Regional Market Strategy

2H 2023 Outlook

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jul 2023

Position for better end to 2023

- Catalysts for a better end to 2H are inflation cooling further, FED stopping rate hikes, and China's recovery resuming
- 2 notable developments; El Niño and AI demand picking up
- Positive: Hong Kong and Indonesia; Neutral: Singapore, Thailand and Philippines

Catalysts in play for a better end to 2H. We are more sanguine about how equities may end the year despite ongoing concerns of a global slowdown and higher-for-longer rates. Market valuations have fallen. Equity markets can overcome the seasonally volatile 3Q to finish the year on a better note if Inflation cools further, the FED stops hiking rates and China's recovery resumes.

El Niño is back! El Niño conditions have developed. 3 potential positive implications are that (1) higher CPO price benefits First Resources, Bumitama Agri and London Sumatra (2) higher beverage consumption benefits Budweiser APAC, CR Beer, Thai Bev and Uni-President while higher sales of cooling-related electronic appliances benefit Home Products (3) demand shift towards fossil fuels favours upstream oil names CNOOC, PetroChina and PTT Exp. & Prod while higher electricity demand is positive for SembCorp Industries. Thankfully, we see little/no impact on tourism despite heightened risk of transboundary haze.

AI breathes new life to tech recovery. Demand of AI-related segments is expected to pick up strongly. Potential beneficiaries along the hardware value chain include front-end equipment manufacturer UMS Hldgs and Lenovo. Alibaba Group also stands to gain through its search engine business and AI Cloud services.

Positive on Hong Kong and Indonesia. We stay positive on Hong Kong with the market's attractive valuation and policy efforts to drive demand. Top 4 picks are Trip.com, Tencent, Li Auto and China Mobile. We turn positive (prev. neutral) for Indonesia as interest rate look to fall and pre-election spending boosts consumption. Top 4 picks are – BBCA IJ, ICBP IJ, ISAT IJ and LSIP IJ.

Neutral Singapore, Thailand and Philippines GDP growth for Singapore (prev. positive) is cut to 1.7% (prev. 2.2%). Top 4 picks are Keppel Corp, Yangzijiang, ST Engrg and UMS Hldgs. Thailand's (prev. positive) forward PE valuation vs. GDP growth is the least attractive among EMs under our coverage. YE SET Index target is 1,650. Top 4 picks are Airport of Thailand, AMATA, CPALL and Central Pattana. The Philippines (prev. negative) market looks the most attractive from a GDP growth to forward PE valuation perspective. Top 4 picks are Bank of Philippine Islands, RL Commercial REIT, MREIT, Inc and Century Pacific Food Inc.

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Regional Markets Outlook Summary

Index	*Current	YTD	2023 YE target	Upside	Outlook
Hang Seng	18,890	-4.5%	22,000	16.5%	Positive ↑
Jakarta Comp	6,639	-3.1%	7,500	13.0%	Positive ↑
Straits Times	3,191	-1.8%	3,450	8.1%	Neutral ↓
SET	1,505	-9.8%	1,650	9.6%	Neutral ↓
PSE	6,393	-2.6%	6,850	7.1%	Neutral ↓

Source: Bloomberg Finance L.P.

STOCKS

	Price	Mkt Cap	12-mth Target	Performance (%)		
	LCY	US$m	LCY	3-mth	12-mth	Rating
Keppel Corp	6.69	8,725	8.30	13.4	2.6	BUY
Yangzijiang Shipbuilding	1.44	4,210	1.70	17.1	52.4	BUY
ST Engineering	3.69	8,516	4.20	(0.5)	(8.7)	BUY
UMS Holdings	1.07	531	1.32	(4.5)	(2.7)	BUY
Trip.com Group	284	22,600	437	(3.4)	N.A	BUY
Tencent	339	416,187	498	(11.9)	(4.3)	BUY
Li Auto Inc	144	34,370	156	53.4	(5.8)	BUY
China Mobile	64.9	176,978	92.00	(1.1)	32.5	BUY
Bank Central Asia	9,05	74,401	10,050	3.1	24.8	BUY
Indofood CBP Sukses Makmur	11,475	8,924	12,900	12.5	22.7	BUY
Indosat	8,97	4,826	9,820	31.5	41.9	BUY
London Sumatra	1,05	480	1,500	2.4	(7.9)	BUY
Airports of Thailand	71.75	29,256	84.00	0.0	1.8	BUY
Amata Corp	22.7	745	25.00	0.0	23.4	BUY
CP ALL	63.7	16,345	72.00	4.1	2.4	BUY
Central Pattana	66.7	8,518	78.00	(4.3)	9.4	BUY
Bank of the Philippine Islands	107	8,760	123	7.8	35.3	BUY
RL Commercial REIT, Inc	5.79	1,124	6.50	1.6	(10.2)	BUY
MREIT, Inc.	14.4	660	16.50	(1.6)	(7.5)	BUY
Century Pacific	25.6	1,641	29.00	4.5	14.5	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 4 Jul 2023

DBS Insights Direct Watchlist the stock on Insights Direct to receive prompt updates

ed: PJ, BM / sa: JC, PY, CS

Macro Outlook

El Niño is back!

El Niño conditions have developed and are expected to continue for the rest of 2023 and beyond, according to the latest June update by US government agency the National Oceanic and Atmospheric Administration (NOAA). There is an 84% chance that this will be a moderate El Niño event, and a 56% chance that it will be a strong one.

Niño 3.4 sea surface temperature departure from mean

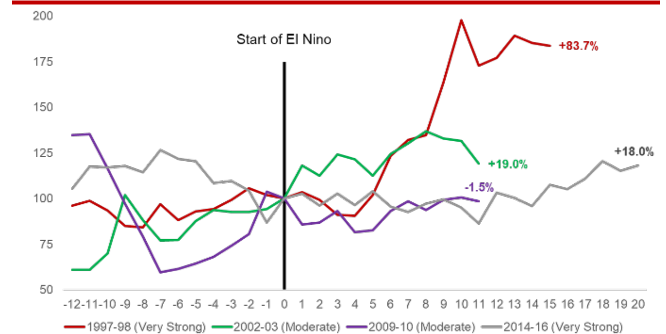
Source: DBS Bank, Bloomberg Finance L.P., US Climate Prediction nter NOAA

Here are three potential implications of El Niño:

1) Positive for CPO price. Warmer temperatures and/or drought would lead to higher agri-commodities prices (e.g. water-intensive crops like CPO, rice, sugarcane, soybean) on tighter supplies and output. As some of these agri-commodities serve as key inputs or staples for consumers in this region, a possible resurgence of food inflation is a risk that bears watching.

The onset of El Niño, coupled with an already bottoming trend for CPO, bodes well for CPO price and plantation stocks going forward. We see a conducive backdrop for CPO price to stage a recovery as (i) output remains tight under El Niño, (ii) CPO prices bottoming, as noted by [our plantation analysts], and (iii) expectation for brent oil prices to be supported this/next year at US$82-87/bbl. CPO stock picks under our coverage are **First Resources (FR SP)**, **Bumitama Agri (BAL SP)**, and **London Sumatera (LSIP IJ)** for upstream; **Wilmar International (WIL SP)** for integrated exposure.

Monthly CPO prices during official El Niño months



Source: US Climate Prediction Center, DBS Bank
Rebased to 100 on El Niño official starting month

2) Positive for beverage consumption and cooling devices. An ice-cold beverage, be it alcoholic or non-alcoholic, is a good way to beat the heat, which benefits beverages makers – especially those that can pass through rising input cost to customers. We prefer breweries. Our picks are **Budweiser APAC (1876 HK)**, **CR Beer (291 HK)**, and **Thai Beverage (THBEV SP)**. We pick **Uni-President (220 HK)** for non-alcoholic beverage manufacturers.

Cooling devices such as air conditioners becomes more necessity than luxury when the temperature rises, even without El Niño. The International Energy Agency expects 10 new air conditioners sold every second between now to 2050. These benefit (i) manufacturers of these appliances, and (ii) energy providers given the high electricity-consumption of these devices. **Home Product Centre (HMPRO TB)** is a potential beneficiary through higher sales of electronic appliances such as fans, aircons, cooling-related products, or even dehumidifiers.

3) Energy generation. Ceteris paribus, hotter and drier conditions lead to higher-than-expected power demand in countries in the Asia Pacific region, in turn raising fossil fuel demand and supporting energy commodity prices. Reduced rainfall and lower windspeed during El Niño is negative for hydropower and wind power generation in affected countries that should also shift demand towards fossil fuels. Our regional energy team continues to favour upstream oil names **CNOOC (883 HK)**, **Petrochina (857 HK)**, and **PTT Exploration and Production (PTTEP TB)** but do not necessarily ascribe any key catalysts from the El Niño event to share prices. **Sembcorp Industries (SCI SP)** should benefit on sustained electricity prices/demand amid the tight power market in Singapore, coupled with its “brown-to-green” transformation strategy.

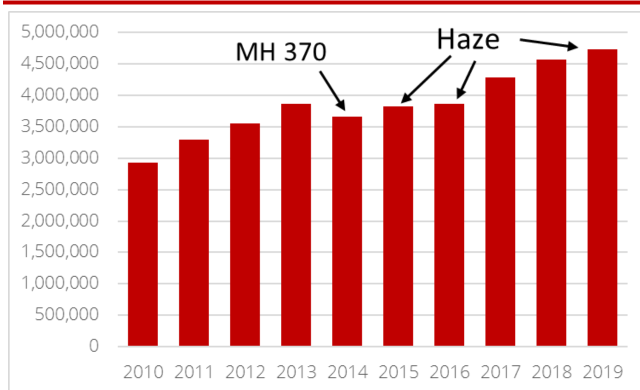
4) Little/no impact on tourism. We see little to no impact on tourism despite the heightened risk of transboundary haze due to the combination of higher temperature and reduced rainfall. One consequence of the previous major El Niño event that spanned Oct-14 to May-16 was the severe haze situation in 2015 that engulfed many parts of Indonesia (except Java), Singapore, Malaysia, and Southern Thailand.

Singapore's Institute of International Affairs has warned about a high risk of transboundary haze this year. The transboundary haze affects Singapore the worst, because there's nowhere to hide given Singapore's tiny land area. Thankfully, data shows that Singapore's tourist arrivals stayed resilient during the haze years of 2015 (severe), 2016, and 2019 (moderate).

Looking back at the period from August to October when the haze risk is highest, the y-o-y drop in 2014 visitor arrivals was due to Chinese travellers boycotting the Southeast Asia region following the MH370 disappearance. However, this figure started to recover from 2015 onwards as Chinese tourists returned despite the haze situation.

The steady return of Chinese visitors should further drive the recovery of regional tourism going forward.

Singapore visitors' arrival Aug-Oct by year



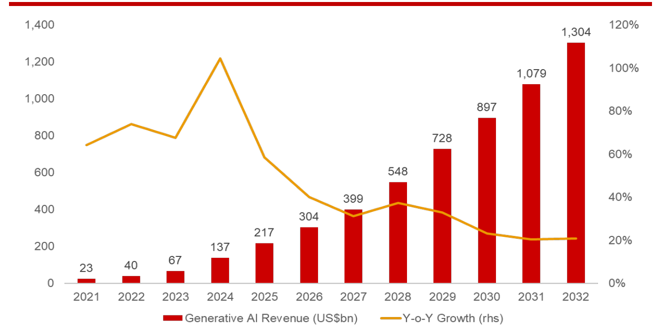
Source: Singapore Tourism Analytics Network, DBS Bank

Is Artificial Intelligence the tipping point of a new computer era?

The AI theme, while not new, found a strong second wind when OpenAI's ChatGPT demonstrated the potential and wide-ranging use of generative AI. Microsoft's US$10bn investment into OpenAI, the influx of competition like Google's Bard/Baidu's Ernie, and chipmaker Nvidia's 'blow-out' guidance for huge AI-related demand amid the ongoing downturn, shows the potential that market players see in this space.

Forecasts from Bloomberg point to a strong pick-up in growth/demand for AI-related segments this year onwards, with generative AI expected to be a US$1.3trn market by 2032. First, companies involved in the hardware segment should benefit as it is poised to be the largest segment at US$642bil, representing about 50% of total spending in 2032. Second, the expectation for revenue to double and register the sharpest growth in 2024 was taken as a positive sign of recovery to come.

Generative AI revenue forecast



Source: DBS Bank, Bloomberg Intelligence, IDC

Positive share price performances amongst various global semiconductor companies suggest that investors are looking beyond obvious AI-plays (e.g., Nvidia) to other potential beneficiaries along the value chain. Positive spill-over from the AI boom may benefit other parts of the value chain including foundries and equipment makers in the front end, to outsourced semiconductor assembly and testing (OSAT) players in the backend.

Potential beneficiaries along the hardware value chain include front-end equipment manufacturer **UMS Holdings (UMSH SP)**, and **Lenovo (992 HK)** given its exposure to AI servers in this region. **Baidu (9888 HK)** also stands to gain from the proliferation of AI, which enhances efficiency and revenue for its search engine business and increase demand for its AI Cloud services and solutions in China.

Overcoming China's uneven recovery

Recent data releases from China have thrown the sustainability of its post zero-COVID recovery into doubt, especially for the manufacturing sector. But while the manufacturing sector's 1Q recovery looks to have slowed in recent months, China's services sector recovery remains resilient. Furthermore, the PBOC has various tools on hand to bolster economic recovery. Rather than a warning sign that China's economic rebound that started in January has stalled, we believe this is a more uneven recovery that will take time to smooth out. DBS economic research is keeping our 5.5% GDP growth forecast for 2023.

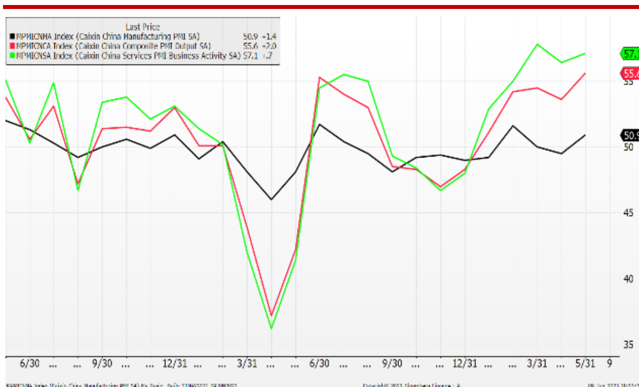
Exports recovery turned down in April and fell 7.5% y-o-y by May, a consequence of weakening global demand. Imports contracted for a second month, down 4.5% y-o-y. These were despite the low-base comparison given the two-month Shanghai lockdown in April and May 2022. Shanghai ports contributed around 19% of China's total freight back in pre-COVID. The official manufacturing PMI has also sunk back to contraction territory in April and May after a brief 1Q expansion.

China imports and exports (y-o-y)

Source: DBS Bank, Bloomberg Finance L.P.

However, it's not all doom and gloom. The Caixin manufacturing PMI that surveys small and mid-size companies returned to expansion territory in May. Services PMI continued its expansion with the strong 57.1 reading for May. This is similar to the experience of other countries that have shifted to the COVID endemic.

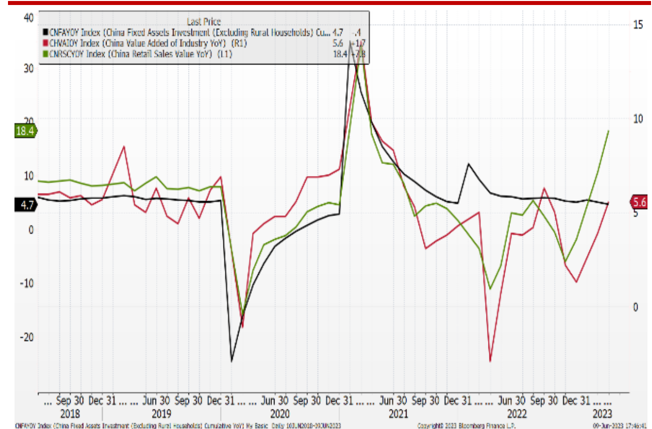
Caixin China manufacturing, services and composite PMIs



Source: DBS Bank, Bloomberg Finance L.P.

