2015 Asia Research Outlook

Tread Carefully in the Year of the Ram

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI(P) 148/04/2014

Contact Details

Equity Research - Country			
Australia	John Hirjee	+613 9270 4318	john.hirjee@db.com
Australia	Mark Wilson	+612 8258 1564	mark.wilson@db.com
China / Hong Kong	Michael Tong	+852 2203 6167	michael.tong@db.com
India	Abhay Laijawala	+9122 7158 4031	abhay.laijawala@db.com
Indonesia	Raymond Kosasih	+6221 318 9525	raymond.kosasih@db.com
Korea	John Kim	+822 316 8979	john-kr.kim@db.com
Malaysia	Joe Liew	+65 6423 8507	joe.liew@db.com
Philippines	Giovanni dela Rosa	+632 894 6642	giovanni.dela-rosa@db.com
Philippines	Rafael Garchitorena	+632 894 6644	rafael.garchitorena@db.com
Singapore	Joe Liew	+65 6423 8507	joe.liew@db.com
Taiwan	Joelian Tseng	+8862 2192 2841	joelian.tseng@db.com
Thailand	Peach Patharavanakul	+662 633 6463	peach.patharavanakul@db.com
Equity Research – Sector			
Autos	Vincent Ha	+852 2203 6247	vincent.ha@db.com
	Sanjeev Rana	+822 316 8910	sanjeev-r.rana@db.com
Banks	Tracy Yu	+852 2203 6191	tracy.yu@db.com
Basic Materials	James Kan	+852 2203 6146	james.kan@db.com
Consumer	Anne Ling	+852 2203 6177	anne.ling@db.com
Gaming	Karen Tang	+852 2203 6147	karen.tang@db.com
Healthcare	Jack Hu	+852 2203 6208	jack.hu@db.com
Industrials (incl Transport)	Manish Saxena	+9122 7180 4034	manish.saxena@db.com
Insurance	Esther Chwei	+852 2203 6200	esther.chwei@db.com
Internet	Alan Hellawell	+852 2203 6240	alan.hellawell@db.com
IT Services / Software	Aniruddha Bhosale	+9122 7158 4037	aniruddha.bhosale@db.com
Oil & Gas	David Hurd	+852 2203 6242	david.hurd@db.com
Oil & Gas - Chems	Shawn Park	+822 316 8977	shawn.park@db.com
Power	Michael Tong	+852 2203 6167	michael.tong@db.com
Property	Tony Tsang	+852 2203 6256	tony.tsang@db.com
Property – REITs	Joy Wang	+65 6423 5958	joy.wang@db.com
Tech - Hardware	Hanjoon Kim	+822 316 8909	hanjoon.kim@db.com
	Birdy Lu	+8862 2192 2822	birdy.lu@db.com
	Andrew Chang	+8862 2192 2845	andrew-c.chang@db.com
Tech Semis	Michael Chou	+8862 2192 2836	michael.chou@db.com
	Jessica Chang	+8862 2192 2838	jessica.chang@db.com
	Seunghoon Han	+822 316 8907	seunghoon.han@db.com
Telecom	Peter Milliken	+852 2203 6190	peter.milliken@db.com
Macro / Strategy			
Economics Asia Pac	Michael Spencer	+852 2203 8305	michael.spencer@db.com
Economics Asia Ex-Japan	Taimur Baig	+65 6423 8681	taimur.baig@db.com
Economics China	Zhiwei Zhang	+852 2203 8308	zhiwei.zhang@db.com
China Strategy	Yuliang Chang	+852 2203 6195	yuliang.chang@db.com
Rates/FX (Regional)	Sameer Goel	+65 6423 6973	sameer.goel@db.com
Corporate Credit Research (Regional)	Harsh Agarwal	+65 6423 6967	harsh.agarwal@db.com
Derivatives / Index Strategy	Will Stephens	+852 2203 6719	william.stephens@db.com
Derivatives / Index Strategy	Shan Lan	+852 2203 6716	shan.lan@db.com
Quantitative Research	Khoi LeBinh	+852 2203 6990	khoi.lebinh@db.com

January 2015

Dear Clients

Financial markets have experienced heightened volatility in recent weeks as political and policy uncertainty collide with lacklustre global growth. Divergent outlooks for growth and monetary policy among the G3 economies are an unsettling backdrop for Asian markets and domestic factors in this region are no less uncertain. In such an environment, careful attention to detail and a clear sense of the big picture are needed to guide investment decisions. We hope to provide you with these in our research offerings through the year, and to start you off we provide this 2015 Asia Research Outlook. In it, we summarize our investment views for the year across asset classes, sectors and countries.

Our analysts are forming their views within the context of a broadly flat outlook for economic growth across the region although with significant differences across countries, with stronger growth in India and Thailand offsetting the slowdown in China. Monetary policy will also diverge with further rate cuts expected in India, China and Korea but rates going higher elsewhere. We continue to see a strong USD against most currencies in the region, including the RMB although the Rupiah is expected to remain firm, and while this poses liquidity driven downside risk to Asia, we believe the impact will be contained.

We are moderately positive on Asia Equities and in particular on China, India, Indonesia, Australia and the Philippines. China should eventually benefit from rate cuts and reforms, but will likely start the year on the back foot with disappointing growth. Reforms are also key to our positive thesis on India with lower commodity prices providing an additional boost. Foreign investors appear to be underweight Indonesia due in part to concerns regarding the pace of reform but we believe these concerns should ease in the months ahead. In Australia, we expect resource earnings to bottom and a firmer domestic picture to help the rest of the market. Robust economic growth in the Philippines should translate into high-teen earnings growth supporting positive equity returns.

Elsewhere in the region, we believe equities may struggle to perform. Macro headwinds and weak commodity prices are an issue in Malaysia. Earnings growth looks to be very subdued in Singapore (although we are positive on the residential property sector). Taiwan will likely struggle to perform as the tech cycle peaks. A stronger USD worries us in Thailand and political risk could resurface. Growth looks unexciting in Korea although the market could perform better later in the year on the back of the government's stimulus package and a recovery in China.

Outside of Equities, we take a negative stance on Asian credit in 2015. Although the macro outlook looks reasonably healthy we see weak oil prices, risks in the rest of Emerging Markets (eg. Russia) and stress in the Chinese property market as key headwinds to credit. We prefer IG over HY and sovereigns over corporates. In rates we favour being overweight duration in India and Indonesia and, to a smaller extent, in China and Thailand.

We hope this Outlook helps you to navigate the year ahead and we wish you all the very best in the Year of the Ram.

Yours Sincerely

Michael Spencer
Head of Asia Pacific Research

David Clark
Head of Asia Equity Research

Table of Contents

Economics

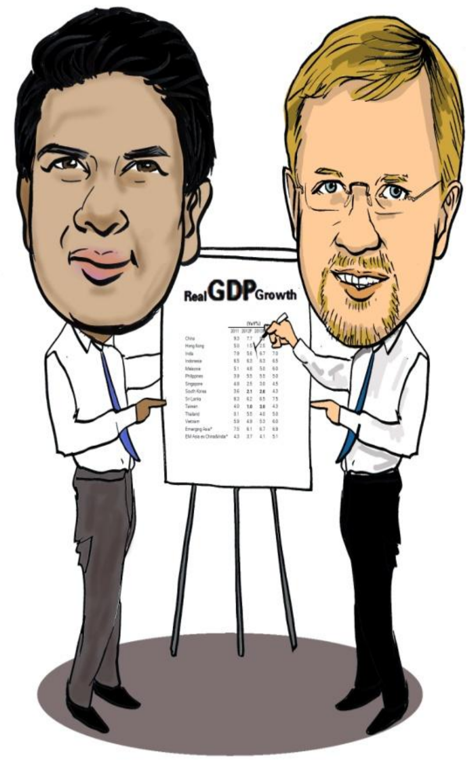
The Outlook

Asia will enter 2015 with multi-directional winds blowing in the global economic landscape. Our GDP forecasts, on aggregate, show the region growing only marginally higher (6.2%) than in 2014 (6.0%) as a result. There will be tailwind to trade from the US growing by 3.5%, but anemic growth in the EU (0.8%), and slowing momentum in China (7%) will neutralize much of the upside, in our view. Many countries will have strong domestic narratives next year, with India and Indonesia hoping to enjoy some dividend from strong fiscal, monetary, and structural measures of recent years, as well as goodwill from investors with respect to their new governments. Thailand will attempt to transition back to democracy, prior to which the military regime will make efforts to boost investment and growth. China will have a number of dominating themes, including improving governance, dealing with the property market slowdown and associated fallout, boosting social security to support consumption, and continuing with financial market liberalization.

Compelling domestic themes notwithstanding, external developments will be impacting the outlook profoundly. Below we highlight some areas that will influence Asia's economies:

Slowing China
Given China's scale and rapid and non-volatile growth in recent decades, a prolonged soft patch there could catch the region's economies and businesses by surprise. Asia's trade exposure to China is considerable for both final demand and intermediate goods. Financial linkages have deepened too in recent years with the region's investors taking on Chinese equity and debt in great quantities. Any disorderly development there could have wide ripples on the region's economies and financial markets.

Stagnating Europe
Given that the GDP of the Eurozone rivals that of the US, sharply below-trend growth there remains a big drag to Asia's export demand. While weak growth in Europe is not a new development, the associated risks could readily spill over to Asia, including various unintended consequences of aggressive monetary policy easing, debt and currency market volatility, and potential disruption of financial and credit flows.



The Team

Chief Economist, Asia-Pacific - Michael Spencer

Chief Economist, Asia Ex-JP – Taimur Baig
Chief Economist, China – Zhiwei Zhang

Australia *- Adam Boyton, Philip Odonaghoe*
China / HK *– Zhiwei Zhang, Audrey Shi*
India *- Taimur Baig, Kaushik Das*
Indonesia / Singapore / Thailand *– Taimur Baig*
Malaysia / Philippines *– Diana del Rosario*
New Zealand *- Darren Gibbs*
South Korea / Taiwan / Vietnam *- Juliana Lee*
Sri Lanka *– Kaushik Das*

Commodity price correction
Given that most economies in Asia are importers of energy, ongoing correction in commodity prices bodes well for the region's current account and inflation outlook. This is welcome news particularly for deficit economies like India and Indonesia. Malaysia, in contrast, stands to lose as it is a major commodity exporter. Also, to the extent that weak commodity prices reflect demand malaise in China and EU, this development cuts both ways for the region's outlook.

Faltering global trade
UN data show that global trade in value terms has been stagnant since 2012 while in volume terms the stagnation goes back to 2011. Slowing G3 growth and rise in trade protectionism have driven this trend, which is unlikely to change in the near term. Given that Asian economies rely heavily on trade, the loss of momentum in global trade could be a major headwind to growth in the near and medium term.

Atypical US recovery
As noted by many observers (including us), the US recovery is turning out to be an atypical one, with impressive gains in GDP, profits, and employment unaccompanied by wage growth or a rise in inflation expectations. As long as labor market conditions don't improve meaningfully, US consumption demand (imports) for Asian goods may not rise commensurately. Hence past correlation between US growth and Asian exporters will over-predict Asian exports outlook, as was the case in 2014. Confusion around the quality of the labor market recovery could also get in the way of a smooth transition to post-QE policy.

Fed policy normalization and QE in EU/Japan
It would be remarkable if Fed policy normalization proceeds without creating any disruption to global markets next year. At the very least, the ongoing USD rally in anticipation of the Fed move will likely continue, putting pressure on regional FX. At the same time, likely continuation of aggressive unconventional monetary policy in EU and Japan will create additional complication for regional exchange rates. South Korean won, for instance, would have to find a balance between giving in to the USD rally vs. strengthening against the Japanese yen (the latter development would hurt its exporters).

Country views

China
We expect the economy to decelerate from 7.3% in 2014 to 6.8% yoy in 2015H1, dragged by weak property investment. The government responded to the potential risks with a rate cut on Nov 21, and we expect two more rate cuts and two RRR cuts in 2015. Contingent on the policy actions, we see risks to the outlook as balanced. Upside risk comes from service sector exports amid regional trade cooperation and the mainland opening up. Lagged effects of the monetary policy easing cycle, together with more expansionary fiscal policy, will pull up GDP growth to 7.2% in 2015H2, in our view.

Hong Kong
Growth could head toward 3% in 2015 on stronger external demand (mainly the US) and associated stronger local consumption. However, this outlook faces downside risks including domestic uncertainty, faster-than-expected China deceleration and slower-than-perceived EU recovery. Structural concerns are substantial, including emigration of the middle class, lack of economic diversity, competition from the mainland and long-term uncertainty due to political transformation. Upside risk for growth potential comes from service sector exports amid regional trade cooperation and mainland opening up.

India
Actual data show an economy still treading sideways, but sharply rising consumer and business sentiment bode well for the cycle. An investment recovery and re-acceleration in consumption seem likely in the coming year. Little progress on structural areas has been made by the new government so far, but tangible movement on tax, FDI, and mining could be around the corner. A risk is that drag from non-performing investments and loans could delay the recovery, calling into question lofty asset market valuations. Also, market volatility around Fed rates normalization could cause debt service difficulties for India's corporate sector, which has borrowed in USD heavily in recent years.

Indonesia
Commodity sector headwinds and some degree of fiscal/monetary tightness will likely keep growth below trend in 2015, but the ongoing macro adjustments could set the ground for stronger fundamentals and sustained economic performance ahead. Still, next year could be challenging for the

economy, with the exchange rate at risk of coming under pressure if the current account does not improve in the aftermath of the fuel price hike. There are also concerns that President Widodo's reform agenda could be undermined by a fractious and antagonistic parliament.

Malaysia

The economy will be tested as fiscal consolidation advances while commodity prices decline. A period of depreciating currency and higher borrowing costs could compound the challenge. Deceleration in domestic demand together with anaemic export revenues due to falling oil prices could drag growth below 5% in 2015, reversing this year's rebound.

Philippines

Accelerated public spending ahead of the 2016 elections, sustained remittance inflows, robust expansion of the IT-BPO industry, and lower commodity prices could help the economy grow by at least 6.5% in the next two years. Power supply shortfall could however disrupt domestic activity.

Singapore

Another year of 3% real growth could be in store in 2015 if the drag from slowing China and EU is countered by rising orders from the US. Inflation risks are likely to all but dissipate, allowing the MAS to let the NEER to flatten or depreciate.

South Korea

We expect a modest improvement in GDP growth, to 3.6% in 2015, vs. 3.4% in 2014, while the government embarks on productivity-enhancing reform measures. Sustained weakness of the won however could pose risks to capital flows.

Taiwan

Growth to hover around mid-3% over the next couple of years, but for sustained strong growth the authorities need to take meaningful enhancing reform measures. The TWD weakness poses a risk to foreign investment in onshore securities. However, the threat to financial stability is limited by Taiwan's large foreign assets.

Thailand

Growth may bottom out in early 2015, but our forecast of 3.5% rise in real GDP is subject to many domestic and external risks. Lack of inflation pressure will allow BoT to stay on the sidelines for the duration of the year, although rate cuts could be entertained if real rates are seen to be rising long before growth recovery is assured. There are many risks to the outlook, however. Exports and tourism could remain in doldrums if the political situation does not improve.

	Real GDP Growth (YoY%)				**Inflation (YoY%)**				**Current Account (% of GDP)**				**Fiscal Balance (% of GDP)**			
	2013	2014F	2015F	2016F	2013	2014F	2015F	2016F	2013	2014F	2015F	2016F	2013	2014F	2015F	2016F
China	7.7	7.3	7.0	6.7	2.6	2.2	2.6	3.0	2.0	3.1	3.4	3.3	-1.9	-2.1	-2.5	-3.0
Hong Kong	2.9	**2.2**	**2.9**	**3.0**	4.3	**4.2**	**3.5**	**3.2**	2.1	**2.2**	**2.0**	**1.8**	0.6	2.6	**2.9**	3.0
India	**4.7**	5.5	6.5	6.5	10.1	**7.3**	**6.0**	**6.0**	-2.6	**-1.4**	**-1.7**	**-1.7**	-4.5	-4.5	**-4.0**	**-3.8**
Indonesia	5.8	**5.0**	**5.0**	5.5	6.4	**6.4**	**7.4**	**5.1**	-3.4	**-2.6**	**-1.7**	**-1.2**	-2.3	**-2.2**	**-1.7**	**-1.7**
Malaysia	4.7	**5.9**	**4.8**	**5.4**	2.1	**3.1**	**4.0**	**3.7**	4.0	**5.7**	**2.9**	**3.3**	-3.9	-3.5	**-3.4**	**-2.8**
Philippines	7.2	**5.9**	**6.5**	**6.6**	2.9	4.3	3.5	**3.8**	3.8	**4.6**	**4.3**	**2.3**	-1.4	-1.8	-2.2	-2.4
Singapore	3.9	3.0	**3.0**	3.5	2.4	**1.0**	**0.5**	**1.5**	18.4	**18.9**	**19.6**	**18.2**	7.1	6.9	6.8	**6.6**
South Korea	3.0	**3.4**	3.6	**3.6**	1.3	1.3	1.7	2.1	6.1	**6.4**	**6.8**	**5.9**	1.0	0.2	-0.5	-0.4
Sri Lanka	7.3	7.5	7.5	**7.0**	6.9	3.3	4.0	6.0	-3.9	-2.9	-2.5	-2.0	-5.8	-5.0	-5.0	**-4.5**
Taiwan	2.2	**3.4**	3.6	3.6	0.8	1.2	**0.7**	**0.9**	11.7	**12.6**	**13.9**	**14.4**	-1.4	-2.0	**-1.8**	**-1.5**
Thailand	2.9	**0.5**	**3.5**	**3.0**	2.2	**1.9**	**0.5**	**2.1**	-0.7	**1.9**	**1.4**	0.5	-2.0	-2.8	-2.5	-2.0
Vietnam	5.4	5.8	6.2	6.3	6.6	**4.2**	**4.7**	**5.5**	5.8	4.3	3.5	0.0	-5.6	**-5.9**	**-5.3**	**-5.3**
Emerging Asia*	6.1	**6.0**	**6.2**	6.1	4.5	3.6	3.6	**3.7**	1.4	**2.4**	**2.5**	**2.3**	-2.3	-2.4	**-2.5**	-2.7
EM Asia ex China&India*	4.4	**4.1**	**4.5**	**4.6**	3.5	3.4	**3.6**	**3.4**	3.3	**4.0**	**4.2**	**3.7**	-1.3	-1.5	**-1.4**	**-1.3**

Source: CEIC, DB Global Markets Research
Bold font = recent changes to forecasts

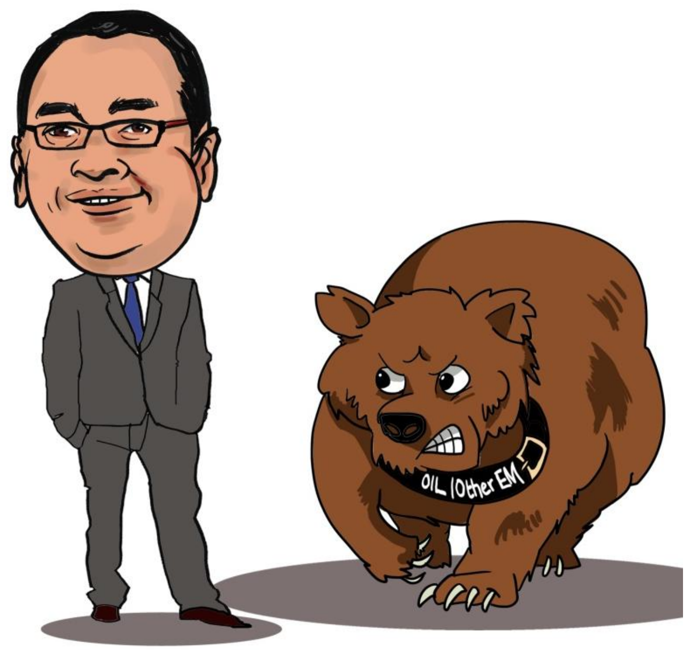
Credit Strategy

The Outlook

We were non-consensus positive on Asia credit at the beginning of 2014. Except for the hiccup in December, it turned out to be a good call with the asset class returning around 8% for the year, outperforming many of its peers and competitors. Now, looking into 2015, we again take a non-consensus view - Asia credit is unlikely to be a carry play as most experts were forecasting towards end of last year. We are leaning towards the next 6-12 months being more challenging than a smooth ride and expect spreads to end the year slightly wider from current levels. Given the rocky start to 2015, it feels like this has been a long year in just the first week and we are already waiting for the next Christmas, hoping the Santa that provided a bit of relief to the markets towards end-December in 2014 will return soon!

Asia Credit is standing on a slippery slope. As much as we like the macro picture (beneficiary of lower oil) here, corporate fundamentals could deteriorate further with a spike in default rate (3.6% forecast for 2015 using HY corporate bond notional), valuations that are just about average (slightly cheap in historical context, though not relative to global credit), and technicals which could quickly turn sour driven by external factors. While we expect Asia to outperform, we don't see it completely de-coupling, being the poster child of contagion. ***Hence, we take a negative stance on Asia credit for 2015.*** The fate will likely be decided by factors outside our domain - Oil, Russia & other EM, US HY - we are still negative on all fronts.

Our biggest idiosyncratic concern within Asia credit is the impact of Kaisa's default on a sector (China property) that is large and has been considered to be the relative safe haven. Needless to say, China macro concerns will keep lurking in the background - DB recently cut its 1Q GDP forecast to 6.8% and expects HSBC PMI to drop to 48 in 1H. Separately, another recent development in the CNH space is worth watching - Founders Group 2017 bonds have dropped almost 20 points from the highs to mid 80s on the back of concerns about ex-management's link to Mr. Ling Jihua and shareholders' dispute at one of the group companies, Founders Securities. Founders is ultimately a Central SASAC SOE owned through the Peking University and if the situation here gets worse, the implications could be severe for other Chinese SOEs in our market.



The Team

Head of Asia Credit – Harsh Agarwal

Australia *- Augusto Medeiros, Craig Nicol*
Financials/Sovereigns *– Viacheslav Shilin*
High Yield *– Vikash Agarwal*
China Property *- Jacphanie Cheung*
Investment Grade *- Colin Tan*

The caveat

Having said all this, we do agree that if the above factors surprise to the upside, Asia credit could deliver another solid performance. This is especially the case if Greek politics stabilize and ECB does a public QE, as the low interest rate environment (at least in 1H'15) should be supportive for spread products (before US starts raising rates in the middle of the year). Near term, risk for 10yr UST yields is to trade further below 2%. Also, positioning in risk assets seems light and the investors could look to put cash to work on signs of some stability. Hence, we won't be surprised to see a tactical bounce at some point. IG & HY corporate spreads are already 30bp and 150bp off the tights in 2014.

Strategy within Asia credit

Credit selection in Asia will likely be more important than it has been since the 2008 crisis. We recommend investors to generally stick to quality credits, aka companies exposed to domestic sectors that might benefit from rate cuts (in China, India, Korea), are non-commodity producers with low exposure to non-Asia EM and FX risks, have good liquidity profile with limited debt maturities in near term and minimal negative headlines.

More specifically, we prefer IG over HY, and sovereigns over corporates. Within financials, we suggest going down the capital structure of higher rated banks to Tier 2 and AT1 instruments, and see select value in Chinese senior paper. In IG corps, Chinese corps are still showing interesting relative value against the rest of Asia but we acknowledge that heavy supply will probably continue to constrain outperformance in the near term. The ongoing economic slowdown and local debt challenges will probably offset benefits from further policy easing and SOE reforms. We still like China IG but highlight the need to be very selective and would generally stick with higher quality exposures with good bond structures.

Away from China, we also see some value in certain IG names in India and HK. Both Korean banks and corps should be the most defensive, albeit they continue to trade quite tight. In HY, we like bigger China industrials, Indo HY and select India HY, with the fate for China property potentially resting on Kaisa's shoulders. For the time being, we suggest buying SOE/IG names in the sector.

Lastly, we forecast overall USD bond supply at approx. USD175 billion, lower than the close to USD200 billion we saw in 2014.

Derivatives / Index Strategy

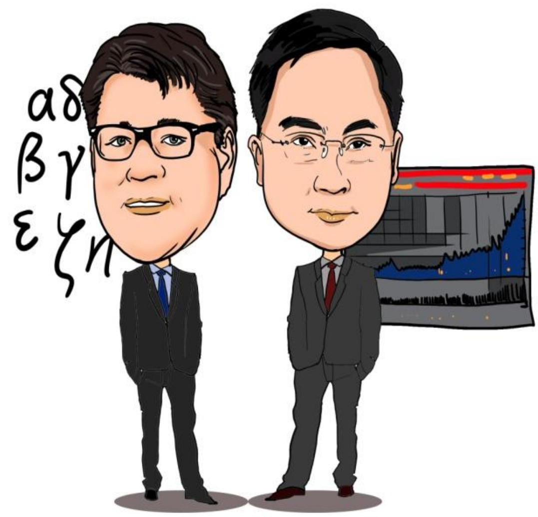
Key Themes / Regional Index Outlook

Divergent paths. The mixed macro backdrop in early 2015 may result in a year of diverging trends for regional indices. External factors such as oil prices, USD strength and significant changes to central bank policies are all likely to be key drivers in the 1H. US interest rate normalization may draw new lines between winners and losers in an Asia Pacific context. We remain optimistic on China indices, which benefit from low global index correlation, and expect the ongoing opening of the A-share market to continue to attract attention. We also expect continued differentiation amongst the major HK / China indices (A vs. H, HSCEI vs. HSI) as China's economy re-adjusts to a new growth regime and monetary easing cycle. India may continue to perform on Modi-related themes. EM Asia may remain volatile, sitting on multi-year gains, as we enter a new phase in US monetary policy and lower commodity prices. All these trends will require closer attention towards beta and hedging strategies. As the year starts, we favor HSCEI vs. HSI relative value, discounted H-shares and higher quality Northbound A-share targets.

Volatility firmer? Regional (and global) volatility has picked up from near all-time lows. While we may move down from current levels, we may have exited the "lower for longer" vol regime and vol of vol may pick up as macro cross-currents, central bank policy, EM vs. DM rotation, credit market worries and renewed structured product activity could continue to support higher levels in 1H15.

Key themes. Key macro thematics going into 2015 include currency and interest rate impacts, weaker oil / commodity prices and changing liquidity dynamics. We continue to expect the opening of the Chinese capital markets, Stock Connect and A- vs. H-share relative value to remain key themes. Regionally, we expect more capital management (buy-backs, higher dividend payouts) and we will be closely watching Korea for any progress on this front.

Benchmark Changes. The potential inclusion of A-shares and ADR's in global benchmarks are likely to be key themes in the coming year. Stock Connect has set the stage for A-share entry into MSCI benchmarks, which should continue to drive interest.



The Team

***Strategist** – Shan Lan*
***Strategist** – William Stephens*
***Strategist** – Florent Robert*

ETFs. We continue to see increased adoption of ETF's with assets under management expanding tenfold in the past 10 years reaching $2.7tn globally. We expect ETF AUM to pass the $3tn mark in 2015 as ETF's continue to attract attention as beta, hedging and market access tools. The Asia-Pac region will be a key contributor to this growth.

Quantitative Strategy

The Outlook / themes

Riding the roller coaster
The last quarter of 2014 will be remembered for the surge in risk aversion that seems to have been shrugged off by the US market. According to our risk aversion proxies, the diverging monetary paths in the US and the rest of the World have created some liquidity tension which, combined with the oil sell-off have led to a rise in EM sovereign risk, a widening of credit spreads and fuelled a surge in bond and currency volatility. Interestingly, the current risk-off regime has not been triggered by the Financial sector, and although our risk aversion proxy in equities remains high, the US market has maintained its upward trend. Our bubble model does not ring any alarm bells and suggest a continued grind higher in US stocks.

Investor sentiment in Asia varies by country. It is euphoric in China A, positive in Japan and India but neutral for the region. Of course, country specific factors such as stimuli from central banks in China and Japan and the Indian elections explain these states of mind. However, the fast rise in the Shanghai Composite index in the last quarter of 2014 leads our bubble model to suggest a share correction in the near term.

