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ASEAN Equity Strategy

Valuations Still Lofty: Are We Missing Something?

ASEAN is expensive and faces earnings cuts, but markets have held up due, we suspect, to a lack of conviction in growth elsewhere. We still struggle to find compelling upside; we drop some of our bear case probabilities; and rejig our order of preference to ID>PH>SG>TH.

The sun is still shining in ASEAN... A UK vote to leave the EU has raised: 1) the global risk environment; and 2) questions over [global growth](#), both typically negative for ASEAN markets. But, our markets have been surprisingly resilient - ASEAN up 1.6% relative to AxJ - since 23 June; year to date Indonesia, Philippines and Thailand have outperformed AxJ by 13.1%, 13.3% and 19.3%.

...While valuation suggests we should be taking profits (and that is still our base case)... Indonesia, Philippines and Thailand are trading at 6-11% premiums to their 3-year average NTM P/E's and 9-18% premium to their 5-year average NTM P/E's. Singapore is more attractively priced though rightly so, in our view, as it is in the midst of an earnings recession. And, we still see 3-11% risk to earnings across the region. The only metric that looks cheap relative to history is P/B, but we think this is a function of deteriorating RoE as oligopolies are dismantled over time.

...So, are we missing something bigger to play for... We think the outperformance is explained by a lack of conviction in growth elsewhere. This has led to a pick up in foreign equity inflows - US\$1.1bn in the last 30 days; 2015 saw US\$6.9bn outflows. This suggests some continued support for markets near term. Indonesia also benefited from tax amnesty progress and rate cuts while the Philippines saw a strong election mandate for the incoming president. And, even though we see cuts to 2016/17 earnings we suspect the market is bidding up for the roll forward of growth into 2017 - 10%+ (ex Singapore) on our estimates.

...And, how do we capture this in our index targets... First, we use a 2017E EPS when setting our index targets to capture the growth in NTM. We have also lowered our bear case probability in Indonesia and Philippines by 5ppt each to reflect progress on the tax amnesty and a strong mandate for the incoming president, respectively. We are reluctant to lower the bear case probability more at this point given the global macro uncertainties. A lower for long rates environment is beneficial for our markets; specifically this time we cut our Indonesia target risk free rate following a surprise 25bps rate cut in mid-June; every 25bps cut adds 5% to our target. Our index targets rise 2-9% (See [Exhibit 1](#)).

...What would make us turn buyers of Indonesia and the Philippines. For Indonesia, private sector recovery is key and we would look for signs of easing in tax scrutiny to move towards our bull case, which suggests 29% upside. In the Philippines, evidence of accelerating infrastructure deployment, particularly in the provinces, could move us towards our bull case; for now, we factor in some activity slow down during the leadership transition.

MORGAN STANLEY ASIA (SINGAPORE) PTE.+

Sean Gardiner

EQUITY STRATEGIST

Sean.Gardiner@morganstanley.com

+65 6834-6838

Aarti Shah, CFA

EQUITY STRATEGIST

Aarti.Shah@morganstanley.com

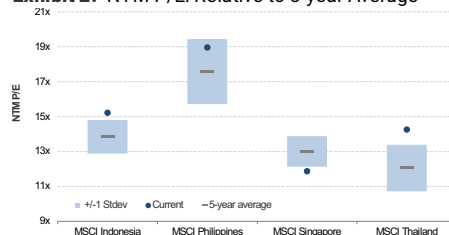
+65 6834-6741

Exhibit 1: ASEAN: Key metrics, by country

	Order of preference			
	Indonesia	Philippines	Singapore	Thailand
Current index	5,677	1,283	1,449	484
Index target	5,626	1,174	1,355	427
% diff	-1	-8	-6	-12
% diff (US\$)	-9	-15	-18	-20
Old index target	5,279	1,161	1,327	402
% chg	7	1	2	6
P/E				
- 2016	17.0x	20.3x	13.7x	15.5x
- 2017	15.0x	18.4x	13.2x	14.1x
@ Target	14.9x	16.8x	12.4x	12.4x
3 yr ave	14.0x	18.4x	13.0x	12.6x
5 yr ave	13.8x	17.5x	13.1x	11.9x
Current 10Yr Bond Yld %	7.7	4.7	1.8	1.7
MS Strategist EPS				
- 2016	335	63	106	31
- 2017	378	70	110	34
% YoY Chg				
- 2016	-2	1	-11	1
- 2017	13	10	4	10
% diff to consensus				
- 2016	-7	-4	-10	-3
- 2017	-7	-4	-11	-6
EPS revisions (% YTD)				
- 2016	-5	-3	-7	-11
- 2017	-5	-4	-9	-10
Index Performance (% YTD)				
Absolute	4	11	-6	13
Relative MSCI AxJ	11	14	1	19
Relative MSCI EM	8	11	-2	15

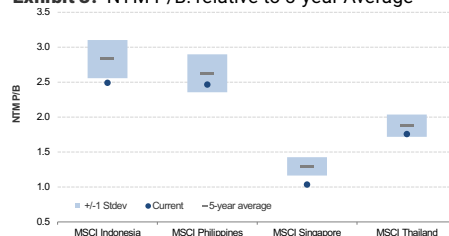
Morgan Stanley Research estimates. Pricing and consensus data are from Datastream. Note: Local currency.

Exhibit 2: NTM P/E: Relative to 5-year Average



Datastream, Morgan Stanley Research

Exhibit 3: NTM P/B: relative to 5-year Average



Datastream, Morgan Stanley Research

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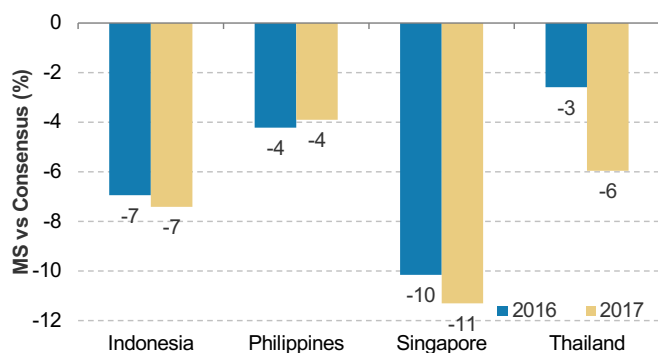
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Investment Summary

What's changed?

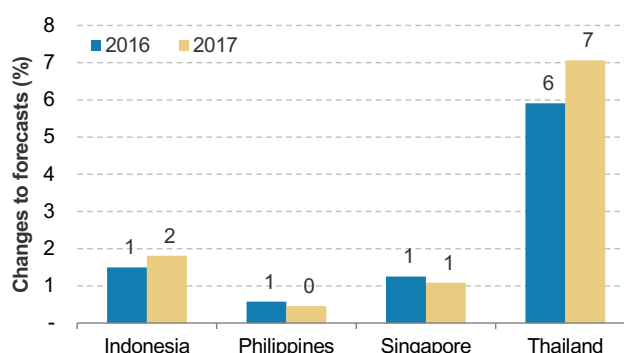
In our 'A Time to Sell' note, we argued that ASEAN was: 1) expensive at a 10% premium to average bar Singapore, which traded at a discount; and 2) earnings faced cuts through 2017. But, recent dislocations in global markets and concerns over global growth - given the UK vote to leave the European Union - have potentially raised the premium for domestically driven growth. We capture this in our new price targets - 2.9% higher than previously. Nonetheless, we find ourselves still struggling to get comfortable with valuations. We even looked to PEG ratios to try justify upside for Indonesia, Philippines and Thailand in the anticipation of further fund flows into the region; the result was PEGs have only been more expensive before when growth expectations fell sharply such as in 2H13 and 2H15 not an ideal representation of the current outlook. However, as shown in Exhibit 6, Indonesia's PEG gap to Philippines has widened over the past 2 months helping to make it more attractive on the margin.