The uneven recovery between the manufacturing and services sector was also evident in the dull industrial production recovery vs. the strong retail sales expansion.

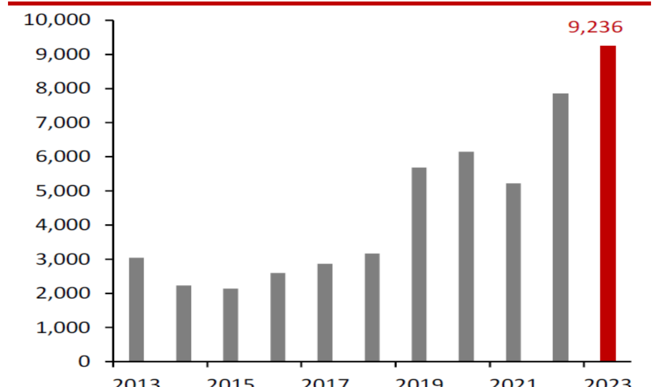
China fixed asset investment, industrial production, retail sales



Source: DBS Bank, Bloomberg Finance L.P.

On a positive note, DBS Economic Research sees various tools available to the PBOC to keep monetary conditions accommodative and bolster economic recovery. The PBOC cut its one-year mid-term lending facility (MLF) from 2.75% to 2.65% amid signs of fading recovery. Our China economist sees another 10bps hike in 3Q. The deposit rates cut could help unleash some spending power held by the record-high new saving deposits. The recent lowering of the banks' deposit rate ceilings allows banks to cut loan prime rates in the months ahead. The PBOC may also trim the required reserve ratio (RRR) in 2H23. Finally, the Chinese government may deploy structural tools complementing fiscal policy to bolster credit growth, such as re-lending programs for infrastructure financing.

New increase in deposits in May (RMB bn)



Source: DBS Bank, CEIC

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Inflation is down but sticky

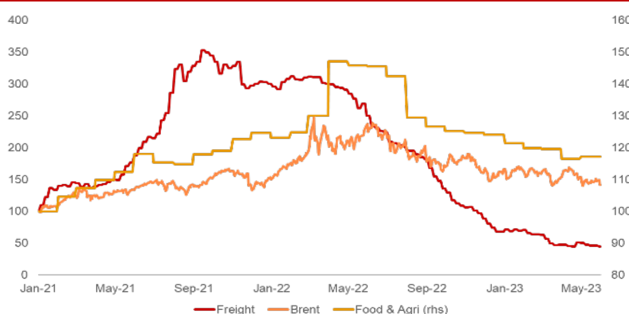
Overview of regional inflation and drivers – as of May-23 (%, y-o-y)

Country	CPI	Core	Government target	DBS 2023F CPI forecast
US	4.0	5.3	2.0 (core)	4.0
SG	5.1	4.7	2.0 (core)	5.8
HK	2.0	1.8	N.A.	2.8
TH	0.5	1.5	1-3	1.7
ID	4.0	2.7	2-4	3.7
PH	6.1	7.7	2-4	5.4

Source: DBS Bank, Bloomberg Finance L.P.

Inflation is cooling off. Firstly, supply chain disruptions from the Russia-Ukraine war, and China's strict zero-COVID policy last year, have eased. This sets a favourable high-base effect compared to y-o-y CPI numbers going forward. Secondly, the global manufacturing slowdown has affected demand for metal, energy, and freight services. As a result, food and energy prices – as well as freight rates that drove inflation last year – have fallen considerably on a y-o-y basis by 20%, 40%, and 82% respectively.

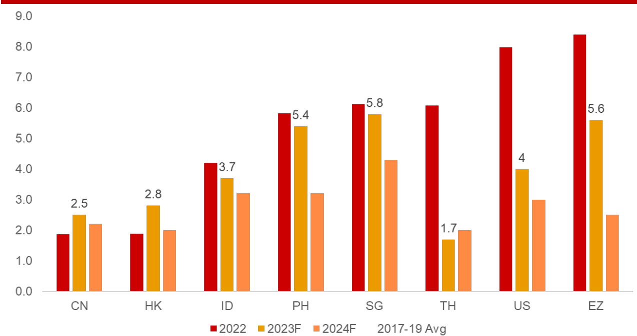
Energy, food, freight indices (Jan-21 = 100)



Source: Bloomberg Finance L.P., DBS Bank

While inflation is moderating, it will take time to return to the pre-COVID level. Most countries under our coverage continue to see above-trend inflation this year. A further downside to inflation may also be limited at this point, as it takes a substantial demand shock or major global economic downturn to bring US inflation down to below 3%, in our economists' view.

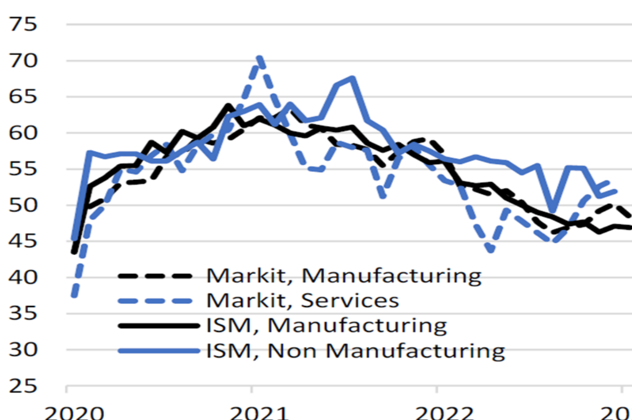
Inflation: 2017-19 average vs DBS 2023/24 forecast

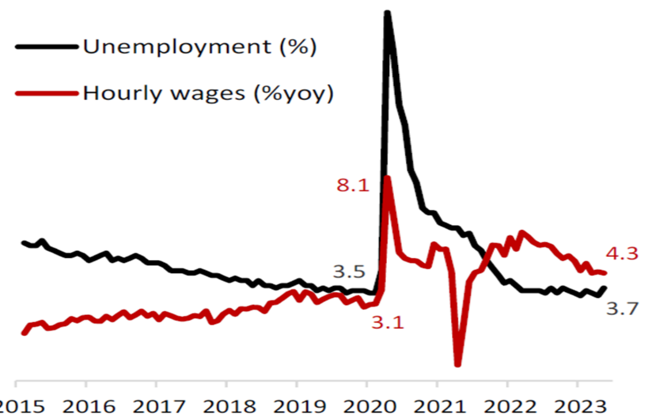


Source: IMF, Bloomberg Finance L.P., DBS Bank

Sticky, elevated service inflation is one reason why core inflation should stay firm. Services demand and spending in the US remain robust on historically low unemployment and positive real wages growth, putting services PMI firmly in the expansionary territory. While less pronounced for the region, service inflation should stay firm on the continuing recovery/reopening of economies.

US services PMI and labour market holding up





Source: CEIC, DBS Bank. Data through May-23

Oil prices are also likely to find support around the US$80/bbl mark, as demand-supply dynamics look balanced for now. Positive factors going for oil demand and prices – period of seasonally higher oil demand regardless of recession, China's reopening, latest OPEC+ production cuts and US restocking its strategic petroleum reserve – are nevertheless balanced by (fears of) slowing global economy.

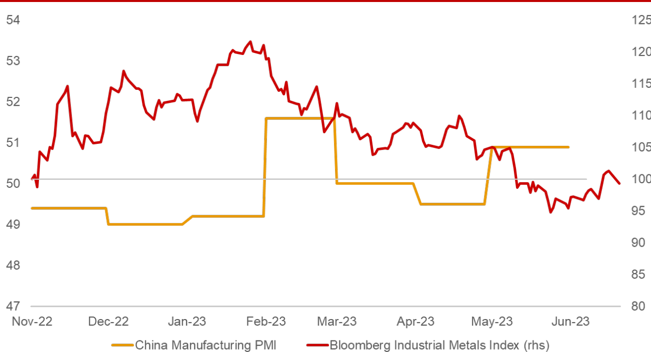
Brent prices (daily) vs. DBS forecast

Source: Bloomberg Finance L.P., DBS Bank

A strong pick-up in China's rebound and return of food inflation are potential drivers of inflationary risk. Food inflation is another to watch – prices of key input/agricultural commodities can rise if El Niño's warmer conditions weigh on their output and supply.

The current weakness in industrial metals, due to China's lacklustre and/or service-led recovery, can quickly reverse as manufacturing/construction activities resume significantly on policy easing and improving sentiments. Equity markets will welcome a pickup in industrial metal prices though, especially if it is driven by China's manufacturing recovery.

Bloomberg industrial metals index (Nov-22 = 100)



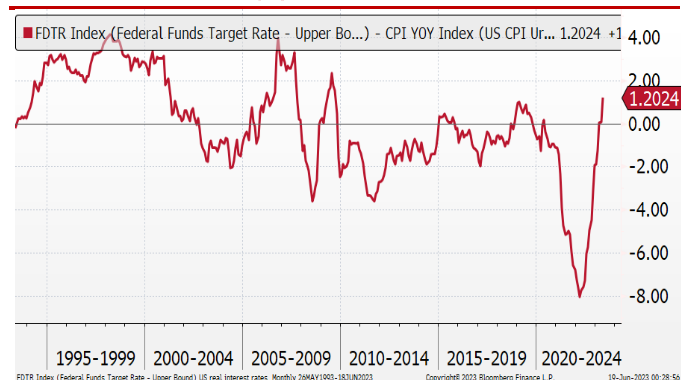
Source: Bloomberg Finance L.P., DBS Bank

Nearing the end of current rate hike cycle

The FED's pause in June may not spell the end of the current rate hike cycle. DBS Economic Research sees one more hike in July given the US economy's resilience thus far, before this rate hike cycle ends with FED funds rate at 5.5%. While not the base view, our economist raised the possibility of a second hike in 4Q if China and Europe are able to lead a recovery in external demand.

Be it one or two more hikes, what's important is that the current rate hike cycle is nearing the end. US real interest rates rose to the highest level since 2010. We believe equity investors will not get nervous if a second hike does materialize in 2H23, driven by China's and Europe's recoveries, which will be positive for regional economies.

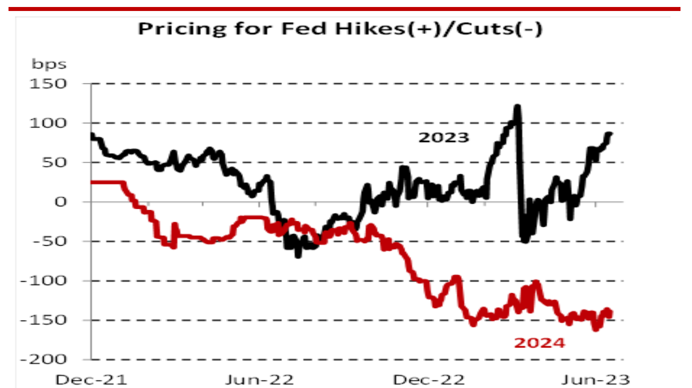
US real interest rates (%)



Source: Bloomberg Finance L.P., DBS Bank

While rates are peaking, it's likely to stay higher-for-longer given the sticky inflation expectation. DBS Economic Research continues to see no rate cuts through 1H24 with 100bps cut only in 2H24.

FED funds rate: DBS forecast vs. FED fund futures



Source: Bloomberg Finance L.P., DBS Bank

Equities tend to do well when rate hike cycle ends

The US rate hike cycle paused four times in the past 30 years. History shows that equity markets have a high tendency to reward investors with positive returns through the period that the FED stopped its rate hike cycle and held rates steady. Except for 2000 – during the Dot.com bubble burst – the US and regional equity markets enjoyed positive returns, supported by factors such as trade optimism, M&A activities, benign economic conditions and strong earnings.

Taking this as a guide, a pause to the current rate hike cycle could see the YTD rally in US equity markets holding up well in 2H23, which can provide a positive backdrop for regional markets.

Equity markets behaviour in the past four rate hike pauses

Level (%)	6	6.5	5.25	2.5
Start	Feb-95	May-00	Jun-06	Dec-18
End	Jun-95	Dec-00	Aug-07	Jun-19
Months	4	7	14	6
Comments	• Trade optimism (NAFTA, WTO) • Economic recovery	• Dot.com bubble bursts • Expensive valuation	• M&A activities • Strong earnings • Economic recovery	• US-China trade optimism • Strong earnings • Economic recovery
US				
S&P500 (*% change)	14.0%	-7.1%	16.1%	17.4%
GDP (%, Y)	2.7%	4.1%	1.7%	2.9%
GDP (%, Y+1)	3.8% ↑	1.0% ↓	2.2% ↑	2.3% ↓
Singapore				
STI (*% change)	3.6%	5.9%	44.0%	9.0%
GDP (%, Y)	7.2%	9.0%	9.0%	3.4%
GDP (%, Y+1)	7.5% ↑	-1.0% ↓	9.0%	0.9% ↓
Hong Kong				
his (*% change)	10.5%	2.5%	46.9%	10.7%
GDP (%, Y)	2.4%	7.7%	7.0%	2.8%
GDP (%, Y+1)	4.3% ↑	0.6% ↓	6.5% ↓	-1.7% ↓
Thailand				
SETI (*% change)	9.3%	-24.8%	33.4%	17.5%
GDP (%, Y)	8.1%	4.5%	5.0%	4.2%
GDP (%, Y+1)	5.7% ↓	3.4% ↓	5.4% ↑	2.1% ↓
Indonesia				
JCI (*% change)	7.9%	-15.3%	65.2%	5.5%
GDP (%, Y)	8.2%	4.9%	5.5%	5.2%
GDP (%, Y+1)	7.8% ↓	3.6% ↓	6.4% ↑	5.0% ↓
Philippines				
PSEI (*% change)	11.2%	-13.8%	76.3%	9.9%
GDP (%, Y)	4.7	4.4	5.2	6.3
GDP (%, Y+1)	5.8 ↑	2.9 ↓	6.6 ↑	6.1 ↓

** % change through the rate pause period*
GDP (%, Y): Year at start of rate pause
GDP (%, Y+1): 1 year after start of rate pause
Source: DBS Bank, Bloomberg Finance L.P.

Regional Outlook and Valuation

Regional Markets Outlook Summary

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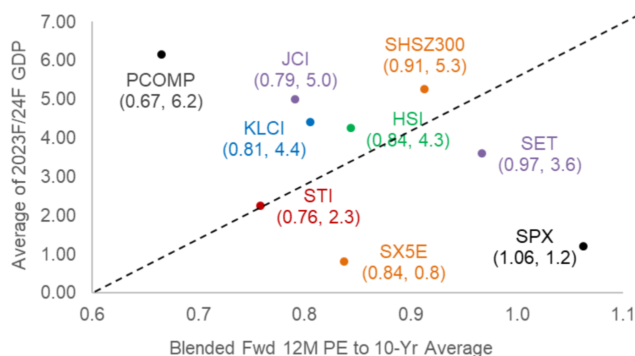
Hang Seng Index	18,890	-4.5%	22,000	16.5%	Positive ↑
Jakarta Index	6,639	-3.1%	7,500	13.0%	Positive ↑
Straits Times Index	3,191	-1.8%	3,450	8.1%	Neutral ↓
SET Index	1,505	-9.8%	1,650	9.6%	Neutral ↓
PSE Index	6,393	-2.6%	6,850	7.1%	Neutral ↓

Source: DBS Bank

Regional equity indices under our coverage were down YTD – except for the Jakarta Composite Index. Investor sentiment was affected by (1) China's manufacturing recovery faltering amid the weak property market, (2) hawkish central banks, (3) the US's regional banking crisis, and (4) concerns about impending recession in the developed markets of the US and Europe.