As of December-end, our composite country rotation model is in fact neutral towards China, but continues to recommend to stay long the US and Japan, and avoid Portugal, Greece, Italy, Russia. In Asia ex-Japan, it favors countries which have enjoyed a positive momentum and/or are more "risk-on", such as the Philippines, Thailand, India and Taiwan. Indonesia, Malaysia are among the least preferred countries as they suffer from poor analyst sentiment.

Although we believe that investors in Asia ex-Japan are likely to continue to focus on high quality growing companies, we still prefer a diversified approach when picking stocks. Valuation dispersion has increased in the last quarter, and in the current risk-off regime, investors have preferred high yield plays and avoided high volatility stocks. A traditional multi-factor model would have returned on paper close to 20% last year, supporting the idea that a balanced process may be a suitable route for most to navigate the current, fast adjusting environment. 2015 could also be the year when finally the broader international quant community will do more than dip its toes in the China A-share market.

The Team

Strategist - Khoi LeBinh

Strategist *- Ada Lau*
Strategist *- Vincent Zoonekynd*

FX & Rates

The Outlook

If 2013 was about major regime shifts in Asian markets, in particular associated with the re-pricing of the term premia in the US curve then 2014 turned out more (though not all) about de-correlated local stories. Carry was ultimately the big victor, though grappling for much of the year with the ebb and flow of expectations about monetary policy in the developed world. Asia managed to pull back in all of the offshore capital lost during the Taper tantrum period, and indeed much more - and in the process increasingly distinguish itself from the broader vulnerability of EM.

2015 we believe brings us back to worrying about global policy shifts and tail risks, be it Europe, Greece, Russia, oil or the Fed. We suspect market nerves will get tested repeatedly in the lead up to the Fed 'lift off'. And in particular by the breakdown of the relationship between currency and long end bond yields. The dollar smile will reign supreme, though with likely more frequent swings to the extremes. Either end (strong US growth and Fed lift off, or further collapse in oil and credit stress) will likely be bearish for the overall EM construct, particularly in FX. ***Asia we feel should hold up relatively well within the EM space,*** given better valuations, a more positive beta to lower commodity prices, and significantly reduced political risks. The Achilles heel for Asia, though, could be external debt. With the dollar strength broadening out, the strength of buffers against re-pricing of foreign liabilities on both sovereign and corporate balance sheets, could become the key differentiating factor, like in the case of Malaysia versus Korea.

We believe there is more RMB weakness to come in 2015 as FX policy becomes more hands-off and capital outflows persist. TWD will weaken as a proxy to the RMB, but the KRW will recover some of its losses on current account strength, safe-haven demand and a bottoming in easing expectations. Malaysia stands out as the weakest link in the region, boxed in on various metrics of indebtedness; we see USD/MYR rising to 2008 highs. We believe policymakers in Singapore and Thailand will use currency weakness to ease policy this year. Meanwhile, monetary easing in India could signal better times for the rupee if compressing inflation differentials moderate RBI's depreciation bias. We give IDR the benefit of the doubt, with incoming data likely to provide evidence of a fundamental turn in Indonesia's twin deficits and inflation profile.

The Team

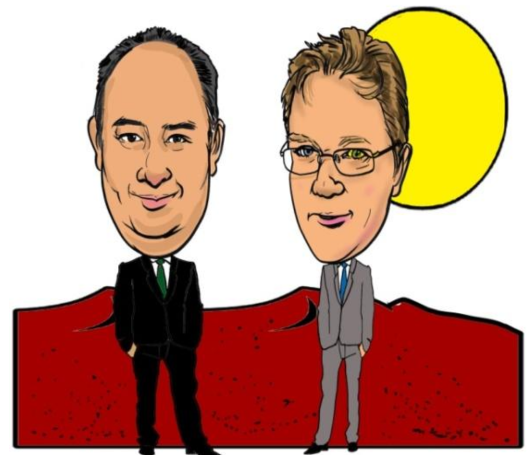
Head of FX & Rates - Sameer Goel

Asia *– Perry Kojodjojo, Mallika Sachdeva, Swapnil Kalbande*
HK/China/Taiwan *- Linan Liu*
South Korea *- Ki Yong Seong*

In rates, we favor being overweight duration in India and Indonesia, and to a smaller extent, in China and Thailand. The prospect of policy easing and fiscal reforms is a common theme across most of these markets, though arguably more tentative in some versus others. We see Korea closing in on inflection point this year in terms of both rates and currency, and will favor paying rates closer to the final round of easing from the central bank. We prefer to be underweight rates in Malaysia and Singapore, and in particular pay front end rates in these markets as domestic liquidity comes under pressure on a combination of factors.

Countries

Australia



The Outlook

2015 Market Overview

We expect 2015 to be a year of good gains for the Australian equity market, with our ASX200 target set at 5700 (8% upside). The market declined by 2% in 2014, weighed down by falling commodity prices. In 2015 we see resource earnings bottoming, and an incrementally firmer domestic picture helping non-resource earnings. Valuations appear reasonable – the 12m forward PE is around average levels (at 14½x), the 'cyclically-adjusted' PE ratio is below average, and the persistence of low interest rates help to make equity valuations attractive.

Macro Outlook

Our economists expect the Australian economy to grow modestly below trend in 2015. The impact of falling resource capex (from historically high levels) and softer terms of trade (thanks to the falls seen in commodity prices) is likely to weigh on growth. Offsetting this somewhat, there is clear strength in the housing market, and a nascent pick-up in the pace of business capex outside of resources. To aid this transition from resource-driven to domestic-driven growth, our economists expect the RBA to cut interest rates by 50bps in 2015.

With resources accounting for around one-fifth of the Australian market, global growth prospects are also important. On this score, DB economists look for a modest acceleration in global growth, with strength in the US offsetting weaker conditions in Europe and China.

Key Market Themes and Catalysts

Balancing resources vs the rest

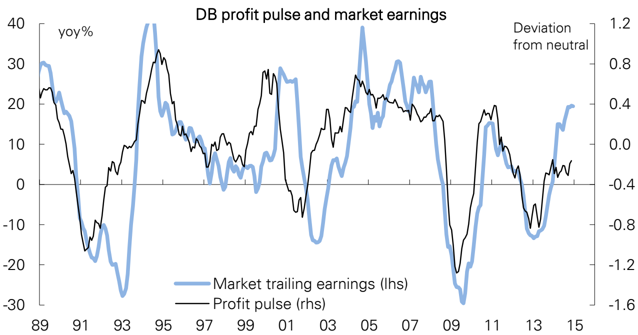
Australia can be viewed as a bifurcated market – resources vs the rest. Performance has been very different over the past 4 years – resource share prices have fallen by 45%, while non-resource stocks have risen by 36%. At present, resources account for just 17% of the market cap (around historic lows), limiting their ability to continue dragging on the market. But is there enough growth elsewhere for earnings and share prices to rise? We think so.

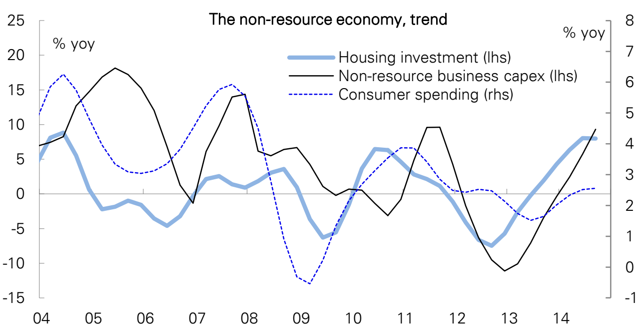
The Team

Co-Heads of Research – John Hirjee, Mark Wilson

Economics *- Adam Boyton, Darren Gibbs, Philip O'Donaghoe*
Equity Strategy *– Tim Baker*
Fixed Income, Credit , FX *- David Plank, Augusto Medeiros, Craig Nicol*
Banks, Insurance *- James Freeman, Kieren Chidgey, Andrew Triggs*
Basic Materials *- Paul Young, Brett McKay, Chris Terry*
Consumer, Gaming *– Mark Wilson, Michael Simotas*
Health Care *– David Low, Stephen Ridgewell*
Industrials *- Emily Smith, Mark Wilson, Dennis Lee, Cameron McDonald, Craig Wong-Pan, Entcho Raykovski*
Power, Oil/Gas *- John Hirjee, Hugh Morgan, Andrew Lewandowski, Grant Swanepoel*
Property *- Ian Randall, Jason Weate*
Small-Mid Cap *- Dominic Rose, Wassim Kisirwani*
Telecoms *–James Freeman*

Profit momentum healthy: commodity price weakness offset by nascent pick-up in non-resource economy





Source: ABS, Deutsche Bank

Notably, our real-time proxy for market earnings remains moderately positive, with the drag from commodity prices offset by strength elsewhere (higher credit growth & business sentiment, lower AUD). We are further encouraged that housing, business capex (ex resources) and consumer spending are on a better trend than in 2013. Certainly soft income growth from commodities is a drag, but this has been the case for two years now, and we think Australia is past the worst.

Cost-out programs

Australian companies delivered moderate EPS growth (5%) in FY14 on only modest (2%) sales growth, due in part to efficiency programs. There is skepticism as to how long this can continue, but we see scope for a few more years. The US is four years down this path, and Australia arguably has a more inflated cost base to address as a result of the bigger boom pre-2009. Adjusting labour forces is more difficult in Australia, but not radically so, and Australian companies managed to deliver similar unit labour cost growth to the US before the commodity boom.

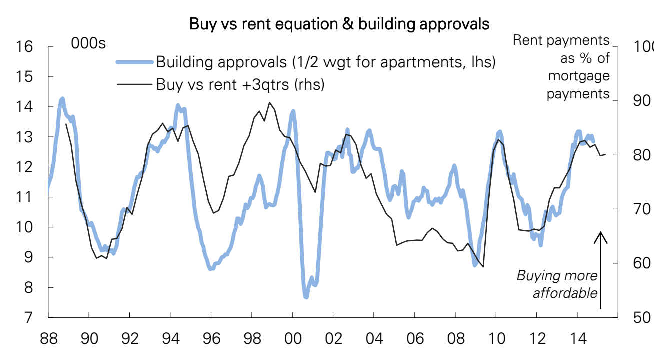
Exposure to the housing cycle

We remain positive on companies with exposure to the housing construction cycle: (1) with renting still expensive vs buying, approvals to build should hold up at high levels; (2) the best of the earnings leverage is still ahead – actual construction has been late to pick up, and materials pricing has only recently begun to improve; (3) house price growth has moderated through 2014, aiding the sustainability of the cycle.

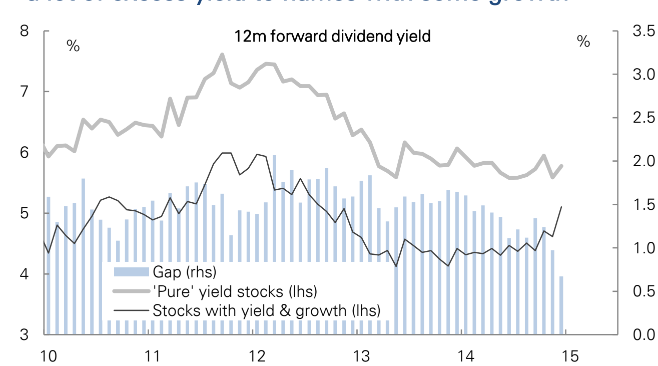
The next phase of the yield trade

Australia is known for offering a high dividend yield (typically above 4% vs the global average of 2-3%). With interest rates having been low for some time, yield stocks have performed strongly. But the re-rating has been such that 'pure' yield stocks (ie, stocks where most of the expected return is from yield rather than EPS/DPS growth) offer little excess yield compared to regular companies. We expect investors to start looking more closely at these companies, given many offer a yield above 4% as well as some growth.

With buying cheap vs renting, housing approvals should remain high



'Pure' yield names have re-rated, and no longer offer a lot of excess yield to names with some growth



Source: ABS, REIA, RBA, Datastream, IRESS, Deutsche Bank

Sector preferences

MOST PREFERRED: Building materials, healthcare, banks & retail

• **Building materials** should continue to benefit from the domestic housing cycle. Share prices have further to run based on the historic relationship with housing approvals, and valuations aren't too expensive at around a market multiple. FY14 profits picked up strongly, but mostly due to better margins (cost-out helped) – FY15 and FY16 should benefit from stronger revenue as construction ramps up. We also like exposure to US housing, with homebuilder sentiment high and credit conditions easing.

• **Retail** valuations have dropped (12m forward PE of 13x), and while consumer spending is not strong, it has picked up over the past year. Wage & employment growth have been soft, but may turn the corner in 2015, while rate cuts should buoy sentiment. Some retailers also stand to benefit from the housing cycle.

• **Banks** PE ratio is reasonable (13x) and while EPS growth is not strong (mid single-digit) it has proved quite reliable. The dividend yield remains attractive, bad debts are low, and credit growth is trending higher (now in business also). Earnings from trading should normalise and wealth management earnings offer potential upside.

• **Healthcare** valuations are high (12m forward PE of 22x), but the sector continues to deliver strong EPS growth. Earnings grew by 9% in FY14, and 12% growth is expected in each of the coming two years. This makes healthcare stand out from other defensive areas that are generating limited EPS growth. The sector will also benefit from the recent weakness in the AUD, given the offshore operations of a number of companies.

LEAST PREFERRED: Food retailing, telcos & mining

• **Food retailing** and **telcos** offer limited earnings growth and valuations are not compelling (food retail PE at ~16x & FY15F EPS growth 3%, telcos PE at 16½x & FY15F EPS growth 6%). Competition is intensifying for both sectors, and margins are declining in telcos with an added uncertainty surrounding NBN.

• **Mining** is impacted by weaker commodity prices with likely further mark-to-market downgrades to come (FY15F EPS decline already at 17%). Weaker demand due to the slowdown in Chinese property, plus strong supply growth, has weighed. Companies are successfully undergoing cost-out programs, but some improvement in commodity prices is likely needed to drive outperformance, and that could still be some months away.

Top picks

Aristocrat (ALL) - Buy

Trading at 15.7x FY15e earnings with strong expected EPS CAGR of 49% over the next 3 years driven by share gains in key markets following investment in product, people and technology, and the US$1.3bn acquisition of VGT. Aristocrat will benefit from depreciation of the AUD with every US1c impacting EPS by 1%.

James Hardie (JHX) - Buy

Offers significant leverage to the US housing recovery, and DB anticipates solid market share growth. EPS is expected to grow by more than 20% in both FY15 & FY16. The company also has a strong management team.

Oil Search (OSH) - Buy

Highly levered to sector-leading PNG LNG project (IRR of 19%), 2015F EPS 4 times 2012 levels. Most cost-competitive LNG growth pipeline in the Australian energy sector – PNG LNG expansions – which can still achieve 11% IRRs under a scenario of <US$50/bbl oil. Looks oversold to us during recent oil price falls.

Stockland (SGP) - Buy

DB expects EPS growth to again exceed company guidance in FY15 (DB at +8% vs guidance of 6-7½%) driven by strong residential settlement volumes (Sept qtr residential sales volumes up 15% vs pcp). SGP offers a 6% dividend yield, and the company continues to adopt a conservative approach to residential profit recognition, which should drive solid earnings growth for several years.

Boral (BLD) - Buy

High exposure to Australian housing recovery. Price increases are being implemented, and a cost-out program and property sales are boosting earnings also. PE on FY15F earnings is ~20x, but this drops to 13x on FY16F as earnings come through.

Harvey Norman (HVN) - Buy

Best placed to benefit from increased housing activity and has large operating leverage due to high fixed cost case. 1Q15 sales performance (+2.8% LFL in Australia) continues recent growth trend and provided evidence that the improved housing market is assisting. Large pool of franking credits remains.

ANZ (ANZ) - Buy

DB expects ANZ to deliver underlying earnings growth that is ~1-2%pa above peers over the next 4 years, driven by: (1) leverage to Asian growth from the solid platform it has built, (2) the strength of its core Australian & NZ franchise, (3) the use of offshore hubs to contain cost growth. We also expect ROE improvement of 150bps in the medium term due to capital initiatives (moving Asian business to advanced capital approach, risk weighting optimization, asset sales).

QBE Insurance (QBE) - Buy

At 10.5x 12mth forward earnings with a 10% 3yr EPS CAGR outlook, QBE offers compelling value amongst the Australian financials. Cost reductions and leverage to higher northern hemisphere interest rates and concurrent weakening of the A$ should more than outweigh headwinds from a softer commercial insurance market backdrop

Metcash (MTS) - Sell

No evidence of a recovery in the 1H15 result and balance sheet is deteriorating. Price investment required to make Metcash competitive may be more than the $40-$45m budgeted and each 1%pt of price is $122m profit. Aldi’s SA and WA roll-out is an upcoming headwind.

Dulux (DLX) - Sell

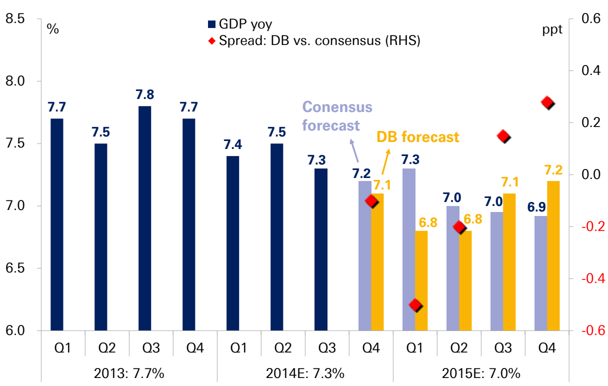
Trading at a significant premium to DB’s valuation of $4.2/share and at 19x FY15e earnings. DB forecasts EPS growth of just 5-6% over the next 3 years, and the dividend yield is below 4%. Key risks include price discounting in the Australian and NZ paint markets, increased raw material costs, increasing competition, and the bargaining power of key customers.

China

The Outlook

Macro Outlook: China will likely face the worst fiscal challenge since 1981. We believe this is the most important risk to the economy and one that is not well recognized in the market. Land sale revenue accounts for 35% of local government revenue, but land auctions dropped by 37% in 2014. The adverse impact on fiscal revenue should worsen in 2015 as payments for land sales may lag auctions by two quarters with the fiscal shock more pronounced in H1 2015. Our GDP forecasts are lower than consensus in 1H with 1Q15 GDP growth at 6.8%. We see growth recovering slightly in the 2H as aggressive policy easing takes hold from two 25bps interest rate cuts and two 50bps RRR cuts. Our full year growth forecast is for 7%.

Our GDP forecast is lower than consensus in 1H15, but higher in 2H15



Source: Bloomberg, Deutsche Bank

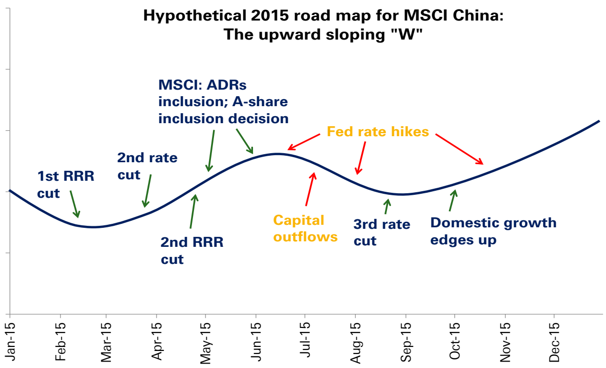
Market Overview: The MSCI-China index rose 5% in 2014. We expect a better year in 2015 with rate-cuts and reforms driving a mild market re-rating. Specifically we see a total return of 15% for MSCI China thanks to 6% valuation multiple expansion, 5% earnings rollover and 3% dividend yield. The key driver for our expected upside is lower domestic financing costs on the back of PBoC monetary loosening, which should boost profit margin expansion and therefore earnings growth for non-financials. This also narrows the chances of near-term major credit events and therefore facilitates the normalization of valuations in financials.

The Team

Head of Research - Michael Tong
Chief Economist & Strategist – Zhiwei Zhang

Economics & Strategy *– Zhiwei Zhang, Yuliang Chang Audrey Shi*
Autos *- Vincent Ha, Fei Sun*
Banks *- Tracy Yu, Franco Lam, Hans Fan*
Basic Materials *- James Kan, Johnson Wan*
Consumer *- Anne Ling, Winnie Mak, Lydia Ling*
Gaming *- Karen Tang*
Health Care *- Jack Hu*
Insurance / Brokers *– Esther Chwei, Pandora Lee*
Industrials (incl. Transport) *- Michael Tong, Joe Liew, Vincent Ha, Sky Hong, Phyllis Wang, Karen Tang*
Internet *- Alan Hellawell, Vivian Hao*
Oil/Gas *- David Hurd, Johnson Wan*
Power/Utilities *- Michael Tong, Yuxiao Peng*
Property *- Tony Tsang, Jason Ching*
Telecoms *– Peter Milliken, Alan Hellawell*

Upward sloping "W" as potential road map for H-share market in 2015

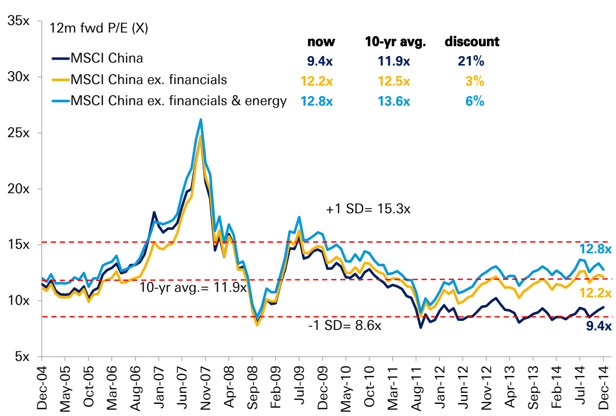


Source: Deutsche Bank

We see an upward sloping "W" as the potential road map, with heightened volatility in near term and decent gains later on.

Earnings: We see a decent recovery in non-financial earnings growth to 8% in 2015, thanks to profit margin expansion amid softening commodity prices and falling financial costs. However, financials' earnings growth may slow to 3% in 2015, resulting in overall H-share earnings growth of 5.5%. We believe robust top-line growth is still needed for a sustainable earnings recovery.

MSCI China fwd PE looks relatively cheap compared to historical avg, but non-financials close to its avg



Source: Bloomberg, MSCI, Deutsche Bank

Valuations: MSCI China now trades at 9.4x 12-month forward P/E, around one standard deviation below its 10-year average of 11.9x. The non-financial MSCI China trades at 12.2x 12-month forward P/E, or a minimum 3% discount to its historical average.

We think easing financial conditions and accelerating reforms could support a mild re-rating in the index.

Liquidity: H-share liquidity conditions may weaken due to 1) further global capital outflows alongside the Fed tightening and a strengthening US dollar, and 2) rising northbound trading volume, while southbound flows in Shanghai-HK Connect remain weak.

Key themes / catalysts

We suggest investors focus on four themes in 2015:

- **Cost savers:** Mid-stream industrial sectors that could benefit from lower commodity prices and highly leveraged sectors that could benefit from lower financing costs.

- **Top-line growers:** Increasing demand for better quality of life suggests a stronger appetite for healthcare, environmental protection, TMT, and child/senior-related consumption.

- **Reform beneficiaries:** Look for potential beneficiaries from SOE reform, "Go Global", financial reform and land/Hukou reform, but watch for potential losers from fiscal/tax reform.

- **MSCI inclusion:** Select TMT and consumer discretionary names will benefit at the expense of the largest incumbents including financials, energy and telecom.

Sector Preferences

- **Overweight:** IT, Industrials, Utilities and Healthcare

- **Underweight:** Telecom and Energy

- **Market-weight:** Financials, Consumer discretionary, Consumer staples and Materials

Top-picks

Our top picks are based on our sector preferences and four key themes outlined above:

Ping An (Buy), CITIC Securities (Hold)
COLI (Buy)
CRCC (Hold), BBMG (Buy)
Baidu (Buy)
CSPC Pharm (Buy)
China Power Int'l (Buy), Beijing Enterprise Water Group (Buy) and Huadian Fuxin (Buy)

India

The Outlook

We remain constructive on Indian equity markets and have set our Dec-15 Sensex target of 33,000, implying an upside of 18% from current levels. At our target the Sensex will trade at 18.4x FY16 EPS and 15.5xFY17 EPS – reasonable in our view as we expect a 17.7% CAGR in Sensex EPS over FY15-17. We think that 2015 will mark a long pending shift in government expenditure from consumption to investments, which should be key to India's macro economic vigor. We see India harnessing the low commodity price dividend in building out the much needed infrastructure in critical segments of the economy like roads, railways and irrigation.

Key themes / catalysts

As highlighted above, the return of public investment will be a key theme for 2015, which should drive macroeconomic stabilization through higher growth, employment creation and lower inflation.

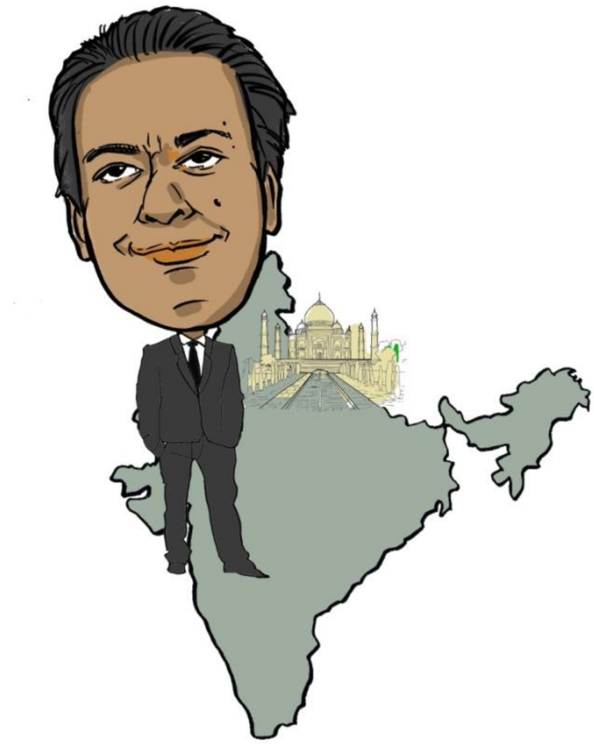
We also believe that 2015 may see a sovereign rating upgrade as rating agencies will view an improving macro situation and government action favorably. A rating upgrade could be a surprise catalyst for the markets. Over the past decade we have witnessed 4 instances of rating upgrades by S&P and Moody's and, on average, the Sensex has returned 9% in the 6 months, and 40% in the 12 months after the upgrade.

India is also expected to stand out among its EM peers on account of relatively better and improving economic fundamentals. India's embrace of long pending supply side reforms together with an investment driven macroeconomic stabilization should allow it to deepen its relative attractiveness in 2015.

Top Picks

Our key top large cap picks are:

• **Axis Bank (Buy):** Axis has now transitioned from being a largely wholesale bank to a more diversified entity in terms of assets, liabilities and fees, with retail becoming a big growth driver. Valuations for Axis Bank do not reflect likely long term RoEs due to concerns on asset quality. As the economy revives, we believe that concerns will reduce, resulting in better valuations.



The Team

Head of Research – Abhay Laijawala

Economics *- Taimur Baig, Kaushik Das*
Equity Strategy *- Abhay Laijawala, Abhishek Saraf*

Autos - *Srini Rao, Amyn Pirani*
Banks, Insurance *- Manish Karwa, Manish Shukla*
Basic Materials*- Abhay Laijawala, Anuj Singla, Chockalingam Narayanan*
Consumer *- Manoj Menon, Gaurav Bhatia*
Industrials *- Manish Saxena, Chockalingam Narayanan*
IT Services *- Aniruddha Bhosale*
Oil/Gas *- Harshad Katkar, Amit Muraka*
Power/Utilities *- Abhishek Puri, Manish Saxena,*
Property *- Abhishek Saraf*
Telecoms *- Srini Rao, Amyn Pirani*

• **Mahindra & Mahindra (Buy):** Our BUY rating is premised on expectations of market share gains in the UV segment which would be aided through new launches in 1HCY15. We are also expecting a normalisation of tractor volumes in FY16. We believe current multiples at 10.5xFY16E core PE (40% discount to Maruti) do not factor in the impact of new launches and provide adequate valuation cushion.

