after touching a high of 3.12% in Q2. The issue lies with how USD rates are going to react amid a hawkish Fed and trade war risks (risk aversion vs the potential of higher US price pressures). We think that US rates are unlikely to head lower unless US economic indicators start to falter, which has not happened. US macro data appears to be holding relatively better than the rest of the world, thereby accounting for the underperformance in USD rates. That said, there appears little urgency for USD rates to push much beyond 3%, close to where the Fed currently thinks long-term neutral should be. And for now, the market appears to be much more concerned about Italian politics than about trade wars.

Stronger USD ahead

The Fed's hawkish outlook has been the trump card for the US dollar in 2018. Our view for four Fed hikes this year was affirmed at the FOMC meeting on 13 June. With other major central banks on hold this year, the US dollar is widening its positive rate and bond yield differentials against the euro, the British pound, the Australian dollar and the Japanese yen. With Fed Funds Rate at its 2% inflation target, the Fed has started communicating that its monetary stance cannot stay loose indefinitely. Hence, the DXY Index is now better positioned to move into a higher 95-100 range.

The euro is set to break into a lower 1.10-1.15 range

Speculators need to trim their excessively long euro positions. The 2018 growth outlook for the Eurozone was, for the second time this year, downgraded this week. The first downgrade in mid-April paved the way for the euro's fall from 1.24 to 1.16. In ending its asset purchases programme later in December instead of September, the European Central Bank (ECB) has torpedoed the market's attempt to bring forward rate hikes to 2019. Italy's populism/Euroscepticism remains a threat to the unity and integrity of the single market.

EM Asia currencies catching up to dollar's strength, but resilient to Argentina peso and Turkish Lira sell-off

The Thai baht, one of the top three performing currencies this year, has given up its gains this week. As far as Thai policymakers are concerned, the baht is simply playing catch up to the US dollar's strength. Similarly, the Chinese yuan and Malaysian ringgit are within striking distances of their end-2017 levels (at 6.51 and 4.05 respectively). US-led trade tensions are likely to simmer and intensify into the US mid-term elections in November. China's dampened economic outlook was best reflected by the (13% YTD) fall in the Shanghai Composite Index to its lowest levels since June 2016. Trade protectionism worries were also evident in the weaker external outlook for the Eurozone.

Three of Asia's weakest currencies this year – the Philippine peso (-6.6% YTD as of 21 June), the Indian rupee (-6.1%) and the Indonesian rupiah (-3.8%) – have hiked rates in the past two months. They have not been immune to emerging market stress but their relatively stronger fundamentals have made them resilient to the sell-offs in the Argentinian peso (-32.3%) and Turkish lira (-19.5%).

Despite its weakness against the US dollar, the Sing dollar has been relatively strong. The Sing dollar has dropped 1.6% YTD against the USD vs the 2.4% fall in value of its basket of currencies. This is achieved despite the multiple challenges it faces – rising US rates, trade protectionism, financial market volatility, and emerging market stress.

Earnings upgrade trend in Asia has since flattened out and bear downside risks

There were mixed revisions after the 1Q results season. The strongest downward revision (between March and May) was recorded in Taiwan, and the strongest upward revision in India. For Taiwan, the disappointments came from the Tech sector after an exceptionally strong recovery last year. As the global synchronised recovery starts to show signs of fatigue, earlier high expectations that the recovery is sustainable will have to be toned down. As for India, we believe the strong earnings growth expectation of 27.6% is too good to be true in our view, judging from the past years' history of downgrades throughout the year when analysts tend to be overly bullish at the beginning of the year.

EM ASEAN countries including Malaysia, Thailand, Indonesia and Philippines also recorded marginal negative revisions. Upside earnings surprise is seen with Singapore Banks, prompting us to upgrade the Singapore Straits Times Index (STI) as a result. Companies in China/Hong Kong generally met expectations.

Sizing up earnings impact from bottom up

Asia's market cap composition suggests that about 12% are exposed to the energy and materials sector which should benefit from rising oil prices. Cyclical sectors make up 41% of total market cap which means these sectors are likely to be negatively affected by rising oil prices. Higher interest rates should bode well for Banks' net interest margin expansion in general, but the negative sensitivity of high interest rates on loan growth remains a concern. Save for some companies with a large direct USD exposure due to asset/liability or revenue/cost mismatch, the weakness in domestic currencies is more of a macro concern affecting total USD returns and foreign risk appetite, rather than having an overall material impact on earnings.

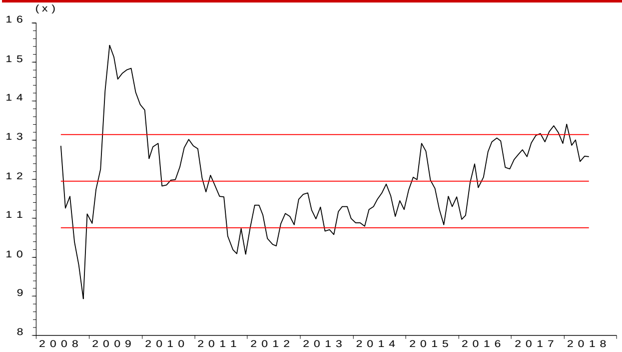
In the near term, macro headwinds of volatility in the currencies, oil prices, interest rates and trade wars should pose further risks to Asia corporate earnings for most sectors and we expect more downgrades by the street in the second half.

We recommend investors to seek refuge in the oil & gas and commodity sectors as earnings from these sectors should stay resilient in view of the rising commodity prices. We are also positive on banks as selective banks whose earnings are more sensitive to net interest margin than loan growth, and those with higher CASA ratios (ratio of current and savings account to total deposits) for low costs of funds should benefit in in a rising interest rate environment.

Valuations at above average still at risk of de-rating

In terms of valuations, Asia ex-Japan now trades at above average, indicating that markets still have room for equity risk expansion.

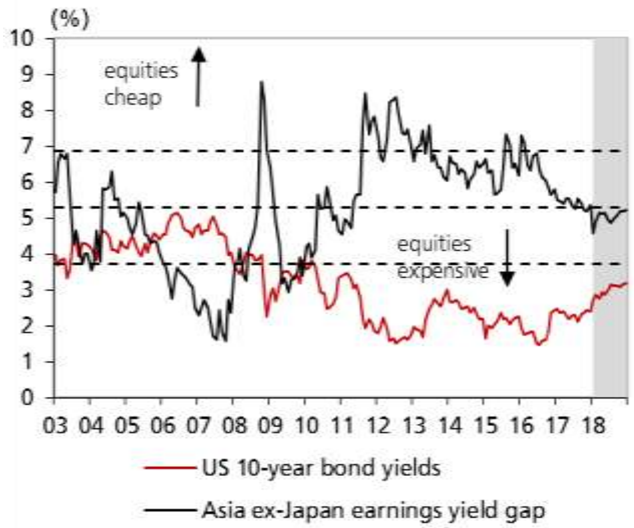
Fig. 5: MSCI Asia ex-Japan valuations



Source: Datastream, IBES, DBS Bank

Implied equity risk premium, measured as earnings yield minus bond yields currently sits at average levels after taking into account bond yields to rise to 3.2% by year end and for earnings to grow at 13% in the next two years. This suggests that the market has adequately priced in earnings and interest rate risks but there is insufficient cushion for disappointments. With bond yields bound to rise further, and earnings growth to decline, the implied premium may have room to fall.

Fig. 6: Asia earnings yield minus 10-year US bond yields



Source: Datastream, IBES, DBS Bank. Shaded area with forecasts of US bond yields rising to 3.2% and earnings growth of 14.9% and 11% for 2018/19 respectively.

Strategy and asset allocation

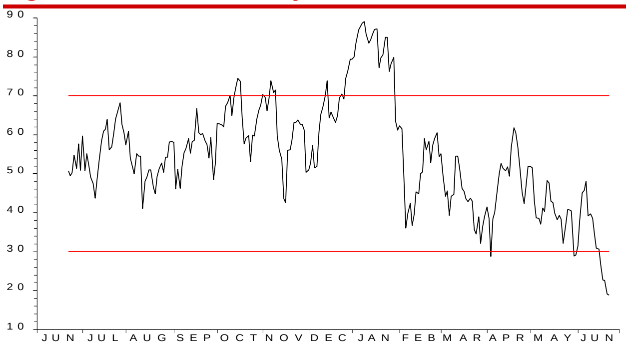
We expect the following outcomes on Asia equities from the change in global macro conditions:-

1. **Asia currencies still have room to fall further in a rising dollar environment**. Liquidity-driven markets such as Indonesia, India and the Philippines are vulnerable to further reduction in risk appetite affecting foreign inflows. These markets may have to raise rates further to support their currencies, thereby affecting their domestic growth outlook.
2. **Asia exports growth are likely to see the peak behind us**. Exports-oriented economies such as Korea, Taiwan, Singapore and China could see economic growth undermined by the ongoing trade war spats. The regional strategy team expect growth downgrades in these economies.
3. **Inflation risks, although now benign could start to emerge as domestic currencies weaken and interest rates start to rise.**
4. **Broader EM contagion risks spreading from Argentina, Brazil and Turkey to Asia, when politics and financial risks surface together**. Financial markets disorder such as higher inflation and interest rate volatility, if extended for too long, could evolve into a political crisis. Indonesia, Thailand and India will face elections next year.
5. Likewise, tensions surrounding Italy and Spain could flare up, helping the dollar outlook to strengthen further. **Valuations in Asia markets could potentially test Eurozone crisis levels**.
6. **Investors will stay risk averse on higher bond yields**. Higher bond yields should reinforce a strong USD outlook and global liquidity tightening, negative for equities.
7. **The Fed is likely to continue on its tightening path through next year**. A flat yield curve could suggest a premature slowdown, in addition to the peaking growth concerns that investors have to grapple with. Recession risks could emerge next year.
8. Asia markets total return outlook will be eroded by a strong USD if the USD strengthening trend continues. **Hence, the turn of the USD will be a key risk factor to watch for the current volatility to be over**. For now, we think that It is too early to conclude that the worst is over in view of our USD view by the macro team.