Consensus forward PE valuations vs. DBS GDP 2023/24 forecast



Source: DBS Bank, Bloomberg Finance L.P. Data as of 20 June 2023

Data labels (X axis: Current forward PE / 10-year average, Y axis: Average of 2023F/24F GDP forecast)

Regional equity indices start off 2H23 with a subdued forward PE valuation as equity markets worked to price in the negatives over the past six months. The 12-month forward PE valuations of the Hang Seng Index (HSI), Jakarta Compositive Index (JCI), Straits Times Index (STI), and the Philippines Stock Exchange Index (PSEI) are all well below their respective historical 10-yr average. The PSEI looks most attractive from a GDP growth to forward PE valuation perspective. Forward PE valuation for the Stock Exchange of Thailand Index (SET) looks relatively least attractive trading at its historical average. Singapore has the lowest GDP growth outlook among our coverage but the low forward PE valuation of the STI relative to its 10-year average suggests that much of the negatives may already be priced in.

While concerns about a global slowdown, technical recession risk, and higher-for-longer rates remain, we are more sanguine about how equities may end the year for the following reasons:

1) The PBOC has various tools available to keep monetary conditions accommodative (e.g., lowering MLT, deposit rates, and RRR) and bolster economic recovery (e.g., re-lending programmes for infrastructure financing)

2) Inflation is cooling, albeit at a gradual pace. Energy, food, industrial metals, and freight rates have fallen amid slower global demand and the easing of supply chain disruptions from the Russia-Ukraine war and China's zero-COVID policies.

3) The worst of the manufacturing slowdown was passing away, with 2Q23 being the low point. The strong pick-up in growth/demand for generative AI may well speed up the semiconductor sector recovery.

4) The current FED rate hike cycle was nearing the end, with an anticipated final hike at the July FED meeting. We believe equity investors will not get nervous if a second hike does materialise in 2H23 driven by China and Europe recovery, which has a positive implication for regional economies.

5) Equity markets tend to enjoy positive returns when the FED pauses its rate hike cycle, which can provide a positive backdrop for regional markets in 2H.

6) Regional markets have been pricing in slowdown, or even technical recession worries, YTD. Forward index PE valuation for Singapore, Hong Kong, and the Philippines have sunk close to -2SD of their historical average. This opens the rerating potential if the China's slowdown stabilizes and recovers, or the anticipated global slowdown is shallower or shorter than feared.

3Q is a seasonally volatile period for equities. But 1H's performance of regional equity indices has been disappointing, and valuations have retreated closer towards trough. We do not rule out regional equity indices heading towards our anticipated YE target to end the year on a better note if inflation continues to cool, the FED stops raising rates and China's recovery resumes.

Regional markets valuations – Consensus estimates

Country	Benchmark	EPS Gwth %		PE (X)		PEG		Div Yield %	
		23F	24F	23F	24F	23F	24F	23F	24F
Singapore	STI	13.0	4.1	10.6	10.2	0.8	2.5	5.1	5.4
Hong Kong	HSI	-1.0	9.9	9.4	8.5	N.A.	0.9	3.8	4.1
	HSCEI	-3.7	11.9	8.5	7.6	N.A.	0.6	3.7	3.9
China	SHSZ300	14.3	15.3	12.0	10.4	0.8	0.7	2.6	3.0
	SHCOMP	26.0	14.3	11.1	9.7	0.4	0.7	3.1	3.4
Thailand	SET	6.2	13.5	16.2	14.3	2.6	1.1	3.2	3.5
Indonesia	JCI	16.9	8.9	13.7	12.6	N.A.	1.4	4.2	4.3
Philippines	PCOMP	13.3	11.6	12.1	10.9	0.9	0.9	2.7	2.7
Malaysia	FBMKLCI	-4.6	8.1	13.3	12.3	N.A.	1.5	4.5	4.7
US	SPX Index	-1.2	9.6	19.7	18.0	N.A.	1.9	1.6	1.7

Source: DBS Bank, Bloomberg Finance L.P. Data as of 26 June 2023

Positive on Hong Kong and Indonesia

We stay positive on Hong Kong despite the Hang Seng Index's 4.5% decline YTD. Stocks of mainland companies listed in Hong Kong have the most attractive PEG valuation and highest yield compared to our regional coverage. Policy efforts should underpin consumer demand and provide support to strategically important industries such as new energy vehicles (NEV), semiconductor and high-end manufacturing. Large-scale fiscal support for infrastructure will be a positive surprise. China-US relations are also stabilizing, which could partially restore foreign investors' risk appetite. But higher-for-longer US interest rates remain a source of volatility. Our year-end HSI target is 23,400 based on a 11.3X 12-mth fwd PE. Our themes are (1) fundamental recovery post-reopening Samsonite International (1910 HK), Trip.com (9961 HK), Alibaba Group (9988 HK), Tencent (700 HK) (2) Beneficiaries of policy stimulus Longfor Properties (960 HK), Hua Hong Semiconductor (1347 HK), Li Auto (2015 HK), ANTA Sports (2020 HK), Ping An Insurance (2318 HK), and (3) SOE China Mobile (941 HK) which offers stable return.

We turn positive (prev. neutral) for Indonesia as domestic inflationary pressure eases and Bank Indonesia (BI) is seen cutting rates by 75bps rate by year-end. Dovish policies and stable currency generally supports foreign inflow, which has been positive YTD. We expect pre-election spending to help domestic consumption, advertising, and services sectors as well as market sentiment, especially in 4Q23. The Indonesian market currently trades at just over 13x FY23F forward PE multiple, which is the lowest in the last five years except during the pandemic in 2020. Our year-end 2023 JCI index target is 7,500, pegged to a 15.3x blended forward PE multiple or c.10-year average. Themes are (1) domestic economy resilience Bank Central Asia (BBCA), Indofood CBP (ICBP), and Indosat Hutchinson (ISAT), (2) Election beneficiaries Indofood CBP (ICBP), Matahari Dep Store (LPPF), and XL Axiata (EXCL) that are election-spending proxies, (3) El Niño beneficiaries London Sumatera (LSIP), Indofood Sukses (INDF), and Mitra Adiperkasa (MAPI).

Neutral on Singapore, Thailand and Philippines

We turn neutral (prev. positive) for Singapore. YE target was lowered to 3,450 (prev. 3,600) pegged to an 11.5X (-1.5SD) FY24F PE. 2023 GDP growth was lowered to 1.7% (prev. 2.2%) amid uncertainty over the manufacturing sector's recovery and normalizing service sector recovery. STI earnings revision has been stable over the past six months and dividend yield was attractive vs. regional peers. While the STI has been the second-best performing country index under our coverage YTD, NIM expansion for banks is poised to end while loans growth and non-interest income recovery was maybe weaker-than-expected. The services sector is expected to stay resilient with the travel-related cluster benefiting from the continued recovery in Chinese visitor arrivals. We like (1) industrial names like Keppel Corp (KEP), Seatrium (STM SP) and Yangzijiang (YZJSGD SP) that can benefit from firm oil prices and the ongoing transition towards renewable energy (2) rate pause beneficiaries Far East Hospitality Trust (FEHT SP), ST Engineering (STE SP), and UMS (UMSH SP) (3) potential El Niño beneficiaries First Resources (FR SP), Bumitama (BAL SP), Wilmar (WIL SP), ThaiBev (THBEV SP), and Sembcorp Industries (SCI SP).

We turn neutral (prev. positive) for Thailand considering that SET Index's 12-mth fwd PE of 15.2X vs. blended 2023/24 GDP growth of 3.6% is the least attractive among Ems under our coverage. Thankfully, we expect clarity on the political front from 3Q23 as a new government comes into place that should be positive for the stock market. Growth should still be supported by the tourism upswing and resilient private consumption. Exports face global external headwinds, but the pace of decline appears to be easing and should start to recover next year. Themes are (1) Accelerated tourism recovery such as Airports of Thailand (AOT), Bangkok Dusit Medical Services (BDMS), and Siam Wellness Group (SPA), (2) Production relocation from China that benefits Amata Corporation (AMATA), (3) Beneficiaries of falling inflation Berli Jucker (BJC), CP All (CPALL), Central Pattana (CPN), and Central Retail Corporation (CRC), and (4) El Niño that positively impacts Home Product Center (HMPRO).

We turn neutral (prev. positive) on Philippines considering that the PSEI is the most attractive from a GDP growth to forward PE valuation perspective. Concerns about an end to easy money, attractive bond yields, uncertain inflation outlook, deteriorating fiscal health, weakening external trade dynamics and negative operating as well as financial leverage at the corporate level is keeping PSEI upside at bay despite improving economic data and robust earnings forecast. But with an index valuation approaching trough, we advocate accumulating on weakness towards PSEI 6,150 or slightly above. Themes are (1) the improving trade-off between monetary policy and financial stability objectives that benefits Bank of the Philippine Islands (BPI PM) and Metropolitan Bank & Trust Company (MBT PM) (2) Approaching end of FED rate hike cycle RL Commercial REIT Inc (RCR PM), MREIT Inc. (MREIT PM), AREIT Inc. (AREIT PM) and PLDT Inc (TEL PM) (3) Earnings resilience Century Pacific Food Inc (CNPF PM), Universal Robina Corp (URC PM) and Jollibee Foods Corp. (JFC PM).

Country Outlook

Singapore

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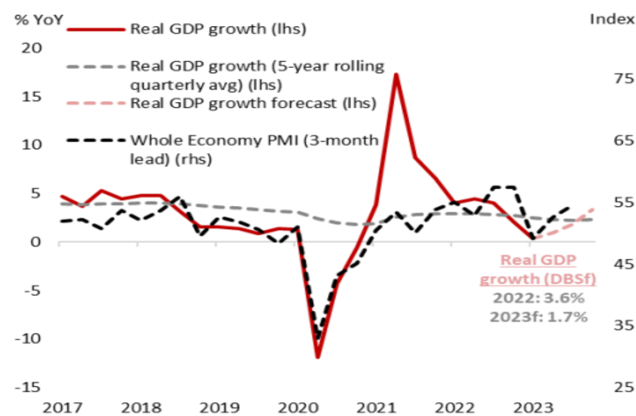
- **Outlook: Neutral (prev. Positive)**
- **STI Index year-end target: 3,450**
- **Themes: Ongoing renewable energy transition and firm oil price, rate pause beneficiaries and potential**

The benchmark Straits Times Index (STI) held up well YTD relative to regional markets under our coverage. Themes identified at the start of this year have panned out but not without their nuances – the FED had yet to pause its rate hike cycle, and recovery from China's reopening has thus far been uneven. Optimism for a meaningful turnaround in manufacturing and trade-related sectors this year has been pushed back to 2H23 amid global headwinds. Tailwinds that supported the Singapore equity markets in 2022 – such as rising NIMs for banks and reopening boost are starting to normalise too.

We turn Neutral (prev. Positive) on Singapore with a lower 1.7% GDP growth expectation amid uncertainty over the manufacturing sector's recovery prospect and normalizing services sector recovery. Despite this, we do not see much downside from here for the STI as Singapore is a safe haven in a global slowdown environment and valuation is attractive. Our YE target of 3,450 for the STI point to a better second half for equities, considering the benchmark's flat 1H performance.

Singapore GDP outlook

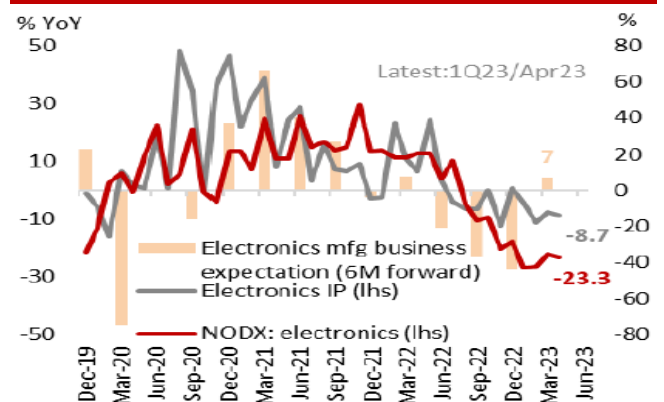


Source: DBS Bank, CEIC, Nikkei, Markit, S&P Global

Services to offset underperformance in the manufacturing sector

Singapore's 2023 GDP growth forecast was lowered to +1.7% (prev. +2.2%) vs. +3.6% in 2022 amid global external headwinds. Slowdown in advanced economies and the bumpy China recovery have weighed on the manufacturing and trade-related sectors in Singapore. Despite the ongoing inventory destocking in the global semiconductor market, green shoots were starting to appear on optimism for an AI-fuelled recovery and forward electronics manufacturing expectation that is turning positive here in Singapore.

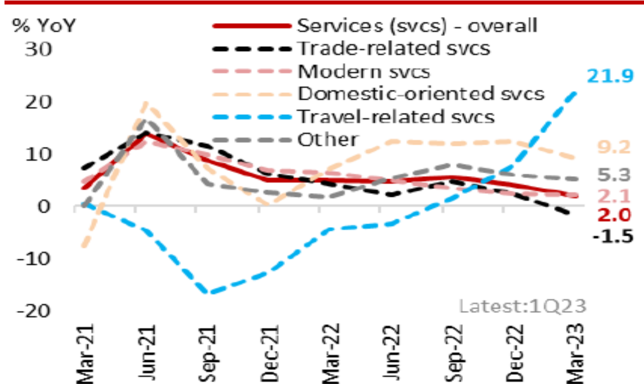
Singapore key electronics indicators



Source: DBS Bank, CEIC

One silver lining is the resilience of the services sector, despite a slight moderation on trade-related weakness. Travel-related services remain the bright spot. Tourist arrivals have recovered steadily YTD, and this trend should continue with the influx of Chinese tourists as flight connectivity is progressively restored in 2H23. This should have positive spill overs to other domestic-oriented service segments such as retail, F&B, and info-comms.

Services growth (y-o-y, %)

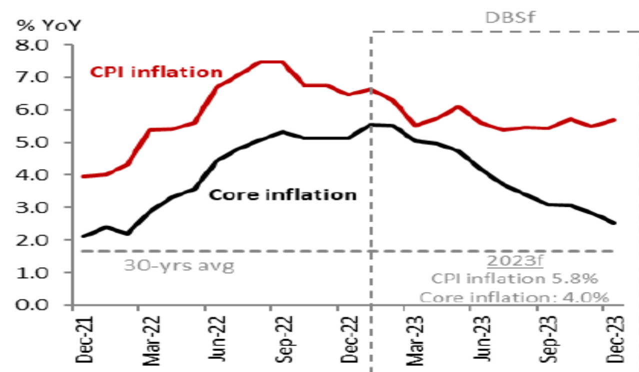


Source: DBS Bank, CEIC
Note: Adapted from MAS Macroeconomic Review April 2023

Inflation remains elevated

Inflation is expected to remain elevated this year despite a favourable base effect. DBS economists expect headline and core inflation to average 5.8% and 4% in 2023 on the back of a 1% GST hike (with another 1% to come in 2024), domestic labour cost pressures, and firm accommodation costs. Our forecast sits around the mid-point of MAS's forecast of 5.5-6.5% (headline) and 3.5-4.5% (core). Even so, the monetary policy will likely be unchanged with MAS' expectation for core inflation to ease to 2.5% by year-end.

