



Yuanta Regional Monthly

July 23, 2019



Executive Summaries

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Macro: US demand momentum has dipped slightly, while demand in the eurozone and China has shown no improvement. The Fed is adjusting policy direction, and US private consumption is increasing, while corporate confidence and capex are hampered by external risks. Meanwhile, the ECB implies further loosening of monetary policy, due to stagnant economic growth and weaker than expected inflation in the eurozone. For Taiwan, the TAIEX will likely stabilize from previous corrections and see range-bound consolidation at a high level, given a halt in foreign fund outflow following the easing of trade war risks.

Taiwan: Currently, the TAIEX remains firmly above the MA60 and is performing relatively strongly among Asian stock markets. Amid the rising influence of global central banks' loosening monetary policy YTD, the amount of gov't bonds with negative yields in the eurozone and Japan has risen to a new high, while the average dividend yield of current listed TW companies is as high as 4.4%. We believe high dividend yields and a stable F/X trend for the TAIEX should re-attract foreign investors. Going into 3Q19F, major TAIEX-listed companies will hold analyst meetings as well as release semi-annual results. We expect the market to focus on stocks that 1) are immune from the trade war impact; 2) are posting strong 2Q19 sales despite weak seasonality; 3) have positive outlooks for 2H19; 4) are maintaining a stable dividend yield; and 5) are likely to see share prices return to the pre-ex-div level.

Hong Kong: HK benchmark Hang Seng Index has seen relatively flat movement MTD after a 6% MoM gain in June. The lack of direction was caused by 1) a lack of concrete progress on the US-China trade talks; and 2) uncertainty regarding the US interest rate direction. We believe the share prices of HK retail-centric stocks such as Sa Sa, Bonjour and Chow Sang Sang will continue to be adversely impacted by the recent political events in the city. In the meantime, defensive names in the food & beverage, sportswear and export sectors are our preferred choices. Our 12-month HSI range forecast is maintained at 26,000-30,000.

Shanghai: The A-share markets have seen fluctuations recently. Official domestic 1H19 economic figures indicated a stably growing economy and relatively strong economic resilience, which may suggest future monetary policy might not favor easing as much as the Street expects.

Korea: Although the Korea-Japan trade dispute is weighing on the economy, it is unlikely to intensify in the near-term given its possible impact on the global economy. We do not expect 2Q19 earnings announcements to be positive for the market, but given that profit indicators are slowly recovering, they may create expectations that earnings are bottoming-out. Moreover, if the Fed announces a market-friendly monetary policy that meets expectations, the KOSPI may rise.

Indonesia: Bank Indonesia (BI) lowered its benchmark rate to 5.75% (down by 25 bps) as global central banks including the Fed indicated dovish monetary policy. BI's move was positively received by the market, as the JCI increased by 3.2% MoM and the Rupiah strengthened by 2.7% MoM, while the bond yield dropped 58 bps MoM to 7.1%. Despite the positive response from the market, BI's meeting notes disclosed that 2Q19 GDP could be on the lower side at 5.1%, similar to last quarter.

Thailand: The SET Index rose 2.37% from June 19 to July 18 due to strong funds flow into emerging markets (EM) given a possible reduction in the US interest rate, formation of the new Thai gov't and FITCH upgrading Thailand's outlook from stable to positive. Since MSCI rebalancing, foreign investors have net bought Thai shares YTD to the tune of THB58.3 bn vs a net sell of THB287.5 bn in 2018. Next month, the market will likely move on the back of 2Q19 results, which kicked off with the banking sector last week.

Vietnam: The VNIndex rose 1.9% MoM to close at 982 on July 22, back to the levels of mid-May though still 3% below the 2019 peak of 1012 reached in March. We continue to believe external monetary conditions are key for Vietnam equities market liquidity, and with the US Fed set to cut rates on July 31 (by 25bps, we reckon, but could be more), we believe the worst should be behind us.

Figure 1: Yuanta's Top Ten stock picks – Taiwan, Hong Kong, A Share, Korea, Indonesia, Thailand, Vietnam

Market	Top ten picks									
Taiwan	Eclat	Mega FHC	Topco	Teco	Tong Yang	Flexium Interconnect	KYEC	Largan	Wistron NeWeb	Land Mark
Hong Kong	Brilliance China	Yongda Automobiles	Pou Sheng	Want Want China	China Mengniu	Nissin Foods	Shenzhou International	Stella International	Wisdom Education	Uni-President China
China A share	CITS	Zhongji Innolight Co.,Ltd	WULIANGYE	SUNWODA	M&G	Conch Cement	Ping An	CMB	Wanhua Chemical	Contemporary Amperex
Korea	Hyundai Motor	LG Chem	Kakao Corp	Samsung Electro-Mechanics	LG U+	Samsung Heavy Industries	GS Retail	Ssangyong Cement	Innocean Worldwide	CJ CGV
Indonesia	Erajaya Swasembada	Sarana Menara	Wijaya Karya	Matahari Dept Store	Adhi Karya	Astra International	Hanjaya Mandala Sampoerna	Bank Mandiri	Bank Negara Indonesia	Ciputra Development
Thailand	Jkn Global Media	CPALL	Unique Engineering and Construction	Noble Development	Major Cineplex Group	Ch. Karnchang	The Siam Commercial Bank	Krung Thai Bank	Thai Union Group	Ekachai Medical Care
Vietnam	Masan	Sacombank	BIDV	Vietcombank	Digiworld	Phu Nhuan Jewelry	Nam Long	PV Drilling	Ho Chi Minh City Securities	VNDirect Securities

Source: Yuanta Investment Consulting



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Yuanta Investment Strategy

July 23, 2019

Macro Fundamentals

- ▶ **Global:** US demand momentum has dipped slightly, while demand in the eurozone and China has shown no improvement.
- ▶ **US:** US private consumption is increasing, while corporate confidence and capex are hampered by external risks. US Fed is adjusting policy direction.
 - Global major central banks' policies are changing with US Fed's new direction. USDX is consolidating at a high level, supported by demand from arbitrage trading, due to higher USD interest rates.
 - US equities will likely consolidate within a range, given the prolonged Sino-US trade war and US Fed's loosening policy.
- ▶ **EU:** ECB implies further loosening of monetary policy, due to stagnant economic growth and weaker than expected inflation in the eurozone.
 - With US Fed adopting a loosening policy, ECB will likely follow suit, which will bring downside pressure on the euro.
- ▶ **Taiwan:** TAIEX will likely stabilize from previous corrections and see range-bound consolidation at a high level, given a halt in foreign fund outflow following the easing of trade war risks.
 - The NTD will likely stop falling and consolidate at 30.8-31.2 in the near term, as foreign investors have switched from selling to buying and the CNH has stopped depreciating following easing of the US-China trade dispute.
- ▶ **Crude Oil:** Global oil prices will likely stabilize due to OPEC+'s possible extension of the production cut agreement to end-2019 and gradual recovery of oil refining demand in the US.
- ▶ **Gold:** Gold price will likely consolidate at a high level and test the US\$1,420 pressure level, as global major central banks are adopting loosening monetary policy and US-China trade risks have eased.

Figure 2: Global Investment Strategy (developed markets)

	Economic status	Government policy	Central bank policy	Market trend
US	May retail sales growth turned stronger, but the trade conflict hit corporate confidence.	Trump-Xi meeting may result in re-opening of trade negotiations, but conflicts are still unresolved and the trade war may drag on.	Fed changed policy stance and will likely start rate cut cycle in 3Q19F.	USD _X likely to fluctuate at high level. Bond market should be boosted by upcoming rate cut cycle. US equities likely to see pressure at a high level.
Euro Zone	Eurozone May CPI continued to dip. Weak Chinese demand weighed on EU's industrial output.	Representatives from France & Germany were selected for ECB headship and European Parliament President, respectively, putting a temporary end to recent turmoil.	ECB adjusted forward guidance and will continue its easing policy. The ECB President even hinted at cutting rates further.	Euro likely to rebound after considerable decline. German bond yield to dip to new low. European equities likely to see ranged consolidation.
Japan	Soft salary growth capped consumption, but stable capex indicated demand is still expanding.	Protests against higher consumption tax are gradually gaining strength, but the gov't still plans to raise the tax in Oct.	BOJ said it will not rule out greater easing policy if demand shrinks further and the trade conflict worsens.	JPY likely to stabilize after rising to a high level. Japanese equities should trend up amid fluctuations.

Source: Yuanta Investment Consulting

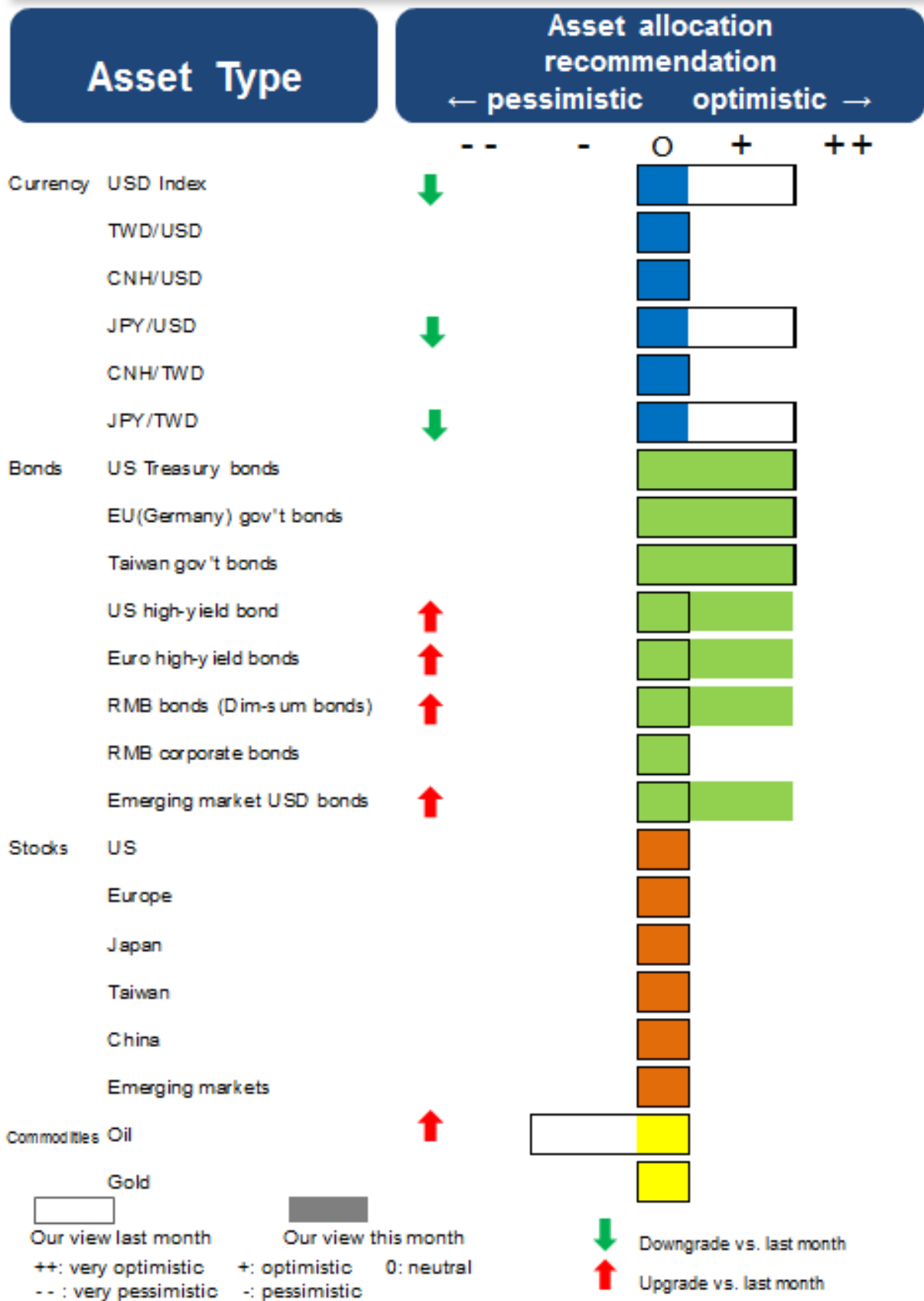
Figure 3: Global Investment Strategy (developing markets)