• **UltraTech Cement: (Buy)** It is the market leader, enjoying a substantial profitability premium on a pan-India basis, driven by benefits from its low operating and distribution costs. It has used the latest downcycle to grow through both organic and inorganic routes. Any pick-up in demand could mean that market share gains could be disproportionate and more profitable. Current valuations, at EV/t of USD 176/t (at around replacement cost of a greenfield unit), do not factor in the benefits of re-rating enjoyed by sector leaders, as we head into an upturn

• **Tata Steel: (Buy)** The commissioning of the Odisha plant in 1Q'FY16 will lead to low cost, high margin Indian operations constituting 35% of consolidated production and 73% of consolidated EBITDA in FY16. Resolution of regulatory issues related to the company's captive iron ore mining operations in Odisha and Jharkhand should assuage investor concerns over raw material procurement. Robust cash flow generation should allow the company to fund Odisha Phase II from internal generation and help alleviate investor angst over the perennially stretched balance sheet,

• **State Bank of India (Buy):** We believe that SBI is among India's top beneficiaries of an emerging macro recovery, where indicators are turning positive. On the back of an improving macro outlook, we expect both slippages and restructuring to decline in FY15. A strong recovery/upgrade cycle from FY16 should drive a sharp NPL decline, resulting in lower credit costs.

Indonesia

The Outlook

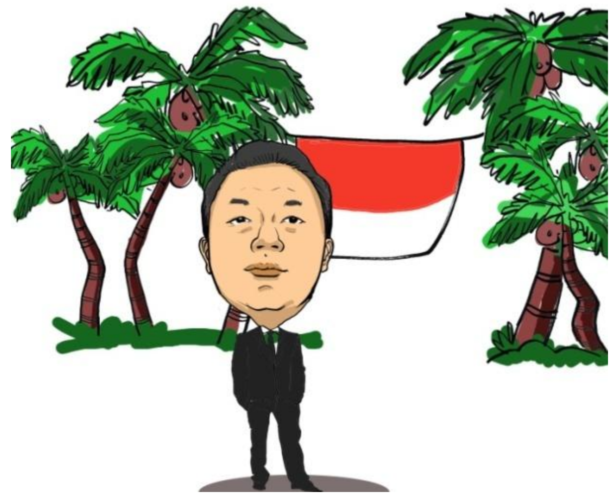
Consensus, as shown by neutral/underweight positioning by foreign investors, is that the Indonesian market will struggle to perform this year. The political situation which was so important in 2014 is more fluid. Macro conditions may be improving but are seen to be very vulnerable to a stronger dollar and commodity price weakness, along with pressure from tighter monetary conditions. Our take, however, is more positive and after a difficult start to the year we maintain our index target of 6,000 by year end.

Key themes / catalysts

Politics: It is critical from an investment perspective that the momentum of macro reform is not stymied by a government that may be electorally popular but does not have full parliamentary control. In our view, the key lies in how Jokowi succeeds with his personal approach in reaching out to political parties outside of his coalition to secure their agreement to compromise and prevent deadlock. The agreement on MD3 law (which regulates the appointment of the head of Parliament) is an example of where he is winning this battle, while the regional government election decree will also be passed soon which should weaken the bond between opposition coalitions. While we understand those taking a cautious approach, we believe that political risk should ease, paving the path for Indonesia's reforms to take place.

Public sector reform: Jokowi's strategy has been to drive initiatives by stimulating the economy from the grass roots, as well as using investment to spearhead his growth agenda. The first test will be getting approval for the revised budget in mid-January as this will be an important step towards reallocating the fuel subsidy savings (we estimate Rp140trn; or 1.3% GDP) to infrastructure and social welfare. In addition, fixing the fuel subsidy per litre is also an important initiative than can structurally improve the country's risk premium.

Indonesia 'new norms': By nature, any benefits from the reform will likely be medium term. In the meantime, we believe GDP growth over the next few years will remain at the sub-optimal 5.0-5.5% along with mid-teens EPS growth. Near-term GDP growth could dip below 5% before recovering.



The Team

Head of Research - Raymond Kosasih
Head of Strategy - Heriyanto Irawan

Economics *- Taimur Baig*

Autos *- Rachman Koeswanto*
Banks *- Raymond Kosasih, Arinta Harsono, Adi Putra*
Basic Materials *– Rachman Koeswanto, Albert Saputro, William Kho*
Consumer *- Reggy Susanto, Adi Putra, Nicholas Nugroho, Samuel Sentana*
Healthcare *– Samuel Sentana, Reggy Susanto*
Industrials – *Nicholas Nugroho, William Kho*
Power / Energy (incl Palm Oil) *– William Kho*
Property *- Albert Saputro, Edeline Rasjid*
Small-Mid Cap *- Nicholas Nugroho*
Telecoms *- Raymond Kosasih*

Much of the slowdown reflects policy responses to ensure a more affordable growth. Still, in the context of the global new norms of low yields and low growth, Indonesia still offers relatively resilient expansion. Besides, the underling growth dynamics of rising middle income and wallet size remain intact and compelling.

Navigating through volatile FX: The IDR recently reached a 16-year low following the latest global macro developments. We believe much of the weakness is driven by portfolio flows, likely on expectation of US rate normalization. This is also exacerbated by USD illiquidity in the onshore market, particularly as Bank Indonesia (BI) appears to be conserving reserves as well. The broader contagion effect of of weakness in EM FX is also a factor. While the IDR may remain volatile in the near term, we see the weakness as not fundamentally justified.

Top picks

We have launched our first DB Indo Portfolio with 10 large caps and five mid/small caps. Our portfolio construction takes into account top-down and micro dynamics.

Top-down. A more favourable macro and political environment, countered by easing growth (the likelihood of economic growth dipping below 5% in 4Q before recovering) and rate normalisation in the US, suggest that the market may be lacklustre in the early half of 2015.

Stock selection. The prospects of cost pressure and, more importantly, rising competition may see growth easing further in 4Q14 and 1Q15. Still, our stock selection seeks out companies with limited earnings and de-rating risks, and those best positioned for an earnings recovery into mid-2015.

Preferred sectors: We are Overweight on the Banking sector, bearing in mind the gradual improvement in liquidity, stabilizing interest rate structure, and normalizing (but sustainable) loan growth. We also like the Property and Consumer sectors for their potential recovery in tandem with the expected economic improvement in the next 6-12 months

BBNI (Buy): BNI is not Indonesia's most profitable bank, but it has delivered one of the most improved profitability trends (relative to its major peers). Indeed, over the past four years, its ROAE has recovered to 20% in 3Q14 and the ROAE gap with peers has narrowed to 328bps (from as high as 1400bps in early 2011). Its earnings recovery did not come at the expense of liquidity. In fact, BNI has one of the lowest LDR, at 87% in 3Q14 (down from 90% in 1Q14). Consolidated CAR of 16% is comparable with the major banks.

BMRI (Buy): Mandiri continues to transform itself into one of the largest transactional banks in the country. Not only has it seen transactional volume rise by a 4-year CAGR of 21% (2010-2014), its retail CASA also recorded a CAGR of 17% during the same period, indicating approximately 70% of its CASA is coming from retail, which are typically not rate-sensitive. This is an increase from the recent low of only 63% in 1H13.

BBRI (Buy): Driving the economy from the grass roots is one of the important economic initiatives of Jokowi's presidency. The government aims for agricultural production self sufficiency over the next three years, as well as to rejuvenate Indonesia's fishery industry. Indeed, the reallocation of funds from fuel subsidy towards improving agriculture production by means of enhancing the supply-side (for example, dams, irrigation, fertilisers, etc) has high political importance. BBRI is well placed to benefit from such initiatives.

BIRD (Buy): We believe Blue Bird is a prime beneficiary of Indonesia's rising middle class – and Indonesia's poor public transport infrastructure. Low taxi penetration (well below those of its regional peers; Indonesia has 1.4 taxis per thousand people vs. Bangkok at 10.2, Singapore at 5.3 and Hong Kong at 2.5) also provides considerable room for expansion. Additionally, taxi fares in Indonesia are among the lowest in the world.

BSDE (Buy): The company still has one of the largest strategic landbanks in the Greater Jakarta area. It has more than 4,500Ha of landbank, of which 75% is located in BSD City, Serpong. This gives the company a wide range of products, which enables it to adjust accordingly with market conditions. This is evidenced by the company's ability to continue strong marketing sales performance in 2014 with marketing sales likely to exceed our forecast of Rp5.7tr and the company's initial target of Rp6tr, driven by an increased proportion of commercial land sales and ability to adjust its product launching size/unit.

GGRM (Buy): The company has shown expansion in its gross margin, driven by consistent price hikes. This was shown in 3Q14, when its gross margin expanded to 20.8% (+190bps qoq, +120bps yoy) as GGRM continued to increase prices by 13% yoy and 3% qoq. In comparison, competitor HMSP's gross margins declined by 170bps yoy to 25.2% during the same period.

ICBP (Buy): The noodle business (66% of sales) remains a backbone for ICBP, which grew by 16% in 9M14 and was supported by two price hikes this year with market share maintained. ICBP's strong pricing power in noodles is proven by its 13 price hikes of cumulative 113% in the past eight years, the most among peers, which enabled it to grow profit by a 20% CAGR 2009-13

KLBF (Buy) : The core businesses still posted healthy growth (+17% yoy) in 9M14, compared to the non-core distribution business which only grew +2% yoy, bringing overall growth to +12% yoy. Among the core businesses, the nutritional division has been the best performing, as KLBF is building presence by introducing new products in this category where pricing power is relatively stronger than the prescription pharmaceuticals.

PGAS (Buy): With the change in Pertamina management and the statement by Minister of SOE Rini Soewandi that Pertamina and PGN should focus on their main businesses, we think the risk of open access and unhealthy competition between both SOEs is removed. This is an affirmation that the company's piped gas distribution business will remain intact and should help the stock to regain its utility quality earnings status and valuation.

SMGR (Buy): The projected supply of 33-34mn tons (+45%) over the next couple of years has been a major overhang for the sector. However, we believe much of the concern has been largely priced in, considering the sector's muted performance. Margins have already contracted to the lowest level in five years.

ADHI (Buy): We expect improvement as ADHI is one of the four biggest construction SOEs likely to benefit from the rising number and size of infra projects envisioned by the new government administration. SOE contractors have also been relieved from paying dividends next year (which has been about 30% payout in the past), which should help bolster their equity base to work on more projects

MPPA (Buy): With a 35% market share in the total hypermarket industry, up from just 5.7% in 2004, we believe MPPA will overtake Carrefour as the market share leader in the big-box food retail category through its fast-growth strategy. It had 101 Hypermart (91% of revenue), 48 Foodmart (8% of revenue), and 97 Boston Health & Beauty (1% of revenue) outlets as of 9M14.

PWON (Buy): The acquisition of Pakuwon Permai increases the company's retail space from 334k sqm to 512k sqm and hotel operation from 358 rooms to 505 rooms. Further, it also helps to support marketing sales to increase from Rp3tr in 2014E to Rp3.2tr in 2015E and Rp3.5tr in 2016E.

SIMP (Buy): We expect global palm oil production growth of 4% p.a. in the next two years (vs. avg. 7.4% p.a. in the past decade), falling short of CPO demand/consumption growth of 5% p.a., implying a stock/usage ratio of a mere 8.6% by 2015E. The increase in mature areas by major players has displayed a slowing trend, whilst government regulations have made it more difficult for supply to grow significantly. Impending weather risk could also support CPO prices next year after a poor 2014.

SMRA (Buy): The company will launch a new township development in Bandung in 1H14 which we believe will be successful, given mass market pricing levels, potential access improvement and limited competition in the vicinity. SMRA also has landbank in the Bogor, South Jakarta area to be developed with plans to be launched by early 2016 which should support strong growth in marketing sales.

Malaysia

The Outlook

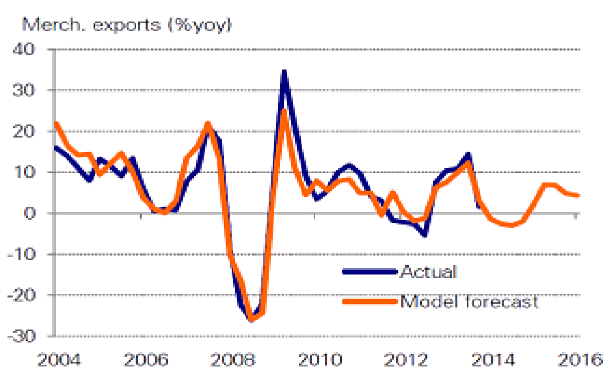
Market Overview: Stay Cautious

We remain cautious on the broader Malaysian market. Malaysia was the second worst performing Asian MSCI index in 2014 (-8%) due to weaknesses in oil and CPO related stocks. Our commodity team expects weakness in oil to persist in the medium term. In addition, the country continues to face a number of macro headwinds (weak ringgit, dull consumer sentiment and uncertainties with respect to global growth) and valuations (MSCI Malaysia) still do not look attractive (15.1x 2015E P/E vs 2016 consensus EPS growth of 0.4% / 9.5% for 2015/16E).

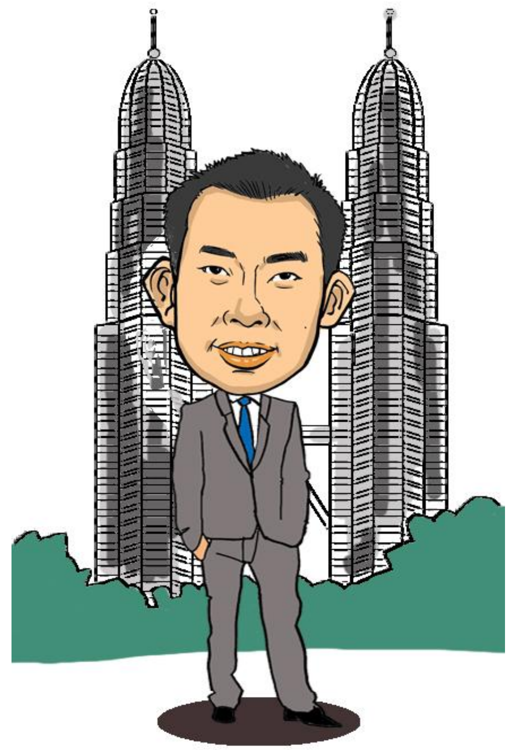
Slower growth on lower crude price with depreciating FX

Our economist has lowered her real GDP growth forecast for 2015 from 5.6% to 4.8% YoY on the back of lower crude prices, depreciating currency and higher borrowing costs. In addition, consumer resilience will again be tested in 2015 as the government moves forward with fiscal consolidation through further subsidy rationalization measures and the implementation of the 6% goods and services tax (GST). Lower crude oil prices and the government's enhanced financial support may provide relief to consumers but a weaker ringgit (reduced purchasing power) together with higher borrowing costs will stretch household balance sheets nonetheless.

Dismal exports outlook due to falling oil prices



Source: Deutsche Bank, CEIC



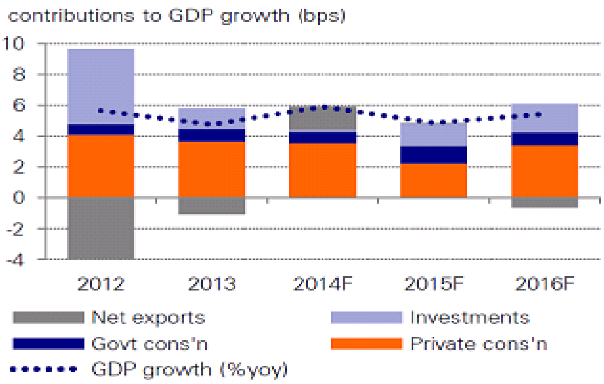
The Team

Country Head – Joe Liew

Economics *– Taimur Baig, Diana del Rosario*
Strategy *- Joe Liew*

Banks *– Franco Lam*
Gaming *- Aun-Ling Chia*
Healthcare *– Jack Hu*
Industrials *– Kevin Chong, Joe Liew*
Property *– Aun-Ling Chia*
Telecom *– Srini Rao*
Power / Utilities *- Aun-Ling Chia*

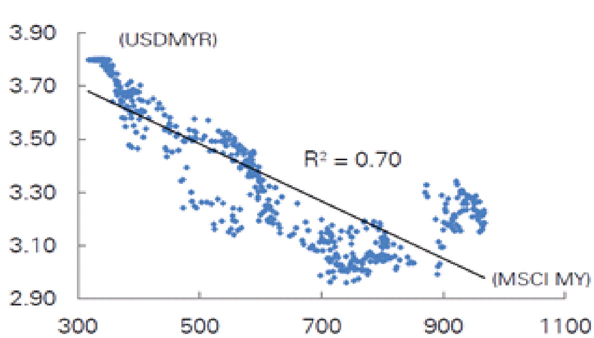
Growth could slip below 5% in 2015



Source: Deutsche Bank, CEIC

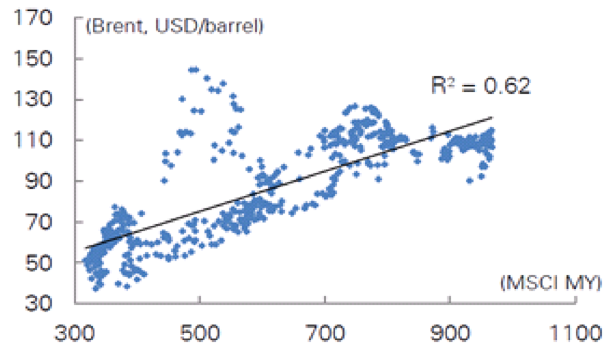
Based on our forecasts for G3 and China along with oil prices in the next two years, Malaysia's (nominal) merchandise exports could decline by 1% in 2015 before growing by 6% in 2016. In addition, a 30% drop in oil prices could potentially reduce Malaysia's current account surplus by 0.02-1.8% of GDP (higher if gas prices follow the drop in oil prices) as Malaysia is a net exporter of oil and gas. The government could support the slowing economy by augmenting fiscal transfers or scaling back on fiscal adjustments but only to a certain extent; overdoing it could undermine efforts to consolidate the fiscal position, aggravating the depreciation pressure on the ringgit from lower oil prices and capital flow reversals (amid rising rates).

Weaker RM and lower oil prices are negative for the market



Source: Bloomberg (weekly data over past 10 years)

Oil price and MSCI Malaysia correlation



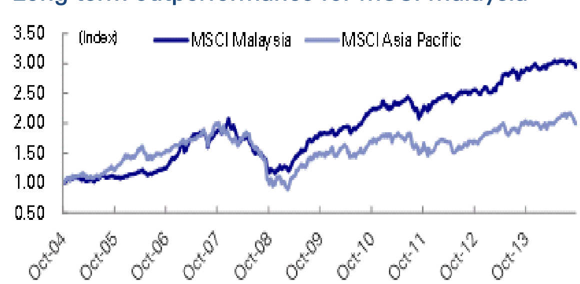
Source: Bloomberg, weekly data over past 10 years

Our analysis of past market trends for Malaysia shows that the market (MSCI Malaysia) reacts negatively to a weaker ringgit (vs. the US$) with a correlation coefficient of -0.84 and a relatively good fit (R-square of 0.7). In addition, the market is positively correlated to oil prices with a correlation coefficient of 0.79. However, there are still some beneficiaries of a weaker ringgit. For example, companies which have US$ revenue, such as MISC.

Downside limited

While the eventual Fed rate hike and slower global growth might spook regional markets, the Malaysian market has shown resilience relative to its peers. Over peaks and troughs in the past 10 years, the MSCI Malaysia has outperformed the MSCI Asia Pacific. Hence any downside is likely to be muted in our view.

Long term outperformance for MSCI Malaysia



Source: Bloomberg

Increased spending in the infrastructure sector

We think that the government's plan to implement RM49bn-worth of highways, MRT2 and LRT3 projects will boost the infrastructure sector. Confirmation that MRT 2 will proceed would be positive for **Gamuda (GAM MK)** and we expect physical work to commence in 2016. Beyond that, we see the potential winning of Penang's Integrated Transport Project as the next driver to boost Gamuda's growth. The Penang Integrated Transport Project was last estimated at RM27bn and, if successful, may see a potential uplift of 10% in FY17E earnings assuming RM1.0bn work done at a 10% PBT margin. The announcement of an RM9.0bn LRT 3 and implementation of various highway projects should benefit construction players such as **IJM Corp (IJM MK).**

Top Picks

AirAsia – Buy

• Lower oil prices (hedged only 8% of 2015), a more benign competitive environment in Malaysia and better associate performance will drive earnings growth of 56%/33% in 2015/16E respectively.

• The restructuring of Malaysia Airlines (MAS) is likely to result in capacity cuts in our view and this will be positive for AirAsia. The last time MAS restructured in 2005/6, AirAsia's yield increased 35% over two years.

• We think that the feed provided by AirAsia X, as well as increased capacity at KLIA2, should drive long-term passenger growth.

• Financial risks related to the QZ8501 tragedy should not be too material as we think that insurance policies should cover aircraft and next-of-kin compensation. Group CEO Tony Fernandes is playing an active role in managing the crisis which should prevent a customer backlash.

Astro Malaysia – Buy

• Astro's new high definition offerings should buffer its channel content to drive ARPU higher from premium subscribers.

• It is enjoying favourable operating leverage after set-top box investments, and the market is still relatively underpenetrated at 60% of TV households.

• Its home shopping channel is slated to commence in November and provide a longer-term boost.

Gamuda – Buy

• Gamuda should be the main beneficiary of the government's projected RM160bn rail-related spending up to 2020. Its order book stands at RM7bn from both MRT 1 and 2 underground packages.

• We see Gamuda as a stronger contender for Penang's planned integrated transport project, estimated to be worth RM27bn.

• An amicable resolution for the sale of Gamuda's water assets to the government is now more likely. We maintain our view that a more equitable valuation that is closer to book of RM 994.3m (for its 40% stake) is a possible outcome.

IHH Healthcare – Buy

• We expect 50% capacity expansion within the next three to five years, creating better growth visibility vs. most Asia-based hospital plays. This should drive robust 2-year (FY13-15E) adjusted EBITDA CAGR of 19%.

• Management's execution track record is good, particularly in improving operating efficiency, while ramping up new capacities.

Telekom Malaysia - Buy

• Its fixed-line data and voice is relatively insulated from the two headwinds in its sector – growth of mobile data (which cannibalises high-margin SMS/VAS revenues) and a likely increase in competition.

• We expect the momentum on Uni-Fi (fiber broadband) to continue, driving internet data revenue growth. Retail revenues (75% of total) are growing at c.9%, driven by robust subscriber uptake for its high-ARPU fibre broadband (Unifi), which offsets the drag from falling voice revenues.

• We are also positive on TM's opportunity over the medium term in the mobile data post approval of countrywide use of 850Mhz spectrum for LTE and its acquisition of P1 (the entity it purchased in 2014 as the first step to enter the mobile business).

Philippines

The Outlook

2015 Market Overview – Turning Bullish

We have turned bullish on the Philippine market, reversing our cautious stance in 2014. After disappointing macro data last year, we expect GDP to re-accelerate to 6.5%, on a rebound in government spending. As a large importer of oil, the Philippines is also a major beneficiary of lower world crude prices, which should mean better trade figures and lower inflation, and should support overall consumption. The market still isn't cheap - the main PCOMP Index is trading at 18x PER on our 2015 estimates, the highest in the region and close to its historical peak. But earnings are finally catching up with valuations. After years of anemic earnings growth for the market, we are forecasting a robust 19% YoY in 2015F.

Macro Outlook

2015 promises to be much brighter year for the Philippine economy. Following significant disappointment in 2014, we expect a re-acceleration in GDP growth from 5.9% in 2014F to 6.5% to 2015 and 6.6% in 2016.

• Government spending was a major drag in 2014, due in part to controversy surrounding the Congress's "pork barrel" funds and the President's Disbursement Acceleration Program (DAP). As of 11M14, government expenditures were up just 5% YoY to P1.76trn, accounting for just 77% of the full-year P2.28trn budget. As per the 9M14 real GDP figures, government consumption was down -0.2% YoY. We believe these political bottlenecks have been largely resolved. A supplementary budget was passed in December, likely to be spent in 1Q15. Meanwhile, the 2015 budget calls for a 14% increase over the 2014 budget to P2.61trn. Given the shortfall in 2014, expenditures could surge by more than 30%, assuming the 2015 target is met.

• GDP tends to get an added boost from government spending in the quarters leading up to elections (see chart, below). This is particularly true for Presidential elections with the next one due in May 2016. These should provide follow-through momentum into 1H16.

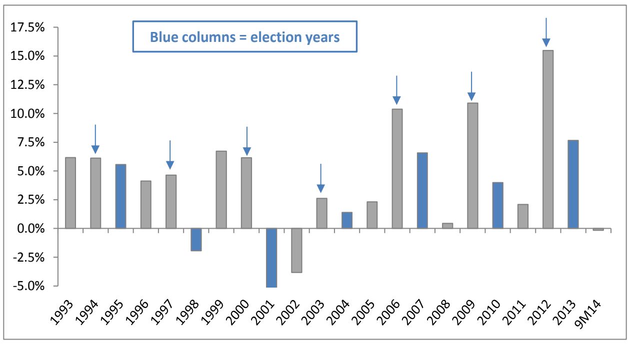
The Team

Country Head - Giovanni Dela-Rosa
Strategy – Rafael Garchitorena

Economics *– Diana del Rosario*

Banks *- Rafael Garchitorena*
Consumer / Gaming *– Aaron Salvador, Carissa Mangubat*
Industrials *- Klyne Resullar*
Power / Utilities *- Iza Fernandez*
Property *- Carl Sy*
Telecom *- Giovanni Dela-Rosa*

Government Consumption Expenditure (real GDP data), growth YoY surges in years preceding elections

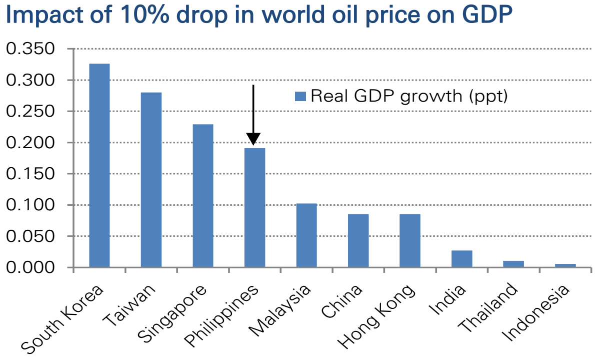


Source: Deutsche Bank, National Statistical Co-ordination Board

• Outside of government, however, other sectors were showing extremely healthy growth in 2014, which should be sustainable into 2015. Personal consumption remained strong (+5.4% in 9M14). The manufacturing sector grew 8.3% YoY in real terms in 9M14, continuing the "renaissance" that we have noted since 2010.

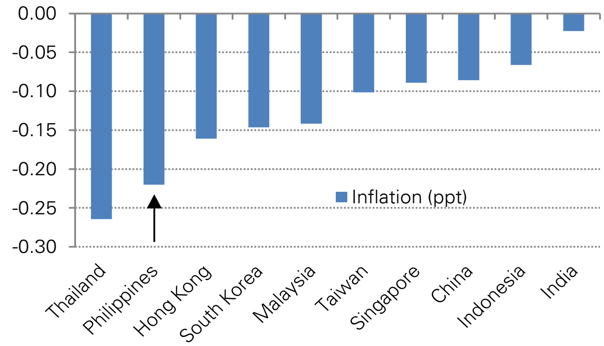
• The Philippines is a major beneficiary of falling oil prices, as it imports virtually all of its oil requirements ($13bn in 2013). We estimate that every 10% drop in average annual world crude prices boosts GDP by close to 20bps, and lowers inflation by about 22bps. The impact will be felt directly by consumers, as the Philippines does not subsidize petrol or electricity prices.

Impact of 10% drop in world oil price on GDP



Source: Deutsche Bank estimates

Impact of 10% drop in world oil price on inflation



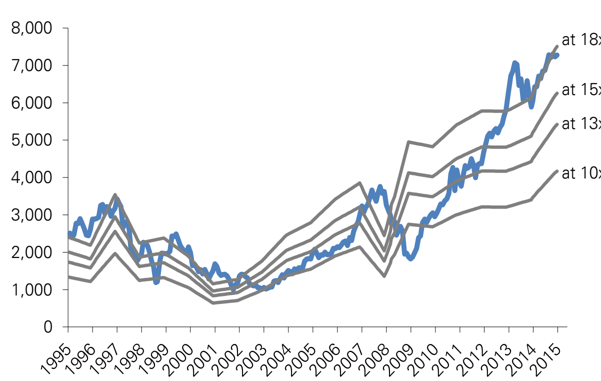
Source: Deutsche Bank estimates

• Downside risk to our GDP forecasts could come from tightness in electricity supply, which could negatively impact industrial output and investment in manufacturing capacity. The Bangko Sentral ng Pilipinas (BSP) has also implemented new regulations that could limit loan growth, particularly to the property sector.