Four downgrades and two upgrades

Asia markers are all likely to be adversely affected by concerns over peaking growth and strong USD as well as rising domestic inflation and interest rates. We see higher interest rates and the risk of further growth slowdown going into next year. We therefore make a few cuts, including downgrading the Philippines, Indonesia and Thailand to Neutral. We are not Underweight in these markets as we believe domestic liquidity should support these markets as equity valuations are lower now. Given the high volatility (greater upside / downside) in these markets and technical indicators that suggest they are oversold, we think downside risks are quite limited on a 3-month view.

Fig. 7: MSCI ASEAN 14-day RSI



Source: Datastream, DBS Bank

The risks of contagion could lead to downside risks on the most resilient markets. We are downgrading India to Underweight while keeping Taiwan as Underweight. We think there is a risk that India may be the next market to fall given that it has been relatively resilient, despite the fact that its currency has continued to weaken. Its valuations have not fallen like the other emerging ASEAN markets, and we believe there is the risk of earnings being cut. In the near term, a technical rebound for Indian equities may be out of question. The market remains sensitive to the interest rate outlook, and we think further rate hikes are possible given the higher inflation and weak rupee.

The Taiwan market is less volatile compared to other Asian countries. Room for upside may be limited as its growth prospects are not exciting and the market comes with downside risks, in our view. Apple-related stocks are sensitive to Apple news and we see it as a main downside risk for the market. Its longer-term re-rating is unlikely given Taiwan's strained political relationship with China.

Korea is a Neutral for us. South Korea's equity market has always been one of the cheapest in Asia in terms of valuations. It trades at a huge discount due to North Korea, so anything significant that comes out of that country regarding the peace process could have a major impact on valuations. Near-term geopolitical risks on the North Korea peninsular should ease after the US-North Korea summit. The certainly of peace could help lift South Korean stocks by pricing in possible 'peace dividends', although the gains may be limited by global conditions. In addition to geopolitical instability, South Korean companies have long traded at a discount relative to their global peers due to concerns over corporate governance and the lack of transparency. Yet recent reforms including a stewardship code and measures by "chaebol" conglomerates to trim cross-shareholdings have helped boost confidence. We believe there is a favourable risk-reward ratio from investing in Korean stocks at current levels.

We like China/Hong Kong and Singapore as relative safe havens. Domestic policies in these two countries are flexible and remain growth-driven. Long-term policies are in place to transform the economies to being services-oriented. Valuations here are lower compared to other countries. Their currencies should be relatively stable compared to other countries.

We have a non-consensus Overweight in Malaysia. We believe its fiscal and debt concerns are overblown and could be demystified once a revised 2018 budget and 2019 budget are out later in the year. Events and developments in the next two years should be fast moving to make up for the last five years. Meanwhile, the equity market has corrected together with the ringgit, but we think the corrections are in line with emerging market sell-offs and USD strength. Malaysia holds a positive current account balance, and is a net oil exporter in Asia, and its vulnerability should be considered smaller than other CAD countries. AllianceDBS economist (DBS Group Research JV partner in Malaysia) recently upgraded 2018 GDP forecast to 5.6% (+5.4% previously). Private consumption is expected to expand faster at 9.0%, boosted by the 3-month tax holiday before the re-introduction of sales and services tax (SST). The estimated RM17bn being relinquished from the government's tax coffers will likely translate into higher disposable income for consumers, thus allowing them to consume more. This in turn will spur domestic economic activity with potential multiplier effects. AllianceDBS also expects price pressures to remain stable throughout 2018 as a result of the removal of GST and proposed reintroduction of targeted fuel subsidies, further boosting consumer confidence.

Philippines followed up with another 25bps hike this month, taking the benchmark repo rate to 3.50%. However, with the real policy rate still negative (headline CPI is at 4.6% YoY in May) and market-based interest rates (bond yields and swaps) still at elevated levels, we don't think the adjustment (50bps in the current tightening cycle) is sufficient just yet. The regional equity strategy team, however believes that with the BSP now in control of monetary policies to arrest any peso weakness and build-up of inflation, the outlook is more promising than two months ago and the current crisis of confidence should be transient. Investors can look for inflation and the current tightening cycle to peak in the second half amid lower valuations and after foreigner investors have exited this market. We are downgrading the market to Neutral and would be more positive as soon as signs of peaking inflation start to emerge.

By contrast, Thailand's monetary policy remains in an easing mode to support growth. 1Q18 GDP growth of 4.8% was the strongest in five years but we are concerned that the peak is behind us in view of the challenging global trade environment. A high base, high inventory build-up and slow private consumption growth in Q1 point to downside risks in the second half. The robust infrastructure plans, after seeing much delay, could offset the downside risks. Furthermore, Thailand is relatively resilient to the current EM risk sell-off given its strong current account balance. However, a negative carry should suggest further THB weakness. Politics hold the key to any rebound in the Thai market, where a clear poll date could help lift domestic investor sentiments. We expect the election date to be announced soon. On balance, we are downgrading the market to Neutral and not Underweight.

Fig. 8: Asian markets targeted return to year end

		Equities		Currency vs USD		Return (%)		Market
		current	y/e target	current	y/e target	local currency	USD term	Rec
Malaysia	KLCI	1694	1900	4.002	4.2	12.2	6.9	OW
Singapore	STI	3287	3650	1.3583	1.4	12.6	9.2	OW
Thailand	SET	1635	1860	32.93	34	13.8	10.2	N
Indonesia	JCI	5822	6200	14080	14200	6.5	5.6	N
Philippines	PCOMP	7063	8400	53.235	54	18.9	17.2	N
Korea	KOSPI	2357	2800	1112	1200	18.8	10.1	N
Taiwan	TWI	10899	11500	NA	NA	5.5	NA	UW
India	Sensex	35690	36000	67.87	69.5	0.9	-1.5	UW
Hong Kong	HSI	29339	33000	7.8464	7.83	12.5	12.7	OW
China	H-shares	11340	13500	7.8464	7.83	19.0	19.3	OW

Source: DBS Bank

Fig. 9: Asean markets' sector views (White = Neutral, Pink = Overweight, Greyed = Underweight on a regional basis)

	Singapore (OW)	Malaysia (OW)	Indonesia (N)	Thailand (N)	Philippines (N)
Banks	Riding on NIM improvement following sustained rise in SIBOR, loan growth recovery and lower credit costs; improving wealth management business; digitalization to improve costs	Post GE14 loan growth rebound and credit cost normalisation	Interest rate hikes may not bode well for banks in longer term	Beneficiary of recovering economy	Our positive view on banks is hinged on robust loan growth and rising yields environment. Further NIM improvement from even higher loan yields as banks diversify their loan mix to higher-yielding segments, while loan growth is expected to sway towards mid- to high-teen levels. We forecast sector average NIM to rise by 8bps and loan growth to average 16% for 2018.
Property	Property fundamentals are improving with high transaction volume velocity amid rising prices; Strong project sell-through rates and successful land-banking activities to support upward RNAV revisions; Rising interest rates and regulatory concerns overstated	Weak sentiment, low affordability and increasing supply will continue to dampen property sales	Cheap valuations but lack of new launches to undemine earnings; developers with land sales could see better earnings and revaluation. The sector is sensitive to rising interest rates.	Residential: Attractive valuation, with high yield Commercial: Still positive outlook for office and retail properties Industrial: Improving outlook supported by EEC	Key beneficiary of infrastructure and improved transportation. Recurring income and sizeable landbank to support growth/ Sector trading on low valuation. Overhang from interest rate hikes overdone.
- REIT	Yield compression (as a result of rising bond yield) almost done and to be offset by improving demand prospects • Office and hotel sector to lead the Singapore property market recovery; • Interest rate risk substantially hedged with impact of a 1% rise to be modest in the immediate term • High dividend yields reinforce sector attractiveness in times of uncertainty	Improving consumer sentiment positive for retail REITS but office REITS still face oversupply concerns	NA	Stable yields	NA

...cont'd

	Singapore (OW)	Malaysia (OW)	Indonesia (N)	Thailand (N)	Philippines (N)
Consumer	Except for Singapore and Thailand, the consumer sector in Malaysia, Indonesia and Philippines are supported by favourable demographics. A sector to buy on weakness as high valuation has been a concern for the sector. Near term rebound in consumer spending could drive the growth of the sector; cost issues remain a key risk to watch.				
	Recovering economic growth and benign inflation to drive positive sentiments; tourism rebound, e-commerce on low costs delivery options to drive consumption; concerns on on-line cannibilising growth abating; structural changes on population growth and online tax charges to promote long-term growth	Improved consumer sentiments post elections, cheap ringgit and GST removal to promote tourism and retail sales	Discretionary spending bottoming out; stable economic growth still benefit the "haves"	Private consumption growth bottoming out but yet to see strong recovery; Leading players to enjoy cost benefits and stronger GPM from economies of scale	Robust consumer spending but rising inflation to impact sentiments; rising cost on tax reform is a main concern especially weak peso
- Foods and Beverage, tobacco	Regional exposure, resilient earnings	Earnings to improve if new administration successful in clamping down illegal sales (BAT),	Supported by election and government spending ahead of 2019 election	Prolonged challenging environment at both CPF and TU	Consumer spending to improve on tax reform
- Gaming	Recovering tourism supports growth; trades at discount to Macau counterparts	Progressive launches of Genting Integrated Tourism Plan continue to attract visitors while earnings prospects of the number forecast operators (NFO) could improve should the new administration intensify its effort to curb illegal NFOs	NA	NA	NA
- Automotive	NA	Volume and margins set to recover but valuations remain unattractive	Bottoming out on lower sales growth and lost of market share; new model launch serve as catalyst	NA	NA
- Media	Structural decline in adex spending; property RNAV gains to support share price; good dividends in times of uncertainty;	Adex spending should recover from anticipated consumption recovery but structural decline of media continues	Near term catalyst on election spending plus events like World Cup and Asian Games	Beneficiary of recovering economy, but competition to remain intense	NA