	Economic status	Government policy	Central bank policy	Market trend
China	May manufacturing & investment slid, while financing tightened again. Pressure from weak demand persisted.	Xi Jinping met with Trump at the G20 summit, a sign that pressure from the trade war has eased for now.	PBoC strengthened open market operations to curb capital outflow and maintain an easing environment.	Depreciation of Yuan likely to halt. SH index should stop falling and stabilize.
Taiwan	May industrial output dipped slightly, but capital equipment manufacturing picked up again, a sign of stronger investment.	Special bill applying preferential tax rates to returning funds is expected to pass third reading, accelerating returning fund flow.	With demand turning soft and external risks rising, BOT will likely continue current moderate easing policy.	NTD likely to stop declining and stabilize. Foreign capital flowing back; TAIFEX likely to stop trending down and stabilize.
Emerging Markets	May emerging market manufacturing PMI hit 50.4, marking the fourth straight month of moderate expansion.	With parliamentary & presidential elections in major countries having finished, the political situation should stabilize following removal of uncertainties.	With Fed adjusting policy direction, central banks in emerging countries have continued to cut interest rates.	Fed has shifted to easing stance, which has removed liquidity risks.

Source: Yuanta Investment Consulting



Figure 4: Asset allocation recommendation



Source: Yuanta Investment Consulting

TAIEX Monthly Analysis

July 23, 2019

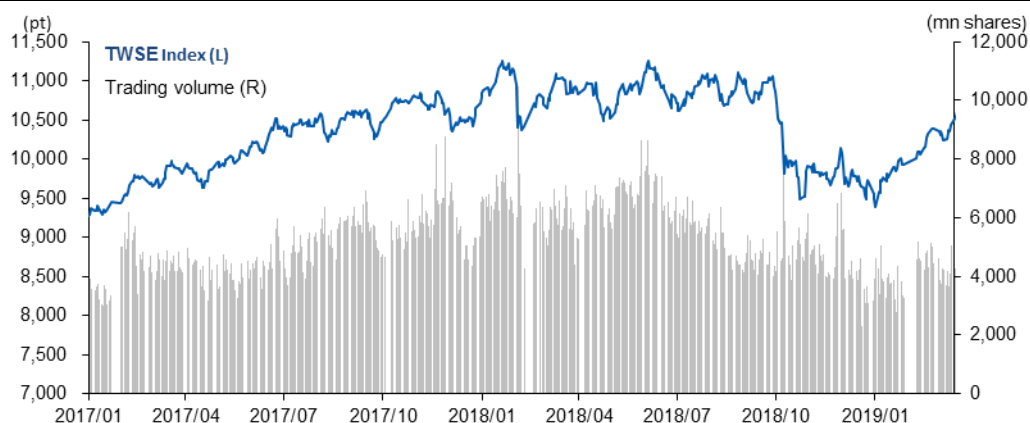
- ▶ Close (on July 22, 2019): 10,944.53 points
- ▶ TAIEX range forecast for the next month: 10,600–11,200 points

Taiwan strategy for next month (July 22–August 21): Currently, the TAIEX remains firmly above the MA60 and is performing relatively strongly among Asian stock markets. Amid the rising influence of global central banks' loosening monetary policy YTD, the amount of government bonds with negative yields in the Eurozone and Japan has risen to a new high, while the average dividend yield of current listed Taiwanese companies is as high as 4.4%. We believe high dividend yields and a stable F/X trend for the TAIEX should re-attract foreign investors. Going into 3Q19F, major TAIEX-listed companies will hold analyst meetings as well as release semi-annual results. We expect the market to focus on stocks that 1) are immune from the trade war impact; 2) are posting strong 2Q19 sales despite weak seasonality; 3) have positive outlooks for 2H19; 4) are maintaining a stable dividend yield; and 5) are likely to see share prices return to the pre-ex-dividend level.

Although the US and China have agreed on a truce for the trade war and reached a consensus to hold off on imposing new tariffs and reopen negotiations following the Trump–Xi meeting at the G20 Summit in late June, we have seen conservative corporate capex and prolonged inventory digestion in the communications and semiconductor industries, due to the escalation of the trade war since 2Q19 and Huawei's blacklisting. Ironically, right after the end of the G20 Summit, at which all members agreed to build a free-trade system as part of the G20 Osaka Leaders' Declaration, President Trump announced to impose extra tariffs on US\$11 bn in EU goods. Meanwhile, the US–India tariff war is also heating up again, while Japan and South Korea have begun a trade war in Northeast Asia. These trade conflicts are all negatives for global economic growth.

3Q19F will be ex-div season for Taiwan listed companies, which are estimated to pay out NT\$1.4 tn in cash. We expect the ex div to impact the TAIEX by ~430 points, and cap the index's upside. Market focus is now on how leading companies in each sector perform after going ex div. So far, TSMC has been the strongest, with its share price returning to the pre-ex div level within five days. Formosa Group companies have trended down since going ex div, reflecting investors' caution on the outlook for the upstream petrochemical industry. FHCs have also been lackluster since going ex div, likely a result of potential earnings contraction for insurers in a low-interest-rate environment.

Figure 5: TAIEX – historical performance



Source: Bloomberg

Figure 6: Top 10 picks for the next month – TAIEX

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
1476 TT	Eclat	BUY	461	14%	3,585	2.7%	23.6x	<ul style="list-style-type: none"> ▶ Nike has recognized Eclat as one of its main 10 OEMs, and will likely place more orders with Eclat. The company targets sales from Nike to increase >18%YoY in 2H19F and 2020F. ▶ UA plans to place more orders with its main 10 OEMs to increase the sales contribution from 55-60% to 80% of its total sales. Eclat should also benefit. ▶ Eclat, capable of carrying out added-value products with higher ASP, will benefit from more retailers upgrading their products. Among retailer customers, Target is likely to be Eclat's main growth driver in 2H19F and 2020F.
2886 TT	Mega FHC	BUY	33	3%	13,962	5.3%	14.2	<ul style="list-style-type: none"> ▶ Mega's 2019F/2020F profits are likely to return to a historical level with ROE of >10%. ▶ Growth in FX loans and bond investments will expand NIM and interest spread. ▶ Its 2018 cash dividend of NT\$1.7 indicates the highest dividend yield of 5.4% among FHCs. We expect 2019F/2020F cash dividend will increase 5%/12% YoY, indicating dividend yield of >6%.
5434 TT	Topco	BUY	100	15%	509	6.1%	9.9	<ul style="list-style-type: none"> ▶ We see Topco as a defensive play with growth potential, with 2019/20 EPS to grow 14%/9% and 6-7% dividend yield. ▶ Key mid/long term key earnings drivers are semi material demand and engineering services, driven by stable semi industry growth and China plant construction.
1504 TT	Teco	BUY	27	16%	1,479	3.9%	14.2	<ul style="list-style-type: none"> ▶ We believe Teco's large-motor business should bring some support to its revenue, as demand looks relatively stable. ▶ The F/X rate should help GM expand and provide some non-op gains. We expect Teco's 2019F GM will stay at ~25% vs. 24% in 2018, leading to stable earnings.

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> ▶ Teco has significant investments and undeveloped land, leading to NAV per share of NT\$35.8. Its current valuation at ~0.6x NAV also makes the stock look cheap, in our view.
1319 TT	Tong Yang	BUY	56	22%	876	3.7%	13.0	<ul style="list-style-type: none"> ▶ 2Q19 preliminary pretax income of NT\$646 mn beat our conservative estimate thanks to better than expected margins. ▶ From 2H19F onwards, we anticipate Tong Yang's AM business' sales to grow at low single digit% YoY, and OEMs' new model releases and low comparison bases in 2H19F should help improve its OEM revenue growth also. ▶ For non-op reinvestment income, we forecast HoH improvement in 2H19F, driven by its Tianjin and Qingdao plants' higher CUR as well as new model ramp-up in late-2019 and 2020.
6269 TT	Flexium Interconnect	BUY	105	11%	970	5.3%	12.1	<ul style="list-style-type: none"> ▶ Flexium has been making a strong breakthrough in both LCP antenna and mini LED, which are all scheduled to ramp up from early-2020, driving earnings upside. ▶ With 5G upgrades starting in 2H20, we expect Flexium's content value per box to increase by >15% YoY per year in 2020-2021, with above average GM/OPM.
2449 TT	KYEC	BUY	35	8%	1,271	4.2%	15.5	<ul style="list-style-type: none"> ▶ We see KYEC as the most compelling 5G play in OSAT given 1) significant growth in IC testing time heading into the 5G era; and 2) Its comprehensive 5G exposure across most leading suppliers, allowing KYEC to ride on the 5G uptrend with its clients. ▶ We forecast 5G will account for 10-15%/>20% of KYEC's revenue in 2019/20F, with the stock trading at 10x P/E with 6% 2020F dividend yield. We see KYEC as the most undervalued 5G play in Taiwan.
3008 TT	Largan	BUY	5678	34%	18,239	1.6%	19.3	<ul style="list-style-type: none"> ▶ We believe Largan can benefit from new iPhone's lens shipment growth in 3Q19F and from Android's spec migration in 4Q19F. Into 2020F, we expect new tech adoption for 7P or smaller