Key themes / catalysts

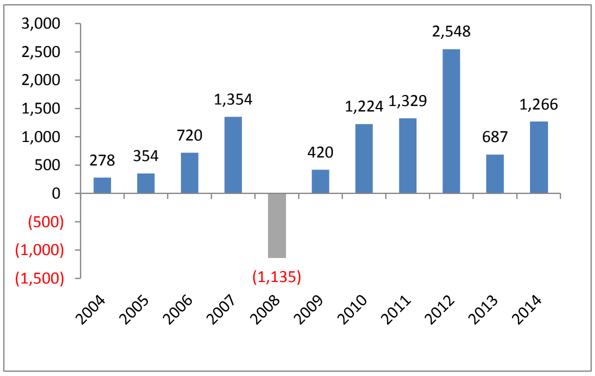
The Philippine bull story remains a consensus call. The equity market again showed strong net foreign buying of about $1.27bn in 2014. Since 2004, the Philippines has only seen one year of net outflows, in 2008. As a result, market valuations are rather pricey. The main PCOMP index is trading at 18x PER on our 2015 estimates, still near the top of its historic range, and still the most expensive market in Asia.

PCOMP forward PER bands



Source: Deutsche Bank, Bloomberg

Net foreign buying/(selling), in $mn



Source: Deutsche Bank, PSE

The market's steady re-rating over the last few years has, in our view, been largely driven by the strong macro performance. Frustratingly, that has not led to earnings growth, which has stayed subdued, in single-digits from 2011 to 2014.

This year, though, we expect market earnings growth to accelerate sharply to 19%, which could finally lend support to valuations. We note, that our strong profit growth forecasts are concentrated on the power, gaming, and consumer sectors.

The BSP has been on a tightening bias since early 2014, wary of developing bubbles in the financial and real estate markets. Last year, it increased banks' Peso deposit regulatory reserve requirements by 200bps from 18% to 20%, and increased its policy and special deposit account (SDA) rates by 50bps. In 2H14, it also put through tighter regulation on bank lending – particularly to the property sector – and capital requirements.

Benign inflation will likely see the BSP pausing for one or two quarters. However, our economics team continues to believe that the BSP still has far to go in its policy catch-up. We expect a resumption of monetary tightening in 2Q/3Q, which could put a damper on equity valuations.

Political noise could intensify into 2H15, as we near the Presidential elections in May 2016. President Aquino cannot stand for re-election, and has yet to officially endorse a possible candidate. Of the likely candidates, we believe none will dramatically alter economic policy. However, it is less clear as to whether the next President can continue Mr Aquino's reform policy of good governance and transparency.

Uncertainty could lead to investors taking a wait-and-see attitude towards 2H15.

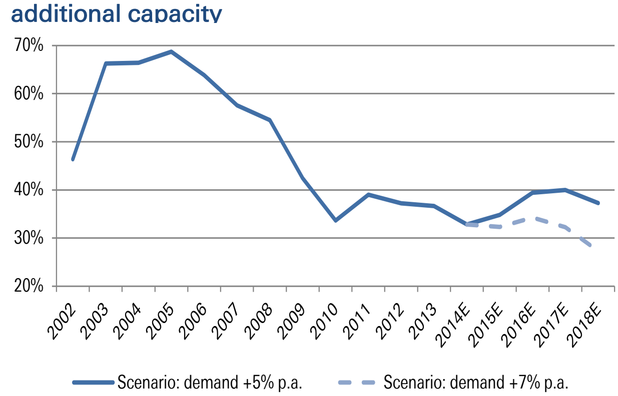
Sector Preferences

Given the above, we are **overweight the consumer and power sectors, neutral on the gaming and property sectors, and underweight telcos and banks.**

Consumer / Retail / Media – Increased government spending should add cyclical support to already strong secular demand. Key consumption drivers are likely to remain robust, and we see top line growth across the sector sustained at 15-20%. Lower oil prices will put more money into consumers' wallets, which could boost retailer spending. Lower commodity input prices should also bode well for F&B companies, which could see margin expansion. Election-related spending will likely mean additional advertising revenues for the media companies starting 2H15 into 1H16.

Power generation / distribution – We expect power supply to remain tight in the main Luzon grid at least until 2017/18 due to robust economic growth and slow addition of new capacity, with possible rolling outages in the March-May summer peak season. While reserve margins seem high (see chart), we note that roughly 20% of capacity is off-line at any given time. This means not only higher selling prices for gencos but also greater opportunities for expansion. The recent relaxation of regulations at the electricity spot market (WESM), combined with falling fuel prices, suggests that margins could improve further.

Reserve margins (Luzon), assuming no delays ion additional capacity



Source: Deutsche Bank estimates, Department of Energy

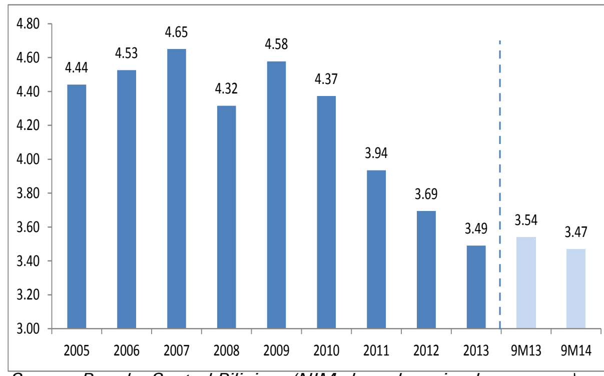
Gaming – New casino supply (+70% in tables, +59% in slots in 4Q14) should create both challenges and opportunities for existing and new integrated casino resorts in Manila. We expect divergent revenue trajectories in the next twelve months as mere demand growth is unlikely to keep up with capacity additions at least in the near term. Casinos' VIP business could also be affected by shifts in policies of the Chinese government.

Property – Recent central bank regulations, including a quasi-LTV ratio of 60%, could dampen residential demand. Meanwhile, Metro Manila condominium completions are surging, and vacancy rates are rising. We favor landlords as supply/demand dynamics are more favorable. Office remains the strongest segment, with Metro Manila vacancy at 4%. Meanwhile, we believe SSS growth of mall operators will remain resilient.

Telecoms – Despite the industry being a two-player market, overall revenue is likely to grow in the low single digits. The transition to mobile data is well underway, which is also resulting in the erosion of legacy revenue in favor of data. Much of the net growth, however, has thus far accrued to only one player: Globe. Meanwhile, we expect capex spend to remain elevated, which suggests cash flows (and thus dividends) will be under pressure, particularly for PLDT.

Banks – Loan yields continued to fall in 3Q14, despite robust growth (we assume >20% in 2015). This to us signals a new round of intensifying price competition as major banks seem to be in a market share grab. Meanwhile, the Bangko Sentral has issued a raft of new regulations – the Real Estate Stress Test (REST), a quasi-LTV of 60%, additional CET1 requirements for domestic systemically important banks (D-SIBs) – with possibly more rules to come. These will force either a slowdown in loan growth, or more equity issues, more often. While these regulations are long-term positive for the overall health of the banking system, they clearly pose challenges to banks' ROE expansion.

Philippine banking sector NIMs



Source: Bangko Sentral Pilipinas (NIMs based on simple averages)

Top picks

Puregold (Buy) – We continue to like the long-term structural outlook of the retail sector, with modern retail penetration still in the sub-30% range. While SSSG is in the low single digits due to saturation in Metro Manila, much of PGOLD's capacity expansion is in provincial capital cities where penetration is much lower. Margins have recovered sharply after a short-lived price war in 2Q14.

Among the consumer F&B companies, we prefer **Century Food (Buy)** on valuations. CNPF is the market leader in canned seafood and corned beef, with more than 80% of its revenues coming from domestic branded goods (vs commodity OEM). The company is looking to expand its brand portfolio organically and through M&A.

ABS-CBN (Buy) will likely benefit from the upcoming elections in 2016. Its leadership in nationwide viewership ratings means it is likely to get a disproportionate share of election-related advertising spend starting 2H15.

Among power generators, we like **Semirara (Buy)** and **Energy Development Corp (Buy)**. **Semirara** will see its power capacity rise 55% from 540MW to 840MW this year. With a shortage looming, we expect the company to secure contracts at much more favorable prices than its existing rates. We forecast earnings growth of 39% in 2015F and another 31% in 2016F. **EDC**, meanwhile, completed the rehab of its problematic BacMan plants and the construction of its wind generators. These combined to increase capacity by 27% in late 2014, which should lead to a 45% EPS growth this year.

Meralco (Buy) remains a non-consensus Buy for us. The risk-reward trade-off is attractive, in our view. Our base case DCF, which offers 38% upside from current levels, already assumes a 25% tariff cut. We estimate the current share price already prices in an excessive 35% tariff cut. Key regulatory decisions due over the coming months should lift the overhang on the share price. Though further delays are possible, the dividend yield of 5% pays investors to wait.

Of the conglomerates, we believe **Metro Pacific (Buy)** and **LT Group (Buy)** could outperform this year. **MPI** (**Buy**) trades at a 41% discount to our sum-of-the-parts NAV estimate, and underperformed in 2014 due to a string of regulatory setbacks. However, it recently received a favorable ruling in the arbitration case of its water utility Maynilad. It also has a controlling stake in Meralco. For **LT Group**, much rests on a turnaround of its market-leading tobacco affiliate PMFTC. In 4Q14, the company increased cigarette prices by c20%, which was followed by its largest competitor. This to us suggests a return to rational pricing, which could see a rapid return to profitability for PMFTC.

Among the property companies, we have a Buy on **Robinsons Land (Buy).** About 80% of its EBIT comes from leasing businesses, making it less susceptible to recent regulatory pressures. RLC is expanding its rental portfolio (malls, office and hotels) by between 40% and 65% by FY2016F compared to its FY13 base. The big expansion came in FY14, with the full-year earnings impact hitting this year (we forecast +22% earnings growth in FY15).

Singapore

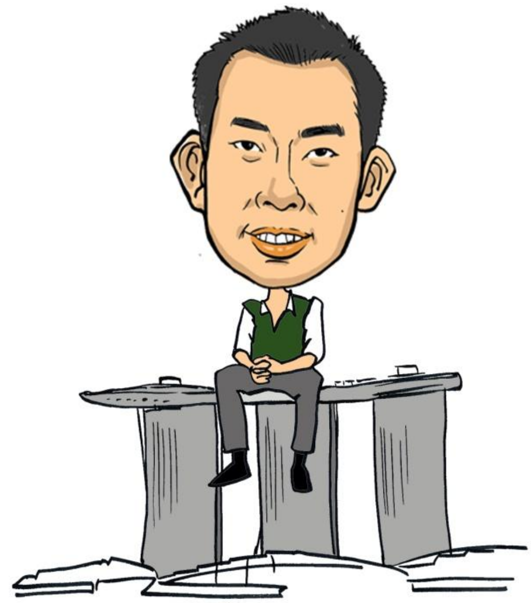
The Outlook

Market Overview: Sector selection remains key

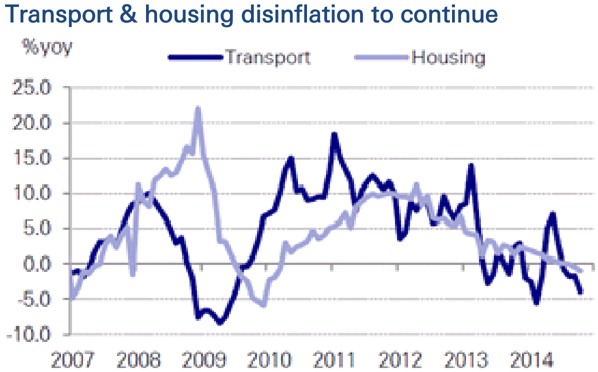
We like the residential property, bank and land transport sectors in Singapore. However we believe that the overall market remains unexciting at 2015E PE of 13.5x at a time when earnings growth is expected to decline in 2015; DB forecasts a decline in EPS growth to 7.8% in 2015 from 9.2% growth in 2014. With a depressed oil price, we believe that the Offshore and Marine sector in particular will remain under pressure Lastly, possible elections in 2015 should have insignificant market impact based on our historical analysis.

Below trend 3% GDP growth is the new norm

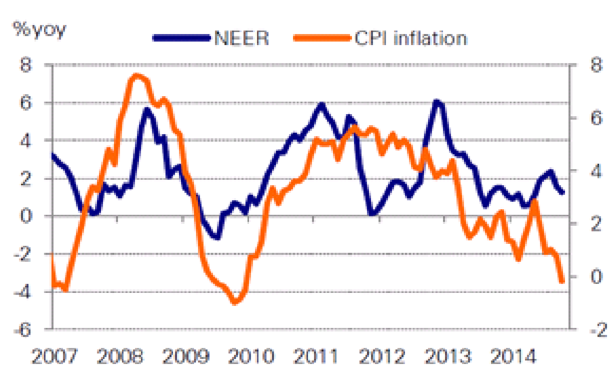
Singapore will likely see both 2014 and 2015 as periods when real GDP rises by 3% each year, which are below-trend numbers, but they should by no means to be seen as disappointing outturns. As Singapore deals with structural issues (ageing population and low productivity) and cyclical headwinds (stagnation in global trade), it's not all doom and gloom for 2015.



Transport & housing disinflation to continue



Dissipation of inflation risk would make it easier for MAS to allow SGD to weaken



Source: Deutsche Bank, CEIC

The Team

Country Head – Joe Liew

Economics *– Taimur Baig, Diana del Rosario*
Strategy *- Joe Liew*

Banks /financials– *Franco Lam, Sukrit Khatri*
Gaming *- Aun-Ling Chia*
Healthcare *– Jack Hu*
Industrials *– Kevin Chong, Joe Liew, Sky Hong*
Property *– Joy Wang, Chien-Fie Man*
Telecom *– Peter Milliken*

With transportation and housing prices, key sources of inflation in recent years, easing sharply, the economy is on course to end 2014 with zero or negative price growth. We see inflation on average remaining below 1% next year, which would act as a de facto tax cut for Singapore's consumers. As inflation concern recedes, the Monetary Authority of Singapore will find it convenient to let the exchange rate weaken, in our view.

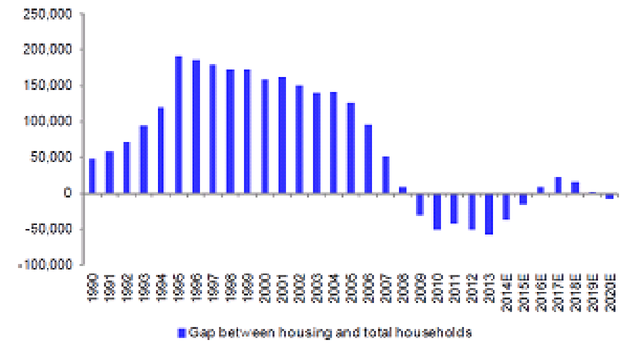
Hence a combination of 3% growth, barely existing inflation pressure, and a likely weakening of the exchange rate would be par performance for a wealthy, mature economy in our view.

4 key themes for 2015
Theme 1: Positioning into residential property
We believe 2015 is the year to revisit developers as they are likely to outperform, given our Singapore property analyst's view of a potential pick up in transaction volume as price-sensitive demand returns and given possible policy easing toward year-end combined with undemanding valuations. DB forecasts declines in property prices of 10% in 2015 on the back of a strong completion pipeline, a weak rental market and ongoing policy measures in 2015. That could bring into play a potential policy review late in the year as past policy measures have been enacted in response to declines of 10% or greater. Our long term forecast also indicates that the system surplus is not particularly alarming when compared to historical surpluses. We expect stocks to rerate upwards ahead of a bottoming out in the physical market (see figure below).

Stock vs property cycle – nearing the bottom

Source: Deutsche Bank

Forecast housing surplus is minor compared to historical figures

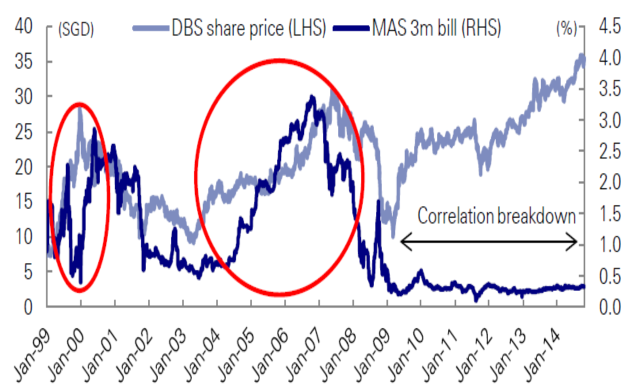


Source: Deutsche Bank, URA, HDB, Singstat

City Development and CapitaLand are our top property picks to position for this theme and are currently trading at 29% / 37% discount to Deutsche Bank's RNAV estimates respectively, or 1 s.d. below the long-term average discount level.

Theme 2: Rising interest rates positive for DBS, negative for SREIT.
The potential rise in Singapore bank NIMs on the back of a Fed interest rate hike should boost bank earnings, especially DBS which has the highest CASA franchise at 55% and the lowest SGD LDR of 78% among its peers.

Correlation of share price with rates could resume with rate hikes



Source: Deutsche Bank, Bloomberg

In addition, we believe the time is ripe to consider switching out of Singapore REITs (SREIT) as they are currently trading slightly below their historical average of c.381bps spread and in light of potential interest rate increase SREITs are expected to be rangebound in 2015E with only 3% total returns.

Furthermore, the yield differential between the different portfolios within the same sector has been minimized over the past year, leaving long-term interest rate movements as the single most important share price driver. Our economist forecasts a higher USDSGD of 1.35 by year end 2015. The main beneficiaries of an appreciating USD are players with an overseas presence in USD-linked countries or which derive revenues in USD such as the offshore and marine as well as shipping sectors.

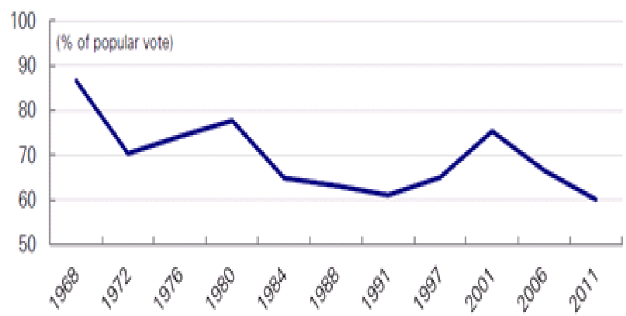
Theme 3: Land transport reforms gather pace
We think tender announcements for the Government Contracting Model (GCM) in 2015 should give the market more confidence that the incumbent operators, **SMRT** and **ComfortDelGro (CD)**, would benefit from higher bus margins in 2016. Based on our DCF analysis, we do not believe the market has fully priced in the Government Contracting Model (GCM), which should see the unprofitable bus business reap a forecast OP margin of 9% from October 2016. To recap the key changes, the government would be removing the farebox risk and commence leasing buses to the bus operators, in order for the operators to focus on providing a better service. We have not factored in estimates from the potential sale of existing bus assets as we await more clarity on the use of legacy bus assets. At NBV, the sale of bus assets could net SGD900m (42c per share) for CD and SGD200-300m (13-20c per share) for SMRT. We do not believe that new entrants would pose a threat as (1) incumbents will ultimately see positive margins, (2) new entrants are limited to 20% of the market which is 3 out of 12 bus parcels and (3) the market would be protected until 2021.

Theme 4: Oil prices to stay low; cautious on Offshore & Marine sector
We believe the Offshore and Marine (O&M) sector will continue to be hit by falling oil prices as customers reassess their capex plans. There is strong correlation between KEP and SMM's share price with oil prices.

Conversely, the transportation industry (CD/SMRT/SIA/NOL) should benefit from a sustained lower oil price.

Wildcard: Early 2015 elections but market impact should be insignificant
From our analysis, there should be no significant market impact from the upcoming general elections, which need to be called by Oct 2016. Based on historical data, the market does not have a definitive direction going into or post elections. There were large skews in 2001, 1980 and 1972 when the People's Action Party (PAP) won more than 70% of the popular vote.

PAP's popular vote has been trending downwards



Source: Deutsche Bank, Elections Department Singapore

Our base case is that the election will be called in 2016 or late 2015 after the Jubilee celebration (National Day on the 9th of Aug) and after the population has had time to enjoy recently announced social benefits such as the Pioneer Generation package which provides medical benefits to senior Singaporeans.

Top Picks

City Developments – Buy
- Recovery in transaction volumes should impact City Developments as it has the most diversified exposure to Singapore residential market with products across all market segments.
- Valuations look cheap at 29% discount to RNAV compared to our 12m forward price target based on a 15% to RNAV estimate.

ComfortDelGro – Buy
- 2016 Singapore bus reforms should boost margins to forecasted 9% from zero. Singapore bus operations currently make up c. 20% of revenue.
- High potential for acquisitions to occur as it has a positive FCF of S$170m with net cash position of S$15m. Our analysis indicates that CD has

historically made an acquisition of more than >$100m whenever it is in a net cash position.
• Potentially higher or special dividend payouts if acquisitions do not materialize or if sale of bus assets (NBV of SGD900m, c.42c per share) goes through

DBS Group – Buy
• Niche in growing wealth management market in Hong Kong and Singapore should drive its earnings momentum
• Better positioned than peers for interest rate rise on higher CASA %. NIM, non-interest income (propelled by capital, trading and WM fees) and solid asset quality exceed those of peers.
• We are positive on its exposure to Greater China

Singapore Telecom – Buy
• Structural improvement at Optus should start delivering results
• Associates performing well : (1) positive pricing trends in place in India and Indonesia; (2) generally improved positioning due to market consolidation in India, Indonesia and the Philippines.
• Dividend yield of just under 5%.

Yangzijiang Shipbuilding – Buy
• Key beneficiary as the Chinese shipbuilding industry consolidates. Healthy private yards (YZJ) should become stronger, while weaker and/or smaller Chinese yards could close (30-50% of yards).
• YZJ's USD4.6bn order book (vs. USD3.9bn in 3Q13) comprises 114 vessels and should allow its yards to remain well utilised through 2016.

South Korea

The Outlook

The 12m forward P/E for the KOSPI declined from 12x to 10x during 2014 due to Korea's slower growth outlook, primarily from China's slowdown. While we have muted optimism for 1H15, we believe a market rebound could be possible in 2H15 on a combination of Korea's W46tn stimulus package and China's growth recovery.

We anticipate the KOSPI to be range bound between 1,850~2,300 for the year, which is derived from our net earnings outlook and 5 year average P/E. Our aggregate market earnings are based on forecasts by our individual sector analysts and are in-line to slightly bearish vs. consensus.

2015 Kospi target

	Lower-range	Mid-range	Upper-range
Adjusted DB 15E NP (Wbn)	76,457	76,457	76,457
DB 15E NP (Wbn)	80,731	80,731	80,731
Discount	-5.3%	-5.3%	-5.3%
DB target P/E	10.1x	11.4x	12.7x
DB target mkt cap (Wbn)	769,040	870,809	972,578
KOSPI target	1,833	2,076	2,319

Source: Deutsche Bank, Datastream, Quantiwise

In 2015 and 2016, we expect economic growth to remain at around mid-3%, with risks to the downside, given the higher economic uncertainty involving EU and China, and the weakness of their respective currencies. On fiscal policy, the National Assembly has approved a 5.7% increase in annual budget for 2015. Meanwhile, we do not expect the BoK to vigorously ease monetary policy - our macro team forecast a 25bps cut in 1Q15.

In the near term, despite anxiety over capital outflows, we expect the weakness of the yen, euro and RMB to keep the BoK tolerant of the KRW's sustained depreciation, especially as falling oil prices further reduce inflationary pressure and as exports remain soft.

Looking further ahead, as Korea's real growth rapidly converges with that of developed economies, it has opened the debate regarding whether Korea could also be heading towards secular stagnation. The government in response has been trying to battle the situation with deregulation in the domestic sectors and aggressively negotiating FTAs with trading partners.

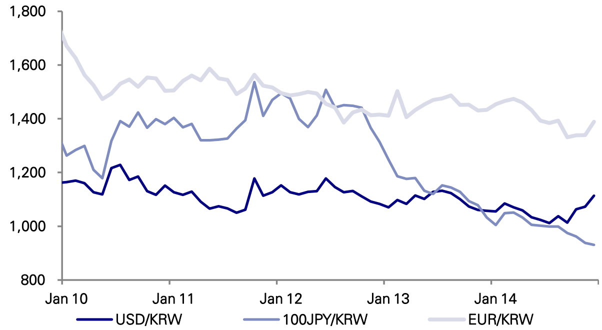
The Team

Country Head - John Kim

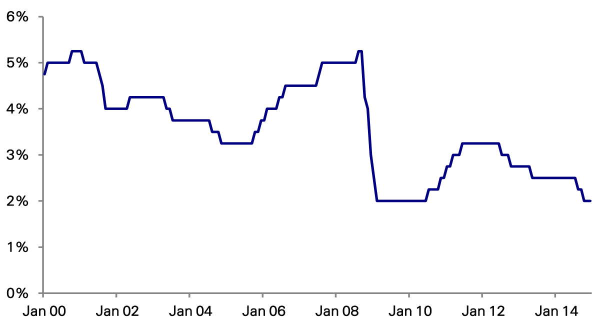
Economics *- Juliana Lee*
Strategy *– John Kim*

Autos *- Sanjeev Rana, Chanwook Park*
Banks / Insurance / Brokers - *Jeehoon Park*
Basic Materials *- Chanwook Park*
Consumer *- Jihyun Song, Jeremy Kim, Dianna Kang*
Industrials *- Sanghi Han, Sanjeev Rana, Chanwook Park, Joe Liew, Sky Hong*
Oil & Gas *(Chems) - Shawn Park*
Power / Utilities *- Sanghi Han*
Tech *- Seunghoon Han, Hanjoon Kim*
Telecoms *- John Kim*

KRW FX Rate



Korea policy rate



Source: Deutsche Bank, Datastream

Key themes / catalysts

We identify 4 potential themes to monitor in 2015: 1) additional rate cut by BoK, 2) dividend hikes, 3) GDP growth recovery, and 4) FX rate dynamics.

• Additional rate cut by BoK: Our macro team expects Korea to cut rates by 25bps in 1Q15 following another set of weak data, and still sees additional downside.

• Dividend hike: The National Assembly approved the tax law revision which includes taxing "excessive" corporate earnings and incentivizes higher dividend payouts. The government has also been explicitly requesting companies to raise dividends, and has started to take action by raising payout of state-owned companies.

• GDP growth recovery: Korea's record size expansionary fiscal package of W46tn will boost GDP growth from 2H15. The lagged effects of monetary easing and expansionary fiscal policy of China should also help. Furthermore, lower oil prices are also favorable.

• FX rate dynamics: KRW weakness is likely to continue vs. the USD as interest rates move in opposite directions, and favor the export dependent economy. However, Japanese competition could grow stiffer as we expect JPY depreciation to continue.

Sector preferences

We do not hold a strong positive view on any sector in Korea. We believe there may be moderate upside in the consumer sector on the back of growth in Chinese visitors and consumption recovery from 2H. We also flag the possibility of autos surprising to the upside, supported by a weaker KRW.

On the other hand, we flag banks, oil/chem and shipbuilding as sectors with the largest potential downside. Banks will be negatively impacted from the additional rate cut we expect in 1Q15. Pressure on the oil/chem sector continues globally as oil prices are expected to remain weak. Shipbuilders face headwinds due to weak commodity prices.

Top picks

We believe stock picking will be far more important under such an unfavorable macro environment, and provide a list of our most preferred and least preferred stocks.

Most preferred stocks

• **CJOS (Buy):** Earnings should show positive growth in 2015 thanks to the company's margin focused portfolio reform policy for mobile business, while SO commission cost will increase only moderately, lower than revenue growth in 2015. Valuations are undemanding, trading at 10x of 2015E P/E.