Exhibit 4: EPS: MS vs Consensus, 2016-17



Source: Datastream, Morgan Stanley Research

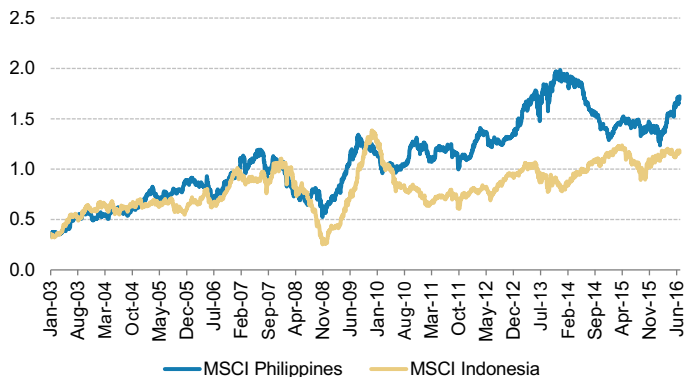
Exhibit 5: EPS: MS Changes to Earnings, 2016-17



Source: Morgan Stanley Research estimates

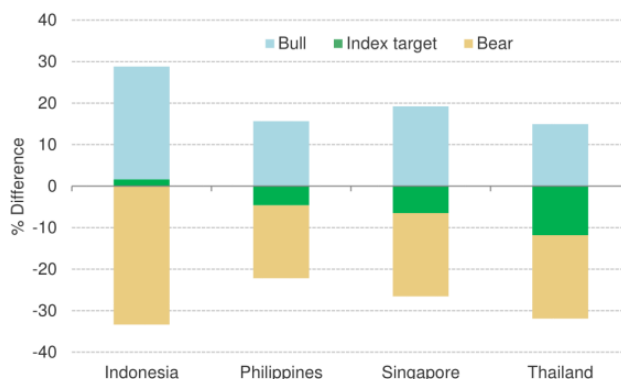
We also shuffle our order of preference - Indonesia, Philippines, Singapore and then Thailand - given recent market movements and some fine tuning of earnings estimates post 1Q16. In addition, we have reflected the surprise 25bps cut in Indonesia interest rates in our new price target; our ASEAN economist, Deyi Tan, doesn't expect any more cuts this year. In terms of sensitivity, a further 25bps point cut in rates could lift our index target by 5%. For Philippines, given the strong popular mandate the presumptive president, Mr Rodrigo Duterte, secured in the election we have lowered our bear case probability 5ppt to 15% to reflect reduced geopolitical risk for now. In Indonesia, we have lowered our bear case probability to 20% from 25% to reflect the passing of the tax amnesty bill, which should help widen the tax base to fund future fiscal spending. We are 3-11% below consensus for earnings across our region, supported by ~40% of our companies under coverage missing 1Q16 expectations. Since the start of 1Q16 results season, we have seen 1-2% downward revisions in consensus earnings - the biggest from Indonesia - while year to date 2016 consensus earnings expectations have been cut 3-11%. A positive surprise in 1Q16 reported earnings for Thailand - driven by resources (petrochem) and consumer stimulus - means we have revised up our 2016 and 2017 expectations by 6% and 7%, respectively.

Exhibit 6: PEG: Indonesia vs Philippines, 2003-16



Source: Datastream, Morgan Stanley Research

Exhibit 7: ASEAN: Bear / Base / Bull Case

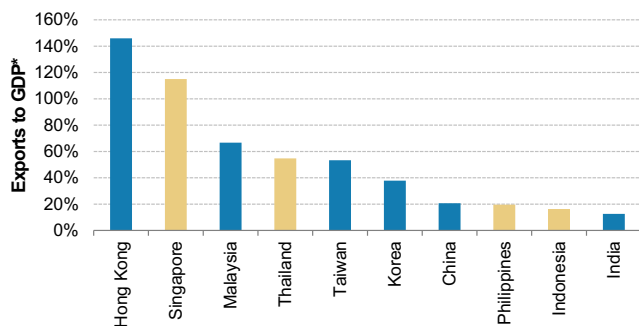


Source: Morgan Stanley Research estimates

What is the impact from the UK vote to leave the EU?

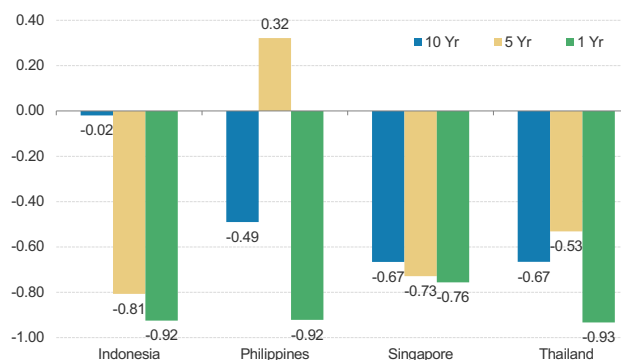
Our global macro team believe that the UK vote to leave the EU could constitute a global macro shock... They have raised their subjective probability of a global recession starting in the next 12 months from 30% to 40%. (See their [note](#)). For currency, our FX team expects weakness in A\$ exporters, such as Singapore, while they remain cautious on current account deficit currencies like the rupiah (See their [note](#)). In terms of global risk, we have seen the STGRDI turn sharply negative (see 3) as asset allocators have favored less risky assets; global bond yields have fallen.

Exhibit 8: Exports as % of GDP



Source: various government sources, Morgan Stanley Research * Data for Malaysia and Philippines is as of Apr-16 and other countries as of May-16

Exhibit 9: ASEAN: US dollar correlations

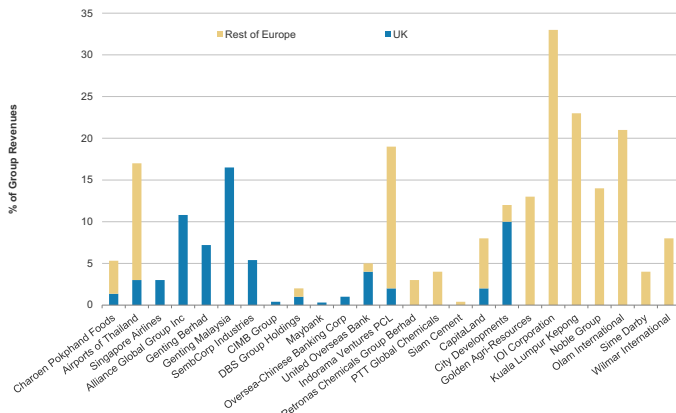


Source: Datastream, Morgan Stanley Research

...But, what's been most surprising to us is the relative resilience of the ASEAN markets... We appreciated that the linkages between UK, Europe and ASEAN were relatively small - excluding Singapore. But, we had worried that the bout of US dollar strength would be a headwind for regional equity markets, particularly Indonesia. At the same time, we still see earnings estimates as 3-11% too high irrespective of possible contagion risks from the UK leaving Europe. That said, MSCI SEA is down 1.3% since June 23, 2016 - the day before the UK vote was announced - but up 1.6% relative to MSCI A\$, 2.4% versus MSCI EM and 4.4% to MSCI World. We think this dislocation is, in part, explained by domestic growth expectations, particularly for Indonesia and the Philippines. Furthermore, for Indonesia, the long-delayed announcement of the tax amnesty process moving ahead has been a near-term catalyst in the country during this

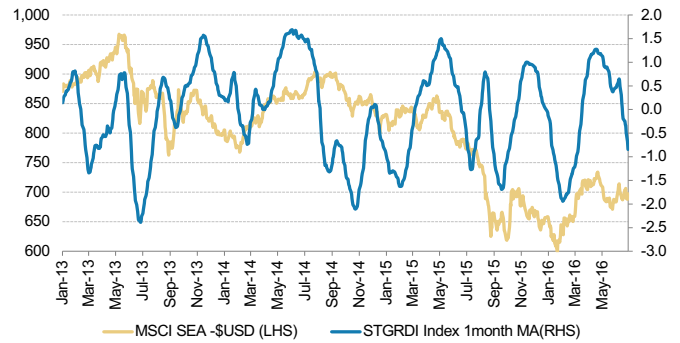
otherwise uncertain period.

Exhibit 10: ASEAN: MS Corporates with European / UK Exposure, 2015



Company Data, Morgan Stanley Research

Exhibit 11: STGRDI Index, 2013-16

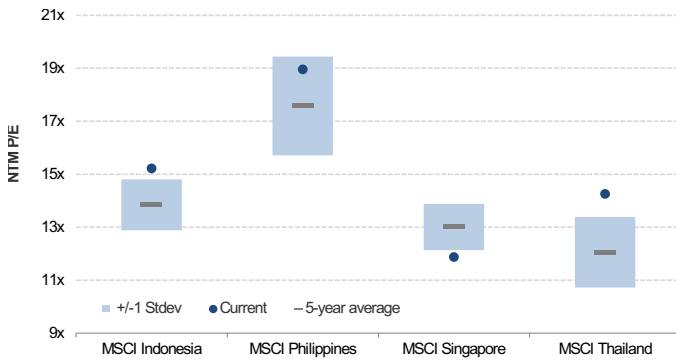


Datastream, Bloomberg, Morgan Stanley Research

We stay negative, but what could we be missing?

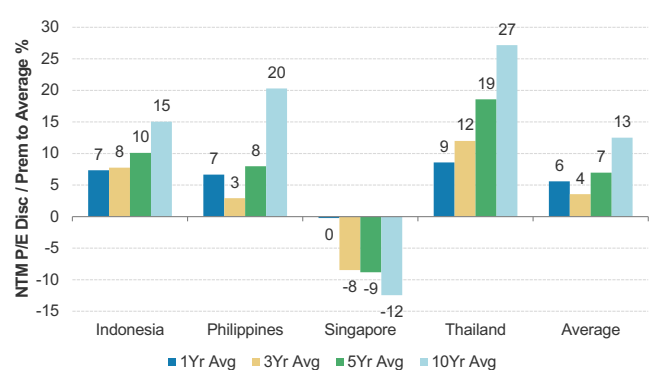
Indonesia, Philippines and Thailand (USD Index) are up 10.5%, 10.8% and 16.6% year to date, respectively; relative to AxJ, Indonesia has outperformed by 13.1%, Philippines by 13.3% and Thailand by 19.3%. As a result, we now find these markets trading at 3-12% premiums to their 3-year average NTM P/E's and 8-19% premiums to their 5-year average NTM P/E's, as shown in Exhibit 13. The only metric the markets look better on is P/B, but we think this is a function of RoE deterioration in recent years.

