Deutsche Bank
Markets Research

Asia Outlook

Rising momentum, inflation emerging

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MACRO / STRATEGY

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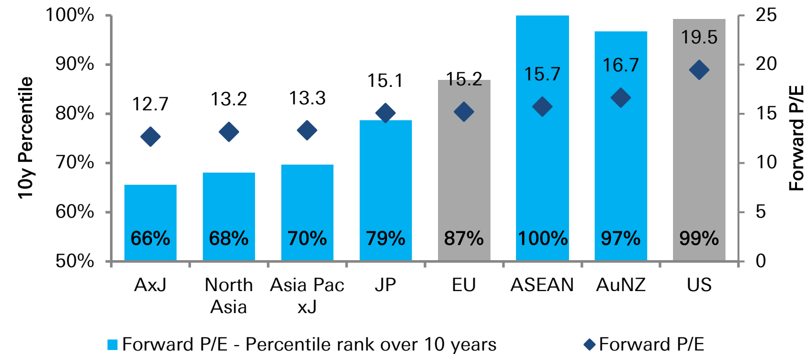
Strategists: **Khoi LeBinh & Will Stephens**

Equity Strategy: More upside for the region

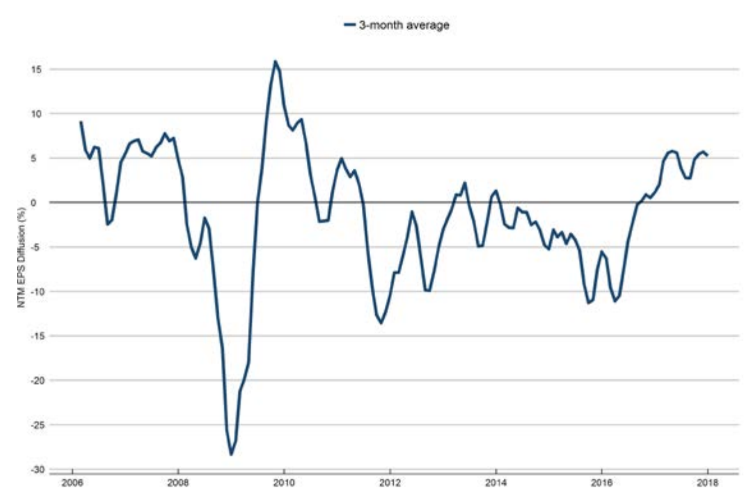
- Improved 2018 global growth should support further gains in Asia Pacific ex Japan. With 2017 returns primarily driven by earnings growth, scope for further upside will come from continued EPS strength and valuation re-rating
- While no longer outright cheap, at 13.3x forward P/E, Asia provides significant relative value and continues to see stronger growth / revisions relative to the US & Europe
- Prefer North Asia: more leveraged to global growth, higher rates / inflation and continued export strength. North Asia trades at 13.2x forward earnings (68th %-ile of the 10y range). ASEAN markets, at 15.7x earnings, are at the 100th %-ile of the 10-year valuation range
- North Asia has superior growth, with expected FY1 growth of 16.2% vs. 7.1% for ASEAN. Likewise, earnings revisions in North Asian markets currently stand at 6.1% vs. 3.1% for ASEAN markets (3mma)
- **Country preference**:
  - **Overweight**: China, Korea, Taiwan
  - **Neutral**: India, HK, Singapore, Indonesia, Thailand
  - **Underweight:** Australia, Malaysia, Philippines
- **Sector preference**:
  - **Overweight**: Energy, Materials, Discretionary, Financials
  - **Underweight:** Staples, Health Care, Telecoms, Industrials
- Key themes include: rate sensitive stocks, China capital markets liberalization, EV's, AI beneficiaries, overcapitalized stocks that can improve SH returns, earnings surprise targets, style beneficiaries

Asia Pac ex Japan provides attractive relative value vs. global markets



Source: S&P, Thomson Reuters, FactSet, Bloomberg Finance LP, Deutsche Bank.

In addition to strong earnings revisions, upgrades relative to downgrades are on an increasing trend



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Equity Strategy: Prefer North Asia to ASEAN

Market View	Overweight.	Overweight.	Overweight.	Neutral.	Neutral.	Neutral.	Underweight.	Underweight.
	China ex A	Korea	Taiwan	India	Hong Kong	Singapore	ASEAN	AusNZ
Macro Equity View	Despite potential for growth slowdown in 2H18, we believe the backdrop for Chinese equities remains very supportive: ongoing rebound in corporate earnings, structural reforms boosting returns and Southbound flow providing scope for further re-rating. Our analysts see significant upside on a single stock basis and the market continues to be relatively inexpensive. Earnings growth will continue with potential for multiple expansion	Economy likely to continue to grow ahead of potential in 2018: may further bolster earnings re-rating story. Stock market has broken out of long-term range, though remains cheap on an outright basis. With SEC / Hynix accounting for 50% of market returns, scope for rally to broaden. Cyclical nature gives positive exposure to global growth. Our analysts still see significant upside. Strong earnings revisions set to continue. Potential for further SH return improvement	Stronger growth set to continue on investment / domestic demand. Strong government fiscal stimulus planned. Controlled inflationary pick-up should be positive for stocks. Highest export exposure of any market positions it well for global growth rebound. Market has lagged, ex-TSMC / Hon Hai, Taiwan is up only ~5% over the last 12m. Foreign flow reversal would be positive. Valuations remain very attractive in the 53rd %-ile of the 10-year range	Economy has stabilized post GST / demonetization. Expect ongoing growth pickup, especially as we move closer to 2019 election. Earnings growth has lagged in recent years, but is set to recover. Lower real rates should also support. Valuations are very stretched, with India currently the most expensive market in the region. Positive on rural reflation and ongoing infrastructure investment. Domestic liquidity and fund flow remain positive	Growth may slow on property market pressure. DB remains negative and neutral on the key sectors of property and banks, though see some standout single stock opportunities. Our analysts see relatively limited overall upside. Valuations at the higher end of historical range. HK stocks continue to see some positive spillover from Southbound flow, as well as positive sentiment around China. Strong pick up in liquidity	Improved economy on export growth and strengthening domestic demand. Recent outperformance has made the market somewhat expensive. Recent analyst action has become more positive. M&A / restructuring theme likely to continue. Banks may benefit from higher rates. Property developers well positioned for renewed strength in domestic housing market, though high dividend REIT sector is negatively exposed to higher rates	Regional growth is improving, though the domestic nature of ASEAN equity markets make them less exposed to a global growth uptick. Within the sub-region, we prefer Indonesia, and to a lesser extent Thailand. Negative on Malaysia, Philippines. ASEAN markets remain very expensive, trading as a group at the 100th percentile of the 10y valuation range. Elections in Malaysia, Thailand and Indonesia in 2018 / 2019. Weaker earnings growth relative to N. Asia	Mixed domestic economy as business strength is offset by weak wage growth / household consumption. Expect decent earnings growth, though weak relative to Asia. Valuation remains expensive by historical standards. High financials, mining weight could position the market well for improved growth, though highest yields in Asia Pac may make the market less attractive amidst global rate rises
Themes	EV beneficiaries, new economy stocks, SOE reform, Southbound impact and rate sensitive stocks	AI / EV / 3D beneficiaries, commodity picks, rate sensitives	AI / 3D sensing beneficiaries, rate sensitive stocks	Infrastructure push beneficiaries, rural reflation theme, interest rate sensitives	Rate sensitive stocks, property market negativity	M&A / restructuring candidates, infrastructure push beneficiaries, rate sensitive stocks	Infrastructure push beneficiaries, interest rate sensitives, Thai fintech, Philippine tax beneficiaries	Commodity sector picks. Rate sensitive stocks
Key Risks	Crowding in the tech sector and negative policy action. Slowdown in investments; property rollover	North Korea risks remain, but largely ignored. Trade slowdown could pose risks. Tech performance	Key risks include export reliance, China relations, strong TWD and tech / Apple concentration	Valuations. Rising crude oil prices. Higher than expected inflation	Risks include consumption slowdown from wealth effect and China relations	Housing recovery may stall. Offshore sector. Tax increase? Valuations	Capital outflow amidst higher rates. Higher than expected inflation, central bank rate hikes	Lackluster earnings growth could continue. Reversal of recent commodity strength

Source: S&P, Thomson Reuters, FactSet, Bloomberg Finance LP, MSCI, Deutsche Bank.

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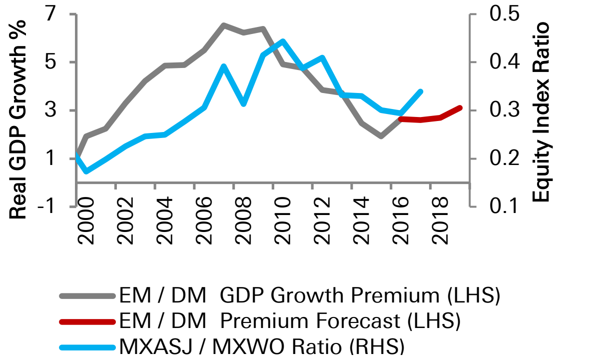
Equity Strategy: Supportive growth environment, with room for bull market to extend. Position for higher rates

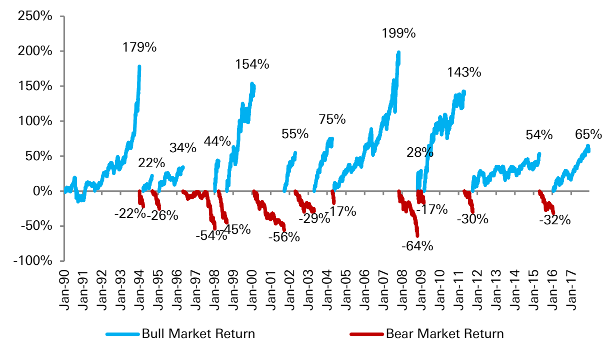
EM growth premium should support continued outperformance by Asia



Source: Deutsche Bank, Bloomberg Finance LP

- Asian stock market outperformance relative to Global equities has historically tracked the EM growth premium (Asia accounts for 70+% of EM equities)
- The growth premium peaked in 2007 (at 6.5%) and decelerated through end 2015 (at 2%)
- DB expects it will reaccelerate to 3.1% by 2019. This should drive further stock outperformance
- Key risks include a sharper than expected China slowdown, negative policy actions and a reversal of export momentum

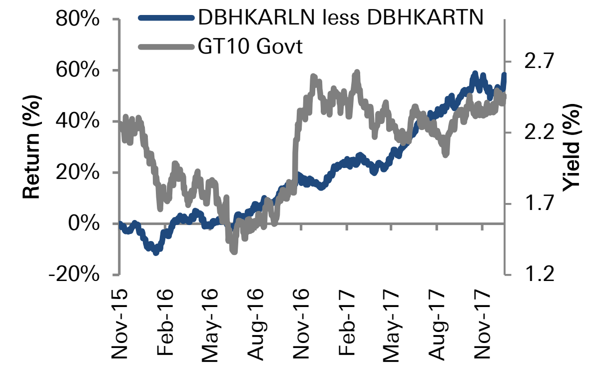
Bull market in Asia remains early days



Source: Deutsche Bank, Bloomberg Finance LP

- The current bull market in MSCI Asia ex Japan (starting in January 2016) has seen the market increase by 65%
- Since 1990, the average bull market has seen returns of 82%, with average annual return of 44%
- In this context, 2017's 39% return is by no means unprecedented. With renewed growth acceleration, we expect Asia's run to continue
- The majority of gains in 2017 came from real EPS growth (58%), followed by FX gains (16.6%) and inflation (9.5%). Valuation re-rating only accounted for 7.1% of returns (compared to 38% for the US)

Expect higher global rates, position accordingly



Source: Deutsche Bank, Bloomberg Finance LP

- Expect the 10-year UST to breach the 3-handle in 2018: driven by improved growth, Fed hikes and renewed inflationary pressures
- This dovetails with our preference for North Asia, which historically outperforms ASEAN in a higher rate environment
- Go long stocks most sensitive to higher rates (DBHKARLN) vs. negatively exposed stocks (DBHKARTN) to position for 3%+ UST rates
- Long names include: **Woori Bank, South32, Adaro** and **Chalco;** Short names include**: Reliance, Shenhua, Westpac, Kia and SHKP**

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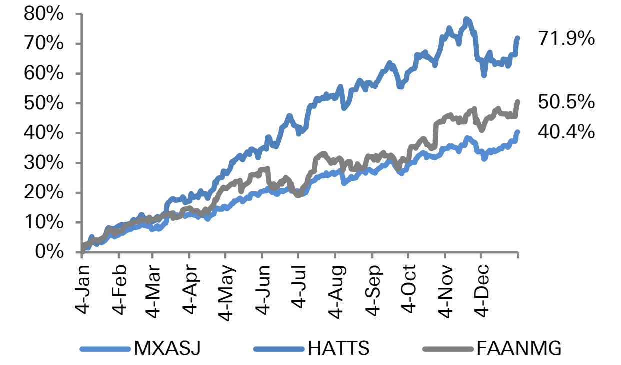
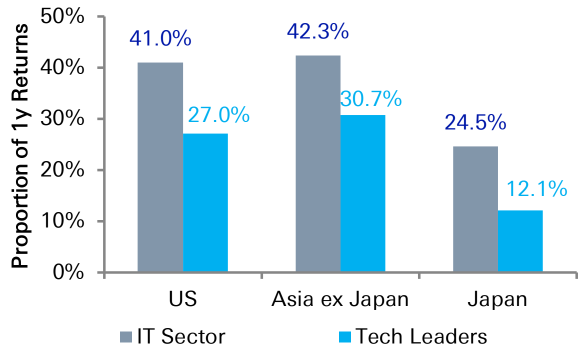
Equity Strategy: Tech alphabet soup bubbling over?

Key Asian tech stocks saw remarkable performance over the last year…



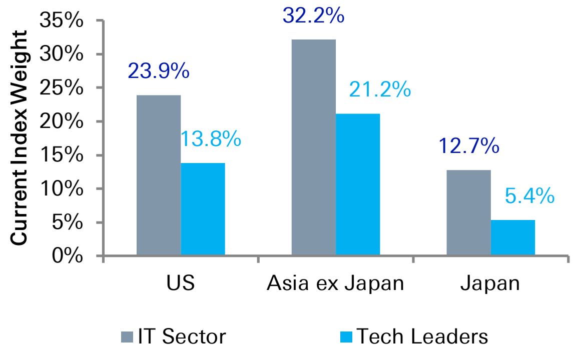
Source: Deutsche Bank, Bloomberg Finance LP

… With 5 stocks accounting for 31% of Asia's 1-year return...



Source: Deutsche Bank, Bloomberg Finance LP

Technology now accounts for 32% of MSCI Asia ex Japan, the highest weight amongst global indices



Source: Deutsche Bank, Bloomberg Finance LP, MSCI

- Global IT leaders were in significant focus in 2017
- Much attention has been paid to how much FANG stocks have driven the rally in the US…
- … in Asia the situation has been even more extreme amongst the HATTS: Hon Hai, Alibaba, Tencent, TSMC and Samsung
- HATTS stocks have seen 1-year returns of 72% vs. 51% for the FAANMG group

- The IT sector overall has accounted for 42% of MSCI Asia ex Japan's 1-year rally, accounting for 16 percentage points of MXASJ's 39% 1-year return
- The HATTS stocks, in turn, have accounted for 31% of Asia's 1-year return. FAANMG stocks have "only" accounted for 27% of the SPX's returns over the same period
- Technology now accounts for 32% of MXASJ, the highest weight of any major global index
- Since ADR's were included in the index (Nov '15), tech has seen its weighting increase by 44bps per month

- We remain optimistic on the HATTS group of stocks, with Buy ratings for all 5, and expect average 12-month upside of 19%
- That said, these names are consensus overweights and investors are sitting on significant 2017 profits in the group
- We recommend investors hedge the risk of a tech related sell-off by buying best-of-puts …
- …Or switching into names further down the market cap spectrum: we see higher upside in smaller names such as Mediatek (70%), Momo (66%), NCSoft (52%), Changyou (43%) and LG Innotek (37%)

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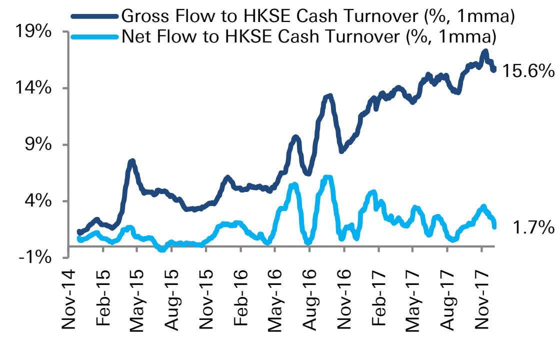
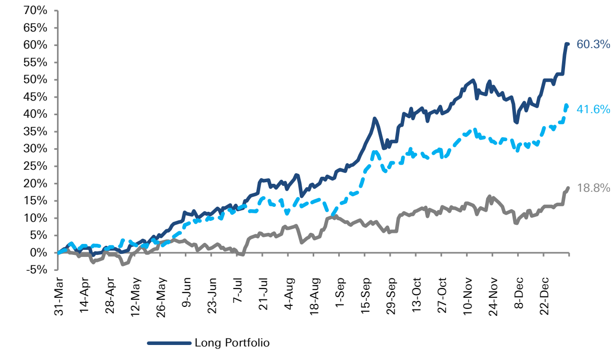
Equity Strategy: China market liberalization / Connect to stay centre stage in 2018

The impact of liberalization: Southbound Investors account for 16% of HK turnover



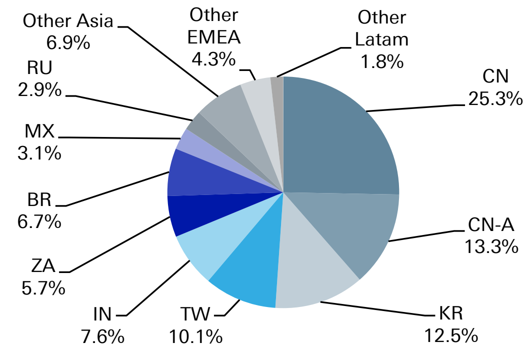
Source: Deutsche Bank, Bloomberg Finance LP, HKEx, CCASS

Stocks targeted by Southbound investors outperform



Source: Deutsche Bank, Bloomberg Finance LP

Long-term post A-share inclusion, China will be ~ 40% of EM



Source: Deutsche Bank, Bloomberg Finance LP, MSCI

- With CNY 65 trillion of savings, how Chinese households invest their savings may be the key long-term question for assets in the region
- This will be increasingly true as China liberalizes
- Currently, the largest beneficiary of this coming mega-trend is the Hong Kong equity market
- Southbound flows via Stock Connect are now the largest driver of HK-listed China stocks, accounting for 16% of turnover
- A-shares will gain a smaller, but significant, boost as they join MSCI EM from June 2018

- We expect this trend to be maintained in 2018 as HK continues to provide a significant valuation discount (27% weighted A/H premium, 4 point P/E premium for A-shares) and attractive diversification benefits
- Incorporating Southbound Impact adds significant alpha: our SB strategy has generated 42% long / short returns from April by targeting the most positively / negatively impacted stocks
- Current preferred names include: Sunac, Air China, Universal Medical, Haitong Securities, CGN Power and Zhuzhou CRRC

- From 2018, MSCI will include 5% of FIF-adjusted Stock Connect-eligible A-share market cap in MSCI EM
- On a long-term basis, we see A-share inclusion bringing China to as much as 40% of EM
- Overseas investors target similar types of A-shares from the 1700+ Connect eligible stocks: they primarily focus on: consumer names, high quality (ROE), value (low P/E) and yield
- Buy our Northbound Impact targets (DBHKNI2N) to position for a structural increase in A-share interest

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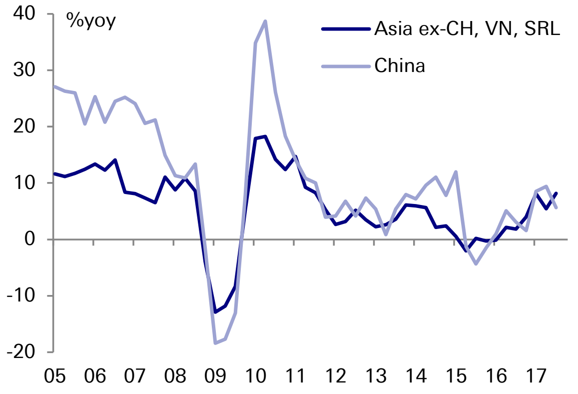
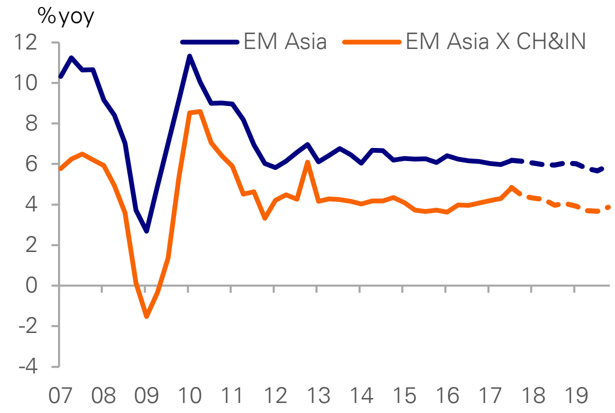
Economics: Inflation and rates heading higher

Export volume growth has recovered since 2015



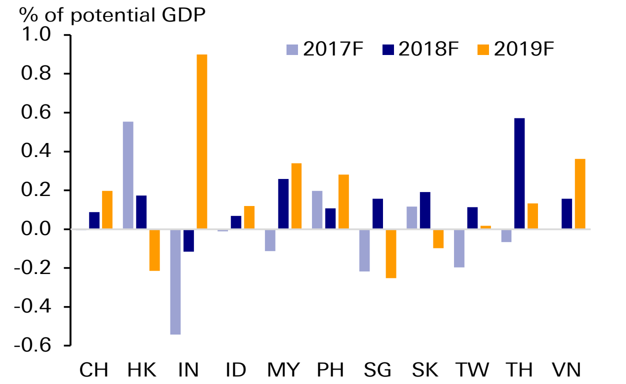
Sources: CEIC, Deutsche Bank.

Slower, but above trend growth in 2018



Sources: CEIC, Deutsche Bank.

Positive and rising output gap in most economies



Sources: CEIC, Deutsche Bank.

- Global demand is likely to remain constructive for Asia's growth, at least until 2019, even with the expected slowdown in China.
- We expect growth in China to weaken to 6.3% in 2018 from 6.8% in 2017, led by a sharp slowdown in construction investment and policy-driven deleveraging. In contrast, we see combined US and Euroland growth to rise by about 0.2ppts from 2.3% in 2017
- Asia's export growth should be only slightly weaker through 2018 – we see risks to our outlook tilted to the upside

- Despite the export-led slowdown, GDP growth in most economies should remain above our estimates of potential growth through 2018, except in Hong Kong
- Only in Hong Kong we do see growth falling below potential next year
- In contrast, India's growth is likely to accelerate, as the temporary negative side effects, a feature last year, from its reform drive dissipate. We expect a multi-year acceleration in growth, supported by both consumption and investment

- EM Asia's growth is likely to moderate but remain above potential, as domestic demand becomes the key cyclical factor
- As the region's monetary policy shifts towards explicit tightening, although much less than the Fed, its fiscal policy is likely to turn expansionary, with the exception of China
- With the output gap closed, risks to inflation have tilted to the upside

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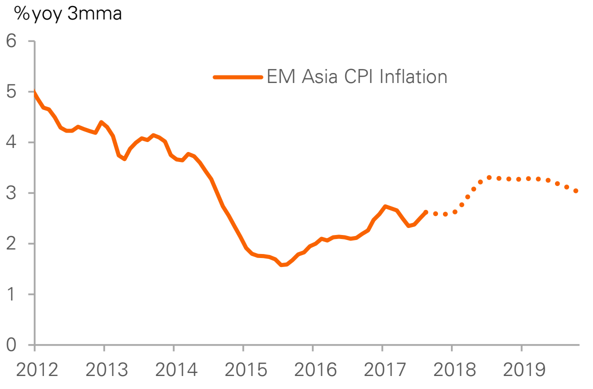
Economics: interest rate risks to the upside

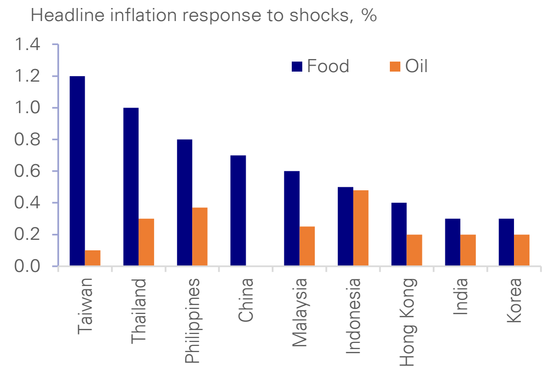
CPI inflation to rise further ahead



Sources: CEIC, Deutsche Bank.

- Inflation is likely to be higher, as growth exceeds potential and food price inflation normalizes
- We expect the average headline inflation in Asia to rise to 3.1% in 2018, from 2.3% in 2017
- If food price inflation reverts back to the 2012-16 average of 4.1%, it would add 1.2ppts to EM Asia's average headline CPI inflation (excluding Sri Lanka and Vietnam), vs. 0.5ppts in Jan-Dec 2017

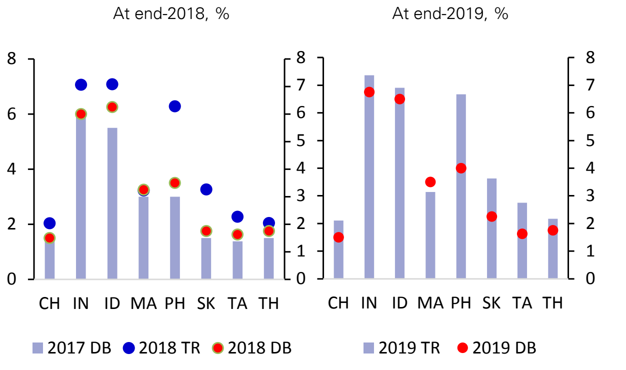
Commodity prices shocks and their impact on CPI



Sources: CEIC, Deutsche Bank.

- Barring a growth shock, the balance of risks to EM Asia inflation remains to the upside, given the possibility of higher-than-expected oil prices
- Based on our estimates, a persistent 10% rise in oil prices adds (on average) 0.2ppts to the region's headline inflation
- The shock will be more pronounced if we see a 10% rise in food prices, which will add 0.6ppts to the headline rate

DB monetary policy outlook vs. Taylor rule



Note: Headline inflation response to a 10% shock in international oil and food prices
Sources: CEIC, Deutsche Bank.

- We expect Asian central banks to tighten monetary conditions through 2019. Taylor rule models suggest that risks to our rate forecasts are tilted to the upside, particularly for the Philippines and South Korea
- With their external balances worsening, we see ASEAN central banks following the Fed more closely, compared with their NE Asian counterparts, helping to constrain capital outflows and thereby limiting the depreciation of local currencies

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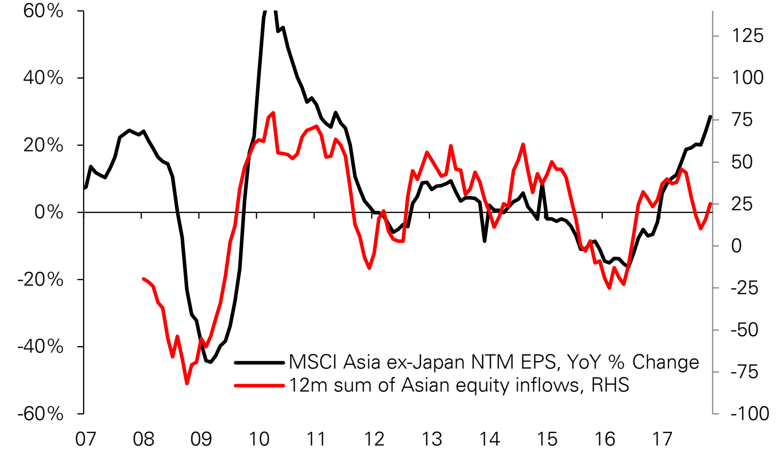
Currency & Rates Strategy: Growth led revaluation

- Synchronized global growth will be the biggest thematic for Asian macro in 2018. As growth becomes more broad based around the world and capital spending picks up in DM, currencies across EM should benefit from catch up in pro cyclical portfolio (mainly equity) flows, and bottoming out in real rates. Asia should be in sync with this revaluation theme, with output gaps closing across the region, exports printing double digit growth, and with economic vulnerabilities (FX buffers, basic balances) and political risks better contained than elsewhere in EM. The tails though will also fatten up, with the scope for policy error shrinking as global liquidity moderates, and particularly around managed deleveraging in China

- We expect two forces to play a key role in driving gains for the Asian currency complex in 2018. One, the potential for increased inflows into equity markets, which have thus far seen allocations lag behind earnings growth and broader market performance. And two, expectations of monetary policy tightening. Even though rate differentials versus the Fed will likely narrow, a gradual pro-cyclical removal of stimulus will do well for Asian FX against an improving growth backdrop

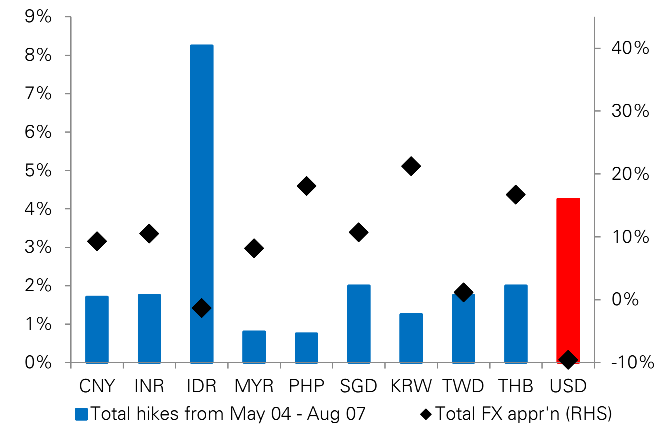
- The main risks to Asia macro will come from any downside surprises in China growth, a more rapid pace of DM normalization than is priced in, and possible stress in global dollar liquidity

Equity flows have lagged growth in earnings, and have room to catch up



Source: CEIC, OECD, Deutsche Bank, Bloomberg Finance LP

Asian FX appreciated in the last Fed hiking cycle despite lagging the pace of tightening



Source: CEIC, Deutsche Bank, Bloomberg Finance LP

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Currency & Rates Strategy: Beyond the consensus

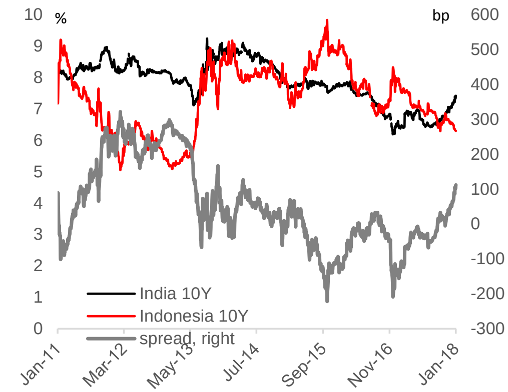
Reading change in FX policy regimes is key to trading USD/CNY

Source: CEIC, Deutsche Bank, Bloomberg Finance LP

KRW performance has lagged the strength in electronics exports

Source: CEIC, Deutsche Bank

India-Indonesia bond yield spread is closing on its post Taper tantrum highs



Source: CEIC, Deutsche Bank, Bloomberg Finance LP

- Policy makers in China are keen to avoid FX vol distracting from the focus on growth. But their willingness to raise rates, and the focus on tighter capital controls and on attracting inflows, suggest authorities will likely be more accommodative of RMB strength than weakness
- We see a relatively one-sided tail on USD/CNY with the pair possibly trading to 6.20 in an environment of dollar weakness

- Korea we think is still the best play on the growth/tech/equity story in Asia. The nature of the electronics cycle, relative equity valuations and strength of inflows, and possible divergence in FX policies in 2018, support KRW as the better expression of the narrative as against TWD
- We see USD/KRW trading down to 1000

- The disconnect from the broader EM growth/carry/re-rating narrative is getting overstretched in India. The spread to the other high yielder in the region (Indonesia) is closing in on its post-Taper Tantrum wides
- With the Budget in India and (likely) index inclusion for Indonesia – arguably the worst and best of respective news flows- Q1 should mark a turning point for respective yields