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								x-y area lens would go into mid end models to further drive Largan's continuous growth.
6285 TT	Wistron NeWeb	BUY	92	19%	974	4.5%	15.3	<ul style="list-style-type: none"> ▶ June sales were NT\$5.22 bn, up 17% YoY and better than our expectation, thanks to networking & car products, along with its Tainan factory production capacity increasing. We expect its GM in 2H19 be better than 1H19 as capacity has been transferred smoothly, and will not be impacted by the 25% US tariff. ▶ Wistron NeWeb has been an outperformer in networking, but with multiple catalysts such as auto electronics, 100G switch, ADAS anti-collision radar and 5G. ▶ We remain positive on Wistron NeWeb's 2020F outlook, expecting robust growth with GM returning to normal, and sales/earnings up 9%/36% YoY to record levels.
3081 TT	Land Mark	BUY	335	23%	796	1.8%	32.5	<ul style="list-style-type: none"> ▶ June sales grew 3% MoM, thanks to rising demand from its #1 silicon photonic client and a Chinese customer. We expect 2Q19 GM to be >50%. Furthermore, we expect 2H19 sales to be better than 1H19, thanks to silicon products, 25G, and VCSEL products. ▶ We estimate 2019/20F sales & earnings to hit new highs, as it has 25G Epi-wafer mass production capability, allowing it to compete with major global players. ▶ We expect 2020F sales to rise by 30% YoY to a new high, as we anticipate strong 5G/400G and VCSEL demand growth.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Hong Kong Monthly Update

July 23, 2019

HSI Monthly Analysis

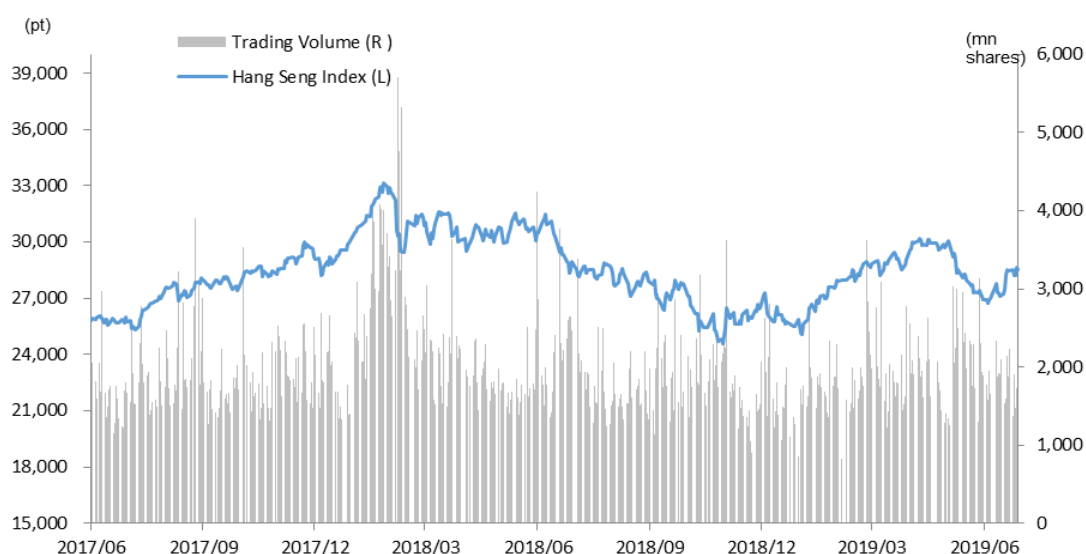
Hong Kong's benchmark Hang Seng Index has seen relatively flat movement MTD after a 6% MoM gain in June. The lack of direction was caused by 1) a lack of concrete progress on the US China trade talks; and 2) uncertainty regarding the US interest rate direction. Apart from phone conference calls, the US and China have yet to begin physical meetings to discuss their differences. That said, more time will be needed before a concrete agreement can be reached. Market focus is on the outcome of the US Fed meeting on July 30–31 as the meeting may result in a cut in the US interest rate, which would boost investor sentiment in the market. The current market P/E of 10.8x is slightly below its past ten year average of 11.3x (range: 8.6–16.3x). As such, we believe the positive outcome from both US–China trade talks and the US rate cuts would lead to future index advances. However, we believe the share prices of HK retail centric stocks such as Sa Sa, Bonjour and Chow Sang Sang will continue to be adversely impacted by the recent political events in the city. Defensive names in food & beverage, sportswear and export sectors are our preferred choices. Our 12-month HSI range forecast is maintained at 26,000–30,000.

Figure 7: Key Macro numbers releases in the last two weeks (HK/China)

Release Date	Data	Result
07/02/2019	Hong Kong Retail Sales for May 2019	(1.3%) YoY
07/10/2019	China Consumer Price Index for June 2019	2.7% YoY
07/01/2019	China Purchasing Price Index for June 2019	(0.4%) YoY
7/17/2019	China Retail Sales Value for June 2019	9.8% YoY

Source: Bloomberg, Yuanta Investment Consulting

Figure 8: Hang Seng Index movement



Source: Bloomberg, Yuanta Investment Consulting

12M HSI range forecast: 26,000–30,000 points

Figure 9: Top 10 picks for the next month – HKSE

Ticker	Company	Rating	TP (HK\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
1114 HK	Brilliance China	BUY	11.2	19.9	6,037	1.2	5.6	<ul style="list-style-type: none"> ▶ While BBA's stake sale is now a fact, we believe investors will refocus on company's fundamentals, characterized by BBA's new product cycle and net margin recovery, with a 2018-20F EPS CAGR of 21%.
3669 HK	Yongda Automobiles	BUY	8.0	11.9	1,684	4.3	6.8	<ul style="list-style-type: none"> ▶ We believe Yongda is on track for earnings recovery from 2019F onwards, driven by BMW's favorable demand/supply dynamics and normalization of new car sales GM, with an EPS CAGR of 26% in 2018-20F.
3813 HK	Pou Sheng	BUY	2.15	7.0	1,379	1.4	14.9	<ul style="list-style-type: none"> ▶ Pou Sheng reported a 23.5% YoY sales increase for June 2019. 1H19 total sales value represents 51.6% of our full year 2019 estimate (1H18: 49.4%). That is largely in line with our expectations ▶ Nike and Adidas had a combined market share of 39% in 2018. Pou Sheng, a major distributor for Nike/Adidas brands, should reap the benefits.
151 HK	Want Want China	BUY	6.8	8.3	9,940	5.1	17.6	<ul style="list-style-type: none"> ▶ Supported by 15-20% lower paper costs YoY (4% of sales), and waived VAT, the company has seen strong margin accretion since April. With historically low valuation and 5% dividend yield, we view Want Want as defensive play amid turbulence. ▶ The stock is trading at our FY2020/21F P/E of 17x/16x, with a 4%/11% sales/EPS CAGR between FY2020-22F.
2319 HK	China Mengniu Dairy	BUY	36.85	16.1	15,902	0.8	29.2 (recurring earnings)	<ul style="list-style-type: none"> ▶ Mgmt expects to deliver exceptional 2019-20F operating results after disposing of Shijiazhuang Junlebao 51% stake (GM below group average). We lift our 2019-21F earnings estimates given secular GM expansion on product mix improvement in urban areas and greater penetration of lower-tier cities. ▶ It is trading at a 2019/20F P/E of 29x/23x based on a 9%/ 27% sales/EPS CAGR between 2019-21F, with a lower PEG valuation of 1.0 vs. Yili's 3.0x.
1475 HK	Nissin Foods	BUY	5.60	(10.1)	853	2.4	24.3	<ul style="list-style-type: none"> ▶ The stock has risen ~80% YTD and ~70% after we initiated coverage. We continue to like Nissin Foods with its 1) solid growth in the Chinese premium instant noodle market; 2) price increases in cup noodles in HK to boost profit growth. We will

Ticker	Company	Rating	TP (HK\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<p>review our price target when interim results are released.</p> <ul style="list-style-type: none"> ▶ The stock is trading at our 2019/20F P/E of 24x/21x, historical highs for its 1 year forward P/E.
220 HK	Uni-President China	BUY	8.50	(8.4)	5,107	3.6	27.7	<ul style="list-style-type: none"> ▶ We believe UPCH's 1H19F results will beat consensus estimate thanks to solid demand of its premium instant noodle sales (extending double digits revenue growth in 2Q19F). We suggest investors accumulate shares, as we believe the company's full year outlook will be better than expected. We will review our estimates when interim results are released. ▶ The stock is trading at a 2019/20F P/E of 28x/26x.
1836 HK	Stella International	BUY	15.5	14.3	1,378	6.9	13.1	<ul style="list-style-type: none"> ▶ Stella issued a positive profit alert and expected a not less than 70% YoY after-tax profit increase in its 1H19. It saw better production capacity utilization rate and lack of bad debt provisions in the period. ▶ The company is clearly in an earnings upcycle with an EPS CAGR of 31.6% in 2018-2021F. Besides, its 2019F dividend yield of 6.9% is also attractive.
6068 HK	Wisdom Education	BUY	5.80	58.9	957	2.4	16.2	<ul style="list-style-type: none"> ▶ Wisdom Education recorded a 33% YoY net profit rise for its FY1H19. Sales increase and profit margin expansion were the earnings drivers. ▶ In view of the uncertain economic outlooks in China, we believe leading education players should be safe choices.
2313 HK	Shenzhou International	BUY	127	15.4	21,529	1.6	27.7	<ul style="list-style-type: none"> ▶ Order flow from its key sportswear clients has remained strong in 1H19. In fact, Nike order growth seems to be better than expected. ▶ Amongst HK listed textile plays, Shenzhou remains our preferred choice.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Shanghai Monthly Update