Singapore inflation



Source: DBS Bank, CEIC

A better second half despite a lower STI target

We lower the Straits Times Index (STI) YE target to 3,450 (prev. 3,600) pegged to an 11.5X (-1.5SD) FY24F PE. This reflects the lower 1.7% GDP growth expectation and lingering technical recession concern amid global growth uncertainty. Still, we foresee a better second half for the equity market relative to the first, given the index's double-digit earnings growth this year. Concern about a technical recession looks to be priced in at current level. Our YE target suggests an 8.5% upside in 2H versus the flat performance YTD.

FY23F earnings growth for the benchmark Straits Times Index remains at a double digit 13% y-o-y as the services sector's resilience offsets uncertainty from the manufacturing sector slowdown. Index heavyweight banks benefit from higher-for-longer rates while earnings are recovering well for reopening beneficiaries. As a result, the STI is flat YTD and has gyrated within a relatively attractive valuation band from 10.8X (-2SD) to 11.5X (-1.5SD) 12-mth fwd PE as investors sentiment remained cautious. The STI currently trades near the lower end of this band, which prices in a technical recession even though there's none yet.

While 3Q is a seasonally volatile period for the stock market, we see room for a modest rerating in 4Q with the upcoming rate hike pause, possible manufacturing sector recovery, and possibility of the Singapore economy avoiding a technical recession.

Straits Times Index (Daily)

Source: DBS Bank, CEIC

Riding on elevated oil prices and energy transition

We see firm oil prices and ongoing transition towards renewable energy as tailwinds for O&G-/renewable-related plays in Singapore. Recent plans by global oil majors (e.g., Shell, BP, Total) to maintain their oil output while grow their renewable energy businesses bodes well for both conventional and renewable energy segments. YTD, renewable contract wins also point to the growing traction towards clean energy transition here in Singapore. **Keppel Corp (KEP SP)** triple-A MSCI ESG rating validates its sustainable urbanisation strategy, which is on track to meet its 2030 target. **Seatrium (STM SP)** sees an earnings turnaround in FY24F on the back of record-high order backlog and merger synergies. Higher-value greener vessels (c.40% of orderbook) should support **Yangzijiang (YZJSGD SP)** revenue and earnings visibility.

Opportunities amongst rate pause beneficiaries

We continue to seek opportunities amongst rate sensitive stocks as rates stay higher for longer. Favourable sectoral backdrop (i.e., resilient tourism-related sector, electronics recovery) and FED pause could pave the way for a strong 2H. Stocks with low interest rate/refinancing risk and above-teens FY24F EPS growth (vs. the STI's 4.2%) are further positives in today's climate. **Far East Hospitality (FEHT SP)** benefits as a proxy to the recovering Singapore's visitor arrivals with low/no near-term refinancing risks. Sustained recovery in the commercial aerospace segment and TransCore contribution record SG$25.4bn orderbook and cost of debt at low 3% in FY23F are positive factors going for Singapore-aviation top pick **ST Engineering (STE SP)**. Lastly, we see **UMS Holdings (UMSH SP)** as a beneficiary of an AI-fuelled recovery as well as the trend towards trade diversification.

Beneficiaries of El Niño

We keep an eye out for potential beneficiaries as El Niño unfolds in this and the coming year. CPO-related stocks should benefit from CPO supplies that are likely to remain tight, and an anticipated recovery in CPO prices on a favourable backdrop. Upstream **First Resources (FR SP)** and **Bumitama (BAL SP)** should see a stronger earnings growth momentum on improving palm oil production volumes and higher CPO yields on maturing trees. We expect **Wilmar (WIL SP)** to remain resilient in the face of rising soft commodity prices given its integrated business model. Beverage and electricity consumption should also pick up as temperature rises. This bodes well for **ThaiBev (THBEV SP)** and its portfolio of alcoholic and non-alcoholic drinks segments, coinciding with the return of tourism to drive growth. Finally, **Sembcorp Industries (SCI SP)** should benefit on sustained electricity prices/demand amid tight power market in Singapore, coupled with its "brown-to-green" transformation strategy.

Top Picks	Rationale
Riding on elevated oil prices and energy transition	
Keppel Corp (KEP SP)	A global asset manager with developer and operator capabilities in real estate and green industrial space (Energy & Environment and Infrastructure). Core earnings growth of 12% CAGR in the next two years will be driven largely by AUM growth of Asset Management from S$50bn as of end-2022 towards S$80bn, and eventually to S$200bn by 2030. This should underpin improvements to earnings visibility (c.60% recurring income contribution to group profit) and ROE (from 9% in 2022 to its 15% target).
Seatrium (STM SP)	Operational improvements post-yard merger should translate to positive profits by FY24F. The current orderbook of S$20bn (c.3x revenue coverage, and 39% in renewable and cleaner energy solutions) paints a bright outlook for order wins in both the conventional energy and renewables segments. The balance sheet has also strengthened considerably, with net gearing improved to 0.18x as of Mar 23. These factors should drive valuations towards peers' average of 1.5x P/BV (STM currently trades at 1.1x).
Yangzijiang Shipbuilding (YZJSGD SP)	Yangzijiang's yards are full through 2025 with an orderbook of >US$10bn. This is expected to propel an earnings CAGR of 20% in the next three years, driven by both revenue growth and margin expansion, as 80% of its orderbook is made up of containership orders that command higher value and margins. We expect a further upliftment in its orderbook, boosted by potential orders for large LNG carriers. Around ~40% of Yangzijiang's orderbook is now made up of cleaner vessels (e.g., dual-fuel containerships and gas carriers).
Opportunities amongst rate pause beneficiaries	
Far East Hospitality (FEHT SP)	Pure-play Singapore hospitality REIT that benefits most directly from the continued recovery in Singapore tourist arrivals. Eight out of FEHT's nine hotel assets met the variable rent threshold in 1Q23, with good traction in both group bookings and corporate bookings. Gearing is the lowest among hospitality REITs, at 32.0%, with low cost of debt at 3.2%, and little to no risk of equity fundraising this year.
ST Engineering (STE SP)	Sustained recovery in its commercial aerospace division and TransCore contribution should underpin DBS' forecast for a double-digit CAGR earnings growth in FY22-24F. This was augmented by the substantial new contract wins of S$4.9bn, bringing orderbook to a new record high at S$25.4bn with an implied book-to-bill ratio of 2.8x. Management's re-iteration of its cost of borrowing guidance at the low 3% for FY23F is a further positive in today's higher-for-longer climate. STE remains as DBS aviation analysts' top pick in the sector.

Top Picks	Rationale
UMS Holdings (UMSH SP)	DBS analysts remain hopeful of a stronger 2H23 vs. 1H23, and a recovery in 2024, following a slower order momentum and weaker 2Q23. Key customer Applied Materials above consensus guidance as well as it being noted as a potential AI-beneficiary (on higher demand for equipment that produce advance chips) are positive factors going for UMS. It is also a beneficiary of its new customer diversification strategy and trade diversification through its new Penang plant.
Beneficiaries of El Niño	
Sembcorp Industries (SCI SP)	SCI remains a beneficiary of sustained higher power prices amid a tight power market in Singapore – tariffs have increased c.10% in 5M23 relative to 2022's average. Its "brown-to-green" transformation strategy remains on track, having (i) quadrupled its renewable portfolio in 1.5 years to reach its target of c.10GW, and (ii) grown its sustainable solutions portfolio at a ~24% CAGR over the past two years.
Wilmar International (WIL SP)	Wilmar has a strong integrated platform to underpin a steady earnings performance amid external volatility, which has consistently churned net profits of above US$1.5bn per annum in the past five years. DBS analysts sees Wilmar less exposed to raw material price volatility, and with minimal downside risk to earnings. The positive impact from China's reopening should also bode well for Wilmar and its food products division.
Thai Beverage (THBEV SP)	DBS analysts expect top-line revenue growth of 7.8% and 5.4% y-o-y in FY23F and FY24F, respectively, on (i) the resilience of its Thai spirits/beer operations, (ii) consumption boost pre-/post-election, and (iii) returning tourists. Profitability should also improve on easing raw material cost pressure and rein over advertising & promotion spending. Gearing remains relatively stable, with net debt to equity at 0.7x as of Mar-23. Valuation is attractive at around ~13x FY23F PE, which is at -1SD from its mean.
First Resources (FR SP)	Higher palm oil production volumes and selling price trend will help First Resources achieve better earnings trend in 2Q23 onward. Higher CPO yields on maturing trees would also improve its ROE and profitability metrics on the back of an expanded operating scale, which could lead to stronger earnings growth momentum. FY24F EPS growth of 8.5% is the highest amongst Singapore-listed plantation peers.
Bumitama Agri (BAL SP)	Bumitama could achieve stronger earnings 2Q23 and onwards on normalising fertilizer cost and stronger production volume trend. Earnings should also be underpinned by its CPO productivity outlook, efficient operations, and decent nucleus estate's CPO yields. Valuations remain attractive given its good asset quality – its estates are in prime-age cycle with an average age of only 13 years.

Source: DBS Bank

Singapore thematic stock picks

Company	Price 26 Jun 2023	12-mth Target price	12-mth Target return	Mkt cap (S$m)	Rcmd	EPS growth 23 (%)	EPS growth 24 (%)	PE ratio 23 (x)	Div yield 23 (%)	Net debt /equity 23	P/BV 23 (x)
Riding on elevated oil prices and energy transition											
Keppel Corp	6.670	8.30	24%	11,754	BUY	11.4	14.0	13.2	4.2	0.7	1.08
Seatrium	0.127	0.18	42%	8,666	BUY	nm	nm	nm	-	0.1	1.09
YZJ Shipbuilding	1.350	1.70	26%	5,333	BUY	19.9	20.3	9.0	3.8	cash	1.44
Opportunities amongst rate pause beneficiaries											
Far East Hospitality	0.600	0.75	24%	1,195	BUY	-49.0	20.3	23.4	5.8	0.3	0.68
ST Engineering	3.580	4.20	17%	11,164	BUY	12.4	15.9	18.1	4.5	2.0	4.44
UMS Holdings	1.020	1.20	17%	684	BUY	-30.6	23.6	10.0	4.9	cash	1.82
Beneficiaries of El Niño											
Sembcorp Industries	5.400	6.50	20%	9,643	BUY	-11.9	1.6	12.4	1.5	1.1	2.10
Wilmar Intl	3.870	6.67	72%	24,159	BUY	-16.8	0.6	9.2	4.3	0.7	0.80
Thai Beverage	0.565	0.86	52%	14,195	BUY	-3.3	6.9	12.7	4.3	0.5	1.69
First Resources	1.410	2.50	77%	2,211	BUY	-37.3	8.5	8.1	3.8	cash	1.04
Bumitama Agri	0.560	1.00	79%	971	BUY	-35.9	-15.5	5.3	6.2	cash	6.17

Source: Bloomberg Finance L.P., DBS Bank. Quoted in local currency terms, unless otherwise stated.

Hong Kong

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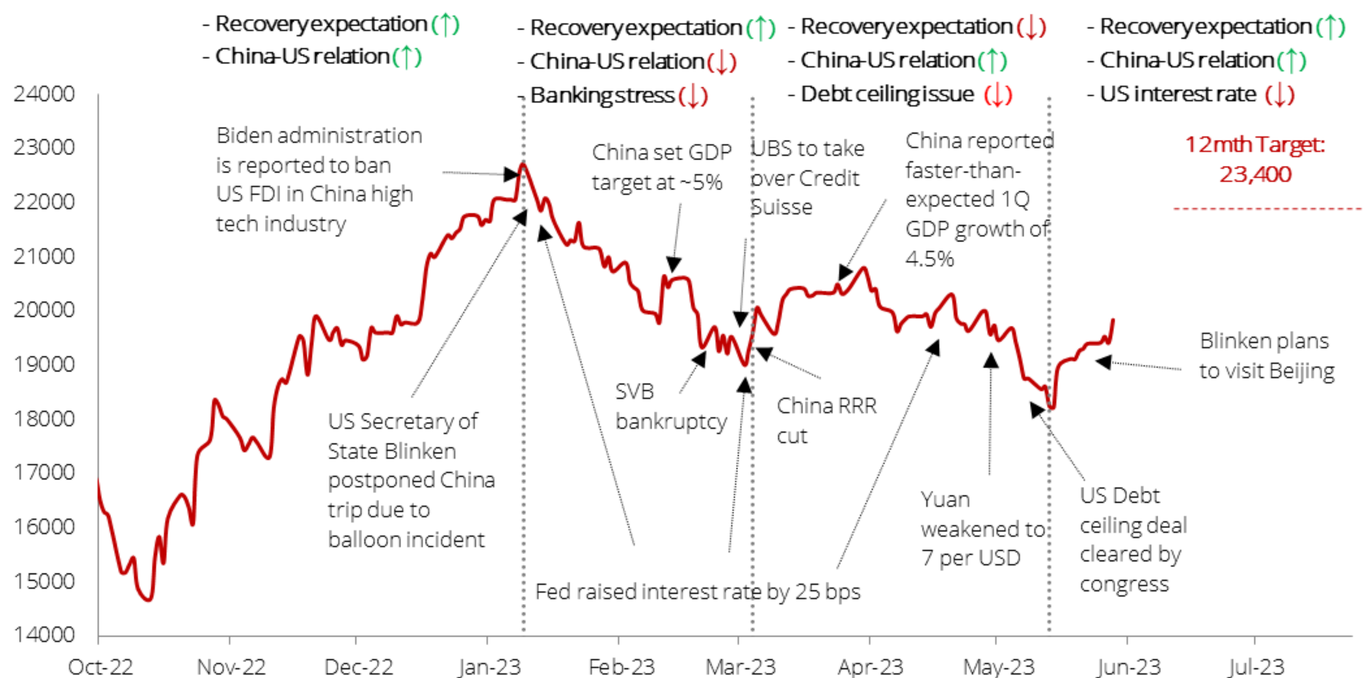
- **Outlook: Positive (prev. Positive)**
- **HSI Index year-end target: 22,000, 12-month target: 23,400**
- **Themes: Recovery momentum, policy beneficiaries, and SOE re-rating**

The exuberance of China's reopening was short-lived in the stock market. After briefly trading above 22,000, the Hang Seng Index (HSI) corrected as much as 19.7% in 1H23 from its 27 Jan peak. The CSI 300 also saw a 9.6% peak-to-trough decline, which stood in stark contrast to other EM peers like South Korea and India. The uneven recovery post COVID reopening fell short of heightened market expectations. Additionally, global uncertainties, such as sticky US inflation, global banking stress, and lingering geopolitical tensions, further contributed to the volatility.

A pulse-like recovery

HK stocks will continue to recover with volatilities along the way after the MTD rebound. Investors' scepticism over potential stimulus effectiveness will still be in play in the near term, until sustained policy efforts eventually alleviate worries over the growth prospects. On the international front, China-US relations are stabilising, which could partially restore foreign investors' risk appetite. However, the higher-for-longer US interest rate will remain a source of volatility. We cut our end-2023 HSI target to 22,000, as we factor in a softer EPS recovery and US interest rate outlook. It indicates a 16.5% upside potential.

Key events in 1H23

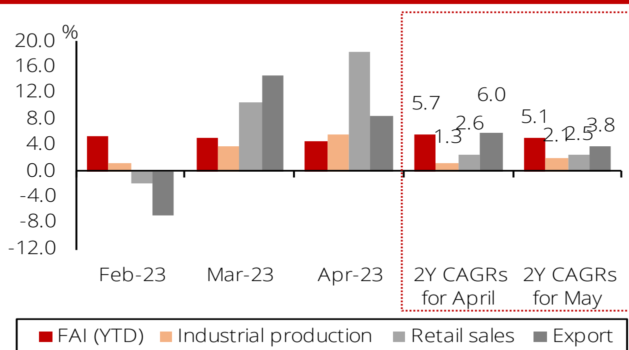


Source: DBS HK, Thomson Reuters

New stimulus

The introduction of new stimulus is encouraging, as it will help put a stop to the downward spiral of business and consumer confidence. Apart from safeguarding the ~5% GDP growth and financial stability, we anticipate that the focus of potential measures will be on supporting consumer demand and providing support to strategically important industries such as new energy vehicles (NEVs), semiconductor, and high-end manufacturing, rather than over stimulating the property market. Large-scale fiscal support for infrastructure will be a positive surprise. Our economists maintain a growth projection of 5.5% for China's GDP.