Exhibit 12: NTM P/E: Relative to 5-Year Average



Source: Bloomberg, Morgan Stanley Research

Exhibit 13: NTM P/E: Prem/Disc to Average



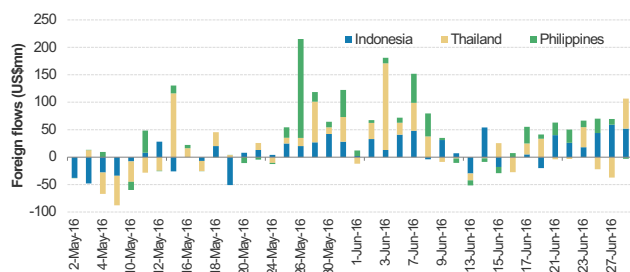
Source: Datastream, Morgan Stanley Research

We think this outperformance is explained by a lack of conviction in domestic growth opportunities elsewhere. In addition, Indonesia has benefited from the long-delayed tax amnesty and bank rate cuts, while the Philippines has seen an 11% rally (10% relative to AxJ) post a strong popular mandate given to its incoming president, Mr Duterte, from elections on 9 May. We have looked to include these factors in our index targets by lowering our bear case probability in Indonesia and Philippines by 5ppt each. But, at this stage we are reluctant to lower the bear case probability much more - something we think the market is attempting to do - given the global macro uncertainties as well as some country-specific domestic headwinds. We have also cut our target risk free rate in Indonesia following a surprise 25bps rate cut in mid-June. In terms of sensitivity, another

25bps cut would raise our index target by up to 5%, which bulls in the market may look to include even though our economist, Deyi Tan, believes rates are on hold for now.

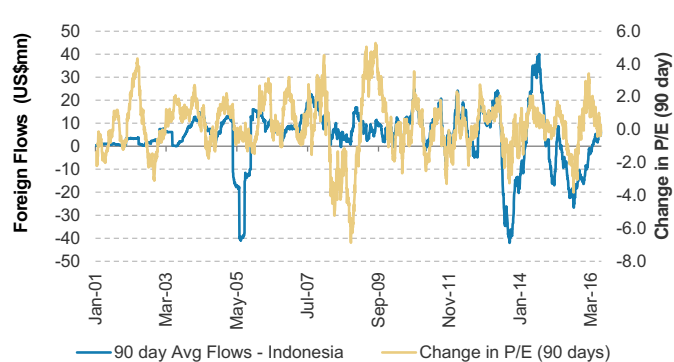
All this has led to a pick up in foreign equity inflows - US\$1.1bn in the last month and US\$2.2bn year to date - supporting the higher-than-average multiples despite continued earnings risk. In comparison, 2015 saw US\$6.9bn of outflows from US\$4.4bn of outflows in Thailand and US\$2.6bn of outflows in Indonesia. We cannot rule out further inflows given the lack of compelling growth stories elsewhere. And, when we look at the relationship between flows and multiples we do see a pattern - for Indonesia, the correlation since 2009 is 60% as shown in 15. This should act as a near-term support for valuation in the region. Year-to-date, Thailand remains driven by domestic flows - given some of the country's geopolitical tail risks - with support from consumer-orientated stimulus and the coming end of the El Nino, which should lead to less pressure on farmers' incomes. But, we would use this as a time to sell as we expect earnings pressure to continue through year end and we cannot rule out further tail risks from the global geopolitical environment.

Exhibit 14: Daily Foreign Equity Flows: May-June 2016



Bloomberg, Morgan Stanley Research

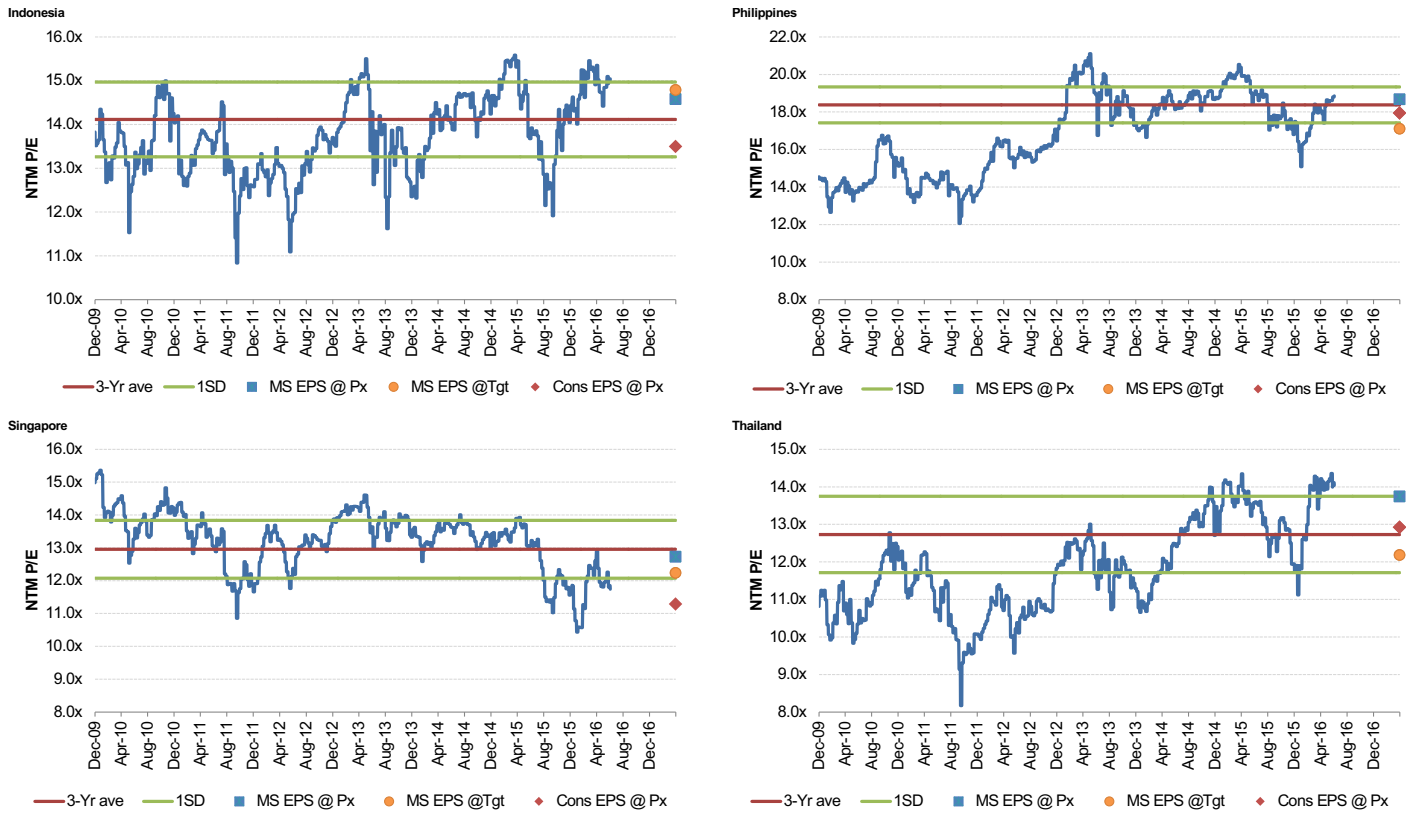
Exhibit 15: Indonesia: Flows vs Change in Multiple, 2011-16



Bloomberg, Datastream, Morgan Stanley Research

We also think the market maybe trying to price in the roll forward of NTM growth into 2017. And, while we agree with this approach - we use MS 017e EPS to set our index targets, we worry the market is using the wrong starting point with our estimates 3-11% lower than consensus over 2016 and 2017. Exhibit 16 shows the roll forward of NTM P/E relative to history for each country. The challenge, we believe, sits in markets such as Singapore and Indonesia where 2017 consensus P/E looks 'cheap' (ie significantly below average), but when adjusted for our earnings and our price targets it looks less compelling. For Thailand, our below-average target P/E on our EPS estimates for 2017 is a function of the continued elevated geopolitical tail risks; in the Philippines our index target is influenced by a higher-than-previous risk free rate and slower earnings growth in 2016 and 2017.

Exhibit 16: Roll Forward of NTM P/E to December 2017



Datastream, Morgan Stanley Research e = Morgan Stanley Research estimates

What's the potential triggers to de-rate the markets?