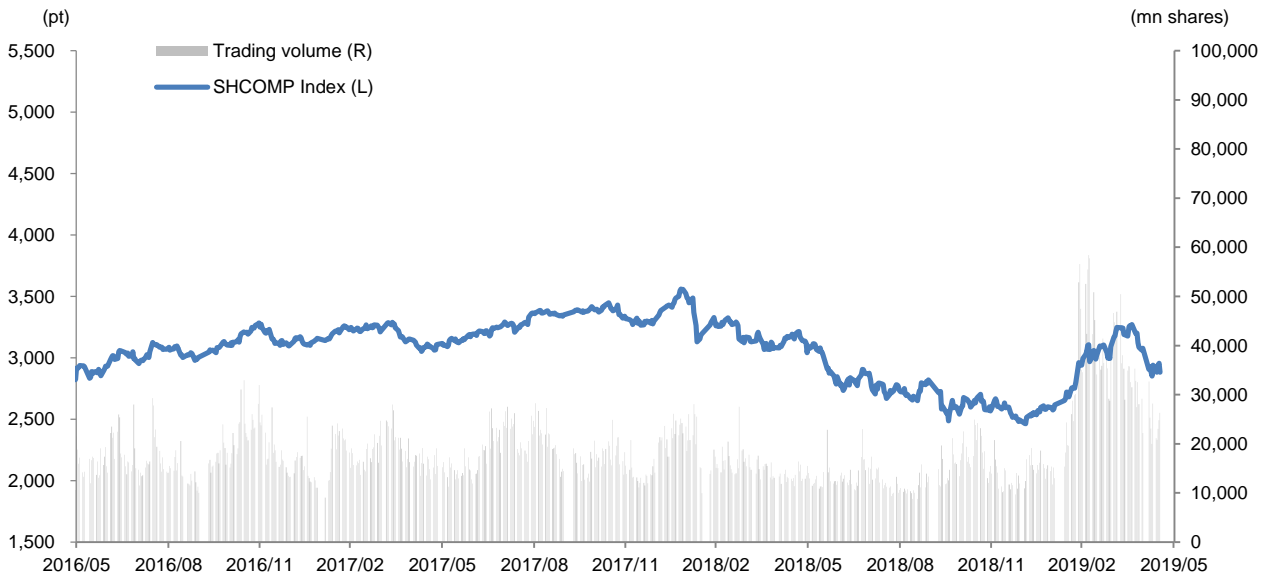
July 23, 2019

First batch of Science and Technology Innovation Board (STIB) listed companies starting trading from July 22; Chinese government releases “eleven guiding principles for the financial industry”: The A-share markets have seen fluctuations recently. Official domestic 1H19 economic figures indicated a stably growing economy and relatively strong economic resilience, which may suggest future monetary policy may not be as easing as the Street expected. Although domestic financial conditions have improved since June, marginal liquidity tightening since July suggests the easing policy may not be as aggressive as the Street has expected. The trade war has eased recently, with both sides releasing friendly signals. The US removed 110 Chinese industrial products from the extra tariff list, while Chinese corporations sought price quotes from US agricultural exporters. Meanwhile, the State Council released eleven guiding principles for the financial industry, which allow foreign-funded financial institutions to engage in a broader range of operations, such as credit rating, setting up wealth/pension management subsidiaries, F/X transaction brokerage, and applying for a Type-A lead bond underwriter license. The gradual opening up of the financial industry should draw more incremental capital into the market.

As of July 15, a total of 1,502 A-share companies have published performance forecasts, with the disclosure rate of the main /SME/GEM boards reaching 16%/50%/98%. Almost all GEM Board companies have issued performance forecasts. Based on the midpoint of the published performance range, GEM Board earnings grew 1.4% in 1H19. The communications/computer /electrical equipment sectors have rebounded significantly, especially for mid/large-cap stocks. A-share trading volume has contracted recently, likely due to negative news such as negative earnings surprises and credit defaults. However, with a loose capital environment and the government's multiple measures to inject liquidity, we expect a lower interest rate will offer support for stock valuations. The launch of the STIB board may also boost the market. The MSCI will raise its index weighting on the A-share markets in both August and November, while US Fed may cut interest rate going forward. Both should help maintain the current loose environment, but the actual impact may not emerge until 4Q19. We suggest investors pay attention to financial and consumer names, as well as tech sector leaders which may be supported by the STIB launch.



Figure 10: SHCOMP performance



Source: Bloomberg, Yuanta Investment Consulting

12M SHCOMP range forecast: 3,200–3,500 points

Figure 11: Top 10 picks for the next month – China A shares

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
601888 CH	CITS	NR	N/A	-	24,179	0.9	36.0	<ul style="list-style-type: none"> ▶ China's duty-free market has seen greater growth potential, thanks to government's favorable duty-free policy and intention of attracting consumption to flow back from overseas markets. Duty-free consumption has been boosted by multiple easing of the duty-free policy in Hainan. ▶ CITS has cut into duty-free business in domestic and overseas airports and urban areas by investing in Sunrise Duty Free in 2017, with duty-free business continuously expanding since then. Currently, the company dominates up to 80% of the duty-free market through its subsidiaries China Duty Free and Sunrise Duty Free. Hainan SASAC made a free transfer of 51% shares in Hainan Duty-free to CITS at end-2018. ▶ In February 2019, the company has completed spin-off from CITS Head Office, focusing on duty-free business to further bolster its leading position in the duty-free market.
300308 CH	Zhongji Innolight Co.,Ltd	BUY	40.30	20.41	3,472	0.6	33.1	<ul style="list-style-type: none"> ▶ Data centers: North American client demand for 100G has recovered to the high level seen last year in 2Q19F. 400G products will ramp up in 2H19F and see sales double in 2020F. ▶ 5G demand is focused on base station preamble at the moment. Zhongji Innolight has a clear advantage in middle transmission and back transmission, which have a higher technology barrier. We believe Zhongji Innolight may keep its place among top 3 equipment providers. ▶ 2H19F earnings may continue to rise HoH. 5G construction and 400G demand

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								may take off in 2020F, boosting Zhongji Innolight's earnings.
000858 CH	WULIANGYE	NR	N/A	-	68,266	1.8	27.6	<ul style="list-style-type: none"> ▶ Benefiting from rising demand for high-end baijiu driven by consumption upgrades, the company will see more market consolidation and ASPs going forward. 1Q19 sales of RMB17.59 bn achieved 35% of mgmt's sales target of RMB50 bn. ▶ It has entered a crucial phase in its distribution and management reform: 1) on management side, the company has divided its seven main distribution centers into 21 distribution areas to further streamline its distribution system. It also enhances control in distribution channels by building a clearer channel network through digital technologies; 2) on the product side, the company has further streamlined its brands and restructured its pricing system. It has launched a high-end product (501 Wuliangye) and plans to launch the 8th gen of "regular Wuliangye" at a price of RMB889 in June, continuing its product mix upgrade.
300207CH	SUNWODA	NR	N/A	-	2,463	1.1	16.5	<ul style="list-style-type: none"> ▶ The company engages in the manufacture of lithium battery packs for consumer electronics and has won orders from major companies at home and abroad. Sunwoda has become a leading lithium battery module supplier in China, with market share of nearly 25%. ▶ 1Q19 sales were RMB4.683 bn (+32.5% YoY), with net profit attributable to parent of RMB134 mn (+15.9% YoY) and net profit attributable to parent excluding non-recurring profit or loss of RMB90.5 mn (+19.4% YoY). ▶ Consumption-related business has performed relatively stable, while power

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								battery business will see accelerated growth going forward after obtaining orders from Renault, supported by foreign car makers. Mgmt expects power battery capacity to exceed 20GWh in 2020F.
603899 CH	M&G	BUY	41.67	6.14	5,250	1.0	35.7	<ul style="list-style-type: none"> ▶ We like the company's potential in business and consumer stationery markets. For the business market, market value has reached RMB1.6 bn, while competition dynamics are healthy. Colipu kept ~90% of Office Depot's (China) clients after acquiring the latter, which should boost its profitability. ▶ For consumer business, the company continues to upgrade its >70k traditional retail terminals, while steadily expanding stores for high-end cultural and creative business. The acquisition of Shanghai Amarsoft Information & Technology should help it develop the new market of children's artistic education and overseas markets, providing new growth drivers.
600585 CH	Conch Cement	BUY	45.50	13.27	31,260	4.5	6.8	<ul style="list-style-type: none"> ▶ A leading cement maker in the Yangtze Delta, the center of urban construction. 1Q19 sales gained 27% YoY, while 2Q19F sales & prices may also both rise. ▶ A cash cow with a cash position of RMB41.0 bn in 1Q19 (+65% YoY). Market share is expanding both domestically and overseas, while the market is growing more concentrated. ▶ The cement price in 2019F may be stronger than expected thanks to countercyclical control and construction of city clusters. We forecast 2019/20F net profit contributable to the parent of RMB31.4 bn (+5% YoY) /31.5 bn (+0% YoY).

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
601318 CH	Ping An	NR	N/A	-	226,229	2.5	11.7	<ul style="list-style-type: none"> ▶ Its bad loan ratio has been relatively flat at 1.68% for two consecutive quarters, with bad loan ratio of personal loans also being flattish at 1.05%. The ratio of non-overdue accounts transferring to 30 days overdue accounts remained at lower historical levels, with the quality of new accounts improving. ▶ The stock is trading at 0.8x P/B, close to its historical trough. With its transition to retail banking and increased efforts to address bad loans, we expect the company to see re-rating following mitigation of NPL issues.
600036 CH	CMB	BUY	42.00	18.91	128,753	3.5	10.1	<ul style="list-style-type: none"> ▶ CMB's overall earnings growth, ROE level, asset quality and asset and liability structure all outperform peers, boasting its advantages as a retail banking leader. ▶ CMB announced previously that its number of personal savings accounts had surpassed 100 mn, with subscribers of its two major apps reaching over 100 mn and retail customers reaching 125 mn. An increase in its savings accounts is likely to drive upside for its core indicators such as customer deposits and AUM of its retail customers. ▶ CMB posted 2018 bad loan ratio of 1.36%, down 0.25 ppt from end – 2017, also lower than 1.42% in 3Q18, indicating better asset quality vs peers.
600309 CH	Wanhua Chemical	BUY	54.10	32.57	18,624	0.0	10.6	<ul style="list-style-type: none"> ▶ Post-CNY end demand drove MDI price uptrend. Polymeric MDI price has risen by 17.3% YTD. ▶ For 2019F, Wanhua will add 500k tons of new capacity, while Covestro plans to add 200k tons of new capacity. However, capacity ramp-up remains to be seen

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
300750 CH	Contemporary Amperex	BUY	91.20	27.55	22,805	0.2	37.8	<p>and mid- and long-term MDI demand-supply dynamics is still likely to improve.</p> <ul style="list-style-type: none"> ▶ CATL is the largest power battery company with 21.3GWh of installment globally and is also the unchallenged leader in the China market, accounting for 41.3% market share. According to GGII, its 2019M1 installments increased to 2.17GWh with 43.6% market share in China. ▶ We expect its 1Q19 installments will reach 5GWh, up 105% YoY. Based on the strong bargaining power of upstream suppliers, we expect the gross margin of CATL will remain higher than most of its competitors in 2019. Also, partnering with Honda recently should speed up its overseas client base expansion.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

