



## The Supremacy of Earnings Power

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### Policy uncertainty and investor fatigue

On our recent marketing trip in Asia and the USA, we found clients to be fatigued and just worn down by the macro noise. Indeed, US and European policy uncertainty indices constructed by some bright academics have been yo-yo-ing about, trending higher. The greater the policy uncertainty, the greater the correlation of individual stocks with the market, and the tougher it is for clients to add stock alpha and manage risk.

We certainly empathize with investors facing these challenges. Risk management remains key. We think that when both our US risk-love model AND the US economic surprises are euphoric, investors should dial down on risk, as in February. Conversely, when both US risk-love AND the US economic surprise indicator are in panic, like a month ago, they should take on some risk and cyclicity.

### The primacy of EPS revisions, and the risks to “value” investing in an extended crisis period

Of 45 global markets, the high EPS revision markets beat the weak EPS revisions markets consistently, and handily, since 1996. Conversely, the cheapest nine (of 45) markets using P/B have underperformed the most expensive nine P/B markets since the global financial crisis broke out. “Show me the earnings” is the motto of the markets in this world, much like 1997-2000, a period of EM crises. Today, the markets with the strongest EPS revisions globally include the Philippines, Turkey, Thailand, New Zealand, Mexico, Sri Lanka, Norway, the UK, and Chile. Those with the weakest EPS revisions are Hungary, Czech Republic, Italy, Peru, Canada, Poland, Brazil, Spain, and Greece. On a stock-picking basis, this year the alpha from following earnings revisions styles for FY1 and FY2 have handily beaten the results for a combination of value strategies, for Asia ex-Japan and Japan. For individual Asian markets, the results are also tilted to the primacy of EPS revisions over value in seven of the 11 markets we cover.

### Recovery in China... or not?

China’s credit multiplier is projecting an economic recovery. Unfortunately, the EPS revisions index, fine wine prices, property stocks, small-caps, and the earnings pre-announcements are not confirming this recovery forecast. The M1 less M2 growth rate is now at a 20-year low, and correlates well with the PB multiple. We have been waiting for a credible deflation to turn this around but have been disappointed so far. China’s earnings revisions are far worse across all the sectors, compared to the region. We are cutting our overweight size in China.

### India – a contrarian overweight

India has the two things we look for – great valuations AND a turn in leading economic indicators. And unanimous pessimism among investors we talk to. We are adding Uni-President Enterprises Corp, Megaworld Corp, Sino-Thai Engineering & Construction, ICICI Bank, Samsung Electronics and SK Innovation to the model portfolio. It is up 6.3% YTD relative to MSCI AXJ.

### 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	!	!	-2	2
Hong Kong	!	✓	✓	!	✓	xx	xx	xx	-2	-3
Indonesia	!	!	!	✓	xx	xx	✓	!	0	-2
India	!	✓	!	!	✓	xx	✓	!	3	5
Korea	!	✓	✓	xx	xx	xx	!	!	-3	5
Malaysia	!	✓	!	✓	✓	xx	!	!	3	3
Philippines	!	x	x	✓	✓	xx	!	!	0	-1
Singapore	!	✓	!	✓	✓	xx	xx	✓	4	2
Thailand	!	!	!	✓	✓	xx	✓	✓	6	6
Taiwan	!	!	!	xx	✓	xx	✓	!	0	2
Asia ex-Japan	!	✓	!	x	!	xx	!	!	-2	2
Japan	!	✓	!	xx	xx	xx	!	!	-4	0

Deutsche Bank AG/Hong Kong

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## The Supremacy of Earnings Power

### Earnings revisions reign supreme, while value challenged

Our work on country, sector and stock selection gives a lot of emphasis to both value and earnings revisions. Value by itself is not enough, it needs to be backed by EPS revisions. This has been a lot more evident this year, on both a country level as well as in terms of a stock-picking strategy for most countries. On a stock-picking basis, as Figure 1 shows, this year the alpha from following earnings revisions styles for FY1 and FY2 have handily beaten the results for a combination of value strategies, for Asia ex-Japan and Japan. For individual Asian markets, the results are also tilted to the primacy of EPS revisions over value in seven of the 11 markets we cover.

**Figure 1: Strong EPS revisions a lot better metrics than value strategies YTD**

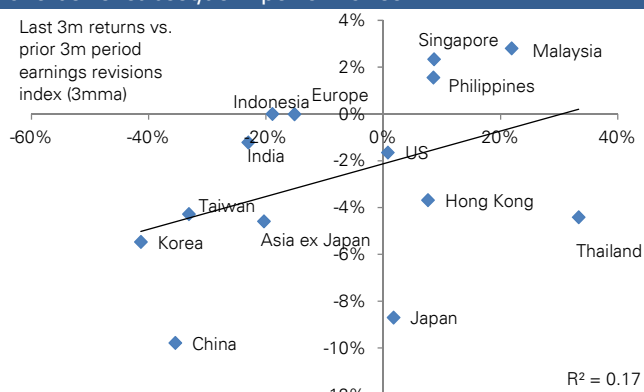
YTD total returns of the best quintile relative to the market

	FY1 earnings revisions	FY2 earnings revisions	Composite valuation	Is earnings revisions performance better than composite valuation ?
Asia ex-Japan	3.3	2.0	1.6	Yes
Japan	2.9	3.1	2.0	Yes
China	4.1	3.4	0.5	Yes
Hong Kong	0.5	-9.4	2.6	No
India	-0.7	1.8	1.8	No
Indonesia	9.3	14.8	3.1	Yes
Korea	-0.7	-2.9	5.2	No
Malaysia	9.1	3.2	1.9	Yes
Philippines	-3.4	7.0	4.3	No
Singapore	4.1	-4.4	-3.6	Yes
Taiwan	5.6	1.8	-1.7	Yes
Thailand	8.2	1.5	-6.9	Yes

Source: Deutsche Bank. Relative performance is based on equal weighted average returns of the best quintile basket and the market. Composite valuation is based on an equal weighted average of best quintile on 13 factors – 12m forward PE, trailing PE, price to operating income, price to book, price to sales, price to free cash flow, EV to EBIT, EV to EBITDA, EV to capital employed, EV to sales, EV to operating cash flow, EV to free cash flow and dividend yield.

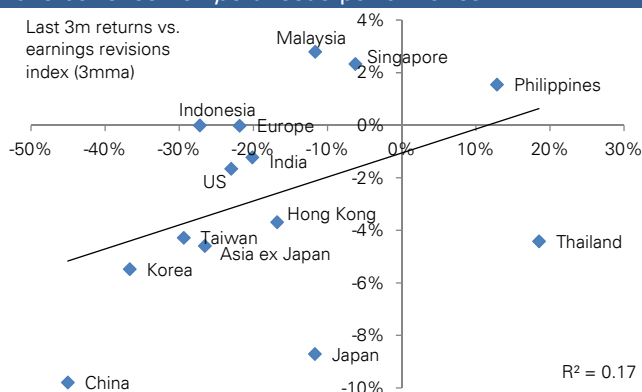
We highlighted this idea a few months ago and repeat Figures 2 and 3. The first one shows the *predictive* relationship between EPS revisions for countries/regions and subsequent three-month equity market performance. There seems to be a positive relationship. Figure 3 cheats and shows the *contemporaneous* relationship between country-level EPS revisions and market performance – a similarly positive relationship. Of course, this is the sloppy strategists' way of trying to prove a point. We can do a better, more rigorous job of testing the thesis that markets with strong EPS revisions do a lot better than those with poor EPS revisions.

**Figure 2: Countries/regions with strong EPS revisions have better subsequent performance**



Source: Deutsche Bank, MSCI, I/B/E/S. For MSCI universe. Earnings revisions index is # of companies seeing their 12m forward earnings being revised up less # of companies seeing their 12 month forward earnings being revised down in the last 1 month / Total # of changes.

**Figure 3: Countries/regions with strong EPS revisions have better contemporaneous performance**



Source: Deutsche Bank, MSCI, I/B/E/S. For MSCI universe. Earnings revisions index is # of companies seeing their 12m forward earnings being revised up less # of companies seeing their 12 month forward earnings being revised down in the last 1 month / Total # of changes.



Figure 4 shows the relative performance of the top nine (top quintile) markets of 45 global markets versus the bottom nine (bottom quintile) markets, sorted by EPS revisions for the upcoming fiscal year (FY1). The re-balancing is done every three months. Clearly, the high EPS revision markets beat the weak EPS revisions markets consistently and handily.

What if we to pursue a simple value strategy for picking among these 45 markets? Again, Figure 5 also shows the relative performance of the lowest nine PB markets versus the highest nine PB markets. Hmm... clearly, the cheap markets have underperformed the "expensive" markets since the global financial crisis broke out. "Show me the earnings" is the motto of the markets in this world, much like the 1997-2000 period, when we saw a cascade of emerging market crises. In the "normal" period of 2002-2007, cheap countries beat the expensive countries. Today, few believe that value can mean revert – that would require the cessation of the ongoing crisis and put a floor below existing book values and risk-seekers to scoop up contrarian, value ideas. We don't think we are there yet.

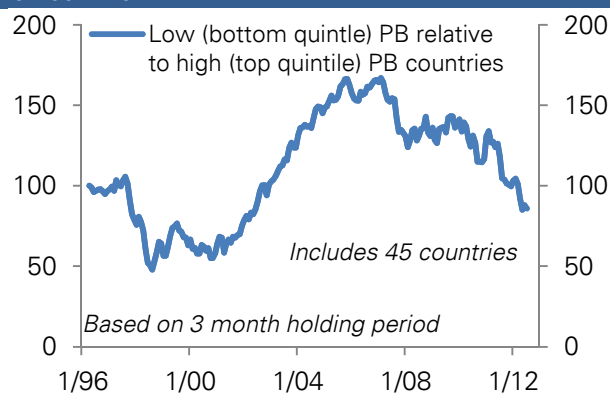
How is this relevant to Asia? We think investors have punished equities in China, Korea, Taiwan and Japan, mainly as their EPS revisions have been weak. These have all proven to be value traps. While we avoided the Korean and Taiwanese value traps, we did fall into the Chinese one. Luckily, we have been generally overweight Southeast Asia, mainly respecting their strong EPS revisions. Today, the markets with the strongest EPS revisions globally include the Philippines, Turkey, Thailand, New Zealand, Mexico, Sri Lanka, Norway, the UK, and Chile. Those with the weakest EPS revisions are Hungary, Czech Republic, Italy, Peru, Canada, Poland, Brazil, Spain, and Greece.