• **Kia Motor (Buy):** New models such as Carnival (2Q14), Sorento (3Q14), K5 (2Q15) and Sportage (3Q15) will boost ASP and volume. Kia exports 40% of its global output from Korean plants and is a key beneficiary of a weak KRW.

• **Samsung F&M (Buy):** We expect better underwriting discipline leading to a quicker earnings rebound vs. peers and potential downside for LT loss ratios due to re-pricing of medical coverage insurance from 2015. High quality online auto insurance market share gains should lead to more stable auto insurance profits.

Least preferred stocks

• **Daum Kakao (Sell):** Core earnings drivers such as Kakao game revenue are stagnating, current valuations leave limited room for execution missteps in accelerating mobile advertising as its next source of growth. Additionally, its focus on the domestic market may lead to margin pressure.

• **Hanwha Chemical (Hold):** Lingering uncertainty on the management's strategy on the company's core business - petrochemical/solar.

• **Hyundai Heavy (Hold):** Order flow and profitability will remain weak in 2015. Offshore orders are likely to be impacted by weak oil price while losses at plant and refining business are likely to continue. Labor issues at the company remain another uncertainty.

• **S-Oil (Hold):** Lacks company specific catalysts, while oil refining sector outlook remains challenging for the next 3 years, driven by sizeable capacity expansions.

• **Woori Bank (Hold):** Faces further margin contraction as a result of the market interest rate decline and this will be tough to offset with other factors. Share price has limited downside at current levels, but we are still not positive about the earnings outlook.

Taiwan

The Outlook

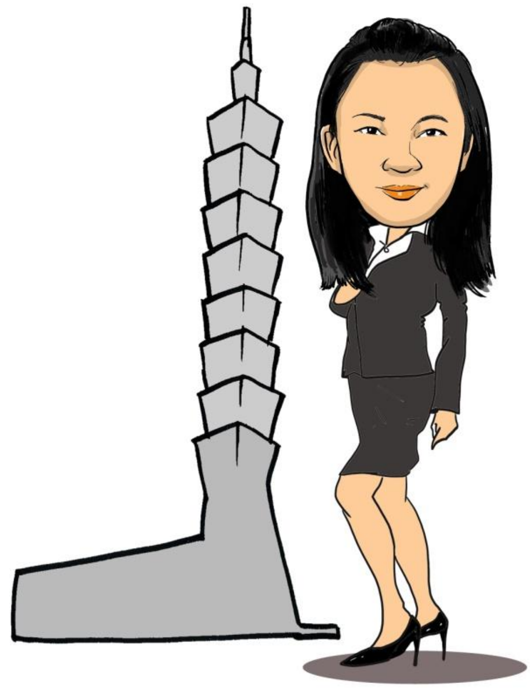
2015: Market Overview
We take a more conservative approach to Taiwan's market outlook in 2015. After three years of good performance the trends now appear less favourable. Thus, we take down our 12M index target to 9,000 by assigning a further valuation discount (13x, or -1 std. below mid-cycle valuation of 14.6x) taking into consideration increasing market risks.

Fundamentally, the peak of the iPhone-led tech product cycle and the slowdown of corporate earnings growth (from 21.4% in 2014 to 8.6%/7.6% in 2015/2016), coupled with the strong USD (negative impact to market fund flows), do not bode well for the market. We believe the negative fund flow impact from strong USD will outweigh the positive corporate earnings impact looking at historical correlations.

Macro Outlook
Taiwan's GDP growth is heavily leveraged to prospects in the US and China. Although the US is expected to post stronger GDP growth in 2015, China's slowdown, despite monetary easing, should lead to flattish growth in Taiwan. With tech growth peaking in 2015E and PMIs of major developed economies trending down, we see increased concerns regarding Taiwan's export growth.

Historically, Taiwan's interest rate cycle has tended to follow that of the US given the currency peg. However, the magnitude of the rate hike or cuts tends to be more moderate than the US. Given the stable growth outlook and ample liquidity, coupled with lower inflation pressure from declining commodity pricing, particularly oil, CBC is expected to keep the interest rate stable.

Key Market Themes & Catalysts
The positive earnings revisions cycle for the market may have run most of its course. With slowing earnings growth YoY and rising external and domestic concerns, it seems increasingly unlikely that earnings revisions will be positive.



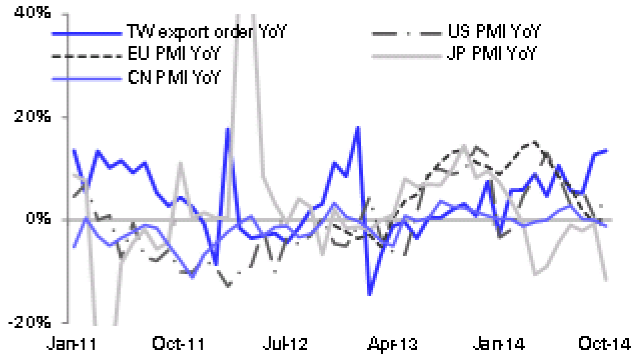
The Team

Country Head - Joelian Tseng

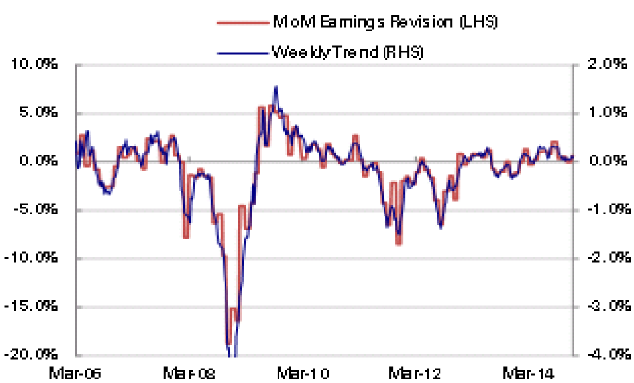
Economics *- Juliana Lee*
Strategy *- Joelian Tseng*

Banks *- Pandora Lee*
Basic Materials *– James Kan, Johnson Wan*
Consumer *- Joelian Tseng*
Healthcare *– John Chou*
Industrials (inlc Transport) *- Vincent Ha, Sky Hong*
Insurance *- Pandora Lee*
Tech (hardware) *– Birdy Lu, Andrew Chang*
Tech (semis) *- Michael Chou, Jessica Chang, Seunghoon Han, Kevin Wang*
Telecoms *– Peter Milliken*

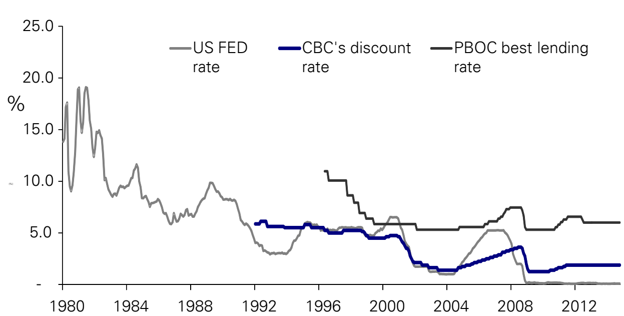
The resilience of TW exports vs. weakening US/CN/EU/JP PMI may not be sustainable



Earnings revisions momentum appears to be waning



Interest rate cycle is expected to hold steady in 2015



Source: Deutsche Bank, TEJ, Bloomberg

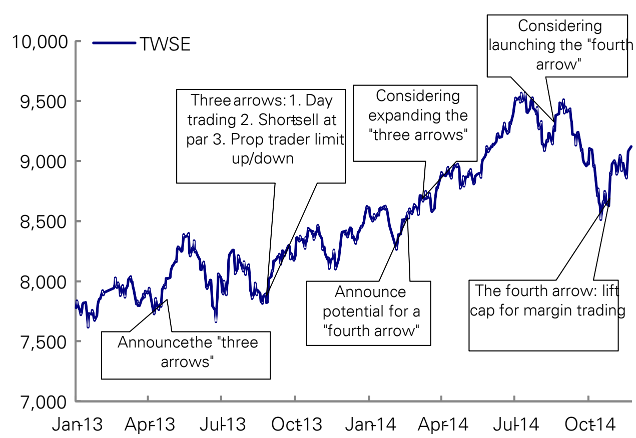
Elections and taxes are likely the two major domestic factors to put local investors on the sidelines.

The KMT's defeat in the local elections does not necessarily lead to the DPP's victory in the 2016 presidential election. We maintain the view that voters' considerations for local elections and presidential elections are different and foreign policy, particularly cross-strait policy, is the key differentiating factor in the presidential election. The cross-strait relations have lacked progress after the failure to achieve the Service Free Trade Agreements earlier this year, which also led to the Sunflower Movement in May. We do not expect the outcome of the election to change the status quo.

Moreover, there is no robust evidence of stronger (or weaker) TWSE market performance before the presidential election despite a general perception that the government tends to prop up the market to try to influence the election results.

New taxes are due to kick in this month and the new market stimuli are losing effect after the launch of several rounds of "arrows" by SFC. The more rounds of stimuli, the less the incremental impact for the market.

Recent market stimulus measures



Source: Deutsche Bank, TEJ, Bloomberg

Sector preferences

We reduce Tech to neutral in light of the slowing earnings growth into 2015/16. As the Apple product cycle peaks out (in terms of sequentially slower growth in iPhone volume shipments) and given the lack of other tech products to make up for the slower growth, tech outperformance in 2015 seems unlikely.

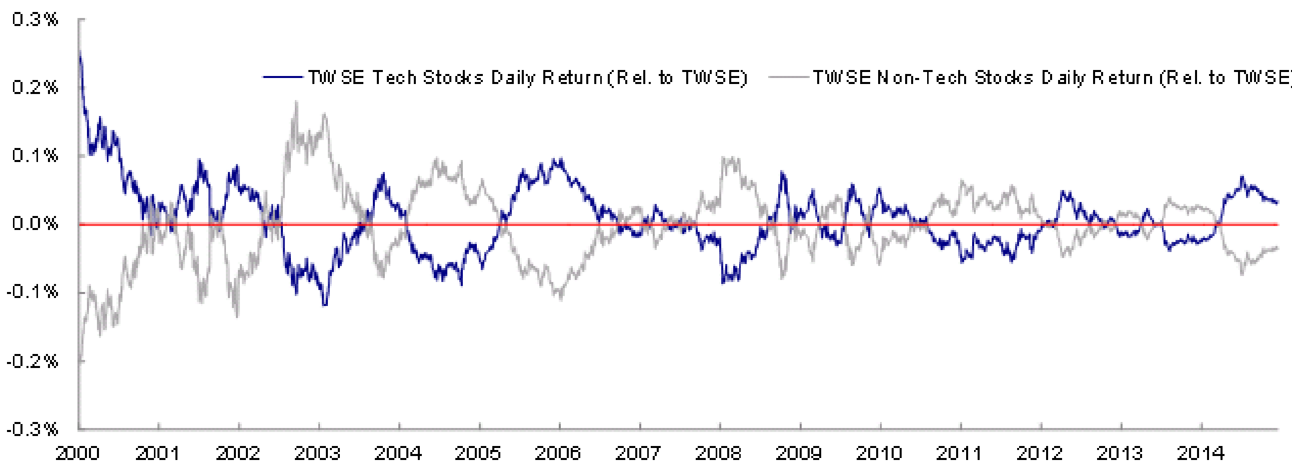
This leads to a slight overweight in Non-tech sectors. Non-tech has underperformed in 2014, partly due to company/industry specific issues and due to the demand slowdown in China (anti-corruption measures as well as property market slump). With China's monetary easing, several subsectors are expected to deliver improved earnings such as retail, textile, machinery and food which could lead to better stock performance in 2015.

Top picks

Most preferred picks: TSMC (Buy) and **HMI (Buy)** for Taiwan's leadership in the semiconductor process migration and strong capex demand. **Hon Hai, Pegatron, Largan** and **Catcher** (**All Buy rated**) for the robust demand for premium smartphones. **Eclat (Buy)** and **Ginko (Buy)** for the robust demand for high-end sports fabrics and the contact lens migration toward disposables, respectively.

Least preferred picks: Unimicron (Hold) (due to potential market share loss), **AUO (Hold)** (worsening balance sheet quality), **Pixart (Sell)** (delayed product cycle), **Scinopharm (Sell)** (deteriorating margin outlook), and **Asustek (Sell)** (growing risks in the smartphone business).

Sector rotation likely to shift to non-tech in 2015



Source: Deutsche Bank, TEJ, Bloomberg

Thailand

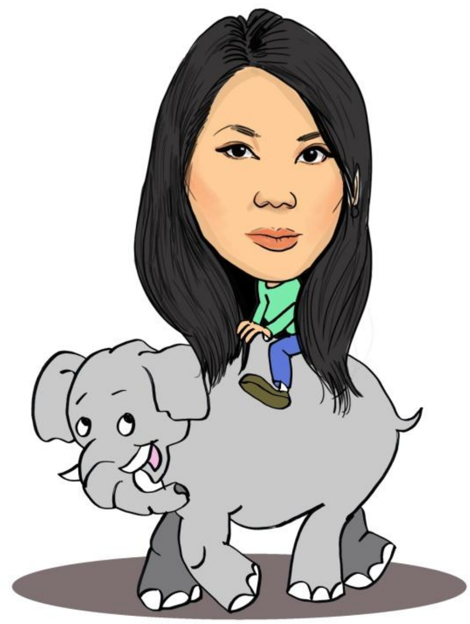
The Outlook

Risk reward trade-off not especially compelling

We believe 5-8% upside for the SET from current levels is achievable in 2015 for an upper range of 1,600-1,650. The continued easing rates cycle in Thailand could still push domestic liquidity inflows into equities at least in 1H15. However, the overall risk-reward equation does not strike us as particularly compelling given near-term downside risks from 4Q14 GDP/earnings result and the possibility of less stable politics as a result of the government's economic performance. After the 7% decline in early December, the SET has bounced back quickly to 14.2x FY15E (+1STD) on seasonal tax-incentive mutual fund inflows. Our aggregate earnings growth forecast for companies under our coverage stands at 16% in 2015, which is in line with long-term historical average growth. However downside risks to our estimates outweigh upside potential, even after significant downgrades across large parts of our coverage universe over the past year.

Selective recovery on the back of favorable base effect

With a very favorable base effect, we expect 2015F GDP of 4%. While our GDP forecast is above consensus, we expect a selective rather than broad-based recovery. We maintain our expectation of a private consumption turnaround, especially among the mid and high-income groups. Wage growth remains strong on the back of a very low unemployment rate. On the other hand, farm income is unlikely to see a strong near-term rebound. Hence, we are less positive on the prospects for a rural consumption recovery given the government's stated distaste for populist measures (a major consumption-boosting policy is unlikely) and the continued rise in lower-income household debt. On investment, as capacity utilization remains at its lowest level since the 2011 flood crisis, we may have to wait until 2H15 to see a truly material recovery. On the public side, we view ongoing projects positively, especially the Skytrain and MRT extension projects. That said, we note that new infrastructure projects are still subject to execution risk and relatively long study periods. With a slow recovery and declining inflation, we now expect the BoT to maintain its policy rate at 2% throughout 2015. While Thai policy rates normally move in tandem with the US Fed funds rate, we believe stubbornly high household debt, rising NPLs, and a slowdown in loan growth will result in the BoT delaying rate normalization to 2016.



The Team

Country Head - Peach Patharavanakul

Economics *– Taimur Baig*

Banks *- Peach Patharavanakul*
Basic Materials *- Aekapop Guruvanich*
Consumer *- Chalinee Comgmuang, Aekapop Guruvanich*
Healthcare *- Aekapop Guruvanich*
Power / Oil & Gas *– Thapana Phanich, Aekapop Guruvanich*
Property *- Nash Shivaruchiwong*
Telecom *- Thapana Phanich*

Improving current account on falling oil price and strong USD
Historical data suggests Thai exports should move in tandem with the expected 2015 global economic recovery. A weaker THB/stronger USD due to the Fed rate hike should also support exports. However, as our research suggests that some key export products are facing structural headwinds, we expect a recovery in total export growth to be relatively mild. Following the sharp decline in imports in 2014, we expect a rebound in this segment in 2015. With high net energy imports (10% of GDP), combined with a falling global oil price, we do not expect Thailand to post a current account deficit in 2015. A gradual recovery in tourist arrivals should also keep the account positive. On inflation, we expect the impact of lower global oil prices to outweigh the effects of the government's push for energy reform and the weakening THB.

Key themes / catalysts

Stronger USD: The historical trend between the SET index and USD/THB exchange rate in the past decade tends to show an inverse relationship. Thai exports usually grow with the global economic recovery but the export-driven economy usually has a less significant multiplier effect on Thai GDP growth (benefits mainly go to exporters who represent only a small proportion of the Thai population).

Lower inflation is moderately supportive: Lower inflation (oil and interest rates) is usually positive for domestic demand. Transportation and traveling costs represent about 12% of an average Thai household's expenditure while logistic costs account for about 15% of total manufacturing costs. However, we do not expect the impact to be substantial as in the past as low-income households are still highly indebted. It could take another 1-2 years more for consumers to de-leverage debt (particularly auto loans) and loan demand for durable goods to recover.

Reform (2015) before Election (2016): regulatory risk first, political risk later: On the political front, although we do not anticipate mass rallies even if there are delays to the election timetable in 2015, there is a risk of small protests despite martial law. Outbreaks of small scale protests could signal a decline in public acceptance for military intervention. In our view, the state of the economy will be the key to how long the military government will be tolerated by the public. With reform topping the government's agenda, speculation on regulatory changes is likely to continue during the year. The key changes being sought by the government include energy reform (oil fund levies and excise taxes), a possible VAT hike, delay in new excise tax on vehicles, and rollout of the long-awaited 4G auction. Key risks include slow export recovery, political instability and regulatory changes.

Key economic and market events:
-Mid Feb'15, 4Q14 GDP data release: While markets look forward, disappointing GDP data from 4Q14 could lead to further downward revisions in earnings as investors might feel that the recovery could see further delays.

- Mid '15: The first US Federal Funds rate hike since mid-2006 is widely expected by markets in mid-2015, a move that should support the USD. The key concern afterwards is capital outflows from emerging economies. However, we do not expect a strong outflow from Thailand due to relatively low foreign exposure in both bond and equity markets, compared with regional peers. In addition, Thailand's current account is likely to be in surplus driven by a recovery in exports and tourism.

-2H15: Election delay. Regarding Thailand's return to democracy, we maintain our view that a general election is likely to be delayed until 2016. Recently key members of the Constitution Drafting Committee mentioned that the drafting process may take longer than expected and the public may be allowed to take part in a referendum after the constitution draft is ready. Delays in the election process could result in renewed political street protests, potentially destabilizing the country. However, with martial law in place, we do not expect new mass rallies.

Top picks

As the Thai macro outlook is still subject to various domestic and external headwinds and household debt leverage remains high, it is difficult to be overtly bullish on the SET. However, a tougher macro cycle should provide opportunities for strong players to gain market share from weaker competitors.

We favour domestic defensive plays which hold monopolistic/oligopolistic positions in various industries e.g. transportation, hospital, telecom, utilities. We also like external-orientated sectors that benefit from a stronger USD, lower oil prices and growing outbound/inbound tourism. We believe consensus will closely monitor the government's infrastructure program and believe this will be a key factor in share price performance. Our non-consensus view is that near-term benefits to the domestic economy are unlikely to be significant as the government's budget for infrastructure investment in the first year is very limited. Also actual execution of projects is heavily dependent on political stability after a general election.

Bangkok Dusit Medical Services (Buy): (i) strong pricing power and oligopolistic structure (low regulatory control in hospital industry) should lead to 18% p.a. EPS growth in 2015-17F (ii) margin expansion cycle will begin post-2016 once new hospitals break even at EBITDA level

Airports of Thailand (Buy): (i) Beneficiary of foreign tourist traffic recovery and continued robust domestic tourism; (ii) multi-functional terminal project will reduce near-term capex burden; (iii) stock's premium to regional airports is at multi-year lows

True Corporation (Buy): (i) Spectrum advantage implies further mobile non-voice market revenue expansion (25% market share in five years from 18% currently); (ii) low penetration in UPC leaves growth implies growth potential for broadband business (broadband subscriber to increase to 4.5m subs in five years from 2m subs in five years); (iii) break even Free Cash Flow in 2015F, with EBITDA expected to increase by 2.8x by 2020 due to high operating leverage.

Advanced Info Service (Buy): (i) Regulatory cost savings from moving remaining concessionary subscribers (30% revenue share to the state) to the licensed subsidiary AWN (5% revenue share to the state) by September 2015; (ii) Spectrum auction by end-2015F to alleviate spectrum constraints; (iii) potential upside from successful entry in the fixed broadband segment.

Thai Oil (Buy): (i) Substantial cost savings from the recent decline in the Murban crude premium (50-60% of its feedstock) to Dubai crude following the decline in global crude oil prices (which DB expects to last for three years); (ii) Refining EBITDA expansion of 25%, and Petrochem/LUBE EBITDA expansion of 10%; (iii) TOP is currently trading two standard deviations below its historic average P/B, and the stock is also the only PTT affiliate to have not seen a share price rebound after the recent index recovery.

Bangchak Petroleum (Buy): (i) most insulated from our expectation of declining refining margins as refinery represents only 40% of EBITDA; (ii) steady growth in marketing and solar businesses; and (iii) attractive valuation - 1.2x P/B compared to 12% RoE

KBANK (Buy): (i) Strong SME/retail business franchise to drive a NIM that is superior to peers and fee-based income growth; (ii) lower inflation will help improve credit quality and keep credit costs at manageable/profitable levels (iii) solid fee-based income backed by its #1 position in bancassurance, mutual funds, card business which help it benefit from strong purchasing power of upper income groups

SCB (Buy): (i) SCB's #1 position in housing loans will ensure the bank benefits from the continued high-end property demand of upper-income groups; (ii) upside potential from corporate finance deals on the back of its strengthened relations with large corporate customers i.e. CP, PTT, SCC; and (iii) potential recovery in insurance market share after management changes and plan for a strategic partner.

ROBINS (Buy): (i) consumption demand recovery from 4Q14 and announced share buyback indicate that the bottom has passed; (ii) revenue contributions shifting from traditional department store to retailers (like CPN) will lead tp 20%+ earnings growth in 2015F; and (iii) attractive valuation at pre-2012 consumption rally and inexpensive vs. peers

CPN (Buy): (i) Riding pent-up demand and strong purchasing power of upper-income households; (ii) funding via asset sales can keep leverage reasonable and strengthen profitability whilst benefiting from asset price appreciation; and (iii) resilient against short-term economic headwinds given fixed rental contracts and minimum guarantees for at least 1-3 years.

AP (Buy): (i) strong 2015F EPS growth of 21% supported by strong revenue backlog securing 50% of 2015 revenue; (ii) attractive PER of 7x for 2015F vs. sector average of 10.5x; and (iii) improvement in presales for low rise projects and condo sales from JV projects.

AMATA (Buy): (i) pent-up BoI applications from early this year (approvals were delayed due to political instability), (ii) labour-intensive companies applying for zone-based BoI privileges should receive approval before changes are made, (iii) expect AMATA to benefit from injecting its assets into a REIT worth Bt4.75bn (160k sq. m) in 1Q15 (initially planned for 4Q14) and listing of its Vietnam subsidiary in 2Q15.

Sectors

Autos

The Outlook

Within the sector we are most ***positive on India*** heading into 2015 as we believe the demand recovery should accelerate this year. We forecast passenger vehicle (PV) growth (17% CAGR over FY15-17) to outpace 2-wheelers, while we see medium/heavy commercial vehicles (CVs) recovering sharply but growth in light CVs is likely to lag.

We are ***neutral on China*** where PV growth is likely to normalize to 9%, but auto demand should be supported by replacement/upgrades. CVs should resume growth at 8% supported by infrastructure investments.

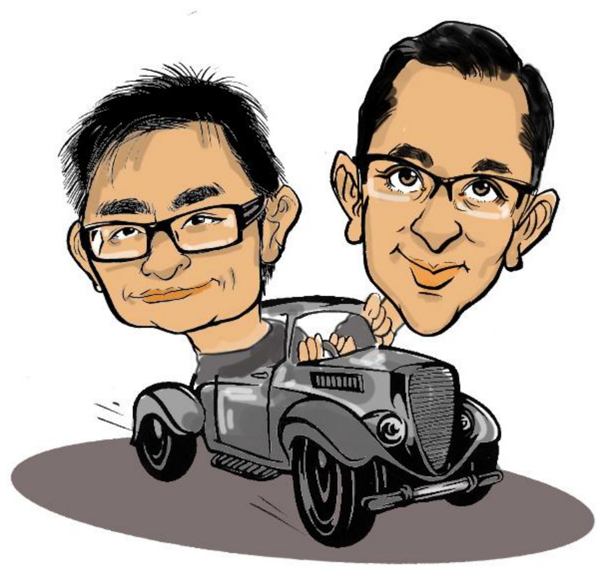
We are also ***neutral on Korea***. Global car demand is forecast to accelerate to 4.2% but for Korean automakers, while new launches should help volume, price competition will intensify. We expect Korean auto part makers to continue to outperform the OEMs.

Key themes / catalysts

• **China** – With increasing auto sales contribution from replacement demand and the wider adoption of auto financing, we think that premium car and SUV sales will outperform within the passenger vehicle segment. Meanwhile, the pick-up in infrastructure investments should rejuvenate demand for heavy-duty trucks, in our view. We think that investors will turn more positive on related stocks (e.g. Brilliance and Sinotruk) once they see robust monthly sales in those segments and evidence of the benefits from interest rate cuts.

• **Korea** – Growth this year will depend on new models. Hyundai Motor launched the new Sonata in 1H14 and will launch the new Tucson SUV in 2Q15 and Elantra in 4Q15. Kia Motors launched the Sorento in 2H14 and will launch the K5 sedan in 2Q15 and Sportage SUV in 3Q15. These are volume selling models for both companies and should boost sales and ASPs. We also expect Hyundai/Kia to make specific announcements on capital management and shareholder returns in 1Q15.

• **India** – The weakness in global crude oil prices is a key catalyst as it improves the affordability of passenger vehicles. While industry demand is expected to be strong, we expect Mahindra & Mahindra and Maruti to outperform their peers on growth and profitability.



The Team

Sector Heads - Sanjeev Rana, Vincent Ha

HK/China - *Vincent Ha, Fei Sun*
India - *Srini Rao, Amyn Pirani*
Indonesia - *Rachman Koeswanto*
South Korea - *Sanjeev Rana, Chanwook Park*

Since valuations for most Indian auto companies are above their long-term average, we believe the key catalysts for stock performance will be lower discounts, market share gains and margin expansion.

Top picks

China – We highlight **Brilliance China (BUY)** as the best proxy for outperformance in premium car sales. Despite a lack of new models until 2H15E, sales performance from its existing models and improving margins more than support the current valuation (2015E P/E of 9x).

Korea – **Kia (Buy)** is our top pick in the Korean auto OEM space. We expect Kia's new models to boost ASPs and volumes. We expect the portion of high margin RVs to expand to 31% of the total in 2015E vs. 28% in 2014. Kia exports 40% of its global output from Korean plants and should benefit from a weak KRW.

India – Mahindra & Mahindra (Buy) is set to claw back market share in the UV segment (40.6% in FY17E vs. 37.7% in FY15E) through new launches and an expected normalization of tractor growth in FY16E (FY15-17 CAGR of 9%). M&M currently trades at 11x FY16E core PE (adjusted for listed subsidiaries), a 40% discount to peers.

Banks

The Outlook

We are ***Neutral on Asian banks in 2015***, contingent on a revival in US GDP growth which has historically led to an outperformance of MSCI APxJ Finance Index over the S&P. We prefer the EM banks of China and India as their stock prices should benefit from continued policy easing. On the other hand, an imminent end to the low USD interest rate cycle will neutralize benefits of widening liability spreads for the developed market banks of Singapore, HK and Taiwan, as they might see a reduction in USD loan demand from Asian corporates. Malaysia and Australia are likely major losers from a reversal in commodity super-cycle, while the deteriorating fundamentals of Korea and the Philippines justify our Underweight stance on these markets.