…cont'd

	Singapore (OW)	Malaysia (OW)	Indonesia (N)	Thailand (N)	Philippines (N)
- Aviation	Rising yields amid tourism boom; Rising oil price may not be a threat this time round	Improving passenger volume offset by higher fuel cost	Strong USD to weigh on operating and financing costs; oil price not hedged	A beneficiary of strong tourism industry. We expect less domestic competition from last year (for scheduled flights) and some yield improvement this year from lower domestic capacity as some airlines have shifted their scheduled flights to chartered flights. With growing tourist arrivals, we expect to see solid top line growth for most airlines this year. 1Q18 results have confirmed our view.	NA
- Plantation	CPO price outlook (remains lukewarm amid positive production growth; BUY planters with strong CPO yield outlook which should lead to sound revenue growth and profitability performance			NA	
Oil & Gas	Expect higher Brent crude oil prices to average between US$70-75/bbl in 2018 and US$65-70/bbl in 2019 to drive oil majors' capex and stimulate offshore activities				
	Good entry levels for Singapore rigbuilders' as stock prices have fallen back to end 2017 levels	Preference for exposure to upstream production activities, downstream activities or companies with overseas footprint	Positive on coals on higher average coal prices	Market has factored in oil price recovery assumption	NA
Healthcare / Pharmaceuticals	Overseas expansion plans rolling out progressively but gestation period may keep growth muted; 'corporatisation' of medical practices continues to drive growth but valuation is a concern; Long-term positive outlook; near- to medium-term potential drag to growth from start-up and pre-operating losses, overhang on IHH	Cyclical recovery and improved macro conditions. Margin expansion from GST abolishment and MYR recovery	Overhang on Kalbe Farma on USD imports; buy on cheaper valuation Hospitals-Mix impact from universal Insurance. Those who serve the middle and middle low are seeing good volume growth	Weak earnings outlook and too rich valuation	NA

...cont'd

	Singapore (OW)	Malaysia (OW)	Indonesia (N)	Thailand (N)	Philippines (N)
Construction / Contractors	NA	Uncertainty from mega projects review but valuations at multi=year low	Beneficiary of infrastructure but questions on financing/funding.	Beneficiary of rising government infrastructure spending	Beneficiary of "Build Build Build" programme
Petrochemicals	NA	NA	NA	Prefer IVL for volume expansion and improving PET spread	NA
EMS manufacturing	Earnings risk	Proxy for E&E export growth at cheaper valuations	NA	Strong baht is hurting margins	Proxy for E&E export growth; niche sector in Philippines
Utilities	Lack of growth	Stable electricity demand but dragged by policy uncertainty post GE14	Valuation is attractive	NA	Defensive
Telco	Negative industry outlook on potential rising competition with the entry of MyRepublic and TPG; sector offers good dividend yields	Flattish outlook for the mobile players as voice and SMS continued to be cannibalized by data. Fixed line players face challenges from regulatory changes	Recent results have disappointed due to competition and weaker earnings growth. Valuation undemanding now after share price correction	Improving outlook on easing competition	Better earnings outlook
Tourism	Pick up in tourist arrivals and business travellers	Tourism pick up on cheaoer currency and GST removal	NA	Beneficiary of the strong tourism industry	Cebu airport expansion to bring in more tourists; China tourists

Source: DBS Bank

Fig. 10: ASEAN key stock ideas

	Singapore (OW)	Malaysia (OW)	Indonesia (N)	Thailand (N)	Philippines (N)
Banks	UOB	Public Bank Maybank Hong Leong Bank	BCA Bank Mandiri		BPI
Property	UOL AREIT			AP Thailand Land & Houses Central Pattana	Ayala Land
Consumer	Dairy Farm Sheng Siong Thai Beverage	Genting Berhad BAT	Astra Intl Mitra Adiperkasa Indofood CBP	CPALL Home Products	San Miguel F&B
Oil & Gas	Keppel Corp Sembcorp Marine	Bumi Armada, Sapura Energy, Hibiscus Pet, Wah Seong	Adaro Energy		
Healthcare / Pharmaceuticals		KPJ Healthcare			
Construction / Contractors				CH Karnchang	Megawide Construction
Petrochemicals				Indorama Ventures	
EMS manufacturing		SKP resources Unisem Globetronics			Certek
Utilities					Manila Electric
Telco					
Tourism	CDL Hospitality Trust Genting			AOT Erawan	

Source: DBS Bank

Fig. 11: Key sector and stock ideas for Hong Kong / China

Sectors	Comments	Stock picks
China insurers	Rising bond yields to alleviate reserve pressure. Investment income also positive.	Ping An Insurance
Hong Kong Insurers	China is set to relax its limits on foreign ownership of insurance companies, and AIA will be the unique name to benefit from this relaxation	AIA
Internet	Expect more ad budget to shift towards e-commerce and social communication platform	Yixin Holdings
China banks	Rising NIM (better pricing power), lower NPL (improving corporate cashflow)	China Construction Bank, China Merchant Bank
China Oil & Gas	Proxy of higher oil prices	CNOOC
China Telco equipment	Capex spending shift from mobile to fixed-line network	Yangtze Optical Fibre and Cable
China Education	Market consolidation, large growth potential, positive regulatory changes	Yuhua Education
China Healthcare / Pharmaceuticals	Industry sales growth to accelerate (rapid increase in number of private hospitals, etc)	China Traditional Chinese Medicine
China Property	ASP stable, volume to decline. Listed developers to grow by market share gain	CR Land, Yuexiu Property
Aviation	Fierce competition amid rising oil prices	
HK Telecom	Price war in mobile market continues, prefer fixed-line plays	

Source: DBS Bank

China/Hong Kong – Resilient amid domestic and external challenges (Overweight China/Hong Kong, China 'A')

Reform news gathered momentum in the second quarter post the Chinese People's Congress Meeting in early March, posing risks and opportunities for the various reform sectors in focus. Amid external challenges with trade wars, Fed rate hikes and USD strength to grapple with, the Hong Kong market stayed relatively resilient as the key Hong Kong and Chinese indices closed positively in the current quarter. Unless new external risks start to emerge, the Hong Kong market is poised for more upside in the second half as we believe external concerns should start to ease.

Reform in focus

The various reform announcements should guide the long-term policies for China in transforming the economy into a consumption-based economy. Population, healthcare and energy policies were reviewed.

China is looking at further loosening its child policy, and abolishing birth limits by 2019. The State Council was said to have carried out research on removing birth limits on a nationwide basis. The formal decision is expected to be made by 2019. If this comes true, it will significantly stimulate demand for K12 education, dairy, baby food and other consumer products.

On energy reform, the government had long harboured the intention to merge the pipeline assets in a bid to nationalise pipeline assets and reform gas policies to increase the role of gas in its domestic energy mix. The media reported that the oil majors may spin-off the oil & gas pipeline assets and merge into one pipeline company before the upcoming winter. The gas pipelines operating under a single entity will improve the inter-pipeline connectivity between different regions, alleviating the regional supply shortage situation during peak periods, cutting intra-provincial transmission fees and thus boosting demand growth. Separately at end-May, the NDRC had announced gas reform details, making changes to the wholesale pricing policies of natural gas for residential users. We believe gas distributors stand to benefit from this reform.

On healthcare sector reform, the government has also announced plans to introduce tax incentives for generic drug makers, and plans to encourage consolidation in the sector.

Financial market reforms

After much anticipation, the China Securities Regulatory Commission (CSRC) announced the trial rules of the CDR (Chinese Depository Receipts) pilot programme in June. The CSRC has also approved the launch of six Chinese mutual funds to become strategic investors for the listing of tech giants. According to several press reports, Xiaomi is highly likely to become the first CDR listing applicant, given Xiaomi's has passed the listing hearing on Thursday, 7 June. If everything goes smoothly, the IPO is expected to take place at the end of June, targeting to raise around US$7bn (approximately HK$54.6bn) and the shares will start trading in early July, based on media reports.

Trade war losers

The auto and manufacturing tech sector could turn out to be the biggest losers in the trade war spat between China and US, as China has compromised by making the domestic market and investment environment more favourable for US companies. We think that all may not be lost as it also reflects China's own need for market-oriented economic growth. However, we would advise investors not to bargain hunt in some of these affected sectors until there are further details on the impact on business operations.

The auto sector is affected by the intuitive view that high steel prices in the US are likely to affect car prices and hence, demand for cars and auto parts. We think it is premature to come to such a conclusion. However, the auto sector is at the centre of global trade war not only with China but also globally. The negative impact is likely to linger. China has since opened up the sector for more competition by increasing the foreign ownership limit, as well as reducing import tariffs. Any impact on operation has yet to be seen.