**Figure 4: Strong EPS revision markets beat weak EPS revisions markets, consistently**



Source: Deutsche Bank, MSCI. Earnings revisions index is # of companies seeing their 12m forward earnings being revised up less # of companies seeing their 12 month forward earnings being revised down in the last 1 month / Total # of changes. Based on equal weight returns.

**Figure 5: Cheapest markets globally underperform expensive markets, especially during crises – 1997-2000 and 2007- now**



Source: Deutsche Bank, MSCI. Based on equal weight returns.

### Cutting China and a contrarian overweight call on India

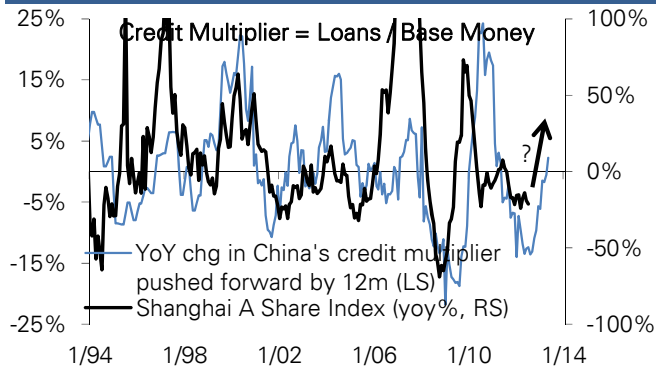
On China, we had ignored what some of our model indicators were saying in the belief that recovery was on the way. Normally, we lose money when we do this, and this time was no different. So, where do we stand now? Well, Figure 6 shows that the credit multiplier is projecting an economic recovery. Unfortunately, the EPS revisions index, fine wine prices, property stocks, small-caps, and the earnings pre-announcements are not confirming this recovery forecast. The M1 less M2 growth rate is now at a 20-year low, and correlates well with the PB multiple (Figure 7). We have been waiting for a credible reflation to turn this around but have been disappointed so far. China's earnings revisions are far worse across all the sectors, compared to the region. See



Figure 8. We are cutting our overweight bet size in China. We are flexible and will jump in if we can get confirmation from a majority of our indicators.

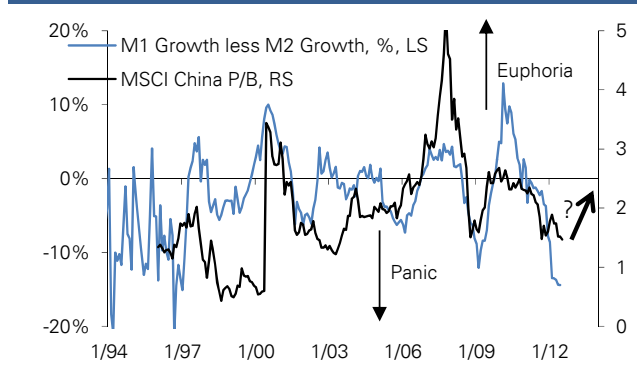
One of our calls that is different from our clients has been our recent overweight in India. On the road in Asia and the USA, the call was met with derision and fatigue. We think the bear case is well understood by most, including *Time* magazine, which put PM Singh on the cover, calling him an "underachiever". We think that cover rang the gong to buy India. India has the two things we look for – great valuations AND a turn in leading economic indicators. And unanimous pessimism among investors we talk to. Figure 9 shows that the EV/Sales and EV/EBITDA ratios are near 20-year lows, and Figure 10 shows that the LEI and the EPS revisions index have both turned upward. Both short-term and long-term investors should be contrarian and accumulate Indian stocks. Yes, the country is perceived to have a strong tendency to snatch defeat from the jaws of victory, but we see a strong, sustainable 15-18% ROE future being sold at exceptionally low valuations.

Figure 6: China – Oh, credit multiplier, work your usual magic on equities and the economy!



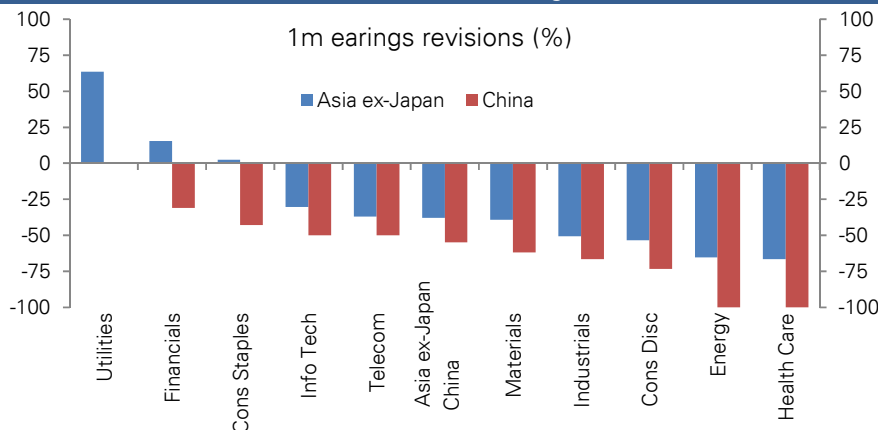
Source: Deutsche Bank, IMF, PBoC, Datastream. Credit multiplier = loans / monetary base.

Figure 7: China – M1 growth M2 growth at 20-year lows, needs to turn up to get the multiple up



Source: Deutsche Bank, MSCI

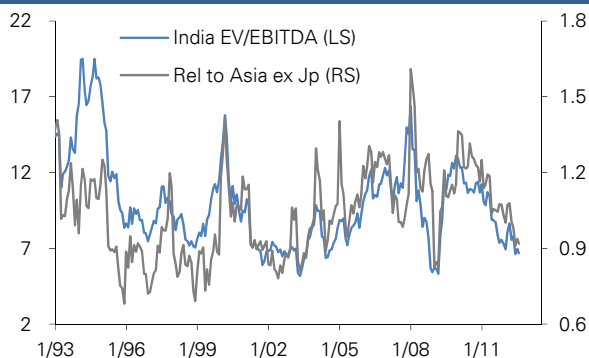
Figure 8: China – EPS revisions a lot worse than the region across the board



Source: Deutsche Bank, MSCI. Earnings revisions index is # of companies seeing their 12m forward earnings being revised up less # of companies seeing their 12 month forward earnings being revised down in the last 1 month / Total # of changes

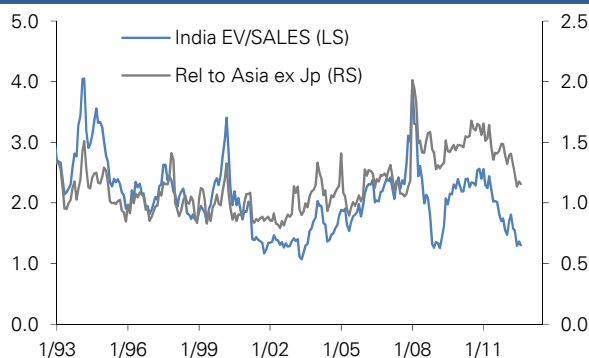


Figure 9: India – trading at near 20-year lows on EV/EBITDA



Source: Deutsche Bank, MSCI, Factset.

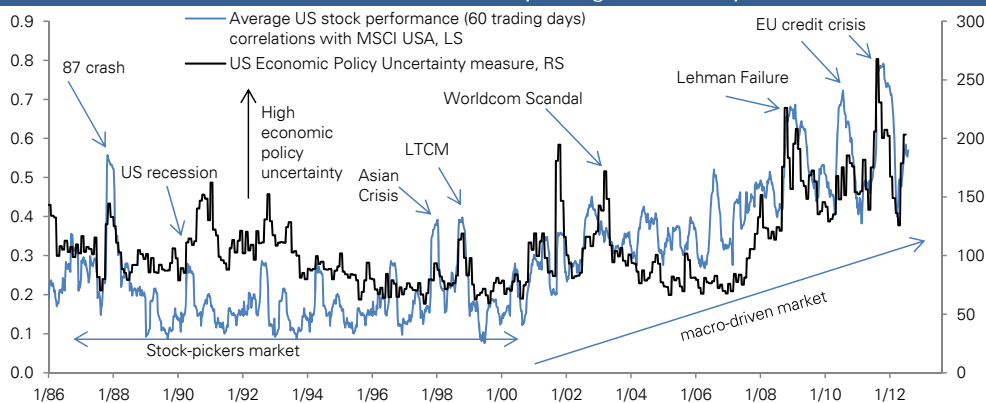
Figure 10: India – trading at near 20-year lows on EV/Sales



Source: Deutsche Bank, Factset.

On our recent marketing trip in Asia and the USA, we found clients to be fatigued and just worn down by the macro noise. Many long-only clients said they really could not change portfolio direction as rapidly as the market demanded. Some said they need to keep their discipline and suffer the pain of volatility, and ride the risk-on/risk-off swings. Others said they just were not that nimble. Some hedge funds said that while they were nimble, they found it tough to predict policy actions. All fair points. Indeed, the policy uncertainty indices constructed by some bright academics have been yo-yo-ing about, and move with stock correlations. The greater the policy uncertainty, the greater the correlation of individual stocks with the market, and the tougher it is for clients to add stock alpha. See Figure 11.

Figure 11: US economic policy uncertainty increases and yo-yos, so do stock correlations with the benchmark. Makes stock-picking enormously difficult.

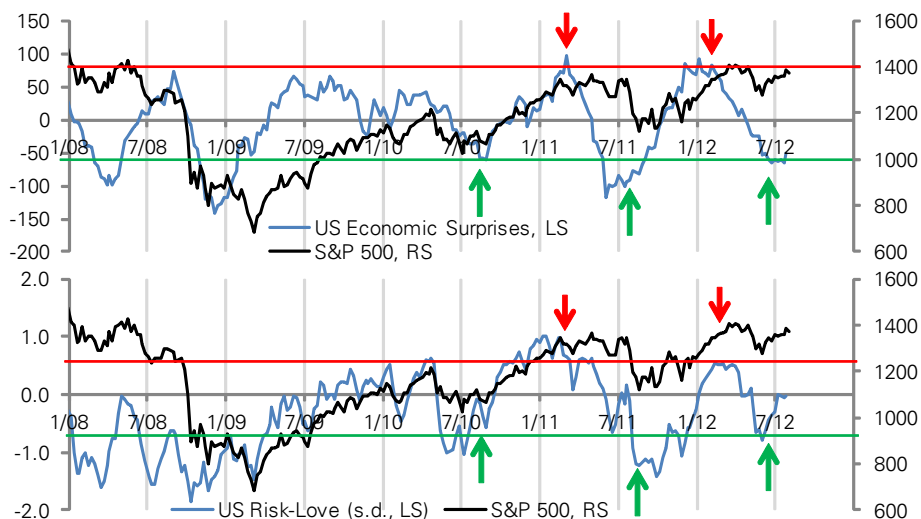


Source: Deutsche Bank. Stock correlations with MSCI USA based on rolling 60-day daily returns on a broad universe of stocks covering the top 95% of total market capitalization (i.e. 1,053 to 2,684 stocks from 1985 to 2012). For more on the "Economic Policy Uncertainty Index", go to the website <http://policyuncertainty.com>. According to the authors, "To measure policy-related economic uncertainty, we construct an index from three types of underlying components. One component quantifies newspaper coverage of policy-related economic uncertainty. A second component reflects the number of federal tax code provisions set to expire in future years. The third component uses disagreement among economic forecasters as a proxy for uncertainty."