Key themes / catalysts

Revival in US GDP (3.5% in '15E vs. 2.4% in '14E)

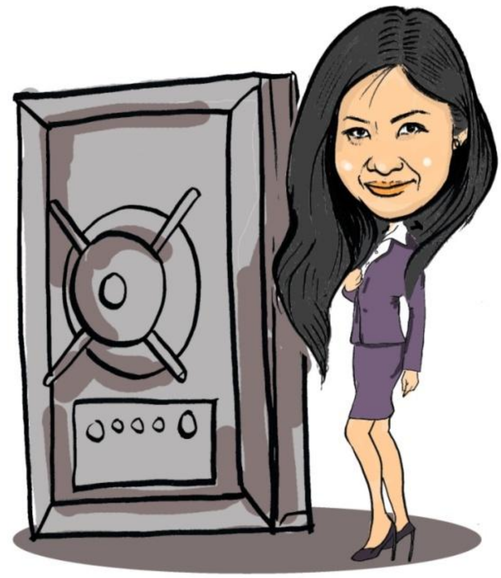
We believe a stronger US economy will be key to Asian bank stocks outperforming in 2015, as historically, the MSCI AsiaPacific ex Japan Financial Index has outperformed the S&P Index by 4% during periods of accelerating US GDP growth. While bank stocks in India and Indonesia are the biggest regional outperformers, Korea banks are historical laggards. The key downside risk to our sector Neutral call is a sluggish US recovery leading to a rise in global risk aversion towards equities and EMs with potential contagion effect on Asian bank stocks.

Lower inflation conducive to policy easing in China and India

With the exceptions of Malaysia and Australia, falling crude is generally positive to Asian economies. Lower crude prices should lower inflation risks in the region, leading to further policy easing in China and India. DB forecasts cumulative rate cuts of 50bps and 100bps in 2015 for China and India respectively. While rate cuts have historically been a positive catalyst for share price performance, we expect a continued implementation of reforms to be another reason for more fund flows into these markets which should also benefit the sector.

Unwinding of USD RMB carry-trade and impact from Fed Funds rate hike

With a post-QE world ushering in abundant liquidity at low USD interest rates, the USD long-term debt issuance for Asian corporates has grown at a 5 year CAGR of 20%, from US$54bn in 2009 to US$134bn



The Team

Sector Head – Tracy Yu

Australia - *James Freeman, Andrew Triggs*
China - *Tracy Yu, Hans Fan*
Hong Kong - *Tracy Yu, Franco Lam*
India - *Manish Karwa, Manish Shukla*
Indonesia - *Raymond Kosasih, Arinta Harsono*
Philippines - *Rafael Garchitorena*
Singapore – *Franco Lam, Sukrit Khatri*
South Korea - *Jeehoon Park*
Taiwan - *Pandora Lee*
Thailand - *Peach Patharavanakul*

in 2014. With the US Fed likely to raise rates in 2015, banks with the highest Forex loans, i.e., Singapore (47% of total), Hong Kong (ex-RMB: 43%) and Taiwan (25%), might experience slower loan growth due to decline in demand, tighter underwriting standards and rising credit risks on heightened currency volatility. However, we are neutral on these banks, as their liquid balance sheets should widen their liability spreads, partially protecting them from rate hikes in the US.

Top picks

On our estimates, we expect a mild acceleration in EPS growth for Asian banks to 8.3% in 2015, from 6.2% in 2014, with banks in India (+19%) and Indonesia (+12%) primed to record the fastest growth, while Korea (-2%) and the Philippines (+2%) are laggards.

Our sector top picks for 2015 correspond to our respective bank analysts' preferred names, including:

- **Bank of China (H) – Buy**
- **HDFC Bank – Buy**
- **Bank Rakyat – Buy**
- **DBS Group – Buy**
- **ANZ - Buy**

Basic Materials

The Outlook

We turned more constructive on the sector during 2H14 and we continue to believe for certain sub-sectors investors remain too negative. Even though headline pricing may remain depressed the earnings drivers for 2015 will shift to improved or stabilized spreads from reduced oversupply, along with the benefit of very meaningful cost savings from lower input costs, notably from energy. Our order of preference in 2015 is: steel > cement > aluminium > copper > coal

Key themes / catalysts

Demand themes: the loosening of monetary policy in China and the nascent recovery in China's property sector should help to mitigate the broader slowdown in demand within the economy. Confirmation of infrastructure spending programmes will also be significant as part of government's efforts to maintain growth.

Elsewhere in the region, increased infrastructure plans in several economies, such as India and Indonesia (as governments redirect spending from subsidies to capital investment) will help to improve the demand outlook for basic materials. Longer term, we are very positive on the structural change in materials demand from India as reform increases the scale of industrial capacity and the associated construction requirements.

Supply themes: The commitment by the Chinese government to curb over-capacity in basic materials is the most important factor to consider when looking at supply. Credit is being switched away from low quality, low margin producers while rationalization and consolidation of capacity in the hands of sector leaders is ongoing. SoE reform policies, along with the environmental agenda, should ensure the reduction in supply is maintained. As such, we see positive trends for supply/demand balance in steel, aluminium and zinc within China.

Regionally, supply of nickel and alumina will continue to be limited by the Indonesian export ban on unprocessed metals.

The Team

Sector Head - James Kan

Australia - *Paul Young, Brett McKay, Chris Terry*
China - *James Kan, Johnson Wan*
India - *Abhay Laijawala, Chockalingam Narayanana, Manish Saxena, Anuj Singla*
Indonesia – *Rachman Koeswanto, Albert Saputro, William Kho*
South Korea - *Chanwook Park*
Taiwan – *James Kan*

Top picks

Our top picks are chosen from our preferred sub-sectors where we see better demand-supply balance.

Baosteel (BUY) - the top steel Chinese maker will improve its bottom-line along with an expected improvement in steel product spreads (steel price minus raw material costs). Sales volume should post strong growth in 2016 as well.

Conch-A (BUY) - the top consolidator in China's cement sector will continue to be the major beneficiary if there is any boost to infrastructure spending in China.

Alumina (BUY) - rare alumina pure play in the region that should benefit from alumina demand/supply improvement.

Hongqiao (BUY) - has replaced Chalco as the top Chinese aluminium producer in terms of production volume. Captive power plants and alumina refiners enable the company to generate reasonable earnings even when the Aluminium price is low.

Hindalco (BUY) – an Indian aluminium play that should benefit from strong Indian domestic demand and demand / supply improvement in the aluminium industry.

Hindustan Zinc (BUY) - rare pure play in the region that will benefit from demand/supply improvement for Zinc (where 2016 supply will be disrupted by the shut-down of MMGs' Century mine).

Vale Indo (BUY) - rare pure play in the region to benefit from a hike in nickel prices resulting from Indonesia's export ban on minerals.

Consumer

The Outlook

2014 was a tough year for the consumer sector in China/HK. The discretionary sub-sector posted dismal sssg which was impacted by an economic slowdown and anti-corruption measures. Staples also underperformed as high PE multiples at the beginning of the year de-rating due to a prolonged market slowdown and due to the absence of pre-paid card/subsidies given to employees of SOEs.

In contrast, the Korea consumer sector performed better in 2014 although it witnessed significant divergence in share performance by sub-segment. Cosmetics stocks appreciated significantly, driven by growth potential from Chinese consumer base. Retailers underperformed as the market was concerned about retail channel diversification into new retailing formats and increasing competition.

In India, it was a story of two halves with the sector underperforming the market in the 1H but outperforming in the 2H due to signs of an urban recovery, more rational competition and no doubt also aided by the recent crude oil price correction resulting in lower input costs.

Looking ahead, we are ***neutral on HK, China and Korea*** markets in 2015 largely due to an unexciting macro environment but we also see ongoing challenges from ecommerce. We are, however, ***positive on the India*** consumer market given potential upside from rural market opportunities, as well as a likely resurgence in urban consumption with a more favourable domestic macro backdrop.

Key themes / catalysts

HK/China:
- PRC Consumer spending patterns changing from buying tangible goods to lifestyle consumption.
- Corporate under-investment in product development and branding.
- Oversupply, market slowdown and e commerce challenges.

Korea:
- Challenging macro environment with weakening wage growth & soft property market from over supply depressing household consumption power.
- Cosmetics companies to increase market position in China to sustain growth momentum.
- Recovery of pricing power for staples to be offset by higher cost burden due to KRW depreciation.

The Team

Anne Ling - Sector Head

ANZ *– Dominic Rose, Michael Simotas, Entcho Raykovski, Wassim Kisirwani*
HK / China *- Anne Ling, Winnie Mak, Lydia Ling*
India *- Manoj Menon, Gaurav Bhatia*
Indonesia *- Reggy Susanto, Adi Putra, Nicholas Nugroho, Samuel Sentana*
Philippines *- Carissa Mangubat*
South Korea *- Jihyun Song, Jeremy Kim, Dianna Kang*
Taiwan *- Joelian Tseng*
Thailand *- Chalinee Congmuang, Pope Guruvanich*

India:
• Urban consumption recovery.
• Crude oil correction providing input cost tailwind.
• Rational competition as the capability of smaller regional players to compete effectively has diminished.
• Implementation of Goods and Service Tax (GST) could benefit select consumer companies which have invested in capabilities.

Top Picks

HK/China
• **L'Occitane (Buy)** – expect performance turnaround driven by recovery in sssg in Japan with Euro weakness to offset part of the Yen depreciation.

• **Li & Fung (Buy)** – strong cashflow with focus on ROIC.

• **Tsui Wah (Buy)** - beneficiary of the dining-out trend and a strong local brand.

Korea
• **AmorePacific (Buy)** – expect stronger growth of high profitability channels (duty free and online) to drive operating margin expansion, with China business progressing into a multi-brand cosmetics company.

• **CJOS (Buy)** – expect turnaround in earnings growth on the back of a strategy focused on cost efficiency in the mobile commerce business.

India
• **Godrej Consumer (Buy)** - strong innovation agenda and cross-pollination opportunities across geographies should drive strong revenue.

• **Hindustan Unilever (Buy)** - strong investments in distribution capability will drive earnings, while lower input costs provide a tailwind for volume growth.

Gaming

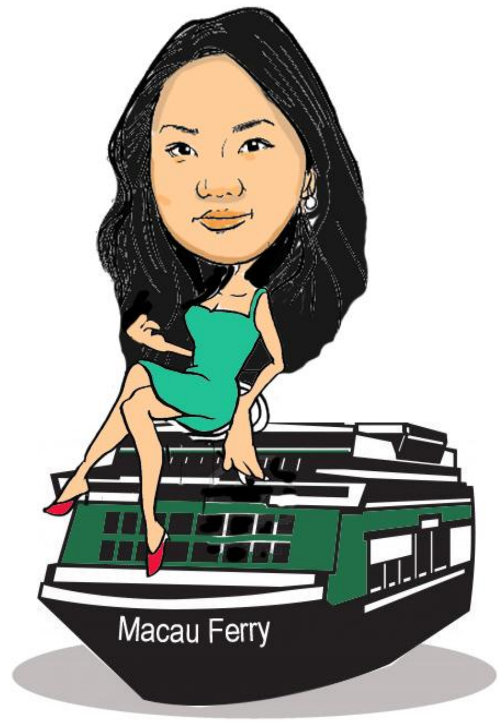
The Outlook

We are ***Neutral on the Asia Gaming sector*** heading into 2015. For Macau, we have cut our 2015 GGR from 0% to -8% as tougher rules on junkets and transit visas will continue to hurt VIP & mass in 1H15. We expect GGR to fall 21% yoy in 1H15, before recovering to 7% yoy growth in 2H15. We are also concerned that labour cost inflation may put pressure on margins, while we worry that new casino openings in 2015-17 may intensify competition for the premium mass segment.

For Singapore, we forecast only subdued gaming revenue growth of 2% in 2015.

For Korea, we expect Japanese visitor growth will be impacted by the depreciating Yen though this should be compensated for by a recovery of growth from Chinese visitors in the medium term.

Although the industry growth is slow, we see good buying opportunities for selected stocks which are expanding capacity.



Key themes / catalysts

Capacity expansion: In the Philippines, Melco Crown Philippines soft opened its casino in December 2014. In Macau, we expect Galaxy Macau Phase II to open in 2Q'2015, followed by Melco Crown's Studio City in 3Q'2015. Historically, gaming stocks often trade up 3-4 months ahead of openings.

Intensifying competition: In Macau, we believe labour cost will increase by 10-15% in 2015 as new casinos start to hire dealers. We also believe that competition will lead to rising marketing and promotional expenses, especially in terms of "comps" (e.g. free hotel rooms). This will likely put pressure on margins.

Outbound Chinese visitors: We expect Korea to remain one of the top 3 outbound travel destinations for Chinese visitors in 2015. We think companies with exposure to Seoul and Jeju Island will be beneficiaries.

Legalization of the gaming industry in Japan: With the ruling party's election win in December 2014, we expect the legislative process to resume in 2015.

The Team

Sector Head - Karen Tang

Australia - *Mark Wilson*
HK / China / Macau - *Karen Tang*
Philippines - *Aaron Salvador*
Singapore / Malaysia - *Aun-Ling Chia*
South Korea - *John Kim*

Top picks

Galaxy (27.HK, BUY) – We expect the company to gain market share after Phase II opening. Hence, we expect Galaxy will be the only Macau company to grow earnings in 2015. Longer term, Galaxy also has the biggest landbank in Cotai and also has plans for a project in Hengqin Island, which gives it an unparalleled competitive advantage in terms of scale.

Healthcare

The Outlook

Anticipating continued growth momentum: We remain optimistic on sector performance but anticipate volatility in 2015. Our conviction is based on reasonable valuations and earnings growth for most large/mid-caps names.

Within the drug sector, we still like those names with large volume upside as tenders advance further, including our top picks: Sihuan (460.HK) and CSPC (1093.HK). For Sihuan, 9 out of 11 potential/existing blockbusters are newly launched and awaiting provincial tenders. For CSPC, the top three products and the entire oncology portfolio are expected to generate significant upside during incoming drug tendering.

We are keen on public hospital privatization opportunities within the healthcare service space due to substantial value creation opportunities on three fronts: revenue growth acceleration thanks to changes in the incentive mechanism, margin improvement through operational efficiency improvement, and the ability to squeeze profits from all upstream suppliers.

2015 outlook survey among executives: We interviewed 21 executives from 20 listed A/H and US companies. The key takeaways are: 1) Sector growth is likely to further stabilize in 2015 due to a macro growth deceleration, reimbursement control, and price cuts; 2) RDL drug tendering is likely to accelerate, with approximately 10 provinces to complete drug tenders in 2015; 3) Greater price erosion is expected in this round of drug tenders vs. the previous round, while new approaches such as online platforms will likely be adopted in more provinces; 4) it is likely that the removal of price caps and establishment of reimbursement prices will be negative for all players, particularly for drugs with exclusive pricing status but with multiple competitors.

As for private healthcare services, executives indicated that public hospital privatization remains attractive, although physicians' stability and willingness to work with private capital is the largest hurdle.

The Team

Sector Head - Jack Hu

ANZ *- David Low, Stephen Ridgewell*
China / HK / Japan / Singapore / Malaysia *- Jack Hu*
Indonesia *– Reggy Susanto, Samuel Sentana*
Taiwan *– John Chou*
Thailand *– Pope Guruvanich*

Key themes / catalysts

Hospital reform: We believe public hospital privatization in China will accelerate and the government is likely to release large tier 1 hospitals to the private sector. On the revenue side, more provinces may implement the removal of the 15% mark-up on drugs sold. Classification referral will likely be introduced, with the initial objective to eliminate outpatient traffic in tier 1 hospitals.

Drug pricing: We anticipate modest pricing pressure from drug tenders in China. We expect the removal of price caps to have a very limited impact in the near term. However, we believe non-exclusive drugs with exclusive pricing status could face significant price erosion in the mid/long term.

Regulatory: We expect continuous delays in regulatory approval in China. We urge investors to focus on drugs that have already been filed for approval but not company pipeline drugs that are in clinical studies.

Top picks

We highlight our top picks **Sihuan (BUY), CSPC (BUY)** and **Phoenix Healthcare Group (BUY).**

Within the drug sector, we still like names with volume upside from new drug launches as the tender process is rolled out further, including our top picks Sihuan and CSPC.

We are also keen on public hospital privatization opportunities within the healthcare service space, such as Phoenix Healthcare Group, given substantial value creation opportunities and better risk profiles.

On the risk front, we anticipate further pricing pressure and tighter reimbursement control.

Industrials (incl Transport)

The Outlook

Mixed 2014 performance

Our Asian Industrials coverage universe was up 13% in 2014 led by India names (up 54%) which benefited from elections and potential for reforms (which posed upside risk to earnings). In addition, logistic carrier companies in India & railway construction companies in China, have attracted investor attention. However, due to the potential impact of declining oil prices on orders in the Middle East and losses at legacy projects, Korean industrial names with an international focus lagged in performance.

Where to from here?

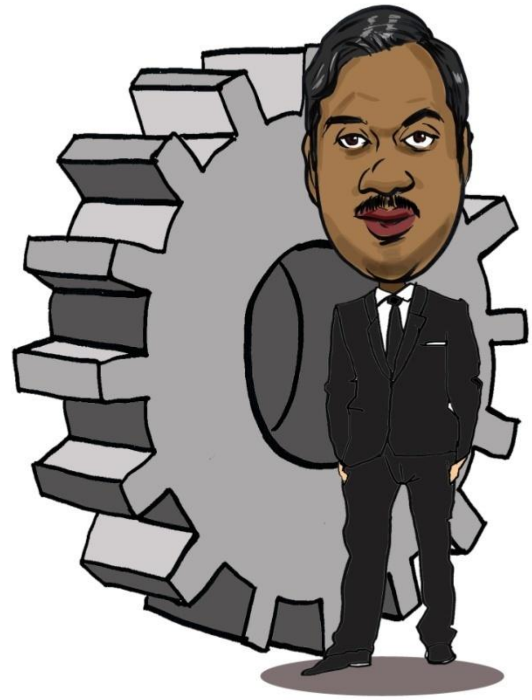
The sharp recent decline in oil prices will likely have significant repercussions on future order awards especially dependent on the Middle East and/or oil and gas capex. Accordingly, we believe investors should focus on companies which are domestically driven with good cash flows and balance sheets. This is particularly true in India, where we believe it is imperative to look for companies which can show a significant jump in FCF.

Sanjeev Rana in Korea has a cautious view on the Korean Shipbuilding sector as the collapse in the oil price is forcing oil majors to review their capex and ordering plans for 2015. Sanghi Han, our Korean E&C analyst, remains positive on stocks with an already secured backlog, with improving margins, in the next 12 months.

On the other hand, Phyllis Wang in China prefers railway equipment producers in the next 6-12 months to constructors, on the stronger earnings outlook for 2014-16. She is worried about the 2015 outlook for constructors due to a lackluster rail construction business and uncertainty in the property segment.

In the transport sector, Joe Liew believes that it is time to switch to container shipping (from dry bulk) because seasonality looks unfavorable in coming months as BDI tends to peak out in early December and drift down till CNY. However, 2015 will see a better outlook in terms of new supply in the bulk sector which could provide better entry points in bulk shipping later in the year.

The sharp decline in jet fuel prices has led to a strong rally across the airline sector (fuel accounts for around 40% of operating expenses). However we see room for further upside for AirAsia and JAL given company specific catalysts.

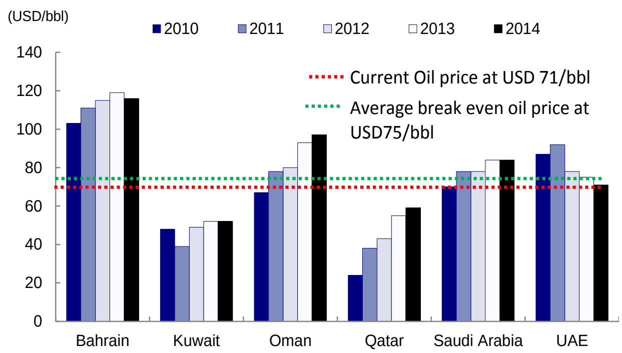


The Team

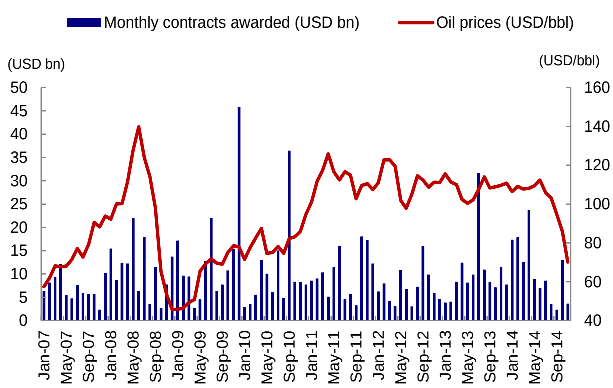
Sector Head – Manish Saxena
Transport – Joe Liew

ANZ – *Emily Smith, Mark Wilson, Dennis Lee, Cameron McDonald, Craig Wong-Pan, Entcho Raykovski*
HK/China - *Michael Tong, Joe Liew, Vincent Ha, Sky Hong, Phyllis Wang, Karen Tang*
India - *Manish Saxena, Chockalingam Narayanan*
Indonesia - *Nicholas Nugroho, William Kho*
Malaysia – *Joe Liew, Kevin Chong*
Philippines – *Klyne Resullar*
Singapore - *Joe Liew, Kevin Chong*
South Korea - *Sanghi Han, Sanjeev Rana, Chanwook Park, Joe Liew, Sky Hong*
Taiwan – *Vincent Ha, Sky Hong*

Current crude price is below the average breakeven oil price for the GCC



Fall in crude price is beginning to show impact on GCC order awards



Source: Deutsche Bank, Bloomberg, MEED

Top picks

OOIL (Buy): While supply/demand for dry bulk looks more balanced than container in the coming 12 months, seasonality favours container over dry bulk nearer term. Within the container segment, we like OOIL as this company is one of the best run lines in Asia and on 0.7x P/B also is the cheapest.

CSD (Buy): Although 50% of revenue for CSD comes from dry bulk shipping, its key earnings driver in fact lies in the VLCC segment (which comprise the other half of revenues). The latest VLCC rates have risen to more than US$70k/day, the highest in the last four years. The outlook remains promising as lower oil prices should encourage China to re-stock oil for its strategic reserve. Overall, we expect CSD's earnings to recover strongly and for the stock to re-rate toward 1.0x P/B from the current 0.6x.

Air Asia (Buy) is set to benefit from a benign fuel environment given it has only hedged 8% of fuel requirements for 2015E. Furthermore, a restructuring of MAS (Malaysia Airlines) will be positive for AirAsia as it will likely result in MAS cutting capacity. In addition AirAsia has lagged the performance of other airline stocks in the region. The recent accident is not likely to have a long term impact on business performance in our view, although it does pose downside risk to our earnings forecasts.

JAL (Buy) is trading an at inexpensive 4x EV/EBITDA and will benefit from the increase in inbound tourism into Japan. With net cash on the balance sheet, there is also potential for an increased dividend payout.

Cummins India (Buy) : We project a 17% 12m return and believe Cummins could increase 2x in the next five years, while annual FCF will surge 3-4x. Current RoE, even with capacity utilisation at only 60%, is over 25% but the valuation is only in line with peers and we expect long term outperformance from the stock

Concor (Buy) – We expect a 24% return in Concor over the next 12m with further significant upside potential over the next five years. The company is India's biggest dry port owner and is the best leveraged to play the Indian infrastructure theme. Under assumptions of less than 3% tariff growth, earnings can potentially triple by 2020.

Insurance

The Outlook

We believe the Chinese life insurance sector is one of the strongest fundamental investment calls in Asia financials for 2015 as the sector is a key beneficiary of ongoing monetary easing by the PBoC.

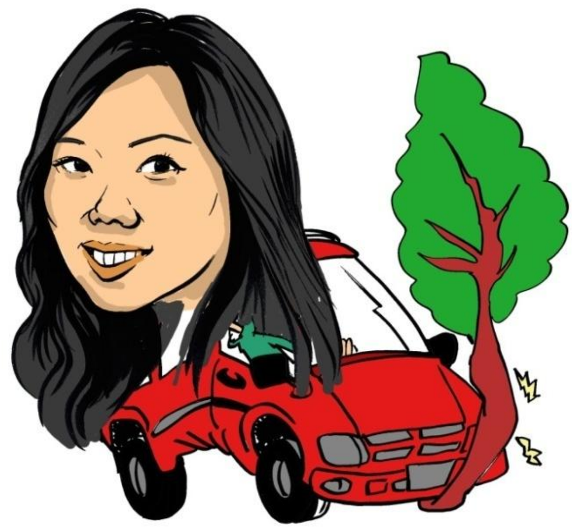
We are optimistic on the sector outlook as we believe the sector has emerged from a challenging period of weak growth and investment uncertainties in 2011-13. The industry now looks well positioned to offer products that are more competitive. Also, the sector's renewed focus on higher-margin agency business should bode well for value generation. The drag from bancassurance business is easing, and government policy is also very supportive with an aim to increase insurance penetration. We thus forecast sector VNB to grow by an average 16.8% in 2015-16E, vs. 19.0% in 2014. Assuming stable A-share markets in 2015, we forecast sector EV to grow by 13.6% in 2015E and 13.4%. Our target 2015E P/EV of an average 1.5x is not excessive (below the 2011 levels) and can be justified by an improved sector outlook and investment markets.

Elsewhere in the region we have a preference for the P&C insurers in Korea but remain neutral on the sector in Australia, Taiwan and Thailand.

Top picks

We have Buy ratings across the sector in China (H-shares) – our top picks are China Life-H, China Taiping and NCI-H. China Life is favoured as we see more room for upside surprise given relatively low market expectations. We also see more upside on smaller insurers' shares given their attractive valuations at 1.0x 2015E P/EV, which looks increasingly conservative assuming a broad-based sector recovery.

In Korea, we prefer **Samsung Fire & Marine (Buy)** as we expect premium growth to start picking up from 2015, driven by a premium re-pricing cycle for protection type products sold after Oct 2009, which should help improve loss ratio. In addition, we expect auto premium rate hikes made in 2014 to help lower auto loss ratios by 1-2%pt in 2015. We see Samsung Fire & Marine valuation as attractive, trading at 1-year forward P/E of 12.9x, which is below historical average of 13.7x.



The Team

Sector Head - Esther Chwei

Australia *- Kieren Chidgey*
HK/China *- Esther Chwei, Tracy Yu*
India *- Manish Shukla, Manish Karwa*
South Korea *- Jeehoon Park*
Taiwan *- Pandora Lee*
Thailand *– Peach Patharavanakul*

Internet

The Outlook

We are **neutral-to-positive on our sector outlook** into 2015. The Chinese internet space saw some of the greatest intra-sector M&A activity of any industry globally last year, in addition to the successful execution of the world's largest IPO. The sector, however, succumbed to some amount of turmoil toward year-end. Given the uncertainty arising from business model transition and intensifying competition across much of our universe, we prefer large cap platform players which enjoy advantages such as an expanding networking effect as they grow into the mobile internet era, advantages which most vertical players seem to lack. In particular, search and social network leaders show clear strategic advantage over their smaller peers, with new monetization potential unfolding.

Key themes / catalysts

- Large platform leaders (including Baidu, Tencent and Alibaba) are on track to further extend their lead in mobile. After intense investment programs and brand-related spending, they seem to have erected formidable entry barriers in their respective home courts.

- In contrast to the leaders mentioned above, we expect both inter and intra-segmental competition to continue to intensify and shift, complicating the industry landscape for the vertical names, portals and many other small and medium-size players. In particular, the vertical sectors (auto, property, travel, etc) will likely see resurgent predatory competition at the cost of segmental margin compression.

- Niches such as mobile O2O, online banking and finance, vertical e-commerce and select other segments continue to grow quickly, snatching market share largely from offline incumbents. However, challenges still do remain with some of these monetization modes.

Top picks

Baidu (BUY): China's search leader, while undertaking a painstaking period of mobile incubation, has also withstood tough challenges from new entrants on both the PC and mobile fronts. We expect Baidu to enjoy further margin improvement in 2015 through deeper monetization on mobile, aided by rising CPC (cost-per-click) rates, etc.