The Trump administration ratcheted up the pressure on Beijing by moving ahead with plans to impose tariffs on Chinese imports and curb investment in sensitive technology. We believe that "Made in China 2025" is not a casually adopted position for China's leaders and is unlikely to be compromised. However, China's manufacturing tech sector is likely to be affected by the ongoing trade pact as to "who's next after ZTE" becomes a big uncertainty. State support for strategic companies is unlikely to go away and could continue to be a target by the US in this trade saga.

China's concessions are likely to come on the trade front. Its current account surplus could likely shrink and that will have significant implications for the PBoC's monetary policies.

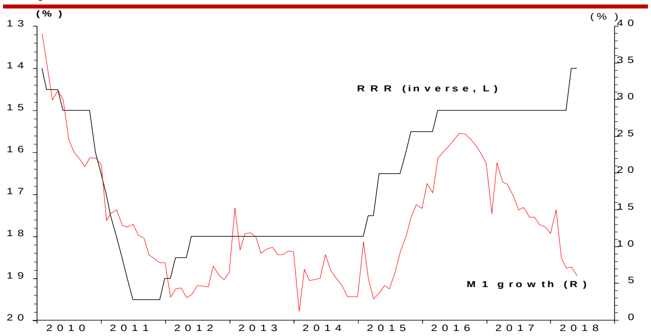
Maintaining liquidity key priority

DBS economist thinks that China will likely track US Fed rate hikes with a hike in interbank borrowing costs to maintain yield curve stability and to ensure adequate liquidity amid the ongoing deleveraging campaign. He thinks that further cuts on the required reserve ratio (RRR) are also warranted as liquidity remains tight.

We will be wary of market volatility if the RRR cuts are too deep. Misconstrued readings of a slower growth in the second half, bad credit default situations and worsening capital outflow could induce a downward spiral on capital outflows and RMB depreciation. Oral and written communications to manage expectations, and financial reform policies to attract structural inflows are measures to watch for changes. As a stamp of confidence and measures to encourage foreign investment, Chinese regulators relaxed regulations on capital controls, including lifting the 20 percent limit on repatriating funds for companies in the Qualified Foreign Institutional Investors programme. A lock-up period on QFII investors and a similar programme governing yuan funds has also been scrapped, and investors will be allowed to hedge domestic exchange risks.

At time of writing, PBOC over the weekend announced to cut RRR by another 0.5ppt to facilitate Big-5 banks/12 joint-stock banks on debt-to-equity swap scheme, as well as to facilitate postal saving bank and city/rural commercial banks on micro-SME lending. New policy will be effective from 5 July. The 0.5ppt RRR cut will release total of Rmb500bn liquidity to BIG-5 banks/12 joint-stock banks, and total of Rmb200bn liquidity to postal saving bank and city/rural commercial banks. We believe this is positive for the Chinese banks.

Fig. 12: China M1 money supply growth vs reserve requirement ratio



Source: Datastream

Hong Kong's full-fledged economic upturn

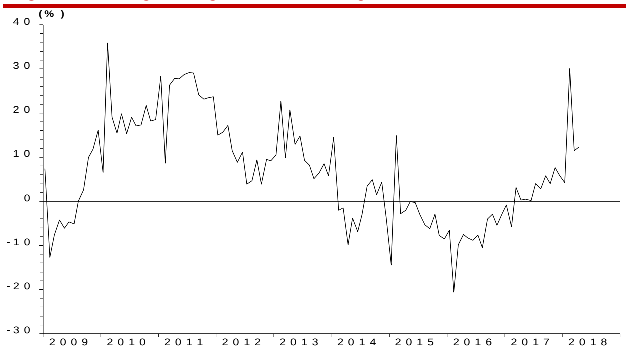
Thanks to the continued pick-up in both external and domestic demand, real GDP growth improved markedly to 4.7% y-o-y in 1Q18 from 3.4% in 4Q17, way above the 2.7% trend growth of the past ten years. Positive wealth effect from the stock and property markets, a progressive tax reform package by the new legislative government backed by strong foreign reserves, and a global synchronised economy are the key drivers for the exceptionally strong performance.

Going forward, we expect the economic growth to moderate as the exports sector is likely to slow down, as suggested by the peaking global manufacturing PMIs and challenges presented by the trade war. DBS expects the economy to grow at 3.3% this year and 2.9% in 2019.

The bright spot is in the tourism sector

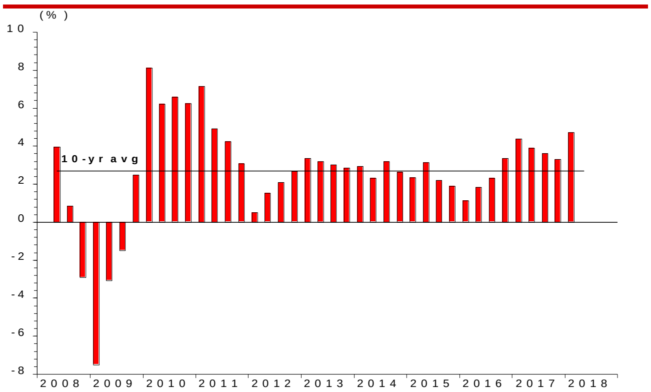
We believe Hong Kong's private consumption can be boosted by a brightened tourism outlook. According to channel checks and official data from selected operators, key retailers in HK have staged a revival and achieved double-digit y-o-y same-store sales growth (SSSG) in 1Q18. Aside from supported local demand, we have seen better PRC tourist arrival numbers (4M18: +13.2%) and a stronger consumption ahead of major infrastructural improvements (e.g. Express Rail Link, HK-Zhuhai- Macau Bridge). As the HK Dollar (-4% YTD) stays weak in the near term, coupled with a fairly low base effect versus three years ago, HK retailers should remain in a good position to post better performance. Our sensitivity analysis also suggests, under normal conditions, the Express Rail Link that connects HK to China's High-Speed Railway could bring >5m additional Mainland visitors in its first year of operation upon its inauguration by Sep 2018.

Fig. 13: Hong Kong retail sales growth



Source: Datastream

Fig. 14: Hong Kong GDP growth above trend

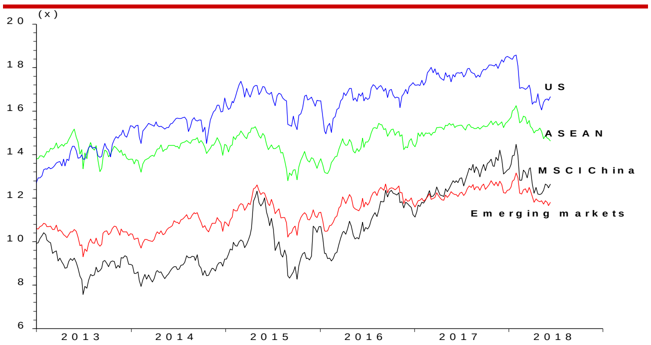


Source: Datastream

Hong Kong market resilient amid headwinds

We believe attractive valuations, strong earnings growth and investors growing confidence in China are the main drivers for the Hong Kong market. We believe Hong Kong's private consumption can be boosted by a brightened tourism outlook. According to channel checks and official data from selected operators, key retailers in HK have staged a revival and achieved double-digit y-o-y same-store sales growth (SSSG) in 1Q18.

Fig. 15: MSCI China PE valuations vs US, ASEAN and EM



Source: Datastream

Singapore (Raised to Overweight)

With the North Korea-US summit being held in Singapore, we believe Singapore's profiling could get the attention of global investors who are keen to take another look at Singapore.

Case for investing in Singapore

- **Singapore equities are attractively valued** at 13x forward PE and 1.2x P/B post the recent selldown. This is cheap compared with the US market's 16.5x forward PE ratio and 3.4x P/B. Compared to its history, it is currently trading at below its 10-year average, which provides room for re-rating to take place.

- Singapore is one of the few triple A-rated economies, thanks to its sound monetary and fiscal policies. It maintains a currency policy and the Singapore dollar has proven to be less volatile in times of global financial crisis. An open financial system and capital markets backed by strong reserves can boost investor confidence and draw investment flows into the country.

- **Economic transformation in progress.** Singapore's economy is heavily dependent on exports. Government policies are steering towards a more broad-based economy with the services sector to compliment the manufacturing-based economy. Efforts in promoting sectors such as tourism, financials, legal and litigations, ASEAN integration, and population policy are strongly in place to transform the economy.

  The incongruence between the economy and the stock market is one of the setbacks for the Singapore market which makes it less investable. The lack of breadth of the Singapore market is often cited as one of the reasons to leave Singapore out of the radar, as three local banks and the property sector already make up near 60% of the market's composition. However, we believe stocks exposed to the domestic economy could re-rate as the economic transformation should bring in more growth prospects for these stocks.