We certainly empathize with investors facing these challenges. But we think we should at least take a stab at risk management. We think that when both our US risk-love model AND the US economic surprises are euphoric, investors should dial down on risk. Conversely, when both US risk-love AND the US economic surprise indicator are in panic, like a month ago, they should take on some risk and cyclicality. It was in this spirit that we wrote our last note, *Buying some risk and cyclicality*, *The Investigator*, published 26 June 2012. We still hold that view. US economic surprises are still low, and while Risk-love has gone back up to neutral, it is far from euphoric.



Figure 12: Simultaneous peaks and troughs in US risk-love (sentiment) and Economic Surprise Index a good signal to manage risk. Both far from euphoria now, so raise risk/cyclicality



Source: Citigroup, Deutsche Bank, Bloomberg Finance LP

There are a lot of uncertainties out there, we acknowledge, but we note that investment banks are cutting back, and especially from Asia. We note that new issuance as a percent of market capitalization is exceptionally low, and that turnover has collapsed. Both the buy-side and the sell-side seem devoid of energy. We think the current pessimism of Wall Street strategists, of consumers, of the retail investor are all interesting contrary indicators. We think you should buy. Of course, if and when risk-love and US economic surprises turn euphoric, we will probably be saying the opposite.



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## Asia Model Portfolio update

We are adding Uni-President Enterprises Corp, Megaworld Corp, Sino-Thai Engineering & Construction, ICICI Bank, Samsung Electronics and SK Innovation to the model portfolio, and removing Wipro, United Tractors, Public Bank, MStar Semiconductor, Bank of China and Hyundai Marine & Fire Insurance.

### Uni-President Enterprises Corp (1216 TT)

UPC's strategy focus: Riding on its successful leading products, UPC will follow a selective product launch strategy, targeting only 5-10 new products this year vs. 50-60/year historically. It will also continue to expand geographically. (*Yvonne Tsai, 31 May 2012*)

### Megaworld Corp (MEG PM)

1Q12 net profit rises 26%, in line: Megaworld's 1Q12 net profit climbed 26% to P1.56bn, 24% of our full-year forecast. Operating profit increased 13% to P1.26bn, only 22% of our FY12 forecast, due to weaker-than-expected rental revenue.

Presales increase 41%: The company's reservation sales jumped 41% to P10.4bn, already 35-42% of its full-year target of P25bn-30bn. Residential gross profit soared 42% to P1.35bn, 26% of our FY12 target.

Opex growth decelerates but still high: We estimate that excluding the rental segment and Empire East Land, opex grew just 22%, the slowest level since 4Q10. Nevertheless, operating expenses are still at very high levels.

Rental revenue drops 14% QoQ: MEG's rental revenue fell 14% QoQ to P950m, only 20% of our full-year forecast. While this is still up 17% YoY, we are a little concerned. (*Carl Sy, CFA, 16 May 2012*)

### Sino-Thai Engineering & Construction (STEC TB)

A play on increased public investments: Reiterating Buy with target price of Bt20.10, we stand by our forecasts and target price of Bt20.10, which is based on a 25x 2012F PER (derived from +0.5 stdev above its four-year historical average, given STEC's brighter prospects). Key risks: cost overruns, fewer-than-expected new projects, stiffer competition, construction delays for its main projects and political instability that could delay projects not yet signed and public works. (*Sansanee Srijamjeree, 20 July 2012*)

### Samsung Electronics (005930 KS)

We flag that SEC and Samsung SDI could show the strongest share price momentum in 2H12 within Korean tech, while beyond 2H12, SK Hynix stands out as an all-around performer into 1H13. (*Seunghoon Han, 30 July 2012*)

### ICICI Bank (ICICIB IN)

Preferred pick: strong margin outlook; comfort on asset quality: Following a strong 1Q13, we have a few key takeaways. 1) Margins should continue to drive earnings; we expect margins to increase by 25 bps during FY13. 2) We expect retail loan growth to improve as disbursements are growing and ICICI Bank is active on ground levels. 3) Management remains confident it can sustain credit costs at 70-75 bps; we factor in 90 bps. 4) We like the bank's steps to improve its RoEs – getting capital back from overseas subsidiaries. We expect core RoEs to increase to 15% in FY13 and 16.5% in FY14. We retain ICICI Bank as our preferred pick; Buy with target price of INR1,130. (*Manish Karwa (27 July 2012)*)





### SK Innovation (096770 KS)

Looking for strong near-term earnings rebound, while long-term growth intact: With Dubai oil already up US\$11/bbl since end-June and considering our House view of limited downside on oil price trends, we do not expect inventory loss to negatively affect SKI's fundamentals. Furthermore, middle distillate spreads have drastically picked up, averaging US\$18.2/bbl QTD (+13% QoQ, - 3% YoY), which should bode well for SK Innovation, whose middle distillate accounts for 50% of its total product mix. Lastly, our checks with the company confirm our view on its long-term growth potential as capacity expansion plans are on schedule. We maintain SK Innovation as our top pick and will revisit our numbers post the disclosure of detailed financials. *(Shawn Park, 27 July 2012)*



## Summary

### Global

Global equity valuations languish in the netherworld, victims of risk aversion, capital preservation, and elevated policy uncertainty. Positive expected returns are likely embedded in these low valuations, for those who can tolerate discomfort, and have staying power. Cyclical investors should focus on the sharp rise in MOMLI – the mother of all leading indicators. The diffusion of individual leading economic indicators for a swath of countries is getting less bad. This diffusion index LEADS other leading economic/earnings indicators. Meanwhile, asset prices with a view on global growth remain sullen, a rare disagreement with MOMLI, that historically has been resolved by asset prices catching up with MOMLI.

### Asia

At 1.4x PB, and 11.1x forward PE, Asian equities are reasonably valued. On a trailing PE basis, one has to go to 1973, 1982 and 2008 to find lower valuation levels. China and India, in particular, look exceptionally cheap compared with their history. Risk-Love is at neutral, but high in the Philippines and Thailand. Technicals are neutral. The percentage of new lows in China is rising to worrisome levels. Economic surprises in Asia have become less bad, as expectations have been ratcheted down. The region's leading economic indicator has curled up. Earnings revisions have taken on paramount importance in generating alpha, at both the country and sector level, trumping pure valuations. Value has been a trap this year, earnings revisions a stubborn outperformer. Cyclical sectors continue to see savage downward EPS revisions. Free liquidity is falling, compressing multiples. This year, high returns on capital have been alpha generators, as have EPS revisions and analyst opinions. Value, for the most part, has been less stellar.

### Japan

The market keeps getting de-rated. Why buy stocks when the real yield on "safe" government bonds is positive? The dividend yield is around 3% compared to the sub-1% JGB. No one seems to care. Sentiment is neutral. New lows have spiked, while overall technicals are neutral. The leading economic indicator is bottoming, and economic surprises have been less bad. Japanese equities seem to rise only when the US 10-year bond yield rises, signaling a rise in global nominal GDP growth expectations. This model has worked well since 1990. Excessive bullishness on US bonds is a signal to buy Japan, however infrequent and short-lived. A world of prolonged financial repression (negative real US 10-year bond yields) could mean a repressed Japanese equity market for even longer than the most jaded recognize – with a few intervals of respite. "Buy value" still works in Japan. This year the EV-based metrics seem to be doing better than usual. Throw in a dash of EPS revisions, and the tempura is good to go.

### China (neutral)

Yes, Chinese equities are cheap. Investors don't seem to care, since value has been a trap this year while EPS momentum and price momentum have been rewarded disproportionately. We suspect that the gap between M1 and M2 growth has depressed the PB multiple on a cyclical basis, while the grim secular outlook for EBIT margins remains a longer-term overhang. Turnover has melted away gradually, and equity investor sentiment is weak. Still, volumes are low and the CDS premia are falling – country risk is low, but equity Risk-love is low. The cyclical sectors are being brutalized, and there is a worrisome rise in new lows. EPS revisions have now hit last October's lows and are probably headed lower still. While the credit multiplier – a reliable leading economic indicator – has curled up, we are not getting confirmation from the fine wine price index, from the OECD LEI, property stocks, small-cap stocks, or the policy indicator. The burden of proof remains on the recovery bulls, ourselves included. The scope of downward EPS revisions for the cyclical sectors is dramatic, especially when



compared with the region. The primary glimmer of hope for the A-shares is the rise of the credit multiplier (loans/base money). We would be a lot more comfortable if the gap between M1 and M2 growth starts to curl up from 20-year lows – that would likely get the PB multiple up. Price and EPS momentum have been winners this year, while value has turned in inconsistent results.

#### Hong Kong (neutral)

Compared to its own history, Hong Kong looks cheap, especially on enterprise value-based metrics. Negative real interest rates keep margins at some of the highest in the world. Short sales-to-turnover value is hitting new highs, and turnover to market capitalization itself has corroded to low levels, both highlighting apathy. Technicals are neutral. There are some incipient signs that the leading economic indicators are bottoming. Analysts have already cut 2012 EPS growth projections, now expecting EPS to contract. The yield curve is flattening, while free liquidity is decelerating. Value stays king this year.

#### India (overweight)

On an EV/EBITDA and EV/Sales basis, India is trading at 20-year lows. Markets trading at 20-year lows obviously have seen something go very wrong with fundamentals – we think these issues are very well known. Rather than focus on how bad things are, investors should focus on the bargain prices now available. With 670 million without power, the market goes up – surely the market is trying to tell the bears something. It is so bad, it is good. Talking to clients, it is clear that sentiment is sour. The put-call ratio, and falling turnover/market cap ratio confirms this. Technicals are neutral. There is a synchronous rise in the OECD LEI and the EPS revisions index – a good sign for prospective EPS growth forecasts. Policy is being eased via the currency. Last year policy was tight, the leading indicators dropped – and unsurprisingly, growth slowed. Investors should not confuse a regular cyclical slowdown with something more sinister. The exchange rate is more competitive, although the yield curve remains flattish. Value has done relatively well this year.