The Team

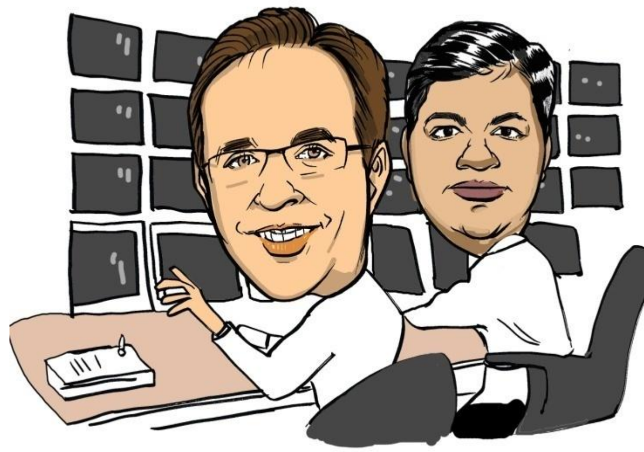
Sector Head - Alan Hellawell

China *- Alan Hellawell, Vivian Hao*
South Korea *- Hanjoon Kim*

IT Services

The Outlook

Backed by improvement in the macroeconomic environment in the USA and increased adoption of offshore IT service delivery by Continental European customers, we expect demand strength to continue in CY15. However, cross currency headwinds resulting from USD strength versus all other major billing currencies (EUR, GBP, AUD, JPY) is the key headwind to revenue growth. We thus expect top tier Indian vendors to report 11-21% USD revenue growth in FY16E (vs 7-18% in FY15E). Tech Mahindra is our top pick, which we believe will report industry leading growth in FY16E backed by a strong balance sheet and ability to make market share gains. We also have Buys on TCS and Infosys. In our view TCS will be the worst hit by the adverse cross currency movements while Infosys the least. We have a Hold rating on Wipro. Excessive focus on Infrastructure Management Services (IMS) is likely to pose growth concerns for HCL Tech and we reiterate our Sell recommendation.



Key themes / catalysts

A new era in IT outsourcing is changing the skill set required for success as well as fundamentally shifting the pricing outlook in the industry. Digital tech is as much of a challenge as an opportunity for the Indian vendors as it will take an increased share of customers' IT budget but is an area where they have less expertise than in services. To offset this challenge, industry winners will need to expand their customer base geographically and ensure they achieve or maintain strategic vendor status with key clients.

Top picks

Tech Mahindra (Buy) is our top pick: We believe Tech Mahindra gains from the twin advantage of (a) sales aggression of the telecom business and (b) strong client relationships in the enterprise business (Satyam). We expect the company to deliver sector leading USD revenue growth of 19.4% CAGR over FY15E-FY17E and an earning CAGR of 25% over same period. Strong deal signings and share gains have ensured that, despite the cessation of revenue amortization from top client BT in 4Q'FY14, Tech Mahindra has maintained a healthy revenue growth rate. Thus, despite outperforming the Sensex by 11% in CY14, we still reiterate it as a Buy and our top pick with an above consensus target price of INR3,500.

The Team

Sector Head – Aniruddha Bhoisale

China *- Alan Hellawell, Vivian Hao*
India *– Aniruddha Bhosale*

We also like TCS (Buy) and Infosys (Buy): We believe TCS is positioned to gain share from (a) expansion of its strategic vendor positioning with its key customers, (b) strong presence in continental Europe, (c) proactive investment in Japan, (d) focus on evolutionary transformation and innovation in new technology services (SMAC), and (e) consistency in service delivery from low attrition. We expect the company to deliver earnings CAGR of 21% over FY15E-FY17E. We retain Buy with a target price of INR3,170.

The leadership change and recent addition to senior management help Infosys score at par with TCS on its readiness in addressing the SMAC opportunity. In addition (a) clear articulation of long-term revenue growth (15-18% yoy) and margin (25-28%) targets, (b) management actively modernising sales and delivery structure and processes, and (c) stable leadership and organization structure can help the company compete better. We expect the company to deliver earnings CAGR of 16% over FY15E-FY17E. We retain our Buy rating on Infosys with a target price of INR2,375.

Oil & Gas

The Outlook

The landscape for 2015 looks challenging. Global GDP growth remains substantially lower than in the oil a-go-go days of 2006-08. China's growth continues to slow; Russia faces challenges, Abenomics has risks, the Eurozone is struggling and N. America seems to be doing fine on lower energy prices. OPEC is transferring wealth to global consumers for the time being and technology continues to lower the marginal cost of oil production. We see "lower-for-longer" oil prices.

Marginal cost oil

The numbers we keep thinking about are; 1) the US has added 3.6 mln bpd (net of depletion) to global oil supply since 2010; 2) production from a typical shale well should decline by 70% by year-four; 3) Wood Mackenzie says the world is oversupplied by 1.5-1.8 mln bpd; 4) the all-in cost of a producing shale oil well in N. America is US$ 75-80/ bbl, although technology continues to lower costs throughout the system; and 5) depreciation on a N. American shale well is US$ 25-35/ bbl, which leaves us a cash cost of US$ 45-50/ bbl. Based purely on economics, we could see US$ 50 / WTI for the next few years; or maybe Venezuela, Iran and Iraq will start to cut production.

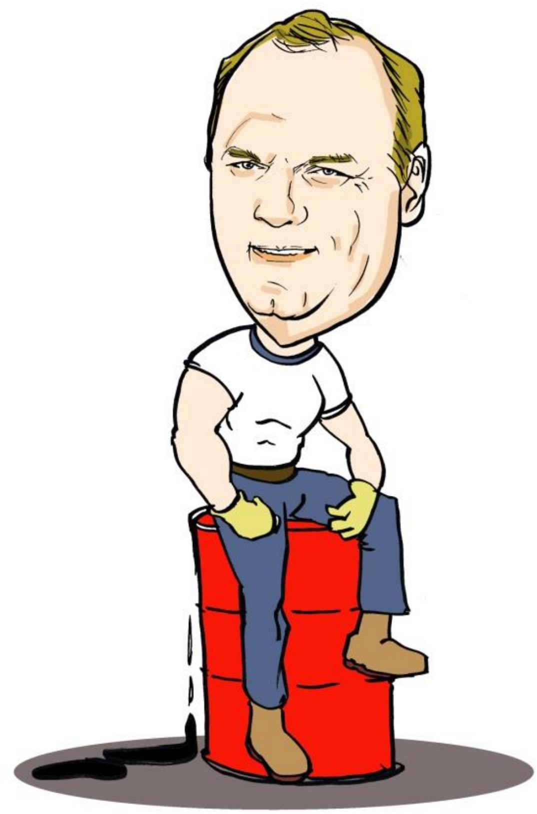
Top picks

We have three top picks for 2015 from the Asian Oil & Gas universe:

ONGC (Buy) - a key beneficiary of oil and gas sector reforms in India. Recent deregulation of diesel price and expected rationalization of cooking fuel subsidies should dramatically improve ONGC's cash flow as it bears the burden of nearly 40% of the oil subsidy bill. We estimate reforms could increase ONGC's crude price realization by 35% over FY14-16E to USD55/bbl. While it is also one of the biggest beneficiaries of the recent 33% increase in regulated natural gas price in India.

LG Chem (Buy) - expect 23% OP CAGR over the next two years driven by ABS margin expansion and operating loss reduction in EV batteries and display glass.

INPEX (Buy) - see significant value from de-risking of its Ichthys LNG project into first LNG in 2017e. Market is currently not pricing in INPEX's well-defined growth profile & we expect the stock to outperform peers in 2015.



The Team

Sector Head - David Hurd

Chems Head – Shawn Park

ANZ *- John Hirjee, Andrew Lewandowski, Grant Swanepoel*
China *- David Hurd, Johnson Wan*
India *- Harshad Katkar, Amit Murarka*
South Korea *- Shawn Park*
Thailand *- Thapana Phanich*

Power / Utilities

The Outlook

We remain **largely positive on the sector** while retaining our preference for Power as we expect this sub-sector to benefit from regulatory reforms, asset injections and M&A, low fuel costs, generation mix improvement and capacity growth.

Key themes / catalysts

In China, asset injection will be a multi-year mission to drive substantial earnings upside for thermal/hydro IPPs in addition to their stable margin outlook. We estimate that eligible assets for injection represent 0.5-2.9x current listco capacity. Power sector reform will be a long-term catalyst with potential opportunity in the downstream retail market. For China wind developers, the proposed tariff cut is likely to be moderate and we expect strong earnings growth in 2015E (53%-67%) on the back of the aggressive capacity addition and wind speed recovery. We will also see substantial nuclear capacity commissioned in 2015-17. Furthermore, anticipated interest rate cuts will benefit IPPs given their high financial leverage.

In India, we expect the Modi era will revitalise the power industry after years of obstruction and delays, and will dramatically improve operating cash flow and ROE in sync with a drop in the capex cycle. Key catalysts are low coal prices (-22%), revival in power demand (+10%), potential for interest rate cuts in 2015 and opening doors for inorganic growth potential.

Top picks

In China, our top picks are **Huadian Fuxin and China Power Int'l.**

• **Huadian Fuxin (Buy)**: 1) visible growth outlook of 34% CAGR in 2014-17E at attractive valuation of 7.7x 15E PE; 2) reduced single business risk from balanced multi-fuel portfolio; 3) multiple near-term catalysts (nuclear commissioning, new thermal/nuclear project approval, wind speed turnaround and further interest rate cuts)

• **China Power Int'l (Buy)**: 1) higher organic capacity growth, 2) substantial asset injection potential and 3) most attractive valuation among China IPPs at 0.9x 2015E PB with 14% ROE.

In India, our top pick is **Power Grid (Buy)** on a) Positive surprise expected for new capacity additions (DBe c.30% higher than consensus); b) competitive pressures receding – USD2bn new projects awarded

The Team

Sector Head - Michael Tong

ANZ *- John Hirjee, Hugh Morgan, Grant Swanepoel*
China *- Michael Tong, Yuxiao Peng*
India *- Abhishek Puri, Manish Saxena*
Indonesia *– William Kho*
Malaysia *- Aun-Ling Chia*
Philippines *- Iza Fernandez*
South Korea *- Sanghi Han*
Thailand *– Aekapop Guruvanich*

on regulated returns and new USD8bn projects offered on competitive bidding; c) valuations at 25% discount to historical average and a beneficiary of potential interest rates cuts.

In Korea, we prefer **Kepco (Buy)** with strong conviction on ROE improvement without tariff hikes; while the weak oil prices could help cushion potential downside from the newly introduced CER cost, KRW depreciation and tariff cut. Key catalysts ahead include: 1) generation mix improvement; 2) start-up of three new nuclear plants and three new thermal plants in the next three years.

Property

The Outlook

China residential market: positive 12-month outlook

After over 2 years of property market tightening, government policies started to loosen in Aug 2014, with HPRs and mortgage restrictions being relaxed. Such relaxations, together with improving housing affordability (except for Tier-1 cities), have boosted homebuyers' sentiment on the demand-side. Meanwhile, developers' willingness to cut prices, as well as declines in land sales and construction starts, are leading to improving supply-side dynamics. We expect the China residential market to recover over 2015 in 3 phases: 1) normalizing inventory in 4Q14-1Q15; 2) ASPs bottoming out in 2Q15; & 3) gradual ASP recovery in 2H15.

REITS - we are neutral on the Asia-ex Japan REIT sector. We expect there to be range-bound trading for the key REIT markets (eg Singapore) in 2015.

Key themes / catalysts

More favorable demand-side dynamics in China

From our recent visits to various cities, we noted that homebuyer sentiment has started to recover following HPR relaxations, and this recovery has accelerated substantially after the latest PBOC mortgage easing and interest rates cuts. This recovery is evident by the 40% MoM increases in commodity residential sales value and sales in Sep 2014. While this first wave of rebound is driven more by first-time homebuyers, as PBOC mortgage easing is being implemented, the release of pent-up demand from home upgrade (which was suppressed since 2010) will drive further increases in overall sales volume. On our analysis, sales recovery is also supported by improving housing affordability (as measured by monthly mortgage burden, now well below the historical average since Jan 2005), which should improve further as we see room for mortgage rates cuts ahead.

More favorable supply-side dynamics

According to NBS, nationwide new home prices in China have fallen 4-6% since April, and sales have responded positively to such price cuts. On our analysis, overall residential inventory period (including properties under construction but with presale permits) has already peaked out and fallen to 13.6 months in Oct (down from a high of 21 months early 2014).

The Team

Sector Head - Tony Tsang

Australia *- Ian Randall, Jason Weate*
HK/China *- Tony Tsang, Jason Ching*
India *– Abhishek Saraf*
Indonesia *- Albert Saputro, Edeline Rasjid*
Malaysia *- Aun-Ling Chia, Chien-Fie Man*
Philippines *- Carl Sy*
Singapore *– Joy Wang, Chien-Fie Man*
Thailand *- Nash Shivaruchiwong*

As developers maintain price cuts and discounts, inventory period should continue to fall. Given significant falls in land sales (-26% YoY) and construction starts (-14% YoY) in 2014 YTD, new supply should fall further in 2H15 – by then we expect to see a return of pricing power.

Key concerns: margin pressure, corporate governance events, financing risks
Given more price cuts and slower decline in land prices than property prices, we see more downward margin pressure. And with the on-going anti-corruption campaign of central government and recent corporate governance events for some Chinese developers, we see higher risk premiums and deeper valuation discounts to be applied to certain non-state-owned Chinese developers.

REITS - While fundamentals for the physical market in Singapore remains important to the sector, the 12-18 month lag in the reflection of earnings could see a prolonged disconnect between share price trading versus sector outlook, especially given the market's focus on immediate yield. We favor sectors that are bottoming out e.g. Retail and Hospitality and avoid sectors that are peaking e.g. Office and Industrial.

For HK, we are more concerned about the outlook on the HK commercial property markets in light of the soft economy ahead. We anticipate overall demand for Grade-A office to remain soft in 2015, while we also forecast a 32% decline in retail. Moreover, there has been a high correlation between HK cap rates and the US 10-year treasury yield historically (cap rates tend to mirror treasury yield movements). With the 10-year treasury yield potentially rising, cap rates could see a corresponding rise ahead.

Top picks

Our top picks in China are: COLI, CSCEC, China Vanke (A & H), Sunac, CR Land, CMPD, R&F (All Buy rated).

Our positive industry views in China are supported by the current cheap valuations of China property stocks. Our top picks are those with:
1) favorable landbank vintage (i.e. management has good market expertise in timing market cycles);
2) the ability to obtain cheap financing;
3) good revenue diversification (like a sizeable and growing investment property portfolio); and/or
4) very attractive valuations

Within the REIT sector we prefer:
• **CapitaMall Trust (Buy)** on improving underling trends, positive reversions and an increased possibility of inorganic growth.
• **MCT (Buy)** for above average rental reversions for its flagship retail asset and a strong acquisition pipeline.

Tech Hardware

The Outlook

In Greater China, the smartphone supply chain experienced strong growth in 2014, driven by the success of iPhone 6 and rapid market share gains from Chinese brands (Xiaomi, Huawei, etc). However, we expect iPhone growth will decelerate in 2015, post the grand upgrade cycle of iPhone 6. China smartphone growth will continue, but price competition will get keener.

For the PC industry, we expect demand to recover slightly in 2015 but think the new 12.9" iPad might cannibalize NB sales momentum. The server shipment growth will maintain solid, driven by robust orders from data center vendors and IoT demand.

We are turning more positive on the overall Korea technology hardware sector after a deep and prolonged sell off which leaves the sector trading near its historical low since 2003. Weak demand and overly optimistic 2015 consensus make significant sustained returns unlikely, but near-term tailwinds such as KRW/USD depreciation could offer a bounce from recent lows.

Key themes / catalysts

• Cameras are the way to go in smartphone: In the smartphone supply chain, we prefer cameras, casings and acoustic components, as they should enjoy a long-term ASP uptrend, driven by innovation and product upgrades. Cameras are the most preferred product. We estimate ASPs of camera modules for high-end smartphones to grow 10%-15% YoY in the coming two years, driven by upgrades to new designs, such as dual camera, array camera, optical zoom and MEMS camera.

• Robust earnings growth from cloud products and Apple iPhone orders: In the PC/NB brand and ODM/EMS space, we like companies with rising sales exposure from higher-margin server, storage and switch products. We also prefer leading iPhone assembly suppliers with their higher margin and earning upsides from Apple's solid orders, profitable ecosystem and possible MVA hike.

• Client diversification for Korea hardware: The business portfolio of Korea tech companies remains skewed to key customers. High dependency on key customers led to reduced bargaining power for component suppliers over set makers. However, we see that Korea tech companies are strenuously in search for new growth momentum by diversifying their customer base, especially in China.

The Team

South Korea *- Hanjoon Kim, Seunghoon Han*
Taiwan *– Birdy Lu, Andrew Chang*

We have seen the overall growing diversification of end customers for component makers. Continued growth of alternative customers could result in improving bargaining power for component makers over time which may provide a tailwind to the business.

Top picks

Largan (Buy): We believe Largan can continue to gain market share and enjoy ASP increases in 2015. First, Largan has 45%-50% and 30%-35% sales exposure to Apple and Chinese clients, who are the market share winners in premium and mid/low-end smartphones. Second, Largan is the pioneer in new camera technologies (dual camera, array camera, optical zoom, etc) and is set to benefit from continued upgrades in smartphone cameras.

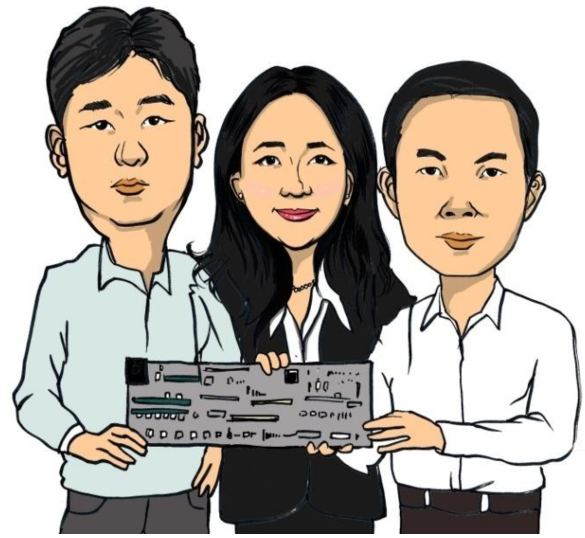
Pegatron (Buy): We expect Pegatron to gain higher order allocation for iPhone assembly in 2015 and believe its ongoing yield rate improvment and shipment scale will help to lift its margin and EPS growth. Its automation investment in assembly and rising profit from Casetek (metal casings) and other component subsidiaries (PCB, wireless modules) should also support earnings.

SEMCO (Buy): SEMCO is our preferred pick in the Korea technology sector on the potential for cost reduction. We anticipate cost optimization-driven earnings recovery in the near term while longer-term recovery can come from customer diversification.

Tech Semis

The Outlook

We are **neutral on the semiconductor sector in 2015** due to limited earnings growth for most of the companies under our coverage. We believe stock selection will be crucial in 2015. By sub-sector, we are more positive on the foundry sector as we expect strong demand for 28nm and 20nm to benefit TSMC and UMC in 2015. However, we are neutral on the OSAT and substrate sectors in 2015 as a result of intensified competition. We remain positive on DRAM sector for 2015 with continued strong profitability and expect a supply-driven DRAM up-cycle to continue in 2015 due to technology bottlenecks. We are Neutral on the Taiwan IC design Sector as we expect the earnings growth of MediaTek, the largest fabless company in Asia, to slowdown considerably in 2015 after a high base in 2013 and 2014.



Key themes / catalysts

We expect four investment themes for the semiconductor sector in 2015.

• Market share expansion - We anticipate TSMC's sales market share among major foundries to rise from 64% in 2014 to 66% in 2015, driven by its increased dominance in advanced nodes and enhanced pricing power.

• ASP expansion - We expect ASP increases for TSMC/UMC in 2015 thanks to improved product mix and tier-two foundries' weakness in 28nm gate-last high-k metal gate. We forecast LCD driver IC and TV SOC (system-on-chip) to continue to benefit from rising LCD panel resolutions and smart TV features in 2015, which should benefit Novatek.

• Content growth in memory - While there may be some signs of slowing unit demand, we expect memory content per box growth to continue in 2015. We expect potential DRAM content increase in higher-resolution products such as smartphones and TVs. Samsung's Galaxy smartphone is expected to shift to 3GB in 2015. iPhone 6S is likely to adopt 2GB and low-end smartphones' also may increase its DRAM content in 2015. Due to strong demand from rising data traffic and datacenter server, we assume higher server DRAM content. In addition, new O/S may increase minimum DRAM requirement which leads to higher DRAM content.

The Team

South Korea *– Seunghoon Han*
Taiwan *- Jessica Chang, Michael Chou, Kevin Wang*

• Currency depreciation - NTD/USD and KRW/USD depreciation could work in favor of the semiconductor companies in Taiwan and Korea for 2015.

Top picks

Our top picks are **TSMC, Samsung Electronics, Hynix,** and **Novatek (all Buy rated).**

• We believe TSMC's strength in 28/20/16nm will enable it to expand market share and deliver sustainable margins and return in 2015.

• We remain positive on Samsung Electronics as we continue to believe that the shift in earnings mix toward memory should help normalize currently depressed valuation levels, similar to the feature phone commoditization cycle in 2005.

• We are positive on SK Hynix due to continued supply discipline and market consolidation. We expect limited DRAM industry capacity growth coupled with shrinking wafer capacity by major DRAM companies. With mobile DRAM a main driver of demand in 2015, we expect a mix shift back to mobile DRAM could further limit DRAM supply in 2015.

• We like Novatek's healthy earnings growth outlook in 2015, driven by sales growth and margin expansion.

Telecoms

The Outlook

Telecom valuations are extended vs. 10 year trends, particularly in Asia-ex Japan. We believe the key for investors in 2015 will be the sector's relationship with the credit cycle, through a combination of; 1) expected rates rises pressuring valuation, 2) easy-credit fuelled competition, and 3) the general improvement in economic growth that rate rises imply – along with the potential for positive revenue surprise.

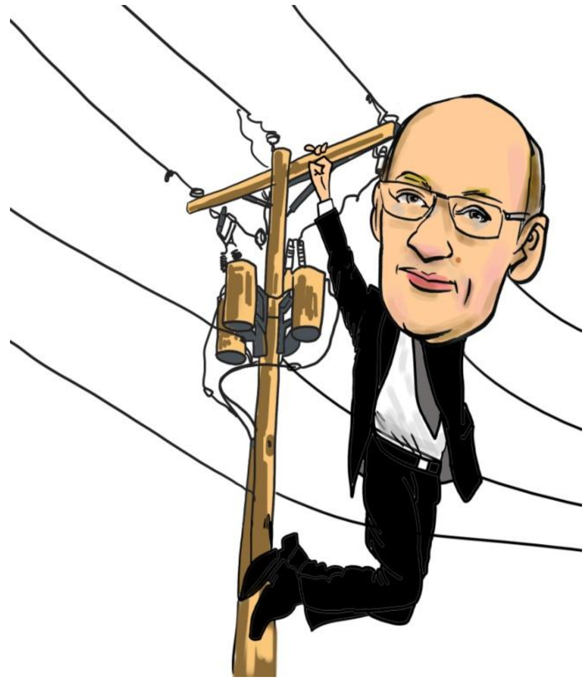
We therefore expect leadership change to be a key feature of 2015, with improving earnings at relatively weak operators and markets to be the major source of out-performance. We recommend to target the number three players, and markets where profit focus is intensifying.

Key themes / catalysts

Asia's telcos have underperformed by an average of 23% during the 24 months after the first US rate rise in the last three rate rise cycles. We believe the headwind of likely higher US rates in 2015 will lead to pressure on valuations. This is particularly true for low-WACC, highly geared telcos in markets with a high correlation of local and US rates. We estimate the Philippine, Malaysian and Taiwanese names are most sensitive, along with Telstra and HK Telecom. Such operators should be treated with caution, we believe.

The second risk is competition. We completely understand investor preference for quality firms with consistently high ROI. However, these high returns are being targeted by new entrants and invigorated competitors eager to chase the super-normal earnings prize. With cheap, plentiful funding available, and confidence returning, we expect high return markets to be under-performers as increased competition should lead to earnings misses. The region's highest ROI countries include Australia, Malaysia, Taiwan and Thailand.

We believe sector leadership will swing towards those companies with high operating leverage because: 1) Phones now as cheap as US$20 can stream video, bringing price-sensitive users into the data world, onto low-tariff networks, 2) Concrete steps are being made to improve profitability in poor return markets, and at struggling operators, as management focus turns from rolling out network, to profiting from it, and



The Team

Sector Head – Peter Milliken

Australia – *James Freeman*
China - *Alan Hellawell*
HK – *Peter Milliken*
India - *Srini Rao*
Indonesia - *Raymond Kosasih*
Malaysia – *Srini Rao*
Philippines – *Giovanni Dela Rosa*
Singapore – *Peter Milliken*
South Korea - *John Kim*
Taiwan – *Peter Milliken*
Thailand - *Thapana Phanich*

3) Improving global economies (as indicated by rising rates), broadening stimulus, and lower commodity prices put more money in consumers' pockets, some of which will be spent on communications. We believe these factors will allow revenue to accelerate, particularly at the weaker operators, which are the most sensitive to rising revenue due to their low margins.

Expect number three operators and competitive markets to improve, as efficiency drives, and a general desire to reduce competitive intensity combines with consumers' potentially seeing telecom spending power rise. This can especially benefit companies with low margins and so high leverage. The low margin areas sensitive to upturn include the HK mobile market, China fixed line, Indonesia, LG Uplus, XL Axiata, as well as some companies our coverage analysts rate as holds - KT Corp, Indosat, and RCOM.

Top picks

KDDI (Buy): While growth is likely to slow, KDDI is coming off a base of relatively low broadband market share and penetration, so should be able to lift earnings further despite competition becoming sharper. The stock remains on a relatively attractive P/E vs. the sector.

LG Uplus (Buy): Improving profitability focus within the sector, combines with high operating leverage, to leave LGU as the prime beneficiary of rising ARPU and dipping acquisition costs. Additionally, LGU is well placed to take share from 3G upgraders, given its LTE success to date and as it only has 3% of the 3G market currently.

SingTel (Buy): SingTel tends to perform when Optus and associates are performing, and when the stub value is cheap, both of which currently look favourable. We believe the firm is well positioned to take mobile and fixed share in Australia, and are generally positive on associates.

XL Axiata (Buy): Merger integration benefits should keep driving earnings up sharply, while the 15% rise in industry data pricing is encouraging for industry profitability. XL is also one of the larger beneficiaries from our operating leverage theme.