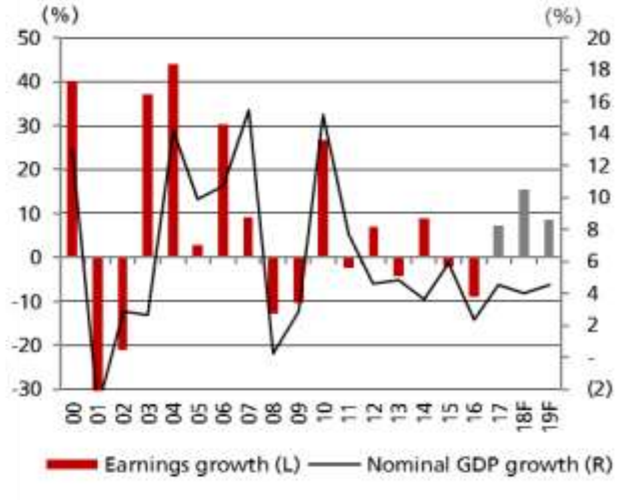
Earnings growth in a cyclical upturn

Singapore's earnings growth continues to be upgraded, with analysts forecasting growth this year to be 16% and 9% next year. The earnings growth is driven by the better outlook for the banks, as NIM expansion has finally happened with rising rates amid a stronger economy. However, we note that with the banks accounting for more than half of the STI's gains this year, we believe the better earnings outlook would have been priced in and any upside for the STI could be limited in the near term. Moreover, given that the World Cup season and the June school holidays tend to divert attention away from the stock market, we expect trading value to be subdued in June. Recent selldown to attractive levels offer opportunities to trade on a technical rebound if and when global concerns ease.

Anecdotally, the Singapore market is impacted negatively by global trade disputes as it is an export-oriented economy and USD strengthening can erode total return. Rising bond yields and oil price are not that negative for the market, as the banks and the oil and gas sector will benefit from these increases respectively. Its strong external position should stand out among the neighbouring countries as rising rates and a strong USD are likely to continue to place markets in a defensive mode.

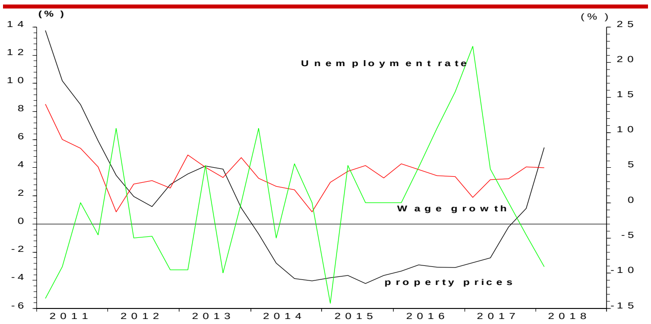
We are neutral on the Singapore property and REITS sector, due to risks of rising interest rates. However, the better economic outlook that supports wage growth and low unemployment rate should cushion the impact. The hospitality sector is a key beneficiary of the US-North Korea summit, drawing more attention to Singapore, while the office sector is seeing good traction on occupation and supply is expected to moderate.

Fig. 16 MSCI Singapore earnings growth



Source: IBES, Datastream, DBS Bank

Fig. 17: Singapore property prices supported by stable wage growth and low unemployment rate



Source: Datastream

Malaysia (Look beyond near-term uncertainty, raise to Overweight)

The Malaysian market could remain choppy in the near term given the domestic policy uncertainty. Looking beyond, we believe the KLCI should rebound in 4Q18 when policy and fiscal concerns are lifted, especially when the government unveils a revised budget. We advise investors to accumulate on weakness. AllianceDBS (DBS's research partner in Malaysia) has cut the 2018 year-end KLCI target to 1900 from 1950, which still implies 10% upside potential from current levels.

Political developments post elections made us comfortable with the outlook for Malaysia. Since the revelation of a larger-than-expected national debt of RM1tr, the new government remains steadfast in maintaining fiscal discipline with an unchanged fiscal deficit of 2.8% in 2018. The Finance Minister has since outlined that the fiscal gap (including the removal of GST) will be funded by higher oil revenue, more dividends from government-linked companies and the re-introduction of sales and services tax in September.

Admittedly, public consumption and investment will decline in the near term until government finances improve. However, we note that even up to first quarter this year, Malaysia has been growing at above 5% (which we believe is its potential rate), boosted by government spending, and infrastructure boom. Consensus expects 2018 GDP growth at 5.3%, while we maintain our below consensus forecast of 5%. This is still strong when compared to other countries. Moreover, we believe consumption will be boosted to offset the lower investment growth, given the implementation of the populist measures.

The ringgit has been relatively resilient despite the ongoing fiscal woes. A pre-emptive rate hike earlier in the year, and swift appointments of a new finance minister and central bank governor, and the Council of Eminent Persons (comprising notable figures like former finance minister Tun Daim Zainuddin and former BNM governor Tan Sri Dr Zeti) as well as implementing measures to keep the finances in order could help boost investor confidence.

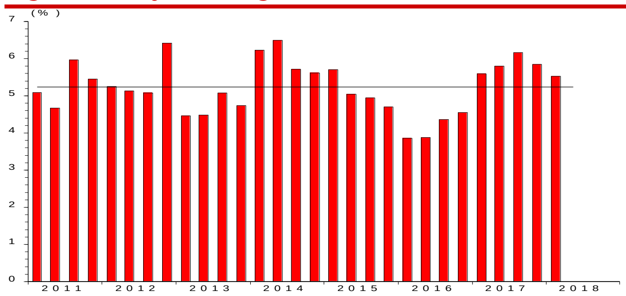
Foreign outflows were seen in both the bond and equity markets with year-to-May outflows being higher than the whole of 2017. Large outflows were seen, particularly in April and May.

Key trade ideas

The anticipated boost to private consumption should benefit the banking, consumer, healthcare and gaming sectors. Our picks are PBK, MAY, HLBK, GENT, BAT, and KPJ. Higher energy prices will continue to be a bright spot for the oil and gas sector, as global capex is poised to rebound. Our picks for this theme are BAB, SAPE, HIBI and WSC. After a disappointing 1Q18, exporters should see better days ahead with a firmer USD and rebound in orders. We continue to like the EMS and technology sectors, and our picks are SKP, UNI and GTB.

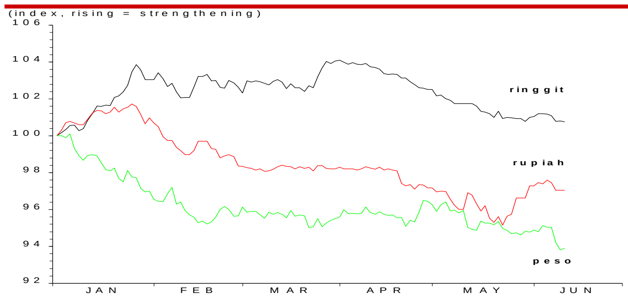
Until we find more clarity with the fiscal spending and project details, the construction and building materials sectors could be in for a rough ride.

Fig. 18: Malaysia GDP growth



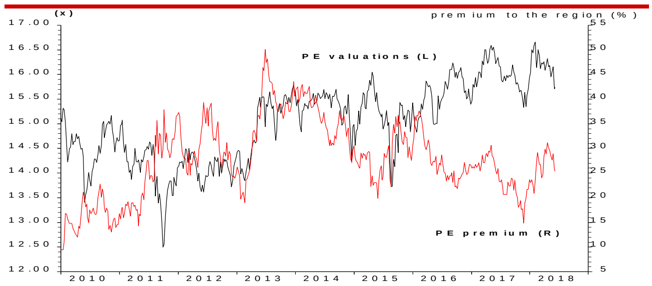
Source: Datastream

Fig. 19: Malaysia ringgit vs other ASEAN currencies



Source: Datastream

Fig. 20: MSCI Malaysia valuations vs Asia



Source: Datastream

Thailand (Downgrade to Neutral)

The lack of fresh impetus had weighed down the Thai market. External factors take charge while awaiting newsflow on the domestic front. Rising oil price, higher US bond yields and US dollar strength have affected the risk appetite for emerging markets including Thailand, although we believe that Thailand should be more insulated than the other Asian countries.

On the domestic side, politics was the main agenda. The Constitutional Court last month ruled that the organic bills on election of Senators and MPs passed by the National Legislative Assembly (NLA) are both legal and do not violate the 2017 constitution. The court's ruling has raised hope that the general election could be held in February to mid-2019. This should be positive for investor sentiments, in our view.

Gross Domestic Product (GDP) rose 4.8% y-o-y in 1Q18 which was the highest in five years and was boosted by all economic engines. After seasonal adjustments, the Thai economy expanded by 2.0% q-o-q in 1Q18. Following this robust performance, the National Economic and Social Development Board (NESDB) raised its GDP growth forecast to 4.2-4.7% this year, from its 3.6-4.6% forecast in February 2018. The Finance Ministry has also raised Thailand's GDP growth forecast for this year to 4.5% from its forecast earlier of 4.2%. The World Bank's revised up Thailand's GDP growth to 4.1% from its previous estimate of 3.6%.

The Eastern Economic Corridor (EEC) Act was finally published in the Royal Gazette on 14 May 2018 after a long delay. We see this as a positive development for the country, as it should help bring back foreign direct investments into Thailand. The government expects the EEC scheme to help boost Thailand's GDP growth to 5% a year, creating more than 100,000 jobs and generating income of more than Bt450bn annually.

Corporate earnings of Stock Exchange of Thailand (SET) listed companies were flat y-o-y at Bt288bn in 1Q18, which is more or less within the market's and our expectations. We look for 10% earnings growth for this year and 8% for next. **We tagged our index target to 17x PE, which translates into 1,850 for the SET.**

The next driver

We look for few drivers to emerge before the Thai market can re-rate. Investors are expecting elections to take place in the first half of next year. The removal of military intervention and return of democracy could improve foreigners' appetite to invest in the Thai market. The government also plans to open biddings and award contractors for five of the infrastructure projects in the EEC corridor within this year. These plans, if implemented, are likely to improve investor confidence. Foreign investors were still net sellers, with a heavy net sell position of Bt51.9bn in May 2018. This is in line with the rest of the ASEAN markets which we also saw heavy foreign selling. However, we feel that Thailand should be insulated, as its currency outlook is relatively stable compared to the other ASEAN countries. We believe foreign investors could be concerned if the elections are delayed.