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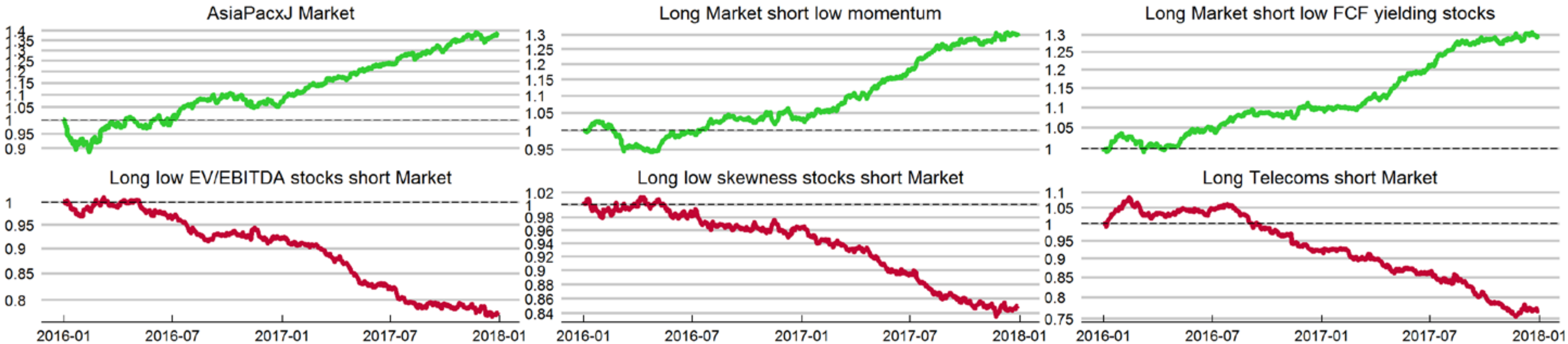
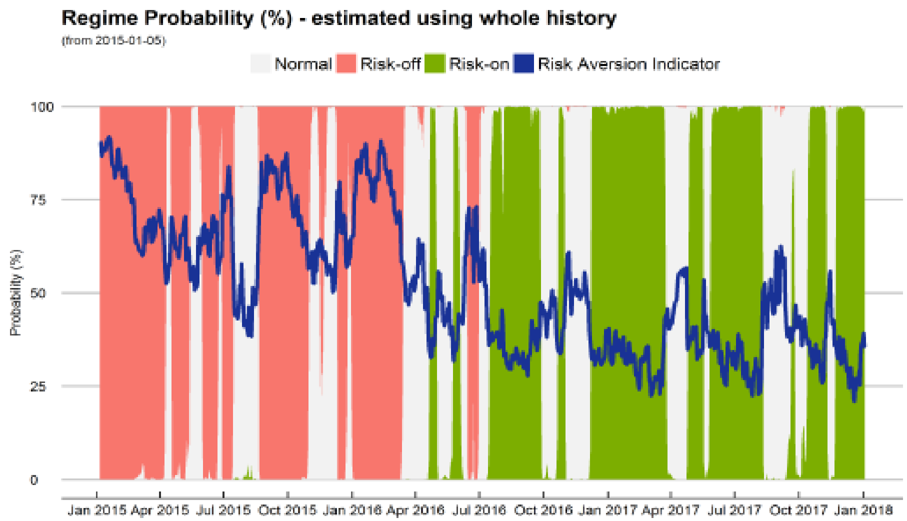
Quant: 2017- A year where the Market and negative selection dominated

The strong Asia ex Japan market had been hard to beat – investors expressed a consistent avoidance of low momentum, low FCF yielding but also low EV/EBITDA, low skewness and Telecom stocks

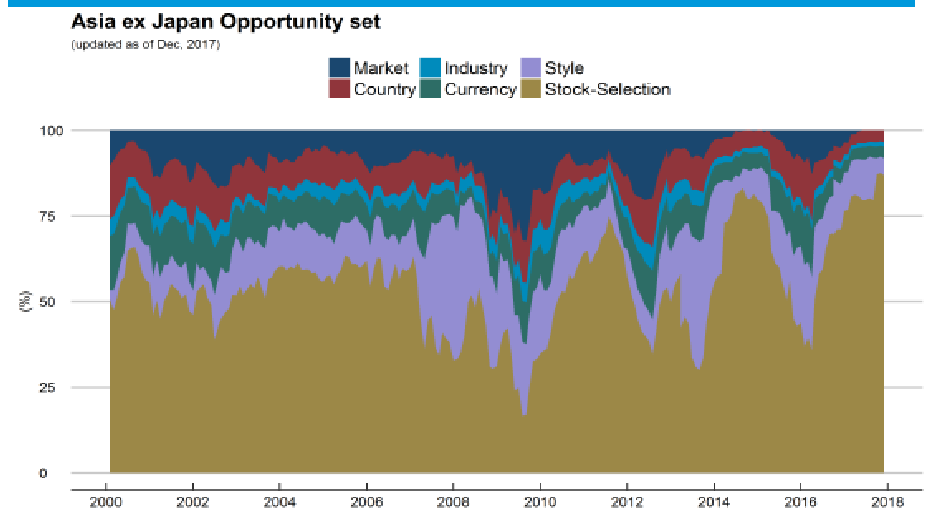
Asia pacific ex Japan: Most Persistent Investor Preferences on a risk-adjusted return basis. The Market itself stands out.



In stark contrast to 2016, global cross-asset risk aversion remained low throughout 2017...



... while opportunity set for stock-selection has rebounded to historical highs



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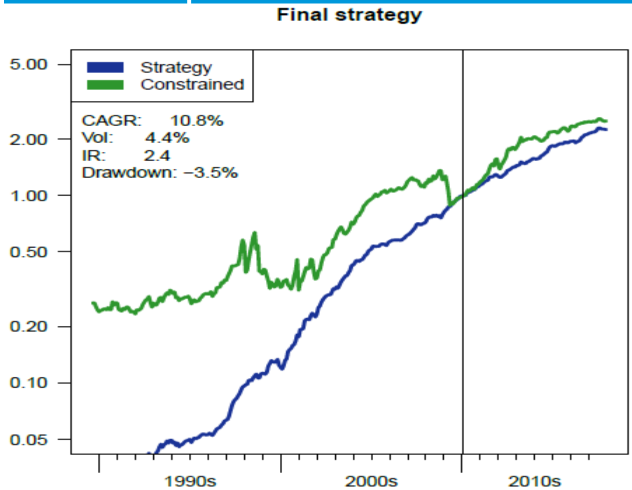
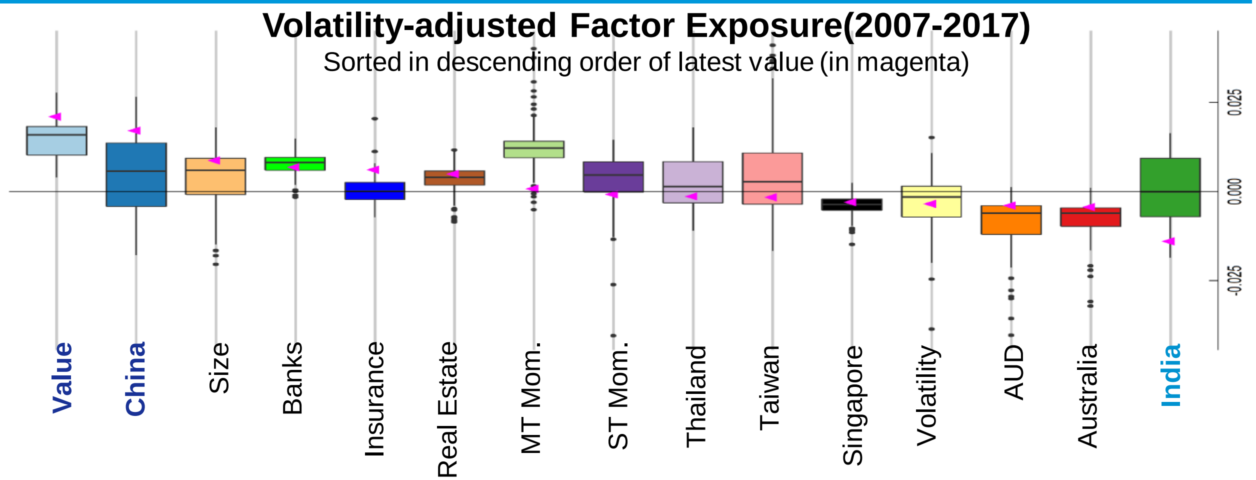
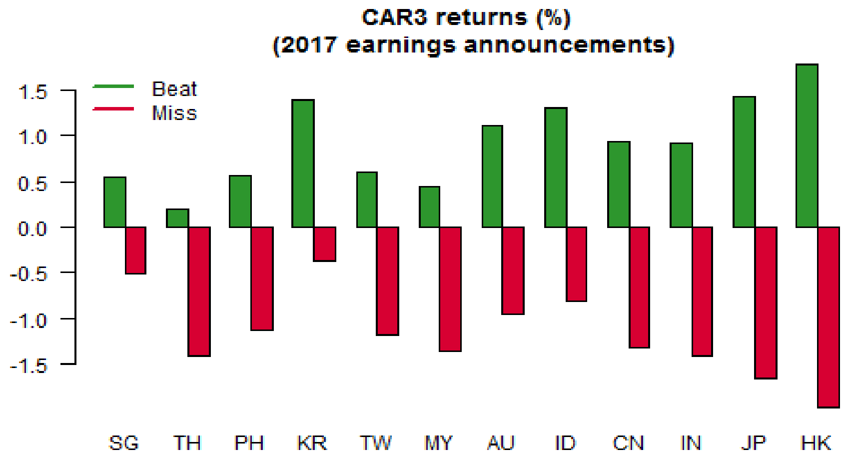
Quant: Our quant model is long Value, China, short India. We recommend strategies that exploit stock-specific idiosyncrasies

Our new stock selection model is designed to maximize the information ratio with an "end-to-end" portfolio construction using concepts borrowed from the deep learning literature.The latest portfolio snapshot is overweight Value, China, underweight India in comparison with historical exposures

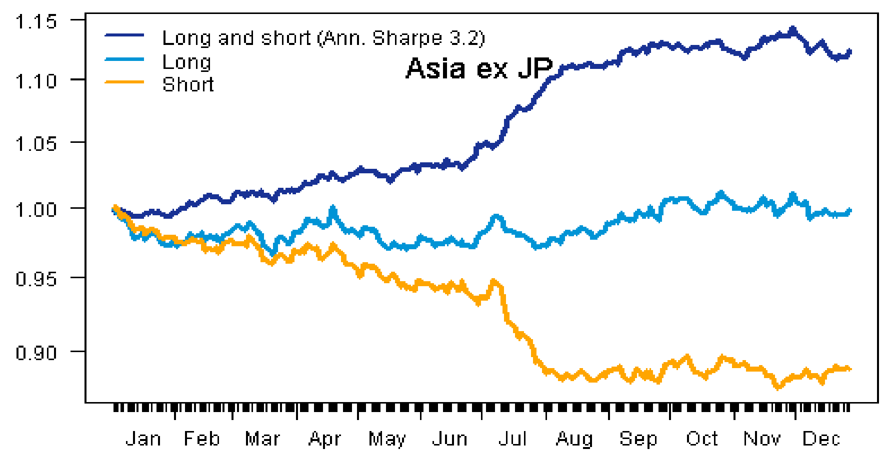




Earnings results continue to be market-moving events – it is important to be in the right stocks



Our earnings trading strategy is one way to exploit stock specific idiosyncrasies



Source: S&P, Thomson Reuters, FactSet, Bloomberg Finance LP, Deutsche Bank.

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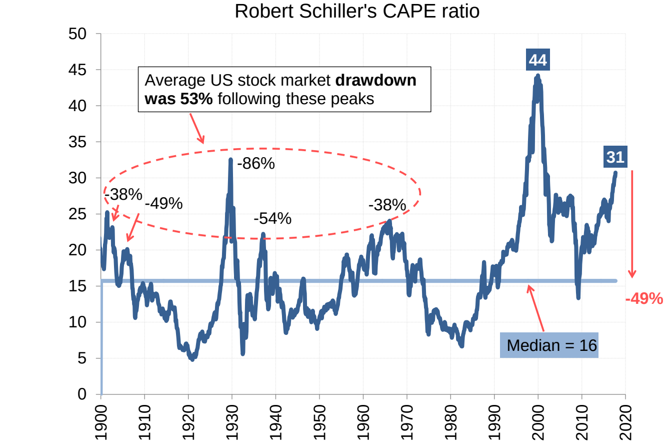
Derivatives Strategy: Hedge your tail in 2018

Participating more confidently in the last parabolic phase of a bull market

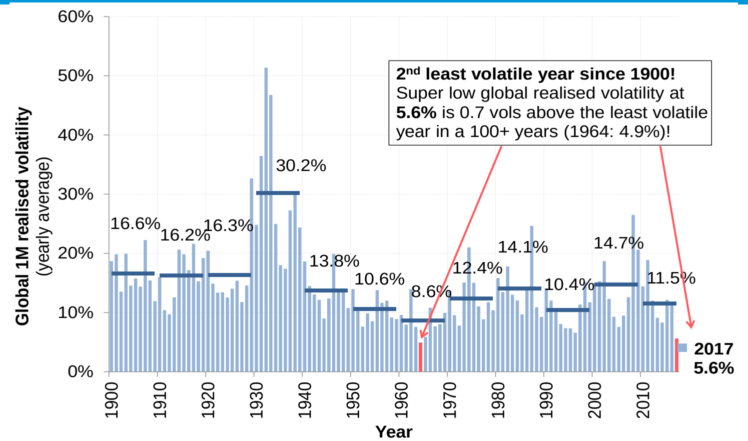
- **Hedging tail risk is not all about being very bearish.** Indeed, a good tail hedge allows investors to more confidently implement their (bullish?) core views
- **Expensive equities can get even more expensive:** While global equities look rich on a range of valuation metrics (P/E, P/S, P/B, Shiller's CAPE etc.), bull markets can last longer than one might think (e.g. late 1990s)
- **Stakes are high in 2018:** QE wind down, global equities and bond valuations close to or at 200-year highs, record-high debt levels, soon to be 2nd longest business cycle ever (US data), an overdue financial crisis in a fragile post-Bretton Woods financial system, untested liquidity, geopolitics, populism, etc
- **Despite all this, volatility is close to 100+ year lows:** 2017 is the 2nd lowest vol year since 1900. While low vol is not always cheap vol, some tail risk hedges offer particularly good value. A basket of short 18-month 1x2 put ratios on HSCEI, NKY and TWSE can offer gains of 10x the annual cost in an Aug-2015-style sell-off (and 40x in a 2008 style event; see next page)
- **Are we nearing a 'blow-off top'?** Global equities are up in a 'straight line' in 2017. US households say that there has never been a better time to buy stocks (source: Torsten Slok). Timing the top is difficult. We remain long equities but suggest efficient tail hedges

Expensive can become more expensive, but downside is large



Source: Deutsche Bank, Bloomberg Finance LP, Robert Shiller, Yale.

Close to the lowest volatility in 118 years



Source: : Deutsche Bank, Bloomberg Finance LP. 'Global' is represented by Dow Jones Industrials 1900-1927, S&P500 1928-1987 and MSCI All Country World since 1988

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Derivatives Strategy: Favourite tail hedges

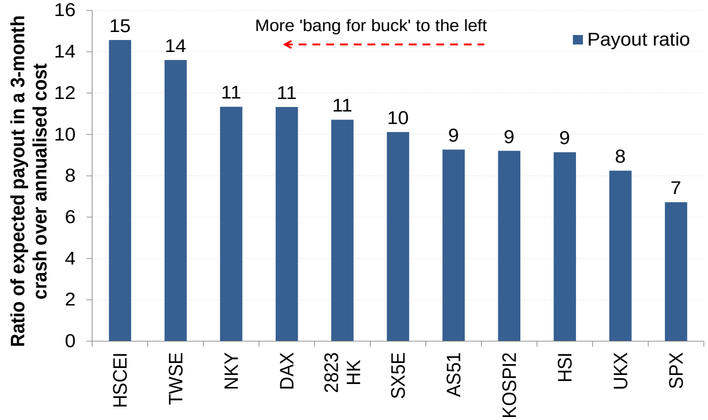
Our top tail hedge trades: 18-month zero cost put ratios rolled every 6 months (i.e. by 2H 2018, target rolling into Dec-2019 expiry options)

- **HSCEI 1x2 Jun-2019 put ratios at close to zero cost:** Long 2x 8,400 puts, short 1x 10,000 put (both expiring on 27-Jun-2019)
- **TWSE 1x2 Jun-2019 put ratios at close to zero cost:** Long 2x 8,400 puts, short 1x 9,400 put (both expiring on 19-Jun-2019)
- **NKY 1x2 Jun-2019 put ratios at close to zero cost:** Long 2x 17,000 puts, short 1x 19,500 put (both expiring on 14-Jun-2019)

An equal weighted basket of the 3 put ratios above

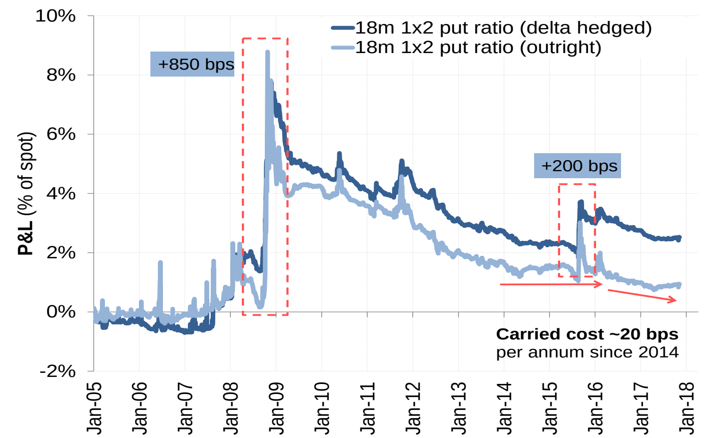
- **Cheap to carry.** Cost per annum has been about 20 bps over the past 4 years (non-delta hedged)
- **Can gain 10 to 40+ times the annualised cost in sharp sell-offs.** Gained ~200 bps in the Aug-2015 sell-off, corresponding to 10x the annualised cost. Gained ~850 bps in 2008 (42x the cost)
- **Prefer not hedging delta in normal markets.** Consider daily delta hedging in case of a sharp sell-off. This can help crystallising profits as unhedged mark-to-market gains can reverse quickly
- **HSCEI, TWSE and NKY are suitable indices for put ratios** due in part to the flat skews. Moreover, the 10-delta puts (that you are long in these put ratios) screen as best value in a hypothetical 30% global equities sell-off (top chart; relative to other indices)

'Crash puts' on HSCEI, TWSE and NKY offer best value (ranking 18-month 10-delta put options across major indices)



Source: Deutsche Bank. Payout ratios (=gain / annualised cost) estimated based on a hypothetical 30% global equities sell-off

A basket of HSCEI, TWSE and NKY put ratios would have gained 10x the cost per annum in Aug-2015 (200 / 20 = 10)



Source: : Deutsche Bank, Equal weighted basket of 18-month 1x2 put ratios rolled every 6 months. Bid/ask spreads are taken into account.

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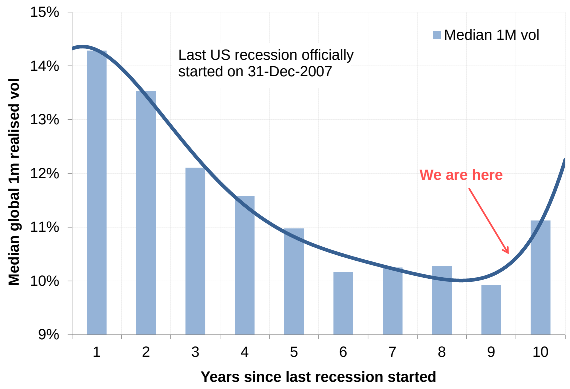
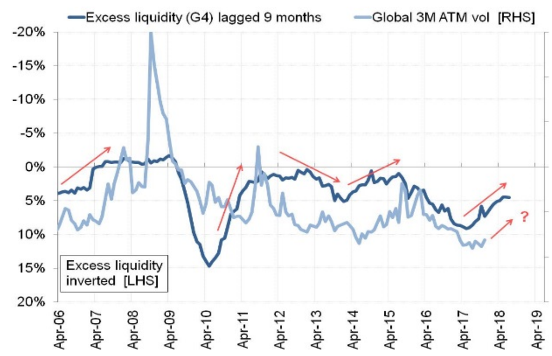
Derivatives strategy: Higher vol in 2018 but no sign of a high vol regime

Based on 118 years of data, the 9th year after a recession tends to have the lowest vol



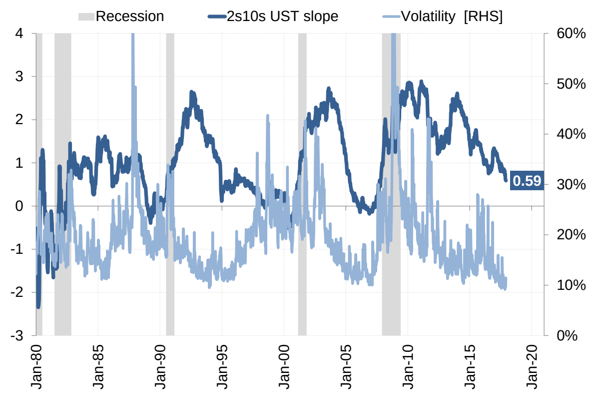
Source: Deutsche Bank, Bloomberg Finance LP, NEBR

Tightening liquidity in 2018 suggests higher vol. Base case is ~2 vols higher than 2017 (15 vs 13)



Source: Deutsche Bank, Bloomberg Finance LP . 'Global" is an average of implied vols across 12 major equity indices globally

A flattening US yield curve NOT suggesting vol to spike in 2018



Source: Deutsche Bank, Bloomberg Finance LP, NEBR

- Based on data since 1900, volatility tends to be lowest towards the end of the business cycle
- This does not necessarily tell us that vol is about to rise…
- …However, hedging tends to be cheapest late in the cycle (when everyone is bullish) and most expensive early in the cycle (when everyone is worried and looking for protection). See 2nd chart on previous page: carry cost was 3x higher in 2010-13 vs 2014-17

- QE from Fed, ECB, BoE and BoJ may drop from US$ 2 Trn per year to US$ 0.5 Trn by late 2018
- China seems set to continue its deleveraging efforts in 2018-19
- Global excess liquidity tends to lead implied volatility by 6-12 months. Tighter liquidity in 2018 suggests vol to rise from here (but not rising dramatically into a high vol regime)
- Global excess liquidity defined as M1 money supply YoY – Real GDP – Inflation (G4 = US, Eur, Jpn, China)

- A flat US yield curve has historically preceded recessions and vol spikes
- However, flattening/inversion tends to lead vol spikes by >1 year
- As such, even if the yield curve flattens in 2H 2018, history suggests a shift to a high vol regime is a 2019 story, at the earliest
- We re-iterate the importance of tail hedging, however. While not our base case, the risk of a severe vol spike is elevated. Short convexity and negative feedback loops in the market reminds us of 1987

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Strategist: **Harsh Agarwal**

Credit Strategy: There's no middle ground

- Our view is that either spreads stay range bound or we sow the seeds for the next crisis and have a material widening. We don't see a half-hearted move wider that many are forecasting. Our base case is for spreads to grind slightly tighter, making 2018 another carry year

- We see 2Q and 3Q as possibly the golden period for Asia credit, with 1Q marred by China's deleveraging, heavy supply and European politics, while 4Q could be impacted by US mid term elections and end of ECB QE. Correlation between risk assets has been high. It's hard for us to believe that equities can rally and spreads will be materially wider at the same time. Global growth is generally constructive for spreads as default rates decline. Even gradually rising rates lead to spread tightening

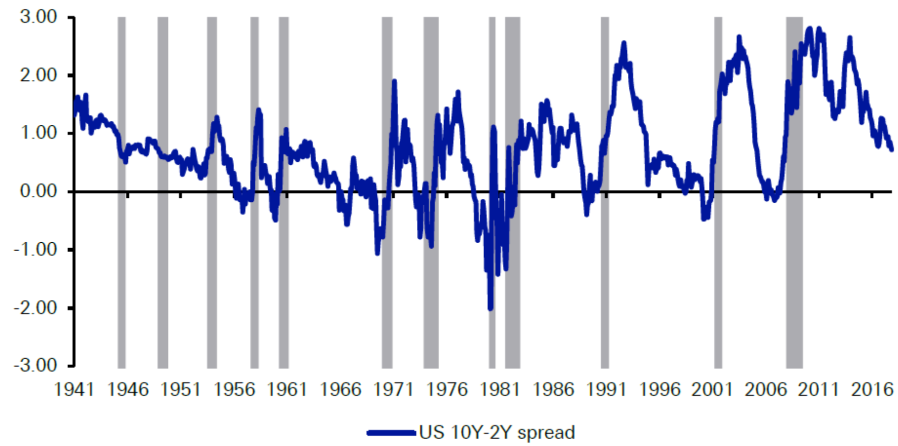
- We think EM should benefit from weaker USD and supportive commodity prices. China should continue to chug along. Growth concerns on the country have always been around, so nothing really new for us. We doubt the ongoing financial deleveraging will last for all of 2018 and expect that to change at some point

- Key risks for the market – growth scare in any of the major economies, rapid rise in UST yields to 3% or higher, sharp pickup in inflation, noise around President Trump, European politics, Middle East crisis, heavy EM election calendar, commodity crash, etc. We also worry about the flattening 2/10yr UST that has historically been a good predictor of recession

S&P 500 performance vs. US IG spread performance

Year	S&P 500 (Index change)	US IG spread change (bp)	Year	S&P 500 (Index change)	US IG spread change (bp)
YTD2017	18.5%	(28)	2003	26.4%	(78)
2016	9.5%	(38)	2002	-23.4%	13
2015	-0.7%	36	2001	-13.0%	(29)
2014	11.4%	22	2000	-10.1%	80
2013	29.6%	(33)	1999	19.5%	1
2012	13.4%	(110)	1998	26.7%	39
2011	0.0%	90	1997	31.0%	9
2010	12.8%	(18)	1996	20.3%	(32)
2009	23.5%	(362)	1995	34.1%	10
2008	-38.5%	348	1994	-1.5%	(10)
2007	3.5%	110	1993	7.1%	(18)
2006	13.6%	(7)	1992	4.5%	(37)
2005	3.0%	5	1991	26.3%	(22)
2004	9.0%	(11)	1990	-6.6%	29

US 2s10s slope with recessions shaded



Source: Bloomberg Finance LP, Deutsche Bank Report 'Credit Outlook 2018 –The Shrinking Safety Net, dated 27-Nov-17. Years in which S&P 500 has increased by more than 10% have been highlighted in green

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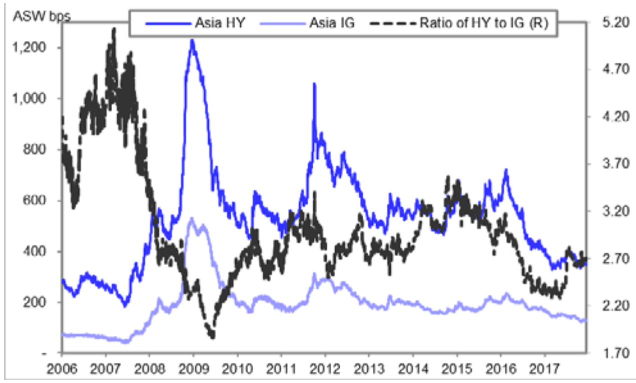
Credit Strategy: prefer HY over IG

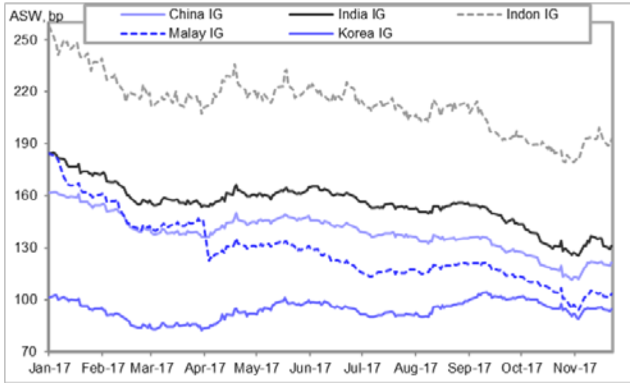
Overall Strategy



Source: Markit

- Prefer HY to IG in total returns, albeit on a spread basis, the HY/IG spread ratio could keep rising
- We are still recommending investors to go down the curve selectively, seeing value in some wider trading BBBs and single B's
- China looks cheapest on the face of it, both in IG & HY (especially property) – we recommend being Overweight, mindful of supply risk in 1Q

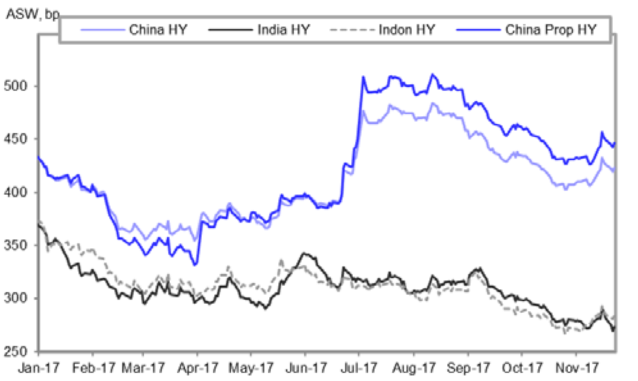
IG Strategy



Source: Markit

- In India we are largely neutral as technicals are strong, albeit more than priced in at current valuations
- We are Overweight Indonesia – it trades the widest and quasi-govt issuers there should see some positive rating actions in 2018 (driven by the sovereign)
- Korea has been the biggest underperformer in 2017 - Buy on further geopolitical driven widening

HY Strategy



Source: Markit, Deutsche Bank.

- Overweight China property & quality industrials. Property in the country has a 2-3 year cycle and the current down cycle is not surprising. We are comparatively more selective in the industrials space
- Within China Industrials, we suggest being overweight consumer and commodity sectors
- Underweight India HY on tight valuations, number of state elections in 2018 and event driven risks

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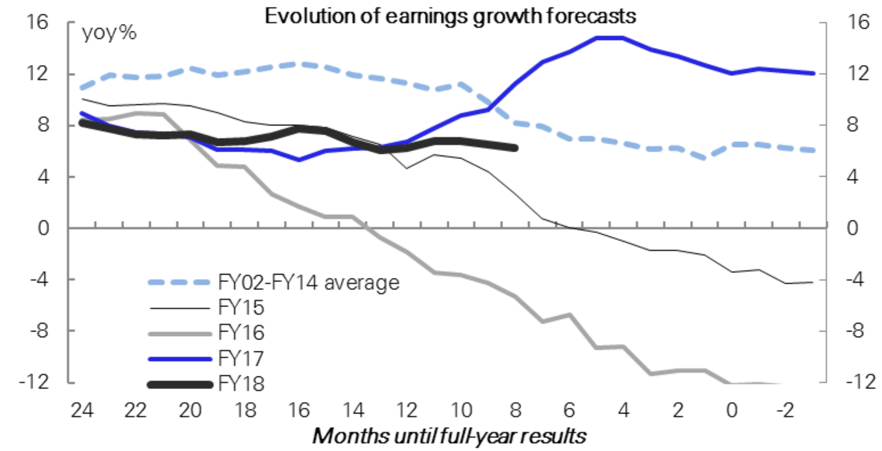
Australia: Modest returns in 2018 as earnings rise again

- 2017 marked the return of earnings growth for Australia, after some lean years. 2018 should see decent earnings growth also – forecasts have held up well of late, with no major downside surprises during the recent AGM season. And with earnings having taken the baton from valuations as the key driver of market moves, the delivery of growth is critical. The majority of earnings growth is again likely to come from resources, but there is some growth to be had elsewhere.

- We expect above-average valuations to be sustained. Our model says valuations are close to fair levels, supported by below-trend earnings, solid earnings revisions and low inflation. The cyclically-adjusted PE ratio is only a little expensive vs history.

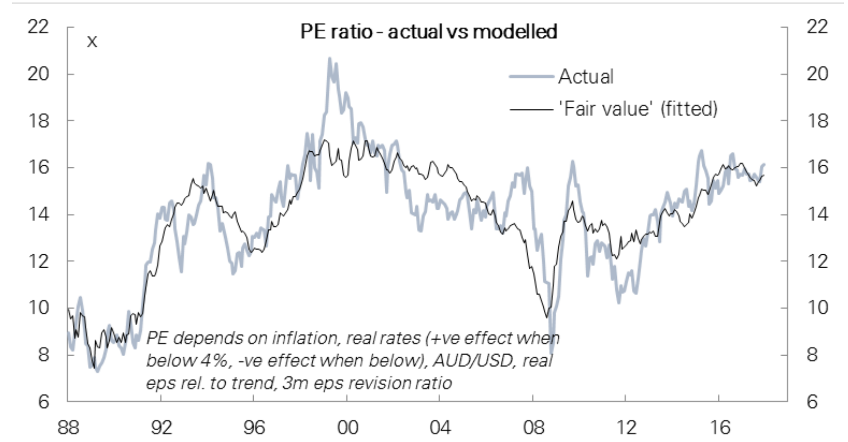
- Fund flows should be supportive – super fund inflows surged in 2017, and a portion of that should find its way to domestic equities. The RBA is unlikely to follow global peers in tightening in 2018, leaving the AUD to soften as rate differentials narrow further. While this would hurt USD returns from Australian equities, the lower currency would prove stimulative for many companies including ALL, AMC, BLD and JHX.