Recovery momentum slowed



Source: DBS HK, CEIC

Assessing sector recovery in 1H

We think it's important to stick to companies with strong fundamentals and potential beneficiaries of policy support. We surveyed DBS sector analysts to gauge each sector's fundamental recovery speed in 1H23. **Internet, Macau casinos, and insurance** are sectors showing strong recovery that are beyond analysts' expectations, out of which the first two are expected to see faster recovery momentum in 2H23. **Aviation, Auto, apparel, F&B, and oil & gas** are among sectors expected to see a pick-up in their recovery pace in 2H23.

SOE revaluation

Stocks of state-owned enterprises in the China/HK markets have been on fire this year. Investors piled into SOE names, mainly for 1) defensiveness amid market volatility triggered by uneven economic recovery and global uncertainties, 2) attractive yield/better pay-out outlook amid income scarcity on the mainland, and 3) gaining exposure to China's long-term strategic goals like digital economy/tech independence/Belt and Road Initiative where SOEs shoulder a huge responsibility. We think the theme will stay in the market amid market volatilities.

Top Picks	Rationale
Fundamental recovery post-reopening	
Samsonite International (1910 HK)	Samsonite reported 57.4% y-o-y constant currency growth in 1Q23 in sales to US$2.9bn, along with sound performance across all major brands. Adjusted net income jumped US$279m to a record high of US$296m, far exceeding expectations amid stronger-than-expected adjusted EBITDA. Compared to the pre-pandemic levels of 2019, sales in 2022 dropped 10.4% on constant currencies while adjusted net income was up 37.1%. As a global leader in the luggage industry, Samsonite should see ample room to expand its market share and excel further.
Trip.com (9961 HK)	Trip.com is the largest online travel platform in China, with c.50% market share in 2021 in terms of GMV. The company benefits from (1) rising travel spending in China, (2) the structural shift in travellers' preference towards independent travel, and (3) overseas expansion.
Alibaba Group (9988 HK)	Alibaba is the largest e-commerce player in China, operating Taobao and Tmall, with c.45% market share in terms of gross merchandise volume (GMV) in 2022. The company continues investing in e-commerce ecosystems like livestreaming shopping platform Taobao Live to enhance user engagement. We expect core commerce revenue to grow at 7% for FY3/24F and 11% for FY3/25, contributing c.87% of group revenue
Tencent (700 HK)	Tencent has 1.27bn monthly active users (MAUs) on WeChat, covering c.90% of China's population. This represents a strong long-term growth potential for ramping up monetisation on its video accounts and mini programmes, as well as other social segments, where a large user base is the key value proposition.

Top Picks	Rationale
Ping An Insurance (2318 HK)	Ping An started its life business reforms since 2H19, a year ahead of its peers. After three years of business transition, through: a) Agent reforms to refocus on high-quality, high-compensated agents; b) business outlet and community-grid channel reforms, to refocus on growth and deeper rooted service; c) product reforms, to introduce a model for providing a home-based eldercare service as the next "insurance+health+medical" value proposition; and d) continuous technology enablement, we believe Ping An will lead its peers in this round of the growth recovery cycle.
Further stimulus policy beneficiaries	
Longfor Properties (960 HK)	Known for its prudent financial control, Longfor is the only POE developer that has secured an investment-grade rating from all three foreign rating agencies amid the sector turbulence. Longfor has also an established a rapidly growing stream of recurring income from its shopping mall, rental housing, and property service businesses, adding resilience to its earnings profile (c.27% of total profit in FY22A). Longfor has consistently generated above-peer core ROE in the past few years.
Hua Hong Semiconductor (1347 HK)	Mature node applications continue to grow in the automotive industry, like auto MCUs. We expect automotive/industrial revenue to grow 24.2% in FY23F, supported by strong EV penetration in China, with an increase in the revenue share from 22.5% in FY22 to 37.1% in FY25F.
Li Auto (2015 HK)	Li Auto is the first to commercialise extended range electric vehicle (EREV) sales in China. Since its launch, the company has shipped a total of about 335k units in less than four years. The company currently has three EREV models in the market, and by 2025, its portfolio will expand to five BEV, five EREV, and one flagship model. In China, the electric hybrid vehicle market is growing at a rapid rate and Li Auto's product is well positioned in this segment.
ANTA Sports (2020 HK)	Anta Sports (Anta) is the leading sportswear brand in China, with great ambitions to become a global player. Anta has been successful in adopting a multi-brand strategy through Anta, Fila, Descente, and Kolon Sports. In addition, the company operates a joint venture through Amer Sports, with a global brand portfolio including Artercy'x, Salomon, and Wilson. All in, we expect Anta Group to deliver a FY22-24F revenue and earnings CAGR of 16% and 21%, respectively.
SOEs offering stable return	
China Mobile (941 HK)	Largest mobile operator in China, with a market share of c.58% by mobile subscribers. China Mobile also has the largest 5G subscriber base with more than a 50% share among operators. The company has massive network infrastructure that covers almost all parts of China. In addition, it also has better cost efficiency to deploy its 5G network by co-sharing CBN's 700Mhz spectrum for 5G buildout.

Source: DBS HK

Hong Kong thematic stock picks

Company	Price 26 Jun 2023	12-mth Target price	12-mth Target return	Mkt cap (S$m)	Rcmd	EPS growth 23 (%)	EPS growth 24 (%)	PE ratio 23 (x)	Div yield 23 (%)	Net debt /equity 23	P/BV 23 (x)
Fundamental recovery post-reopening											
Samsonite Intl	21.800	34.23	57%	4,018	BUY	34.2	14.6	9.5	-	0.5	2.80
Trip.com	267.800	437.00	63%	22,100	BUY	389.3	25.9	23.2	-	cash	1.30
Alibaba Group	83.250	162.00	95%	27,441	BUY	18.0	25.9	19.2	-	cash	1.28
Tencent	332.800	498.00	50%	406,920	BUY	-6.9	14.8	16.6	0.5	8.4	2.61
Ping An Insurance	48.600	72.00	48%	118,890	BUY	4.6	11.4	17.6	5.7	180.0	0.79
Further stimulus policy beneficiaries											
Longfor Properties	17.880	29.51	65%	14,445	BUY	-9.3	3.0	4.5	6.7	105.6	0.57
Hua Hong Semi	24.700	53.50	117%	4,116	BUY	-22.9	7.7	11.9	-	cash	0.86
Li Auto	132.200	156.00	18%	16,502	BUY	n.a.	265.4	168.1	-	cash	4.59
ANTA Sports	79.900	130.00	63%	28,832	BUY	25.2	16.7	20.8	2.3	cash	4.39
SOE offering stable return											
China Mobile	63.250	92.00	45%	177,305	BUY	8.8	9.9	8.7	8.3	cash	0.85

Source: Thomson Reuters, DBS HK. Quoted in local currency terms, unless otherwise stated.

DBS
Live more, Bank less

Indonesia

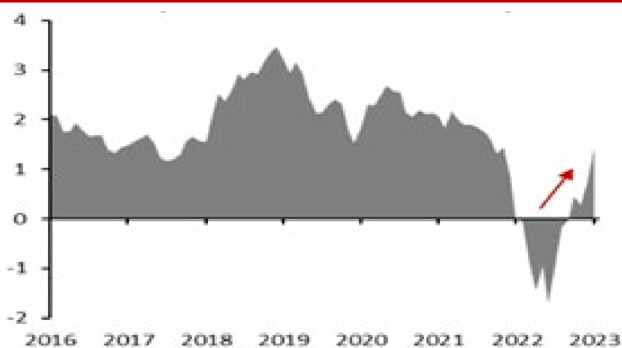
Analyst: Maynard Arif +65 6878 8888; maynardpriajaya@dbs.com

- **Outlook: Positive (prev. Neutral)**
- **JCI index end 2023 objective 7,500**
- **Themes: Domestic economy, election spending, El Niño**

External pressures to recede in 2H

We expect a more favourable environment in 2H23 for Indonesia's market, as DBS's macro team sees two more hikes by the Fed for the rest of the year and, therefore, the Fed rate and US$ will peak in 2H23. On the domestic front, inflationary pressures have subsided, and it opens the possibility for Bank Indonesia (BI) to cut rates (our economist expects a total of a 75bps rate cut by BI between September to the year end). Dovish policies and stable currency generally will be positive for Indonesia's equity market as well as to support foreign inflow that has been positive since the start of the year.

Indonesia real rates

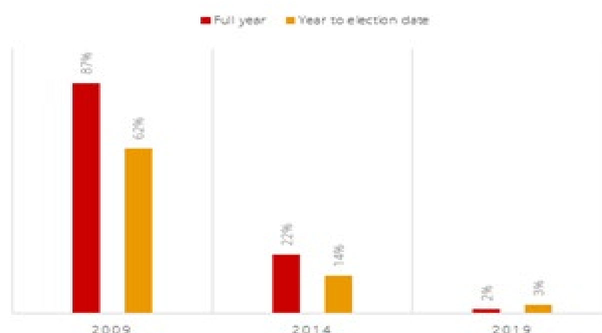


Source: DBS Bank, Bloomberg Finance L.P., CEIC

Election spending effect

JCI recorded positive gains during the past four election years. We expect pre-election spending to help the domestic economy and market sentiment, especially in 4Q23. On top of the presidential election, the spending boost will come from the house of representative candidates competing for seats. Post-election, the excitement about a new president typically leads to a good market rally and fund inflows.

JCI performance during election years



Source: DBS Bank, Bloomberg Finance L.P.

DBS's economist estimates GDP growth of 5% in 2023, a tad slower than in 2022. For the domestic economy, we believe election spending will help the domestic economy in 2H, especially on the consumption side, although investments are be subdued during an election year. The 2024 presidential election will be held on 14 Feb 2024 and the election campaign will start in 4Q23 with three potential candidates currently. The consumption, advertising, and service sectors are among the potential beneficiaries from election spending.

Macro forecast

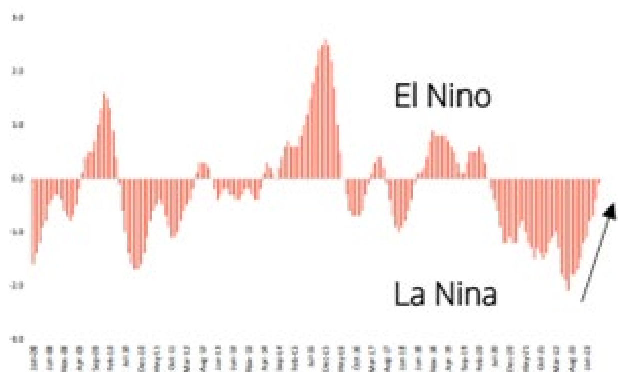
	2020	2021	2022	2023f	2024f
GDP growth, % YoY	-2.1	3.7	5.3	**5.0**	**5.0**
CPI inflation, % YoY	2.0	1.6	4.2	**3.7**	**3.2**
Policy rate (eop)	3.75	3.50	5.50	**5.00**	**4.75**
Fiscal balance (%GDP)	-6.1	-4.7	-2.4	**-1.8**	**-2.0**
Current account (%GDP)	-0.5	0.3	1.0	**0.3**	**-0.5**
USD/IDR eop	14050	14263	15655	**15080**	**14600**
10Y yield eop	6.00	8.00	6.90	**6.65**	**6.45**

Source: DBS Bank, Bloomberg Finance L.P., CEIC

El Niño

Weather patterns are expected to change this year with the arrival of El Niño, which should bring more dry and warmer weather to Indonesia. While the most recent El Niño in 2018-19 was rather mild, the current El Niño is potentially as severe as it was in 2015-16, with extreme conditions. For Indonesia, the severe dry weather will have an impact on the commodity sector, particularly agri-related (CPO, rubber, coffee, etc.) due to potential supply constraints. The supply disruption could be positive for commodity prices, but it could also put some pressure on inflation. Warmer weather will drive demand for energy in the summer, but supply is less likely to be affected.

Emerging signs of El Niño



Source: DBS Bank, Bloomberg Finance L.P., CEIC

Looking back to 2014-2016, El Niño's impact on CPO prices was offset by other factors, such as oil and soybean prices, in 2015. On the macro front, there was negative sentiment in the market due Fed tightening (Fed raised rates in 2015) and the fuel price effect in late 2014. Hence, El Niño's effects were felt a bit late on soft commodity prices (CPO price started rally in 2H15 only), which were affected by other factors too.

JCI outlook: 7, 500 end of 2023 target

Our year-end 2023 JCI Index target is 7,500, pegged to 15.3x blended forward PE multiple or the c.10yr average. We believe JCI's current valuation, at c.1SD below its 10-year mean PE, is attractive. From a technical perspective, we believe the JCI is already near the near-term support level of around 6,500. Furthermore, we believe Indonesia's domestic-driven economy will be the key differentiating factor supporting the better valuation on the back of slower global growth in 2H23.

JCI PE band

Source: DBS Bank, Bloomberg Finance L.P.

Valuation

The Indonesia market currently trades at just over 13x FY23F forward PE multiple, which is the lowest in the last five years, except during the pandemic in 2020. Even if we look at the last 10 years, JCI's valuation only dropped below 1SD during the taper tantrums in 2013 and 2015. Therefore, we believe the valuation can re-rate once the market gains more clarity on when the Fed tightening cycle will peak.

Relative to its ASEAN peers, the valuation premium has also been narrowing recently, with the JCI index back to the 6,600 level vs. the beginning of the year. In fact, the Thai market is trading at a premium to the Indonesia market, while Asia (ex Japan) trades at a similar multiple too.

Key risks: More hawkish Fed, foreign flow, political uncertainty

Although the JCI's valuation is undemanding and the downside risk is limited from a technical perspective, we recognise the risk of a more hawkish Fed than we anticipated, with more sticky inflation and sticky labour market. If the Fed turns out to be much more hawkish, the sentiment on the Indonesia market may remain uncertain, and it will be challenging for the JCI Index to hit our year-end target.

Furthermore, Indonesia has seen good foreign flow in both equity (over US$1bn) and government bonds (US$4bn+) in 5M23. In addition, the rupiah has performed well to date (+3.8% vs. USD), providing a positive carry for foreign investors. As such, we believe the risk of an outflow for Indonesia is higher than other ASEAN markets should the flow return to US markets.

On the political front, Indonesia will host the presidential election in 2024, and thus far, the three potential candidates are as expected. Nonetheless, any surprise from the programme or an alternative candidate could also derail investor sentiment in 2H.

Theme 1: Domestic economy

We believe the domestic economy will be more resilient in 2H on the back of slower global growth. Banks, consumer, and telco are the sectors that we prefer in this theme, given their domestic focus. For the banks, we believe the big banks should have a growth outlook, driven by good liquidity and loan growth. Our pick is BCA, given its strong liquidity despite its premium valuation at 4x FY23F PBV.

Within the consumer sector, we recommend rotating to staple over retailers in 2H23, as retailers have seen their peak seasonal demand during Hari Raya. Our pick is Indofood CBP since its valuation has derated to just c.16x PE, well below its mean of 20+ PE multiple. For telco, we recommend Indosat and Sarana Menara, as we expect the telco sector to see stable competition and growth in fixed broadband.

