



# Yuanta Regional Monthly

May 21, 2020



## Executive Summaries

**Regional Macro:** Production & sales both declined in the US/EU, with many countries facing economic downturn pressure post lockdowns. Meanwhile, China is facing political pressure from the US and European countries. In the US, with the spread of COVID-19 slowing, the government has launched various fiscal and monetary policies to ease negative impact from the pandemic. For the EU, the ECB chairman has indicated that the new round of stimulus measures will include expanding asset purchases, adjusting bond purchase programs, and supporting member countries with weaker financial foundations. In Taiwan, we expect the TAIEX to fluctuate amid consolidations, as FINIs have moved to the sidelines due to rising pressure for an economic downturn caused by diminishing external demand in 1H20 on the pandemic.

**Taiwan:** We believe the biggest risk is that the TAIEX is already at a high level, up 2,500 points from the recent trough of 8,523 points seen on March 19. With relatively high valuation and uncertainties ahead, we believe fluctuations will be unavoidable.

**Hong Kong:** Hong Kong stocks are entering into a phase of consolidation in May, with a 3.3% MTD increase after a 4.5% YoY rebound in April. Daily turnover in May MTD is 2.6% higher compared with the April average of HK\$100 bn (US\$12.8 bn). This suggests some investors are adopting a wait-and-see attitude in view of the dynamic COVID-19 pandemic developments globally. In terms of sectors under our coverage, auto/food & beverage sectors have seen relatively strong growth of 8.6%/6.2% in the past month. This was largely driven by the basic necessities nature of food & beverage stocks and improved sales trends of auto companies. By contrast, paper and textile stocks dropped 9.7%/2.7% due to the recent weak order flow and threat of the Sino-US trade war resuming. The Hang Seng Index was relatively flat in the period. The current HK market P/E of 10.6x is slightly below its past five year average of 11.0x (range: 9.1–12.6x). As such, we believe investors will choose to wait on the sidelines until there are further positive developments on the COVID-19 pandemic. We reaffirm our 12M HSI index target at 26,000–28,000 points. China F&B stocks continue to be our preferred choices given almost all of them are China focused and are seeing stable customer demand. Our picks on the China food & beverage sector are China Resources Beer, Tingyi, Uni-President China and China Mengniu Dairy.

**Shanghai:** As of May 18, the number of confirmed COVID-19 cases globally reached 4.78 mn, while the pandemic was still spreading rapidly in Brazil and Russia. In China, Jilin City has strengthened virus control to prevent a resurgence of the virus. We believe virus prevention measures will become the norm and result in fundamental changes to lifestyle and the economy.

**Korea:** Due to lingering uncertainties over earnings forecasts and negative factors, the KOSPI is unlikely to perform strongly for now. However, even if the index does correct, it is unlikely to be steep, as overall indicators have now passed the worst.

**Indonesia:** The capital market has calmed amid the pandemic, with the JCI trading in the narrow range of 4,496–4,716 during the past four weeks while strengthening 0.57% MoM. However, market turnover appeared to dry up, declining 14.3% MoM. Some banking, consumer, and telecommunications companies have shown limited indications of the slowdown. Nevertheless, smaller companies in various sectors had shown early signs of the slowdown, including transportation companies. We expect financial results in 2Q20 to be hit hard, but this will be followed with a gradual recovery as the government starts to lift measures to control the pandemic, again most likely in early Jun. The two months of lockdowns have disrupted cash flow but have otherwise inflicted limited damage on balance sheets.

**Thailand:** SET Index has recovered 29% since the low in March, and is now reflecting the partial opening of the economy. Earnings in 1Q20 of the SET100 Index dropped 61.1% YoY. The worst performers were airline, hotel, refinery, petrochemical, healthcare, entertainment and media companies. The outperformers were the bank, finco, and food & beverage sectors. Thailand's Covid-19 situation has been manageable, with slightly more than 3,000 cases, 54 deaths and 94% of those infected recovering. Less than 100 patients remain hospitalized. On the economic front, partial openings began at the beginning of May. Department stores were allowed to open on May 17, but there is a need to continue monitoring for new cases. We expect the SET Index to move sideways up with energy and petrochemical sectors as key leaders due to recovery in the crude price and supply cuts from OPEC+ countries.

**Vietnam:** The mainboard VNI closed at 846 points on May 21 (+11% MoM), almost 30% higher than the multiyear closing low of 659 on March 24. The VNI technically entered a bull market in April, but the recovery has gathered steam since, and the May 20 close was also the high for the preceding one-month period. Breadth on the VNI was very strong, with 292 monthly gainers vs just 80 losers, and at least one sector (basic materials, led by HPG) is now posting positive YTD gains. Average daily trading in the three main bourses surged to reach US\$197m, up 23.3% from the previous month and 21% above YTD levels. We were cautious at the start of the month given that the rally in April was entirely driven by domestic investors, but we are seeing signs of a return of foreign net buying too. Confidence has clearly returned after April's soft shutdown as the COVID-19 outbreak remains under control and social distancing measures have been eased. From our perspective in HCMC, Vietnam life is almost back to its normal frenetic pace, although international travel (wisely) remains tightly restricted.

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

Market	Top ten picks									
Taiwan	Quanta	Universal Cement	Uni-President	Brave	Universal Vision	CTBC FHC	Lotus Pharmaceutical	GIS	Delta Electronics	ASE Technology Holding
Hong Kong	Yongda Auto	Brilliance China	China Resources Beer	China Mengniu	Uni-President China	Tingyi	Pou Sheng International	Stella International	Chow Tai Fook Jewellery	Li Ning
China A share	CRCC	Yonghui Superstores	Willsemi	SYTECH	M&G	TCL	Zhongji Innolight	CITIC SECURITIES	TFME	SAIC Motor
Korea	Samsung Electronics	SK Hynix	LG Chem	Kakao Corp	NCsoft	Korea Zinc	LG U+	E-Mart	Cosmax	GKL
Indonesia	Indosat	Erajaya	XL Axiata	Sarana Menara Nusantara	Wijaya Karya	Sari Melati Kencana	Bank Central Asia	Bank Rakyat Indonesia	Unilever Indonesia	Indofood CBP
Thailand	Star Petroleum Refining	Ratch Group	Total Access Communication	Carabao Group	Charoen Pokphand Foods	Bangkok Chain Hospital	Energy Absolute	B.Grimm Power	Gunkul Engineering	Ptt Global Chemical
Vietnam	Vinhomes	Khang Dien House	Vietcombank	PV Power	Phu Nhuan Jewelry	Ho Chi Minh City Securities	Masan			

Source: Yuanta Investment Consulting



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# Yuanta Investment Strategy

May 21, 2020

## Macro Fundamentals

- **Global** : Production & sales both declined in the US/EU, with many countries facing economic downturn pressure post lockdowns. China is facing political pressure from the US and European countries.
- **US** : With the spread of COVID-19 slowing in the US, the government has launched various fiscal and monetary policies to ease negative impact from the pandemic.
  - Trump administration has decided to launch coronavirus relief bill. However, given 2Q-3Q20F corporate earnings will likely be revised down further, US equities have been trading sideways amid consolidations on mixed factors.
  - With persistent uncertainty from COVID-19, USDX has consolidated at a high level, supported by strong hedging demand.
- **EU** : ECB chairman indicated that the new round of stimulus will expand asset purchases, adjust bond purchase programs, and support member countries with weaker financial foundations.
  - As fundamentals in the euro zone remain weak, monetary policies will likely be loosened further, leading to continued euro consolidations at a low level.
- **Taiwan** : We expect the TAIEX to fluctuate amid consolidations, as FINI have moved to the sidelines due to rising pressure for an economic downturn caused by diminishing external demand in 1H20 on the pandemic.
  - With the mixed factors of FINI withdrawing capital and manufacturers relocating to Taiwan, the NTD should remain relatively strong.
- **Crude Oil** : Oil price has stopped falling and stabilized, as the US and European countries are loosening controls and OPEC+'s production cut deal has taken effect, and the US is increasing strategic petroleum reserves.
- **Gold** : We suggest investors accumulate gold on any pullbacks, due to strong gold demand supported by fast expansion of global central banks' balance sheets and surging government debts.

**Figure 2: Global Investment Strategy (Developed Markets)**

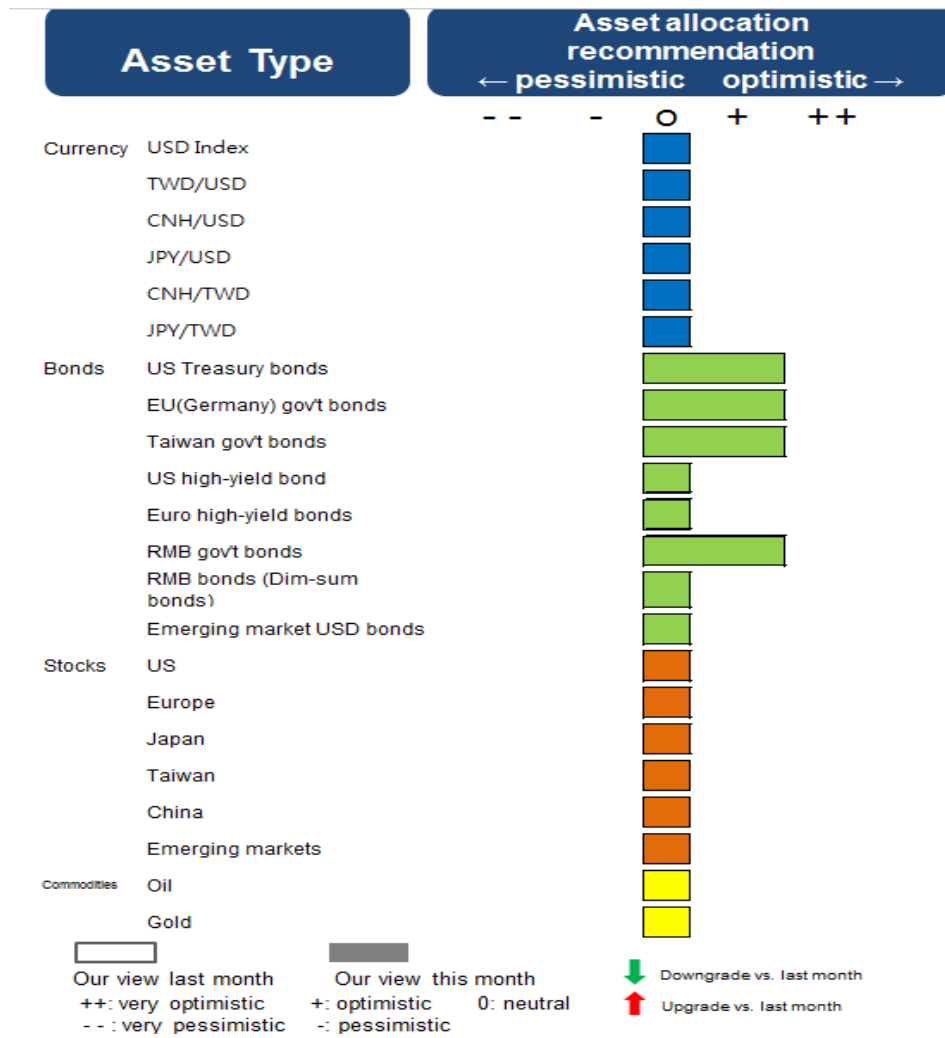
	<b>Economic status</b>	<b>Government policy</b>	<b>Central bank policy</b>	<b>Market trend</b>
<b>US</b>	Apr unemployment rate surged to 14.7%. Depressed private consumption hit 2Q20 demand.	State governments considered loosening restrictions to support demand as spread of COVID-19 slowed.	Fed continued to purchase bonds to avoid liquidity risks for financial institutions.	Investors seeking safe haven may offer support for the dollar. The bond market remains strong on loosening policy. US equities to see ranged consolidation.
<b>Euro Zone</b>	1Q20 GDP shrank 3.8%, signifying COVID-19's impact on the economy.	Governments considered loosening restrictions to support economy as the pandemic eased.	Deutsche Bundesbank President strayed from his hawkish stance to support easing measures. ECB President hinted there might be more room for easing.	Euro likely to fluctuate at low level. Yield should consolidate at a low level. European equities likely to see ranged consolidation.
<b>Japan</b>	Confirmed COVID-19 cases surged by 5x in Apr, weighing on the economy.	Government declared state of emergency for the entire nation, and raised the emergency budget to 25.7 tn yen.	BOJ Tankan survey suggested severe impact on demand. BOJ likely to maintain easing policies.	Yen should see ranged fluctuations. Japanese equities likely to consolidate amid fluctuations.

Source: Yuanta Investment Consulting

**Figure 3: Global Investment Strategy (Developing Markets)**

	<b>Economic status</b>	<b>Government policy</b>	<b>Central bank policy</b>	<b>Market trend</b>
<b>China</b>	1Q20 GDP fell by 6.8%, far weaker than expected, as demand and exports both slumped.	At the April Politburo meeting, it was hinted that the government will raise the deficit ratio for additional fiscal spending to support demand	The PBoC launched targeted rate cuts again. Vice President hinted at further room for easing.	Yuan should fluctuate at a high level. SSE index likely to see ranged consolidation.
<b>Taiwan</b>	March consumption decelerated, but thanks to rush orders that boosted exports, 1Q20 GDP rose mildly by 1.54%.	The second round of emergency relief measures were launched. Legislative Yuan raised budget to NT\$210 bn to support the economy	Domestic liquidity has stabilized. CBRC continuing to monitor impact of pandemic.	NTD should see ranged consolidation. Taiwan equities likely to see ranged consolidation.
<b>Emerging markets</b>	March manufacturing PMI only reached 49.1, contracting for the second straight month.	Governments enhanced stimulus measures after the first wave of response.	Central banks have started to utilize non-traditional policy tools.	Emerging markets may see greater fluctuations amid highly volatile market sentiment.