KOSPI Monthly Update

July 23, 2019

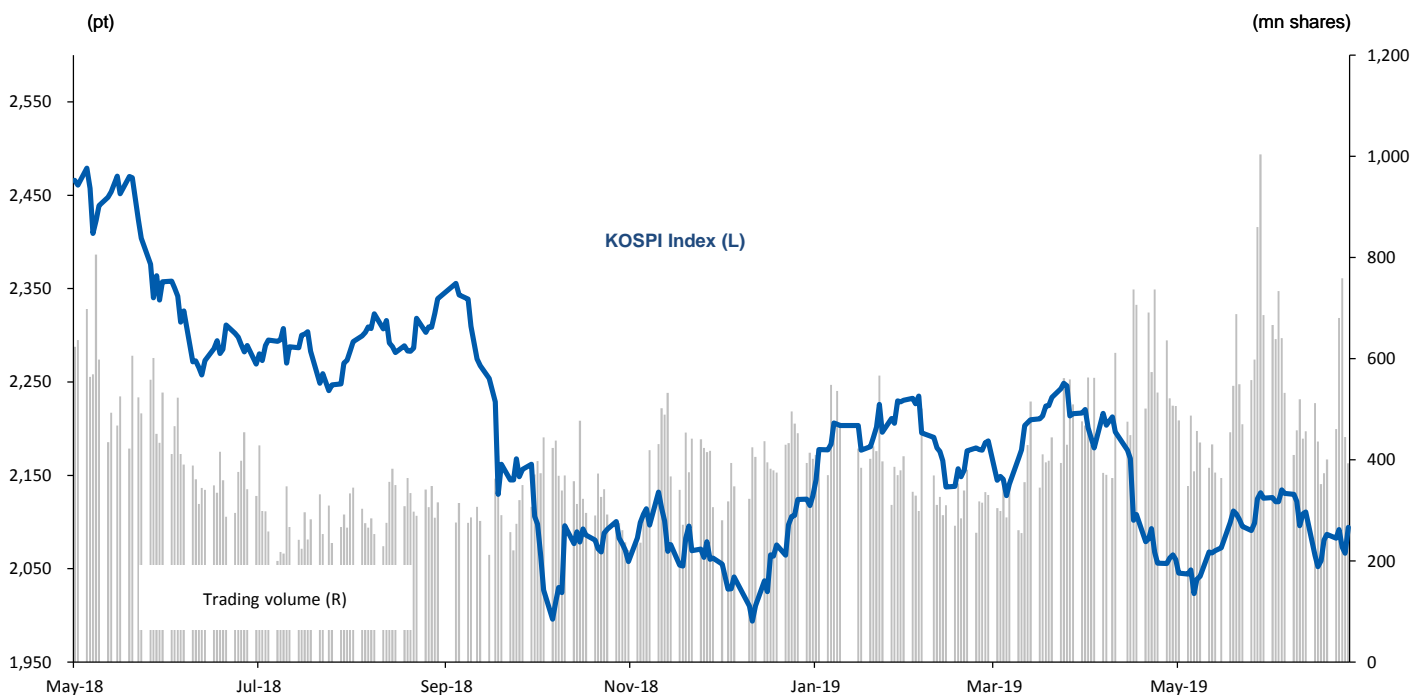
KOSPI Monthly Analysis

- ▶ Close (on 19 Jul): 2,094.36 points
- ▶ KOSPI range forecast for the next month (Jul 22–Aug 23): 2,050–2,200 points

With the intensifying Korea–Japan trade dispute following on from the US–China trade war, political uncertainties are deepening. Since Korea’s semiconductor industry and Japan’s materials industry are critical parts of the global value chain, concerns are spreading that tension between both countries will put more pressure on the global economic cycle. Although the dispute itself is an external factor that appeared suddenly, we do not believe it will intensify near–term, as it not only affects Korea and Japan, but the entire global value chain. Japan’s recent House of Councilors election and the US’s offer to help ease tension have raised expectations that the dispute will not deteriorate further.

Korean companies are releasing 2Q19 earnings. Many expect the YoY operating profit cycle to reach a bottom in 2Q19. Although downwardly–revised earnings estimates imply that the downcycle may continue into 3Q19, the pace of downward revisions has started to slow. Moreover, 12–month–forward EPS growth and the 12–month–forward earnings revision ratio, which move earlier than other indicators, are showing signs of recovery after bottoming–out over end–1Q19 to early–2Q19. As it is highly likely that the earnings cycle will bottom, we believe the worst has passed for fundamentals. Moreover, the KOSPI’s decline will likely be limited, with policies that could boost expectations for a rise in KOSPI likely to be introduced. The Bank of Korea cut the benchmark interest rate, shifting from its conservative stance, and we expect the Fed’s interest rate cut in the near future to be a positive.

Figure 12: KOSPI performance



Source: Bloomberg, Yuanta Investment Consulting

Figure 13: Top 10 picks for the next month – KOSPI

Ticker	Company	Rating	TP (₩)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
A005380	Hyundai Motor	BUY	170,000	27.8	24,093	5.8	8.7	<ul style="list-style-type: none"> ▶ Profit to improve on better mix and solid domestic and North American sales thanks to the new model effect (including “Sonata” and “Pallisade”). ▶ Operating profit improvement and global price competitiveness is strengthening on a weakened Won.
A051910	LG Chem	Strong Buy	600,000	68.1	21,366	1.7	20.0	<ul style="list-style-type: none"> ▶ A bear market rally is expected on strong seasonality for petrochem products over July-August. ▶ Expectations for IT materials business restructuring (including sale of polarizer business) to be a positive.
A035720	Kakao Corp	BUY	180,000	34.3	9,483	4.1	5.3	<ul style="list-style-type: none"> ▶ Earnings improvement on new chatting tab ads. ▶ Enterprise value is rising as earnings improve at subsidiaries, including Kakao Bank, Mobility, and Kakao Page.
A009150	Samsung Electro-Mechanics	BUY	148,000	52.7	6,136	4.1	5.3	<ul style="list-style-type: none"> ▶ MLCC market conditions are likely to defy concerns as Chinese smartphone makers start to restock parts. ▶ Likely to benefit from increased adoption of triple cameras.
A032640	LG U+	BUY	21,000	52.7	5,090	2.8	13.1	<ul style="list-style-type: none"> ▶ LG U+’s cumulative 5G market share is at 30%. ▶ ARPU likely to turn around QoQ in 3Q19. ▶ The company is unlikely to be affected by the Huawei issue.
A010140	Samsung Heavy Industries	BUY	11,000	44.4	4,070	0.0	-37.7	<ul style="list-style-type: none"> ▶ New shipbuilding orders should be decent in 2019, like in 2018, on strong LNG carrier orders.

Ticker	Company	Rating	TP (₩)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> ▶ Offshore orders likely to rebound on a recovering oil price. ▶ Operating profit is likely to improve as higher sales have reduced its fixed-cost burden.
A007070	GS Retail	BUY	56,000	45.1	2,520	1.8	8.1	<ul style="list-style-type: none"> ▶ Convenience store (CVS) growth is likely to be solid despite poor conditions in 2Q19. ▶ As an industry leader it is likely to benefit from CVS sector restructuring.
A003410	Ssangyong Cement	BUY	7,800	33.1	2,503	4.5	8.2	<ul style="list-style-type: none"> ▶ Shipments are better than feared on a higher cement selling price and favorable government policies. ▶ Costs are falling and profitability improving on investment in heat recovery steam generators, energy storage systems, and resource-recycling infrastructure. ▶ The stock has a high dividend yield high of over 6%. It will likely raise dividends on earnings growth.
A214320	Innocean Worldwide	BUY	91,000	30.9	1,178	4.1	6.4	<ul style="list-style-type: none"> ▶ The company is likely to benefit when the Won weakens against the dollar, as Americas accounted for 44% of total operating profit in 2018. ▶ Non-organic growth is expected on reinforcement of "Genesis" brand marketing and M&A deals. ▶ The company's major shareholder has exchanged shares with Lotte Culture Works, thus freeing the company from Korea Fair Trade Commission's regulation.

Ticker	Company	Rating	TP (₩)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
A079160	CJ CGV	HOLD	43,000	12.6	685	1.0	88.4	<ul style="list-style-type: none"> ▶ The company is likely to post strong earnings in 2Q19 on better box-office sales in major countries and strong demand for movies screened in special theaters. ▶ Issues regarding its Turkey business have already been reflected in the share price. Shares are likely to rebound in the short-term.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Indonesia Monthly Update

July 23, 2019

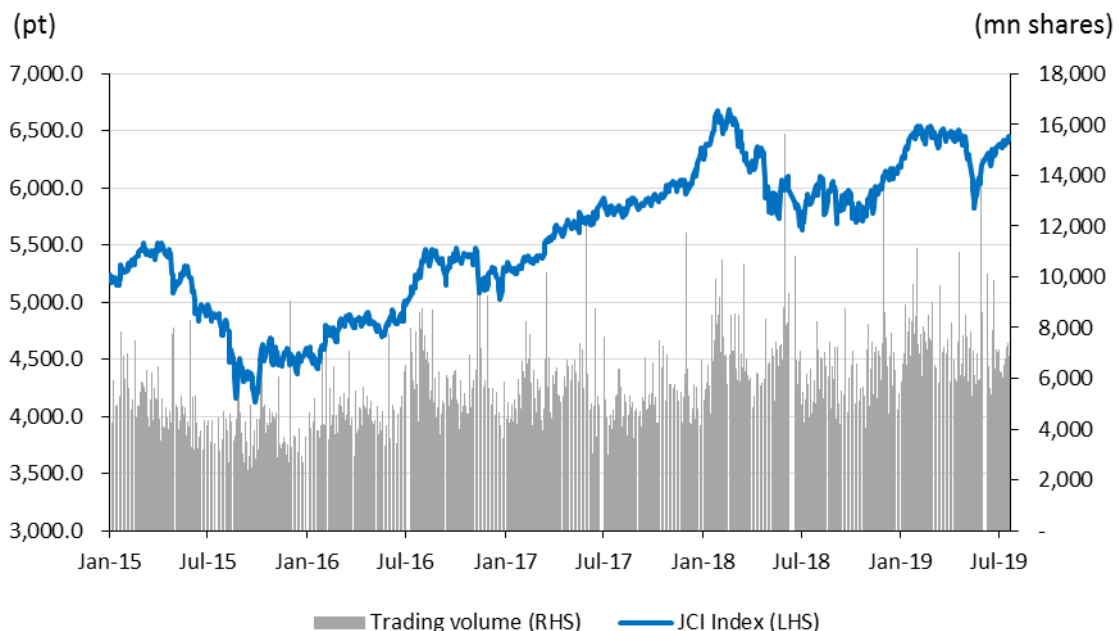
Indonesia Monthly Analysis

- ▶ **Close (on Jul 19):** 6,456.53 points
- ▶ **JCI range forecast for the next month (Jul 19–Aug 21):** 6,420–6,548 points

Bank Indonesia (BI) lowered its benchmark rate to 5.75% (down by 25 bps) as global central banks including the Fed indicated dovish monetary policy. With inflation under control at 3.28% even post Ramadhan and two consecutive months of trade surplus, BI had some room to reduce its benchmark rate. BI's move was positively received by the market, as the JCI increased by 3.2% MoM and the Rupiah strengthened by 2.7% MoM, while the bond yield dropped 58 bps MoM to 7.1%. If the Fed reduces its benchmark rate by 50 bps in the upcoming meeting, it should enable the BI to reduce its rate even further. Market turnover was slightly down to IDR9.1 tn (-12.8% MoM), but this was accompanied by foreign fund inflow of IDR12.3 tn, with YTD foreign inflow of IDR74.6 tn, which includes acquisition of Bank Danamon for around IDR51 tn.