#### Indonesia (neutral)

While at fair value compared with its own history, Indonesia is expensive relative to the region. Sentiment is tilting euphoric. Technicals are neutral. The LEI is dropping, as are the EPS revisions. We see a slightly worrying drop in EBIT margins. Still, EPS growth forecasts of around 12-13% look easily do-able. Free liquidity is rising nicely, and the currency is getting more competitive. Recently, Indonesia's popularity with foreign investors has lurched down – we did not understand last year's star status, or the sudden reversal of opinion this year. The country could not possibly have changed that much in a few quarters. EPS mo is the undisputable alpha generator this year, followed by the old faithful, value.

#### Korea (underweight)

Korea is moderately cheap versus history, and quite undervalued compared with the region. Sentiment is in the tank. Technicals are weak, with breadth quite appalling. Along with China, Korea has worrying EPS revisions – this is the key reason we have been underweight the market. While the OECD LEI is curling up, the EPS revisions are plummeting, highlighting possible margin pressure. The 2012 EPS growth forecast of 40%-plus is inexplicable, and highly likely to be chimerical, a figment of analyst imaginations. A glimmer of hope – the terms of trade are picking up, and lead the EPS revisions cycle. Quite different from most other markets, value has triumphed while price and EPS mo have been dogs.



#### Malaysia (underweight)

Malaysia is moderately undervalued compared with its history, but expensive relative to the region. We are somewhat surprised by the sharp drop in EBIT margins. Risk-Love is at the upper levels of neutral. Technicals are neutral. There has been a slight drop in the EPS revisions index. Analysts forecasts for 2012 EPS growth have not changed much, and at 12% are quite achievable. Free liquidity is decelerating somewhat, while the yield curve remains flat as a chapatti. Price and EPS mo have worked great this year – to those that have, more has been given.

#### Philippines (neutral)

Relative and history-based valuations are now at nosebleed levels – the recently excited have arrived late to this party. Investor sentiment is euphoric. For the first time since 1997, we have been invited to the Philippines to meet investors and conferences are being organized, and travel permissions given. These are all bad signs. We have long acknowledged the superior Philippine EBIT margins and ROEs, but that story is very well recognized by investors and valuations. Technicals are strong. Both LEIS and EPS revisions are rising sharply – the EPS growth forecasts are probably too low. Fund flows are strong at USD2bn YTD, or about one-eighth of regional inflows (ex-China). Value is king.

#### Singapore (overweight)

Singapore equities are seriously undervalued versus history. The market is gradually getting re-rated versus the region since 2008, reversing a prior decade-long de-rating. Its safety and diversified market and yield have attractions in these uncertain times. Sentiment is high-neutral. Technicals are strong in this stealth bull market. Both the LEI and EPS revisions are improving – the EPS growth forecast for 2012 at 7% is too low. The terms of trade are improving, a positive for margins and equities. Both value and Mo have been disasters this year – only stability and profitability have been rewarded.

#### Taiwan (underweight)

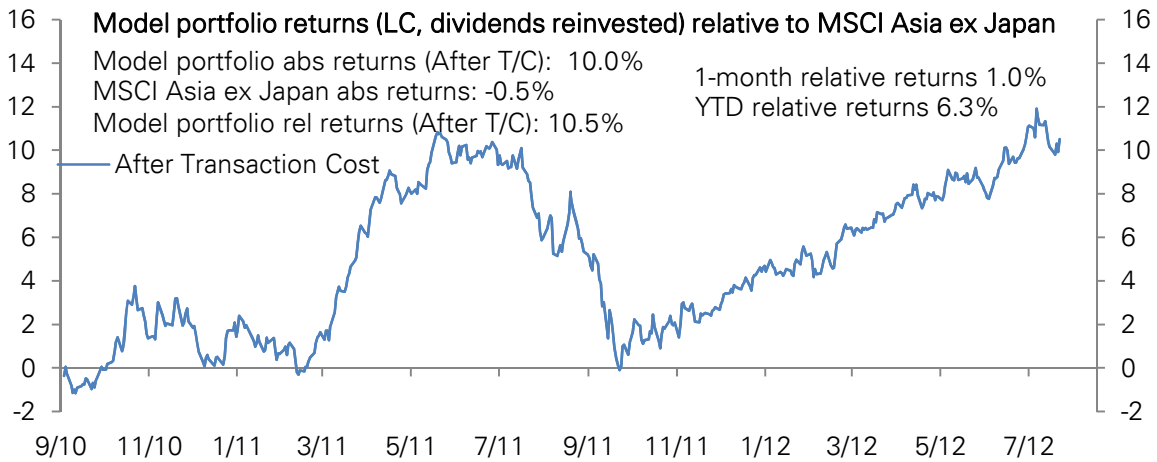
Taiwan equities are fairly valued compared to the last 5 years. Sentiment is neutral. Even after massive relative underperformance YTD, technicals are still not near to the washed-out levels. The EPS revisions index is relapsing a bit, but the terms of trade are stronger, and the LEI is picking up. Perhaps the 20% -plus EPS growth expectation has already incorporated improving LEIS and terms of trade? Free liquidity is neutral, the yield curve is flat, and the upside risk to this market (and our underweight) is the sharp rise in the terms of trade.

#### Thailand (overweight)

Compared to its own history, the market is at fair value. True, on a relative PB basis, the market is at close to record highs versus the region, but on other relative valuation metrics, Thailand is reasonably valued compared with the region. The country has a higher ROE (18%) versus the region (13%), and so has a higher PB, even after adjusting for the cost of equity. Sentiment is on the frothy side, in contrast to north Asia. Technicals are strong. The policy stance is easy, the LEI is rising, as is the EPS revisions index. The EPS growth forecast is a punchy 20% – small wonder that in a world where markets are not rewarded for value but EPS revisions, Thailand continues to do well. We like the curl up in the terms of trade – export prices divided by import prices – these tend to lead the market. Price and EPS momentum have dominated this year, while value stocks have languished.

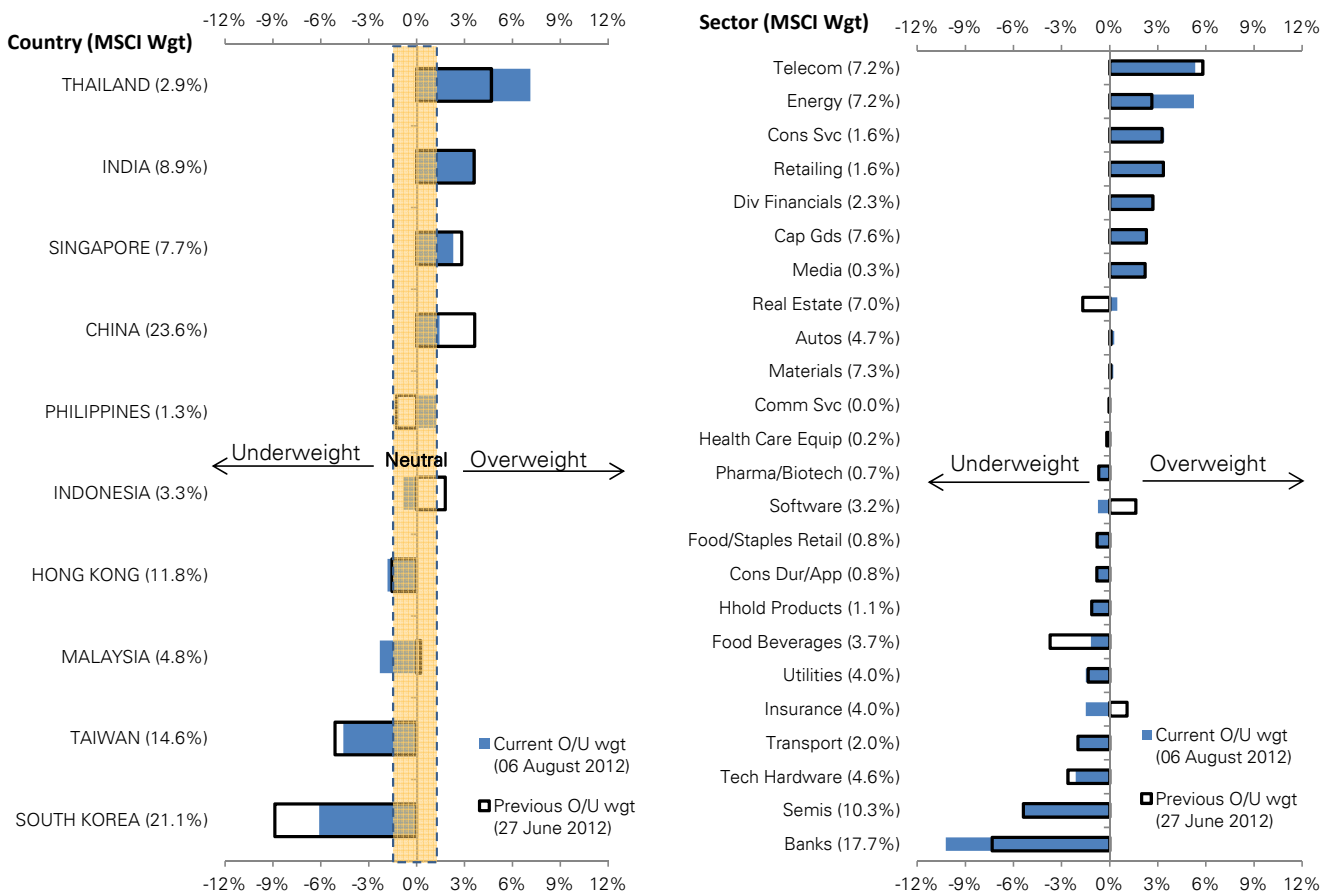


Figure 13: Model portfolio performance since inception (13 September 2010)



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. Note: Past performance does not guarantee future results

Figure 14: 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%.