Theme 2: Election

The election campaign will officially start in 4Q23 and, therefore, we foresee election spending helping the economy in 2H23, although the magnitude is still subjective. Media, printing, events, F&B, and transportation are some of the sectors that will benefit from the election spending.

Within our coverage, we believe consumer and telco are the proxies to the election spending, and our picks are Indofood CBP and Matahari Dep Store for consumer while for telco, the operators are the main beneficiaries from social media activity: Indosat and XL Axiata.

Theme 3: El Niño

Assuming the current El Niño is going to be as severe as in 2015-2016, we see potential for extremely hot weather in the summer and supply disruptions for the agri sector in Indonesia. In the agri sector, supply disruptions could be positive for prices of commodities like CPO and rubber, which have started to improve in the past month. Considering the sectors within our coverage, El Niño will make the biggest impact on the CPO sector and the play on the CPO price will be upstream player London Sumatera.

The warmer weather will have a positive impact on the beverage sector, but we do not have a pure play in beverage, although consumer companies under our coverage have some relatively small exposures: Indofood CBP and Mitra Adiperkasa. Alternatively, investors can look at Indofood Sukses Makmur since it has exposure to palm oil as well as consumer staple (Indofood CBP).

Top Picks	Rationale
Domestic economy	
Bank Central Asia (BBCA IJ)	BCA continues to shine vs. its peers in terms of liquidity and asset quality, which justify its premium valuation of 4.0x FY23F PBV. We believe the ample liquidity (LDR below 80%) will help BCA in growing its loan book in 2023 without much pressure on NIM, given the rate hike. Moreover, BCA is considered a defensive big-cap stock during difficult times because of its asset quality, although it will not be immune from outflow.
Indofood CBP (ICBP IJ)	For ICBP, we believe demand for instant noodles to be resilient amid surging inflation. Furthermore, margin pressure is to gradually ease, as the prices of commodities, such as wheat, have started to soften. In terms of valuation, ICBP is trading below its five-year historical mean PE and even trades at below 18x PE vs. its peak of 24x in 2019 before the pandemic.
Indosat Hutchinson (ISAT IJ)	Indosat has done well to date on good operational performance after the merger with Hutchinson. However, our telco analyst believes that mobile ARPU still has room to grow, as the sector should experience data growth and better industry competition going forward. Furthermore, Indosat's valuation can re-rate further if it can churn positive earnings.
Election spending	
Indofood CBP (ICBP IJ)	We believe election spending will be beneficial for consumer F&B like Indofood, with noodles as its key product, over retailers, given its exposure to the mass segment. We foresee more campaign activities in the rural areas, especially from the local parliament, which involves more candidates vs. the presidential election. In addition, demand for instant noodles will is to be resilient amid surging inflation.
Matahari Dep Store (LPPF IJ)	Among retailers under coverage, Matahari has more exposure to the middle-low segment and has a presence outside Java. We foresee more campaign activities in rural areas, especially from the local parliament, which involves more candidates vs. the presidential election. LPPF shares have corrected by over 10% since its dividend announcement, and the valuation is relatively undemanding, at a single-digit PE.
XL Axiata (EXCL IJ)	Campaign activities will involve social media more this time than the past election, which should also benefit telco operators. While our top pick is Indosat from this sector, EXCL will also benefit with its cheaper valuation. The risk for EXCL is more with the fixed broadband LINK, which they acquired recently.

Top Picks	Rationale
El Niño	
London Sumatera (LSIP IJ)	CPO price could rally on the El Niño climate conditions due to supply constraints, as production volume could be affected by the weather. We believe the recent improvement in the CPO price could have more legs if El Niño turns out to be as strong as it was in 2015-2016. LSIP is a pure play on CPO price movement and has no debt, so its earnings will be driven mainly by CPO prices and production volume.
Indofood Sukses (INDF IJ)	INDF is an alternative play on El Niño and domestic consumption, given that it is the holding company for LSIP and ICBP. In addition, the valuation of INDF is quite attractive, at less than 10x PE, with ICBP trading at a premium to its parent.
Mitra Adiperkasa (MAPI IJ)	MAPI has F&B outlets that could benefit from warmer weather via Starbucks, Boost, and restaurants/cafés in its portfolios. MAPI's F&B segment accounts for c.30% of revenue, although it is mainly from SBUX.

Indonesia thematic stock picks

Company	Price 26 Jun 2023	12-mth Target price	12-mth Target return	Mkt cap (US$m)	Rcmd	EPS growth 23 (%)	EPS growth 24 (%)	PE ratio 23 (x)	Div yield 23 (%)	Net debt /equity 23	P/BV 23 (x)
Domestic economy											
Bank Central Asia	9,075	10,050	11%	1,118,721	BUY	10.4	11.0	24.9	1.8	cash	4.4
Indofood CBP	11,325	12,900	14%	132,071	BUY	78.8	15.1	16.1	2.2	35.5	3.1
Indosat Hutchison	8,775	9,820	12%	70,750	BUY	-52.2	19.0	31.3	0.6	114.1	2.3
Election spending											
Matahari Dep Store	3,470	6,300	82%	8,205	BUY	6.8	8.5	5.6	14.7	cash	9.6
XL Axiata	1,980	2,520	27%	25,994	BUY	-17.1	12.5	22.9	1.8	129.4	1.0
El Niño											
London Sumatera	1,005	1,500	49%	6,857	BUY	109.0	-63.3	3.2	6.1	cash	0.6
Indofood Sukses	7,325	9,100	24%	64,317	BUY	51.7	8.6	6.7	4.8	25.5	1.1
Mitra Adiperkasa	1,690	2,150	27%	28,054	BUY	-0.9	11.7	13.4	-	cash	2.8

Source: DBS Bank, Bloomberg Finance L.P., Thomson Reuters. Quoted in local currency terms, unless otherwise stated.

Thailand

Analyst: Chanpen Sirithanarattanakul, chanpens@th.dbs.com

- **Outlook: Neutral (prev. Positive)**
- **SET Index end-2023 objective 1,650**
- **Themes: Tourism recovery, relocation of production from China, falling inflation, El Niño impact**

Political uncertainty kept investors at bay in 1H23

The Thai Stock Exchange of Thailand (SET) Index dropped 6.7% YTD (up to 15 Jun 2023), making it one of the worst performing markets in the region YTD. This was mainly due to political uncertainty. Despite the smooth and peaceful election on 14 May 2023 with record voter turnout of 75.5% and the Move Forward Party (MFP) winning big time, their road to cabinet is still not rosy with various stumbling blocks ahead. Foreign investors turned heavy net sellers of Bt102bn YTD (after last year's net buy of Bt197bn). Average daily turnover dropped sharply to Bt60bn vs. Bt96bn in 2022.

Only four sectors managed to stay afloat YTD. These include professional services (+58.4%), led by SISB; the electronics sector (+27.3%), in line with global tech sector; banks (+1.3%); and tourism (+0.7%).

Expect more clarity in 3Q23

We expect to gain more clarity on the political front in 3Q23. This should be positive for the market. We see two likely scenarios, either an MFP-led government or Pheu Thai Party-led government. With the new government in place, the country can then move forward.

1Q23 GDP rebounded to 2.7% y-o-y in 1Q23, on track to meet our GDP forecast at 3.4% for 2023 and 3.8% in 2024. Growth should still be supported by the tourism upswing and resilient private consumption. Exports face global external headwinds, but the pace of decline appears to be easing and should start to recover next year.

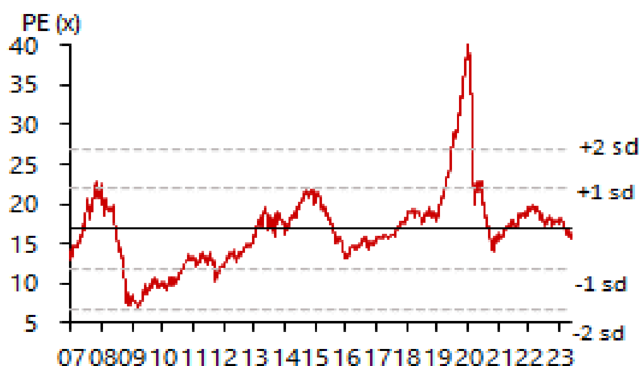
Our SET Index target and key themes

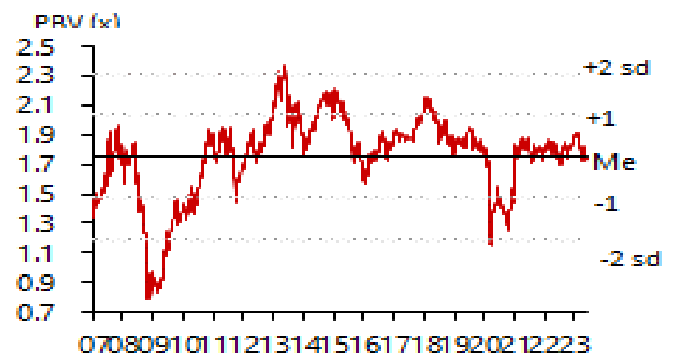
We maintain our 2023 year-end SET Index target at 1,650, pegged to a forward PE multiple of 16x, in line with its historical average. We expect corporate earnings to grow 9% in 2023 and 12% in 2024. 1Q23 corporate earnings grew 9% y-o-y and is on track to meet our forecast for the year.

Our four key themes for the market in 2H23 are:

1. Tourism recovery
2. Production relocation from China
3. Beneficiaries of falling inflation
4. Impact from El Niño

SET PE and P/BV bands





Source: DBSVTH, Setsmart

Tourism recovery – tourists from China to accelerate in 2H23

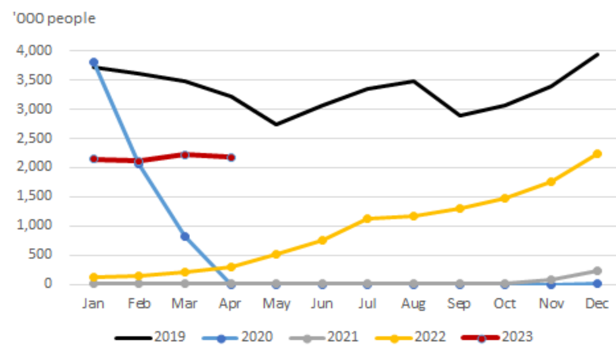
The number of tourist arrivals to Thailand totalled 8.7m people, representing 62% of total tourist arrivals in 4M19. This was led by tourists from Malaysia, China, the Russian Federation, and South Korea. The Bank of Thailand has recently raised its total tourist arrivals forecast to 29m in 2023 (73% of pre-COVID-19 level) and 35.5m in 2024 (89% of pre-COVID-19 level).

Tourist arrivals from China totalled only 0.8m in 4Q23, or just 10% of total tourist arrivals during the same period. These were much slower than what the market had earlier anticipated. We attributed this to various reasons, including (i) flight capacity constraints and (ii) a slow e-visa approval process. Looking forward, we expect more flight capacity from China in 2H23. According to Aeronautical Radio of Thailand (AEROTHAI), the number of flights between China and Thailand has continued to increase this year, jumping from 1,063 flights in Jan 2023 to 4,240 in Apr 2023. AEROTHAI anticipates more flights from China in the coming months, projecting over 7,000 fights in Jul, Aug, and Sep. Based on the acceleration of the number of flights from China, we expect tourist arrivals will likely hit 5m in 2023. The Department of Consular Affairs has promised to speed up visa approval for Chinese tourists to ensure that tourists from China will hit 5m this year.

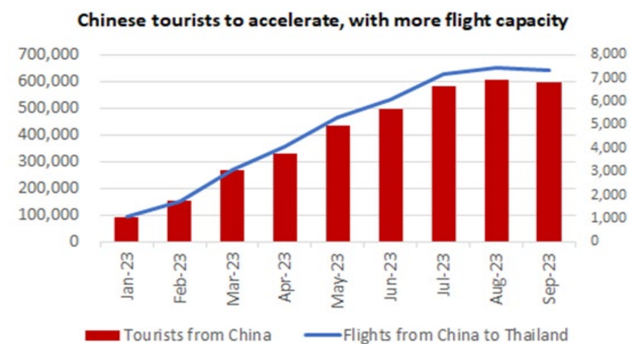
Our key pick based on this theme is Airports of Thailand (AOT), which should see a strong recovery in both aeronautical and non-aeronautical revenue this year and next. Other key beneficiaries include Bangkok Dusit Medical Services (BDMS) and Siam Wellness Group (SPA).

Tourism on a strong footing

Monthly tourist arrivals to Thailand



Chinese tourists to accelerate



Source: DBSVTH, TAT, Aeronautical Radio of Thailand

Production relocation from China

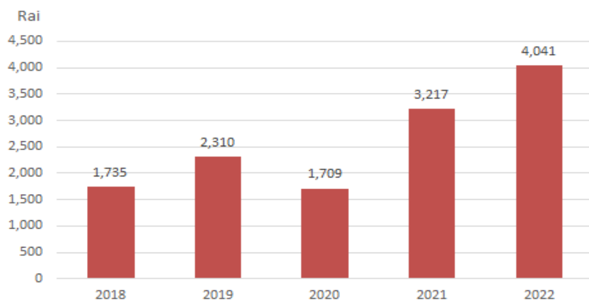
We expect to see the acceleration of the relocation of manufacturing facilities from China to Southeast Asian countries including Thailand, as companies are trying to diversify their supply chains. This follows the US-China trade tensions as well as China's strict COVID-19 policy, which encouraged companies to diversify their business risks.

According to Thailand's Board of Investment, applications for investment promotion by Thai and foreign investors jumped 39% in 2022 and 77% in 1Q23. The majority of the increase in investment was concentrated in the Eastern Economic Corridor (EEC), with notable contributions from global leaders such as BYD Auto, Foxconn, Chang An Automobile, and Amazon Web Services. Chinese investors were among the most active on the FDI list of investors.

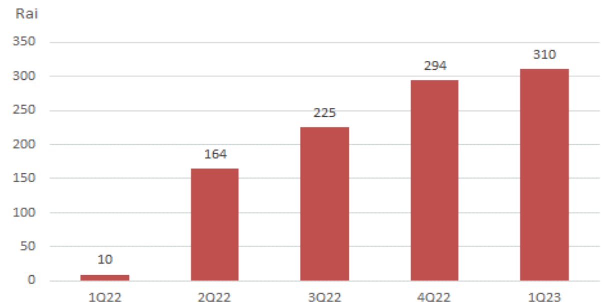
We see this as positive to industrial estate developers that should be among the first prime beneficiaries of such a trend. Thailand's industrial land sales jumped strongly to its five-year high of 4,041 rai (1 rai = 0.4 acre) in 2022, according to Knight Frank Thailand. The outlook remains positive, with strong demand still in the automotive, electronics, data centre, and consumer-related sectors. Our preferred pick on this front is Amata Corporation (AMATA), which saw land sales jump strongly from 10 rai in 1Q22 to 310 rai in 2023. Management is very upbeat on the outlook for the rest of the year, with demand coming mainly from Chinese investors.

Recovering FDI to benefit industrial estate developers

zIndustrial land sales hit 5-year high



AMATA industrial land sales on the rise



Source: DBSVTH, Knight Frank Thailand, AMATA

Falling inflation

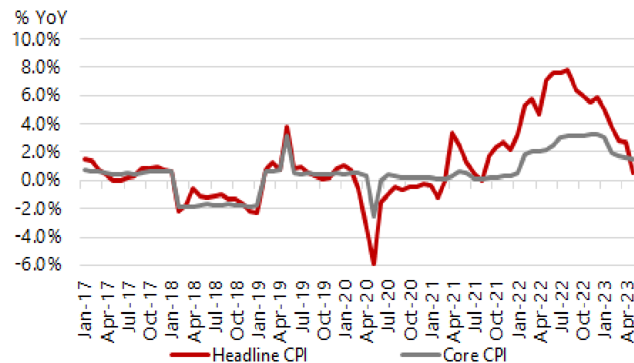
Thailand's headline inflation plunged to 0.53% in May 2023, the lowest growth in 21 months since August 2021. This compares with 2.67% in April 2023. The key reasons for such a sharp drop in headline inflation in May are the falling energy prices, the reduction of power bills due to the government's subsidy package, as well as the continued fall in food prices. Core inflation rose 1.55% y-o-y. For the first five months of the year, headline inflation grew 2.96%, while core inflation increased 1.98%.