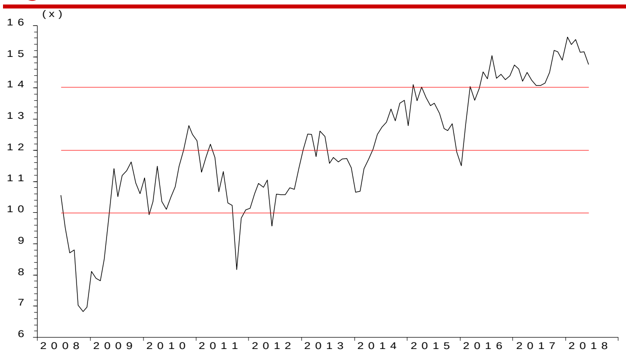
Key trade ideas

DBS's Thai research office favours the commerce and tourism sectors, and has also raised the construction contractor and property sectors to Overweight. We expect a slew of bidding activities for infrastructure projects worth Bt780bn to take place in 2H18 which should be positive for construction contractors. The first infrastructure project up for bidding this year should be the Rama III-Dao Kanong Expressway worth Bt31bn, with Term of References to be released by Jun 2018. Other projects to follow suit are the Eastern Economic Corridor (EEC) track high-speed railway link for the three international airports, the MRT Purple Line, and the dual-track railway projects (phase II). We also like the property sector for its attractive valuation, low earnings risk, and generous yield.

Local retail investors, local institutional investors and local brokers' proprietary ports were all net buyers, with net buy positions of Bt27.5bn, Bt23.2bn, and Bt1.2bn respectively.

Our top picks include AP Thailand PCL (AP), Ch. Karnchang Indorama (CK), Indorama Ventures (IVL), Land & Houses (LH) and Central Pattana (CPN).

Fig. 21: MSCI Thailand 12-month fwd PE



Source: Datastream

Indonesia (Downgrade to Neutral)

The Indonesian market has corrected by about 15% since hitting a high in February this year over macro concerns, as risk aversion set in. While we remain wary that US bond yields and the USD are bound to rise further, near-term bargain hunting activities have started to emerge, in our view. The Indonesia market is now trading at 14x PE, which is near its 10-year historical average level. Moreover, Bank Indonesia (BI) has stepped in decisively with two rate hikes, and Rp13tr worth of bond purchases to support the bond market.

We believe there may be some grounds to justify a shallower sell-off compared to May 2013 when QE tantrums-related risk aversion struck. At that time, the JCI and rupiah fell 31% and 11%, respectively, in a short three months after they peaked. Lower interest rate and inflation, more confidence in the central bank, a stable economy and investment grade status are the main differentiating factors, in our view. The market has since rebounded from its low, but a sustainable price recovery during a tightening cycle remains challenging, in our view.

The market will remain closed for two weeks post Ramadan, after which we believe politics will take centre stage. Presidential candidates will have to nominate their running mates by August. The political upsets and surprises that we have seen in other parts of the world, and the most recently in Jakarta governor's election last year, and in Malaysia this year, suggest that investors should not take any outcome as a given.

The current government already has many issues to tackle on hand. 1Q18 GDP came in below expectations at 5.06%, the rupiah has surpassed the psychological 14,000 mark and clos to US$9tn reserves were drained to defend the rupiah. Tax revenue collection remains well below budget which could constrain the government's ability to spend more to boost growth. Potential candidates will have an impact on the efficiency of the government to boost investor confidence. At its recent low, Indonesia's 12m forward PE valuation drifted down to 13.8x, which was near the medium-term low since 2016. We tag a valuation trading range of average to +0.5SD on the JCI. While valuations are supportive, and long-term drivers are intact, we believe upside could be limited in the near term considering the pace of Fed rate hikes and domestic political uncertainty.

We are hence downgrading the market to Neutral.

Key trade ideas

For Indonesian banks, we are wary about the sustainability of the sector's post recovery performance after the initial short covering. According to our banking analyst, unlike other ASEAN banks, rate hikes are not favourable for Indonesian banks as they have relatively larger short-term deposits which get re-priced faster than loans. Every 25bps increase in interest rates would reduce NIM and earnings by 5bps and 1.8% respectively. Moreover, loan growth is expected to remain sluggish in view of the rising interest rates, leading to earnings downgrades. We recommend investors to be selective on Indonesian banks, focusing on those with higher CASA ratios (ratio of current and savings account to total deposits). **Our top pick is Bank Central Asia.**

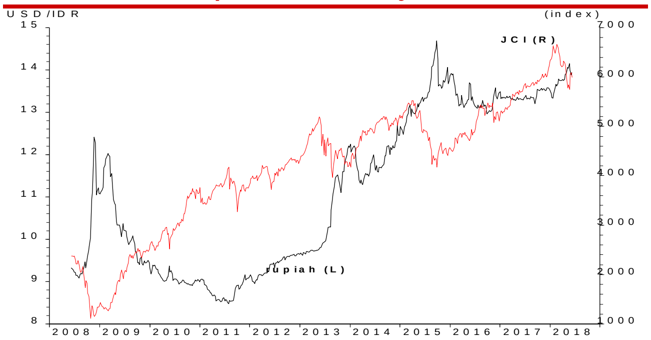
We are also concerned about consumer spending post Ramadan. However, elections spending should see direct spending subsidies and increased advertising that would benefit consumer companies and media companies. Our top picks are **Indofood CBP and Mitra Adiperkasa.**

We believe that the market is overly cautious on the Indonesian coal sector. Concerns over the implementation of the Domestic Market Obligation (DMO) policy hit the sector early June and we believe the recent share price correction in the sector has more than priced this in. Under the new DMO, coal miners will have to set aside 25% of production for the domestic market at US$70 per tonne, which is lower than expected. We have accordingly revised our coal price assumption, using US$70/t for domestic sales and US$75/t for exports sales, in our earnings models. Upside to earnings is still possible given that the current coal price is hovering above US$90/t. Our top picks are **Adaro Energy** and **Indo Tambang.**

For company-specific drivers, we are positive on **Astra International**. Valuations are more palatable after the recent correction. It is expected to launch a new model after 12 years without one. We expect the company to gain market share with the new model.

We believe USD could continue to strengthen, hence the risk of further rupiah weakening is there. We would avoid companies with asset/liability and revenue/cost mismatch.

Fig. 22: Weak rupiah does not stop JCI from going up but could invoke spasm of volatility



Source: Datastream

Philippines (Downgrade to Neutral)

The Philippines market declined from its high in January by 17% before reaching its low in May. We believe the market should stabilise in the near term, the confidence stemming from Bangko Sentral ng Pilipinas's (BSP) decision to hike rates. Looking forward, the peak of Philippines inflation and rate hike cycle will be the key data to watch for, before turning more positive on the Philippines market. Without taking into account domestic factors and seeing things purely from the point of view of USD strengthening, DBS expects the peso to weaken.

Meanwhile, equity valuation is now near its 10-year average of 16.4x, and near the low since 2014. We would deem the market attractive for bargain hunting.

Growth is still strong

The Philippines economy is expected to grow at above 6% over the next few years. Steady private consumption and strong fixed capital formation and government spending will continue to support growth. The Asian Development Bank endorsed the "Build Build Build" programme, which aims to overhaul the country's infrastructure. The government puts GDP growth this year at 7-8%, and the president is aiming for growth of above 7%. The view is also validated by S&P ratings' upgrade of Philippines' sovereign outlook from stable to positive, and that 1Q18 GDP growth also came in strongly at 6.8%.

Overheating fears valid, but no crisis

At such a high growth rate, investors are wary about overheating risks and central bank policy falling behind the curve. Two indicators which need to be monitored very closely are inflation and current account deficit.

Philippines inflation is now above BSP's target range. We believe the higher inflation is transient, owing to the TRAIN tax passage. The central bank sees inflation being elevated until the end of the year. We expect BSP to contain any build-up of second round of inflationary expectations with four rate hikes this year. Taking steps in tandem with the US Fed should also help strengthen the currency outlook.

The Philippines' current account is negative (CAD) due to rising capital goods imports needed to support the robust infrastructure programme. We expect the CAD to widen slightly but the sustainability of services exports and overseas remittances give us the comfort that CAD should remain capped. The key to watch is for FDI to improve, which requires a stable political regime, and if investment spending translates into good growth later on. The "Comprehensive Tax Reform Program" (CTRP) should ensure fiscal sustainability to carry on with the infrastructure ambitions.

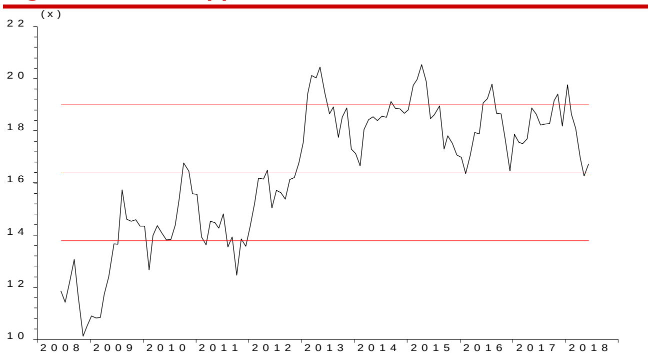
The Philippine peso has fallen to a 12-year low of 53 vs USD. The latest bout of weakness was triggered by the trade deficit, coupled with foreign reserves, for the first time since 2014, falling below US$80bn since April. Meanwhile, CPI inflation has hit a new 5-year high of 4.6% y-o-y in May. With opinion being divided on whether the economy is overheating, **the peso is likely to keep its depreciation path towards 54 by end-2018.**

Cheaper valuations, near-term catalyst hinges on BSP's stance

We maintain our positive stance on the Philippines but it is the BSP that will drive the near-term outlook. Current valuations should lend some support to the market. Taking into consideration the growth prospects of the country, we believe the market is cheap enough for bargain hunting. We like the banks and property companies as proxies to the infrastructure boom, and recommend being selective on construction and consumer stocks. Our top picks are San Miguel F&B, Megawide Construction and Ayala Land.