Figure 15: Asia Model Portfolio

Company	BB Ticker	Mkt	DB Rec	Date Added	Close 5Aug12	YTD Rtn (%)	Hldg Per Rtn (%)	Beta	Mcap (US\$bn)	20D ADT (US\$ m)	FY 12 PE (DB est)	Valuation	Profitability	Price Mo	Earnings Mo	Stability	Risk	Growth	Earnings Quality	Cons Rec
Energy - MSCI wgt: 7.2%, portfolio wgt: 12.5%																				
CNOOC Ltd.	883 HK	CN	B	11Dec10	15.34	15.0	-10.8	1.39	88.9	96.7	8.8	+	++	++	o	o	++	o	o	o
Oil & Natural Gas Corp. Ltd.	ONGC IN	IN	B	14Sep10	280.45	12.2	-14.9	0.62	42.4	13.8	9.0	++	o	+	o	--	++	o	o	o
Oil India Ltd.	OINL IN	IN	B	30Sep11	487.05	5.1	-6.9	0.35	5.3	1.5	9.1	++	+	++	o	++	++	o	o	o
PTT PCL	PTT TB	TH	H	14Sep10	320.00	2.8	20.0	1.31	29.2	35.1	8.0	++	+	+	o	++	o	o	o	o
SK Innovation Co. Ltd.	096770 KS	KR	B	6Aug10	156000	9.9	21.0	1.51	12.8	63.3	6.4	++	++	o	o	--	+	-	+	o
Materials - MSCI wgt: 7.3%, portfolio wgt: 7.5%																				
Grasim Industries Ltd.	GRASIM IN	IN	B	27Jun12	2911.35	16.1	13.6	0.74	4.8	3.6	10.1	+	+	++	++	++	o	o	+	++
Indocement Tunggal Prakarsa	INTP IJ	ID	B	14Sep10	20000	19.0	11.7	1.34	7.9	5.9	15.7	--	++	++	++	++	++	o	++	++
LG Chem Ltd.	051910 KS	KR	B	14Sep10	306000	-3.6	-8.3	1.51	18.2	102.3	10.9	-	++	++	--	o	++	o	o	o
Capital Goods - MSCI wgt: 7.6%, portfolio wgt: 10.0%																				
China Communications Construction Co. Ltd.	1800 HK	CN	B	5May11	6.67	13.5	1.5	1.37	12.4	14.7	6.3	o	+	++	++	o	o	o	o	+
Sino-Thai Engineering & Construction PCL	STEC TB	TH	B	6Aug10	15.30	28.9	112.8	1.03	0.6	2.0	15.2	++	++	+	++	o	++	o	o	++
SembCorp Industries Ltd.	SCI SP	SG	B	14Sep10	5.29	34.8	26.0	1.33	7.6	10.7	11.2	o	++	++	++	o	+	o	o	+
SembCorp Marine Ltd.	SMM SP	SG	B	11Dec10	4.83	31.7	5.3	1.66	8.2	16.8	13.0	-	++	+	o	o	++	--	o	++
Commercial Services & Supplies - MSCI wgt: 0.0%, portfolio wgt: 0.0%																				
Transportation - MSCI wgt: 2.0%, portfolio wgt: 0.0%																				
Automobiles & Components - MSCI wgt: 4.7%, portfolio wgt: 5.0%																				
Hyundai Mobis Co. Ltd.	012330 KS	KR	B	14Sep10	296000	1.4	22.6	1.16	25.7	71.5	7.5	o	++	-	++	--	o	o	o	o
Hyundai Motor Co. Ltd.	005380 KS	KR	B	30Aug11	233000	9.4	19.5	1.25	46.4	152.7	5.1	o	+	o	++	--	o	--	o	o
Consumer Durables & Apparel - MSCI wgt: 0.8%, portfolio wgt: 0.0%																				
Consumer Services - MSCI wgt: 1.6%, portfolio wgt: 5.0%																				
SJM Holdings Ltd.	880 HK	HK	B	9Mar12	13.84	14.3	-6.4	1.37	10.0	11.9	10.8	++	++	++	++	--	++	++	o	
Minor International PCL	MINT TB	TH	B	27Jun12	15.70	55.5	11.3	1.04	1.8	4.7	18.0	o	+	++	++	--	--	+	o	
Media - MSCI wgt: 0.3%, portfolio wgt: 2.5%																				
BEC World PCL	BECTB TH	TH	B	11Nov11	54.50	23.3	49.0	0.65	3.6	3.9	20.4	-	++	++	o	o	++	o	o	--
Retailing - MSCI wgt: 1.6%, portfolio wgt: 5.0%																				
Belle International Holdings Ltd.	1880 HK	CN	B	5May11	13.90	3.4	-5.7	0.89	15.3	23.6	16.3	-	++	+	++	o	++	++	o	
Giordano International Ltd.	709 HK	HK	H	14Sep10	5.31	-1.6	32.9	0.88	1.1	1.9	9.1	++	++	o	--	--	+	++	++	
Food & Staples Retailing - MSCI wgt: 0.8%, portfolio wgt: 0.0%																				
Food Beverage & Tobacco - MSCI wgt: 3.7%, portfolio wgt: 2.5%																				
Uni-President Enterprises Co	1216 TT	TW	B	6Aug10	52.00	17.5	59.4	0.65	7.9	13.8	18.2	o	+	o	++	o	-	o	o	
Household & Personal Products - MSCI wgt: 1.1%, portfolio wgt: 0.0%																				
Health Care Equipment & Services - MSCI wgt: 0.2%, portfolio wgt: 0.0%																				
Pharmaceuticals & Biotechnology - MSCI wgt: 0.7%, portfolio wgt: 0.0%																				
Banks - MSCI wgt: 17.7%, portfolio wgt: 7.5%																				
ICICI Bank Ltd.	ICICIBC IN	IN	B	6Aug10	939.70	39.7	1.9	1.42	19.7	74.2	14.0	-	o	o	++	o	o	o	o	++
BOC Hong Kong (Holdings) Ltd.	2388 HK	HK	B	5May11	23.75	32.1	5.6	1.02	32.7	28.0	12.3	+	+	o	+	o	o	o	o	+
Industrial & Commercial Bank of China Ltd.	1398 HK	CN	B	5May11	4.50	3.0	-22.6	1.41	206.0	160.9	5.9	++	++	o	--	o	o	o	o	++
Diversified Financials - MSCI wgt: 2.3%, portfolio wgt: 5.0%																				
IDFC Ltd.	IDFC IN	IN	B	15May12	130.40	44.6	14.0	1.53	3.6	12.0	11.2	o	+	o	+	--	+	+	o	
Haitong Securities Co. Ltd-H share	6837 HK	CN	B	27Jun12	9.66	NA	-9.9	NA	14.2	6.2	20.6	+	+	+	+	o	o	o	++	
Insurance - MSCI wgt: 4.0%, portfolio wgt: 2.5%																				
Dongbu Insurance Co. Ltd.	005830 KS	KR	B	9Mar12	40700	-21.5	-12.7	0.62	2.5	4.2	5.5	++	++	o	o	o	++	++	++	
Real Estate - MSCI wgt: 7.0%, portfolio wgt: 7.5%																				
Sun Hung Kai Properties Ltd.	16 HK	HK	B	11Dec10	96.95	0.6	-22.0	1.06	32.7	65.1	13.0	+	o	o	o	o	o	o	o	--
Keppel Land Ltd.	KPLD SP	SG	B	15May12	3.46	64.9	17.7	1.67	4.2	7.7	13.2	+	++	++	o	o	-	++	--	o
Megaworld Corp.	MEG PM	PH	B	6Aug10																
Software & Services - MSCI wgt: 3.2%, portfolio wgt: 2.5%																				
SouFun Holdings Ltd. ADS	SFUN US	CN	B	30Aug11	12.68	-13.2	-23.3	1.59	0.9	3.9	5.6	++	++	o	++	--	--	o	o	o
Technology Hardware & Equipment - MSCI wgt: 4.6%, portfolio wgt: 2.5%																				
Simplo Technology Co. Ltd.	6121 TT	TW	B	5May11	176.50	13.1	10.3	1.00	1.8	13.8	10.2	o	++	+	++	--	++	++	++	-
Semiconductors & Semiconductor Equipment - MSCI wgt: 10.3%, portfolio wgt: 5.0%																				
Samsung Electronics Co. Ltd.	005930 KS	KR	B	6Aug10	1243000	17.5	56.6	1.07	164.4	391.1	8.6	+	++	o	o	+	o	o	o	++
Novatek Microelectronics Corp.	3034 TT	TW	H	28Jan11	86.10	19.5	-0.1	1.25	1.8	6.9	12.3	+	++	o	--	++	o	o	o	++
Telecommunication Services - MSCI wgt: 7.2%, portfolio wgt: 12.5%																				
China Mobile Ltd.	941 HK	CN	H	14Sep10	88.00	18.2	19.3	0.46	229.0	146.2	11.1	+	+	++	o	++	++	o	o	o
China Communications Services Corp. Ltd.	552 HK	CN	B	30Sep11	3.90	18.3	15.0	0.66	3.5	2.9	8.2	++	o	+	o	+	o	o	o	++
Far EasTone Telecommunications Co. Ltd.	4904 TT	TW	B	30Sep11	74.60	36.4	70.5	0.15	8.0	15.4	19.6	-	++	++	++	--	++	o	o	++
StarHub Ltd.	STH SP	SG	H	30Sep11	3.84	35.4	39.5	0.29	5.3	6.1	20.2	o	++	++	++	++	+	o	--	--
Telekom Malaysia Bhd	T MK	MY	H	15May12	5.75	24.0	13.0	0.70	6.5	18.9	23.9	+	o	++	++	++	-	--	o	o
Utilities - MSCI wgt: 4.0%, portfolio wgt: 2.5%																				
Guangdong Investment Ltd.	270 HK	CN	B	30Sep11	5.57	20.6	18.1	0.39	4.6	3.0	11.7	o	o	++	o	o	o	o	o	
Db X-Trackers Csi300 Trn Index Et	3049 HK	CN		15May12	5.70	-5.9	-9.9	1.00	0.3	3.5	NA									
Asia Model Portfolio (eq-wgt)**																				
						13.7	10.0	1.03	28.0	41.6	12.0									
MSCI Asia ex-Japan, LC						7.5	-0.5													