Despite the positive response from the market, BI's meeting notes disclosed that 2Q19 GDP could be on the lower side at 5.1%, similar to last quarter. This number is considered low because 2Q is the harvesting season, with the agricultural sector achieving its highest productivity, as well as the Ramadhan festive season. Concerns also remain over the CAD, even though capital inflow was significant at US\$9.7 bn in 1H19. Nevertheless, with the presidential election to be concluded, ministerial appointments will be crucial to support continuous growth amid increased tension in the global trade war.

Figure 14: JCI Index Performance and Volume



Source: Bloomberg, Yuanta Investment Consulting

Figure 15: Top 10 picks for the next month- Indonesia

Ticker	Company	Rating	TP (Rp)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
ERAA	Erajaya Swasembada	BUY	2,075	6.6%	448.8	2.8	11.4	<ul style="list-style-type: none"> ▶ Erajaya has the distribution rights of Juul Labs e-cigarette, and will distribute this product using its current distribution network. However, this product is bound by the same restrictions as ordinary cigarettes. ▶ IMEI registration is likely to be signed on Aug 17, 2019, though implementation may be gradual. It has been indicated that this ruling will not be implemented retroactively.
TOWR	Sarana Menara	BUY	850	8.2%	2,805.8	2.3	17.2	<ul style="list-style-type: none"> ▶ Protelindo should benefit from rapid investment in 4G networks by operators. Operators such as Indosat and Hutchison 3 Indonesia have accelerated capex, which should benefit tower operators such as Protelindo. ▶ Consolidation within the tower industry will help to reduce competition and stabilize tower pricing, a positive catalyst.
WIKA IJ	Wijaya Karya	BUY	2,980	21.6%	1,537.7	2.4	9.9	<ul style="list-style-type: none"> ▶ WIKA has well-diversified revenue from building construction (WEGE IJ), infrastructure construction (WIKI IJ) and pre-cast manufacturing (WTON IJ). ▶ The company is confident in receiving new contracts from the second phases of the MRT and LRT projects, which have investment costs of IDR22 tn and IDR5 tn, respectively.
LPPF IJ	Matahari Dept Store	BUY	6,750	107.1	656.4	10.2	5.4	<ul style="list-style-type: none"> ▶ As of June 2019, LPPF has bought back 159.9 mn shares (5.48% of outstanding shares), with total proceeds of IDR662.6 bn. The company has allocated total funds of IDR1.4 tn for the share buyback. ▶ The company is a beneficiary of increasing budgeted Family Hope Program



Ticker	Company	Rating	TP (Rp)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								(PKH) disbursement in FY2019.
ADHI IJ	Adhi Karya	BUY	2,200	36.6	404.4	2.8	5.8	<ul style="list-style-type: none"> ▶ ADHI Karya should benefit from the LRT project, as the company has high exposure to several TODs along the LRT railway. The LRT project is expected to be completed at end-FY2020. ▶ ADHI is expecting LRT payment of IDR5.0 tn this year, which should help improve cash flow. The LRT project is now 63% complete.
ASII IJ	Astra International	BUY	8,900	25.3	20,530.9	3.4	11.9	<ul style="list-style-type: none"> ▶ Astra has been able to regain market share, with total market share now at 52%, despite auto sales volume dropping by 13% YoY in 1H19. This shows strength of brand equity as well as Toyota-Daihatsu brand service chain. ▶ Astra Financial Services Division still seeing robust growth, as new car financing grew 2% YoY on the back of declining sales volume.
HMSP IJ	Hanjaya Mandala Sampoerna	BUY	4,100	33.6	23,493	3.6	24.4	<ul style="list-style-type: none"> ▶ Benefiting from zero increment in excise tax in 2019. ▶ As excise tax-related expenses accounted for 75% of COGS in FY2018, we expect 19% YoY EPS growth in FY2019F, owing to better margins.
BMRI IJ	Bank Mandiri	BUY	9,200	18.3	26,045	3.1	13.1	<ul style="list-style-type: none"> ▶ While the issue of possible acquisition on Bank Permata has subsided, Mandiri's share price has been under pressure lately due to a possible increase in bad debt from some of its debtors, namely Krakatau Steel and Duniatex. So far, the accounts are still paying their obligations and have enough collateral to cover possible losses. Mgmt stated any increase in the provision level for these accounts would not increase its credit cost target for this year.



Ticker	Company	Rating	TP (Rp)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
BBNI IJ	Bank Negara Indonesia	BUY	9,900	11.9	11,847	3.2	9.6	<ul style="list-style-type: none"> ▶ As with Mandiri, recent pressure on share price is due to possible increase in bad debt level from some of its debtors, namely Krakatau Steel and Duniatex. BNI also stated that any increase in the provision level for these accounts would not increase its credit cost target for this year.
CTRA IJ	Ciputra Development	BUY	1,300	8.3	1,598.8	0.8	20.3	<ul style="list-style-type: none"> ▶ On-track to achieve FY2019T marketing sales. 1H19 pre-sales represented 40% of its target for the year, in line with mgmt's guidance for marketing sales to be split 40:60 in 1H and 2H. CTRA will launch four new projects in 2H19, with expected contribution to full-year marketing sales of ~15.8%. ▶ Beneficiary of interest rate cut and super luxury income tax incentives. ▶ Currently trading attractively at 69.0% discount to RNAV.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Thailand Monthly Update

July 23, 2019

Thailand Monthly Analysis

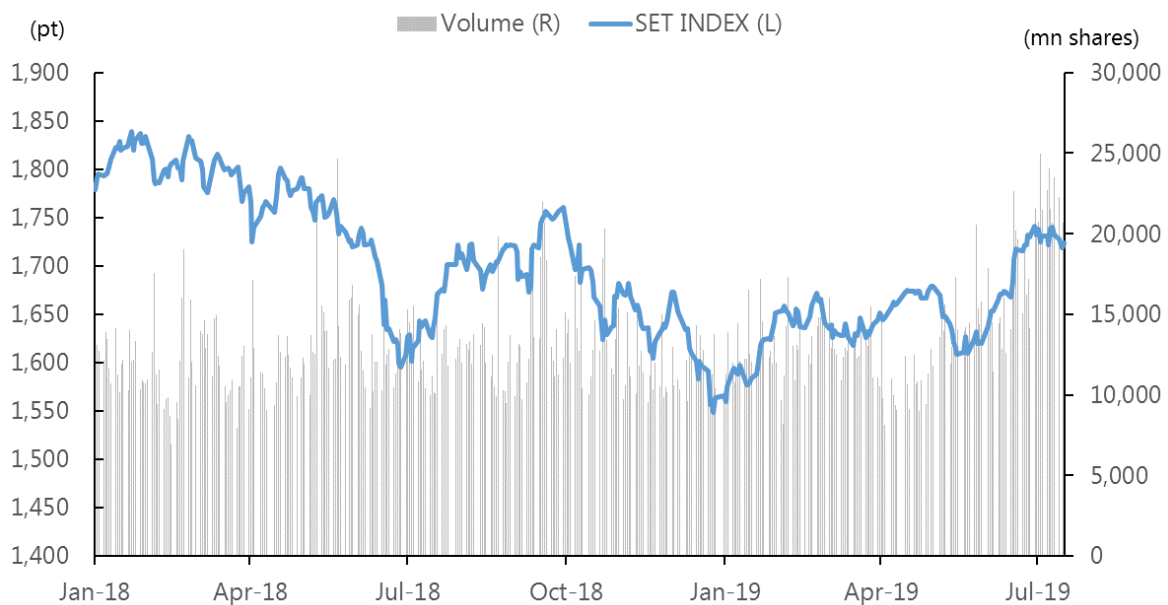
- ▶ Close (on July 18): 1,723.44 points
- ▶ Thailand market range forecast for the next month: 1,600–1,700 points

The SET Index rose 2.37% from June 19 to July 18 due to strong funds flow into emerging markets (EM) given a possible reduction in the US interest rate, formation of the new Thai gov't and FITCH upgrading Thailand's outlook from stable to positive. Since the MSCI rebalancing, foreign investors have net bought Thai shares YTD to the tune of THB58.3bn vs a net sell of THB287.5bn in 2018. Next month, the market will likely move on the back of 2Q19 results, which kicked off with the banking sector last week.

Banking 2Q19 results were weak for core operations, with sector net profit growth of -0.1% YoY on weak loan growth (+0.9% YTD), with continued declines in transactions and bancassurance fees. NPL ratio is stabilizing from huge write-offs, and credit cost is trending down as NPLs stabilize. NPL ratio for 2Q19 was 3.6%, vs 3.7% in 2Q18, and 2Q19 credit cost was 120 bps, vs 133 bps in 2Q18. SCB and KTB were the outperformers. SCB showed improvement on all fronts with positive loan and non-NII growth and expenses falling. KTB's results reflected strong improvement in loan growth & NIM; NPLs also fell leading to lower credit cost. We have lifted earnings estimates for KTB for 2019/20 by 3% and 5% respectively. Our top pick in the banking sector is currently SCB.

After the SET's strong rally of 10% YTD, and given anticipation of poor 2Q19 results, the market is likely to trend down. Fears of BOT measures to curb strong appreciation of the Thai Baht may also hurt funds inflow. The government's new economic policies are vague with no clear cut action plan on stimulus measures to boost consumption and the agriculture sector. We advise caution over coming weeks.