Source: Yuanta Investment Consulting

**Figure 4: Asset allocation recommendation**


Source: Yuanta Investment Consulting

## TAIEX Monthly Analysis

May 21, 2020

- ▶ Close (on May 15, 2020): 10,814 points
- ▶ TAIEX range forecast for the next month: 10,500–11,150 points

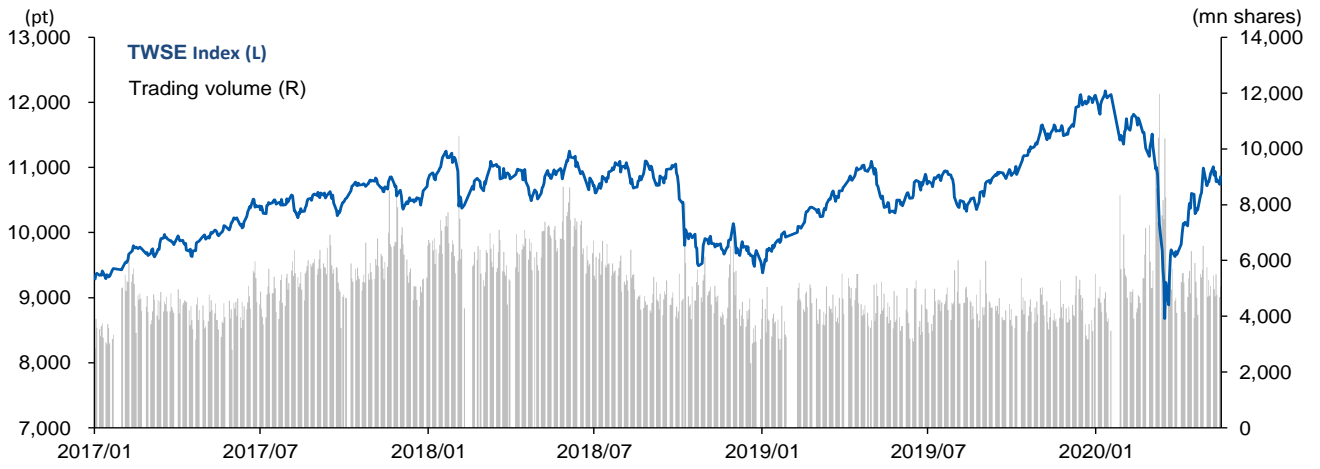
**Taiwan strategy for the next month (May 18 – June 14):** A growing number of negatives have weighed on the global market recently, including weak economic figures in 2Q20, low visibility for 2H20F, risks of the pandemic spreading again if lockdowns are lifted prematurely, and President Trump's extension of the Huawei ban and his threat to cut ties with China. However, we believe the biggest risk is that the TAIEX is already at a high level, up 2,500 points from the recent trough of 8,523 points seen on March 19. With relatively high valuation and uncertainties ahead, we believe fluctuations will be unavoidable. That said, given the current low interest rate environment and approaching ex div season, we believe the TAIEX's appeal will rise if the index corrects. We expect investors to favor quality stocks with low P/E, high yield, and those in sectors with promising outlooks.

The US non-farm payrolls published in early May showed that employers laid off 20.50 mn employees in April, driving the unemployment rate to 14.7%, the highest since the Great Depression. Fed Chairman Jerome Powell also spoke on the US economy and outlook, showing concern that with rising business bankruptcies and unemployment, it may take longer for the US economy to recover. Although the market has been prepared for weak economic figures in 2Q20, both the TAIEX and US stock markets have rebounded by >30% since March, with many stocks rising by >50%. Thus, investors have more incentives to take profit given soft economic figures, weak corporate profit, and the TAIEX approaching the MA240 level. Therefore, we believe near-term upside for the TAIEX will be limited, leading to greater fluctuations.

The US Fed announced to lower the primary interest rate by 1 ppt to the target range of 0%–0.25% on March 16, and left this rate unchanged on April 30. In mid-May, President Trump urged the Fed to follow European countries and Japan to launch a negative interest rate policy, but this was declined by Fed Chairman Powell. However, this still suggests that the loosening monetary policy (i.e. 0% interest rate) will last for quite some time. A low interest rate environment has always been helpful in boosting market liquidity. There are already quite a few high-yield (>4%) names in the TAIEX, for which we believe the dividend yield will rise further post corrections. In addition, with the upcoming dividend payout peak from June to August, and strong demand in the 5G sector, we expect high dividend names and stocks that are benefiting from favorable industry trends (such as semi/networking names, which are benefiting from 5G/cloud/AI/IoT themes) will be attractive to domestic and foreign long-term investors in the current low interest rate environment.



Figure 5: TAIEX – historical performance



Source: Bloomberg

**Figure 6: Top 10 picks for the next two weeks – TAIEX**

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
2382 TT	Quanta	BUY	75	10%	8820	5.4%	16.3	<ul style="list-style-type: none"> <li>▶ Benefiting from E-learning and the WFH trend amid COVID-19, Quanta guided for strong 2020 NB shipment growth YoY. Mgmt estimates Chromebook pull-in demand to stay strong and shipments to grow YoY in 1H20, creating GM upside.</li> <li>▶ For 2020, mgmt expects its server business to continue to see double-digit YoY growth. We believe Quanta's leading position in cloud datacenter will drive sustainable growth momentum through 2021.</li> </ul>
1104 TT	Universal Cement	BUY	22.5	28%	385	5.7%	10.5	<ul style="list-style-type: none"> <li>▶ UCC's 1Q20 op profit beat our estimate by 20% on better than expected GM. The RMC price uptrend will likely sustain in 1H20F, stimulated by 1) a gravel price rally; and 2) strong demand from Taiwan fund flow-back, infrastructure, and the housing market.</li> <li>▶ Lioho has turned profitable from April of this year, as the China auto market has started to recover and the worst has passed for the company.</li> <li>▶ UCC is now trading at 0.6x 2020F P/B and 0.55x NAV, a 5-year low, with also 5.7% dividend yield. We believe the stock is greatly undervalued and deserves a re-rating.</li> </ul>
1216 TT	Uni-President	BUY	83	18%	13,336	3.6%	21.2	<ul style="list-style-type: none"> <li>▶ UPCH's mgmt maintained sales growth guidance of 6% for 2020 as it sees strong sales of Premium Meal and Soup Daren continuing from 1Q20 and a gradual beverage recovery post COVID-19, benefitting from hot weather and restaurant re-openings. UPCH's net profit is likely to grow again by a double-digit% YoY in 2020.</li> <li>▶ As UPEC's share price has been more correlated to UPCH, we believe UPCH's net earnings CAGR of 14% along with PCSC's steady net earnings CAGR of 3% in 2020-21F should drive UPEC's share price growth.</li> </ul>

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
6538 TT	Brave	BUY	315	13%	282	0.9%	15.7	<ul style="list-style-type: none"> <li>▶ Currently, Brave's China factory capacity is fully loaded to fulfill China domestic demand. We maintain our view that sales growth will remain positive QoQ through 2Q20-4Q20 as Brave's products are adopted in high efficiency solar modules.</li> <li>▶ As 2H20 government policies by China have not been announced, China domestic solar system manufacturers are aggressively trying to finish projects by 1H20 in case of further subsidy cuts or postponement.</li> <li>▶ We believe China rush demand can support the overall global solar industry recovery with many cities in lockdown overseas.</li> </ul>
3218 TT	Universal Vision	BUY	146	15%	323	1.6%	27.3	<ul style="list-style-type: none"> <li>▶ UVB has an oligopolistic position in the Taiwan vision correction market, as the largest ophthalmologic medical chain group.</li> <li>▶ 1Q20 EPS beat on higher GM and lower opex. Momentum should continue into the 2Q traditional low season given strong April sales contributed by LASIK surgery.</li> <li>▶ UVB's sales from LASIK have the potential to increase by 5x going forward.</li> </ul>
2891 TT	CTBC FHC	BUY	22	11%	12,939	5.0%	10.3	<ul style="list-style-type: none"> <li>▶ A solid dividend play with a cash dividend yield of &gt;4.5%, well supported by its sufficient BIS/T1 ratio of 13.8%/12.4% in 1Q20.</li> <li>▶ Bank's 1Q20 NII/fee income grew 4.9%/6.9% YoY, mainly thanks to strong performance in core businesses. However, 2020F credit costs are likely to jump to 40 bps (from historical average of 20 bps) due to Hin Leong trading exposure and other potential SME defaults in Japan and Singapore.</li> <li>▶ Taiwan Life to see positive interest spread in 2020F given drop on COL is bigger than drop on pre-hedge recurring yield. Also, 2020F hedging costs are likely to fall &lt;1% (vs. 2.05% in 2019).</li> </ul>

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
1795 TT	Lotus Pharmaceutical	BUY	107	38%	628	0.0%	18.0	<ul style="list-style-type: none"> <li>▶ Strong Asia footprint, with this home base to support sustainable growth.</li> <li>▶ Successful launch of gSuboxone last year, which should be its main profit contributor near-term.</li> <li>▶ Further catalysts in 2020 include the launch of Qsymia<sup>®</sup>, acquired portfolio in ASEAN markets, with contribution beginning from 2Q20, and likely tentative approval of Lenalidomide in the US in July.</li> <li>▶ We expect sales to grow at a CAGR of 12% for 2019-21 on the back of the continued penetration of its products in global markets.</li> </ul>
6456 TT	GIS	BUY	112	18%	1077	3.7%	10.2	<ul style="list-style-type: none"> <li>▶ For 2Q20F, we expect the WFH trend to benefit GIS, with strong sales growth of 33% QoQ thanks to ~70% sales exposure to the TB/NB sector. However, incentives for work resumption in 1Q20 may weigh on 2Q20F GM.</li> <li>▶ Moving into 2H20F, even given the high uncertainty, we still expect BOE sooner or later to enter the iPhone supply chain and stimulate GIS's iPhone lamination business.</li> <li>▶ We also expect GIS to benefit from Apple's interest in mini LED, for iPad and MacBook.</li> </ul>
2308 TT	Delta Electronics	BUY	160	13%	12245	3.5%	19.9	<ul style="list-style-type: none"> <li>▶ The company sees healthy demand in NB, servers and passive components, with some visibility into 3Q20F. Automation demand has gradually bottomed out, with more and more demand coming from China with workers returning.</li> <li>▶ Near-term, the benefits from the WFH trend should also alleviate investor concerns of a potential severe earnings plunge during the pandemic.</li> <li>▶ Longer-term, we remain positive on Delta given its product portfolio across EV, 5G, datacenters, and automation, which should create tailwinds for the next two-three years.</li> </ul>

Ticker	Company	Rating	TP (NT\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
3711 TT	ASE Technology Holding	BUY	78	25%	9022	3.2%	12.0	<ul style="list-style-type: none"> <li>▶ Although with supply chain disruption caused by COVID-19, ASE's 2Q20 orders currently look intact following its upbeat 1Q20 results. Going forward, we see upside potential for ASE's profitability, mainly driven by the integration with SPIL with synergies expected to materialize over time. We also expect ASE to continue to take the lead in trends such as smart watch, TWS, RF and UWB.</li> <li>▶ ASE's sales exposure to Huawei is ~10%, mostly from handsets. Even if shipments to Huawei are disrupted due to the escalation of export control imposed by the US, other brands will likely take Huawei's market share. As such, we believe ASE will only suffer limited impact.</li> </ul>

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

# Hong Kong Monthly Update

May 21, 2020

## HSI Monthly Analysis

Hong Kong stocks are entering into a phase of consolidation in May, with a 3.3% MTD increase after a 4.5% YoY rebound in April. Daily turnover in May MTD is 2.6% higher compared with the April average of HK\$100 bn (US\$12.8 bn). This suggests some investors are adopting a wait-and-see attitude in view of the dynamic COVID-19 pandemic developments globally. In terms of sectors under our coverage, auto/food & beverage sectors have seen relatively strong growth of 8.6%/6.2% in the past month. This was largely driven by the basic necessities nature of food & beverage stocks and improved sales trends of auto companies. By contrast, paper and textile stocks dropped 9.7%/2.7% due to the recent weak order flow and threat of the Sino-US trade war resuming. The Hang Seng Index was relatively flat in the period. The current HK market P/E of 10.6x is slightly below its past five year average of 11.0x (range: 9.1–12.6x). As such, we believe investors will choose to wait on the sidelines until there are further positive developments on the COVID-19 pandemic. We reaffirm our 12M HSI index target at 26,000–28,000 points. China F&B stocks continue to be our preferred choices given almost all of them are China focused and are seeing stable customer demand. Our picks on the China food & beverage sector are China Resources Beer, Tingyi, Uni-President China and China Mengniu Dairy. In terms of stock selection, we add Tingyi, China Resources Beer and Li Ning into our Top 10 picks list, whereas Ausnutria, Topsports and Great Wall Motors have been removed. The adjustments are due to rating changes and potential share price returns.

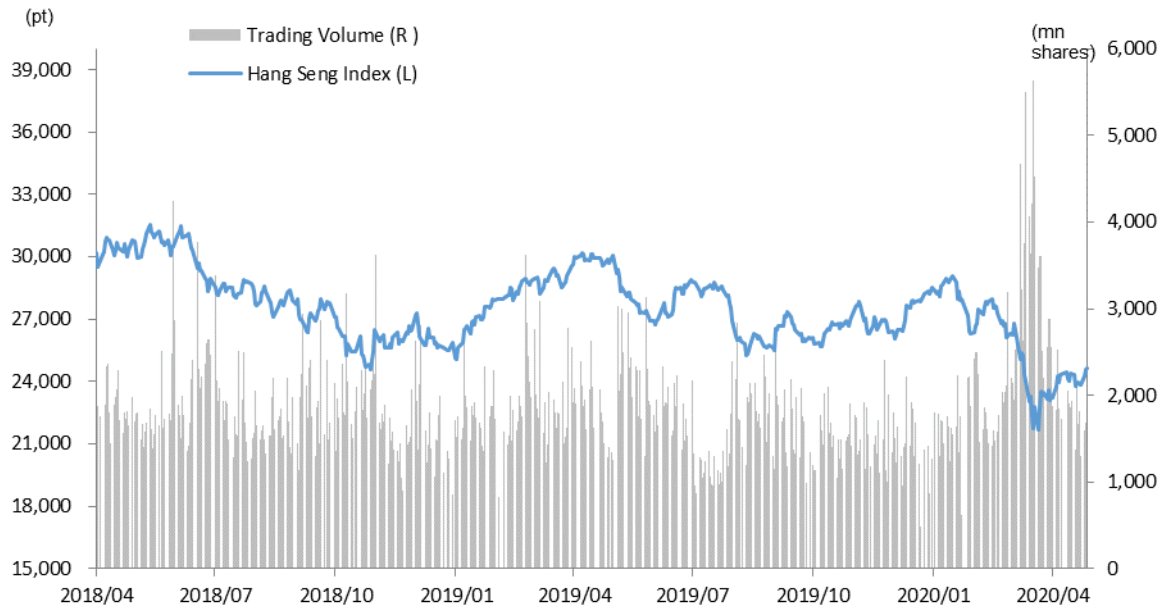
**Figure 7: Key Macro numbers releases in the last two weeks (HK/China)**

Release Date	Data	Result
5/5/2020	Hong Kong Retail Sales for March 2020	-42.00%
6/5/2020	Hong Kong Restaurant Receipts for 1Q 2020	-31.20%
15/5/2020	Hong Kong Real GDP for 1Q 2020	-8.90%
15/5/2020	China Industrial Producer Price Index for April 2020	-3.10%
15/5/2020	China Consumer Price Index for April 2020	3.3%
15/5/2020	China Retail Sales for April 2020	-7.5%

Source: Bloomberg, Yuanta Investment Consulting



Figure 8: Hang Seng Index movement



Source: Bloomberg, Yuanta Investment Consulting

12M HSI range forecast: 26,000–28,000 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	10.0	37.6	4,732	10.4	6.3	<ul style="list-style-type: none"> <li>▶ While 2020F results will inevitably be impacted due to production disruption amid the COVID-19 pandemic, we are confident that BBA will come back strongly in 2021/22F with 35%/18% YoY sales volume growth and NPM expansion, driven by the new iX3, X2 and X5.</li> <li>▶ Although the company will sell 25% stake in BBA in 2022F, we estimate BBA's earnings contribution will still be higher than in 2017, as we expect BBA's 2022F sales volume to be almost double that of 2017.</li> </ul>
3669 HK	Yongda Auto	BUY	10.5	31.6	1,898	2.5	9.9	<ul style="list-style-type: none"> <li>▶ Mgmt expects sales volume to fully recover from April, with Porsche even set to post 20% YoY growth.</li> <li>▶ Yongda's speedy business recovery since April is a reflection of its edge, that is, strong brands in BMW and Porsche as well as its high exposure in Eastern China. With 1Q20 operating cash flow surging 1.3x YoY, Yongda is all set for more M&amp;A to support long-term growth, in our view.</li> </ul>
291 HK	China Resources Beer	BUY	48.50	18.4	17,140	0.7	57.4 (EV/EBITDA 21.8x)	<ul style="list-style-type: none"> <li>▶ We expect China Resources Beer (CRB) will see a revenue growth rebound, driven by 1) the Chinese government's announcement to reopen all restaurants and supermarkets (~50% of CRB's mix) on May 8; 2) the launch of CRB and Heineken's premium beers (4+4) to channels in July; and 3) the hotter weather recorded in China MTD.</li> <li>▶ CRB's share price has on average generated 10-19% absolute returns for Apr/May to Sept in 2016-19, likely benefiting from summer seasonality. We expect its 2020-22F core EBITDA CAGR to be 12%.</li> </ul>
2319 HK	China Mengniu Dairy	BUY	33.0	14.8	14,599	0.9	28.1	<ul style="list-style-type: none"> <li>▶ COVID-19 will have material adverse impact on 1H20F sales and profit growth. Long term, expansion in tier 3-4 cities and launch of high-margin Fresh Milk in urban areas will boost its revenue and profit margin growth. Aside from the Lion Dairy &amp; Drinks deal, raw milk cost turned favorable in Apr to date (2% YoY) from 3M20's 6% YoY, providing Mengniu a better cost structure. Inclusion into Hang Seng China Enterprises Index on 8 June is a positive.</li> <li>▶ We expect Mengniu to see a 2020-22F core profit CAGR of 20% and be attractive for LT investment.</li> </ul>

Ticker	Company	Rating	TP (HK\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
220 HK	Uni-President China	BUY	9.9	18.4	4,656	4.9	20.4	<ul style="list-style-type: none"> <li>▶ Uni-President China's (UPCH) product upgrade has been successful. 1Q20 premium instant noodle mix grew to 34% from 33% in 2019, with ASP rising by high-single digit YoY. Apr-TD raw material cost turned favorable. New products Premium Meal (self-heating bento box) orders have been fully booked until end 2020. UPCH will launch sugar free tea Cha Li Won focusing on tier-2 cities in July. We expect strong premium product demand to improve mix.</li> <li>▶ We expect a 2020-22F core earnings CAGR of 14% for UPCH. The stock is trading at a P/E below its historical average.</li> </ul>
322 HK	Tingyi	BUY	16.7	21.9	9,941	4.8	20.7	<ul style="list-style-type: none"> <li>▶ On Apr 22, the Beijing city government announced to recognize instant noodle products as daily necessities and as food reserve products, and it will provide direct supervision to assure sufficient supply. By our estimate, Tingyi's 4M20F noodles sales have grown by over 30% YoY, thanks to early work resumption and nationwide PoS coverage. Beverage sell-through has been recovering and is expected to accelerate after school reopening in May.</li> <li>▶ We expect it to post a 2020-22F core earnings CAGR of 12%, and it is trading below its historical average P/E.</li> </ul>
1836 HK	Stella International	BUY	10.2	31.7	795	9.4	5.3	<ul style="list-style-type: none"> <li>▶ Stella's 1Q20 total/footwear OEM sales dropped 15.8%/16.4% YoY due to delay in work resumption in its China factories and slower orders.</li> <li>▶ We have lowered our 2020F full-year footwear OEM shipment volume to 45 mn pairs from 47 mn pairs previously. As such, we cut our 2020-2022F EPS estimates by 7-10%. Maintain Buy due to recent share price weakness and its 2021F P/E being close to its past five year low.</li> </ul>
3813 HK	Pou Sheng International	BUY	1.95	25.0	1,078	0.0	13.5	<ul style="list-style-type: none"> <li>▶ Pou Sheng continues to see a trend of improved sales with an 11% sales drop YoY in April vs -35% YoY in March. Over 99% of its store network is in operation.</li> <li>▶ Although it reported an operating loss of RMB166 mn in 1Q20, the company believes there should be positive monthly sales growth in June as over 99% of its stores are in operation. Share price should perform better with improved sales performance.</li> </ul>
1929 HK	Chow Tai Fook Jewellery	BUY	7.40	15.8	8,245	4.1	16.3	<ul style="list-style-type: none"> <li>▶ Chow Tai Fook Jewellery 's (CTFJ) SSS in China and Hong Kong fell 50%/65%, respectively in its FY4Q20. Temporary closure of stores in the two regions and weak consumer sentiment were the reasons for this.</li> </ul>

Ticker	Company	Rating	TP (HK\$)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> <li>▶ CTFJ will release its FY2020 full-year results in June. Potential impact from the COVID-19 pandemic was disclosed by the company on April 9, 2020. As such, we believe the sales trend should be the key focus and share price will react positively to any improved sales trend.</li> </ul>
2331 HK	Li Ning	BUY	30.20	13.6	8,468	1.0	30.5	<ul style="list-style-type: none"> <li>▶ Following recent channel checks, we upgraded our 2020-22F EPS estimates by 10-13% as we see solid retail sales have continued well into 2Q MTD.</li> <li>▶ We forecast a 23% net profit (excluding one-off disposal gains) CAGR in FY2019-22F, with sales increases and profit margin expansion the drivers.</li> </ul>

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

# Shanghai Monthly Update

May 21, 2020

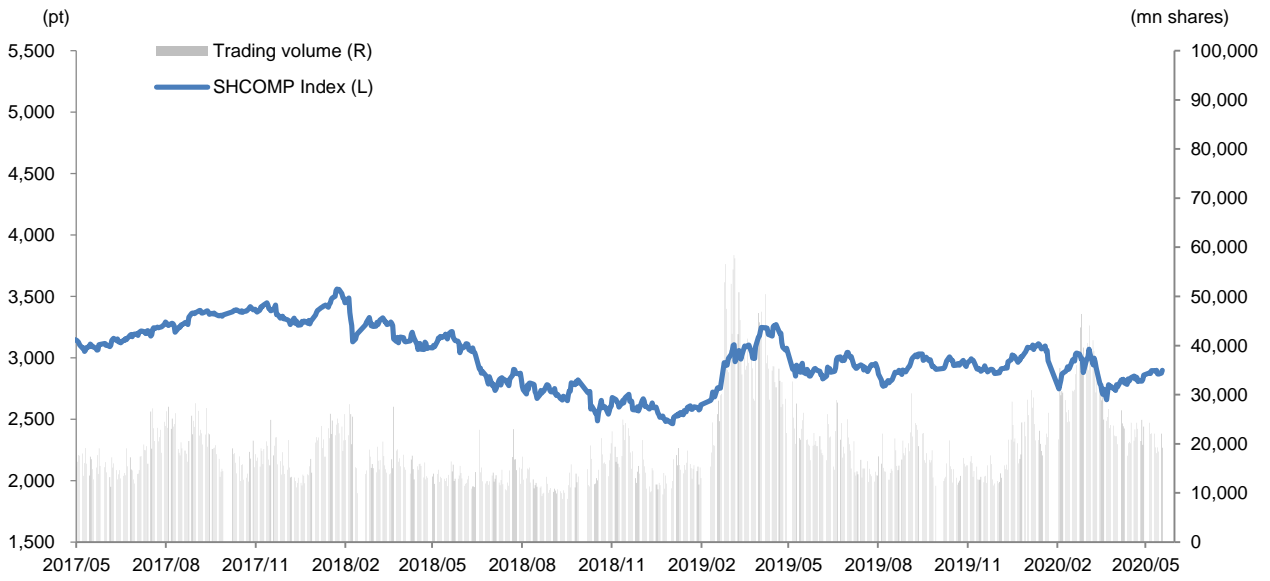
## US imposing technology ban on Huawei; A-share markets may fluctuate within a wider range

As of May 18, the number of confirmed COVID-19 cases globally reached 4.78 mn, while the pandemic was still spreading rapidly in Brazil and Russia. In China, Jilin City has strengthened virus control to prevent a resurgence of the virus. We believe virus prevention measures will become the norm and result in fundamental changes to lifestyle and the economy. President Xi Jinping said in a remote speech to the WHO that China will provide US\$2 bn over two years to help countries affected by COVID-19, and that a Chinese-made COVID-19 vaccine will serve to promote the public good globally. This year's National Committee of the Chinese People's Political Consultative Conference (CPPCC) will be held on May 21, and the market is closely watching the fiscal measures to be announced as these will serve to stabilize the economy. We expect the deficit ratio will be raised to 3.5% from 2.8%, while the quota of special local government bonds will be expanded to RMB4 tn from RMB2.15 tn previously, and the government will issue a special national bond of no less than RMB1 tn. Overall, the above measures should release RMB8.5 tn into the fiscal system, up RMB3.55 tn YoY. The April national unemployment rate reached 6.0%, up 0.1 ppt MoM. Stabilizing employment is the first goal of the Chinese government's economic stabilization project, and we believe the government will put less emphasis on the growth rate this year.

The stricter US ban on Huawei has triggered market concern on re-escalation of the trade war. The power struggle between China and the US is now extending to technology bans, and the US has been more heavy-handed than expected. Although the market was able to take a breather on global liquidity injection, impact of COVID-19 on the 2Q20 economy has not yet emerged, and it remains to be seen whether the reboot of the US/European economies will lead to a second wave of virus spread. Going forward, uncertainties include Europe/US economic performance, debt risks, and potential default of US shale oil makers. We believe even if the global market rebounds, upside will be limited, and A-share markets will be inevitably affected by fluctuation of global markets. As such, we expect A-share markets to fluctuate in a wider range at a low level before impact of COVID-19 and Sino-US tension can be more clearly assessed. We suggest investors pay attention to consumer/infrastructure names and quality growth tech stocks, as these will more likely enjoy policy support when the government boosts domestic demand. We also recommend defensive high-dividend quality plays and blue chip names, which are favored by QFIIs.



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
601186 CH	CRCC	NR	N/A	-	17,765	2.6	5.8	We expect the Infrastructure sector, purely supported by domestic demand, will become one of the focus areas of the government's policies, as it has been an important area for countercyclical measures. With the launch of a series of favorable fiscal and monetary policies recently, as well as accelerating growth in social financing (which we expect will mainly invest in infrastructure) and trial launches of public REITs for infrastructure projects, which can help boost existing assets and attract social funds, infrastructure has seen noticeably accelerating growth. CRCC as a leader in infrastructure will be a major beneficiary, with 1Q20 new orders rising 14.4% YoY to RMB340.2 bn, and 1Q20 backlog orders up 22.7% YoY to RMB3,461.6 bn, which is 4.2x higher vs 2019 sales. We expect it to see sequential sales growth QoQ, thanks to sufficient backlog orders and accelerating construction driven by the government's favorable policies.
601933 CH	YONGHUI SUPERSTORES	NR	N/A	-	13,669	1.8	35.4	As a fresh food supermarket leader in China, Yonghui has seen sales contribution from the fresh food segment of 44% in 2019, which has outperformed peers. 1Q20 sales/net profit rose 31.6%/39.5% YoY, beating consensus, despite the impact of COVID-19. We expect catalysts for the company going forward to be: 1) share gains for fresh food supermarkets driven by the agricultural reform; 2) a higher entry barrier bolstered by its outstanding supply chain management, with net margin rising by 0.3 ppt YoY to 1.71% in 2019; and 3) core competitiveness enhanced by mini stores and home delivery services.
603501 CH	WILLSEMI	NR	N/A	-	25,383	0.4	81.0	Main products such as OV64/OV48B/OV48C have seen a breakthrough in size (>1.2µm ), which have cut into the main camera lens supply chain for HOVM. With

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								continuous product mix improvement, sales contribution from CIS products (32M or above) will likely triple to 30-40% of total sales from 10% in 2019. As capacity of its ODM service provider TSMC is not affected by the COVID-19 pandemic, shipments of 50k units in Jan 2020 increased by >50% vs shipments in 1Q19. The company targets shipments of 120-140 mn units in 2020F, which should provide strong support to its sales growth.
600183 CH	SYTECH	NR	N/A	-	10,174	1.6	37.8	1Q20 net profit rose 36.09% YoY to RMB339 mn, mainly driven by strong demand from 5G infrastructure. We expect CCL demand to be strong in 2020, as 5G infrastructure construction should reach a high level in 2020, with over 700k base stations to be built. CCL manufacturing has now overcome the technology barriers set by European/US companies. SYTECH is the only domestic CCL maker that can produce products suitable for 5G in terms of technology and capacity. Its spin-off Shengyi Electronics is now listed on the SSE STAR Market, which should help SYTECH's financing ability.
603899 CH	M&G	BUY	60.50	11.73	7,024	0.8	41.3	Conventional B2B business is growing steadily at ~15% YoY annually, with stable cash flow. New ToC business will likely start to contribute earnings in 2020F. In terms of ToB business, Colipu will likely see share gains, benefiting from the government's encouragement of e-purchasing and the industry consolidation trend, which will favor industry leaders with advantages in brand equity, logistics and services. 1Q20 net profit attributable to the parent fell 10.95% on impact of COVID-19. However, with rising demand for stationary and office supplies driven by school re-opening due to easing of the pandemic in China, we expect EPS to be RMB1.31/1.62/1.97 in 2020-22, with a TP of RMB60.5.

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
000100 CH	TCL	NR	N/A	-	9,327	2.1	19.0	1) Supply/demand ratio will likely narrow to 14.6%/8.4% in 2020/21F from 14.8% in 2019, with LCD supply/demand dynamics likely to improve notably in 2021, which should benefit panel makers' earnings outlook; 2) TCL is the only company within the sector worldwide that has still been profitable since the downcycle began in 2017, implying world-leading operating efficiency. We believe it will benefit from LCD price hikes; and 3) TCL is the biggest beneficiary of the current large-sized panel price hike, as 60% of its sales come from large-sized panels. Assuming the price rises 30%, we estimate 2020/21F earnings of RMB6.0 bn/9.0 bn from large-sized panels for TCL (still no significant losses in 3Q19).
300308 CH	ZHONGJI INNOLIGHT	BUY	70.50	6.82	6,637	0.2	50.4	As a leader in the global optical module market, the company will continue to benefit from the 5G/data center deployment. Demand for 100G products has warmed up and approached the peak, with rising demand driven by both Ali and Tencent's data center expansion. With shipments of 5G Fronthaul optical modules to big clients (such as Huawei) ramping up, the company has planned to expand capacity to meet more 5G demand. Overall, 5G optical module shipments will likely reach >2 mn units in 2020F, with 400G optical module shipments to likely see growth and the company holding >50% of the global market.
600030 CH	CITIC SECURITIES	BUY	32.00	34.79	39,887	3.2	18.0	1) 1Q20 sales rose 22.1% YoY to RMB12.85 bn, while net profit attributable to the parent dropped by 4.28% YoY to RMB4.075 bn due to the booking of huge impairment losses, leading to lower than expected net margin growth; 2) Net fee income from investment banking business dipped by 12.1% YoY in 1Q20. But 2020F investment bank brokerage sales should rise with the progress of the SSE STAR Market, new registration rules for the GEM board, and launch of new financing rules;

Ticker	Company	Rating	TP (RMB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								3) CITIC SECURITIES enjoys firm market leadership and learns from leading global brokerage houses. We expect the company to expand its active investment business. We expect 2020/21F profit to grow 24.2%/41.4% YoY, with EPS of RMB1.32/1.87. We assign TP of RMB32.0.
002156 CH	TFME	NR	N/A	-	4,086	0.1	84.6	1Q20 sales rose 31.01% YoY to RMB2.166 bn (globally), with market share rising to 5.8%. Its major client AMD posted in-line sales growth in 1Q20, with 2020F sales growth guidance of ~25% YoY. TFME will likely see strong sales growth along with AMD. Mgmt plans to raise RMB4 bn for capacity expansion to ride on the semiconductor localization trend in China. We are positive on the potential of its sales growth and global market share gains.
600104 CH	SAIC Motor	BUY	30.30	55.23	32,156	6.2	6.6	Given weak end demand dragged by the COVID-19 pandemic, 1Q20 car sales volume dropped by 55.7%. However, with the easing of the pandemic and government's favorable policies to boost car sales, domestic demand for passenger vehicles has rebounded. As such, we expect car sales to improve significantly going forward. April retail sales growth already turned positive (+0.5% YoY). Looking forward, we expect earnings to see notable improvement, due to SAIC-Volkswagen's low inventory, new MPV/MEB model launches to boost sales, and share gains likely to be boosted by launches of SAIC-GM's four-cylinder-engine models.

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

# KOSPI Monthly Update

May 21, 2020

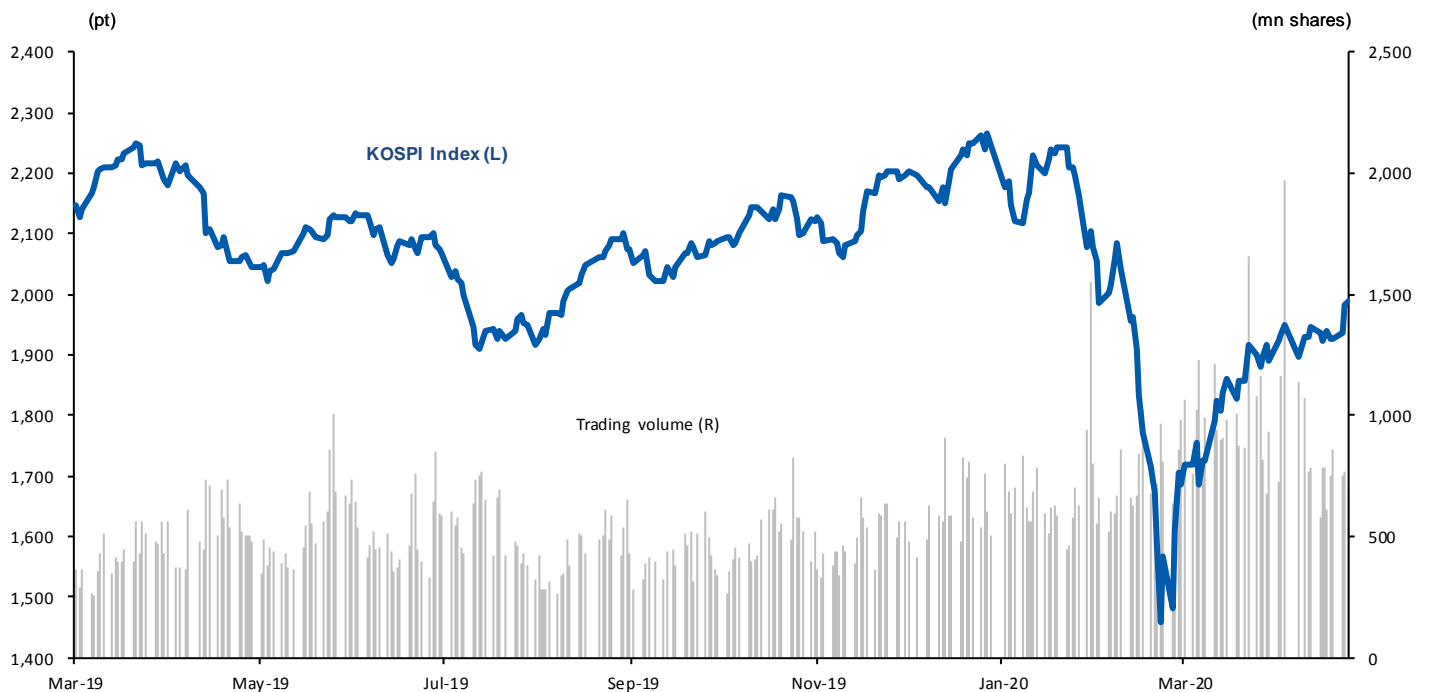
## KOSPI Monthly Analysis

- ▶ **Close (on May 20):** 1,989.64 points
- ▶ **KOSPI range forecast for the next month (May 21 – Jun 20):** 1,910–2,010 points

Despite negatives including President Trump’s statement touting the benefits of a strong dollar, concerns over deteriorating US–China trade relations, and uncertainty over fundamentals, risk indicators are slowly trending down. The KOSPI recovered to near 2,000pt, with downward pressure on the market easing.

However, macro indicators are unlikely to recover, given the release of figures for April and May, during which advanced countries issued national lockdowns. Although risk indicators have declined, foreign investors are wary of returning to the Korean stock market given the potential worsening US–China trade conflict, Trump’s remarks on the dollar, and faltering Brexit negotiations between the EU and UK (over an extension to the transition period, set to finish at end–June). Given lingering uncertainties about earnings estimates and numerous negatives, the Korean stock market is unlikely to perform strongly soon. However, even if the index does correct, it is unlikely to be steep, as indicators have generally passed the worst. Retail investors, who recently led the stock market, still seem to have sufficient funds. In April, they net purchased inverse index ETFs, which weighed on the market, but this trend seems to be easing now. While the increase in the KOSPI will likely slow, small- to mid-caps, rather than large-caps, should rise fast.

**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
A005930	Samsung Electronics	BUY	72,000	44.0	243,107	2.8	15.8	<ul style="list-style-type: none"> <li>▶ Amid concerns over slowing smartphone and PC demand, memory semiconductor prices have continued to rise, as it is widely perceived that prices are in the bottom range.</li> <li>▶ As global clients are focusing on expanding data centers due to the outbreak of covid-19, the virus's impact on memory semiconductor earnings should be limited.</li> <li>▶ Foldable smartphone will likely enter the mass market in 2021. Samsung Electronics will take the lead, with its IT &amp; Mobile Communications (IM) division and Samsung Display likely to regain attention.</li> </ul>
A000660	SK Hynix	BUY	140,000	66.5	49,865	1.2	30.4	<ul style="list-style-type: none"> <li>▶ Amid concerns over slowing smartphone and PC demand, memory semiconductor prices have continued to rise, as it is widely perceived that prices are in the bottom range.</li> <li>▶ As global clients are focusing on expanding data centers due to the outbreak of covid-19, the virus's impact on memory semiconductor earnings should be limited.</li> <li>▶ Shares trade at a 2020F P/B of 11x due to Covid-19 uncertainties.</li> </ul>
A051910	LG Chem	Strong Buy	540,000	49.0	20,842	0.6	90.6	<ul style="list-style-type: none"> <li>▶ Forecast for LG Chem's share in EV battery market to rise remains valid.</li> <li>▶ Likely to see profit on top-line growth of the battery business and better capacity utilization (90%).</li> <li>▶ Enterprise value of small and mid-to large-sized battery business stands at</li> </ul>

Ticker	Company	Rating	TP (₩)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								W29tn.
A035720	Kakao Corp	BUY	237,000	2.4	16,417	0.1	-64.6	<ul style="list-style-type: none"> <li>▶ Impact of the coronavirus was largely offset by positive shopping, webtoon, and game performance.</li> <li>▶ Kakao Talk Bizboard (chatting tab ads), which drove earnings and shares in 2019, remains solid, centered on small- and mid-sized advertisers.</li> <li>▶ Kakao Taxi is growing thanks to the revised Passenger Transport Service Act, while Kakao Pay will likely grow further by expanding into the securities/insurance businesses.</li> </ul>
A036570	NCsoft	BUY	900,000	20	13,411	0.7	46.0	<ul style="list-style-type: none"> <li>▶ Sales from "Lineage 2M" and "Lineage M" are decent thanks to continuously rising traffic. Earnings outlook for 2Q20 and 2H20 is bright.</li> <li>▶ In 2H20, "Lineage 2M" will enter overseas markets (Japan, Taiwan, etc.) and earnings momentum should be strong thanks to the release of new titles ("Blade and Soul 2" and "Aion 2").</li> </ul>
A010130	Korea Zinc	BUY	590,000	52.8	5,932	3.6	11.5	<ul style="list-style-type: none"> <li>▶ Supply shortage of zinc concentrate from Chinese smelters is unlikely in 2020, implying that zinc concentrate treatment charge (TC) will remain high.</li> <li>▶ Demand for industrial materials will likely increase on the Chinese government's economic stimulus measures.</li> <li>▶ Entry into the new copper foil business, where demand exceeds supply, will expand the firm's profit base.</li> </ul>

Ticker	Company	Rating	TP (₩)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
A032640	LG U+	BUY	20,000	47.6	4,818	3.0	13.5	<ul style="list-style-type: none"> <li>▶ The wider adoption of 5G likely to be reflected into OP from 2021; the company has become the top player in the pay TV market after acquiring CJ Hello.</li> </ul>
A139480	E-Mart	BUY	210,000	86.7	2,554	1.8	13.4	<ul style="list-style-type: none"> <li>▶ Large discount stores' same-store sales growth is likely to turn around thanks to the impact of the coronavirus.</li> <li>▶ The coronavirus outbreak boosted the growth of the e-commerce platform. If traffic to its online mall is retained, the company will gain long-term growth momentum.</li> <li>▶ Rival e-commerce platform is likely to contract given financial issues and a rival large discount store's restructuring is also likely to benefit E-Mart.</li> </ul>
A192820	Cosmax	BUY	132,000	38.5	780	0.9	30.1	<ul style="list-style-type: none"> <li>▶ Coronavirus is weighing on the global value chain, but China, one of the world's biggest consumer markets, is showing signs of recovery, led by e-commerce. Thus, production facilities in China and nearby countries will likely gain attention.</li> <li>▶ With demand for sanitizers surging, new orders in Korea, US, and Indonesia likely to increase.</li> </ul>
A114090	GKL	BUY	19,000	24.2	771	4.3	13.1	<ul style="list-style-type: none"> <li>▶ Casino demand will likely recover once entry and flight restrictions between Korea, China and Japan are lifted.</li> <li>▶ Once Japan's increase in new coronavirus cases slows, shares will likely rebound strongly on expectations for better earnings.</li> </ul>

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

# Indonesia Monthly Update

May 21, 2020

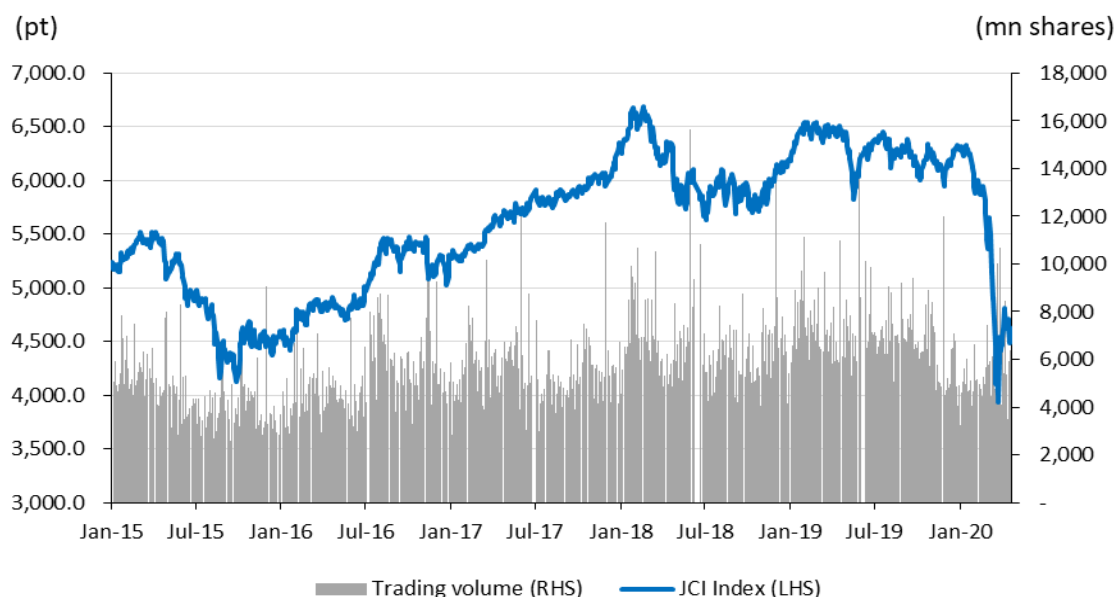
## Indonesia Monthly Analysis

- ▶ At market close on May 19: 4,548.7 points
- ▶ JCI range forecast for the next month (May 20–Jun 19): 4,511–4,811 points

The capital market has calmed amid the pandemic, with the JCI trading in the narrow range of 4,496–4,716 during the past four weeks while strengthening 0.57% MoM. However, market turnover appeared to dry up, declining 14.3% MoM to an average of IDR6.4tn (US\$434.9 mn). Bond yields came down 53bps to 7.722% while trading into strength between 7.722–8.121%. The rupiah (IDR) also strengthened to IDR14,825/USD (–3.8% MoM) while trading in the range of IDR14,825–15,468. The government has injected stimulus of IDR641tn into the economy, representing 6.3% of total GDP, to support supply and demand during the pandemic. This initiative was taken due to weak GDP growth of 2.97% in 1Q20, which had raised concerns over slower growth in 2Q20 as a flow-on effect from the partial lockdowns imposed to curb the spread of Covid-19. Nevertheless, the government is evaluating the opening of the economy gradually, slated to start in early Jun.

Some early 1Q20 financial result announcements showed limited impact from the slower economic growth. Some banking, consumer, and telecommunications companies showed limited indications of the slowdown. Nevertheless, smaller companies in various sectors had shown early signs of the slowdown, including transportation companies. We expect financial results in 2Q20 to be hit hard, but this will be followed with a gradual recovery as the government starts to lift measures to control the pandemic, again most likely in early Jun. The two months of lockdowns have disrupted cash flow but have otherwise inflicted limited damage on balance sheets.

**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
ISAT	Indosat	BUY	4,125	+106.3	729.4	-	NA	<ul style="list-style-type: none"> <li>▶ Indosat posted strong 1Q20 results, with revenue growth of 7.9% YoY and EBITDA growth of 10.4% YoY.</li> <li>▶ Data pricing remained stable at IDR4.3/MB while data demand surged 5.2% QoQ to 1,015PB in 1Q20. No signs of slowdown due to Covid-19.</li> </ul>
ERAA	Erajaya	BUY	1,380	+17.9	250.5	1.6	17.4	<ul style="list-style-type: none"> <li>▶ Erajaya posted strong 1Q20, with net profit recovery of +94.9% YoY, supported by improvement in gross margin and turnover of working capital.</li> <li>▶ We expect the company to benefit from the re-opening of the economy, despite the short-term challenges in 2Q20.</li> </ul>
EXCL	XL Axiata	BUY	4,100	+65.3	1,779.0	1.4	13.9	<ul style="list-style-type: none"> <li>▶ Results in 1Q20 were exceptional, with EBITDA growth of 39.7% YoY, higher than revenue growth of 8.9% YoY due to better operating efficiency.</li> <li>▶ XL booked gain on tower sales totaling IDR1.4tn, which helped to lift its net profit to IDR1.5tn in 1Q20.</li> </ul>
TOWR	Sarana Menara Nusantara	BUY	1,030	+12.5	3,132.8	2.3	17.7	<ul style="list-style-type: none"> <li>▶ Strong revenue growth of 22.8% YoY led to EBITDA growth of 27.7% YoY in 1Q20, which was mostly attributable to organic growth of 18.1% YoY.</li> <li>▶ Tenancy growth was 30.6% YoY, while tower assets grew 17.1% YoY, resulting in an increase in its tenancy ratio to 1.76x in 1Q20 from 1.58x a year earlier.</li> </ul>
WIKA	Wijaya Karya	BUY	1,740	+80.3	577.9	5.3	4.5	<ul style="list-style-type: none"> <li>▶ WIKA expects to book better performance in the sector in FY2020 driven by a greater number of new contracts signed in FY2019 compared to its peers. Such success is also supported by JV income and interest income contribution, both of which are related to the Jakarta-Bandung High-Speed Railway (HSR) project. We note that WIKA still has a healthy gearing level of 0.25x as of FY2019 and believe it will see no notable change in FY2020.</li> </ul>

Ticker	Company	Rating	TP (Rp)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> <li>▶ However, we are trying to be more conservative considering the pandemic conditions, which are affecting the whole economy.</li> </ul>
PZZA	Sari Melati Kencana	BUY	800	+15.5	141.4	1.9	15.6	<ul style="list-style-type: none"> <li>▶ Due to the pandemic, we expect the same-store-sales growth (SSSG) of Pizza Hut (PH) restaurants to drop 20.8% but this will be slightly offset by an SSSG increase of PH delivery of 8.9% – a U-shaped scenario with a yearly revenue drop of -13.1% YoY for FY20. Selling and GA expenses will only decline -7.5% and -6.5%, respectively. Such a scenario will result in a net profit decline of -33.1% YoY in FY2020.</li> <li>▶ We remain optimistic that PZZA will recover after the pandemic. It has a very conservative balance sheet with a net-cash position in FY2019. Without balance sheet pressure, PZZA will only have to manage its operating cash flow by improving cost efficiency.</li> </ul>
BBCA	Bank Central Asia	BUY	30,200	29.1	39,058	1.6	18.2	<ul style="list-style-type: none"> <li>▶ BBKA is considered the best defensive bank among its peers due to superior fundamentals.</li> <li>▶ It is the leading transactional bank in the country, providing a relatively steady fee-income flow.</li> <li>▶ Prudent risk management and the fact that most of its exposure is to top-tier borrowers results in a better credit-risk profile.</li> <li>▶ BBKA has a high level of profitability, with FY2020F ROA and ROE of 3.3% and 17.4%, respectively.</li> </ul>
BBRI	Bank Rakyat Indonesia	BUY	3,600	51.9	19,791	7.1	15.8	<ul style="list-style-type: none"> <li>▶ Strong fundamentals will help this bank to weather challenging conditions. It has tier-1 CAR of around 17%.</li> <li>▶ It has a growing fee-based business thank to its vast network throughout the</li> </ul>



Ticker	Company	Rating	TP (Rp)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								country and its aggressive investments in IT.
								▶ We expect its profitability to return to a high level in FY2021F, with ROA and ROE of 2.0% and 15.0%, respectively.
UNVR	Unilever Indonesia	BUY	8,600	4.2	21,308	2.4	41.5	▶ UNVR has sustained relatively minimal impact from the pandemic as it sells staple “essential” goods. ▶ Innovations will continue to support growth. In 2019, UNVR did a combined 100 product launches and re-launches.
ICBP	Indofood CBP	BUY	11,700	18.2	7,816	2.6	23.6	▶ ICBP is a leader in consumer branded products, and is known for its prominent Indomie instant noodle brand. ▶ The pandemic is expected to have a minimal impact on its noodle and dairy products, which contributed around 83% of total revenue in FY2019.

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

# Thailand Monthly Update

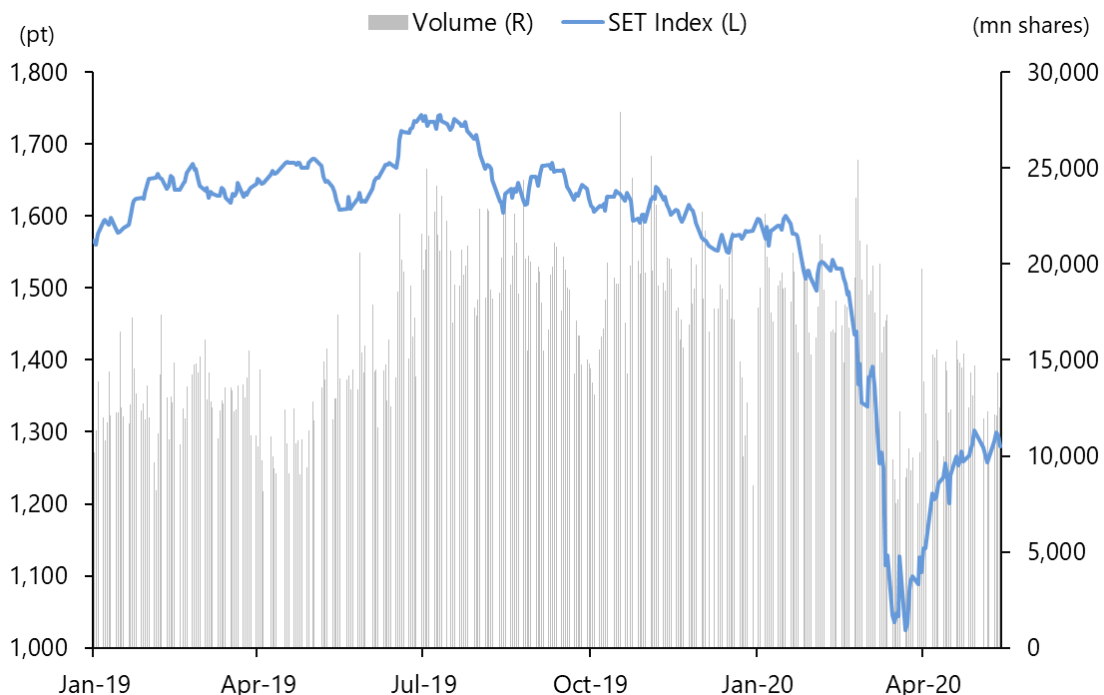
May 21, 2020

## Thailand Monthly Analysis

- ▶ **Close (on May 20):** 1,322.20 points
- ▶ **Thailand (SET Index) range forecast for the next month:** 1,300–1,380 points

SET Index has recovered 29% since the low in March, and is now reflecting the partial opening of the economy. Earnings in 1Q20 of the SET100 Index dropped 61.1% YoY. The worst performers were airline, hotel, refinery, petrochemical, healthcare, entertainment and media companies. The outperformers were the bank, finco, and food & beverage sectors. Thailand’s Covid-19 situation has been manageable, with slightly more than 3,000 cases, 54 deaths and 94% of those infected recovering. Less than 100 patients remain hospitalized. On the economic front, partial openings began at the beginning of May. Department stores were allowed to open on May 17, but there is a need to continue monitoring for new cases. The stimulus announced by the government and the Bank of Thailand (BOT) is equivalent to 17% of GDP (THB1tn [US\$31.2bn] in fiscal stimulus and THB1tn in liquidity injection from the BOT). Nearly half of the fiscal stimulus took the form of cash handouts for furloughed employees, which started in May. We expect the SET Index to move sideways up with energy and petrochemical sectors as key leaders due to recovery in the crude price and supply cuts from OPEC+ countries. Utilities is another sector that is expected to remain strong due to its defensive nature and the continued increase in capacity. The Food & Beverage sector has seen strong earnings growth due to recovery in swine and chicken prices and strong demand for energy drinks in CLMV countries. Our Top picks are SPRC, PTTGC, CPF, CBG, BGRIM, RATCH, EA, and GUNKUL. We believe that the hospital sector will start to see a pick-up in revenue from domestic patients. Our Top Pick in the hospital sector is BCH as foreign patients account for only 10% of total revenue.

**Figure 16: SET – Historical performance**



Source: Bloomberg, Yuanta Investment Consulting

**Figure 17: Top 10 picks for the next two weeks – Thailand**

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
SPRC	STAR PETROLEUM REFINING	BUY	6.80	4.2%	967.3	2.57%	13.9	<ul style="list-style-type: none"> <li>▶ Net loss in 1Q20 was THB8.3bn (US\$260.7mn), in line with our estimates due mainly to massive stock loss of THB9.6bn.</li> <li>▶ Gasoline demand should recover in mid-late 2Q20 on the easing of lockdowns. Huge stock loss will not repeat after OPEC+ cut oil output and the US rig count dropped.</li> <li>▶ We expect earnings to recover in 2Q20 on the decline in the crude cost and reversal of a stock loss of THB4.5bn booked in 1Q20.</li> <li>▶ It is seeing stable cash flow and will make no huge investments in the near term.</li> <li>▶ Its share price has outperformed but we believe that with the increase in oil demand and cut in supply, SPRC's share price will continue to outperform.</li> </ul>
RATCH	RATCH GROUP	BUY	72.00	10.8%	2,984.1	3.66%	17.01	<ul style="list-style-type: none"> <li>▶ Core profit in 2020 is expected to reach THB6.1bn (US\$186mn,+4.6% YoY), driven by the resumption of its Hongsa power plant in Laos, full-year profit sharing from three projects (257MWe) and two new projects (174MWe) to COD in Sep.</li> <li>▶ It targets capacity growth from 8,655MWe to 10,000MWe in the next three years.</li> <li>▶ It will have the COD of 174MWe in projects in 2020, 608MWe in 2021 and 714MWe in 2024-2025.</li> <li>▶ On a DCF WACC of 5.2% and Terminal growth of 0%, our 2020 TP is THB72.</li> </ul>
DTAC	TOTAL ACCESS COMMUNICATION	BUY	55.00	27.3%	3,217.6	6.64%	18.57	<ul style="list-style-type: none"> <li>▶ DTAC announced 1Q20 earnings of THB1.5bn (US\$46.9mn). Including loss on derivatives and forex, net profit was THB1.38bn (+13.4% QoQ, 4.5% YoY).</li> <li>▶ The Covid-19 pandemic has led to slower capex in 5G, which is positive for DTAC.</li> <li>▶ Our earnings projection has upside risk if DTAC does not lose market share due to its delayed investment in 5G. But, right now we retain our earnings projection, and our TP of THB55.00/share (DCF WACC 8.3%, Terminal Value, 2%).</li> </ul>
CBG	CARABAO GROUP	BUY	118.00	19.8%	3,094.9	1.73%	34.11	<ul style="list-style-type: none"> <li>▶ Revenue was THB4.1bn (US\$128mn, +3% QoQ, +21% YoY), a new high, driven by 17% YoY growth in its own-brand drinks to THB3.4bn.</li> <li>▶ Limited impact from lockdowns seen as 60% of sales come from CLMV. The 2Q20 will be the first quarter for full recognition of income from C+Lock (a new high-end</li> </ul>

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<p>drink product with a price that is 1.8x higher than its original CarabaoDang).</p> <ul style="list-style-type: none"> <li>▶ Upgrade in 2020 earnings by 6% YoY due to better-than-expected performance from C+Lock and sales to CLMV countries.</li> <li>▶ We upgrade our 12M TP to THB118 (US\$3.68). The stock trades at a P/E 2020 of 29x vs OSP's P/E of 34x. CBG's current PE is 34.1x.</li> <li>▶ Upside risk is from recovery in the domestic energy and functional drink market.</li> </ul>
CPF	CHAROEN POKPHAND FOODS	BUY	42.00	44.8%	7,846.4	2.41%	12.30	<ul style="list-style-type: none"> <li>▶ Normalized (norm) profit in 1Q20 hit a new high at THB6.218bn (US\$193.6mn), up 43% QoQ and 89% YoY, supported by the rise in meat prices in Thailand and Vietnam, as well as THB depreciation.</li> <li>▶ Norm profit in 1Q20 accounted for 46% of our 2020 projection. We thus revise up our profit forecast by 40% to price in stronger-than-expected GPM, the steady high Vietnam pork price and falling costs.</li> <li>▶ Our new TP is THB42.00 (US\$1.31). CPF is trading at a P/E of 12.3x, the lowest in the sector.</li> </ul>
BCH	BANGKOK CHAIN HOSPITAL	BUY	17.50	20.7%	1,136.1	1.59%	31.55	<ul style="list-style-type: none"> <li>▶ Net profit in 1Q20 was THB259 mn (US\$8.1mn), up 7% QoQ and 4% YoY, in line with our estimate.</li> <li>▶ In 2020, norm profit is expected to be THB1.176 bn (+4% YoY), supported by the rise in the SSO allowance by +5.6% YoY (SSO patients account for 35% of total income), which will offset the impact from the falloff in cash patients.</li> <li>▶ We recommend a BUY call on the counter as its share price dip should have fairly well priced in the pandemic's fallout. Earnings will still grow 4% YoY, stronger than the overall industry's growth. Our TP is THB17.50 (US\$55.00), based on a DCF WACC of 7.8%, which offers a decent 12M upside of 20.7%.</li> </ul>
EA	ENERGY ABSOLUTE	HOLD	43.00	6.8%	4,717.1	0.75%	23.74	<ul style="list-style-type: none"> <li>▶ Revenue in 1Q20 was THB4.732bn (US\$147.7mn), up 15.9% QoQ thanks to the increase in the biodiesel price to THB36.2/liter (+70.8% QoQ, +122.2% YoY) on the back of the rising palm oil price and government measures to support B10 and B7. Revenue climbed 53.3% YoY, supported by the Hanuman wind farm (260MW) that had its COD in late Jan 2019.</li> <li>▶ Norm profit in 1Q20 was THB1.363bn (-17.7% QoQ, +20.4% YoY), lower than our</li> </ul>

Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<p>estimate by 4.1% and accounting for 20.9% of forecast for the year.</p> <ul style="list-style-type: none"> <li>▶ We maintain our FY2020 norm profit forecast at THB6.521bn (+11.4%YoY), supported by 1) the Hanuman project (260MW) that drives total capacity up to 664MW, 2) revenue recognition from its Bio-PCM unit (high margin) from 2Q20 onward (capacity of 65 tonnes/day), 3) EV car delivery from 4Q20 (delayed from 3Q20) and 4) battery business (1GWh) that will generate revenue from 4Q20.</li> </ul>
BGRIM	B.GRIMM POWER	BUY	50.00	5.3%	4,095.4	0.74%	69.35	<ul style="list-style-type: none"> <li>▶ Revenue was THB11.223bn (US\$350mn), in line with our estimate of THB11.211bn. The 9.4% YoY growth was driven by the COD of a solar project in Vietnam in Jun 2019.</li> <li>▶ The pandemic situation in China and Thailand has improved, so Industrial users' orders have gradually returned in May, limiting downside.</li> <li>▶ Its M&amp;A plan remains intact: it expects to acquire 1-2 power plants in 2Q20 (which offers an upside to our projection).</li> <li>▶ Core profit is expected to grow 29% in 2020 and 23% in 2021. We see the chance of an earnings re-rating ahead that will lower its P/E. We maintain our earnings forecast, and our TP at THB50 (US\$1.57), which offers 5.3% upside.</li> </ul>
GUNKUL	GUNKUL ENGINEERING	BUY	3.74	27.2%	820.5	4.63%	10.94	<ul style="list-style-type: none"> <li>▶ Revenue was THB1.577bn (US\$49.1mn) down 21% QoQ on the low season for wind farms and the high EPC base last quarter, but + 9% YoY, in line with our estimate of THB1.536bn.</li> <li>▶ Core profit was THB323mn (-32% QoQ, +52% YoY), in line with our estimate of THB310mn.</li> <li>▶ The company has seen limited impact from the pandemic and as it has PPA contracts in hand (despite the absence of Industrial user orders). It also remains unaffected by the government's relief measure of a 3% cut in power bills in 2Q20.</li> <li>▶ We expect a recovery in 2H20, supported by wind income and growing EPC income from last year.</li> <li>▶ Although 1Q20 profit accounts for 14% of our 2020 forecast, we maintain our core profit forecast at THB2.351bn (+15% YoY), expecting profit in 2H20 to reach 70-80% of 2020 revenue. We have a BUY call and a TP of THB3.74 (US\$0.12), which offers a 27.2% upside. GUNKUL is trading at a P/E 2020 of 10.9x.</li> </ul>



Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
PTTGC	PTT GLOBAL CHEMICAL	BUY	48.00	4.3%	6,516.7	4.36%	28.2	<ul style="list-style-type: none"> <li>▶ Earnings in 1Q20 measured a net loss of THB8.8bn (US\$274.7mn) and will be the low for the year. We expect earnings to recover starting in 2Q20 from higher crude prices and a decline in stock loss.</li> <li>▶ The recovery in the oil price will support the olefins margin. It will see a greater utilization rate at its olefins unit after the shutdown in 1Q20 and recovery in GRM after the lockdowns are lifted.</li> <li>▶ Recovery in the crude oil and olefins prices in 2H20 on the back of recovering demand and declining supply (OPEC++ production cut program and US production decrease alongside the recently reported fall in the number of oil rigs operating.</li> <li>▶ We upgrade our recommendation to BUY. PTTGC has a strong financial position with a low D/E of 0.5x. It pays consistent dividends as it has high retained earnings and delayed huge investment at its US Petro complex project. PTTGC is trading at a cheap valuation of P/BV 0.6x (-3.0SD to its historical average).</li> </ul>

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

# Vietnam Monthly Update

May 21, 2020

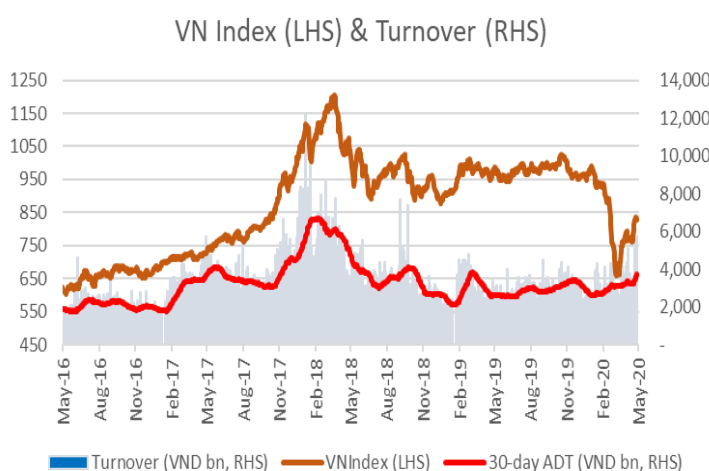
## VN Index Monthly Analysis

- ▶ Close (May 20): 846
- ▶ VNIndex (VNI) range forecast for the next two weeks (date May 22–June 5): 835–888

**Technical indicators are strong; the bull market continues.** The mainboard VNI closed at 846 points on May 21 (+11% MoM), almost 30% higher than the multiyear closing low of 659 on March 24. The VNI technically entered a bull market in April, but the recovery has gathered steam since, and the May 20 close was also the high for the preceding one-month period. Breadth on the VNI was very strong, with 292 monthly gainers vs just 80 losers, and at least one sector (basic materials, led by HPG) is now posting positive YTD gains. Average daily trading in the three main bourses surged to reach US\$197m, up 23.3% from the previous month and 21% above YTD levels. We were cautious at the start of the month given that the rally in April was entirely driven by domestic investors, but we are seeing signs of a return of foreign net buying too. Confidence has clearly returned after April's soft shutdown as the COVID-19 outbreak remains under control and social distancing measures have been eased. From our perspective in HCMC, Vietnam life is almost back to its normal frenetic pace, although international travel (wisely) remains tightly restricted.

**Foreign investors were net sellers almost every day from early Feb to early May, but they are tentatively returning as buyers.** Since May 8, foreigners have net bought US\$90m worth of Vietnam shares. We consider foreign buying to be crucial if the bull market is to be sustained. Domestic retail punters do not tend to hold stocks over the long term, and share buybacks—another driver of the market's rebound since March—are always limited in their capacity to boost share prices due to the cashflow and solvency capacities of listed corporates and the constraints established by regulators amidst the overall economic slowdown. These issues are especially cogent for the two largest sectors in the market: banks and property developers. As such, we believe that foreign net buying is critical.

**Figure 18: The VNI has now bounced 30% off its March lows.**

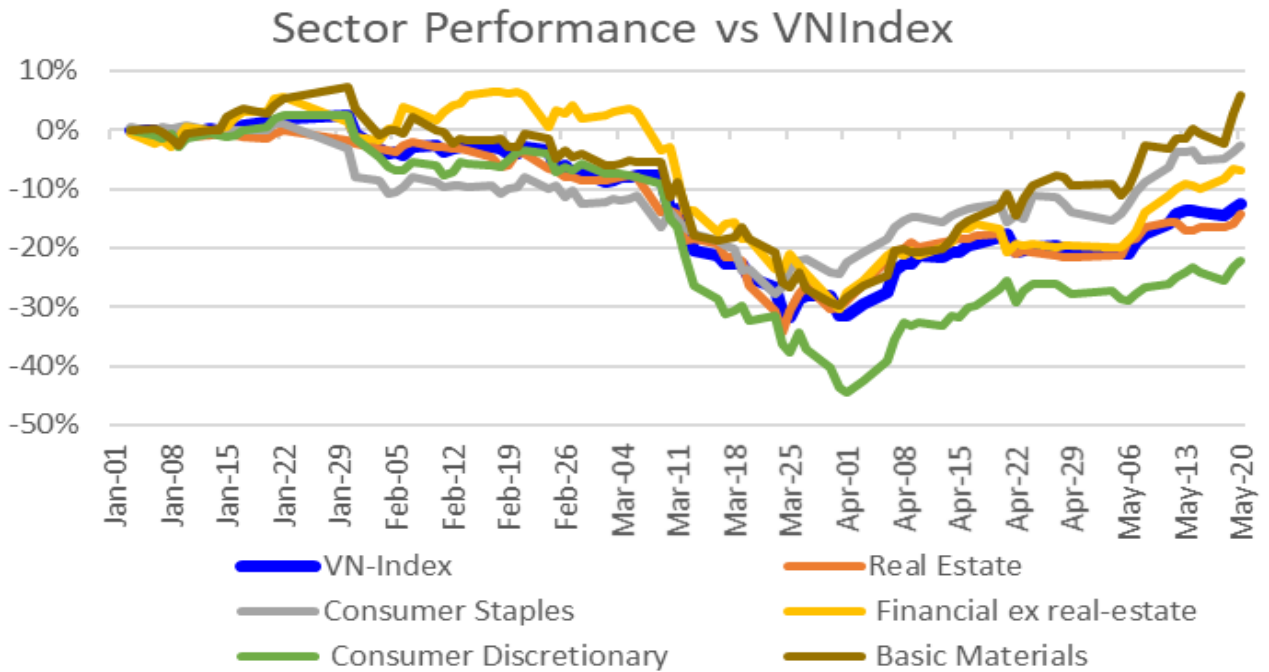


Top 10 VNIndex components				
Company	Ticker	Weighting	MoM change	TTM PE (x)
Vingroup	VIC	11%	4%	46
Vietcom Bank	VCB	10%	11%	16
Vinhomes	VHM	9%	13%	10
Vinamilk	VNM	7%	18%	21
BIDV Bank	BID	5%	13%	18
PV Gas	GAS	5%	15%	13
Sabeco	SAB	4%	1%	26
Vietin Bank	CTG	3%	19%	9
Masan	MSN	2%	13%	16
Techcom Bank	TCB	2%	25%	7

Source: Bloomberg, FiinPro, Yuanta Research (Note: Stock performance table is priced as of May 20).

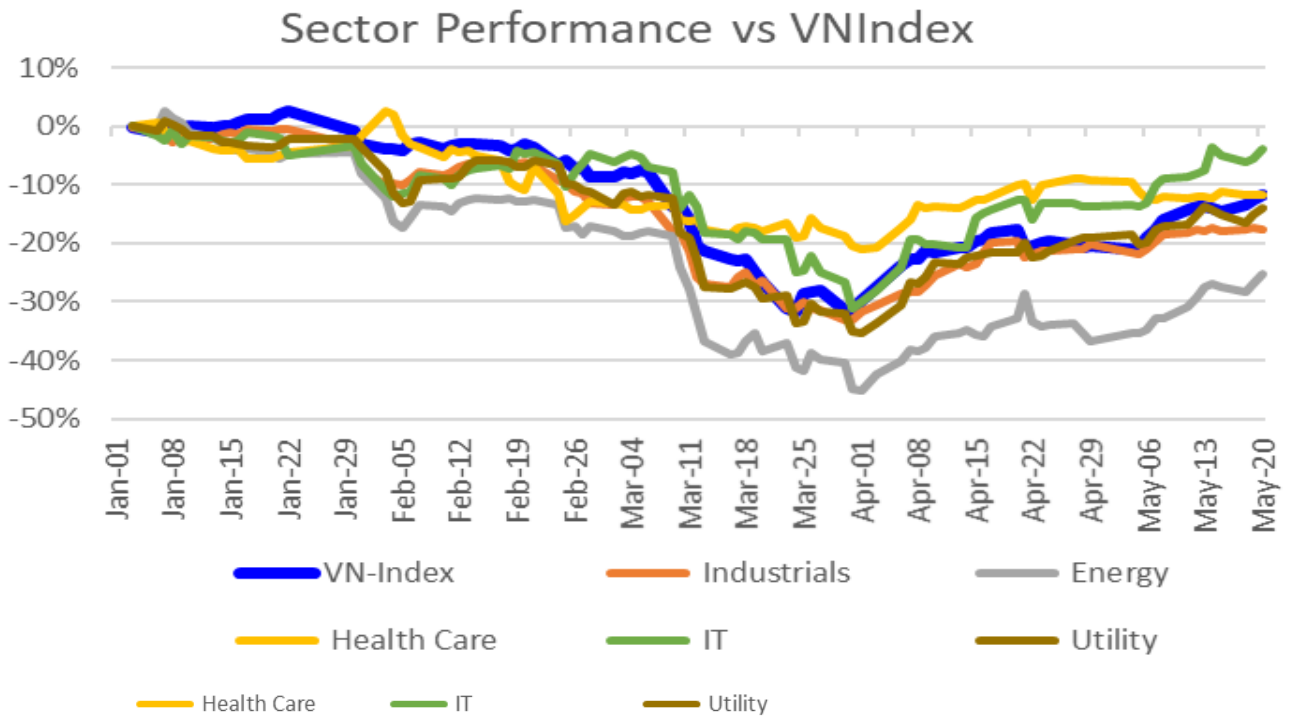


Figure 19: All sectors rebounded sharply, especially basic materials (e.g., HPG), which is now the only sector to be up YTD.



Source: Bloomberg, Yuanta Vietnam

Figure 20: Even the energy sector, which went into a blackout in 1Q20, is starting to power up again.



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
VHM VN	Vinhomes	BUY	94,862	23.0%	10,899	1.3%	14.1	<ul style="list-style-type: none"> <li>▶ Residential property leader, by a wide margin. Proxy on middle class home ownership aspirations.</li> <li>▶ Refocusing from high-end / luxury segment to mid-end, the main target for Vietnam's real residential demand.</li> <li>▶ Early monetization of its vast landbank by engaging in block sales/land sales is increasing the speed of capital returns.</li> </ul>
KDH VN	Khang Dien House	BUY	31,081	40.0%	500	2.3%	15.0	<ul style="list-style-type: none"> <li>▶ Restructuring story that trades at an excessive discount (at 1x PB) to its peers (at c. 2x PBV).</li> <li>▶ Underlying operations are strong. Value to emerge as legacy NPLs are worked out.</li> <li>▶ Low LDR vs sector should allow for NIM outperformance.</li> </ul>
VCB VN	Vietcombank	BUY	77,600	-2.5%	12,687	1.1%	17.8	<ul style="list-style-type: none"> <li>▶ Market leading deposit franchise allows for high and stable NIM without undue credit risk.</li> <li>▶ Fee income set to soar along with bancassurance deal with Prudential.</li> <li>▶ Valuations are not cheap, but this is the quality play in the banks.</li> </ul>
POW VN	PV Power	BUY	17,457	71.1%	1,027	2.9%	9.6	<ul style="list-style-type: none"> <li>▶ A proxy on Vietnam's rapidly growing demand for electricity amidst the shortage of supply.</li> <li>▶ Diversified production capacity to provide for smooth revenues when any single source of power is disrupted by input constraints or weather.</li> </ul>



Ticker	Company	Rating	TP (THB)	Upside (%)	Mkt Cap (USD mn)	Div. yield (%)	P/E (x)	Comments
								<ul style="list-style-type: none"> <li>▶ Long-term purchasing power agreements mean that POW is not exposed to input costs.</li> </ul>
PNJ VN	Phu Nhuan Jewelry	Hold-Underperform	86,300	34.8%	619	3.1%	13.9	<ul style="list-style-type: none"> <li>▶ Gold jewelry business is the jewel in the crown.</li> <li>▶ Plenty of room for growth on industry consolidation and as gov't policy limits sales of gold bars.</li> <li>▶ Watches could become a growth driver if PNJ is able to achieve scale advantages.</li> </ul>
HCM VN	Ho Chi Minh City Securities	BUY	26,532	43.4%	243	2.5%	12.6	<ul style="list-style-type: none"> <li>▶ Key beneficiary of increased institutional investor activity in Vietnam in the years ahead.</li> <li>▶ Confidence in management's ability to execute while managing the operational risks.</li> <li>▶ Beneficiary of the burgeoning middle class: Focus on affordable and mid-end housing.</li> </ul>
MSN VN	Masan	BUY	84,143	31.9%	3,205	0.0%	15.4	<ul style="list-style-type: none"> <li>▶ Proxy on the Vietnam consumer with subsidiaries in F&amp;B and meat consumption/animal feed.</li> <li>▶ Potential upside (finally) from its tungsten mine if China halts exports.</li> <li>▶ The stock has been hit hard by various negative news and now trades at an attractive valuation.</li> </ul>

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

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Taiwan persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities Investment Consulting  
4F, 225,



Section 3 Nanking East Road, Taipei 104  
Taiwan

Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
Yuanta Securities (Hong Kong) Co. Ltd  
23/F, Tower 1, Admiralty Centre  
18 Harcourt Road,  
Hong Kong

Korean persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Head Office  
Yuanta Securities Building  
Euljiro 76 Jung-gu  
Seoul, Korea 100-845  
Tel: +822 3770 3454

Indonesia persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Attn: Research  
PT YUANTA SECURITIES INDONESIA  
(A member of the Yuanta Group)  
Equity Tower, 10th Floor Unit EFGH  
SCBD Lot 9  
Jl. Jend. Sudirman Kav. 52-53  
Tel: (6221) - 5153608 (General)

Thailand persons wishing to obtain further information on any of the securities mentioned in this publication should contact:

Research department  
Yuanta Securities (Thailand)  
127 Gaysorn Tower, 16th floor  
Ratchadamri Road, Pathumwan  
Bangkok 10330

# Yuanta Greater China Equities

## Research - Taiwan

Vincent Chen Head of Regional Research +886 2 3518 7903	DC Wang Senior Deputy Head of Research Networking +886 2 3518 7962 dc.wang@yuanta.com	Steve Huang, CFA Deputy Head of Research Semiconductors & Display, IPC +886 2 3518 7905 steve.huang@yuanta.com	Calvin Wei Deputy Head of Research PC/NB, Passive Components +886 2 3518 7971 calvin.wei@yuanta.com	Peggy Shih Deputy Head of Research Taiwan Financials, Non-tech +886 2 3518 7901 peggy.shih@yuanta.com
Chuanchuan Chen IC Design, Marine, Semi Equipment +886 2 3518 7970 chuanchuan.chen@yuanta.com	Leo Lee, CFA Non-tech +886 2 3518 7983 leo.kc.lee@yuanta.com	Kenny Chen Automotive +886 2 3518 7948 kenny.c.chen@yuanta.com	Nicole Tu Handset & Components +886 2 3518 7908 nicole.JT.tu@yuanta.com	Jane Jiang Biotech & Pharmaceuticals +886 2 3518 7979 jane.jiang@yuanta.com
Lisa Chen Real Estate, Asset Plays, Small-Cap Tech +886 2 3518 7913 lisa.mf.chen@yuanta.com	Harvey Kao Tech +886 2 3518 7926 harvey.kao@yuanta.com	Amber Lee Non-tech +886 2 3518 7967 amber.lee@yuanta.com	Tate Chen Downstream Tech +886 2 3518 7966 tate.chen@yuanta.com	Kevin Chiueh RA - Upstream Tech +886 2 3518 7939 kevin.chiueh@yuanta.com
Elie Yang RA - Non-tech/Financials +886 2 3518 7909 elie.yang@yuanta.com	Marco Lin RA - Greater China Retail +886 2 3518 7930 marco.th.lin@yuanta.com	Joseph Chi RA - Upstream Tech +886 2 3518 7950 joseph.chi@yuanta.com	David Yeh RA - Downstream Tech +886 2 3518 7915 david.kw.yeh@yuanta.com	Paul Chen RA - Downstream Tech +886 2 3518 7959 paul.py.Chen@yuanta.com
Raymond Lee RA - Non Tech/Autos +886 2 3518 7949 raymond.Lee@yuanta.com	Samantha Chao RA - Tech +886 2 3518 7911 samantha.chao@yuanta.com	Tiger Chen RA - Non-tech +886 2 3518 7984 tiger.chen@yuanta.com		

## Research - Macroeconomics

Woods Chen Head of Macroeconomics +886 2 3518 7992 woods.chen@yuanta.com	Matt Chen Researcher - North America +886 2 3518 7936 matt.chen@yuanta.com	Hunter Wu Researcher - Emerging Markets +886 2 3518 7937 hunter.wu@yuanta.com	Sabrina Huang Researcher - Commodities +886 2 3518 7935 sabrina.ys.huang@yuanta.com	Duke Wang Researcher - Northeast Asia +886 2 3518 7961 duke.wang@yuanta.com
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## Research - Hong Kong/Shanghai

Peter Chu, CFA Head of HK Research +852 3555 0928 peter.kk.chu@yuanta.com	Kevin Yim Industrial +852 3555 0927 kevin.cw.yim@yuanta.com	Amber Wu Food & Beverage +852 3555 0929 amber.yj.wu@yuanta.com
------------------------------------------------------------------------------------	----------------------------------------------------------------------	-------------------------------------------------------------------------

## Sales and Trading

Jason Lin Head of Greater China Cash Equities +886 2 2175 8998 jason.lin@yuanta.com	Jason Wang Head of Taiwan Sales Trading +886 2 2175 8888 jason@yuanta.com	Robert Lacey Head of HK Cash Equities +852 3555 0855 robert.lacey@yuanta.com	Jenny Lo Head of HK Sales Trading +852 3999 0868 jenny.lo@yuanta.com
Kerry Chen - Sales +886 2 2175 8922 kerrychen@yuanta.com	Jimmy Huang - Sales +852 3555 0850 jimmy.yc.huang@yuanta.com	Steve Lin - Sales +886 2 2175 8962 stevewplin@yuanta.com	Claire Su - Sales +886 2 2175 8977 claire.su@yuanta.com
KC Ho - Sales Trading +852 3999 0857 Kc.ho@yuanta.com	Carlos Ng - Sales Trading +852 3555 0870 carlos.ng@yuanta.com	Elle Wu - Sales Trading +886 2 2175 8800 elle.wu@yuanta.com	

## Sales of Non-Taiwan Equities

Raymond Chang Head of Foreign Equity Department +886 2 2175 8768 raymondchang@yuanta.com	Terry Liu Co-Head of Sales, Foreign Equity Department +886 2 2175 8758 Terry8758Liu@yuanta.com	Oscar Yang Co-Head of Sales, Foreign Equity Department +886 2 2175 8733 oscaryang@yuanta.com
---------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------

# Yuanta Korea

## Research - Korea

Kee-hyun Park  
Head of Korea Research  
+822 3770 5997  
keehyun.park@yuantakorea.com

Chang-young Lee  
Head of Equity Research  
Internet & Software  
+822 3770 5596  
changyoung.lee@yuantakorea.com

Kyu-won Hwang  
Chemicals & Refinery  
+822 3770 5607  
kyuwon.hwang@yuantakorea.com

Nam-kon Choi  
Telecom services  
& Holding companies  
+822 3770 5604  
namkon.choi@yuantakorea.com

Jin-hyoeng Park  
Banking & Small Cap  
+822 3770 5658  
jinhyoeng.park@yuantakorea.com

Sung-ho Park  
Leisure  
& Media/Entertainment  
+822 3770 5657  
sungho.park@yuantakorea.com

Jae-yun Lee  
Tech (Semicon & Electron)  
+822 3770 5727  
jaeyun.lee@yuantakorea.com

Hyun-soo Yi  
Steel &  
Non-ferrous/Shipbuilding  
+822 3770 5718  
hyunsoo.yi@yuantakorea.com

Eun-jung Park  
Cosmetics & F&B  
+822 3770 5597  
eunjung.park@yuantakorea.com

Ki-ryong Kim  
Construction  
& Construction materials  
+822 3770 3521  
kiryoung.kim@yuantakorea.com

Mi-hwa Seo  
Pharmaceuticals & Bio  
+822 3770 5595  
mihwa.seo@yuantakorea.com

Jung-mi Nam  
Auto/parts & Transportation  
+822 3770 5587  
jungmi.nam@yuantakorea.com

Dong-geun Kang  
Small Cap  
+822 3770 5588  
donggeun.kang@yuantakorea.com

Tae-joon Jeong  
Insurance & Securities  
+822 3770 5585  
taejoon.jeong@yuantakorea.com

Jin-hyeob Lee  
Retail  
+822 3770 5659  
jinhyeob.lee@yuantakorea.com

Kwang-jin Kim  
Display  
+822 3770 5594  
kwangjin.kim@yuantakorea.com

Gil-hyun Baik  
Research Assistant  
+822 3770 5635  
gilhyun.baik@yuantakorea.com

Kwang-hyun Lee  
Research Assistant  
+822 3770 5733  
kwanghyun.lee@yuantakorea.com

Woon-ok Kim  
Research Assistant  
+822 3770 2667  
woonok.kim@yuantakorea.com

Hye-in Lee  
Research Assistant  
+822 3770 5580  
hyein.lee@yuantakorea.com

Tae-in Yoo, CFA  
Head of Fixed Income  
Credit  
+822 3770 5571  
taein.yoo@yuantakorea.com

Jae-hyung Lee  
Credit market  
+822 3770 5579  
jaehyung.lee@yuantakorea.com

Dong-won Min  
Credit  
+822 3770 5589  
dongwon.min@yuantakorea.com

Hyun-soo Kim  
Credit  
+822 3770 5582  
hyunsoo.kim@yuantakorea.com

Yeon-hwa Shin  
Credit  
+822 3770 5721  
yeonhwa.shin@yuantakorea.com

Heung-joon Choi  
Credit  
+822 3770 5584  
heungjoo.choi@yuantakorea.com

Seung-bum Seon  
Research Assistant  
+822 3770 5583  
seungbum.seon@yuantakorea.com

Moon-ju Kong  
Research Assistant  
+822 3770 5586  
moonju.kong@yuantakorea.com

Seung-hyun Kim  
Head of Investment Strategy  
Quant & Strategist  
+822 3770 3517  
seunghyun.kim@yuantakorea.com

In-ji Jung  
Technical  
+822 3770 3528  
inji.jung@yuantakorea.com

Hu-jung Kim  
Fund  
+822 3770 3605  
hujung.kim@yuantakorea.com

Byung-hyun Cho  
Equity market  
+822 3770 3636  
byunghyun.cho@yuantakorea.com

Won-il Jeong  
Economist  
+822 3770 3526  
wonil.jeong@yuantakorea.com

Kwang-hyun Kim  
Quant & Global market  
+822 3770 3634  
kwanghyun2.kim@yuantakorea.com

Byung-kyu Min  
Equity market  
+822 3770 3635  
byungkyu.min@yuantakorea.com

Gyeong-beom Ko  
DB Administrator  
+822 3770 3625  
gyeongbeom.ko@yuantakorea.com

Gyu Lee  
Derivatives  
+822 3770 3519  
gyu.lee@yuantakorea.com

Ho-jung Kim  
Research Assistant  
+822 3770 3630  
hojung.kim@yuantakorea.com

Sun-young Kou  
Research Assistant  
+822 3770 3525  
sunyoung.kou@yuantakorea.com

Byung-jun Cho  
Portfolio  
+822 3770 5581  
byungjun.cho@yuantakorea.com

## Sales and Trading - Korea

Daniel Lee  
Equity Cash Sales  
+822 3770 2414  
youngnam.lee@yuantakorea.com

Michelle Rhee  
Equity Sales Trader  
+822 3770 5868  
michelle.rhee@yuantakorea.com

---

# Yuanta Indonesia

## Research

Chandra Pasaribu  
Head of Research  
Strategy, Telco, Tower  
+62 21 515 5890  
chandra.pasaribu@yuanta.co.id

Yap Swie Cu  
Analyst  
Banking  
+62 21 515 3608  
swiecu@yuanta.co.id

Muhammad Abdul Aziz  
Analyst  
Construction  
+62 21 515 3608  
muhammad.abdul@yuanta.co.id

## Institutional Sales

Amelia Husada  
Head of Institutional Sales  
+62 21 278 38917  
amelia.husada@yuanta.co.id

Hardiman Alexander  
Institutional Sales  
+62 21 278 38912  
hardiman.alexander@yuanta.co.id

Reinaldo Kusmana  
Institutional Sales  
+62 21 278 38913  
reinaldo@yuanta.co.id

Eric Tjandra  
Institutional Sales  
+62 21 278 38916  
eric.tjandra@yuanta.co.id

---

# Yuanta Thailand

Strategists		Sector	E mail	Tel.
Padon Vannarat	Head of Research		padon.v@yuanta.co.th	0-2009-8060
Piyapat Patarapuvadol	Senior Strategist		piyapat.p@yuanta.co.th	0-2009-8062
Natapon Khamthakrue	Senior Strategist	Auto, MAI	natapon.k@yuanta.co.th	0-2009-8059
Thidarat Charoenwut	Assistant Analyst	Asset Allocation		
Paramaporn Rujakom	Assistant Analyst			

Fundamental Analysts		Sector	E mail	Tel.
Veena Naidu	Institution Analyst		veena.n@yuanta.co.th	0-2009-8070
Wichuda Plangmanee	Fundamental Analyst	Construction Service, Commerce	wichuda.p@yuanta.co.th	0-2009-8069
Thakol Banjongruck	Fundamental Analyst	Media, Health Care	thakol.b@yuanta.co.th	0-2009-8067
Theethanat Jindarat	Fundamental Analyst	F&B, SMID Cap, Power&Utility	theethanat.j@yuanta.co.th	0-2009-8071
Supachai Wattanavitheskul	Fundamental Analyst	ICT, IE, Electronic, Transportation, Utility	supachai.w@yuanta.co.th	0-2009-8066
Parinth Nikornkittikosol	Fundamental Analyst	Energy, Petrochemical	parinth.n@yuanta.co.th	0-2009-8075
Trin Sittisawad	Fundamental Analyst	Banking, Finance	trin.s@yuanta.co.th	0-2009-8068
Kansiri Kara	Assistant Fundamental Analyst	Hotel		
Jaruchart Buchachart	Assistant Fundamental Analyst	Property		
Kochakorn Sutaruksanon	Assistant Fundamental Analyst	Power&Utility		
Sarin Wutthisirisart	Assistant Fundamental Analyst			
Kanin Angsunit	Assistant Institution Analyst			

Technical Analysts		E mail	Tel.
Pongpat Khamchoo, CMT	Technical Analyst	pongpat.k@yuanta.co.th	0-2009-8079
Pridi Luprasit	Assistant Technical Analyst		
Napat Amonsongcharoen	Assistant Technical Analyst		

Data Support	
Somjit Viroontanee	Support
Angsumalin Kumvong	Support
Peeraya Wiangphoem	Support

---

# Yuanta Vietnam

## Institutional Research

Matthew Smith, CFA  
Head of Research  
Tel: +84 28 3622 6868 (ext. 3815)  
matthew.smith@yuanta.com.vn

Tanh Tran  
Analyst (Banks)  
Tel: +84 28 3622 6868 (3874)  
tanh.tran@yuanta.com.vn

Binh Truong  
Deputy Head of Research (O&G, Energy)  
Tel: +84 28 3622 6868 (3845)  
binh.truong@yuanta.com.vn

Tam Nguyen  
Analyst (Property)  
Tel: +84 28 3622 6868 (3874)  
tam.nguyen@yuanta.com.vn

## Institutional Sales

Huy Nguyen  
Head of Institutional sales  
Tel: +84 28 3622 6868 (3808)  
huy.nguyen@yuanta.com.vn

Phuong Vo  
Sales Trader  
Tel: +84 28 3622 6868 (3890)  
Phuong.vo@yuanta.com.vn

Duyen Nguyen  
Sales Trader  
Tel: +84 28 3622 6868 (3890)  
duyen.nguyen@yuanta.com.vn

---