Inflation should continue to fall amidst the continued drop in global oil and commodity prices. Our economist has lowered our inflation forecast for 2023 to 1.7% from 2.5% previously.

We believe sectors that should benefit from the falling inflation include names from the consumer (BJC, CPALL, CRC), building material (SCC), and property sectors (CPN)..

Headline and core inflation falling

Headline inflation hit 21-month low



...as energy costs dropped sharply

	% of Total	May-23 m-o-m	May-23 y-o-y	5M23 y-o-y
Headline inflation	**100.00**	**-0.71**	**0.53**	**2.96**
Food & non-alcoholic bev.	**41.97**	**0.51**	**3.99**	**5.42**
Rice, flour and cereal products	3.74	-0.69	3.56	4.6
Meats, poultry and fish	9.46	-0.88	-0.88	2.64
Eggs and diary products	2.20	0.97	5.13	6.99
Vegetable & fruits	5.91	5.20	15.76	13.93
Vegetable	2.95	11.07	23.48	15.67
Fruits	2.37	0.25	6.48	8.98
Seasoning and condiments	2.37	-0.01	-1.21	1.44
Non-alcoholic beverages	2.23	0.06	4.22	4.51
Prepared food at home	9.10	0.08	4.03	5.35
Prepared food out of home	6.96	0.01	3.57	4.72
Non-food and beverages	**58.03**	**-1.59**	**-1.83**	**1.27**
Apparel & footwear	2.09	0.26	0.47	0.30
Housing and furnishing	21.76	-2.87	-0.70	2.33
Medical and personal care	5.47	0.39	1.92	1.94
Transport & communication	23.14	-1.41	-4.58	0.19
Recreation and education	4.24	0.25	1.49	1.45
Tobacco & alcoholic beverages	1.34	0.02	0.69	0.83
Core inflation	**65.24**	**0.06**	**1.55**	**1.98**
Raw food and energy	**34.76**	**-2.15**	**-1.32**	**4.79**
Raw food	21.31	0.96	4.70	6.25
Energy	13.46	-6.70	-9.55	2.68

Source: DBSVTH, Ministry of Commerce

Impact from El Niño

Thailand witnessed a severe drought situation due to El Niño in the years 2015 and 2019, when the level of rainfall was low, temperature was high, and the water supply in the dams and reservoirs dropped sharply below the five-year average. This hit agricultural sector GDP by 6.5% and 1.0% in 2015 and 2019, respectively. From the chart below, we can see that farm income plunged by 8.5% y-o-y in 2015 due to a sharp drop in both agricultural production and prices amidst the El Niño impact.

The National Economic & Social Development Committee (NESDC), the country's think tank, has recently come out to warn that the country should be prepared for the potential negative impact from El Niño, which has already developed and could last until early 2024. The Thai Meteorological

Department has forecasted that the level of rainfall during May-July 2023 will be 5% below the normal level, while the temperature level will be higher than normal, averaging 25-34 degrees Celsius vs. the normal average of 28.6%.

We believe sectors that could be negatively affected include hydro power plants and utility companies (e.g., CKP, TTW), as the low water level could hit their production and revenue, and some agricultural products & food manufacturers (CPF, GFPT, TU), as production output could be negatively affected while raw material prices could jump. Meanwhile, potential beneficiaries include beverage names (e.g., OSP, TACC, SAPPE, ICHI), consumer staples (e.g., CPALL, BJC), and electrical appliance retailers (e.g., HMPRO), as rising heatwaves could help boost sales of beverages and such appliances.

Top Picks	Rationale
Tourism recovery	
Airports of Thailand (AOT TB)	We like AOT for its (i) deemed monopolistic status, (ii) expected earnings turnaround in 2023-24F, (iii) strong cash flow-generating capacity post-COVID-19, and (iv) solid balance sheet with a net cash position. We believe AOT is well positioned as a prime beneficiary of the rising international travel demand. The return of Chinese travellers should be a key catalyst for both AOT's performance and share price. We reiterate BUY with a DCF-based 2023F TP of Bt84.0.
Bangkok Dusit Medical Services (BDMS TB)	We are positive on BDMS, as we expect the company's earnings to remain strong in FY23F-FY25F with a CAGR of 9%, thanks to higher revenue intensity, higher volume, and a rise in pricing. BDMS benefits most from the demographic shift towards an ageing population, due to its well-diversified portfolio covering all segments and regions in Thailand. Valuation wise, BDMS is trading at an FY23F PE of 35.7x, lower than its five-year average of 40.9x.
Siam Wellness Group (SPA TB)	We like SPA for being the largest spa & wellness service provider in Thailand, having a strong brand presence, and benefitting from the mega wellness trend. We see SPA as a turnaround with its bottom line turning into the black from FY23F onwards. The company is a prime beneficiary of the country's reopening, and the return of Chinese tourists. On top of this, we expect the company to resume its steady earnings growth in the long term.
Production relocation from China	
Amata Corporation (AMATA TB)	We see AMATA as a prime beneficiary of production relocation from China, thanks to its strong presence in Thailand and Vietnam, both of which are strategic locations for FDI coming into the region. The company saw a strong surge in demand from Chinese investors last year, which should accelerate following the reopening of China's borders. Key target sectors include automotive, electronics, and logistics. We rate AMATA a BUY with a TP of Bt25, based on a 30% discount to RNAV.
Falling inflation	
Berli Jucker (BJC TB)	We like BJC for its solid earnings recovery outlook with a two-year CAGR of 21% (FY23-24F), thanks to positive SSSG and store expansion, coupled with the company set to benefit from the country's reopening. We see less pressure on cost, as we believe commodity prices have peaked out, and BJC is currently trading at a c.25x FY23F PE ratio (around -1.5SD of its five-year average) with a PEG slightly below 1x. There's also a potential catalyst from listing Big C as well.
CP All (CPALL TB)	CPALL remains one of our top picks in the commerce sector. We believe its performance will strongly recover, with a two-year CAGR of 24% and potential synergies between the group – especially in the convenience and wholesale segments – following the resumption of local activities and rebound in tourist arrivals, alongside a rebound of Lotus's business, including benefits from higher economic activity due to the Thailand general election. In the long term, besides growing SSSG, CPALL plans to improve its margins with a better product mix and earn higher service revenue. The company is still trading at -1SD of its historical average PE.
Central Pattana (CPN TB)	We like CPN for its strong capacity to generate cash flow from its portfolio of quality assets, which always enjoy a high occupancy rate. We expect CPN to deliver strong earnings growth, supported by reopening, lower rental discounts to tenants, a clear expansion path, and rising contribution from non-retail businesses – e.g., residential and hospitality. We set the stock's target price at Bt78, based on DCF.

Top Picks	Rationale
Central Retail Corporation (CRC TB)	We like CRC for its pole position as a leading multi-format, multi-category, and omnichannel retailer in Thailand. The company also has a well-diversified portfolio covering the food, fashion, hardline, property, and healthcare and wellness businesses. We believe the company is a beneficiary of the strong tourist rebound post-reopening and expect a robust two-year earnings CAGR (FY23F-24F) of 23%. Additionally, the company's solid SSSG recovery will continue across all business segments in 1Q23F, based on our channel check.
El Niño	
Home Product Center (HMPRO TB)	We like HMPRO for (i) its promising macro factors with the Consumer Confidence Index hitting a 39-month high, (ii) the expectation that it will deliver positive SSSG, (iii) being on track to achieve record-high earnings of Bt7.2bn (jumping 16% y-o-y) in FY23F, and (iv) trading at an attractive valuation or c.-2SD of its five-year historical PE average. We also expect HMPRO to benefit from El Niño through higher sales of electronic appliances such as fans, aircons, and cooling-related products.

Thailand thematic stock picks

Company	Price 26 Jun 2023	12-mth Target price	12-mth Target return	Mkt cap (S$m)	Rcmd	EPS growth 23 (%)	EPS growth 24 (%)	PE ratio 23 (x)	Div yield 23 (%)	Net debt /equity 23	P/BV 23 (x)
Tourism recovery											
Airports of Thailand	71.750	84.00	17%	29,129	BUY	nm	1.5	89.1	0.3	cash	9.08
Bangkok Dusit Med	28.500	34.00	19%	12,871	BUY	0.1	0.1	34.3	1.5	cash	4.84
Siam Wellness Grp	11.000	13.20	20%	267	BUY	nm	0.8	58.4	0.5	cash	13.80
Production relocation from China											
Amata Corp	22.300	29.00	30%	729	BUY	-0.2	0.3	14.2	2.1	0.5	1.25
Falling inflation											
Berli Jucker	34.750	45.00	29%	3,958	BUY	0.2	0.2	22.6	2.8	1.1	1.15
CP All	61.750	72.00	17%	15,764	BUY	0.4	0.1	30.9	1.6	0.9	4.96
Central Pattana	62.750	78.00	24%	7,973	BUY	0.2	0.1	22.2	1.8	0.9	2.90
Central Retail Corp	38.250	54.00	41%	6,556	BUY	0.2	0.3	27.1	1.5	0.9	3.40
El Niño											
Home Product Center	13.900	17.80	28%	5,195	BUY	0.2	0.1	25.4	3.2	0.3	7.12

Source: DBSVTH, Bloomberg Finance L.P., Thomson Reuters. Quoted in local currency terms, unless otherwise stated.

Philippines

Analyst: Regional Research Team grouresearch@dbs.com

- Outlook: Neutral
- PSE Index end-2023 objective 6,850; June 2024 objective 7,050
- Themes: RRR cut, receding pressure on bond yields, rising real purchasing power

Turning neutral on PH equities as we see these levels providing attractive entry points

For the next 6 months, we now prefer to accumulate Philippine equities on pullback. We introduce our index target range of 6,350 to 7,650 – with the base case at 7,050. The latter is predicated on a forward 12-month ERP of 400bps and US 10-year bond yield of 3.75%, implying a forward PE multiple of 12.9x on our forward EPS of P547.17. Meanwhile, for end-2023, we lift our base case index target to 6,850 (previously 6,700) – with our new target range revised to 6,150 to 7,400 (from 5,900 to 7,400).

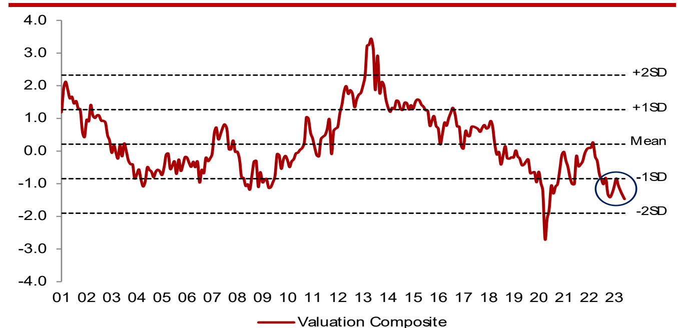
2023 index targets and assumptions

	Index Target (end-2023)	EPS Estimates (Δ)			Target ERP	US 10-Year Bond Yield	Implied F12 PE
		FY22	FY23F	FY24F			
Bull case	7,400		P530.65 *(+12.9%)*	P557.18 *(+5.0%)*	350 bps	4.00%	13.3x
Base case	**6,850**	**P470.12** *(+37.3%)*	**P505.38** *(+7.5%)*	**P530.65** *(+5.0%)*	**400 bps**	**3.75%**	**12.9x**
Bear case	6,150		P470.00 *(+0.0%)*	P493.50 *(+5.0%)*	450 bps	3.50%	12.5x
Consensus			P533.59 *(+13.5%)*	P598.88 *(+12.2%)*			

Source: Bloomberg Finance L.P., DBS Bnk

Our arguments are as follows: (i) First of all, we think valuations are becoming hard to ignore at these levels – Traditional valuation metrics have compressed to levels seen only during past crises, while the current Philippine ERP has now expanded to 410bps, at 35bps above the 10-year average of 375bps, as of Jun 2023, from Jan 2023's 289bps; (ii) Second, we argue that the market can accommodate some level of earnings disappointment – We expect negative operating and financial leverage to play out in the face of slowing/normalizing demand. Nevertheless, in our bear case, we see limited downside from the PSEi's current levels even as we factor nil corporate earnings growth this year and a below-trend recovery of 5.0% for next; and, (iii) Lastly, positive narratives are emerging - such as: the case for soft landing in the US easing growth risks globally, combination of slowing inflation and rising wages to increase real purchasing power, and the return of positive real interest rates indicating that central banks are nearing the end of their rate hike cycles. We see upward pressure on bond yields to recede and bring about valuation expansion and market rallies.

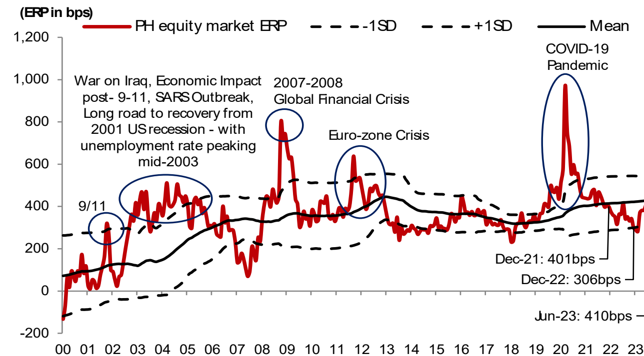
Painful valuation adjustments amid an extremely hawkish Fed



Source: DataStream, DBS Bank

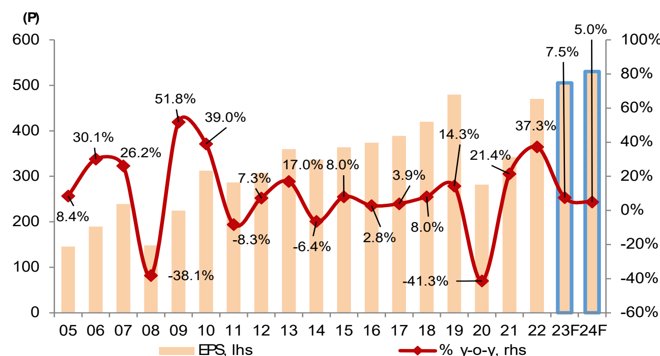
Note: Our proprietary valuation composite model is derived using the current F12 consensus estimates and simple average of the five z-scores of price-to-earnings (PE), price-to-book (PB), enterprise value to earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA), dividend yield (inverse), and the multiple premium/discounts to the emerging market benchmark index.

Philippine ERP is now reflecting risks to earnings and growth



Source: DataStream, DBS Bank

Our base case expects EPS growth of 7.5%/5.0% in FY23F/24F



Source: Bloomberg Finance L.P., DBS Bank

Positive interest rate environment indicates rate hikes are close to peak, if not already

Source: CEIC, DBS Bank

Having said these, **we think the Philippine equities market is at, or close to, a trough and the downside risk is now limited.** This view is reflected in our end-June 2024 index target range where, from the current level of 6,500, our forward 12-month expected returns are skewed to the upside, ranging between -2.7% (bear case: 6,350) and +17.3% (bull case: 7,650).