We are downgrading the Philippines to Neutral for now from a regional perspective. A strong USD outlook does not bode well for emerging markets in general.

Fig. 23: MSCI Philippines valuations



Source: Datastream, IBES

Korea (Neutral)

The US-North Korea summit is a key event for world markets. The peace on the Korean peninsula could deliver significant benefits to both North and South Korea, including a potential re-rating for South Korean stocks.

The landmark summit meeting should help to remove a major tail risk for the region's markets and economies. However, it would be prudent to contain excessive optimism, given the enormous gulf between the two Koreas and the costs of reunification. Longer-term hopes lie with the establishment of real peace on the Korean peninsula and North Korea moving to open its economy and integrate into the international community. South Korea and China should be among the first countries to benefit.

South Korea is one of the world's success stories as the fourth largest economy in Asia and 13th in the world. It has a population of 51.2m with the second highest standard of living in Asia, and GDP growth of 3.0% in 2017. As a developed economy, it is a member of the G20 major economies as well as the OECD.

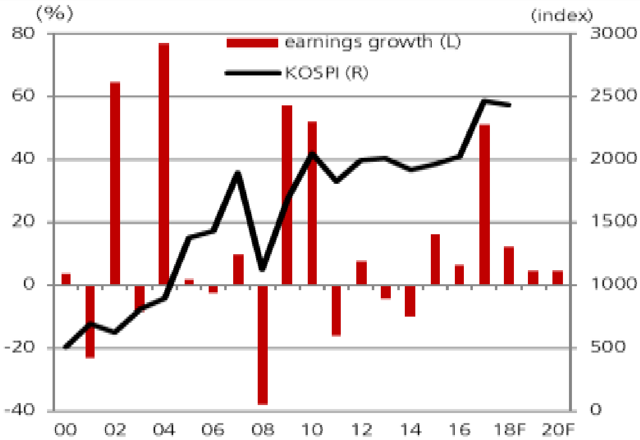
Amid mixed signs facing the export-driven economy, overall, South Korea has got off to a good start this year with its first quarter 2018 GDP growth rate of 2.8%. The Bank of Korea, the country's central bank, expects GDP growth of 3.0% in 2018, identical with the IMF and OECD's forecasts with investments and solid exports in electronics, automobiles, ships, machinery, robotics, petrochemicals, and consumer-related areas.

The Korean market trades at 8.8x forward PE, which is cheap by any measure; the market could re-rate with the removal of North Korean geo-political risks. However, we believe that massive capital inflows are unlikely to materialise in the near term due to a less-than-conducive global environment – rising US interest rates, a strengthening USD, spreading trade protectionism and high oil prices. While not being totally immune, South Korea is relatively less affected by a tightening in USD liquidity because of its strong foreign reserve and current account positions.

On the other hand, the country is vulnerable to trade protectionism from its large exposure to exports, and to oil price increases from its high dependence on energy imports. Meanwhile, signs of fatigue have emerged for high-frequency data such as exports and PMI, which in turn, may be pointing to a GDP growth slowdown in 2Q18.

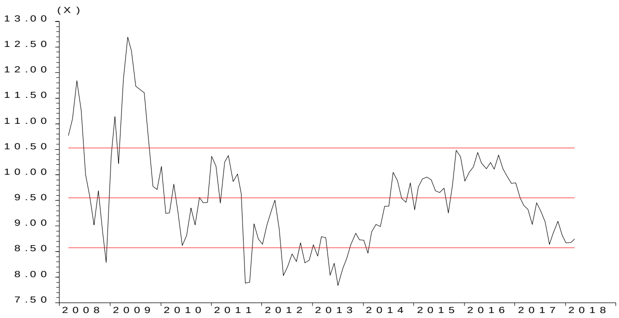
We are maintaining our Neutral recommendation for Korea.

Fig. 24: Korea's earnings growth, market consensus forecasts for 2018-20F



Source: IBES, Datastream, DBS Bank

Fig. 25: MSCI Korea 12-month forward PE valuations

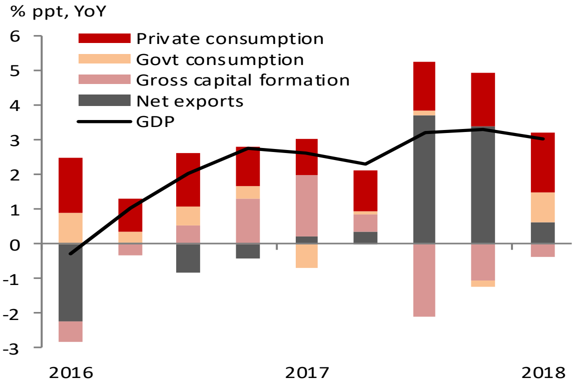


Source: IBES, Datastream, DBS Bank

Taiwan (Underweight)

The economy grew 3.0% y-o-y in 1Q, which is a more steady pace compared to 3.3% in the final quarter of 2017. On a q-o-q (SAAR) basis, growth eased to 1.3% from 4.3%, but the two-quarter average remained solid at 2.8%. Both exports and private consumption maintained their steady growth in 1Q. It was mainly the rise in imports that restricted the expansion of GDP growth.

Fig. 26: Taiwan GDP growth and contribution



Source: IBES, Datastream, DBS Bank

Downside risks for export outlook have increased. The earlier tariff measures introduced by the US on washing machines, solar panels, steel, and aluminium should have a small impact on Taiwan, because these are not Taiwan's key export products. But the ongoing US-China trade tensions, which focus on the high-tech sector, would have some ripple effects on Taiwan. In addition, a protracted period of trade disputes and tariff uncertainties could hurt business sentiment globally and cause delays in corporate investment plans.

The electronics cycle might be peaking. Export orders received by Taiwanese electronics producers have shown some signs of fatigue in recent months. TSMC, Taiwan's largest semiconductor foundry, has just revised down its 2018 revenue forecast to the lower end of the previous target, citing weaker-than-expected demand from the smartphone sector and uncertainties for cryptocurrency-related chip demand.

In addition, economic activities in mainland China have started to cool. The Chinese authorities are pursuing monetary and regulatory measures to contain financial leverage, shifting the policy priority towards shoring up financial stability from supporting GDP growth.
Thanks to the strong 1Q results, full-year GDP growth should remain decent despite a possible slowdown in the quarters ahead. **We keep our annual GDP growth forecast unchanged, at 2.8%. On a quarterly basis, we look for slower growth of 2.9% (y-o-y), 2.6%, and 2.5% for 2Q, 3Q and 4Q, respectively.**

India (Underweight)

In a unanimous vote, India's monetary policy committee bit the bullet by raising the benchmark repurchase rate by 25bps to 6.25% on 6 June. This was in line with our non-consensus view and marks the first hike since 2014. Policy stance was maintained at neutral, in a bid to stay non-committal on the future course of action. Upside risks to inflation and the growth outlook have underscored the rest of the policy commentary.

Policymakers are more confident about the growth outlook and signalled that the output gap had nearly closed. Real GDP growth forecast was maintained at 7.4% for FY19 (1H at 7.5-7.6% & 2H at 7.3-7.4%), and the highlights include: i) improving capacity utilisation, ii) better credit offtake, iii) pick-up in investment activity, despite tighter conditions, iv) the external sector is expected to benefit from better global demand, and v) consumption is expected to improve.
We also expect GDP growth to stabilise above the 7% mark in FY19, with favourable base effects to also provide an optical boost to the 1H numbers. Our FY19 estimate is more conservative at 7.2%, as a lift in public-sector spending, and consumption, will be offset by a softer external trade, coupled with deleveraging in the private sector and banking industry.

There was asymmetric reaction across the asset classes, with 10Y bond yields inching up modestly to 7.89% (vs previous close of 7.85%), while equity markets ended strongly in positive territory and the rupee notched gains against the USD. For a large part of the year, markets drew comfort from the RBI's neutral stance, which is seen as an indicator of a shallow rate hiking cycle and broader confidence in growth conditions. Following the policy commentary, bond yields are likely to enter a consolidative range of 7.7-7.9%, while the rupee shifts the attention to the broader USD direction.

The stock market drew strength from the RBI's confidence in the growth outlook. Earnings growth is projected at 29% for CY2018, and we think that this is overly optimistic even though the potentially rapid growth is premised on a very low base last year.

Valuation and earnings

Rolling over to 2018, we forecast an index range of 32,750-36,600, based on 12% earnings growth (equivalent to nominal GDP growth) for the next two years. The index should hover at a 12-month forward PE of around 16-18x, with a valuation breakout unlikely in the near term.

We are downgrading the market to Underweight from a regional perspective. Other Asian markets have corrected amid the recent bond yield scare, thus presenting opportunities for the whole region to record more upside, in our view.