Appendix:

Company	Ticker	Rating	TP	8-Jan Price local	Ratios 2014F PE (x) (DB EPS)	Ratios 2014F PB (x)	Ratios 2014F Div yield %	Ratios 2015F PE (x) (DB EPS)	Ratios 2015F PB (x)	Ratios 2015F Div yield %
Alumina	AWC.AX	Buy	2.5	1.83	15.5	1.4	5.2	12.2	1.4	8.2
ANZ	ANZ.AX	Buy	38.3	31.91	NA	NA	NA	NA	1.7	6.0
Aristocrat Leisure	ALL.AX	Buy	8.8	6.64	NA	NA	NA	15.4	4.4	2.4
Boral	BLD.AX	Buy	5.83	5.40	NA	NA	NA	20.7	1.2	4.4
DuluxGroup	DLX.AX	Sell	4.2	5.86	NA	NA	NA	19.2	6.6	3.7
Harvey Norman	HVN.AX	Buy	4	3.34	NA	NA	NA	14.5	1.5	9.0
James Hardie Industries	JHX.AX	Buy	18.8	12.89	23.4	-29.7	3.8	21.4	-10.2	3.1
Metcash Limited	MTS.AX	Sell	2	1.57	NA	NA	NA	7.4	0.8	8.0
Oil Search	OSH.AX	Buy	10.2	7.09	15.2	1.5	2.0	11.4	1.4	3.1
QBE Insurance	QBE.AX	Buy	13.4	11.15	14.2	1.0	4.0	10.3	0.9	5.7
Stockland	SGP.AX	Buy	4.5	4.18	NA	NA	NA	16.1	1.0	5.7
Telstra Corporation	TLS.AX	Hold	5.4	6.02	NA	NA	NA	18.5	5.0	5.1
Alibaba	BABA.N	Buy	112.1	102.13	0.0	NA	#DIV/0!	48.8	11.2	0.0
Anhui Conch Cement	600585.SS	Buy	25.91	22.00	9.7	1.8	3.1	8.5	1.6	3.5
Baidu	BIDU.OQ	Buy	261	224.35	33.8	9.1	0.0	23.5	6.5	0.0
Bank of China	3988.HK	Buy	5.36	4.43	5.7	1.0	6.0	5.4	0.8	5.9
Baosteel Co., Ltd.	600019.SS	Buy	7.4	6.79	15.6	1.0	3.2	13.0	0.9	3.9
BBMG	2009.HK	Buy	7.65	7.19	7.8	0.9	1.3	6.9	0.8	1.5
BEWG	0371.HK	Buy	6.6	5.27	29.0	3.0	1.0	22.0	2.8	1.3
Brilliance China	1114.HK	Buy	16.3	13.58	11.2	3.2	1.1	9.8	2.5	1.2
China Hongqiao Group Limited	1378.HK	Buy	8.5	5.30	4.9	0.8	5.9	4.0	0.7	7.3
China Life	2628.HK	Buy	37.1	29.95	20.3	2.3	1.5	17.7	2.1	1.7
China Merchants Property	000024.SZ	Buy	16.42	25.65	12.6	2.1	1.6	11.1	1.9	1.8
China Pow er Int'l	2380.HK	Buy	4.7	3.93	8.4	1.1	5.2	7.8	1.0	5.6
China Rail Construction	1186.HK	Hold	7.42	9.66	8.0	1.0	1.9	8.1	0.9	1.9
China Resources Land	1109.HK	Buy	25.59	21.90	11.5	1.4	2.1	9.7	1.2	2.1
China Shipping Development Co.	1138.HK	Buy	7.7	5.77	94.9	0.7	0.0	10.3	0.7	3.2
China State Construction	3311.HK	Buy	15.42	11.10	12.9	2.2	1.9	10.4	1.9	1.9
China Vanke	2202.HK	Buy	19.1	17.82	9.5	1.7	3.0	7.8	1.5	3.2
China Vanke - A shares	000002.SZ	Buy	14.87	13.59	9.1	1.6	3.2	7.5	1.4	3.3
CITIC Securities	6030.HK	Hold	23	29.30	24.7	2.7	1.2	26.3	2.5	1.1
COLI	0688.HK	Buy	29.5	24.15	8.6	1.5	2.0	7.1	1.3	2.1
CPIC	601601.SS	Buy	38.2	30.03	29.3	2.2	1.2	18.1	2.0	1.9
CSCEC	601668.SS	Buy	5.55	6.66	8.6	1.5	2.3	7.3	1.3	2.7
CSPC Pharma	1093.HK	Buy	9	6.65	31.0	4.6	0.0	22.5	4.0	0.0
CTIH	0966.HK	Buy	30.9	23.00	19.5	2.1	0.0	17.1	1.8	0.8
Guangzhou R&F	2777.HK	Buy	13.95	9.54	4.0	0.7	7.3	3.2	0.6	7.9
Huadian Fuxin	0816.HK	Buy	6.1	4.06	13.9	1.9	1.4	9.2	1.6	2.2
NCI	601336.SS	Hold	43.6	45.36	21.6	2.7	0.5	17.7	2.3	0.6
Phoenix Healthcare Group	1515.HK	Buy	18	15.18	48.5	5.6	0.2	39.1	5.0	0.3
Ping An	2318.HK	Buy	102.2	81.90	17.5	2.3	1.0	14.7	2.0	1.1
Sihuan Pharmaceutical	0460.HK	Buy	7.4	5.33	25.8	4.8	0.8	20.1	4.0	1.0
Sinotruk (Hong Kong)	3808.HK	Buy	5	4.56	20.1	0.5	1.5	14.1	0.5	2.1
Sunac	1918.HK	Buy	8.5	7.49	5.3	1.2	3.3	4.3	1.0	3.7
Tencent	0700.HK	Buy	155.5	127.30	39.4	12.7	0.3	27.7	9.2	0.4

Appendix:

Company	Ticker	Rating	TP	8-Jan Price local	Ratios 2014F			Ratios 2015F		
					PE (x) (DB EPS)	PB (x)	Div yield %	PE (x) (DB EPS)	PB (x)	Div yield %
Galaxy	0027.HK	Buy	52	41.00	15.1	4.5	2.0	13.8	3.6	2.2
HK Telecom Trust	6823.HK	Hold	8.5	9.48	21.4	1.9	5.0	17.3	1.9	5.0
Li & Fung	0494.HK	Buy	11.7	7.26	16.1	2.7	5.0	13.0	2.6	6.0
L'Occitane International	0973.HK	Buy	20.44	19.40	30.1	3.5	1.2	28.8	3.8	1.2
Melco Crown	MPEL.OQ	Buy	29	23.78	19.0	3.1	1.4	17.4	2.7	1.6
NCI	1336.HK	Buy	54.5	39.80	15.2	1.9	0.7	12.4	1.6	0.8
Orient Overseas Int'l	0316.HK	Buy	63.6	47.45	11.3	0.8	1.9	8.0	0.8	3.1
Tsui Wah Holdings Limited	1314.HK	Buy	3.6	2.57	42.6	5.8	1.5	21.3	3.1	3.1
Axis Bank	AXBK.BO	Buy	560	503.00	9.1	1.8	1.7	15.3	2.7	1.0
CONCOR	CCRI.NS	Buy	1750	1,347.85	14.9	2.7	2.0	31.0	3.5	1.0
Cummins India	CUMM.BO	Buy	1065	891.65	21.6	6.5	2.9	37.3	8.7	1.6
Godrej Consumer	GOCP.BO	Buy	1100	990.00	36.9	7.7	0.6	37.5	7.6	0.6
HCL Tech	HCLT.BO	Sell	1230	1,534.00	NA	NA	NA	15.7	4.0	0.5
HDFC Bank	HDBK.BO	Buy	1060	965.00	20.1	4.2	1.0	24.1	4.6	0.8
Hindalco	HALC.BO	Buy	221	153.05	8.9	0.7	1.0	10.3	0.7	0.6
Hindustan Unilever	HLL.BO	Buy	900	816.85	35.4	39.9	2.6	42.0	42.9	1.9
Hindustan Zinc	HZNC.BO	Buy	205	164.85	7.4	1.4	2.9	9.3	1.6	2.1
Infosys Limited	INFY.BO	Buy	2375	1,979.25	15.7	3.9	2.1	18.5	4.2	2.1
Mahindra & Mahindra	MAHM.BO	Buy	1500	1,231.50	20.2	4.5	1.1	20.9	4.0	1.4
Maruti Suzuki Limited	MRTI.BO	Buy	3900	3,474.00	17.1	2.8	0.8	26.2	4.4	0.3
ONGC	ONGC.BO	Buy	450	340.50	9.5	1.6	3.4	10.0	1.5	3.2
Power Grid Corporation	PGRD.BO	Buy	165	137.70	11.6	1.6	2.6	14.5	1.9	2.0
Reliance Communications	RLCM.BO	Hold	120	78.70	34.6	0.8	0.0	13.1	0.5	0.3
State Bank of India	SBI.BO	Buy	340	305.15	8.7	1.4	1.7	12.0	2.1	1.2
Tata Consultancy	TCS.BO	Buy	3170	2,450.00	19.3	7.6	1.7	22.3	7.5	2.4
Tata Steel	TISC.BO	Buy	675	394.20	9.2	0.9	3.1	7.2	0.9	2.0
Tech Mahindra Ltd	TEML.BO	Buy	3500	2,564.40	11.3	4.1	0.2	16.8	3.8	0.1
UltraTech Cement	ULTC.BO	Buy	3050	2,726.70	22.7	3.5	0.5	31.4	3.9	0.3
Wipro	WIPR.BO	Hold	610	545.00	14.3	3.9	1.7	15.8	3.3	1.5
Adhi Karya	ADHI.JK	Buy	3600	3,605.00	19.4	3.7	1.9	14.9	3.1	1.5
Bank Mandiri	BMRI.JK	Buy	12900	10,950.00	12.2	2.5	1.9	11.3	2.2	2.0
Blue Bird	BIRD.JK	Buy	8700	10,000.00	32.2	6.7	2.6	25.9	5.6	0.9
BNI	BBNI.JK	Buy	7200	6,075.00	11.0	2.1	2.2	9.3	1.8	2.6
BRI	BBRI.JK	Buy	13100	11,975.00	12.6	3.0	2.1	11.3	2.5	2.4
Bumi Serpong Damai	BSDE.JK	Buy	2100	1,975.00	18.6	2.5	1.9	14.3	2.2	2.4
Gudang Garam	GGRM.JK	Buy	70000	61,300.00	21.4	3.6	1.5	18.5	3.2	1.9
Indofood CBP	ICBP.JK	Buy	13000	13,000.00	28.0	5.4	1.5	24.7	4.8	1.8
Indosat	ISAT.JK	Hold	4400	4,250.00	46.4	1.4	1.8	22.4	1.3	2.2
Kalbe Farma	KLBF.JK	Buy	1740	1,805.00	38.1	8.4	0.8	30.4	7.1	0.9
London Sumatra	LSIP.JK	Buy	2700	2,020.00	13.1	1.9	3.0	11.3	1.7	3.5
Matahari Putra Prima	MPPA.JK	Buy	3500	2,870.00	38.2	5.7	6.5	29.1	4.9	0.7
Pakuwon Jati	PWON.JK	Buy	560	535.00	16.8	5.2	2.1	14.6	4.0	1.4
PGN	PGAS.JK	Buy	6200	5,800.00	14.3	3.8	3.6	13.8	3.3	3.7
Salim Ivomas Pratama	SIMP.JK	Buy	1200	725.00	10.7	0.8	2.8	9.1	0.7	3.3
Semen Indonesia	SMGR.JK	Buy	17850	15,875.00	17.0	3.9	2.7	15.1	3.4	3.0
Summarecon	SMRA.JK	Buy	1580	1,635.00	21.9	4.6	1.4	21.1	4.0	1.4
Vale Indonesia	INCO.JK	Buy	4700	3,535.00	17.5	1.6	4.3	10.2	1.5	7.4
XL Axiata	EXCL.JK	Buy	7150	4,655.00	425.2	2.5	1.0	34.5	2.4	1.2

Appendix:

Company	Ticker	Rating	TP	8-Jan Price local	Ratios 2014F			Ratios 2015F		
					PE (x) (DB EPS)	PB (x)	Div yield %	PE (x) (DB EPS)	PB (x)	Div yield %
Japan Airlines	9201.T	Buy	3900	3,825.00	5.5	1.3	3.2	9.0	1.7	2.2
INPEX	1605.T	Buy	1810	1,236.50	9.3	0.7	1.5	12.0	0.6	1.5
KDDI Corp	9433.T	Buy	8000	7,451.00	13.2	1.8	2.5	15.2	2.1	2.3
AmorePacific Corp	090430.KS	Buy	3000000	2,160,000.00	32.2	4.4	0.3	25.5	3.8	0.3
CJ O Shopping	035760.KQ	Buy	379000	237,900.00	10.8	1.7	0.9	9.2	1.4	0.9
Daum Kakao	035720.KQ	Sell	103000	147,300.00	57.3	2.2	0.4	34.9	2.2	0.5
Hanwha Chemical	009830.KS	Hold	14000	11,300.00	14.2	0.4	2.2	7.9	0.4	2.7
Hyundai Heavy	009540.KS	Hold	95000	96,700.00	-16.0	0.5	0.0	13.9	0.5	0.0
Hyundai Motor	005380.KS	Buy	210000	178,000.00	6.3	0.8	2.0	5.9	0.7	2.4
Kepco	015760.KS	Buy	60800	41,800.00	10.4	0.5	2.6	7.6	0.5	3.6
KT Corporation	030200.KS	Hold	32000	30,300.00	-10.5	0.6	0.0	11.2	0.6	5.0
Kia Motors	000270.KS	Buy	67000	52,200.00	6.3	0.9	1.9	5.4	0.8	2.1
LG Chem	051910.KS	Buy	280000	168,000.00	14.0	1.0	2.4	10.3	0.9	2.7
LG Uplus	032640.KS	Buy	14000	11,700.00	22.8	1.2	1.3	8.7	1.1	3.4
Samsung Electronics	005930.KS	Buy	1530000	1,314,000.00	9.4	1.4	1.5	10.3	1.3	1.5
Samsung F&M	000810.KS	Buy	350000	300,500.00	14.1	1.4	1.7	12.1	1.3	2.0
SEMCO	009150.KS	Buy	69000	60,000.00	5.9	0.9	3.0	50.7	1.0	0.3
SK Hynix	000660.KS	Buy	61000	49,950.00	9.7	2.2	0.0	8.7	1.7	0.0
S-Oil Corp	010950.KS	Hold	40000	46,500.00	-49.4	1.1	1.3	18.9	1.0	2.6
Woori Bank	000030.KS	Hold	10000	9,530.00	4.9	0.4	4.2	7.7	0.4	1.6
AirAsia	AIRA.KL	Buy	3.48	2.58	12.2	1.3	0.9	7.8	1.0	2.4
Astro Malaysia	ASTR.KL	Buy	3.87	3.02	34.2	24.9	3.1	30.1	25.6	3.3
Gamuda	GAMU.KL	Buy	5.38	5.01	15.1	2.0	2.6	16.1	2.0	2.4
IHH Healthcare Bhd	IHHH.KL	Buy	5.7	4.77	50.7	2.1	0.2	39.8	2.0	0.3
IJM Corp	IJMS.KL	Buy	7.76	6.59	14.3	1.3	4.4	16.5	1.4	2.4
MISC BHD	MISC.KL	Hold	7.7	7.40	16.2	1.2	2.7	13.7	1.1	3.6
Telekom Malaysia	TLMM.KL	Buy	8.3	6.78	26.5	3.4	3.4	22.9	3.3	3.9
ABS-CBN Corp	ABSP.PS	Buy	48	50.00	18.0	1.5	1.4	11.9	1.4	2.1
Century Pacific Food	CNPF.PS	Buy	18	16.98	20.0	5.0	1.5	20.6	4.3	1.5
Energy Development Corp	EDC.PS	Buy	8.9	8.71	17.6	3.8	2.3	12.1	3.0	1.7
LT Group	LTG.PS	Buy	18	12.90	34.6	1.3	1.2	12.9	1.2	0.5
Manila Electric Company	MER.PS	Buy	355	265.00	16.7	3.8	4.7	16.5	3.6	4.8
Melco Crown Philippines	MCP.PS	Hold	12.6	12.40	-37.8	3.4	0.0	20.1	3.0	0.0
Metro Pacific Investments	MPI.PS	Buy	6.2	5.06	15.1	1.3	1.1	12.5	1.1	1.6
Puregold	PGOLD.PS	Buy	41	41.40	27.8	3.4	1.0	24.4	3.1	1.1
Robinsons Land Corp	RLC.PS	Buy	27.75	26.40	23.0	2.1	1.5	18.9	1.9	1.5
Semirara Mining and Power	SCC.PS	Buy	148	145.00	22.0	6.6	2.8	15.8	5.3	2.8
CapitaMall Trust	CMLT.SI	Buy	2.12	2.03	16.0	1.1	5.5	17.2	1.1	5.7
City Developments	CTDM.SI	Buy	12.3	10.32	17.4	1.1	1.6	15.2	1.0	1.6
ComfortDelgro	CMDG.SI	Buy	2.85	2.57	19.1	2.4	2.9	17.1	2.2	3.3
DBS Group Holdings Ltd	DBSM.SI	Buy	23.2	20.08	11.8	1.3	2.9	11.4	1.3	3.0
Mapletree Commercial Trust	MACT.SI	Buy	1.48	1.46	18.2	1.0	6.0	19.5	1.1	5.4
Neptune Orient Lines	NEPS.SI	Sell	0.69	0.88	-8.1	0.9	0.0	-83.0	0.9	0.0
SMRT Corporation	SMRT.SI	Buy	1.9	1.63	26.9	2.9	1.9	24.7	2.7	2.0
Singapore Airlines	SIAL.SI	Sell	8.8	12.02	36.5	0.9	4.4	50.1	1.1	1.6
Singapore Telecom	STEL.SI	Buy	4.5	3.94	16.2	2.4	4.6	16.5	2.4	4.6
Yangzijiang Shipbuilding	YAZG.SI	Buy	1.54	1.27	7.0	1.1	4.2	8.9	1.0	3.4

Appendix:

Company	Ticker	Rating	TP	8-Jan Price local	Ratios 2014F PE (x) (DB EPS)	Ratios 2014F PB (x)	Ratios 2014F Div yield %	Ratios 2015F PE (x) (DB EPS)	Ratios 2015F PB (x)	Ratios 2015F Div yield %
Asustek	2357.TW	Sell	260	348.00	12.9	1.8	5.2	13.3	1.7	5.1
AU Optronics	2409.TW	Hold	12.3	18.90	27.5	1.1	0.0	13.3	1.0	0.0
Casetek	5264.TW	Buy	248	181.50	11.7	2.3	4.3	8.8	1.9	5.7
Catcher Technology	2474.TW	Buy	350	253.50	11.2	2.2	3.6	9.4	1.9	4.3
Eclat Textile	1476.TW	Buy	340	309.50	26.6	8.5	2.3	21.2	7.4	2.8
Ginko International	8406.TWO	Buy	540	328.00	20.3	3.4	2.1	15.7	3.0	2.7
Hermes Microvision	3658.TWO	Buy	1800	1,480.00	34.5	9.5	1.4	24.1	7.5	1.9
Hon Hai Precision	2317.TW	Buy	116	86.90	10.6	1.6	2.1	9.0	1.4	2.5
LARGAN Precision	3008.TW	Buy	2870	2,365.00	17.4	7.1	2.3	13.2	5.1	3.2
MediaTek	2454.TW	Hold	461	485.00	16.0	3.1	3.1	15.8	3.0	5.2
Novatek Microelectronics	3034.TW	Buy	203	179.50	15.7	3.9	3.4	13.2	3.6	5.0
Pegatron	4938.TW	Buy	82	75.30	13.2	1.5	5.1	11.0	1.4	6.2
PixArt Imaging	3227.TWO	Sell	53.8	77.90	32.4	1.7	2.6	28.9	1.7	3.0
ScinoPharm Taiw an	1789.TW	Sell	45	54.20	50.8	3.9	1.2	41.3	3.8	1.5
TSMC	2330.TW	Buy	166	138.00	13.7	3.5	2.9	12.5	2.9	2.9
Unimicron	3037.TW	Hold	20.5	23.90	30.5	0.8	2.6	21.5	0.8	3.6
United Microelectronics	2303.TW	Buy	15	14.90	16.2	0.9	3.1	16.0	0.9	3.2
Airports of Thailand	AOT.BK	Buy	330	289.00	NA	NA	NA	26.5	3.8	0.9
AIS	ADVANC.BK	Buy	265	250.00	20.3	16.2	4.9	17.6	16.2	5.7
Amata Corp PCL	AMATA.BK	Buy	22	16.70	11.8	1.9	3.4	12.7	1.8	3.2
AP (Thailand)	AP.BK	Buy	7.7	6.20	8.5	1.3	4.1	7.0	1.1	5.0
Bangchak	BCP.BK	Buy	40	32.50	8.5	1.3	3.1	9.5	1.2	4.2
Bangkok Dusit Medical Service	BGH.BK	Buy	22	18.60	39.6	6.5	1.3	32.4	5.8	1.2
Central Pattana	CPN.BK	Buy	55	45.25	27.2	5.0	2.5	21.6	4.5	3.1
Kasikornbank	KBANK.BK	Buy	253	228.00	11.7	2.1	2.0	10.4	1.8	2.4
Robinson Dept. Store	ROBINS.BK	Buy	58	46.75	27.5	4.2	1.5	22.9	3.8	1.7
Siam Commercial Bank	SCB.BK	Buy	198	182.00	11.7	2.2	3.3	10.7	1.9	3.6
Thai Oil Pcl	TOP.BK	Buy	53	45.75	-20.4	1.1	0.0	10.7	1.0	4.2
True Corporation	TRUE.BK	Buy	14.5	11.40	444.8	4.0	0.0	69.5	3.9	0.5

Source: Deutsche bank

Appendix: Valuation & Risks

Please refer to our Research website for important disclosures regarding our valuation methodology and risks for each of the stocks mentioned in this report. http://gmr.db.com

Appendix 1

Important Disclosures

Additional information available upon request

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr

Analyst Certification

This report covers more than one security and was prepared by more than one analyst. The views expressed in this report accurately reflect the personal views of each undersigned lead analyst about the subject issuers covered by each, and the securities of those issuers. In addition, the undersigned lead analysts have not and will not receive any compensation for providing a specific recommendation or view in this report. Mark Lawson

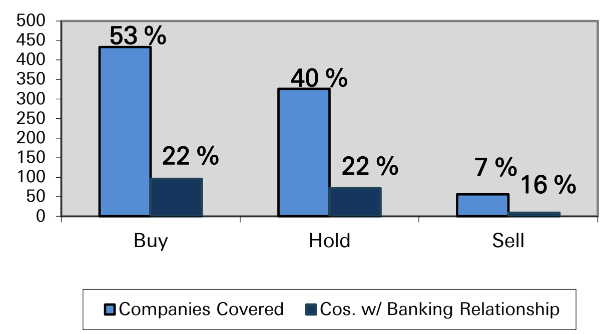
Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:

    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
    Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

Regulatory Disclosures

1. Important Additional Conflict Disclosures

Aside from within this report, important conflict disclosures can also be found at https://gm.db.com/equities under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

2. Short-Term Trade Ideas

Deutsche Bank equity research analysts sometimes have shorter-term trade ideas (known as SOLAR ideas) that are consistent or inconsistent with Deutsche Bank's existing longer term ratings. These trade ideas can be found at the SOLAR link at http://gm.db.com.

3. Country-Specific Disclosures

Australia and New Zealand: This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act and New Zealand Financial Advisors Act respectively.

Brazil: The views expressed above accurately reflect personal views of the authors about the subject company(ies) and its(their) securities, including in relation to Deutsche Bank. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of Deutsche Bank. In cases where at least one Brazil based analyst (identified by a phone number starting with +55 country code) has taken part in the preparation of this research report, the Brazil based analyst whose name appears first assumes primary responsibility for its content from a Brazilian regulatory perspective and for its compliance with CVM Instruction # 483.

EU countries: Disclosures relating to our obligations under MiFiD can be found at http://www.globalmarkets.db.com/riskdisclosures.

Japan: Disclosures under the Financial Instruments and Exchange Law: Company name - Deutsche Securities Inc. Registration number - Registered as a financial instruments dealer by the Head of the Kanto Local Finance Bureau (Kinsho) No. 117. Member of associations: JSDA, Type II Financial Instruments Firms Association, The Financial Futures Association of Japan, Japan Investment Advisers Association. Commissions and risks involved in stock transactions - for stock transactions, we charge stock commissions and consumption tax by multiplying the transaction amount by the commission rate agreed with each customer. Stock transactions can lead to losses as a result of share price fluctuations and other factors. Transactions in foreign stocks can lead to additional losses stemming from foreign exchange fluctuations. "Moody's", "Standard & Poor's", and "Fitch" mentioned in this report are not registered credit rating agencies in Japan unless Japan or "Nippon" is specifically designated in the name of the entity. Reports on Japanese listed companies not written by analysts of Deutsche Securities Inc. (DSI) are written by Deutsche Bank Group's analysts with the coverage companies specified by DSI.

Malaysia: Deutsche Bank AG and/or its affiliate(s) may maintain positions in the securities referred to herein and may from time to time offer those securities for purchase or may have an interest to purchase such securities. Deutsche Bank may engage in transactions in a manner inconsistent with the views discussed herein.

Qatar: Deutsche Bank AG in the Qatar Financial Centre (registered no. 00032) is regulated by the Qatar Financial Centre Regulatory Authority. Deutsche Bank AG - QFC Branch may only undertake the financial services activities that fall within the scope of its existing QFCRA license. Principal place of business in the QFC: Qatar Financial Centre, Tower, West Bay, Level 5, PO Box 14928, Doha, Qatar. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Business Customers, as defined by the Qatar Financial Centre Regulatory Authority.

Russia: This information, interpretation and opinions submitted herein are not in the context of, and do not constitute, any appraisal or evaluation activity requiring a license in the Russian Federation.

Kingdom of Saudi Arabia: Deutsche Securities Saudi Arabia LLC Company, (registered no. 07073-37) is regulated by the Capital Market Authority. Deutsche Securities Saudi Arabia may only undertake the financial services activities that fall within the scope of its existing CMA license. Principal place of business in Saudi Arabia: King Fahad Road, Al Olaya District, P.O. Box 301809, Faisaliah Tower - 17th Floor, 11372 Riyadh, Saudi Arabia.

United Arab Emirates: Deutsche Bank AG in the Dubai International Financial Centre (registered no. 00045) is regulated by the Dubai Financial Services Authority. Deutsche Bank AG - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business in the DIFC: Dubai International Financial Centre, The Gate Village, Building 5, PO Box 504902, Dubai, U.A.E. This information has been distributed by Deutsche Bank AG. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Global Disclaimer

The information and opinions in this report were prepared by Deutsche Bank AG or one of its affiliates (collectively "Deutsche Bank"). The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. Deutsche Bank makes no representation as to the accuracy or completeness of such information.

Deutsche Bank may engage in securities transactions, on a proprietary basis or otherwise, in a manner inconsistent with the view taken in this research report. In addition, others within Deutsche Bank, including strategists and sales staff, may take a view that is inconsistent with that taken in this research report.

Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Deutsche Bank and are subject to change without notice. Deutsche Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Prices and availability of financial instruments are subject to change without notice. This report is provided for informational purposes only. It is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Target prices are inherently imprecise and a product of the analyst judgement.

In August 2009, Deutsche Bank instituted a new policy whereby analysts may choose not to set or maintain a target price of certain issuers under coverage with a Hold rating. In particular, this will typically occur for "Hold" rated stocks having a market cap smaller than most other companies in its sector or region. We believe that such policy will allow us to make best use of our resources. Please visit our website at http://gm.db.com to determine the target price of any stock.

The financial instruments discussed in this report may not be suitable for all investors and investors must make their own informed investment decisions. Stock transactions can lead to losses as a result of price fluctuations and other factors. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the investment. Past performance is not necessarily indicative of future results. Deutsche Bank may with respect to securities covered by this report, sell to or buy from customers on a principal basis, and consider this report in deciding to trade on a proprietary basis. Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Unless governing law provides otherwise, all transactions should be executed through the Deutsche Bank entity in the investor's home jurisdiction. In the U.S. this report is approved and/or distributed by Deutsche Bank Securities Inc., a member of the NYSE, the NASD, NFA and SIPC. In Germany, this report is approved and/or communicated by Deutsche Bank AG, a joint stock corporation with limited liability incorporated in the Federal Republic of Germany with its principal office in Frankfurt am Main. Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank) and is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority. In the United Kingdom, this report is approved and/or communicated by Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB. Deutsche Bank AG in the United Kingdom is authorised by the Prudential Regulation Authority and is subject to limited regulation by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. This report is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. This report is distributed in Singapore by Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch (One Raffles Quay #18-00 South Tower Singapore 048583, +65 6423 8001), and recipients in Singapore of this report are to contact Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch in respect of any matters arising from, or in connection with, this report. Where this report is issued or promulgated in Singapore to a person who is not an accredited investor, expert investor or institutional investor (as defined in the applicable Singapore laws and regulations), Deutsche Bank AG, Singapore Branch or Deutsche Securities Asia Limited, Singapore Branch accepts legal responsibility to such person for the contents of this report. In Japan this report is approved and/or distributed by Deutsche Securities Inc. The information contained in this report does not constitute the provision of investment advice. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product. Deutsche Bank AG Johannesburg is incorporated in the Federal Republic of Germany (Branch Register Number in South Africa: 1998/003298/10). Additional information relative to securities, other financial products or issuers discussed in this report is available upon request. This report may not be reproduced, distributed or published by any person for any purpose without Deutsche Bank's prior written consent. Please cite source when quoting.

Copyright © 2015 Deutsche Bank AG