Figure 16: SET – historical performance



Source: Bloomberg, Yuanta Investment Consulting

Figure 17: Top 10 picks for the next month – Thailand

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
JKN	JKN GLOBAL MEDIA	BUY	11.9	36%	153.19	1.94	19.89	<ul style="list-style-type: none"> ▶ Earnings in 2Q19 to see slower growth, but 2H19 growth is likely to be stronger off a low base and with higher copyright income. ▶ Maintain our FY2019 profit forecast of 19% YoY. ▶ Exports of content to CLMV countries will be key revenue and earnings drivers in coming years. ▶ Potential upside will come from selling content to streaming companies such as Netflix, Line TV and Amazon Prime. ▶ CNBC content produced by the company will start to contribute to income in 2H19.
CPALL	CPALL	TRADING	90.0	2.6%	25,557.41	1.37	37.04	<ul style="list-style-type: none"> ▶ 2Q19 core profit should be strong given positive SSS growth of 3.0-3.5%. However, net profit in 2Q19 will be hit by employee benefits of THB800 mn during the quarter. ▶ MAKRO's SSS growth continues to be strong in 2Q19, up 7% YoY due to a recovery in chicken and pork prices. ▶ CPALL's next focus is to find new fee income through its large network using in store service's human touch points. ▶ The Speedy package delivery service has been rolled out at all its branches (11,299) throughout Thailand. CPALL has signed up banking agent services with four banks. ▶ It is introducing new larger 7-11 formats with seating arrangements that will lead to



Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								higher spending per ticket.
UNIQUE	UNIQUE ENGINEERING AND CONSTRUCTION	TRADING	15.40	36.3%	396.05	2.65	15.18	<ul style="list-style-type: none"> ▶ 2Q19 earnings are forecasted to grow QoQ on revenue recognition from the Orange Train line and dual track project. ▶ The company recently won the Thai Chinese train project contract 5 (THB9.4bn), driving its backlog up to THB36 bn. ▶ UNIQ hopes to win more 2 contracts on a motorway operation and maintenance (O&M), for which UNIQ is partnering with Chinese operators (totaling THB14bn) and dual-track train Phase 1-3 contracts from Nakorn Pathom – Choompon – Map Ka Bao – Jira and Lopburi – Paknampo (totaling THB11bn), for which the applications were sold between May 21 and Jul 22. If UNIQ can win some of the project, it should reach its target additional backlog of THB15 bn in 2019.
NOBLE	NOBLE DEVELOPMENT	BUY	30.75	42.4%	319.68	31.94	4.45	<ul style="list-style-type: none"> ▶ We have initiated on NOBLE with a BUY rating and a 2020 TP of THB30.75, for 42% upside. ▶ We estimate 2019 revenue of THB13.5bn (+166.0% YoY). Net profit is projected to be THB3.1 bn (+213.8% YoY) with 2019 DPS of THB4.09, implying 21.5% yield. ▶ At the end of 1Q19, its backlog was THB18 bn, of which THB5.5 bn will be booked this year, securing 67% of our FY2019 revenue forecast. ▶ Partnering with Fulcrum Global and BTS Group will attract more foreign clients, which will support presales growth in the future. ▶ NOBLE is trading at a 2019-20 P/E of 2.82x and 4.42x, respectively which is cheap given its solid fundamentals and hidden assets (land awaiting development) of over



Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<p>THB10bn.</p> <ul style="list-style-type: none"> ▶ There is limited downside to the share price as the stock is trading below its BV of THB67.00. ▶ A recently announced share buyback program should support its share price in coming months.
MAJOR	MAJOR CINEPLEX GROUP	BUY	31.0	7.8%	834.0	4.70	21.35	<ul style="list-style-type: none"> ▶ Thai movies are making up a significant portion of revenue, at 33% in 1Q19. ▶ Additionally, in 2019 there was a strong Hollywood movie line-up which should boost box office ticket sales. ▶ Selling its Thai movies to streaming companies is another source of revenue.
								<ul style="list-style-type: none"> ▶ CK won the RAMA 3 expressway project's 4th contract, driving its backlog to THB50bn from THB43bn. ▶ The linking three airports high-speed train contract should be signed on June 15, with construction work to the value of THB100 bn. CK should receive work to the value of THB30-50bn, with construction to start in 2020.
CK	CH. KARNCHANG	BUY	32.0	13.3%	1,551.5	1.77	18.78	<ul style="list-style-type: none"> ▶ CK to participate in more public auctions such as the Rama 3 expressway, and 2 motorways. In 2019, we expect CK will receive contracts to the value of THB50-60 bn in 2019, with its backlog up from THB49 bn to THB100 bn. ▶ CK is trading at 39% discount to the NAV of its holdings in BEM/CKP/TTW of THB47.31 per share. Based on historical discount rate of 30% CK would trade at THB32-33.00/share.
SCB	THE SIAM	BUY	155.0	9.5s%	15,577.9	3.89	12.7	<ul style="list-style-type: none"> ▶ 2Q19 earnings are likely to be supported by seasonality, an uptrend in bad debt

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
	COMMERCIAL BANK							<p>recovery and lower credit costs.</p> <ul style="list-style-type: none"> ▶ Its coverage ratio is high at 604%, sufficient for IFRS9 standards. ▶ We have a positive view after SCB's 2Q19 earnings report, with net profit up 20% QoQ. ▶ QoQ earnings were supported by higher loan growth of 1.5% from all segments (corporate, SME and retail). Non NII of 7% QoQ was from higher mutual and loan related fees and declining opex which fell 7% QoQ. Cost to income ratio dropped. Its NPLs were flat at 3.2% and coverage ratio stable at 153%. ▶ A key earnings growth driver for SCB for 2019 and 2020 is a pick-up in retail loan growth through its digital platform, lower IT investment costs and improving NIM. It will see investment gains from the sale of SCB Life which will lead to an extra dividend in 2019.
KTB	KRUNG THAI BANK	BUY	22.5	15.4%	8,836.1	3.68	9.40	<ul style="list-style-type: none"> ▶ 2Q19 earnings beat ours and market expectations by 14% due to lower provisions as NPLs declined from 5.4% to 5.2% of total loans. Credit costs fell from 144 bps to 108 bps. ▶ LG during the quarter was strong at +1.6% QoQ and +2% YTD from corporate and retail loans. NIM improved to 3.2% from 3.1% on higher yield retail loans. ▶ Impairment expenses fell to THB1.1 bn from THB3.8 bn. Coverage ratio increased to 133%. ▶ The bank will be booking loan s written off by AQ of THB 5bn in 2H19 which we have not incorporated into our forecasts yet.

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> ▶ We have revised up our FY19 and 2020 earnings up by 3% and 5% respectively, anticipating 8% and 6% YoY earnings growth. We have recently upgraded KTB to BUY with a TP of THB22.5.
TU	THAI UNION GROUP	BUY	20.8	6.6%	3,016.9	2.05	25.42	<ul style="list-style-type: none"> ▶ We estimate 2Q19 normalized profit at THB1.4bn, up 33.4% YoY. We estimate GM to hit a new high of 16.7%. ▶ Higher GM to be supported by lower feedstock costs and an increasing plant capacity utilization rate. Tuna prices have continued to fall, reaching US\$1,000/ ton (-16.7% MoM, -34.5% YoY) in June. ▶ The share price rose 13% YTD, with the food sector at 22.5% YTD. Share price has seen some pressure due to lawsuit concerns. If the negotiation is positive, share price should recover. ▶ GM in 2020 may beat our forecast of 15.7%. Although we maintain our FY2019-2020 earnings forecasts, we have rolled over our TP for the next 12 months to THB20.80 (P/E of 17.36x), for 6.6% upside. We have also upgraded our recommendation to BUY.
EKH	EKACHAI MEDICAL CARE	BUY	8.5	13.3%	145.9	2.20	32.17	<ul style="list-style-type: none"> ▶ After the recent analyst meeting, we maintain our positive view on JKN. ▶ 2Q19 earnings will be driven by both cash and IVF patients. ▶ EKH plans to open a new pediatric center in Aug 2019 to reduce congestion and boost revenue. ▶ We maintain our 2019 earnings growth estimate of 29% YoY.



Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								▶ EKH has no debt and ROE should improve to 17% from the 13.8% recorded in 2018 and 10% in 2017.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Vietnam Monthly Update

July 23, 2019

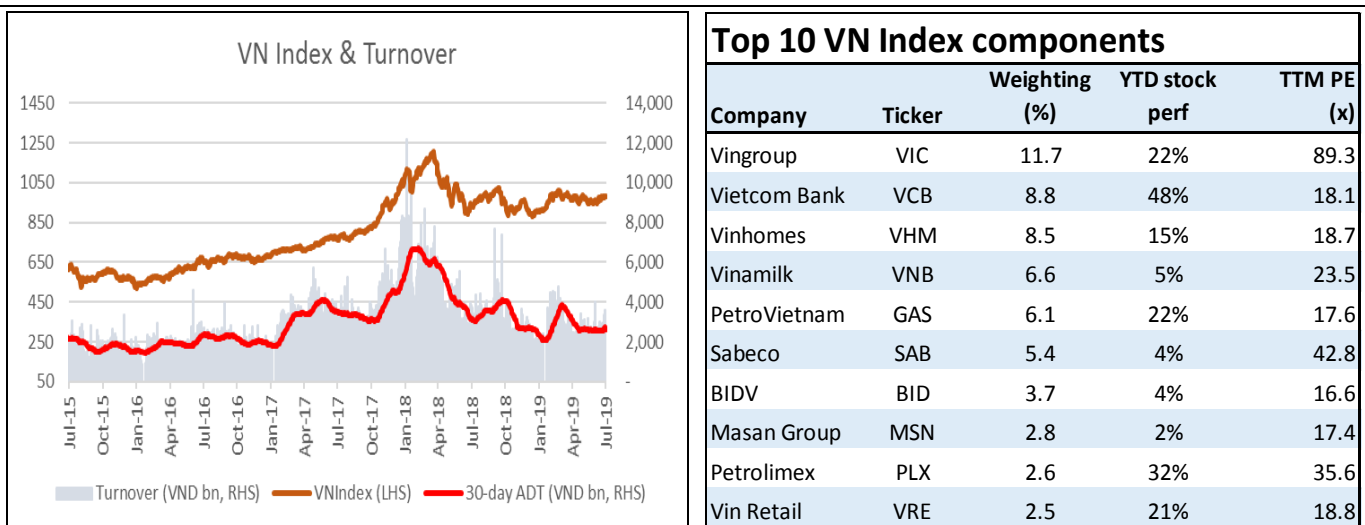
Thailand Monthly Analysis

- ▶ Close (July 22): 982
- ▶ VN Index range forecast for the next two weeks (July 23–Aug 6): 965–990

A marginal recovery from the 2Q doldrums. The VNIndex rose 1.9% MoM to close at 982 on July 22, back to the levels of mid-May although still 3% below the 2019 peak of 1012 reached in March. Despite the range-bound trading pattern YTD, we are heartened to see signs of a marginal increase in turnover in recent days. For example, total turnover on the HOSE reached VND3.6 trn (US\$155m) on July 21, 27% higher than the YTD average. Obviously one day is not a trend, but 30-day ADT at July 23 was 5% higher than at end-June, which again creates some room for confidence that the market may not return to the doldrums of 2Q19. We continue to believe that external monetary conditions are key for Vietnam equities market liquidity, and with the US Fed set to cut rates on July 31 (by 25bps, we reckon, but it could be more) we believe that the worst should be behind us.