Indonesia: 2H16 fiscal spend and collections disappointment? A sluggish private sector recovery - despite 100bps of rate cuts year-to-date - due to continued tax scrutiny means revenue collections are down 7% through May, while expenditure was up 13%. The new budget has a 2% cut in planned expenditure with 14% growth now expected. But, we worry that more may be needed to be cut through 2H16 if collections remain soft. Yes, the tax amnesty will help but it's too early to make a call on the pace of submissions - to help the accrual-based government receipts - or the extent of its success. More importantly, we worry the market may be underestimating the continued drag from ongoing tax scrutiny, which shows no signs of abating.

Philippines: Transitional growth slowdown? Incoming president, Mr Rodrigo Duterte, has focused his macroeconomic policies on widening the fiscal deficit from 0.9% (2.0% budgeted) in 2015 to 3.0% as the government ramps up infrastructure spending. We believe this is doable given the relatively low central government borrowing to GDP at 48%. However, while the medium-term direction is clear, we think there is a near-term risk of delay as the new government also intends to clamp down on corruption, which likely means a pause in decision making at department level and slower project implementation.

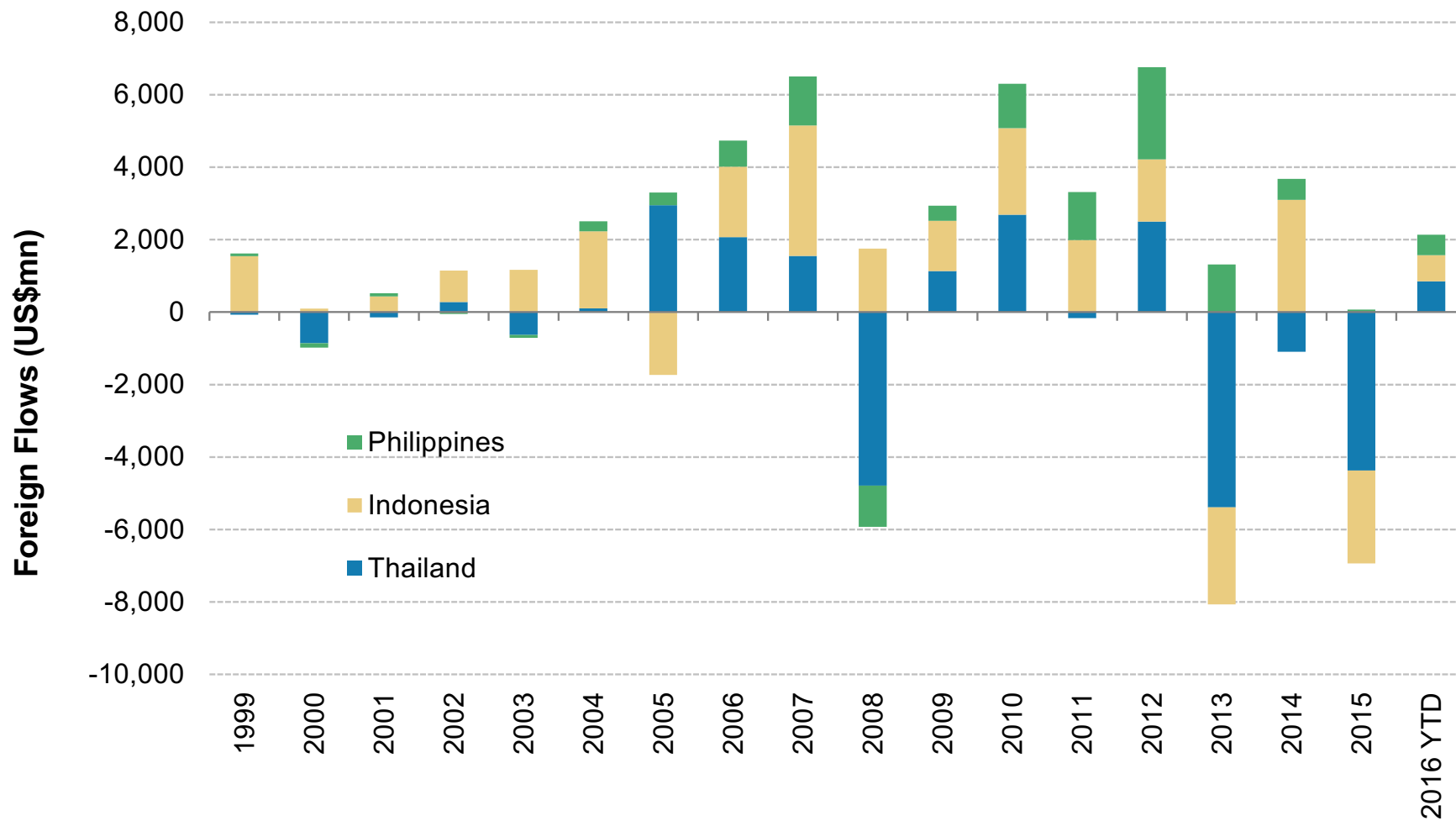
Singapore: Second leg down on growth? Singapore's growth outlook remains fragile - retail sales and manufacturing are still falling, while the real estate market is still digesting excess supply from its 2010-12 boom; only tourist arrivals are showing signs of improvement. We worry that any further downside to global growth - as indicated by

our economists' move to raise their probability of a global recession to 40% - could lead to another leg down for Singapore and possibly extend the earnings recession into 2017 with another 5% drop in earnings; in contrast, our base case shows 4% growth in earnings for 2017.

Thailand: Unknowns going into a constitutional referendum followed by elections?

Near term, we have been surprised by the traction from Thailand's eight rounds of economic stimulus. Also, with the ending of El Nino we would expect to see a recovery in farm income - already up 3% in April having declined 9% over the past 12 months. However, geopolitical tail risks in Thailand are still high and we capture this in our 30% weighting of our bear case when setting our index target. For the upcoming 7 August referendum, Section 61 of the Referendum Act outlaws the use of "strong language" when campaigning by either side, suggesting a subdued geopolitical environment. But, we cannot rule out a rise in geopolitical noise around the date of the referendum and also through 2017 ahead of planned elections.

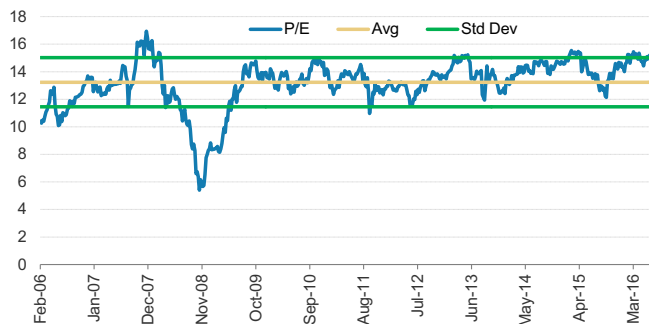
Exhibit 17: ASEAN3 Annual Foreign Flows, 1999 - 2016



Bloomberg, Morgan Stanley Research

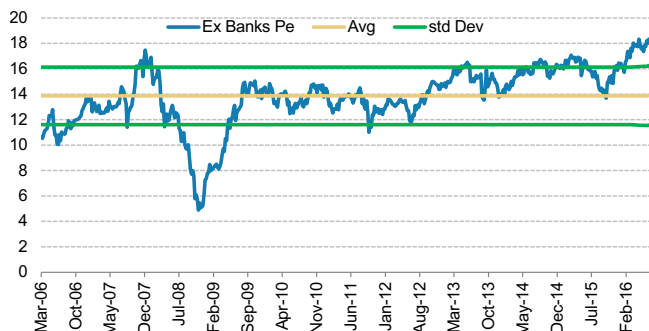
Indonesia: Country Snapshot

Exhibit 18: Indonesia: 1-year forward P/E, 2006-16



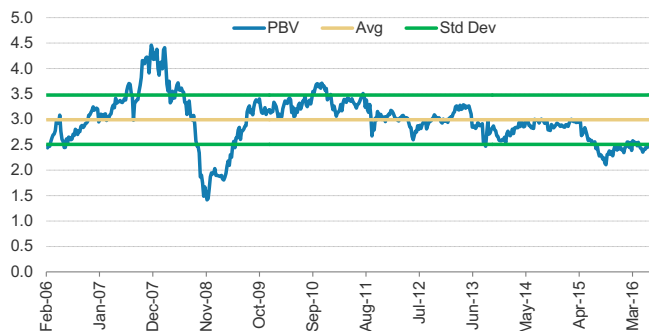
Datastream, Morgan Stanley Research

Exhibit 19: Indonesia: 1-year forward P/E(ex Banks), 2006-16



Datastream, Morgan Stanley Research

Exhibit 20: Indonesia: 1-year forward P/B, 2006-16



Datastream, Morgan Stanley Research

Exhibit 21: Indonesia: Key Metrics, 2014-17e

	2014	2015	2016e	2017e
EPS (MS strategist)	387	341	335	378
% YoY Chg	8.0	-11.8	-1.9	13.0
% Diff to consensus			-6.9	-7.4
DPS	148	137	130	146
Payout ratio (%)	38.3	40.1	38.9	38.6
BVPS	1,869	2,074	2,278	2,511
RoE (%)	20.7	16.5	14.7	15.1