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 Favorable (++), Favorable (+), Neutral (0), Unfavorable (-), Very Unfavorable (--), 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 16: Equity markets and their key drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance/GDP	Real Exchange Rate	Policy	Total Score
China (July)	✓✓	✓✓	○	xx	xx	xx	○	○	-2
China (June)	✓✓	✓✓	○	xx	✓✓	xx	○	○	2
Hong Kong (July)	○	✓	✓	○	✓✓	xx	xx	xx	-2
Hong Kong (June)	○	✓	✓✓	xx	✓✓	xx	xx	xx	-3
Indonesia (July)	○	○	○	✓✓	xx	xx	✓✓	○	0
Indonesia (June)	○	○	○	○	xx	xx	✓✓	○	-2
India (July)	○	✓	○	○	✓✓	xx	✓✓	○	3
India (June)	○	✓	○	✓✓	✓✓	xx	✓✓	○	5
Korea (July)	○	✓	✓✓	xx	xx	xx	○	○	-3
Korea (June)	○	✓	✓✓	○	✓✓	xx	✓✓	○	5
Malaysia (July)	○	✓	○	✓✓	✓✓	xx	○	○	3
Malaysia (June)	○	✓	○	✓✓	✓✓	xx	○	○	3
Philippines (July)	○	x	x	✓✓	✓✓	xx	○	○	0
Philippines (June)	○	x	xx	✓✓	✓✓	xx	○	○	-1
Singapore (July)	○	✓✓	○	✓✓	✓✓	xx	xx	✓✓	4
Singapore (June)	○	✓✓	○	✓✓	xx	xx	○	✓✓	2
Thailand (July)	○	○	○	✓✓	✓✓	xx	✓✓	✓✓	6
Thailand (June)	○	○	○	✓✓	✓✓	xx	✓✓	✓✓	6
Taiwan (July)	○	○	○	xx	✓✓	xx	✓✓	○	0
Taiwan (June)	○	○	○	✓✓	✓✓	xx	○	○	2
Asia ex-Japan (July)	○	✓	○	x	○	xx	○	○	-2
Asia ex-Japan (June)	○	✓	✓	○	✓✓	xx	○	○	2
Japan (July)	○	✓✓	○	xx	xx	xx	○	○	-4
Japan (June)	○	✓✓	○	✓✓	xx	xx	○	○	0

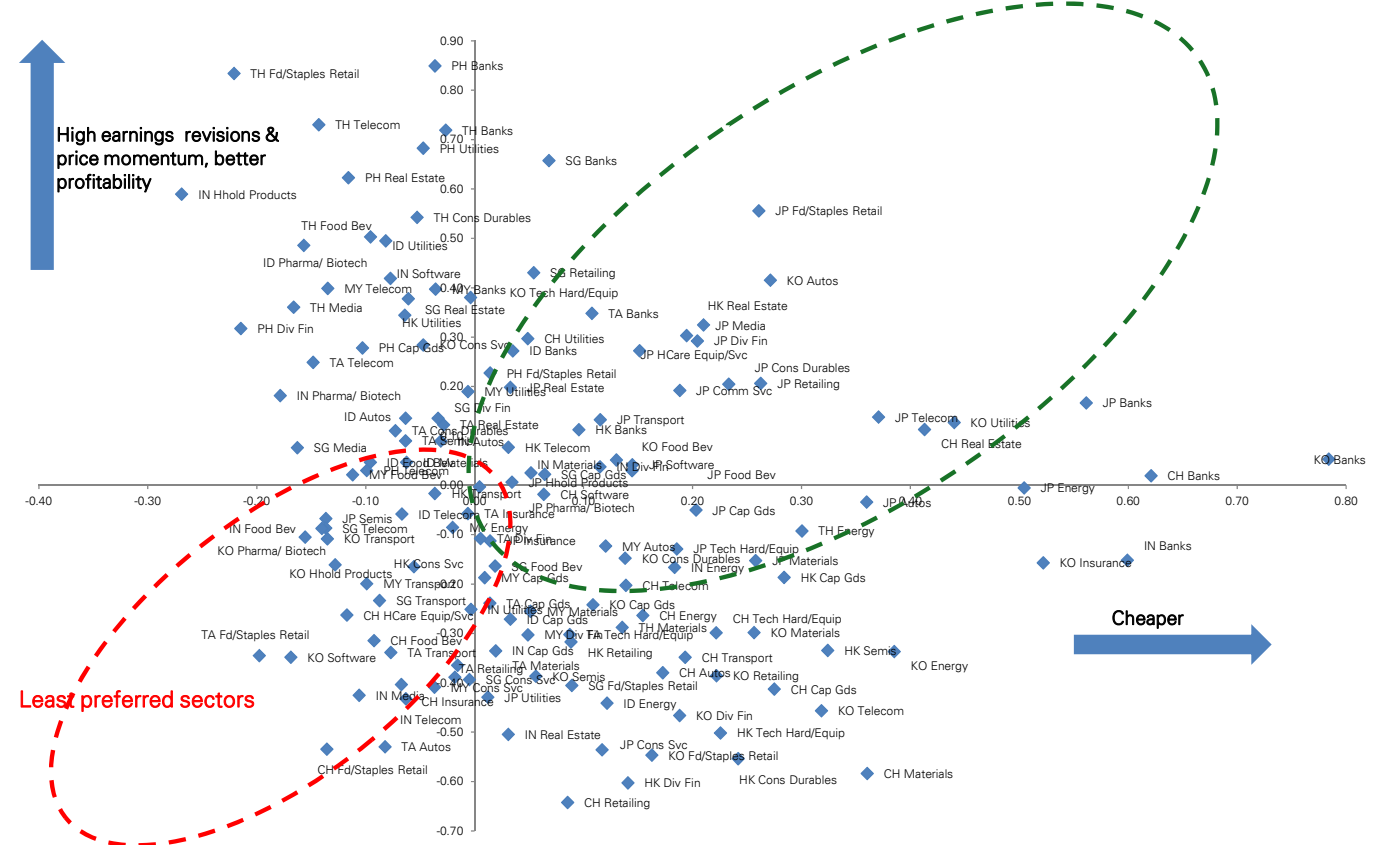
Source: Deutsche Bank.  
Blank cell represents factor not used in the model for that country.  
✓✓ Most Favorable, ✓ Favorable, ○ Neutral, x Less Favorable and xx Least Favorable.

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/EBIDTA 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.



## Country-sector selection

Figure 17: We prefer sectors with value, high earnings and price momentum, and better profitability



Source: Deutsche Bank, FactSet





Figure 18: 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)

	Country	Sector	Mkt Cap (US\$ bn)	Valuation			Earnings Revisions		Profitability	Technicals	Valuation	Earnings Revisions	Profitability	Technicals
				P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI				
1	Korea	Banks	39,516	0.6	5.3		-0.1	-0.2	13.6	0.97	++	O	O	-
5	Singapore	Banks	59,058	1.4	11.9		0.9	0.6	11.0	1.04	+	++	O	+
6	Thailand	Banks	27,905	1.8	11.1		0.7	0.8	12.4	1.12	O	++	O	++
7	Korea	Automobiles & Components	72,693	1.4	6.9	6.8	0.7	0.3	15.1	0.98	++	++	+	O
9	Philippines	Utilities	4,290	2.7	11.7	12.3	0.5	1.0	14.8	1.10	O	++	+	++
10	Thailand	Food & Staples Retailing	2,368	9.2	22.2	18.0	0.6	0.7	33.4	1.23	--	++	++	++
12	Thailand	Telecommunication Services	5,670	3.9	16.4	14.3	0.9	0.5	19.0	1.17	--	++	++	++
14	Hong Kong	Real estate	97,529	0.5	11.8	6.4	0.2	0.3	12.0	1.00	++	+	O	O
15	China	Real estate	32,957	0.8	5.8	5.9	0.0	-0.3	17.5	1.06	++	O	+	++
22	Singapore	Retailing	3,911	2.8	10.3	7.6	0.5	0.3	23.5	1.01	+	++	++	+
25	India	Banks	50,358	0.8	4.8		-0.2	-0.7	18.3	0.99	++	-	+	O
32	Korea	Insurance	14,459	1.2	5.6		-0.5	-0.3	17.2	0.93	++	-	+	--
34	China	Utilities	13,967	1.1	9.7	19.5	0.2	0.4	5.5	1.05	O	++	--	+
35	India	Software & Services	31,847	3.3	12.2	9.6	0.3	0.3	21.7	1.05	-	++	++	+
41	Hong Kong	Utilities	41,448	1.7	13.2	19.6	0.3	0.3	11.5	1.01	-	++	O	+
48	Thailand	Energy	18,694	1.4	8.7	7.5	-0.3	-0.4	18.5	0.97	++	O	++	O
51	Malaysia	Utilities	12,995	1.5	13.5	12.3	-0.3	0.2	10.0	1.12	O	O	-	++
56	India	Diversified Financials	8,410	1.5	10.2		-0.3	-0.2	18.4	1.05	+	O	++	++
57	Hong Kong	Telecommunication Services	1,572	1.7	11.1	11.3	0.2	-0.3	15.7	1.00	O	O	+	O
64	Singapore	Capital Goods	35,421	1.0	11.0	10.5	-0.4	0.0	9.1	1.04	+	O	-	+
		Median	23,299	1.4	11.0	10.9	0.22	0.29	15.4	1.04				
		Average	28,753	2.0	10.7	11.5	0.20	0.16	15.9	1.05				

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 China banks, Indonesia capital goods, Malaysia food beverage and tobacco, Singapore food beverage and tobacco and Taiwan consumer durables and apparel and have added Korea autos, Singapore banks, China utilities, Philippines utilities and Singapore retailing.



Figure 19: 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)

	Country	Sector	Mkt Cap (US bn)	Valuation			Earnings Revisions		Profitability	Technicals				
				P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	Valuation	Earnings Revisions	Profitability	Technicals
1	China	Household & Personal Products	6,627	1.6	NA	(1.6)	-1.0	-1.0	(14.1)	0.96	--	--	--	-
5	China	Food & Staples Retailing	6,132	2.9	12.9	16.5	-1.0	-1.0	19.5	0.94	--	--	++	-
6	Taiwan	Automobiles & Components	6,656	1.4	15.9	19.5	-1.0	-1.0	7.7	1.00	-	--	-	O
7	China	Retailing	12,759	1.2	9.3	7.8	-1.0	-1.0	14.0	0.85	+	--	O	--
9	Korea	Software & Services	13,313	2.7	13.5	20.4	-0.8	-0.3	12.0	0.87	--	-	O	--
10	India	Telecommunication Services	4,531	2.0	18.5	19.3	-0.3	-0.8	4.1	0.87	-	-	--	--
12	India	Real Estate	1,929	0.8	10.8	11.5	-0.5	-1.0	5.1	0.95	O	--	--	-
14	China	Food Beverage & Tobacco	18,595	1.4	16.2	13.2	-0.6	-0.5	11.7	0.92	-	-	O	--
15	Singapore	Hotels Restaurants & Leisure	5,947	0.8	17.4	11.9	-0.9	-0.6	8.6	0.97	O	--	-	O
22	Taiwan	Materials	47,882	1.3	13.2	16.0	-1.0	-0.4	7.9	0.97	O	--	-	O
25	Korea	Semiconductors & Semiconductor Equipment	134,913	1.6	8.6	12.5	-0.6	-0.5	8.3	0.93	+	-	-	--
32	Singapore	Transportation	12,003	1.7	15.9	15.9	-0.4	-0.7	10.7	1.00	-	-	O	O
34	India	Capital Goods	10,665	2.0	11.1	9.3	-0.8	-0.6	15.3	0.97	O	--	+	O
35	Malaysia	Transportation	3,809	1.7	16.1	15.7	-0.5	-0.5	11.4	1.01	-	-	O	+
41	Korea	Household & Personal Products	7,520	3.2	21.1	16.2	-0.5	-0.3	9.3	1.05	-	-	-	+
48	India	Utilities	9,989	1.5	10.8	15.4	-0.5	-0.5	11.2	0.92	O	-	O	--
51	India	Food Beverage & Tobacco	11,176	2.7	18.9	13.6	-0.6	-0.2	19.2	1.05	--	-	++	++
56	Taiwan	Technology Hardware & Equipment	86,717	1.2	10.8	10.9	-0.7	-0.6	10.3	0.97	+	-	-	O
57	Indonesia	Telecommunication Services	11,195	1.4	16.0	20.8	0.2	-0.2	2.2	0.84	-	O	--	--
64	Taiwan	Semiconductors & Semiconductor Equipment	94,673	1.3	13.5	16.1	0.0	0.0	7.7	1.00	-	+	-	O

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 pharma and biotechnology and China tech hardware and added Taiwan autos and China retailing.