FY18 is likely to see another year of good earnings growth



Source: IBES, Datastream, Deutsche Bank

Valuations should be sustainable – they're close to fair value on our model



Source: ABS, RBA, Factset, IBES, Datastream, Deutsche Bank

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Strategist: *Tim Baker*

Australia: Overweight resources and offshore plays

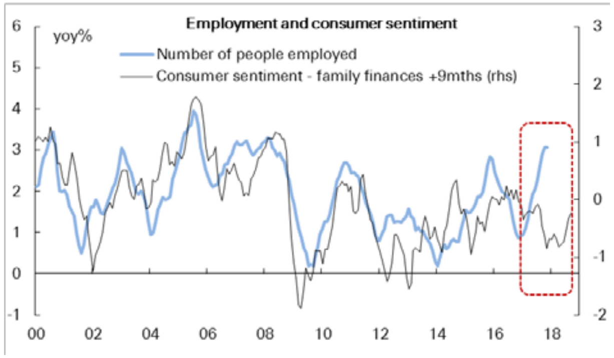
Resources are post-capex, which has historically been good for share prices

Source: Datastream, Deutsche Bank

Improved global macro momentum suggests that offshore stocks will continue to see solid growth

Source: IBES, Datastream, Deutsche Bank

Strong jobs growth, but consumers are downbeat given poor wages growth



Source: ABS, Datastream, Deutsche Bank

- Solid Chinese growth continues to support commodity prices, and that implies more earnings upgrades for miners. Combined with lower capex and costs, miners are producing record free cash flows, with forecast FCF yield of 10% currently
- Energy stocks should benefit from an improved demand/supply balance, attractive valuations and strong cash flows. Share prices have not kept pace with the oil price
- Top picks: **Rio Tinto, Oil Search**

- Improved global macro momentum suggests that offshore stocks will continue to see solid earnings growth. The global economy is seeing the most synchronised upswing in six years
- Valuations for offshore industrials have come back this year, particularly for cyclicals, now at a 10% premium from 20% a year ago
- Top picks: **Aristocrat, Amcor, James Hardie**

- Jobs growth is strong but consumers don't feel great. The lack of wage growth and under-employment is an issue. We prefer specific stories, such as beneficiaries from migration to Queensland and solid housing
- We do have a short-term positive view on retailers, given the stocks are out of favour, and asset-rich households might spend more over the holiday period
- Top picks: **Stockland, Harvey Norman**

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China: Stay bullish for quality growth, G.A.R.P. investment themes

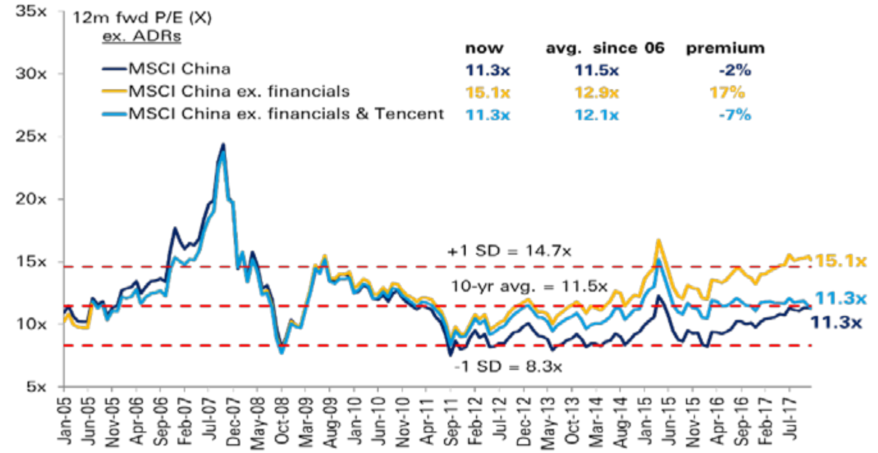
- **2018 views:** we expect MSCI China/HSCEI to extend their gains in 2018, in view of 1) a decent earnings outlook (MSCI China EPS +17.0%/15.5% in 2018/19E), 2) expansion in multiples (narrowing the gap with DM), and 3) favourable liquidity conditions
- **Index target:** we set our end-2018 index targets for MSCI China/HSCEI at 110/14,000, respectively. The 23% upside for MSCI China in 2018 comprises our expected 12m-fwd EPS growth and PE re-rating of 16% and 7% respectively
- **Valuation:** China's 12m fwd P/E should reach 14.3x by end-2018, against 16% 2018-19E EPS CAGR. We believe a higher multiple is justified by: a better quality of growth, lower systemic risk, a strengthened leading position for many index companies plus the still wide valuation discount to DM/EM peers despite higher earnings growth.
- **Themes:** we recommend G.A.R.P investment themes for 2018: **Greening** (environment) - Biomass/Hazardous Waste, Comprehensive Environmental Treatment, Natural Gas, Wind/Solar, and New Energy Vehicles; **Advancing** (manufacturing) - Intelligent Manufacturing, 5G, IOT, Cloud, IC, AI, and ADAS; **Reforming** (SOE); and **Premiumizing** (consumption) - Education, Insurance, Healthcare, Entertainment, Leisure, and trade-ups
- **Macro:** although GDP growth is likely to moderate, the economy should demonstrate resilience and deliver better quality growth which is now a clear agenda consensus for leadership
- **Liquidity:** we expect a neutral-to-tight monetary environment with rising market rates while the Southbound flow represents a structural trend and China is still underweighted by global/EM funds
- **Risks**: a sharper rise in inflation, harsher financial deleveraging and a faster-than-expected slowdown in investment growth

MSCI China/HSCEI Index earnings forecast

	EPS yoy DBe			12m forward P/E (X)		Upside
	2017E	2018E	2019E	end-17	end-18	2018
HK listed	19.4%	15.7%	14.1%	11.4	12.6	27%
ADRs	42.0%	26.0%	25.0%	28.0	25.5	14%
MSCI China	**21.7%**	**17.0%**	**15.5%**	**13.4**	**14.3**	**23%**
HSCEI	**12.8%**	**10.6%**	**12.9%**	**7.9**	**8.3**	**19%**
End-18 MSCI China target					***110***	
upside from curent (Dec 29, 2017)					*23.5%*	
End-18 HSCEI target					***14,000***	
upside from curent (Dec 29, 2017)					*19.4%*	

Source: Deutsche Bank Strategy Research

MSCI China (ex. ADRs) 12m forward P/E



Source: FactSet, MSCI, Deutsche Bank Strategy Research

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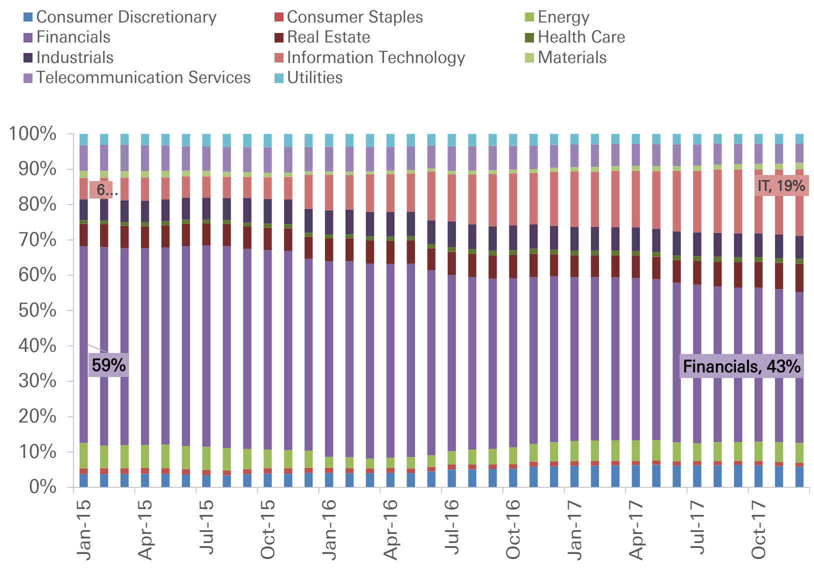
China: Stay bullish for quality growth, G.A.R.P. investment themes

MSCI China earnings mix evolution



Source: FactSet, MSCI, Deutsche Bank Strategy Research

China equity strategy sector preference in 2018 (MSCI China)

				Overweight (%)				Market-weight (%)				Underweight (%)			
MSCI China GICS Sector	Index wgt	Advised wgt	Rel (+/-)	Sub-sector	Index wgt	Advised wgt	Rel (+/-)	Sub-sector	Index wgt	Advised wgt	Rel (+/-)	Sub-sector	Index wgt	Advised wgt	Rel (+/-)
Info. Tech.	41.2	43.4	+2.2	Internet & Software	38.6	40.8	+2.2	Hardware & Semicon.	2.6	2.6	+0.0				
Cons. Disc.	9.3	10.1	+0.8	Consumer Services	2.3	2.7	+0.4	Auto & Parts	2.8	2.8	+0.0				
				Retailing	3.2	3.6	+0.4	Others	0.9	0.9	+0.0				
Real Estate	4.6	3.1	-1.5									Real Estate	4.6	3.1	-1.5
Materials	1.5	0.9	-0.6									Materials	1.5	0.9	-0.6
Energy	4.7	2.7	-2.0									Energy	4.7	2.7	-2.0
Industrials	4.2	3.4	-0.8	Commercial Services	0.2	0.4	+0.2	Transportation	0.9	0.9	+0.0	Capital Goods	3.1	2.1	-1.0
Financials	22.8	27.0	+4.2	Banks	14.0	16.0	+2.0								
				Diversified Financials	1.8	2.0	+0.2								
				Insurance	7.0	9.0	+2.0								
Utilities	2.1	2.4	+0.3	Water	0.5	0.9	+0.4	Gas	0.8	0.8	+0.0				
				Renewables	0.2	0.4	+0.2					IPP	0.6	0.3	-0.3
Telecom	4.9	1.8	-3.1									Telecom	4.9	1.8	-3.1
Health Care	2.4	3.4	+1.0	Health Care	2.4	3.4	+1.0								
Cons. Stap.	2.2	1.7	-0.5									Consumer Staples	2.2	1.7	-0.5

Source: Deutsche Bank Strategy Research, MSCI

- For MSCI China non-financials, we look for 23.4%/18.3% earnings growth in 2018/19E, driven by 14.0%/11.0% sales growth and 0.7ppt/0.6ppt margin expansion
- For financials, we project 9.5%/12.0% earnings growth in 2018E/19E
- MSCI China has an increasingly well balanced earnings mix by sector and a rising portion from new economy sectors

- We recommend OW sectors with exposure to G.A.R.P themes, including Software/Internet, Consumer Discretion, Insurance, Healthcare, and Water/Renewables, as well as Banks and Diversified Financials
- We recommend UW FAI-related sectors such as Materials, Real Estate, Capital Goods and traditional defensives (Telecom/Staples)

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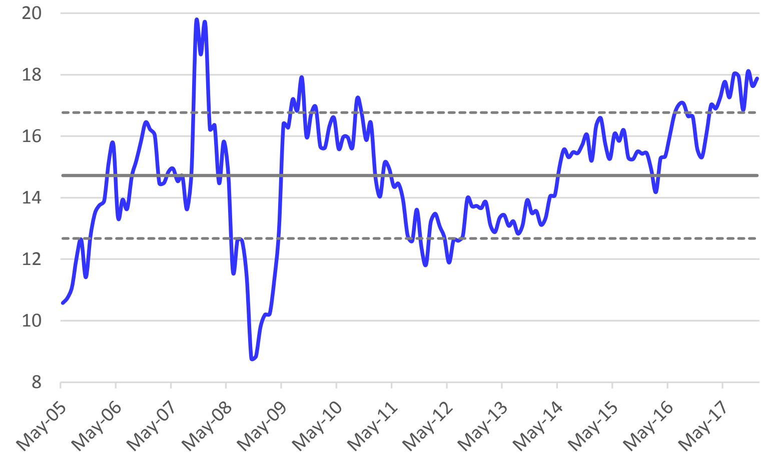
India: The return of growth

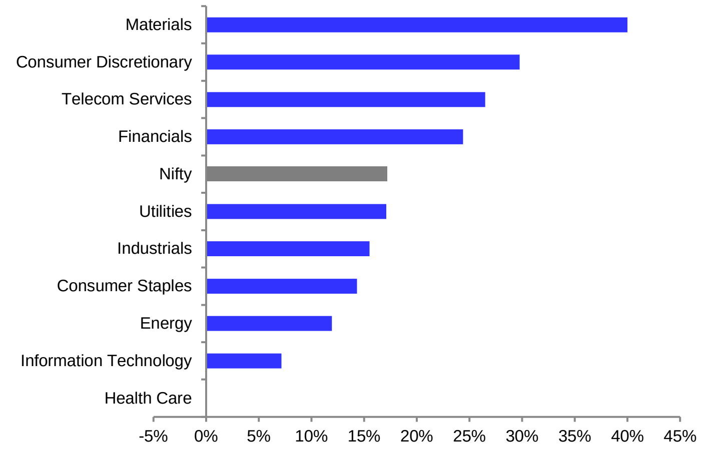
- **We expect a 10% gain in large cap Nifty** and Sensex indices over 2018
- **Index gain will be driven by earnings growth offset by marginal de-rating in valuations.** Nifty earnings growth expectations of 22% and 17% over coming two fiscal years
- **Growth acceleration** to be aided by five factors: the revival in rural consumption, recovery as worst of demonetization and GST transitory drag is left behind, government's pre-national election policy and execution urgency, PSU bank recapitalization and real interest rates entering a growth conducive corridor
- **Key themes:**
  - Rural Reflation
  - Pre-election policy focus for infrastructure and affordable housing
  - Stable policy rates and incrementally tightening liquidity to help performance of high CASA banks
  - Accelerated Digitization
- **Events to watch**
  - Union budget (1st February)
  - Monetary policy (7th February)
  - Key state elections (Karnataka in April – May; Madhya Pradesh, Chhattisgarh and Rajasthan in November-December)
  - South West monsoon (June to Sept) will be unusually important this year given the increased focus on rural India

Nifty - 12 Month forward PE



Source: Bloomberg Finance LP

Nifty sectoral earnings growth expectations (FY17-19, %CAGR)



Source: Deutsche Bank, Bloomberg Finance LP

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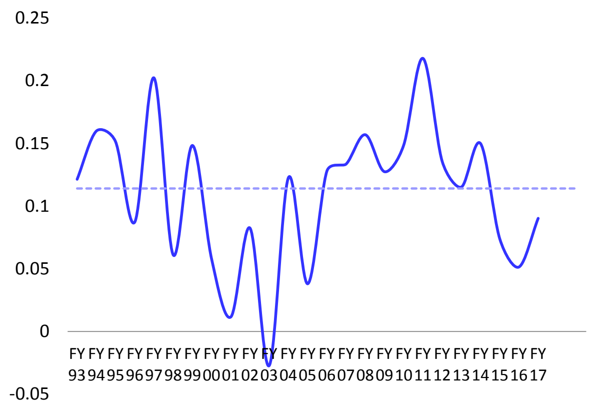
India: Key themes and 2018 top picks

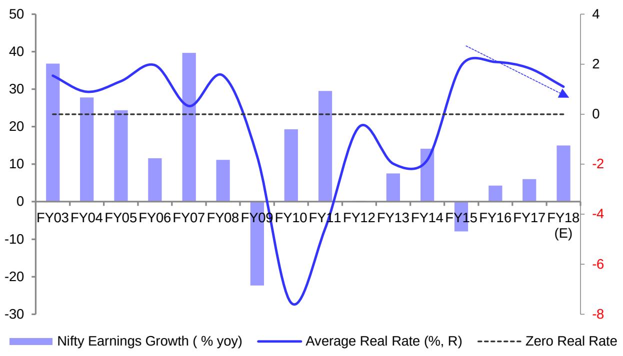
Nominal Agri GDP growth (% YoY)



Source: CMIE

- Rural reflation is a key priority for the government, as farming income growth has moderated sharply over last few years
- Theme beneficiaries:
  - **M&M**
  - **Hindustan Unilever**
  - **Dabur**
  - **Shree Cement**
  - **Indusind Bank**
  - **Dalmia Bharat**

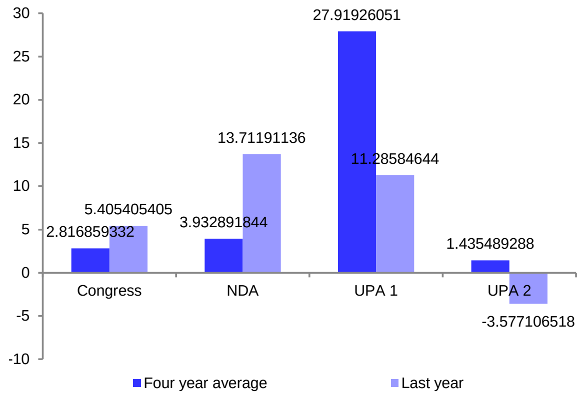
Real rates and Nifty earnings growth



Source: Bloomberg Finance LP, Deutsche Bank

- Real rates in India are entering a growth conducive corridor after a prolonged phase of wide variation
- The expected stable policy rate and normalizing higher inflation should benefit high CASA banks
- Theme beneficiaries :
  - **HDFC Bank**
  - **Indusind Bank**

Industrials Production Capital Goods – Fifth years acceleration bias



Source: ABS, Deutsche Bank

- Government's pre-election execution urgency should support further pick up in public investment momentum over 2018
- Theme beneficiaries:
  - **L&T**
  - **NTPC**
  - **BHEL**
  - **Shree Cement**
  - **Dalmia Bharat**

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Indonesia: Best macro in a decade ….

- We are expecting a front-loaded market in which the JCI may breach our YE18 target of 6,600-6,800 before settling at that range. Local macro conditions are the best in a decade but a cautious stance is sensible given global market's multiple record highs, peaking valuations, record low government bond yields, and unprecedentedly tame volatility & risks

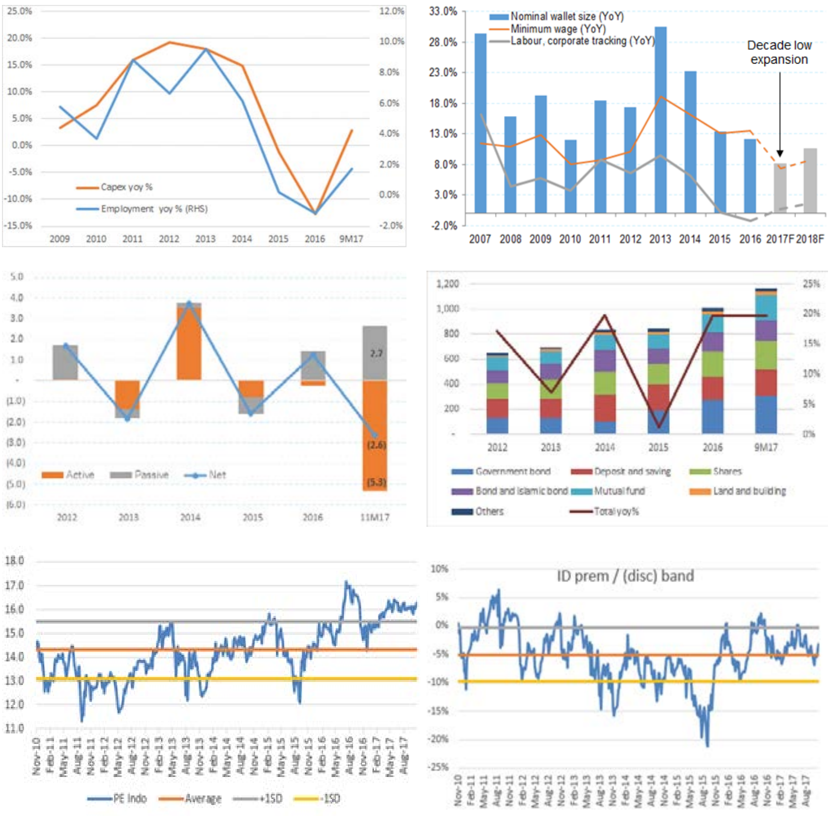
- Valuations are elevated because of the trough in the earnings cycle but at a discount to peers after record active money selling in 2017. Passive flow is increasingly influential and explains our skew towards quality large caps, while local money could be more supportive towards the JCI

- Wallet size (overall growth) is recovering with a stronger employment market after the negative impact of substantial currency depreciation and off-peak capex cycle

- Wallet share, specifically the competition threat for incumbents, now matters more than wallet size in terms of stock selection

- Our top stock picks favour quality large caps: **BBCA, BBRI, BBNI, GGRM, SMGR, JSMR, INCO, INDY, and ADHI**.

Wage and employment inflect wallet size; passive flow is increasingly influential while local money could be more supportive



Sources: Deutsche Bank, Bloomberg Finance LP, CEIC, Financial Services Authority

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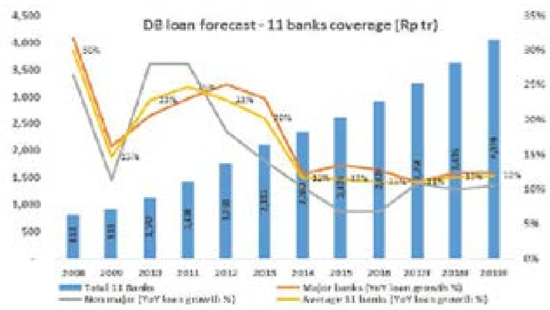
Indonesia: …. but cautious on valuations

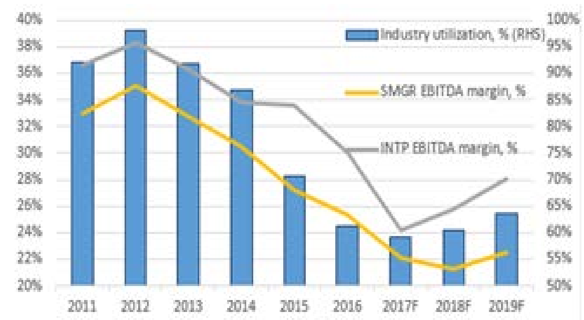
Banks: Steady growth



Sources: Deutsche Bank , companies

- Expect banks' earnings under DB universe to rise +11% YoY
- Banks are least affected by the "wallet share" effect of intensifying competition because of extremely high barriers to entry
- Reiterate major banks **BBCA, BMRI, BBRI, BBNI** as our preferred stocks due to their superior deposit franchises and excess liquidity
- We target sector PBV of 2.3x against projected ROE of 14.7%

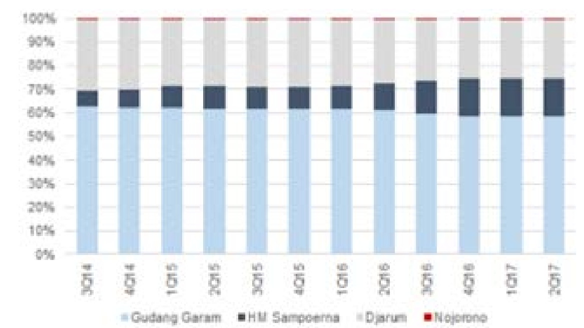
Cement: Honeymoon period



Sources: Deutsche Bank, Indonesia Cement Association

- Cement industry utilization rates have troughed as supply growth slows vs. high-demand momentum
- Decline in earnings will reverse as a result of margin inflection from easing cost pressure
- Industry consolidation is now likely after the disruption from new domestic and Chinese entrants
- Valuations aren't cheap but reflect trough cycle earnings and potential for margin recovery from all-time lows
- **SMGR** and **INTP** are our top picks, both benefiting from their economies-of-scale as tier-1 players and capacity to consolidate and survive

Consumer staples: Selective growth



Sources: Deutsche Bank, company

- We expect a gradual consumption recovery on 1) wallet size inflection, 2) a more consumer-oriented government budget through social assistance and energy subsidy, and 3) increased political campaign spending from the largest regional election ever in 17 provinces, which could reach the pockets of middle- to low-income consumers
- Top pick is **GGRM**. It will benefit from consumption recovery whereas competition in main revenue contributors is relatively benign

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Korea: Earnings momentum and value

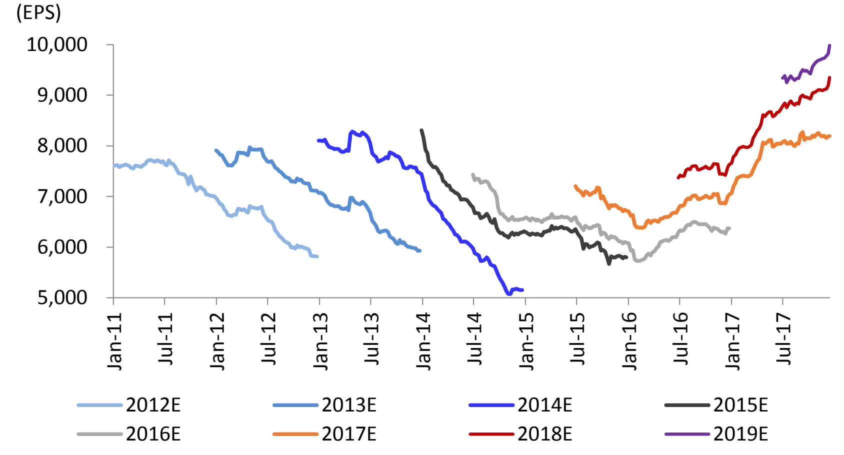
- Earnings revision momentum in Korea remains solid. The big earnings revisions in 2017 have been led mostly by semiconductors and banks, with the two sectors benefitting from rising DRAM prices and falling credit costs, respectively.

- We see room for the earnings revisions to continue in 2018. Semiconductors should continue to benefit from rising DRAM prices, while rising interest rates are likely to provide a tailwind to bank earnings. China plays are expected to benefit from improving relationships between Korea and China.

- The KOSPI has been one of the better performing markets in Asia in 2017, but we believe the performance was far from fully reflecting the strong corporate earnings trends. This is shown by the KOSPI's 12m forward P/E discount vs. peer markets having expanded to the widest levels in 10 years.

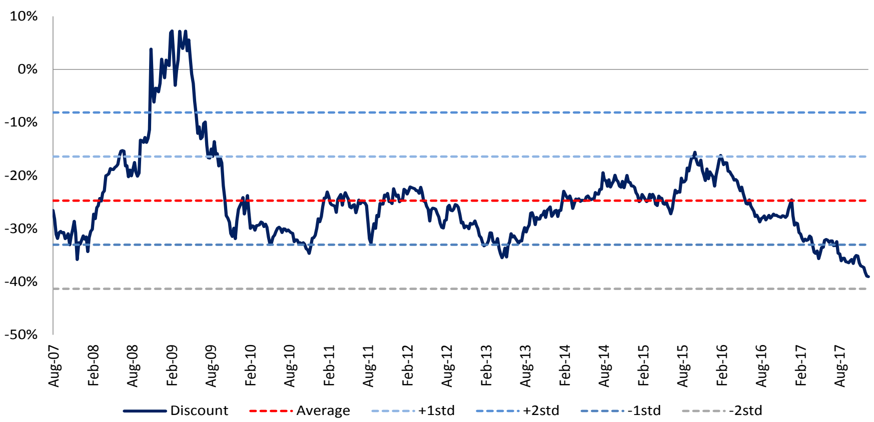
- We expect earnings growth in 2018 to moderate to c.10% YoY vs. c.40% for 2017, but we expect the leading sectors in 2017 such as tech and banks to continue to generate solid earnings, while the laggards during the past year, such as autos and consumers, are set to make a recovery in 2018.

Earnings revision momentum into 3rd positive year



Source: Deutsche Bank, wisefn

Valuation discount – largest in 10 years



Source: Deutsche Bank, Bloomberg Finance LP

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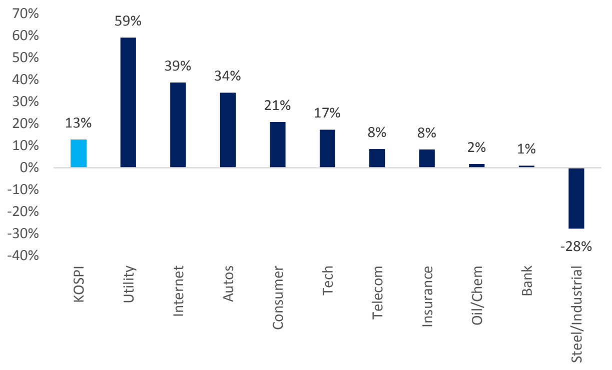
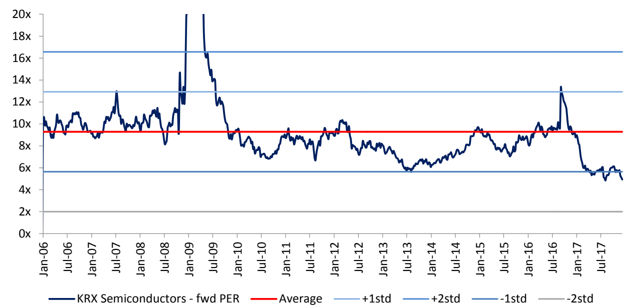
Korea: Too much caution over banks and tech

YoY earnings growth expected by sector in 2018



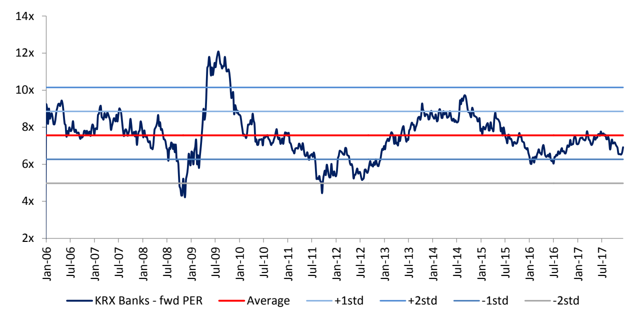
Source: Deutsche Bank, wisefn

Market overly concerned about tech



Source: Deutsche Bank, wisefn

Regulatory concerns overdone in banks



Source: Deutsche Bank, wisefn

- Consensus currently expects c.13% YoY earnings growth in 2018
- The sectors that are expected to show strong earnings growth in 2018 are those that suffered from disappointing earnings growth in 2017: autos, consumer and utilities
- Consensus currently expects tech to generate 17% YoY earnings growth and anchor another year of strong earnings growth for the KOSPI. Prospects for banks look muted but we forecast underlying earnings growth at +13% YoY

- Although shares have been sluggish at the end of 2017 due to concerns on potential memory price declines, valuations are at historical trough levels thanks to continued strong earnings growth outlook
- We expect record profit for memory in 2018 as demand-supply remains balanced and net wafer capacity adds remain limited due to capacity loss from conversions
- Our top picks are **Samsung Electronics** and **SK Hynix**

- Despite continued uptrend in the earnings outlook, banks have lagged, mainly due to regulatory concerns
- We believe the continued strong earnings should bring the shares back in line with earnings in 2018
- Our top pick in the sector is **KB FG**

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Malaysia: Chinese investment & government support for SMEs

- 2018 will be another year of robust growth for Malaysia, having emerged stronger post-1MDB
- Infra pump priming continues: Chinese foreign direct investments into Malaysia of US$40bn equal c.50% of the federal government's budget. This may propel 2018 GDP growth to be 5-5.5%
- Government support for small-medium enterprises: To seek new and consistent revenue streams for repayment, the government allocated MYR11.2bn to support the SMEs. The partnership with Alibaba on Digital Free Trade Zone acts as strong boost to SME exports
- Spurring household spending: The Budget 2018 announced a 2ppt reduction in taxable income ranging from MYR20-70k. This should lift disposable income by MYR300-1000 against household income of MYR43k
- The market P/E is at 14x forward, mid-range against historic averages. Positioning is currently defensive and focused on restructuring themes. Foreign holdings at c.25-30% after $2bn of net inflow last year, high within ASEAN context
- Risks relate to political and FX stability and foreign investor confidence. Potential election dates to watch for are most likely in March or June this year

Earnings revision momentum remains strong

Key schemes announced in Budget 2018	MYR bn
Strengthening SMEs	
Skim Jaminan Pembiayaan Perniagaan for working capital and services sector	7.0
Government guarantee loans under SJPP to enable SMEs to automate production	1.0
Shariah-compliant SME financing scheme with subsidy rate of 2%	1.0
Soft loans, grants and training programs for SME under SME Corp	0.2
Microfinancing	
Loan fund under Tabung Ekonomi Kumpulan Usahawan Niaga	0.5
Amanah Ikhtiar Malaysia	0.2
Rural Economic Financing Scheme for rural Bumiputera entrepreneurs	0.1
Accelerating Exports	
Expand export market and promotion	0.2
Insurance coverage credit facility for SME exporters	1.0
Loans to enhance automation of local furniture production for export	0.1
Tax incentives	
Extend the incentive period for Accelerated Capital Allowance on automation equipment 2018-2020	
Accelerated Capital Allowance Incentive up to 200% for manufacturing and related services sectors	
Capital Allowance Incentive for IT equipment 2018-20	
Total Budget allocated	**11.2**

Source: Malaysia 2018 Budget Touchpoints

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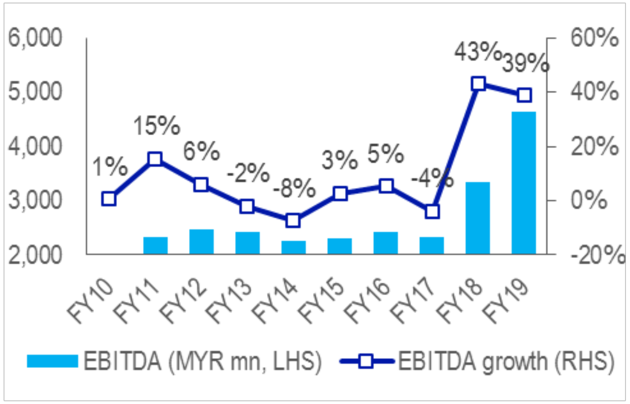
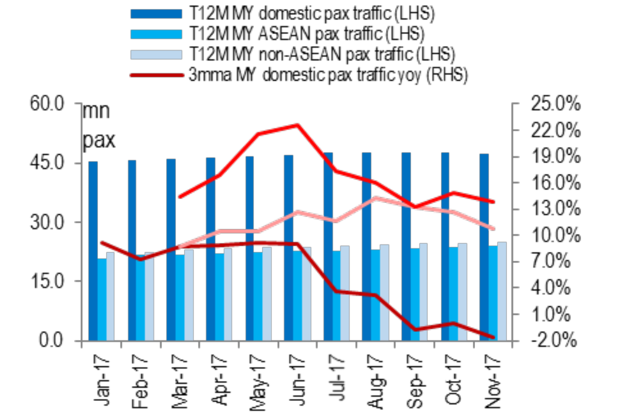
Malaysia: Gaming, tourism and infrastructure plays

GENM: Genting Integrated Tourism Plan to rejuvenate growth



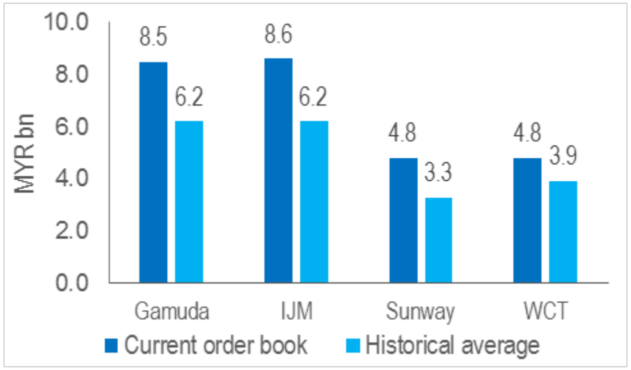
Source: Deutsche Bank, Company data

MAHB: Driven by tourism growth and e-commerce logistics collaboration with Alibaba



Source: Deutsche Bank, Company announcement

IJM: Strong proxy to China-led growth



Source: Deutsche Bank, Company data (as of July 17)

- **GENM**'s MYR10bn project will tap into (1) under-penetrated Malaysian Chinese aged 20-40, (2) indigenous Malay population, and (3) Chinese expats working on infra developments residing in Malaysia
- We expect GGR growth of 15-20% and EBITDA to double by FY19E to MYR4.6bn
- Our TP of M$9.00 is based on SOTP – 21x FY18E P/E for domestic, UK and US gaming operations

- Government forecast 28mn tourist arrivals (+5% vs 2016) in 2018. We expect stronger growth in the next two years with Malaysia hosting world events such as APEC in 2020
- **MAHB** and Cainiao regional e-commerce and logistics hub JV will drive further upside
- Our TP of M$11.00 is based on 2-stage DCF (2nd stage from the 11th year to end-of-concession-life at 2% growth rate)

- With 60% stake in Kuantan port**, IJM** is levered into China's investment into Malaysia. Kuantan port is a gateway for Chinese raw material imports and finished goods exports from Malaysia
- Increased infra spending and local content requirements will help IJM win construction contracts
- Our TP of M$4.15 is based on SOTP – 16x FY19E P/E on construction, DCF on property based on its land bank and market value on IJM plantation and Scomi

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Philippines: Tax reform and the China factor

- Tax reform (TRAIN) Package 1's additional revenues –taxes on oil, cars, sugary beverages, tobacco and coal – will help fund the administration's social and infra spending plans. Lower personal income tax rates will benefit 99% of salaried workers. For the poor and not formally employed, the government will expand direct subsidies. Package 1B (tax amnesty) and Package 2 (lower corporate tax) will be tackled in 2018.

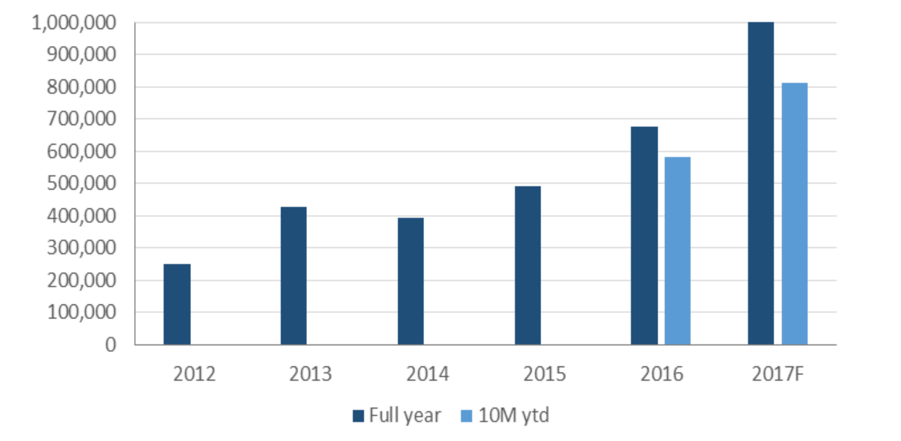
- Late changes to Package 1 make it difficult to assess its impact on GDP (consumption), inflation (direct and indirect), and corporate revenues (demand) and may be more negative than hoped

- Domestic inflationary pressure and US Fed rate hikes have us forecast two 25bp hikes in local policy rates (currently 3.0%) in 2018. Our estimates do not yet impute any impact from tax reform.

- China has become a major driver for tourism, gaming, infrastructure, property (office and residential), and e-commerce. The government plans to fast-track Chinese entry as a third player in the telecom space.

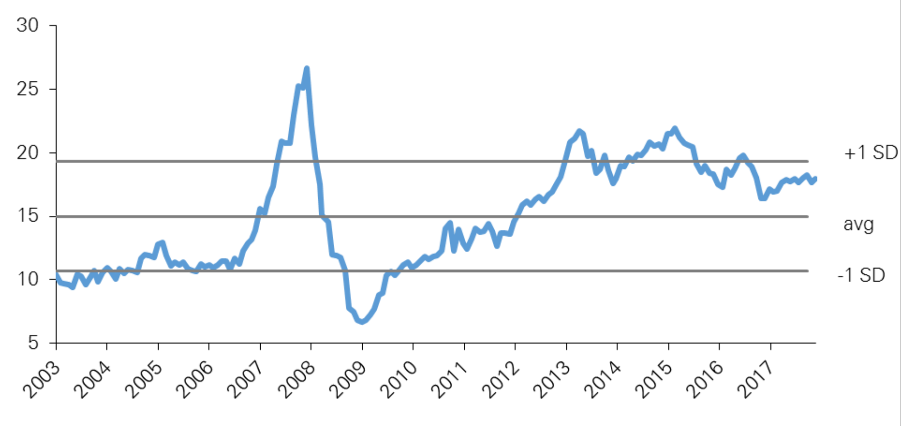
- The PSEi is trading at 18x PE – a premium to the region and its long-term average – and 11% earnings growth on our 2018 estimates. Our forecasts of rising policy rates and 4% Peso depreciation in 2018 could weigh on valuations.

Chinese tourist arrivals up 39% in 10M2017, overtaking the US for #2 spot, and on track to hit 1mn in FY2017



Source: Department of Tourism

PSEi is trading on 18x PER on our 2018F earnings estimates, above long-term average



Source: Department of Tourism

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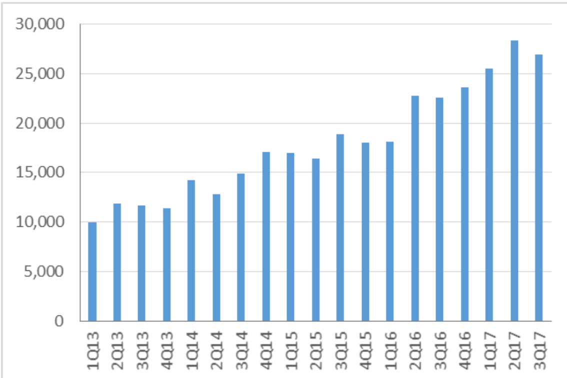
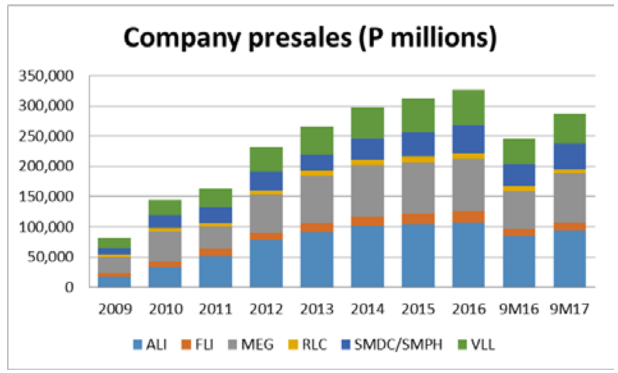
Philippines: Focus on gaming and real estate

Gross Gaming Revenues of integrated casino resort operators up 28% in 9M17



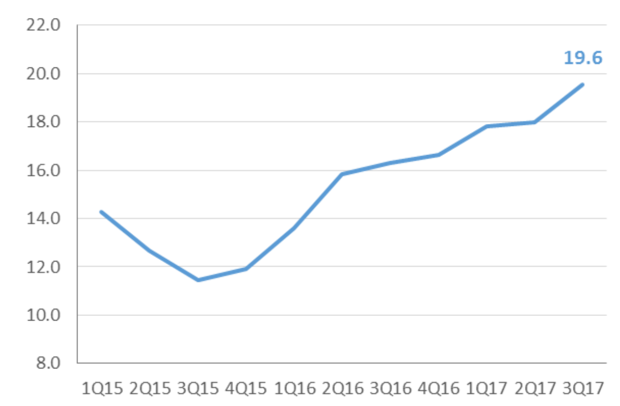
Source: Company data

Residential pre-sales jump 16%, on increasing demand from foreigners



Source: Company data

Bank loan growth continues to accelerate; upside from infra spend, interest rates



Source: Bangko Sentral ng Pilipinas

- The sector is a clear beneficiary of Chinese tourism. Foreigners used to be predominantly just VIP clients but they now account for as much as 30% of mass GGRs
- GGR of the integrated resorts jumped 28% in 9M17. Competition has been slower to add capacity, boosting sector profitability
- We have Buys on **Bloomberry**

- Residential presales grew 16% in 9M17 (a 5yr high), driven in part to a surge in sales to foreigners
- Office take-up jumped 20% yoy, despite weak demand from BPOs. Philippine offshore gaming operators (POGOs) now account for c30% of new office demand
- VAT exemption retained for BPOs and (for now) low-cost housing. **Megaworld** has the largest office portfolio. We have Buys on **ALI** and **Vista**

- Loan growth has accelerated for 8 straight quarters, and could be sustained on higher infra spend. Consumer loans could get a boost from personal income tax cuts
- NIMs are finally rising after years of decline on higher interest rates
- We remain wary, however, as competition and regulation (Basel III, IFRS9) could keep ROEs low. **Metrobank** is a Buy on valuations

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Singapore: Rising tide lifting all boats

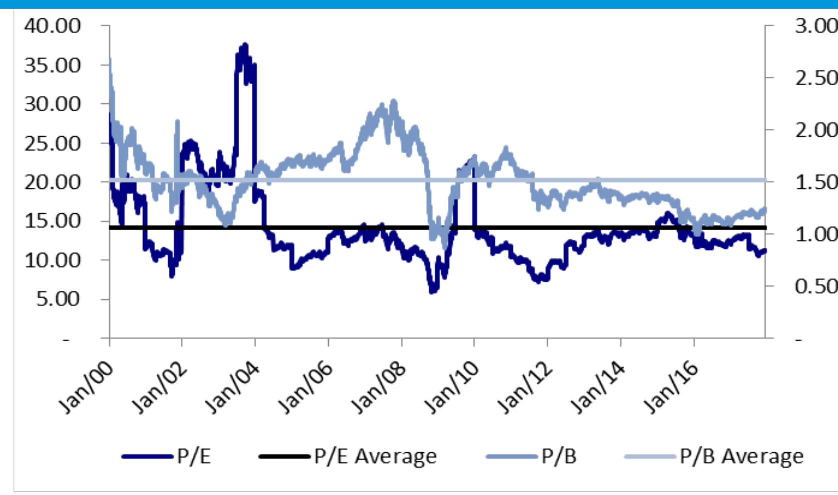
- We believe that Singapore should benefit from cyclical tailwinds in 2018 as improving consumer sentiment catalysed by better than expected economic growth and the property market via the return of the en-bloc market. Cyclical sectors such as real estate, O&M and consumer plays should continue to outperform
- Over S$8bn in capital has been returned to consumers via the en-bloc market. With inventory levels at an all time low, the removal of over 3,000 units could cause a squeeze thus returning significant bargaining power for landlords and developers. Developers and corporates with significant landbanks should benefit
- A revival of offshore exploration and production in Brazil should drive a recovery in orders for shipyard sector. We estimate up to US$4.3bn in orders could be novated
- With household balance sheets significantly cashed up, a return of credit provision from Genting Singapore could drive a resurgence in gaming revenues
- Our top picks focus on a sustained recovery in the residential market, recovering O&M order books and improved consumer sentiment
- Top picks: **Keppel Corp**, **Sembcorp Marine**, **Genting Singapore, UOL** and **UOB**

Economic indicators have turned significantly more positive

	Retail sales	Credit	IP	Non-oil imports	Residential transactions	PMI	Aggregate
31/01/2017	0.0	-1.0	0.4	0.4	0.1	0.2	0.0
28/02/2017	-0.2	-0.9	0.4	-0.1	0.5	0.5	-0.1
31/03/2017	0.0	-0.7	0.1	-0.2	0.8	0.6	-0.4
30/04/2017	0.0	-0.5	0.2	-0.7	0.9	0.7	-0.6
31/05/2017	0.2	-0.5	0.0	-0.1	0.5	0.6	-0.6
30/06/2017	0.2	-0.4	0.1	-0.1	0.4	0.6	-0.6
31/07/2017	0.1	-0.5	0.5	0.5	0.3	0.5	-0.2
31/08/2017	0.3	-0.5	0.9	0.4	0.5	0.8	0.0
30/09/2017	0.1	-0.6	0.9	0.5	0.4	1.2	0.1
31/10/2017	-0.1	-0.5	0.7	0.5	0.1	1.7	-0.1
30/11/2017						2.0	

Source: Deutsche Bank, CEIC

P/E and P/B valuations remain 1 SD below historical averages



Source: Deutsche Bank, Bloomberg Finance LP

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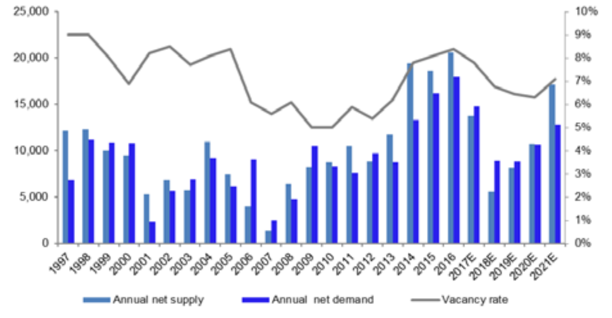
Singapore: Focus on property, shipyards & gaming

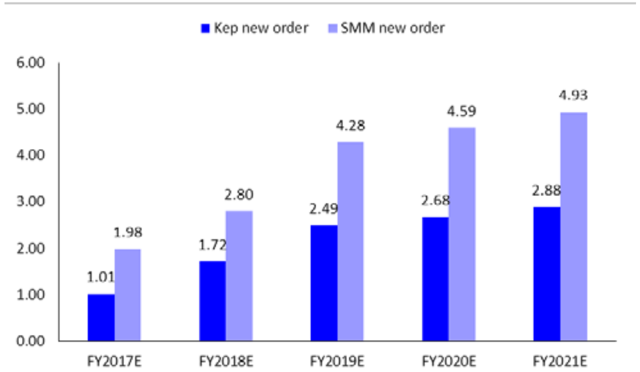
Residential supply troughing to decade lows



Source: URA, Deutsche Bank

- Residential completions are slated to fall to decade lows, while at the same time over S$9bn in en-bloc transactions will remove nearly 3k units from existing inventory. The resulting squeeze could trigger herd instinct demand for residential assets as vacancy rates decline and rents rise, improving negotiating power for landlords and developers. We believe that key beneficiaries will be **Wing Tai , UOL** and **Keppel Corp**

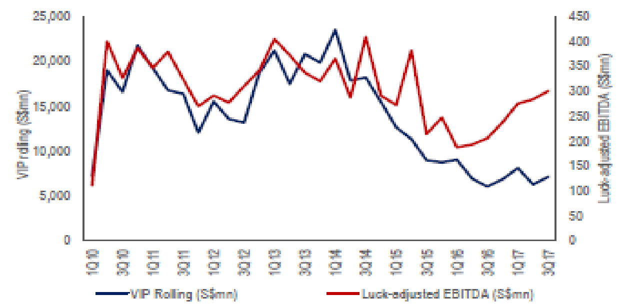
O&M demand set to restock orderbook (S$bn)



Source: Deutsche Bank

- Resurgent demand from Brazil could result in additional orders for 20 drilling rigs and 17 production units on top of the existing 19 semi-sub and drillship orders. The re-commencement of payments to Sete Brazil should be a key catalyst for the start of orders from 2H18-2020. We believe that key beneficiaries will be **Keppel Corp** and **Sembcorp Marine**

Rebound in VIP lending should boost EBITDA



Source: ABS, Deutsche Bank

- The wealth effect from the payment of en-bloc acquisitions combined with a return of lending from **Genting Singapor**e should improve VIP roll, and in turn, EBITDA for Genting Singapore. Management has signaled a willingness to increase lending in order to improve profitability in 3Q after a period of tightening since 2016. In addition, the potential for monetization of non-gaming assets and Japan license should be additional catalysts.

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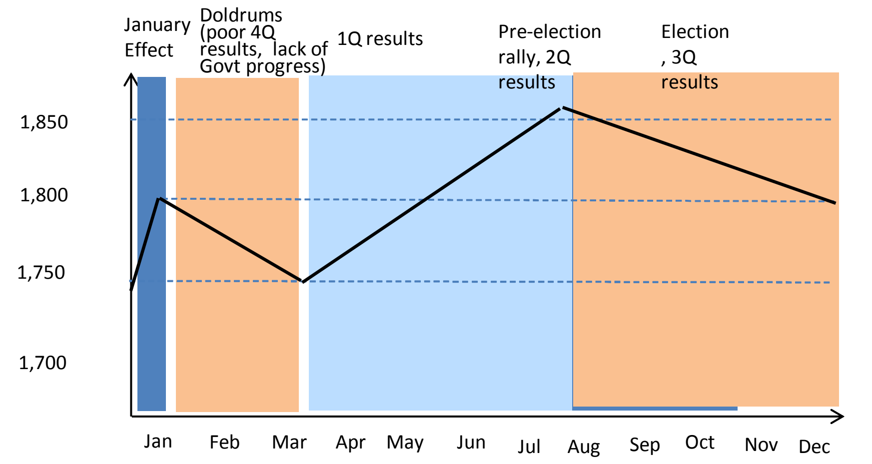
Thailand: A Jekyll and Hyde year

We expect to see a 'Jekyll and Hyde' market in 2018 – a bullish uptrend for 1H18 and a more volatile, downtrend 2H18

- **1H18 – driven by low base effect and general influx of cash:** We believe the upward momentum from 3Q and 4Q17 will continue through 1H18 thanks to a combination of a tourism and export surge, higher commodity prices, current account surplus (strong THB), steady policy rate (deposits diverted to mutual funds) and low base corporate earnings in 1H17. Progress on infra projects, new EEC law, private investment uptick and election announcements are icing on the cake. This SET rise will likely see some hiccups particularly towards Feb/March when 4Q17 earnings come out (which are likely to be lacklustre), but should be able to maintain 15.5x forward P/E. Therefore, we think the SET could rise as high as 1850 by mid year as the Street 'rolls over' its SET target.

- **2H18 – fatigue finally sets in:** With valuations stretched and most of the positive news priced in, we think the market will look towards 2019 with some trepidation. A civilian government that is unlikely to last more than a year, growing parity between BOT rates and rest of the region, and finally commodity pullbacks could see investors taking money off the table. We expect the SET to settle back at 1810, or 15x 2019 earnings.

SET Index 2018 roadmap – expect market to peak in 3Q



SET Key forecasts

	2010	2011	2012	2013	2014	2015	2016	2017F	2018F
Forward SET Energy PE target	10.3	9.5	12.3	22.7	38.5	10.3	10.4	11.6	11.0
Forward SET Petro PE target	12.0	10.7	12.6	25.3	12.2	9.4	9.6	11.7	12.0
Forward SET (ex energy) PE target	14.9	12.8	16.3	15.2	18.4	14.4	17.7	17.0	16.7
Forward SET PE target	**13.0**	**11.6**	**15.1**	**16.5**	**19.7**	**13.4**	**15.3**	**15.3**	**15.0**
Current SET PE	13.0	11.6	15.1	16.5	19.7	13.4	15.3	15.4	14.2
SET Energy / Petro EPS	28.9	34.0	32.2	27.1	12.8	9.4	23.2	32.8	35.7
YoY Growth		*17.6%*	*-5.3%*	*-15.8%*	*-52.6%*	*-26.7%*	*146.3%*	*41.6%*	*9.0%*
SET ex-energy/Petro EPS	44.6	43.5	53.0	61.4	62.6	63.8	70.8	67.7	75.5
YoY Growth		*-2.4%*	*21.7%*	*15.9%*	*2.0%*	*2.0%*	*10.9%*	*-4.5%*	*11.6%*
SET EPS	**73.5**	**77.5**	**85.1**	**88.5**	**75.4**	**73.3**	**94.0**	**100.5**	**111.2**
YoY Growth		***5.5%***	***9.8%***	***3.9%***	***-14.7%***	***-2.9%***	***28.3%***	***6.9%***	***10.7%***
Set Index	**1,033**	**1,025**	**1,392**	**1,299**	**1,498**	**1,288**	**1,543**	**1,660**	**1,810**

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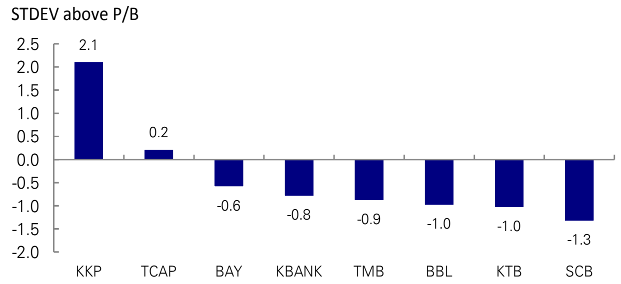
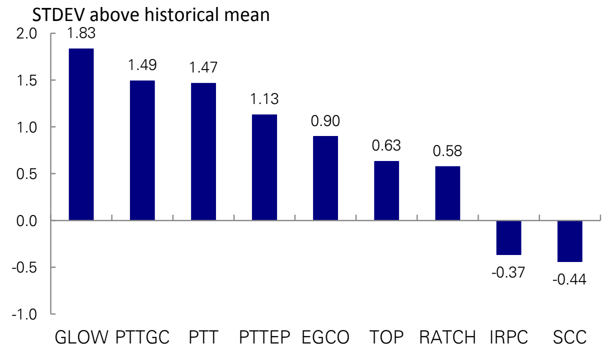
Thailand: Focus on energy, property and banks

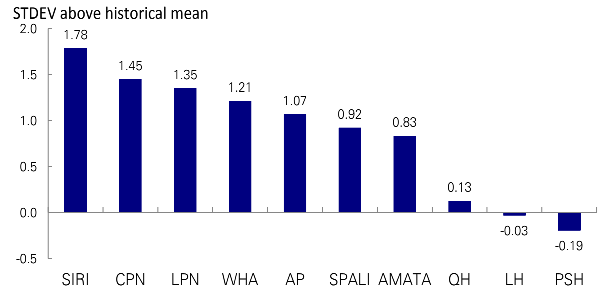
Bank valuations – low on P/BV



Select upstream energy and materials



Positive on selective property



- Banks continue to trade below historical P/B due to depressed ROE, as a result of lacklustre loan growth and IFRS9 issues
- However, we expect banks to be viewed far more positively as asset quality improves, NPL formation decelerates, fee income rises and loan growth picks up.
- **Top picks: SCB, KBANK, BBL, TMB, BAY**

- We are positive on 2018 crude oil prices, refining margins and selected petrochem spreads
- **Top picks: IRPC, SCC** and **PTTEP** as we think the market has underestimated the impact of projected cement demand (SCC) and UHV completion(IRPC). Market is also too conservative on PTTEP earnings growth. In addition, the re-tendering of Bongkot and Erawan fields should result in PB expansion due to extended reserves

- Property should also benefit from the last leg of SET rally though we advise sticking with PSH, LH, and QH as these are relatively undervalued, strong 2018 backlogs, and the market may have underestimated 2018 pre-sales potential for low rise particularly with condo prices having increased so much
- **Top picks: PSH, LH**, and **QH**

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Auto & Auto Parts: modest growth and some frothy valuations

- Global auto outlook is for 2-2.5% growth. China is yet again coming down from a tax incentive adjustment. We expect sustained growth, but muted by margin erosion on sales expense, further EV/PHEV expansion, and higher cost for future regulations. India should be the growth leader, although capacity constraints at Maruti and Hyundai mean others must take share to meet our industry growth targets. ASEAN has been mixed but with Thailand firm, growth should be solid mid-single digits.

- US policy has been in focus since the new administration. Border-tax is out, but corporate tax and NAFTA renegotiation seem more certain. The former benefit will range from 0-3.5% EPS bump per 5pp change. Struggling Koreans have little to gain given lack of local profit generation. NAFTA talks will be new focal point. Understandable rules of origin revisions to weigh on Nissan & Kia.

- Sector stock price performance showed stark contrasts in 2017. Chinese dealers & Geely massively outperformed, while Brilliance, GAC and Maruti Suzuki were very strong. We do not see further material re-rating in the likes of Geely nor Maruti. Global OEMs were lethargic despite strong FCF with investors concerned over industry themes of regulation, electrification and autonomous driving.

Global auto demand outlook

YoY%	2013	2014	2015	2016	2017e	2018e	2019e
Region							
N. America	7%	6%	6%	2%	-1.7%	-1.6%	-1.2%
USA	8%	6%	6%	0%	-2.6%	-1.8%	-1.2%
Can+Mex	5%	7%	9%	10%	2.9%	-1.1%	-1.1%
EU 28	-1%	6.0%	9.5%	6.9%	3.1%	0.9%	2.0%
Japan	0%	3.5%	-9.3%	-1.5%	6.0%	-0.6%	0.0%
China (ex-CV)	19.0%	12.9%	8.1%	16.7%	2.0%	4.1%	4.1%
India	-7%	-1%	6.6%	7.2%	10.0%	14.0%	10.0%
Brazil+Argentina	1%	-11%	-22%	-14%	13.0%	5.0%	4.9%
Russia	-5%	-10%	-36%	-11%	10.0%	12.8%	10.0%
ASEAN 5	2%	-10%	-4%	2%	5.3%	5.9%	6.0%
S. Korea	0%	8%	11%	11%	1.0%	1.0%	0.0%
Other	-1%	-3%	-3%	-5%	3.0%	3.0%	2.0%
Global	**4.1%**	**3.5%**	**2.0%**	**4.5%**	**2.5%**	**2.4%**	**2.5%**
Global ex-China	**0.9%**	**1.0%**	**0.2%**	**0.7%**	**2.7%**	**1.8%**	**1.9%**

China NEV projections

(m units)	2016	2017E	2018E	2019E	2020E
Passenger EV	0.26	0.43	0.59	0.75	0.91
YoY%	*75%*	*69%*	*36%*	*28%*	*21%*
Passenger PHEV	0.08	0.11	0.13	0.17	0.21
YoY%	*31%*	*38%*	*19%*	*32%*	*25%*
Total passenger NEV	**0.34**	**0.54**	**0.72**	**0.92**	**1.13**
YoY%	***62%***	***62%***	***32%***	***28%***	***22%***
Commercial EV	0.15	0.15	0.22	0.30	0.38
YoY%	*51%*	*-4%*	*53%*	*35%*	*26%*
Commercial PHEV	0.02	0.01	0.02	0.02	0.03
YoY%	*-19%*	*-24%*	*16%*	*41%*	*29%*
Total commercial NEV	**0.17**	**0.16**	**0.24**	**0.32**	**0.41**
YoY%	***38%***	***-5%***	***49%***	***35%***	***26%***
Grand total NEV	**0.51**	**0.70**	**0.96**	**1.25**	**1.54**
YoY%	***53%***	***39%***	***36%***	***30%***	***23%***

Source: CAAM, Deutsche Bank estimates

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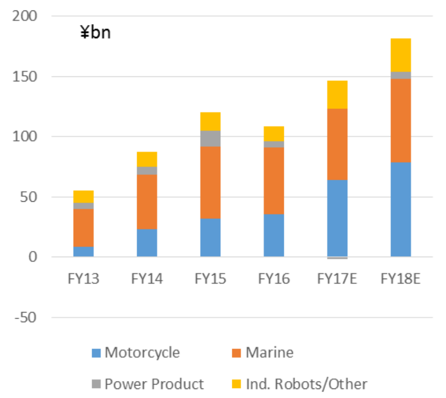
Auto & Auto Parts: Top picks an eclectic mix

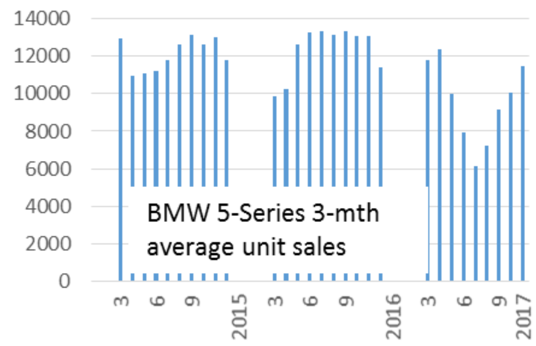
Yamaha Motor (JP 7272; Kurt Sanger)



Source: Datastream, Deutsche Bank

- We like the stock for its improved earnings diversity and generally modest valuation.
- The company has a combination of high return business:
  - 18-20% OPM Marine engine/after sales
  - 20-25% OPM Industrial robots
  - 8-10% EM Motorbike business
- Industrial Robot business growing post capacity expansion and acquisition of Hitachi High Tech high speed chipmounter business.
- We also like **Toyota, Subaru, Isuzu, Hino,** and **Toyo Tire.**

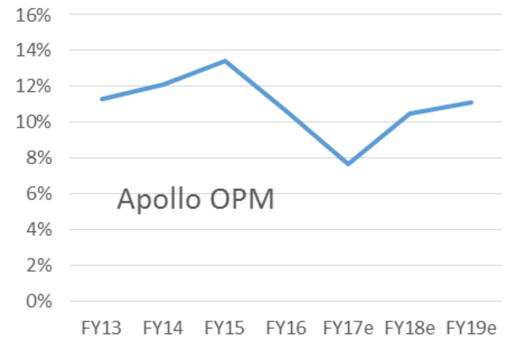
Brilliance China (HK 1114; Vincent Ha)



Source: IBES, Datastream, Deutsche Bank

- We remain structurally positive on premium segment growth over mass market. We expect +10-12% growth over market +4%.
- Earnings have been soft in 2H FY17 around product changeover and costs. We expect lower capex and increased engine plant utilization to double pre-tax profit through 2019.
- 2018 will have a full year contribution of the new 5-Series and the addition of the all-new X3 as BMW shifts to local production.
- We also like **BAIC, GAC,** and **Zhengtong Auto Services.**

Apollo Tyres (APLO.BO; Amyn Pirani)



Source: ABS, Datastream, Deutsche Bank

- Margins impacted in FY17 by material prices pushing the OPM down by 290bps to 7.7% (DBe).
- We expect EBIT growth of 48% in 2018 and 20% in 2019 on average revenue growth of ~12%.
- We expect Indian tire companies to benefit from a cyclical recovery after three down years. Apollo has positive exposure to truck radials. This should benefit from anti-dumping duties on Chinese tires in the domestic market.
- We also like **Tata Motor** & **Mahindra.**

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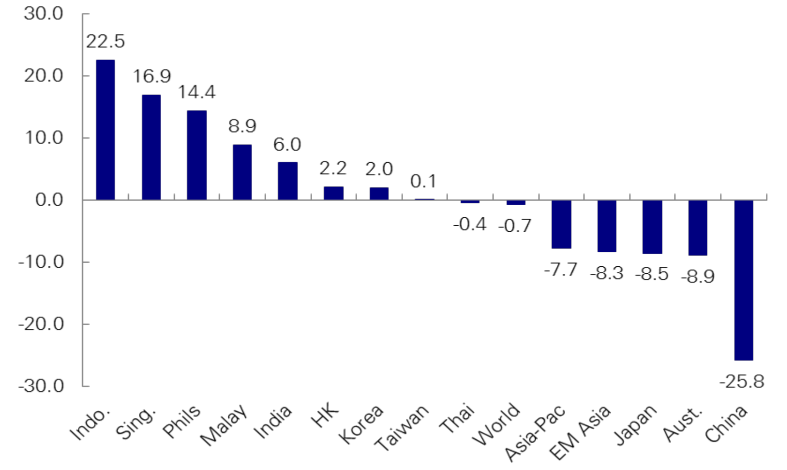
Banks: Bracing for more tightening in the region

- **China's higher rates and financial deleveraging**
  The financial deleveraging in China continues to be central to government's policy agenda and the process is likely at most halfway through. We expect to see more regulations to follow in 2018 and should result in a tighter and more coordinated regulatory environment. The higher rates and tighter regulations will likely result in the deceleration in Chinese credit growth, which may spur growth in other Asian banks with more excess liquidity in the region (e.g. HK)

- **Higher domestic and US rate hikes:**
  The US rate hikes so far have had limited impacts on Asian domestic economies as concerns over liquidity outflow have subsided with many currencies recovering strongly post the US election. For the USD deposit rich markets (HK, SG, TW), the rates transmissions were low so far, as NIMs benefited less from higher rates environments. However, with 4 rate hikes looming in 2018E, and LDRs getting tighter in the region, this is expected to change - the rate differentials between the US and local markets will lead to eventual liquidity outflow, more volatile domestic currency and higher local rates. Although the magnitude is lower than the Fed, the region's monetary policy stances are also towards explicit tightening – with majority of the Asian economies expect to see higher policy rates in 2018

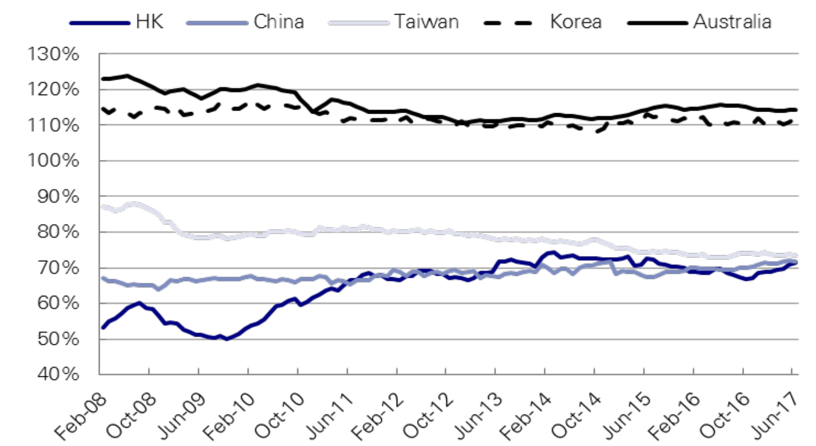
- **ASEAN outperformed in FY17, can they repeat in 2018?**
  ASEAN banks have been best performing relative to their home markets as the US 10 year rise stalled, together with currency stabilization and recovery in domestic fundamentals. However, as we head into 2018, the LDRs remain high across many ASEAN markets and there remains a risk that banks may start to de-rate as LDRs move towards >100% - the continued rise in interest rates in the US may lead to renewed concerns over potential leakage out of these banking systems

MSCI Bank performance vs. home market: ASEAN banks outperformed in FY17



Source: CEIC

LDRS remain high



Source: CEIC

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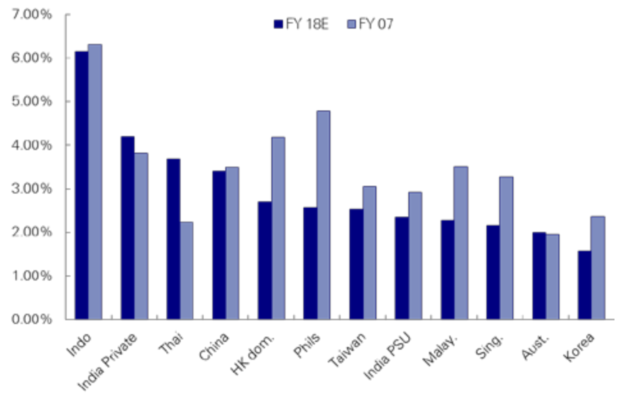
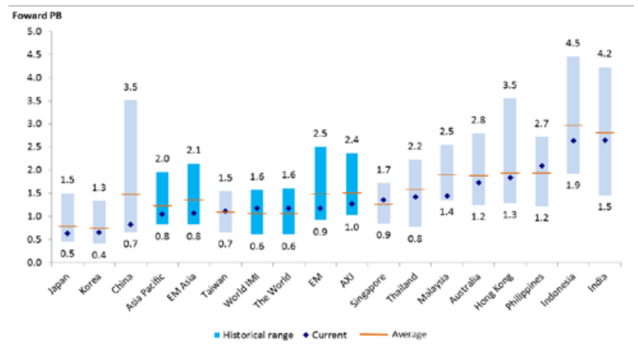
Banks: Market priced-in earnings uplift from higher rates

Safety margin – deteriorating across the board



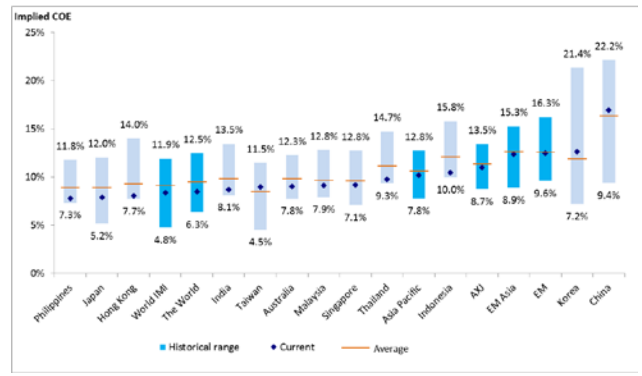
Source: Deutsche Bank estimates

Banks trading below 10-year average PB with ex-Singapore



Source: Deutsche Bank, Factset

Implied COE is still not cheap



Source: Deutsche Bank, Factset

- The impact of lower asset yields globally has resulted in weakening "safety margins = PPOP/Gross loans" over the years, as some of the Asian banking systems do not generate sufficient returns to meet (1) regulatory changes (2) provision asset quality buffer (e.g. IFRS) in rising interest rate environment
- The Rmb stabilization and OBOR initiatives have led to resurgence in loan growth in HK at 18%, fastest in the region. However, this has made the system more vulnerable as the drop in safety margin is amongst the largest.

- Most of the Asian Banks continue to trade at below their 10-year averages on a P/B basis, with exception of Singapore market, which benefits from US rate hikes despite difficulties from challenging Oil & Gas exposure. From a valuation perspective, another market that has recovered to the historical PB level was HK as investors hope to see improving RoE's from higher rates. For other markets, the depressed PB valuation of the Asian Banking sector reflects lower ROE expectations

- Looking at implied COE, it is hard to identify a single market that stands out as most attractive. Relatively, we have a more positive stance in **Korea** (NIM expansion and low credit cost), and **China** (on-going deleveraging should benefit the large banks) as they look cheaper from implied COE perspective. We still like **Indonesia** (superior loan growth, bottoming of asset quality cycle) but maintain our cautious stance in **Hong Kong**.

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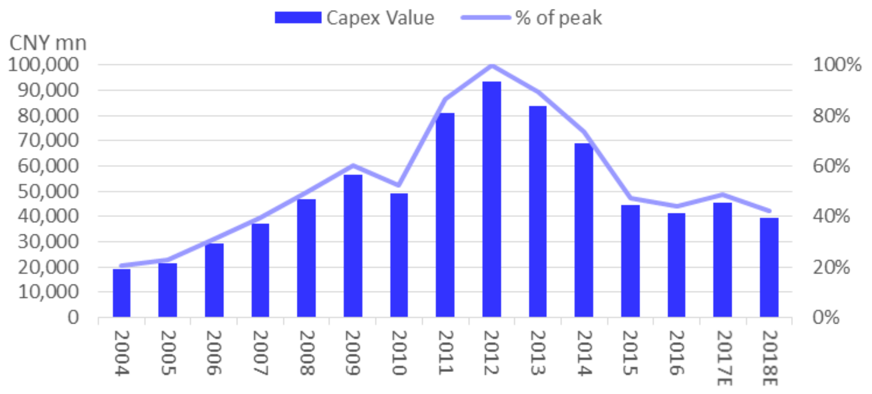
Basic Materials: Mild capex recovery and low industrial inventory restocking

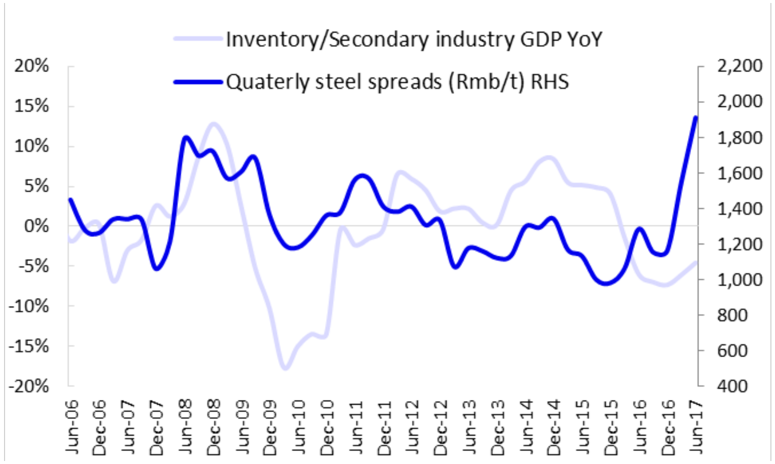
- A slow capex response to higher commodity prices, together with an increasingly resilient global economy, should allow demand/supply for most commodities to remain favourable.
- For the world's largest commodity consumer, China, we believe steady demand will still be the case into 2018 because a balance of three major demand drivers, including property (YoY flattish), infrastructure (slower but still positive growth), and manufacturing (improving)
- Low industrial inventory levels in steel sector will help maintain high profitability. Reduced surplus within China will benefit spreads in rest of the region, especially in Korea and Japan as export prices are firmer
- As commodity prices in 2018 will not rise as rapidly as in 2016/2017, earnings growth will normalise after such a sharp rebound. Investor focus should shift towards companies with improving/strong balance-sheets and rising FCF yields
- Key stock recommendations: **Shenhua, POSCO, Sinopec, Anhui Conch Cement, China Moly SPC-H**

Coal capex recovery



Source: Deutsche Bank

Industrial inventory restocking (adjusted by industrial GDP) vs. Chinese steel spread



Source:DeutscheBankand WIND

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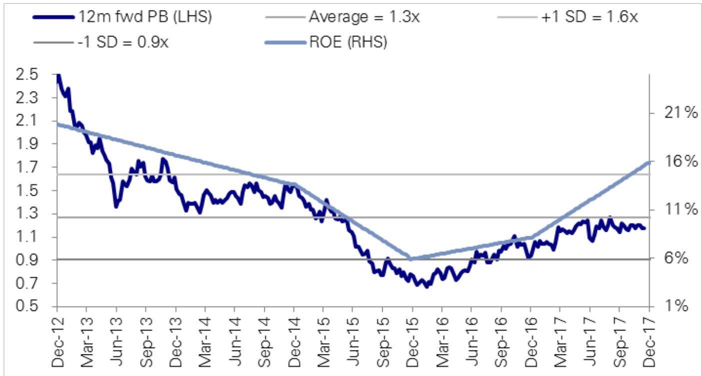
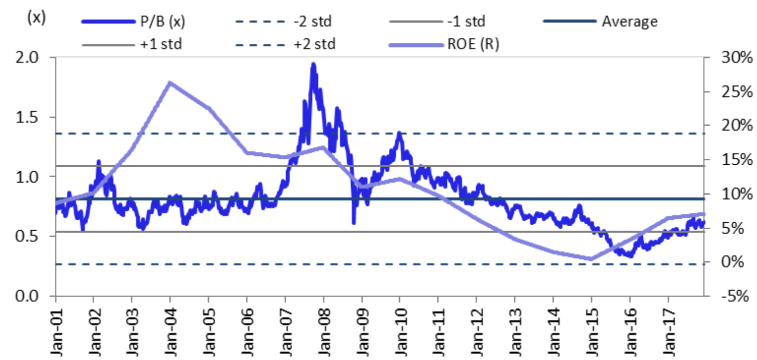
Basic Materials: Top picks – Shenhua and POSCO

Shenhua's12m fwdPBvs.ROE



Source: Deutsche Bank estimates, Bloomberg Finance LP

POSCO's 12m fwd PB vs ROE



Source: Deutsche Bank estimates, Bloomberg Finance LP

- Shenhua has the best quality assets and corporate governance in the coal sector, with c.14.5% ROE expected in 2018.
- We expect an average coal price of RMB403/t in2018, down 4% YoY. Volatility will come from policy changes, first with respect to acceptable electricity tariffs and second in terms of extension of supply side reforms and the cut in coal capacity
- Sector is also exposed to SoE reform as the power and coal sectors are rationalized and in some cases merged
- Valuation: coal stocks rallied very strongly from their trough levels but significantly less than the earnings recovery in the sector. For China Shenhua we have set our TP at 1.5x PB against close to 1.0x currently

- Supply side reform has cut 22% of China's capacity while regional capex/sales has dropped by 42%. Higher industry utilization rates and subsequent improvement in spreads with direct linkage from domestic Chinese conditions and Korean HRC & CRC prices. This will raise POSCO's OP per tonne by a further 25%, even without any further increases in steel prices
- Valuation: improved earnings stability and extended period of rising RoE from 6.4% last year to 7.7% in 2019 justifies a higher multiple with our valuation set at set 0.76x PB

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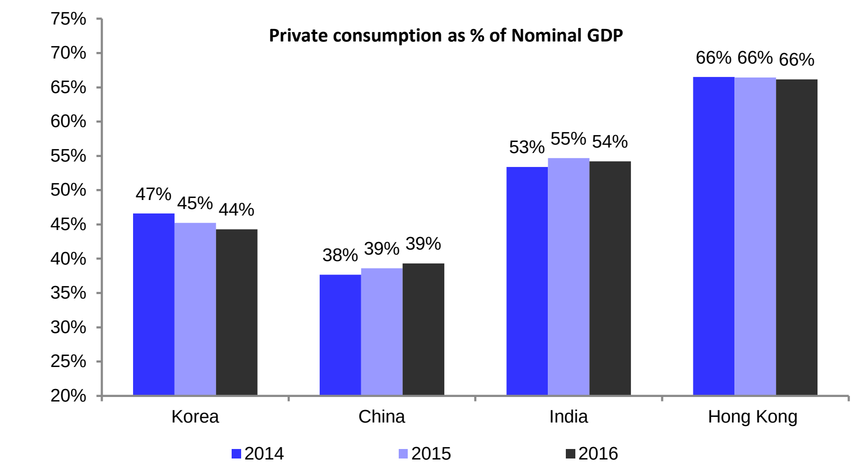
Consumer: Improving outlook

- **Macro** –Outlook improved for key markets albeit for very different reasons: India (post demonetization and GST), Korea (potential recovery in PRC tourist arrivals), China/HK (domestic recovery). Both Indian and Chinese governments' measures (streamline and lower GST in India and further reduction in import tariff in China) are supportive to domestic consumption. For both markets, we expect recovery to be more widespread. In Korea and HK, the focus is more on the return of PRC tourist arrivals while domestic consumption growth is expected to be modest. Both Chinese and Korean governments have launched measures to control housing bubbles. However, on balance there is still a positive wealth effect from real estate on regional consumption
- **Inflation impact** – 2017 brought reflation of commodity prices for home appliances, textiles and F&B. Home appliances were able to pass on higher input costs due to the strong housing cycle in China and relatively low inventory levels. We saw price hikes for FMCG products on like to like basis since Sept/Oct 17, with beer the latest example. In India, return of rural wage growth is a positive for pricing, with GST benefit limiting the impact on consumers and volume growth. Conversely, across ASEAN, increased competition has eroded some pricing power of the leading incumbents in both FMCG and retail
- **E-commerce** – expect clearer signs of successful adaptation to online environment, with more collaboration and M&A potential to be reflected in valuations of both retailers and brands. Convergence with online will increase downward pressure on rental costs for retailers, as well as concentration in to better quality locations

Private consumption is a growth driver for most markets



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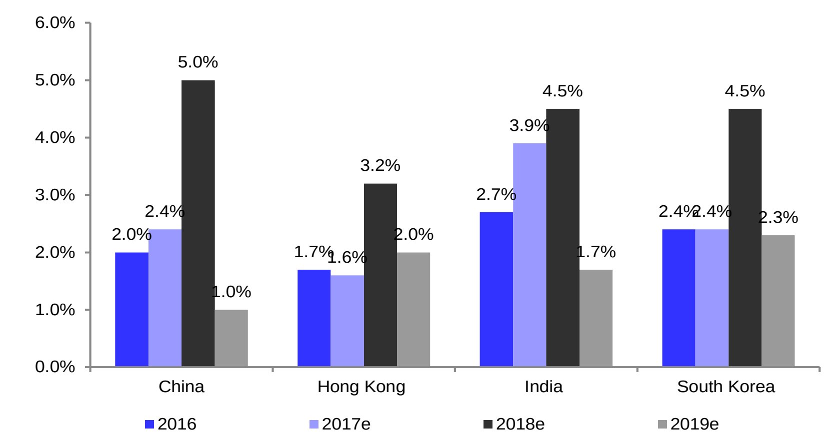
CPI trend will pick up but at healthy level for most markets



Source: Rxxx, Deutsche Bank

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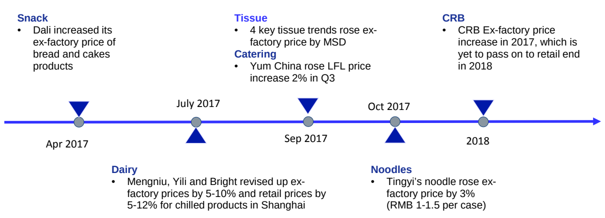
Consumer: a more widespread recovery

Price hike seen in China



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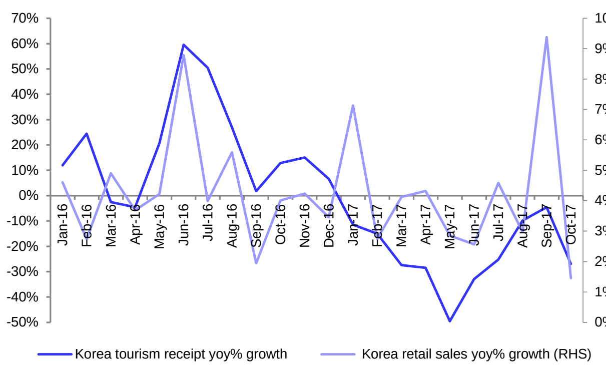
Korea - recovery with return of PRC tourists



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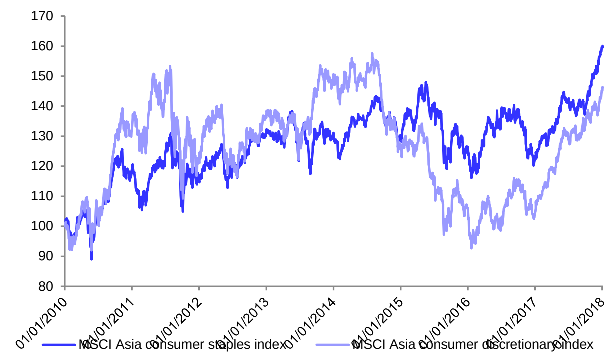
India – rural wage and GST drivers



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- China consumption & retail sales forecast to grow 7.6% and 10.8% this year, with CPI lifting 1ppt to 2.7%
- Demand growth continues to extend beyond tier 1/2 cities, matching trends in the property market
- Stock selection based: 1) mass segment players with nationwide networks; 2) segment leaders, with sourcing/cost advantages; 3) ability to upgrade product/business model. Mengniu, Yum China, Anta, and Midea

- Spending by inbound tourists remains critical in both Korea and HK. For Korea, we expect Chinese inbound tourism will rapidly recover in 2018. In HK, tourist arrivals recovered last year and thus domestic improvement will play a more important role in 2018.
- Consumption migration to ecommerce or O2O to continue. but with less pricing pressure**.**
- Buy Lotte Shopping and Hotel Shilla as tourist exposures and Emart for improving online strategy

- Discretionary wallet share is shifting further away from unorganized retail to modern leaders. In staples, GST cut is boosting volume growth; rural upturn and wage growth will help to raise pricing. Buy **HUL, Bajaj Dabur, ITC** and **Jubilant**
- Valuations are elevated at over 45% premium to LT average. Reverse DCF analysis shows high safety margin in **ITC, Bajaj** and **GSK**

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Gaming, Lodging & Leisure: Macau drives regional GGR recovery, China tourism demand stays strong

- **Macau Gaming: VIP leads growth, Mass stable**
  - VIP segment will still grow stronger than mass in 2018, thanks to abundant junket liquidity. Mass will see stable growth, coming from premium mass spill over from VIP & HKZM Bridge.

- **Asia-Pacific Gaming: positive outlook**
  - **Philippines** growth driven in almost equal parts by mass market and VIP with enhanced access, junket liquidity and Chinese arrivals growth
  - **Malaysia** theme park opening to boost visitation, gaming spend per person to also rise
  - **Australia & Singapore:** outlook mixed, low single digit growth can be achieved

- **Tourism, Lodging & Leisure: Prefer China domestic growth exposure, but outbound also rebounding in selective markets**
  - **Travel:** Domestic tourism growth solid, and consumption upgrades continue. Outbound travel demand is recovering as several negative geopolitical factors are abating
  - **Chinese movies:** Total box office likely to continue growth of 14-16% in 2017, on back of a good line-up of Hollywood movie series.

Asia-Pacific Gaming: Macau and Philippines lead growth

GGR	2013	2014	2015	2016	2017E	2018E
Macau	45.1	43.9	28.8	27.9	33.2	38.8
Singapore	6.1	6.0	4.8	4.2	4.1	4.2
Malaysia	2.0	1.8	1.6	1.5	1.5	2.0
Philippines	1.1	1.3	1.5	1.8	2.2	2.8
Korea	2.2	2.9	2.4	2.9	2.3	2.6
Australia	3.8	3.7	3.7	3.6	3.5	3.6
Cambodia	0.3	0.3	0.4	0.4	0.6	0.9
APAC	60.6	60.0	43.3	42.4	47.5	54.8
yoy					**12.1%**	**15.3%**

Source: Deutsche Bank forecast, government data

China Outbound: Top destinations growth slowed in 2017, but growth rebounding Thailand and Japan

Outbound destination for mainland Chinese		**2016 m visitor**	**2016 yoy**	**YTD Oct m visitor**	**YTD Oct yoy**
	HK	42.8	-7%	36.5	3%
	Macau	20.5	0%	18.1	7%
#1	Thailand	8.8	11%	8.2	5%
#2	Korea	8.1	35%	3.5	-50%
#3	Japan	6.4	28%	6.2	13%
#4	Taiwan	3.6	-15%	2.3	-27%
#5	USA	3.0	15%	N/A	N/A
#6	Singapore	2.9	36%	2.5	2%
#7	Vietnam	2.7	51%	3.2	46%

Source: Government data

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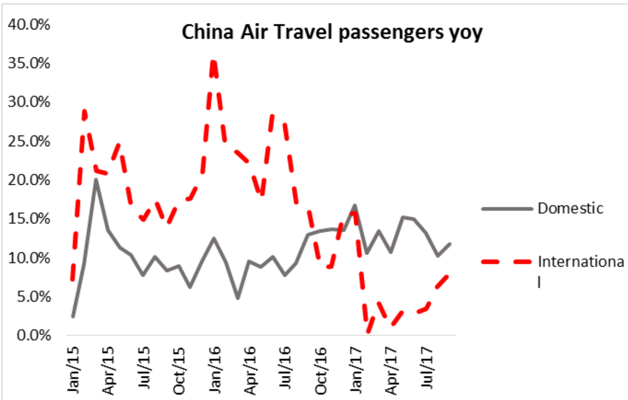
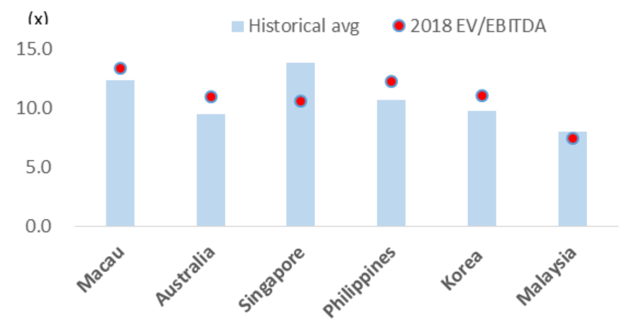
Gaming: Top picks Wynn Macau, GENM, CITS

Chinese domestic travel growth steady, outbound also recovering



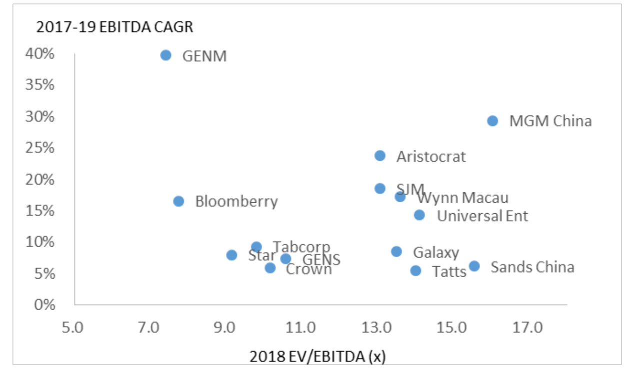
Source: TravelSky

Gaming valuation: above historical average for a good reason



Source: Deutsche Bank forecast, Bloomberg Finance LP

Genting Malaysia offers strong earnings growth at reasonable valuation



Source: Deutsche Bank, Bloomberg Finance LP

- Beneficiaries of <u>increasing</u> domestic Chinese travel:
  - **Shangri-La** (69.HK, Buy)
  - **TravelSky** (696.HK, Buy)
  - **China Lodging** (HTHT.OQ, Buy)
  - **China International Travel Services** (CITS) (601888; Buy)
- Beneficiaries of <u>**recovering**</u> **outbound Chinese travel:**
  - **Shangri-La** (69.HK, Buy)
  - **Minor** (MINT.BK, Buy)

- On back of strong GGR outlook, especially rebound in VIP growth, the Asia-Pacific gaming sector has re-rated to an average of 11.7x EV/EBITDA, above historical average (11.0x).
- <u>**Most expensive:**</u> Macau & Philippines, the two markets also lead in growth rate
- <u>**Steepest discount**</u> vs history: Malaysia remains attractive, especially given the growth ahead

- **Wynn Macau** (1128.HK; Buy): Best VIP exposure in Macau; Strong free cash flow allows higher shareholder return via dividend
- **Genting Malaysia** (GENM.KL; Buy): Theme park helps convert record high visitation to higher profit, increasing gaming spend per person, attractive valuation
- **CITS** (601888; Buy): Duty Free giant in China, growth underestimated, high barriers to entry and attractive valuation.

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Healthcare: We still see opportunities

- **China:** We expect multiple catalysts in 2018, including 1) NRDL impact on P&L starting 1Q18; 2) improving regulatory framework where rebound of domestic approvals is likely; and 3) two-invoice reform leading to an inflection point is highly likely in 2H18.
- Going into 2018, we see alpha generation on three fronts, including identifying under-appreciated opportunities (such as **SBP**), miscalculated risks (over-optimistic peak sales estimates for mid/small companies), and mispriced names (such as **Jointown**).

- **India:** The EPS CAGR for the sector has declined from c. 23% (FY11-15) to c.8% (FY15-17). We forecast the sector to post tepid growth of 4% EPS CAGR in FY17-19E. Indian pharma earnings have been suppressed primarily on account of higher pricing pressure (8-12% YoY) in the US generics market led by faster approvals and buyer consolidation and ongoing US FDA issues pertaining to several Indian plants. The sector has de-rated by c.25% from its peak in mid-2015.
- Key events for CY2018: Resolution of the warning letter to US FDA impacted facilities of **Dr. Reddy's, Sun Pharma** and **Lupin**. Key product approvals for **Cadila** (transdermals), increased share of injectables revenues for **Aurobindo**

- **Korea:** We expect the rally in KOSDAQ and the Korean healthcare sector may last well into 2018-2019E. While biosimilar companies performed better than toxin players (105.2% vs. 45% 2017YTD), we see more positive upside in the latter.
- For 2018 and beyond, we identify additional registrations into major global markets by toxin companies as key positives, and expect that the slowdown in sell-through revenue growth of biosimilar firms due to intensified competition will also come into play.

Earnings growth for top picks in DB China healthcare

(%)	FY17-20E	FY14-17	Prf*	Comments
Sino Biopharm	17.6	21.9	73.1	We expect the following catalysts: four potential blockbuster approvals; improving visibility on early stage innovative and biosimilar pipeline; and potential M&A opportunities.
Jointown	25.7	30.2	0.0	Growth drivers include continuous market-share gain under two-invoice; outflow of outpatient traffic to lower-tier institutions; and outflow of prescription drugs to drug stores from hospitals.
Universal Medical	28.1	37.0	21.9	Drivers include continued leadership in medical leasing, likely an intensive period of hospital acquisition due to SASAC notice, consolidation of Xi'an Jiaotong First Affiliated Hospital.

*Source: Deutsche Bank * Prf = stock performance Jan 2016 – Dec 2017*

Earnings growth for top picks in DB India healthcare

(%)	FY17-19E	FY15-17	Prf*	Comments
Aurobindo	12.1	17.7	3.5	We expect steady approvals and increased share of injectables revenues for the US generics and improving margin for Europe business.
Cadila	27.4	11.3	17.5	We expect India and US to drive growth. Product launches post Moraiya resolution have picked up and will drive growth in next two years. We expect key product approvals in transdermal space.

*Source: Deutsche Bank * Prf = stock performance YTD CY2017, Prices as on Dec 20, 2017*

Earnings growth for top picks in DB Korea healthcare

(%)	FY17-19E	FY15-17	Prf*	Comments
Hugel	13.6	30.5	59.8	Our bullish view of Hugel is supported by 1) new country registrations materializing in 2-3 years 2) growing shares in emerging markets 3) potentially increasing shareholder return with new management and attractive valuation
Medytox	22.1	30.8	29.7	Positive near and long term catalysts for Medytox would be 1) third clinical trials of licensed-out liquid toxin in the US, 2) product launch in China, and 3) continued surge in toxin exports

*Source: Deutsche Bank * Prf = stock performance YTD CY2017, Prices as on Dec 20, 2017*

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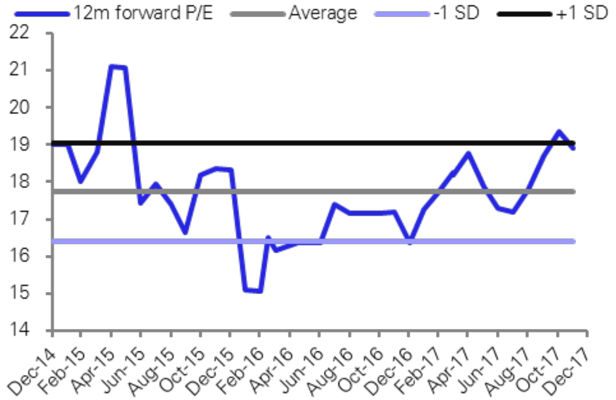
Healthcare: Valuation and top picks

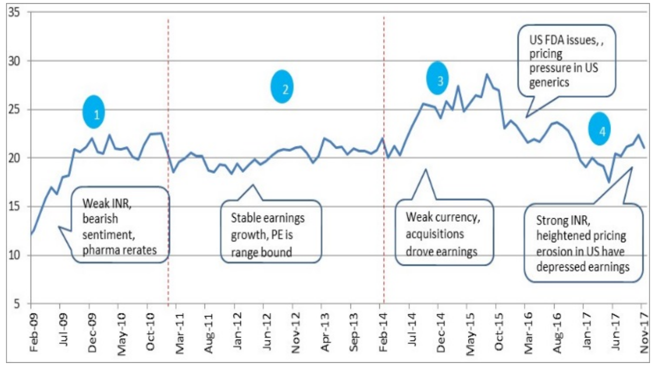
China: Reasonable valuation for HK-listed healthcare companies



Source: Deutsche Bank, Bloomberg Finance LP

- Heading into 2018, we anticipate the valuation gap, specifically trading multiples on large-cap names, is likely to widen as investors dig deeper on key variables such as POS and peak sales
- The MSCI China Healthcare Index is currently trading on 18.9x 12-month forward EPS, above the three-year average of 17.7x
- Our top picks include **Sino Biopharm, Universal Medical, Jointown**

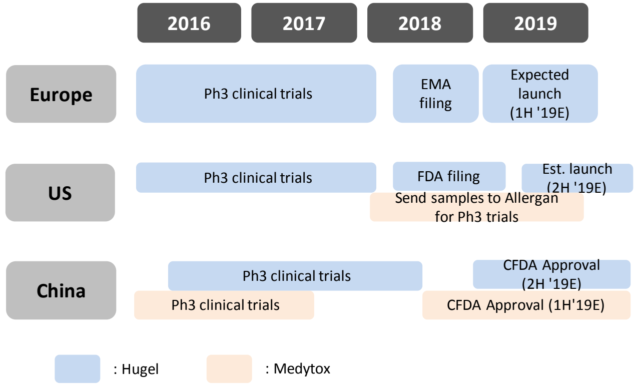
India: MSCI healthcare 12-month forward PE is trading at c.25% discount from its peak in mid 2015



Source: Deutsche Bank, Bloomberg Finance LP

- Earnings growth has declined from c30% (FY11-15) to c.15% (FY15-17). We expect sector to post 4% CAGR over FY17-19. This is reflected in declining relative premium of the sector to the MSCI India Index to c.15% from the highs of c.50% in the last five years
- We remain constructive on stocks with earnings growth driven by consistent approvals and better execution track record
- **Aurobindo** and **Cadila** are our preferred Buys

Korea: Prefer toxin players with earnings visibility to biosimilars



Source: Deutsche Bank, company data

- We expect earnings momentum to lift share prices for Korean toxin companies, as we forecast clear sequential earnings improvements into 2018E
- Our top picks are **Hugel** and **Medytox**, the biggest toxin and filler players in Korea, given: 1) potentially large upside in the US and China markets, 2) robust pipeline in major global markets, including Europe, the US and China in the next 2-3 years

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Industrials: Positive on industrial automation and rail equipment

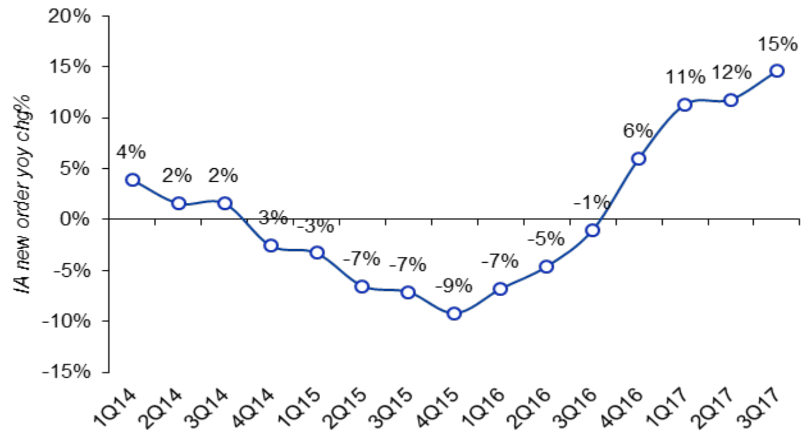
- **Industrial automation** – China's IA demand recovery has been ahead of expectations. We view the ongoing acceleration as structural rather than a cyclical rebound as manufacturing upgrades continue to gain momentum in China. Local leaders are our preferred way to invest in China's automation upgrade theme as we are bullish on import substitution. Our top picks are **Inovance** and **Hollysys**

- **Rail equipment** – We expect China's railway investment to shift towards equipment/rolling stock procurement in synch with rising railway length completion towards 2020. This, along with accelerating completion of urban transit systems, rising maintenance business and overseas expansion should drive a multi-year upcycle for rail equipment suppliers. **Zhuzhou CRRC** is our top pick.

- **Aviation and Defence** – We are positive on military modernization and mixed ownership reform. Our top picks are **Jonhon Optronic** and **AviChina.**

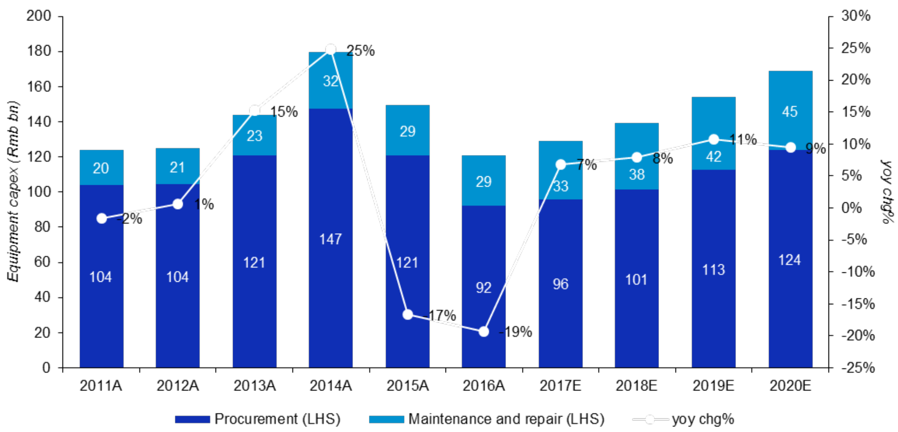
- **Construction** – Different exposures result in diverging outlook for constructors. We prefer 1) less exposure to domestic railway (construction peak is behind us); 2) resilient growth against a PPP slowdown (on government's increasing scrutiny of planned projects); and 3) more overseas orders (President Xi's OBOR push). Our top picks are **CCC** and **CSCI.**

China's industrial automation (IA) market demand has been recovering strongly



Source: Gongkong, Deutsche Bank

Rail equipment spending has bottomed out and is poised to recover ahead



Source: China Railway Corporation, Deutsche Bank estimates

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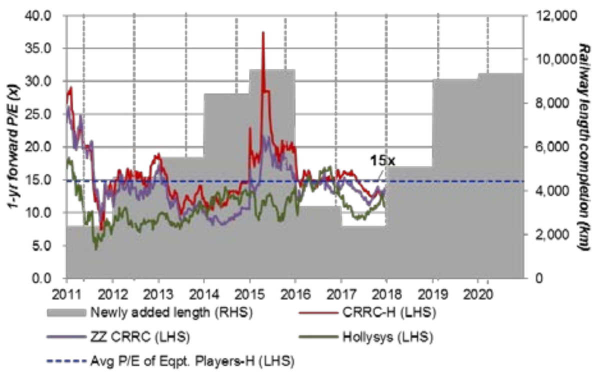
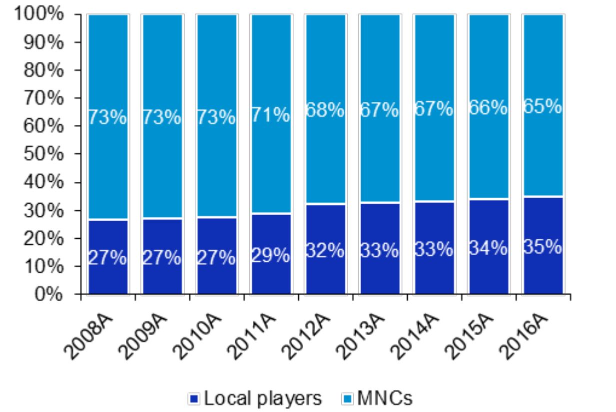
Industrials: Top picks – Zhuzhou CRRC, Hollysys, Inovance and Jonhon Optronic

We expect rail equipment names to rerate along with rising completion of railway length



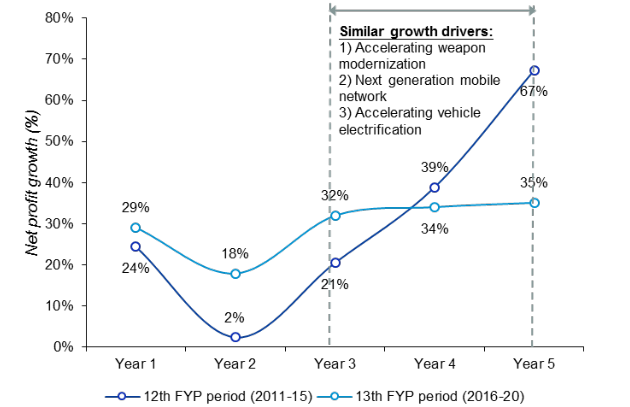
Source: Bloomberg Finance LP, CRC, Deutsche Bank estimates

The import substitution story in China IA market to continue to play out



Source: Gongkong, Deutsche Bank

Jonhon Optronic's 2013-15 earnings upcycle will likely be repeated



Source: Company data, Deutsche Bank estimates.

- With railway length completion sharply recovering in 2018-20, rail equipment suppliers' strong earnings growth will be restored, driving the sector's rerating.
- We expect **Zhuzhou CRRC's** rerating to continue on robust earnings recovery in the coming years as well as emerging long-term drivers including: 1) imminent replacement cycle for train-borne electrical systems; 2) upcoming launch of the new 160km/h push-pull EMU model; 3) rising NEV drive business.

- Sustained China IA market recovery, along with accelerating import substitutions, puts local leaders in a sweet spot.
- We expect **Hollysys** and **Inovance** to lead domestic players to gain market shares in their respective segments. By 2025, we expect Inovance to lead both low-voltage inverter and servo markets in China. Similarly, we expect Hollysys' leading position in process automation to strengthen and its foray into factory automation to start bearing fruit.

- During a 5-year plan period, **Jonhon Optronic'**s growth tends to pick up from the third year and accelerate sharply into the final two years largely driven by defense procurement cycle and telecom capex cycle.
- We expect Jonhon's earnings upcycle in 2013-15 will likely be repeated in 2018-20, with upside potential from 1) new products; 2) new integrated system for defense application; 3) overseas expansion; and 4) further penetration into Tesla's supply chain.

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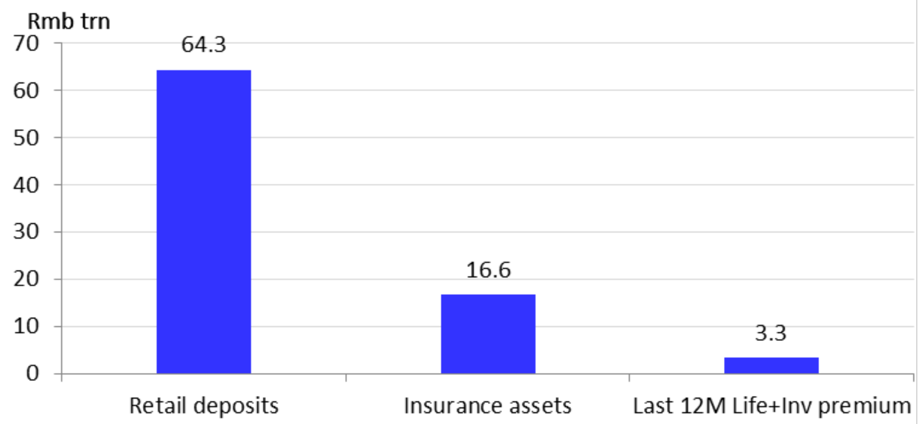
Insurance: Fundamentals intact

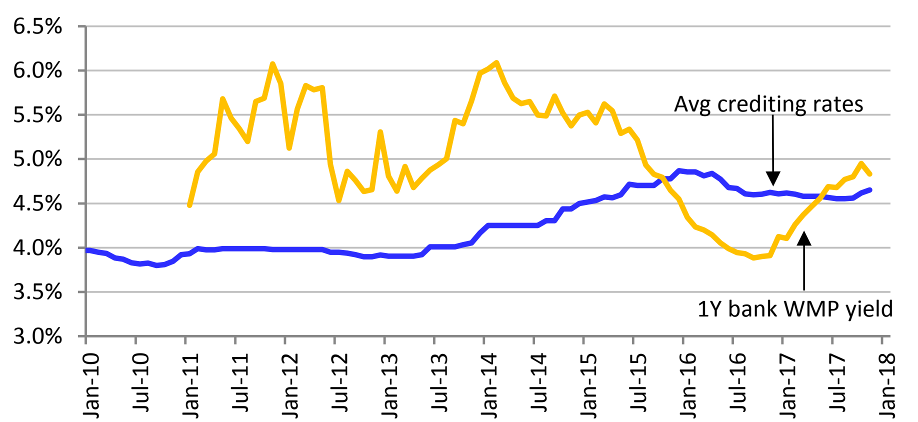
- We believe the easy growth enjoyed by Chinese life insurers since 2015 may be ending, on higher deposit competition from banks. Rising bank WMP yields will inevitably lower the relative attractiveness of insurance savings products, which may affect sales growth. That said, we forecast decent VNB growth of 21.3%/19.5% in 2018/19E given the sector's low penetration and relatively small size compared to the balance of retail deposits
- We maintain our Positive view on the sector. At 1.0x 2018E P/EV, valuations are inexpensive and have not priced in growth potential. We prefer insurers with strong protection focus, which are relatively resilient amid rising yield competition. Ping An and NCI remain our Top Picks
- In Korea, we prefer Non-life sector to Life because public health insurance reform to benefit non-life insurers by lowering claim loss ratios by 4-5ppt, lifting earnings by 10-20%. Dongbu and Hyundai M&F are our Top Picks
- In India, saving habits of households are structurally evolving towards financial assets, with life insurance a key beneficiary; penetration rates are just 2.7%. Banca heavy companies will continue to outperform industry average at 25-30%; agency dependent insurers will also gain owing to structural changes

China – Relative size of insurance sector (10M17)



Source: CIRC, CBRC, Deutsche Bank

1Y WMP yield exceeded average crediting rates starting Jul-17



Source: WIND, Company data, Deutsche Bank

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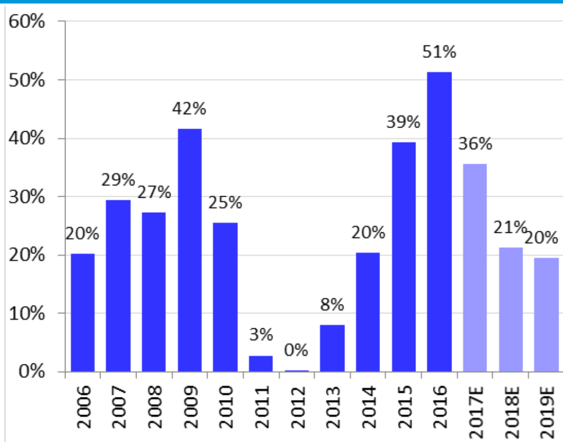
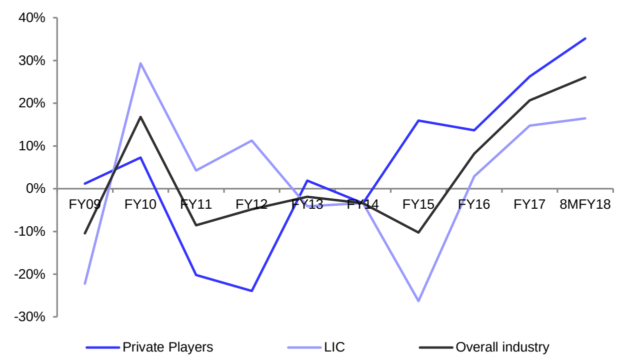
Insurance: Strong protection focus in China

Expect steady VNB growth to continue

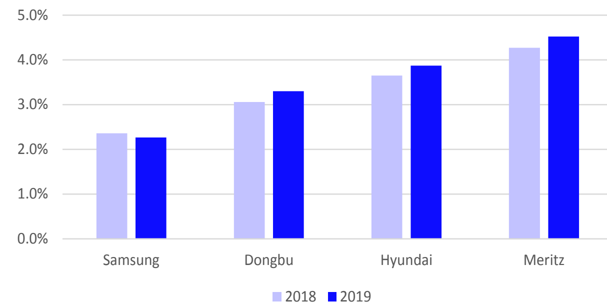


Source: Company data, Deutsche Bank estimates

India – positive trend in APE growth



Korea – gains from health insurance reform



- Chinese life insurers continued to deliver strong VNB growth in 1H17 at an average of 46%
- Despite some pressure on sales of savings products, we believe the decent value growth will continue
- We expect insurers to deliver double digit VNB growth in 2018-19E
- **NCI** at 66% and **Ping An** at 43% have the highest exposure to protection as opposed to savings products and are our preferred picks.

- Growth spike for Indian life insurers has continued post demonetization. Financialization of savings, rising awareness, lower mis-selling, low penetration and more digitalization support growth
- Top-5 private players will keep gaining market share. **SBI Life** should see strong growth and **ICICI Prudential** will improve its VNB margin.

- Korean public health insurance reform will lower the long-term risk loss ratio for the non-life insurers by 4-5%pt in 2018.
- Improving long term insurance claims should provide earnings support as it contributes to 60% of non-life premiums
- Rising rates will provide upside for investment margins

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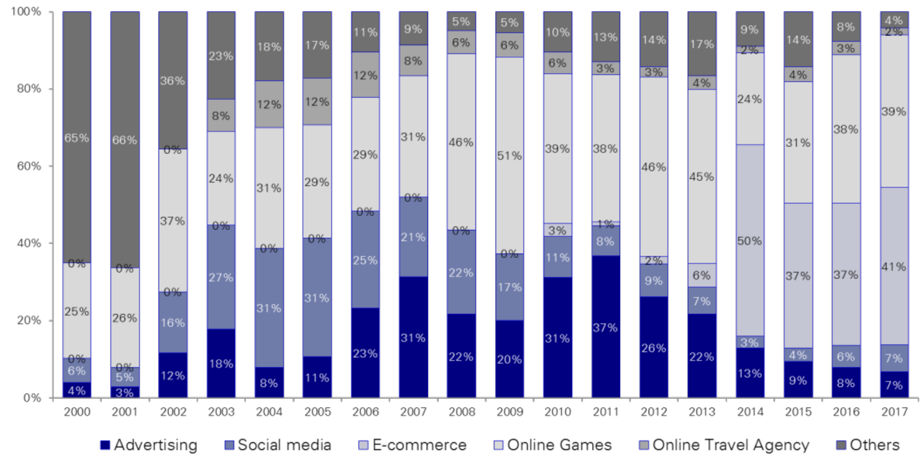
Internet: Improving monetization of ecosystem

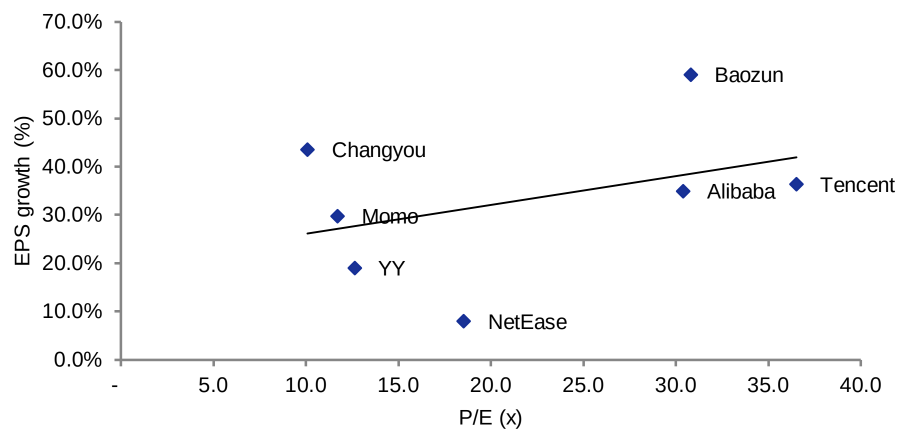
- **2018 Outlook**: Expecting increasing rise in ARPU and improving monetization across services rather than a focus on new user acquisition. M&A and partnerships across business segments may deepen. Margins may dip, but we would prioritize companies with rising asset turnover
- **E-commerce**: Competition evolving deeper within FMCG category into fresh food, cold chain logistics, implying more asset heavy investments
- **Digital Advertising**: Alibaba and Tencent likely to win bigger allocation of digital ad spending. Brands looking to spend more on identifying with 'new middle class' and more active on cross-media campaign, video advertising
- **Online gaming**: Expect market to grow ~20% yoy with a focus shift to ARPU growth than audience expansion
- **Other content business**: Live streaming continues to broaden its use cases and still focused on MAU growth
- **Trends in Japan & Korea**: : Expect some rotation in favored picks from 2017 in Korea. Video/console game related names in Japan still riding on improving ARPU and game-as-a-service investment thesis
- **Cryptocurrency finding a base in Asia?** Japan & Korea reportedly represents 40% of global trading, cryptocurrency exchange trading more than listed markets. Investment into blockchain technology in full swing in VCs
- **Mobile messaging, payment**: Expect improvement UX to drive engagement and enhanced monetization across mobile messaging platform in Japan and Korea. Building high frequency use cases.

China Internet Market Cap evolution



Source: Bloomberg Finance LP

China NEV projections



Source: Company data, Deutsche Bank estimates
CY18/12 for all companies; SOHU does not have meaningful EPS growth for the given period

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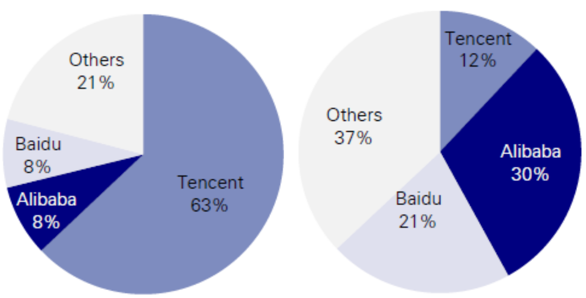
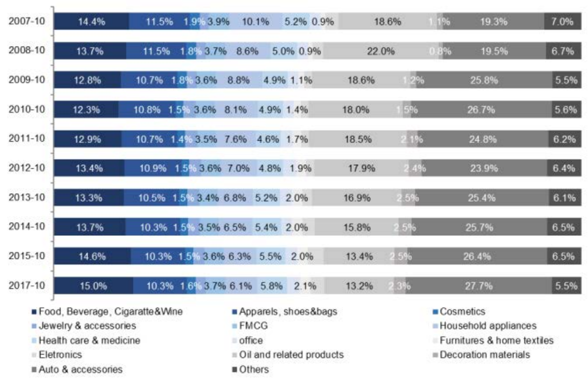
Internet: Tencent, YY and Nexon

Mobile Apps: Time spend vs. ad spend



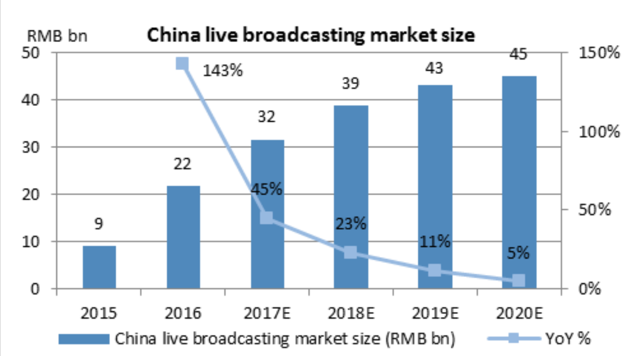
Source: Deutsche Bank, company data, iResearch

Shift in retail categories



Source: Deutsche Bank, Wind

Live broadcasting to see decent growth



Source: Deutsche Bank, capa.com

- **Tencent** and **Nexon** are our top picks for 2018
- Social media will be even more critical to branding for advertisers and Tencent's platform remains heavily under-monetized
- Even for games, we think slight improvement in HoK monetization can drive mobile game revenue growth. Does not necessarily need to compete with the PUBG-clone category.

- **BABA**'s top line looks strong into category expansion and TAM expansion in CY18
- Online players continue to cooperate and push into traditional offline categories, merging on and offline retail together.
- Business model will need to shift and become more asset heavy, but there is meaningful top-line growth, justifying investment
- Credit tightening for unsecuritized loan business could cause single-digit deceleration of GMV growth

- We like **YY** most in live broadcasting space, given its continuing user and monetization expansion. The rise of game broadcasting should bring incremental topline growth.
- **Momo** should see a short term rebound given the valuation.
- China live broadcasting industry should see double digit growth in 2018, with growing pay ratio and deeper monetization.

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Oil & Gas: Balancing act between growth and discipline

- **The return of E&P and capex names**
  As the forward curve now marches convincingly into backwardation, there are increasing upside risks to oil, underpinned by APAC demand and global rebalancing.

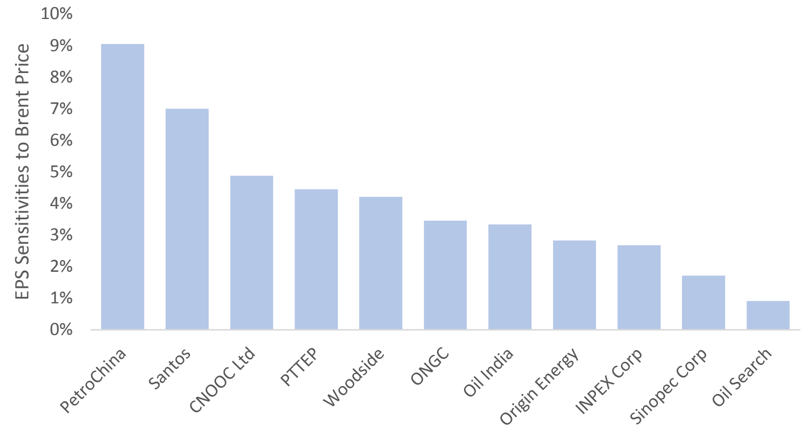
- We believe the worst is behind us and businesses have been reconfigured to work even in a c.USD40-50/bbl oil price environment. There is increasing evidence that a balance between growth and capital discipline can be achieved, critical to encourage investors back into the sector – capex/DDA has fallen from 2.9x to just 1.0x last year

- Subsequent cash returns to investors can match those from period of peak oil prices as FCF generation reached historical highs, double levels seen in 2009

- However, under a rising oil environment, there is pressure on China and India to revive their declining oil production but this is a positive for both E&P and, particularly, capex-related companies.

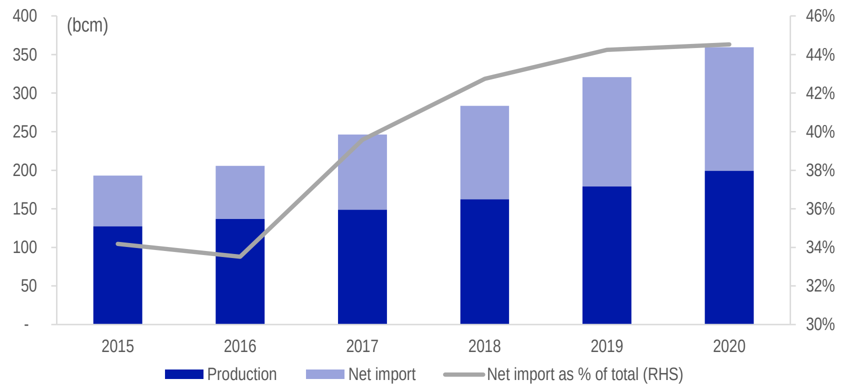
- **LNG: from a buyer's market to a seller's market**
  China's aggressive coal to gas switching programs have boosted natural gas demand. We believe 2018 should be the transition year for LNG and exporters as it shifts from a buyer's market to a seller's market, potentially bringing forward the commonly accepted 2023/2024 inflection point where demand overtakes supply.

2018E EPS sensitivity to $1/bbl change in Brent price



Source: Deutsche Bank estimates

The gas shortage is widening in China



Source: CEIC, Deutsche Bank estimates

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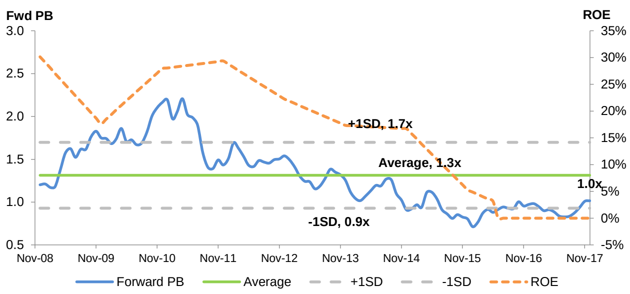
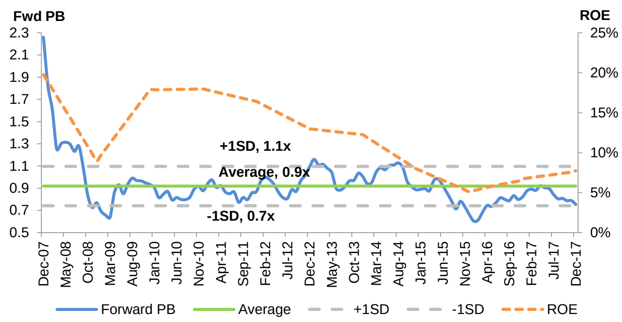
Oil & Gas: Key buys CNOOC, Sinopec, Oil Search

CNOOC (0883.HK, Buy, TP HKD13.89/sh)



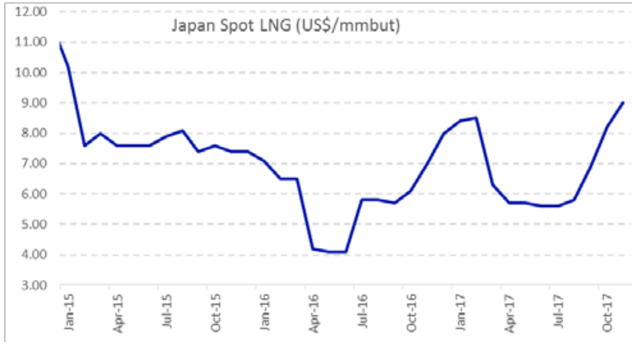
Source: Deutsche Bank estimates

Sinopec (0386.HK, Buy, TP HKD7.44/sh)



Source: Deutsche Bank estimates

Oil Search (OSH.AX, Buy, TP AUD8.10/sh)



Source: Deutsche Bank estimates

- **CNOOC** has greatest leverage to the rebound in the oil price as a pure E&P play.
- Management will continue to prioritize profitability, efficiency and maximizing shareholder returns, a clear shift from previous policy of production and reserve growth
- All-in-cost should stay below USD35/boe in 2018.
- Higher dividend yield on strong balance sheet and cash flow with FCF yields at 10+%.

- We view **Sinopec** as a defensive cash cow with 13%/7% FCF/dividend yield and strong gas production growth.
- Shares will be supported by potential marketing spin-off in 2018.
- USD60/bbl Brent is the goldilocks price for Sinopec, as its upstream oil breakeven was at c.USD62/bbl in 2017 and the plan is to lower this to c.USD55/bbl by 2020.
- Beneficiaries on higher capex in China will be **COSL-H** and **SEG**

- **Oil Search** is most sensitive regional stock to higher spot LNG prices. Performance at PNG LNG has continued to exceed expectations, with further upside ahead from de-bottlenecking.
- Management continues to progress one of the lowest cost proposed LNG expansion projects globally.
- In India, we prefer **Reliance Industries**, at the end of its capex cycle, with new capacity beginning to boost the bottom line

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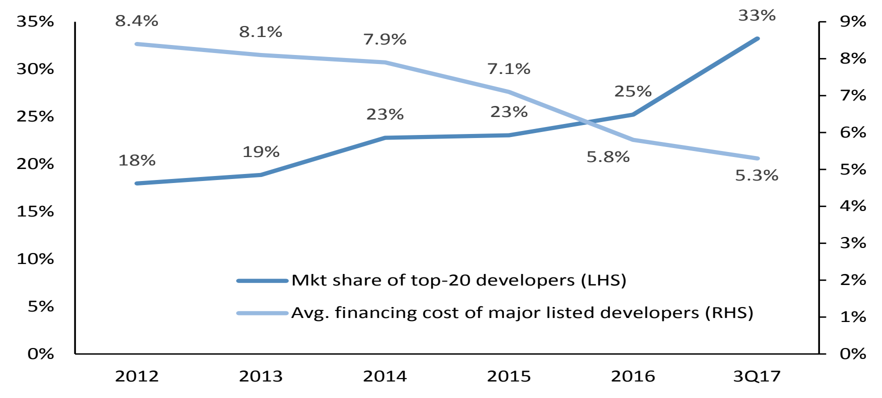
Property: Developers leading

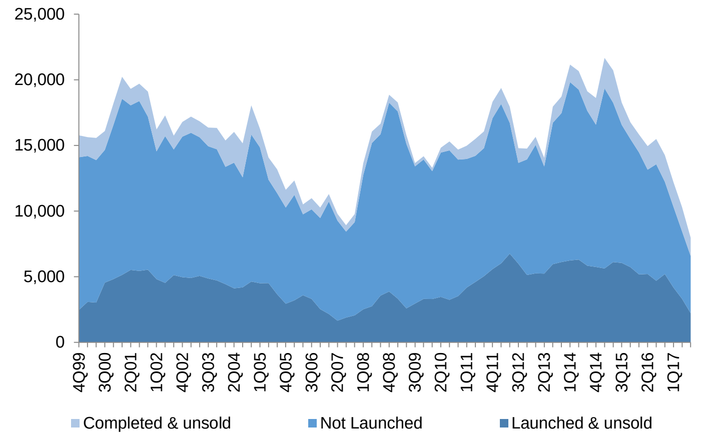
- **China:** In 2018 we expect primary sales volume to fall by 5-7% YoY while ASP will grow low single-digit YoY, which results in a low single-digit decline in value sold
- We expect further consolidation in the physical market and developers with strong execution and rich saleable resources will outperform (top-20 developers to reach 50% market share by 2020F, implying >20% sales CAGR)
- Our long term view is based on demographics, expectations of housing upgrades and the trend for smaller household sizes. These translate to demand levels of 1.5 – 1.6bn sqm annually
- **HK:** We believe 2018 could well be a turning point on the back of anticipated changes in the funding environment (i.e. the first rate hike in 11 years) and supply/demand dynamics, which we believe may change the perception of property as a good investment tool. We expect residential prices to decline 14% in 2018 on rate hikes and surging new supply. For the office market, we expect Central Grade-A rents to decline 5- 10% on softening demand. For retail market, we expect shopping mall rents to fall 5-10% on unsustainable occupancy cost
- **Singapore**: 2018 will be another strong year and we see an acceleration in the synchronized recovery across all sub-sectors on the back of improved demand and supply dynamics. We are most positive on the residential sector. However, there are risks of disappointment in office rental growth, as the market could have overlooked existing stock and the upcoming decentralized supply. We maintain our non-consensus positive view on the retail sector

China major developers' market share and financing cost



Source: Company data, CRIC, Deutsche Bank

Singapore residential inventory at all time lows



Source: China Association of Automobile Manufacturers (CAAM)

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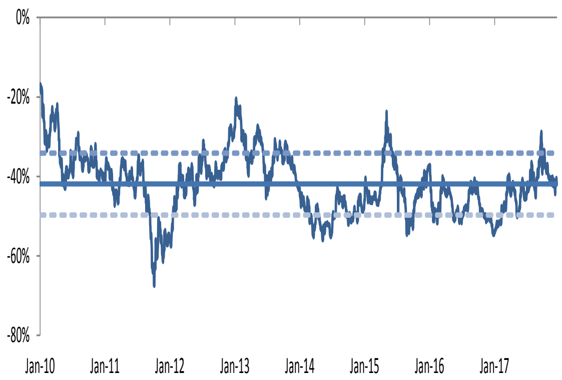
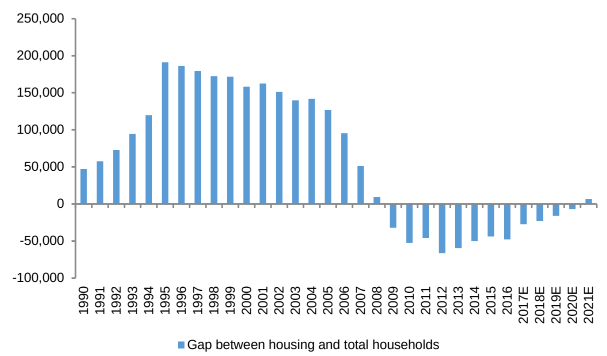
Property: Sales momentum remains strong

China developers discount to NAV



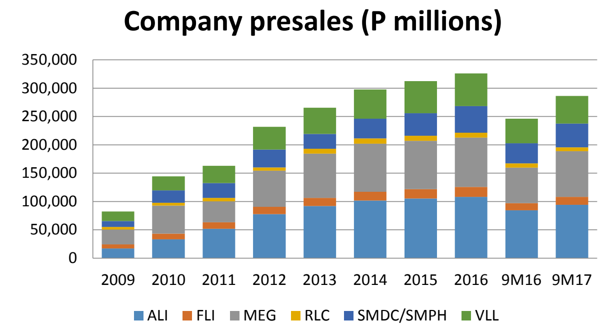
Source: Deutsche Bank

Singapore: Gap between housing and total households



Source: Bloomberg Finance LP, Deutsche Bank

Philippines – presales expanding



Source: ABS, Deutsche Bank

- China: Trading at c.40% discount to NAV, close to historical average of 42% but with accelerating growth in sales and cash flow Top picks: **Vanke, Country Garden, Longfor, KWG, Future Land & Aoyuan**
- HK: we see few near-term positive catalysts but absolute valuation is not stretched. In view of its recent underperformance and and the sector's sizeable index weighting, we do not rule out a technical catch-up in the coming months. Top Pick: **Cheung Kong Assets**

- We expect primary sales volumes to rise 8%, while the secondary market could see an increase of up to 18% following a banner year for the en-bloc market. Singapore developers are currently trading at a 29% discount to RNAV vs. the historical average of 19%. Key catalysts for the sector will be a sustained recovery in Singapore residential sales, a ramp up in overseas contributions and M&A activity. Top Pick: **UOL Group**

- Demand is at or near record levels and we expect this to remain so, buoyed by "the China factor". Incremental office demand from BPOs has slowed but online gaming firms have taken up the slack. Residential presales will continue expanding aided by improved buyer confidence, infrastructure and overseas demand. **Ayala Land** is our top pick.

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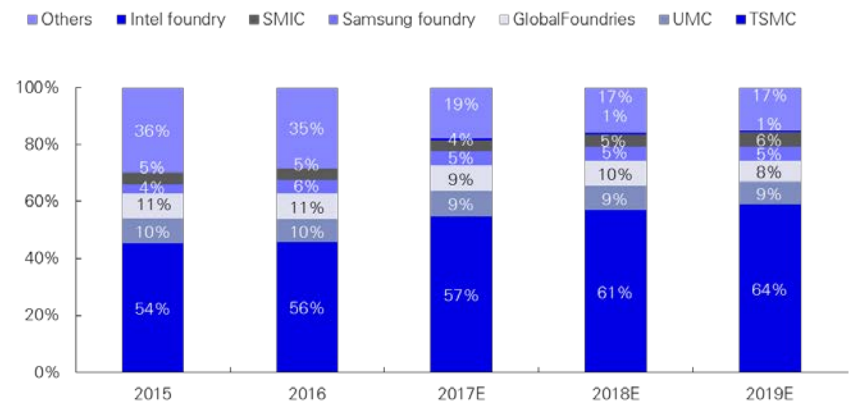
Semiconductor: Bullish on Foundry, fabless & memory

- **Foundry/fabless**
  - Buy **TSMC** on accelerated market share gain in 2018/19, driven by increasing dominance in 7nm vs. legacy nodes
  - We expect TSMC to expand its sales market share in the foundry sector from 57% in 2017 to 61%/64% in 2018/19 due to 100%/90%+ 7nm sales in 2018/19
  - Tier-two foundries should see more 28nm operating loss in 2018/19 due to TSMC's continuing price cuts based on nearly fully depreciated 28nm capacity
  - **MediaTek** will deliver a significant recovery in market share, ASP's and margins for smartphone chip products in 2018/19

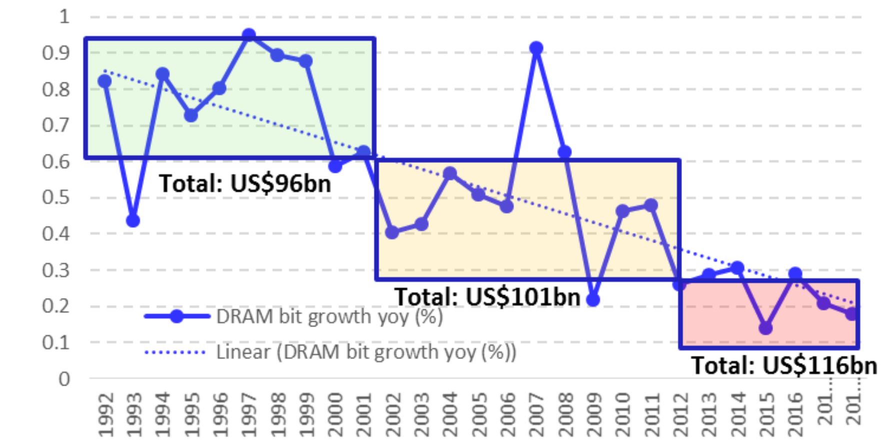
- **Memory**: DRAM tightness to continue into 2018
  - DRAM capex increased significantly in 2017 (DBe: up 45% yoy) but bit growth guidance remains largely unchanged in 2017/18
  - The rise in value of DRAM capex is not a sign of significant new capacity but a reflection of rising capex requirements for technology migrations
  - DRAM capex-to-sales will remain below historical average in 2018 despite a 26% rise in capex spending
  - Inventory levels have remained low since the sell-down in 2016 and are currently only 7-10 days as opposed to the previous 2-3 weeks.With supply expansion remaining constrained, the outlook for pricing is still positive with increases in 1Q'18
  - **SK Hynix** remains the most operationally leveraged and gives the most direct exposure in the sector

TSMC's accelerated market share in 2018/19 based on 7nm dominance



Source: Deutsche Bank estimates

Historical DRAM bit growth vs. DRAM capex trends



Source: WSTS (World Semiconductor Trade Statistics), Deutsche Bank estimates

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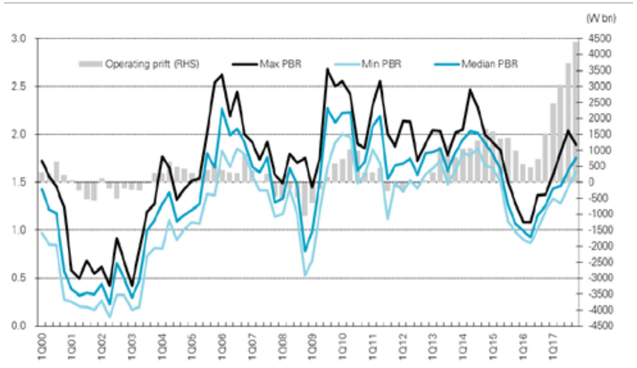
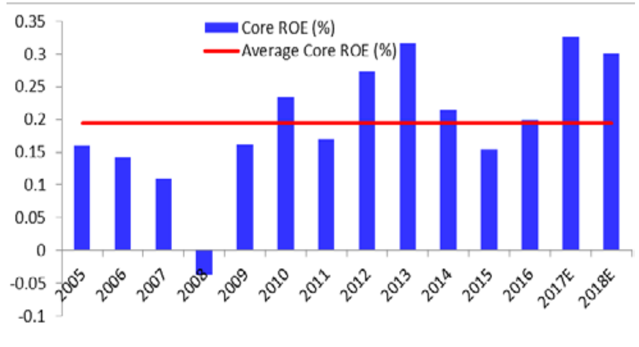
Semiconductor: Top picks SK Hynix, SEC & Mediatek

SK Hynix peak-trough analysis



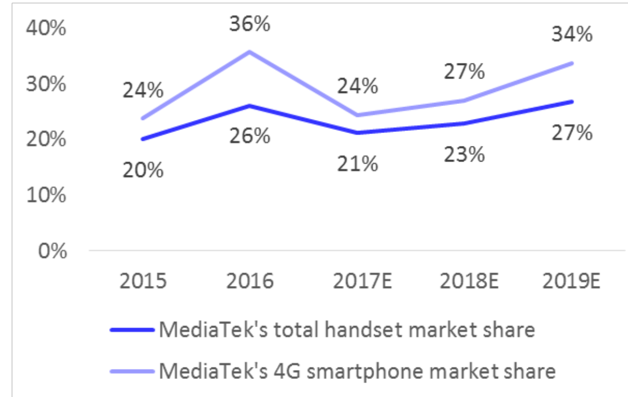
Source: Deutsche Bank

SEC core ROE to continue to be strong in 2018



Source: Deutsche Bank, Factset

MediaTek's smartphone chip share gain



Source: Deutsche Bank, Factset

- SK Hynix's earnings continue to trend higher with the positive DRAM up-cycle driven by limited DRAM supply amid stronger demand in server/mobile DRAM.
- Our peak-trough valuation analysis for SK Hynix shows that historical trailing quarterly P/B trades between 1.5-2.5X when the company remains profitable.
- SK Hynix is currently trading at 1.6X ex-cash P/B, slightly above historical average but with RoE of 41% is still well below our target 2.0x core P/B.

- Samsung Electronics earnings are supported by continued supply discipline in memory, higher memory demand driven by content growth and rising OLED adoption in smartphones.
- Stock is currently trading at 1.7X core P/B, slightly below +1STD although we expect its core ROE to reach 33%/30% in 2017/18, well above historical levels
- Our target valuation of 2.6x PBV is further supported by a consistent improvement in shareholder return policies.

- Key Chinese customers Xiaomi, Oppo, Vivo and Huawei face cost down pressures. Mediatek's new, lower priced 4G solutions for low/mid-end smartphones will help MediaTek gain market share in this area
- Margins will improve from 6.7% to 12.2%, lifting earnings by 21% in 2018
- New growth areas in IoT, WiFi, STB and customized ASIC will account for an increasing share of revenues, rising to 30% by 2019

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Technology Hardware: Edge-to-edge display is the key smartphone upgrade theme

- **Spec upgrade to continue:** BOM (bill of material) of iPhone has been moving up to USD381 (iPhone X now). We believe Apple will keep on innovating in high-end SKUs while accelerating specs upgrade in its low-end SKUs (iPhone 9), which will lead to BOM cost increase

- **The key theme of smartphone upgrade is "edge-to-edge" display:** Face ID (3D sensing), and OLED are nice upgrades on iPhone X. But we think it is the "edge-to-edge" display that makes iPhone X unique. We expect high-end Android phones to follow the edge-to-edge trend in 2018, with more mid-end phones to follow suit by 2019

- **Beneficiaries from this theme - 3D sensing, haptics, PCB/FPC, BLU and metal casings:** The likely removal of physical home button will trigger demand for front-facing 3D sensing module and haptic motor. In addition, edge-to-edge display will consume more rigid-flex PCB or FPC and increase ASP of BLU (back-light units). Lastly, the metal casing materials will be upgraded from aluminum to stainless steel for better protection.

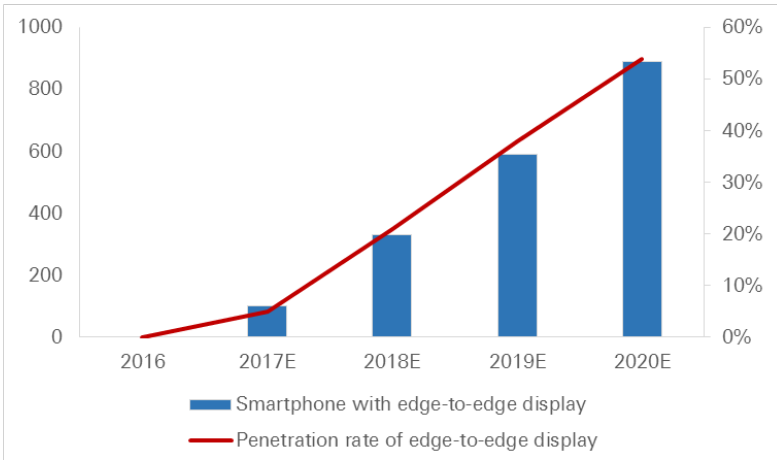
- **Catcher and Radiant are top picks:** We expect Catcher/Radiant to be the major beneficiaries from edge-to-edge trend given their technology leadership

Smartphone spec upgrade will continue…

BOM cost	iPhone 3GS	iPhone 4 (16GB)	iPhone 4S	iPhone 5 (16GB)	iPhone 5S	iPhone 6 (16GB)	iPhone 6S (16	iPhone 7 (32GB)	iPhone 7+ (32	iPhone 8 (64GB)	iPhone 8+	iPhone X (64GB)	iPhone XI (est.)
Memory	24.0	27.0	19.2	10.4	9.4	8.5	7.0	9.0	9.0	19.0	19.0	19.0	→
Memory	12.2	13.8	9.1	10.4	11.0	10.0	17.0	13.0	24.0	15.0	27.0	27.0	→
Display	45.3	38.5	37.0	44.0	41.0	47.0	43.0	43.0	55.0	39.0	51.0	90.0	↗
	14.5	10.8	15.0	17.5	19.0	20.0	22.0	26.9	26.9	29.0	29.0	29.0	↗
Camera	12.0	18.0	19.0	20.0	20.5	20.5	21.0	21.0	38.0	20.0	37.0	40.0	↗
	23.0	25.0	23.5	34.0	32.0	34.0	32.0	33.9	31.0	32.0	32.0	32.0	→
User inte	7.0	7.5	6.9	6.5	15.0	15.0	21.0	22.0	23.0	21.0	21.0	40.0	↗
	8.2	7.8	6.5	5.0	4.5	4.5	4.3	4.2	4.2	4.0	4.0	4.0	↘
Power	3.7	3.9	7.2	8.5	7.5	7.8	8.0	7.2	8.6	11.0	12.5	13.0	→
Battery	4.2	5.8	5.9	4.5	3.6	3.8	3.6	3.2	4.8	3.0	4.5	6.5	→
Mechani	32.0	42.0	42.0	44.0	44.0	50.0	51.0	52.0	54.0	57.0	59.0	70.0	↗
Box	6.5	7.0	7.0	7.0	7.0	7.0	7.0	12.0	12.0	11.0	11.0	11.0	→
Total	192.6	207.1	198.3	211.8	214.5	228.1	236.9	247.4	290.5	261.0	307.0	381.5	

Source: Deutsche Bank, CEIC

…. edge-to-edge display is the strongest theme



Source: Deutsche Bank, Bloomberg Finance LP

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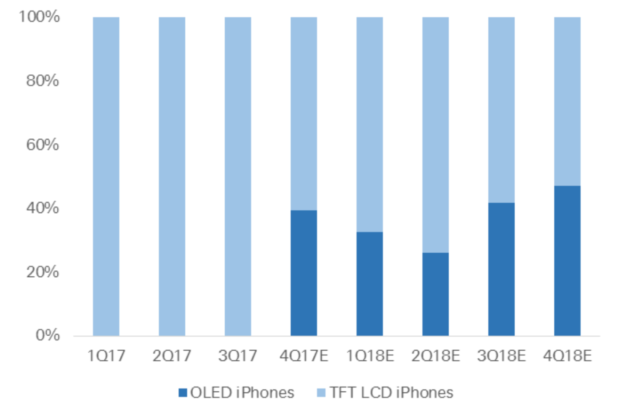
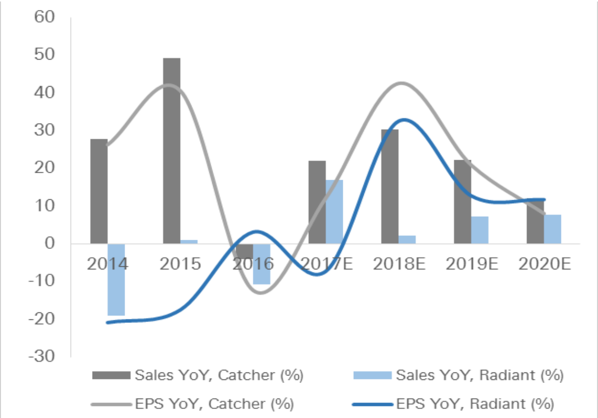
Technology Hardware: Metal casing and BLU are the beneficiaries of edge-to-edge trend

TFT LED iPhone remains a sizable portion



Source: Deutsche Bank estimates

20%+ Earnings CAGR for our top pick names



Source: Deutsche Bank estimates

Valuation is attractive from a PER perspective

Ticker	Name	Mkt cap (US$mn)	EPS YoY 2017	EPS YoY 2018	P/E 2017	P/E 2018	PEG 2017	PEG 2018	ROE 2017	ROE 2018
2474 TT	Catcher	8,581	7	48	11	7	1.5	0.2	18	23
6176 TT	Radiant	1,104	-7	32	11	9	n.a.	0.3	13	16
3008 TT	Largan	18,744	15	48	21	14	1.4	0.3	31	36
2354 TT	Foxconn Tech	3,967	-3	15	11	10	n.a.	0.6	10	11
2317 TT	Hon Hai	53,052	-9	24	12	10	n.a.	0.4	13	15
4915 TT	Primax	1,183	12	27	16	13	1.3	0.5	21	24
002241 CH	Goertek	8,498	33	38	24	17	0.7	0.5	20	22
2018 HK	AAC	22,194	38	42	25	18	0.7	0.4	37	40
285 HK	BYD Elec.	4,409	116	19	11	9	0.1	0.5	16	16
002475 CH	Luxshare	11,618	58	35	41	30	0.7	0.9	16	18
300433 CH	Lens Tech	12,169	122	30	30	23	0.2	0.8	17	19
300136 CH	Sunway	8,042	101	53	48	32	0.5	0.6	45	46
002456 CH	O-Film	8,427	103	57	37	23	0.4	0.4	17	23
698 HK	Tongda	1,478	8	20	10	8	1.2	0.4	21	22
	Average		**43**	**35**	**22**	**16**	**0.8**	**0.5**	**21**	**24**

Source: Deutsche Bank, Bloomberg Finance LP

- While Apple seems determined to put OLED display on every high-end iPhone, we believe Apple will keep TFT LCD display on the low-end SKUs before 2020
- Adopting TFT LCD can 1) save BOM costs to the tune of USD50+, 2) reduce single source risk, as Samsung Electronics could still command ~90% share in small OLED displays in the coming two years

- We expect **Catcher** to deliver , 21%/23% sales/EPS CAGR (2017-20), driven by 1) market share gains and ASP increase in iPhone casing, 2) Google Pixel casing and 3) rising opportunities from wearable devices
- **Radiant** is forecast to post 6%/20% sales/EPS CAGR, powered by 1) the edge-to-edge trend (in small size BLU) and 2) the rising Mini LED BLU adoption in mid/big size displays

- Catcher and Radiant both trade below peer average PE multiple and PEG, but generate 30%+ EPS growth in 2018E.
- Catcher - we think the re-rating to 12x P/E is justified by accelerated earnings growth and the stability from a more diversified client base
- Radiant – we contend that the company is entering a multi-year up-cycle; stock should re-rate to 12x P/E, its peak cycle average

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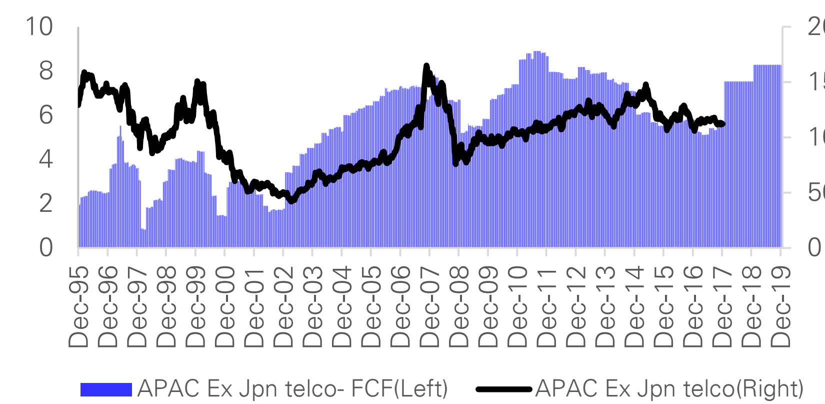
Telecoms: Can they join the tech party?

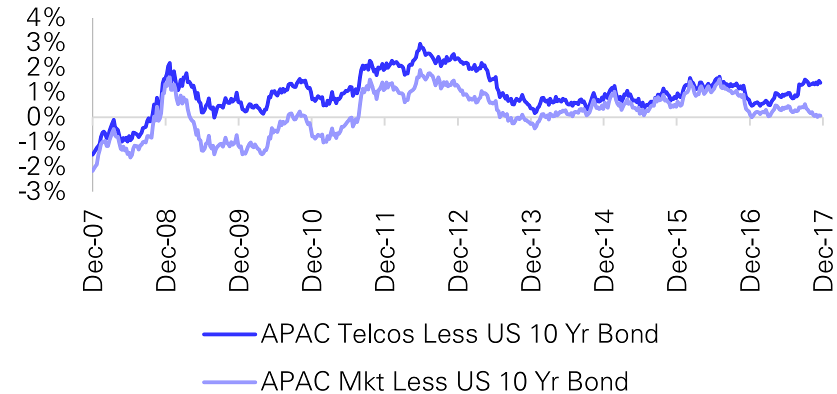
- APACx JP telecoms are set for an estimated 23% CAGR ins FCF for 2016-'19. Similar FCF rallies have driven the sector to 50% above current levels. Add to that signs of revenue pick up, and margin stabilization, and a valuation 1 s.d. cheap vs. history, and 2018 is set up to be a strong year for investors. We are also enthused by the broadening in strength seen by the sector, with 10 of the APAC telcos we cover have risen by 20%+ in Jan-Nov. Some good news is needed in China to drive the sector, but there are reasons to believe this is likely.
- Low valuations combine with low ownership. In China for example, large investors appeared to be 38% underweight at of 3Q. Our experience has suggested that when it is almost impossible to broke strong value stories, like it is now, strong performance is rarely far behind.
- We believe the sector is set to see revenues better track GDP, as enterprise budgets, strained since the GFC now get a boost of pent up energy, and as a global pick up drives affordability in Asia. If achieved, the sector should perform. We see five catalysts that can generate performance: 1) FCF upcycle attracting value investors back, 2) Joining the tech party, with IoT, cloud, digital services etc now becoming more tangible, 3) M&A, with the sector amid one of its three largest value of deal-making of the last 20 years – which usually is associated with a bull run in the sector, 4) Reflation, with a bond-to-equity switch likely when investors sense inflation coming back, and high-yield equities a more natural middle ground for those making such a switch, and 5) Rotation out of cyclicals, with investors heavily underweight telecoms, this should reverse on any concerns over the cycle getting tired.

Sector FCF upcycle suggests stock rally coming



Source: Deutsche Bank estimates

Real DY premium to market at 10Y high



Source: China Association of Automobile Manufacturers (CAAM)

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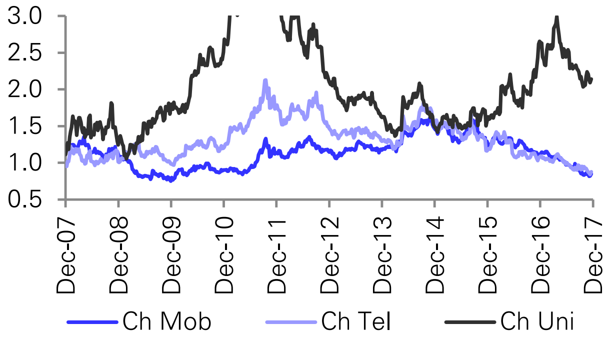
Telecoms: Top picks, China Mobile, IDEA

China Mobile



Source: Deutsche Bank

- Sector revenue growth is picking up
- Greater SOE commerciality being demanded, seen through SOE reform, mixed-ownership and rising payouts. Chinese telcos should participate in these themes
- **China Mobile** and China Telecom 1 s.d. cheap vs. 10 year average levels and relative P/E at or below GFC lows
- We expect a repeat of 2017's special dividend once TowerCo receivables paid at IPO

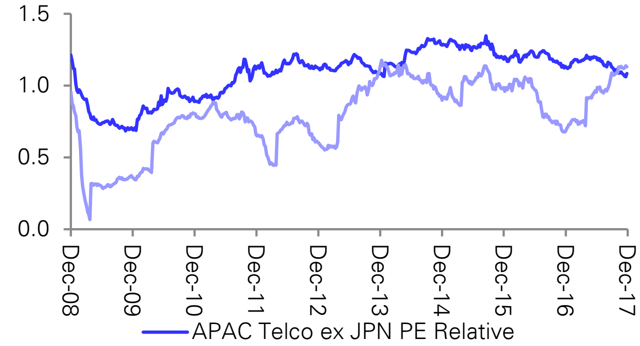
Idea Cellular

Rs bn	FY20
Marketshare of the mergeco	38.3%
Revenue of Mergeco(Rs bn)	896
EBITDA Margin	35%
EBITDA(Rs Bn)	314
EV/EBITDA	6
EV(Rs bn)	1882
Net Debt(Rs bn)	798
Proceeds from asset sales(Rs bn)	194
Net Debt post asset sales(Rs bn)	604
Equity value - mergeco (Rs bn)	1278
Implied Idea shareprice(50% share of mergeco)	177

Source: Deutsche Bank, Factset

- India has gone from near perfect competition to an effective three-player market. While Jio is aggressive, the big three are defending well, and Jio needs to manage sector revenue to ensure an eventual return on its high spend. Two price lifts in 2017 suggest this is a concern to it
- Post merger, Voda-**Idea** will be an USD11bn market cap company, with USD10bn in synergies proposed, and number two globally in subscribers

APACx Telcos preferred to Japan telcos



Source: Deutsche Bank, Factset

- Aside from Indian and Chinese telcos we see value in many operators across KR, ID, PH, SG, AU, and HK
- We expect Japan's telcos to underperform, as relative valuation is at levels that seemed to create intra-regional switching in the past. We recently cut NTT, Docomo and KDDI to SELL, due to risks from fibre resale and incremental competition from Rakuten, which we expect to hurt the sector as price cuts lead to margin pressure.

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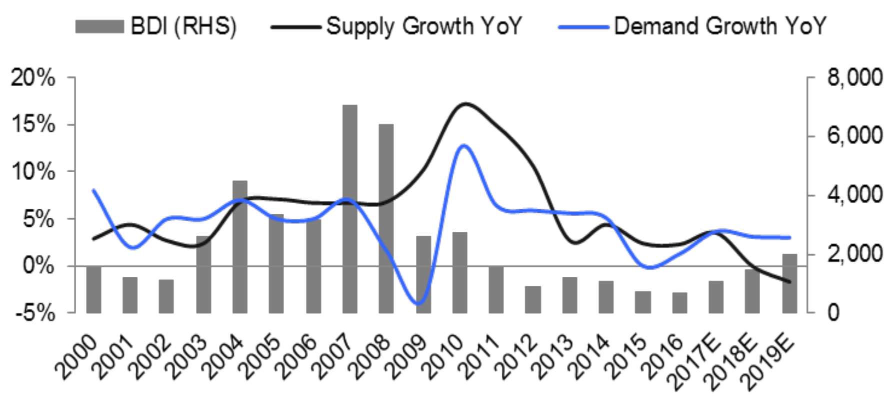
Transport: Positive on dry bulk & tanker shippers & airports

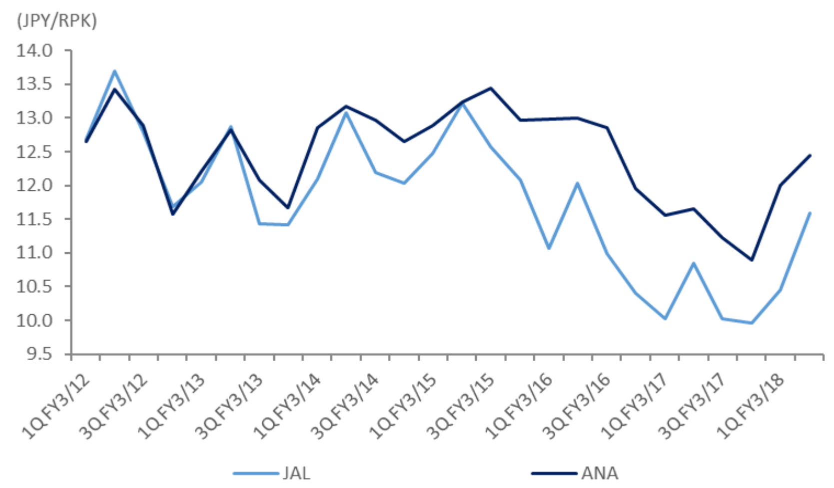
- **Shipping** – We are bullish on dry bulk and tanker segments while staying cautious on container companies. The upcoming Ballast Water Convention and Low-Sulphur Oil Regulation will substantially lift scrapping rates. This, along with falling new-build deliveries, should drive a multi-year upcycle in the sector
- The tanker segment will recover as we believe its downturn has hit bottom and has started to improve on falling new-build supplies and accelerating scrapping. We remain cautious on container. A cloudy trade outlook, coupled with rising mega vessel deliveries, could continue to hamper rates and places a large risk over earnings
- **Airports**: Sustained 7-8% annual capacity growth of Asian airlines will continue to drive traffic growth through airports in the region. Outbound Chinese tourism, especially in ASEAN, remains a very clear demand factor. Improving returns from retail assets is a key focus of management teams to further improve returns. With these dual drivers, we prefer airports over airlines
- **Airlines**: We are most positive on the Japanese carriers as growth will be driven by (1) continued robust inbound travel, (2) recent strength in outbound travel, especially in the premium corporate market and (3) stabilization in domestic prices. Low cost carriers are doing well because of benign domestic competition which is allowing leaders to enhance their positions. For example, Vietjet is well positioned to increase capacity by 27% CAGR

Multi-year upcycle in dry bulk sector



Source: Deutsche Bank estimates, Clarksons

International pax yield is picking up for both Japanese airlines



Source: China Association of Automobile Manufacturers (CAAM)

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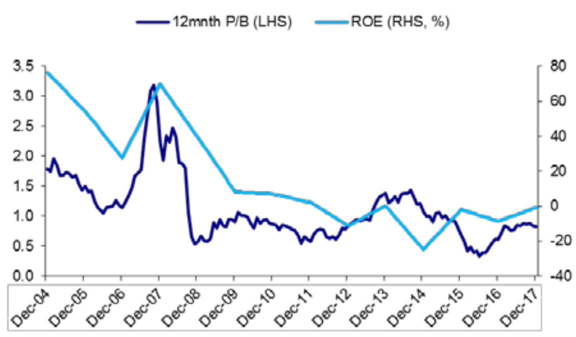
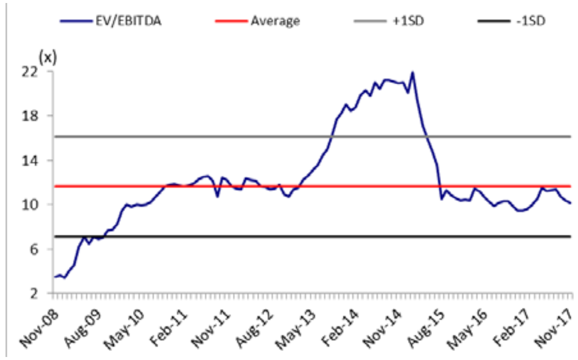
Transport: Buy Pac Basin, CSET-H, MAHB, SATS & ANA. Sell SIA.

Pacific Basin 12m forward P/B vs. ROE



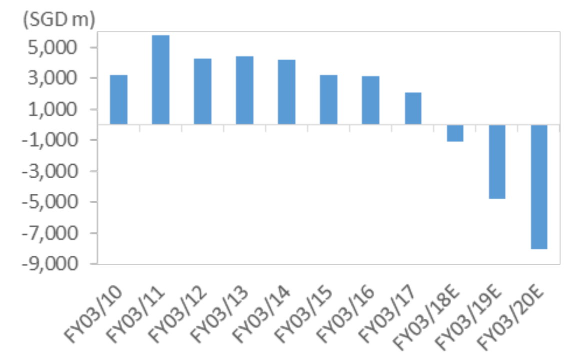
Source: Deutsche Bank estimates, company data

Malaysia Airports: EV / EBITDA slightly below 10Y historical mean



Source: Deutsche Bank, Factset

SIA's net cash going into net debt



Source: Deutsche Bank, Factset

- Buy **Pacific Basin** as the company is the only listed pure dry bulker left in the region, hence offers scarcity value. We expect company's ROE to reach 5.6% this year before a jump to 14.5% in 2019E, which justifies a P/B of 1.2x. A soft shipping rate is a main downside risk.
- Buy **CSET-H** – we see minimal downside risk but considerable upside potential on cyclical recovery. The stock is a significant laggard. The upcoming A-share placement and management incentive plan are imminent catalysts
- Buy **MAHB** – Divestment of 30% stake in loss making ISG will be positive if concluded. Earnings growth of 86% expected in 2018E, and this should drive higher dividend yields higher as cash flow improves
- Buy **SATS** – Exciting new ventures in Turkey and Malaysia. Joint venture with Turkish Airlines to develop an inflight catering kitchen in New Instanbul Airport sounds promising. Dividend yield of 3.4% is sustainable.
- **ANA** is our top pick in airlines with 16% EBIT CAGR over next two years. It's investment in LCC's Vanilla and Peach is a further positive that should pay off over the next three years.
- Sell **SIA**: increased capex will weigh on both earnings outlook and the balance sheet. We expect the company to go from net cash to net debt and this will mean reduced chances of generous dividends. We retain a negative view and Sell rating on **Cathay Pacifi**c as well.

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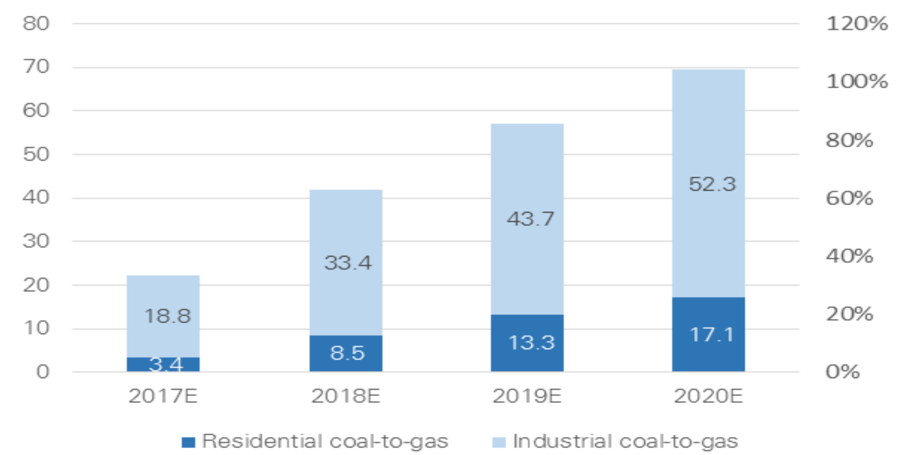
Utilities: Clean and green transformation remains intact

Renewable energy and gas utilities, along with environmental control companies, will benefit from renewed government commitments to pollution control and low carbon output policies across the region. China, India and Korea and SE Asia all have set ambitious targets in raising renewable/clean energy usage by 2020/30

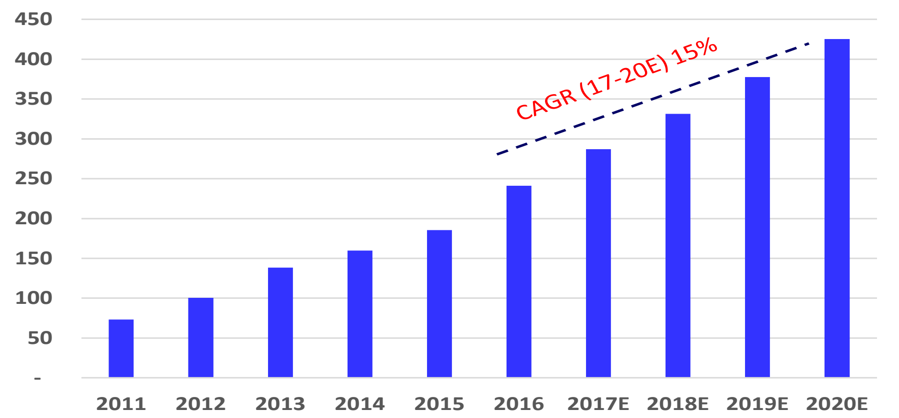
- India has announced plans to award 100GW of solar and wind contracts by March'20.
- Korea has announced it will generate 20% of electricity from renewable by 2030 ,with installed capacity to rise fivefold from now to 2030
- The 19th Party Congress in China reiterated environmental factors as one of its key development priorities
- We expect sustainable coal-to-gas conversion (curbing air pollution) to support a 15% gas demand CAGR over 2017-20 for China
- China's wind power output is forecast to grow at 15% CAGR in 2017-20 on continued capacity growth and reduced curtailment
- We forecast a 19% CAGR of China's biomass power capacity in 2016 – 20 on recently raised 2020 targets for from 7GW to 13.1GW
- China's hazardous waste treatment capacity is estimated to reach 43mtpa by 2020, representing a CAGR of 17% from 2016

China's cumulative coal-to-gas volume (bcm/year



Source: Deutsche Bank estimates

China's wind power output (bn KWh))



Source: Deutsche Bank estimates, CEIC

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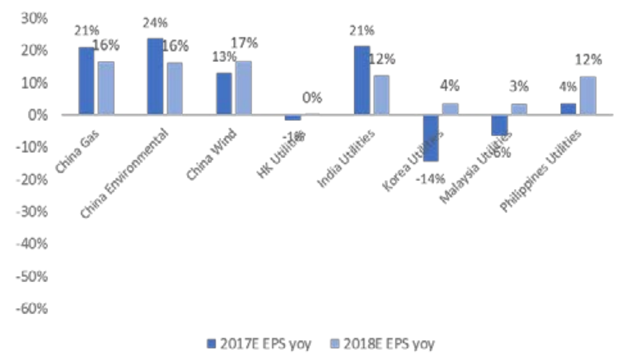
Utilities: Top picks - Longyuan,CEI, ENN, Kepco, NTPC & Meralco

China biomass power operating capacity (MW)

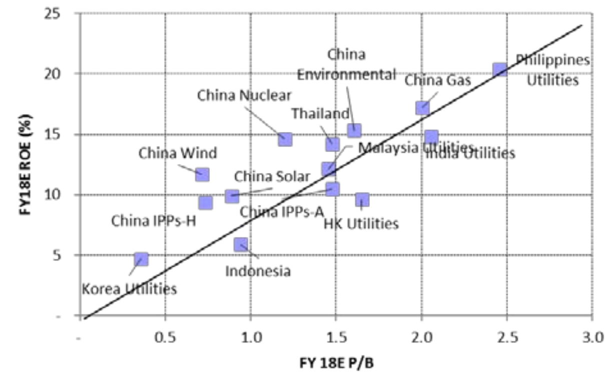
Source: Deutsche Bank estimates, CEIC

Sector EPS growth (2017E and 2018E)



Source: Deutsche Bank

2018E P/B vs. 2018E ROE



Source: Deutsche Bank, Bloomberg Finance LP

- **China Gas, Environmental & Wind** and **India utilities will** show stronger growth momentum in 2017-18E
- We like **ENN** for its strong volume growth on exposure to coal-to-gas conversions and attractive valuation
- **CEI** will gain from a potential earnings beat and also better earnings quality with an improving free cashflow profile
- We recommend **Longyuan Power** because of accelerated earnings growth in 2018. There is scope for re-rating as the overhang from subsidy policy risks is reduced

- We like **Kepco** based on its attractive risk/reward (0.3x PBR vs. 5% FY18E ROE) even when applying conservative tariff and utilization assumptions
- **NTPC in India** has begun a 3 year turnaround cycle with 20% plus PAT growth and ROE enhancement by 200bps
- We like **Meralco in the Philippines** as its earnings are significantly understated by tariff cuts provisions (unlikely) and high FCF yield ,offering upside potential to dividend

- **China Wind and China Environmental segments** are most attractively valued on a PB/ROE screen
- **China IPPs (H share)** also trade at a low 0.7x P/B but ROE is highly volatile and dependent on both coal price movements and tariff policies
- Valuations of **HK Utilities** look stretched at 1.7x P/B vs. 10.0% 2018 ROE, especially as Fed rate hikes will raise pressure on traditional yield plays

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APPENDICES

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Source: Deutsche Bank

"APAC" - Asia Pacific (including Japan & Australia / NZ) *"Asia" excludes Japan & ANZ*

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Source: Deutsche Bank

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Economic Forecasts

Asian Economics Forecasts

Macroeconomic Indicators

	Real GDP Growth (YoY%)				Consumer Prices (% pavg)				Current Account (% of GDP)				Fiscal Balance (% of GDP)			
	2016	2017F	2018F	2019F	2016	2017F	2018F	2019F	2016	2017F	2018F	2019F	2016	2017F	2018F	2019F
China	6.7	6.8	6.3	6.3	2.0	1.7	2.7	2.4	1.8	1.2	1.1	0.8	-3.8	-4.0	-4.0	-4.0
Hong Kong	2.0	3.8	2.0	1.9	2.4	1.6	3.9	2.4	4.6	5.3	7.0	8.5	4.4	8.7	2.6	2.1
India	7.9	6.3	7.5	7.8	5.0	3.2	4.5	4.5	-1.5	-1.5	-1.7	-2.0	-3.5	-3.2	-3.0	-3.0
Indonesia	5.0	5.0	4.8	4.8	3.5	3.8	3.7	3.5	-1.8	-1.4	-0.8	-1.2	-2.5	-2.5	-2.7	-2.7
Malaysia	4.2	6.0	5.7	5.0	2.1	3.8	2.7	3.4	2.3	3.0	2.6	2.1	-3.1	-3.0	-2.8	-2.9
Philippines	6.9	6.5	5.7	5.5	1.8	3.2	3.2	3.5	-0.3	0.2	1.0	1.6	-2.4	-2.5	-2.7	-2.4
Singapore	2.0	3.2	2.8	2.0	-0.5	0.5	1.1	1.9	18.6	20.8	20.0	17.9	1.3	0.8	0.6	0.1
South Korea	2.8	3.2	2.9	2.4	1.0	2.0	1.7	2.3	7.0	5.3	4.8	4.0	1.0	0.7	0.7	0.0
Sri Lanka	4.4	4.0	5.0	6.0	4.0	6.6	6.0	5.5	-2.4	-2.7	-2.8	-3.0	-5.4	-5.2	-5.0	-4.5
Taiwan	1.5	2.6	2.3	1.9	1.4	0.6	1.3	1.3	13.6	12.4	10.8	9.7	-0.3	-0.5	-0.7	-0.8
Thailand	3.2	3.8	3.9	2.7	0.2	0.7	1.4	1.3	11.7	10.0	8.1	7.2	-1.0	-2.0	-2.9	-3.1
Vietnam	6.2	6.7	6.4	6.5	2.7	3.5	4.3	5.9	3.8	0.7	0.0	-0.8	-6.6	-5.8	-5.5	-5.5
Emerging Asia*	6.2	6.1	6.0	6.0	2.6	2.3	3.1	3.0	2.1	1.4	1.1	0.8	-3.1	-3.2	-3.2	-3.3
EM Asia ex China&India*	3.9	4.4	4.1	3.8	2.0	2.6	2.7	2.9	4.8	4.3	3.6	3.1	-1.4	-1.4	-1.8	-2.0

Exchange Rate forecasts

	Current	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-19
China	6.5	6.5	6.7	6.7	6.7	6.7	7.0
Hong Kong	7.8	7.8	7.8	7.8	7.8	7.8	7.8
India	63.4	63.9	64.5	65.0	65.0	66.0	65.0
Indonesia	13397.0	13548.0	13750.0	13870.0	13975.0	14050.0	14250.0
Korea	1062.1	1071.4	1080.0	1060.0	1040.0	1050.0	1080.0
Malaysia	4.0	4.1	4.3	4.4	4.5	4.6	4.7
Philippines	50.0	49.9	51.1	51.7	52.0	52.3	54.5
Singapore	1.3	1.3	1.4	1.3	1.3	1.3	1.4
Sri Lanka	153.6	152.9	155.0	157.0	158.1	159.0	160.0
Taiwan	29.5	29.9	30.0	29.8	29.8	29.9	30.5
Thailand	32.2	32.6	32.6	32.6	32.8	33.0	34.0
Vietnam	22654.0	22654.0	23000.0	23200.0	23300.0	23400.0	24500.0

Region

		Current	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
China	10Y yield	3.9	3.9	3.9	4.0	4.1	4.2
China	Key official interest rate	1.5	1.5	1.5	1.5	1.5	1.5
Hong Kong	10Y yield	1.8	1.8	2.0	2.0	2.2	2.3
Hong Kong	Key official interest rate	1.8	1.8	2.0	2.3	2.5	2.8
India	10Y yield	7.3	7.3	7.0	7.0	7.1	7.3
India	Key official interest rate	6.0	6.0	6.0	6.0	6.0	6.0
Indonesia	10Y yield	6.1	6.6	6.6	6.8	7.0	7.3
Indonesia	Key official interest rate	4.3	4.3	4.3	4.3	4.5	5.0
Korea	10Y yield	2.5	2.5	2.8	3.0	3.1	3.1
Korea	Key official interest rate	1.5	1.5	1.5	1.5	1.8	1.8
Malaysia	10Y yield	3.9	3.9	4.0	4.1	4.3	4.4
Malaysia	Key official interest rate	3.0	3.0	3.0	3.0	3.3	3.3
Philippines	10Y yield	5.7	5.7	4.8	4.9	5.1	5.3
Philippines	Key official interest rate	3.5	3.5	3.5	3.8	4.0	4.0
Singapore	10Y yield	2.0	2.0	2.4	2.4	2.6	2.8
Singapore	Key official interest rate	1.5	1.8	1.3	1.4	1.6	1.7
Sri Lanka	Key official interest rate	8.8	8.8	9.0	9.0	9.0	9.0
Taiwan	10Y yield	1.0	1.0	1.1	1.2	1.2	1.2
Taiwan	Key official interest rate	1.4	1.4	1.4	1.5	1.6	1.6
Thailand	10Y yield	2.3	2.3	2.5	2.6	2.8	2.9
Thailand	Key official interest rate	1.5	1.5	1.5	1.5	1.8	1.8
Vietnam	Key official interest rate	6.3	6.3	6.3	6.3	6.5	6.8

Source: Bloomberg Finance LP, Reuters, DB Global Markets Research

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Companies Mentioned (1) - Ratings / Target Prices

Stock name	Ticker	Current Price	Rating	Target Price
Adaro Energy	ADRO.JK	2,180.00	Buy	2500
Adhi Karya	ADHI.JK	2,040.00	Buy	3200
Air China	0753.HK	10.32	Hold	7.3
Alibaba	BABA.N	189.79	BUY	209
AMCOR Ltd	AMC.AX	14.83	Buy	18.25
ANA	9202.T	4,742.00	Buy	5500
Anhui Conch Cement	0914.HK	31.26	Buy	38.3
Anta	2020.HK	38.35	Buy	40
Aoyuan	3883.HK	5.85	Buy	7
Apple	AAPL.OQ	175.28	Hold	152
Apollo Tyres	APLO.BO	278.20	Buy	310
Aristocrat	ALL.AX	22.60	Buy	29.75
Aurobindo Pharma	ARBN.NS	674.55	Buy	888
AviChina	2357.HK	4.30	Buy	6.6
Ayala Land	ALI.PS	44.35	Buy	52.5
BAIC	1958.HK	11.26	Buy	11.5
Bajaj Corp	BACO.BO	498.00	Buy	600
Bangkok Bank	BBL.BK	208.00	Buy	225
Bank Mandiri	BMRI.JK	8,075.00	Buy	9000
Bank of China	3988.HK	4.06	Buy	5.25
Bank Rakyat	BBRI.JK	3,540.00	Buy	4000
Baozun	BZUN.OQ	35.29	Hold	33
Bank of Ayudhya	BAY.BK	46.50	Buy	47
BBCA	BBCA.JK	22,700.00	Buy	24000
BBNI	BBNI.JK	9,275.00	Buy	10150
BHEL	BHEL.BO	103.20	Buy	120
Boral	BLD.AX	7.68	Buy	7.68
Bloomberry Resorts	BLOOM.PS	11.40	Buy	12.5
BMW	BMWG.DE	89.55	Buy	120
Brilliance China	1114.HK	19.84	Buy	25.1
Cadila Healthcare	CADI.NS	444.90	Buy	506
Cainiao	NOT LISTED			
Cathay Pacific	293.HK	12.70	Sell	9.4
Catcher	2474.TW	324.50	Buy	550
CGN Power	1816.HK	2.16	Buy	2.7
Chalco	2600.HK	5.65	Buy	6.9
Changyou	CYOU.OQ	36.12	Buy	52
Cheung Kong Assets	1113.HK	72.55	Buy	69.3
China Communications Construction	1800.HK	9.11	Buy	13

Stock name	Ticker	Current Price	Rating	Target Price
China Everbright International	0257.HK	11.68	Buy	13.5
China Lodging	HTHT OQ	154.66	Buy	130
China Mengniu Dairy	2319.HK	24.20	Buy	26.8
China Mobile	0941.HK	78.05	Buy	112
China Molybdenum	3993.HK	5.88	Buy	5.2
China Shenhua Energy	1088.HK	22.10	Buy	28.5
China State Construction	3311.HK	12.16	Buy	15.4
China Telecom	0728.HK	3.74	Buy	4.55
CHINA VANKE	2202.HK	38.50	Buy	41.38
CITS	601888 CH	45.89	Buy	55
CNOOC	883.HK	12.20	Buy	13.82
COSL-H	2883.HK	9.53	Buy	9.13
Country Garden	2007.HK	18.42	Buy	18.12
CP All	CPALL.BK	79.00	Not covered	
CPF	CPF.BK	24.40	Not covered	
CSET - H	1138.HK	4.33	Buy	6.6
Dabur	DABU.BO	358.00	Buy	400
Dali Foods	3799.HK	6.99	Buy	7.4
Dalmia Bharat	DALA.BO	3,169.80	Buy	3590
Djarum	UNLISTED			
Docomo	9437.T	2,673.50	Sell	2550
Dongbu Insurance	005380.KS	68,900.00	Buy	99000
Dr Reddy's	REDY.NS	2,425.35	Hold	2310
Emart	139480.KS	276,000.00	Buy	290000
ENN Energy	2688.HK	52.85	Buy	65.5
Future Land	1030.HK	6.80	Buy	6.61
Geely Auto	0175.HK	26.30	Hold	29.30
Genting Malaysia	GENM KL	5.46	Buy	9
Genting singapore	GENS.SI	1.32	Buy	1.6
GSK Consumer	GLSM.NS	6,416.40	Buy	7400
Guangzhou Auto	2238.HK	18.20	Buy	21.95
Gudang Garam	GGRM.JK	82,875.00	Buy	95000
Haitong Securities	6837.HK	12.04	Buy	17.3
Harvey Norman	HVN.AX	4.38	Buy	5.5
HDFC Bank	HDBK.BO	1,868.50	Buy	2100
Hindustan Unilever	HLL.BO	1,379.15	Buy	1600
Hino Motors	7205.T	1,515.00	Buy	1800
HM Sampoerna	HMSP.JK	4,860.00	Buy	4800
Hollysys Automation Tech	HOLI.OQ	24.00	Buy	25

Source: Bloomberg Finance LP, Deutsche Bank estimates

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Companies Mentioned (1) - Ratings / Target Prices

Stock name	Ticker	Current Price	Rating	Target Price
Hon Hai	2317.HK	91.40	Buy	114
Hotel Shilla	008770.KS	91,700.00	Buy	83000
Huawei	UNLISTED			
Hugel	145020.KS	591,300.00	Buy	622000
Hyundai Marine & Fire	001450.KS	45,200.00	Buy	61000
Hyundai Motors	005380.KS	155,000.00	Hold	150000
ICBC	1398.HK	6.53	Buy	7.52
IDEA Cellular	IDEA.BO	107.50	Buy	130
IJM	IJMS.KL	3.00	Buy	4.15
INDIKA Energy	INDY.JK	3,910.00	Buy	5000
Indocement	INTP.JK	23,000.00	Buy	22800
Indusind Bank	INBK.BO	1,698.00	Buy	1900
IRPC	IRPM.BK	7.35	Buy	7.9
Isuzu	7202.T	1,986.50	Buy	2250
ITC	ITC.BO	270.35	Buy	325
James Hardie	JHX.AX	21.70	Buy	22.28
Jasa Marga	JSMR.JK	6,225.00	Buy	8000
Jointown	600998.SS	18.50	Buy	30
Jonhon Optronic	0021798.SZ	37.99	Buy	43
Jubilant	JUBI.BO	1,920.60	Buy	2200
KasikornBank	KBANK.BK	233.00	Buy	252
KB Financial	105560.KS	67,700.00	Buy	85000
KDDI	9433.T	2,807.50	Sell	2900
KEPCO	015760.KS	36,700.00	Buy	55300
Keppel Corp	KPLM.SI	7.91	Buy	8.1
Kia Motors	000270.KS	32,500.00	Hold	36000
KWG	1813.HK	11.26	Buy	12.88
Larsen & toubro	LART.BO	1,319.00	Buy	1600
LG Innotek	011070.KS	150,500.00	Buy	199000
Land & Houses	LH.BK	10.60	Buy	11.5
Longfor	0960.HK	23.90	Buy	23.17
Longyuan Power	0916.HK	5.71	Buy	7.4
Lotte Shopping	023530.KS	219,500.00	Buy	260000
Lupin	LUPN.NS	929.20	Hold	910
Mahindra & Mahindra	MAHM.BO	765.00	Buy	865
Malaysian Airports	MAHB.KL	8.99	Buy	11
Maruti Suzuki	MRTI.BO	9,344.90	Buy	10,500
Mediatek	2454.TW	306.00	Buy	520
Medytox	086900.KS	494,900.00	Buy	571000

Stock name	Ticker	Current Price	Rating	Target Price
Megaworld	MEG.PS	5.14	Hold	4.9
Meralco	MER.PS	325.00	Buy	420
Metrobank	MBHT.PS	108.00	Buy	110
Midea	000333.SZ	59.62	Buy	63
Minor	MINT.BK	42.75	Buy	50
MOMO	MOMO.OQ	26.79	Buy	43
New China Life	1336.HK	52.65	Buy	74.6
NCSoft	036570.KS	427,000.00	Buy	640000
Netease	NTES.OQ	334.90	Buy	380
Nissan	7201.T	1,157.50	Hold	1200
Nojorono	UNLISTED			
NTPC	NTPC.BO	173.00	Buy	215
NTT	9432.T	5,375.00	Sell	5100
Oil Search	OSH.AX	7.85	Buy	8.55
Oppo	NOT LISTED			
Pacific Basin	2343.HK	1.82	Buy	2.42
Ping An	2318.HK	83.55	Buy	104.1
POSCO	005490.KS	366,500.00	Buy	466000
PRUKSA Holding	PSH.BK	23.20	Buy	32
PTTEP	PTTEP.BK	108.50	Hold	98
QH	QH.BK	3.12	Buy	4
Radiant	6176.TW	70.00	Buy	100
Rakuten	4755.T	1,008.50	Hold	1230
Reliance Industries	RELI.BO	937.00	Buy	1040
Rio Tinto	RIO.AX	79.25	Buy	79
Samsung Electronics	005930.KS	2,412,000.00	Buy	3600000
Sembcorp Marine	SCMN.SI	1.85	Buy	2.4
Shangri-la Asia	69 HK	17.54	Buy	20
China Shenhua Energy	1088.HK	22.1	Buy	28.5
Shenzhen Inovance	300124.SZ	26.93	Buy	34.3
Shinhan	055550.KS	52,000.00	Buy	73000
SHK Props	0016.HK	132.50	Hold	122.3
Shree Cement	SHCM.BO	19,700.00	Buy	20150
Singapore Airlines	SIAL.SI	10.87	Sell	8.9
Siam Cement	SCC.BK	498.00	Buy	605
Siam Commercial Bank	SCB.BK	154.50	Buy	179
Singapore Air Terminal	SATS.SI	5.48	Buy	5.66
Sino Biopharm	1177.HK	14.56	Buy	16.8
Sinopec	0386.HK	6.39	Buy	7.44

Source: Bloomberg Finance LP, Deutsche Bank estimates

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Companies Mentioned (1) - Ratings / Target Prices

Stock name	Ticker	Current Price	Rating	Target Price
SK Hynix	000660.KS	72,600.00	Buy	106400
Semen Indonesia	SMGR.JK	10,850.00	Buy	12000
South 32	S32.AX	3.72	Sell	2.8
SPC-H	0338.HK	4.64	Buy	5.2
Stockland	SGP.AX	4.36	Buy	4.95
Subaru	7270.T	3,712.00	Buy	4200
Sun Pharma	SUN.NS	587.95	Hold	496
SUNAC	1918.HK	36.85	Buy	46
Tata Motors	TAMO.BO	433.25	Buy	490
Tencent	700.HK	429.40	Buy	450
TMB Bank	TMB.BK	3.02	Buy	3.2
Toyo Tire	5105.T	2,318.00	Buy	3000
Toyota Motors	7203.T	7,629.00	Buy	8200
Travelsky	696 HK	26.95	Buy	25.7
TSMC	2330.TW	235.00	Buy	266
Universal Medical	2666.HK	7.43	Buy	9.4
UOL Group	UTOS.SI	9.32	Buy	10

Stock name	Ticker	Current Price	Rating	Target Price
UOB	UOBH.SI	27.70	Buy	30.6
VALE INDONESIA	INCO.JK	3,170.00	Buy	3950
Vietjet	VJC.HM	153,900.00	BUY	166,00
Vista Land	VLL.PS	5.95	Buy	6.65
Vivo	UNLISTED			
Vodafone	VOD.L	228.45	Buy	300
Westpac	WBC.AX	31.43	Buy	35
Wing Tai	WTHS.SI	2.33	Buy	2.6
Woori Bank	000030.KS	16,950.00	Hold	19000
Wynn Macau	1128 HK	23.45	Buy	30
Xiaomi	UNLISTED			
Yamaha Motor	7951.T	3,875.00	Buy	4200
Yum china	YUMC.N	42.68	Buy	45.3
YY.com	YY.OQ	127.48	Buy	110
Zhengtong auto Services	1728.HK	8.75	Buy	9.7
Zhuzhou CRRC	3898.HK	48.80	Buy	54
TRUE Corporation	TRUE.BK	6.55	Hold	7

Source: Bloomberg Finance LP, Deutsche Bank estimates

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Appendix 1
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*Other information available upon request

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Equity Rating Key

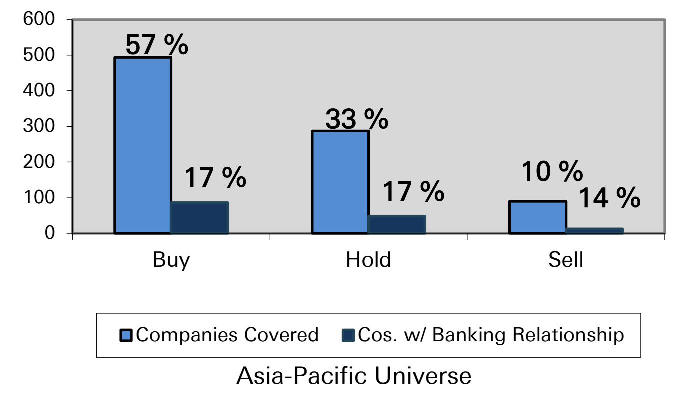
Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder 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.

Newly issued research recommendations and target prices supersede previously published research.

Equity Rating Dispersion and Banking Relationships



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Derivative transactions involve numerous risks including market, counterparty default and illiquidity risk. The appropriateness of these products for use by investors depends on the investors' own circumstances, including their tax position, their regulatory environment and the nature of their other assets and liabilities; as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited – up to theoretically unlimited losses. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option, investors must review the "Characteristics and Risks of Standardized Options”, at http://www.optionsclearing.com/about/publications/character-risks.jsp. If you are unable to access the website, please contact your Deutsche Bank representative for a copy of this important document.

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