However, we expect the Philippine equities market to be vulnerable in 2H23

Despite the shift in our call, our narrative has not changed much since our last market outlook update. As we have flagged earlier, taking a bullish stance would be challenging in the face of a high interest environment and its impact on growth and valuations. As the first half transpired, among key questions we received revolved around the divergence between the Philippine equities market performance and what appears to be a solid macro + slowing inflation backdrop.

To reiterate, we think the answer lies in the following: (i) **The end of easy money and attractive bond yields** – limiting equity market flows; (ii) **Investors need more convincing that inflation is going to go down within target band** – with food supply constraints, impact of El Niño on food prices and electricity rates as well as potential adjustments to transportation fees and wages as among reasons that could raise the likelihood of inflation staging a comeback; and (iii) **Economic data looking solid and consensus earnings forecasts are robust, but not without risks** – both at the macro (impact of tight policy, return of inflation, deteriorating fiscal health, and weakening external trade dynamics) and corporate level (negative operating and financial leverage).

Hence, we would like to remind our readers that **patience is key to outperformance.** As highlighted, the Philippine equities market remains vulnerable amid prevailing risks and lackluster investor sentiment. Therefore, we advocate taking advantage of further market weaknesses as attractive entry points to increase exposure on Philippine equities.

Improving trade-off between monetary policy and financial stability objectives

Banks' earnings growth may have already peaked, given the: (i) Limited NIM upside – as the Fed/BSP nears the peak of their rate hike cycles and as pressures from funding costs continue; (ii) uncertain macroeconomic environment – could limit loan growth and non-interest income recovery; and (iii) potential for higher asset quality risks. However, the BSP's efforts to mitigate rising financial stability risks should still be good for the sector overall. Based on our exposure with the BSP in recent months, we sense their position is that a strong banking system should translate to a strong economy. With price pressures easing, the BSP continues to be watchful and stands ready to address systemic issues that could come about from the high interest rate environment. In line with its efforts shift to market-based instruments in managing liquidity in the financial system, the BSP announced that it will

cut RRR effective 30 June. We think that RRR cuts are an underappreciated catalyst that should extend another round of earnings growth for the sector, as it should ease funding cost pressures while providing tailwinds to loan growth.

Central banks' hawkish tilt is extended, but nearing the end of the rate hike cycle

Our DBS economists are still wary of calling a top in yields just yet, as they expect that at least one more hike in this cycle (up to two more hikes, 25bps each, if the labour market does not show appreciable signs of weakness). In addition, a soft landing will support the "higher for longer rates" scenario, as rate cut expectations are fading well into next year. Despite this development, we are of the view that policy rates (both for the US Fed and BSP) are close to the peak, as inflation has gone down and there are now positive real yields. Hence, we take comfort that, if any, we are unlikely to see the same magnitude of rate hikes seen in the past 12 months. As we near the end of the rate hike cycle, we see the upward pressure on bond yields receding, presenting opportunities to enter yield-sensitive counters, such as REITs and telco sectors.

Resilient demand with pricing power, margin windfall, and strong balance sheet as mitigating factors

There is support for earnings, coming from the combination of slowing inflation and rising wages lifting real purchasing power and reinforcing demand. Nevertheless, we would like to be selective on counters that have mitigating factors to limit the impact of negative operating and financial leverage. In particular, we prefer counters with: (i) Pricing power – catering to mid-to-high-income households whose spending is less sensitive to inflation dynamics; (ii) margin windfall drivers – as commodity prices correct alongside improving global supply chain conditions; (iii) strong balance sheet – in the face of elevated funding costs, we like stocks with strong free cash flow that can cover capex requirements and/or do not face significant refinancing risk in the next 12 to 24 months.

Top Picks	Rationale
Improving trade-off between monetary policy and financial stability objectives	
Bank of the Philippine Islands (BPI PM)	Our TP for BPI has factored in the strong showing in the bank's earnings from recent quarters, driven largely by the positive transmission of policy rates to NIMs, double-digit loan growth (led by credit cards), robust fee income, stable CIR, and lower provisions. As a result, we now expect the bank's ROE to reach 13.9% this year – close to the high of 14% in FY16. Our TP also implies 1.59x FY23F P/BV, at +2SD of historical valuations, pricing in the BPI-RBank merger – as a good acquisition with strong synergistic potential – and BPI's efforts to capture ex-Citibank credit card clients. The latter has so far shown good results for BPI's credit card loan book (+38% y-o-y) and overall market share in the segment, according to management.
Metropolitan Bank & Trust Company (MBT PM)	Despite the uncertain macroeconomic environment, MBT's 1Q23 earnings marginally beat our forecasts following higher loan growth, NIM expansion, healthy fee income, and improved asset quality. To account for this, we have slightly raised our FY23F/24F earnings by 6%/2%. We like MBT for its better-than-industry credit and capitalisation metrics. This gives us confidence that the bank is well equipped to weather any potential deterioration in asset quality over our forecast period. Ample NPL cover is a plus; less pressure to raise provisions should translate to earnings and higher ROE.
Central banks' hawkish tilt is extended, but it is nearing the end of the rate hike cycle	
RL Commercial REIT Inc (RCR PM)	Expect reliable returns from RCR. We expect RCR to generate flat to positive organic growth in rent per sqm this year vs. other REITs under our coverage. We attribute this to RCR's younger and more modern properties, which merit sustained or improved rates from existing and new tenants. As for inorganic growth, our discussion with management suggests there are plans to infuse assets this year, subject to the interest rate environment. Given this, we have not assumed any asset injection across our forecast periods; however, the odds of such transactions should increase in view of lower interest rates in the next 12 months. Our TP of P6.50 implies a dividend yield of 6.0%/6.2%, based on 23F/24F pay-out, and is attractive vis-à-vis our DBS economics team's forecast PH 10-year yield of 5.2% by end-2024F.

Top Picks	Rationale
AREIT, Inc. (AREIT PM)	AREIT is now the largest REIT in terms of market cap in the Philippines. Management has delivered on an aggressive asset injection plan, with AREIT's total leasable area now standing at 710,310sqm (higher by 4.65x since IPO) and valued at P64bn as of 1Q23. Bigger is better in the REIT universe and we think AREIT is now on a virtuous upcycle of growth and premium valuations. This year, AREIT is set to conduct its largest one-time asset infusion since IPO, with properties worth P22.5bn, which we have yet to factor into our forecasts. Our new TP of P36.70 implies a dividend yield of 5.7%/5.8%, based on 23F/24F pay-out, and is justified vis-à-vis our DBS economics team's forecast PH 10-year yield of 5.2% by end-2024F. AREIT historically trades at an average yield spread of -100bps vs. PH 10-year bond.
MREIT, Inc. (MREIT PM)	MREIT offers the best exposure to the resilient BPO market. This is anchored on: (i) its high-quality and sticky tenant profile and long-standing relationships with reputable multinational companies and leading BPOs and (ii) unparalleled long-term growth potential in the Philippine office REIT space, with Megaworld Corp. (MEG) having infused only 324,700sqm (or 23% of its 1.40m sqm of leasable commercial space) into MREIT. Despite the present weakness in the Philippine office market, we believe our estimates remain on the conservative side, as we have not accounted for any asset infusions in our forecast horizon. Our TP of P16.50 implies a dividend yield of 6.0%/6.2%, based on 23F/24F pay-out, and is attractive vis-à-vis our DBS economics team's forecast PH 10-year yield of 5.2% by end-2024F.
PLDT Inc (TEL PM)	We prefer to accumulate TEL at these levels. Trading at 5.3x FY23F EV/EBITDA, we argue that the current valuation is attractive and is pricing in a much worse scenario amid risks to TEL's earnings. From a fundamentals standpoint, we reiterate our view that TEL can mitigate the impact of rising competition (esp. from mobile) to its earnings. Furthermore, we argue that the market can now look past the capex overrun issue. On one hand, it has a limited impact on TEL's core telco business (mobile + fixed line). On the other, its balance sheet can absorb worst-case conditions relating to the overspending. Finally, it is trading at a dividend yield of 5.9%/6.0% for FY23F/24F, which is attractive and offers a cushion to investors. Our TP implies an FY23F/24F EV/EBITDA of 5.6x/5.5x – at a discount to the broader EM telco market.
Resilient demand with pricing power, margin windfall, and strong balance sheet as mitigating factors	
Century Pacific Food Inc (CNPF PM)	CNPF benefits from its diversified product portfolio that is well positioned to weather macroeconomic headwinds. In addition, we see the resumption of brand-building initiatives boosting demand as well as the easing supply chain pressures ushering margin expansion. We also highlight that prices of skipjack tuna (which accounts for c.15% of CNPF's raw materials) should come off its peak and revert close to multi-year lows. Historically, tuna prices have peaked every four to five years since 2006, and previous El Niño events had coincided with lower skipjack tuna prices. This may be a result of a better catch, as skipjack tuna tends to follow warmer waters, as studies have shown. Finally, robust operating cash flows and a strong balance sheet can further enable CNPF to pursue its expansion plans and value-accretive M&As.
Universal Robina Corp (URC PM)	The counter's better-than-expected EBIT margins across its segments gives us confidence that margins are moving in the right direction. Aside from the expected gross margin expansion from normalising raw material prices, improvements in distribution scale and cost rationalisation had also cushioned the impact of inflation on costs. URC's unlevered balance sheet should also enable the counter to be on the lookout for M&A opportunities and fund its capex. We keep watch of regulatory developments amid proposals for junk food and sweetened beverage tax as a key risk to our view.
Jollibee Foods Corp. (JFC PM)	JFC's operating metrics are trending in the right direction. Our constructive view on the counter is premised on mid-teen system-wide growth in sales – amid the reacceleration of store openings, upward price adjustments, post-COVID resurgence, and increased contribution of foreign businesses – and with margins continuing to improve despite rising OPEX and higher A&P spend. We see the latter to be driven by better store economics, higher gross margins, gains from the business transformation programme, and the turnaround of Smashburger and Coffee Bean & Tea Leaf (CBTL). Finally, we see strong FCF generation to offset the debt burden. In the medium term, we see that the sustained positive FCF generation will pave the way for JFC to reduce its debt burden or redeem preferred shares and/or senior perpetual securities.

Philippines thematic stock picks

Company	Price 26 Jun 2023	12-mth Target price	12-mth Target return	Mkt cap (S$m)	Rcmd	EPS growth 23 (%)	EPS growth 24 (%)	PE ratio 23 (x)	Div yield 23 (%)	Net debt /equity 23	P/BV 23 (x)
Improving trade-off between monetary policy and financial stability objectives											
Bank of Phil Island	107.90	123.00	17%	9,573	BUY	17.0	6.0	10.5	2.8	0.3	1.4
Metro Bank & Trust	55.00	69.00	31%	4,438	BUY	21.0	9.0	6.2	5.5	0.0	0.7
Central banks' hawkish tilt is extended, but at nearing the end of the rate hike cycle											
RL Commercial REIT	5.80	6.50	19%	1,132	BUY	0.4	0.4	14.1	6.7	0.0	1.1
MREIT Inc	14.76	16.50	18%	676	BUY	1.1	1.0	13.6	6.7	0.1	0.8
AREIT Inc	35.100	36.70	10%	1,101	BUY	2.3	2.4	15.2	5.9	0.0	1.0
PLDT Inc	1305.00	1470.00	19%	5,058	BUY	nm	3.0	12.0	5.9	2.0	2.4
Resilient demand with pricing power, margin windfall, and strong balance sheet as mitigating factors											
Century Pac Food	24.50	29.00	20%	1,557	BUY	6.5	16.3	16.3	1.6	0.1	3.2
Universal Robina	138.00	160.00	19%	5,394	BUY	-0.3	10.4	21.6	3.0	cash	2.5
Jollibee Food	219.00	275.00	27%	4,503	BUY	38.9	19.8	28.4	1.3	0.2	3.2

Source: DBS Bank, Bloomberg Finance L.P., Thomson Reuters. Quoted in local currency terms, unless otherwise stated.

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

Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank, DBS HK, DBSVI, DBSVTH unless otherwise specified.

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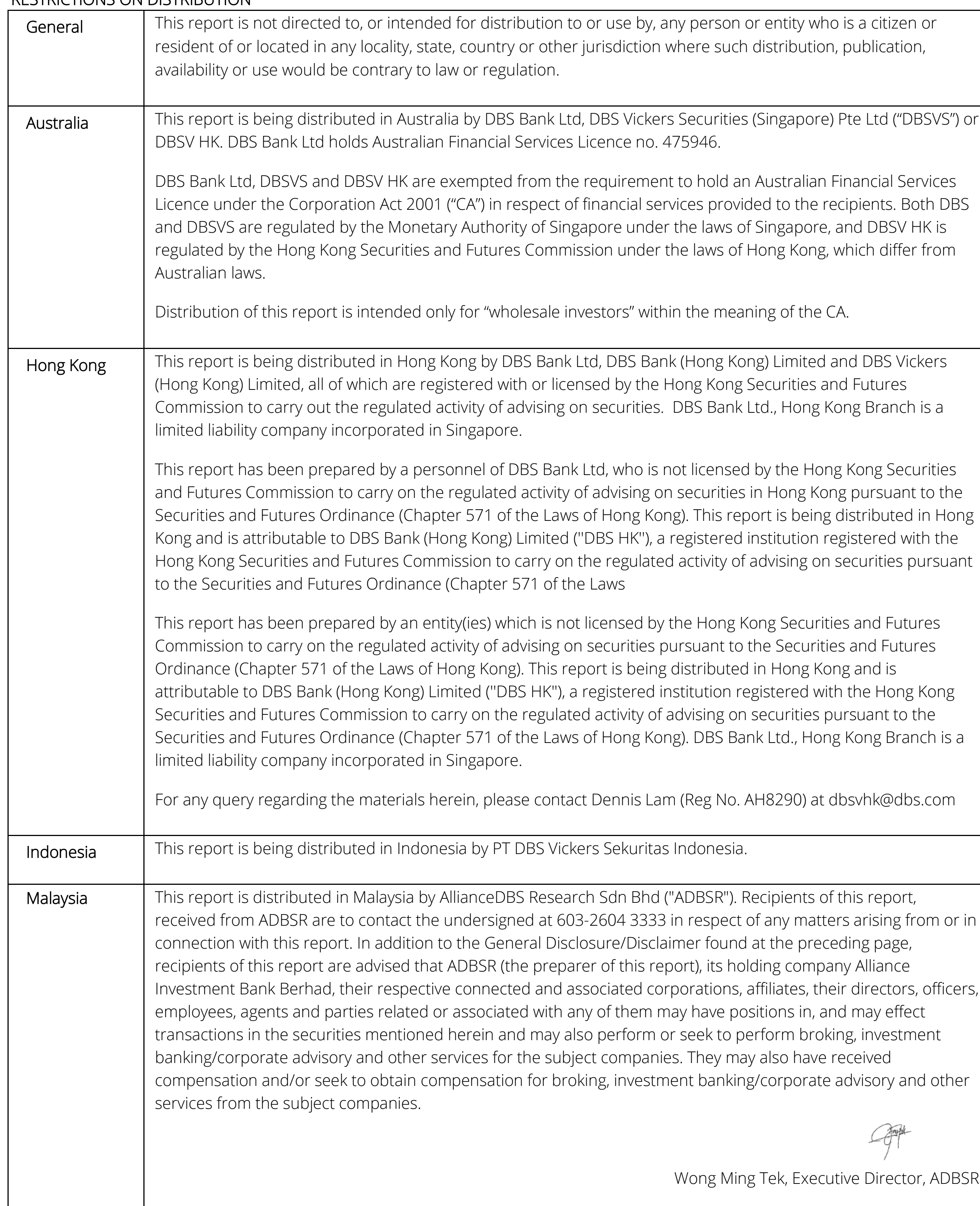

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