Valuation

P/E	14.7x	16.6x	17.0x	15.0x
Dividend yield %	2.6	2.4	2.3	2.6
P/B	3.0x	2.7x	2.5x	2.3x

Macro

GDP (% YoY Chg)	5.0	4.8	5.0	5.2
Inflation (% YoY Chg)	6.4	6.4	4.0	4.9
BI Policy rate (%)	7.8	7.5	6.5	6.5
CAD (% of GDP)	-3.1	-2.1	-2.3	-2.4
GFCF (% YoY Chg)	4.1	4.0	4.6	5.0
Fiscal deficit (% of GDP)	-2.1	-2.5	-2.6	-2.4
IDRUSD	12,440	13,795	14,500	14,300

%	YTD	1M	3M	12M
Performance				
Absolute	4.3	0.2	-0.6	-1.6
Relative to MSCI AxJ	11.0	3.5	2.0	19.9
Relative MSCI EM	7.7	3.8	2.3	21.1

Earnings revisions

- 2016	-4.8	-2.0	-3.6	-20.6
- 2017	-5.2	-1.3	-3.8	-19.1

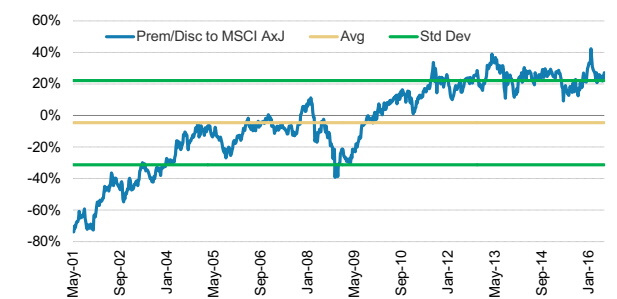
CEIC, Datastream, Morgan Stanley Research. e= Morgan Stanley Research estimates

Exhibit 22: Change in MS 2016/17 estimates

	MS Strategist Estimate					
	2016		% Change	2017		% Change
	New	Old		New	Old	
Revenue	962	954	0.9	1,054	1,030	2.3
% YoY Chg	4.5	3.8		9.5	8.0	
PBT	154	145	6.3	170	162	4.8
PBT margin %	16.0	15.2		16.1	15.8	
Net income (ex banks)	105	99	5.8	116	111	4.8
Net Margin %	10.9	10.4		11.0	10.8	
Banks net income	74	77	-4.0	87	88	-1.9
Banks Provisions	-44	-42	5.6	-42	-42	0.0
% of gross loans	1.9	1.8		1.6	1.6	
Total net income	179	176	1.5	203	199	1.8
% YoY Chg	4.5	3.3		13.3	13.0	

Morgan Stanley Research Estimates

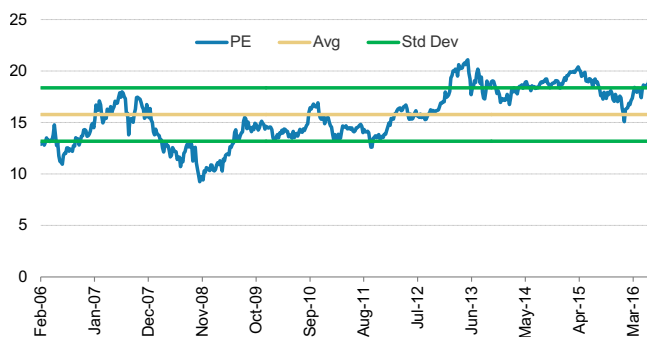
Exhibit 23: Indonesia: NTM P/E relative to MSCI AxJ



Datastream, Morgan Stanley Research

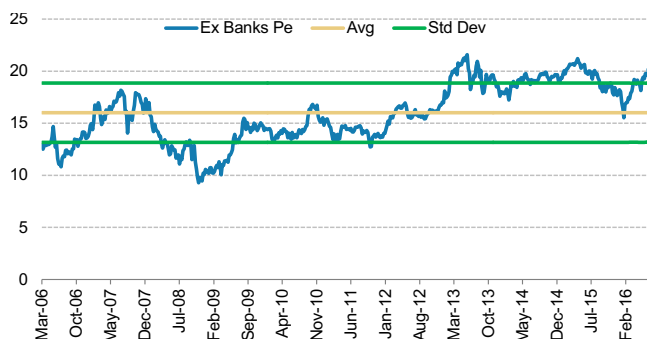
Philippines: Country Snapshot

Exhibit 24: Philippines: 1-year forward P/E, 2006-16



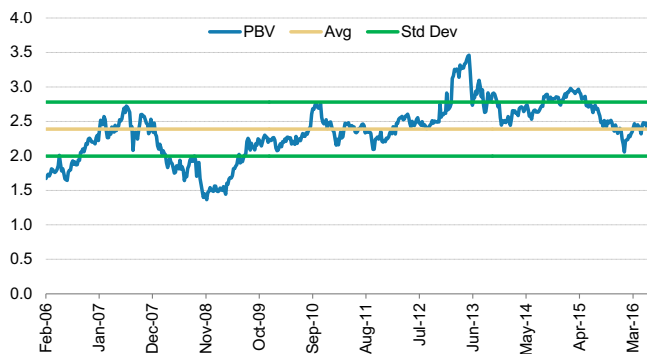
Datastream, Morgan Stanley Research

Exhibit 25: Philippines: 1-year forward P/E(ex Banks), 2006-16



Datastream, Morgan Stanley Research

Exhibit 26: Philippines: 1-year forward P/B, 2006-16



Datastream, Morgan Stanley Research

Exhibit 27: Philippines: Key Metrics, 2014-17e

	2014	2015	2016e	2017e
EPS (MS strategist)	60	63	63	70
% YoY Chg	7.9	5.5	0.8	10.3
% Diff to consensus			-4.2	-3.9
DPS	27	22	22	23
Payout ratio (%)	46.1	35.8	34.2	32.8
BVPS	410	450	492	539
RoE (%)	14.5	14.0	12.9	13.0

Valuation

P/E	21.6x	20.4x	20.3x	18.4x
Dividend yield %	2.1	1.8	1.7	1.8
P/B	3.1x	2.9x	2.6x	2.4x

Macro

GDP (% YoY Chg)	6.1	5.8	5.8	6.0
Inflation (% YoY Chg)	4.2	1.4	2.3	3.1
BSP Policy rate (%)	2.5	2.5	2.8	3.0
CAD (% of GDP)	3.8	5.1	3.6	3.0
GFCF (% YoY Chg)	6.8	8.9	7.0	7.8
Fiscal deficit (% of GDP)	-0.6	-0.9	-0.6	-1.0
PHPUSD	44.6	47.2	50.0	48.0

%	YTD	1M	3M	12M
Performance				
Absolute	11.1	4.1	6.9	2.0
Relative to MSCI AxJ	14.4	4.6	7.6	19.4
Relative MSCI EM	11.0	4.9	8.0	20.6

Earnings revisions

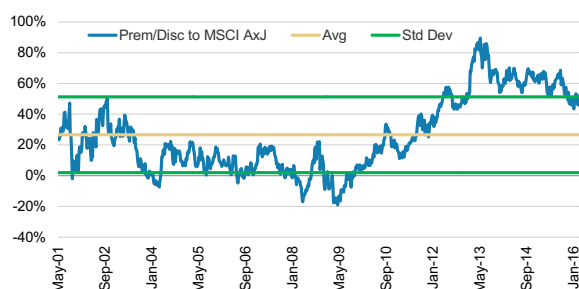
- 2016	-3.4	0.5	-0.8	-7.2
- 2017	-4.2	0.7	-0.5	-9.5

Exhibit 28: Change in MS 2016/17 estimates

	MS Strategist Estimate					
	2016			2017		
	New	Old	% Change	New	Old	% Change
Revenue	2,301	2,299	0.1	2,499	2,486	0.5
% YoY Chg	9.0	8.9		8.6	8.1	
PBT	486	479	1.5	537	529	1.6
PBT margin %	21.1	20.8		21.5	21.3	
Net income (ex banks)	308	303	1.8	338	331	1.9
Net Margin %	13.4	13.2		13.5	13.3	
Banks net income	66	69	-4.7	75	79	-5.5
Banks Provisions	-15	-15	0.0	-19	-19	0.0
% of gross loans	0.4	0.4		0.5	0.5	
Total net income	374	371	0.6	413	411	0.5
% YoY Chg	7.8	7.2		10.5	10.6	

Morgan Stanley Research Estimates

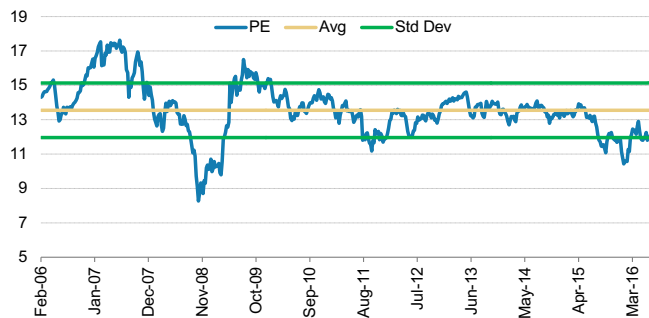
Exhibit 29: Philippines: NTM P/E relative to MSCI AxJ