Fig. 27: Summary of Asia market recommendations

Market	Current	Y/e target 2018	Tgt return	Ratings	Upside risks to market return	Downside risks to market return
China 'A' CSI300	3560	3924	10.2%	N	Easing trade tension, domestic liquidity conditions relax, continuous tightening in property market & WM driving investments to blue-chip equities; successful launch of CDR (Xiaomi), stable CNY amid strong USD; positive reform news	Negative reform news flow, trade tension having an impact on growth, deep regulatory controls on stock market; corporate governance irregularities emerge; growth downside when policy response deem too late
H-shares	11209	13500	20.4%	OW	Growth surprise, SZ/SH-HK Connect broadens to ETFs and more funds for investments under MRF and LOF schemes, oil price holding up, easing domestic liquidity conditions, stable CNY amid strong USD; successful Xiaomi IPO, positive reform news, high dividend payouts	Rapid CNY depreciation; 'A' share tumbles; reform hit sentiment,
MSCI China	90	106	17.2%	OW	Growth surprise, SZ/SH-HK Connect broadens to ETFs and more funds for investments under MRF and LOF schemes, Tech sector earnings upside; Hong Kong exch. reform, CDRs start trading	China angst persists; souring China/ US relations with tit for tat measures, Negative reform news flow, trade tension having an impact on growth, deep regulatory controls on stock market; corporate governance irregularities emerge; growth downside when policy response deem too late
MSCI Hong Kong	16968	19499	14.9%	OW	China policies to support growth, resilient housing market, southbound flows to benefit Hong Kong blue chips, Fed hikes benefiting HK Banks	More aggressive US rate hikes; HKD de-peg talks return; CNY devaluation
HSI	28961	33000	13.9%	OW	Growth surprise, improving global risk appetite for China stocks	Speculative shorts return; CNY devaluation
Singapore	3261	3650	11.9%	OW	Stronger recovery outlook on earnings and economic growth; effective market and fiscal stimulus	Sensitive US / China relationship affecting investments in Singapore; global recession risks emerge; lingering trade war fears
Thailand	1622	1860	14.7%	N	Government spending gathers pace, further stimulus, better managed political risks	Lagging investments and slow consumption pickup; delay in elections
Philippines	6987	8400	20.2%	N	Infrastructure gathers pace with active PPP participation, pick up in Chinese investments and tourists	Foreign investors deserting this market; political noise from the President; aggressive rate hikes to hurt consumer sentiments
Indonesia	5859	6200	5.8%	N	Growth surprise, fiscal stimulus, stable USD; manageable political process	US bond yields spike up, bond market foreign fund exodus; rupiah under attack
Malaysia	1678	1900	13.2%	OW	Recovery in oil prices, growth recovery, foreign funds entry; fiscal and debt concerns dissipate	Political uncertainty, slowdown in China investments;
India	35470	36000	1.5%	UW	Risk appetite for EM returning, reform gathering pace, stable ccy and bond market outlook; lower inflation; growth surprise	Reform hiccups, earnings growth downgrades; souring sentiments on government policies, hawkish RBI; twin deficits sore points return; higher oil price

Market	Current	Y/e target 2018	Tgt return	Ratings	Upside risks to market return	Downside risks to market return
Taiwan	10786	11500	6.6%	UW	Stronger global recovery, effective new government policies, yield surprise, stable NTD, new innovation	Global growth slowdown persists; China policies turn antagonistic; cyclical peak; Apple sourcing back home
Korea	2358	2800	18.8%	N	Global recovery benefiting Korea's global brands; effective stimulus, North Korea crisis resolved; better US-KO FTA negotiations; improving China relations	Loss of global competitiveness; domestic demand wanes; lack of stimulus support; overhang from corporate reforms;
Asia ex-Japan (unhedged)	842	952	13.2%	N*	Risk appetite for EM returning; less hawkish Fed, USD weakening, stable oil price, bond yields stable, trade war fears fade, better Eurozone outlook	Global growth concerns persist; China angst persist; unfavourable Trump policies; US market crash

*Source: DBS Bank. * N from DBS CIO Office 3Q global asset allocation*

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 26 Jun 2018 12:02:48 (SGT)
Dissemination Date: 26 Jun 2018 15:07:11 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBSVUSA, a US-registered broker-dealer, does not have its own investment banking or research department, has not participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months and does not engage in market-making.

ANALYST CERTIFICATION

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible for the content of this research report, in part or in whole, certifies that he or his associate[1] does not serve as an officer of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant) and the research analyst(s) primarily responsible for the content of this research report or his associate does not have financial interests[2] in relation to an issuer or a new listing applicant that the analyst reviews. DBS Group has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the DBS Group and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of DBS Group's compensation to any specific investment banking function of the DBS Group.

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd, DBS Vickers Securities (Singapore) Pte Ltd (''DBSVS''), their subsidiaries and/or other affiliates have roprietary positions in UOB, UOL Group, Ascendas REIT, Sheng Siong Group, Thai Beverage Public Company, Keppel Corporation, Sembcorp Marine, CDL Hospitality Trusts, Genting Singapore, Adaro Energy, Land & Houses, Central Pattana, CP ALL, Home Products Center, Indorama Ventures, Airports of Thailand, Charoen Pokphand Foods, Ping An Insurance, AIA Group, China Construction Bank, China Merchants Bank, CNOOC Ltd, China Resources Land, recommended in this report as of 31 May 2018.

2. DBS Bank Ltd does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Research Report.

3. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Ascendas REIT, CDL Hospitality Trusts, recommended in this report as of 31 May 2018.

4. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA, DBSV HK, their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of CDL Hospitality Trusts, as of 31 May 2018.

Compensation for investment banking services:

5. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates of DBSVUSA have received compensation, within the past 12 months for investment banking services from Ascendas REIT, CDL Hospitality Trusts, Astra International, China Construction Bank, Yuexiu Property, as of 31 May 2018.

6. DBS Bank Ltd, DBS HK, DBSVS, DBSV HK, their subsidiaries and/or other affiliates of DBSVUSA, within the next 3 months, will receive or intend to seek compensation for investment banking services from Maybank, China Construction Bank, China Merchant Bank, as of 31 May 2018.

7. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates of DBSVUSA have managed or co-managed a public offering of securities for Ascendas REIT, CDL Hospitality Trusts, China Construction Bank, Yuexiu Property, in the past 12 months, as of 31 May 2018.

[1] An associate is defined as (i) the spouse, or any minor child (natural or adopted) or minor step-child, of the analyst; (ii) the trustee of a trust of which the analyst, his spouse, minor child (natural or adopted) or minor step-child, is a beneficiary or discretionary object; or (iii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

[2] Financial interest is defined as interests that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

8. DBSVUSA does not have its own investment banking or research department, nor has it participated in any public offering of securities as a manager or co-manager or in any other investment banking transaction in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

Directorship/trustee interests

9. Danny Danny Teoh Leong Kay, a member of DBS Group Holdings Board of Directors, is a Director of Keppel Corporation as of 31 Mar 2018.

RESTRICTIONS ON DISTRIBUTION

General	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.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"). DBS holds Australian Financial Services Licence no. 475946. DBSVS is exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. DBSVS is regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report has been prepared by a person(s) who is not licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities in Hong Kong pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). This report is being distributed in Hong Kong and is attributable to DBS Vickers Hong Kong Limited, a licensed corporation licensed by the Hong Kong Securities and Futures Commission to carry on the regulated activity of advising on securities pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). For any query regarding the materials herein, please contact Paul Yong (CE. No. ASE988) at equityresearch@dbs.com.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Sekuritas Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd.

United Kingdom	This report is produced by DBS Bank Ltd which is regulated by the Monetary Authority of Singapore. This report is disseminated in the United Kingdom by DBS Vickers Securities (UK) Ltd, ("DBSVUK"). DBSVUK is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In respect of the United Kingdom, this report is solely intended for the clients of DBSVUK, its respective connected and associated corporations and affiliates only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBSVUK. This communication is directed at persons having professional experience in matters relating to investments. Any investment activity following from this communication will only be engaged in with such persons. Persons who do not have professional experience in matters relating to investments should not rely on this communication.
Dubai International Financial Centre	This research report is being distributed by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United Arab Emirates	This report is provided by DBS Bank Ltd (Company Regn. No. 196800306E) which is an Exempt Financial Adviser as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. This report is for information purposes only and should not be relied upon or acted on by the recipient or considered as a solicitation or inducement to buy or sell any financial product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation, or needs of individual clients. You should contact your relationship manager or investment adviser if you need advice on the merits of buying, selling or holding a particular investment. You should note that the information in this report may be out of date and it is not represented or warranted to be accurate, timely or complete. This report or any portion thereof may not be reprinted, sold or redistributed without our written consent.
United States	This report was prepared by DBS Bank Ltd. DBSVUSA did not participate in its preparation. The research analyst(s) named on this report are not registered as research analysts with FINRA and are not associated persons of DBSVUSA. The research analyst(s) are not subject to FINRA Rule 2241 restrictions on analyst compensation, communications with a subject company, public appearances and trading securities held by a research analyst. This report is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. This report may only be distributed to Major U.S. Institutional Investors (as defined in SEC Rule 15a-6) and to such other institutional investors and qualified persons as DBSVUSA may authorize. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Regional Research Offices

HONG KONG
DBS Vickers (Hong Kong) Ltd
Contact: Paul Yong
18th Floor Man Yee Building
68 Des Voeux Road Central
Central, Hong Kong
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Participant of the Stock Exchange of Hong Kong

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand