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The Investigator

China's Reflation, Asian "de-coupling"?

Asian Equities likely to tactically outperform developed markets: The US is using significantly stimulative policy compared with Asia, has seen a raft of positive economic surprises and a consequent spike in Risk-Love and in relative performance. The FCF yield in the US is now more than twice the level in Asia. After two blows in 2000 and 2007 (the tech bubble and the credit crisis), the US has cut capex. In Asia, the opposite has happened. *However, we now believe the gaps between US and Asian policy settings, Risk-Love and economic surprises are large enough for Asia to tactically outperform DMs.* Massive USD optimism and washed-out Asian technicals support our short-term relative optimism. Our longer term cynicism on Asia's relative performance versus the developed world equity markets is intact.

China's reflation expectations keep us overweight, longer term concerns remain: At our Access China Conference last week, our sense from policymakers was that a mild reflation is likely to happen. We continue to have a grim longer term view on Chinese equities, but are opportunistic enough to participate in any "reflation trade". What are we following? We would like to see stronger price action in the Shenzhen small-/mid-cap stock index, China's property stocks and, as an indicator, fine wine prices. Thus far, these three assets don't seem affected by any reflation.

Asian Earnings Growth – consensus too optimistic at 10% for 2012: History suggests that at current low levels of EPS *revisions*, EPS *growth* in Asia is usually contracting, not expanding at a 10%-plus rate, as consensus analysts project. Deutsche Bank analysts expect 13% median sales growth for the region from 16% last year, even as nominal GDP growth numbers decrease from an estimated 16.4% in 2011 to a much lower projected 10.3% in 2012. Intriguingly, our EBITDA margin projections are stable, remaining at 21%: This does not seem right to us. The terms of trade (export prices divided by import prices) LEAD Asian margins by about one year, suggesting a margin decline of 5%. We estimate Asian EPS growth will be 0%-5% this year, not 15% as Deutsche Bank analyst estimates imply. With the exception of Singapore and Indonesia, margin projections look too high.

Upgrading India from Underweight (since September 2010) to neutral. Why? 1) Risk-Love has been in the doldrums for a while now. 2) Valuations look good, but not great. 3) The EPS revisions are at trough levels. 4) Policy has been extremely tight but looks likely to be less tight going forward. 5) Inflation seems to be peaking, allowing policymakers more wiggle room. 6) The country's "beta" to US growth is low. *Indian small-caps could be the positive surprise of the year.* We support this view by cutting Taiwan forecasts slightly. We add Wipro (WIPR.BO) and remove Powertech Technology (6239.TW) from the model portfolio. The model portfolio is up 4.4% relative to MSCI Asia ex-Japan since inception (13 September 2010).

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Absolute Return Drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance	Real Exchange Rate	Policy	Total Score	Total Score (last month)
China	✓	✓	✓	xx	xx	xx	xx	xx	-2	-4
Hong Kong	✓	✓	✓	xx	xx	xx	✓	✓	2	-2
Indonesia	xx	xx	✓	✓	xx	✓	✓	xx	4	-2
India	xx	✓	✓	xx	xx	✓	✓	xx	1	-1
Korea	xx	✓	xx	xx	xx	xx	xx	xx	-5	-5
Malaysia	xx	✓	xx	✓	xx	xx	xx	xx	-1	2
Philippines	xx	xx	xx	✓	xx	xx	✓	✓	2	2
Singapore	✓	✓	xx	xx	xx	xx	✓	✓	1	-2
Thailand	xx	✓	✓	✓	xx	xx	xx	✓	5	6
Taiwan	xx	xx	xx	xx	xx	xx	✓	✓	-2	-3
Asia ex-Japan	✓	✓	✓	x	xx	xx	xx	xx	-2	-2
Japan	xx	✓	xx	xx	xx	xx	xx	xx	-4	-4

Deutsche Bank AG/Hong Kong

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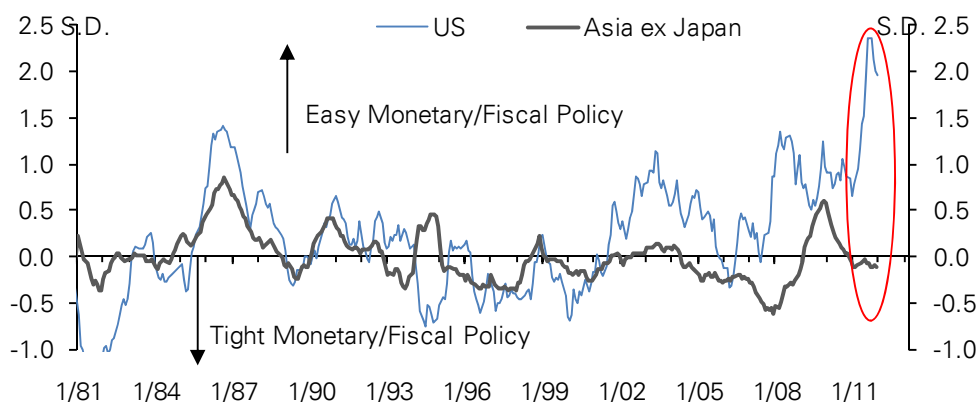
China's reflation, Asian De-coupling?

Asian "De-Coupling" the wrong way?

Established readers will be familiar with our house view that Asian/emerging markets are seriously disadvantaged versus the developed equity markets, especially the US.¹ This view is less controversial now than when we proposed it about two years ago, but is still viewed with scepticism by some. Surely, something must be awry when countries with strong GDP growth and robust macro fundamentals (whatever those are), continue to underperform a market like the US with its well-telegraphed challenges? The last refuge of the Asia cheerleader is the mysterious "de-coupling" thesis, trotted out whenever the developed world has problems. Historical lessons that Asian equities suffer a lot *more* when the developed world is in pain seem to be ignored by younger folks in Asia, or forgotten by old-timers. We suggest the de-coupling between Asia and the US is occurring, but in a relatively detrimental way for Asian equities.

Quite simply, the US is using significantly stimulative policy compared with Asia (Figure 1), has seen a raft of positive economic surprises (Figure 2) and a consequent spike in Risk-Love (Figure 3) and in relative performance (Figure 4). Consequently, the US market has just pulled away from Asian equities. Figure 5 shows that the free cash flow yield in the US is now more than twice the level in Asia. Figure 6, an old favourite of ours, shows that after two blows (the tech bubble and the credit crisis) in 2000 and 2007, the US has cut capex. In Asia, the opposite has happened, with large chunks of high-fat, artery-clogging capital expenditure. So yes, Asia has de-coupled, on relative valuations, relative capex (and hence prospective relative EBIT margins), as well as on cyclical metrics like policy, EPS surprises and Risk-Love. *However, we now believe the gaps between US and Asian policy settings, Risk-Love, and economic surprises are large enough for Asia (and GEMs) to tactically outperform developed markets.* Clearly, an abrupt forecast change looking for a global recession is the key risk to this tactical call. Our longer term cynicism about Asia's relative performance versus the developed world equity markets remains intact.

Figure 1: US policy settings super-easy, Asia tighter – if the gap narrows with lower Asian inflation, could there be tactical Asian outperformance?



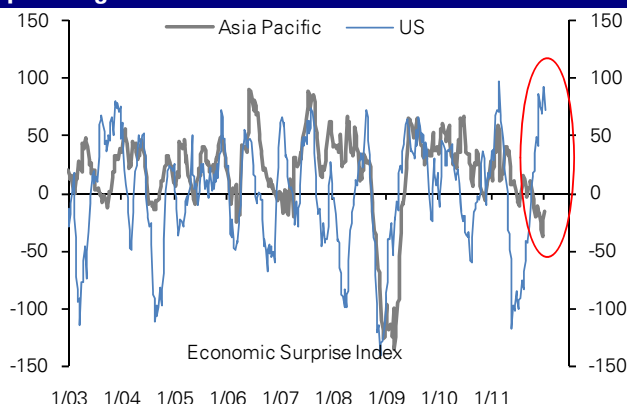
Source: Deutsche Bank

The great hope in markets now is Chinese reflation. We also expect this, but this is a thin reed to lean on. Our sense from policymakers at our Access China conference last week was that a mild reflation (M2 growth picking up from 12% to 15%) is likely to happen. That could always change, but we believe investors could be getting ahead of policymakers in

¹ See the excellent research by our CROCI team, *CROCI Outlook 2012*
Playing Defensive Value 12 January 2012 and past research by John-Paul Smith, our GEMS strategist.

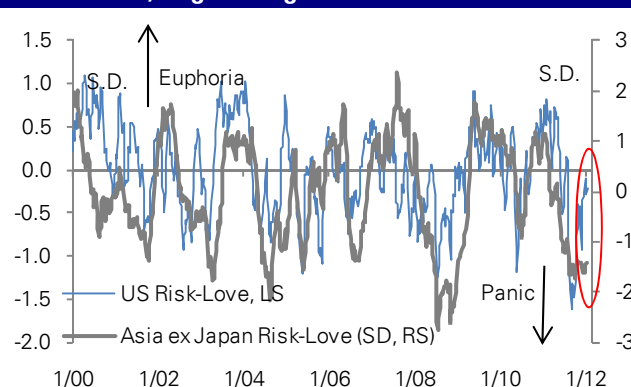
discounting aggressive policy reflation in China. We continue to have a negative longer term view on Chinese equities, concerned about falling EBIT margins whichever way you cut them: high, wasteful capex, which is likely to take margins down even further, a greying population, a massive increase in leverage/GDP, and over-valued property markets. We wrote about this in detail recently (*Demographics, Asset Cycles and Leverage*, The Investigator, 6 January, 2012). But we are opportunistic – if there is a reflation trade to be had, we will participate. What are we watching? We would like to see the markets respond a lot better than they have. In particular, we would like to see stronger price action in the Shenzhen small-/mid-cap stock index (SZSMEC Index in Bloomberg Finance LP), China's property stocks (SHPROP Index), and, as an indicator, fine wine prices (see the Liv-ex Fine Wine 50 Index on liv-ex.com for daily data). (See Figure 7) Thus far, these three assets don't seem convinced of any reflation at all. We would like them to break above 50-day and 100-day moving averages to be more convinced that our "China reflation" thesis has traction.

Figure 2: Gap between US and Asia Economic surprises quite large. Mean reversion soon?



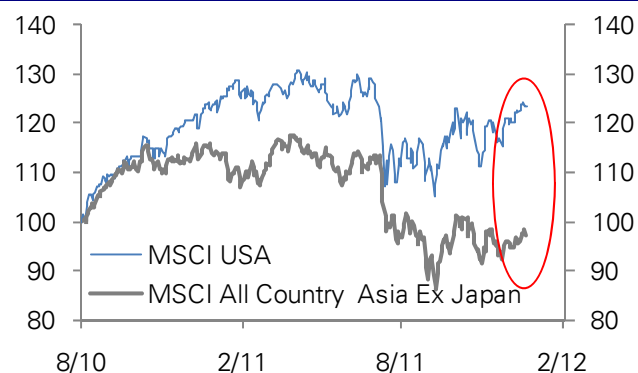
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP

Figure 3: US Risk-Love has spiked up, Asian sentiment still oversold; large divergence now favours Asia



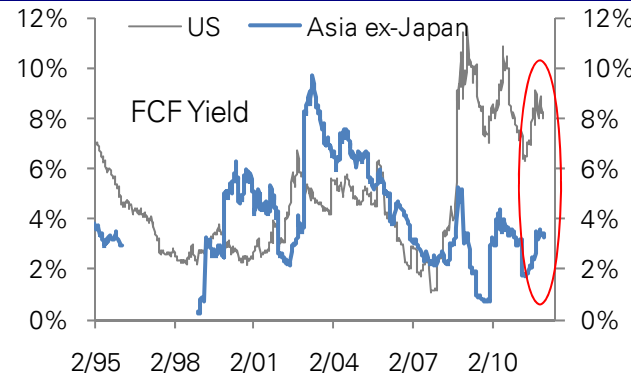
Source: Deutsche Bank

Figure 4: Massive US equity outperformance versus Asia. Time for a tactical reversal?



Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 5: Asian valuations (using free cash flow yield) still very unimpressive versus the US

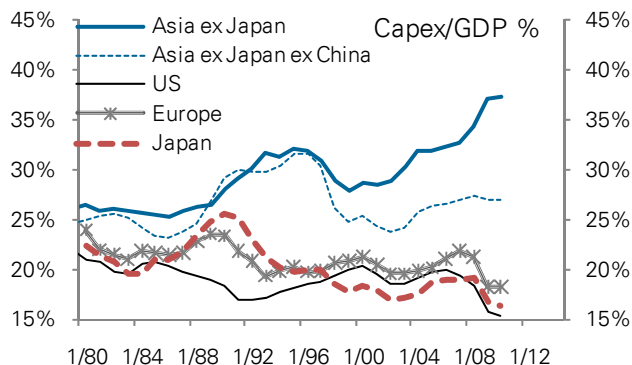


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Asian earnings growth – Still looks too optimistic

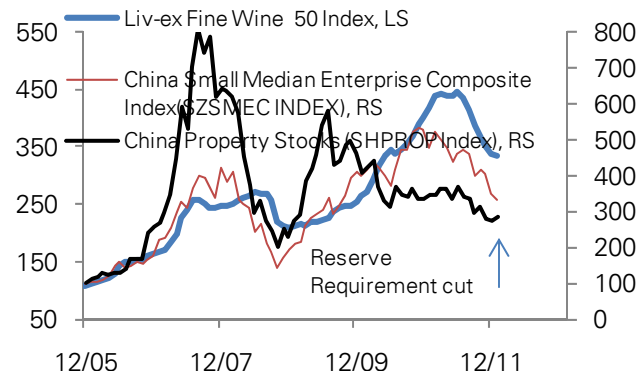
One of the problems we see is the still-aggressive EPS growth projections for 2012 by analysts. Figure 8 demonstrates that EPS revisions (number of companies upgraded in the past month less the number of companies downgraded divided by total changes) are a good leading indicator of EPS growth. History suggests that at such low levels of EPS revisions, EPS growth in Asia is usually contracting, not expanding at 10%-plus, as consensus analysts project.

Figure 6: Asia (mainly Greater China) comprehensively over-invested. US clearing arterial plaque by underinvesting



Source: Deutsche Bank, DataStream

Figure 7: We need to see fine wine, Chinese small-caps, property stocks come alive to believe the "reflation" story in China



Source: Deutsche Bank, Bloomberg Finance LP, www.liv-ex.com

Figure 8: Collapsed Asian EPS Revisions imply contracting EPS Growth



Source: Deutsche Bank, EPS revisions = # of companies with 12 forward EPS revised up less # of companies with 12m forward EPS revised down by total # of companies with 12m forward EPS revisions. Data as of end of December.

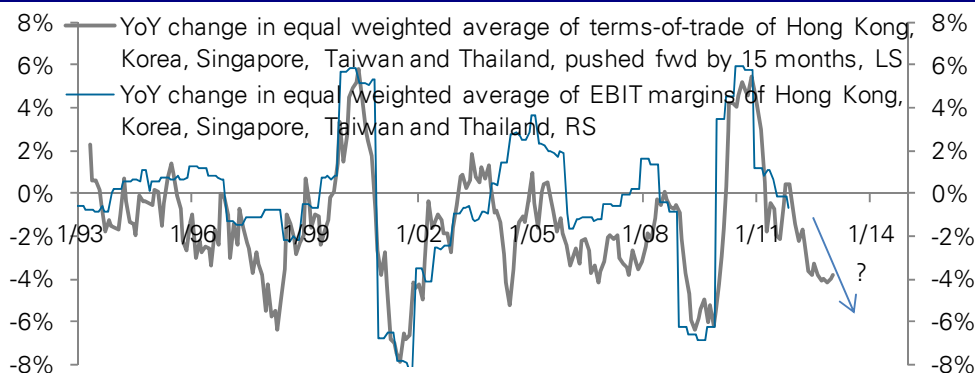
We can break down what Deutsche Bank analysts are thinking on a stock-by-stock basis. Our analysts are projecting 15% EPS growth this year on a median basis. Median EPS growth should roughly be equal to median sales growth plus median margin growth. It is here that things get interesting. As Figure 9 shows, our analysts are looking for 13% median sales growth for the region, even as nominal GDP growth numbers decrease from an estimated 16.4% in 2011 to a much lower projected 10.3% in 2012. More intriguingly, EBITDA margin projections are stable – from an estimated 21% in 2011 to 21% in 2012. This does not seem right to us. The terms of trade (export prices divided by import prices) LEAD Asian margins by about one year (see Figure 10), suggesting a margin decline of 5%. We estimate Asian EPS growth is likely to be around 0%-5% this year, not the 15% our bottom-up colleagues are forecasting. A strong second half recovery and a sharp reversal in the terms of trade seem to be embedded in their numbers. We don't see either story playing out. The leading indicators of growth for Asia should have perked up by now for a second half recovery. A rise in the terms of trade implies a sharp fall in oil prices, and/or a cyclical recovery in the developed world, allowing greater price pass-throughs, which we think is unlikely. We believe EPS growth projections are probably too high for all markets, except Singapore. We expect EBITDA margins to contract across all markets. Deutsche Bank's analysts covering Indonesia and Singapore agree – the rest feel margins should be stable or rise. We think this latter scenario will be tough in a year in which nominal GDP growth is declining, and the terms of trade are already down significantly.

Figure 9: Our analysts expect EPS growth to rise to 15% from 14% in 2012, with stable margins – seems quite unlikely

Median expected data by DB analysts for DB coverage												
	EPS growth				Sales growth				EBITDA margin (%)			
	2009	2010	2011E	2012F	2009	2010	2011E	2012F	2009	2010	2011E	2012F
Asia ex-Japan	13.2	23.3	13.8	14.8	10.3	19.2	16.2	13.1	20.5	22.2	21.0	21.0
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (US\$)				8.0% -5.2% 0.0%			
		27.2	11.1	13.1	3.9	20.4	16.4	10.3				
China	26.6	25.8	16.7	18.7	19.7	31.8	25.8	17.6	23.1	24.5	22.3	22.7
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				6.1% -9.0% 1.9%			
		37.9	16.9	19.5	8.6	16.7	15.1	12.4				
Hong Kong	-5.5	32.4	12.9	10.8	-1.4	18.3	17.2	10.7	23.5	26.3	27.4	27.7
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				12.1% 4.2% 1.1%			
		30.4	21.4	11.7	(3.3)	7.5	10.3	8.7				
India	8.8	20.4	20.3	15.2	20.6	13.1	20.3	20.1	20.2	21.2	21.0	20.7
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				5.2% -0.9% -1.6%			
		18.3	19.3	18.4	12.4	22.7	16.4	13.7				
Indonesia	26.8	21.6	22.1	15.1	8.5	12.3	19.0	13.6	24.0	25.2	28.6	25.2
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				4.9% 13.5% -11.7%			
		17.2	32.4	1.9	13.2	14.6	12.5	13.2				
Korea	-32.4	33.9	18.9	12.9	-2.1	15.7	9.5	9.6	10.8	12.1	11.7	11.8
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				11.5% -3.1% 0.9%			
		27.3	6.4	10.4	3.8	10.1	7.4	7.9				
Malaysia	-1.2	18.6	7.7	7.7	4.1	9.3	11.1	9.5	27.5	31.7	25.6	25.8
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				15.4% -19.3% 0.9%			
		24.7	-8.2	10.4	(8.4)	12.7	8.3	8.0				
Philippines	21.8	22.7	10.0	10.9	7.9	16.6	12.0	12.8	27.8	29.6	31.0	31.9
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				6.3% 4.9% 2.7%			
		22.9	16.9	15.5	4.0	12.2	9.6	9.2				
Singapore	-2.2	4.7	3.6	3.1	4.6	7.2	4.8	7.9	23.9	29.3	32.1	27.6
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				22.5% 9.5% -13.9%			
		29.7	14.3	-6.0	(0.5)	13.9	8.6	6.4				
Taiwan	22.2	25.6	-14.4	16.0	-3.9	30.0	1.8	8.8	13.7	17.2	12.9	13.5
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				25.0% -24.9% 4.6%			
		55.0	-23.1	13.4	(1.1)	9.0	7.6	6.1				
Thailand	11.9	22.3	18.9	17.5	-1.2	17.0	12.9	9.8	20.9	18.8	20.3	19.8
Growth rate, YoY	EPS growth proxy using margin and sales				Nominal GDP (local currency)				-10.2% 8.3% -2.6%			
		6.8	21.2	7.2	(0.4)	11.8	8.7	9.4				

Source: Deutsche Bank estimates. GDP data is from IMF.

Figure 10: Falling Asian terms of trade (export prices divided by import prices) project contracting EBIT margins this year.

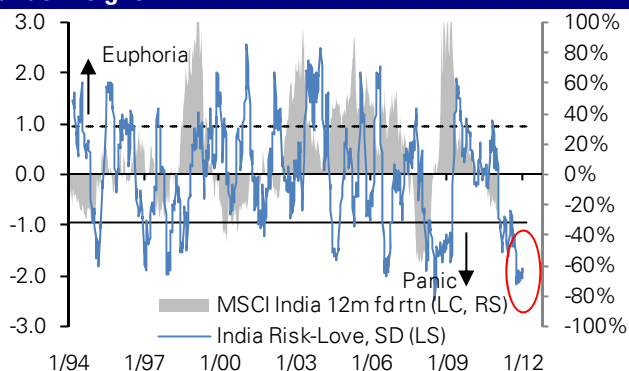


Source: Deutsche Bank, Bloomberg Finance LP

India – upgrading to neutral from underweight (since September 2010)

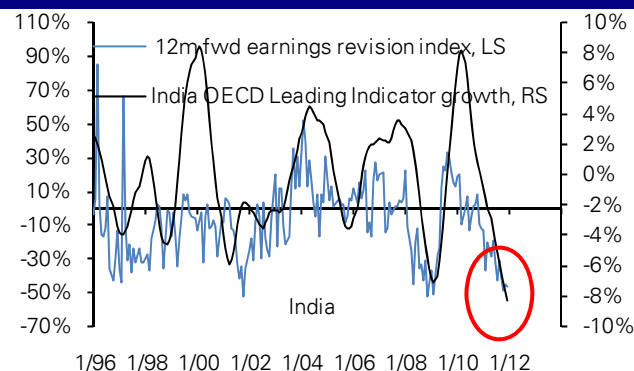
We upgrade India from underweight (since September 2010) to neutral. Why? First, Risk-Love has been in the doldrums for a while now, and fatigue has set in (Figure 11). The stale bulls of last year are no longer talking about a contrarian trade here. Second, valuations look good, but not great. Third, the EPS revisions are at trough levels, a good thing (Figure 12). Fourth, policy has been extremely tight, although looks likely to be less so going forward (Figure 13). Fifth, inflation seems to be peaking out, allowing policymakers more wiggle room (Figure 14). Sixth, the country's "beta" to world activity is on the lower side (Figure 15). We have a darker view of world growth than our macro colleagues, and believe India's domestically oriented economy could be viewed as a buffer if our more maudlin global growth view pans out. We think India's small-cap stocks have been pummelled enough, and could be significant outperformers this year (Figure 16). We back this upgrade by clipping off some weighting from Taiwan. We recognize the various challenges facing India in the near term, and policy inconsistency keeps us from getting overexcited.

Figure 11: Indian sentiment oversold; closing the underweight

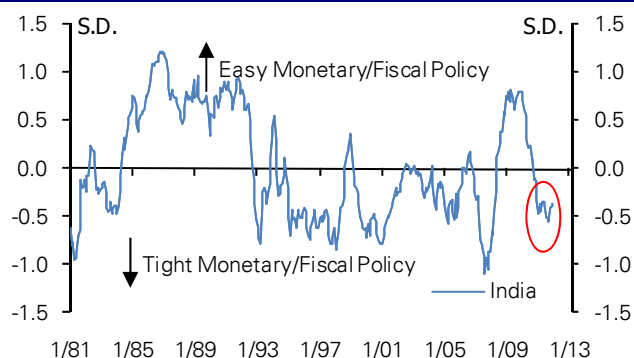


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

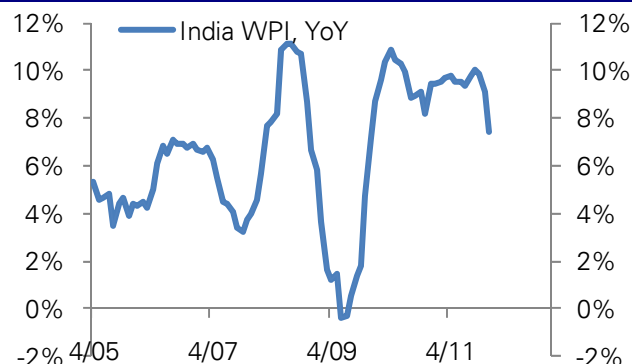
Figure 12: India – EPS revisions seem to be bottoming



Source: Deutsche Bank, EPS revision = # of companies with 12m forward EPS revising up less # of companies with 12m forward EPS revising down divided by total # of companies with 12m forward EPS revised. Data as of month ended December 2011.

Figure 13: India – tight Policy settings, reversal possibilities

Source: Deutsche Bank

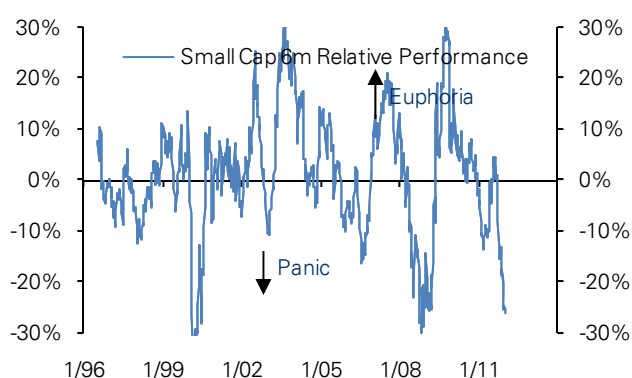
Figure 14: India – has inflation peaked?

Source: Deutsche Bank

Figure 15: India – low beta to US growth

Beta of Asian countries GDP growth vs US GDP growth (1981 - 2010)	
Korea	1.74
Taiwan	1.67
Singapore	1.06
HK	0.76
Malaysia	0.49
Thailand	0.36
India	0.15
Philippines	-0.10
Indonesia	-0.56
China	-2.14

Source: Deutsche Bank, IMF

Figure 16: Small-caps have underperformed massively

Source: Deutsche Bank, DataStream

Lastly, our tactical risk-management model has turned modestly positive for two weeks in a row after being neutral for two months. We are following this carefully. For now, we are sticking to our neutral market view – the short-term global sentiment indicators we track are now edging towards euphoria, and we would rather wait for many more weeks of the risk-management model trends to stay positive and/or these sentiment indicators to at least retrace back to neutral before we change our stance.

Summary

Global

Equity valuations using most models look attractive. We wonder whether these “cheap” valuations simply reflect a new reality, one not seen in the past 60 years. We suggest that an unprecedented number of developed economies are 1) projected to see declining working age population ratios and levels, 2) burdened with leverage/GDP ratios above 100%, 3) suffering from overvalued property markets, and 4) experiencing heightened economic volatility.

Global growth leading indicators are improving; the gap between low and high P/B baskets is narrowing, growth-sensitive asset prices are rising, and MOMLI – the primary leading indicator – is hooking up. While third-party forecasters we respect continue to see a global recession this year, we need to keep an open mind and track our array of leading indicators that are more positive. The global EPS growth forecast for 2012 has fallen sharply from 15% last summer to around 10% now. Price technical indicators are near neutral. Risk-Love in Asia and Europe is in the tank, and in the US, it has spiked above neutral.

Asia

Asian equities look undervalued, especially if the world economy does not fall into recession. However, on a P/B versus ROE less COE model, Asia is less undervalued (20%) than the US and Europe (both look about 40% undervalued). On a free cash flow yield basis, Asia does not look particularly cheap (3.5%), while the US has an 8% free cash flow yield. After a disappointing 2011, Asian Risk-Love is negative. Malaysia, Singapore and the Philippines seem to be less depressed. Technicals in Asia do not look good, with breadth almost as low as in October 2008. Contrarians, take note – this looks oversold. Asian leading economic indicators are exceptionally weak – we forecast EPS growth in the 0-5% range. The Asian M2/market capitalization ratio is signalling a minor negative, as is the low ratio of equity offerings. It is not like late 2008, but then the world does not look as it is going to end as it did back then.

Japan

We reiterate that Japanese equities look cheap. Sentiment is neutral. Technicals are washed out. It is so bad, it could well be good in our view. Leading indicators are just back to neutral, and policy settings are expansionary – quite in contrast to the tightness and plunging LEIs we see in Asia ex-Japan. Free liquidity is rising, fund flows are negative post-tsunami, and the equity offering calendar looks so bad, it is a contrarian positive. The annoyingly consistent correlation between the US ten-year Treasury bond yield and Japanese equities remains intact. Japanese equity bulls are implicitly looking for acceleration in global nominal GDP growth and higher US ten-year bond yields.

China

China equities look cheap compared with history – but that history was a lot more robust. While ROEs are at record highs in China, EBIT margins are making new lows. Implication: asset turnover and rising leverage are keeping ROEs levitating. Perhaps that is what the low-ish multiples are worried about. Sentiment is negative. That is what a year of broad-based capital losses does to the limbic system. As a result, we are nervously taking a contrarian position. Historically, from these levels, Chinese equities have almost always delivered positive returns. This market is as washed out on technicals as the depths of October 2008. We think it is so bad, it could be worth buying into these oversold technicals. Policy settings are neutral, as are the official leading indicators. Analysts have properly cut EPS growth estimates from 15% last summer to about 10% now. Free liquidity is collapsing (along with the money numbers). We suspect the credit multiplier is hooking upwards from near record lows –that is bullish, in our view.

Hong Kong

Hong Kong equities look cheap compared with history on almost all metrics we consider. Sentiment seems to be negative, although the malls, restaurants and nightclubs seem full of happy people. Civilians? This is a deeply oversold market. Leading indicators and the EPS revisions index are suggesting EPS contraction. The good news is that analysts seem to be saying the same thing. We think any China reflation should partially seep into Hong Kong. We also believe it is interesting that Hong Kong's credit and money multipliers have been rising for two years now – we are hopeful that this lending boom does not surprise us with too many bad loans.

India

We think Indian equity valuations look good, but not great, with sentiment bearish. We like this from a contrarian perspective. Small-caps look completely washed out and could be the positive surprise of the year. Like China and Hong Kong, this is a washed-out market technically. Leading indicators and EPS revisions are making new lows, suggesting exceptionally weak EPS growth. We believe consensus EPS growth, especially margin assumptions have more downside. We know liquidity has been tight. The flat yield curve conforms to exceptionally weak leading economic indicators. We are intrigued by the massive divergence between the India credit multiplier (making new highs) and India's money multiplier (making new lows). From where is credit funding coming, if not the deposit base?

Indonesia

Compared with history, Indonesian equities seem to be trading at fair value. They are at a large premium to the region, consonant with their massive ROE premium (25% versus 13% for Asia). Sentiment is negative, a surprise to us, since the other neighbours (Philippines, Singapore and Malaysia) have neutral sentiment levels. Unlike China and India, where the market got washed out last year, Indonesia's technicals are neutral. Growth-leading indicators are neutral, unlike the collapse in Indian LEIs. Analysts have been quick to reduce their margin and sales growth assumptions. Fund flows look positive, and free liquidity is rising.

Korea

Korea's equity valuations look moderately below fair value compared with history. They are not at the washed out levels we see in China. The market continues to be re-rated versus the region, as investors recognize the resilience of its key brands. Sentiment is negative, a contrarian positive. Technicals are neutral. There is no wash-out here like in China or India. Leading economic indicators and EPS revisions suggest weaker EPS growth than analysts expect. The yield curve is flat, suggesting weaker EPS growth.

Malaysia

The market is hitting new post-1997 crisis highs in relative valuations versus the region. There is not much special here in terms of ROE unlike Indonesia, which deserves premium valuations. Risk-Love is neutral. The negativity is not like it is in India or China, or like in October 2008. Breadth had collapsed late in 2011, but is moving up nicely from those washed-out levels. Growth LEIs are neutral, although analyst EPS revisions suggest much weaker growth. Policy settings are on the easier side. We see less EPS downside risk here. Free liquidity is strong.

Philippines

The market looks fairly valued versus history. It is also reaching new all-time highs on relative valuation versus the region. Is this justified? We think so. Philippine margins of 22% are twice those in Asia, and are likely to remain high, given under-investment since 1997. Technicals are neutral. Policy settings are easy, LEIs are at neutral levels and analysts are expecting reasonable 11% EPS growth this year. Strong market performance last year continues to attract inflows.

Singapore

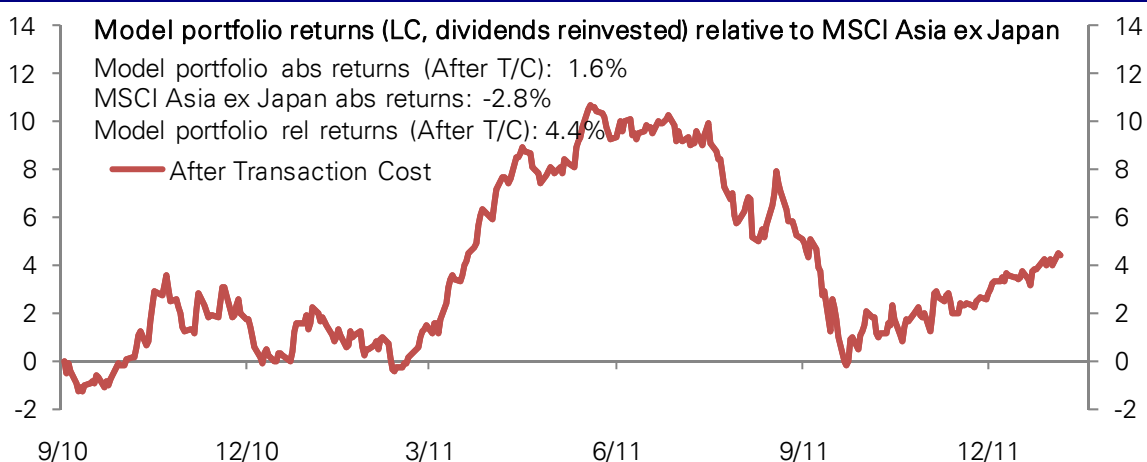
The equity market has been de-rating since 1999, in line with the downtrend in EBIT margins since then. The market is moderately undervalued, considering this downtrend in valuations. Risk-Love is neutral. Surprisingly, the market breadth is washed out, as are other technicals. It is so bad, it looks good. Policy settings are easy, LEIs are dropping fast but analysts have already turned negative – the EPS revisions index is close to recession lows seen in the past. Free liquidity growth is strong and the terms of trade seem to be increasing. We are following this series carefully since it tends to lead Singapore equities.

Taiwan

The market looks fairly valued versus history. The de-rating compared with the region that began in 1989 has reversed somewhat in the past few years, with warmer relations across the straits. The EBIT margins keep falling in every cycle. We believe the rising asset turnover model is reaching its limits – Taiwan needs to take a page from Korea and focus on brand power and get the EBITs up. Sentiment is low-neutral. The technicals are completely washed out here. We are at late 2008 levels. It is so bad it could be good, in our view. EPS revisions are as low as they get. EPS growth is coming off contraction last year. Analyst EPS growth forecasts in Taiwan have massive errors, given tremendous cyclicalities. We think the EPS numbers are too high. Free liquidity is rising. We are excited to see that the terms of trade are rising nicely – they lead the stock market by nine months.

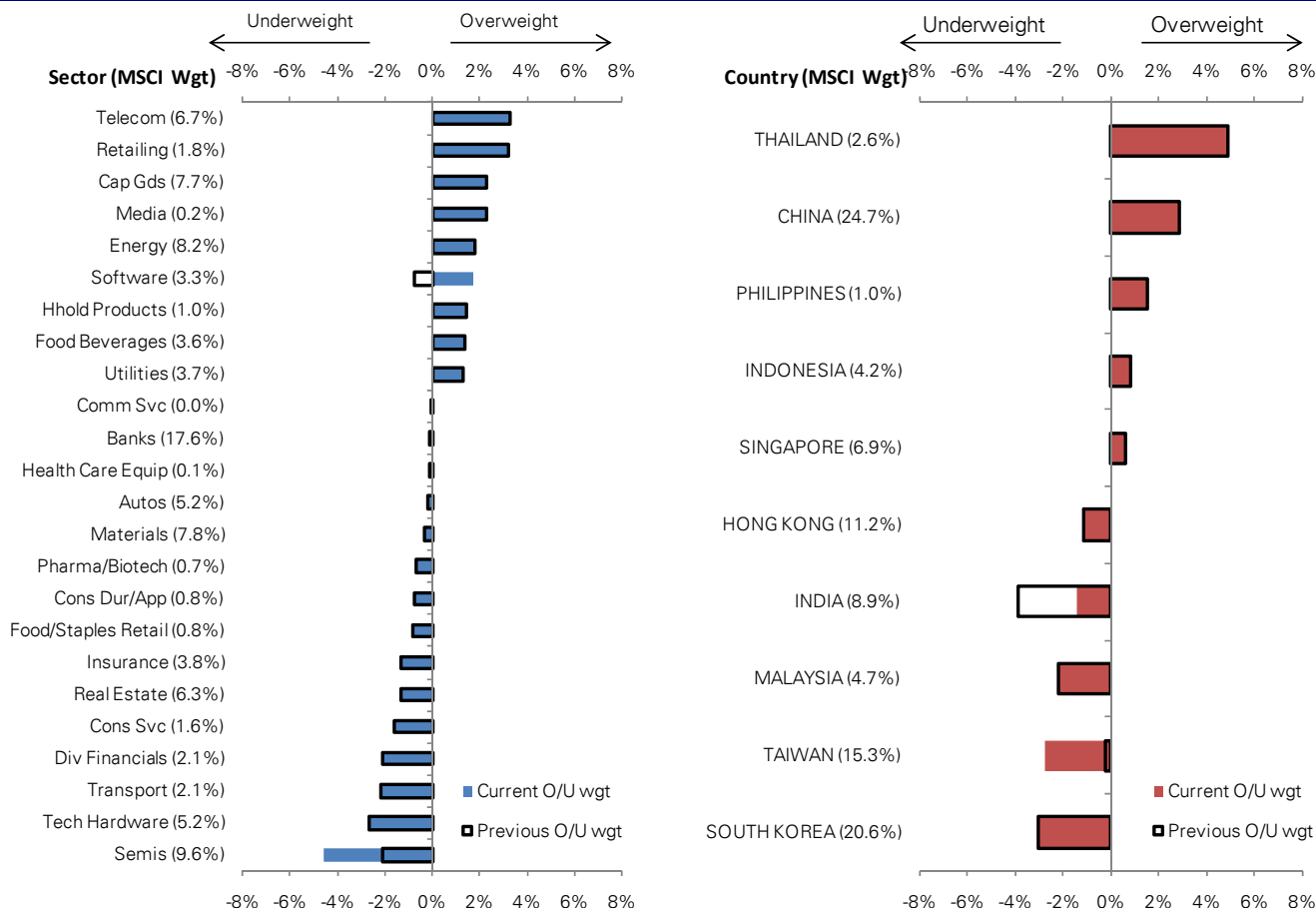
Thailand

The market looks moderately undervalued versus history. We believe the near-record highs in relative valuations versus the region are probably overdone – EBIT margins have been falling for five years now. ROEs are held up by rising asset turns. Sentiment looks truly in the tank, a contrarian positive. Technicals are neutral. Leading economic indicators are resilient, policy settings are easy, but analyst revisions and EPS growth estimates have declined sharply. We think there is less EPS growth downside risk here than for other markets.

Figure 17: Model portfolio performance since inception (13 September 2010)

Source: Deutsche Bank, MSCI, FactSet

Note: Performance is measured in local currency. Stock changes are effective as of close one day after they are officially published (i.e. Changes published on 4th May 2011 will be effective as of close 5th May 2011). *New additions. Assume 50bps on both buying and selling as proxy for transaction cost. Prices as of close 18 July, 2011.

Figure 18: Model portfolio country and sector overweights/underweights

Source: Deutsche Bank, MSCI.

Note: Numbers in parenthesis are sector and country weights in MSCI AC Asia ex Japan index. The model portfolio is equal weighted, each stock has weighting of 2.5%. Data as of close 17 January, 2012.

Figure 19: Asia model portfolio

			DB	Date	Close	Hldg Per	Mcap	20D ADT	FY 12									
Company	BB Ticker	Mkt	Rec	Added	17Jan12	Rtn (%)	(U\$bn)	(U\$ m)	PE (DB est)	Valuation	Profitability	Price Mo	Earnings Mo	Stability	Risk	Growth	Earnings Quality	Cons Rec
Energy - MSCI wgt: 8.2%, portfolio wgt: 10.0%																		
CNOOC Ltd	883 HK	CN	B	11Dec10	15.62	-10.8	85.8	116.6	7.9	o	++	+	o	+	++	o	o	o
ONGC	ONGC IN	IN	B	14Sep10	261.75	-20.7	42.9	9.4	8.2	++	o	++	o	++	++	-	o	++
Oil India	OINL IN	IN	B	30Sep11	1145.50	-13.0	5.4	2.2	NA	++	o	++	o	++	++	--	o	o
PTT	PTT TB	TH	H	14Sep10	330.00	21.1	28.6	26.4	NA	++	+	o	o	+	o	o	o	++
Materials - MSCI wgt: 7.8%, portfolio wgt: 7.5%																		
Formosa Chems & Fibre	1326 TT	TW	B	14Sep10	82.00	19.7	15.5	22.2	10.5	-	++	++	--	o	o	o	++	o
Indocement	INTP IJ	ID	H	14Sep10	18400	1.4	7.1	6.5	15.8	--	++	+	-	++	++	o	++	o
LG Chem	051910 KS	KR	B	14Sep10	358500	5.8	19.7	90.6	NA	-	++	-	o	o	o	o	+	++
Capital Goods - MSCI wgt: 7.7%, portfolio wgt: 10.0%																		
China Comms Construct	1800 HK	CN	B	5May11	6.95	2.4	13.1	9.8	6.4	o	o	++	++	o	o	o	o	++
Sembcorp Industries	SCI SP	SG	B	14Sep10	4.51	4.7	6.0	7.4	10.4	o	+	+	++	o	+	o	o	o
Sembcorp Marine	SMM SP	SG	B	11Dec10	4.64	-2.3	7.1	18.9	12.7	-	++	o	++	o	++	o	o	o
Yangzijiang Shipbldg	YZJ SP	CN	B	14Sep10	1.03	-35.9	2.9	5.7	6.1	++	++	o	++	o	++	o	o	o
Commercial Services & Supplies - MSCI wgt: 0.0%, portfolio wgt: 0.0%																		
Transportation - MSCI wgt: 2.1%, portfolio wgt: 0.0%																		
Automobiles & Components - MSCI wgt: 5.2%, portfolio wgt: 5.0%																		
Hyundai Mobis	012330 KS	KR	B	14Sep10	323000	33.0	26.9	53.6	8.6	-	++	-	+	--	o	o	+	o
Hyundai Motor	005380 KS	KR	B	30Aug11	231000	17.6	43.2	90.7	5.9	o	+	o	++	--	--	o	++	o
Consumer Durables & Apparel - MSCI wgt: 0.8%, portfolio wgt: 0.0%																		
Consumer Services - MSCI wgt: 1.6%, portfolio wgt: 0.0%																		
Media - MSCI wgt: 0.2%, portfolio wgt: 2.5%																		
BEC World PLC	BEC TB	TH	B	11Nov11	42.50	14.1	2.6	2.4	20.1	-	++	+	-	o	++	o	o	o
Retailing - MSCI wgt: 1.8%, portfolio wgt: 5.0%																		
Belle Int'l Holding	1880 HK	CN	B	5May11	12.08	-18.4	12.6	36.4	15.4	-	++	++	o	o	++	o	++	++
Giordano	709 HK	HK	H	14Sep10	5.80	38.8	1.1	1.5	11.0	+	++	++	++	o	++	o	+	+
Food & Staples Retailing - MSCI wgt: 0.8%, portfolio wgt: 0.0%																		
Food Beverage & Tobacco - MSCI wgt: 3.6%, portfolio wgt: 5.0%																		
KT&G	033780 KS	KR	B	14Sep10	74900	22.1	8.8	25.3	10.2	o	o	++	++	++	+	-	--	--
PT Charoen Pokphand	CPIN IJ	ID	B	11Nov11	2250.00	-12.6	4.0	3.6	14.3	-	-	o	+	o	++	o	++	--
Household & Personal Products - MSCI wgt: 1.0%, portfolio wgt: 2.5%																		
AmorePacific	090430 KS	KR	B	30Sep11	1011000	-14.0	5.1	12.3	17.8	o	-	-	o	o	++	++	o	o
Health Care Equipment & Services - MSCI wgt: 0.1%, portfolio wgt: 0.0%																		
Pharmaceuticals & Biotechnology - MSCI wgt: 0.7%, portfolio wgt: 0.0%																		
Banks - MSCI wgt: 17.6%, portfolio wgt: 17.5%																		
Bank of China	3988 HK	CN	B	14Sep10	3.29	-11.6	125.7	116.6	6.6	++	+	o	+	o	o	o	o	--
BOC Hong Kong	2388 HK	HK	B	5May11	20.25	-11.2	27.0	25.6	12.8	++	+	o	-	o	o	o	o	+
China Construction Bank	939 HK	CN	B	14Sep10	5.93	-5.7	183.7	146.7	8.4	-	++	o	o	o	o	o	o	++
ICBC	1398 HK	CN	B	5May11	5.35	-13.2	236.2	149.3	8.0	+	++	o	++	o	--	o	o	++
Industrial Bank of Korea	024110 KS	KR	H	22Jul11	11950	-36.1	5.4	18.8	5.0	-	++	o	o	--	o	--	o	--
Krung Thai Bank	KTB TB	TH	H	11Dec10	14.90	-7.2	5.1	17.8	9.3	-	+	o	o	--	o	o	o	--
Hong Leong Bank	HLBK MK	MY	B	11Nov11	10.90	3.0	6.5	2.5	16.5	-	++	o	o	o	--	o	o	-
Diversified Financials - MSCI wgt: 2.1%, portfolio wgt: 0.0%																		
Insurance - MSCI wgt: 3.8%, portfolio wgt: 2.5%																		
Hyundai M&F Insurance	001450 KS	KR	B	22Jul11	32450	-5.3	2.4	10.5	7.1	++	+	++	-	++	+	++	o	o
Real Estate - MSCI wgt: 6.3%, portfolio wgt: 5.0%																		
SHK Properties Ltd	16 HK	HK	B	11Dec10	101.90	-18.9	33.1	44.4	12.9	++	o	o	o	o	o	o	o	++
Wharf	4 HK	HK	B	14Sep10	40.00	-8.3	15.1	20.7	11.4	+	++	o	o	++	o	o	o	++
Software & Services - MSCI wgt: 3.3%, portfolio wgt: 5.0%																		
SouFun	SFUN US	CN	B	30Aug11	18.60	10.0	1.4	2.7	10.7	o	++	+	++	--	--	++	--	--
Wipro*	WPRO IN	IN	B	New	414.70	NA	19.1	11.2	16.9	o	+	++	o	o	+	o	o	o
Technology Hardware & Equipment - MSCI wgt: 5.2%, portfolio wgt: 2.5%																		
Simplo Technology	6121 TT	TW	B	5May11	197.00	8.7	1.7	7.8	11.0	o	++	++	+	-	++	++	o	++
Semiconductors & Semiconductor Equipment - MSCI wgt: 9.6%, portfolio wgt: 5.0%																		
MStar Semiconductor	3697 TT	TW	B	30Sep11	171.50	5.5	2.9	23.3	12.0	o	++	o	++	--	o	o	--	++
Novatek Microelectronics	3034 TT	TW	B	28Jan11	87.40	-3.5	1.7	9.0	11.9	o	++	o	o	+	o	o	o	++
Telecommunication Services - MSCI wgt: 6.7%, portfolio wgt: 10.0%																		
China Mobile	941 HK	CN	H	14Sep10	76.00	1.6	194.4	126.8	9.8	++	o	o	++	++	++	o	--	o
China Comm Services	552 HK	CN	B	30Sep11	3.41	-3.2	2.7	3.7	7.0	++	-	++	++	+	++	o	--	+
Far EasTone Telecom	4904 TT	TW	B	30Sep11	54.90	20.7	6.1	15.2	17.3	+	+	++	++	o	++	--	o	++
Starhub	STH SP	SG	B	30Sep11	2.88	2.4	3.8	3.1	16.6	o	++	+	-	++	++	o	--	-
Utilities - MSCI wgt: 3.7%, portfolio wgt: 5.0%																		
Aboitiz Power	AP PM	PH	H	14Sep10	29.90	45.2	5.1	2.4	11.6	++	++	--	-	--	++	o	o	o
Guangdong Investment	270 HK	CN	B	30Sep11	4.52	-5.7	3.6	4.7	10.2	+	++	++	o	o	++	o	o	o
Asia Model Portfolio (eq-wgt)**																		
						1.6	31.2	33.3	11.2									
MSCI Asia ex-Japan, LC						-2.8												

Source: Deutsche Bank, FactSet, Bloomberg Finance LP. Note: Stocks are sorted by names in alphabetical order within each sector. Factor scores are given on a country and sector relative basis. Very Favourable (++), Favourable (+), Neutral (0), Unfavourable (-), Very Unfavourable (--), Not Applicable (Blank). For a detailed explanation please see appendix A. Performance is measured in local currency. Stock changes are effective as of close one day after they are officially published (i.e. Changes published on 4th May 2011 will be effective as of close 5th May 2011). *New additions. **Assume 50bps on both buying and selling as proxy for transaction cost.

Country selection

Figure 20: Equity markets and their key drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance/GDP	Real Exchange Rate	Policy	Total Score
China (latest month)	✓✓	✓✓	✓✓	xx	xx	xx	xx	○	-2
China (last month)	○	✓✓	✓✓	○	xx	xx	xx	xx	-4
Hong Kong (latest month)	✓	✓✓	✓	○	xx	xx		✓✓	2
Hong Kong (last month)	○	✓✓	○	○	xx	xx		○	-2
Indonesia (latest month)	○	○	✓✓	✓✓	xx		✓✓	○	4
Indonesia (last month)	○	○	○	○	xx		○	○	-2
India (latest month)	○	✓	✓✓	xx	xx		✓✓	○	1
India (last month)	○	✓	✓✓	xx	xx		✓✓	xx	-1
Korea (latest month)	○	✓	○	xx	xx	xx	○	○	-5
Korea (last month)	○	✓	✓	○	xx	xx	✓✓	○	-5
Malaysia (latest month)	○	✓	○	✓✓	✓✓	xx	○	○	3
Malaysia (last month)	○	✓✓	○	✓✓	xx	xx	✓✓	○	2
Philippines (latest month)	○	○	○	✓✓	xx	xx	✓✓	✓✓	2
Philippines (last month)	○	○	○	○	✓✓	xx	✓✓	○	2
Singapore (latest month)	✓	✓✓	○	xx	xx	xx	✓✓	✓✓	1
Singapore (last month)	○	✓✓	○	xx	xx	xx	○	✓✓	-2
Thailand (latest month)	○	✓	✓✓	✓✓	xx		○	✓✓	5
Thailand (last month)	○	✓✓	✓✓	✓✓	xx		○	✓✓	6
Taiwan (latest month)	○	○	○	○	xx	xx	✓✓	○	-2
Taiwan (last month)	○	✓	○	xx	xx	xx	✓✓	○	-3
Asia ex-Japan (latest month)	✓	✓	✓	x	xx	xx	○	○	-2
Asia ex-Japan (last month)	○	✓	✓	x	xx	xx	✓	○	-2
Japan (latest month)	○	✓✓	○	○	xx	xx	xx	○	-4
Japan (last month)	○	✓✓	○	○	xx	xx	xx	○	-4

Source: Deutsche Bank.

Blank cell represents factor not used in the model for that country.

✓✓ Most Favourable, ✓ Favourable, ○ Neutral, x Less Favourable and xx Least Favourable.

Liquidity is based on YoY change in M2/Market Cap ratio, valuation is based on composite valuation index (based on trailing P/E, 12m fwd P/E, P/cash earnings, P/book, dividend yield, EV/EBITDA and EV/Sales), sentiment is based on Risk-Love indicator, technicals are based on several price based indicators like percentage of stocks above 200-d moving average, number of 52-Weeks new lows and new highs, indices above/below their 200-d moving average etc., growth is based on leading economic indicators and earnings revision index, current account balance/GDP is based on deviation from 3-year moving average trend, real exchange rate is based on deviation from 2-year moving average trend and policy is based on policy indicator.

Figure 21: We prefer sectors with value, high earnings and price momentum, and better profitability



Figure 22: Our most-preferred 20 country-sectors; most-preferred have cheaper valuations, better EPS momentum, higher ROE and better technicals (all metrics refer to MEDIAN data)

			Valuation			Earnings Revisions		Profitability	Technicals				
Country	Sector	Mkt Cap (US\$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	Valuation	Earnings Revisions	Profitability	Technicals
1 Thailand	Energy	21,078	1.7	8.7	8.6	-0.4	-0.6	22.5	0.88	++	O	++	-
2 Hong Kong	Utilities	40,349	1.8	13.8	16.9	0.0	0.0	13.2	1.02	-	+	O	++
3 Korea	Banks	41,599	0.6	5.2		-0.3	-0.6	11.1	0.85	++	O	-	-
4 Hong Kong	Telecommunication Services	1,205	1.7	9.0	9.8	0.5	0.0	17.1	0.90	+	++	+	-
5 Hong Kong	Capital Goods	20,442	0.9	9.8	7.5	0.3	-0.9	15.8	0.83	++	O	+	--
6 India	Automobiles & Components	11,738	3.1	11.1	10.8	0.0	0.6	23.0	1.03	O	++	++	++
7 China	Banks	131,839	1.3	5.9		0.3	-0.3	22.8	0.86	++	+	++	-
8 India	Software & Services	39,673	2.6	12.1	12.4	0.4	0.3	22.8	0.95	-	++	++	O
9 Korea	Insurance	12,686	1.5	7.8		0.0	-0.1	15.3	0.98	++	+	O	+
10 Thailand	Banks	20,715	1.4	9.5		-0.1	-0.2	11.9	0.88	+	+	-	-
11 Korea	Telecommunication Services	5,592	0.8	8.8	12.8	-0.2	-0.5	7.1	0.96	++	O	--	+
12 China	Telecommunication Services	80,339	1.2	11.5	6.1	-0.4	0.1	12.7	0.99	++	+	-	+
13 Indonesia	Food Beverage & Tobacco	8,911	2.7	12.6	10.5	-0.3	0.0	30.5	1.00	-	+	++	+
14 Korea	Retailing	6,574	1.2	10.8	9.6	-0.2	-0.1	12.3	0.97	+	+	-	+
15 Thailand	Telecommunication Services	4,382	2.4	14.8	21.0	0.4	0.3	9.7	1.14	-	++	-	++
16 China	Real estate	28,500	0.7	3.8	4.4	-0.5	-0.8	18.2	0.80	++	-	+	--
17 Malaysia	Food Beverage & Tobacco	14,423	2.1	14.8	10.4	0.4	0.2	20.1	1.01	-	++	+	++
18 Korea	Energy	14,688	0.9	6.6	11.1	-0.7	-0.4	14.6	0.87	++	-	O	-
19 Thailand	Materials	5,738	1.4	9.6	10.0	0.1	0.3	17.3	0.95	+	++	+	O
20 Taiwan	Insurance	10,086	1.3	12.5		-0.1	0.0	10.4	0.78	++	+	-	--
Median		14,556	1.4	9.7	10.4	-0.05	-0.03	15.6	0.95				
Average		26,028	1.6	9.9	10.8	-0.05	-0.13	16.4	0.93				

Source: Deutsche Bank, DataStream, FactSet. EPS revisions is calculated for each stock as the number of analysts revising up the FY1 EPS estimate less number of analysts revising down the FY1 EPS estimate divided by total number of changes in the past three months. We then take the median of these EPS revisions scores for all individual stocks in the country-sector. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap are median data for the sector.

Changes: Deleted Taiwan autos, Korea Autos, Taiwan diversified financials and Hong Kong retailing, added India autos, India software, Thailand telecom and Korea telecom.

Figure 23: Our least-preferred 20 country-sectors; least-preferred have expensive valuations, poor EPS momentum, higher ROE and bad technicals (all metrics refer to MEDIAN data)

			Valuation				Earnings Revisions		Profitability	Technicals				
Country	Sector	Mkt Cap (\$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	Valuation	Earnings Revisions	Profitability	Technicals	
1	Korea	Technology Hardware & Equipment	14,051	1.5	10.6	22.8	-0.2	-0.4	8.6	0.99	-	O	-	+
2	Singapore	Hotels Restaurants & Leisure	7,239	0.9	16.2	10.8	-0.9	-1.0	6.1	0.85	O	--	--	-
3	Korea	Semiconductors & Semiconductor Equipment	119,806	2.0	10.9	16.6	-0.4	-0.7	19.3	1.06	-	-	+	++
4	Taiwan	Semiconductors & Semiconductor Equipment	98,039	1.4	16.9	12.4	-0.7	-0.9	7.9	0.77	O	--	--	--
5	China	Technology Hardware & Equipment	8,136	1.2	5.8	8.2	-0.6	-0.3	13.9	0.81	++	O	O	--
6	Malaysia	Transportation	6,538	2.0	14.3	12.8	-0.9	-0.3	11.1	0.98	-	-	-	+
7	India	Real Estate	2,681	0.9	8.8	12.9	-0.8	-1.0	4.6	0.96	+	--	--	O
8	India	Capital Goods	9,357	2.4	10.0	9.6	-0.8	-0.8	18.8	0.86	O	--	+	-
9	Singapore	Transportation	10,939	1.7	12.6	14.2	-0.7	-0.7	12.7	0.90	-	-	-	-
10	China	Food Beverage & Tobacco	20,084	1.4	13.6	16.0	-0.4	-0.5	14.3	0.92	-	O	O	O
11	Taiwan	Technology Hardware & Equipment	99,224	1.4	9.5	9.6	-0.8	-0.8	12.6	0.81	+	--	-	--
12	India	Food Beverage & Tobacco	9,669	2.6	14.5	12.9	-0.7	-0.3	15.6	0.96	-	O	O	+
13	India	Utilities	9,087	1.7	10.2	11.7	-0.3	-0.4	14.3	0.85	O	O	O	-
14	Singapore	Diversified Financials	4,078	1.2	13.2		-0.9	-0.9	11.2	0.85	+	--	-	-
15	India	Pharmaceuticals & Biotechnology	11,315	3.9	14.9	16.7	-0.2	-0.2	19.7	0.99	--	+	+	+
16	India	Telecommunication Services	815	1.7	22.4	21.9	-0.4	-0.5	4.6	0.90	-	O	--	-
17	Indonesia	Telecommunication Services	9,400	1.6	13.7	14.2	-0.8	-0.4	6.1	0.99	O	-	--	+
18	Malaysia	Utilities	11,617	1.4	13.0	14.0	-0.2	-0.7	13.0	0.96	O	O	O	+
19	China	Household & Personal Products	6,790	2.5	24.3	(6.1)	-1.0	0.0	(9.9)	0.87	--	O	--	-
20	India	Household & Personal Products	7,314	10.1	24.4	25.1	-0.4	-0.1	34.5	1.02	--	+	++	++
Median			9,379	1.6	13.4	12.9	-0.66	-0.49	12.7	0.91				
Average			23,309	2.2	14.0	13.5	-0.60	-0.55	12.0	0.92				

Source: Deutsche Bank, DataStream, FactSet. EPS revisions is calculated for each stock as the number of analysts revising up the FY1 EPS less number of analysts revising down the FY1 divided by total number of changes in the past three months. We then take the median of these EPS revisions scores for all individual stocks in the country-sector. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap are median data for the sector.

Changes: Deleted India software and added China household products.

Figure 24: Asian country sector heat-map for all covered sectors

	China	Hong Kong	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Thailand	Taiwan	Japan
Energy	63		82	120	44				54		24
Materials	99		74	101	102	104				130	34
Capital Goods	90	52	123	5	117	108	40	96		81	55
Commercial Services & Supplies											51
Transportation	95	116			61	113		121		135	28
Automobiles & Components	67		16	39	68	91				114	4
Consumer Durables & Apparel	112	33			68				107	125	23
Hotels Restaurants & Leisure		71				75		136			27
Media			131						111		6
Retailing	132				42			59		127	15
Food & Staples Retailing	137										2
Food Beverage & Tobacco	118		109	48	37	13		35	32		65
Household & Personal Products	140		86	9	105						50
Health Care Equipment & Services	138										94
Pharmaceuticals & Biotechnology			87	66	70						29
Banks	14	100	49	85	12	73	36	89	46	115	7
Diversified Financials	1	110	80		83	119	41	124		57	72
Insurance	129				25					19	43
Real Estate	60	56	133				45	62		64	22
Software & Services	76		20								98
Technology Hardware & Equipment	93	53			106					122	79
Semiconductors & Semiconductor Equipment		38			128					134	139
Telecommunication Services	31	17	126	103	26	21	8	84	11	30	3
Utilities	88	47	92	97	58	77	78				18

Overall (bottom-up ranking) - Latest month	5	4	6	8	9	7	2	10	3	11	1
Overall (bottom-up ranking) - Last month	7	2	10	4	9	6	5	8	1	11	3
Overall (bottom-up ranking) - Avg of last 2 months	6	3	8	6	9	7	4	9	2	11	2

Valuation - Latest month	1	2	5	10	3	9	11	7	4	8	6
Valuation - Last month	5	4	8	11	3	10	9	6	2	7	1
Earnings Revisions - Latest month	7	8	6	4	10	5	2	9	3	11	1
Earnings Revisions - Last month	5	4	9	3	10	6	7	8	1	11	2
Profitability - Latest month	3	5	2	1	9	6	7	8	4	10	11
Profitability - Last month	4	7	2	1	9	5	8	6	3	10	11
Technicals - Latest month	10	9	8	4	5	3	1	7	6	11	2
Technicals - Last month	11	9	5	3	8	2	1	7	6	10	4

Source: Deutsche Bank. Numbers are ranks, smaller is better. Green colour = Most attractive country sectors, Red colour=Least attractive country sectors. Yellow colour = Neutral country sectors. White space = sector market cap too low or data unavailable.

Asia model portfolio

We add Wipro (WIPR.BO) and remove Powertech Technology (6239.TW) from the model portfolio.

Wipro (WIPR.BO) - "The three key reasons behind our conviction are (a) rising customer satisfaction with Wipro's service quality post the organization restructuring and (b) appreciable fall in attrition not only at the overall company level but also at individual projects and (c) bold inorganic initiatives to consolidate position with large clients. Based on improving business traction and attractive valuations, we rate the shares Buy." (Aniruddha Bhosale, *Investment Outlook*, 3 December 2011)

Figure 25: Deletions from model portfolio since inception (13 September 2010)

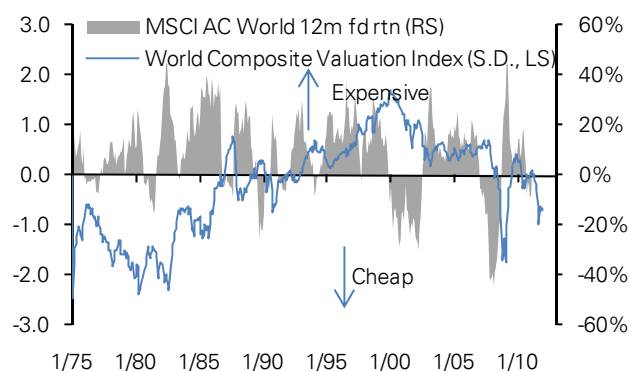
Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 17Jan12	Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 17Jan12
Deletions as of 2 Nov 2010							Deletions as of 6 Jun 2011						
Agri. Bank of China	1288 HK	CN	13Sep10	2Nov10	B	3.77	DiGi.Com	DIGI MK	MY	13Sep10	6Jun11	B	3.85
Anta Sports	2020 HK	CN	13Sep10	2Nov10	H	8.30	Bank of Baroda	BOB IN	IN	10Dec10	6Jun11	B	758.05
Fraser & Neave	FNN SP	SG	13Sep10	2Nov10	B	6.54	Deletions as of 21 Jul 2011						
Deletions as of 10Dec2010							China CITIC	998 HK	CN	4May11	21Jul11	H	4.82
China Shineway	2877 HK	CN	13Sep10	10Dec10	H	10.80	Asian Paints	APNT IN	IN	13Sep10	21Jul11	H	2735.60
Chunghwa Tel	2412 TT	TW	13Sep10	10Dec10	H	97.00	Hyundai Heavy	009540 KS	KR	10Dec10	21Jul11	B	297500
Far EasTone Telecom	4904 TT	TW	13Sep10	10Dec10	B	54.90	Korean Reinsurance	003690 KS	KR	2Nov10	21Jul11	B	14750
First Philippine Hldgs	FPH PM	PH	13Sep10	10Dec10	B	61.90	Deletions as of 29 Aug 2011						
LIG Insurance	002550 KS	KR	13Sep10	10Dec10	B	23750	Sinopec-H	386 HK	CN	11Dec10	29Aug11	B	9.09
Perusahaan Gas Negara	PGAS IJ	ID	13Sep10	10Dec10	B	3250.00	Cathay Pacific	293 HK	IN	14Sep10	29Aug11	B	13.96
PLUS Expressways	PLUS MK	MY	13Sep10	10Dec10	NR	4.43	Maanshan-H	323 HK	KR	7Jun11	29Aug11	H	2.92
SATS	SATS SP	SG	13Sep10	10Dec10	H	2.27	Siliconware Precision	2325 TT	KR	7Jun11	29Aug11	B	30.65
Top Glove	TOPG MK	MY	13Sep10	10Dec10	S	5.15	Deletions as of 30 Sep 2011						
Wynn Macau	1128 HK	HK	13Sep10	10Dec10	H	18.62	DSME	042660 KS		22Jul11	30Sep11	B	27200
Deletions as of 24 Jan 2011							OCI Company	010060 KS		14Sep10	30Sep11	NR	254500
Dongfeng Motor	489 HK	CN	2Nov10	24Jan11	B	14.12	BRI	BBRI IJ		30Aug11	30Sep11	B	6950.00
Hang Lung Properties	101 HK	HK	13Sep10	24Jan11	B	24.50	Samsung Eng.	028050 KS		14Sep10	30Sep11	H	204000
Deletions as of 4 May 2011							Siam Cement	SCC TB		22Jul11	30Sep11	B	325.00
Delta Electronics	2308 TT	TW	13Sep10	4May11	B	78.30	KWG Property	1813 HK		11Dec10	30Sep11	B	3.02
Franshion	817 HK	CN	10Dec10	4May11	B	1.52	SOHO China	410 HK		3Nov10	30Sep11	B	5.36
Genting Bhd	GENT MK	MY	10Dec10	4May11	H	11.00	Deletions as of 11 Nov 2011						
Kasikornbank	KBANK TB	TH	10Dec10	4May11	H	120.00	Hyundai Dept Store	069960 KS		14Sep10	11Nov11	B	177000
Nexen Tire	002350 KS	KR	13Sep10	4May11	H	19450	SJM	880 HK		14Sep10	11Nov11	B	13.20
Orise Technology	3545 TT	TW	27Jan11	4May11	B	29.85	Taiwan Cement	1101 TT		30Aug11	11Nov11	H	36.00
Shanghai Electric	2727 HK	CN	13Sep10	4May11	B	3.89	Deletions as of 19 Jan 2012						
							Powertech Technology	6239 TT		5May11	19-Jan-12	B	65.60

Source: Deutsche Bank, FactSet, Bloomberg Finance LP

Global – valuation

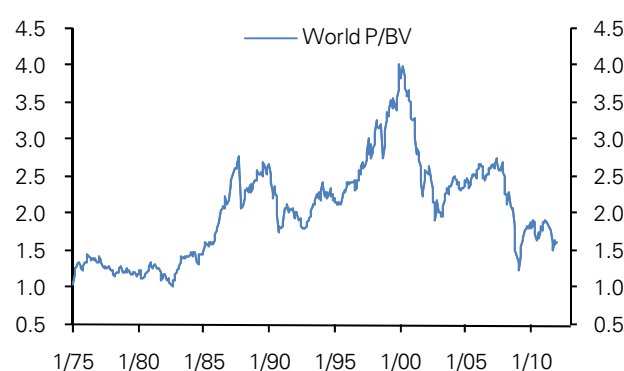
Equity valuations using most models are attractive. We wonder whether these “cheap” valuations simply reflect a new reality, one not seen in the past 60 years. We suggest that an unprecedented number of developed economies are 1) projected to see declining working age population ratios and levels, 2) burdened with leverage/GDP ratios above 100%, 3) suffering from overvalued property markets and 4) experiencing heightened economic volatility.

Figure 26: Composite valuation index



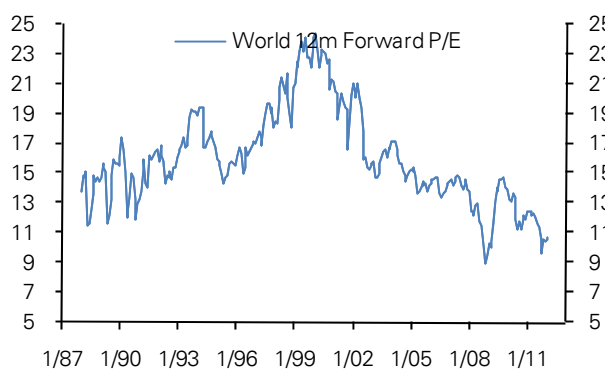
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 27: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream

Figure 28: 12m forward P/E



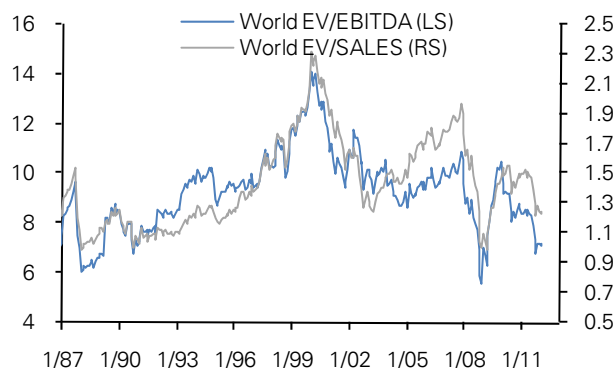
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 29: 12m trailing P/E



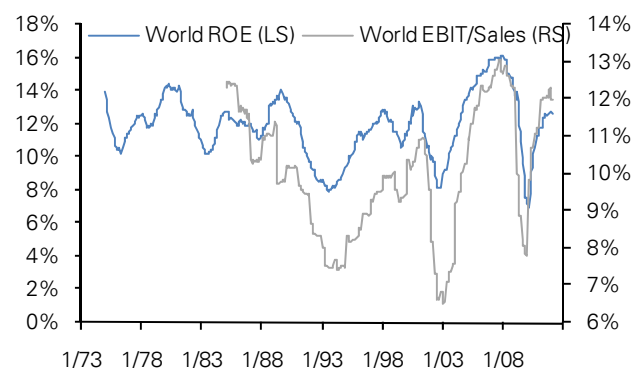
Source: Deutsche Bank, MSCI, DataStream

Figure 30: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 31: ROE and EBIT margin

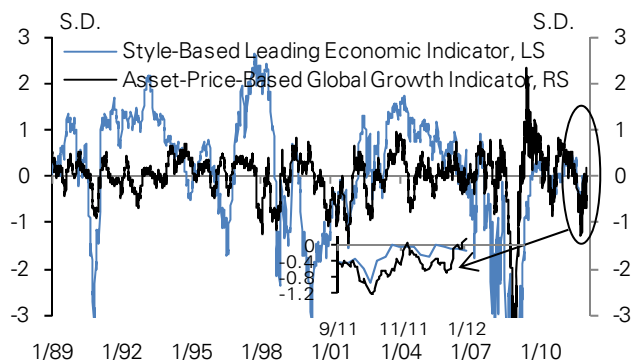


Source: Deutsche Bank, MSCI, FactSet

Global metrics

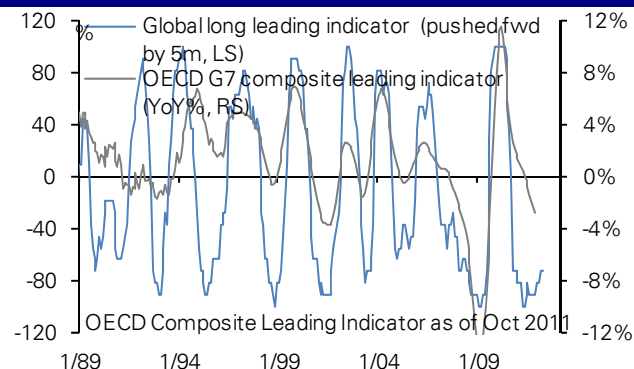
Global growth leading indicators are improving – the gap between low and high P/B baskets is narrowing, growth-sensitive asset prices are rising, and MOMLI – the primary leading indicator – is hooking up. While third-party forecasters we respect continue to see a global recession this year, we need to keep an open mind and track our array of leading indicators that are more relaxed. The global EPS growth forecast for 2012 has fallen sharply from 15% last summer to around 10% now. Price technicals are near neutral. Risk-Love in Asia and Europe is in the tank and in the US it has spiked above neutral.

Figure 32: Market-implied global growth leading indicators



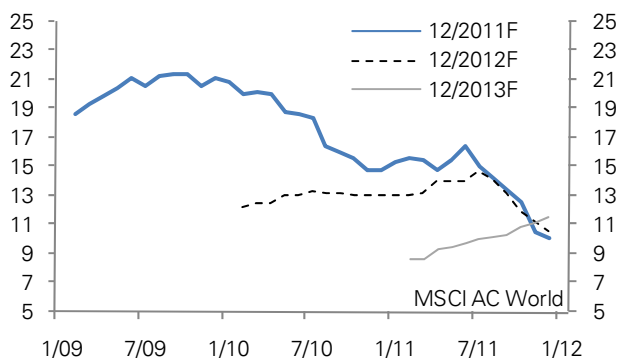
Source: Deutsche Bank

Figure 33: Global long leading indicator (MOMLI)



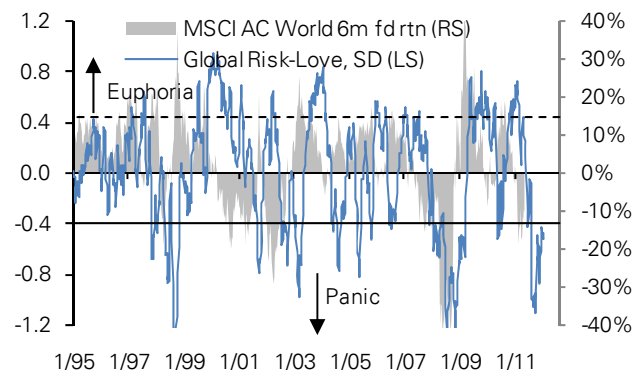
Source: Deutsche Bank, OECD

Figure 34: Earnings growth forecast (%)



Source: Deutsche Bank, I/B/E/S, MSCI

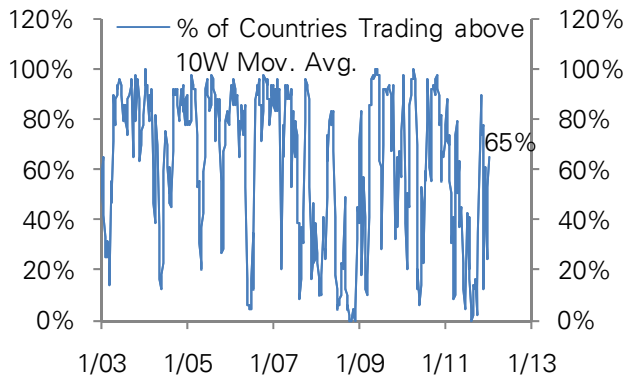
Figure 35: Global equity Risk-Love indicator



Source: Deutsche Bank, MSCI

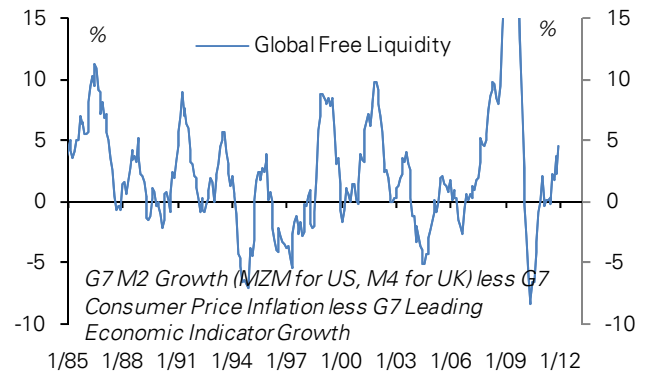
Global metrics (continued)

Figure 36: Percentage of countries above their 10-WMA



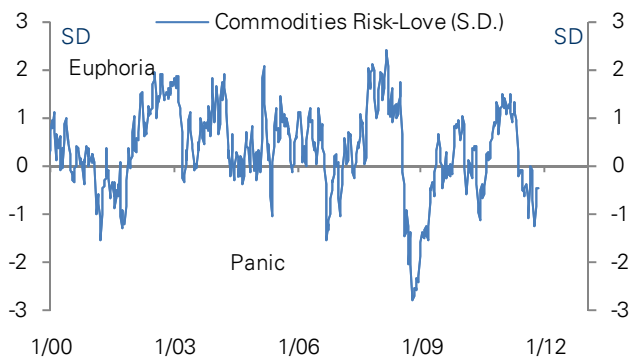
Source: Deutsche Bank. Includes 49 Markets.

Figure 37: Global free liquidity



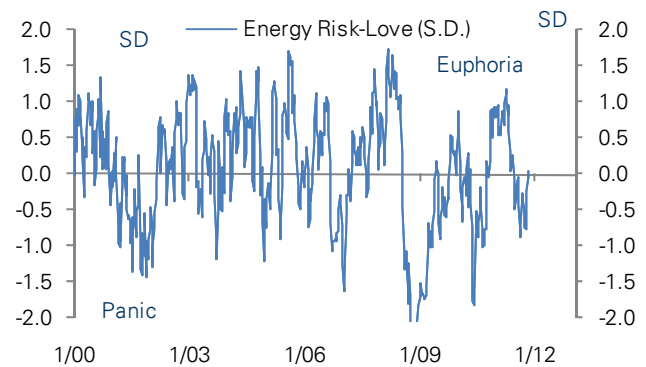
Source: Deutsche Bank

Figure 38: Commodity Risk-Love indicator



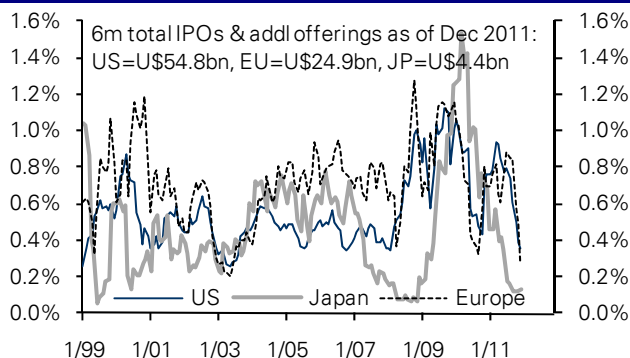
Source: Deutsche Bank

Figure 39: Energy Risk-Love indicator



Source: Deutsche Bank

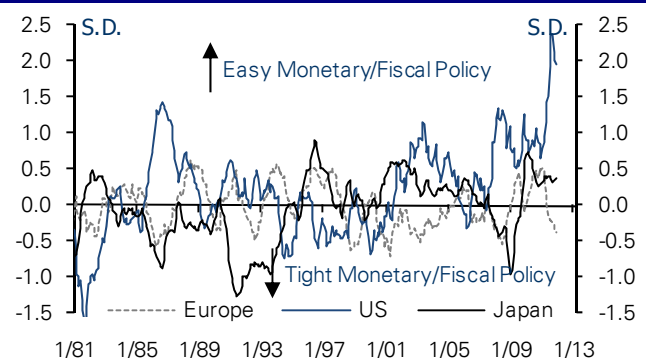
Figure 40: 6m total equity offerings* as percentage of total market cap



Source: Deutsche Bank, Bloomberg Finance LP, DataStream

Note: *Equity offerings includes IPO and additional equity offerings of primary and secondary shares. Data as of close Aug 25, 2011.

Figure 41: Composite policy indicator



Source: Deutsche Bank, DataStream, CEIC, IMF. Note: Composite policy indicator is an equal weighted index of real effective exchange rate YoY growth, real broad money (M2) YoY growth, yield curve (long minus short term interest rate) and government fiscal deficit/surplus as % of GDP.

Global – market intelligence

Figure 42: Market intelligence by country

11Jan12 Region/Country (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
North America (688)	13,392,782	2.9	2.8	15.3	13.4	12.1	2.2	2.0	1.8	1.8	2.1	2.3	42.5	15.4	10.2	13.4	14.6	14.8
Canada (101)	1,180,132	1.8	2.6	17.1	13.6	11.9	1.9	1.7	1.5	2.6	2.7	2.8	14.8	23.2	11.5	11.2	12.7	13.1
US (587)	12,212,650	3.0	2.9	15.1	13.4	12.1	2.2	2.1	1.9	1.8	2.0	2.2	45.6	14.7	10.1	13.6	14.8	15.0
Europe (463)	6,156,076	2.2	1.6	10.9	10.7	9.8	1.5	1.4	1.3	3.9	4.0	4.3	39.7	-0.1	9.1	11.8	12.4	12.7
Austria (8)	22,206	2.4	-0.6	7.8	8.6	7.5	0.7	0.7	0.7	4.6	4.1	5.0	-628.2	-8.6	14.7	9.2	8.6	9.3
Belgium (13)	90,174	5.1	2.0	14.2	15.1	12.2	1.5	1.5	1.4	3.0	3.3	3.9	33.5	-45.9	114.9	10.6	9.7	11.2
Denmark (13)	95,390	5.3	2.8	16.5	18.8	14.5	1.9	2.0	1.9	1.4	1.9	2.1	64.3	-12.4	29.6	11.9	10.6	12.8
Finland (17)	82,757	4.3	4.3	10.1	13.0	12.2	1.3	1.3	1.3	6.1	5.0	5.3	33.4	-20.7	6.3	13.1	10.3	10.6
France (75)	850,267	1.3	1.4	10.1	10.2	9.6	1.2	1.1	1.1	4.4	4.3	4.7	41.7	0.5	5.3	11.0	10.9	10.8
Germany (52)	760,769	3.1	4.6	10.3	10.3	9.5	1.3	1.3	1.2	3.6	3.8	4.1	104.5	-5.2	9.4	13.1	12.0	12.2
Greece (8)	8,726	-7.2	-8.1	8.9	9.0	7.2	1.7	1.6	1.4	1.4	2.7	2.2	-37.3	-123.1	na	7.1	11.6	6.8
Ireland (4)	27,532	12.7	-0.2	17.4	17.0	14.9	1.1	1.1	1.1	3.3	3.3	3.0	1.5	2.5	na	6.0	5.9	6.7
Italy (30)	245,962	-3.5	-1.2	8.0	9.1	7.4	1.1	0.9	0.9	5.9	4.3	5.6	3.0	-18.0	28.2	4.6	5.1	6.7
Netherlands (22)	230,947	1.5	-0.8	10.3	11.5	9.3	1.5	1.4	1.3	3.3	3.0	3.8	65.0	5.9	1.4	13.0	14.4	13.7
Norway (11)	89,277	3.8	1.7	12.7	10.3	9.5	1.6	1.4	1.3	4.7	4.6	5.1	19.5	15.6	16.8	12.6	14.1	13.9
Portugal (8)	20,546	-2.3	-0.5	13.8	11.3	10.5	1.4	1.5	1.4	4.1	3.9	4.2	-12.8	-0.1	8.2	8.1	9.1	9.5
Spain (28)	296,793	-2.9	-1.9	8.1	9.0	8.7	1.1	1.1	1.0	7.9	5.3	5.6	-3.1	-9.5	3.8	13.6	11.9	11.9
Sweden (33)	291,139	5.2	2.5	13.1	12.5	11.6	1.8	1.7	1.6	3.7	4.1	4.4	52.1	-4.2	7.8	15.3	13.7	13.7
Switzerland (37)	815,482	3.3	1.1	12.3	13.1	11.7	2.0	1.9	1.8	3.5	3.7	4.0	26.9	-6.3	12.3	14.2	14.9	15.5
UK (104)	2,228,108	2.5	1.7	11.3	10.1	9.6	1.7	1.6	1.5	3.4	3.9	4.3	43.1	12.2	5.6	14.1	15.6	15.1
Japan (316)	2,076,649	-0.8	0.6	13.9	13.2	11.3	0.9	0.9	0.9	2.4	2.6	2.8	126.7	8.2	23.4	6.8	6.9	7.7
Asia Pac ex Japan (697)	3,244,995	1.5	2.9	12.6	11.7	10.7	1.7	1.6	1.4	3.5	3.5	3.8	31.6	8.1	10.1	13.5	13.5	13.6
Asia ex Japan (621)	2,364,374	2.1	2.8	12.4	11.6	10.6	1.7	1.5	1.4	3.0	3.0	3.2	39.9	7.1	10.4	13.6	13.6	13.4
Australia (71)	869,575	-0.2	3.3	13.1	11.8	10.8	1.7	1.6	1.5	4.6	4.9	5.3	14.6	10.8	9.3	13.3	13.6	14.2
China (147)	588,512	3.4	4.8	10.8	9.7	8.8	1.8	1.6	1.4	3.2	3.4	3.7	34.6	11.6	10.7	16.6	16.6	16.3
Hong Kong (41)	266,548	2.1	1.9	14.3	12.2	13.7	1.3	1.2	1.2	3.0	3.2	3.3	30.5	17.9	-10.4	8.8	9.5	8.2
India (72)	208,304	-0.2	5.3	15.6	14.4	12.6	2.5	2.1	1.9	1.3	1.5	1.8	23.3	9.9	14.0	16.0	14.9	15.1
Indonesia (25)	98,125	4.1	2.7	18.1	15.1	13.1	4.4	3.6	3.1	1.5	2.5	3.0	21.7	20.2	14.9	24.7	24.3	23.8
Korea (104)	480,272	-1.6	0.7	10.6	9.7	8.4	1.3	1.2	1.1	1.4	1.5	1.7	47.2	19.8	12.6	12.0	12.7	12.8
Malaysia (42)	113,002	4.6	0.0	16.7	15.9	14.2	2.1	2.0	1.9	3.3	3.4	3.6	28.7	8.3	12.1	12.6	12.5	13.3
New Zealand (5)	11,046	-2.8	-3.0	13.5	13.4	12.9	1.4	1.4	1.4	6.5	6.1	6.0	-6.2	0.7	4.4	10.4	10.5	11.1
Philippines (15)	23,294	8.6	6.2	17.7	16.5	14.8	3.0	2.7	2.4	2.3	2.7	2.7	30.6	7.5	11.6	16.6	16.1	16.3
Singapore (32)	162,966	2.4	3.8	12.6	12.9	12.2	1.5	1.4	1.3	4.1	4.0	4.0	25.2	-0.9	4.8	12.0	10.7	10.6
Taiwan (122)	361,744	4.9	1.9	12.4	14.6	12.5	1.7	1.7	1.6	4.6	3.9	4.2	88.6	-35.4	33.7	14.5	12.6	13.4
Thailand (21)	61,606	0.8	1.4	14.6	11.8	10.5	2.5	2.1	1.9	3.5	3.7	4.1	25.4	22.9	12.7	17.0	18.1	18.0
EM EU/M East/Africa (139)	592,564	1.0	2.5	9.6	10.7	9.3	1.4	1.2	1.1	2.8	3.5	4.0	34.5	28.2	5.3	15.3	16.6	15.5
Czech Republic (3)	10,708	2.6	-1.2	9.2	10.8	10.0	1.8	1.7	1.6	7.9	6.2	7.2	-1.3	-15.4	8.7	19.5	15.9	16.4
Egypt (9)	9,596	-4.2	4.4	8.4	8.6	7.3	1.4	1.2	1.1	9.5	3.9	4.5	-13.1	3.9	18.5	10.1	11.6	12.9
Hungary (4)	8,913	-0.5	-1.0	8.1	8.1	7.3	0.9	0.9	0.8	na	3.3	4.6	7.4	-0.9	12.1	11.8	10.6	10.9
Israel (14)	67,198	10.3	8.2	9.5	9.2	8.3	1.3	1.5	1.3	3.2	2.6	3.1	27.8	5.3	10.1	13.3	16.0	15.2
Morocco (3)	5,059	2.7	3.1	13.8	14.3	12.9	3.8	3.6	3.6	5.3	5.3	5.6	11.4	-2.9	10.9	27.8	25.6	28.1
Poland (22)	42,278	-4.2	-0.9	10.0	10.4	8.9	1.2	1.2	1.1	4.2	4.7	5.5	35.1	28.0	-11.9	12.5	14.4	12.1
Russia (27)	221,005	5.6	5.3	6.7	8.4	8.4	1.0	0.8	0.7	2.1	3.2	3.1	48.4	38.4	-2.6	15.9	17.6	14.9
South Africa (49)	255,116	-0.7	1.3	16.1	12.8	10.2	2.5	2.2	1.9	2.6	3.5	4.2	26.7	25.6	25.0	14.8	16.5	18.5
Turkey (22)	39,889	-4.1	0.5	8.4	9.3	8.2	1.5	1.4	1.2	3.2	3.4	4.0	17.7	-9.3	13.5	17.6	14.9	15.1
Latin America (136)	776,113	1.5	2.5	13.0	11.9	11.0	1.8	1.7	1.5	2.2	3.3	3.6	20.5	6.4	9.9	14.9	13.7	13.5
Brazil (83)	513,619	1.9	3.5	10.9	10.2	9.7	1.5	1.4	1.2	2.6	3.8	4.1	26.7	4.6	6.2	14.1	13.5	12.9
Chile (18)	51,612	0.3	0.3	16.5	17.0	14.9	2.3	2.1	2.0	2.1	3.0	3.2	23.5	-2.7	13.4	12.6	12.6	13.6
Colombia (9)	31,319	2.1	1.4	23.3	18.7	16.8	1.9	1.7	1.6	2.2	2.9	4.0	49.0	25.0	10.9	8.6	9.1	8.6
Mexico (23)	158,971	0.2	0.2	20.1	16.6	14.6	3.6	2.6	2.4	1.1	2.1	2.3	-8.7	12.5	27.5	21.4	13.6	15.5
Peru (3)	20,592	3.1	3.9	15.9	11.9	11.0	4.0	3.4	2.9	2.4	3.1	3.2	25.8	34.3	8.1	25.2	28.8	26.2
Developed Markets (1630)	23,002,840	2.3	2.3	13.5	12.4	11.3	1.7	1.6	1.5	2.6	2.7	3.0	43.8	9.2	10.5	11.8	12.6	12.9
Emerging Markets (823)	3,303,536	1.7	2.7	11.7	11.4	10.2	1.7	1.5	1.4	2.8	3.1	3.4	35.5	11.6	10.7	15.0	15.0	14.7
World (2453)	26,306,376	2.2	2.4	13.3	12.3	11.1	1.7	1.6	1.5	2.6	2.8	3.0	42.7	9.5	10.6	12.1	12.8	13.1

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

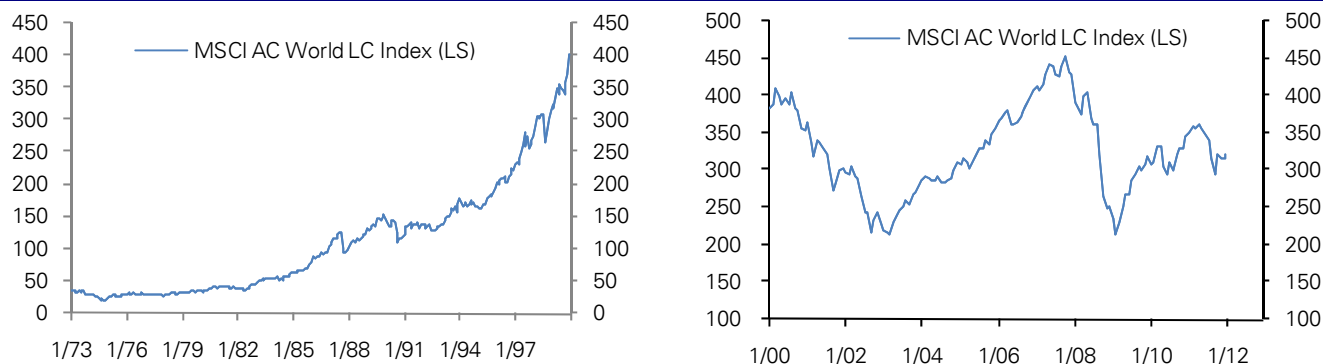
Global – market intelligence (continued)

Figure 43: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (168)	3,164,233	2.0	2.3	12.6	10.5	10.0	1.7	1.5	1.4	2.5	2.7	2.9	37.9	27.8	3.2	13.8	15.7	14.8
Materials (284)	2,148,799	2.5	5.3	13.3	10.8	9.9	1.8	1.5	1.4	2.1	2.5	2.8	78.4	24.3	9.7	13.2	14.3	14.1
Capital Goods (244)	2,052,341	3.7	4.1	14.3	12.0	11.0	1.9	1.8	1.6	2.4	2.7	2.9	34.8	18.8	9.4	13.4	14.9	14.9
Comm Svc (35)	189,852	4.8	2.0	17.6	16.3	14.6	2.3	2.2	2.1	2.6	2.7	2.9	17.3	8.1	11.2	12.5	12.8	13.4
Transportation (101)	541,083	4.3	2.7	15.6	16.9	14.6	1.8	1.7	1.6	2.0	2.2	2.3	107.2	-13.1	20.1	11.4	10.3	11.5
Autos (71)	643,753	3.5	6.1	11.5	10.1	9.0	1.2	1.2	1.1	1.6	2.0	2.4	na	16	10.3	9.7	10.5	11.6
Cons Durables (68)	376,205	0.9	3.6	18.5	19.4	15.3	1.7	1.7	1.6	1.7	1.9	2.1	107.0	-0.5	64.3	10.2	9.5	10.2
Cons Svc (48)	397,222	3.5	2.2	21.8	18.5	16.2	3.7	3.4	3.1	1.8	2.0	2.2	19.4	17.0	10.6	17.4	18.0	19.4
Media (58)	574,377	5.5	3.5	17.4	14.6	12.6	1.9	1.9	1.8	1.7	2.0	2.2	26.0	18.9	16.3	11.4	12.3	13.6
Retailing (77)	666,661	0.3	1.9	19.1	17.4	15.2	2.8	2.8	2.6	1.7	1.8	1.9	25.1	7.7	14.4	15.4	15.9	17.1
Food/Staples Retail (50)	605,663	0.4	-0.1	15.6	14.6	13.1	2.1	2.0	1.9	2.4	2.6	3.0	12.7	7.4	11.3	13.5	13.7	14.2
Food Beverage (109)	1,679,387	1.5	-0.8	17.6	16.2	14.9	3.1	2.9	2.7	2.8	3.1	3.4	12.3	8.7	9.1	18.0	17.1	17.2
Household Products (25)	434,941	1.8	-0.5	17.8	17.1	15.8	3.3	3.1	3.0	2.7	2.9	3.1	3.1	3.7	8.4	18.8	18.5	19.3
Health Care Equip/Svc (62)	611,541	5.1	3.5	15.3	13.7	12.5	2.5	2.3	2.0	0.9	1.2	1.3	12.9	11.2	9.4	16.5	16.9	16.2
Pharma & Biotech (73)	1,834,202	5.3	1.4	12.1	11.8	11.5	2.7	2.5	2.3	3.0	3.2	3.4	11.2	3.6	3.0	19.8	21.2	19.8
Banks (196)	2,272,459	1.5	2.4	10.1	9.1	8.5	1.1	1.0	1.0	4.0	3.9	4.5	67.1	5.8	10.1	8.9	10.0	10.2
Div Financials (100)	1,031,320	3.4	6.7	9.9	11.3	8.8	0.8	0.8	0.8	1.5	2.0	2.5	227.3	-8.4	21.3	8.2	7.2	8.2
Insurance (97)	978,790	1.4	2.8	10.8	12.7	9.3	1.0	0.9	0.9	3.4	3.5	3.8	28.9	-3.4	36.9	6.4	7.3	9.5
Real Estate (122)	626,095	2.3	2.0	17.9	16.8	17.2	1.3	1.1	1.1	3.5	3.7	3.8	52.5	9.3	-0.4	7.3	6.9	6.6
Software (75)	1,357,470	-2.2	1.4	16.5	14.5	13.0	4.1	3.6	3.1	1.1	1.2	1.3	18.6	13.9	11.7	24.7	24.9	23.5
Tech Hard/Equip (99)	1,277,846	2.5	3.4	14.2	12.4	11.0	2.2	1.9	1.7	1.1	1.2	1.3	83.7	11.5	14.1	15.7	16.1	16.1
Semis (59)	594,834	2.3	3.0	12.1	13.3	13.4	2.5	2.3	2.1	2.4	2.5	2.6	323.1	-15.2	2.2	20.0	17.7	16.5
Telecom (96)	1,256,130	0.6	-0.8	11.9	11.9	11.1	1.6	1.6	1.6	5.1	5.1	5.4	3.0	0.2	6.4	14.1	13.6	14.1
Utilities (136)	991,171	0.6	-1.1	12.0	14.1	12.4	1.3	1.2	1.2	4.7	4.6	4.8	-14.3	-15.0	17.6	10.6	8.8	9.8
World (2453)	26,306,376	2.2	2.4	13.3	12.3	11.1	1.7	1.6	1.5	2.6	2.8	3.0	42.7	9.5	10.6	12.1	12.8	13.1

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 44: Equity market performance

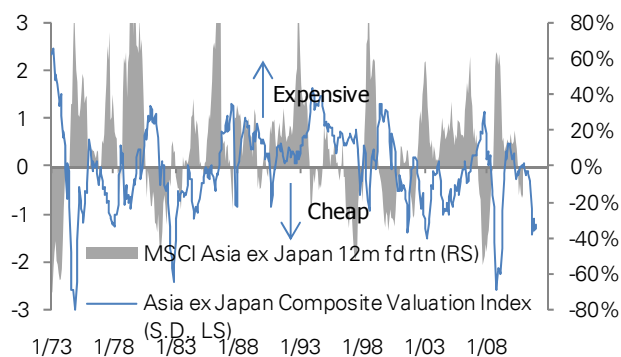


Source: Deutsche Bank, MSCI

Asia – valuation

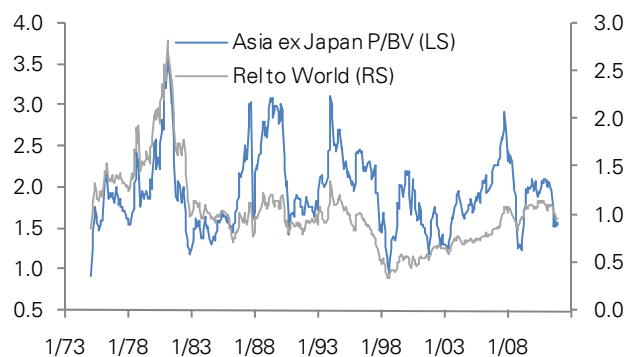
Asian equities look undervalued, especially if the world economy does not fall into recession. However, on a P/B versus ROE less COE model, Asia is less undervalued (20%) compared with the US and Europe (both about 40% undervalued). On a free cash flow yield basis, Asia is not particularly cheap (3.5%), while the US has 8% free cash flow yield.

Figure 45: Composite valuation index



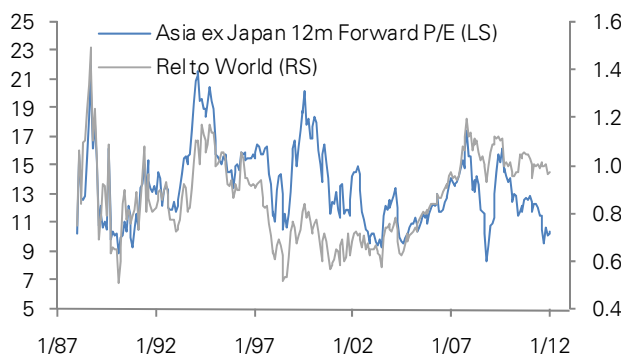
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 46: Price-to-book value



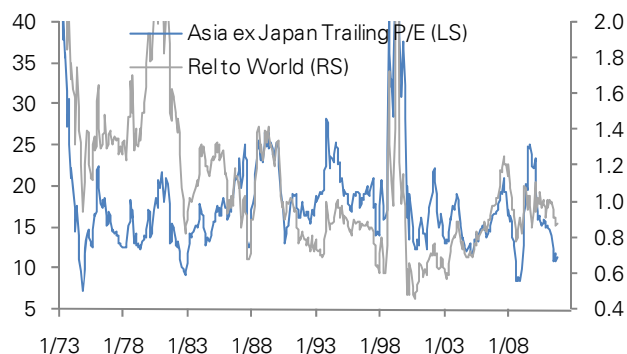
Source: Deutsche Bank, MSCI, DataStream

Figure 47: 12m forward P/E



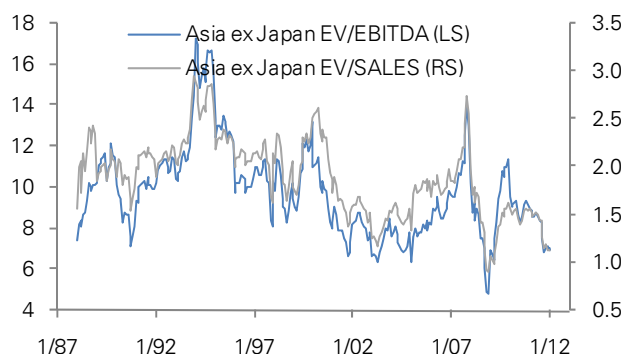
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 48: 12m trailing P/E



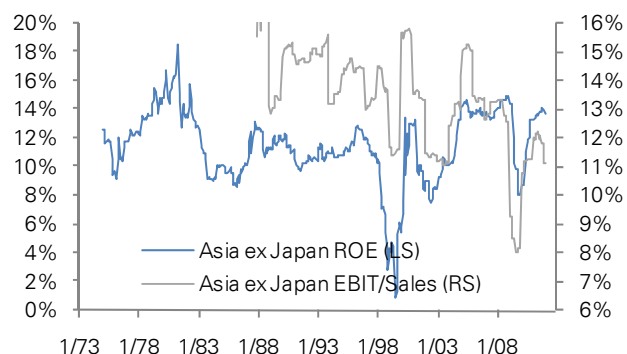
Source: Deutsche Bank, MSCI, DataStream

Figure 49: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 50: ROE and EBIT margin

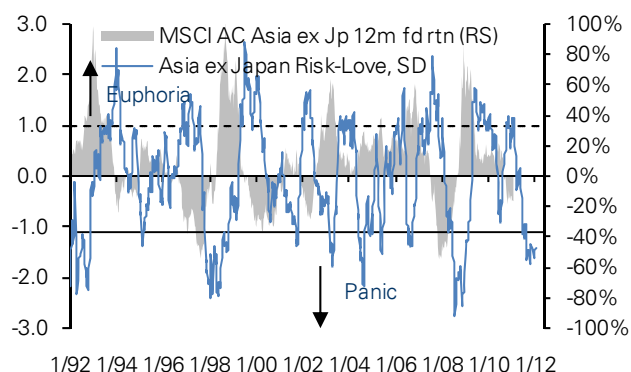


Source: Deutsche Bank, MSCI, FactSet

Asia – investor sentiment

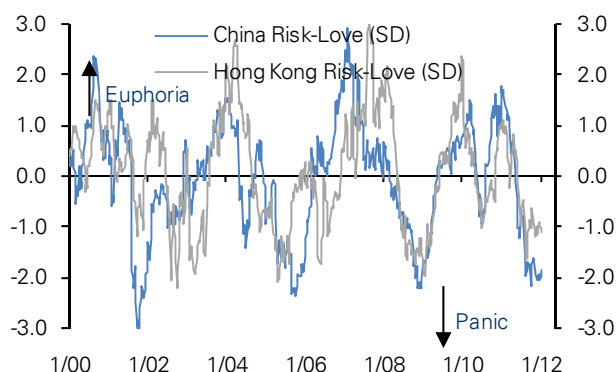
After a disappointing 2011, Asian Risk-Love is negative. Malaysia, Singapore and the Philippines seem to be less depressed.

Figure 51: Asia Risk-Love indicator



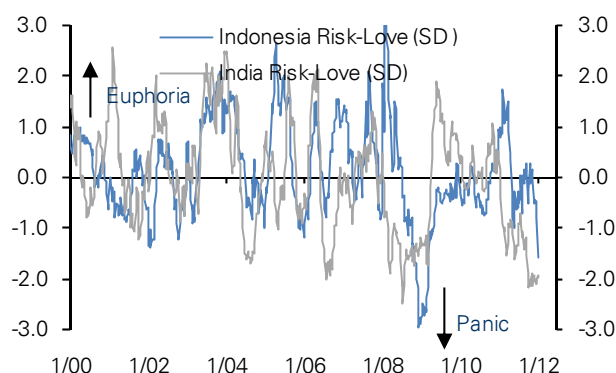
Source: Deutsche Bank

Figure 52: China and Hong Kong Risk-Love indicator



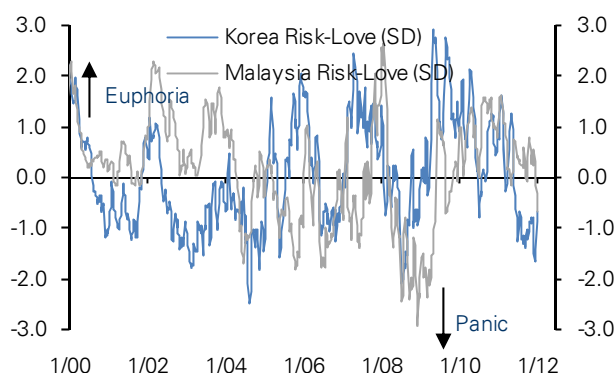
Source: Deutsche Bank

Figure 53: India and Indonesia Risk-Love indicator



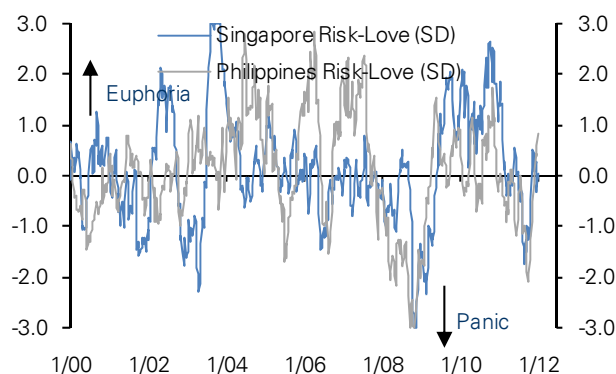
Source: Deutsche Bank

Figure 54: Korea and Malaysia Risk-Love indicator



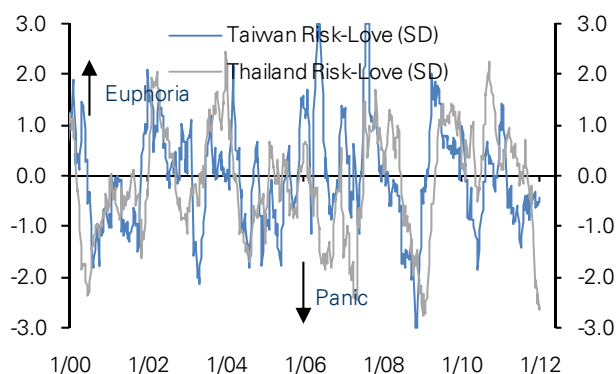
Source: Deutsche Bank

Figure 55: Philippines and Singapore Risk-Love indicator



Source: Deutsche Bank

Figure 56: Taiwan and Thailand Risk-Love indicator

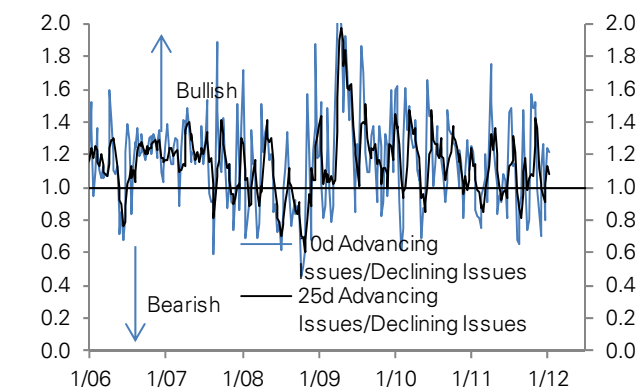


Source: Deutsche Bank

Asia – technicals

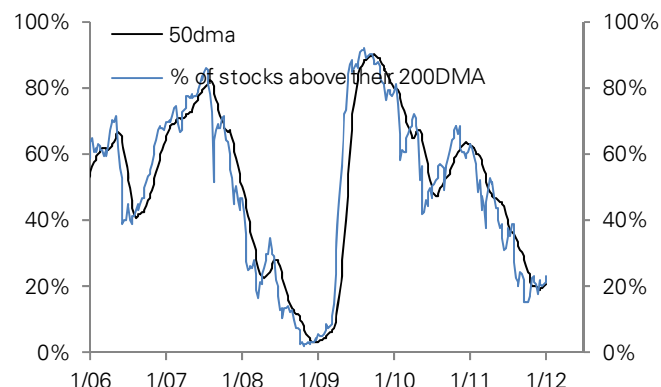
Technicals in Asia are not good, with breadth almost as low as in October 2008. Contrarians, take note – this is a washed out price technical.

Figure 57: Advance/decline ratio



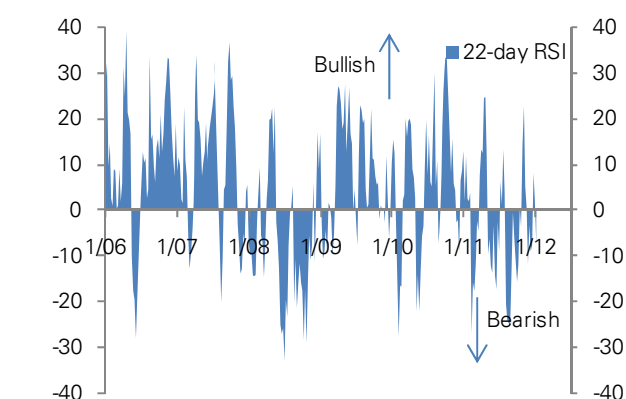
Source: Deutsche Bank, DataStream, FactSet

Figure 58: Percentage of stocks above their 200dma



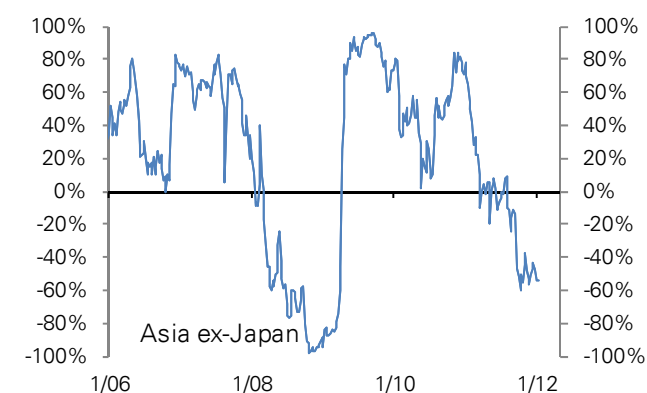
Source: Deutsche Bank, DataStream, FactSet

Figure 59: Relative Strength Index



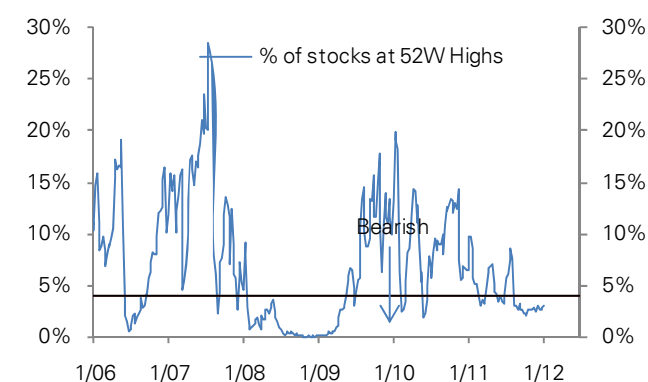
Source: Deutsche Bank, DataStream, FactSet

Figure 60: Market breadth



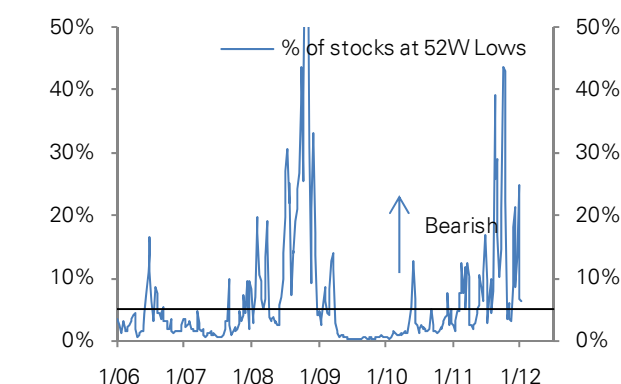
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 61: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 62: Percentage of stocks at 52w Lows

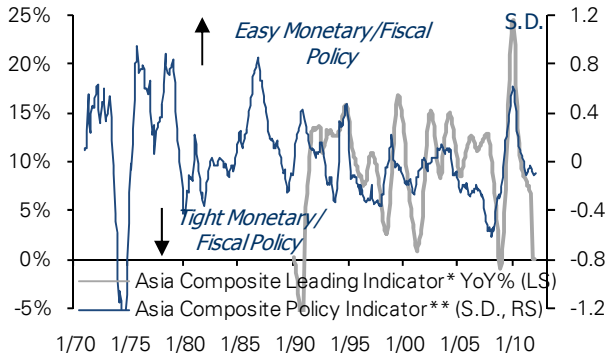


Source: Deutsche Bank, DataStream, FactSet

Asia – growth and earnings

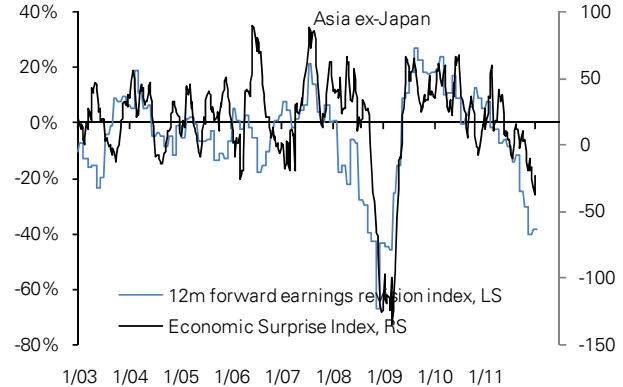
Asian leading economic indicators look exceptionally weak – we believe EPS growth is likely in the 0-5% range .

Figure 63: Leading economic and composite policy indicators



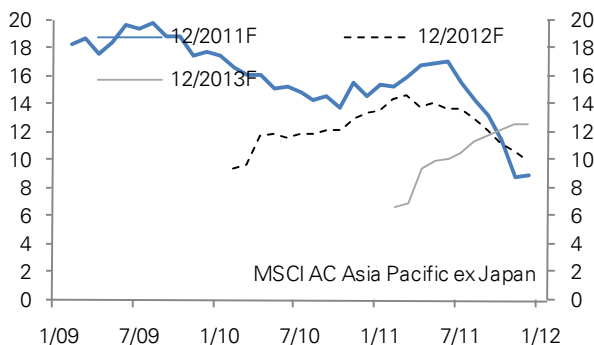
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP. Note: *Market cap weighted average of composite leading economic indicators growth for China, India, Korea and Taiwan. **GDP weighted average of composite policy indicators for China, HK, India, Indonesia, Korea, Malaysia, Philippines, Spore, Taiwan & Thailand.

Figure 64: Economic surprises



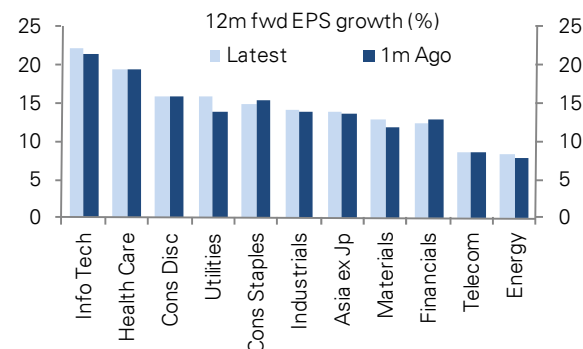
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP

Figure 65: Earnings growth forecast (%)



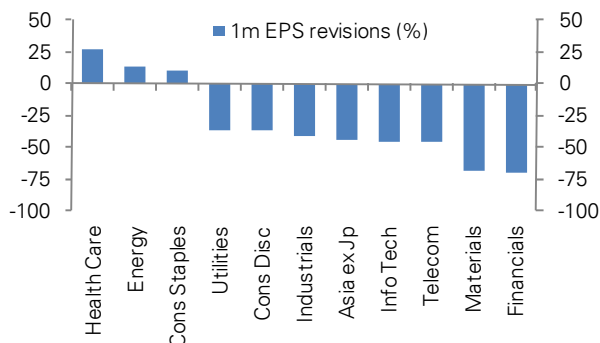
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 66: 12m forward growth forecast by sector



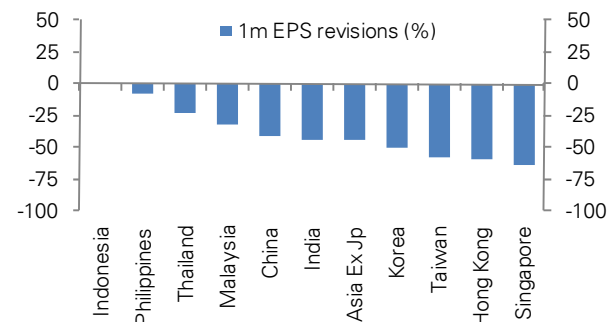
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 67: 12m forward EPS revisions by sector



Source: Deutsche Bank, I/B/E/S, MSCI

Figure 68: 12m forward EPS revisions by country

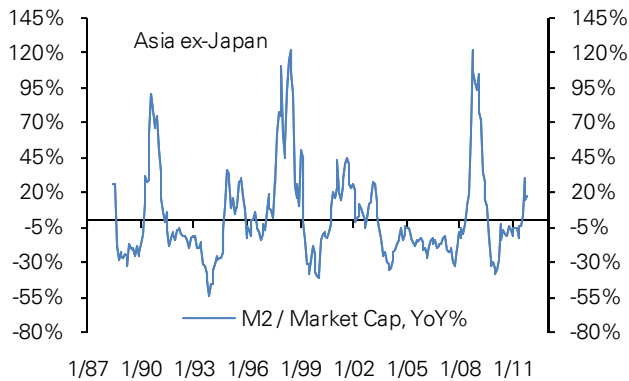


Source: Deutsche Bank, I/B/E/S, MSCI

Asia – liquidity

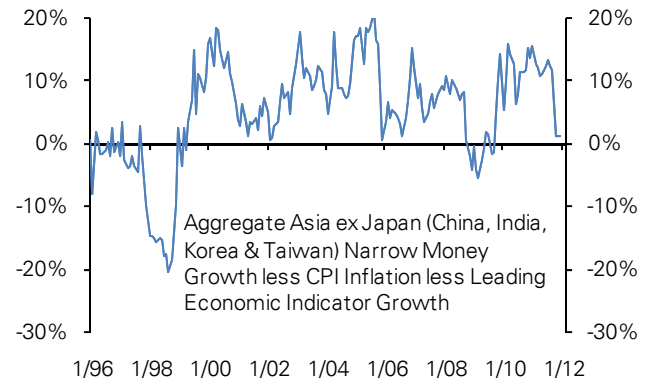
The Asian M2/market capitalization ratio is signalling negative, as is the low ratio of equity offerings. It is not like late 2008, which the world looked likely to end.

Figure 69: M2/market cap



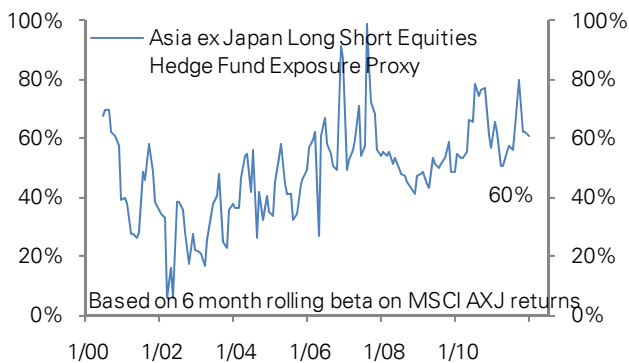
Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 70: Free liquidity



Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 71: Asia-focused hedge fund exposure estimates



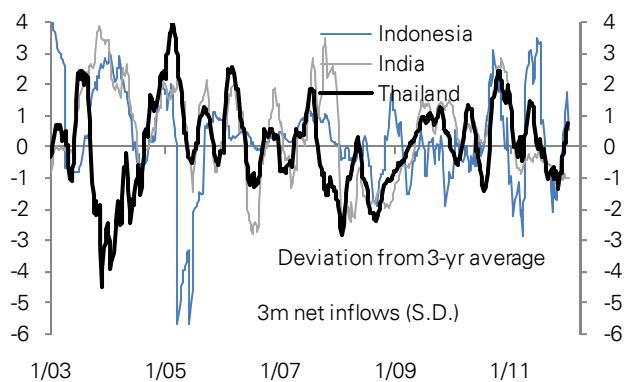
Source: Deutsche Bank, Bloomberg Finance LP

Figure 72: 6m total equity offerings* as percentage of total market cap in Asia ex Japan



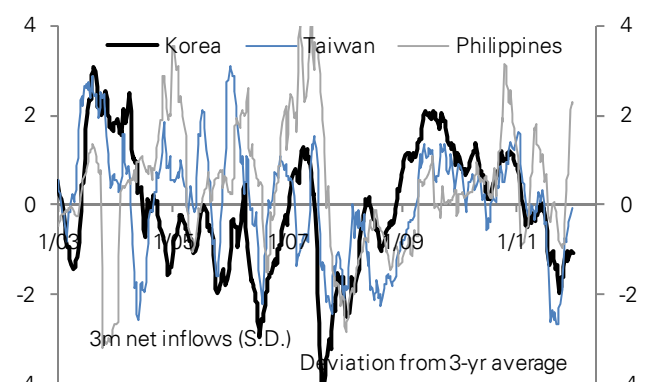
Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: *Equity offerings includes IPO and additional equity offerings of primary and secondary shares. Data as of close Aug 25, 2011.

Figure 73: Foreign fund flows



Source: Deutsche Bank, Bloomberg Finance LP

Figure 74: Foreign fund flows

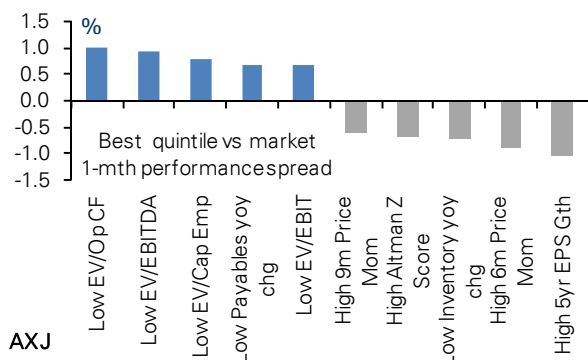


Source: Deutsche Bank, Bloomberg Finance LP

Asia – factor performance

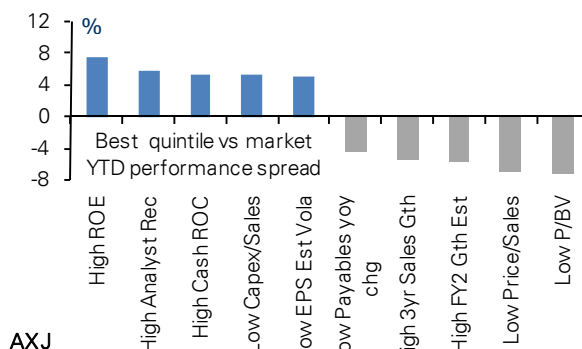
Last year, ROE, analyst opinions and EPS momentum were the clear winners. We think ROE and analyst opinions should continue to be remarkable this year.

Figure 75: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 76: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

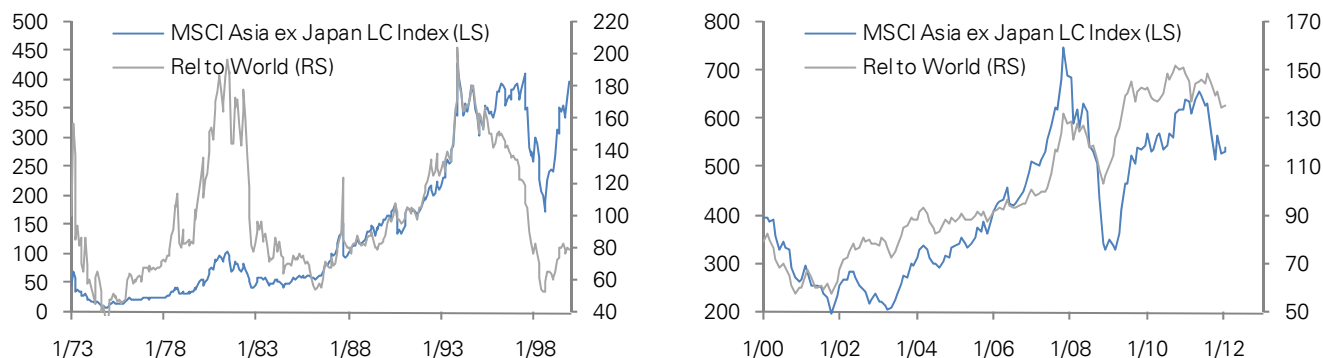
Figure 77: Factor performance (sector neutral**)

Asia ex Japan Dec 31, 11	Returns								Ann. Rtn.									
	YTD	Valuation					5y	10y	15y	YTD	Profitability					5y	10y	15y
		1m	3m	6m	12m	6m					1m	3m	6m	12m				
Low 12m Fd P/E	0.3	0.1	1.8	-0.4	0.3	5.9	8.5	6.4	High Cash ROC	5.3	0.2	0.4	3.6	5.3	6.0	4.3	7.9	
Low Trailing P/E	-2.1	0.5	0.2	-1.4	-2.1	8.3	9.6	7.8	High Cash ROC, yoy chg	4.3	-0.1	2.1	0.2	4.3	3.4	2.9	3.8	
Low P/Op Inc	0.3	0.6	1.9	-0.8	0.3	7.8	8.8	7.3	High ROE	7.5	-0.2	0.5	3.1	7.5	3.3	3.2	3.9	
Low P/BV	-7.1	-0.1	0.7	-3.6	-7.1	3.2	3.7	1.2	High ROE, yoy chg	4.4	0.3	1.3	1.1	4.4	4.8	3.5	3.4	
Low Price/Sales	-6.9	0.3	-0.7	-4.7	-6.9	1.6	3.4	2.1	Average	5.4	0.1	1.1	2.0	5.4	4.4	3.5	4.8	
Low P/FCF	0.4	-0.4	0.3	0.0	0.4	4.1	4.3	5.5	Growth									
Low EV/EBIT	1.4	0.7	1.8	1.4	1.4	7.8	8.5	8.1	High 3yr Sales Gth	-5.3	0.0	1.7	-2.8	-5.3	-1.6	-2.4	-4.0	
Low EV/EBITDA	0.9	0.9	1.8	1.4	0.9	6.6	8.1	8.2	High 5yr Sales Gth	-1.0	0.2	2.7	-1.8	-1.0	-1.3	-1.6	-2.4	
Low EV/Cap Emp	-3.1	0.8	2.2	0.6	-3.1	2.5	3.4	2.5	High 3yr EPS Gth	4.5	-0.2	0.7	1.2	4.5	-0.6	0.7	-2.0	
Low EV/Sales	-0.6	0.4	1.3	0.6	-0.6	5.4	6.0	5.8	High 5yr EPS Gth	1.3	-1.0	0.9	0.0	1.3	-1.4	-0.4	-0.4	
Low EV/Op CF	-0.9	1.0	0.5	0.2	-0.9	6.4	7.5	9.6	High LT Gth Est	-2.9	-0.5	-0.5	-2.7	-2.9	-1.6	1.9	0.7	
Low EV/FCF	3.3	0.2	0.5	2.0	3.3	4.6	4.2	6.6	High FY1 Gth Est	1.6	-0.1	1.8	-1.6	1.6	-0.8	1.2	-1.2	
High Dividend Yield	-0.1	-0.1	-1.1	-1.3	-0.1	7.1	9.0	10.2	High FY2 Gth Est	-5.8	0.6	1.4	-2.8	-5.8	-2.5	-0.1	-1.6	
Average	-1.1	0.4	0.9	-0.5	-1.1	5.5	6.5	6.3	Average	-1.1	-0.1	1.2	-1.5	-1.1	-1.4	-0.1	-1.6	
Price Momentum									Stability									
High 6m Price Mom	1.8	-0.9	-4.5	0.3	1.8	-3.2	-0.4	0.2	Low EPS Vola	1.4	-0.5	-1.8	0.3	1.4	1.4	1.5	1.8	
High 9m Price Mom	2.5	-0.6	-3.5	0.1	2.5	-3.4	0.5	1.9	Low Op Inc Vola	3.0	0.4	-0.1	1.8	3.0	1.4	2.3	3.5	
High 12m Price Mom	2.9	-0.6	-3.2	0.1	2.9	-2.7	0.6	1.6	Low Book Value Vola	-2.4	0.3	0.1	-0.2	-2.4	-0.2	1.5	0.8	
High Price Rel Strg	3.9	-0.4	-1.6	1.7	3.9	-2.4	0.9	3.0	Low Sales Vola	1.4	0.1	-2.4	0.4	1.4	-1.6	0.5	2.1	
High 3m chg in Price Mon	-3.1	-0.5	-4.7	-0.8	-3.1	-2.2	0.6	-0.9	Low EPS Est Vola	5.0	0.2	-2.0	2.3	5.0	0.8	-2.1	0.7	
High Price Up/Dn Days	2.3	0.1	-2.0	1.5	2.3	0.3	1.7	2.2	Average	1.7	0.1	-1.2	0.9	1.7	0.3	0.7	1.8	
Average	1.7	-0.5	-3.3	0.5	1.7	-2.3	0.7	1.3	Risk									
Earnings Momentum									Low FY1 EPS Disp	3.4	-0.5	-3.7	1.0	3.4	0.9	1.6	4.7	
High FY1 EPS Mom	4.8	-0.3	0.6	1.6	4.8	0.7	2.4	2.0	Low FY2 EPS Disp	3.6	0.2	-3.4	1.4	3.6	-0.4	0.7	3.5	
High FY2 EPS Mom	5.0	-0.3	0.2	2.6	5.0	2.4	5.5	5.3	High EBIT/Int Exp	1.8	0.0	-1.3	1.9	1.8	4.3	3.4	5.2	
High 12m Fd EPS Mom	5.0	-0.1	0.7	2.3	5.0	1.3	4.9	4.4	Low Debt/Equity	0.7	-0.1	0.0	2.4	0.7	3.0	1.7	2.5	
High FY1 EPS Rev	3.7	-0.3	-1.6	-2.1	3.7	1.4	4.5	4.1	High Altman Z Score	1.6	-0.7	-3.9	-0.2	1.6	-1.8	-1.3	-0.8	
High FY2 EPS Rev	0.7	-0.6	-2.6	-1.3	0.7	0.6	4.5	4.1	High Market Cap	4.5	0.3	2.1	3.0	4.5	-0.2	0.4	2.0	
Average	3.8	-0.3	-0.5	0.6	3.8	1.3	4.4	4.0	Average	2.6	-0.1	-1.7	1.6	2.6	1.0	1.1	2.8	
Capex Deployment & Earnings Accruals									Consensus Ratings									
Low Capex/Depr	4.5	-0.1	0.5	2.0	4.5	-0.7	-2.5	-1.1	High Analyst Rec	5.8	0.1	1.0	2.8	5.8	2.8	3.8	7.2	
Low Capex/Sales	5.3	0.1	-0.9	2.7	5.3	3.5	1.9	2.4	High Analyst Rec 1m chg	2.1	-0.1	1.1	0.0	2.1	4.4	5.2	4.8	
Low Capex/FA	0.6	-0.4	2.1	0.3	0.6	-2.5	-3.3	-3.6	Average	4.0	0.0	1.1	1.4	4.0	3.6	4.5	6.0	
High Receivables yoy chg	2.2	-0.2	0.5	0.9	2.2	0.7	1.0	0.7										
Low Inventory yoy chg	4.2	-0.7	0.1	0.1	4.2	-0.8	1.1	2.9										
Low Payables yoy chg	-4.5	0.7	0.7	-1.2	-4.5	-2.5	-1.6	-0.6										
Average	2.1	-0.1	0.5	0.8	2.1	-0.4	-0.6	0.1										

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended June 2011. **Quintile baskets are formed on a regional sector relative basis. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.

Asia – market intelligence

Figure 78: Equity market performance



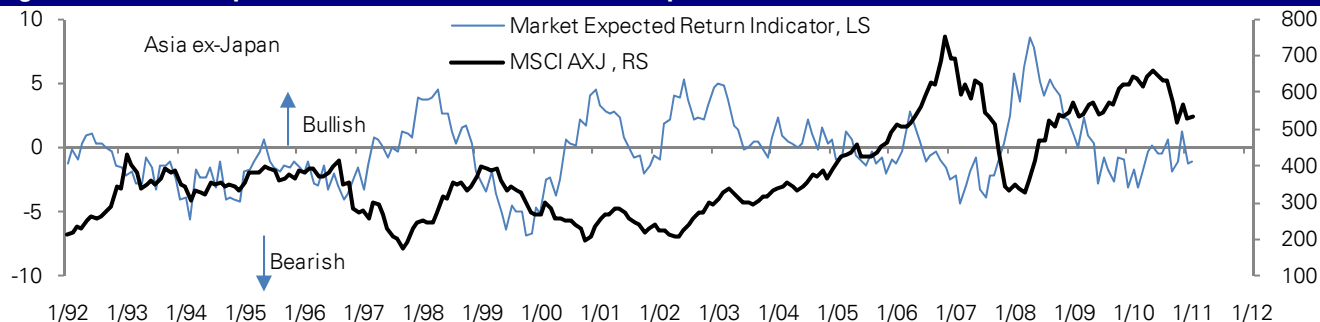
Source: Deutsche Bank, MSCI.

Figure 79: Market intelligence by sector

11Jan12	Mcap	LC Perf	P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (27)	195,799	4.5 8.5	11.6	9.4	9.0	1.9	1.7	1.5	2.9	3.2	3.5	36.9	23.7	5.8	16.5	18.2	17.0
Materials (74)	185,946	0.1 3.1	10.3	9.6	8.9	1.5	1.3	1.2	3.5	2.6	3.4	43.2	10.2	10.9	14.4	13.9	13.9
Capital Goods (75)	181,546	2.1 4.3	11.3	9.8	10.0	1.5	1.3	1.2	2.7	2.5	2.7	28.4	30.8	-4.9	13.0	13.7	12.3
Comm Svc (1)	841	0.5 -1.6	17.6	15.9	14.1	3.1	2.7	2.5	na	2.2	2.3	16.2	10.6	12.2	17.4	17.2	17.4
Transportation (35)	51,508	5.0 4.6	8.1	16.8	13.6	1.0	1.1	1.0	4.3	3.1	3.0	nm	-67.4	44.0	13.7	7.3	7.7
Autos (26)	123,232	2.7 4.3	13.2	10.2	9.0	2.6	2.3	1.9	0.9	1.2	1.4	56.1	30.0	12.8	19.9	22.3	20.6
Cons Durables (15)	19,921	5.3 3.2	11.1	19.1	11.8	1.6	1.4	1.3	2.5	2.5	3.0	-69.0	48.0	61.8	22.2	6.8	11.4
Cons Svc (12)	41,226	0.9 1.6	20.9	17.0	14.3	3.1	2.9	2.5	1.3	1.5	1.6	118.2	23.0	18.8	14.3	15.2	17.4
Media (3)	6,555	0.8 -1.4	15.0	16.8	15.9	3.2	3.2	3.1	4.4	4.5	5.5	6.2	-10.9	5.7	21.4	18.9	19.5
Retailing (15)	41,710	-1.9 2.7	16.5	16.0	14.1	1.9	2.1	1.9	2.7	2.4	2.7	28.3	-16.8	13.3	14.4	13.0	13.4
Food/Staples Retail (6)	19,583	0.9 1.9	26.4	20.1	17.1	3.9	2.4	2.2	2.1	1.9	2.1	34.2	12.2	17.5	14.8	12.1	12.8
Food Beverage (24)	83,864	0.5 1.9	18.3	17.1	15.2	2.9	2.7	2.4	2.0	2.3	2.6	22.4	7.1	12.3	16.1	15.7	15.9
Household Products (6)	23,916	0.4 -2.2	36.7	30.9	25.0	7.2	6.4	5.3	1.9	1.5	1.9	6.3	18.8	23.6	21.3	22.7	24.1
Health Care Equip/Svc (2)	3,192	2.1 -4.2	28.3	23.3	18.7	3.7	2.7	2.4	1.0	1.1	1.3	17.5	21.4	24.4	13.2	11.6	12.8
Pharma & Biotech (11)	17,221	1.0 2.5	23.6	21.0	17.6	3.6	3.1	2.7	0.9	1.0	1.1	26.4	12.6	19.5	15.3	14.9	15.5
Banks (66)	410,162	2.3 3.1	10.6	8.6	8.2	1.4	1.3	1.2	3.5	4.1	4.3	30.9	24.8	4.4	13.2	15.4	14.3
Div Financials (22)	52,539	-1.0 1.8	14.7	13.1	13.3	1.8	1.8	1.6	2.9	3.6	3.6	8.0	13.2	-3.7	12.3	13.5	12.1
Insurance (13)	88,903	-1.8 0.0	16.1	16.1	13.0	2.0	1.8	1.6	1.3	1.6	1.9	10.7	-1.9	27.4	12.2	11.0	12.6
Real Estate (52)	148,532	2.7 2.9	11.4	10.8	11.3	0.9	0.8	0.8	3.3	3.4	3.4	30.1	14.0	-0.3	7.6	7.8	7.4
Software (10)	75,919	4.1 2.8	25.6	21.0	17.4	7.5	5.9	4.7	0.9	1.0	1.1	45.3	21.9	20.5	29.1	27.7	26.7
Tech Hard/Equip (44)	122,776	8.9 3.6	11.8	13.8	10.2	1.6	1.4	1.4	3.4	3.3	3.3	77.4	-54.0	115.1	14.5	12.9	15.3
Semis (29)	223,242	1.1 -0.4	10.0	15.7	13.8	2.2	2.1	2.0	4.1	3.8	3.6	256.1	-47.8	25.9	22.3	14.1	14.8
Telecom (24)	156,809	0.4 0.2	13.4	12.8	12.0	2.0	1.8	1.8	4.7	4.5	4.6	0.5	4.5	6.7	15.0	14.6	14.7
Utilities (29)	89,432	3.2 1.5	17.7	19.2	13.9	1.5	1.5	1.4	2.9	2.7	3.0	12.4	-6.9	37.8	8.5	7.6	9.9
Asia ex Japan (621)	2,364,374	2.1 2.8	12.4	11.6	10.6	1.7	1.5	1.4	3.0	3.0	3.2	39.9	7.1	10.4	13.6	13.6	13.4

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC Asia ex Japan index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calculated to December year end) with current prices. All numbers are free-float adjusted.

Figure 80: Market Expected Return Indicator for Asia ex-Japan



Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan strategy

1. **Political and economic events:** It remains to be seen whether Prime Minister Yoshihiko Noda is capable of demonstrating the strong leadership needed for important issues such as a consumption tax hike, fiscal reform or membership in the Trans-Pacific Partnership (TPP) trade pact. Noda has increased the authority of the DPJ's policy research council, effectively strengthening the effect of decisions made by the ruling party (i.e., an entity outside the government). Furthermore, he still lacks a majority in the Upper House. We suspect that Noda will continue to do little more than express his desire without the ability to translate this into actual policy.

The change of leadership in North Korea should not significantly affect financial markets. We believe the new regime's movements will be limited for now and expect no impact on corporate activity.

Labour statistics in October found gross compensation up 0% YoY, raising hopes of a recovery. The Consumer Confidence Index was down 5.7% YoY in November. Meanwhile, core machinery orders (private demand excluding ships and electric power) fell 6.9% MoM in October (+1.2% YoY) in a negative surprise.

Our economics team slightly adjusted its 2012 economic outlook for Japan on 16 December, raising its real GDP forecast for the calendar year from +0.5% to +0.7%.

2. **Corporate earnings and investment opinions:** The IBES 12-month forward earnings estimate revisions [(upward revisions – downward revisions) divided by the number of target stocks] worsened to -19% in December.

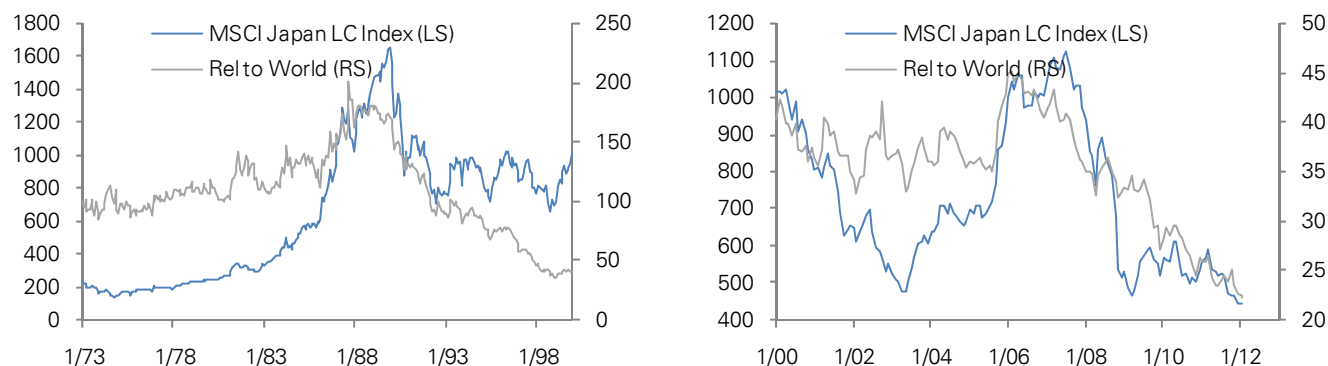
Our analysts have raised their ratings for Canon Marketing (8060), Daiwa House (1925) and Nexon (3659) from Hold to Buy, and lowered their ratings on Ricoh (7752) from Buy to Hold. Please refer to the respective analyst reports for details.

3. **Investor trends:** Investor trends published by TSE showed that foreigners remained net sellers in December, while individuals and trust banks were net buyers. Trading is still weak. The QSS (QUICK survey) in early December found that investors on average remained heavily underweight in utilities and overweight in a wide range of other sectors. The overweighting has transitioned from telecom to automobiles as portfolios, gradually reflecting expectations of a US recovery, in our view.
4. **This month's events:** Will US indicators such as payroll figures demonstrate a decoupling from the European economy as the markets hope? Will the EU Summit produce new policy measures?
5. **Top stock ideas:** Kajima, 1812.T, Toray Industries, 3402.T, Gree, 3632.T, Mitsubishi Tanabe Pharma, 4508.T, Rakuten, 4755.OS, Rinnai, 5947.T, Aisin Seiki, 7259.T, Itochu, 8001.T, Sumitomo R&D, 8830.T, NTT DoCoMo, 9437.T

Naoki Kamiyama, CFA

Japan – market intelligence

Figure 81: Equity market performance



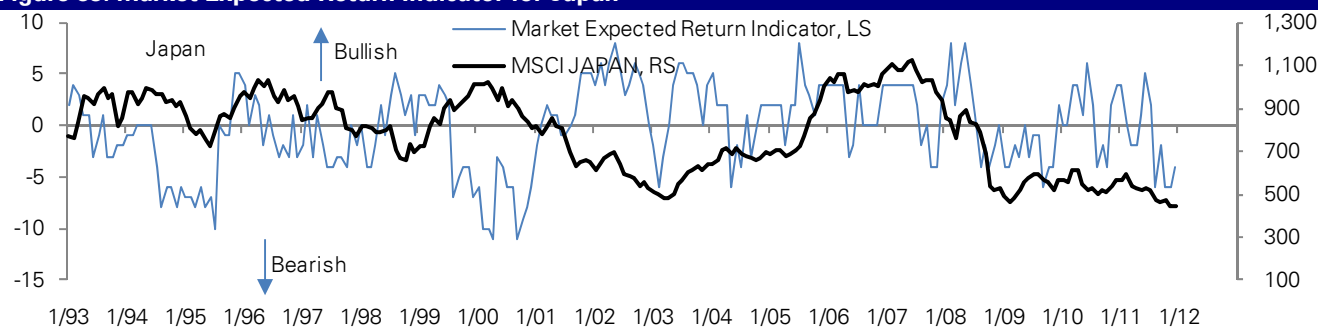
Source: Deutsche Bank, Bloomberg Finance LP, DataStream.

Figure 82: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap U\$m	LC Perf 1m YTD	P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
			CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (7)	36,897	-3.6 0.2	10.9	7.2	8.6	0.8	0.7	0.7	2.0	2.6	2.6	185.5	38.6	-23.2	7.7	11.1	8.1
Materials (35)	147,702	-3.0 -1.1	15.2	12.8	10.8	0.8	0.8	0.8	2.2	2.4	2.7	319.7	17.4	24.5	5.3	6.7	7.4
Capital Goods (49)	313,726	-2.1 0.7	11.8	9.2	8.3	1.1	1.0	0.9	2.2	2.8	3.0	80.3	29.5	11.2	9.4	11.2	11.4
Comm Svc (3)	19,079	0.3 -0.6	16.8	17.2	15.0	0.7	0.7	0.7	3.2	3.2	3.3	55.6	-2.5	15.1	4.4	4.1	4.6
Transportation (18)	99,550	2.1 -1.2	17.4	18.8	15.6	1.0	1.0	0.9	1.9	1.8	1.8	34.2	-12.2	21.1	6.0	5.1	6.3
Autos (22)	249,845	-0.1 1.9	14.6	14.5	11.2	0.9	0.9	0.9	1.7	2.0	2.4	nm	1.8	33.5	6.3	6.0	7.6
Cons Durables (14)	81,467	-3.6 -1.3	27.5	60.0	20.4	0.7	0.7	0.7	1.9	2.0	2.1	na	na	na	2.9	1.3	3.6
Cons Svc (3)	10,527	3.6 0.9	25.3	21.9	17.4	1.9	1.8	1.7	1.7	1.7	1.8	-2.1	15.5	25.7	7.6	8.4	9.8
Media (4)	10,575	2.0 -0.7	22.8	20.6	17.0	1.1	1.1	1.1	1.4	1.5	1.6	41.0	10.7	20.8	5.0	5.4	6.2
Retailing (11)	42,067	3.8 0.8	19.0	17.1	13.1	1.5	1.4	1.3	1.3	1.3	1.4	31.7	26.2	30.3	8.5	8.2	9.7
Food/Staples Retail (4)	35,319	0.4 -0.8	17.6	14.9	12.7	1.1	1.1	1.0	2.6	2.7	2.9	86.5	17.8	17.5	6.4	7.2	8.0
Food Beverage (13)	69,063	3.0 3.3	23.2	19.3	15.9	1.3	1.2	1.2	1.8	2.0	2.2	2.7	20.3	20.7	5.5	6.5	7.4
Household Products (3)	26,653	5.5 0.1	25.7	22.2	20.0	2.2	2.1	2.0	2.5	2.6	2.6	-7.7	16.0	11.1	8.4	9.5	10.1
Health Care Equip/Svc (7)	20,901	-1.0 2.0	20.8	20.4	16.0	1.4	1.3	1.3	1.8	1.7	1.8	-17.5	1.9	27.2	6.4	6.2	7.6
Pharma & Biotech (14)	109,918	2.2 -1.7	13.5	15.2	15.3	1.3	1.3	1.2	4.1	4.2	4.2	4.4	-10.7	-0.8	9.6	8.4	8.1
Banks (23)	193,580	0.1 2.8	8.0	6.7	7.6	0.6	0.6	0.6	3.7	3.7	3.7	235.9	18.4	-12.1	7.7	8.8	7.3
Div Financials (7)	34,406	0.3 5.2	22.3	29.4	13.7	0.5	0.5	0.5	2.4	2.3	2.4	na	-24.2	114.3	2.3	1.8	3.7
Insurance (6)	71,232	-0.2 1.6	21.4	87.9	21.3	0.7	0.7	0.7	2.7	3.7	3.6	-16.4	-14.5	313.2	3.3	0.8	3.2
Real Estate (14)	68,905	-4.6 1.4	20.5	17.1	15.4	1.2	1.1	1.1	1.7	1.9	2.0	12.6	19.7	11.3	5.9	6.7	7.1
Software (12)	39,995	-5.2 -3.9	15.0	21.2	16.5	1.4	1.5	1.4	3.2	2.0	2.0	-34.4	-30.5	28.3	10.1	6.9	8.4
Tech Hard/Equip (25)	201,674	-3.7 -0.3	15.3	14.0	12.0	1.1	1.0	1.0	2.3	2.5	2.7	na	11.4	16.1	7.0	7.3	8.1
Semis (5)	16,857	-4.9 0.8	20.9	41.1	25.2	0.9	0.8	0.8	2.3	1.9	1.8	na	-253.2	na	3.8	2.2	3.5
Telecom (4)	96,039	-0.3 -0.8	11.2	9.6	8.8	1.1	1.0	0.9	2.5	2.7	2.9	16.0	16.8	9.3	10.1	10.8	10.8
Utilities (13)	80,671	3.1 2.2	13.5	-694.4	17.1	0.7	0.8	0.8	3.8	3.6	3.4	-212.2	na	na	4.9	-0.1	5.5
Japan (316)	2,076,649	-0.8 0.6	13.9	13.2	11.3	0.9	0.9	0.9	2.4	2.6	2.8	126.7	8.2	23.4	6.8	6.9	7.7

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 83: Market Expected Return Indicator for Japan

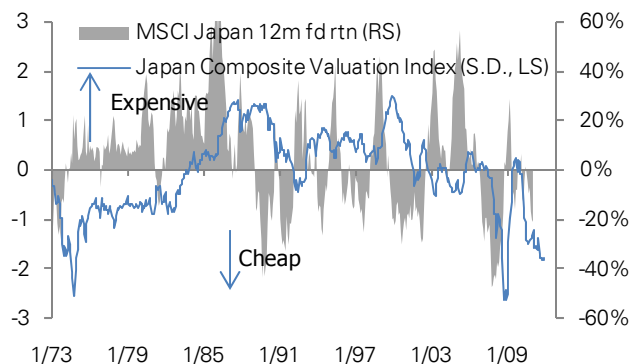


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan – valuations

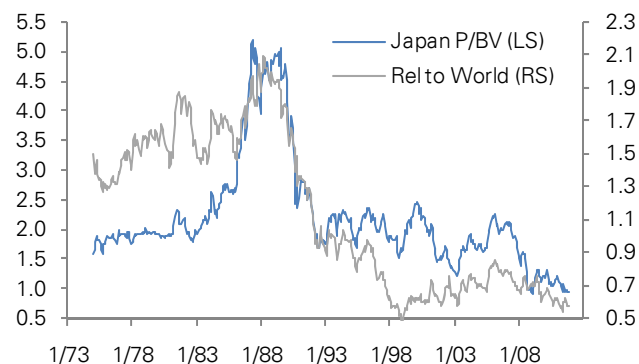
We reiterate that Japanese equities look cheap.

Figure 84: Composite valuation index



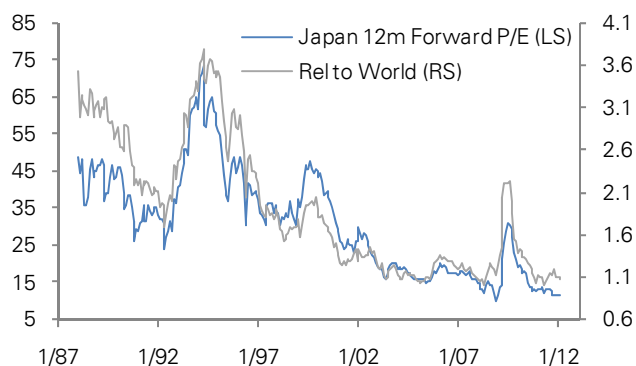
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 85: Price-to-book value



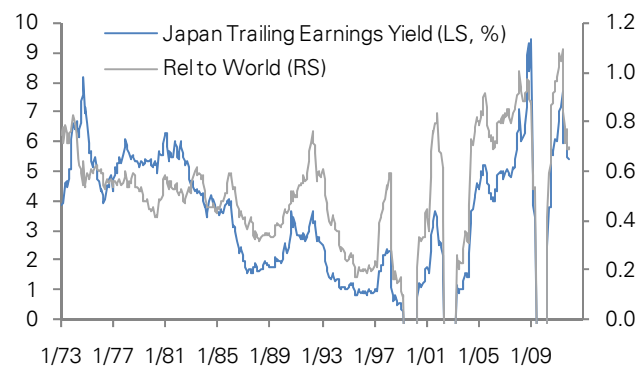
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 86: 12m forward P/E



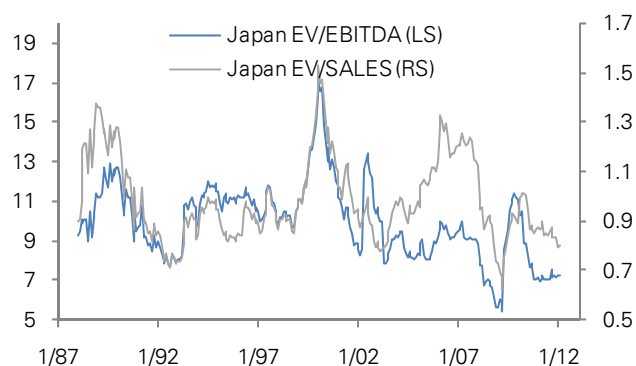
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 87: 12m trailing earnings yield



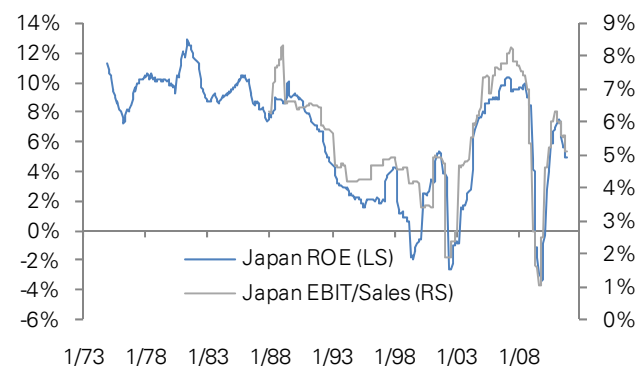
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 88: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 89: ROE and EBIT margin

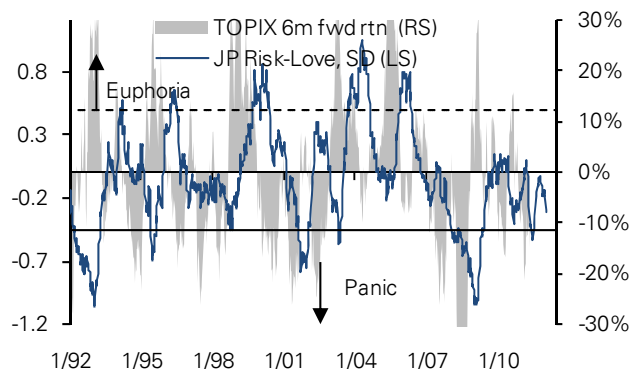


Source: Deutsche Bank, MSCI, FactSet

Japan – investor sentiment

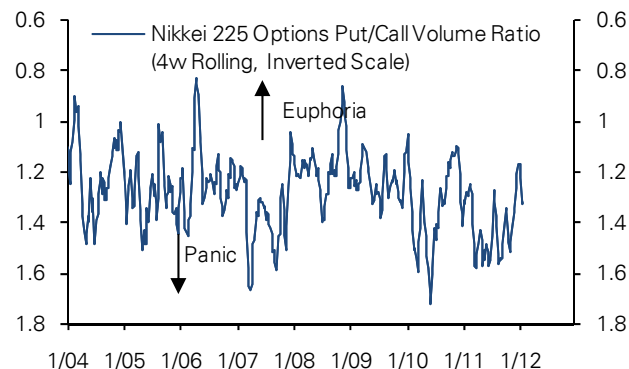
Sentiment is neutral.

Figure 90: Equity Risk-Love indicator



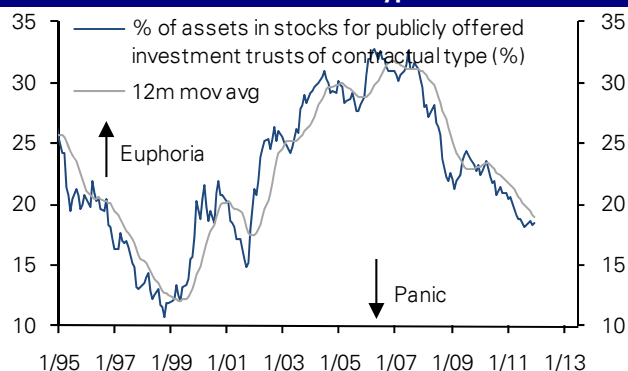
Source: Deutsche Bank, Bloomberg Finance LP

Figure 91: Market volatility (inverted scale)



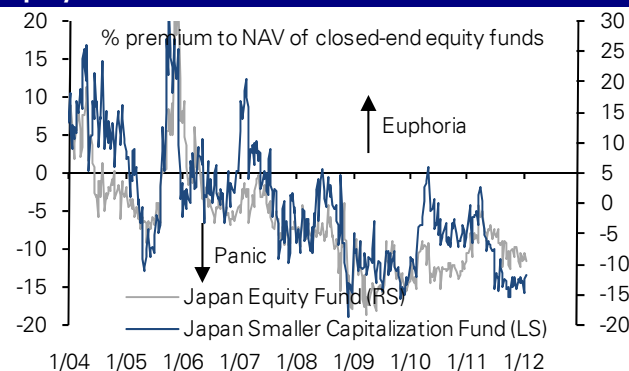
Source: Deutsche Bank, DataStream

Figure 92: Asset allocation to stocks for publicly offered investment trusts of contractual type



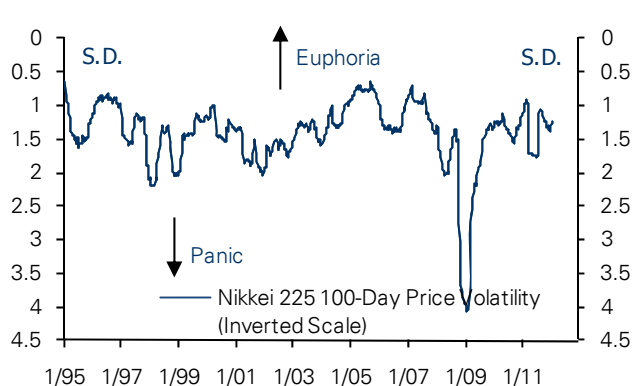
Source: Deutsche Bank, SENTIX Capital Markets Survey.

Figure 93: Percentage premium to NAV of closed-end equity funds



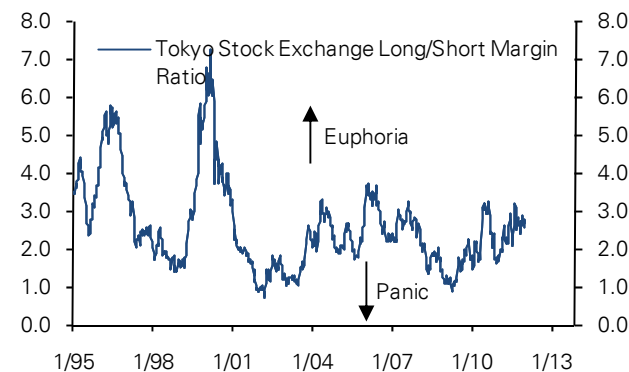
Source: Deutsche Bank, Cabinet Office, Shoko Chukin Bank.

Figure 94: Market volatility



Source: Deutsche Bank, DataStream

Figure 95: Margin ratio

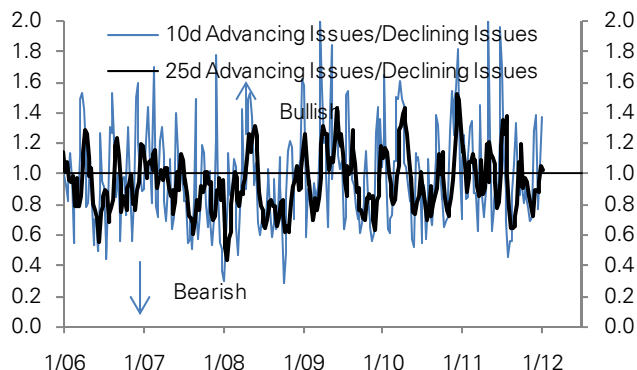


Source: Deutsche Bank, Tokyo Stock Exchange.

Japan – technicals

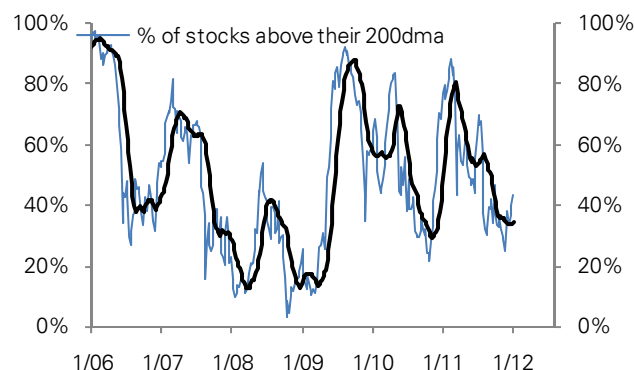
Technicals are washed out. It is so bad, it could be good in our view.

Figure 96: Advance/decline ratio



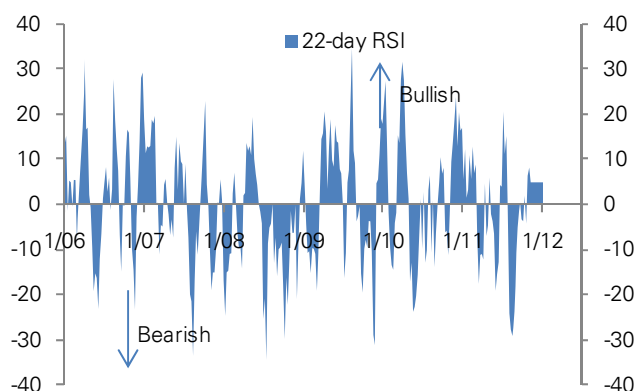
Source: Deutsche Bank, DataStream, FactSet

Figure 97: Percentage of stocks above their 200dma



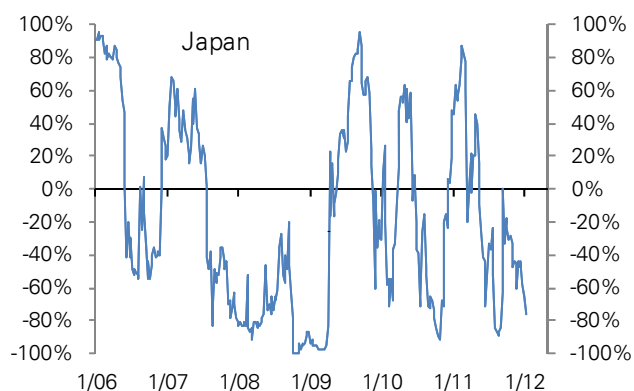
Source: Deutsche Bank, DataStream, FactSet

Figure 98: Relative Strength Index



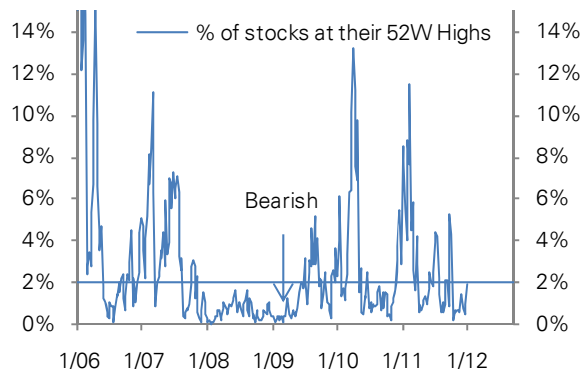
Source: Deutsche Bank, DataStream, FactSet

Figure 99: Market breadth



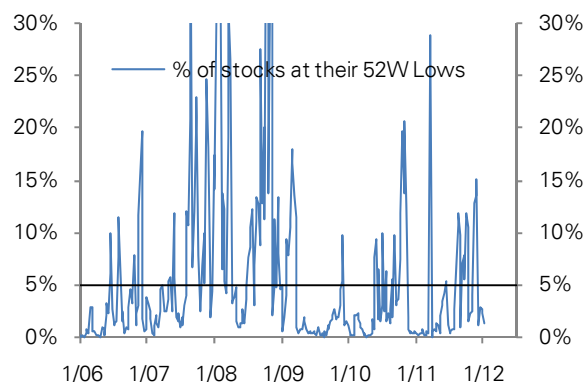
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 100: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 101: Percentage of stocks at 52w Lows



Source: Deutsche Bank, DataStream, FactSet

Japan – growth and earnings

Leading indicators are only back to neutral, and policy settings are expansionary – quite in contrast to the tightness and plunging LEIs we see in Asia ex-Japan.

Figure 102: Leading economic indicators

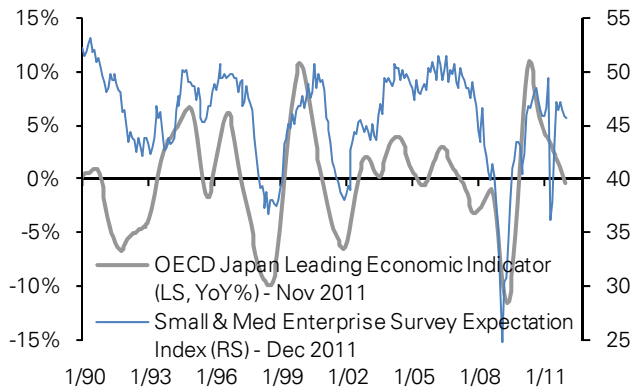


Figure 103: Earnings revisions and economic surprises

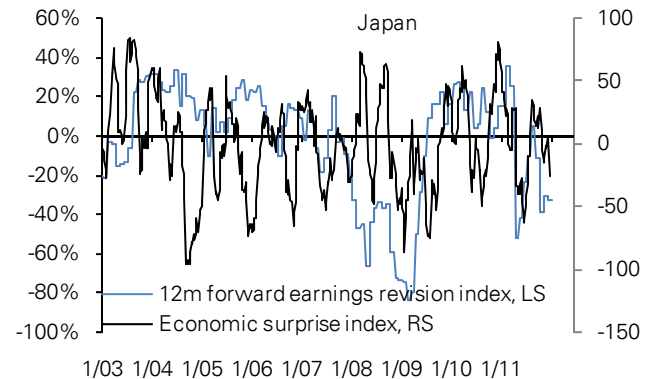


Figure 104: Composite policy indicator

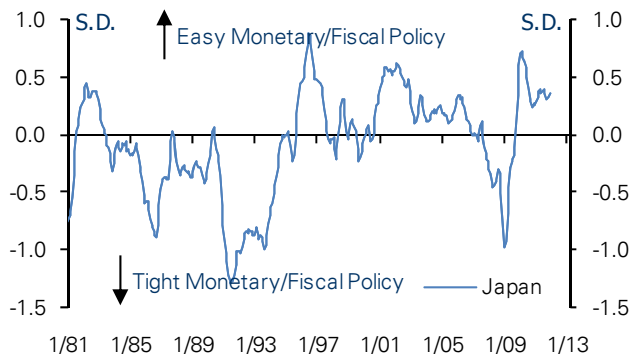


Figure 105: Earnings growth forecast (%)

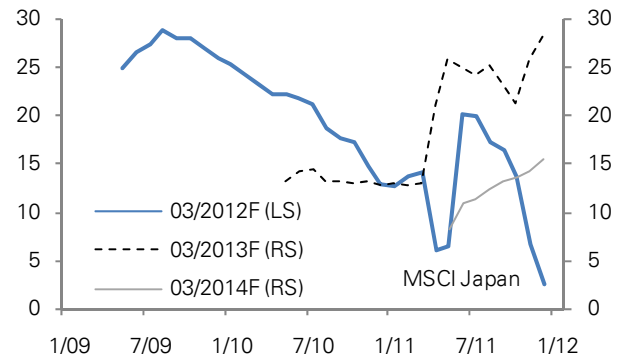


Figure 106: 12m forward EPS revisions by sector

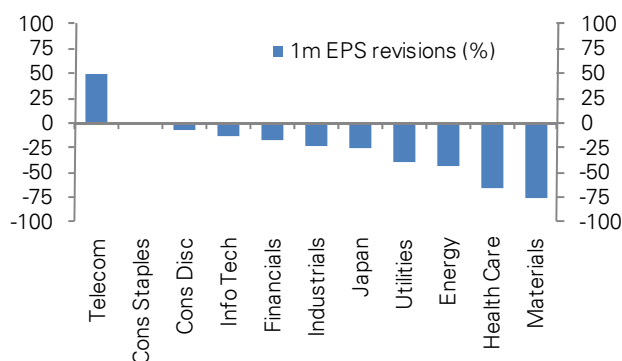
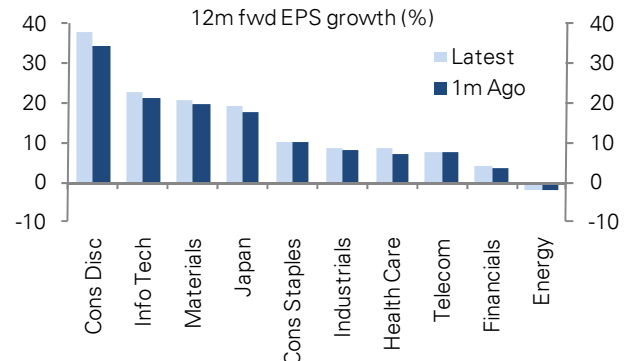


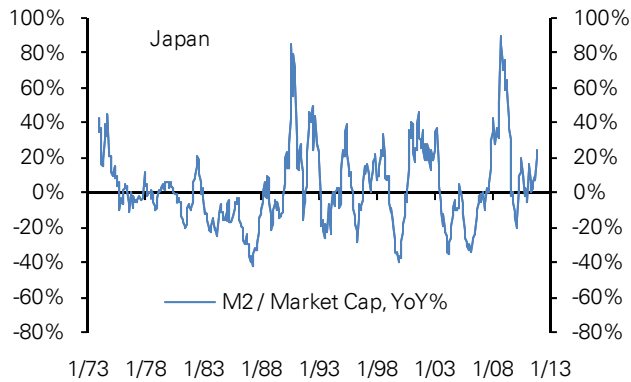
Figure 107: 12m forward EPS growth forecast by sector



Japan – liquidity

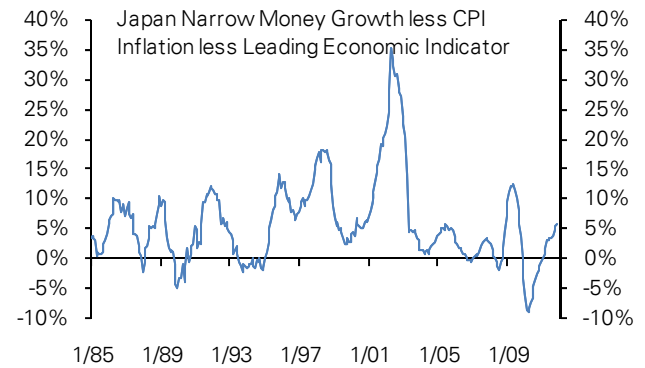
Free liquidity is rising, fund flows are negative post-tsunami and the equity offering calendar is so bad, it is a contrarian positive. The annoyingly consistent correlation between the US ten-year Treasury bond yield and Japanese equities remains intact. Japanese equity bulls are implicitly looking for acceleration in global nominal GDP growth and higher US ten-year bond yields.

Figure 108: M2/market cap



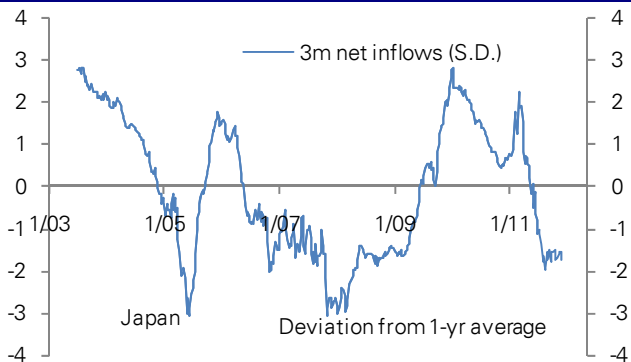
Source: Deutsche Bank, DataStream

Figure 109: Free liquidity



Source: Deutsche Bank, DataStream

Figure 110: Foreign fund flows into equities



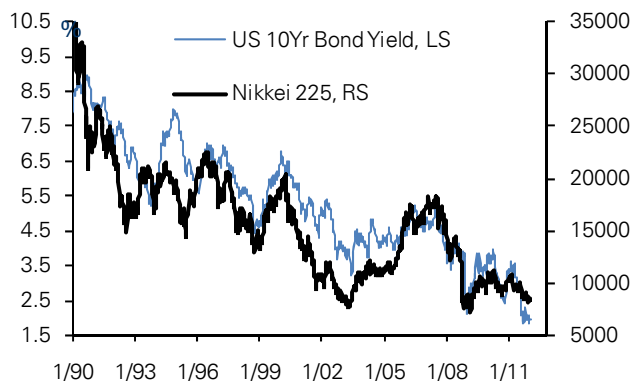
Source: Deutsche Bank, Bloomberg Finance LP

Figure 111: IPOs and additional equity offerings (6m rolling) as % of total market cap



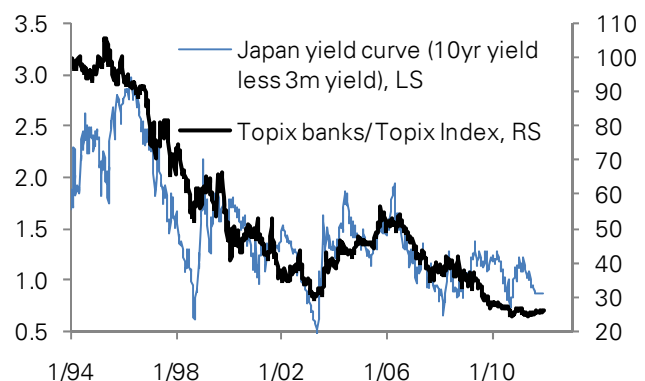
Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: *Equity offerings includes IPO and additional equity offerings of primary and secondary shares.

Figure 112: US ten-year bond yield and Nikkei 225



Source: Deutsche Bank, DataStream

Figure 113: Japan yield curve

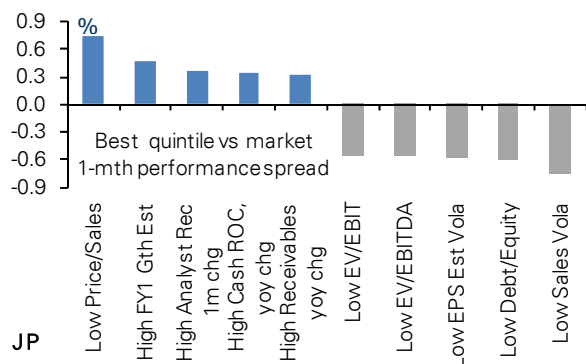


Source: Deutsche Bank, DataStream

Japan – factor performance

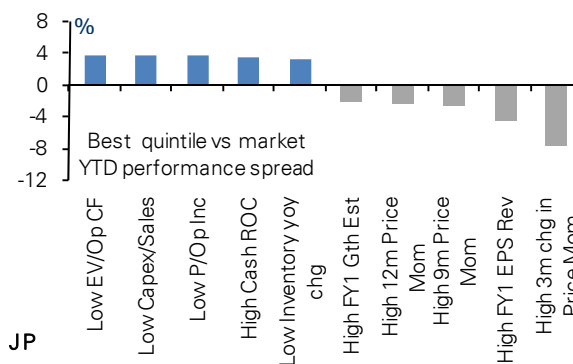
We recommend remaining conservative– we would stick with value, preferably deep value.

Figure 114: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 115: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 116: Factor performance

Japan	Returns								Ann. Rtn.			Returns								Ann. Rtn.		
Dec 31, 11	YTD	1m	3m	6m	12m	5y	10y	15y	YTD	1m	3m	6m	12m	5y	10y	15y						
Valuation									Profitability													
Low 12m Fd P/E	0.6	-0.2	0.9	-0.1	0.6	-1.5	5.0	6.2	High Cash ROC	3.6	-0.1	1.4	-0.4	3.6	1.8	2.0	2.8					
Low Trailing P/E	2.5	-0.2	1.6	0.3	2.5	2.5	5.2	8.0	High Cash ROC, yoy chg	1.2	0.3	3.1	-0.8	1.2	2.1	3.2	2.6					
Low P/Op Inc	3.7	0.1	1.5	1.5	3.7	6.3	7.6	6.4	High ROE	1.2	-0.4	1.4	-0.1	1.2	-2.3	-0.3	2.1					
Low P/BV	-0.9	0.2	0.5	1.2	-0.9	8.1	5.8	5.5	High ROE, yoy chg	-0.3	0.3	3.2	-1.4	-0.3	-2.3	1.5	2.1					
Low Price/Sales	3.0	0.8	2.0	2.3	3.0	4.3	4.4	2.9	Average	1.5	0.0	2.3	-0.7	1.5	-0.2	1.6	2.4					
Low P/FCF	2.2	-0.1	1.7	0.2	2.2	7.2	6.6	7.1	Growth													
Low EV/EBIT	2.6	-0.6	-1.0	0.7	2.6	2.7	4.6	5.4	High 3yr Sales Gth	1.7	-0.5	-1.9	0.3	1.7	-1.5	-0.1	-0.1					
Low EV/EBITDA	2.7	-0.6	-1.0	0.5	2.7	4.7	6.3	4.2	High 5yr Sales Gth	0.6	-0.1	-0.7	-0.4	0.6	-0.9	-0.2	0.6					
Low EV/Cap Emp	0.2	-0.2	0.1	2.0	0.2	4.9	5.1	4.5	High 3yr EPS Gth	2.5	0.2	-1.4	-0.6	2.5	-0.8	1.1	1.9					
Low EV/Sales	1.7	0.1	-0.8	1.6	1.7	3.7	4.2	2.8	High 5yr EPS Gth	1.5	-0.1	-0.8	-1.5	1.5	-0.4	0.4	1.0					
Low EV/Op CF	3.9	-0.2	0.1	1.0	3.9	7.3	7.3	6.3	High LT Gth Est	-0.5	-0.1	-0.7	-2.7	-0.5	1.0	1.3	0.1					
Low EV/FCF	2.6	-0.2	0.3	1.1	2.6	5.2	5.4	6.0	High FY1 Gth Est	-2.1	0.5	0.6	-2.7	-2.1	-2.7	0.0	-0.2					
High Dividend Yield	1.5	-0.3	-0.1	2.6	1.5	7.0	7.5	7.1	High FY2 Gth Est	-0.5	0.2	0.4	-1.3	-0.5	0.1	1.7	0.7					
Average	2.0	-0.1	0.4	1.1	2.0	4.8	5.8	5.6	Average	0.4	0.0	-0.6	-1.3	0.4	-0.7	0.6	0.6					
Price Momentum									Stability													
High 6m Price Mom	-1.4	-0.1	-3.0	-1.2	-1.4	-5.3	-2.6	-0.7	Low EPS Vola	-0.4	-0.3	-0.6	1.2	-0.4	0.2	-0.9	-0.8					
High 9m Price Mom	-2.6	-0.4	-2.8	-2.7	-2.6	-5.5	-3.2	-0.2	Low Op Inc Vola	1.1	-0.3	0.0	2.2	1.1	1.2	-0.8	0.6					
High 12m Price Mom	-2.3	-0.2	-1.4	-3.2	-2.3	-4.3	-1.4	0.4	Low Book Value Vola	-0.5	0.1	-1.0	1.5	-0.5	3.0	0.0	-1.2					
High Price Rel Strg	0.4	-0.4	-2.3	-2.7	0.4	-5.4	-1.7	1.2	Low Sales Vola	-1.0	-0.8	-1.9	1.8	-1.0	0.0	-0.9	-1.0					
High 3m chg in Price Mon	-7.6	-0.3	-2.8	-4.8	-7.6	-2.1	-0.4	1.0	Low EPS Est Vola	2.2	-0.6	-2.3	2.9	2.2	-0.5	-1.0	0.2					
High Price Up/Dn Days	-0.3	0.1	-1.1	-0.3	-0.3	-2.3	-1.6	0.0	Average	0.3	-0.4	-1.2	1.9	0.3	0.8	-0.7	-0.4					
Average	-2.3	-0.2	-2.2	-2.5	-2.3	-4.1	-1.8	0.3	Risk													
Earnings Momentum									Low FY1 EPS Disp	1.2	-0.1	-2.0	0.3	1.2	-0.8	-1.0	-0.1					
High FY1 EPS Mom	-1.4	-0.2	-1.1	-2.3	-1.4	-4.2	0.1	1.4	Low FY2 EPS Disp	1.0	-0.3	-2.5	-0.3	1.0	-2.2	-2.7	-0.4					
High FY2 EPS Mom	-0.5	-0.3	-2.0	-2.9	-0.5	-3.9	0.2	0.4	High EBIT/Int Exp	-0.3	-0.2	-1.0	0.6	-0.3	0.0	-1.4	0.4					
High 12m Fd EPS Mom	-1.3	-0.1	-0.6	-2.2	-1.3	-3.2	0.6	1.9	Low Debt/Equity	2.4	-0.6	-1.6	0.5	2.4	1.3	-1.3	1.5					
High FY1 EPS Rev	-4.5	-0.1	-2.5	-2.5	-4.5	-4.5	0.8	3.8	High Altman Z Score	0.5	-0.4	-2.1	-1.4	0.5	-0.9	-2.0	-1.0					
High FY2 EPS Rev	-0.6	-0.2	-3.3	-1.4	-0.6	-3.3	2.0	2.7	High Market Cap	1.1	-0.1	1.8	1.1	1.1	-3.6	-2.7	-1.3					
Average	-1.7	-0.2	-1.9	-2.2	-1.7	-3.8	0.7	2.1	Average	1.0	-0.3	-1.2	0.2	1.0	-1.0	-1.8	-0.1					
Capex Deployment & Earnings Accruals									Consensus Ratings													
Low Capex/Depr	2.9	0.0	0.6	0.8	2.9	3.5	2.8	2.0	High Analyst Rec	0.6	0.3	-1.0	-2.3	0.6	-4.8	-1.0	-0.1					
Low Capex/Sales	3.7	0.1	-0.1	1.9	3.7	1.1	1.4	0.7	High Analyst Rec 1m chg	2.8	0.4	0.5	0.2	2.8	0.3	0.3	2.4					
Low Capex/FA	0.9	-0.2	0.5	1.6	0.9	0.9	1.1	0.4	Average	1.7	0.3	-0.3	-1.0	1.7	-2.3	-0.3	1.1					
High Receivables yoy chg	2.3	0.3	1.9	0.0	2.3	2.8	2.8	1.4														
Low Inventory yoy chg	3.2	-0.2	-0.2	1.9	3.2	-0.6	-0.7	-1.9														
Low Payables yoy chg	-0.1	-0.2	-0.1	1.4	-0.1	-0.1	-1.0	-0.9														
Average	2.2	0.0	0.4	1.3	2.2	1.3	1.1	0.3														

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended June 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

China strategy

1. **Policy and economics:** GDP growth continues its recent moderating trend on slowing property investment and external demand. In December, export growth decelerated to 13.4% YoY from an average of 20% in the first ten months. FAI growth slowed to 18% and new housing starts dropped more than 20% in December. While due to the Chinese New Year effect, December PMI recovered marginally to 50.3, retail sales rebounded to 18.1% YoY and IP growth accelerated to 12.8% YoY. Inflation pressure started to level off with December CPI at 4.1% YoY; we expect the recent declining commodity price, falling agriculture prices and favourable base effect to lead to further disinflation for the next few months. Money growth has stabilized as December new loans rose to RMB640bn. 4Q GDP rose 2% QoQ, which is better than we expected.

In December, the property sales of 39 key cities (Source: Soufun) declined by 33% YoY and the average property price fell 8% YoY as the buyers choose to wait on the sidelines as price cuts become more widespread nationwide. The softening property sector together with reduction of informal lending, rising SME failures and impact of weakening external demand will reduce the prospects for the economic growth in 2012.

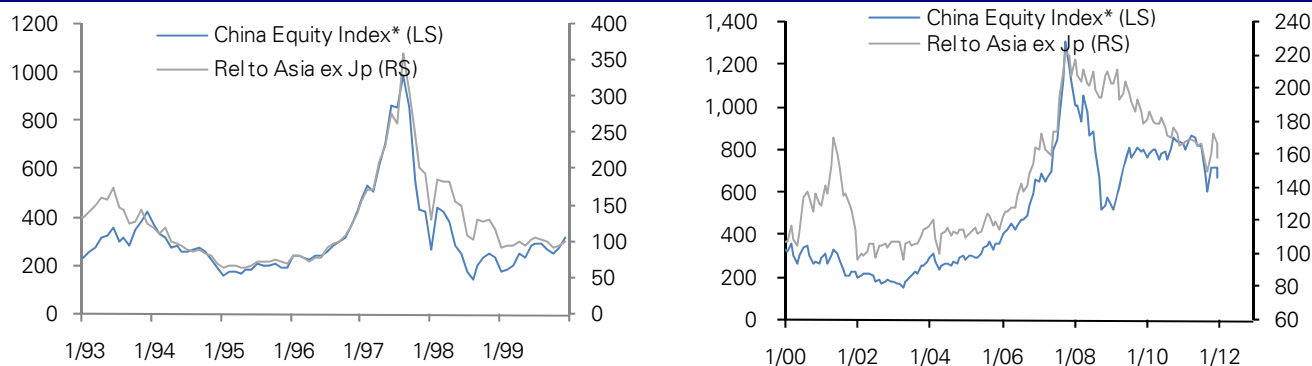
In response to slowing economy and falling inflation, RRR was cut by 0.5% for the first time since 2008. The flexibility displayed by policymakers reduced the hard landing risk from over tightening. We expect three of four more RRR cuts in 1H2012 to sterilize capital outflows while maintain reasonable credit growth.

2. **Company visits/results:** 1) Downgrade Mengniu Dairy to Hold on the contaminated milk incidence and 2) upgrade China Southern Airline to Buy on valuation.
3. **Fund flows and investor views:** The MSCI China Index rallied by 10% on better-than-expected macro data release. High beta sectors like finance, energy, industrial and IT outperformed the defensive sectors. Although market multiples are depressed by excessive concerns about hard landing risk, the market seems to be boxed in a trading range defined by the euro debt crisis risk and China's policy easing. Despite the small steps taken toward policy easing, we still believe a sustained market rally is unlikely given that the pace of stimulus is relatively small and global risks remain elevated. We expect the recent trading range to be maintained in the next few months. But over the next 12 months, the broad direction and objective of the future policy easing (or fine tuning) is taking shape. We believe the forthcoming policy easing should include more RRR cut (three to four in the next six months), selective credit easing, some tax reductions and some increase in independent bond issuance by local governments. The beneficiaries from these policies should include banks, insurance, consumers, IPP, transportation/logistics, infrastructure projects, public housing and SMEs.
4. **Events/data/risks to watch:** a) Pace of Chinese policy easing; b) stability of property sector and 3) progress of EU debt resolution.
5. **Top stock ideas:** Our top buys are ICBC, Baidu, Sinopec, Dongfeng Motor, China Pacific Insurance, CR Land, Cosco Pacific, Mindray, ZTE and Huaneng Power.

Hui Miao, Ph.D.

China – market intelligence

Figure 117: Equity market performance



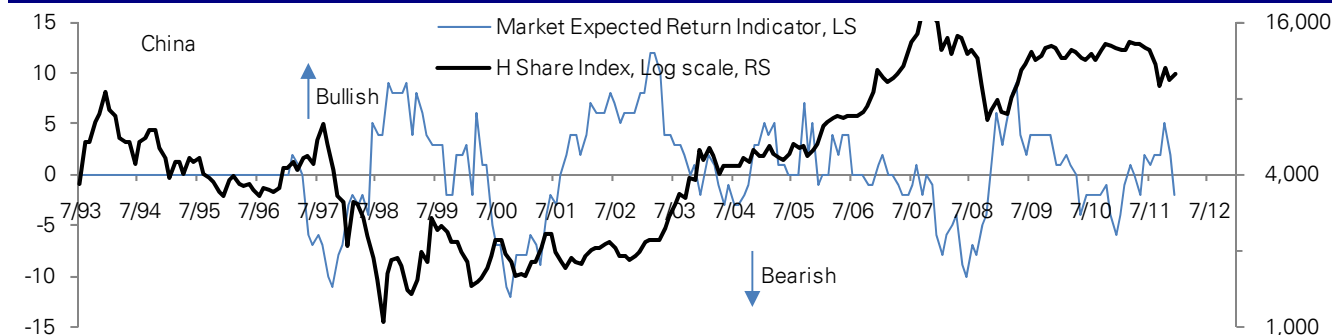
Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: *China equity index is a market cap weighted index of Hang Seng China Enterprises Index and Hang Seng China-Affiliated Corporations Index. Market relative = relative to MSCI AC Asia ex Japan.

Figure 118: Market intelligence by sector

11Jan12	Mcap U\$m	LC Perf 1m YTD	P/E (x) CY10 CY11 CY12	P/B (x) CY10 CY11 CY12	Div Yld (%) CY10 CY11 CY12	EPSg (%) CY10 CY11 CY12	ROE (%) CY10 CY11 CY12
Sector (#Co)							
Energy (9)	117,962	7.7 10.2	10.9 9.5 8.9	2.0 1.7 1.5	3.3 3.7 3.9	42.6 15.4 6.3	18.3 18.2 17.1
Materials (25)	31,295	-3.7 3.5	10.8 8.1 7.4	1.4 1.2 1.1	2.3 2.9 3.1	59.6 40.9 8.8	13.3 15.9 15.3
Capital Goods (20)	26,451	3.2 3.1	8.7 8.3 7.5	1.2 1.1 1.0	2.8 2.9 3.2	37.9 1.5 9.8	14.8 13.2 13.0
Transportation (10)	14,470	8.1 7.7	7.8 9.6 9.9	1.1 1.1 1.0	3.3 3.2 3.2	2,977.8 -49.7 19.6	14.3 12.0 10.9
Autos (7)	14,294	9.9 8.9	10.7 11.2 9.6	2.4 1.9 1.6	1.4 1.2 1.5	64.6 -4.0 15.7	23.7 17.2 16.9
Cons Durables (5)	3,583	5.1 6.7	7.5 9.7 9.0	1.6 1.5 1.4	6.4 5.6 5.8	12.3 -22.9 7.8	21.8 15.4 15.2
Retailing (6)	14,725	-3.1 1.2	21.2 17.1 14.3	3.6 3.2 2.8	2.5 2.1 2.4	28.4 23.9 19.5	17.0 18.7 19.4
Food/Staples Retail (2)	5,386	1.2 2.9	26.0 26.4 21.8	2.5 2.3 2.1	1.8 1.7 2.0	37.9 -1.5 20.9	9.5 8.7 9.8
Food Beverage (6)	20,084	-4.2 3.7	22.9 19.9 16.9	4.1 3.6 3.2	1.7 1.8 2.2	17.0 15.1 17.9	17.8 18.1 18.8
Household Products (1)	6,790	3.7 -1.2	36.1 33.2 25.3	8.4 7.6 6.8	1.8 1.9 2.5	12.6 8.8 31.2	23.2 22.9 27.0
Health Care Equip/Svc (2)	3,192	2.1 -4.2	28.3 23.3 18.7	3.7 2.7 2.4	1.0 1.1 1.3	17.5 21.4 24.4	13.2 11.6 12.8
Pharma & Biotech (2)	1,175	-0.8 0.3	12.3 11.5 9.5	2.0 1.8 1.6	1.9 3.5 3.4	6.5 7.2 20.4	16.0 15.5 16.4
Banks (9)	131,839	5.8 6.5	7.9 6.6 6.1	1.5 1.3 1.1	4.5 5.2 5.6	27.2 19.0 8.1	19.0 19.6 18.6
Div Financials (1)	1,316	-0.8 -2.5	10.0 9.4 9.6	0.7 0.7 0.7	3.6 3.3 3.2	-60.3 6.2 -1.8	7.3 7.5 7.0
Insurance (5)	40,135	-3.5 1.9	15.4 16.4 12.8	2.4 2.3 2.0	1.8 1.7 1.9	15.5 -6.0 28.1	15.5 13.8 15.4
Real Estate (19)	28,500	0.7 1.4	7.3 8.1 6.9	1.0 0.9 0.8	3.6 3.6 4.2	51.4 11.0 20.3	14.5 14.7 15.5
Software (2)	23,187	12.5 7.2	30.9 23.5 19.1	10.9 7.7 5.6	0.4 0.5 0.6	54.3 31.4 23.3	35.3 32.9 29.4
Tech Hard/Equip (3)	8,136	6.2 6.6	14.6 12.0 10.2	2.1 1.7 1.5	2.0 2.2 2.6	90.3 22.0 17.0	14.2 14.3 14.8
Semis (2)	2,917	1.5 1.5	na 6.5 9.4	1.2 1.0 1.0	1.7 1.4 1.2	na -37.5 -55.2	10.7 24.4 15.0
Telecom (4)	80,339	1.1 0.4	12.8 11.9 11.2	1.9 1.7 1.6	3.9 3.6 3.8	0.3 7.2 6.7	14.7 14.4 14.2
Utilities (7)	12,736	5.4 -0.1	15.8 15.0 11.8	1.5 1.4 1.3	2.5 2.1 2.7	-4.7 5.1 27.4	9.6 9.2 10.8
China (147)	588,512	3.4 4.8	10.8 9.7 8.8	1.8 1.6 1.4	3.2 3.4 3.7	34.6 11.6 10.7	16.6 16.6 16.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 119: Market Expected Return Indicator for China

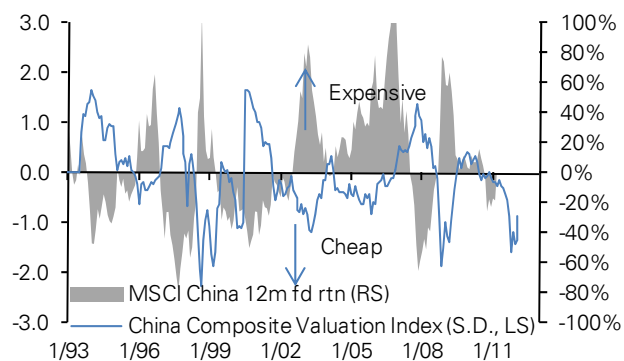


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

China – valuation

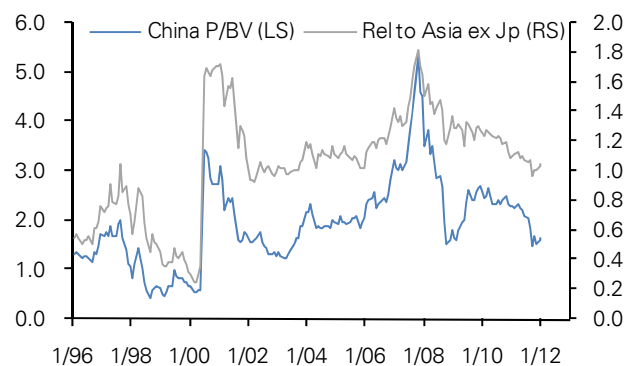
China equities look cheap compared with history – but that history was a lot more robust. While ROEs are at record highs in China, EBIT margins are making new lows. The implication is that asset turnover and rising leverage are keeping ROEs levitating. Perhaps that is what the low-ish multiples are concerned with.

Figure 120: Composite valuation index



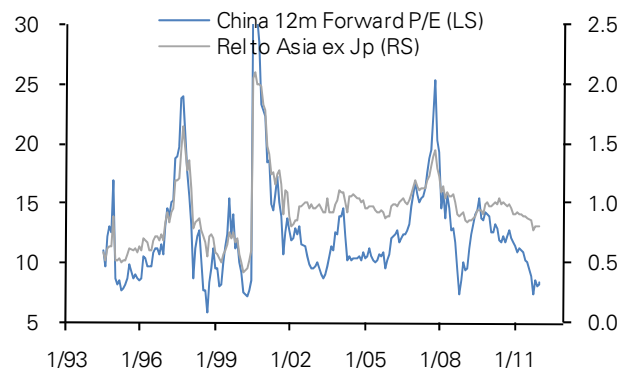
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 121: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 122: 12m forward P/E



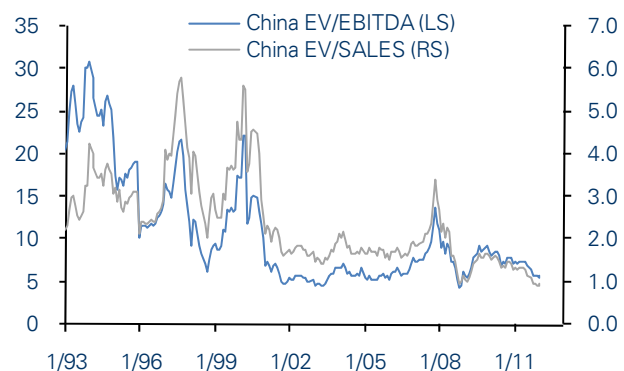
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 123: 12m trailing P/E



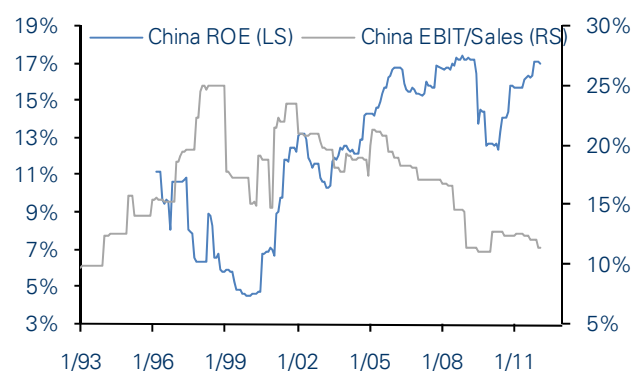
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 124: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 125: ROE and EBIT margin

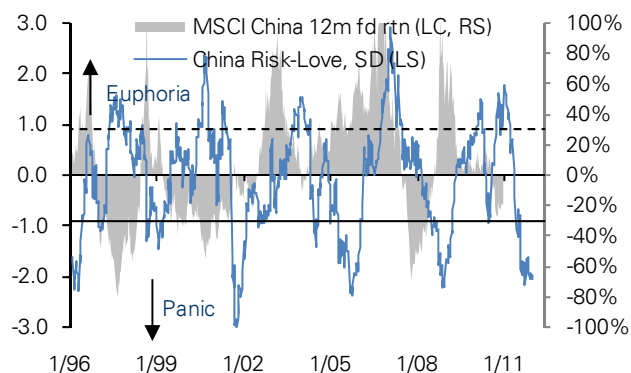


Source: Deutsche Bank, MSCI, FactSet

China – investor sentiment

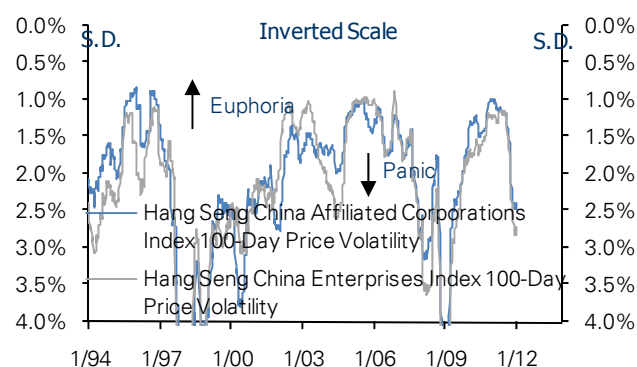
Sentiment is negative. That is what a year of broad-based capital losses does to the limbic system. We are nervously taking a contrarian position. Historically, from these levels of negativity, Chinese equities have almost always delivered positive returns.

Figure 126: Equity Risk-Love indicator



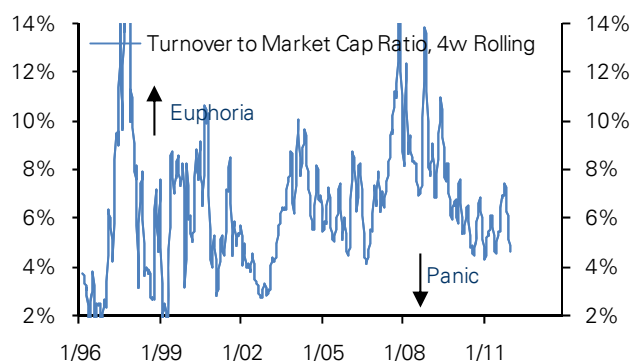
Source: Deutsche Bank, MSCI

Figure 127: Market volatility (inverted scale)



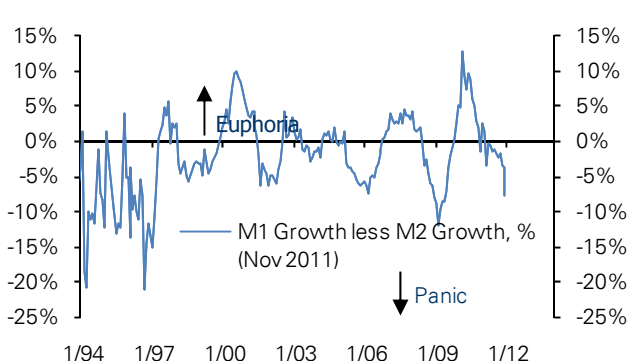
Source: Deutsche Bank, DataStream

Figure 128: Turnover-to-market cap ratio



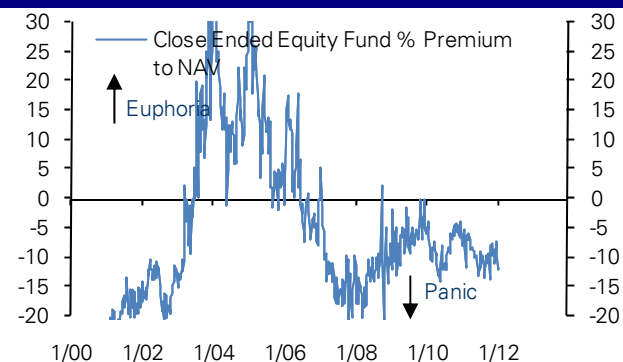
Source: Deutsche Bank, CEIC, DataStream

Figure 129: M1 less M2 growth



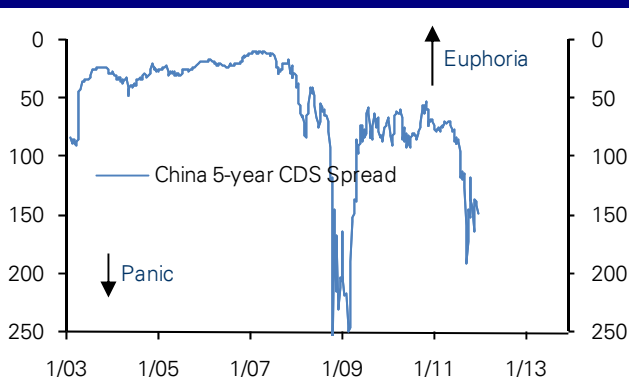
Source: Deutsche Bank, DataStream

Figure 130: Country equity fund percentage premium to NAV



Source: Deutsche Bank, Bloomberg Finance LP

Figure 131: Credit default swap spread (inverted scale)

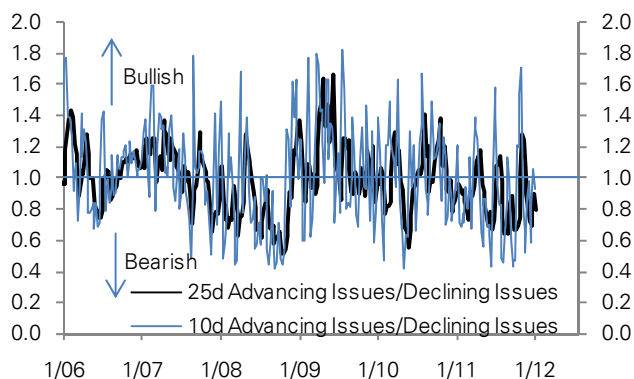


Source: Deutsche Bank, Bloomberg Finance LP

China – technicals

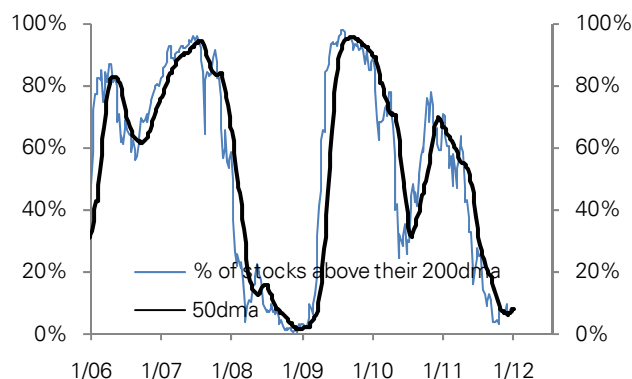
This market is as washed out on technicals as it was in the depths of October 2008. We think it is so bad that, in our view, it could be worth buying into these technicals.

Figure 132: Advance/decline ratio



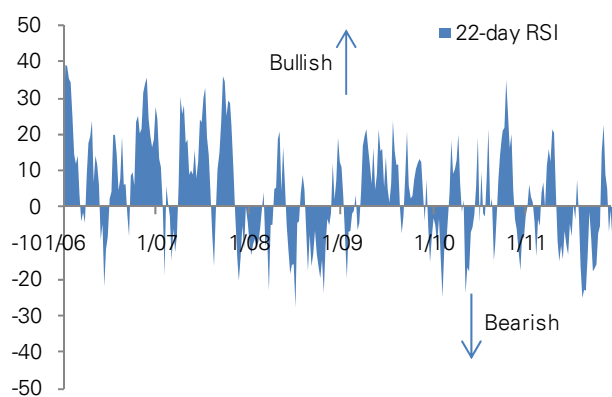
Source: Deutsche Bank, DataStream, FactSet

Figure 133: Percentage of stocks above their 200dma



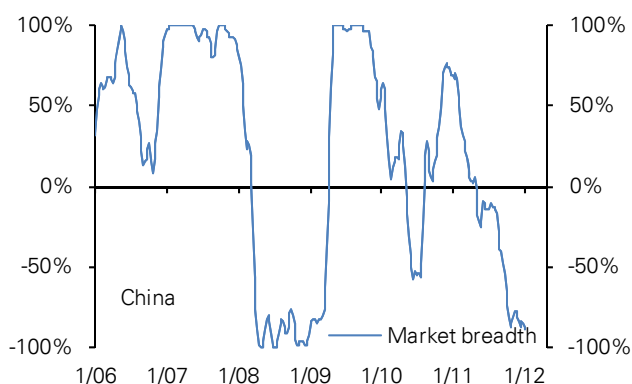
Source: Deutsche Bank, DataStream, FactSet

Figure 134: Relative Strength Index



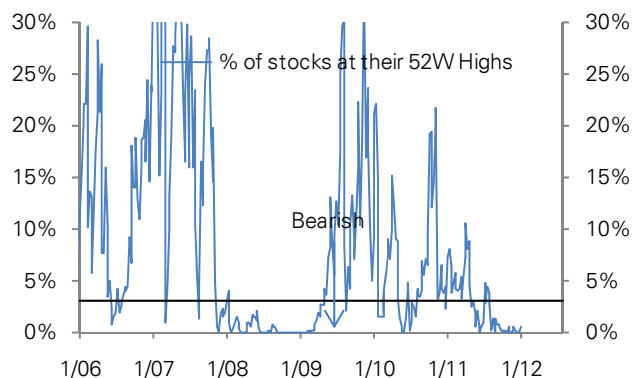
Source: Deutsche Bank, DataStream, FactSet

Figure 135: Market breadth



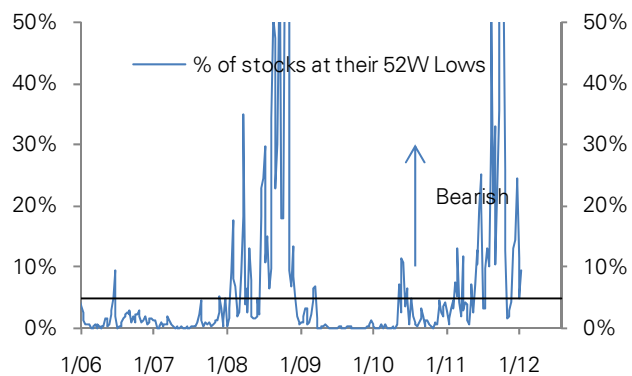
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 136: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 137: Percentage of stocks at 52w Lows

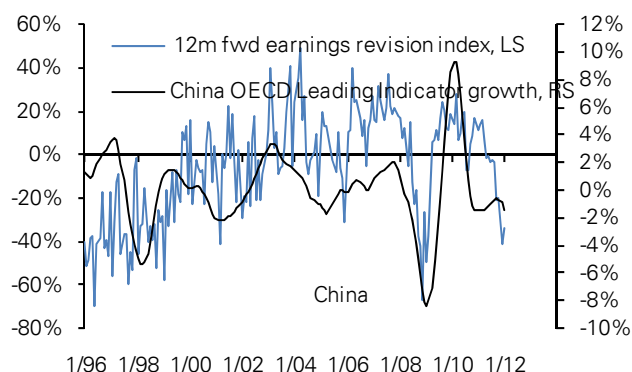


Source: Deutsche Bank, DataStream, FactSet

China – growth and earnings

Policy settings are neutral, as are the official leading indicators. Analysts have cut EPS growth estimates from 15% last summer to about 10% now.

Figure 138: Leading economic indicators



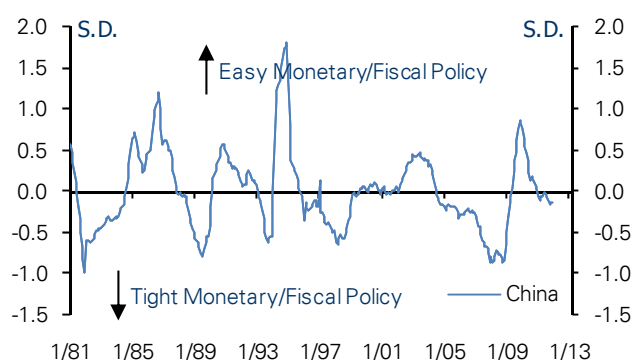
Source: Deutsche Bank, I/B/E/S, OECD, DataStream

Figure 139: Industrial production and export growth



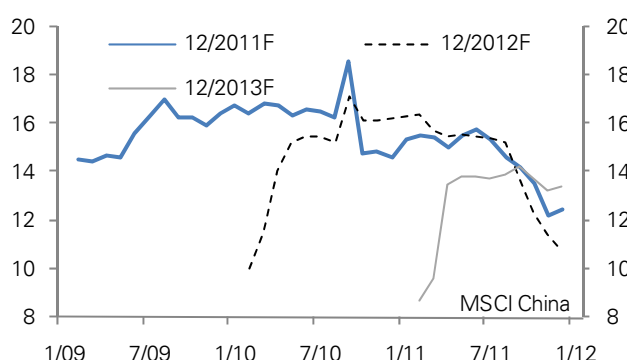
Source: Deutsche Bank, DataStream

Figure 140: Composite policy indicator



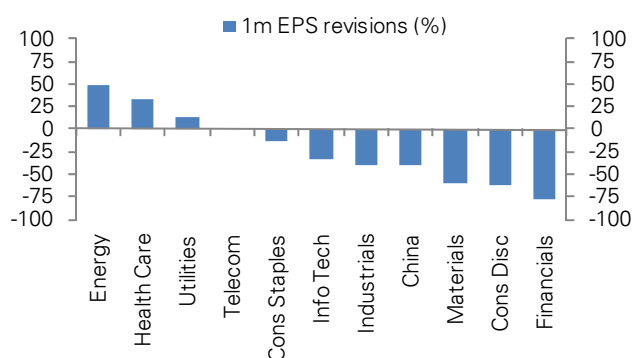
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 141: Earnings growth forecast (%)



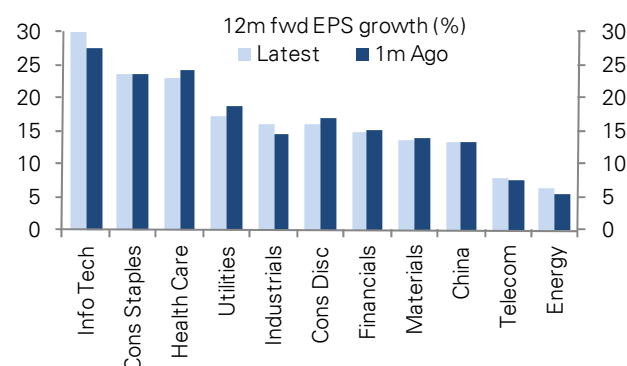
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 142: 12m forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 143: 12m forward EPS growth forecast by sector

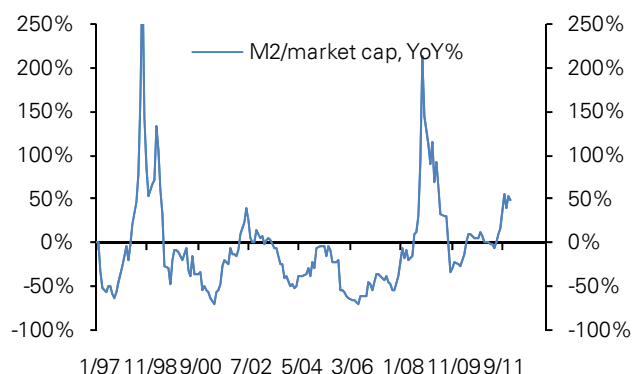


Source: Deutsche Bank, MSCI, I/B/E/S

China – liquidity

Free liquidity is collapsing (along with the money numbers). We suspect the credit multiplier is hooking upwards from near record lows, which is bullish.

Figure 144: M2/market cap



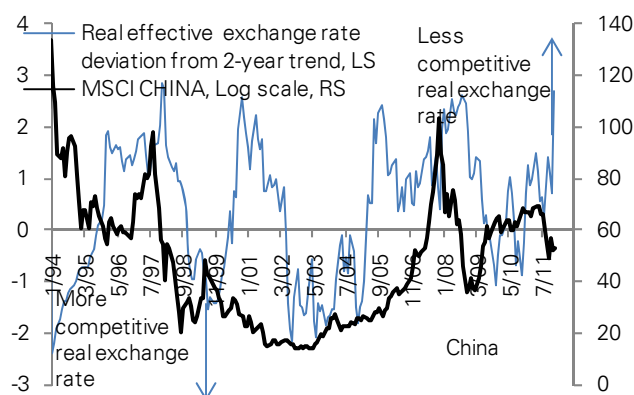
Source: Deutsche Bank, DataStream

Figure 145: Free liquidity



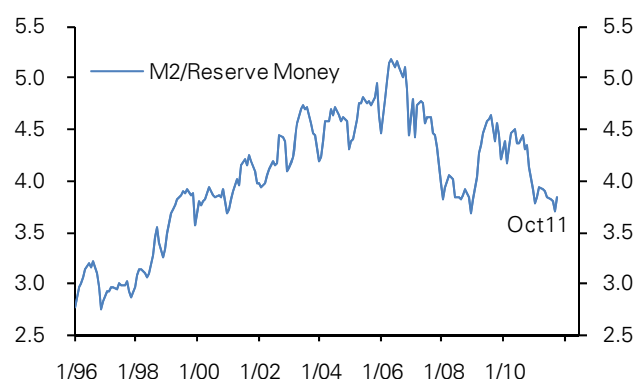
Source: Deutsche Bank, DataStream

Figure 146: Real exchange rate



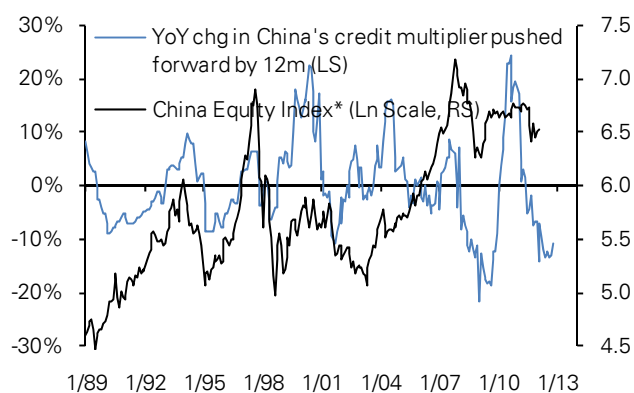
Source: Deutsche Bank, Bloomberg Finance LP

Figure 147: M2/base money



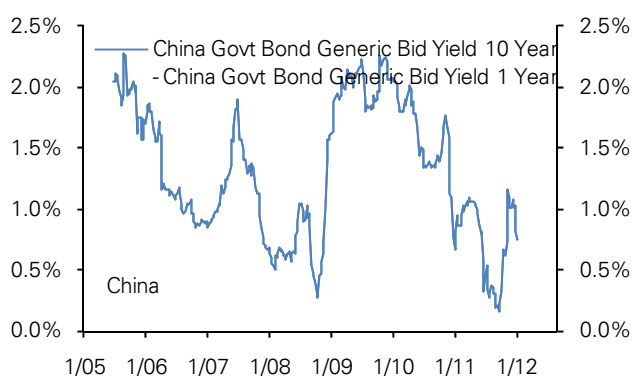
Source: Deutsche Bank, PBoC, Bloomberg Finance LP

Figure 148: Credit multiplier (loans/base money)



Source: Deutsche Bank, IMF, PBoC, DataStream.* China equity index is a market cap weighted index on Hang Seng China Enterprises Index and Hang Seng china – Affiliated corporations Index.

Figure 149: Yield curve

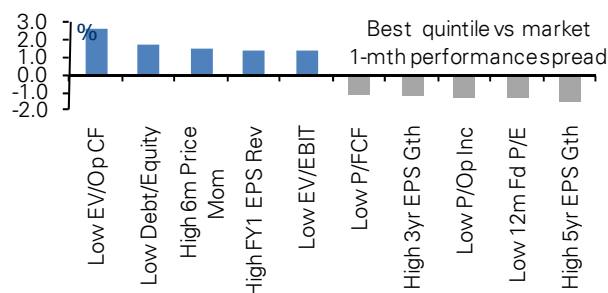


Source: Deutsche Bank, Bloomberg Finance LP

China – factor performance

In last year's bear market, high returns on capital, low risk and high stability were strong performers. This year, if we are right that monetary reflation should lift the market tactically, value could triumph.

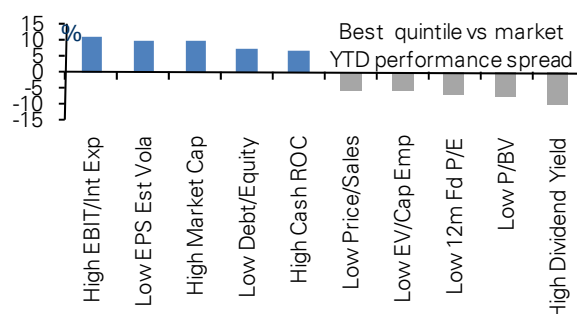
Figure 150: Best- and worst-performing factors (1-mth)



CH

Source: Deutsche Bank

Figure 151: Best- and worst-performing factors (YTD)



CH

Source: Deutsche Bank

Figure 152: Factor performance

China	Returns								Ann. Rtn.			Returns								Ann. Rtn.		
Dec 31, 11	YTD	1m	3m	6m	12m	5y	10y	15y		YTD	1m	3m	6m	12m	5y	10y	15y					
Valuation									Profitability													
Low 12m Fd P/E	-6.8	-1.4	2.8	-4.0	-6.8	-3.8	1.6	11.0	High Cash ROC	6.6	0.7	1.7	4.7	6.6	6.8	5.7	10.2					
Low Trailing P/E	-2.2	0.2	0.3	-3.8	-2.2	3.1	7.0	10.1	High Cash ROC, yoy chg	3.0	-0.8	4.0	0.8	3.0	7.4	3.1	4.1					
Low P/Op Inc	-2.7	-1.3	1.6	-1.7	-2.7	-2.2	4.9	7.8	High ROE	5.9	-0.9	4.2	1.0	5.9	0.2	-0.5	3.2					
Low P/BV	-7.8	0.1	-0.9	-2.8	-7.8	-2.3	3.6	2.6	High ROE, yoy chg	5.1	-0.1	5.3	4.5	5.1	4.6	4.4	1.5					
Low Price/Sales	-5.4	-0.1	0.6	-1.7	-5.4	-1.6	0.7	-0.8	Average	5.2	-0.3	3.8	2.8	5.2	4.8	3.2	4.8					
Low P/FCF	1.2	-1.1	-0.8	2.6	1.2	-1.1	1.0	4.9	Growth													
Low EV/EBIT	-1.2	1.4	0.1	0.6	-1.2	4.4	5.0	9.8	High 3yr Sales Gth	3.2	-0.8	3.1	1.3	3.2	0.1	-1.8	0.3					
Low EV/EBITDA	-2.2	1.2	-0.2	0.9	-2.2	3.5	5.3	7.2	High 5yr Sales Gth	-2.8	-0.7	3.2	-2.0	-2.8	3.2	0.9	1.3					
Low EV/Cap Emp	-5.7	0.9	0.6	-0.9	-5.7	2.7	3.7	4.3	High 3yr EPS Gth	-0.9	-1.3	-2.6	-5.7	-0.9	-0.5	4.1	4.7					
Low EV/Sales	-1.1	1.0	0.2	2.2	-1.1	2.0	4.9	5.4	High 5yr EPS Gth	-1.9	-1.6	3.2	-1.7	-1.9	1.9	-0.7	-2.2					
Low EV/Op CF	3.0	2.6	-1.0	5.1	3.0	2.6	3.6	7.7	High LT Gth Est	3.1	-0.9	-1.7	-2.8	3.1	0.8	4.6	4.5					
Low EV/FCF	3.8	0.3	-0.2	6.3	3.8	0.3	1.6	5.7	High FY1 Gth Est	-1.1	-1.1	1.5	-3.5	-1.1	-0.4	0.1	-1.6					
High Dividend Yield	-10.1	-0.2	-0.8	-6.8	-10.1	4.5	8.2	12.7	High FY2 Gth Est	0.8	0.4	-2.4	-0.8	0.8	2.4	3.9	-1.0					
Average	-2.8	0.3	0.2	-0.3	-2.8	0.9	3.9	6.8	Average	0.0	-0.8	0.6	-2.2	0.0	1.1	1.6	0.9					
Price Momentum									Stability													
High 6m Price Mom	1.8	1.5	-3.8	-0.9	1.8	0.4	5.0	2.6	Low EPS Vola	3.9	-0.2	-2.7	1.8	3.9	-2.0	0.5	1.7					
High 9m Price Mom	-1.7	0.0	-6.1	-2.5	-1.7	1.1	6.6	-3.7	Low Op Inc Vola	3.5	0.6	1.0	7.4	3.5	2.2	3.7	4.0					
High 12m Price Mom	5.0	0.6	-1.3	2.0	5.0	3.7	6.8	-2.9	Low Book Value Vola	2.1	0.4	-0.4	2.2	2.1	4.8	0.9	-0.5					
High Price Rel Strg	5.9	1.1	-0.3	1.2	5.9	2.1	6.6	1.0	Low Sales Vola	-0.4	-0.1	-1.0	2.0	-0.4	-3.5	-1.1	-4.6					
High 3m chg in Price Mon	4.3	-0.2	-1.6	1.7	4.3	3.1	5.6	4.1	Low EPS Est Vola	9.9	0.5	-2.4	4.1	9.9	-3.1	-1.2	3.0					
High Price Up/Dn Days	0.7	0.6	-2.7	0.9	0.7	2.7	6.8	5.9	Average	3.8	0.2	-1.1	3.5	3.8	-0.3	0.6	0.7					
Average	2.7	0.6	-2.6	0.4	2.7	2.2	6.2	1.2	Risk													
Earnings Momentum									Low FY1 EPS Disp	3.1	0.4	-5.7	2.1	3.1	-0.8	1.2	-1.2					
High FY1 EPS Mom	1.8	0.1	-0.3	-0.9	1.8	-0.1	2.8	2.5	Low FY2 EPS Disp	-0.2	0.2	-5.0	1.4	-0.2	-3.0	-1.1	0.4					
High FY2 EPS Mom	1.8	1.0	2.5	0.7	1.8	7.8	9.3	8.9	High EBIT/Int Exp	11.1	0.9	-4.6	3.2	11.1	3.0	2.9	6.9					
High 12m Fd EPS Mom	0.2	0.8	3.1	-0.1	0.2	6.0	8.0	7.6	Low Debt/Equity	7.7	1.7	-0.8	6.0	7.7	-0.7	1.7	1.2					
High FY1 EPS Rev	-0.9	1.4	1.9	-2.7	-0.9	1.9	3.8	3.0	High Altman Z Score	-2.8	0.4	-3.0	-0.4	-2.8	-5.5	-2.4	-4.6					
High FY2 EPS Rev	-2.6	0.8	-0.3	-0.5	-2.6	0.3	4.9	8.3	High Market Cap	9.7	0.1	3.8	5.3	9.7	0.1	2.9	1.3					
Average	0.1	0.8	1.4	-0.7	0.1	3.2	5.8	6.1	Average	4.8	0.6	-2.5	2.9	4.8	-1.1	0.9	0.7					
Capex Deployment & Earnings Accruals									Consensus Ratings													
Low Capex/Depr	-2.2	0.7	-1.3	-1.2	-2.2	-0.5	-3.0	-6.0	High Analyst Rec	-3.7	0.0	-4.2	-2.6	-3.7	-6.0	-0.8	2.1					
Low Capex/Sales	-1.3	1.3	-1.4	-1.0	-1.3	2.0	-1.0	0.0	High Analyst Rec 1m chg	4.0	0.8	1.3	4.4	4.0	4.7	8.9	6.6					
Low Capex/FA	-4.1	0.5	0.0	0.4	-4.1	-0.3	-3.8	-4.8	Average	0.2	0.4	-1.5	0.9	0.2	-0.7	4.0	4.4					
High Receivables yoy chg	3.2	0.3	0.5	0.3	3.2	0.6	0.2	1.8														
Low Inventory yoy chg	4.4	0.0	1.4	0.5	4.4	-1.4	-1.6	0.8														
Low Payables yoy chg	6.3	0.6	-0.1	2.3	6.3	2.0	-2.4	-8.5														
Average	1.0	0.5	-0.1	0.2	1.0	0.4	-1.9	-2.8														

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended June 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

Hong Kong strategy

1. **Policy and economics:** GDP growth remains weak on tightening credit condition and weakening external demand while inflation stabilized at relatively high level. Hong Kong, as an open financial and trading hub, was increasingly affected by the slowdown of European and Chinese economy via accelerated capital outflows and lower trade volumes. November export growth decelerated to 2.0%. While retail sales (up 23.5%YoY in December) boosted by Chinese tourists) remain the bright spot, the job market is still tight and the unemployment rate edged up to 3.4% in November. In addition, recent announcements of significant job cuts in the financial sector will likely increase the unemployment in the next few months. We expect GDP growth to remain subdued as external condition deteriorated further. For 2012, we estimate GDP growth will decelerate to 3% and inflation will ease to 4.6%.

November CPI remains high at 5.7% YoY on the lower food price inflation in China passed through to Hong Kong. The composite HKD interest rate edged up further to 0.48% on tighter liquidity in the Hong Kong banking system despite the fact that money growth recovered slightly in November (M2 +3.6% YoY) following the biggest drop since late 2008 in October. Banks resumed the mortgage rate hikes and tightened mortgage lending standard amid softening property sector and high LDR ratio. We believe that property price decline will resume given the peaking of rental prices and more land supply by the government.

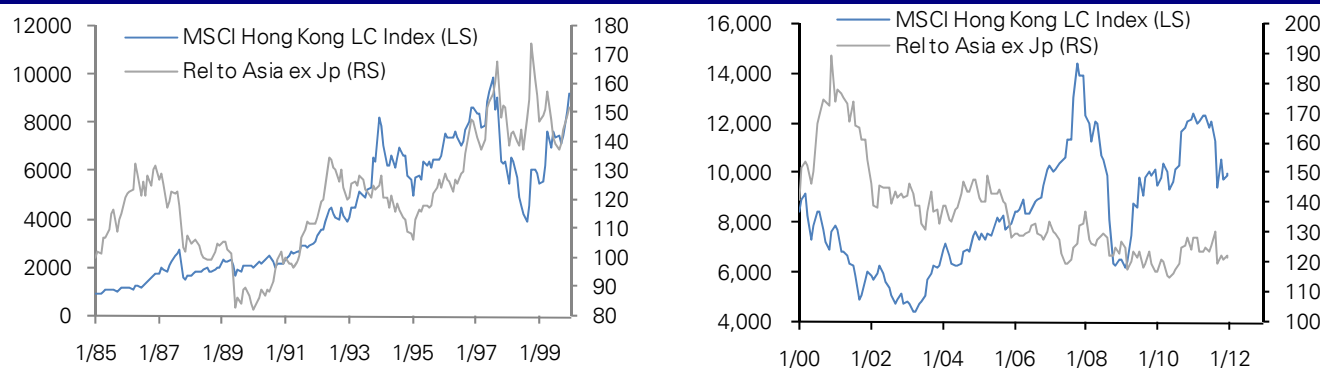
2. **Flows and investor views:** MSCI Hong Kong Index had a relief rally of more than 5% YTD following China's RRR cut and optimism about Chinese recovery. Consumer discretionary names such as the casino and department store outperformed. Defensive players such as utilities and infrastructure lagged. The gradual policy relaxation in China will reduce the hard landing risk and provide stability to the risk appetite.

However, we remain cautious on the near-term outlook as global uncertainty will likely continue to depress valuation while earning momentum is rolling over on slow growth. The Hong Kong economy will be affected more by the growth slowdown in developed economies. We prefer defensive plays with exposure to Chinese consumers and low beta sectors (infrastructure and utility). Local big banks (high dividend player) might be able to weather the growth slowdown better this time on conservative LTV of mortgage asset. Local policy risk is also increasing as we get closer to election. We expect the index to be range bound on growth uncertainties. The rebound of USD and associated capital outflows from Hong Kong will also be a drag on the market in 1H12.

3. **Events/data/risks to watch for:** a) Global risks such as progress on EU debt resolution and U.S. recovery and b) Chinese property sector stability and pace of policy easing
4. **Top stock ideas:** Our top buys are BOC (Hong Kong), AIA, Hang Seng Bank, Lifestyle, Oriental Overseas, Link REIT, Sands and Kunlun Energy.

Hui Miao, Ph.D.

Hong Kong – market intelligence

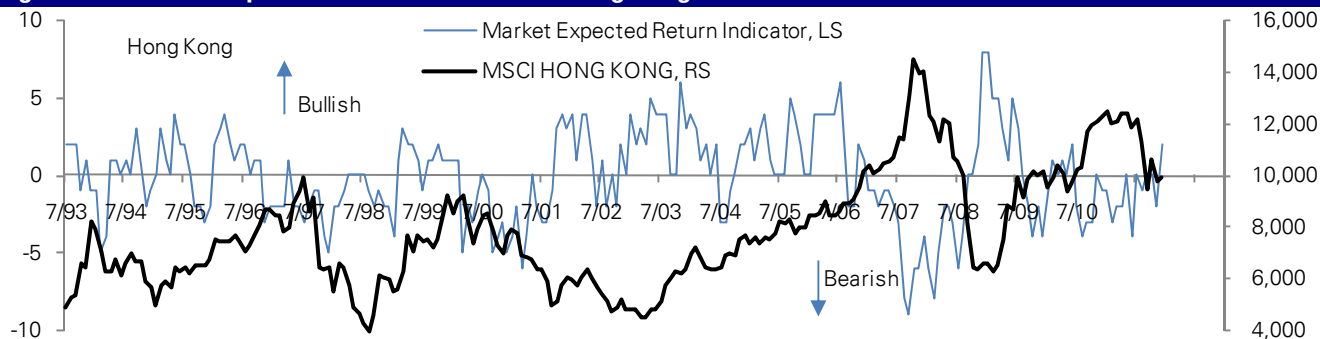
Figure 153: Equity market performance


Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 154: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (2)	20,442	2.1	3.0	13.4	5.2	12.5	1.0	0.8	0.8	3.1	3.4	3.5	40.5	157.0	-58.3	7.1	15.9	6.4
Transportation (3)	8,010	4.3	0.3	6.5	13.5	15.4	0.9	1.0	1.0	4.1	2.9	2.8	239.8	-52.1	-12.4	13.6	7.6	6.4
Cons Durables (1)	2,388	9.2	1.8	12.3	12.5	9.3	na	na	1.3	na	na	4.5	2.8	-1.5	34.7	na	na	14.0
Cons Svc (5)	18,862	1.4	4.0	27.4	18.6	14.8	3.4	3.4	2.9	1.4	1.7	1.7	85.7	47.2	25.9	11.6	14.8	19.9
Retailing (3)	14,245	-1.7	6.5	16.3	21.3	20.2	2.9	2.8	2.6	3.4	3.3	3.7	-6.8	-23.5	5.5	17.9	13.1	13.0
Banks (4)	25,516	3.5	1.5	12.7	11.1	11.3	1.8	1.6	1.5	4.7	5.0	4.9	20.5	14.3	-1.1	14.0	14.8	13.6
Div Financials (1)	16,231	-3.4	-0.9	26.3	25.2	24.1	15.3	14.8	13.7	3.4	3.6	3.7	7.1	4.3	4.5	58.0	58.7	56.8
Real Estate (14)	89,458	3.2	2.3	12.7	10.7	12.1	0.8	0.7	0.7	3.2	3.5	3.4	29.0	19.1	-11.6	6.0	6.5	5.6
Tech Hard/Equip (1)	1,365	1.0	-2.0	na	210.7	37.2	1.3	1.3	1.2	0.0	0.0	0.0	-616.7	na	466.7	na	0.6	3.3
Semis (1)	2,480	12.8	11.6	13.5	15.9	18.3	7.5	6.5	5.6	4.9	3.6	3.5	203.0	-14.8	-13.2	55.1	40.6	30.5
Telecom (1)	1,205	-12.8	-12.4	8.4	9.1	7.7	na	na	na	6.5	6.8	7.6	25.2	-7.9	19.1	na	na	na
Utilities (4)	40,349	1.2	0.2	18.1	16.7	15.3	2.4	2.2	2.1	3.1	3.3	3.5	14.4	8.8	8.9	13.1	13.2	13.5
Hong Kong (41)	266,548	2.1	1.9	14.3	12.2	13.7	1.3	1.2	1.2	3.0	3.2	3.3	30.5	17.9	-10.4	8.8	9.5	8.2

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

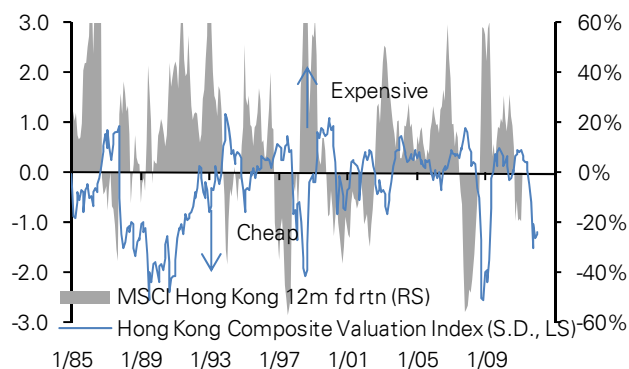
Figure 155: Market Expected Return Indicator for Hong Kong


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Hong Kong – valuation

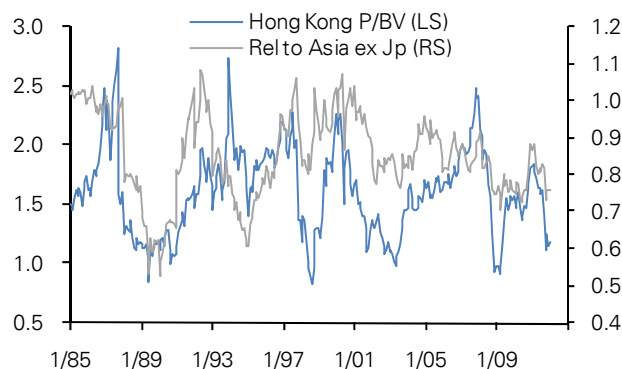
Hong Kong equities look cheap compared with history on almost all metrics we consider.

Figure 156: Composite valuation index



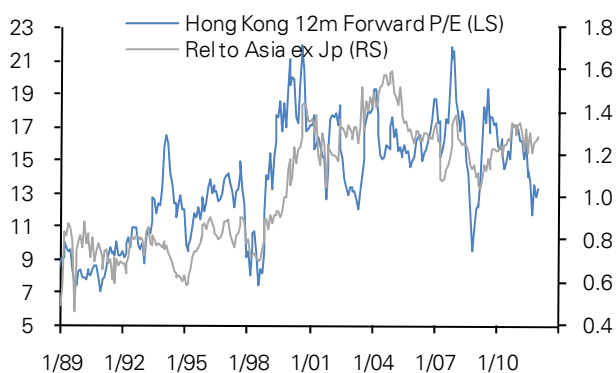
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 157: Price-to-book value



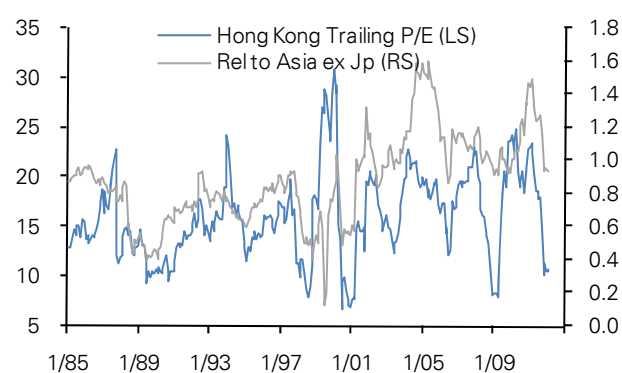
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 158: 12m forward P/E



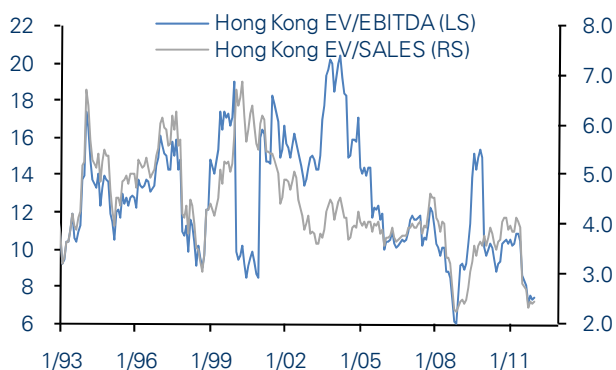
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 159: 12m trailing P/E



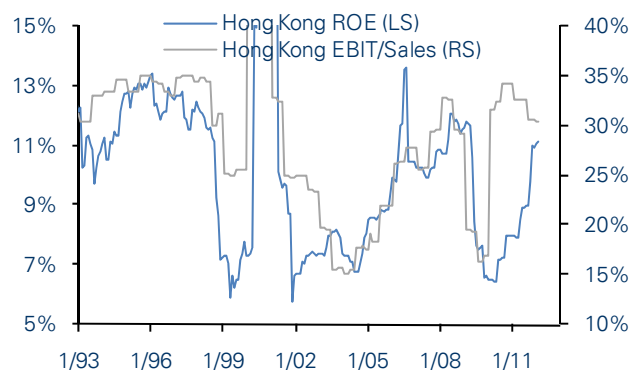
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 160: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 161: ROE and EBIT margin

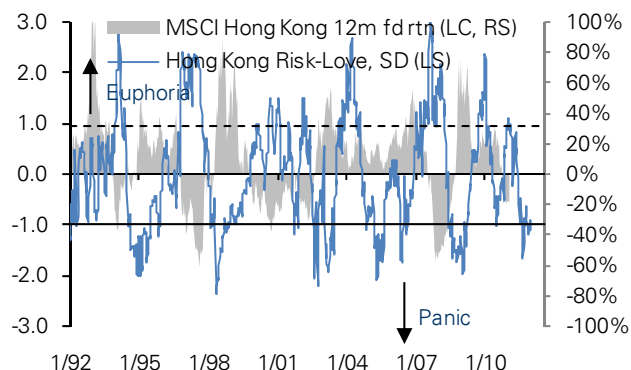


Source: Deutsche Bank, MSCI, FactSet

Hong Kong – investor sentiment

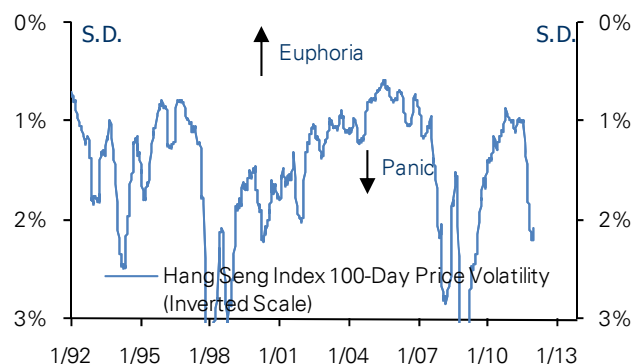
Sentiment seems to be negative, although the malls, restaurants and nightclubs seem full of happy people. Civilians?

Figure 162: Equity Risk-Love indicator



Source: Deutsche Bank, MSCI

Figure 163: Market volatility (inverted scale)



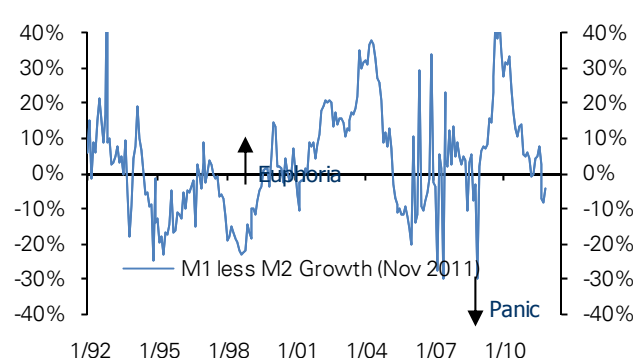
Source: Deutsche Bank, DataStream

Figure 164: Turnover-to-market cap ratio



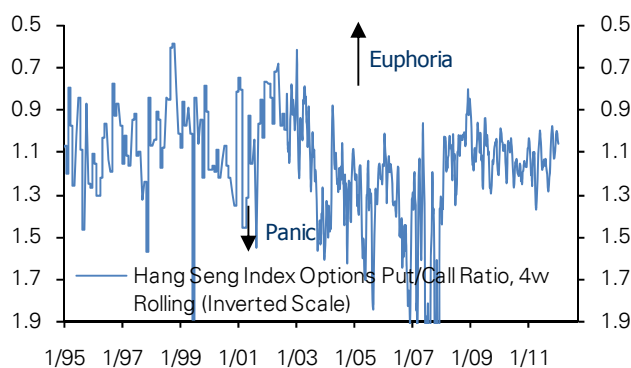
Source: Deutsche Bank, CEIC, DataStream

Figure 165: M1 less M2 growth



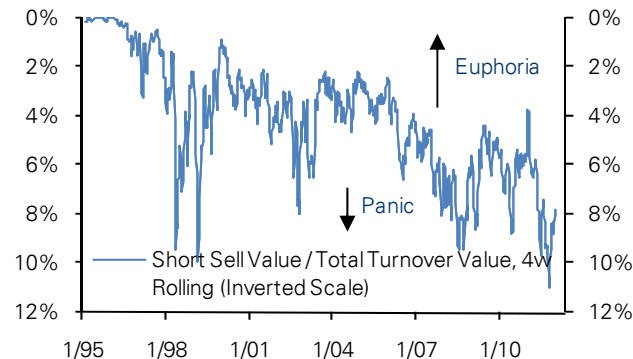
Source: Deutsche Bank, DataStream

Figure 166: Options put/call ratio



Source: Deutsche Bank, CEIC

Figure 167: Short-selling pressure

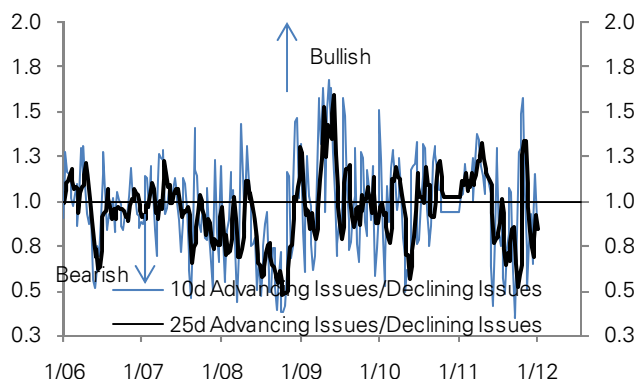


Source: Deutsche Bank, CEIC, DataStream

Hong Kong – technicals

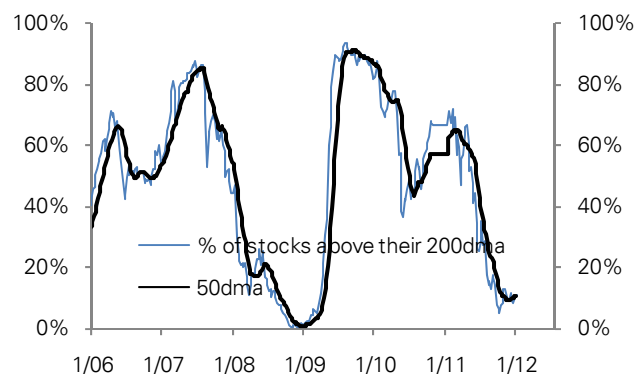
This looks a deeply oversold market.

Figure 168: Advance/decline ratio



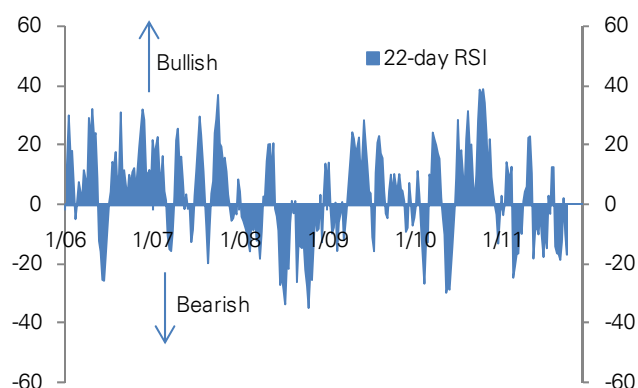
Source: Deutsche Bank, DataStream, FactSet

Figure 169: Percentage of stocks above their 200dma



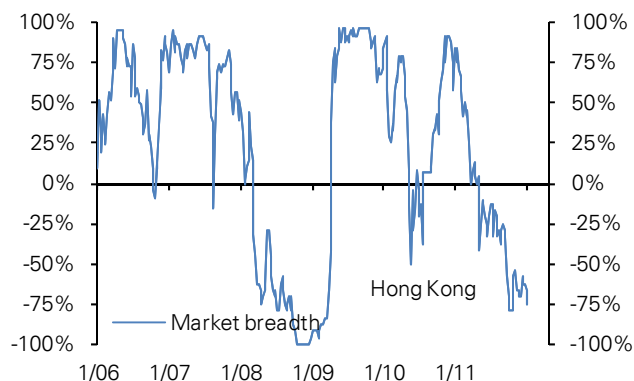
Source: Deutsche Bank, DataStream, FactSet

Figure 170: Relative Strength Index



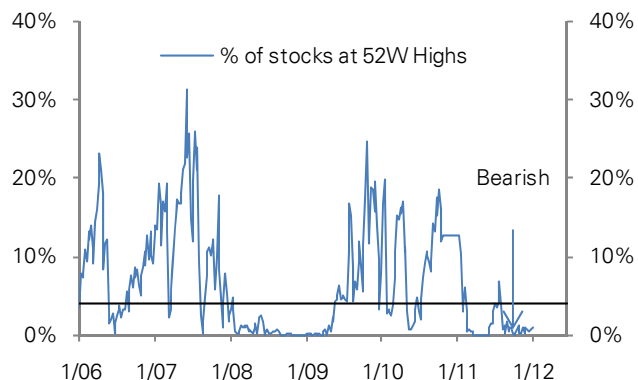
Source: Deutsche Bank, DataStream, FactSet

Figure 171: Market breadth



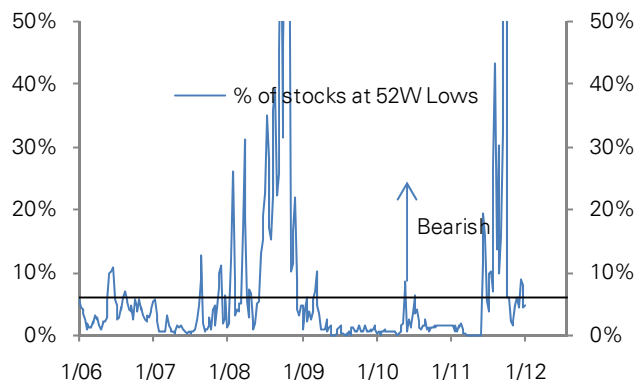
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 172: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 173: Percentage of stocks at 52w Lows

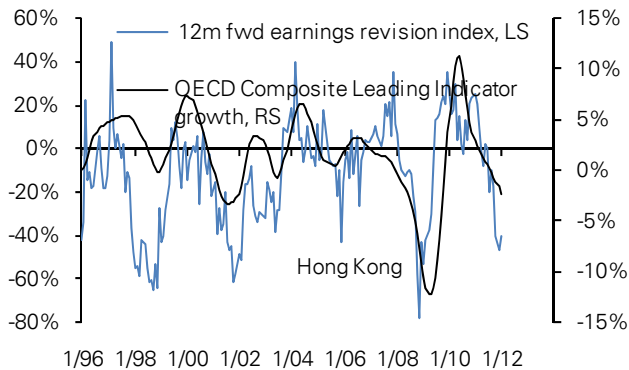


Source: Deutsche Bank, DataStream, FactSet

Hong Kong – growth and earnings

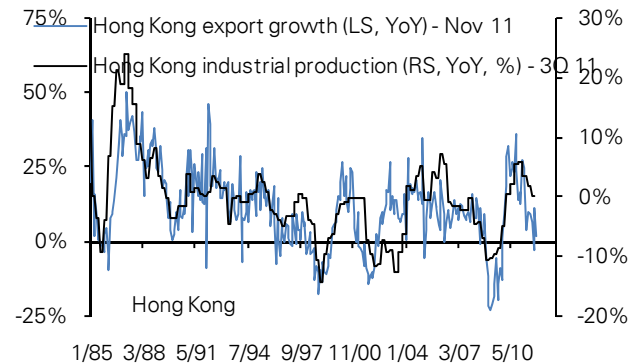
Leading indicators and the EPS revisions index are suggesting EPS contraction. The good news is that analysts seem to be in agreement.

Figure 174: Leading economic indicators



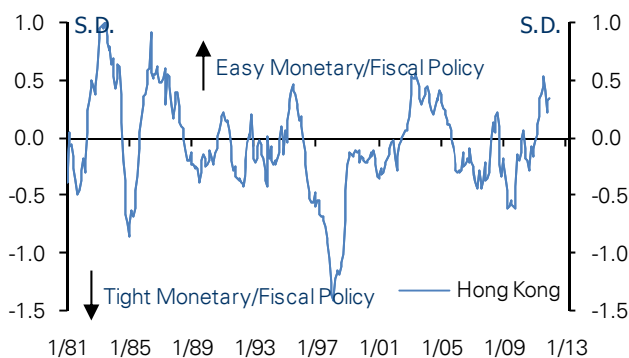
Source: Deutsche Bank, OECD, I/B/E/S, DataStream

Figure 175: Industrial production and export growth



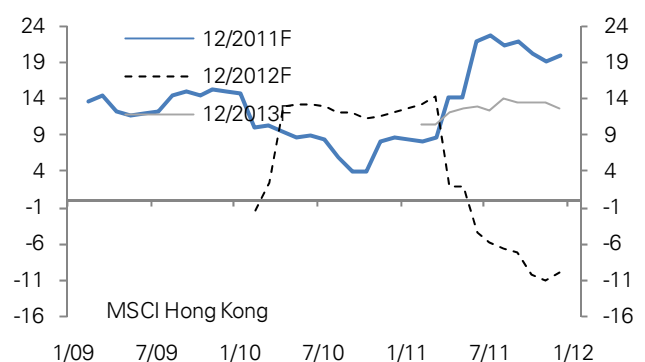
Source: Deutsche Bank, DataStream

Figure 176: Composite policy indicator



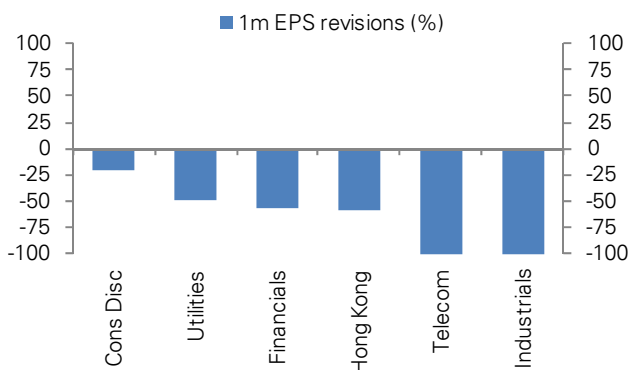
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 177: Earnings growth forecast (%)



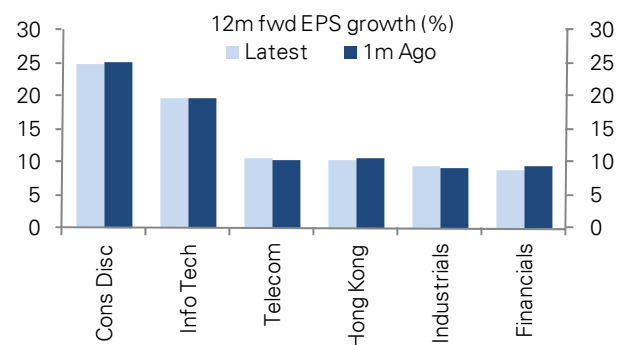
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 178: 12m forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 179: 12m forward EPS growth forecast by sector

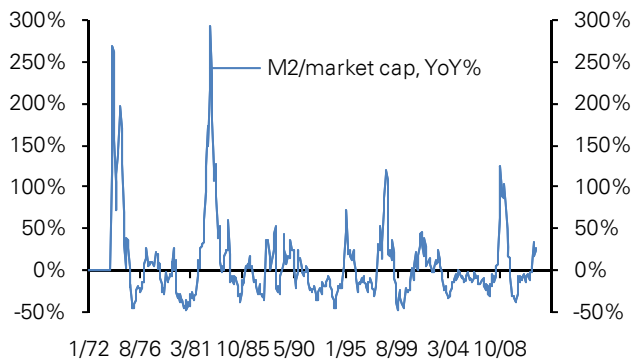


Source: Deutsche Bank, MSCI, I/B/E/S

Hong Kong – liquidity

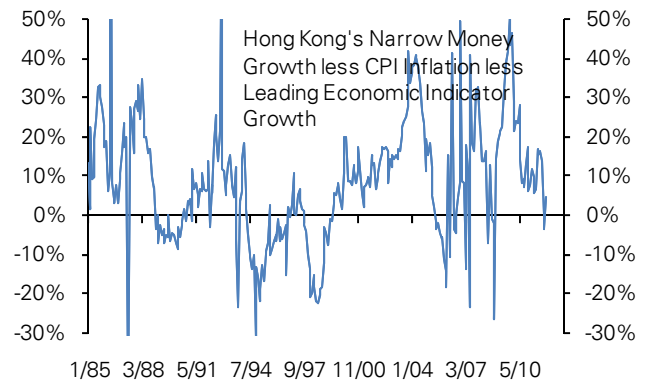
We believe any China reflation should partially seep into Hong Kong. We also think it is interesting that Hong Kong's credit and money multipliers have been rising for two years now – we are hopeful that this lending boom does not surprise us with too many bad loans.

Figure 180: M2/market cap



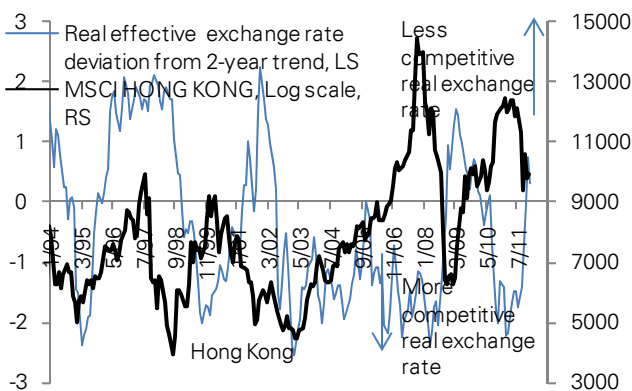
Source: Deutsche Bank, DataStream

Figure 181: Free liquidity



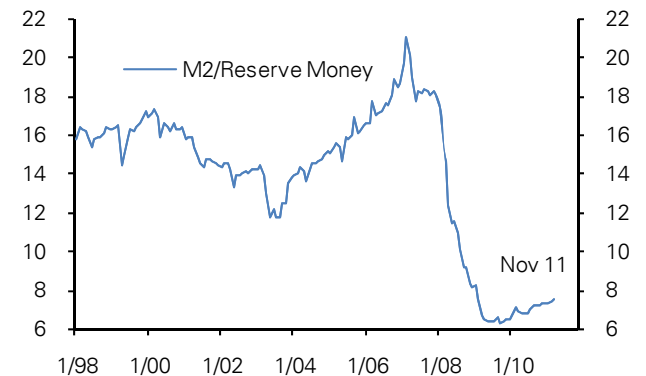
Source: Deutsche Bank, DataStream

Figure 182: Real exchange rate



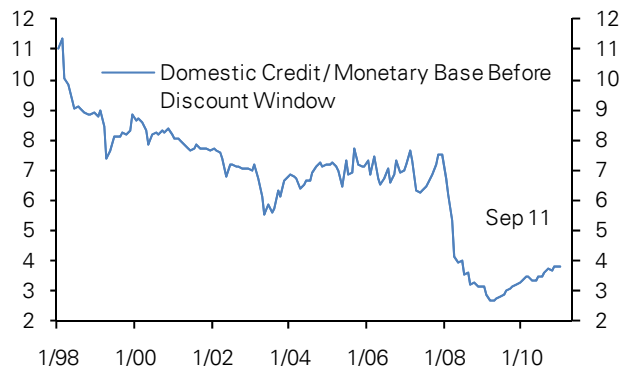
Source: Deutsche Bank, Bloomberg Finance LP

Figure 183: M2/base money



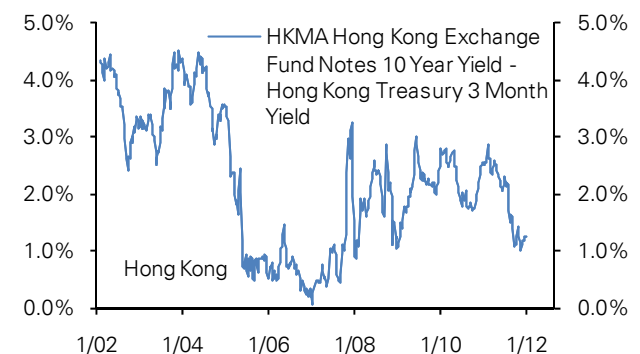
Source: Deutsche Bank, HKMA, CEIC

Figure 184: Credit multiplier



Source: Deutsche Bank, IMF, HKMA

Figure 185: Yield curve

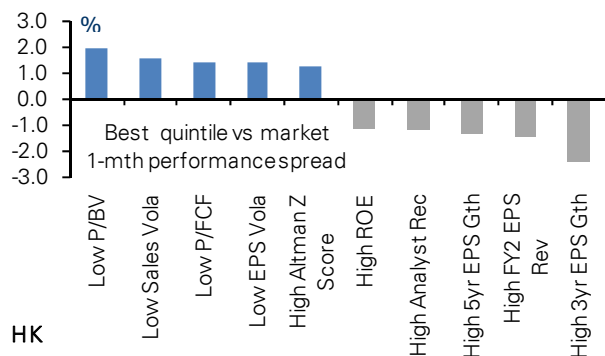


Source: Deutsche Bank, Bloomberg Finance LP

Hong Kong – factor performance

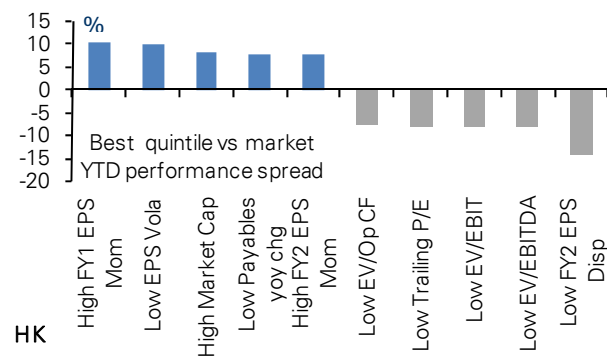
This market has turned into a price and EPS momentum market. Value and ROEs, which once were meaningful, have now been discarded. What's going on?

Figure 186: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 187: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 188: Factor performance

Hong Kong Dec 31, 11	Returns						Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y	
Valuation									
Low 12m Fd P/E	-0.7	-0.4	4.3	-1.2	-0.7	1.0	2.2	1.1	
Low Trailing P/E	-7.8	-0.2	-1.1	-5.4	-7.8	-0.2	5.5	7.3	
Low P/Op Inc	2.0	-0.3	5.3	-1.9	2.0	5.4	6.0	7.0	
Low P/BV	-4.6	2.0	3.7	-0.8	-4.6	-0.1	1.3	-1.9	
Low Price/Sales	6.4	-0.3	2.3	0.3	6.4	5.1	3.9	3.0	
Low P/FCF	-0.1	1.4	7.2	3.8	-0.1	1.6	4.4	4.7	
Low EV/EBIT	-7.8	-1.0	-0.9	-3.3	-7.8	0.2	3.3	5.5	
Low EV/EBITDA	-8.0	0.4	-1.2	-3.3	-8.0	-0.1	3.7	6.4	
Low EV/Cap Emp	-5.5	0.6	3.5	0.2	-5.5	-5.3	-0.1	-3.9	
Low EV/Sales	5.5	-0.4	2.1	0.4	5.5	3.2	3.9	3.9	
Low EV/Op CF	-7.5	-1.0	-0.4	-3.7	-7.5	4.4	6.2	8.3	
Low EV/FCF	1.3	0.7	8.2	5.0	1.3	6.9	6.3	7.5	
High Dividend Yield	0.5	0.1	-0.7	-1.0	0.5	5.8	5.5	8.6	
Average	-2.0	0.1	2.5	-0.8	-2.0	2.2	4.0	4.4	
Price Momentum									
High 6m Price Mom	4.6	-0.1	-3.5	0.7	4.6	-1.3	2.4	1.0	
High 9m Price Mom	4.6	-0.2	-1.0	0.9	4.6	2.1	3.7	3.1	
High 12m Price Mom	5.6	-0.4	0.7	2.0	5.6	-2.8	1.0	0.4	
High Price Rel Strg	5.1	-0.7	0.9	0.7	5.1	-1.9	2.0	2.6	
High 3m chg in Price Mon	1.0	-0.3	-3.3	3.0	1.0	4.8	1.6	0.0	
High Price Up/Dn Days	5.6	-0.1	0.7	3.8	5.6	4.1	5.8	6.7	
Average	4.4	-0.3	-0.9	1.9	4.4	0.8	2.7	2.3	
Earnings Momentum									
High FY1 EPS Mom	10.3	-0.2	3.9	4.8	10.3	3.1	1.9	0.4	
High FY2 EPS Mom	7.9	-0.6	5.1	4.9	7.9	5.9	4.6	1.5	
High 12m Fd EPS Mom	6.0	-1.0	3.7	-1.0	6.0	-2.5	3.6	0.4	
High FY1 EPS Rev	1.9	-0.7	-4.9	-0.9	1.9	4.9	5.9	3.0	
High FY2 EPS Rev	0.5	-1.4	0.0	1.3	0.5	-1.6	0.9	0.4	
Average	5.3	-0.8	1.6	1.8	5.3	2.0	3.4	1.1	
Capex Deployment & Earnings Accruals									
Low Capex/Depr	-4.2	0.5	0.2	5.7	-4.2	-3.8	-5.9	-2.8	
Low Capex/Sales	5.2	0.8	0.3	10.4	5.2	0.3	-0.8	-0.3	
Low Capex/FA	-0.7	0.5	-4.4	1.4	-0.7	1.4	-1.1	-2.6	
High Receivables yoy chg	-6.8	-0.2	-1.1	-4.3	-6.8	-7.0	-5.5	-5.1	
Low Inventory yoy chg	2.7	-0.7	7.5	2.0	2.7	0.6	3.1	2.8	
Low Payables yoy chg	7.9	1.0	11.8	8.2	7.9	0.8	0.6	-6.1	
Average	0.7	0.3	2.4	3.9	0.7	-1.3	-1.6	-2.3	
Profitability									
High Cash ROC	-6.7	0.7	0.3	-1.9	-6.7	8.1	6.2	13.5	
High Cash ROC, yoy chg	-5.8	-1.0	2.2	-2.8	-5.8	0.4	0.8	2.8	
High ROE	-3.1	-1.1	-1.6	-2.2	-3.1	4.8	5.6	10.5	
High ROE, yoy chg	0.5	-0.7	0.2	-4.7	0.5	2.0	1.9	4.7	
Average	-3.8	-0.5	0.2	-2.9	-3.8	3.8	3.6	7.9	
Growth									
High 3yr Sales Gth	6.8	-0.8	4.0	-2.7	6.8	0.5	2.6	-2.2	
High 5yr Sales Gth	4.3	-0.8	4.6	-3.1	4.3	-2.0	1.6	-3.3	
High 3yr EPS Gth	4.6	-2.4	1.2	3.5	4.6	-2.5	3.7	4.3	
High 5yr EPS Gth	1.8	-1.4	1.9	0.4	1.8	-0.8	0.8	3.6	
High LT Gth Est	-6.3	0.9	8.9	-4.8	-6.3	-2.7	1.4	-2.9	
High FY1 Gth Est	0.0	-0.5	2.5	-2.6	0.0	-2.6	0.2	-1.3	
High FY2 Gth Est	2.7	-0.7	5.4	-3.7	2.7	-4.2	-0.7	-3.6	
Average	2.0	-0.8	4.1	-1.9	2.0	-2.0	1.4	-0.8	
Stability									
Low EPS Vola	10.2	1.4	-2.8	4.6	10.2	3.7	0.6	0.5	
Low Op Inc Vola	6.4	-0.8	-3.2	2.2	6.4	2.0	0.5	-0.4	
Low Book Value Vola	-7.1	0.5	-1.4	1.6	-7.1	-4.2	-4.1	-2.4	
Low Sales Vola	-1.5	1.5	-1.7	-1.1	-1.5	-0.7	-2.2	-2.0	
Low EPS Est Vola	-1.2	0.6	-2.2	-2.5	-1.2	2.7	-1.7	-1.5	
Average	1.4	0.6	-2.3	1.0	1.4	0.7	-1.4	-1.2	
Risk									
Low FY1 EPS Disp	7.2	-0.7	-5.5	1.5	7.2	1.9	1.5	3.8	
Low FY2 EPS Disp	-14.1	-0.5	-7.1	-6.6	-14.1	-5.3	-1.8	3.0	
High EBIT/Int Exp	-0.3	0.3	4.4	2.5	-0.3	2.4	0.0	6.5	
Low Debt/Equity	-1.9	-0.4	4.2	5.2	-1.9	2.5	-0.7	-1.1	
High Altman Z Score	-1.7	1.3	-3.7	4.3	-1.7	-0.4	-2.6	-3.0	
High Market Cap	8.3	-0.5	0.6	6.3	8.3	4.1	4.0	6.5	
Average	-0.4	-0.1	-1.2	-0.4	0.9	0.1	2.6		
Consensus Ratings									
High Analyst Rec	0.1	-1.2	0.3	-1.6	0.1	-7.0	-3.9	0.5	
High Analyst Rec 1m chg	3.6	1.2	5.7	8.6	3.6	4.7	3.7	0.8	
Average	1.9	0.0	3.0	3.5	1.9	-1.1	-0.1	0.6	

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended June 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

India – Strategy

1. **Economics and strategy view:** For the Indian equity markets, the year 2011 has had the worst annual performance in dollar terms (barring the credit crunch in 2008-09). The Indian equity market has seen its valuations compressed to a near six-year low (barring the subprime crisis, Sensex last witnessed similar valuations in June 2006). India's valuation premium has shrunk to just 13% over MSCI Asia ex-Japan. As we head into 2012, we see equity investors at two ends of the expectations spectrum, with a dominant majority still nervous and negative on the Indian equity markets despite the precipitous fall in markets and low equity valuations. The minority group of investors who are relatively more sanguine are drawing comfort from expectations of policy easing being a critical catalyst. Expectations of further weakening growth and even weaker business and investor confidence lie at the epicentre of investor angst. Imminent confidence building remains critical to ensuring that the weakening sentiment does not spill over to becoming a self-fulfilling prophecy.

Since 2003, we have not seen investors turn as negative on India's investment story as they are today. In what has been the most protracted period of earnings cuts (barring 2009) our analysts have cut their earnings estimates throughout CY2011 by 13-15%. Our analysts now expect YoY earnings growth for FY12-13 at a far muted 11% and 15%, respectively (at the beginning of 2011 our analysts were estimating FY12 earnings growth of 23%).

We believe March to be a pivotal month for Indian equities. We are optimistic because unlike last year, the Indian state election calendar is front ended (February-early March), the elections precede the union budget, the crucial UP state election will be over by the end of February and a near 20-month election free window (barring Gujarat and Karnataka) will provide the government with long-needed manoeuvrability to address many of the issues we have outlined above. We would also expect the much-needed clarity on how the situation in Europe is likely to evolve to also be clearer by March. We are setting our year-end (December 2012) Sensex target at 18,000, implying a 9% return from current levels. At our target, the Sensex would trade at 13.8x FY13 earnings—a small discount (3%) to India's 15-year average one-year forward multiple.

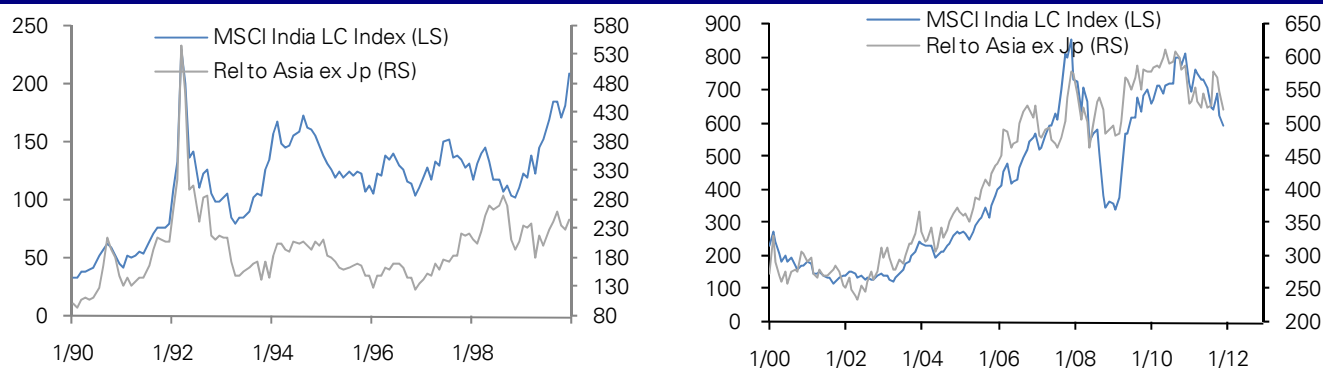
Banks, real estate and infrastructure are set to emerge as key sectoral themes in 2012 but timing will be critical. With a near-19-month monetary tightening cycle expected to reverse in 2012, we believe the classical rate sensitivities—banks (although the sector may have to cross the hump of NP's in the near term) and real estate, together with infrastructure, will be the key sectors driving Indian markets in 2012.

2. **Fund flows and investor views:** The year 2012 began on a positive note with the FIIs net investing over USD600m YTD, which more than recoups the USD512m in outflows seen in 2011. We believe the burden of expectations is currently in favour of India, which should be supportive for FII flows.
3. **Events/data/risks to watch for:** RBI credit policy on 24 January 2012, January 2012 Manufacturing PMI on 31 January 2012, January 2012 Services PMI during 2-6 February 2012
4. **Top stock ideas:** Axis Bank, ICICI Bank, Coal India, Larsen and Toubro (now the biggest overweight in model portfolio), TCS, Bharti and DLF.

Abhay Laijawala

India – market intelligence

Figure 189: Equity market performance



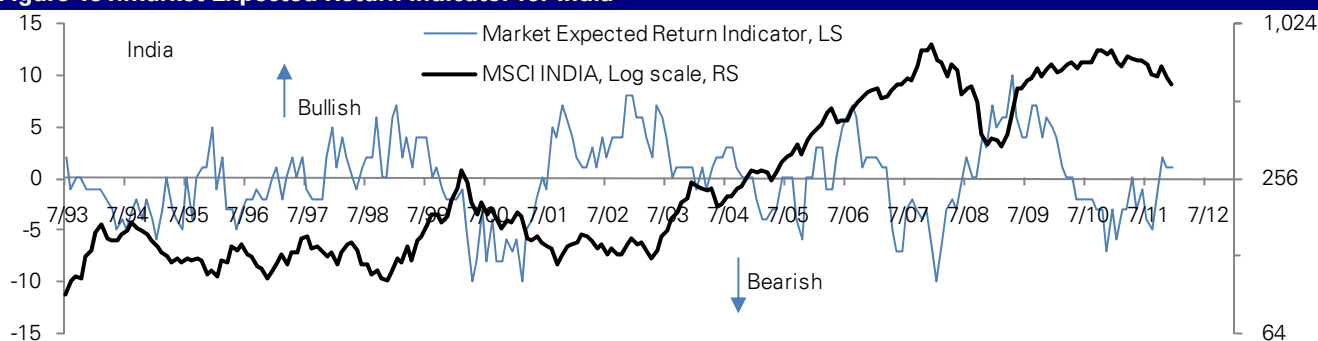
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 190: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (4)	26,688	-1.0	6.7	11.4	10.9	10.1	1.6	1.5	1.4	1.1	1.3	1.8	18.1	8.4	7.2	13.7	14.1	13.6
Materials (12)	20,635	-2.7	8.1	9.2	9.2	8.4	1.6	1.3	1.1	1.3	1.5	1.6	27.8	-0.5	9.8	17.0	14.0	13.5
Capital Goods (7)	9,357	-6.2	11.5	12.7	13.2	11.4	2.0	1.7	1.7	1.1	1.2	1.3	27.1	12.7	16.0	18.3	13.9	14.5
Autos (5)	11,738	-5.9	-1.4	14.3	13.0	11.4	4.8	3.8	3.2	1.8	2.3	2.7	40.5	10.4	13.8	32.4	29.0	28.0
Media (1)	982	-6.8	-1.9	18.9	18.6	16.7	3.3	3.2	2.9	1.5	1.8	2.0	9.3	1.5	11.3	17.5	17.3	17.1
Food Beverage (2)	9,669	-0.2	1.7	30.4	24.9	20.8	6.9	6.1	5.4	1.8	2.1	2.3	36.8	22.0	19.4	22.6	24.4	25.9
Household Products (2)	7,314	1.8	-3.6	39.5	34.0	29.0	15.9	11.0	8.2	na	1.5	2.2	-3.7	16.2	17.4	51.5	41.4	37.1
Pharma & Biotech (6)	11,315	3.4	4.6	26.8	23.2	19.0	4.1	3.4	2.9	0.7	0.8	0.9	27.4	15.6	22.0	15.4	14.5	15.3
Banks (9)	49,459	2.8	9.3	16.0	14.2	12.1	2.3	2.0	1.8	0.9	1.2	1.8	22.6	13.4	17.5	13.1	14.4	15.1
Div Financials (5)	7,078	-5.0	12.8	12.7	11.1	9.6	1.8	1.6	1.4	2.2	2.6	2.0	16.1	14.0	15.8	14.4	14.3	14.7
Real Estate (4)	2,681	-2.9	12.3	15.9	15.1	12.6	0.9	0.9	0.8	0.5	0.9	1.2	-20.9	3.8	19.2	7.2	5.0	5.7
Software (5)	39,673	1.9	1.2	24.1	19.9	17.1	6.5	5.2	4.3	1.3	1.5	1.7	54.0	20.8	16.6	26.8	26.0	25.3
Telecom (1)	815	7.8	17.4	8.1	16.4	13.9	0.4	0.4	0.4	0.7	0.6	0.7	-56.5	-50.5	18.2	5.1	2.6	3.0
Utilities (7)	9,087	0.1	3.7	14.2	13.8	12.0	1.8	1.4	1.3	1.8	1.8	2.0	10.0	3.1	15.3	10.4	10.1	10.7
India (72)	208,304	-0.2	5.3	15.6	14.4	12.6	2.5	2.1	1.9	1.3	1.5	1.8	23.3	9.9	14.0	16.0	14.9	15.1

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 191: Market Expected Return Indicator for India

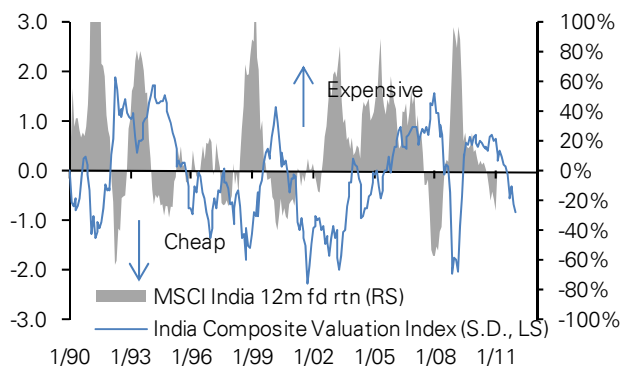


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

India – valuation

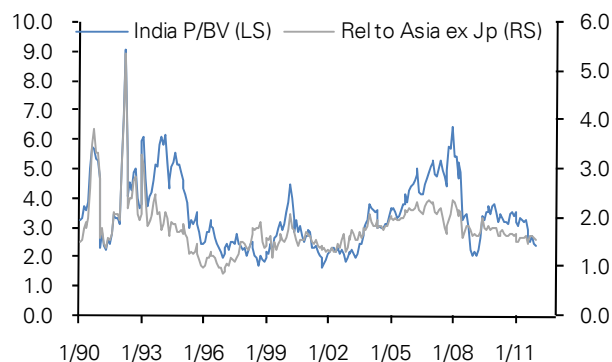
We believe Indian equity valuations look good, but not great.

Figure 192: Composite valuation index



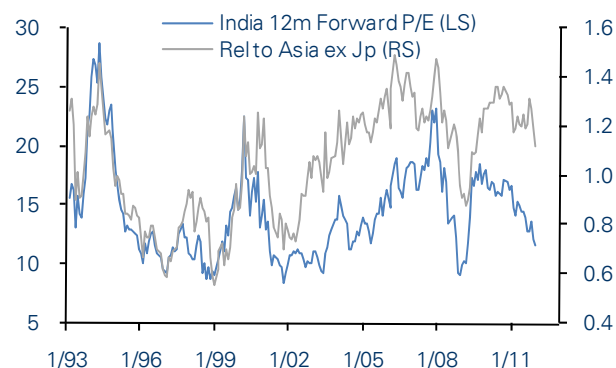
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 193: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 194: 12m forward P/E



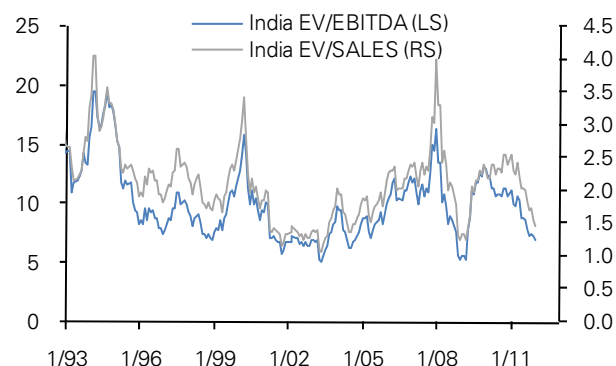
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 195: 12m trailing P/E



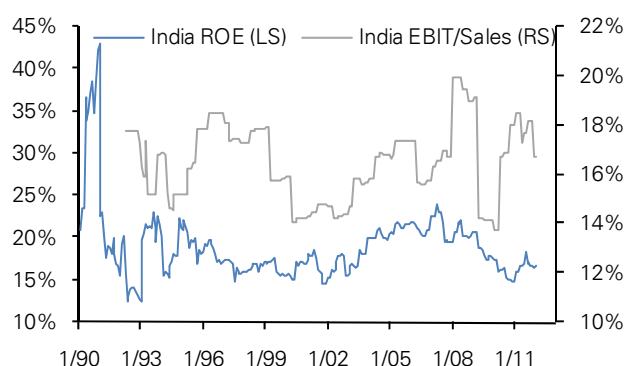
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 196: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 197: ROE and EBIT margin

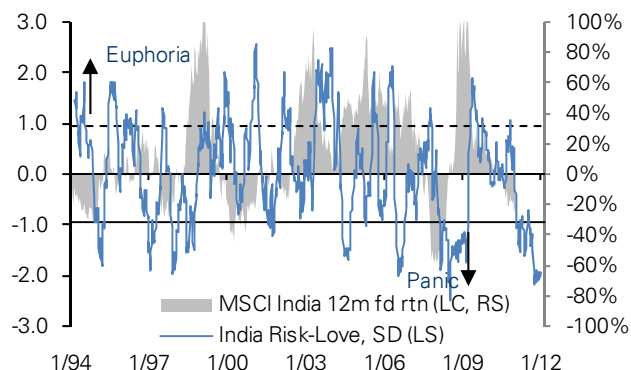


Source: Deutsche Bank, MSCI, FactSet

India – investor sentiment

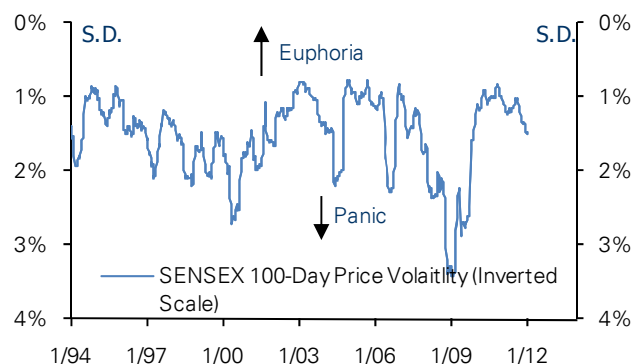
Investor sentiment is negative, and we like this from a contrarian perspective. Small-caps look completely washed out and could be the positive surprise of the year.

Figure 198: Equity Risk-Love indicator



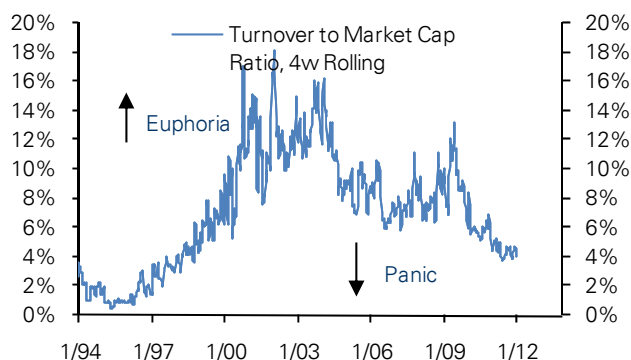
Source: Deutsche Bank, MSCI

Figure 199: Market volatility (inverted scale)



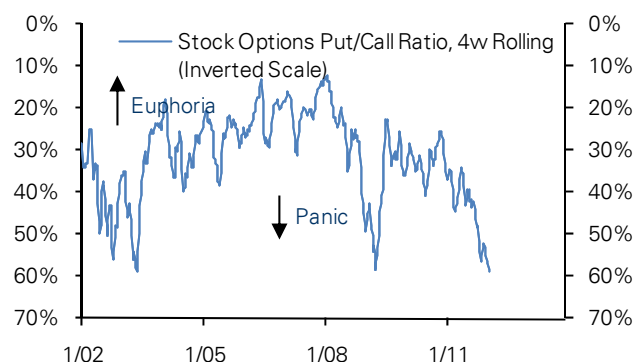
Source: Deutsche Bank, DataStream

Figure 200: Turnover-to-market cap ratio



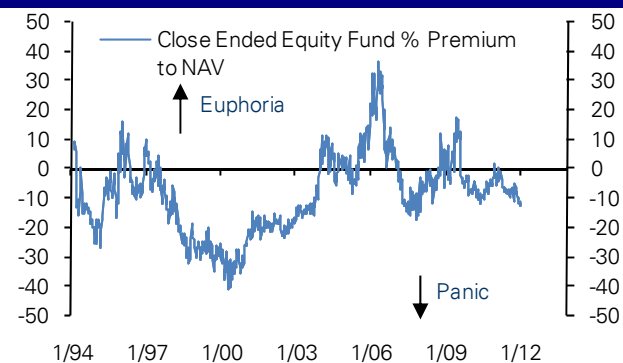
Source: Deutsche Bank, CEIC, DataStream

Figure 201: Options put/call ratio



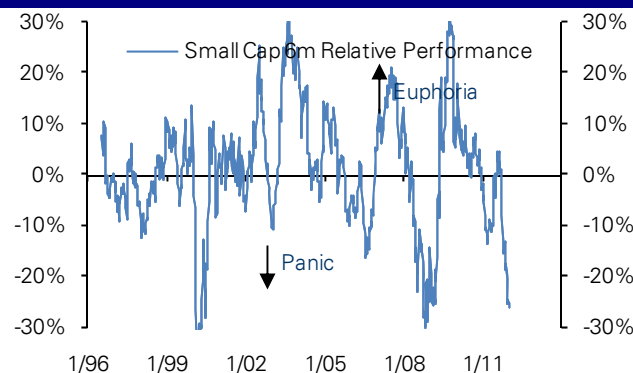
Source: Deutsche Bank, Bloomberg Finance LP

Figure 202: Country equity fund percentage premium to NAV



Source: Deutsche Bank, Bloomberg Finance LP

Figure 203: Small-cap relative performance

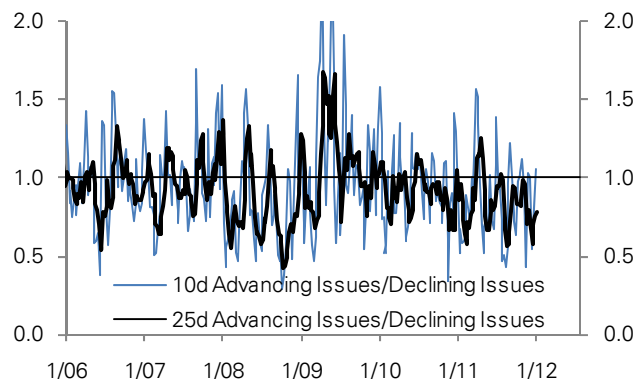


Source: Deutsche Bank, DataStream

India – technicals

Like China and Hong Kong, this is a washed out market technically. It is so bad, we believe it could be good.

Figure 204: Advance/decline ratio



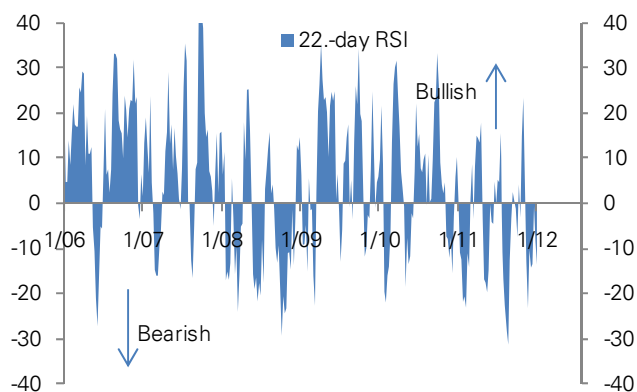
Source: Deutsche Bank, DataStream, FactSet

Figure 205: Percentage of stocks above their 200dma



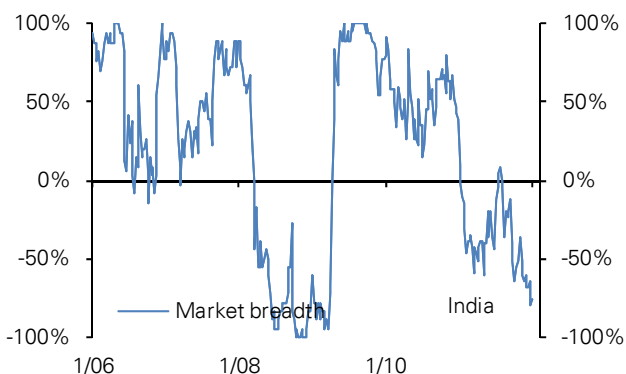
Source: Deutsche Bank, DataStream, FactSet

Figure 206: Relative Strength Index



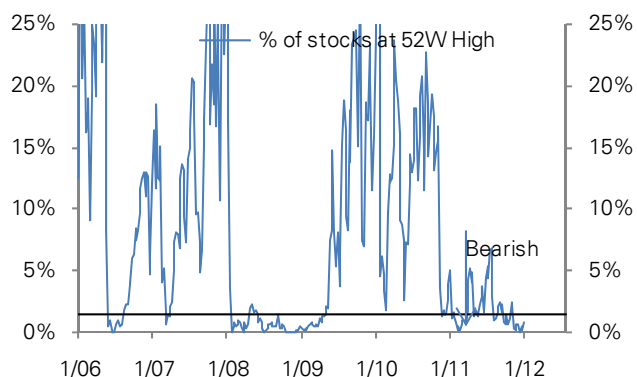
Source: Deutsche Bank, DataStream, FactSet

Figure 207: Market breadth



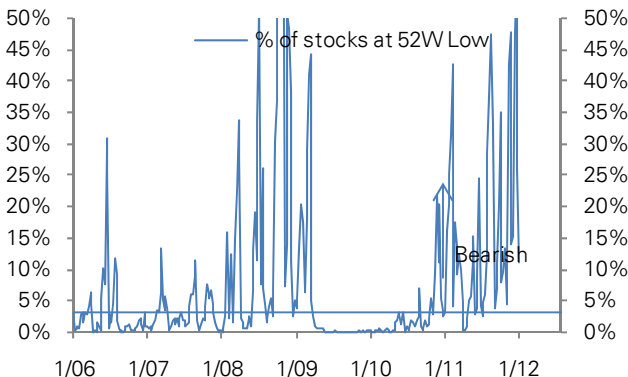
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 208: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 209: Percentage of stocks at 52w Lows

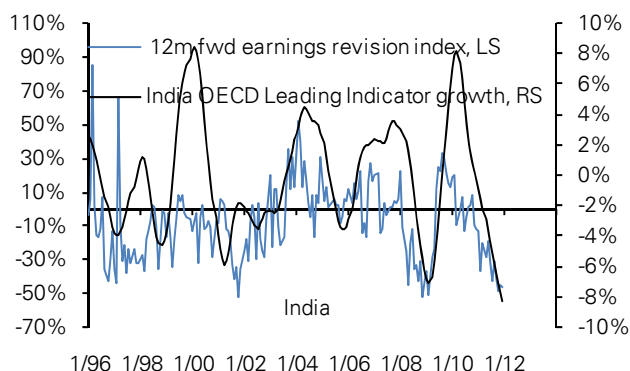


Source: Deutsche Bank, DataStream, FactSet

India – growth and earnings

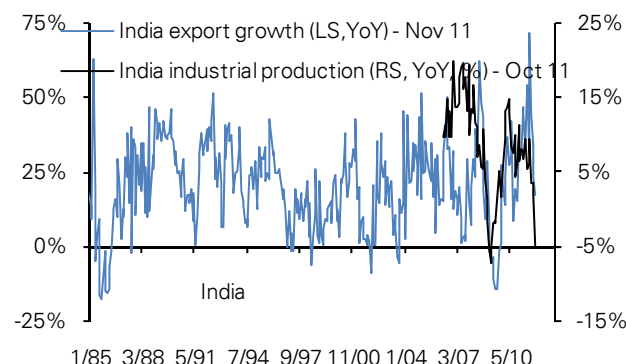
Leading indicators and EPS revisions are making new lows, suggesting exceptionally weak EPS growth. We believe consensus EPS growth, especially margin assumptions, has more downside risk.

Figure 210: Leading economic indicators



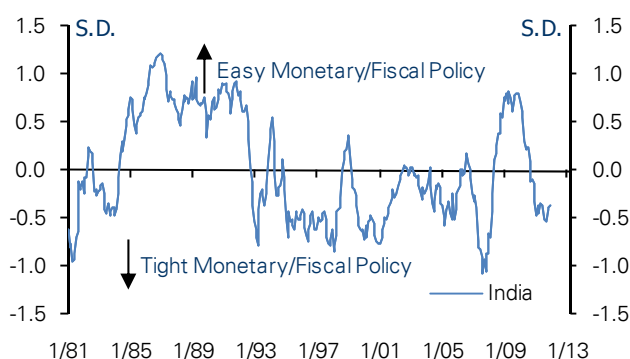
Source: Deutsche Bank, I/B/E/S, OECD, DataStream

Figure 211: Industrial production and export growth



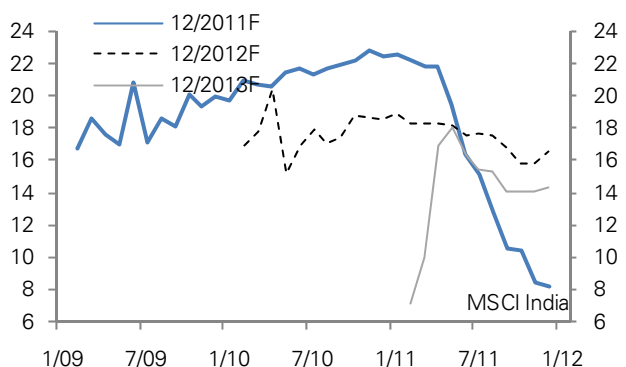
Source: Deutsche Bank, DataStream

Figure 212: Composite policy indicator



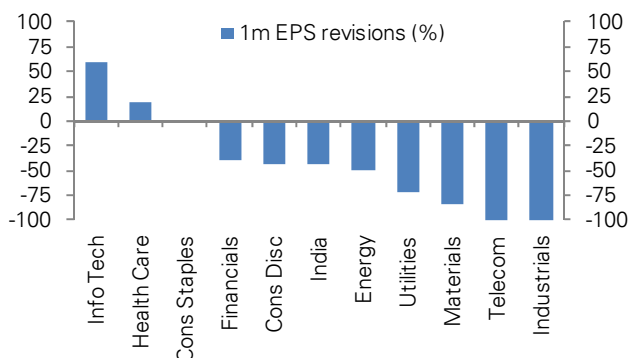
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 213: Earnings growth forecast (%)



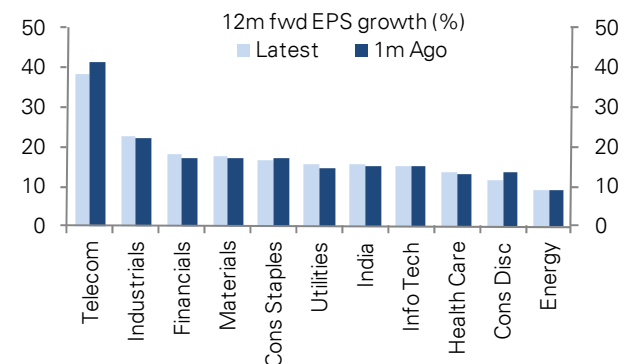
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 214: 12m forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 215: 12m forward EPS growth forecast by sector

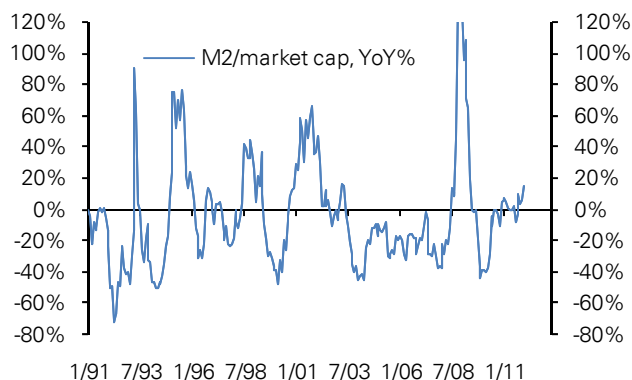


Source: Deutsche Bank, MSCI, I/B/E/S

India – liquidity

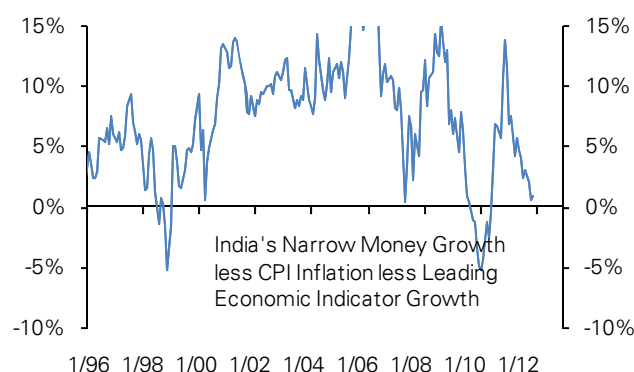
Liquidity has been tight. The flat yield curve conforms to exceptionally weak leading economic indicators. We are intrigued by the massive divergence between India credit multiplier (making new highs), and India's money multiplier (making new lows). From where is credit funding coming, if not the deposit base?

Figure 216: M2/market cap



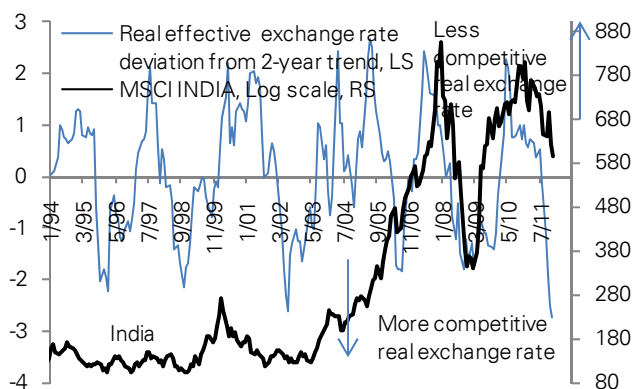
Source: Deutsche Bank, DataStream

Figure 217: Free liquidity



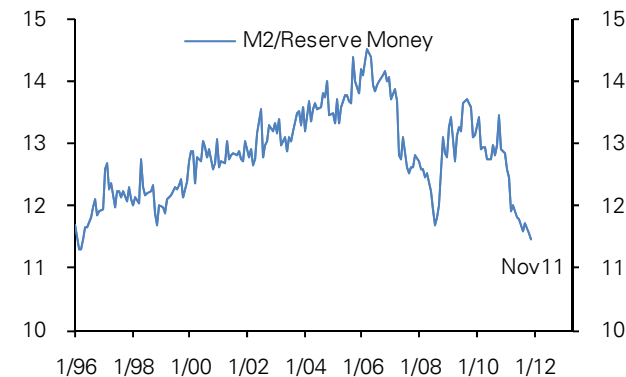
Source: Deutsche Bank, DataStream

Figure 218: Real exchange rate



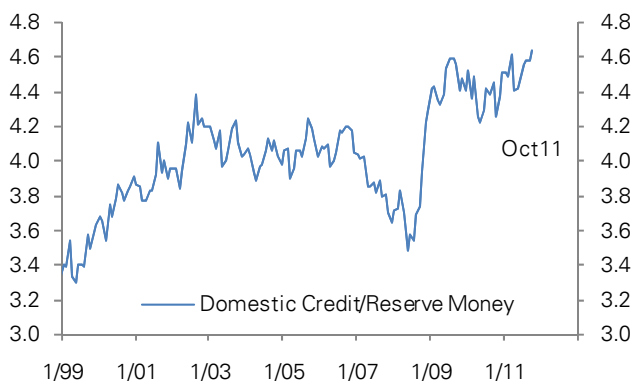
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 219: M2/base money



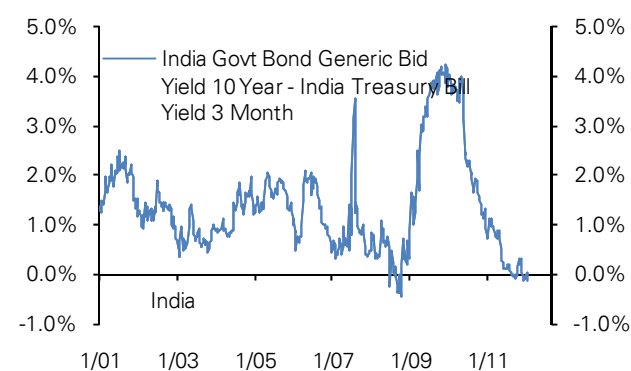
Source: Deutsche Bank, Reserve Bank of India, CEIC, DataStream

Figure 220: Credit multiplier



Source: Deutsche Bank, IMF, Reserve Bank of India, Bloomberg Finance LP, DataStream

Figure 221: Yield curve

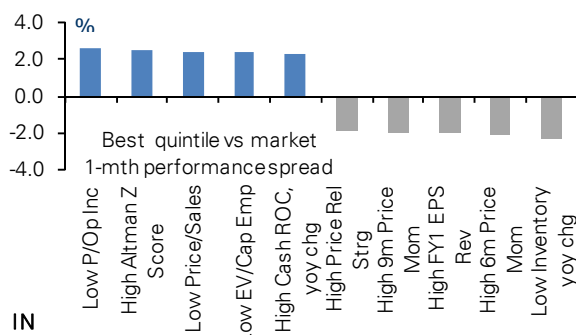


Source: Deutsche Bank, Bloomberg Finance LP

India – factor performance

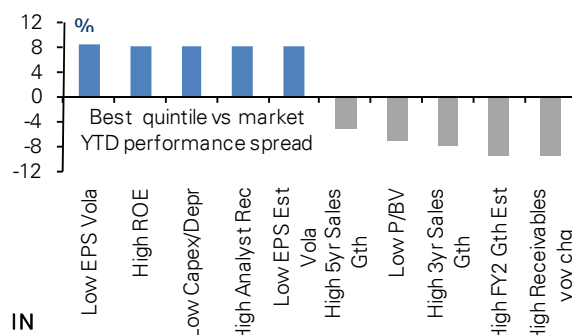
Unsurprisingly, in last year's bear market, high quality and high stability did very well. We think this could be reversed this year.

Figure 222: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 223: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 224: Factor performance

India Dec 31, 11	Returns							Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y		
Valuation										
Low 12m Fd P/E	-4.7	1.3	2.6	-2.4	-4.7	5.2	6.5	5.6		
Low Trailing P/E	-0.6	1.3	2.0	0.5	-0.6	11.6	9.9	8.2		
Low P/Op Inc	-1.2	2.6	4.9	1.7	-1.2	6.2	9.4	6.9		
Low P/BV	-6.9	1.9	1.7	-3.6	-6.9	6.3	5.3	2.3		
Low Price/Sales	1.7	2.4	4.2	0.8	1.7	4.7	5.6	5.9		
Low P/FCF	3.2	0.2	-0.4	2.5	3.2	4.9	5.2	3.0		
Low EV/EBIT	2.8	1.6	4.5	4.6	2.8	13.7	10.2	8.6		
Low EV/EBITDA	6.3	1.3	3.6	4.5	6.3	12.6	9.5	8.4		
Low EV/Cap Emp	-2.4	2.4	3.4	1.8	-2.4	3.0	3.3	2.1		
Low EV/Sales	5.1	1.8	3.7	3.0	5.1	7.7	3.5	4.9		
Low EV/Op CF	3.2	1.3	1.6	2.5	3.2	7.9	7.5	8.4		
Low EV/FCF	6.2	0.9	0.6	3.8	6.2	6.2	5.8	4.5		
High Dividend Yield	2.5	-0.9	-0.9	-0.2	2.5	16.2	12.0	8.6		
Average	1.2	1.4	2.4	1.5	1.2	8.2	7.2	5.9		
Price Momentum										
High 6m Price Mom	-0.4	-2.1	-3.9	-1.4	-0.4	-4.8	-2.8	-0.7		
High 9m Price Mom	2.7	-1.9	-2.5	1.9	2.7	-0.6	-2.3	-1.5		
High 12m Price Mom	4.2	-1.9	-3.6	1.3	4.2	-2.5	-0.4	1.1		
High Price Rel Strg	4.7	-1.9	-3.9	1.6	4.7	-0.2	-1.9	0.5		
High 3m chg in Price Mon	-4.3	0.1	-1.2	0.4	-4.3	-3.8	-7.0	-2.8		
High Price Up/Dn Days	0.0	0.1	-1.2	-0.3	0.0	-1.1	-1.0	-0.9		
Average	1.2	-1.3	-2.7	0.6	1.2	-2.2	-2.6	-0.7		
Earnings Momentum										
High FY1 EPS Mom	1.3	-0.2	-1.6	-6.3	1.3	2.2	4.3	0.4		
High FY2 EPS Mom	0.5	-0.6	0.8	-1.5	0.5	-0.3	1.4	-2.5		
High 12m Fd EPS Mom	1.8	0.2	0.6	-0.5	1.8	1.4	4.2	0.2		
High FY1 EPS Rev	6.6	-1.9	-4.4	-0.8	6.6	3.0	4.9	2.3		
High FY2 EPS Rev	0.9	-1.8	-5.2	-3.0	0.9	4.8	7.6	2.8		
Average	2.2	-0.9	-1.9	-2.4	2.2	2.2	4.4	0.6		
Capex Deployment & Earnings Accruals										
Low Capex/Depr	8.3	0.8	-0.4	2.9	8.3	6.2	1.1	-2.7		
Low Capex/Sales	7.2	0.5	-1.0	2.5	7.2	10.4	1.5	4.4		
Low Capex/FA	4.1	1.2	1.0	1.5	4.1	1.5	-2.9	-4.6		
High Receivables yoy chg	-9.5	0.3	1.3	-3.2	-9.5	-5.9	-5.9	-2.0		
Low Inventory yoy chg	5.4	-2.3	-1.3	3.3	5.4	-0.6	0.3	2.3		
Low Payables yoy chg	4.1	0.5	1.3	1.3	4.1	0.8	-2.0	-1.0		
Average	3.2	0.2	0.1	1.4	3.2	2.1	-1.3	-0.6		
Profitability										
High Cash ROC	4.8	-1.4	-2.2	1.9	4.8	8.7	2.8	3.2		
High Cash ROC, yoy chg	5.0	2.3	5.1	6.8	5.0	4.2	2.3	3.9		
High ROE	8.3	-1.0	-1.4	1.6	8.3	6.0	3.8	5.1		
High ROE, yoy chg	3.7	1.8	2.4	3.0	3.7	4.5	2.5	8.8		
Average	5.4	0.4	1.0	3.3	5.4	5.8	2.9	5.3		
Growth										
High 3yr Sales Gth	-7.7	1.9	1.2	0.0	-7.7	-9.0	-5.9	-0.9		
High 5yr Sales Gth	-5.0	1.7	2.9	0.8	-5.0	-9.6	-9.2	-5.2		
High 3yr EPS Gth	6.0	0.7	2.4	3.8	6.0	-7.6	0.0	0.4		
High 5yr EPS Gth	-1.9	-0.4	-1.3	-0.7	-1.9	-5.2	-1.6	-2.0		
High LT Gth Est	1.3	0.0	1.9	0.3	1.3	-1.9	0.5	-1.1		
High FY1 Gth Est	-2.5	0.5	0.4	-4.4	-2.5	-6.0	-1.9	-6.5		
High FY2 Gth Est	-9.3	0.5	2.7	-4.6	-9.3	-7.3	-1.2	-2.3		
Average	-2.7	0.7	1.5	-0.7	-2.7	-6.6	-2.8	-2.5		
Stability										
Low EPS Vola	8.6	-0.7	1.3	3.1	8.6	6.2	2.9	-0.9		
Low Op Inc Vola	5.0	-1.3	0.3	1.1	5.0	2.6	-0.2	-1.1		
Low Book Value Vola	1.1	0.1	2.5	2.4	1.1	0.2	-0.2	-0.3		
Low Sales Vola	5.1	1.2	2.7	5.5	5.1	0.4	-5.0	-8.0		
Low EPS Est Vola	8.2	-1.8	-1.2	4.5	8.2	0.7	-2.2	-0.7		
Average	5.6	-0.5	1.1	3.3	5.6	2.0	-1.0	-2.2		
Risk										
Low FY1 EPS Disp	3.3	-0.6	-0.2	0.8	3.3	2.5	1.6	0.1		
Low FY2 EPS Disp	2.8	-1.1	0.0	1.1	2.8	2.1	0.9	2.0		
High EBIT/Int Exp	6.8	-1.6	-2.0	2.1	6.8	6.9	1.6	1.4		
Low Debt/Equity	3.4	1.3	-0.4	0.5	3.4	5.3	2.3	1.1		
High Altman Z Score	0.8	2.6	1.8	0.7	0.8	1.4	-0.2	-0.2		
High Market Cap	2.3	-0.8	1.7	1.7	2.3	-1.6	-3.9	-6.1		
Average	3.2	0.0	0.2	1.2	3.2	2.8	0.4	-0.3		
Consensus Ratings										
High Analyst Rec	8.2	0.9	0.8	4.2	8.2	2.8	4.6	1.5		
High Analyst Rec 1m chg	3.5	-0.9	-0.9	0.5	3.5	1.7	2.1	2.1		
Average	5.9	0.0	-0.1	2.3	5.9	2.3	3.4	1.8		

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended June 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see the appendix.

Indonesia strategy

1. **Policy and economics:** Inflation – As a function of a high base effect and muted cost pressure, December inflation reached close to a two-year low of 3.79% yoy; slightly below consensus estimates. We believe the benefits of a high base effect from chilli and spice prices last year will carry through until March; food prices in December were up 3.64% yoy (vs. an 8.7% yoy monthly average in FY11). We also noticed a taming of inflation in almost every category, notably clothing prices. Processed foods ticked up by 4.51% yoy vs. 4.37% in November, but still below the overall FY11 average of 5.1% yoy. Core CPI dropped to an 11-month low of 4.34% yoy. Looking ahead, and taking a somewhat anti-consensus stance, we believe inflation will be muted this year and may even dip below 4% in 1Q12. We reiterate our bottom-up observation that competition and retail evolution are important counterbalances to the bustling economic growth and infrastructure bottlenecks. With manageable inflationary pressure, there is scope for further rate cuts, in our view.

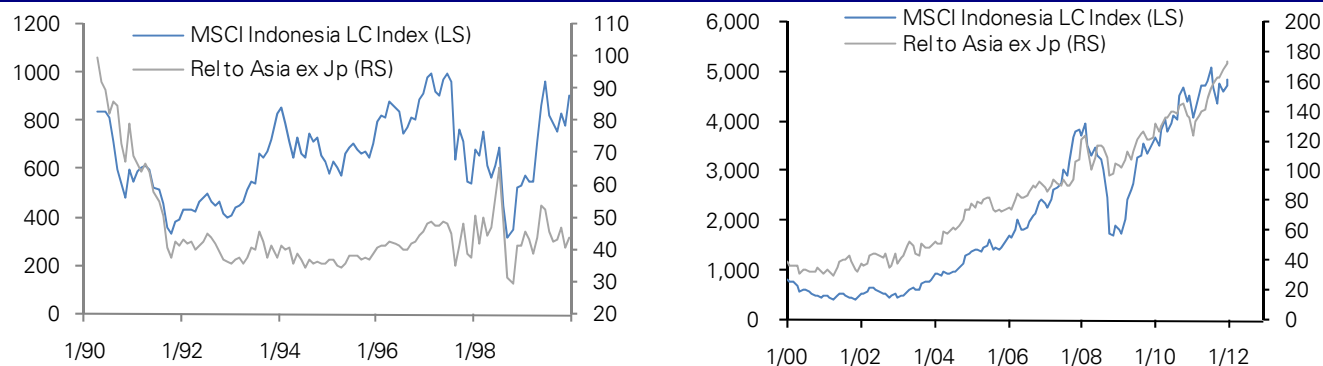
Trade Balance – Slightly recovered in November to c.US\$1.5bn (up 7% mom), but still lower than the average monthly surplus for the most part of the year (the monthly average was US\$2.4bn in January-October period). This is largely due to a decline in the gas surplus, and the non-oil and gas trade balance. Going forward, this is an area that we need to monitor closely. The capital account remains robust, thanks to rising direct investment, providing comfort on the balance of payments. YTD November 2011, the trade balance reached US\$25bn, still up by a significant 38% yoy. Economic activity (measured as exports plus imports value) continues to surge and see a healthy yoy increase, with a three-month moving average of c.30% yoy; excluding oil & gas, the three-month moving average is still +26% yoy.

2. **Market outlook:** We expect the market to gradually build positive momentum. We expect market focus to shift from fears of a worst-case scenario in Europe towards concerns over slower growth, as EU enters a period of austerity measures; as such, growth will be a much sought-after precious commodity. We also expect resilient earnings trend to sustain into 4Q, thereby helping support the market.
3. **Fund flows:** We continue to see a positive trend in fund flow, both for equity and bond markets; there was a US\$330mn net foreign buying in December (monthly average of US\$260mn in FY11), while offshore investors started to build positions in government bonds again, US\$1.2bn in December to US\$24.6bn.
4. **Top stock ideas:** Bank Negara Indonesia, Gudang Garam, Astra Int'l, Bank Mandiri, Bukit Asam, Indomobil, Charoen Pokphand, Gajah Tunggal, Wintermar and Indofood CBP

Heriyanto Irawan

Indonesia – market intelligence

Figure 225: Equity market performance



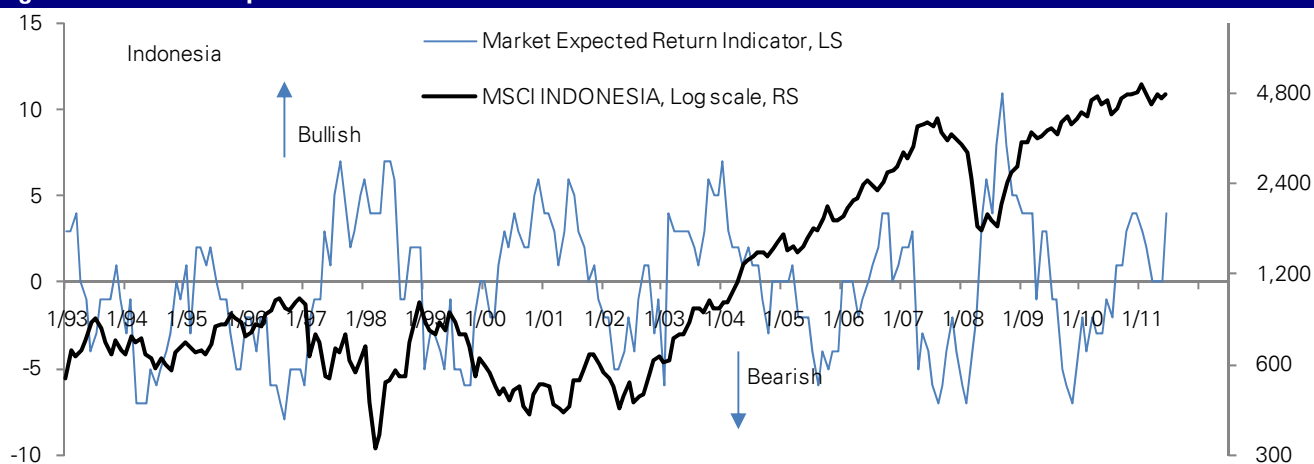
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 226: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (4)	10,467	5.8	8.2	21.1	11.8	9.2	3.9	3.6	2.9	1.4	2.3	3.9	-16.4	78.0	29.3	18.7	30.5	31.3
Materials (4)	8,085	15.6	2.3	15.8	14.7	13.5	4.0	3.5	3.0	2.5	2.9	3.0	39.6	7.4	8.6	25.5	23.6	22.3
Capital Goods (1)	5,168	13.9	7.0	25.2	18.3	15.6	6.0	4.1	3.6	1.6	1.9	2.4	1.5	37.9	17.4	24.0	22.6	22.9
Autos (1)	16,706	3.5	2.2	21.3	17.7	15.5	7.7	5.1	4.3	0.6	2.5	2.9	43.1	20.6	14.0	36.0	28.9	27.8
Food Beverage (4)	8,911	-1.3	1.5	19.3	16.9	15.1	4.4	3.8	3.3	1.3	2.2	2.7	29.6	14.3	11.7	22.7	22.7	22.1
Household Products (1)	3,215	10.0	2.7	43.5	36.7	32.6	na	na	na	2.1	2.3	2.6	11.3	18.4	12.6	na	na	na
Banks (5)	30,569	2.7	2.1	17.1	14.7	12.8	3.9	3.2	2.7	1.7	1.9	2.2	43.2	16.5	14.8	23.0	21.6	21.0
Telecom (3)	9,400	-1.5	-0.4	12.9	12.4	11.4	2.9	2.6	2.4	0.7	4.2	4.6	2.7	4.5	8.8	22.5	21.3	20.9
Utilities (1)	3,870	3.2	2.4	12.6	12.2	11.5	5.7	4.7	3.9	4.8	4.6	4.7	-1.9	3.4	6.5	44.9	38.1	34.3
Indonesia (25)	98,125	4.1	2.7	18.1	15.1	13.1	4.4	3.6	3.1	1.5	2.5	3.0	21.7	20.2	14.9	24.7	24.3	23.8

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted. Future data are forecasts.

Figure 227: Market Expected Return Indicator for Indonesia

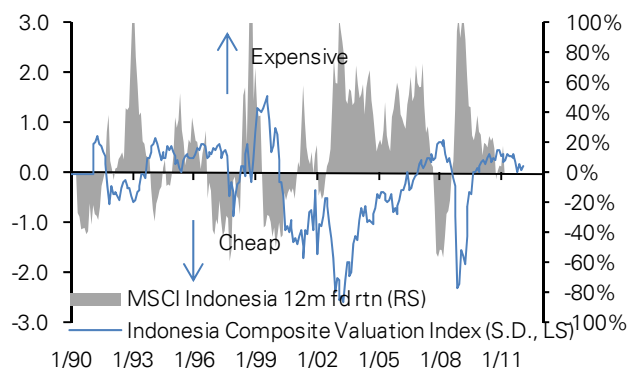


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Indonesia – valuation

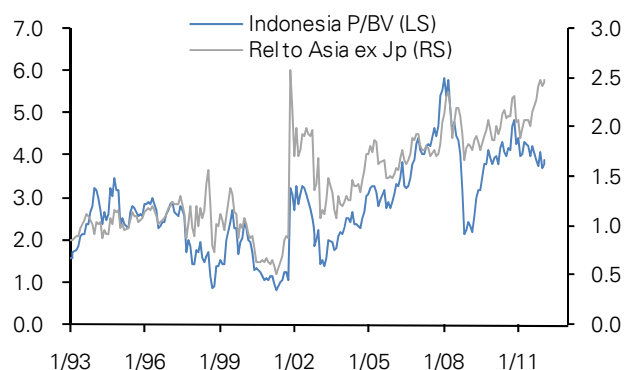
Compared with history, Indonesian equities are at fair value. They are at a large premium to the region, consonant with their impressive ROE premium (25% versus 13% for Asia).

Figure 228: Composite valuation index



Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 229: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 230: 12-month forward P/E



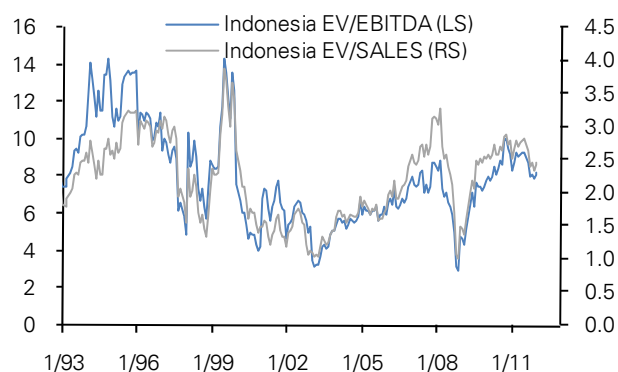
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 231: 12-month trailing P/E



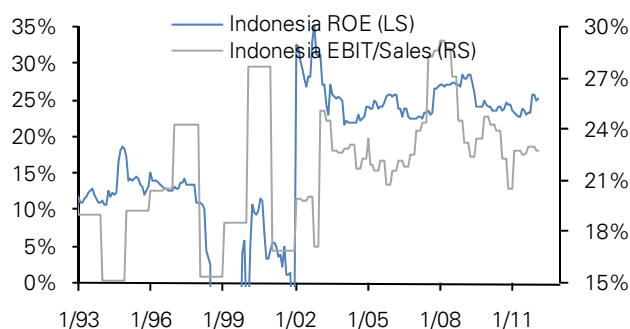
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 232: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 233: ROE and EBIT margin

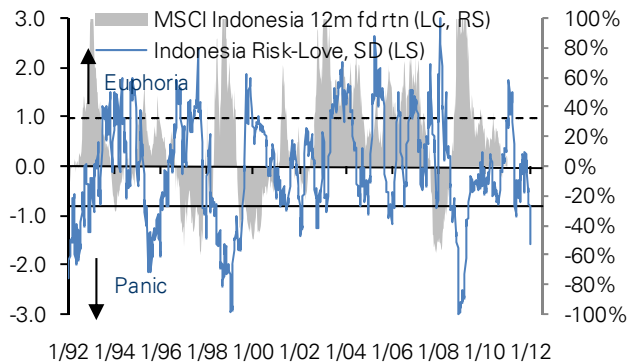


Source: Deutsche Bank, MSCI, FactSet

Indonesia – investor sentiment

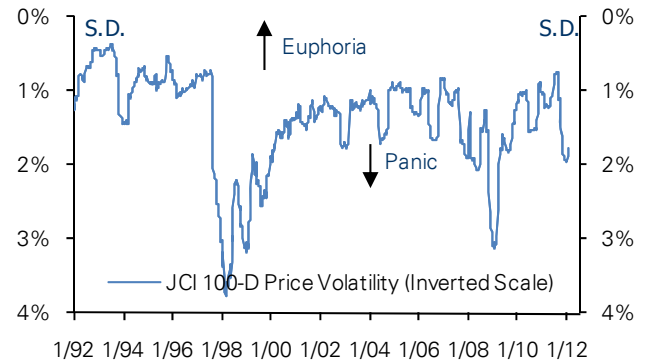
Sentiment appears to be negative, a surprise to us, since the neighbours – Philippines, Singapore and Malaysia – are at neutral levels on sentiment.

Figure 234: Equity Risk-Love Indicator



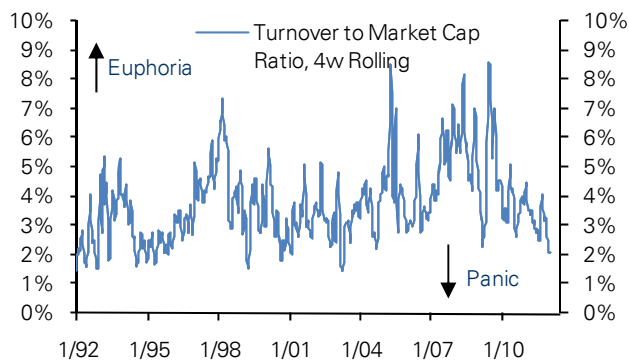
Source: Deutsche Bank, MSCI

Figure 235: Market volatility (inverted scale)



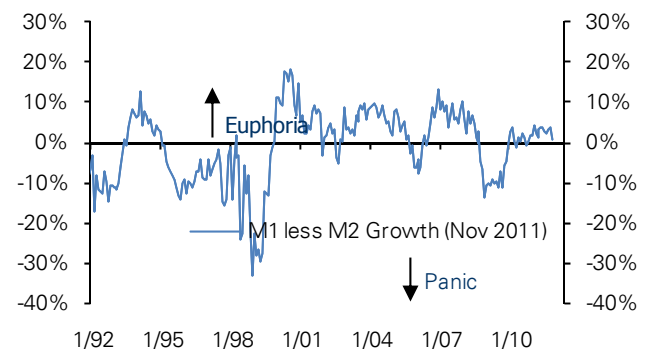
Source: Deutsche Bank, DataStream

Figure 236: Turnover-to-market cap ratio



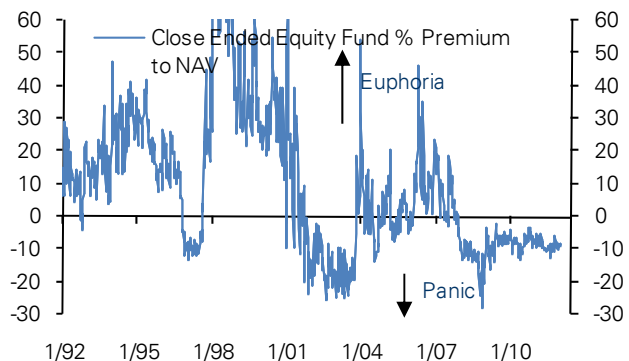
Source: Deutsche Bank, CEIC, DataStream

Figure 237: M1 less M2 growth



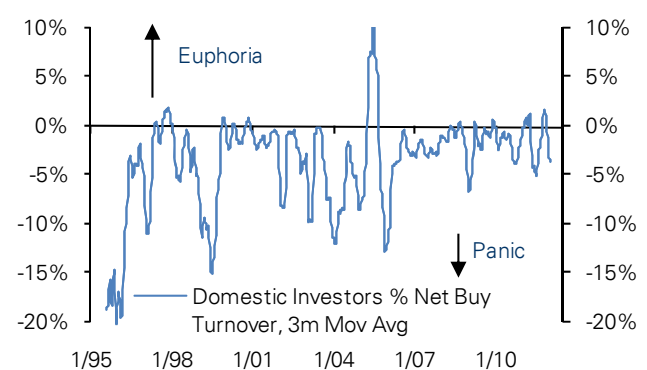
Source: Deutsche Bank, DataStream

Figure 238: Country equity fund % premium to NAV



Source: Deutsche Bank, Bloomberg Finance LP

Figure 239: Domestic investors net buying

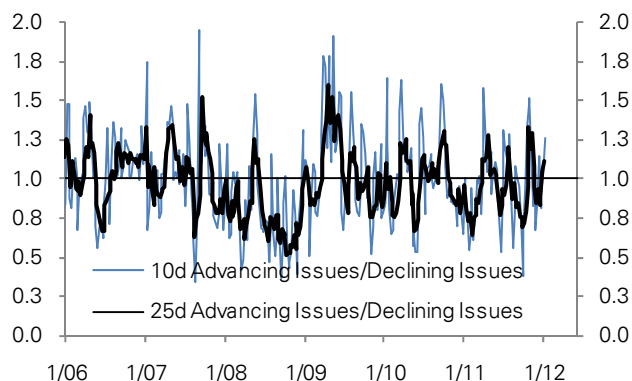


Source: Deutsche Bank, CEIC

Indonesia – technicals

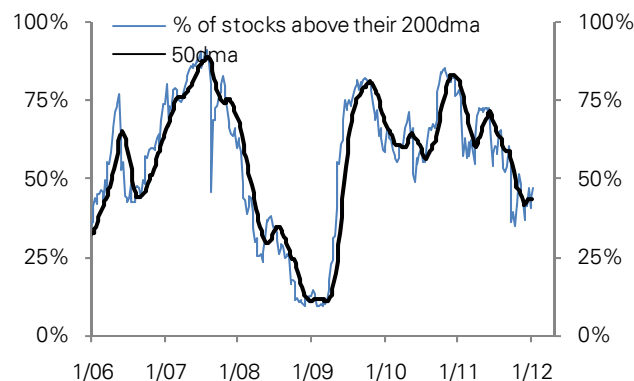
Unlike China and India, where the market got washed out last year, Indonesia's technicals are neutral.

Figure 240: Advance/decline ratio



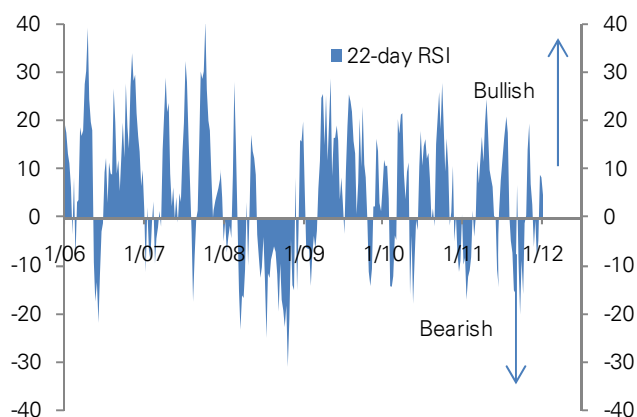
Source: Deutsche Bank, DataStream, FactSet

Figure 241: Percentage of stocks above their 200dma



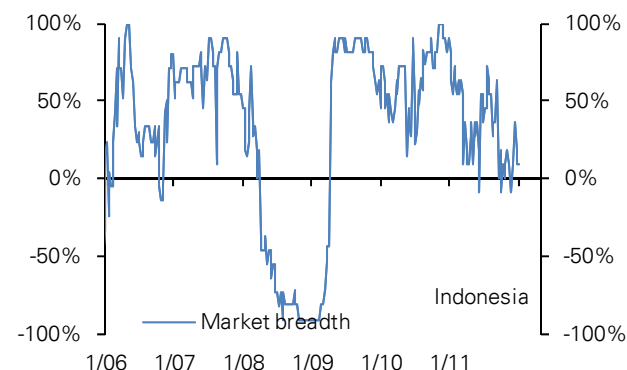
Source: Deutsche Bank DataStream, FactSet

Figure 242: Relative Strength Index



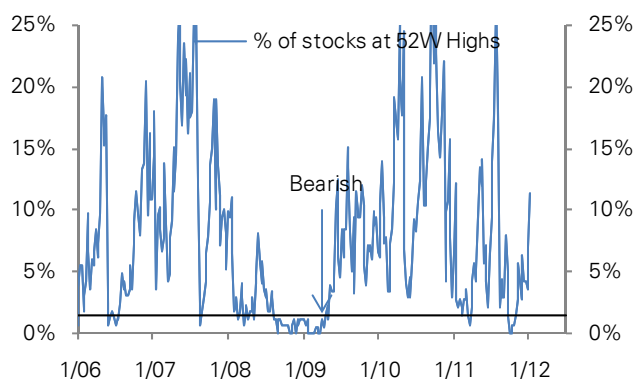
Source: Deutsche Bank, DataStream, FactSet

Figure 243: Market breadth



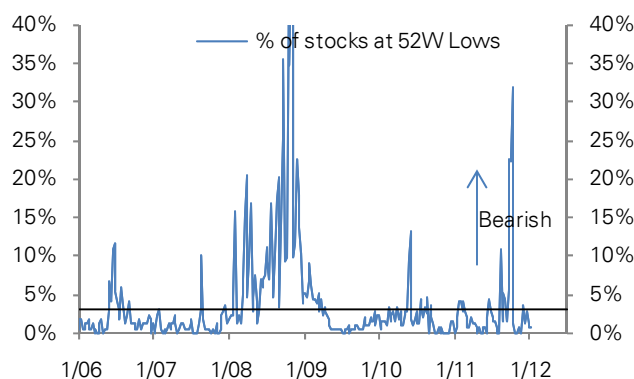
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 244: Percentage of stocks at 52-week highs



Source: Deutsche Bank, DataStream, FactSet

Figure 245: Percentage of stocks at 52-week lows

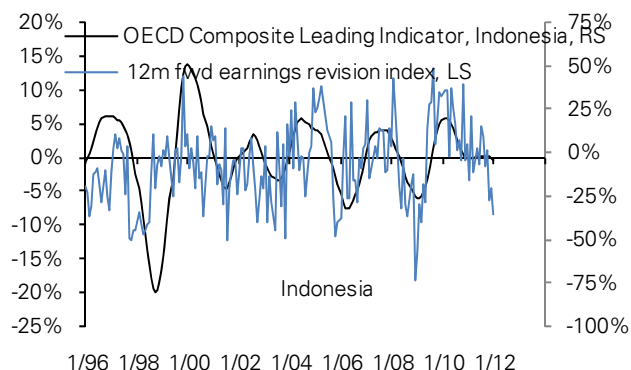


Source: Deutsche Bank, DataStream, FactSet

Indonesia – growth and earnings

Growth leading indicators are neutral, unlike the collapse in Indian LEIs. Analysts have been quick to reduce their margin and sales growth assumptions.

Figure 246: Leading economic indicators



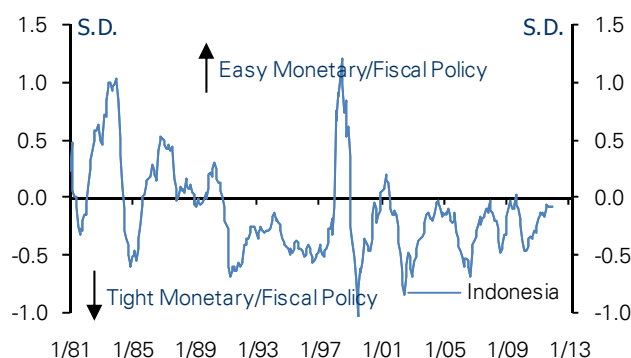
Source: Deutsche Bank, OECD, IBES, DataStream

Figure 247: Industrial production and export growth



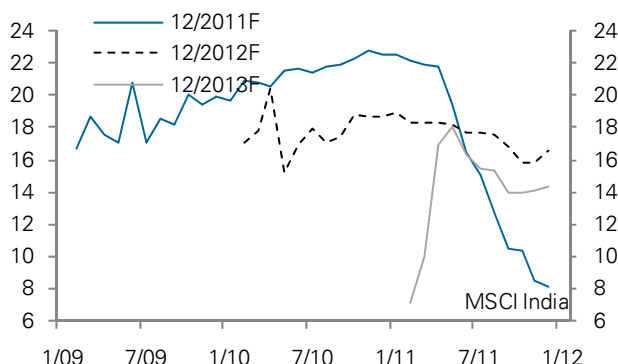
Source: Deutsche Bank, DataStream

Figure 248: Composite policy indicator



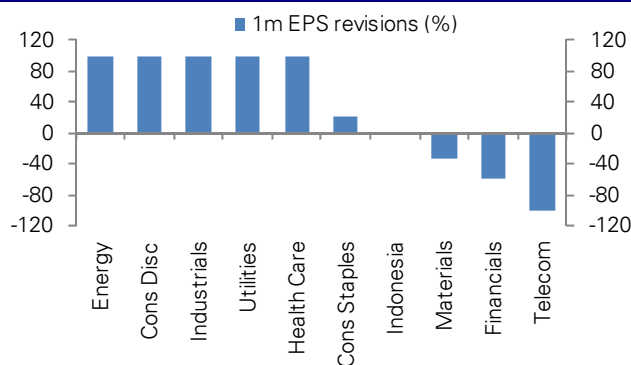
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 249: Earnings growth forecast (%)



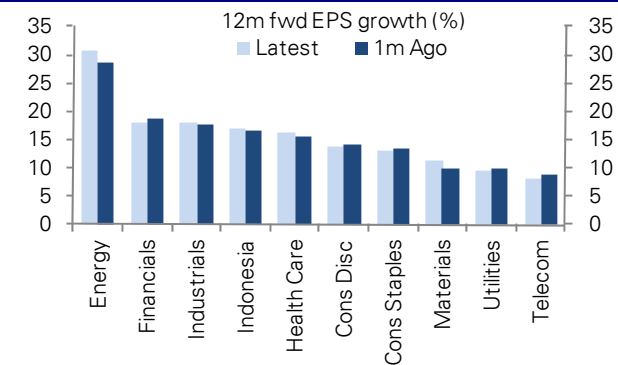
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 250: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 251: 12-month forward EPS growth forecast by sector

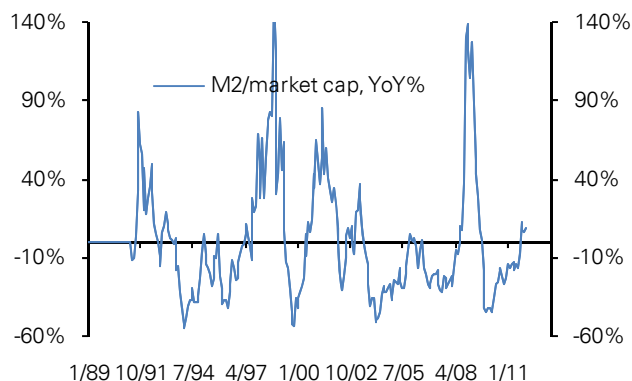


Source: Deutsche Bank, MSCI, I/B/E/S

Indonesia – liquidity

Fund flows are positive, and free liquidity is rising.

Figure 252: M2/market cap



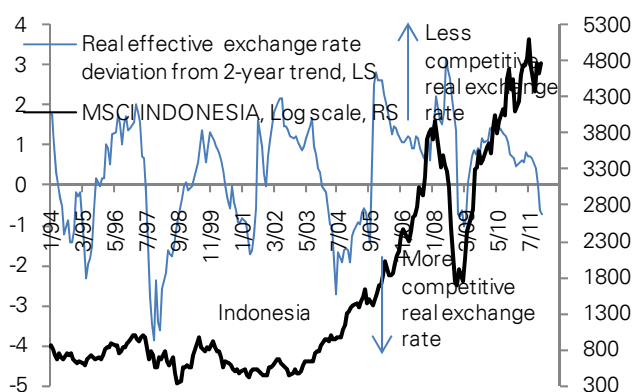
Source: Deutsche Bank, DataStream

Figure 253: Free liquidity



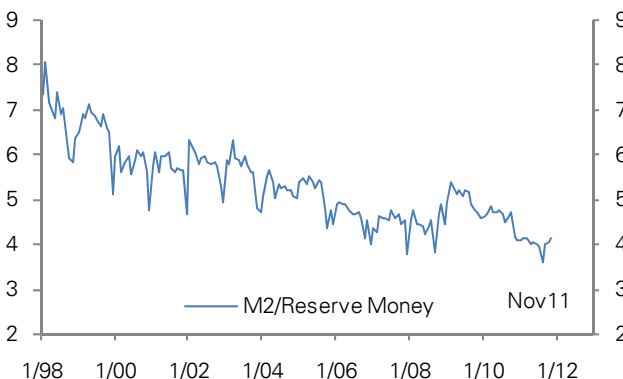
Source: Deutsche Bank, DataStream

Figure 254: Real exchange rate



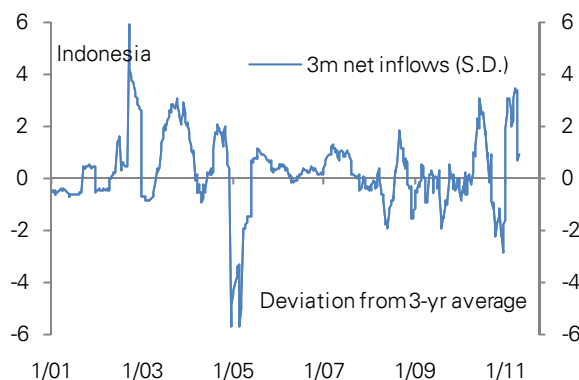
Source: Deutsche Bank, Bloomberg MSCI, Finance LP

Figure 255: M2/base money



Source: Deutsche Bank, DataStream

Figure 256: Foreign fund flows



Source: Deutsche Bank, Bloomberg Finance LP

Figure 257: Yield curve

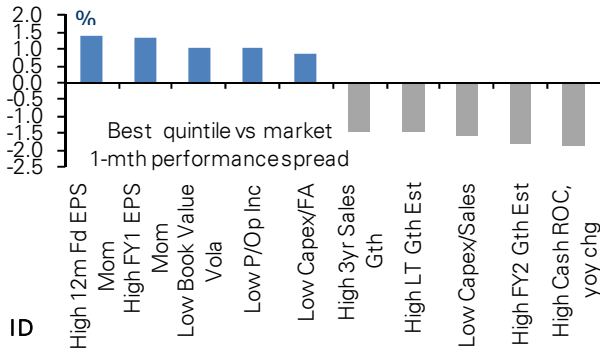


Source: Deutsche Bank, Bloomberg Finance LP

Indonesia – factor performance

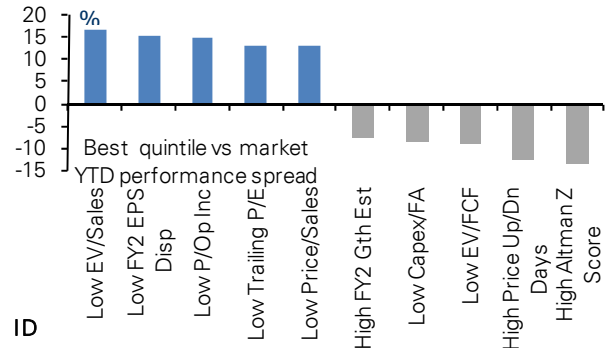
Value just keeps working here, in our opinion.

Figure 258: Best- and worst-performing factors (1-month)



Source: Deutsche Bank

Figure 259: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 260: Factor performance

Indonesia Dec 31, 11	Returns						Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y	
Valuation									
Low 12m Fd P/E	0.6	0.9	0.9	-0.5	0.6	7.0	14.1	7.7	
Low Trailing P/E	13.2	-0.7	-0.8	5.9	13.2	17.6	27.5	28.4	
Low P/Op Inc	14.8	1.0	0.0	5.1	14.8	16.7	14.6	13.4	
Low P/BV	12.5	-0.5	1.4	7.6	12.5	-3.4	-3.1	-2.5	
Low Price/Sales	13.0	-1.1	-1.8	6.8	13.0	7.4	-0.5	1.2	
Low P/FCF	-7.1	0.5	-0.3	-9.6	-7.1	3.6	8.2	8.5	
Low EV/EBIT	7.8	0.8	4.4	-4.8	7.8	12.4	13.9	14.3	
Low EV/EBITDA	11.9	0.2	4.8	-0.4	11.9	13.6	12.7	14.7	
Low EV/Cap Emp	4.3	-0.6	-0.5	1.3	4.3	-3.3	-5.8	0.1	
Low EV/Sales	16.7	-1.1	-2.1	7.5	16.7	8.4	4.8	5.5	
Low EV/Op CF	-3.3	0.1	-1.3	-6.4	-3.3	16.6	10.2	14.1	
Low EV/FCF	-9.2	0.8	-0.6	-10.1	-9.2	4.2	2.2	8.0	
High Dividend Yield	1.0	-0.2	1.0	1.1	1.0	17.0	17.1	25.5	
Average	5.9	0.0	0.4	0.3	5.9	9.1	8.9	10.7	
Price Momentum									
High 6m Price Mom	7.5	0.3	-5.3	4.8	7.5	2.5	-0.1	5.7	
High 9m Price Mom	-5.4	-0.3	-4.0	2.7	-5.4	-1.7	-3.4	2.1	
High 12m Price Mom	6.3	-0.8	-6.2	6.9	6.3	3.5	1.8	6.5	
High Price Rel Strg	4.1	-0.7	-4.8	4.8	4.1	0.9	-4.0	3.4	
High 3m chg in Price Mon	-7.4	0.3	-4.2	1.6	-7.4	3.8	-1.7	-5.2	
High Price Up/Dn Days	-12.5	0.0	-3.6	-2.9	-12.5	-2.2	0.2	0.9	
Average	-1.2	-0.2	-4.7	3.0	-1.2	1.1	-1.2	2.3	
Earnings Momentum									
High FY1 EPS Mom	2.4	1.3	0.1	3.5	2.4	8.5	4.6	6.1	
High FY2 EPS Mom	6.0	0.3	0.5	8.4	6.0	0.4	8.4	8.8	
High 12m Fd EPS Mom	0.3	1.4	0.8	5.0	0.3	7.6	7.6	7.1	
High FY1 EPS Rev	-0.8	-0.1	0.5	-0.6	-0.8	5.2	7.3	7.6	
High FY2 EPS Rev	0.9	0.1	0.3	0.5	0.9	0.6	4.4	5.2	
Average	1.7	0.6	0.4	3.3	1.7	4.5	6.5	7.0	
Capex Deployment & Earnings Accruals									
Low Capex/Depr	-3.5	-0.9	-1.9	-2.8	-3.5	-1.6	-0.9	1.5	
Low Capex/Sales	-2.4	-1.6	-3.9	-1.6	-2.4	0.7	-2.1	0.0	
Low Capex/FA	-8.4	0.9	0.4	-9.5	-8.4	-8.2	-4.6	-7.8	
High Receivables yoy chg	-3.6	0.1	2.0	1.3	-3.6	3.3	1.0	1.8	
Low Inventory yoy chg	-2.8	-0.8	-1.0	-4.6	-2.8	-7.1	-0.4	2.3	
Low Payables yoy chg	1.5	-0.7	1.0	-0.2	1.5	-1.5	-0.8	1.1	
Average	-3.2	-0.5	-0.6	-2.9	-3.2	-2.4	-1.3	-0.2	
Profitability									
High Cash ROC	-0.7	-0.3	-0.5	3.7	-0.7	10.8	8.2	14.2	
High Cash ROC, yoy chg	-4.6	-1.9	-5.7	-9.7	-4.6	-1.4	-1.2	-4.3	
High ROE	6.5	-0.8	-1.9	2.0	6.5	10.6	11.0	8.0	
High ROE, yoy chg	-0.8	0.3	-0.7	3.4	-0.8	1.8	3.0	10.7	
Average	0.1	-0.7	-2.2	-0.1	0.1	5.5	5.3	7.2	
Growth									
High 3yr Sales Gth	1.2	-1.4	-6.9	-8.1	1.2	0.7	0.9	-3.3	
High 5yr Sales Gth	0.1	-0.7	-2.4	0.3	0.1	-7.1	-6.1	-5.3	
High 3yr EPS Gth	9.8	-0.3	-0.7	7.4	9.8	6.8	6.5	4.1	
High 5yr EPS Gth	9.3	-0.5	-3.5	5.8	9.3	9.7	6.3	5.6	
High LT Gth Est	-5.6	-1.5	-1.4	-7.3	-5.6	1.7	0.6	-0.1	
High FY1 Gth Est	3.1	-1.3	-0.1	-2.6	3.1	-1.3	3.3	-3.6	
High FY2 Gth Est	-7.7	-1.8	0.6	1.5	-7.7	-6.6	0.7	-8.7	
Average	1.4	-1.1	-2.1	-0.4	1.4	0.6	1.7	-1.6	
Stability									
Low EPS Volatility	1.8	-1.0	0.1	-0.7	1.8	3.0	-3.1	-3.4	
Low Op Inc Volatility	12.3	0.6	-2.2	5.7	12.3	-2.2	-3.0	-2.9	
Low Book Value Volatility	1.5	1.1	3.8	4.2	1.5	-3.9	-4.4	-4.4	
Low Sales Volatility	-3.6	-0.3	-1.6	-3.9	-3.6	-13.2	-9.9	-3.6	
Low EPS Est Volatility	-1.9	-1.1	-4.9	-3.5	-1.9	-5.2	-4.8	-4.0	
Average	2.0	-0.1	-1.0	0.4	2.0	-4.3	-5.0	-3.7	
Risk									
Low FY1 EPS Disp	4.3	0.4	0.8	4.8	4.3	-7.4	-5.6	0.0	
Low FY2 EPS Disp	15.4	-0.5	0.9	7.3	15.4	7.9	0.7	1.2	
High EBIT/Int Exp	-5.1	0.4	0.2	-2.1	-5.1	3.7	4.0	7.0	
Low Debt/Equity	2.4	0.5	6.5	3.8	2.4	3.8	3.0	3.6	
High Altman Z Score	-13.4	-1.0	-2.2	-8.5	-13.4	-5.8	-2.4	-3.1	
High Market Cap	-0.3	0.5	1.3	-0.7	-0.3	0.4	-0.9	0.4	
Average	0.6	0.0	1.3	0.8	0.6	0.4	-0.2	1.5	
Consensus Ratings									
High Analyst Rec	2.0	0.2	-0.3	5.5	2.0	-0.7	7.1	9.7	
High Analyst Rec 1m chg	-4.6	-1.4	-2.5	-3.8	-4.6	7.7	8.4	6.8	
Average	-1.3	-0.6	-1.4	0.9	-1.3	3.5	7.7	8.2	

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

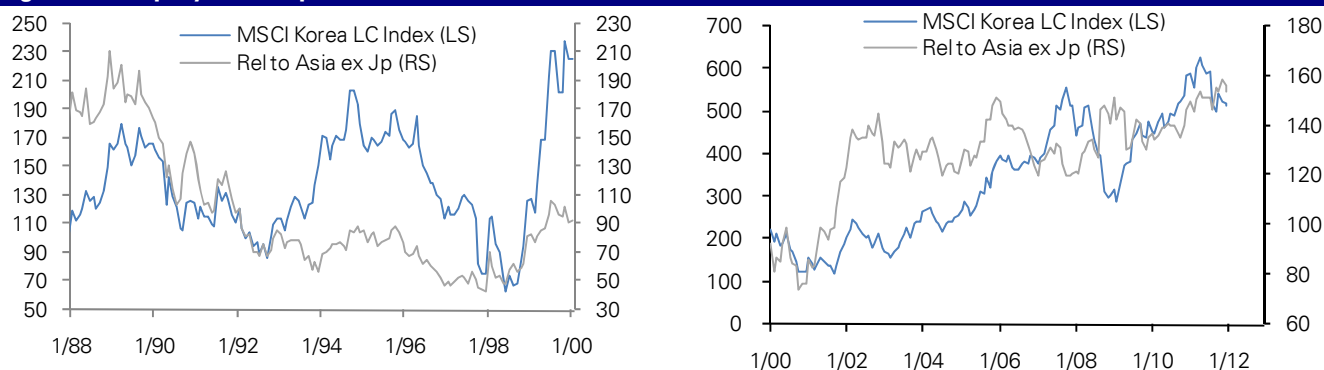
Korea strategy

1. **Policy and economics:** Korea GDP expanded 3.7% YoY and YTD in Q311. In particular, we saw export growth of 11.9% YoY and YTD in Q311, versus our earlier forecast of 6.3% growth for the entire year, while private consumption expanded 2.7% and investment contracted 1.7% in 2011. The contraction in overall investment was largely due to construction investment. Looking forward, we see weaker G2 growth, at 1% in 2012 versus 1.7% in 2011, guiding South Korea's export growth lower, to 5.5% in 2012 from 10.6% in 2011, with the net trade contribution to growth falling to 1.0% from 2.0% in the same period. Looking forward, we expect private consumption growth to weaken further, to 2.4% in 2012 from 2.6% in 2011, as a result of weaker payrolls gain. The trend in CPI inflation remains downward, at 4.0% YoY (3mma) in October, versus 4.3% in September, led by food price stabilization. Lastly, we believe BOK will maintain its policy rate until mid-2012.
2. **2012 outlook:** Our view on Korean equities has become more cautious due to the unfavourable global macroeconomic outlook and the resulting slower growth in exports and private consumption. Nevertheless, we note the earnings prospects of Korean companies are still strong with the average 2012E EPS growth of 11% and ROE of 16%. These strong earnings growth rates could be vulnerable if any significant events occur (e.g., default of European sovereign debt or military conflict with IRAN). We believe oil and chemical companies and export-driven companies earnings will be affected heavily if any of these events actually take place. The 2011E and 2012E consensus earnings have been declining approximately 4-5% during the past three-month period, and we expect an additional downward revision of 3-4% for 2012E earnings within the next three months.
3. **Fund flows and investor views:** Liquidity formation in the system should continue to grow due to the low interest rate environment and funds outflow from mutual savings banks. Korea domestic equity funds experienced significant net inflow of since May 2011 but the inflow volume diminished in recent months. The customer deposits in brokerage firms increased to as high as W22.6tr in August but recently declined to W17.6tr as of January 2012. As a result, retail investors have been selling stocks during the past three months. Foreign investors were net sellers of Korean stocks (-W3.0tr in November and -W0.6tr in December) but thus far became the net buyers (+W1.1tr in January). Domestic institutions, including pensions, were the main buyers of Korea stocks, W2tr-3tr monthly from June 2011 to January 2012.
4. **Events/data/risks:** 1) Further aggravation of the European sovereign debt crisis and 2) new military conflict in the Middle East could push up the oil price and dry up global demand for Korean exports. FX rate depreciation and oil price hikes could pose serious risks to the inflation and stock market.

Francis Yim

Korea – market intelligence

Figure 261: Equity market performance



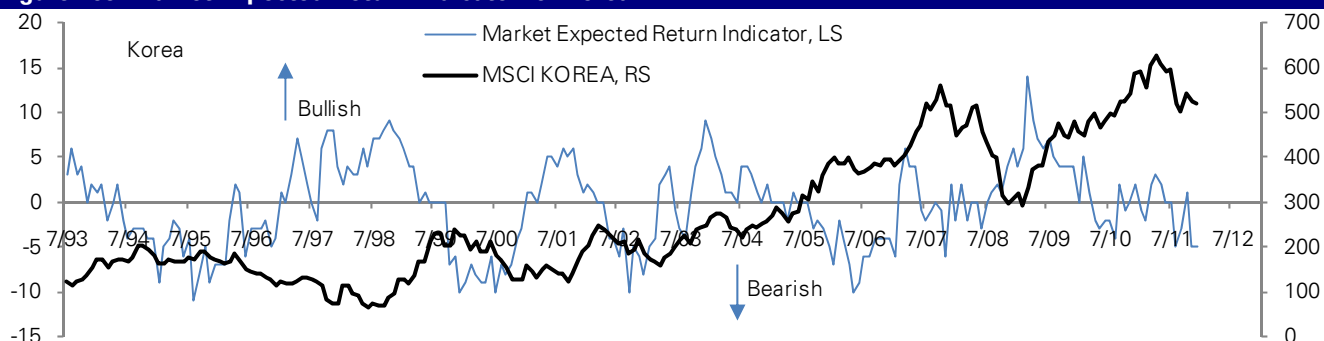
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 262: Market intelligence by sector

11Jan12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	US\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (3)	14,688	-5.5	8.9	11.4	5.8	6.4	1.2	1.2	1.0	2.4	2.4	2.6	88.0	94.6	-9.3	10.5	20.4	16.2
Materials (15)	61,401	-1.9	1.8	9.0	8.5	7.4	1.2	1.1	1.0	1.8	1.7	1.7	31.5	6.7	13.4	13.8	13.6	13.5
Capital Goods (23)	62,290	-0.8	4.4	10.1	10.3	8.7	1.3	1.2	1.1	1.4	1.3	1.6	28.4	42.9	10.9	12.8	12.0	12.7
Comm Svc (1)	841	0.5	-1.6	17.6	15.9	14.1	3.1	2.7	2.5	na	2.2	2.3	16.2	10.6	12.2	17.4	17.2	17.4
Transportation (5)	5,209	-4.1	0.4	10.3	58.4	11.7	1.0	1.2	1.2	0.6	0.5	0.7	na	-131.0	na	11.6	6.3	10.5
Autos (8)	72,850	2.6	5.0	12.3	8.6	7.7	2.2	2.0	1.6	0.6	0.7	0.7	58.5	43.0	12.2	18.1	23.2	20.8
Cons Durables (2)	7,880	4.7	1.8	16.1	49.1	13.9	1.3	1.2	1.2	0.8	1.0	1.2	-118.6	na	252.4	23.4	2.5	8.3
Cons Svc (1)	2,106	-9.5	-6.8	12.3	12.5	11.6	2.5	2.3	2.1	3.8	3.9	4.2	8.6	-1.7	7.9	20.1	18.5	18.0
Retailing (3)	6,574	-1.5	-0.6	10.6	10.4	9.1	0.7	1.0	0.9	0.4	0.5	0.5	62.3	-45.8	14.8	11.9	9.3	9.6
Food/Staples Retail (1)	4,799	-4.1	-4.7	na	13.9	11.6	na	1.3	1.1	na	0.5	0.5	na	na	19.7	na	9.1	9.7
Food Beverage (3)	10,126	-4.6	-5.2	9.3	12.6	11.2	1.7	1.8	1.7	na	3.2	3.3	50.1	-26.0	12.5	18.6	15.0	15.4
Household Products (2)	6,597	-8.0	-3.9	32.4	24.8	19.6	6.0	5.3	4.2	na	0.6	0.7	9.1	30.5	26.5	18.6	21.5	21.6
Pharma & Biotech (2)	2,997	-6.7	-3.6	21.1	19.8	17.4	2.6	2.6	2.3	0.8	0.4	0.4	26.6	6.2	13.7	12.5	12.9	13.1
Banks (8)	41,599	-4.4	-2.0	10.3	5.6	5.9	0.7	0.6	0.6	1.8	3.2	3.7	49.2	99.8	-8.2	6.8	12.4	10.5
Div Financials (7)	8,289	-2.0	2.0	7.9	10.0	9.2	0.8	0.8	0.8	2.1	2.7	3.2	30.1	-21.2	8.7	10.3	7.9	8.2
Insurance (4)	12,686	-6.7	-2.6	13.6	11.2	10.0	1.6	1.3	1.1	1.9	2.1	2.3	16.5	26.5	11.6	11.9	11.2	11.3
Software (3)	13,060	-2.7	0.3	22.9	20.3	15.8	6.7	5.9	4.5	0.2	0.1	0.2	17.2	12.8	28.2	29.4	26.2	27.3
Tech Hard/Equip (4)	14,051	2.3	4.9	12.9	31.9	16.5	1.7	1.9	1.7	1.1	0.9	0.9	63.9	-59.5	93.1	12.8	5.9	10.6
Semis (4)	119,806	-2.0	-2.4	5.7	25.4	12.1	1.8	1.8	1.5	0.6	0.4	0.4	na	-77.4	109.5	30.8	6.9	12.5
Telecom (3)	5,592	-7.8	-6.1	6.5	7.2	7.3	0.8	0.8	0.8	7.0	6.2	6.4	31.0	-9.7	-2.5	12.1	11.3	10.3
Utilities (2)	6,828	4.8	5.2	195.6	-15.1	16.2	0.4	0.4	0.4	na	0.4	0.9	-7.9	-1,398.6	na	0.2	-2.7	2.4
Korea (104)	480,272	-1.6	0.7	10.6	9.7	8.4	1.3	1.2	1.1	1.4	1.5	1.7	47.2	19.8	12.6	12.0	12.7	12.8

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted. Future data are forecasts

Figure 263: Market Expected Return Indicator for Korea

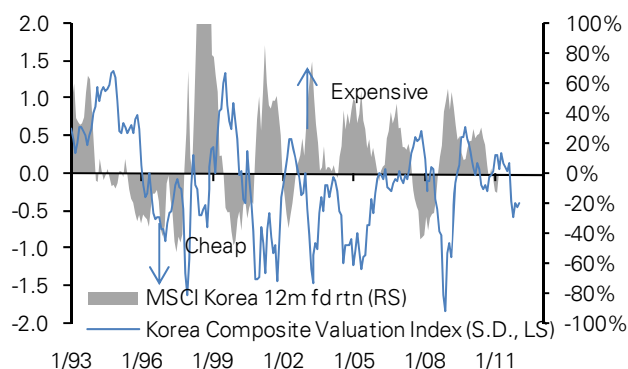


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Korea – valuation

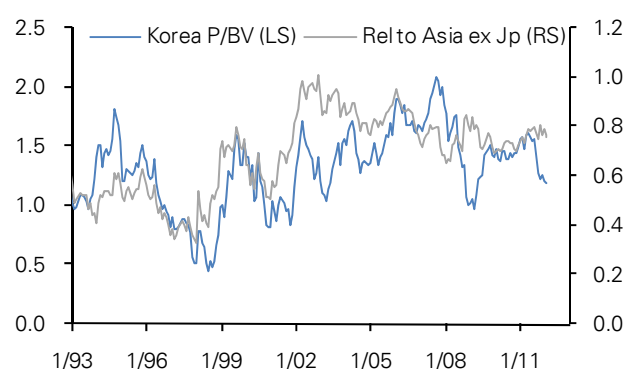
Korea's equity valuations are moderately below fair value compared with history. They are not at the washed out levels we see in China. The market continues to be re-rated versus the region, as investors recognize the resilience of its key brands.

Figure 264: Composite Valuation Index



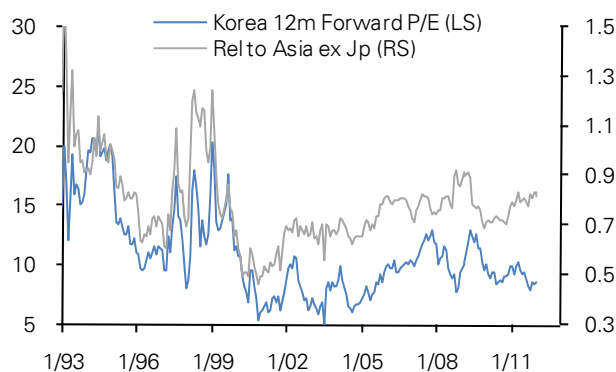
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 265: Price-to-book value



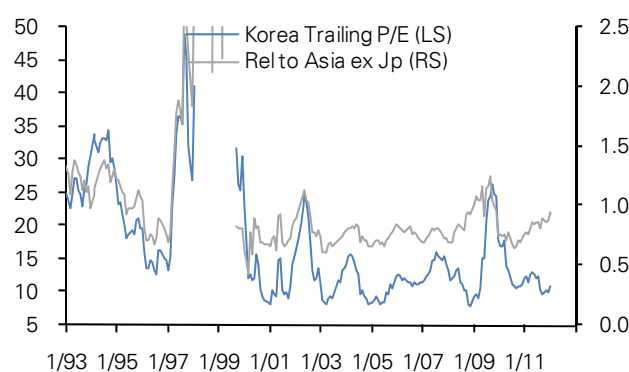
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 266: 12-month forward P/E



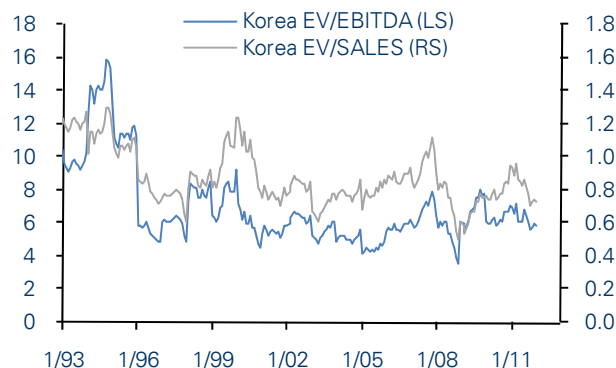
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 267: 12-month trailing P/E



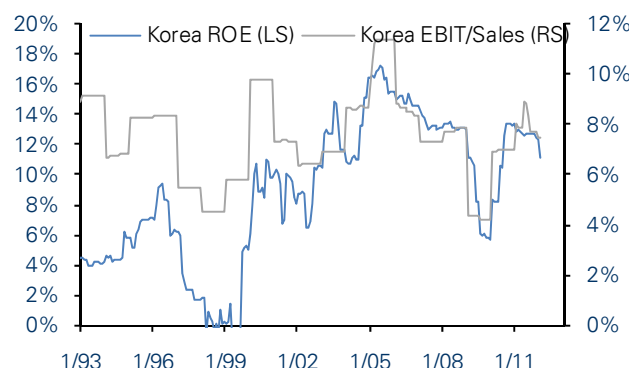
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 268: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 269: ROE and EBIT margin

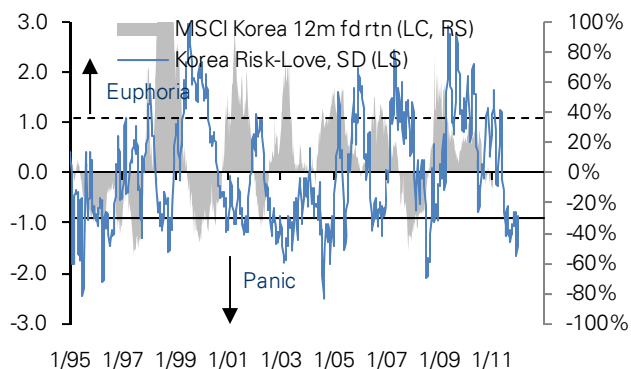


Source: Deutsche Bank, MSCI, FactSet

Korea – investor sentiment

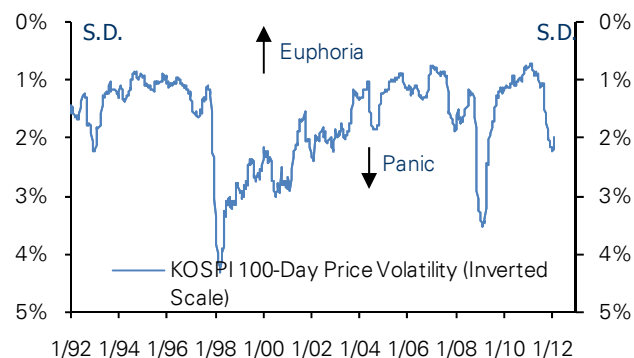
Sentiment is oversold - a contrarian positive.

Figure 270: Equity Risk-Love Indicator



Source: Deutsche Bank, MSCI

Figure 271: Market volatility (inverted scale)



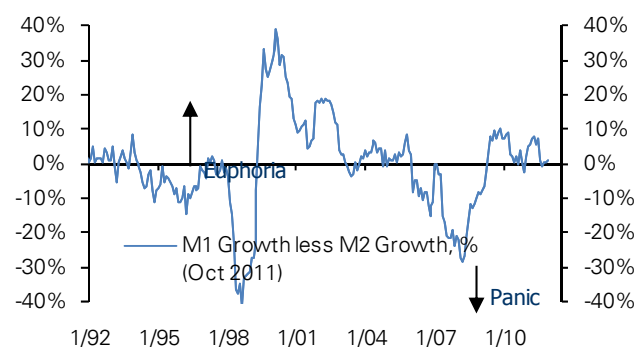
Source: Deutsche Bank, DataStream

Figure 272: Turnover-to-market cap ratio



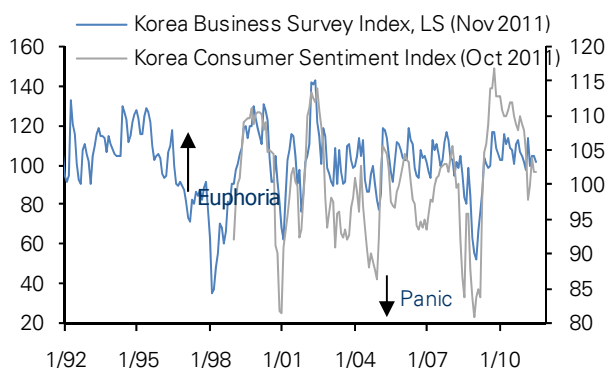
Source: Deutsche Bank, CEIC, DataStream

Figure 273: M1 less M2 growth



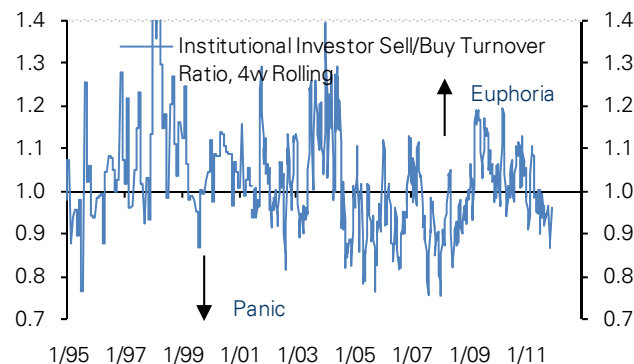
Source: Deutsche Bank, DataStream

Figure 274: Consumer and business survey



Source: Deutsche Bank, Bloomberg Finance LP

Figure 275: Institutional investor Sell/Buy ratio

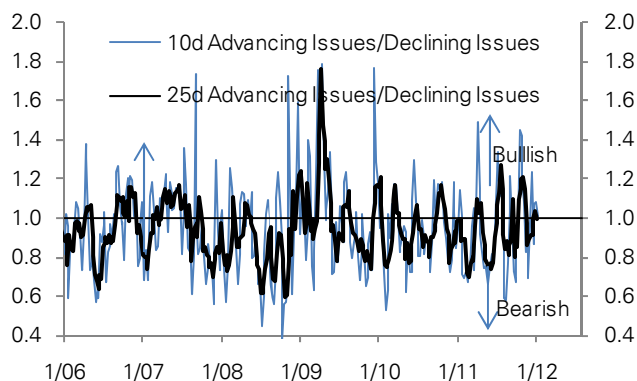


Source: Deutsche Bank, CEIC

Korea – technicals

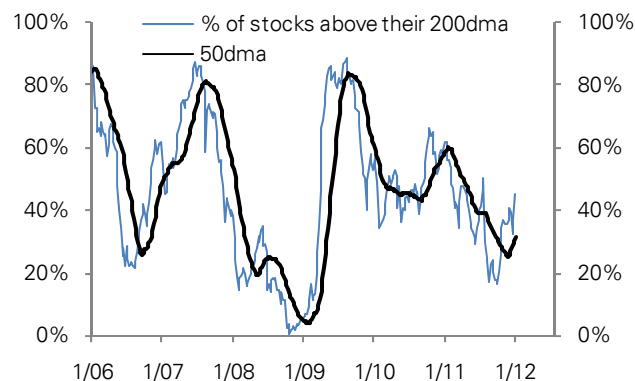
Technicals are neutral, with no wash-out here like in China or India.

Figure 276: Advance/decline ratio



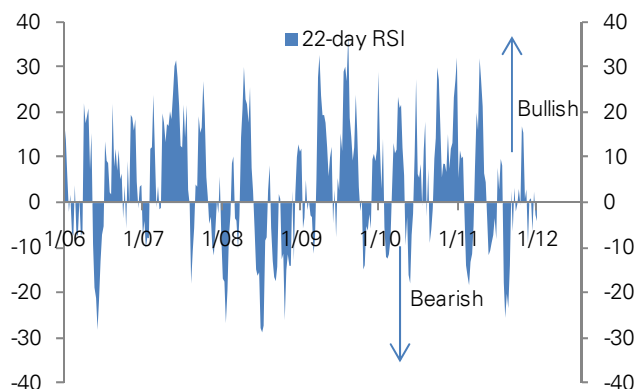
Source: Deutsche Bank, DataStream, FactSet

Figure 277: Percentage of stocks above their 200dma



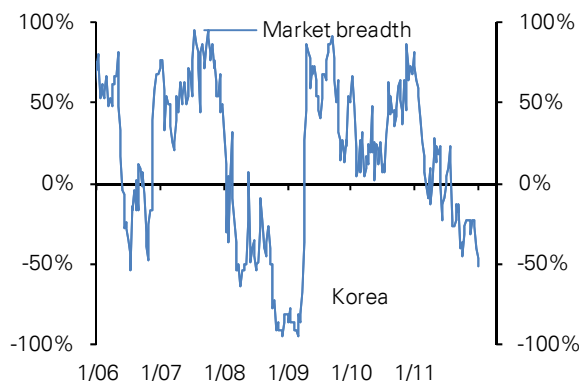
Source: Deutsche Bank, DataStream, FactSet

Figure 278: Relative Strength Index



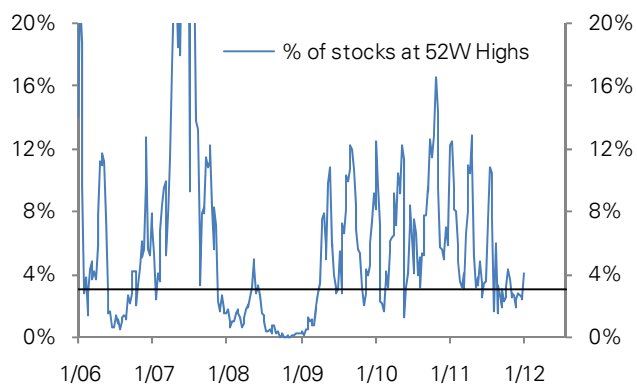
Source: Deutsche Bank, DataStream, FactSet

Figure 279: Market breadth



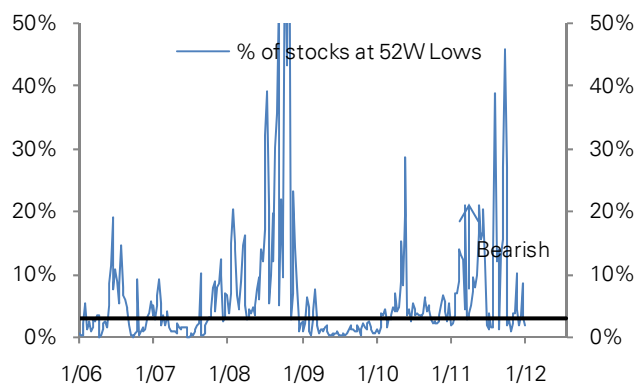
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 280: Percentage of stocks at 52-week highs



Source: Deutsche Bank, DataStream, FactSet

Figure 281: Percentage of stocks at 52-week lows

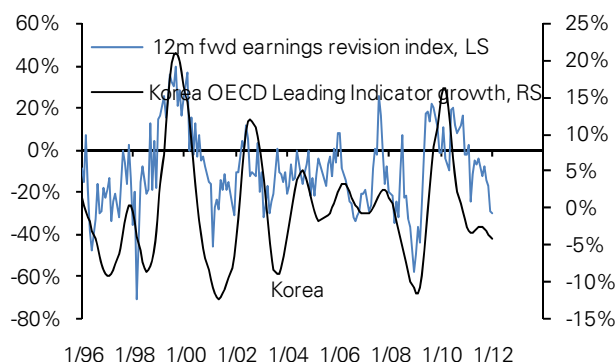


Source: Deutsche Bank, DataStream, FactSet

Korea – growth and earnings

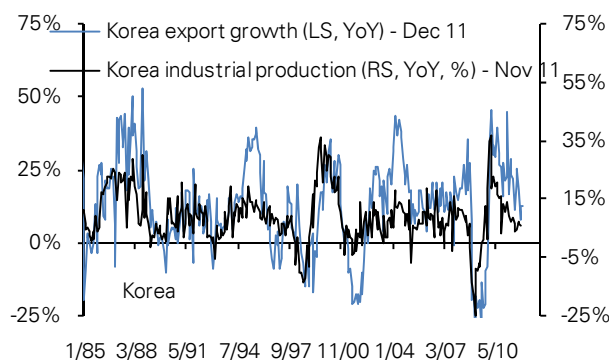
Leading economic indicators and EPS revisions suggest weaker EPS growth than our analysts expect.

Figure 282: Leading economic indicators



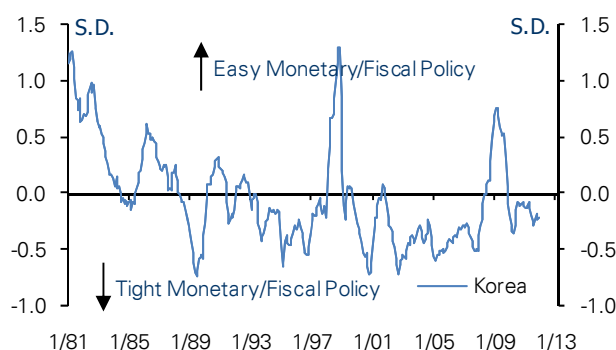
Source: Deutsche Bank, I/B/E/S, OECD, DataStream

Figure 283: Industrial production and export growth



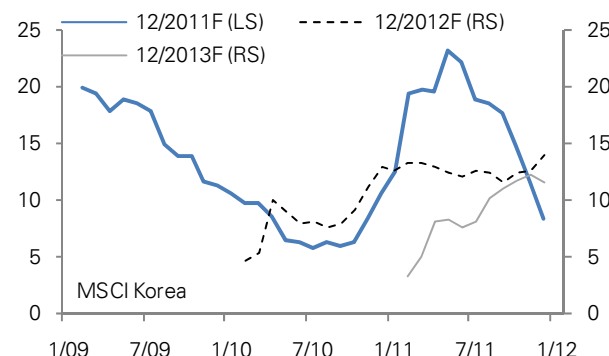
Source: Deutsche Bank, DataStream

Figure 284: Composite policy indicator



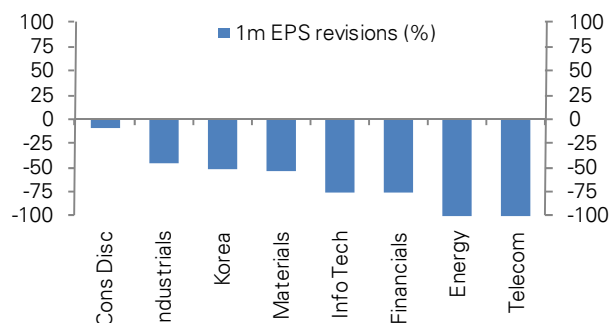
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 285: Earnings growth forecast (%)



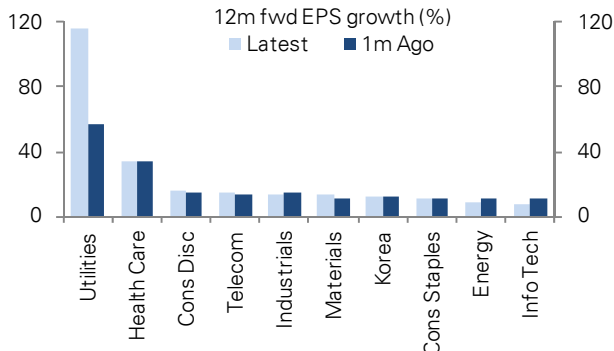
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 286: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 287: 12-month forward EPS growth forecast by sector

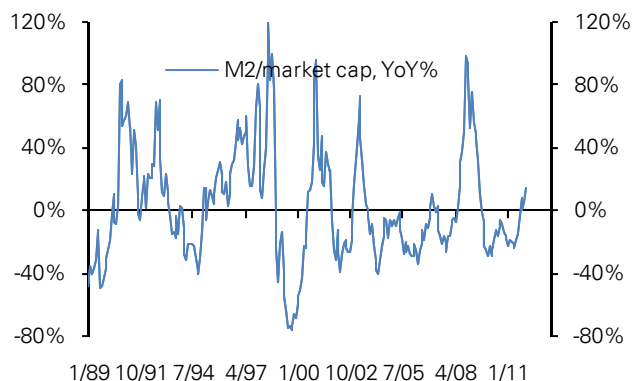


Source: Deutsche Bank, MSCI, I/B/E/S

Korea – liquidity

The yield curve is flat, suggesting weaker EPS growth.

Figure 288: M2/market cap



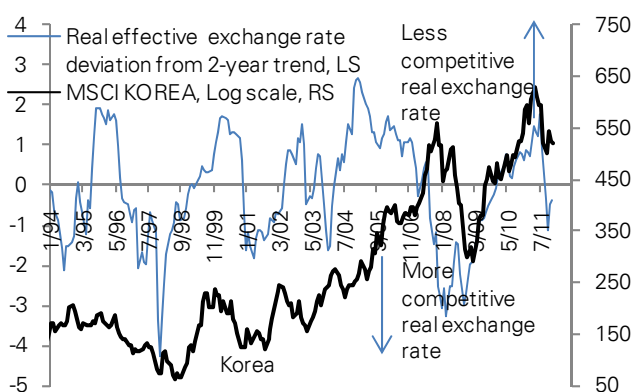
Source: Deutsche Bank, DataStream

Figure 289: Free liquidity



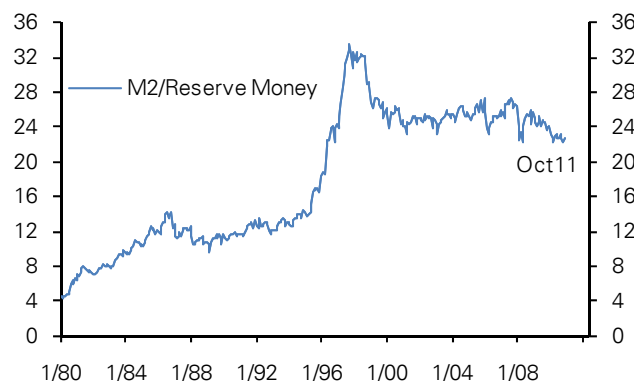
Source: Deutsche Bank, DataStream

Figure 290: Real exchange rate



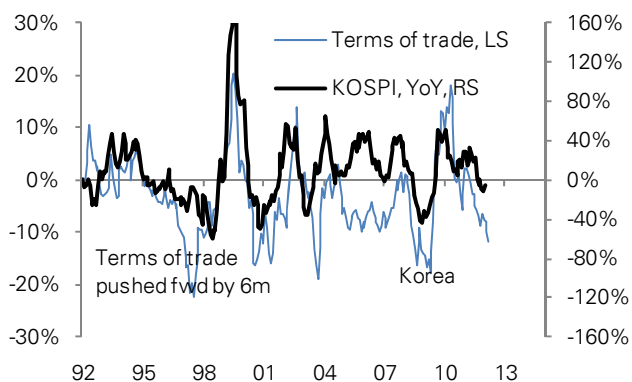
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 291: M2/base money



Source: Deutsche Bank, DataStream

Figure 292: Terms of trade



Source: Deutsche Bank, Bloomberg Finance LP

Figure 293: Yield curve

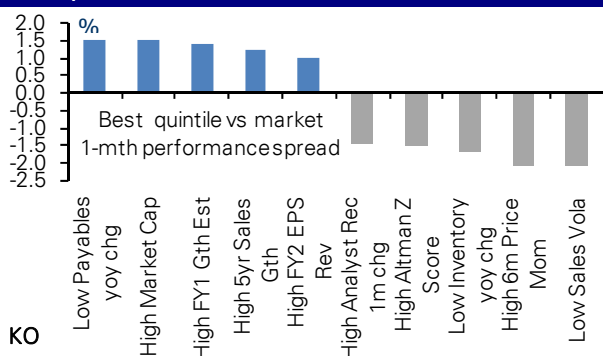


Source: Deutsche Bank, Bloomberg Finance LP

Korea – factor performance

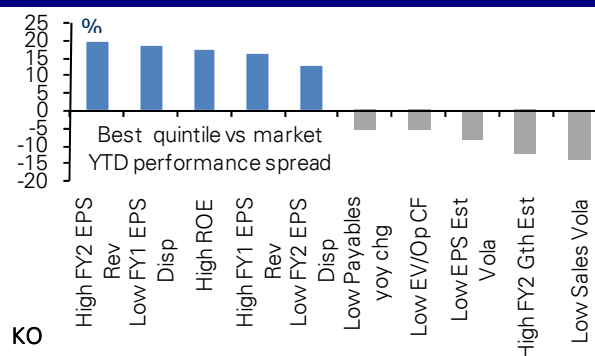
EPS momentum, high returns on capital and low volatility baskets outperformed substantially last year. We believe the industry in Korea has shifted away from value, to concept investing with high ROEs.

Figure 294: Best- and worst-performing factors (1-month)



Source: Deutsche Bank

Figure 295: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 296: Factor performance

Korea Dec 31, 11	Returns					Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y
Valuation								
Low 12m Fd P/E	6.0	-0.4	2.0	5.4	6.0	7.5	9.7	9.7
Low Trailing P/E	5.4	-1.0	-2.2	4.4	5.4	10.6	8.1	9.9
Low P/Op Inc	10.5	-0.2	0.2	2.1	10.5	5.1	9.4	13.7
Low P/BV	-3.1	-0.7	1.7	1.5	-3.1	4.2	9.4	2.6
Low Price/Sales	-0.5	0.1	0.1	2.9	-0.5	2.2	4.5	9.6
Low P/FCF	3.0	-1.4	-2.2	-0.3	3.0	3.9	6.6	10.7
Low EV/EBIT	4.6	-0.5	-1.4	3.0	4.6	5.5	5.6	6.4
Low EV/EBITDA	2.7	-0.2	-2.1	0.4	2.7	4.7	5.6	11.9
Low EV/Cap Emp	-3.9	-0.6	-1.2	-2.2	-3.9	-3.1	3.8	4.3
Low EV/Sales	2.9	0.1	0.0	2.4	2.9	2.1	7.4	11.7
Low EV/Op CF	-5.7	0.5	-1.1	-0.8	-5.7	2.6	4.9	12.8
Low EV/FCF	-5.0	0.5	-0.6	-2.0	-5.0	2.1	5.8	11.6
High Dividend Yield	5.5	-0.1	0.5	5.5	5.5	6.2	12.6	17.0
Average	1.7	-0.3	-0.5	1.7	1.7	4.1	7.2	10.1
Price Momentum								
High 6m Price Mom	3.6	-2.1	-11.1	-4.2	3.6	-7.4	-1.8	-3.5
High 9m Price Mom	2.8	-0.2	-6.6	-7.8	2.8	-5.8	-0.7	-0.1
High 12m Price Mom	10.5	0.7	-3.9	-3.9	10.5	-1.3	0.9	-2.1
High Price Rel Strg	3.3	-0.9	-6.0	-9.5	3.3	-4.0	1.1	1.6
High 3m chg in Price Mon	1.6	-0.4	-4.2	-1.5	1.6	-8.2	-2.2	-0.4
High Price Up/Dn Days	5.2	-0.4	-5.9	-1.4	5.2	1.8	0.1	0.6
Average	4.5	-0.6	-6.3	-4.7	4.5	-4.2	-0.4	-0.7
Earnings Momentum								
High FY1 EPS Mom	7.3	0.4	-1.7	1.7	7.3	-2.9	1.5	1.5
High FY2 EPS Mom	11.5	0.3	-3.7	4.1	11.5	2.3	7.3	7.3
High 12m Fd EPS Mom	7.0	-0.2	-5.2	-3.0	7.0	2.2	6.7	6.7
High FY1 EPS Rev	16.0	0.9	-0.6	-0.5	16.0	6.3	8.5	8.5
High FY2 EPS Rev	19.9	1.0	1.5	2.9	19.9	4.2	7.7	7.7
Average	12.3	0.5	-1.9	1.0	12.3	2.4	6.4	6.4
Capex Deployment & Earnings Accruals								
Low Capex/Depr	3.0	0.8	-1.1	-1.4	3.0	-1.6	-3.7	0.0
Low Capex/Sales	0.1	0.4	0.1	-0.5	0.1	-1.9	-0.7	0.2
Low Capex/FA	3.9	0.3	2.5	-1.8	3.9	-4.8	-3.1	0.6
High Receivables yoy chg	2.7	-1.0	-5.6	0.3	2.7	-1.1	0.3	0.6
Low Inventory yoy chg	6.9	-1.7	0.0	0.3	6.9	2.6	1.1	-2.9
Low Payables yoy chg	-5.5	1.5	2.7	-0.7	-5.5	-4.8	-0.7	-3.1
Average	1.9	0.0	-0.2	-0.6	1.9	-1.9	-1.1	-0.8

	Returns					Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y
Profitability								
High Cash ROC	-0.6	0.2	-0.4	-1.3	-0.6	5.8	0.3	9.2
High Cash ROC, yoy chg	10.4	-0.7	1.2	1.3	10.4	4.4	1.8	4.6
High ROE	17.2	0.8	-0.9	4.8	17.2	3.9	0.9	4.8
High ROE, yoy chg	10.5	0.5	-3.2	0.4	10.5	3.6	2.7	3.1
Average	9.4	0.2	-0.8	1.3	9.4	4.4	1.4	5.4
Growth								
High 3yr Sales Gth	-0.2	0.9	3.2	5.6	-0.2	-4.7	-4.4	1.0
High 5yr Sales Gth	-3.7	1.3	-1.5	-0.4	-3.7	-1.4	1.9	-0.5
High 3yr EPS Gth	11.8	0.1	-1.0	4.5	11.8	-0.3	2.0	-0.8
High 5yr EPS Gth	3.6	0.0	-0.4	1.1	3.6	1.4	-1.0	2.2
High LT Gth Est	1.0	0.0	-0.3	2.0	1.0	1.7	2.9	2.9
High FY1 Gth Est	3.4	1.4	2.5	-1.8	3.4	-4.8	1.2	1.2
High FY2 Gth Est	-12.3	-1.1	0.1	-0.7	-12.3	2.6	2.3	2.3
Average	0.5	0.4	0.4	1.5	0.5	-0.8	0.7	1.2
Stability								
Low EPS Vola	0.8	-1.2	-2.5	-1.0	0.8	2.3	2.6	1.9
Low Op Inc Vola	-4.0	-0.2	-6.0	-6.0	-4.0	6.4	4.1	3.4
Low Book Value Vola	2.2	-0.2	1.9	-3.9	2.2	2.7	2.9	1.3
Low Sales Vola	-14.0	-2.1	-5.3	-10.8	-14.0	-4.5	2.6	5.0
Low EPS Est Vola	-8.1	-0.2	4.4	-0.5	-8.1	-0.4	-0.9	-0.9
Average	-4.6	-0.8	-1.5	-4.5	-4.6	1.3	2.3	2.1
Risk								
Low FY1 EPS Disp	18.7	-0.1	-4.4	3.5	18.7	4.8	2.7	2.7
Low FY2 EPS Disp	12.6	-0.1	-2.4	2.4	12.6	4.1	3.4	3.4
High EBIT/Int Exp	12.4	-1.4	-5.4	3.4	12.4	6.6	1.7	3.6
Low Debt/Equity	5.0	-0.8	-0.5	2.1	5.0	3.7	-2.1	-2.6
High Altman Z Score	4.6	-1.5	-4.6	-0.6	4.6	-7.0	-9.6	-6.6
High Market Cap	-3.0	1.5	0.5	-6.0	-3.0	-1.7	-2.7	3.4
Average	8.4	-0.4	-2.8	0.8	8.4	1.8	-1.1	0.6
Consensus Ratings								
High Analyst Rec	2.7	0.4	-2.1	0.4	2.7	0.9	2.3	9.7
High Analyst Rec 1m chg	-3.8	-1.4	-1.0	-4.6	-3.8	2.6	4.3	4.1
Average	-0.6	-0.5	-1.6	-2.1	-0.6	1.8	3.3	6.9

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

Malaysia strategy

1. **Policy and economics:** Anwar Ibrahim's recent acquittal appears to have rejuvenated the Opposition party and this has renewed 'coffee conversations' about the timing of the next general election. A nervous market is to be expected ahead of such a major event, similar to what the Thai market experienced in early 2011. Nonetheless, the political discussions will not distract us from the underlying positive fundamentals of corporate Malaysia. Stake sales continue as Khazanah is selling a 42.7% stake in Proton to DRB-HICOM for RM5.50/share, capping a busy nine months for the government's investment holding arm. We are of the opinion that deals such as these and potential further restructurings anticipated among additional GLCs should contribute positively in the longer term, potentially adding depth and breadth to the market.

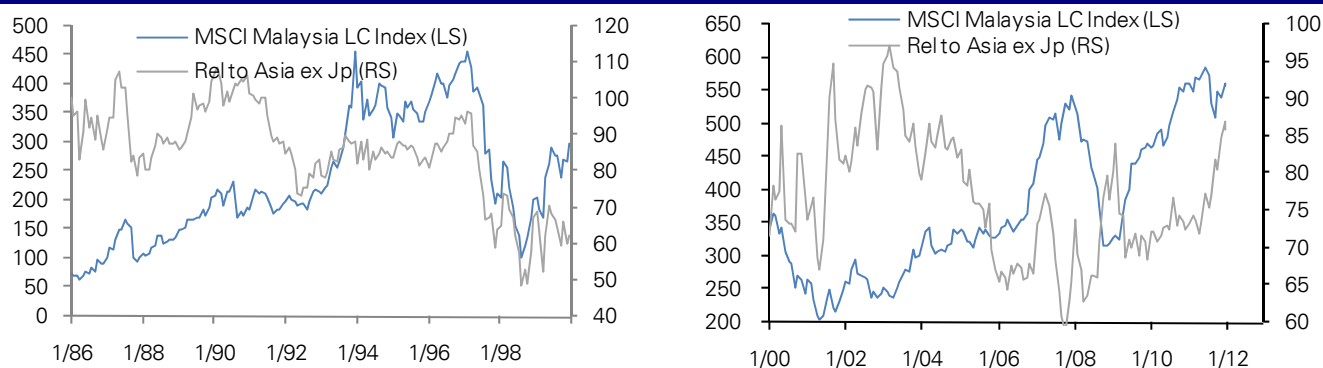
With regard to the economy, growth is slowing but is likely to remain positive on a QoQ and YoY basis. Export growth slowed to 8.0% YoY in November, down from 15.4% in October, posting the weakest performance in four months. The same outlook emerged from the industrial production, which slowed to 1.8%YoY in November down from 2.7% in October. But industrial production only represents less than 38% of GDP – the other broad sectors of the economy, e.g., agriculture, construction and services, have all been growing steadily since early 2009. Ultimately, recovery depends on recovery in the eurozone, which we expect in H2. Thus, Malaysia should see stronger growth in Q212.

2. **Company visits/results:** In early results, Tenaga recorded a turnaround in operating profit (ex-forex) to RM196m as the gas shortage supply situation improved. The reporting season will hit full swing after the Chinese New Year. While growing concerns about global growth may lead to a dampening of consumer sentiment and spending, growth in credit to the private sector has slowed a mere 9.9%YoY in October/November (from 11.1% in Q3/Q2). Recent meetings with Malaysian corporates suggest offshore expansion remains a priority, particularly to strengthen market share or to secure greater margins along the value chain, e.g., CIMB, Parkson Holdings and Top Glove.
3. **Fund flows and investor views:** Malaysia recorded foreign funds inflows for the four consecutive week up to 13 January 2012. Inflows have been strong since mid-October, with positive fund flows recorded in 11 of the past 14 weeks (net inflows of RM1.2bn). The local equity market remains under-owned, with foreign shareholding at 22.7% (in contrast to the local fixed income market at 35%). At 14.5x PER and 2.2x P/B for 2012, Malaysia appears to offer demanding valuations (although the market has rarely been undervalued). However, this has to be taken into account when considering two factors: 1) Malaysia has delivered the most stable dividends in ASEAN over the last 10 years and we expect dividend payouts to remain 'active' given strong FCF, particularly in the telco and palm oil sectors; 2), 2012 EPS growth of 10-11% is underpinned by firm palm oil prices, relatively benign competition in the telco and transport sectors and 'priced-in' NIM compression in the banks.
4. **Events/data/risks:** The general election is a near-term distraction, whether it occurs in March, May/June and possibly in 4Q, but we have long argued that this is a short-term overhang on the market. Beyond that (and regardless of the outcome), we are of the view that its longer-term fundamentals will not be materially impacted. The domestic capital market environment should remain elevated in 2012 with further mid-cap IPOs and corporate activity.
5. **Top stock ideas:** Genting Malaysia, CIMB, AirAsia, IJM Corp, AMMB

Su-Yin Teoh

Malaysia – market intelligence

Figure 297: Equity market performance



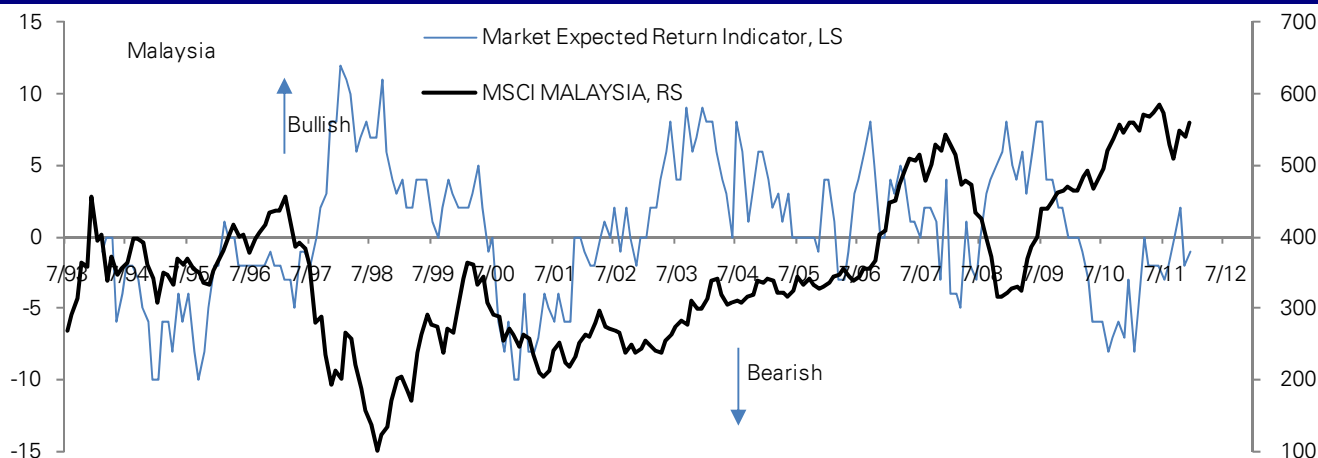
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 298: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap US\$m	LC Perf 1m YTD	P/E (x) CY10 CY11 CY12	P/B (x) CY10 CY11 CY12	Div Yld (%) CY10 CY11 CY12	EPSg (%) CY10 CY11 CY12	ROE (%) CY10 CY11 CY12
Materials (2)	5,856	6.0 3.0	19.5 16.3 13.5	1.9 2.4 2.2	5.0 3.5 4.2	-28.2 -4.6 20.6	9.6 14.6 16.3
Capital Goods (6)	14,078	3.9 0.0	20.7 16.5 14.9	1.9 1.8 1.8	2.3 2.9 3.0	26.8 29.0 10.4	9.0 10.8 12.5
Transportation (4)	6,538	1.3 2.6	15.0 22.5 15.7	2.4 1.6 1.5	1.2 2.2 2.5	16.4 4.5 43.9	16.2 7.1 9.5
Autos (1)	1,171	7.5 -0.1	13.8 12.5 11.2	2.0 1.8 1.6	4.3 4.5 5.2	52.6 10.2 11.1	14.7 14.1 14.4
Cons Svc (3)	11,742	2.2 -0.5	14.4 14.7 13.1	2.5 2.2 2.0	1.6 1.6 1.7	72.7 -2.1 12.0	16.1 14.1 15.0
Retailing (1)	961	0.4 -2.5	18.6 15.7 13.0	2.9 2.6 2.4	1.4 2.3 2.9	13.0 18.7 20.3	15.4 16.5 18.1
Food Beverage (5)	14,423	8.2 3.0	20.0 17.2 16.7	2.7 2.5 2.3	3.3 3.0 3.2	8.9 16.1 3.0	13.5 14.7 14.1
Banks (7)	29,323	3.8 -2.3	14.6 12.9 12.4	2.1 1.9 1.8	4.4 4.6 4.6	29.6 13.1 4.1	14.3 15.0 14.4
Div Financials (2)	3,728	0.8 -2.5	15.2 13.1 12.1	1.9 1.8 1.6	2.8 3.6 3.8	23.1 16.6 8.2	12.6 13.5 13.5
Real Estate (2)	2,172	3.1 -1.1	28.4 25.4 22.9	2.7 2.1 2.0	2.3 2.4 2.5	44.1 11.8 10.8	9.6 8.4 8.8
Telecom (4)	10,027	2.9 -1.3	18.7 18.5 17.2	2.9 2.8 2.7	4.7 4.8 4.8	29.3 1.0 7.6	15.5 15.5 16.1
Utilities (4)	11,617	9.4 3.0	15.2 20.4 14.1	1.3 1.4 1.3	3.2 2.4 3.1	21.7 -22.5 44.2	8.3 7.1 9.5
Malaysia (42)	113,002	4.6 0.0	16.7 15.9 14.2	2.1 2.0 1.9	3.3 3.4 3.6	28.7 8.3 12.1	12.6 12.5 13.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted. Future data are forecasts.

Figure 299: Market Expected Return Indicator

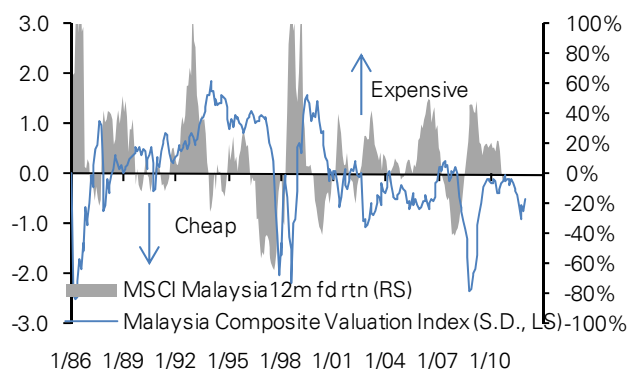


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Malaysia – valuation

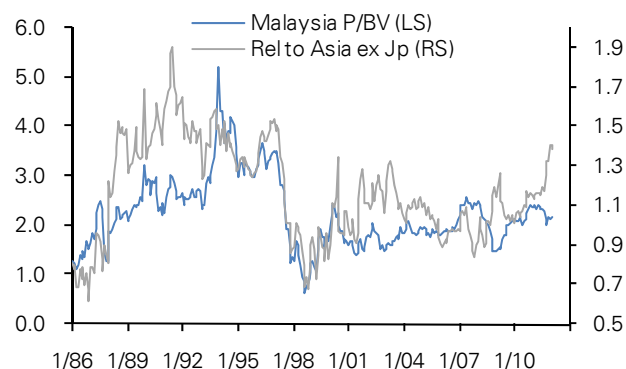
The market is hitting new post-1997 crisis highs in relative valuations versus the region. We do not note exceptional data in terms of ROE unlike Indonesia, which we believe deserves premium valuations.

Figure 300: Composite Valuation Index



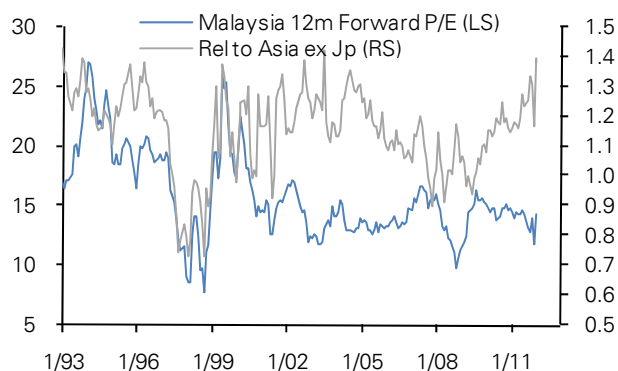
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 301: Price-to-book value



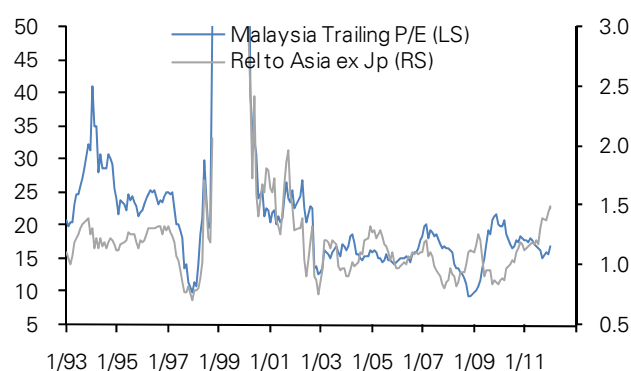
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 302: 12-month forward P/E



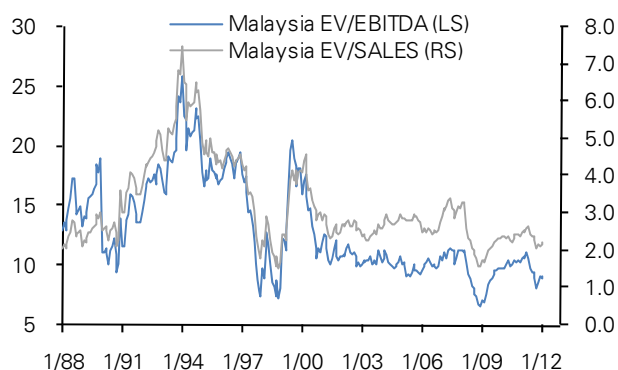
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 303: 12-month trailing P/E



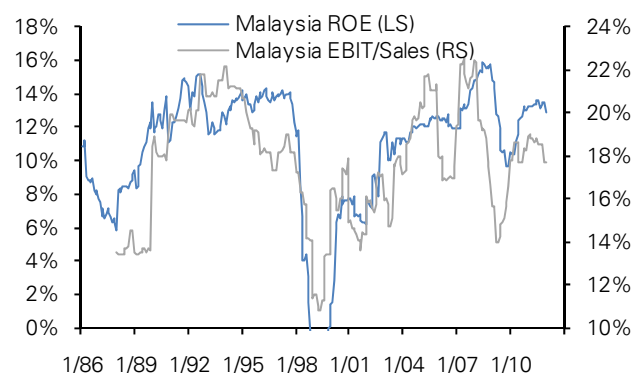
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 304: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 305: ROE and EBIT margin

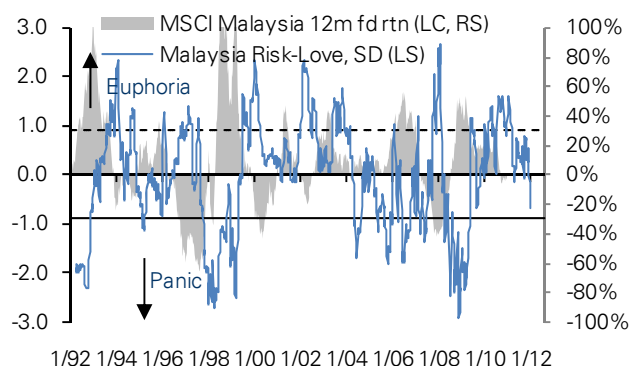


Source: Deutsche Bank, MSCI, FactSet

Malaysia – investor sentiment

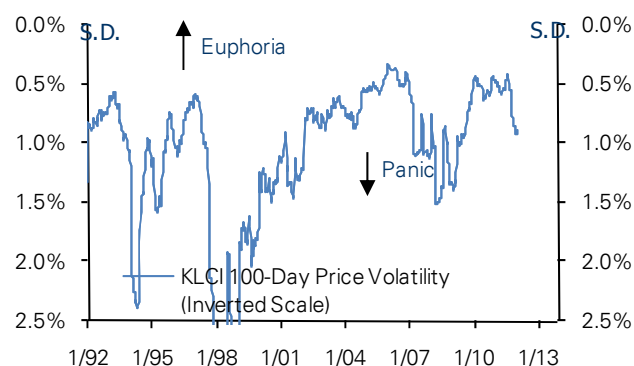
Risk-Love is neutral. There appears to be no negative like in India or China, or seen in October 2008.

Figure 306: Equity Risk-Love indicator



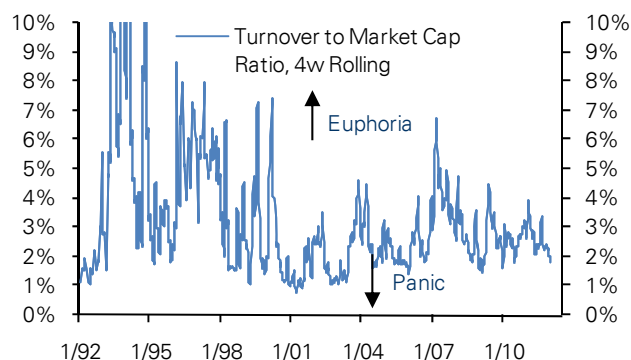
Source: Deutsche Bank, MSCI

Figure 307: Market volatility (inverted scale)



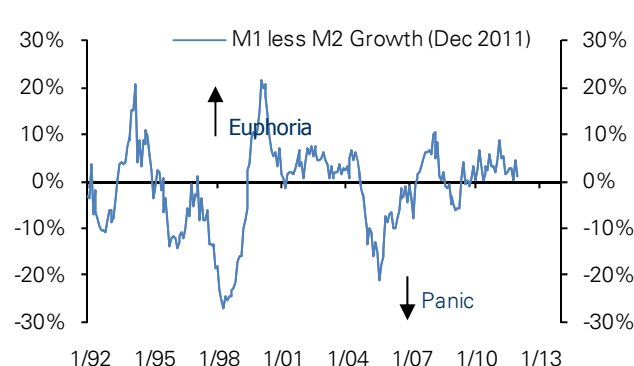
Source: Deutsche Bank, DataStream

Figure 308: Turnover-to-market cap ratio



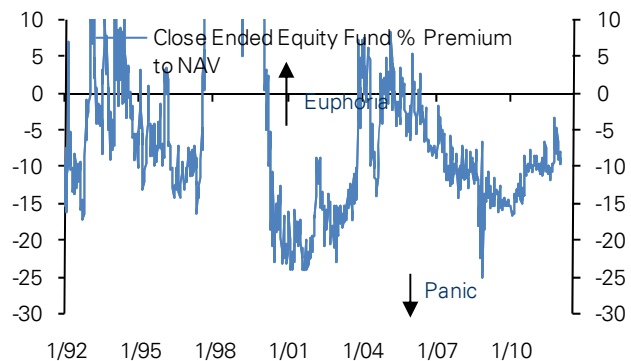
Source: Deutsche Bank, CEIC, DataStream

Figure 309: M1 less M2 growth



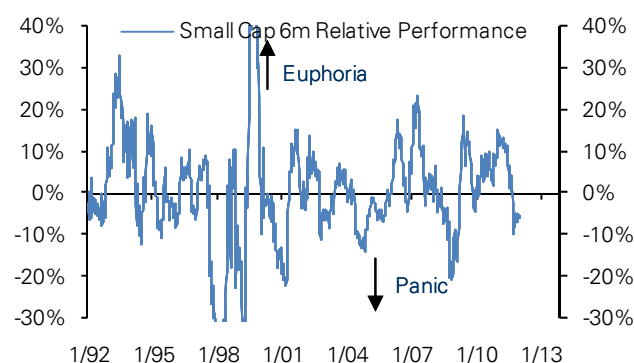
Source: Deutsche Bank, DataStream

Figure 310: Country equity fund % premium to NAV



Source: Deutsche Bank, Bloomberg Finance LP

Figure 311: Small-cap relative performance

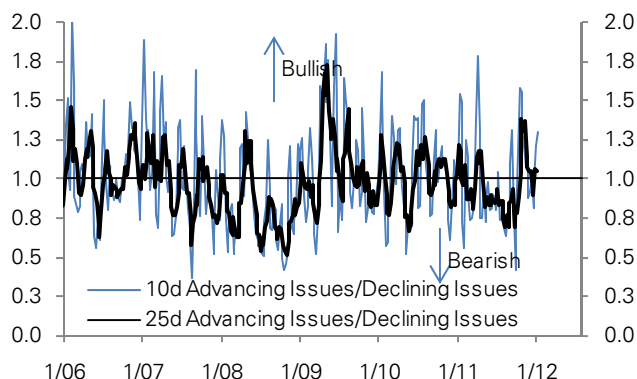


Source: Deutsche Bank, DataStream

Malaysia – technicals

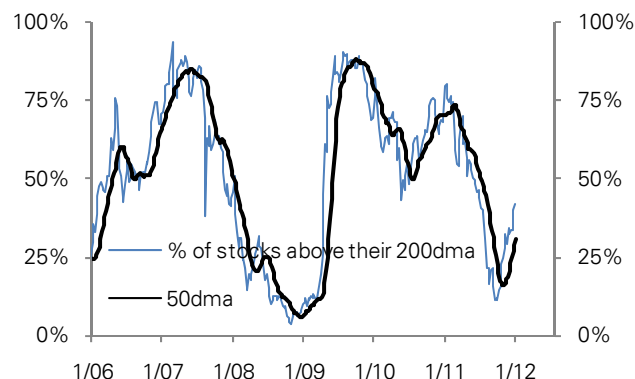
Breadth had collapsed late in 2011, but is moving up nicely from those washed out levels.

Figure 312: Advance/decline ratio



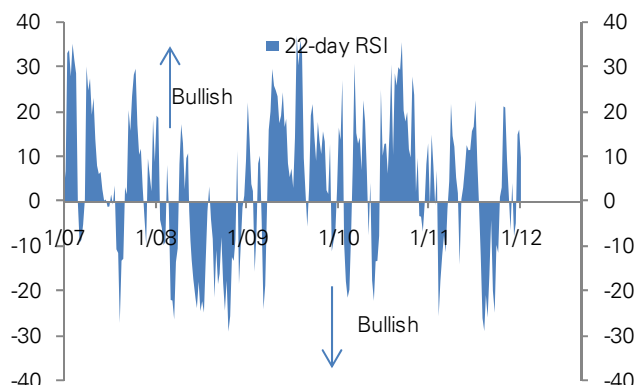
Source: Deutsche Bank, DataStream, FactSet

Figure 313: Percentage of stocks above their 200dma



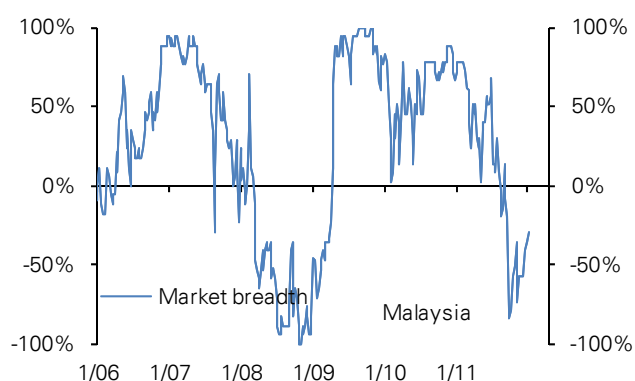
Source: Deutsche Bank, DataStream, FactSet

Figure 314: Relative Strength Index



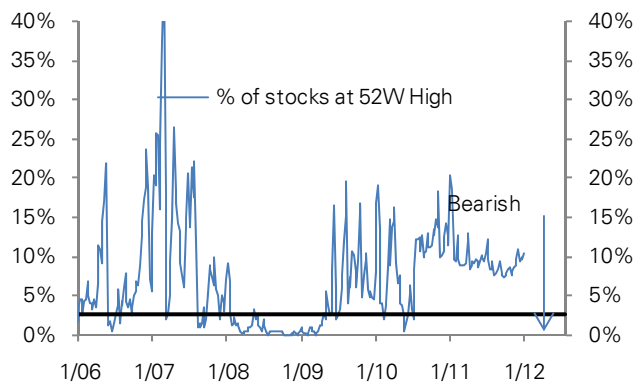
Source: Deutsche Bank, DataStream, FactSet

Figure 315: Market breadth



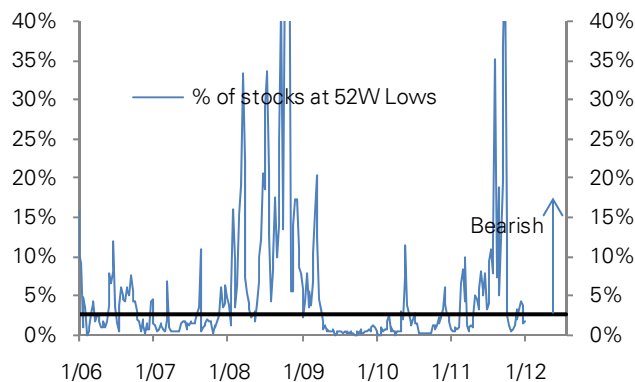
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 316: Percentage of stocks at 52-week Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 317: Percentage of stocks at 52-week Lows

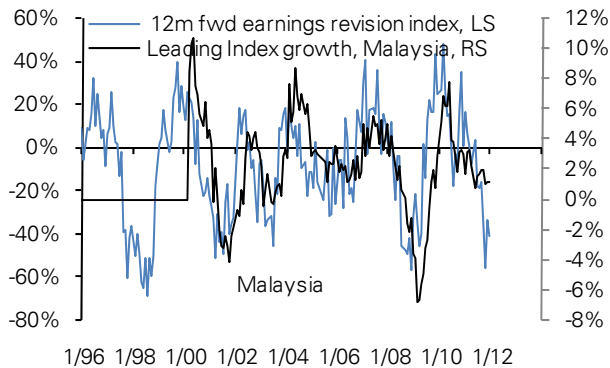


Source: Deutsche Bank, DataStream, FactSet

Malaysia – growth and earnings

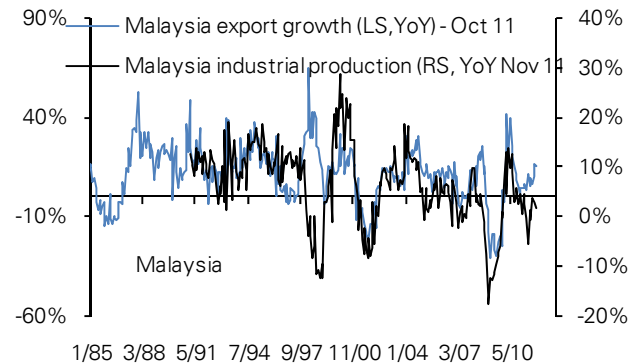
Growth LEIs are neutral, although analyst EPS revisions suggest much weaker growth. Policy settings are on the easier side. We see less EPS downside risk here.

Figure 318: Leading economic indicators



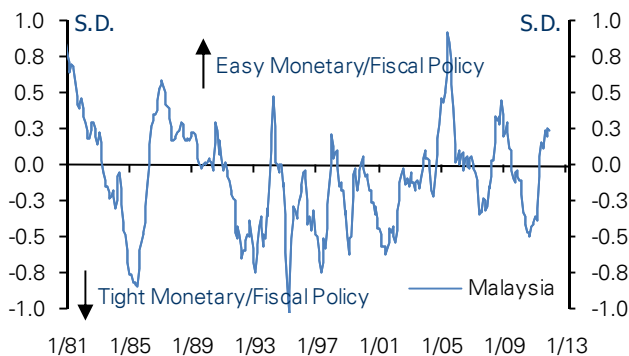
Source: Deutsche Bank, I/B/E/S, OECD, DataStream

Figure 319: Industrial production and export growth



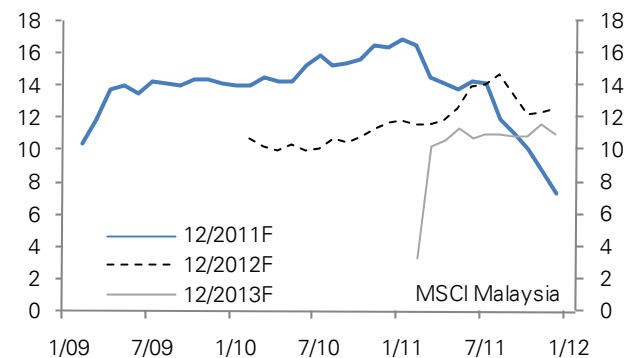
Source: Deutsche Bank, DataStream

Figure 320: Composite policy indicator



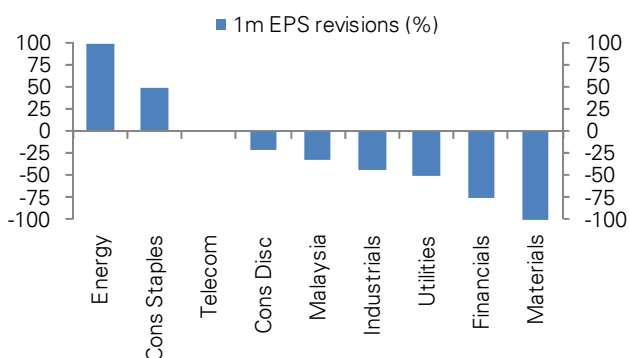
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 321: Earnings growth forecast (%)



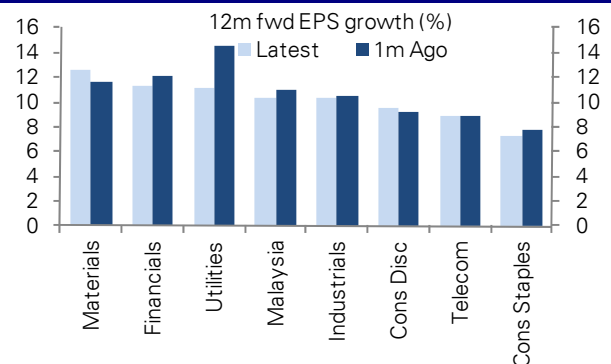
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 322: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 323: 12-month forward EPS growth forecast by sector

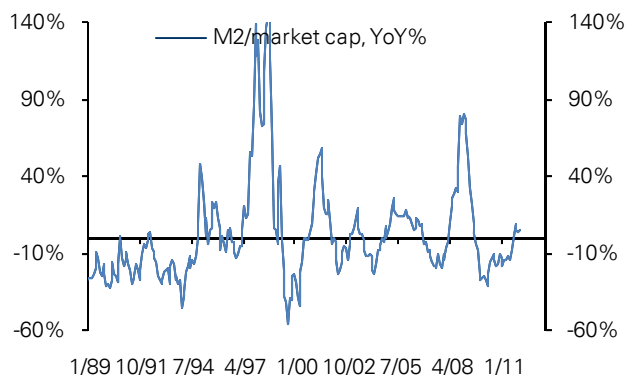


Source: Deutsche Bank, MSCI, I/B/E/S

Malaysia – liquidity

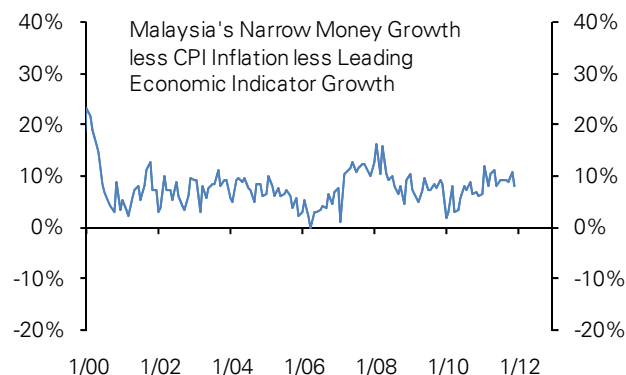
Free liquidity looks strong.

Figure 324: M2/market cap



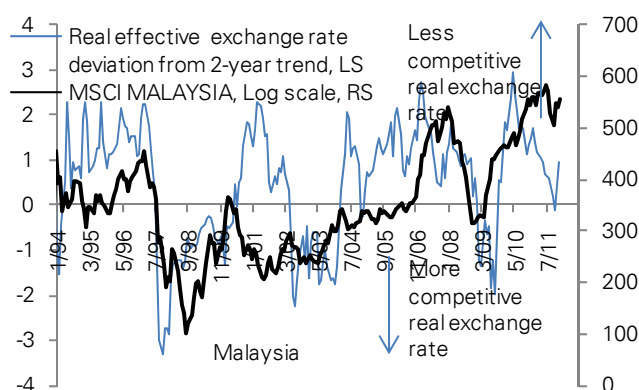
Source: Deutsche Bank, DataStream

Figure 325: Free liquidity



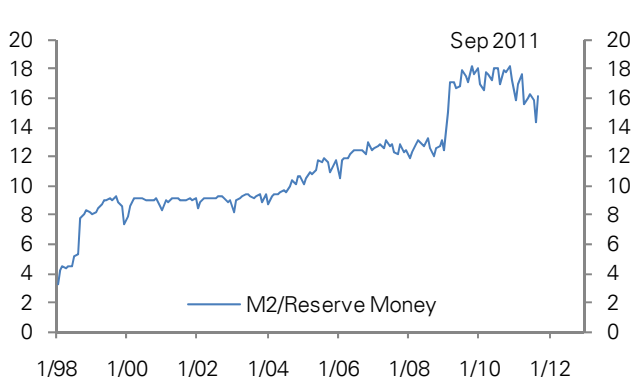
Source: Deutsche Bank, DataStream

Figure 326: Real exchange rate



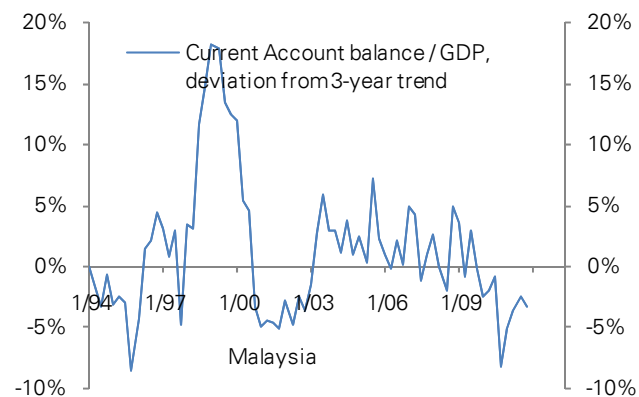
Source: Deutsche Bank, Bloomberg Finance LP

Figure 327: M2/base money



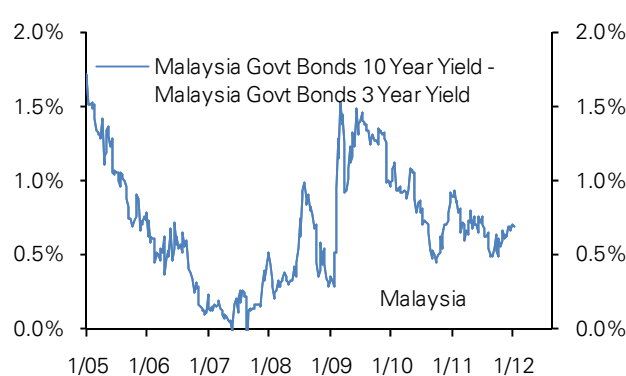
Source: Deutsche Bank, DataStream

Figure 328: Current account balance/GDP



Source: Deutsche Bank, Bloomberg LP Finance

Figure 329: Yield curve

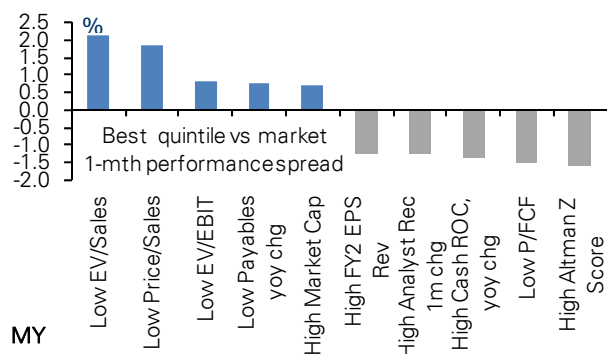


Source: Deutsche Bank, Bloomberg Finance LP

Malaysia – factor performance

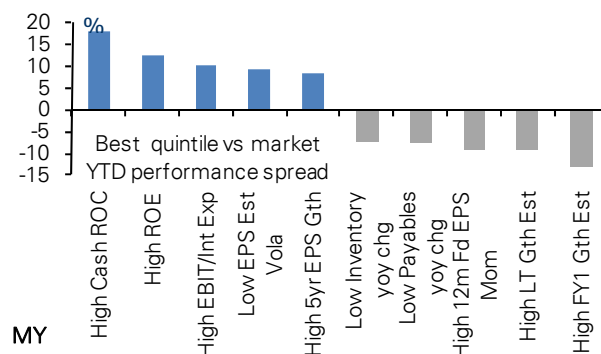
Analysts covering Malaysian stocks added alpha.

Figure 330: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 331: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 332: Factor performance

Malaysia		Returns					Ann. Rtn.		
Dec 31, 11		YTD	1m	3m	6m	12m	5y	10y	15y
Valuation									
Low 12m Fd P/E	6.6	0.5	3.0	3.6	6.6	5.9	7.2	4.5	
Low Trailing P/E	0.4	0.4	1.7	-1.4	0.4	7.4	9.7	6.1	
Low P/Op Inc	-1.3	0.1	-0.6	-1.6	-1.3	2.7	5.4	5.5	
Low P/BV	-5.2	-0.6	-1.1	-2.9	-5.2	2.9	2.4	2.2	
Low Price/Sales	-1.2	1.9	2.4	3.2	-1.2	3.2	2.6	1.7	
Low P/FCF	-4.7	-1.5	-3.8	-5.5	-4.7	-1.5	1.4	1.0	
Low EV/EBIT	-0.8	0.8	-0.9	2.6	-0.8	3.0	6.0	6.5	
Low EV/EBITDA	0.9	0.4	-0.9	0.9	0.9	3.1	4.9	7.2	
Low EV/Cap Emp	-3.7	-0.8	-1.4	0.5	-3.7	2.9	1.8	3.2	
Low EV/Sales	-1.9	2.1	0.4	-0.9	-1.9	1.1	3.6	4.7	
Low EV/Op CF	4.7	0.5	-0.2	1.4	4.7	2.7	7.1	7.7	
Low EV/FCF	1.7	-0.7	-1.5	-2.5	1.7	2.1	3.1	4.5	
High Dividend Yield	3.9	-0.5	-2.0	-1.0	3.9	6.8	5.6	7.6	
Average	-0.1	0.2	-0.4	-0.3	-0.1	3.2	4.7	4.8	
Price Momentum									
High 6m Price Mom	1.7	-0.7	1.1	0.3	1.7	0.5	0.2	0.2	
High 9m Price Mom	-2.4	-0.7	1.3	-2.1	-2.4	3.9	3.7	4.5	
High 12m Price Mom	-3.1	-1.2	1.8	-2.2	-3.1	0.7	2.7	1.4	
High Price Rel Strg	0.8	-1.2	1.4	-0.2	0.8	3.9	3.0	3.2	
High 3m chg in Price Mon	2.9	0.6	-1.5	-1.4	2.9	2.6	3.4	1.7	
High Price Up/Dn Days	-1.0	-0.4	-1.0	2.3	-1.0	-1.4	2.4	1.9	
Average	-0.2	-0.6	0.5	-0.6	-0.2	1.7	2.6	2.1	
Earnings Momentum									
High FY1 EPS Mom	-2.0	-0.5	-1.6	-3.7	-2.0	2.7	4.7	6.5	
High FY2 EPS Mom	-3.0	-0.1	-0.7	-0.8	-3.0	8.6	9.6	6.5	
High 12m Fd EPS Mom	-9.2	-0.8	-1.5	-9.0	-9.2	0.8	5.8	4.2	
High FY1 EPS Rev	0.2	-0.7	-1.9	-3.3	0.2	3.9	5.8	8.8	
High FY2 EPS Rev	1.7	-1.3	2.1	-0.6	1.7	3.2	7.5	7.1	
Average	-2.4	-0.7	-0.7	-3.5	-2.4	3.8	6.7	6.6	
Capex Deployment & Earnings Accruals									
Low Capex/Depr	3.4	-0.3	-1.6	-0.1	3.4	-3.2	-4.2	-2.7	
Low Capex/Sales	4.9	0.2	-2.5	2.8	4.9	0.4	-0.4	2.0	
Low Capex/FA	4.1	0.1	-3.0	-2.1	4.1	-0.1	-0.7	1.0	
High Receivables yoy chg	6.6	0.5	2.5	1.1	6.6	4.2	1.2	1.1	
Low Inventory yoy chg	-7.2	-0.8	-4.1	-1.1	-7.2	-2.5	-0.1	-3.1	
Low Payables yoy chg	-7.6	0.8	0.4	-5.0	-7.6	-2.5	-4.0	-3.1	
Average	0.7	0.1	-1.4	-0.7	0.7	-0.6	-1.4	-0.8	
Profitability									
High Cash ROC	17.8	0.1	-1.9	4.9	17.8	2.3	3.7	4.3	
High Cash ROC, yoy chg	7.2	-1.4	1.0	4.7	7.2	-1.2	1.8	1.3	
High ROE	12.7	-0.8	-0.4	4.8	12.7	3.5	3.1	1.7	
High ROE, yoy chg	-0.9	0.6	-0.8	-1.6	-0.9	-1.3	0.0	0.5	
Average	9.2	-0.4	-0.5	3.2	9.2	0.8	2.1	1.9	
Growth									
High 3yr Sales Gth	-1.2	-0.6	3.1	1.3	-1.2	-2.7	-0.9	-2.6	
High 5yr Sales Gth	1.1	0.1	3.0	0.9	1.1	-2.7	-0.8	-4.7	
High 3yr EPS Gth	3.3	0.4	0.8	0.4	3.3	0.8	1.8	-0.1	
High 5yr EPS Gth	8.2	-0.1	3.7	1.4	8.2	-0.7	1.9	-2.0	
High LT Gth Est	-9.2	0.2	-0.4	-3.6	-9.2	-3.3	-2.7	-0.1	
High FY1 Gth Est	-13.2	-1.2	-2.5	-7.2	-13.2	-4.8	-4.8	-1.7	
High FY2 Gth Est	-2.1	0.1	4.2	-0.7	-2.1	-9.7	-7.1	-5.2	
Average	-1.9	-0.1	1.7	-1.1	-1.9	-3.3	-1.8	-2.4	
Stability									
Low EPS Vola	-1.8	-0.1	-2.5	-1.3	-1.8	0.6	1.4	3.6	
Low Op Inc Vola	-2.5	-0.6	-5.4	-2.5	-2.5	1.5	1.9	2.0	
Low Book Value Vola	-2.3	-1.2	-2.0	-1.5	-2.3	-2.0	-4.2	-2.7	
Low Sales Vola	-1.4	-0.6	-3.4	-1.7	-1.4	0.7	-1.0	1.4	
Low EPS Est Vola	9.5	-0.6	-3.2	3.3	9.5	2.9	2.1	6.2	
Average	0.3	-0.6	-3.3	-0.7	0.3	0.8	0.0	2.1	
Risk									
Low FY1 EPS Disp	2.6	-1.2	-2.3	-2.9	2.6	-1.3	2.0	0.4	
Low FY2 EPS Disp	-4.4	-0.5	-2.7	-4.0	-4.4	-1.6	0.5	0.4	
High EBIT/Int Exp	10.1	-0.9	-3.7	2.0	10.1	7.5	7.4	6.8	
Low Debt/Equity	4.3	-1.0	-2.4	0.1	4.3	3.8	2.8	5.9	
High Altman Z Score	0.1	-1.6	-3.2	-3.0	0.1	1.9	-0.5	-1.6	
High Market Cap	-6.1	0.7	1.5	1.8	-6.1	-3.6	-0.5	0.0	
Average	1.1	-0.8	-2.1	-1.0	1.1	1.1	1.9	2.0	
Consensus Ratings									
High Analyst Rec	6.7	-0.9	-0.6	-0.6	6.7	4.6	3.8	4.4	
High Analyst Rec 1m chg	6.1	-1.3	2.8	5.7	6.1	10.7	9.4	9.0	
Average	6.4	-1.1	1.1	2.5	6.4	7.6	6.6	6.7	

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

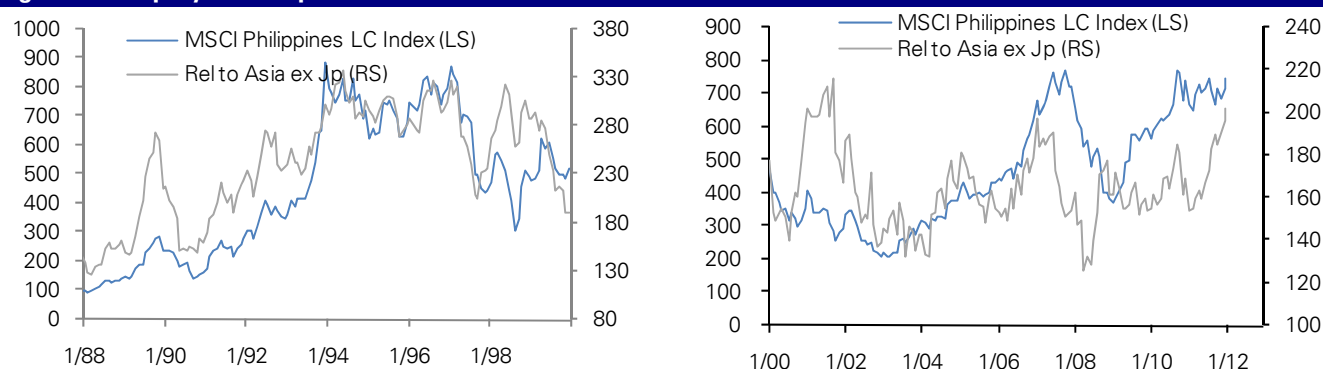
Philippines strategy

1. **Policy and economics:** The expected cut in policy rates by Bangko Sentral ng Pilipinas (BSP) was widely anticipated and telegraphed by the BSP itself. Inflation eased considerably to 4.2% in December from a peak of 5.2% earlier in the year. The central bank has communicated the need to “adjust” policy rates to “promote growth” in the face of potential external drags this year. Apart from inflation, government under-spending was a major drag on GDP growth last year. In the first 11 months of 2011, public spending on infrastructure was only half of the full-year budget of P244bn, with the shortfall accounting for more than 1% of GDP. Mindful of this, the government has increased infra budget by 15-20%, and has begun disbursing funds as early as January, hoping to get construction underway before the rainy season begins in July. Moreover, about 15 projects to be conducted via public private partnership (PPP) have been slated for launch this year. These projects could provide a sharp uplift to GDP growth in 2012.
2. **Company visits/results:** Companies remain bullish with many planning record capex spend in the coming years. Corporates also verify that the government has accelerated spending since 2H11. Cement and steel demand are again on the rise after a sluggish 1H11. The latest consumer and business confidence numbers improved further, as did President Aquino’s approval ratings. Bank loan growth continued to accelerate to 23% YoY in November despite the lack of government spending.
3. **Fund flows and investor views:** The Philippine bull story appears backed by consensus now. After posting the best performance in Asia in 2011, the PCOMP Index is again on the rise, increasing more than 7% so far this month. The Philippine stock market has seen net foreign inflow for seven consecutive weeks. The first 2½ weeks this year alone saw net foreign buying of US\$211m. The inflow seems mostly driven by top-down asset allocation, as the top-five net buyers were large MSCI stocks. Flows are also strong in other asset classes. The Philippine government sold US\$1.5bn-worth of 25-year USD bonds. The offer was well over-subscribed, with the yield down to just over 5%. In the light of this bull signal, we are hosting seven foreign clients this month, up from just one in January 2011 (and from an average of 4-5 for the year).
4. **Events/data/risks to watch for:** a) increased government spending; b) trial of Supreme Court Chief Justice; c) acceleration or delays in PPP infrastructure auctions; and d) upward pressure on rice prices.

Rafael Garchitorena

Philippines – market intelligence

Figure 333: Equity market performance



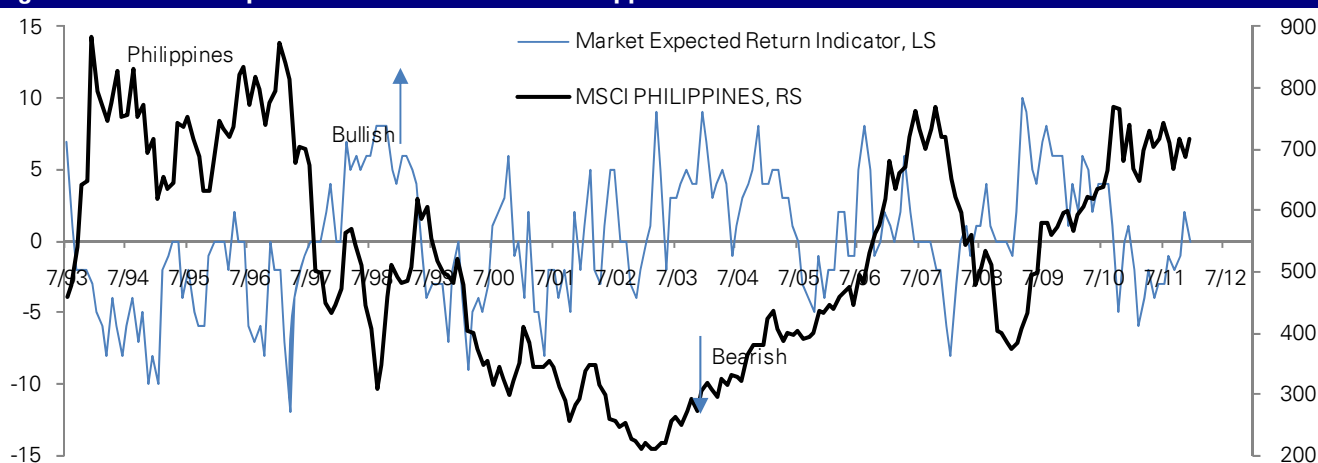
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 334: Market intelligence by sector

11Jan12	Mcap U\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)		1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (3)	5,330	6.6	3.3	14.6	14.1	12.7	2.6	2.3	2.0	1.2	2.2	2.1	23.9	3.6	11.0	18.2	16.2	15.9
Cons Svc (1)	878	4.9	3.2	31.4	30.5	26.1	5.7	5.0	4.5	1.1	1.1	1.2	16.5	3.0	16.8	18.1	16.5	17.1
Banks (3)	4,626	7.5	7.3	17.8	15.7	13.7	2.0	1.9	1.7	1.9	2.2	2.3	35.8	13.3	14.9	11.2	12.0	12.7
Div Financials (1)	1,359	17.1	10.3	20.1	20.2	17.0	1.9	1.9	1.7	1.0	1.1	1.0	44.3	-0.4	18.6	9.2	9.3	10.2
Real Estate (2)	3,836	10.6	10.4	31.4	26.6	23.2	3.7	3.3	2.9	1.1	1.4	1.7	18.4	18.1	14.4	11.7	12.3	12.7
Telecom (2)	3,235	15.7	7.5	13.7	13.6	13.7	4.7	4.0	4.1	7.7	7.0	6.8	-5.5	1.3	-1.0	34.3	29.4	29.7
Utilities (3)	4,030	5.9	3.2	17.2	15.6	13.4	4.3	3.7	3.2	2.1	2.7	2.7	128.0	10.5	16.2	25.0	23.8	23.6
Philippines (15)	23,294	8.6	6.2	17.7	16.5	14.8	3.0	2.7	2.4	2.3	2.7	2.7	30.6	7.5	11.6	16.6	16.1	16.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 335: Market Expected Return Indicator for Philippines

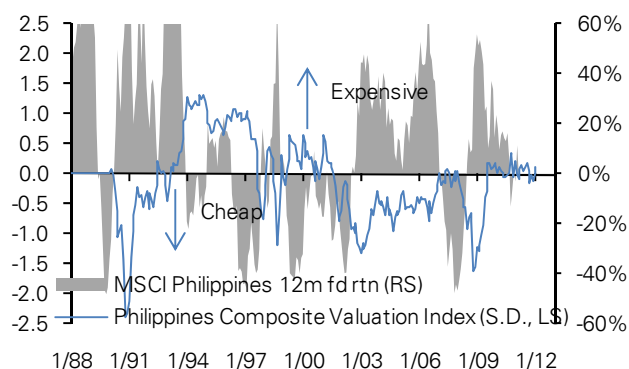


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Philippines – valuation

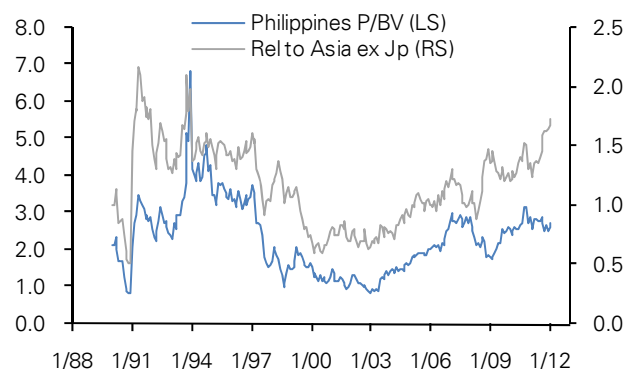
The market looks fairly valued versus history. It is also reaching new all-time highs on relative valuation versus the region. Is this justified? We think so. Philippine margins of 22% are twice those of Asia, and are likely to remain high, given under-investment since 1997.

Figure 336: Composite Valuation Index



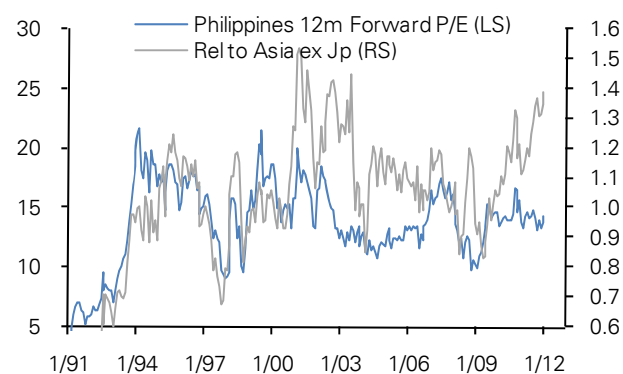
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 337: Price-to-book value



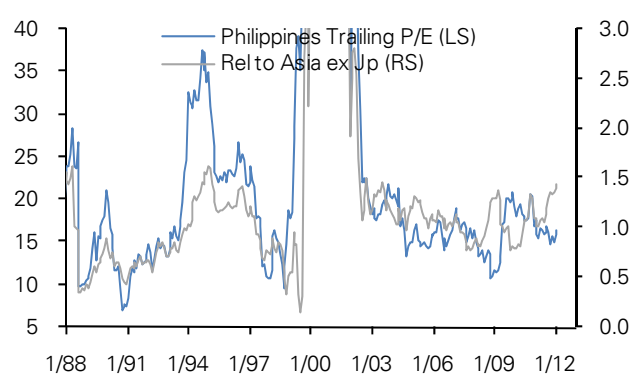
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 338: 12-month forward P/E



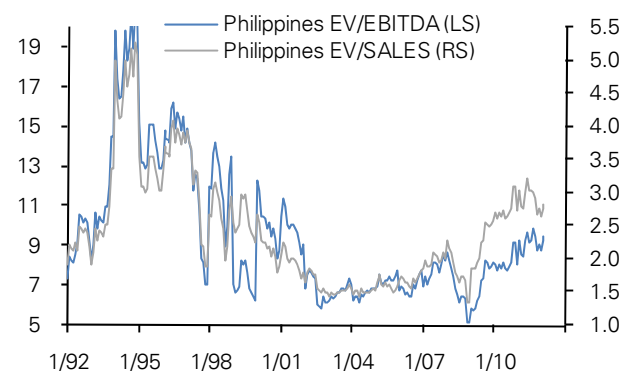
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 339: 12-month trailing P/E



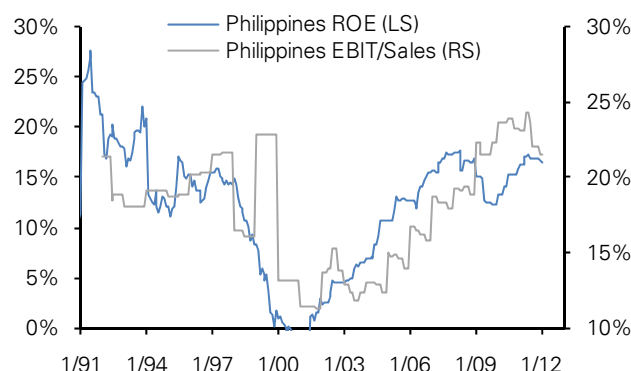
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 340: EV multiples



Source: Deutsche Bank, MSCI, FactSet

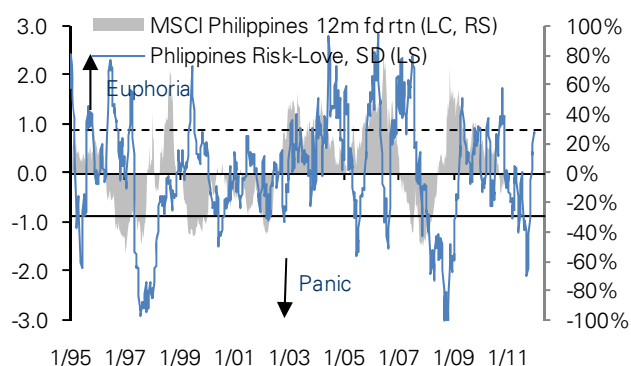
Figure 341: ROE and EBIT margin



Source: Deutsche Bank, MSCI, FactSet

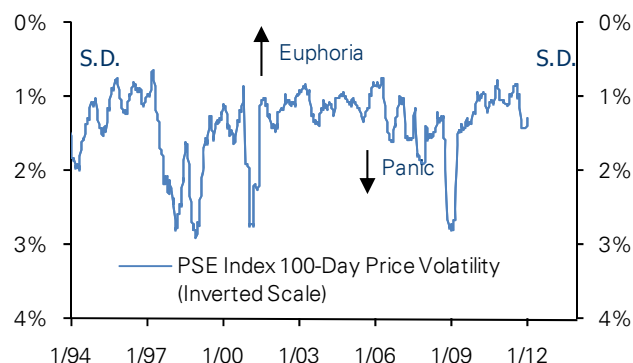
Philippines – investor sentiment

Figure 342: Equity Risk-Love indicator



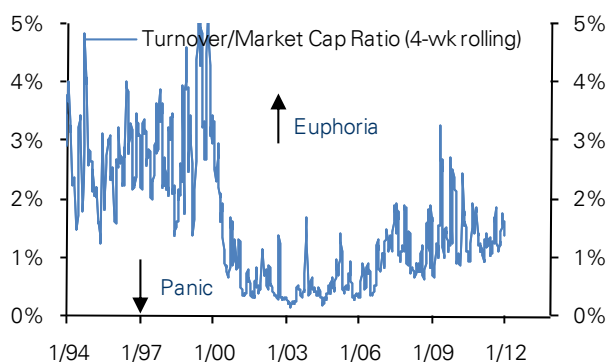
Source: Deutsche Bank, MSCI

Figure 343: Market volatility (inverted scale)



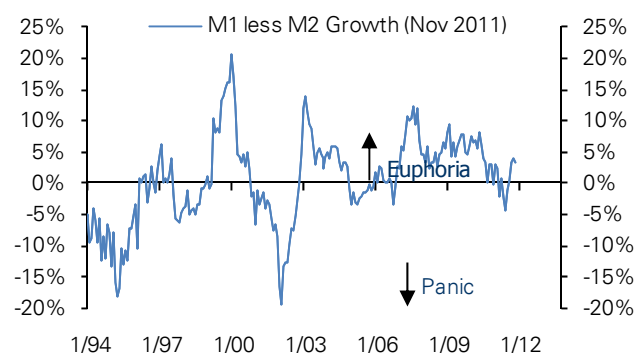
Source: Deutsche Bank, DataStream

Figure 344: Turnover-to-market cap ratio



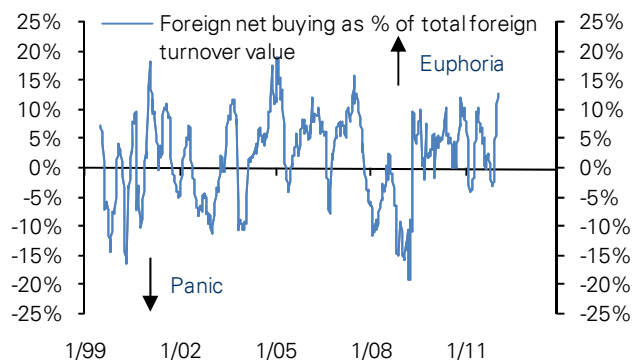
Source: Deutsche Bank, CEIC, DataStream

Figure 345: M1 less M2 growth



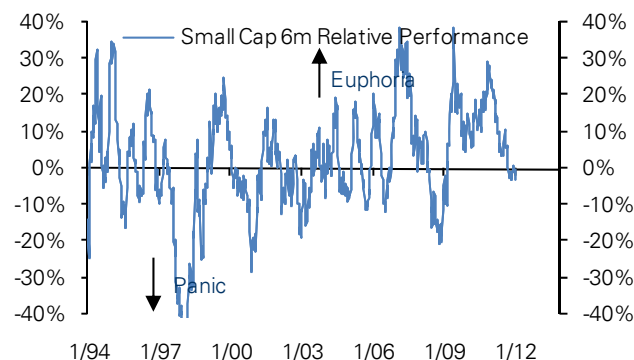
Source: Deutsche Bank, DataStream

Figure 346: Foreign net buying



Source: Deutsche Bank, Bloomberg Finance LP

Figure 347: Small-cap relative performance

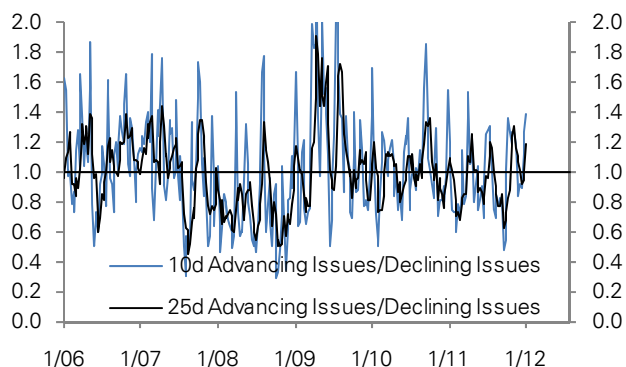


Source: Deutsche Bank, DataStream

Philippines – technicals

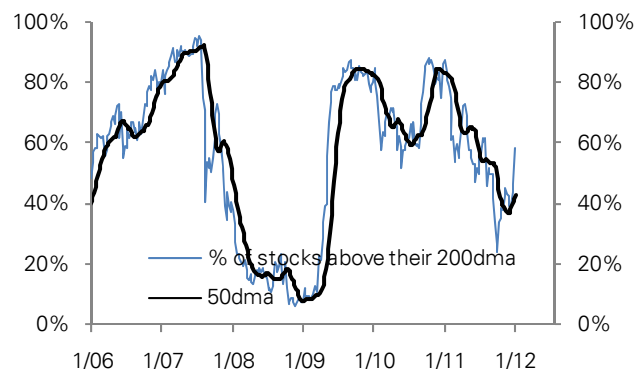
Technicals are neutral.

Figure 348: Advance/decline ratio



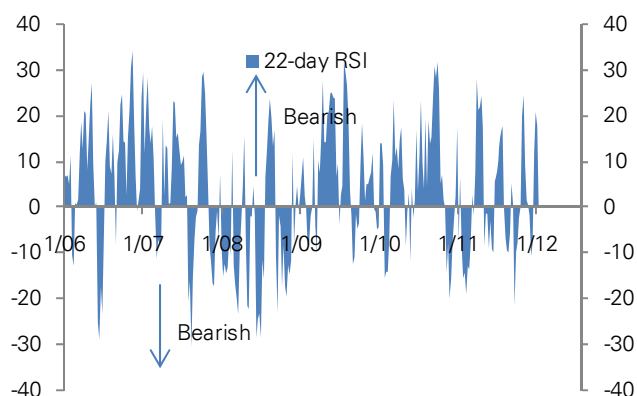
Source: Deutsche Bank, DataStream, FactSet

Figure 349: Percentage of stocks above their 200dma



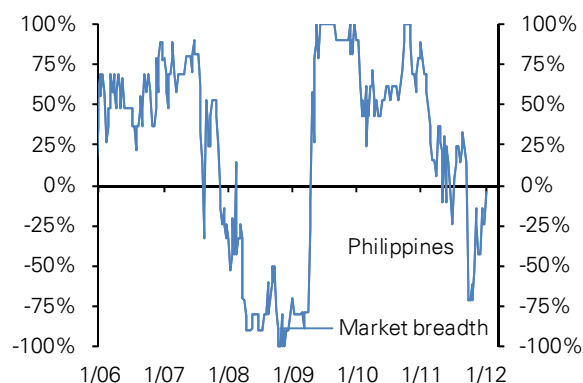
Source: Deutsche Bank, DataStream, FactSet

Figure 350: Relative Strength Index



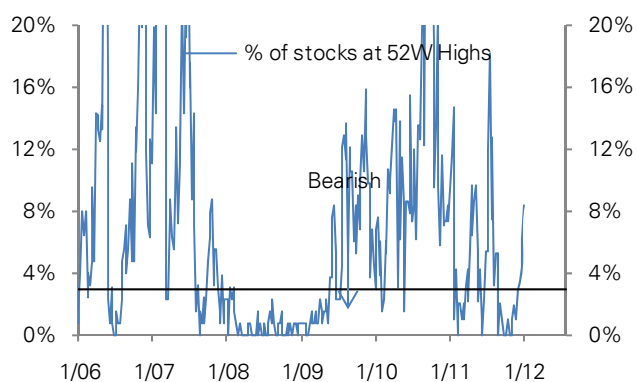
Source: Deutsche Bank, DataStream, FactSet

Figure 351: Market breadth



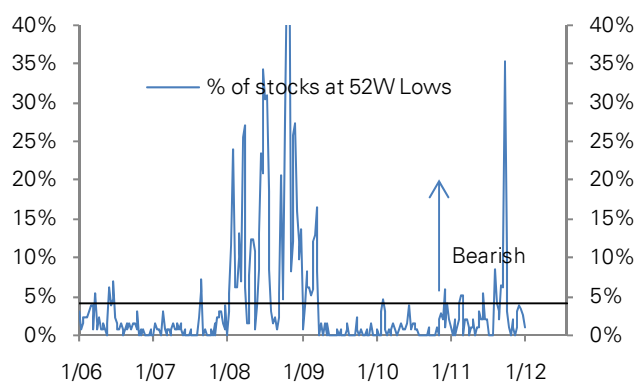
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 352: Percentage of stocks at 52-week Highs



Source: Deutsche Bank

Figure 353: Percentage of stocks at 52-week Lows

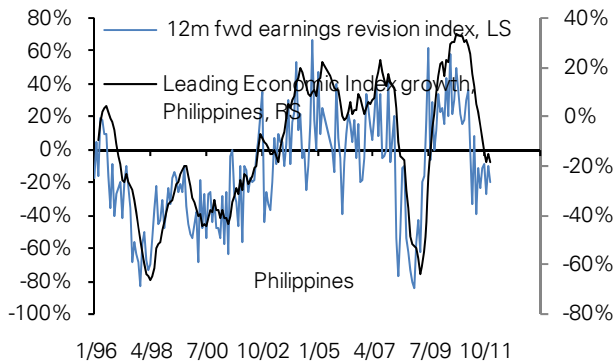


Source: Deutsche Bank

Philippines – growth and earnings

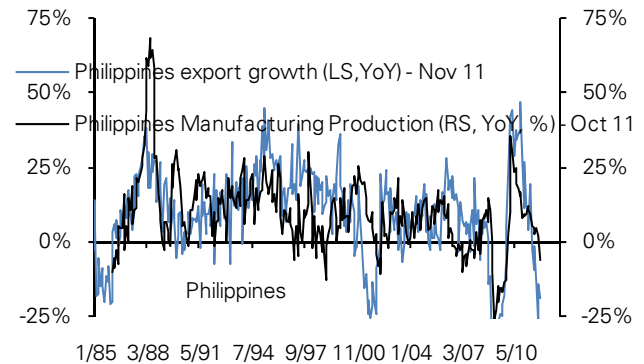
Policy settings look easy, LEIs are at neutral levels, and analysts are expecting reasonable 11% EPS growth this year.

Figure 354: Leading economic indicators



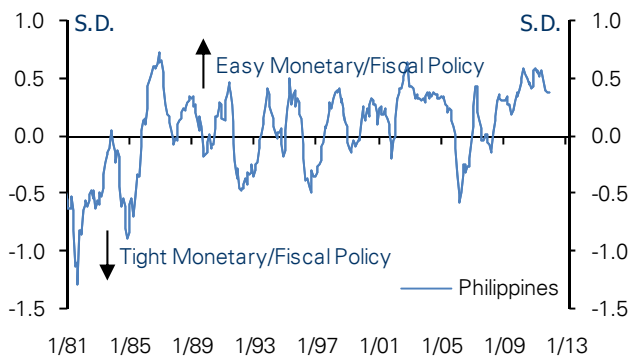
Source: Deutsche Bank, IBES, DataStream

Figure 355: Industrial production and export growth



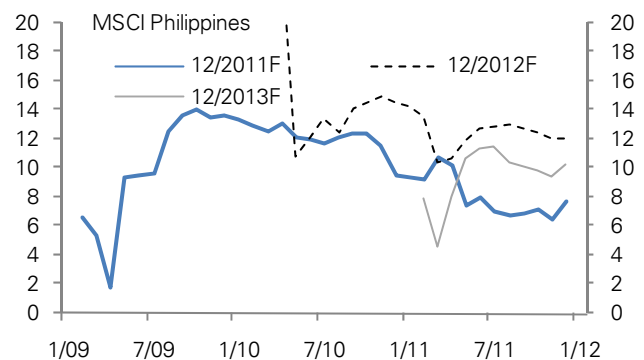
Source: Deutsche Bank, DataStream

Figure 356: Composite policy indicator



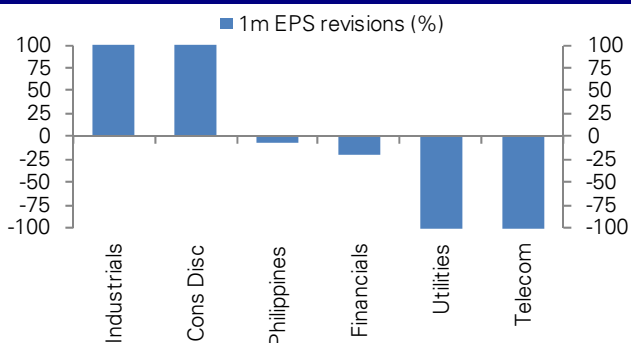
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 357: Earnings growth forecast (%)



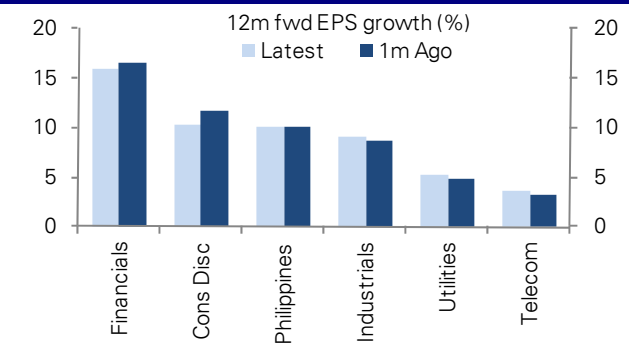
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 358: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 359: 12-month forward EPS growth forecast by sector

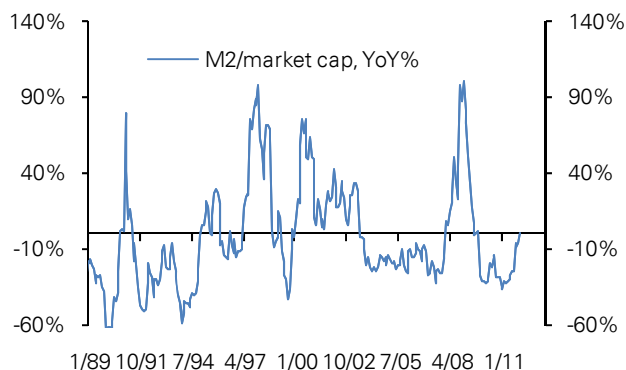


Source: Deutsche Bank, MSCI, I/B/E/S

Philippines – liquidity

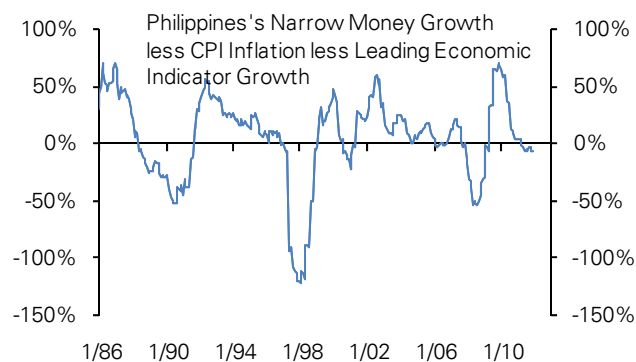
Strong market performance last year continues to attract inflows.

Figure 360: M2/market cap



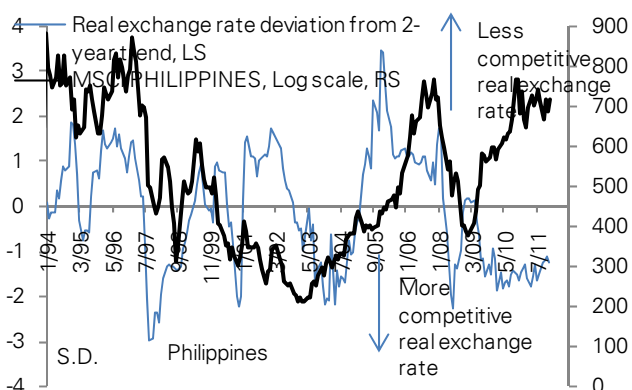
Source: Deutsche Bank, DataStream

Figure 361: Free liquidity



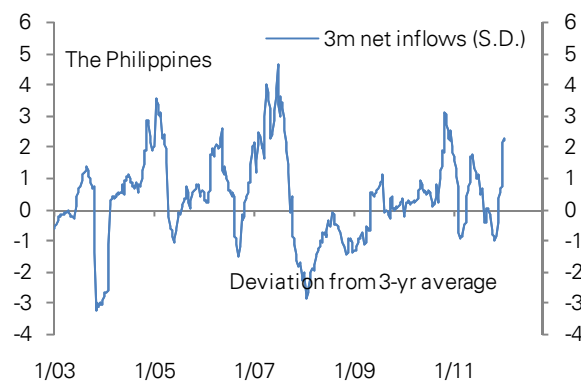
Source: Deutsche Bank, DataStream

Figure 362: Real exchange rate



Source: Deutsche Bank, MSCI, Bloomberg LP Finance

Figure 363: Foreign fund flows

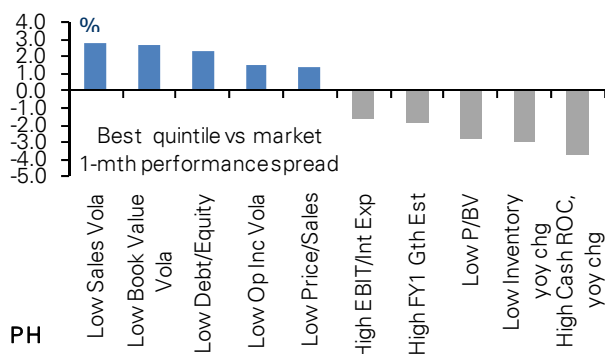


Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Philippines – factor performance

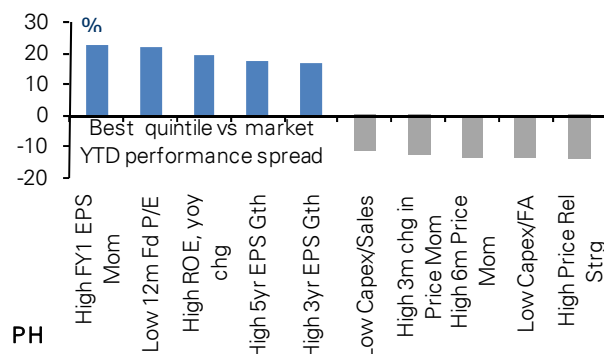
High returns on capital, EPS figures and value all worked well last year: Value is a consistent outperformer.

Figure 364: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 365: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 366: Factor performance

Philippines																	
Dec 31, 11	Returns				Ann. Rtn.					Returns				Ann. Rtn.			
	YTD	1m	3m	6m	12m	5y	10y	15y		YTD	1m	3m	6m	12m	5y	10y	15y
Valuation									Profitability								
Low 12m Fd P/E	21.8	0.2	1.5	2.0	21.8	13.3	6.2	1.9	High Cash ROC	-2.6	0.5	0.8	0.5	-2.6	-0.2	0.7	-1.6
Low Trailing P/E	2.9	0.5	2.2	4.0	2.9	14.3	11.2	5.1	High Cash ROC, yoy chg	4.0	-3.8	-4.9	-6.0	4.0	10.8	13.2	8.5
Low P/Op Inc	16.2	1.0	-1.5	5.2	16.2	10.8	11.8	3.0	High ROE	9.1	-0.9	-1.1	-1.5	9.1	6.4	5.6	-1.1
Low P/BV	-4.7	-2.8	-0.1	1.9	-4.7	9.8	0.8	-1.2	High ROE, yoy chg	19.2	1.2	2.8	2.9	19.2	11.4	4.0	3.1
Low Price/Sales	1.1	1.4	-4.3	1.6	1.1	11.1	5.4	-0.7	Average	7.4	-0.7	-0.6	-1.1	7.4	7.1	5.9	2.2
Low P/FCF	-7.0	0.3	0.6	-0.1	-7.0	-1.1	1.3	-6.1	Growth								
Low EV/EBIT	13.3	0.1	0.2	4.0	13.3	3.2	5.8	-3.0	High 3yr Sales Gth	5.7	1.3	1.2	0.5	5.7	-1.0	-1.2	-4.3
Low EV/EBITDA	14.0	0.4	2.8	6.3	14.0	6.2	7.2	-2.6	High 5yr Sales Gth	6.2	0.5	5.7	3.8	6.2	-4.9	-4.0	-4.0
Low EV/Cap Emp	-6.4	0.4	2.5	3.0	-6.4	10.0	6.8	9.1	High 3yr EPS Gth	17.1	0.3	3.4	1.3	17.1	6.4	-0.7	-3.0
Low EV/Sales	-7.6	1.4	-3.5	-0.2	-7.6	11.2	7.0	2.7	High 5yr EPS Gth	17.2	-0.3	2.7	2.0	17.2	8.8	3.5	2.1
Low EV/Op CF	13.6	-0.1	1.0	1.7	13.6	14.5	9.5	-4.3	High LT Gth Est	-2.4	0.3	1.7	0.0	-2.4	-4.4	-0.7	0.2
Low EV/FCF	-5.3	-0.2	0.6	-2.6	-5.3	-1.0	1.4	-5.1	High FY1 Gth Est	-7.8	-1.9	-1.4	-4.9	-7.8	-4.3	0.4	-2.2
High Dividend Yield	-2.3	-0.4	2.2	1.6	-2.3	-2.5	-1.2	2.3	High FY2 Gth Est	-7.8	0.2	0.1	-7.7	-7.8	-3.6	1.6	0.8
Average	3.8	0.2	0.3	2.2	3.8	7.7	5.6	0.1	Average	4.0	0.1	1.9	-0.7	4.0	-0.4	-0.1	-1.5
Price Momentum									Stability								
High 6m Price Mom	-13.2	0.7	2.3	-2.9	-13.2	-1.3	0.4	-1.5	Low EPS Volatility	-4.4	-0.3	0.5	0.3	-4.4	-4.0	-2.3	0.1
High 9m Price Mom	-2.8	0.2	1.8	3.3	-2.8	2.6	0.3	-0.2	Low Op Inc Volatility	14.9	1.5	2.7	4.8	14.9	0.1	2.0	3.2
High 12m Price Mom	-0.3	1.3	-2.8	0.8	-0.3	4.1	1.9	1.9	Low Book Value Volatility	-5.4	2.7	2.6	0.4	-5.4	-1.1	3.6	3.3
High Price Rel Strg	-14.2	0.5	1.6	-3.0	-14.2	3.0	0.0	-1.1	Low Sales Volatility	3.9	2.8	6.1	4.6	3.9	-0.7	-0.8	1.8
High 3m chg in Price Mom	-12.9	0.9	-5.9	-8.0	-12.9	-1.8	-2.2	-3.0	Low EPS Est Volatility	4.7	0.4	-1.1	-0.4	4.7	-3.2	-4.4	0.0
High Price Up/Dn Days	-4.8	0.9	3.5	0.4	-4.8	-3.5	-1.9	1.2	Average	2.8	1.4	2.2	2.0	2.8	-1.8	-0.4	1.7
Average	-8.0	0.8	0.1	-1.6	-8.0	0.5	-0.2	-0.4	Risk								
Earnings Momentum									Low FY1 EPS Disp	-2.3	-0.3	-0.9	-0.6	-2.3	0.8	2.3	3.3
High FY1 EPS Mom	22.5	-0.7	0.5	0.8	22.5	-0.7	8.1	7.9	Low FY2 EPS Disp	-3.3	0.9	-0.9	-2.6	-3.3	-0.4	-2.2	1.7
High FY2 EPS Mom	10.5	0.6	2.1	-0.4	10.5	-4.6	3.3	4.5	High EBIT/Int Exp	7.5	-1.7	-1.1	-0.6	7.5	3.1	4.2	-3.5
High 12m Fd EPS Mom	5.5	0.4	2.3	-2.5	5.5	-2.9	3.5	1.7	Low Debt/Equity	-2.1	2.3	2.8	-1.3	-2.1	-9.3	-2.9	-5.2
High FY1 EPS Rev	-5.8	0.8	3.2	-1.0	-5.8	-6.2	-1.4	-3.4	High Altman Z Score	-9.6	-0.6	-1.7	-4.9	-9.6	-8.1	-7.5	-7.5
High FY2 EPS Rev	0.2	0.4	-0.4	-1.8	0.2	-4.7	0.4	-1.1	High Market Cap	-9.9	-0.3	-3.6	-4.0	-9.9	-4.5	-2.1	0.4
Average	6.6	0.3	1.6	-1.0	6.6	-3.8	2.8	1.9	Average	-3.3	0.0	-0.9	-2.3	-3.3	-3.1	-1.4	-1.8
Capex Deployment & Earnings Accruals									Consensus Ratings								
Low Capex/Depr	-6.6	0.7	0.9	0.5	-6.6	-1.4	0.8	5.5	High Analyst Rec	0.5	0.3	-1.1	-1.2	0.5	0.8	6.2	5.5
Low Capex/Sales	-11.1	-0.1	-5.0	-4.2	-11.1	-7.2	-2.1	0.8	High Analyst Rec 1m chg	-3.1	-0.4	-1.7	-2.9	-3.1	3.9	5.7	6.8
Low Capex/FA	-13.4	0.7	-0.5	-4.2	-13.4	1.8	3.4	8.3	Average	-1.3	-0.1	-1.4	0.8	-1.3	2.4	5.9	6.1
High Receivables yoy chg	10.8	-0.8	3.8	2.1	10.8	0.7	-0.9	0.3									
Low Inventory yoy chg	-4.7	-2.9	-4.4	-0.2	-4.7	-1.6	-4.9	-4.5									
Low Payables yoy chg	-5.0	0.2	-1.1	-4.1	-5.0	-3.2	-6.6	-5.0									
Average	-5.0	-0.4	-1.0	-1.7	-5.0	-1.8	-1.7	0.9									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

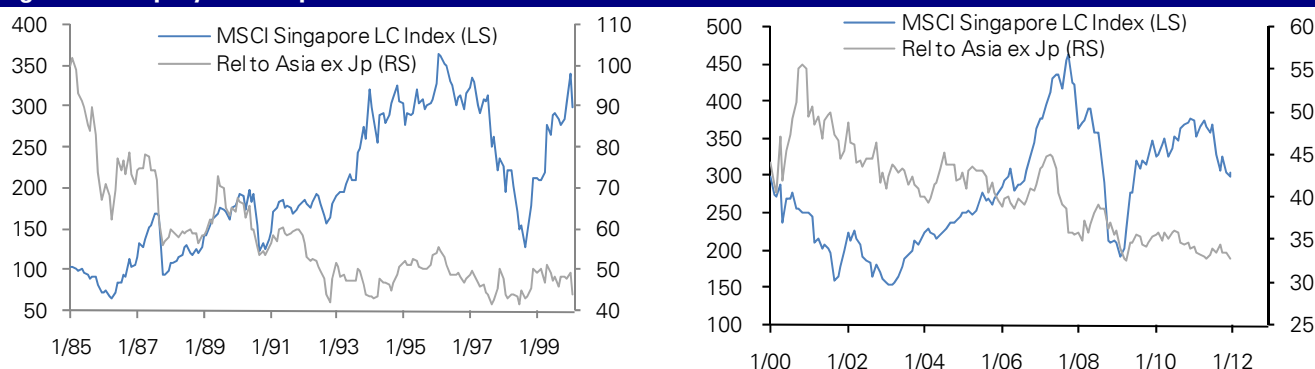
Singapore strategy

1. **Policy and economics:** The advance report on Q4 GDP came in slightly below expectations. Based largely on October/November data, the estimate had the economy contracting 4.9%QoQ (SAAR) in Q4, slightly lower than our -4.0% forecast. Full-year growth is estimated at 4.8%, down from 14.5% in 2010. Singapore has now had two quarters of declining GDP in the last three quarters. The decline was led by the manufacturing sector, where industrial production fell 25.2%MoM (sa), resulting in a decline of 9.6%YoY. While this is the largest monthly decline in production on record since 1989, there have been two declines of more than 15% MoM (sa) in the past 18 months. December NODX however, rose 16.4% MoM (sa). Bank credit continues to exhibit strong growth, expanding 30.5% YoY in November, up from 29.8% in October. This was driven by loans to businesses (+42.2%), however, housing/bridging loans (+16.7%) and car loan growth (-3.3%) moderated further. December new home sales fell a steep 63% MoM (-53% YoY) to 632 units, the lowest in two years, we note due to seasonality as well as knee-jerk reactions to the fifth round of measures. With trade volumes stabilizing if not declining and prospects for property prices diminishing, our economists expect credit growth to slow rapidly to the low single digits. Consumer price inflation accelerated slightly in November, to 5.7% YoY up from 5.4% in October, in line with our forecasts. The increase in inflation was due mostly to rising CoE premia. Core inflation excluding accommodation and private transport, rose 2.4%YoY, up from 2.3% in October.
2. **Company visits/results:** We have cut our market CY11 EPS forecasts by 2.4% and 0.9% for CY12 over 4Q and now forecast market EPS growth of 0.6% for CY11 and 7.2% for CY12 (versus 11% and 12% growth forecasts in January 2011). With the macro environment worsening, earnings downgrades could continue as 4Q results are released. The REITs are the first to report and are generally expected to report stable, although muted growth, with modest revaluation gains to lift the book NAV. We believe that for divestment/revaluation, gains are likely to boost CapitaLand, CMA and Keppel Land's headline PATMI, although core earnings could fall short. We expect a 10-15% price decline in residential property prices for 2012 (versus 0-5% previously) as demand/supply dynamics worsen. Office rents have started to dip on weakening demand, and we maintain our 20-25% forecast decline in rental/capital value.
3. **Fund flows and investor views:** Defensive plays remain in focus with clients continuing to position in large-cap defensive sectors such as REITs and telcos. However, long-only funds have begun to add beta to their portfolios via the conglomerates. While property developers appear cheap, catalysts for a re-rating are lacking. Furthermore, with the physical market slowing and price declines on the horizon, investors believe that risks are skewed to the downside.
4. **Events/data/risks to watch for:** a) Broader macro indicators such as CPI (25 January), unemployment (31 January), PMI (3 February), GDP (15 February), retail sales (15 February), NODX (17 February), and industrial production (24 February). b) Property-related data points such as new residential launches and land tenders, as continued sales momentum may raise the risk of additional measures.
5. **Top stock ideas:** Ascendas REIT, CapitaMalls Asia, Comfortdelgro, DBS Group, Fraser & Neave, Keppel Corp., Mapletree Commercial Trust, Sembcorp Industries Ltd., Starhub and Wilmar.

Gregory Lui, CFA

Singapore – market intelligence

Figure 367: Equity market performance



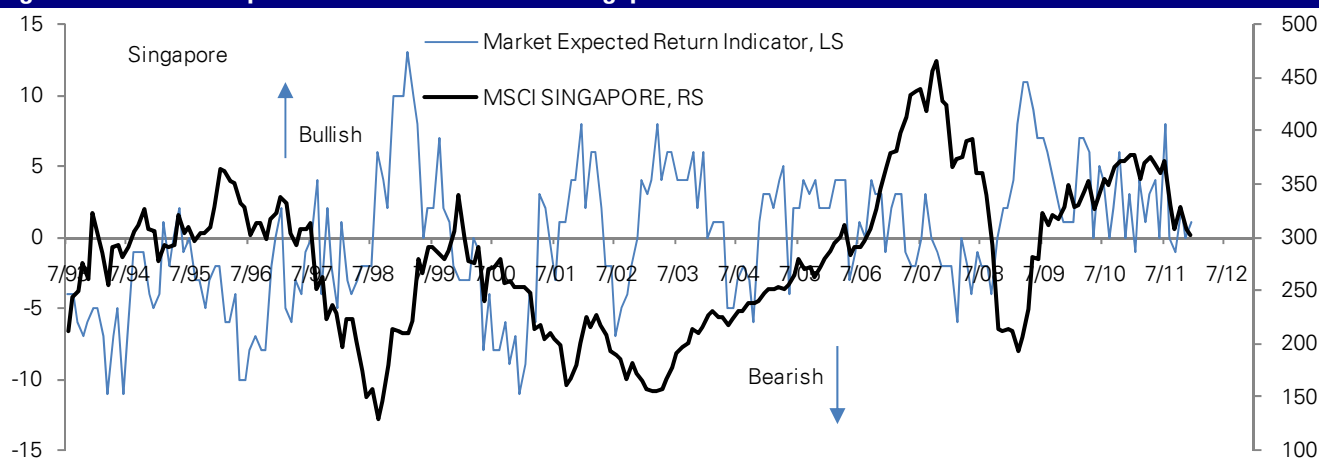
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 368: Market intelligence by sector

11Jan12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	US\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Capital Goods (8)	30,684	6.5	6.7	11.5	12.0	11.0	2.3	1.9	1.8	3.4	3.9	4.1	13.5	-4.1	8.6	20.2	16.1	15.9
Transportation (4)	10,939	5.9	6.0	na	21.8	17.2	1.0	0.9	0.9	7.8	5.6	5.3	na	-50.0	9.7	9.3	5.0	5.0
Cons Svc (1)	7,239	1.0	1.7	na	18.3	15.3	3.7	3.0	2.5	0.0	0.0	0.2	na	55.6	19.0	12.9	16.4	16.3
Media (1)	4,346	0.8	-0.5	12.8	15.2	14.8	2.6	2.6	2.6	5.2	5.2	6.5	3.6	-15.6	2.5	20.6	17.4	17.7
Retailing (1)	4,099	1.3	3.2	14.5	12.7	11.7	na	na	na	2.6	3.1	3.4	87.8	14.1	8.7	na	na	na
Food/Staples Retail (1)	2,357	0.4	6.6	16.2	13.7	12.1	2.4	2.0	1.7	2.1	2.1	2.3	25.6	18.6	13.3	14.9	14.8	14.4
Food Beverage (2)	11,429	2.5	2.8	18.7	13.5	12.2	1.8	1.5	1.3	1.3	1.6	1.7	-5.4	38.0	10.8	9.7	10.8	10.8
Banks (3)	47,045	1.0	3.5	10.7	10.8	10.6	1.1	1.1	1.1	4.1	4.3	4.5	26.2	-0.8	1.0	10.8	10.7	10.2
Div Financials (1)	4,078	1.0	0.3	20.8	21.0	19.8	8.0	7.8	7.3	4.4	4.5	4.8	0.7	-0.5	6.0	38.4	37.2	37.2
Real Estate (8)	20,244	2.9	5.5	13.1	13.9	14.4	1.0	0.9	0.8	3.9	3.6	3.1	4.7	-2.0	-3.7	7.3	6.3	5.8
Telecom (2)	20,507	-0.6	0.5	13.2	13.2	12.3	2.1	2.0	1.9	7.3	6.1	5.6	-0.3	0.3	7.3	15.8	15.5	15.8
Singapore (32)	162,966	2.4	3.8	12.6	12.9	12.2	1.5	1.4	1.3	4.1	4.0	4.0	25.2	-0.9	4.8	12.0	10.7	10.6

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 369: Market Expected Return Indicator for Singapore

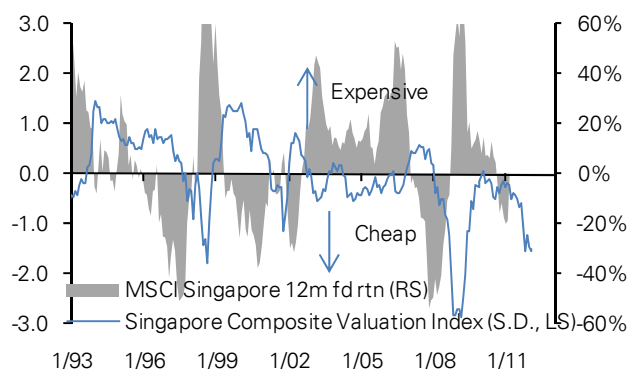


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Singapore – valuation

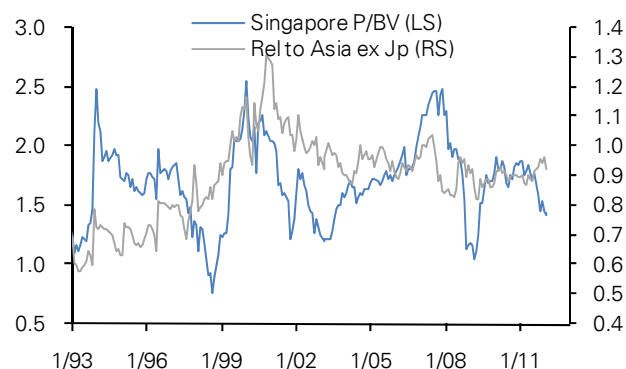
The equity market has been de-rating since 1999, in line with the downtrend in EBIT margins since then. The market looks moderately undervalued, considering this downtrend in valuations.

Figure 370: Composite valuation index



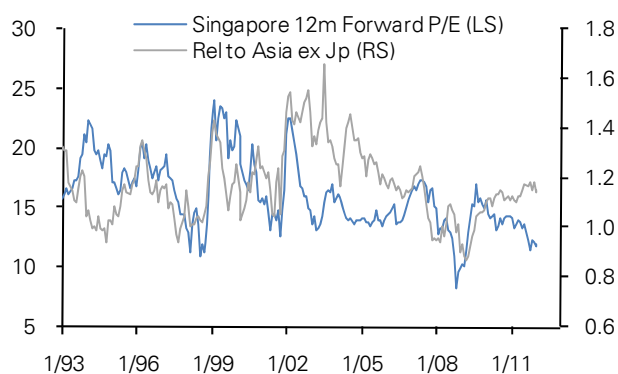
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 371: Price-to-book value



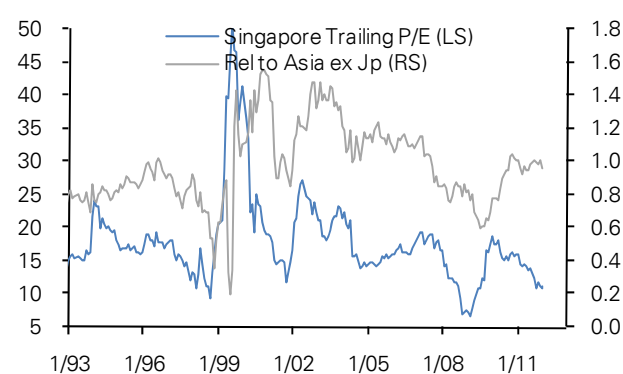
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 372: 12-month forward P/E



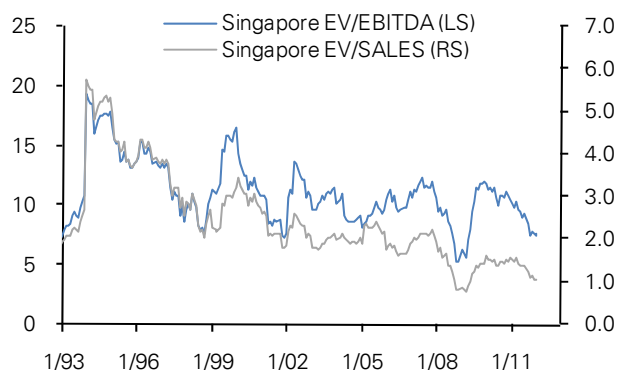
Source: Deutsche Bank, MSCI, IB/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 373: 12-month trailing P/E



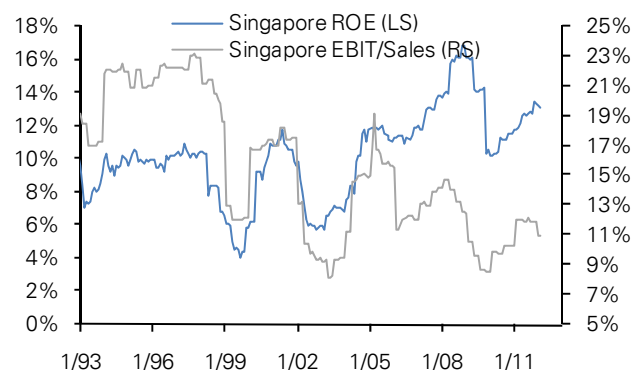
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 374: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 375: ROE and EBIT margin

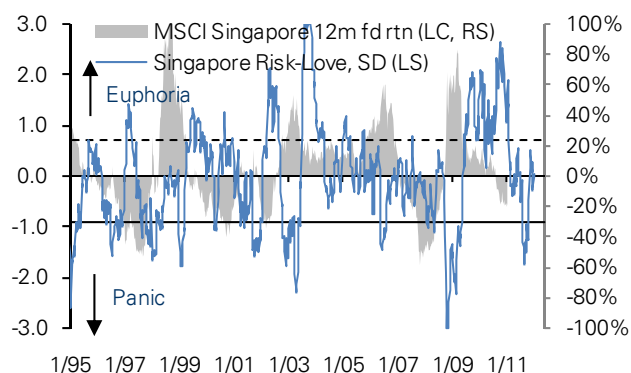


Source: Deutsche Bank, MSCI, FactSet

Singapore – investor sentiment

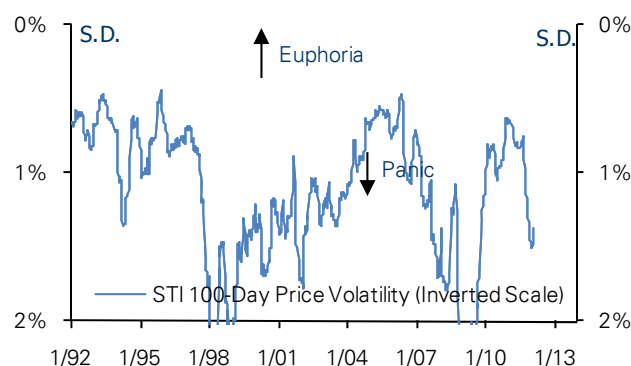
Risk-Love is neutral.

Figure 376: Equity Risk-Love indicator



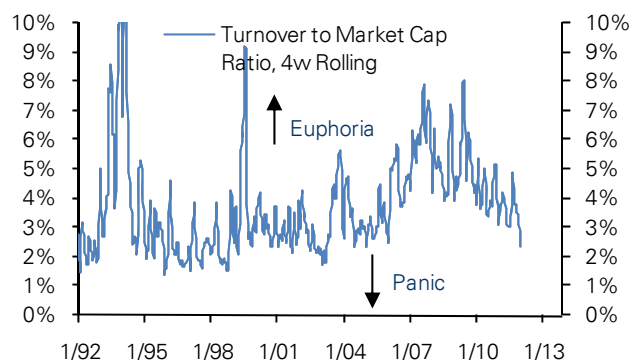
Source: Deutsche Bank, MSCI

Figure 377: Market volatility (inverted scale)



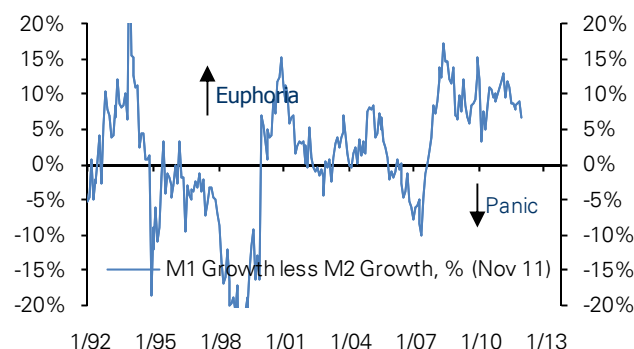
Source: Deutsche Bank, DataStream

Figure 378: Turnover-to-market cap ratio



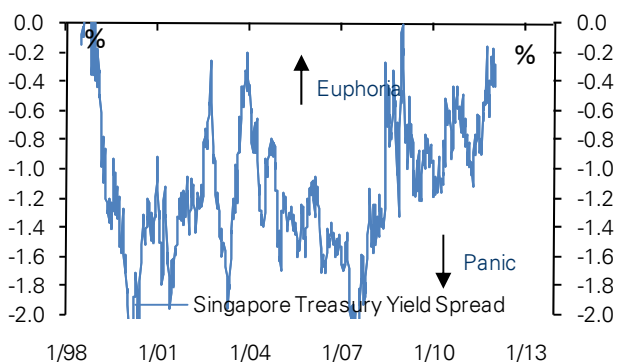
Source: Deutsche Bank, CEIC, DataStream

Figure 379: M1 less M2 growth



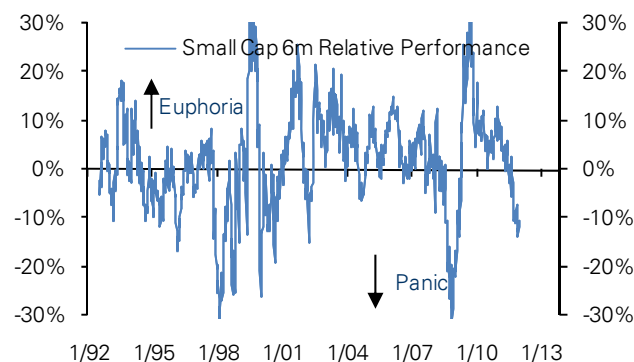
Source: Deutsche Bank, DataStream

Figure 380: Treasury yield spread



Source: Deutsche Bank, DataStream, CEIC.
Note: Singapore less US government 10 year bond yield.

Figure 381: Small-cap relative performance

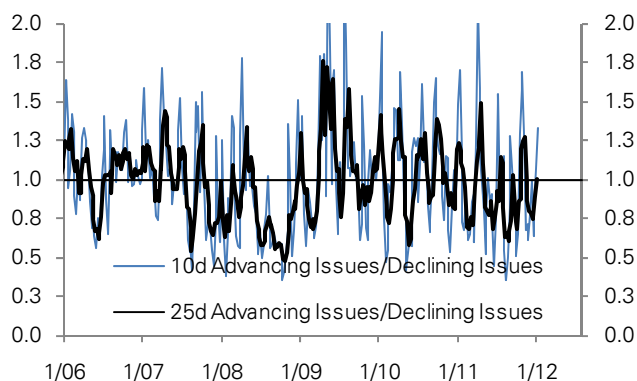


Source: Deutsche Bank, DataStream

Singapore – technicals

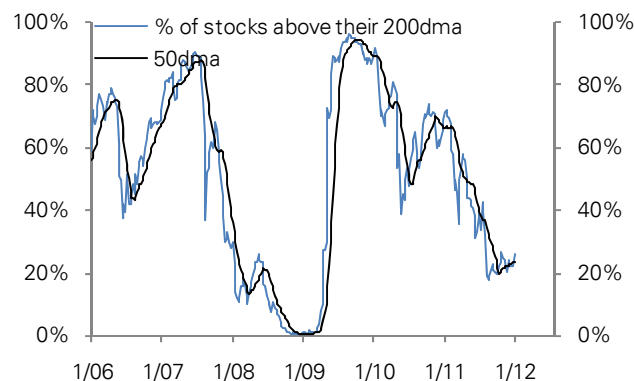
Surprisingly, the market breadth is washed out, as are other technicals. It is so bad, we believe it could look good.

Figure 382: Advance/decline ratio



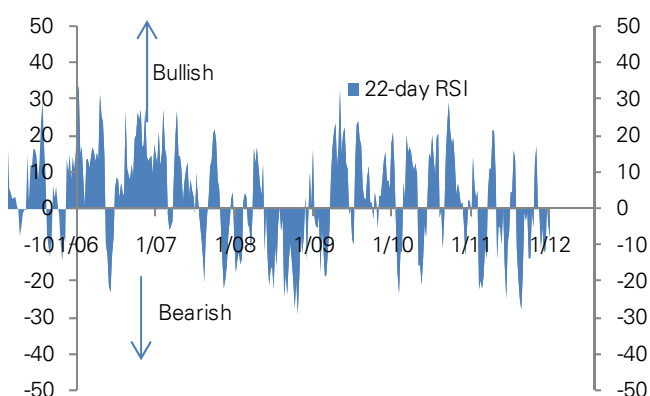
Source: Deutsche Bank, DataStream, FactSet

Figure 383: Percentage of stocks above their 200dma



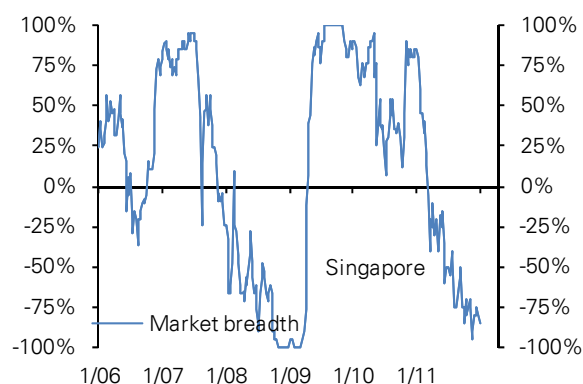
Source: Deutsche Bank, DataStream, FactSet

Figure 384: Relative Strength Index



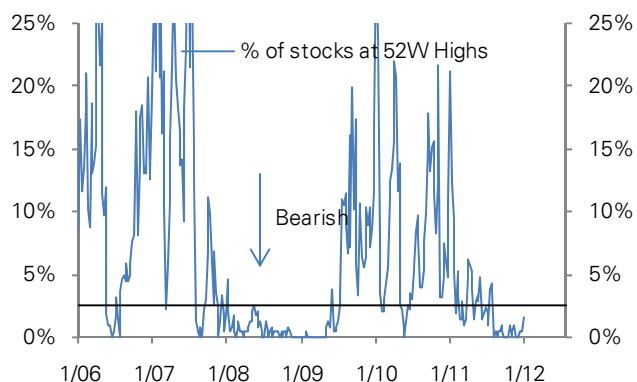
Source: Deutsche Bank, DataStream, FactSet

Figure 385: Market breadth



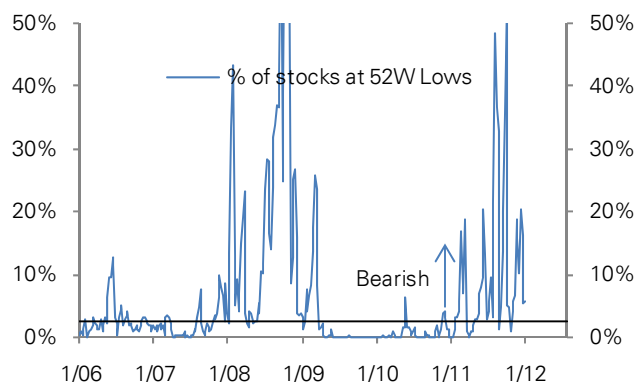
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 386: Percentage of stocks at 52-week highs



Source: Deutsche Bank, DataStream, FactSet

Figure 387: Percentage of stocks at 52-week lows

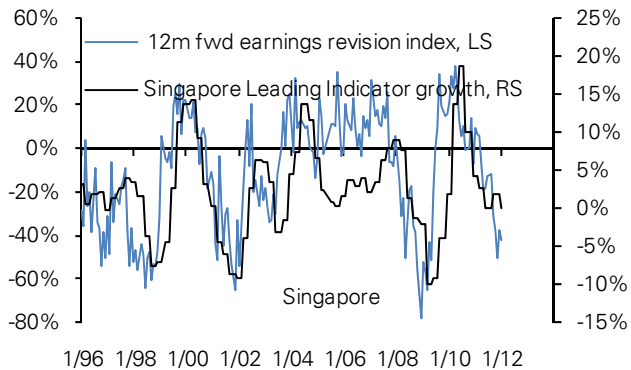


Source: Deutsche Bank, DataStream, FactSet

Singapore – growth and earnings

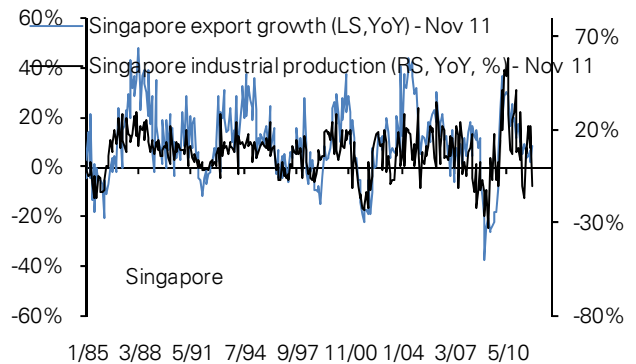
Policy settings are easy, LEIs are decreasing quickly, but analysts appear to have already reacted – the EPS revisions index is close to recession lows seen in the past.

Figure 388: Leading economic indicators



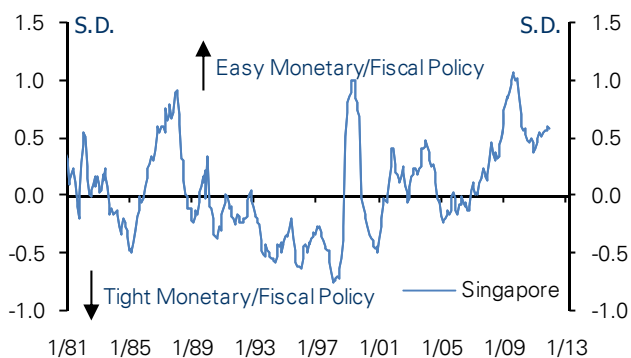
Source: Deutsche Bank, IBES, DataStream

Figure 389: Industrial production and export growth



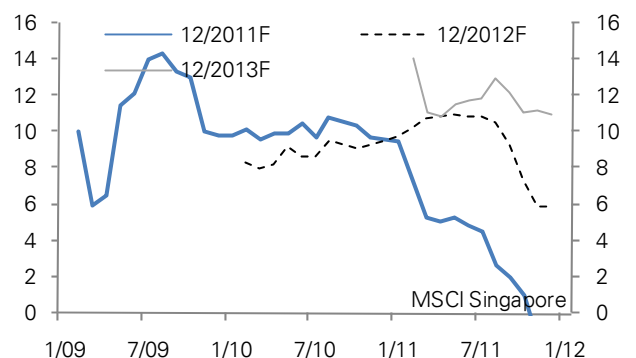
Source: Deutsche Bank, DataStream

Figure 390: Composite policy indicator



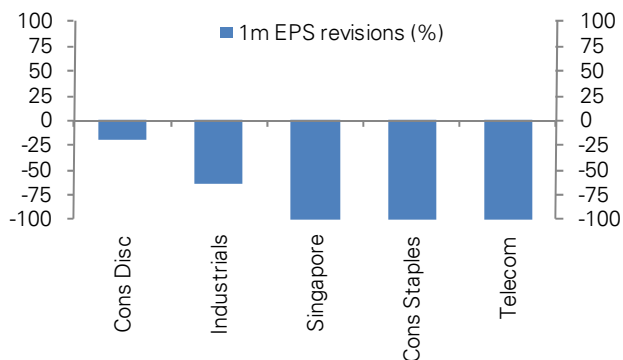
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 391: Earnings growth forecast (%)



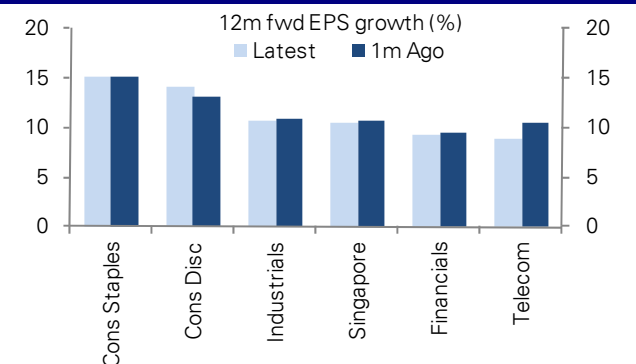
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 392: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 393: 12-month forward EPS growth forecast by sector

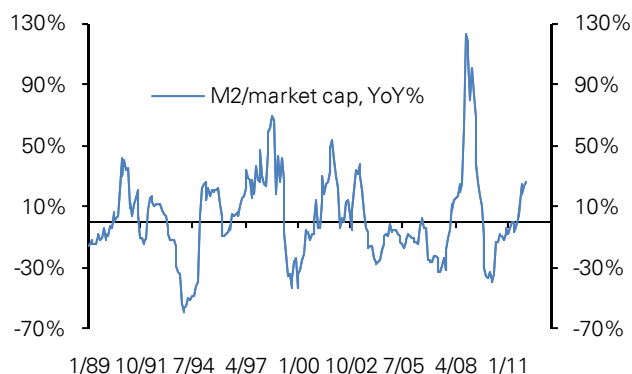


Source: Deutsche Bank, MSCI, I/B/E/S

Singapore – liquidity

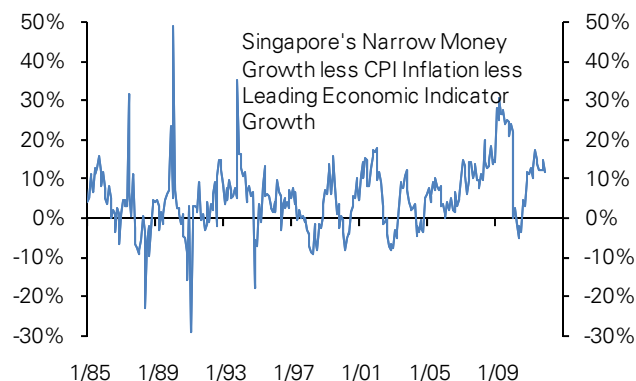
Free liquidity growth is strong and the terms of trade seem to be increasing. We are following series carefully since it tends to lead Singapore equities.

Figure 394: M2/market cap



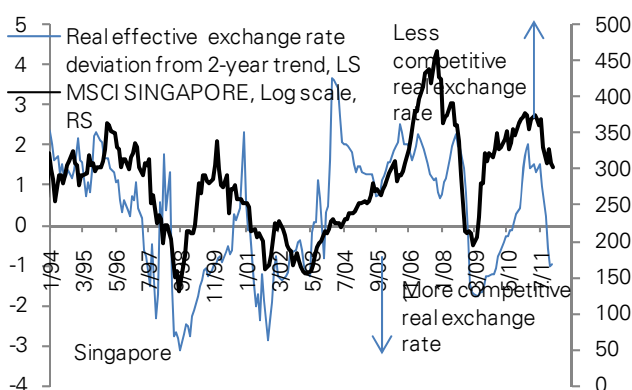
Source: Deutsche Bank, DataStream

Figure 395: Free liquidity



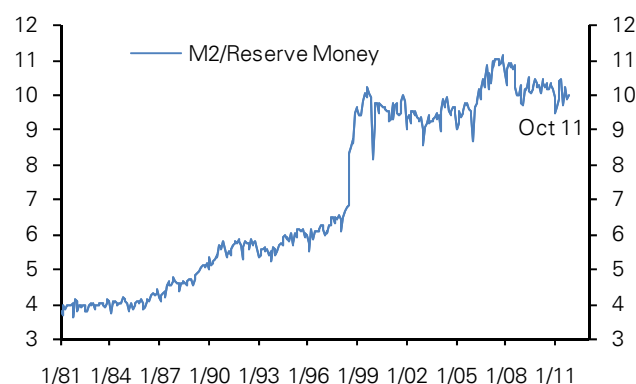
Source: Deutsche Bank, DataStream

Figure 396: Real exchange rate



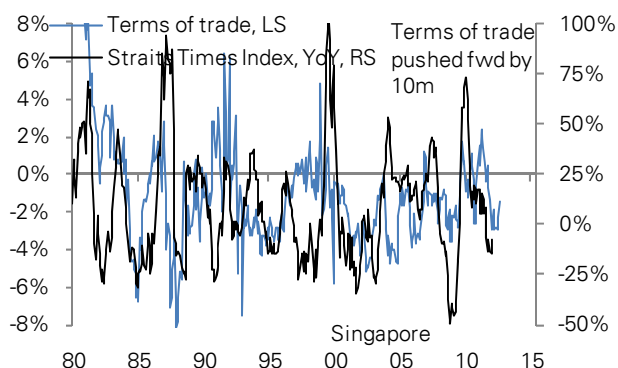
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 397: M2/base money



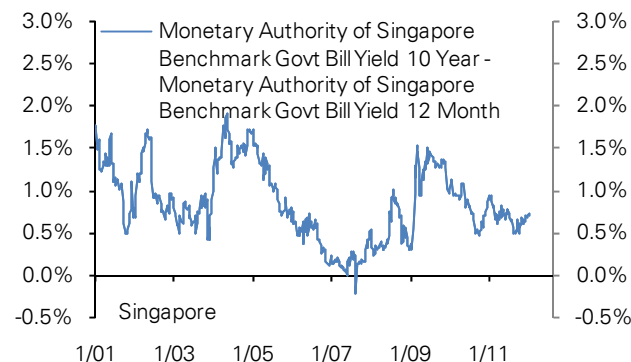
Source: Deutsche Bank, Monetary Authority of Singapore, DataStream

Figure 398: Terms of trade



Source: Deutsche Bank, Bloomberg Finance LP

Figure 399: Yield curve

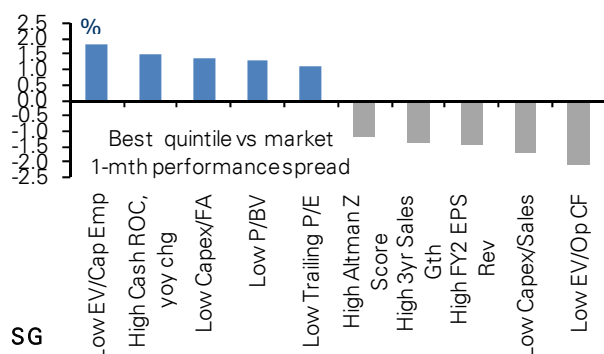


Source: Deutsche Bank, Bloomberg Finance LP

Singapore – factor performance

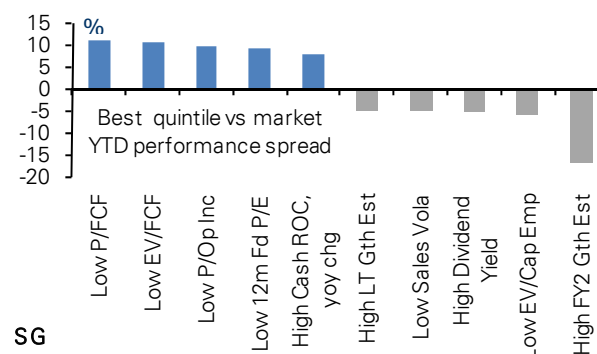
Value is a consistent star performer here – we recommend sticking with it.

Figure 400: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 401: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 402: Factor performance

Singapore Dec 31, 11	Returns					Ann. Rtn.			Returns					Ann. Rtn.			
	YTD	1m	3m	6m	12m	5y	10y	15y	YTD	1m	3m	6m	12m	5y	10y	15y	
Valuation									Profitability								
Low 12m Fd P/E	9.3	1.0	0.6	4.3	9.3	13.3	8.8	6.1	High Cash ROC	-4.4	-0.7	-3.1	-6.6	-4.4	1.1	0.4	4.1
Low Trailing P/E	6.4	1.1	4.7	1.9	6.4	13.6	9.7	8.2	High Cash ROC, yoy chg	7.9	1.5	-0.4	-0.6	7.9	-0.3	1.4	1.7
Low P/Op Inc	9.6	0.8	2.7	2.5	9.6	12.7	9.8	8.6	High ROE	4.0	0.3	1.9	1.7	4.0	4.3	1.2	0.4
Low P/BV	-2.1	1.3	1.0	-1.4	-2.1	8.1	7.2	4.8	High ROE, yoy chg	-3.5	0.5	0.1	-3.4	-3.5	3.7	3.5	1.1
Low Price/Sales	-1.0	-0.1	0.6	1.0	-1.0	4.3	4.0	5.2	Average	1.0	0.4	-0.4	-2.2	1.0	2.2	1.6	1.9
Low P/FCF	11.2	-0.6	-4.8	-0.6	11.2	6.8	5.9	4.7	Growth								
Low EV/EBIT	5.2	0.2	2.5	2.6	5.2	16.2	9.6	11.1	High 3yr Sales Gth	-3.3	-1.4	0.4	-0.2	-3.3	4.2	-0.5	-2.6
Low EV/EBITDA	-0.5	0.7	1.3	-0.3	-0.5	11.2	6.0	7.5	High 5yr Sales Gth	1.1	-0.3	3.3	0.9	1.1	6.7	3.2	0.2
Low EV/Cap Emp	-5.5	1.8	0.0	-3.9	-5.5	8.1	6.9	2.2	High 3yr EPS Gth	1.7	0.7	3.2	-1.9	1.7	-0.6	0.2	-1.3
Low EV/Sales	-1.0	-0.3	-1.5	-1.3	-1.0	7.5	5.5	6.9	High 5yr EPS Gth	-3.8	0.5	5.2	-0.5	-3.8	-1.2	-1.8	-5.1
Low EV/Op CF	3.2	-2.1	-3.8	-2.9	3.2	11.0	7.7	8.6	High LT Gth Est	-4.7	-0.2	0.3	0.5	-4.7	-4.2	-1.1	-3.1
Low EV/FCF	10.6	-0.6	-4.4	0.6	10.6	13.0	6.6	5.3	High FY1 Gth Est	-3.4	0.8	1.2	-1.0	-3.4	-5.0	0.9	-3.4
High Dividend Yield	-5.4	0.3	0.7	-4.7	-5.4	6.4	4.5	7.5	High FY2 Gth Est	-16.5	-0.1	1.5	-7.8	-16.5	-5.9	-5.8	-7.4
Average	3.1	0.3	0.0	-0.2	3.1	10.2	7.1	6.7	Average	-4.1	0.0	2.2	-1.4	-4.1	-0.9	-0.7	-3.2
Price Momentum									Stability								
High 6m Price Mom	3.3	-1.1	-2.8	0.3	3.3	-1.7	1.9	-0.3	Low EPS Vola	-0.7	-0.8	-0.5	4.4	-0.7	-0.5	-1.1	-2.6
High 9m Price Mom	-3.3	-0.8	-4.6	-4.4	-3.3	-4.5	-1.3	-2.1	Low Op Inc Vola	-2.5	-0.4	-4.5	-3.4	-2.5	-6.5	-7.3	-1.8
High 12m Price Mom	-1.5	-0.9	-3.4	-6.3	-1.5	-4.6	-1.9	-3.3	Low Book Value Vola	5.5	0.1	-3.4	0.0	5.5	-3.1	-0.4	0.6
High Price Rel Strg	-2.7	-0.8	-3.7	-3.0	-2.7	-2.2	0.0	0.2	Low Sales Vola	-4.9	-0.1	-3.8	-3.3	-4.9	-4.0	-2.6	-1.5
High 3m chg in Price Mon	1.4	-0.9	-4.3	-1.4	1.4	0.1	0.5	-2.6	Low EPS Est Vola	-0.8	0.6	-2.1	-1.8	-0.8	2.4	0.9	0.4
High Price Up/Dn Days	1.5	-1.0	-3.1	-4.2	1.5	-1.7	3.2	3.1	Average	-0.7	-0.1	-2.9	-0.8	-0.7	-2.3	-2.1	-1.0
Average	-0.2	-0.9	-3.6	-3.2	-0.2	-2.4	0.4	-0.8	Risk								
Earnings Momentum									Low FY1 EPS Disp	-2.4	-0.2	-2.9	-3.9	-2.4	1.8	0.3	0.5
High FY1 EPS Mom	6.8	-0.3	-0.1	5.6	6.8	2.7	2.2	3.3	Low FY2 EPS Disp	4.9	-0.8	-0.2	3.0	4.9	-0.9	1.6	3.4
High FY2 EPS Mom	0.1	0.8	-1.3	2.9	0.1	3.1	5.3	6.7	High EBIT/Int Exp	6.0	-1.0	-2.9	-0.7	6.0	5.1	3.1	5.3
High 12m Fd EPS Mom	-1.3	0.7	-0.9	0.8	-1.3	-1.7	0.8	2.7	Low Debt/Equity	-0.2	-0.1	0.9	-3.0	-0.2	-0.5	-2.8	0.3
High FY1 EPS Rev	6.4	0.4	-0.3	1.8	6.4	-0.6	4.3	8.7	High Altman Z Score	0.5	-1.2	1.9	1.2	0.5	5.8	1.7	5.7
High FY2 EPS Rev	2.6	-1.4	-2.1	-0.7	2.6	-2.9	2.5	6.1	High Market Cap	5.5	0.6	3.4	3.7	5.5	1.2	-0.4	-2.0
Average	2.9	0.0	-0.9	2.1	2.9	0.1	3.0	5.5	Average	2.4	-0.5	0.0	0.1	2.4	2.1	0.6	2.2
Capex Deployment & Earnings Accruals									Consensus Ratings								
Low Capex/Depr	2.4	-0.3	-6.3	-0.1	2.4	-1.5	-5.2	-3.7	High Analyst Rec	5.1	0.0	2.1	4.4	5.1	-0.1	2.1	0.9
Low Capex/Sales	-1.1	-1.7	-5.0	-3.0	-1.1	4.7	1.5	0.5	High Analyst Rec 1m chg	-2.1	0.0	-0.1	0.9	-2.1	-0.2	1.2	5.7
Low Capex/FA	3.9	1.4	-0.1	2.7	3.9	2.8	2.4	-0.8	Average	1.5	0.0	1.0	2.7	1.5	-0.1	1.6	3.3
High Receivables yoy chg	-3.0	0.2	4.3	-1.5	-3.0	-4.2	-3.7	-4.7									
Low Inventory yoy chg	3.8	-0.6	-3.2	1.5	3.8	1.2	0.9	3.0									
Low Payables yoy chg	-2.3	0.3	3.8	0.3	-2.3	2.8	-0.9	-2.9									
Average	0.6	-0.1	-1.1	0.0	0.6	1.0	-0.8	-1.4									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

Taiwan strategy

1. **Policy and economics:** Export growth surprised to the downside in December, falling to 0.6% YoY from 1.3% in November, in sharp contrast to the market and our expectation of a rebound. This deceleration was led by mineral and transportation equipment exports, which rose at a sharply slower pace of 13.9% and 9.3%, respectively, in December, versus 32.3% and 22.5% in November. By destination, this deterioration in growth was led by exports to China, which fell 4.0% in December, versus 3.3% in November. With imports falling by 2.7% in December, versus a 10.4% contraction in November, the trade surplus narrowed from USD3.2bn in November to USD2.3bn in December. The export report suggests that Taiwan's GDP growth is likely to disappoint in Q4, slowing from 3.4% YoY growth in Q3.

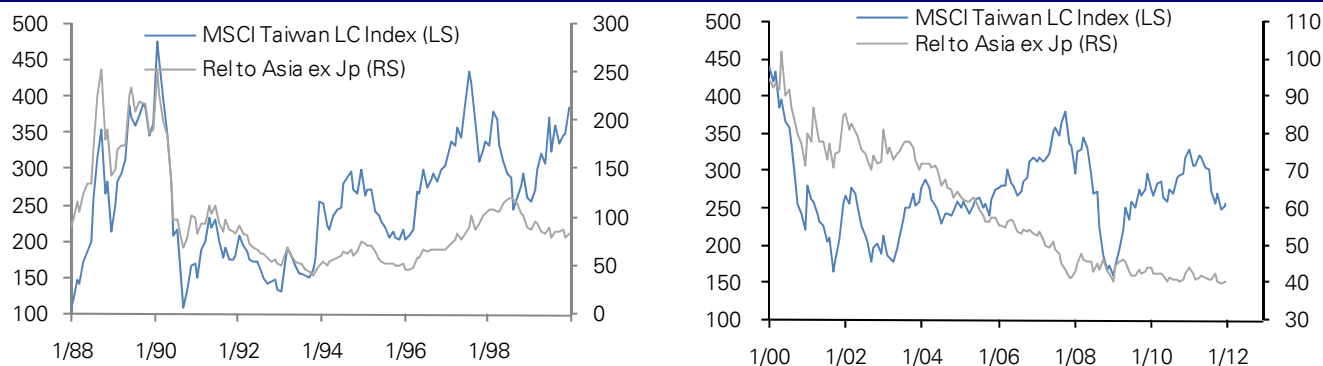
CPI inflation surprised sharply to the upside in December, rising to 2.03% YoY from 1.15% in November, as food costs rose sharply due to bad weather. This acceleration was led by a 5.41% increase in food costs in December, up sharply from the 1.10% rise reported in November. Although the December data were far worse than the market and our forecasts of 1.15% and 1.04% respectively, we do not expect it to affect the Central Bank's policy stance, as we expect inflation to fall as food production normalizes.

2. **Company visits/results:** The review of December and 4Q11 sales indicated about 42% of tech and 65% of non-tech companies missed 4Q11 Deutsche Bank estimates. The larger percentage of misses in the non-tech sector may be partially due to the less frequent updating of estimates. The tech names that have posted record-high sales in December appear to be the component suppliers for smartphones and tablet PCs. Non-tech growth was stronger than tech in 2011. For sales for December, 4Q11 and full-year 2011, auto, retail, other electronics, tourism and information services consistently outperformed the other sectors.
3. **Fund flows and investor views:** Foreign institutional investors turned net buyers in December with USD1.3bn bought, which concluded 2011 with a net sold of USD9.4bn (mainly in 2H). Going into 2012, we expect investor sentiment to improve after political uncertainty is removed following KMT's victory in both presidential and Legislative Yuan elections. Nevertheless, we do not expect the political events to provide TWSE with long-term supports as historically, post-election rallies may not last beyond one month (assuming there is one).
4. **Events/data/risks to watch for:** a) China's easing; b) Taiwan exports growth and industrial production and c) US/EU PMI.
5. **Top stock ideas:** TSMC, MStar, TPK, Compal, Hon Hai, Foxconn Tech, Simplo, Kinsus, Uni President, President Chain Store.

Joelian Tseng

Taiwan – market intelligence

Figure 403: Equity market performance



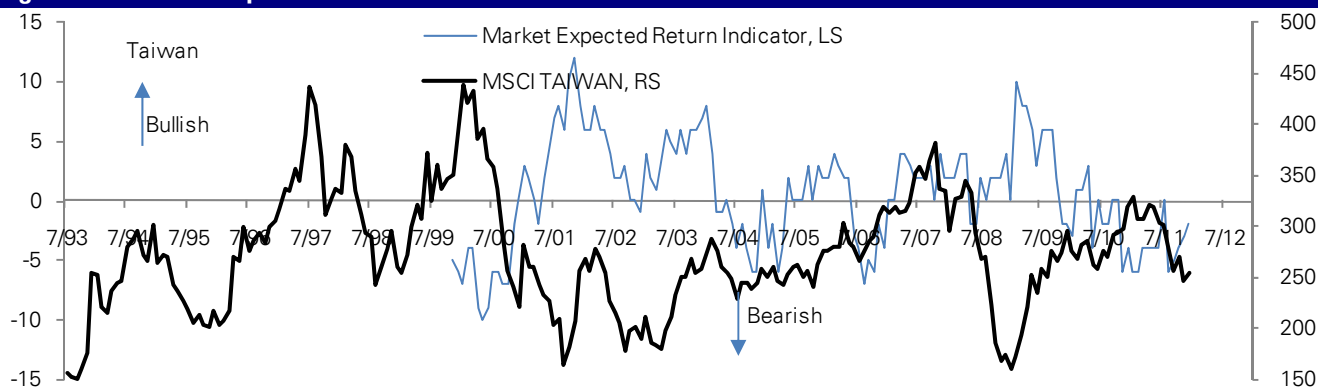
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 404: Market intelligence by sector

11Jan12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	US\$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (1)	3,546	0.6	-0.9	18.5	na	19.0	3.6	na	3.4	4.2	na	4.0	22.6	na	na	19.7	na	18.0
Materials (13)	52,936	3.5	2.5	11.8	15.5	12.3	1.7	1.5	1.6	7.4	5.2	6.5	69.8	-16.4	4.6	14.1	9.6	12.7
Capital Goods (5)	7,747	3.7	1.0	12.6	14.7	13.1	1.1	1.5	1.4	4.6	3.6	4.2	69.2	-14.1	11.8	8.7	11.6	12.8
Transportation (7)	4,848	11.5	5.5	na	57.8	21.1	1.1	1.1	1.1	6.8	1.5	1.5	na	-104.0	na	21.8	2.0	5.4
Autos (4)	6,472	4.0	3.9	22.4	19.2	17.1	1.5	1.4	1.4	1.0	2.0	2.1	110.8	17.0	12.0	6.7	7.4	7.9
Cons Durables (6)	5,317	5.5	3.2	16.6	15.1	14.3	3.4	3.1	2.8	4.2	4.4	4.8	8.3	9.8	5.2	20.8	20.3	19.4
Cons Svc (1)	399	-6.6	-4.6	36.8	23.9	19.6	11.6	9.9	8.2	na	2.7	3.1	na	53.9	21.9	31.6	41.2	41.9
Retailing (1)	1,106	-2.8	0.7	18.3	19.3	17.1	1.8	1.7	1.6	2.6	2.6	2.7	32.4	-5.0	13.2	9.9	9.1	9.5
Food/Staples Retail (1)	3,261	2.4	3.6	31.1	25.7	23.7	8.8	8.1	7.4	na	3.1	3.5	41.4	20.8	8.4	28.3	31.3	31.2
Food Beverage (1)	5,882	4.8	3.2	19.1	21.4	19.2	3.0	2.8	2.6	2.9	2.5	2.6	40.6	-10.5	11.2	15.5	13.2	13.6
Banks (11)	29,474	-0.2	-0.8	15.0	10.8	12.1	1.1	1.1	1.0	2.9	3.0	3.4	73.9	28.0	-6.1	7.1	9.6	8.4
Div Financials (4)	10,460	3.3	0.7	14.8	8.0	11.7	1.2	1.1	1.0	2.0	4.4	4.5	5.0	92.5	-35.5	7.9	14.3	8.9
Insurance (3)	10,086	2.8	-1.3	57.4	17.6	16.9	1.4	1.4	1.3	1.8	1.6	2.6	-41.6	207.2	44.5	2.3	7.8	10.6
Real Estate (3)	1,641	3.3	5.5	5.5	4.9	na	1.4	1.2	1.1	na	na	9.3	3.2	12.1	18.2	25.5	25.5	26.2
Tech Hard/Equip (36)	99,224	10.3	3.3	11.5	13.3	9.9	1.5	1.4	1.4	3.8	3.6	3.5	79.6	-61.4	145.0	14.7	13.4	15.9
Semis (22)	98,039	4.8	1.9	10.8	15.4	14.1	2.3	2.2	2.1	4.6	4.3	4.0	138.4	-42.3	22.5	21.5	14.6	15.0
Telecom (3)	21,307	-2.2	-1.2	19.7	17.6	16.2	2.6	2.2	2.6	5.5	5.5	5.6	-13.8	11.8	8.4	13.5	13.1	15.9
Taiwan (122)	361,744	4.9	1.9	12.4	14.6	12.5	1.7	1.7	1.6	4.6	3.9	4.2	88.6	-35.4	33.7	14.5	12.6	13.4

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 405: Market Expected Return Indicator for Taiwan

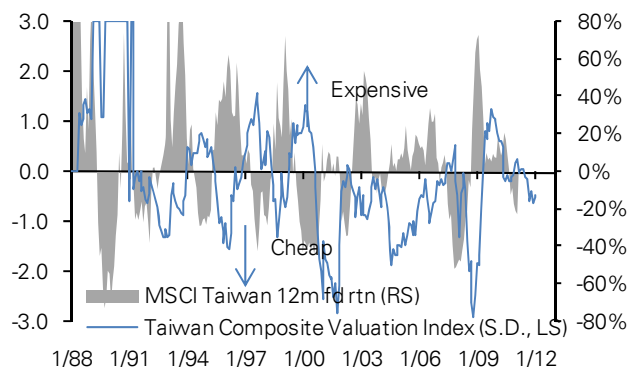


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Taiwan – valuation

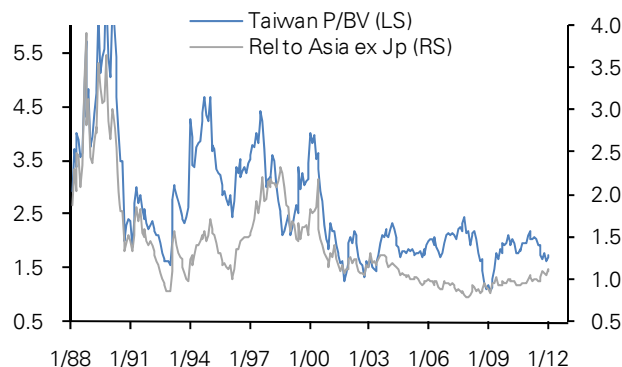
The market is fairly valued versus history. The de-rating compared with the region that began in 1989 has reversed somewhat in the past few years, with warmer relations across the straits. The EBIT margins keep falling in every cycle. We believe the rising asset turnover model is reaching its limits and feel that Taiwan should follow in Korea's footsteps and focus on brand power and increase EBITs.

Figure 406: Composite Valuation Index



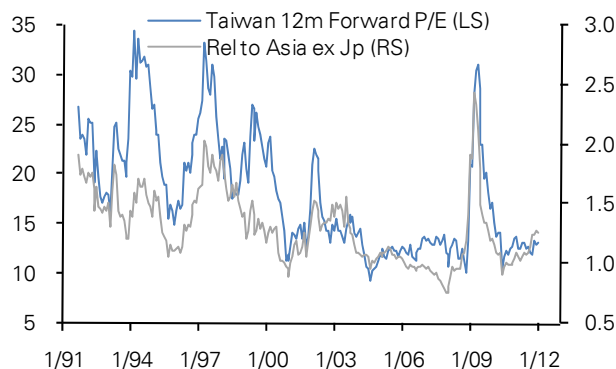
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over 5 years of history on a rolling basis

Figure 407: Price-to-book value



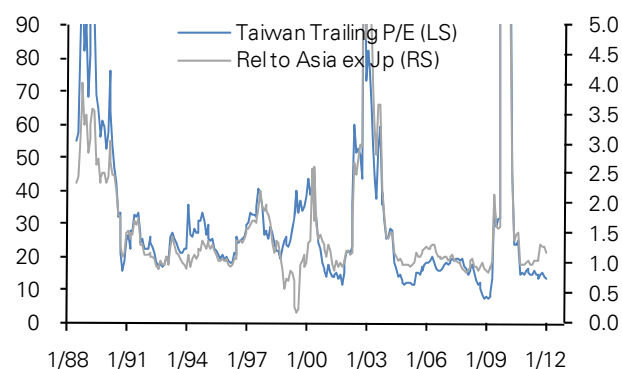
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 408: 12-month forward P/E



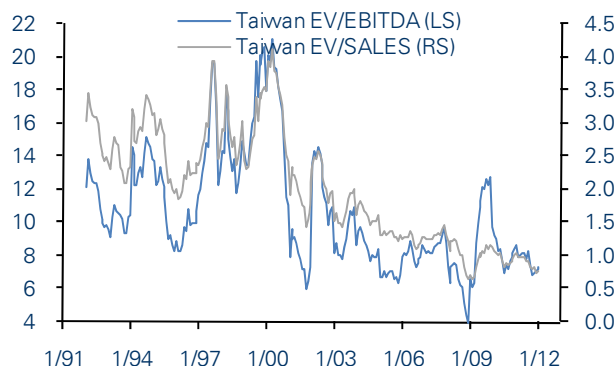
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 409: 12-month trailing P/E



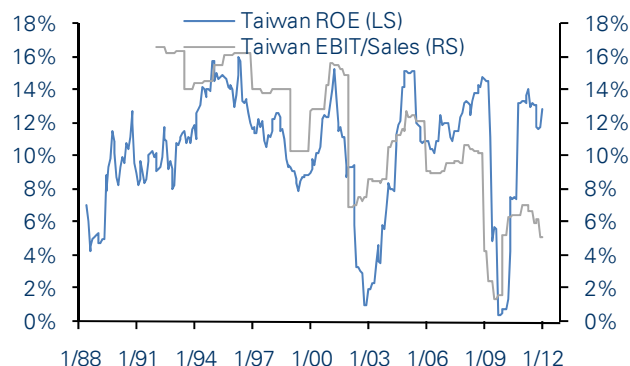
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 410: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 411: ROE and EBIT margin

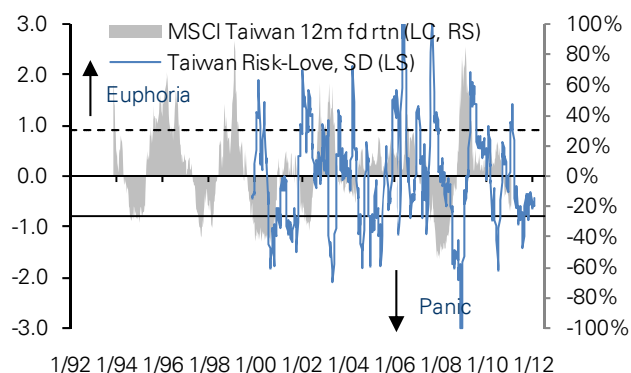


Source: Deutsche Bank, MSCI, FactSet

Taiwan – investor sentiment

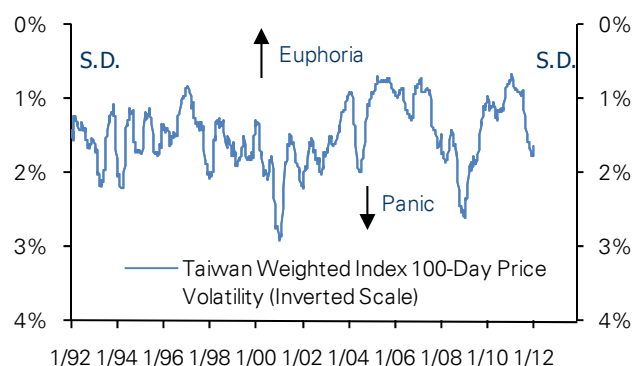
Sentiment is low to neutral.

Figure 412: Equity Risk-Love Indicator



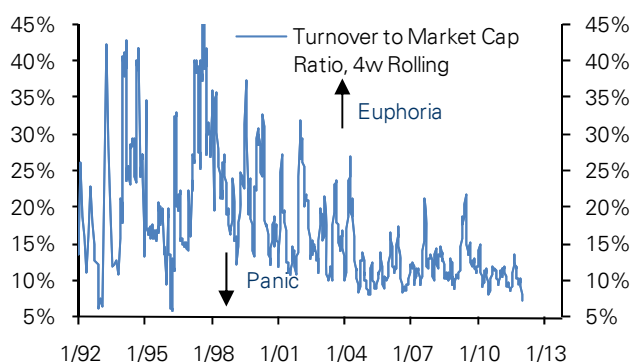
Source: Deutsche Bank, MSCI

Figure 413: Market volatility (inverted scale)



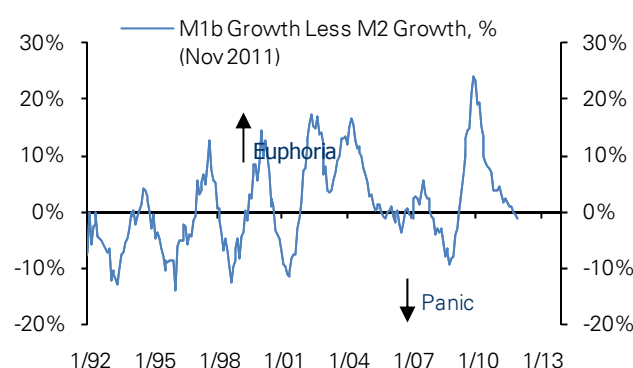
Source: Deutsche Bank, DataStream

Figure 414: Turnover-to-market cap ratio



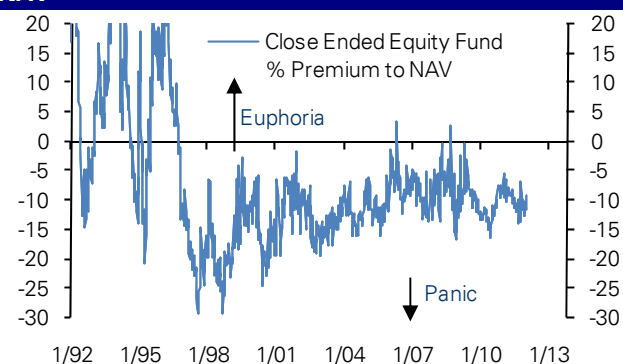
Source: Deutsche Bank, CEIC, DataStream

Figure 415: M1 less M2 growth



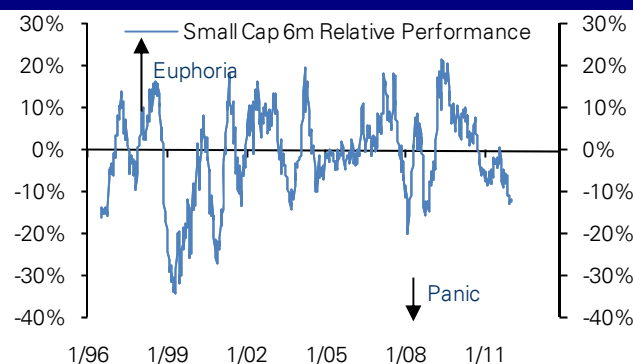
Source: Deutsche Bank, DataStream

Figure 416: Country equity fund percentage premium to NAV



Source: Deutsche Bank, Bloomberg Finance LP

Figure 417: Small-cap relative performance

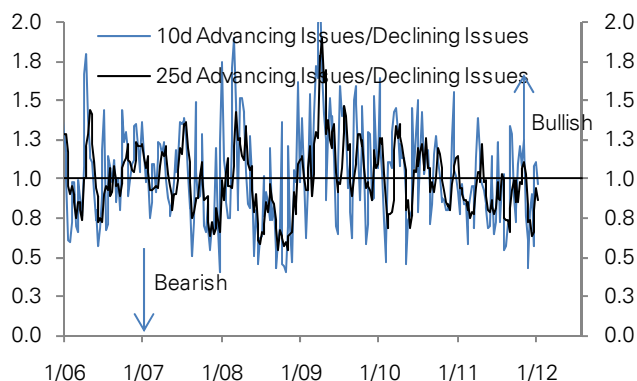


Source: Deutsche Bank, DataStream

Taiwan – technicals

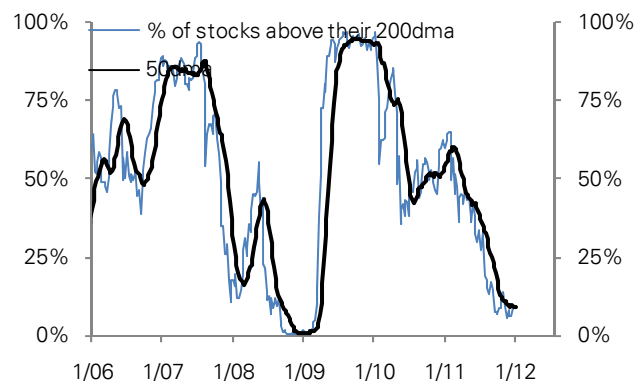
The technicals are completely washed out here – we are at late 2008 levels. Thus, we believe it is so bad it could look good.

Figure 418: Advance/decline ratio



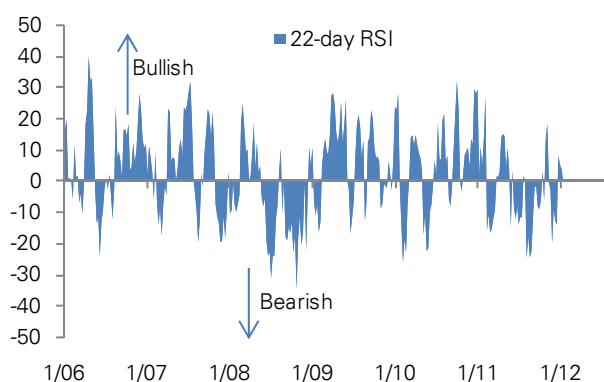
Source: Deutsche Bank, DataStream, FactSet

Figure 419: Percentage of stocks above their 200dma



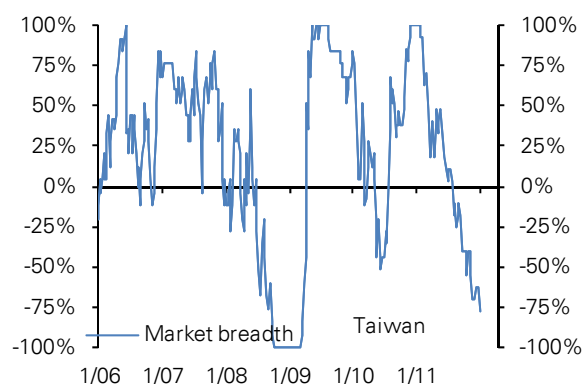
Source: Deutsche Bank, DataStream, FactSet

Figure 420: Relative Strength Index



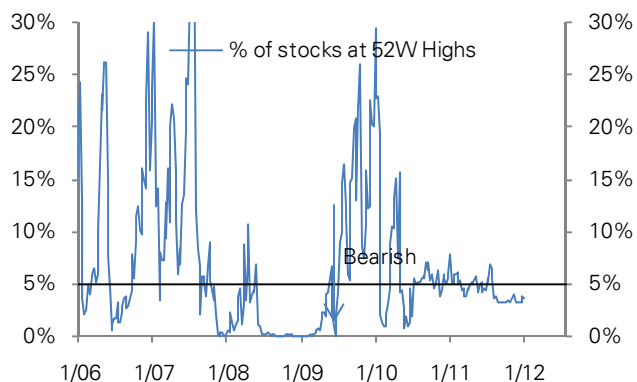
Source: Deutsche Bank, DataStream, FactSet

Figure 421: Market breadth



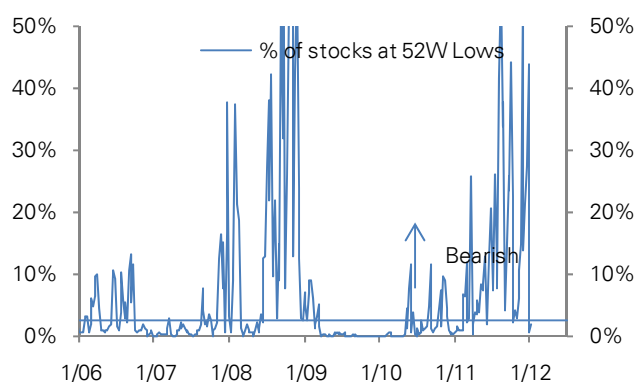
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 422: Percentage of stocks at 52-week Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 423: Percentage of stocks at 52-week Lows

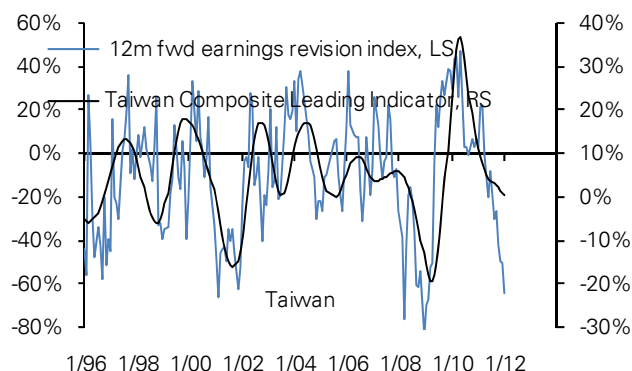


Source: Deutsche Bank, DataStream, FactSet

Taiwan – growth and earnings

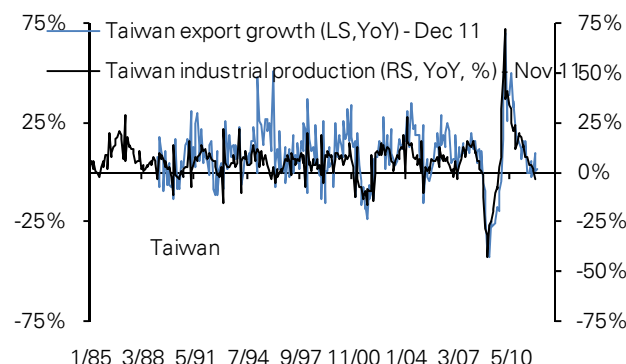
EPS revisions are as low as they can be. EPS growth is coming off contraction last year. We note analyst EPS growth forecasts in Taiwan have significant errors, given tremendous cyclicity. We think the EPS numbers look too high.

Figure 424: Leading economic indicators



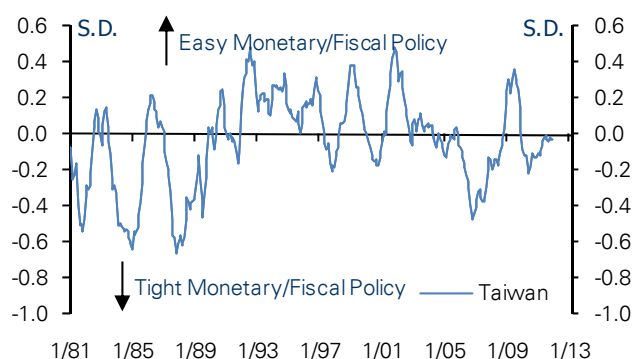
Source: Deutsche Bank, IBES, DataStream

Figure 425: Industrial production and export growth



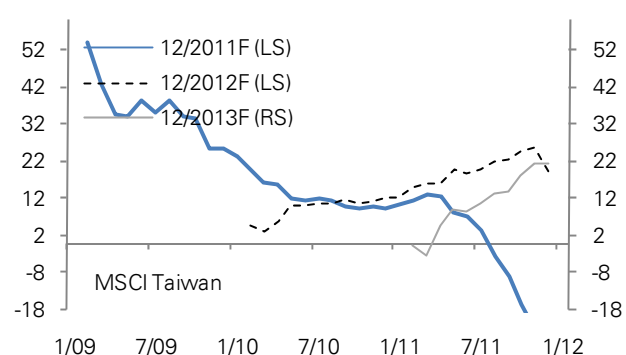
Source: Deutsche Bank, DataStream

Figure 426: Composite policy indicator



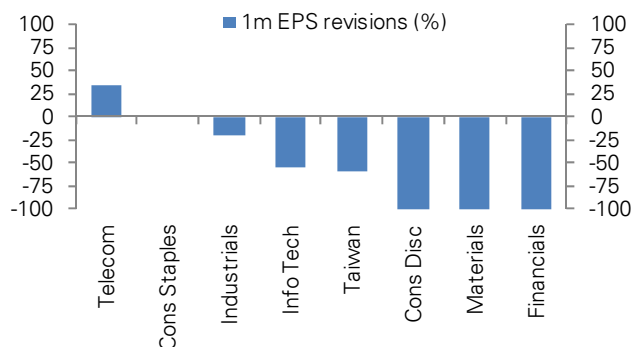
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 427: Earnings growth forecast (%)



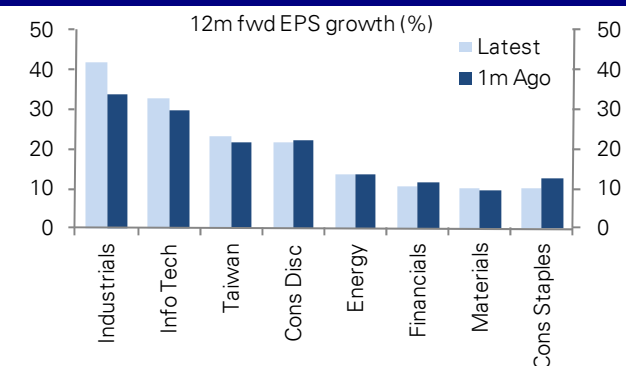
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 428: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 429: 12-month forward EPS growth forecast by sector

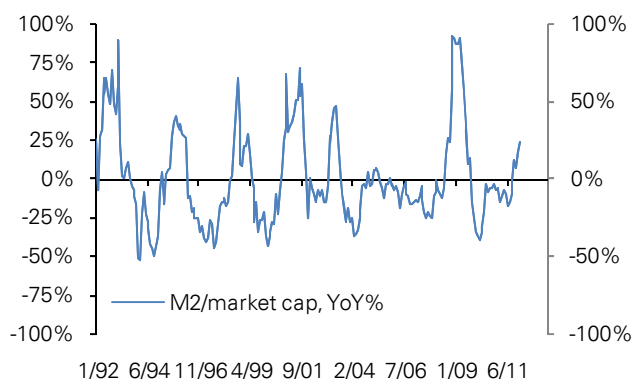


Source: Deutsche Bank, MSCI, I/B/E/S

Taiwan – liquidity

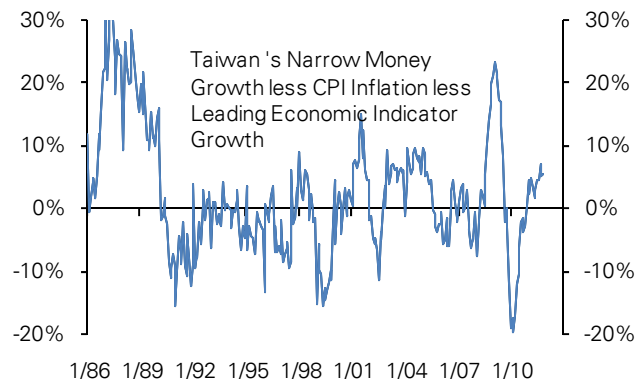
Free liquidity is rising. We note that the terms of trade are rising nicely – leading the stock market by nine months.

Figure 430: M2/market cap



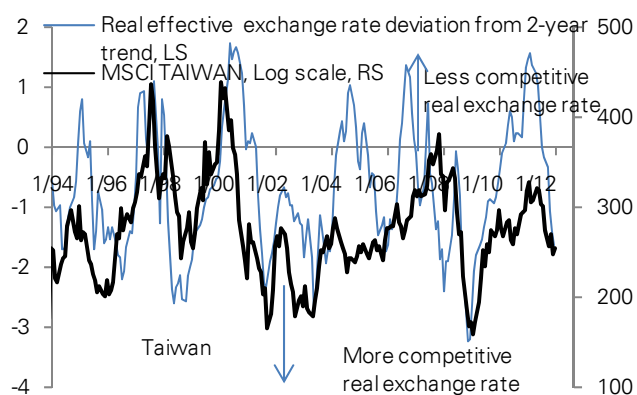
Source: Deutsche Bank, DataStream

Figure 431: Free liquidity



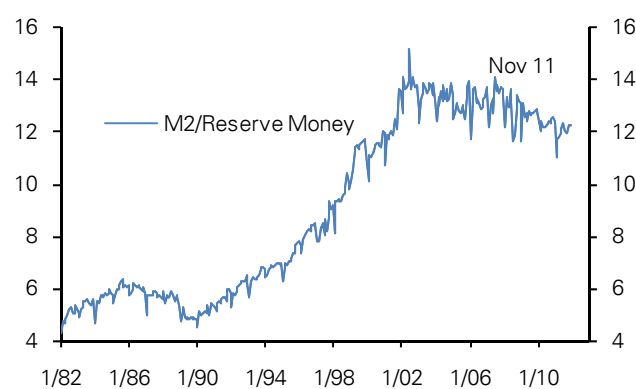
Source: Deutsche Bank, DataStream

Figure 432: Real exchange rate



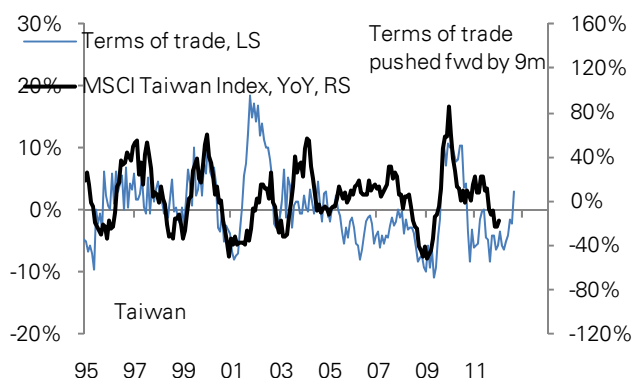
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 433: M2/base money



Source: Deutsche Bank, Central Bank of Republic of China, DataStream

Figure 434: Terms of trade



Source: Deutsche Bank, Bloomberg Finance LP

Figure 435: Yield curve

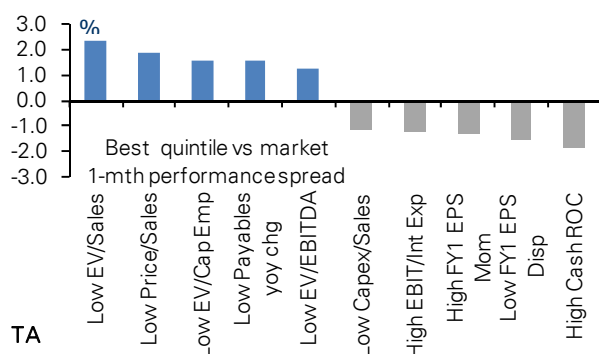


Source: Deutsche Bank, Bloomberg Finance LP

Taiwan – factor performance

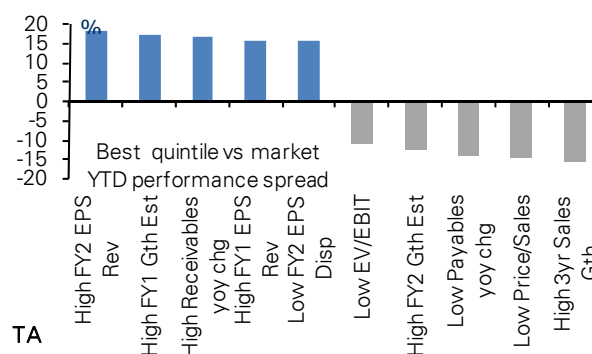
Last year's bear market saw only EPS and price momentum work. We believe this outperformance is unlikely to be repeated.

Figure 436: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 437: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 438: Factor performance

Taiwan																	
Dec 31, 11	Returns					Ann. Rtn.				Returns					Ann. Rtn.		
	YTD	1m	3m	6m	12m	5y	10y	15y		YTD	1m	3m	6m	12m	5y	10y	15y
Valuation									Profitability								
Low 12m Fd P/E	-9.0	0.9	1.7	-5.0	-9.0	5.5	3.0	4.7	High Cash ROC	-4.5	-1.9	-2.8	-1.8	-4.5	0.8	1.8	3.2
Low Trailing P/E	-4.5	0.5	0.5	-3.5	-4.5	5.7	6.1	4.7	High Cash ROC, yoy chg	-5.4	-1.1	-1.4	-4.7	-5.4	-1.0	-1.4	-1.7
Low P/Op Inc	-6.6	0.8	2.3	-7.4	-6.6	6.4	3.6	4.1	High ROE	-6.0	-0.3	-1.6	-0.2	-6.0	-2.7	-2.3	1.7
Low P/BV	-10.0	-0.1	-2.2	-6.1	-10.0	-0.2	3.2	2.9	High ROE, yoy chg	-6.6	-1.0	0.6	-2.8	-6.6	0.4	0.1	0.0
Low Price/Sales	-14.8	1.9	-1.1	-6.4	-14.8	1.6	4.5	0.8	Average	-5.6	-1.0	-1.3	-2.4	-5.6	-0.6	-0.5	0.8
Low P/FCF	-3.1	0.8	-1.1	-0.4	-3.1	0.0	0.8	2.3	Growth								
Low EV/EBIT	-10.8	0.5	1.1	-5.7	-10.8	5.7	2.1	1.2	High 3yr Sales Gth	-15.7	-0.1	-1.4	-6.3	-15.7	-6.6	-4.2	-3.3
Low EV/EBITDA	-7.2	1.3	0.8	-3.8	-7.2	6.3	4.7	2.6	High 5yr Sales Gth	-3.4	0.2	-0.7	-3.4	-3.4	-2.8	-4.5	-0.8
Low EV/Cap Emp	-7.9	1.6	1.6	-5.8	-7.9	3.8	3.8	5.1	High 3yr EPS Gth	-9.6	-0.9	-1.2	-3.2	-9.6	-1.9	-3.3	-1.6
Low EV/Sales	-4.5	2.3	4.1	1.2	-4.5	11.4	8.3	5.8	High 5yr EPS Gth	-1.4	-0.9	-1.8	-0.5	-1.4	0.6	-1.7	0.5
Low EV/Op CF	-9.4	0.9	0.6	-8.4	-9.4	6.3	4.6	3.1	High LT Gth Est	-3.6	-0.5	-1.5	-3.1	-3.6	-9.1	-3.1	-3.1
Low EV/FCF	-0.3	0.9	0.0	1.7	-0.3	1.8	-1.0	1.5	High FY1 Gth Est	17.0	-0.5	-0.5	6.4	17.0	0.0	0.8	-1.3
High Dividend Yield	12.6	0.5	1.7	3.0	12.6	13.6	12.0	10.4	High FY2 Gth Est	-12.7	0.1	-1.0	-10.3	-12.7	-4.6	-0.9	-0.9
Average	-5.8	1.0	0.8	-3.6	-5.8	5.2	4.3	3.8	Average	-4.2	-0.4	-1.1	-2.9	-4.2	-3.5	-2.4	-1.5
Price Momentum									Stability								
High 6m Price Mom	13.5	-0.5	-2.0	7.9	13.5	-1.5	0.8	1.4	Low EPS Vola	1.5	-0.8	-1.5	-1.8	1.5	1.4	1.2	2.4
High 9m Price Mom	9.4	-0.5	-2.1	4.3	9.4	-6.8	-1.4	0.8	Low Op Inc Vola	1.5	-0.3	0.1	5.1	1.5	-1.6	0.6	4.1
High 12m Price Mom	9.9	-0.6	-1.8	3.5	9.9	-6.4	-1.9	0.2	Low Book Value Vola	5.4	0.0	3.0	-0.6	5.4	6.8	5.8	1.4
High Price Rel Strg	10.3	0.2	0.0	7.9	10.3	-4.1	-0.2	0.9	Low Sales Vola	-8.2	0.3	-1.8	-1.1	-8.2	5.0	1.8	-0.4
High 3m chg in Price Mon	5.7	-1.2	-5.1	3.0	5.7	-3.9	2.2	1.1	Low EPS Est Vola	0.8	-0.6	2.4	3.5	0.8	4.7	0.5	1.0
High Price Up/Dn Days	12.5	0.0	0.9	6.8	12.5	-1.5	0.5	2.1	Average	0.2	-0.3	0.4	1.0	0.2	3.3	2.0	1.7
Average	10.2	-0.4	-1.7	5.6	10.2	-4.0	0.0	1.1	Risk								
Earnings Momentum									Low FY1 EPS Disp	6.7	-1.5	0.7	5.1	6.7	4.3	2.8	6.1
High FY1 EPS Mom	9.0	-1.3	2.9	10.6	9.0	1.1	2.8	1.8	Low FY2 EPS Disp	15.5	0.1	3.1	6.5	15.5	8.5	6.4	7.9
High FY2 EPS Mom	9.6	-1.1	-1.7	3.7	9.6	1.7	4.1	4.1	High EBIT/Int Exp	5.0	-1.3	-4.5	3.1	5.0	5.3	2.8	4.5
High 12m Fd EPS Mom	6.9	-0.8	-0.5	3.5	6.9	-0.1	4.0	5.5	Low Debt/Equity	8.7	0.6	0.7	5.1	8.7	-0.5	-1.3	1.0
High FY1 EPS Rev	15.5	-0.7	-3.7	2.3	15.5	3.5	5.6	2.8	High Altman Z Score	3.3	-1.0	-1.4	-3.1	3.3	-6.1	-2.1	-0.7
High FY2 EPS Rev	18.0	-0.6	-1.2	5.8	18.0	-0.1	4.8	4.1	High Market Cap	-3.8	0.2	-1.8	0.1	-3.8	1.9	2.7	3.4
Average	11.8	-0.9	-0.8	5.2	11.8	1.2	4.3	3.7	Average	5.9	-0.5	-0.5	2.8	5.9	2.2	1.9	3.7
Capex Deployment & Earnings Accruals									Consensus Ratings								
Low Capex/Depr	-1.3	-0.2	0.4	4.7	-1.3	-6.0	-3.8	-1.9	High Analyst Rec	8.8	0.9	0.0	3.8	8.8	2.8	2.1	5.9
Low Capex/Sales	9.0	-1.2	2.3	4.8	9.0	3.0	1.2	1.8	High Analyst Rec 1m chg	2.2	0.6	1.7	4.2	2.2	-2.4	-1.1	1.1
Low Capex/FA	7.5	-0.2	2.9	3.9	7.5	1.2	-1.6	-0.1	Average	5.5	0.8	0.8	4.0	5.5	0.2	0.5	3.5
High Receivables yoy chg	16.8	-0.3	-0.3	10.2	16.8	8.2	3.3	3.4									
Low Inventory yoy chg	2.3	0.5	-0.8	-1.8	2.3	-8.4	-5.0	0.3									
Low Payables yoy chg	-14.1	1.6	1.6	-2.5	-14.1	-11.4	-8.1	-4.3									
Average	3.4	0.1	1.0	3.2	3.4	-2.2	-2.3	-0.1									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

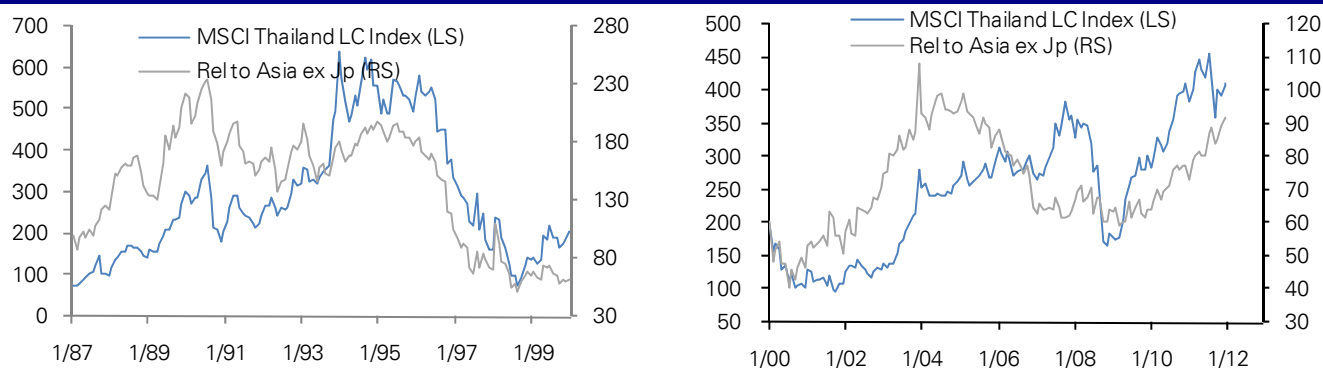
Thailand strategy

1. **Events/data/risks to watch:** The past two months' fall in Thailand's Manufacturing Production Index (MPI) of 36% YoY in October and 49% YoY in November suggest that government and Street estimates for low-to-mid single-digit GDP contraction in 4Q2011 remain too optimistic. With the manufacturing sector accounting for 41% of Thailand's GDP, an average YoY MPI contraction for 4Q on the order of -40% would imply a full 16 percentage point negative contribution to 4Q growth. With service and agriculture sectors also weakening during the quarter as a result of the floods and collapse in rubber prices (Thailand's No.1 export crop), offsetting positive contributions to GDP growth will likely be lacking in the 4Q national accounts.
2. **Funds flows:** The absence of renewed US Fed quantitative easing measures has coincided with a precipitous drop-off in bond-market inflows which had abnormally inflated the capital account since mid-2010. Bond market average monthly net foreign buying the past five months August through December has fallen to Bt13bn, down from Bt88bn per month for 7M11 and Bt46bn per month for 2H10. Improving traction of US economic recovery now limits the prospect for repeat doses of quantitative easing and resulted in considerable money inflows in 2012. With farm sector export receipts also having weakened, Thailand's overall balance of payments has now registered a deficit in six of the past seven months at an annualized run rate of 4.4% of GDP, a stark reversal of heady surpluses in excess of 9% of GDP in 2009, 2010 and 4M11. A key drag on the SET, the BOP deficit since May has been squared by a drawdown of Bank of Thailand FX reserves which track SET performance at a correlation coefficient of 0.87x.
3. **Company visits / results:** Thai banks will report 4Q11 earnings results this week, ahead of the January 21 reporting deadline. We forecast aggregate net profit for our banks coverage universe at Bt24.8bn for the quarter, down 26% QoQ, reflecting moderate margin compression, seasonal elevation of personnel and operating expenses, one-off expenses related to the floods, deferred tax charges ahead of the cut in corporate tax rate effective 2012, and slower fee income growth. Excluding the one-off tax items, we forecast 4Q11 aggregate net profit of Bt26.7bn, up 10% YoY and down 20% QoQ. Recent discussions with banks signal that loan growth may top our conservative forecast of 0.3% QoQ for the sector with continued corporate loan demand at SCB and BBL and rising government loans at KTB the key strength areas.
4. **Policy and economics:** The government has scheduled to unveil its integrated water management and flood prevention master plan by end-January. Thus far, the cabinet has approved a Bt350bn budget for water management project spending in addition to the Bt20.1bn emergency relief spending bill approved December 12, for a combined 3.7% of GDP. Key will be how quickly the investment can be deployed. Thailand's track record in this regard has been poor, with government investment to GDP having fallen from high single digits to low single digits over the past 15 years. Notwithstanding public reassurances of commitment to Thailand from major auto and electronics OEMs, the government's ability to design, finance, articulate and execute a credible flood prevention plan will clearly affect the extent to which FDI investors diversify away from Thailand starting in 2012. Annual FDI inflows have averaged Bt300bn, 3% of GDP, since 2005.
5. **Top stock ideas:** PTT Global Chemical, Thai Oil, Siam Commercial Bank, Advance Info Services, Minor International, Sino-Thai Engineering, Amata Corporation, and Hemaraj Land and Development.

Derek Bloomfield, CFA

Thailand – market intelligence

Figure 439: Equity market performance



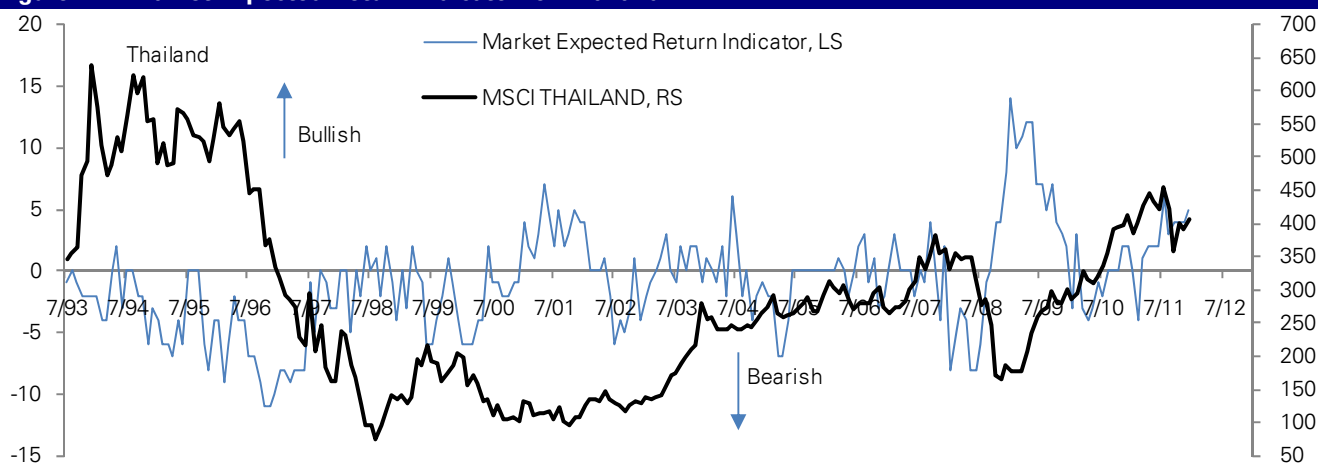
Source: Deutsche Bank, MSCI.
Market relative = relative to MSCI AC Asia ex Japan.

Figure 440: Market intelligence by sector

11Jan12 Sector (#Co)	Mcap U\$m	LC Perf 1m YTD	P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
			CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (5)	21,078	2.5 4.7	12.5	10.0	9.2	2.2	1.9	1.6	3.3	3.6	3.9	28.8	25.4	8.6	17.4	18.6	17.8
Materials (3)	5,738	0.2 4.5	16.8	10.4	9.5	4.3	1.9	1.6	2.1	3.7	3.7	32.6	49.8	8.6	25.8	17.9	17.2
Media (1)	1,226	7.5 -3.9	26.2	23.9	20.3	11.4	11.0	10.5	3.8	4.0	4.7	25.0	9.6	17.9	43.5	46.2	51.6
Food/Staples Retail (1)	3,779	6.3 5.3	36.8	30.1	24.9	13.8	12.1	10.4	2.6	2.6	3.2	33.3	22.2	21.0	37.4	40.1	41.8
Food Beverage (1)	3,340	7.6 6.8	17.3	15.5	13.2	4.6	3.7	3.0	2.8	3.5	4.0	34.2	11.7	17.3	26.4	24.0	22.8
Banks (7)	20,715	-4.1 -5.2	13.6	10.1	9.1	1.7	1.6	1.4	2.8	3.5	4.0	22.1	34.4	10.4	12.8	15.5	15.3
Telecom (1)	4,382	10.2 11.0	22.5	18.3	16.0	11.3	11.5	10.8	8.3	5.4	6.1	20.3	23.0	14.6	50.0	62.9	67.5
Utilities (1)	915	2.7 -0.4	14.5	20.0	12.2	2.5	2.4	2.1	3.4	3.5	4.4	36.7	-27.4	64.5	16.9	11.8	17.6
Thailand (21)	61,606	0.8 1.4	14.6	11.8	10.5	2.5	2.1	1.9	3.5	3.7	4.1	25.4	22.9	12.7	17.0	18.1	18.0

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 441: Market Expected Return Indicator for Thailand

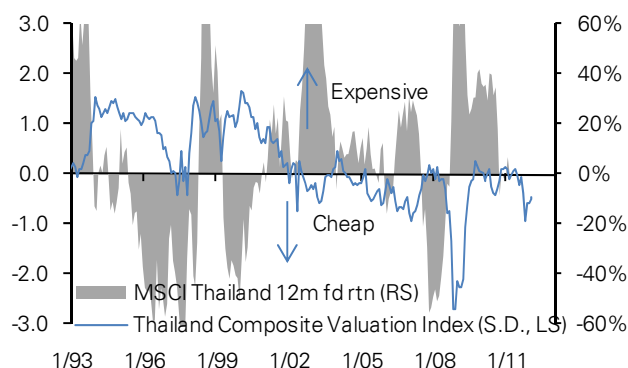


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Thailand – valuation

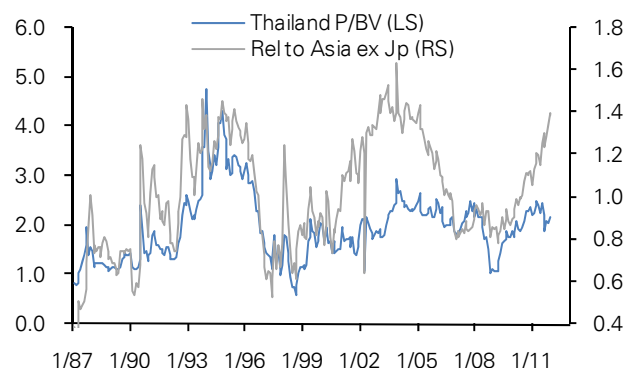
The market is moderately undervalued versus history. We think the near-record highs in relative valuations versus the region are likely overdone – EBIT margins have been falling for five years now. ROEs are held up by rising asset turns.

Figure 442: Composite Valuation Index



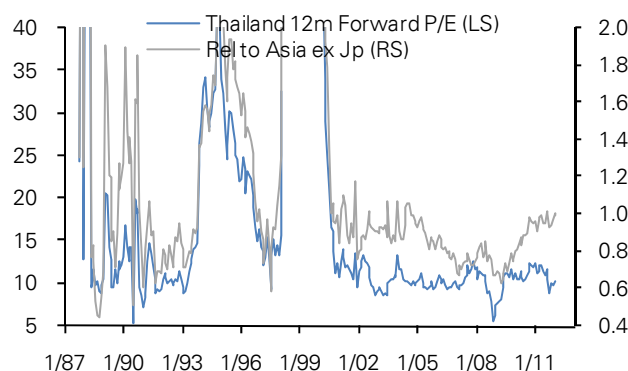
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 443: Price-to-book value



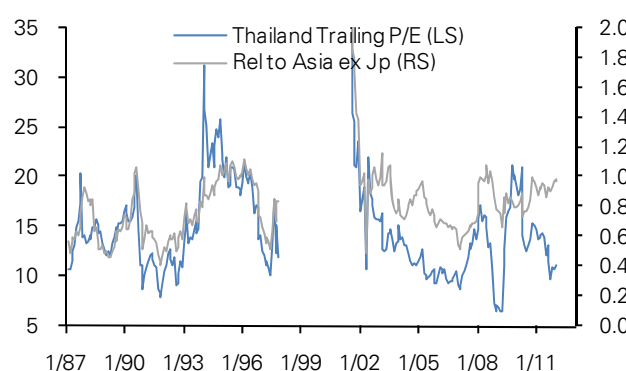
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 444: 12-month forward P/E



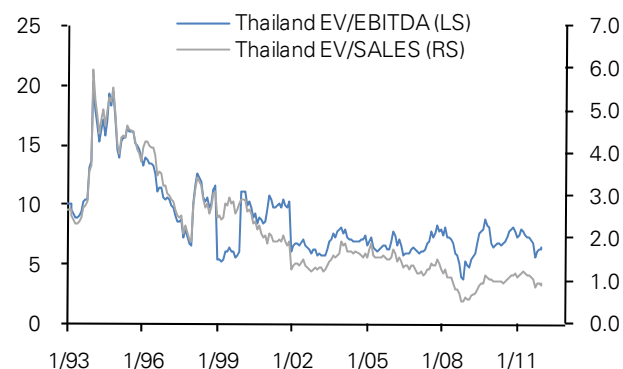
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 445: 12-month trailing P/E



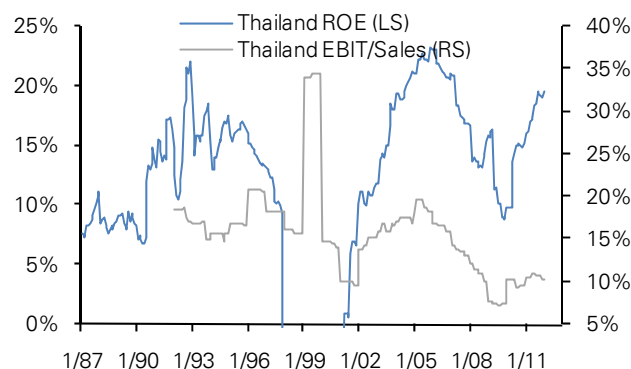
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 446: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 447: ROE and EBIT margin

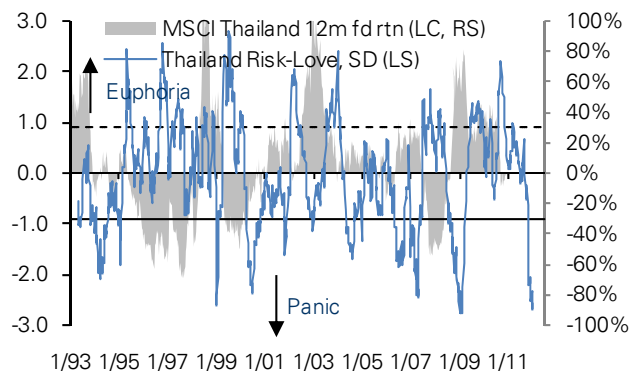


Source: Deutsche Bank, MSCI, FactSet

Thailand – investor sentiment

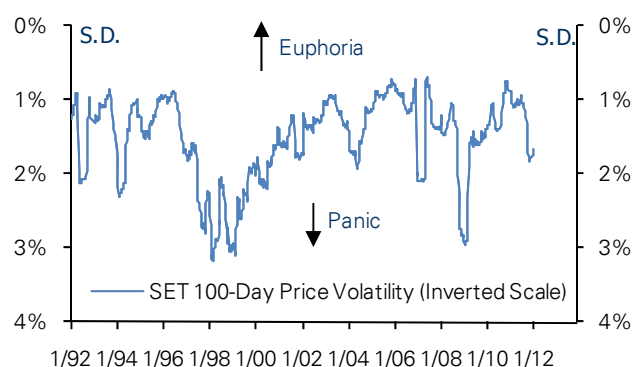
Sentiment is oversold, a contrarian positive view, we believe.

Figure 448: Equity Risk-Love Indicator



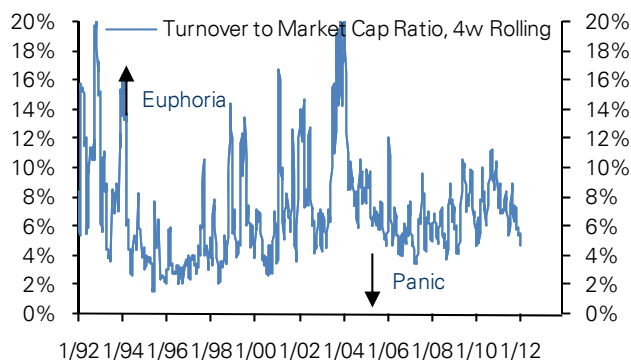
Source: Deutsche Bank, MSCI

Figure 449: Market volatility (inverted scale)



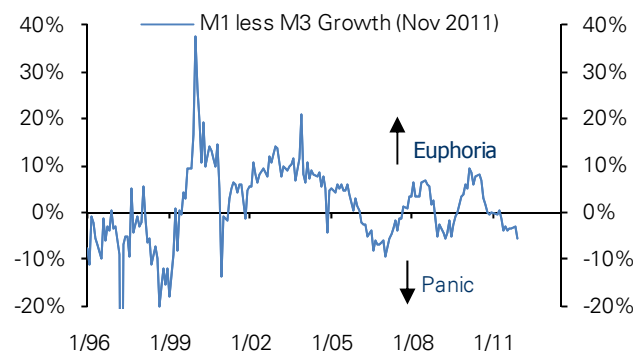
Source: Deutsche Bank, DataStream

Figure 450: Turnover-to-market cap ratio



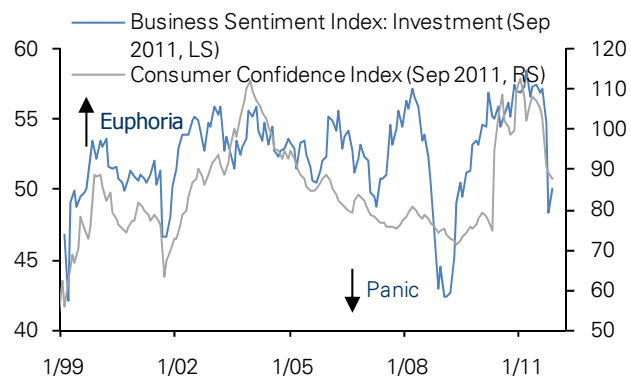
Source: Deutsche Bank, CEIC, DataStream

Figure 451: M1 less M3 growth



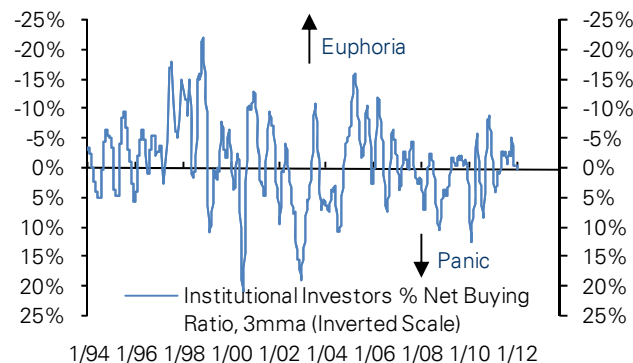
Source: Deutsche Bank, DataStream

Figure 452: Consumer and business survey



Source: Deutsche Bank, CEIC

Figure 453: Institutional investors net buying

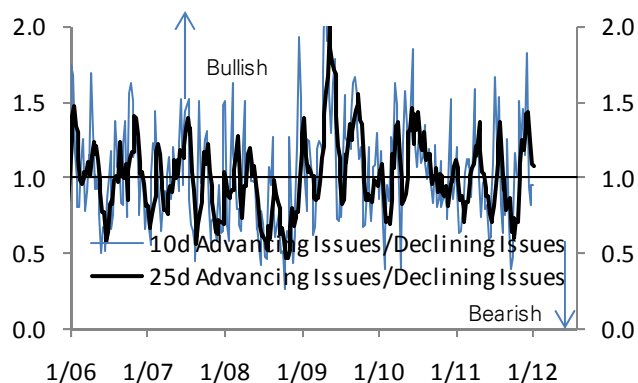


Source: Deutsche Bank, CEIC

Thailand – technicals

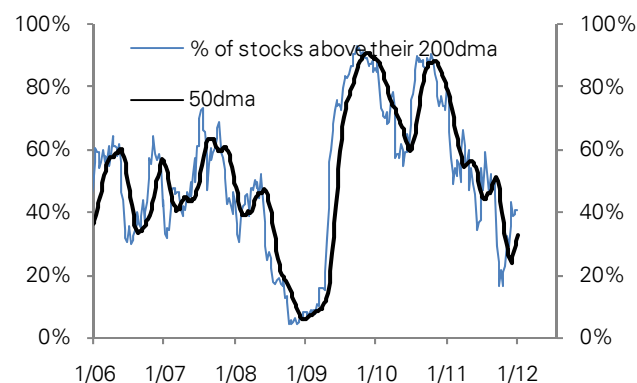
Technicals are neutral.

Figure 454: Advance/decline ratio



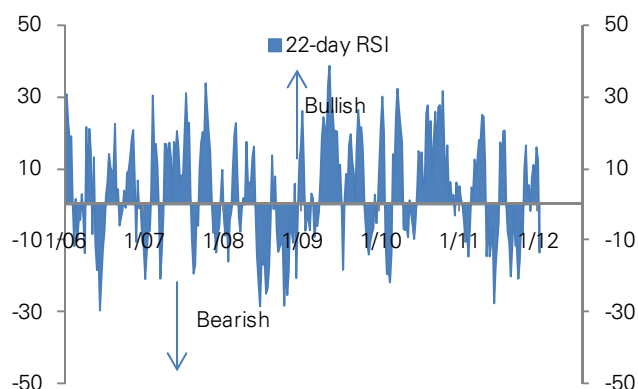
Source: Deutsche Bank, DataStream, FactSet

Figure 455: Percentage of stocks above their 200dma



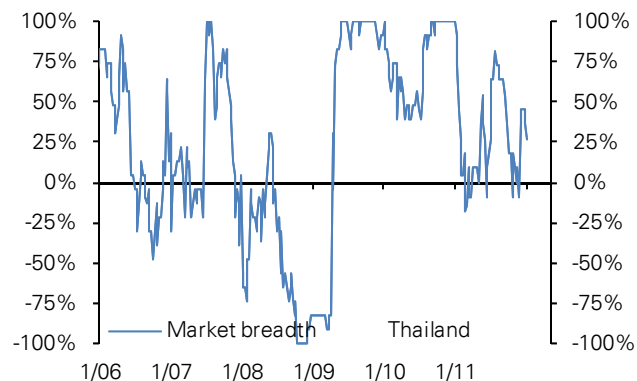
Source: Deutsche Bank, DataStream, FactSet

Figure 456: Relative Strength Index



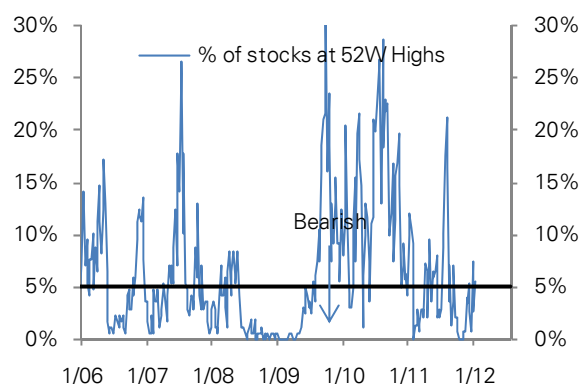
Source: Deutsche Bank, DataStream, FactSet

Figure 457: Market breadth



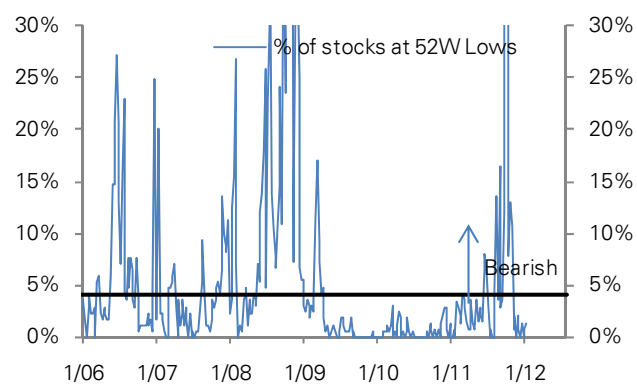
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 458: Percentage of stocks at 52-week Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 459: Percentage of stocks at 52-week Lows

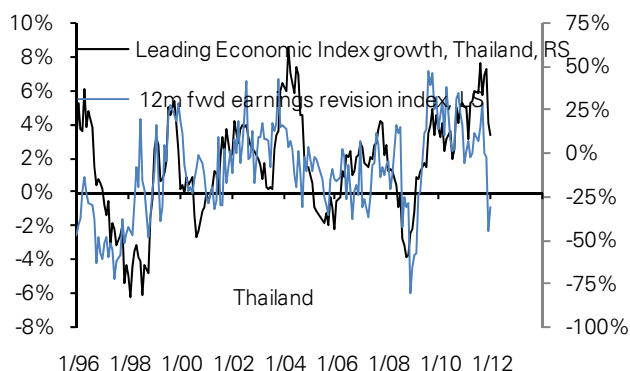


Source: Deutsche Bank, DataStream, FactSet

Thailand – growth and earnings

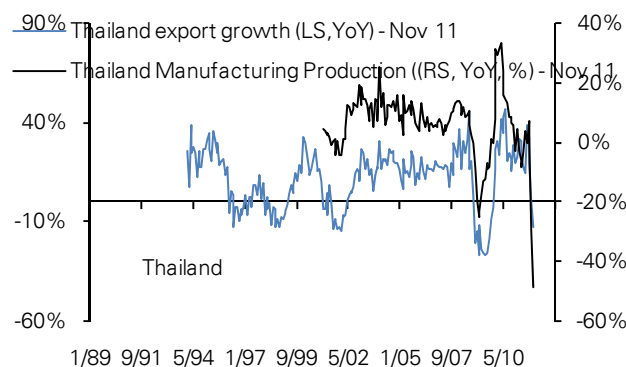
Leading economic indicators are resilient, policy settings are easy, but analyst revisions and EPS growth estimates have fallen sharply. We believe there is less EPS growth downside risk here than other markets.

Figure 460: Leading economic indicators



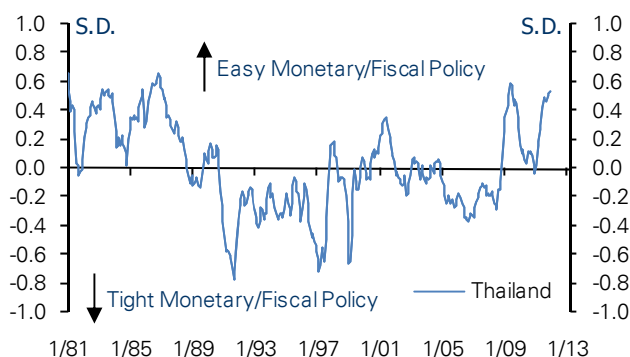
Source: Deutsche Bank, IBES, DataStream

Figure 461: Industrial production and export growth



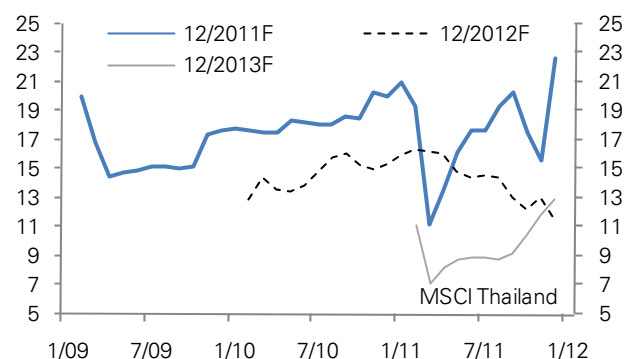
Source: Deutsche Bank, DataStream

Figure 462: Composite policy indicator



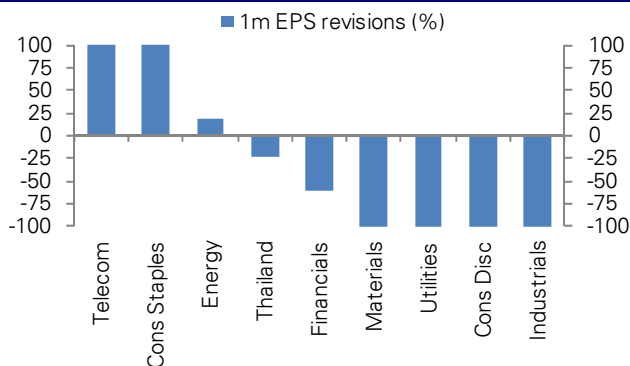
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate YoY growth, real broad money (M2) YoY growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 463: Earnings growth forecast (%)



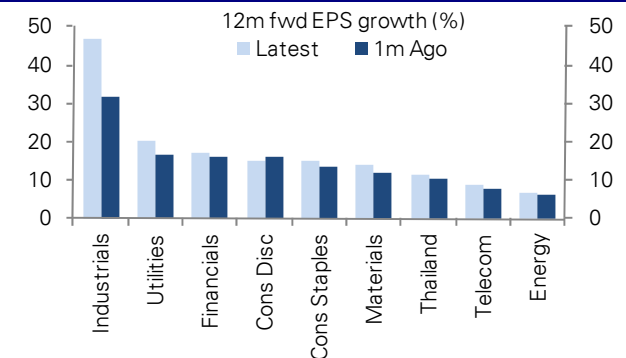
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 464: 12-month forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 465: 12-month forward EPS growth forecast by sector

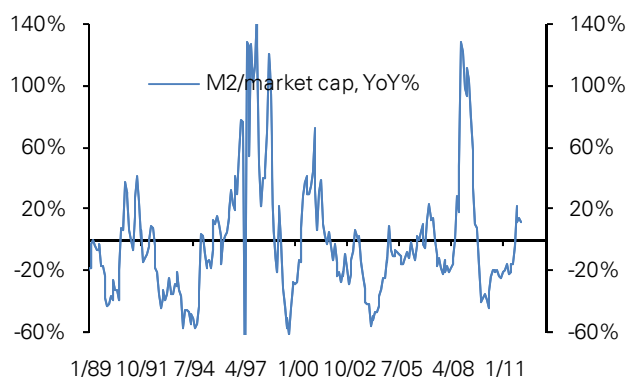


Source: Deutsche Bank, MSCI, I/B/E/S

Thailand – liquidity

The flat yield curve suggests weaker growth than other LEIs. We would like to see a turn in the terms of trade – a good market-leading indicator.

Figure 466: M2/market cap



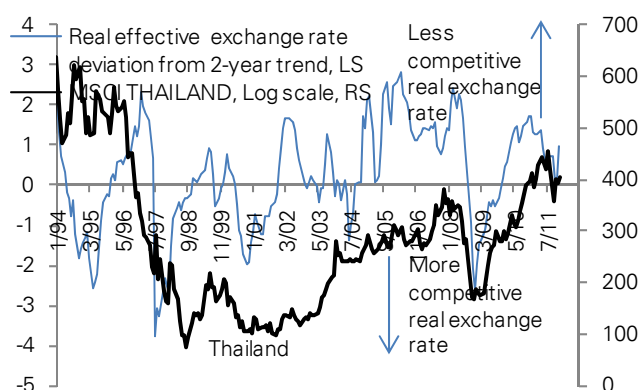
Source: Deutsche Bank, DataStream

Figure 467: Free liquidity



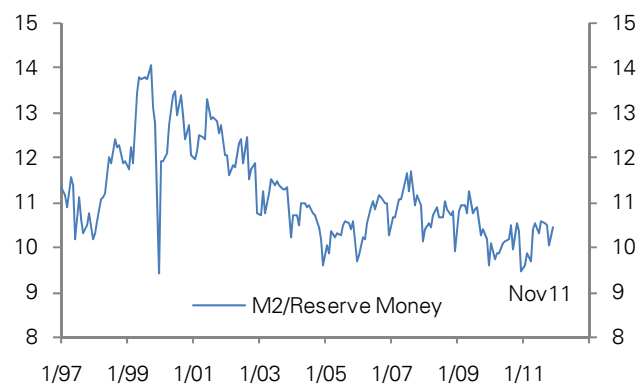
Source: Deutsche Bank, DataStream

Figure 468: Real exchange rate



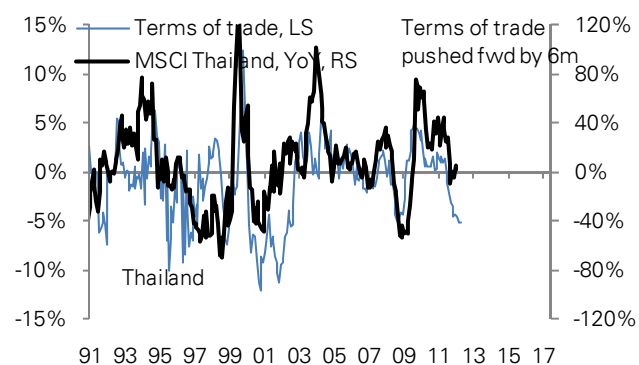
Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Figure 469: M2/base money



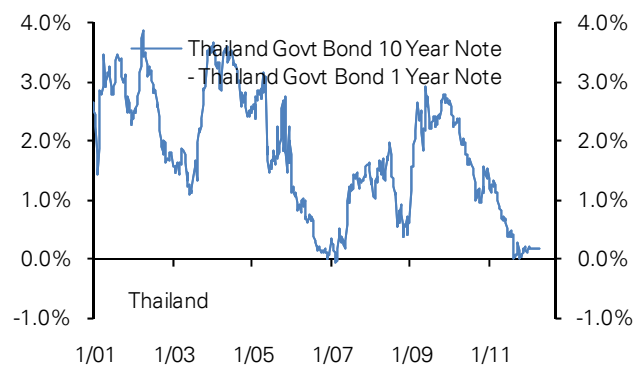
Source: Deutsche Bank, DataStream

Figure 470: Terms of trade



Source: Deutsche Bank, Bloomberg Finance LP

Figure 471: Yield curve

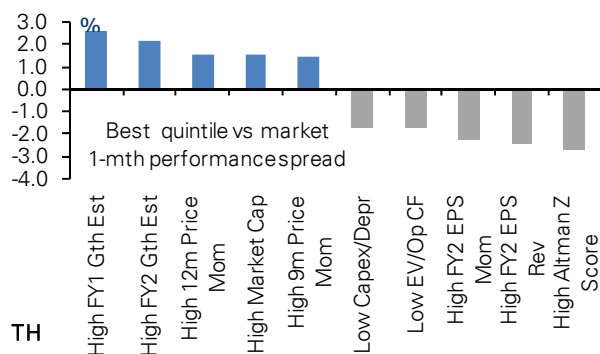


Source: Deutsche Bank, Bloomberg Finance LP

Thailand – factor performance

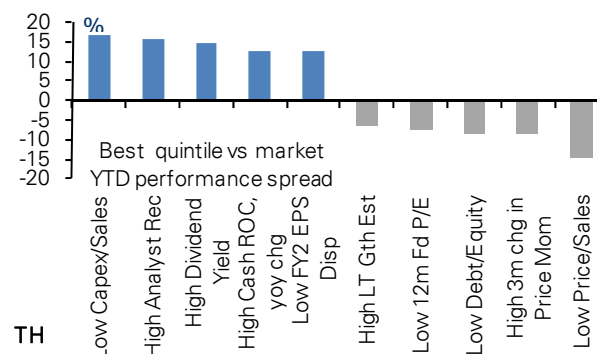
Profitability seemed to work last year. We recommend following analysts covering Thai stocks – we believe their alpha generation is good.

Figure 472: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 473: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 474: Factor performance

Thailand Dec 31, 11	Returns								Returns								
	YTD	1m	3m	6m	12m	5y	10y	15y	YTD	1m	3m	6m	12m	5y	10y	15y	
Valuation									Profitability								
Low 12m Fd P/E	-7.5	-0.2	2.8	-4.1	-7.5	5.6	6.4	5.9	High Cash ROC	5.8	-0.5	-9.0	1.8	5.8	-3.6	-3.1	-0.5
Low Trailing P/E	-5.4	0.1	6.1	-2.0	-5.4	3.8	7.8	9.0	High Cash ROC, yoy chg	12.5	0.1	5.2	4.2	12.5	8.7	5.0	4.9
Low P/Op Inc	-3.8	-1.1	1.1	-2.3	-3.8	1.1	5.3	6.6	High ROE	9.2	-0.1	4.2	7.2	9.2	2.8	6.5	5.1
Low P/BV	-0.4	0.8	2.7	0.0	-0.4	0.7	2.4	4.1	High ROE, yoy chg	-0.1	-0.2	2.2	-1.7	-0.1	7.1	6.2	8.4
Low Price/Sales	-14.6	0.1	4.4	-9.5	-14.6	-2.8	-2.1	0.4	Average	6.8	-0.2	0.7	2.9	6.8	3.7	3.6	4.5
Low P/FCF	0.8	0.0	-2.2	4.3	0.8	7.8	9.8	7.0	Growth								
Low EV/EBIT	-0.1	-0.4	2.2	0.4	-0.1	0.6	7.0	4.6	High 3yr Sales Gth	2.6	-0.7	0.0	1.5	2.6	6.1	0.1	0.2
Low EV/EBITDA	3.9	-0.2	1.9	1.9	3.9	6.2	6.3	9.6	High 5yr Sales Gth	0.3	-0.9	-0.4	-4.9	0.3	-1.0	-1.4	-1.4
Low EV/Cap Emp	-3.4	0.4	-1.3	-1.9	-3.4	-4.3	-1.9	-0.7	High 3yr EPS Gth	-1.3	0.9	2.5	-1.3	-1.3	9.1	0.0	1.4
Low EV/Sales	-4.6	0.1	1.4	-7.2	-4.6	3.2	5.5	6.6	High 5yr EPS Gth	8.4	1.0	4.3	8.0	8.4	8.6	7.5	3.5
Low EV/Op CF	3.1	-1.7	-3.3	1.7	3.1	5.5	7.0	9.4	High LT Gth Est	-6.6	-0.8	2.2	-3.1	-6.6	2.4	4.0	5.5
Low EV/FCF	4.8	-1.2	-3.1	6.0	4.8	8.2	5.1	5.6	High FY1 Gth Est	-4.8	2.6	2.2	-0.3	-4.8	4.3	5.3	10.9
High Dividend Yield	14.5	-0.5	0.9	4.6	14.5	8.2	6.6	7.3	High FY2 Gth Est	-5.2	2.1	1.8	-2.9	-5.2	-0.7	-0.2	-0.6
Average	-1.0	-0.3	1.0	-0.6	-1.0	3.4	5.0	5.8	Average	-1.0	0.6	1.8	-0.4	-1.0	4.1	2.2	2.8
Price Momentum									Stability								
High 6m Price Mom	0.2	-0.7	-7.4	0.9	0.2	1.0	1.3	1.0	Low EPS Vola	-1.7	-0.9	-8.9	-3.1	-1.7	-3.4	-2.1	1.9
High 9m Price Mom	-6.5	1.4	-4.2	4.1	-6.5	-3.3	3.3	5.2	Low Op Inc Vola	-1.7	1.1	-3.6	1.0	-1.7	-1.2	4.6	3.5
High 12m Price Mom	2.0	1.5	1.8	7.4	2.0	0.7	3.2	3.1	Low Book Value Vola	-4.8	-0.5	-4.8	-1.6	-4.8	8.7	4.6	4.6
High Price Rel Strg	-0.2	0.4	-3.0	6.4	-0.2	1.6	4.4	6.3	Low Sales Vola	-0.9	-1.7	-4.5	2.2	-0.9	-4.6	-0.8	4.1
High 3m chg in Price Mon	-8.6	0.4	-5.7	2.3	-8.6	0.3	0.5	-0.3	Low EPS Est Vola	0.5	-0.7	-1.5	1.1	0.5	-0.2	0.9	2.2
High Price Up/Dn Days	3.8	0.0	-5.1	3.7	3.8	-1.3	2.2	-0.3	Average	-1.7	-0.5	-4.7	-0.1	-1.7	-0.1	1.4	3.3
Average	-1.6	0.5	-4.0	4.1	-1.6	-0.2	2.5	2.5	Risk								
Earnings Momentum									Low FY1 EPS Disp	-4.8	-0.9	-4.0	-9.6	-4.8	-5.9	-1.3	-2.4
High FY1 EPS Mom	5.6	-0.1	1.7	2.7	5.6	3.3	3.4	4.1	Low FY2 EPS Disp	12.5	-0.7	-0.4	3.0	12.5	4.1	3.9	9.3
High FY2 EPS Mom	8.3	-2.3	-4.8	1.9	8.3	14.6	9.9	10.2	High EBIT/Int Exp	9.2	-1.2	-8.0	-1.1	9.2	3.9	0.6	3.6
High 12m Fd EPS Mom	3.3	-1.0	-1.7	1.3	3.3	3.9	4.7	4.8	Low Debt/Equity	-8.3	-0.7	-4.1	-5.6	-8.3	-4.5	-9.6	-2.9
High FY1 EPS Rev	9.3	-0.1	-3.0	1.2	9.3	0.5	3.9	7.4	High Altman Z Score	3.8	-2.7	-9.1	4.3	3.8	-2.1	-8.3	-8.3
High FY2 EPS Rev	6.5	-2.5	-6.8	0.3	6.5	1.0	1.6	2.8	High Market Cap	10.3	1.5	9.7	5.8	10.3	1.0	4.0	5.3
Average	6.6	-1.2	-2.9	1.5	6.6	4.6	4.7	5.9	Average	3.8	-0.8	-2.6	-0.5	3.8	-0.6	-1.8	0.8
Capex Deployment & Earnings Accruals									Consensus Ratings								
Low Capex/Depr	8.9	-1.7	-4.5	3.0	8.9	6.0	4.1	2.7	High Analyst Rec	15.6	-1.5	-2.7	6.1	15.6	7.9	5.6	10.0
Low Capex/Sales	16.5	-0.6	2.6	1.7	16.5	2.8	0.9	0.7	High Analyst Rec 1m chg	10.0	0.5	-2.5	-0.7	10.0	5.6	4.4	1.4
Low Capex/FA	1.9	-0.1	4.2	-3.6	1.9	-3.5	-3.9	-4.8	Average	12.8	-0.5	-2.6	2.7	12.8	6.7	5.0	5.7
High Receivables yoy chg	-2.3	0.4	0.8	-1.6	-2.3	9.2	5.4	-5.1									
Low Inventory yoy chg	4.3	-0.5	-7.5	1.4	4.3	3.6	4.8	-0.4									
Low Payables yoy chg	5.9	-1.0	-3.3	-1.8	5.9	16.1	13.1	11.8									
Average	5.9	-0.6	-1.3	-0.1	5.9	5.7	4.1	0.8									

Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Apr 2011. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description of factors please see Appendix A.

Appendix A

In the stock ranking model, optimized weights based on back-tests are given to various factors (see figure below) to form an aggregate score for each stock. Scores are given on a sector- and country-relative basis, and the weight matrix used in each industry group varies depending on back-test results.

Figure 475: Definition of factors

Valuation Factors

12m Fd P/E: price to 12-month forward EPS
 Trailing P/E: price to 12m trailing EPS
 Dividend Yield: 12m trailing dividend yield
 P/Op Inc: Price to operating income
 P/BV: Price to book value
 Price/Sales: Price to sales
 P/FCF: Price to free cash flow
 EV/EBIT: Enterprise value to EBIT
 EV/EBITDA: Enterprise value to EBITDA
 EV/Cap Emp: Enterprise value to capital employed
 EV/Sales: Enterprise value to sales
 EV/Op CF: Enterprise value to operating cash flow
 EV/FCF: Enterprise value to free cash flow

Price Momentum Factors

6m Price Mom: 6-month price momentum
 9m Price Mom: 9-month price momentum
 12m Price Mom: 12-month price momentum
 Price Rel Strength: 65-day to 260-day moving average in stock price
 Price Mom, 3mΔ: 3-month change in 12-month price momentum
 Price ↑ / ↓ Days: Number of up less down days in stock price in 130 days

Earnings Momentum Factors

FY1 EPS Mom: Weighted average on 1-, 2- and 3-month change in FY1 eps mean estimate
 FY2 EPS Mom: Weighted average on 1-, 2- and 3-month change in FY2 eps mean estimate
 12m Fd EPS Mom: Weighted average on 1-, 2- and 3-month change in 12-month forward eps mean estimate
 FY1 EPS Rev: % of upward less downward revisions in FY1 eps estimates in 3 months
 FY2 EPS Rev: % of upward less downward revisions in FY2 eps estimates in 3 months

Earnings Quality (Earnings Accruals and Capex Deployment Factors)

Capex/Depr: Capital expenditure to depreciation expense
 Capex/Sales: Capital expenditure to sales
 Capex/FA: Capital expenditure to fixed assets
 Receivables/Ttl Assets, YoYΔ: YoY change in account receivables to total assets ratio
 Inventory/Ttl Assets, YoYΔ: YoY change in inventory to total assets ratio
 Payables/Ttl Assets, YoYΔ: YoY change in account payable to total assets ratio

Profitability Factors

Rtn of Capital Employed: Cash return on capital employed
 Rtn of Capital Employed, YoYΔ: YoY change in cash return on capital employed
 ROE: Return on equity
 ROE, YoYΔ: YoY change in return on equity

Growth Factors

3yr Sales Gth: 3-year growth in sales (actual)
 5yr Sales Gth: 5-year growth in sales (actual)
 3yr EPS Gth: 3-year growth in eps (actual)
 5yr EPS Gth: 5-year growth in eps (actual)
 LT Gth Est: Consensus estimate on long term eps growth
 FY1 Gth Est: Consensus estimate on FY1 eps growth
 FY2 Gth Est: Consensus estimate on FY2 eps growth

Stability Factors

EPS Vola: 3-year volatility in trailing eps
 Op Inc Vola: 3-year volatility in trailing operating income per share
 Book Value Vola: 3-year volatility in historical book value per share
 Sales Vola: 3-year volatility in trailing sales per share
 EPS Est Vola: 3-year volatility in 12-month forward eps estimate

Risk Factors

FY1 EPS Dispersion: Dispersion of FY1 eps estimates
 FY2 EPS Dispersion: Dispersion of all the FY2 eps estimates
 EBIT/Int Exp: EBIT to interest expense
 Debt/Equity: Debt to equity
 Altman Z Score: $(1.2 \times \text{working capital} + 1.4 \times \text{retained earnings} + 3.3 \times \text{EBIT} + \text{sales}) / \text{total assets} + 0.6 \times \text{market value of equity} / \text{total liabilities}$
 Market Cap: Company market capitalisation

Consensus Rating Factors

Analyst Rating: Consensus rating
 Analyst Rating, 1mΔ: 1-month change on consensus rating

Source: Deutsche Bank

Figure 476: Bottom-up sector ranking

Rank	Country	Sector	Mkt Cap (US\$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	12 month Forward EPS expectation	Valuation	Earnings Revisions	Profitability	Technical
1	China	Div Fin	1,316	0.7	8.8		1.00	1.00	10.1	0.81	-2%	++	++	-	--
2	Japan	Fd/Staples Retail	35,319	1.1	15.2	9.6	1.00	0.62	6.7	0.98	12%	+	++	--	+
3	Japan	Telecom	96,039	1.1	10.4	8.2	0.36	0.36	10.4	1.01	4%	++	++	-	+
4	Japan	Autos	249,845	1.2	12.0	8.4	0.50	0.33	10.9	1.03	28%	++	++	-	++
5	Indonesia	Capital Goods	5,168	3.9	10.5	11.2	0.58	0.52	18.5	1.06	19%	-	++	+	++
6	Japan	Media	10,575	0.9	21.3	10.0	0.44	0.72	4.6	0.94	15%	O	++	--	O
7	Japan	Banks	193,580	0.6	12.7		0.20	0.00	5.0	0.92	4%	++	++	--	O
8	Philippines	Telecom	3,235	3.2	13.4	11.5	0.26	0.26	22.7	1.02	0%	O	++	++	++
9	Indonesia	Hhold Products	3,215	32.9	32.4	28.0	0.50	0.33	91.9	1.07	13%	--	++	++	++
10	Thailand	Materials	5,738	1.4	9.6	10.0	0.10	0.27	17.3	0.95	4%	+	++	+	O
11	Thailand	Telecom	4,382	2.4	14.8	21.0	0.42	0.31	9.7	1.14	14%	-	++	-	++
12	Korea	Banks	41,599	0.6	5.2		-0.31	-0.58	11.1	0.85	-4%	++	O	-	-
13	Malaysia	Food Bev	14,423	2.1	14.8	10.4	0.42	0.22	20.1	1.01	4%	-	++	+	++
14	China	Banks	131,839	1.3	5.9		0.26	-0.26	22.8	0.86	9%	++	+	++	-
15	Japan	Retailing	42,067	1.0	13.4	9.0	0.29	0.00	11.3	0.97	11%	++	++	-	+
16	India	Autos	11,738	3.1	11.1	10.8	0.00	0.60	23.0	1.03	19%	O	++	++	++
17	Hong Kong	Telecom	1,205	1.7	9.0	9.8	0.50	0.00	17.1	0.90	14%	+	++	+	-
18	Japan	Utilities	80,671	1.0	16.3	22.1	0.61	0.14	5.9	0.94	23%	O	++	--	O
19	Taiwan	Insurance	10,086	1.3	12.5		-0.07	0.00	10.4	0.78	2%	++	+	-	--
20	India	Software	39,673	2.6	12.1	12.4	0.43	0.31	22.8	0.95	17%	-	++	++	O
21	Malaysia	Telecom	10,027	2.7	17.8	13.7	0.30	0.20	14.3	1.00	8%	-	++	O	+
22	Japan	Real Estate	68,905	1.2	18.2		0.67	0.00	5.1	1.05	16%	-	++	--	++
23	Japan	Cons Durables	81,467	1.0	16.4	12.8	0.18	0.50	3.3	0.98	31%	+	++	--	+
24	Japan	Energy	36,897	0.9	11.7	10.2	0.00	0.50	6.7	1.04	59%	++	++	--	++
25	Korea	Insurance	12,686	1.5	7.8		-0.03	-0.06	15.3	0.98	19%	++	+	O	+
26	Korea	Telecom	5,592	0.8	8.8	12.8	-0.22	-0.50	7.1	0.96	12%	++	O	--	+
27	Japan	Cons Svc	10,527	1.3	11.1	12.6	0.14	0.00	11.8	0.95	17%	+	++	-	O
28	Japan	Transport	99,550	1.1	15.4	17.7	0.20	0.07	6.1	0.95	16%	+	++	--	O
29	Japan	Pharma/ Biotech	109,918	1.5	15.1	8.9	0.03	0.07	9.7	0.98	9%	O	++	-	+
30	Taiwan	Telecom	21,307	2.6	16.1	15.9	0.20	0.13	13.0	1.08	15%	--	++	O	++
31	China	Telecom	80,339	1.2	11.5	6.1	-0.45	0.07	12.7	0.99	14%	++	+	-	+
32	Thailand	Food Bev	3,340	2.5	11.8	16.3	-0.23	0.33	21.0	1.08	15%	-	++	++	++
33	Hong Kong	Cons Durables	2,388	1.4	6.8	6.4	0.00	-0.27	23.4	0.84	18%	++	+	++	-
34	Japan	Materials	147,702	1.1	12.6	11.1	0.00	0.00	8.8	1.00	22%	+	+	-	+
35	Singapore	Food Bev	11,429	2.0	11.5	10.5	0.00	0.10	16.5	0.97	15%	O	++	+	+

Source: Deutsche Bank, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. Beta is computed on a rolling 2 year basis with respect to MSCI Asia-Japan on monthly basis. All the metrics shown above except market cap are median data for the sector. ++ Very favourable, + Favourable, O Neutral, - Unfavourable, Very unfavourable

Figure 477: Bottom-up sector ranking

Rank	Country	Sector	Mkt Cap (US\$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	12 month Forward EPS expectation	Valuation	Earnings Revisions	Profitability	Technical
36	Philippines	Banks	4,626	1.5	10.6		0.00	-0.17	13.8	1.04	15%	+	+	O	++
37	Korea	Food Bev	10,126	1.0	11.5	7.7	-0.48	-0.04	9.5	1.02	16%	++	O	-	++
38	Hong Kong	Semis	2,480	2.4	16.5	5.7	-0.57	-0.54	48.8	0.83	-12%	+	-	++	--
39	Indonesia	Autos	16,706	2.7	11.7	17.5	0.00	0.00	23.2	1.09	21%	-	+	++	++
40	Philippines	Capital Goods	5,330	2.7	10.2	12.9	1.00	-1.00	23.2	1.02	16%	-	+	++	++
41	Philippines	Div Fin	1,359	2.0	16.1		0.00	0.29	11.5	1.02	15%	--	++	-	++
42	Korea	Retailing	6,574	1.2	10.8	9.6	-0.20	-0.09	12.3	0.97	15%	+	+	-	+
43	Japan	Insurance	71,232	1.4	15.4		-0.08	0.00	5.9	0.96	7%	O	+	--	+
44	Korea	Energy	14,688	0.9	6.6	11.1	-0.71	-0.43	14.6	0.87	1%	++	-	O	-
45	Philippines	Real Estate	3,836	1.5	9.9	14.2	1.00	-0.67	7.7	0.96	15%	-	++	--	+
46	Thailand	Banks	20,715	1.4	9.5		-0.12	-0.19	11.9	0.88	12%	+	+	-	-
47	Hong Kong	Utilities	40,349	1.8	13.8	16.9	0.00	0.00	13.2	1.02	9%	-	+	O	++
48	Indonesia	Food Bev	8,911	2.7	12.6	10.5	-0.29	0.00	30.5	1.00	13%	-	+	++	+
49	India	Banks	49,459	0.9	4.8		-0.78	-0.33	19.0	0.85	19%	++	-	+	-
50	Japan	Hhold Products	26,653	1.9	19.1	9.7	-0.21	0.12	8.0	0.98	12%	O	+	--	+
51	Japan	Comm Svc	19,079	1.3	16.3	8.6	-0.10	-0.17	6.1	0.95	15%	+	+	--	O
52	Hong Kong	Capital Goods	20,442	0.9	9.8	7.5	0.29	-0.93	15.8	0.83	4%	++	O	+	--
53	Hong Kong	Tech Hard/Equip	1,365	1.4	7.9	10.0	0.00	0.00	20.7	0.87	24%	+	+	++	-
54	Thailand	Energy	21,078	1.7	8.7	8.6	-0.42	-0.56	22.5	0.88	4%	++	O	++	-
55	Japan	Capital Goods	313,726	1.1	16.3	13.1	0.00	0.00	6.3	0.97	24%	+	+	--	+
56	Hong Kong	Real Estate	89,458	0.5	9.6	4.3	-0.44	-0.60	14.8	0.83	8%	++	-	O	--
57	Taiwan	Div Fin	10,460	0.9	10.6		-0.46	-0.77	7.7	0.85	-35%	+	-	--	-
58	Korea	Utilities	6,828	0.3	9.5	15.2	-0.60	-0.60	4.5	0.97	12%	++	-	--	+
59	Singapore	Retailing	4,099	3.2	11.2	8.3	-0.25	-0.25	29.2	0.93	14%	O	O	++	O
60	China	Real Estate	28,500	0.7	3.8	4.4	-0.50	-0.76	18.2	0.80	21%	++	-	+	--
61	Korea	Transport	5,209	1.0	14.1	11.2	-0.33	-0.33	14.1	0.80	17%	++	O	O	--
62	Singapore	Real Estate	20,244	0.8	12.8	8.1	-0.22	-0.43	13.4	0.91	2%	+	O	O	O
63	China	Energy	117,962	1.6	8.2	8.8	0.00	-0.43	17.4	0.87	15%	+	+	+	-
64	Taiwan	Real Estate	1,641	1.2	6.1	25.6	-0.50	0.00	13.3	0.85	-6%	O	O	O	-
65	Japan	Food Bev	69,063	1.0	16.0	12.0	-0.46	-0.33	6.1	0.95	8%	+	O	--	O
66	Indonesia	Pharma/ Biotech	1,734	4.6	19.2	14.5	0.11	-0.45	23.8	1.06	14%	--	+	++	++
67	China	Autos	14,294	1.5	6.5	5.4	-0.53	-0.65	20.6	0.84	16%	++	-	+	--
68	Korea	Autos	72,850	1.7	6.9	8.2	-0.83	-0.42	16.0	1.00	16%	++	-	+	+
69	Korea	Cons Durables	7,880	1.6	9.8	8.6	-0.33	-0.56	14.8	1.02	19%	+	O	O	++
70	Hong Kong	Retailing	14,245	2.1	10.6	9.9	-0.25	-0.33	21.7	0.94	20%	O	O	++	O

Source: Deutsche Bank, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. Beta is computed on a rolling 2 year basis with respect to MSCI Asia-Japan on monthly basis. All the metrics shown above except market cap are median data for the sector. ++ Very favourable, + Favourable, O Neutral, - Unfavourable, Very unfavourable

Figure 478: Bottom-up sector ranking

Rank	Country	Sector	Mkt Cap (U\$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	12 month Forward EPS expectation	Valuation	Earnings Revisions	Profitability	Technicals
71	Korea	Pharma/ Biotech	2,997	2.3	13.7	18.9	-0.14	-0.33	8.0	1.08	11%	--	+	--	++
72	Hong Kong	Cons Svc	18,862	1.1	15.8	16.5	0.00	-0.28	14.1	0.91	16%	-	+	O	-
73	Japan	Div Fin	34,406	0.8	21.1		-0.42	-0.25	4.4	0.93	11%	+	O	--	O
74	Malaysia	Banks	29,323	1.9	10.8		-0.31	-0.57	15.7	0.98	7%	O	O	O	+
75	India	Materials	20,635	2.0	8.7	11.2	-0.50	-0.22	16.2	0.94	16%	O	O	+	O
76	Malaysia	Cons Svc	11,742	1.9	13.7	9.9	-0.33	-0.33	12.7	0.95	11%	O	O	-	O
77	China	Software	23,187	2.0	9.1	7.6	-0.06	-0.38	20.9	0.78	20%	O	+	++	--
78	Malaysia	Utilities	11,617	1.4	13.0	14.0	-0.16	-0.69	13.0	0.96	7%	O	O	O	+
79	Philippines	Utilities	4,030	2.6	11.8	13.5	-0.43	0.14	9.5	0.99	28%	-	+	-	+
80	Japan	Tech Hard/Equip	201,674	1.3	16.6	12.1	-0.20	-0.13	7.5	0.97	33%	O	+	--	+
81	India	Div Fin	7,078	1.3	8.9		-1.00	-0.18	19.0	0.93	19%	++	-	+	O
82	Taiwan	Capital Goods	7,747	1.5	11.2	9.7	-0.50	-0.33	14.1	0.92	16%	+	O	O	O
83	India	Energy	26,688	1.1	7.6	10.3	-0.43	-0.67	14.1	0.90	15%	++	-	O	-
84	Korea	Div Fin	8,289	0.6	8.7		-0.70	-0.79	7.9	0.77	12%	++	-	--	--
85	Singapore	Telecom	20,507	2.3	13.0	14.0	-0.45	-0.54	23.4	1.01	6%	-	-	++	++
86	Indonesia	Banks	30,569	1.8	10.9		-0.29	-0.50	17.9	0.92	17%	O	O	+	O
87	India	Hhold Products	7,314	10.1	24.4	25.1	-0.40	-0.09	34.5	1.02	19%	--	+	++	++
88	India	Pharma/ Biotech	11,315	3.9	14.9	16.7	-0.22	-0.22	19.7	0.99	18%	--	+	+	+
89	China	Utilities	12,736	1.1	10.7	17.2	-0.45	-0.17	7.9	0.92	23%	O	O	--	O
90	Singapore	Banks	47,045	1.2	10.1		-0.68	-0.69	11.0	0.89	2%	+	-	-	-
91	China	Capital Goods	26,451	1.0	6.6	8.8	-0.62	-0.67	14.2	0.78	13%	++	-	O	--
92	Malaysia	Autos	1,171	0.9	9.0	5.0	-0.80	-1.00	9.3	0.95	14%	++	--	-	O
93	India	Utilities	9,087	1.7	10.2	11.7	-0.26	-0.36	14.3	0.85	15%	O	O	O	-
94	China	Tech Hard/Equip	8,136	1.2	5.8	8.2	-0.63	-0.28	13.9	0.81	24%	++	O	O	--
95	Japan	HCare Equip/Svc	20,901	1.1	12.7	8.5	-0.75	-0.50	8.5	0.95	10%	+	-	--	O
96	China	Transport	14,470	1.0	7.6	9.7	-0.50	-0.68	9.2	0.82	10%	++	-	-	--
97	Singapore	Capital Goods	30,684	1.1	11.1	7.1	-0.35	-0.82	14.6	0.89	17%	+	-	O	-
98	Indonesia	Utilities	3,870	5.3	11.3	10.2	-0.76	-0.47	45.3	0.86	4%	-	-	++	-
99	Japan	Software	39,995	1.4	15.2	11.0	-0.45	-0.43	8.5	0.92	14%	O	O	--	O
100	China	Materials	31,295	0.9	5.3	7.9	-0.71	-0.86	16.3	0.76	16%	++	--	+	--
101	Hong Kong	Banks	25,516	1.0	10.3		-0.60	-0.83	11.8	0.83	0%	+	-	-	--
102	Indonesia	Materials	8,085	3.0	11.2	12.6	-0.42	-0.50	20.4	0.92	12%	-	O	+	O
103	Korea	Materials	61,401	1.1	7.0	8.7	-0.85	-0.67	14.4	0.87	20%	++	--	O	-
104	Indonesia	Telecom	9,400	1.6	13.7	14.2	-0.77	-0.43	6.1	0.99	12%	O	-	--	+
105	Malaysia	Materials	5,856	1.1	8.5	9.4	-0.75	-0.75	13.2	0.98	14%	+	--	O	+

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. Beta is computed on a rolling 2 year basis with respect to MSCI Asia-Japan on monthly basis. All the metrics shown above except market cap are median data for the sector. ++ Very favourable, + Favourable, O Neutral, - Unfavourable, Very unfavourable

Figure 479: Bottom-up sector ranking

Rank	Country	Sector	Mkt Cap (U\$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	12 month Forward EPS expectation	Valuation	Earnings Revisions	Profitability	Technicals
106	Korea	Hhold Products	6,597	4.0	20.1	17.5	-0.67	-0.20	10.5	1.14	27%	--	O	-	++
107	Korea	Tech Hard/Equip	14,051	1.5	10.6	22.8	-0.21	-0.40	8.6	0.99	33%	-	O	-	+
108	Malaysia	Capital Goods	14,078	1.3	14.0	10.3	-0.58	-0.58	12.7	0.93	18%	O	-	-	O
109	India	Food Bev	9,669	2.6	14.5	12.9	-0.66	-0.33	15.6	0.96	20%	-	O	O	+
110	Hong Kong	Div Fin	16,231	0.7	7.6		-1.00	-0.94	10.4	0.80	8%	++	--	-	--
111	Thailand	Media	1,226	2.3	14.6	14.7	-0.85	-0.55	23.5	1.00	11%	-	-	++	+
112	China	Cons Durables	3,583	1.3	9.5	7.0	-0.47	-1.00	22.4	0.78	17%	+	-	++	--
113	Malaysia	Transport	6,538	2.0	14.3	12.8	-0.86	-0.33	11.1	0.98	13%	-	-	-	+
114	Taiwan	Autos	6,472	1.3	13.1	18.6	-0.27	-0.89	10.3	0.96	19%	-	-	-	+
115	Taiwan	Banks	29,474	0.9	11.4		-0.62	-1.00	8.3	0.85	6%	+	--	--	-
116	Hong Kong	Transport	8,010	0.9	13.6	9.8	-0.65	-0.86	11.9	0.80	-1%	O	--	-	--
117	Korea	Capital Goods	62,290	1.2	9.4	13.5	-0.60	-0.78	8.6	0.86	19%	+	-	-	-
118	China	Food Bev	20,084	1.4	13.6	16.0	-0.42	-0.50	14.3	0.92	26%	-	O	O	O
119	Malaysia	Div Fin	3,728	1.2	10.6		-0.68	-0.89	10.7	0.91	13%	+	--	-	O
120	Indonesia	Energy	10,467	3.6	9.7	9.1	-0.44	-0.44	23.0	0.88	44%	O	O	++	-
121	Singapore	Transport	10,939	1.7	12.6	14.2	-0.71	-0.71	12.7	0.90	8%	-	-	-	-
122	Taiwan	Tech Hard/Equip	99,224	1.4	9.5	9.6	-0.80	-0.85	12.6	0.81	12%	+	--	-	--
123	India	Capital Goods	9,357	2.4	10.0	9.6	-0.78	-0.78	18.8	0.86	16%	O	--	+	-
124	Singapore	Div Fin	4,078	1.2	13.2		-0.89	-0.95	11.2	0.85	1%	+	--	-	-
125	Taiwan	Cons Durables	5,317	1.7	10.1	12.6	-0.76	-0.76	15.4	0.84	12%	O	--	O	--
126	India	Telecom	815	1.7	22.4	21.9	-0.37	-0.48	4.6	0.90	33%	-	O	--	-
127	Taiwan	Retailing	1,106	2.1	14.3	15.5	-0.79	-1.00	19.0	0.93	10%	O	--	+	O
128	Korea	Semis	119,806	2.0	10.9	16.6	-0.35	-0.73	19.3	1.06	55%	-	-	+	++
129	China	Insurance	40,135	2.2	12.1		-0.77	-0.65	16.6	0.81	28%	O	-	+	--
130	Taiwan	Materials	52,936	1.4	9.5	12.8	-1.00	-1.00	12.6	0.88	10%	+	--	-	-
131	India	Media	982	4.4	14.3	11.9	-0.83	-0.82	16.3	0.92	13%	-	--	+	O
132	China	Retailing	14,725	1.7	10.5	8.9	-0.85	-0.79	16.5	0.83	23%	O	--	+	--
133	India	Real Estate	2,681	0.9	8.8	12.9	-0.85	-0.95	4.6	0.96	31%	+	--	--	O
134	Taiwan	Semis	98,039	1.4	16.9	12.4	-0.67	-0.87	7.9	0.77	17%	O	--	--	--
135	Taiwan	Transport	4,848	1.2	18.2	14.1	-1.00	-1.00	10.4	0.81	5%	-	--	-	--
136	Singapore	Cons Svc	7,239	0.9	16.2	10.8	-0.94	-1.00	6.1	0.85	19%	O	--	--	-
137	China	Fd/Staples Retail	5,386	3.9	13.5	19.3	-1.00	-0.83	21.3	0.84	23%	--	--	++	--
138	China	HCare Equip/Svc	3,192	4.9	20.1	30.3	-0.86	-0.76	21.1	0.78	27%	--	--	++	--
139	Japan	Semis	16,857	1.3	25.5	18.1	-0.96	-0.70	3.1	0.91	45%	-	--	--	O
140	China	Hhold Products	6,790	2.5	24.3	(6.1)	-1.00	0.00	-9.9	0.87	57%	--	O	--	-

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. Beta is computed on a rolling 2 year basis with respect to MSCI Asia-Japan on monthly basis. All the metrics shown above except market cap are median data for the sector. ++ Very favourable, + Favourable, O Neutral, - Unfavourable, Very unfavourable

Figure 480: Companies mentioned in the report

	Company	Country	DB Rating	BBG Ticker	Price 17 Jan
1	Canon Marketing Japan Inc	Japan	Buy	8060 JP	889
2	Daiwa House	Japan	Buy	1925 JP	955
3	NEXON Co., Ltd.	Japan	Buy	3659 JT	1195
4	Ricoh Co Ltd	Japan	Hold	7752 JT	620
5	Kajima Corporation	Japan	Buy	1812 JT	259
6	Toray Industries Inc	Japan	Buy	3402 JT	542
7	Gree, Inc.	Japan	Buy	3632 JT	2214
8	Mitsubishi Tanabe Pharma	Japan	Buy	4508 JT	1182
9	Rakuten, Inc.	Japan	Buy	4755 JO	81900
10	Rinnai Corporation	Japan	Buy	5947 JT	5370
11	Aisin Seiki Co., Ltd.	Japan	Buy	7259 JT	2236
12	Itochu Corporation	Japan	Buy	8001 JT	768
13	Sumitomo Realty & Development Co Ltd	Japan	Buy	8830 JT	1360
14	NTT DoCoMo Inc	Japan	Buy	9437 JT	137600
15	China Mengniu Dairy Co Ltd	China	Hold	2319 HK	20.7
16	CHINA SOUTHERN AIRLINES CO LTD	China	Buy	1055 HK	4.06
17	ICBC	China	Buy	1398 HK	5.35
18	Baidu Inc	China	Buy	BIDU US	127.41
19	Sinopec-H	China	Buy	386 HK	9.09
20	Dongfeng Motor Group Co Ltd	China	Buy	489 HK	14.12
21	China Pacific Insurance	China	NA	601601 CH	20.68
22	China Resources Land Ltd	China	Buy	1109 HK	13.48
23	COSCO Pacific Ltd	China	Buy	1199 HK	10.64
24	Mindray Medical International Ltd	China	Buy	MR US	28.93
25	ZTE Corporation-H	China	Buy	763 HK	24.75
26	Huaneng Power International Inc	China	Buy	902 HK	4.44
27	2388.HK	Hong Kong	Buy	2388 HK	20.25
28	AIA	Hong Kong	Buy	1299 HK	24.4
29	HangSeng Bank	Hong Kong	Buy	11 HK	95.2
30	Lifestyle International Holdings	Hong Kong	Buy	1212 HK	17.38
31	Orient Overseas (International) Limited	Hong Kong	Buy	316 HK	42.85
32	Link Real Estate Investment Trust	Hong Kong	Buy	823 HK	28.65
33	Sands China, Limited	Hong Kong	Buy	1928 HK	24.4
34	Kunlun Energy	Hong Kong	Buy	135 HK	11.86
35	Axis Bank	India	Buy	AXSB IN	963.55
36	ICICI Bank	India	Buy	ICICIB IN	785.6
37	Coal India Limited	India	Buy	COAL IN	351.3
38	Larsen & Toubro Ltd	India	Buy	LT IN	1265.5
39	Tata Consultancy Services Ltd	India	Buy	TCS IN	1104.3
40	Bharti Group	India	Buy	BHARTI IN	344.6
41	DLF Limited	India	Buy	DLFU IN	198.05
42	Tenaga Nasional Berhad	Malaysia	Buy	TNB MK	6.23
43	CIMB	Malaysia	Buy	CIMB MK	7.16
44	Parkson Holdings Bhd	Malaysia	Buy	PKS MK	5.6
45	Top Glove Corporation Berhad	Malaysia	Sell	TOPG MK	5.15
46	Genting Malaysia BHD	Malaysia	Buy	GENM MK	3.9

Source: Deutsche Bank, Bloomberg Finance LP

Figure 480: Companies mentioned in the report (cont'd)

	Company	Country	DB Rating	BBG Ticker	Price 17 Jan
47	AirAsia Berhad	Malaysia	Buy	AIRA MK	3.65
48	IJM Corp BHD	Malaysia	Buy	IJM MK	5.43
49	AMMB	Malaysia	Buy	AMM MK	5.84
50	CapitaLand Ltd	Singapore	Buy	CAPL SP	2.42
51	CapitaMalls Asia Ltd	Singapore	Buy	CMA SP	1.295
52	Keppel Land Ltd	Singapore	Buy	KPLD SP	2.49
53	Ascendas Real Estate Investment Trust	Singapore	Buy	AREIT SP	2.01
54	ComfortDelgro Corp Ltd	Singapore	Buy	CD SP	1.44
55	DBS GROUP	Singapore	Buy\	DBS SP	12.89
56	Fraser and Neave Limited	Singapore	Buy	FNN SP	6.54
57	Mapletree Commercial Trust	Singapore	Buy	MCT SP	0.86
58	MAPLETREE COMMERCIAL TRUST	Singapore	Buy	MCT SP	0.86
59	SEMBCORP INDUSTRIES LTD	Singapore	Buy	SCI SP	4.51
60	StarHub Ltd	Singapore	Buy	STH SP	2.88
61	Wilmar International Limited	Singapore	Buy	WIL SP	5.14
62	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	Buy	2330 TT	75.6
63	MStar Semiconductor Inc.	Taiwan	Buy	3697 TT	171.5
64	TPK Holding Co. Ltd	Taiwan	Buy	3673 TT	392
65	Compal Electronics Inc	Taiwan	Buy	2324 TT	31.95
66	HON HAI Precision Industry Co Ltd	Taiwan	Buy	2317 TT	87
67	Foxconn Technology Co Ltd	Taiwan	Buy	2354 TT	101
68	Simplo Technology Co Ltd	Taiwan	Buy	6121 TT	197
69	Kinsus Interconnect Technology Corp	Taiwan	Buy	3189 TT	83.7
70	Uni-President Enterprises Corp.	Taiwan	Buy	1216 TT	45.3
71	President Chain Store Corporation	Taiwan	Hold	2912 TT	164.5
72	PTT Global Chemical Public Company Limited	Thailand	Buy	PTTGC TB	62.75
73	Thai Oil PCL	Thailand	Buy	TOP TB	61.5
74	Siam Commercial Bank	Thailand	Buy	SCB TB	115
75	Advanced Info Service PCL	Thailand	Buy	ADVANC TB	154
76	Minor International PCL	Thailand	Buy	MINT TB	11.6
77	Sino Thai Engineering & Construction PCL	Thailand	Buy	STEC TB	12.7
78	Amata Corp PCL	Thailand	Buy	AMATA TB	14.8
79	Hemaraj Development	Thailand	Buy	HEMRAJ TB	2.52
80	Kia Motors Corp	Korea	Buy	000270 KS	68800
81	Mando	Korea	Buy	060980 KS	189000
82	BS Financial	Korea	Buy	138930 KS	12300
83	Honam Petrochemical	Korea	Buy	011170 KS	341000
84	Hyundai Engineering & Construction Co Ltd	Korea	Buy	000720 KS	72300
85	E-Mart Co. Ltd.	Korea	Buy	139480 KS	264000
86	Dongbu Insurance	Korea	Buy	005830 KS	48550
87	DSME	Korea	Buy	042660 KP	27200
88	Hyundai Steel Co	Korea	Buy	004020 KS	105000
89	SEC	Korea	Buy	005930 KS	1036000
90	Bank Negara Indonesia	Indonesia	Buy	BBNI IJ	3700
91	Gudang Garam Tbk PT	Indonesia	Buy	GGRM IJ	57950
92	Astra Int'l	Indonesia	Buy	ASII IJ	77300

Source: Deutsche Bank, Bloomberg Finance LP

Figure 480: Companies mentioned in the report (cont'd)

	Company	Country	DB Rating	BBG Ticker	Price 17 Jan
93	Bank Mandiri	Indonesia	Buy	BMRI IJ	6800
94	Bukit Asam	Indonesia	Buy	PTBA IJ	19650
95	Indomobil Sukses Makmur	Indonesia	Buy	IMAS IJ	15250
96	Charoen Pokphand Indonesia Tbk PT	Indonesia	Buy	CPIN IJ	2250
97	Gajah Tunggal	Indonesia	Buy	GJTL IJ	2950
98	Wintermar	Indonesia	Buy	WINS IJ	360
99	Indofood	Indonesia	Buy	ICBP IJ	5100
100	CNOOC Ltd	China	Buy	883 HK	15.62
101	ONGC	India	Buy	ONGC IN	261.75
102	Oil India	India	Buy	OINL IN	1145.5
103	PTT	Thailand	Hold	PTT TB	330
104	Formosa Chems & Fibre	Taiwan	Buy	1326 TT	82
105	Indocement	Indonesia	Hold	INTP IJ	18400
106	LG Chem	Korea	Buy	051910 KS	358500
107	China Comms Construct	China	Buy	1800 HK	6.95
108	Sembcorp Industries	Singapore	Buy	SCI SP	4.51
109	Sembcorp Marine	Singapore	Buy	SMM SP	4.64
110	Yangzijiang Shipbldg	Singapore	Buy	YZJ SP	1.03
111	Hyundai Mobis	Korea	Buy	012330 KS	323000
112	Hyundai Motor	Korea	Buy	005380 KS	231000
113	BEC World PLC	Thailand	Buy	BEC TB	42.5
114	Belle Int'l Holding	China	Buy	1880 HK	12.08
115	Giordano	Hong Kong	Hold	709 HK	5.8
116	KT&G	Korea	Buy	033780 KS	74900
117	PT Charoen Pokphand	Indonesia	Buy	CPIN IJ	2250
118	AmorePacific	Korea	Buy	090430 KS	1011000
119	Bank of China	China	Buy	3988 HK	3.29
120	BOC Hong Kong	Hong Kong	Buy	2388 HK	20.25
121	China Construction Bank	China	Buy	939 HK	5.93
122	ICBC	China	Buy	1398 HK	5.35
123	Industrial Bank of Korea	Korea	Hold	024110 KS	11950
124	Krung Thai Bank	Thailand	Hold	KTB TB	14.9
125	Hong Leong Bank	Malaysia	Buy	HLBK MK	10.9
126	Hyundai M&F Insurance	Korea	Buy	001450 KS	32450
127	SHK Properties Ltd	Hong Kong	Buy	16 HK	101.9
128	Wharf	Hong Kong	Buy	4 HK	40
129	SouFun	China	Buy	SFUN US	18.6
130	Wipro	India	Buy	WPRO IN	414.7
131	Simplo Technology	Taiwan	Buy	6121 TT	197
132	MStar Semiconductor	Taiwan	Buy	3697 TT	171.5
133	Novatek Microelectronics	Taiwan	Buy	3034 TT	87.4
134	China Mobile	China	Hold	941 HK	76
135	China Comm Services	China	Buy	552 HK	3.41
136	Far EasTone Telecom	Taiwan	Buy	4904 TT	54.9
137	Starhub	Singapore	Buy	STH SP	2.88

Source: Deutsche Bank, Bloomberg Finance LP

Figure 480: Companies mentioned in the report (cont'd)

	Company	Country	DB Rating	BBG Ticker	Price 17 Jan
138	Aboitiz Power	Philippines	Hold	AP PM	29.9
139	Guangdong Investment	China	Buy	270 HK	4.52
140	Agri. Bank of China	China	Buy	1288 HK	3.77
141	Anta Sports	China	Hold	2020 HK	8.3
142	Fraser & Neave	Singapore	Buy	FNN SP	6.54
143	China Shineway	China	Hold	2877 HK	10.8
144	Chunghwa Tel	Taiwan	Hold	2412 TT	97
145	Far EasTone Telecom	Taiwan	Buy	4904 TT	54.9
146	First Philippine Hldgs	Philippines	Buy	FPH PM	61.9
147	LIG Insurance	Korea	Buy	002550 KS	23750
148	Perusahaan Gas Negara	Indonesia	Buy	PGAS IJ	3250
149	PLUS Expressways	Malaysia	NR	PLUS MK	4.43
150	SATS	Singapore	Hold	SATS SP	2.27
151	Top Glove	Malaysia	Sell	TOPG MK	5.15
152	Wynn Macau	Hong Kong	Hold	1128 HK	18.62
153	Dongfeng Motor	China	Buy	489 HK	14.12
154	Hang Lung Properties	Hong Kong	Buy	101 HK	24.5
155	Delta Electronics	Taiwan	Buy	2308 TT	78.3
156	Franshion	China	Buy	817 HK	1.52
157	Genting Bhd	Malaysia	Hold	GENT MK	11
158	Kasikornbank	Thailand	Hold	KBANK TB	120
159	Nexen Tire	Korea	Hold	002350 KS	19450
160	Orise Technology	Taiwan	Buy	3545 TT	29.85
161	Shanghai Electric	China	Buy	2727 HK	3.89
162	DiGi.Com	Malaysia	Buy	DIGI MK	3.85
163	Bank of Baroda	India	Buy	BOB IN	758.05
164	China CITIC	China	Hold	998 HK	4.82
165	Asian Paints	India	Hold	APNT IN	2735.6
166	Hyundai Heavy	Korea	Buy	009540 KS	297500
167	Korean Reinsurance	Korea	Buy	003690 KS	14750
168	Sinopec-H	China	Buy	386 HK	9.09
169	Cathay Pacific	India	Buy	293 HK	13.96
170	Maanshan-H	Korea	Hold	323 HK	2.92
171	Siliconware Precision	Korea	Buy	2325 TT	30.65
172	DSME	Korea	Buy	042660 KS	27200
173	OCI Company	Korea	NR	010060 KS	254500
174	BRI	Indonesia	Buy	BBRI IJ	6950
175	Samsung Eng.	Korea	Hold	028050 KS	204000
176	Siam Cement	Thailand	Buy	SCC TB	325
177	KWG Property	Hong Kong	Buy	1813 HK	3.02
178	SOHO China	Hong Kong	Buy	410 HK	5.36
179	Hyundai Dept Store	Korea	Buy	069960 KS	177000
180	SJM	Hong Kong	Buy	880 HK	13.2
181	Taiwan Cement	Taiwan	Hold	1101 TT	36
182	Powertech Technology	Taiwan	Buy	6239 TT	65.6

Source: Deutsche Bank, Bloomberg Finance LP

Appendix 1

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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.

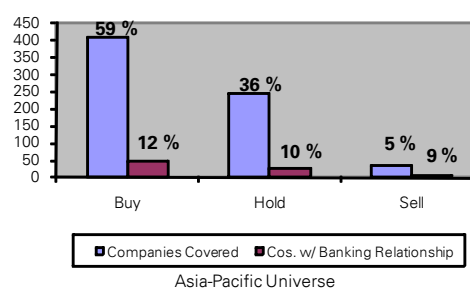
Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

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.

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