Datastream, Morgan Stanley Research

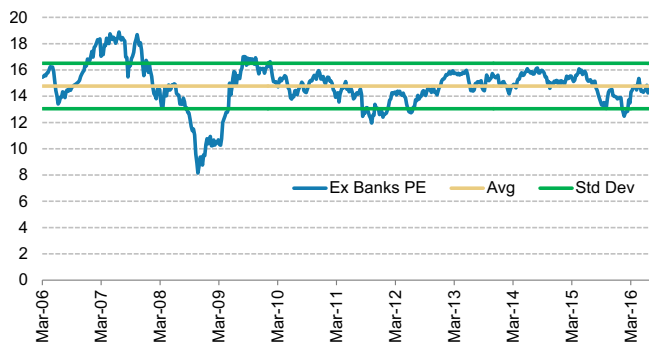
Singapore: Country Snapshot

Exhibit 30: Singapore: 1-year forward P/E, 2006-16



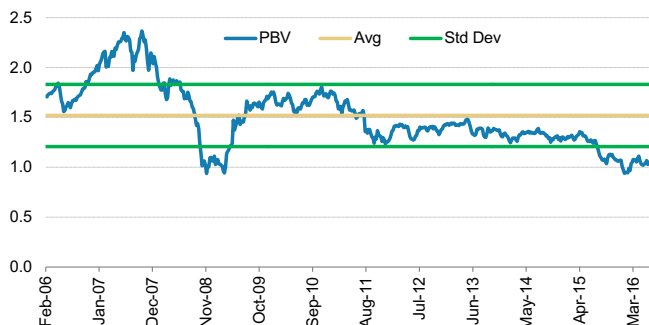
Datastream, Morgan Stanley Research

Exhibit 31: Singapore: 1-year forward P/E(ex Banks), 2006-16



Datastream, Morgan Stanley Research

Exhibit 32: Singapore: 1-year forward P/B, 2006-16



Datastream, Morgan Stanley Research

Exhibit 33: Singapore: Key Metrics, 2014-17e

	2014	2015	2016e	2017e
EPS (MS strategist)	126	119	106	110
% YoY Chg	9.4	-5.2	-11.2	3.7
% Diff to consensus			-10.2	-11.3
DPS	64	60	55	56
Payout ratio (%)	50.5	49.9	52.4	51.1
BVPS	1,285	1,345	1,396	1,449
RoE (%)	9.8	8.9	7.6	7.6

Valuation

P/E	11.5x	12.2x	13.7x	13.2x
Dividend yield %	4.4	4.1	3.8	3.9
P/B	1.1x	1.1x	1.0x	1.0x

Macro

GDP (% YoY Chg)	2.9	2.0	1.8	2.2
Inflation (% YoY Chg)	1.0	-0.5	-0.3	0.7
SIBOR (%)	1.1	1.2	1.4	1.6
CAD (% of GDP)	19.1	19.7	19.7	19.4
GFCF (% YoY Chg)	-1.9	0.8	1.8	2.7
Fiscal deficit (% of GDP)	0.0	-1.2	-0.5	-1.0
SGDUSD	1.33	1.42	1.52	1.50

%	YTD	1M	3M	12M
Performance				
Absolute	-6.0	-2.7	-4.7	-18.8
Relative to MSCI AxJ	0.7	-0.4	-2.4	-1.7
Relative MSCI EM	-2.3	-0.1	-2.1	-0.8

Earnings revisions

- 2016	-7.4	-0.9	-1.5	-15.0
- 2017	-9.3	-0.3	-2.7	-16.9

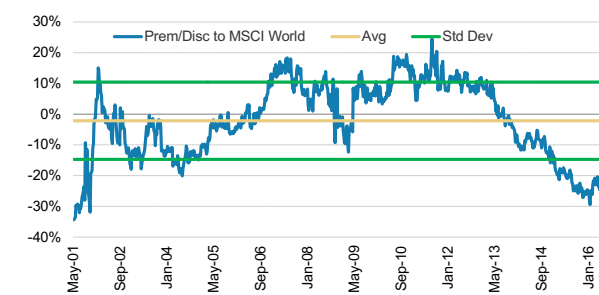
CEIC, Datastream, Morgan Stanley Research. e= Morgan Stanley Research estimates

Exhibit 34: Change in MS 2016/17 estimates

	MS Strategist Estimate					
	2016		% Change	2017		% Change
	New	Old		New	Old	
Revenue	245	245	0.0	246	245	0.3
% YoY Chg	-10.6	-10.6		0.4	0.1	
PBT	21	20	4.0	22	21	5.0
PBT margin %	8.6	8.2		9.1	8.7	
Net income (ex banks)	14	14	1.0	15	15	1.2
Net Margin %	5.9	5.9		6.2	6.2	
Banks net income	10	10	1.7	11	10	0.9
Banks Provisions	-3	-3	1.1	-4	-4	-3.6
% of gross loans	0.5	0.5		0.5	0.6	
Total net income	25	25	1.3	26	26	1.1
% YoY Chg	-1.3	-2.5		4.2	4.4	

Morgan Stanley Research Estimates

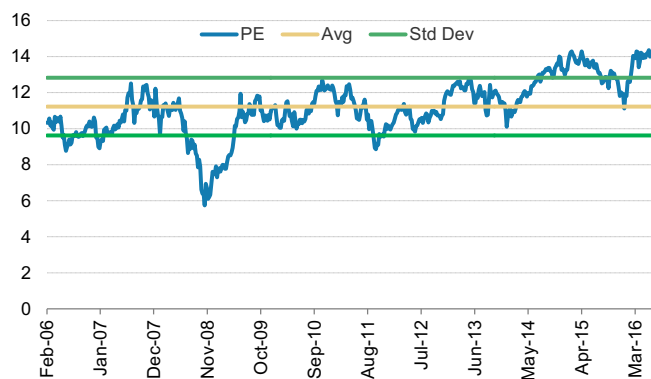
Exhibit 35: Singapore: NTM P/E relative to MSCI AxJ



Datastream, Morgan Stanley Research

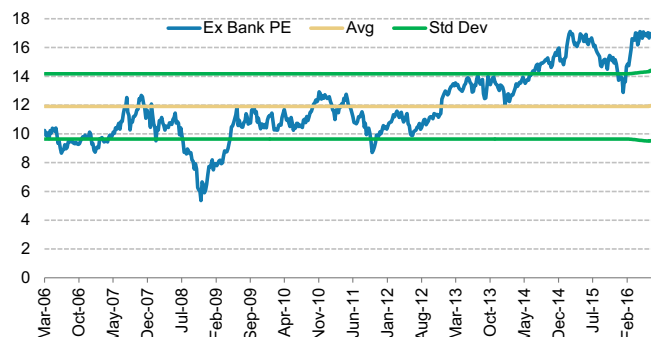
Thailand: Country Snapshot

Exhibit 36: Thailand: 1-year forward P/E, 2006-16



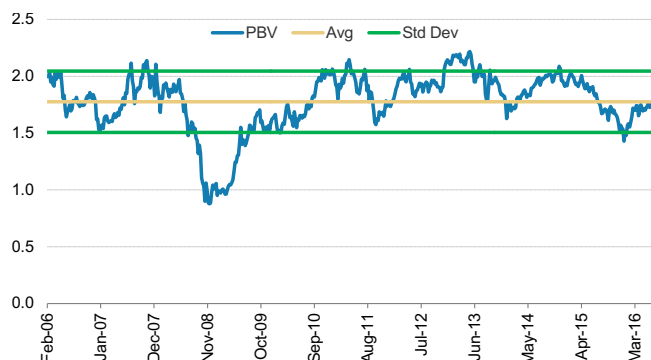
Datastream, Morgan Stanley Research

Exhibit 37: Thailand: 1-year forward P/E(ex Banks), 2006-16



Datastream, Morgan Stanley Research

Exhibit 38: Thailand: 1-year forward P/B, 2006-16



Datastream, Morgan Stanley Research

Exhibit 39: Thailand: Key Metrics, 2014-17e

	2014	2015	2016e	2017e
EPS (MS strategist)	33	31	31	34
% YoY Chg	-10.5	-5.9	1.3	9.7
% Diff to consensus			-2.6	-6.0
DPS	15	15	14	15
Payout ratio (%)	45.7	48.5	45.9	44.7
BVPS	235	251	268	287
RoE (%)	13.9	12.3	11.7	11.9

Valuation

P/E	14.8x	15.7x	15.5x	14.1x
Dividend yield %	3.1	3.1	3.0	3.2
P/B	2.1x	1.9x	1.8x	1.7x

Macro

GDP (% YoY Chg)	0.9	2.8	2.7	3.0
Inflation (% YoY Chg)	1.9	-0.9	0.7	2.8
BSP Policy rate (%)	1.5	1.5	1.5	2.0
CAD (% of GDP)	3.8	8.8	9.4	9.0
GFCF (% YoY Chg)	-2.6	2.3	3.5	4.0
Fiscal deficit (% of GDP)	-2.9	-2.9	-3.5	-3.5
THBUSD	32.9	36.0	38.5	37.0

%	YTD	1M	3M	12M
Performance				
Absolute	13.3	-0.6	1.3	-8.9
Relative to MSCI AxJ	18.7	1.7	3.8	6.4
Relative MSCI EM	15.2	2.0	4.2	7.5

Earnings revisions

- 2016	-10.9	0.0	-2.8	-22.1
- 2017	-9.9	-0.8	-2.7	-20.3

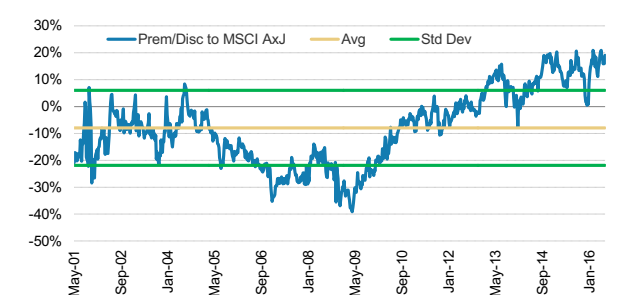
CEIC, Datastream, Morgan Stanley Research, e = Morgan Stanley Research estimates

Exhibit 40: Change in MS 2016/17 estimates

	MS Strategist Estimate					
	2016		% Change	2017		% Change
	New	Old		New	Old	
Revenue	5,828	5,784	0.8	6,273	6,137	2.2
% YoY Chg	6.2	5.2		7.6	6.1	
PBT	480	425	13.0	514	470	9.4
PBT margin %	8.2	7.3		8.2	7.7	
Net income (ex banks)	356	321	10.9	380	351	8.4
Net Margin %	6.1	5.5		6.1	5.7	
Banks net income	129	137	-5.9	153	148	3.4
Banks Provisions	-126	-114	11.1	-121	-116	3.8
% of gross loans	1.5	1.4		1.4	1.3	
Total net income	485	458	5.9	533	498	7.1
% YoY Chg	25.4	18.4		9.9	8.8	

Morgan Stanley Research Estimates

Exhibit 41: Thailand: NTM P/E relative to MSCI AxJ



Datastream, Morgan Stanley Research

Model Portfolio Update

Exhibit 42: ASEAN4: Model Portfolio

	Ticker	Rating	Analyst Name	Mkt Cap (US\$bn)	ADTV (US\$m)	Shr Pk (LC)	Tgt Pk (LC)	Perf. since Inclusion(%)		P/B	ROE	P/E		EPS growth (%)		MS vs Cons (%)		Div Yld (%)		Performance (%)			Catalysts							
								% diff	Abs.			Rel. to Countr	2016	3 yr Avg (15-17)	NTM	5yr Ave	% diff	2016	2017	2016	2017	2016		2017	2016	2017	1M	3M	12M YTD	
Indonesia	Bank Central Asia	BBCA	OW	Chandra, Mulya	24,126	17	13,025	15,196	16.7	-0.6	-0.9	3.1 e	22.8%	15.5x	16.6x	-6	15.9 e	13.8 e	12.0	15.6	3.0	7.0	1.6	1.8	0	-1	-4	-2	BCA's strong balance sheet and prudent asset quality management make it our top defensive pick Economic recovery to boost end-user demand; lower mortgage rates; government initiatives to lower lending rates and tax amnesty New enterprise strategy is gaining better operational footing and balance sheet repair is under way	
	Bumi Serpong Damai	BSDE	OW	Chandra, Mulya	3,038	4	2,080	2,476	19.0	15.9	15.5	1.7 e	15.0%	14.9x	14.3x	4	13.9 e	11.3 e	33.0	23.2	13.6	24.1	1.1	1.3	15	13	24	16		
	Matahari Department Store	LPPF	OW	Gangahar Kathiyal, Divya	4,318	6	19,500	20,000	2.6	2.6	2.3	32.6 e	482.7%	24.4x	N/A	N/A	26.6 e	23.8 e	19.9	11.9	-1.1	-4.6	2.6	2.9	4	8	17	11		
	Media Nusantara Citra	MNCN	NA	NA	2,329	3	2,150	NA	NA	0.0	-0.4	NA	NA	15.8x	15.9x	-1	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2	0	11		16
	Unilever Indonesia	UNVR	OW	Gangahar Kathiyal, Divya	25,245	6	43,600	48,220	10.6	-3.4	-3.8	66.1 e	153.9%	49.3x	38.2x	29	49.5 e	43.6 e	14.7	13.4	5.5	6.9	2.0	2.2	-1	1	10	18		
	MSCI Indonesia			96,014							2.6x	NA	15.0x	13.8x	9	16.0x	14.2x	8.2	13.4	-5.7	-6.0	2.4	2.7	0	-2	-1	4			
Philippines	Ayala Corp	AC	OW	Ling, Xin Jin	11,327	6	845	882	4.4	13.0	3.3	2.3 e	12.5%	21.4x	20.4x	5	21.2 e	17.4 e	19.6	21.6	7.8	15.3	0.7	0.7	2	15	8	12	New projects are scheduled to come onstream between 2017 and 2019, potentially benefiting from a pickup in PPP post elections Near-term tailwinds: 1) election-related spending; 2) lower beef prices and IT-related costs; and 3) improved overseas profitability Accelerating top line / improved pricing power	
	Jollibee Foods Corp	JFC	OW	Gangahar Kathiyal, Divya	5,371	4	235	250	6.4	2.4	-6.4	7.5 e	30.2%	36.3x	30.9x	17	37.7 e	32.3 e	41.2	16.6	4.0	4.5	1.1	1.3	-1	2	18	7		
	Metropolitan Bank & Trust Company	MBT	OW	Lord, Nick	5,933	5	88	97	10.9	10.8	1.3	1.4 e	11.9%	12.9x	13.3x	-3	13.4 e	12.5 e	11.6	7.3	3.3	-3.6	1.0	1.0	3	5	-5	9		
	MSCI Philippines				58,527							2.6x	NA	19.1x	17.4x	9	19.8x	18.0x	7.4	9.9	-4.9	-4.7	1.7	1.7	4	6	3	11		
Singapore	Ascendas Real Estate Investment Trust	AREIT	OW	Ng, Wilson	4,791	15	2.43	2.70	11.0	1.7	4.5	1.2 e	7.8%	15.5x	15.9x	-2	14.9 e	14.6 e	8.3	2.5	10.0	8.3	6.7	6.9	5	1	1	7	Occupancy recovery stronger than expected as tenant retention holds up. Debt funded-acquisitions, which immediately lifts income Real estate index re-inclusion; MLC value unlocking; and PPS roll-outs 10% EPS CAGR, 2015-17, from a sharp turnaround in beer; steady spirits growth; and lower losses in NAB CPO exposure with an improving refinery business in Indonesia and better outlook for the sugar market	
	City Developments	CIT	OW	Ng, Wilson	5,720	13	8.17	10.00	22.4	-1.1	1.6	0.8 e	8.3%	12.4x	13.8x	-10	10.0 e	11.5 e	1.2	-13.5	22.7	8.9	1.7	1.7	-2	-1	-16	7		
	Thai Beverage	THBEV	OW	Gangahar Kathiyal, Divya	16,476	9	0.89	0.89	0.0	21.9	25.3	4.6 e	24.9%	0.8x	16.5x	-95	21.1 e	19.5 e	22.1	8.2	1.3	4.8	3.0	3.3	-1	23	17	29		
	Wilmar International	WIL	OW	Spencer, Charles	15,296	20	3.24	3.80	17.3	-7.7	-5.1	1.0 e	11.9%	16.7x	12.0x	39	12.6 e	10.5 e	7.4	19.8	3.3	11.6	2.9	3.9	-3	-5	-1	10		
	MSCI Singapore				150,308							1.0x	NA	11.7x	13.0x	-10	12.0x	11.4x	-1.8	4.9	-10.0	-11.1	4.3	4.5	-3	-7	-18	-6		
Thailand	Bangkok Dusit Medical Services	BDMS	EW	Lau, Daniel	10,403	18	23.70	24.60	3.8	-2.1	-4.3	9.8 e	68.3%	38.1x	29.3x	30	43.7 e	36.4 e	6.2	20.0	-5.5	-3.0	1.0	1.1	-2	2	21	6	Largest hospital network in Thailand with exposure across all service segments Increased market share and strong position in SME; further upside from revenue benefits and cost control via KTransformation A delink of gas prices (feedstock) benefits PTT, coupled with favorable government policies and a growing balance sheet	
	Kasikorn Bank Public Company	KBANK	OW	Lord, Nick	11,495	41	169.50	170.88	0.8	4.0	1.6	1.3 e	15.3%	9.4x	9.9x	-5	11.3 e	9.4 e	-9.0	19.7	-9.4	-6.9	2.4	3.5	1	-2	-13	13		
	PTT Public Company	PTT.B	OW	Maheshwari, Mayank	25,253	58	312.00	338.00	8.3	6.5	4.0	1.2 e	22.7%	10.6x	8.6x	24	8.4 e	7.5 e	11.3	12.7	32.5	36.0	4.4	5.3	2	9	-14	28		
	MSCI Thailand				82,686							1.8x	NA	14.1x	12.0x	18	15.0x	13.2x	7.5	13.6	-2.0	-5.3	4.0	3.3	-1	-1	-9	13		

Morgan Stanley Research estimates. Data as of June 28, 2016, based on consensus estimates and pricing from Thomson Reuters. Results shown represent total absolute return (including dividends) and exclude brokerage commissions and transaction costs. These figures are not audited. Past performance is no guarantee of future results.

Exhibit 43: ASEAN4: Stocks to Avoid

	Ticker	Rating	Analyst Name	Mkt Cap (US\$bn)	ADTV (US\$mn)	Shr Px (LC)	Tgt Px (LC)	% diff	Perf. since Inclusion(%)			P/B	ROE	P/E			EPS growth (%)		MS vs Cons (%)		Div Yld (%)		Performance (%)			Catalysts			
									Abs.	Rel. to Countr				2016	3 Yr Avg (15-17)	NTM	5yr Ave	% diff	2016	2017	2016	2017	2016	2017	2016		2017	1M	3M
Indonesia	Astra International	ASII	UW	Ngaserin, Andri	21,428	19	6,975	5,800	-16.8	4.9	4.5	2.5 e	15.5%	15.6x	13.7x	14	18.0 e	15.9 e	8.5	13.1	-6.6	-8.4	2.5	2.8	4	-2	1	16	Earnings troughed in 2015, but Astra is expensive at +1Std Dev to NTM P/E given 4W demand, soft commodities and Toyota overhang in 2017.
	Bank Rakyat Indonesia	BBRI	UW	Chandra, Mulya	19,228	22	10,375	8,221	-20.8	0.2	-0.1	2.0 e	22.8%	9.5x	10.0x	-5	10.6 e	9.4 e	-4.9	12.5	-5.0	-4.3	2.8	3.2	0	-7	0	-9	Exposure to riskier micro loan business could put pressure on asset quality; one of the highest NIMs while the OJK is pushing for lower rates.
	Kalbe Farma	KLBF	UW	Gangahar Kothiyal, Divya	4,998	5	1,405	1,320	-6.0	4.9	4.5	5.7 e	22.2%	28.0x	26.5x	6	29.5 e	26.5 e	13.7	11.3	1.4	-1.0	1.7	1.9	0	0	-18	6	Margins have room to disappoint due to a change in mix and pricing pressure in branded generics. SOP suggests valuation is stretched.
	Semen Indonesia	SMGR	UW	Ngaserin, Andri	3,972	5	8,825	8,300	-5.9	-10.2	-10.5	1.9 e	16.8%	11.2x	13.9x	-20	13.3 e	13.2 e	-12.8	0.8	-13.3	-17.2	5.2	4.5	-3	-13	-26	-23	20% capacity surge in 2016, which would add pressure to margin, pricing, market share and consensus expectations
	MSCI Indonesia			96,014							2.6x	NA	15.0x	13.8x	9	16.0x	14.2x	8.2	13.4	-5.7	-6.0	2.4	2.7	0	-2	-1	4		
Philippines	Bank of the Philippine Islands	BPI	UW	Lord, Nick	8,143	4	97.0	81.0	-16.5	7.2	-2.0	2.3 e	13.9%	17.1x	16.7x	2	18.3 e	15.3 e	14.3	19.3	-0.5	4.6	2.1	2.5	2	8	2	16	Recent market share loan losses make it difficult to justify premium to sector peers
	PLDT	TEL	NA	NA	9,452	8	2,050	NA	17.1	7.1	NA	NA	15.5x	14.8x	5	NA	NA			NA	NA	N/A	N/A	18	4	-28	0	N/A	
	MSCI Philippines				58,527							2.6x	NA	19.1x	17.4x	9	19.8x	18.0x	7.4	9.9	-4.9	-4.7	1.7	1.7	4	6	3	11	
Singapore	DBS Group Holdings	DBSM	UW	Lord, Nick	28,555	15	15.30	14.63	-4.4	-0.3	2.4	0.9 e	12.9%	8.7x	10.4x	-16	8.6 e	8.3 e	2.8	4.3	3.0	3.8	3.9	3.9	-2	-1	-25	-8	Capital and credit overhang, offsetting benefits from rising rates.
	Keppel REIT	KASA	UW	Ng, Wilson	2,465	3	1.02	0.95	-7.3	-1.0	1.8	0.7 e	4.7%	18.0x	20.2x	-11	15.5 e	16.0 e	-3.2	-2.9	15.7	12.3	6.4	6.2	-1	3	-10	10	Dividends to decline further in 2016-18e as income support streams expire and office vacancies rise, which could weigh on valuations.
	Singapore Press Holdings	SPRM	UW	Ling, Xin Jin	4,461	11	3.78	3.50	-7.4	-3.6	-0.9	1.7 e	8.1%	21.0x	18.9x	11	22.2 e	22.8 e	-4.4	-2.5	-3.9	-8.4	5.3	5.1	-3	-7	-8	-4	Pressure on media earnings from weaker advertising (Property and Retail); Retail unlikely to mitigate decline, adding downside risk to dividends.
	SembCorp Marine	SCMN	UW	Ling, Xin Jin	2,373	5	1.54	0.90	-41.6	-3.1	-0.5	1.2 e	1.0%	14.5x	13.2x	10	20.9 e	20.4 e	-156.6	2.2	-31.0	-28.9	1.4	1.5	-1	-8	-46	-12	Declining operating margins as orderbook shifts from high-value rig contracts to EPC contracts; risk of deferrals/delays. Gearing 115%.
	United Overseas Bank	UOBH	UW	Lord, Nick	21,735	38	17.69	17.35	-1.9	-3.3	-0.6	0.9 e	12.4%	9.1x	10.9x	-17	10.1 e	8.8 e	-9.0	14.2	-7.7	0.6	4.1	4.0	-3	-7	-23	-10	Greater exposure to the ASEAN commercial sector, which could make it vulnerable to rising credit costs if the economies slow further.
	MSCI Singapore			150,308							1.0x	NA	11.7x	13.0x	-10	12.0x	11.4x	-1.8	4.9	-10.0	-11.1	4.3	4.5	-3	-7	-18	-6		
Thailand	Airports of Thailand	AOT	UW	Lau, Daniel	15,747	37	389	259	-33.4	-1.3	-3.6	4.5 e	16.8%	25.9x	20.0x	29	30.6 e	27.0 e	13.3	13.4	-5.3	-7.6	0.8	0.9	-1	-3	28	12	Operating at peak margins and return on capital, while entering a capex cycle; valuations at a record 31x 2016 P/E.
	Siam Cement	SCC	UW	Maheshwari, Mayank	16,390	28	482.00	409.00	-15.1	0.0	-2.3	2.5 e	23.5%	12.2x	13.1x	-7	14.1 e	13.9 e	-9.4	1.0	-11.5	-14.3	NA	NA	2	4	-7	5	Pricing pressure in cement for 2016 across ASEAN may lead to consensus earnings downgrades and multiple normalization towards peer levels (which
	True Corporation	TRUE	NA	NA	5,167	25	7.30	NA	-1.4	-3.6	NA	NA	-99.3x	-5.1x	1,851	NA	NA			NA	NA	NA	NA	1	-6	-35	11	N/A	
	TISCO Financial Group Public	TISCO	UW	Lord, Nick	1,066	2	47.00	38.00	-19.1	9.9	7.4	1.2 e	17.0%	7.5x	7.5x	0	7.7 e	7.2 e	14.7	6.6	0.1	1.4	4.9	5.1	8	-1	-1	11	High leverage and loan growth pressures to remain key challenges, although auto asset quality is stabilizing.
	MSCI Thailand			82,686							1.8x	NA	14.1x	12.0x	18	15.0x	13.2x	7.5	13.6	-2.0	-5.3	3.0	3.3	-1	-1	-9	13		

Morgan Stanley Research estimates. Data as of June 28, 2016, based on consensus estimates and pricing from Thomson Reuters. Results shown represent total absolute return (including dividends) and exclude brokerage commissions and transaction costs. These figures are not audited. Past performance is no guarantee of future results.

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1177	35%	283	40%	24%	572	37%
Equal-weight/Hold	1431	43%	337	47%	24%	701	45%
Not-Rated/Hold	78	2%	7	1%	9%	11	1%
Underweight/Sell	663	20%	87	12%	13%	280	18%
TOTAL	3,349		714			1564	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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