More on Vietnam's case for MSCI inclusion: we have been hearing more about non-voting depository receipts (NVDRs) being included in the draft securities law revisions to be unveiled in 4Q19. NVDRs could be a means of overcoming the impact of foreign ownership limitations (FOL) on market liquidity conditions. However, key obstacles for NVDR implementation remain, including the legal structure for stock exchange subsidiaries to trade NVDRs and the lack of corporate laws on depository receipts, and the traditional concerns about limiting foreign voting rights. In any case, given the timeframe for the legal changes, we believe that NVDRs would only become an option in 2021. This would place the timing of EMI watchlist status at June 2021 at the very earliest—and this assumes, perhaps optimistically, that NVDRs will be sufficient to alleviate MSCI concerns about market access.

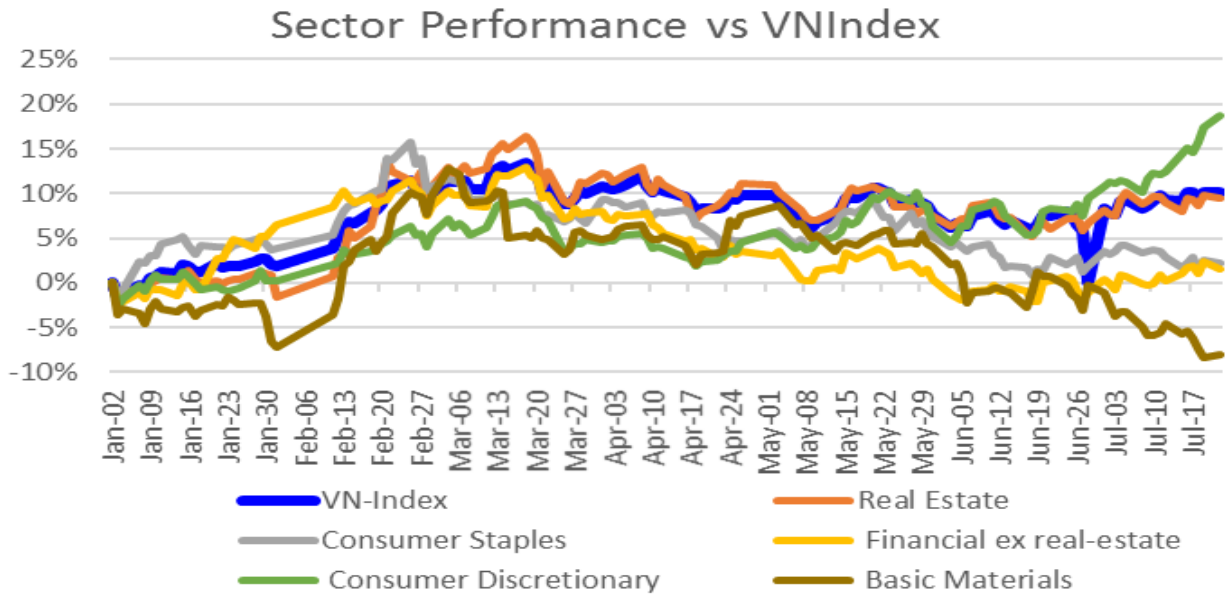
Figure 18: Weakening volumes suggest downside short-term risks; we suggest waiting for a rebound in 2H19.



Source: Bloomberg, FiinPro, Yuanta Research

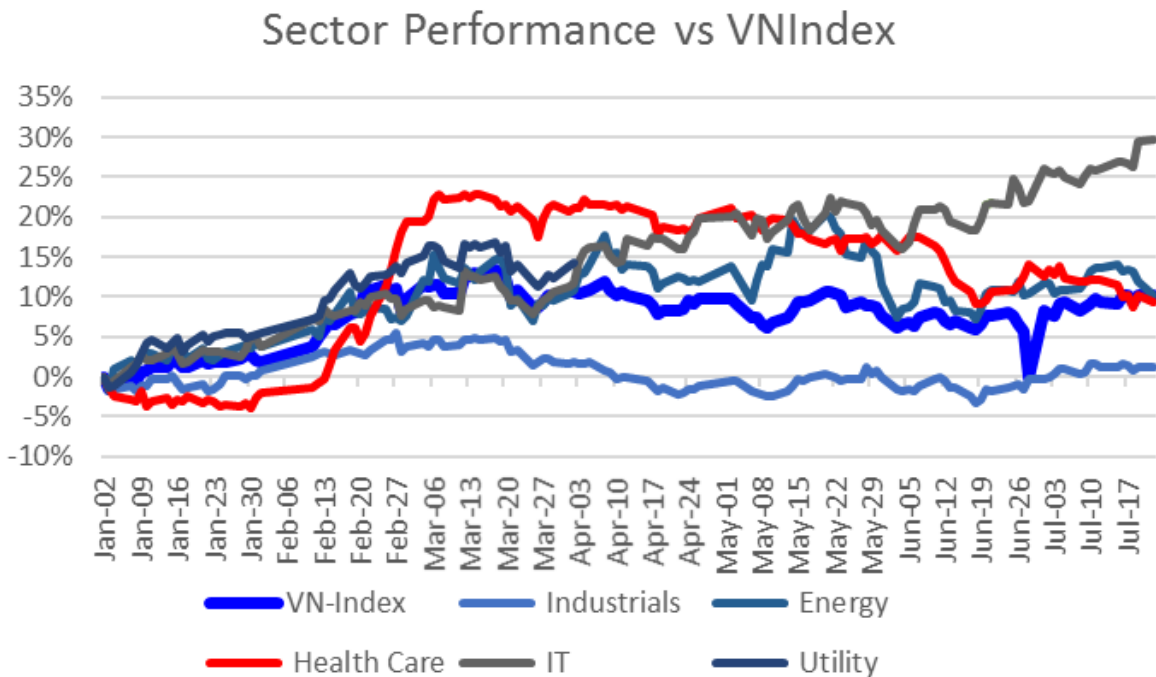


Figure 19: Jewelry champion PNJ and retail play MWG recovered led a strong uptrend in consumer discretionary names. Vingroup stocks continue to boost the property sector, while open-FOL bank VCB led the financial sector higher in June-July.



Source: Bloomberg, Yuanta Vietnam

Figure 20: Health care's diagnosis turns down as deal-related fever cools down. Meanwhile, FPT continues to lead the IT sector higher on execution in technology outsourcing.



Source: Bloomberg, Yuanta Vietnam

Figure 21: Top 10 picks for the next month – Vietnam

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
MSN VN	Masan	BUY	93,035	11%	4,194	1.8%	19.7	<ul style="list-style-type: none"> ▶ Consumer giant branching into animal feed. ▶ Proxy on growing protein demand as per capita GDP continues to rise. ▶ Deleveraging will reduce its cost of debt – consensus is missing this.
STB VN	Sacombank	BUY	14,101	17%	3,985	1.9%	18.5	<ul style="list-style-type: none"> ▶ Restructuring story that trades at an excessive discount (at 1x PB) to its peers (at c. 2x PBV). ▶ Underlying operations are strong. Value to emerge as legacy NPLs are worked out. ▶ Low LDR vs sector should allow for NIM outperformance.
BID VN	BIDV	BUY	38,713	8%	5,260	2.4%	18.5	<ul style="list-style-type: none"> ▶ Capital issuance will give the bank room to grow. ▶ Broadest SME and retail banking footprint in Vietnam ▶ Valuations are compelling, FOL limit is not a problem.
VCB VN	Vietcombank	BUY	75,275	-5%	12,610	1.2%	19.1	<ul style="list-style-type: none"> ▶ Leading CASA franchise and lowest cost of funds in the sector. ▶ Strong risk management and capital. ▶ Best of breed among the Vietnam banks, and a top pick.
DGW VN	Digiworld	BUY	31,574	37%	42	5.1%	6.8	<ul style="list-style-type: none"> ▶ Growth to emerge from exclusive distribution deal with Xiaomi. ▶ Diversifying away from smartphones: CE / office electronics and FMC goods ▶ Nokia (and now Nestle) should provide further sentiment upside.
PNJ VN	Phu Nhuan Jewelry	BUY	118,489	54%	738	2.6%	12.2	<ul style="list-style-type: none"> ▶ Gold jewelry business is the jewel in the crown. ▶ Plenty of room for growth on industry consolidation and as gov't policy limits sales

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> of gold bars. ▶ Watches could become a growth driver if PNJ is able to achieve scale advantages.
NLG VN	Nam Long	BUY	32,000	9%	289	1.7%	13.8	<ul style="list-style-type: none"> ▶ Strong financial structure: low financial leverage and large cash position. ▶ International partnerships shores up funding for the firm's big projects. ▶ Beneficiary of burgeoning middle class: Focus on affordable and mid-end housing.
PVD VN	PV Drilling	BUY	24,535	34%	302	2.7%	8.6	<ul style="list-style-type: none"> ▶ Multinational offshore drilling player with rising utilization. ▶ Consensus is missing likely new contract for mothballed semi-sub. Our forecasts are 85% higher than the Street. ▶ Cheap value at 0.5x P/B, rerating play if Brent price > US\$60 per barrel.
HCM VN	Ho Chi Minh City Securities	BUY	36,219	59%	301	4.0%	10.2	<ul style="list-style-type: none"> ▶ Key beneficiary of increased institutional investor activity in Vietnam in the years ahead. ▶ Confidence in management's ability to execute while managing the operational risks. ▶ Beneficiary of the burgeoning middle class: Focus on affordable and mid-end housing.
VND VN	VNDirect Securities	BUY	21,029	40%	135	4.6%	10.8	<ul style="list-style-type: none"> ▶ A proxy on retail investor growth in the years ahead. ▶ Market leading online trading platform should allow for operational efficiency as VND increases market share. ▶ Valuation is cheap -- PERs are the lowest in our coverage.

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

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BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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- Neutral: Investment weighting is equal to the market capitalization weighting
- Underweight: Investment weighting is lower than the market capitalization weighting

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