Figure 20: Asian country sector heat-map for all covered sectors

	China	Hong Kong	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Thailand	Taiwan	Japan
Energy	91		72	123	67	90			46		18
Materials	106		63	78	79	101			97	127	56
Capital Goods	94	60	121	111	93	100	51	62		108	53
Commercial Services & Supplies											29
Transportation	98	81			112	119		124		132	42
Automobiles & Components	103		65	64	7	75				144	36
Consumer Durables & Apparel		120			76					70	25
Hotels Restaurants & Leisure		105			43	135		129			134
Media			141					86	47		19
Retailing	143	110			99			21		130	22
Food & Staples Retailing	145				128			122	10	142	2
Food Beverage & Tobacco	131		109	80	50	87		96	27		52
Household & Personal Products	146		37	11	118						69
Health Care Equipment & Services	126										26
Pharmaceuticals & Biotechnology			73	35	115						74
Banks	8	45	24	39	1	32	3	5	6	23	4
Diversified Financials		136	54		117	113	57	58		89	20
Insurance	137				31					82	88
Real Estate	15	14	138				17	38		61	44
Software & Services	68		34		140						48
Technology Hardware & Equipment	85	116			30					104	66
Semiconductors & Semiconductor Equipment		77			125					71	102
Telecommunication Services	83	55	139	92	95	41	84	107	12	59	16
Utilities	33	40	114	28	13	49	9				133
<b>Overall (bottom-up ranking) - Current</b>	<b>8</b>	<b>3</b>	<b>6</b>	<b>7</b>	<b>9</b>	<b>10</b>	<b>1</b>	<b>5</b>	<b>2</b>	<b>11</b>	<b>4</b>
Overall (bottom-up ranking) - Previous	6	2	8	10	9	7	4	5	1	11	3
Overall (bottom-up ranking) - Avg of above	7	3	7	9	9	9	3	5	2	11	4
<b>Valuation - Current</b>	<b>1</b>	<b>5</b>	<b>4</b>	<b>9</b>	<b>3</b>	<b>10</b>	<b>11</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>2</b>
Valuation - Previous	1	4	6	9	2	10	11	7	5	8	3
<b>Earnings Revisions - Current</b>	<b>11</b>	<b>6</b>	<b>8</b>	<b>4</b>	<b>9</b>	<b>7</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>10</b>	<b>5</b>
Earnings Revisions - Previous	9	3	7	8	11	5	2	4	1	10	6
<b>Profitability - Current</b>	<b>4</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>6</b>	<b>5</b>	<b>7</b>	<b>3</b>	<b>10</b>	<b>11</b>
Profitability - Previous	4	8	2	1	9	6	5	7	3	10	11
<b>Technicals - Current</b>	<b>10</b>	<b>6</b>	<b>5</b>	<b>9</b>	<b>11</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>7</b>	<b>8</b>
Technicals - Previous	10	9	6	7	11	3	1	4	2	8	5

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



## Asia Model Portfolio

Figure 21: Deletions from model portfolio since inception (13 September 2010)

Company	BB Ticker	Date Added	Date Removed	DB Rec	Close 5Aug12	Company	BB Ticker	Date Added	Date Removed	DB Rec	Close 5Aug12
<b>Deletions as of 2 Nov 2010</b>						<b>Deletions as of 29 Aug 2011</b>					
Agri. Bank of China	1288 HK	13Sep10	2Nov10	B	3.14	Sinopec-H	386 HK	11Dec10	29Aug11	H	7.00
Anta Sports	2020 HK	13Sep10	2Nov10	H	4.14	Cathay Pacific	293 HK	14Sep10	29Aug11	S	12.66
Fraser & Neave	FNN SP	13Sep10	2Nov10	B	8.15	Maanshan-H	323 HK	7Jun11	29Aug11	H	1.76
<b>Deletions as of 10Dec2010</b>						<b>Deletions as of 30 Sep 2011</b>					
China Shineway	2877 HK	13Sep10	10Dec10	H	11.16	DSME	042660 KS	22Jul11	30Sep11	B	25350
Chunghwa Tel	2412 TT	13Sep10	10Dec10	H	89.50	OCI Company	010060 KS	14Sep10	30Sep11	NR	199000
Far EasTone Telecom	4904 TT	13Sep10	10Dec10	B	74.60	BRI	BBRI IJ	30Aug11	30Sep11	B	7000.00
First Philippine Hldgs	FPH PM	13Sep10	10Dec10	B	77.25	Samsung Eng.	028050 KS	14Sep10	30Sep11	H	180000
LIG Insurance	002550 KS	13Sep10	10Dec10	B	22850	Siam Cement	SCC TB	22Jul11	30Sep11	B	324.00
Perusahaan Gas Negara	PGAS IJ	13Sep10	10Dec10	B	3800.00	KWG Property	1813 HK	11Dec10	30Sep11	B	4.21
PLUS Expressways	PLUS MK	13Sep10	10Dec10	NR	NA	SOHO China	410 HK	3Nov10	30Sep11	B	5.80
SATS	SATS SP	13Sep10	10Dec10	B	2.54	<b>Deletions as of 11 Nov 2011</b>					
Top Glove	TOPG MK	13Sep10	10Dec10	H	5.40	Hyundai Dept Store	069960 KS	14Sep10	11Nov11	B	122500
Wynn Macau	1128 HK	13Sep10	10Dec10	B	16.90	SJM	880 HK	14Sep10	11Nov11	B	13.84
<b>Deletions as of 24 Jan 2011</b>						<b>Deletions as of 19 Jan 2012</b>					
Dongfeng Motor	489 HK	2Nov10	24Jan11	B	10.88	Taiwan Cement	1101 TT	30Aug11	11Nov11	H	35.80
Hang Lung Properties	101 HK	13Sep10	24Jan11	B	27.30	<b>Deletions as of 9 March 2012</b>					
<b>Deletions as of 4 May 2011</b>						<b>Deletions as of 15 May 2012</b>					
Delta Electronics	2308 TT	13Sep10	4May11	B	99.00	Amorepacific Corp.	090430 KS	30Sep11	9Mar12	H	1015000
Franshion	817 HK	10Dec10	4May11	B	2.34	Hong Leong Bank Bhd.	HLBK MK	11Nov11	9Mar12	B	13.56
Genting Bhd	GENT MK	10Dec10	4May11	H	9.05	Industrial Bank of Korea	024110 KS	22Jul11	9Mar12	H	11900
Kasikornbank	KBANK TB	10Dec10	4May11	B	172.50	KT&G Corp.	033780 KS	14Oct10	9Mar12	H	82900
Nexen Tire	002350 KS	13Sep10	4May11	H	19200	<b>Deletions as of 26 June 2012</b>					
Orise Technology	3545 TT	27Jan11	4May11	B	30.90	Formosa Chemicals & Fibre	1326 TT	14Sep10	26Jun12	H	79.90
Shanghai Electric	2727 HK	13Sep10	4May11	B	3.01	China Construction Bank-H	939 HK	14Sep10	26Jun12	H	5.27
<b>Deletions as of 6 Jun 2011</b>						<b>Deletions as of 6 August 2012</b>					
DiGi.Com	DIGI MK	13Sep10	6Jun11	B	4.61	Wipro Ltd	WPRO IN	20Jan12	6Aug12	B	347.00
Bank of Baroda	BOB IN	10Dec10	6Jun11	B	650.90	United Tractors Tbk Pt	UNTR IJ	9Mar12	6Aug12	B	21300
<b>Deletions as of 21 Jul 2011</b>						<b>Deletions as of 6 August 2012</b>					
China CITIC	998 HK	4May11	21Jul11	H	3.88	Public Bank	PBKF MK	15May12	6Aug12	B	14.50
Asian Paints	APNT IN	13Sep10	21Jul11	H	3750.25	Mstar Semiconductor Inc	3697 TT	30Sep12	6Aug12	B	208.50
Hyundai Heavy	009540 KS	10Dec10	21Jul11	B	233500	Bank of China Ltd-H	3988 HK	14Sep10	6Aug12	B	2.95
Korean Reinsurance	003690 KS	2Nov10	21Jul11	B	10650	Hyundai Marine & Fire Ins Co	001450 KS	22Jul11	6Aug12	B	30250

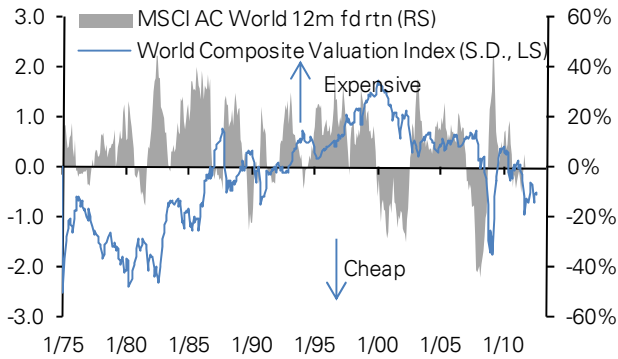
Source: Deutsche Bank, FactSet, Bloomberg Finance LP



## Global – valuation

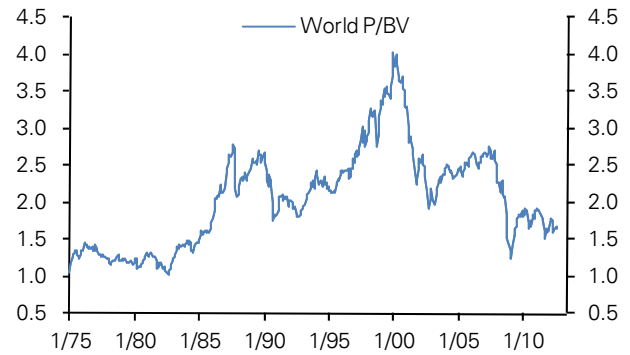
Global equity valuations languish in the netherworld, victims of risk aversion, capital preservation, and elevated policy uncertainty. Positive expected returns are likely embedded in these low valuations, for those who can tolerate discomfort, and have staying power.

Figure 22: Composite valuation index



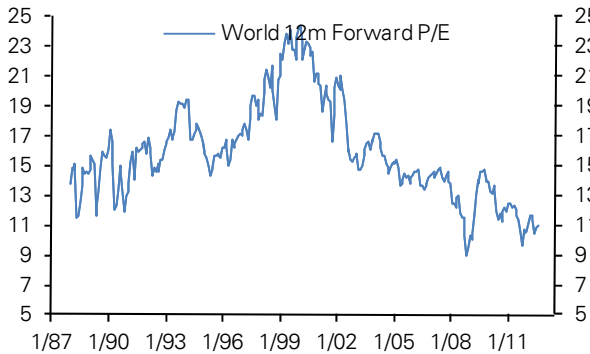
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 23: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream

Figure 24: 12m forward P/E



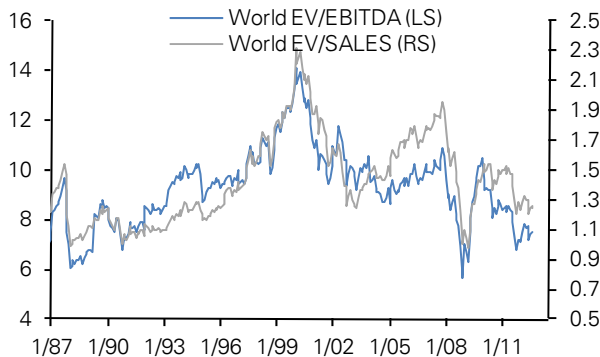
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 25: 12m trailing P/E



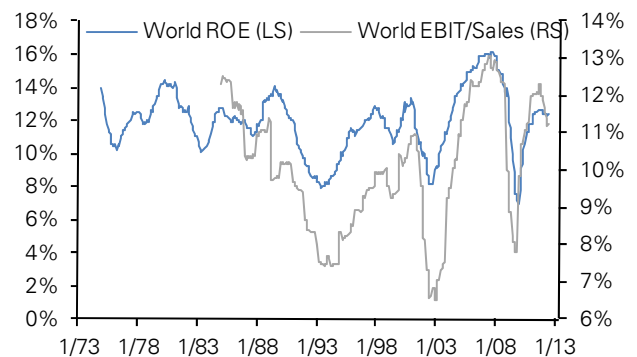
Source: Deutsche Bank, MSCI, DataStream

Figure 26: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 27: ROE and EBIT margin



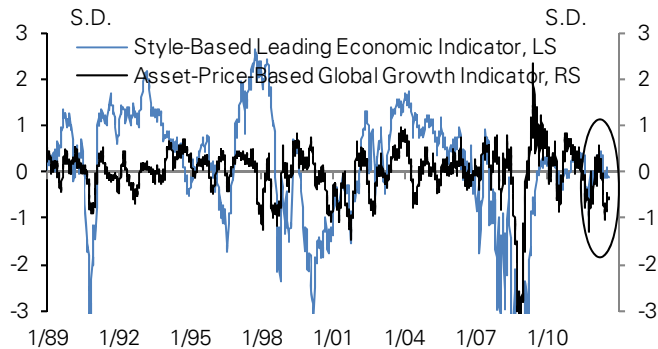
Source: Deutsche Bank, MSCI, FactSet



## Global metrics

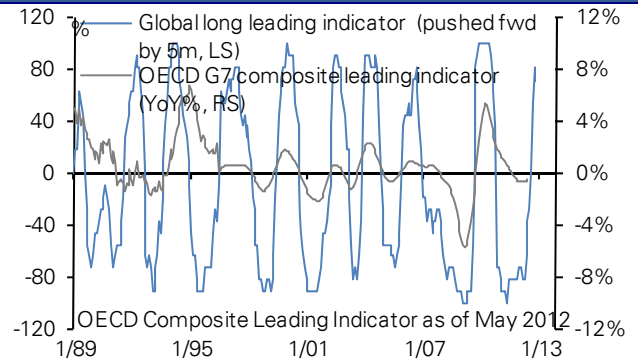
Cyclical investors should focus on the sharp rise in MOMLI – the mother of all leading indicators. The diffusion of individual leading economic indicators for a swath of countries is getting less bad. This diffusion index LEADS other leading economic/earnings indicators. Meanwhile, asset prices with a view on global growth remain sullen, a rare disagreement with MOMLI, which historically has been resolved by asset prices catching up with MOMLI.

Figure 28: Market – implied global growth leading indicators



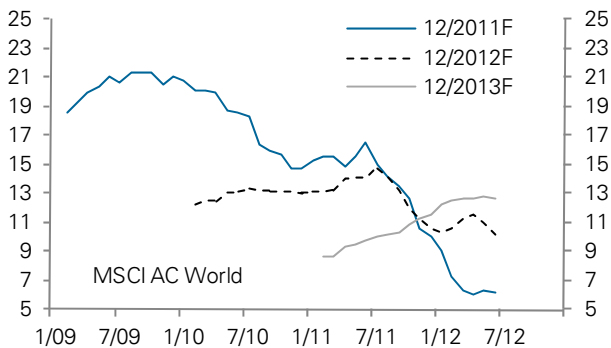
Source: Deutsche Bank

Figure 29: Global long leading indicator (MOMLI)



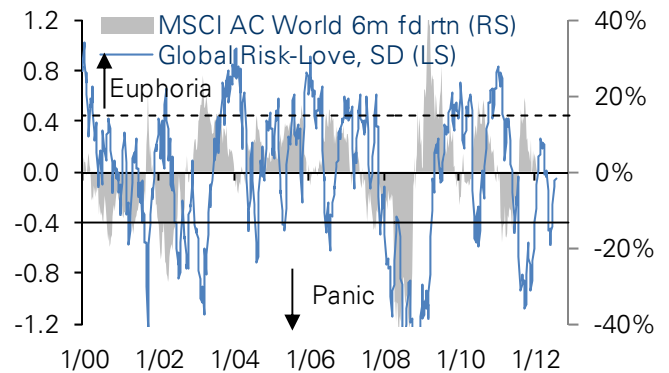
Source: Deutsche Bank, OECD

Figure 30: Earnings growth forecast (%)



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

Figure 31: Global equity Risk-Love indicator

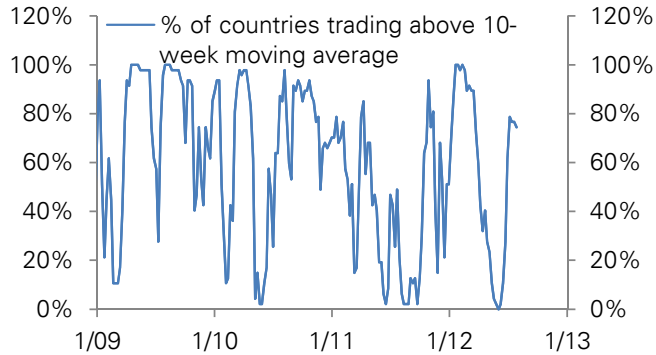


Source: Deutsche Bank, MSCI



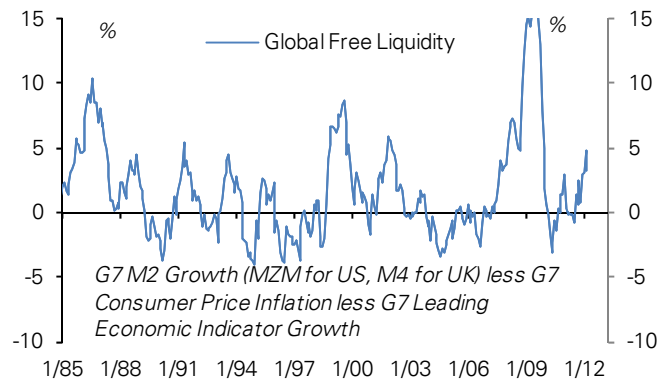
Global metrics (continued)

Figure 32: Percentage of countries above their 10-WMA



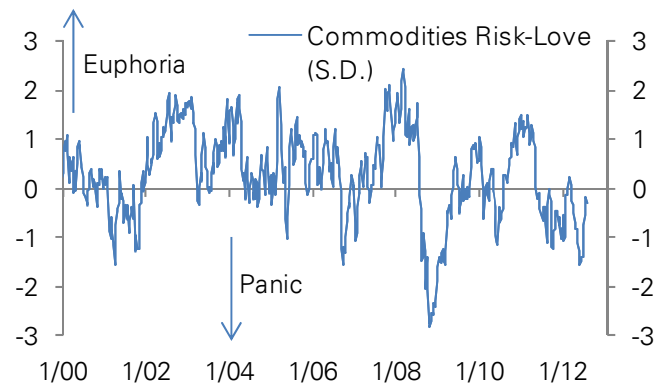
Source: Deutsche Bank. Includes 49 Markets.

Figure 33: Global free liquidity



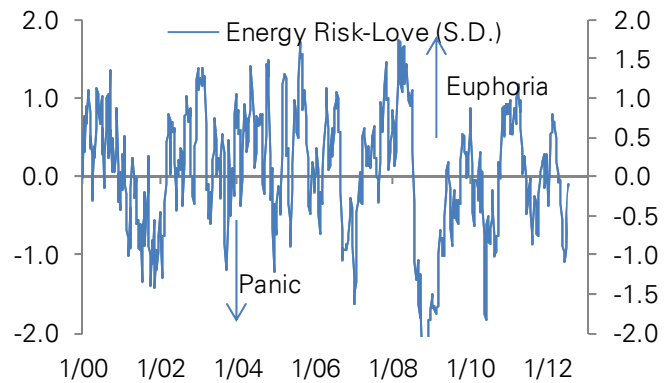
Source: Deutsche Bank

Figure 34: Commodity Risk-Love indicator



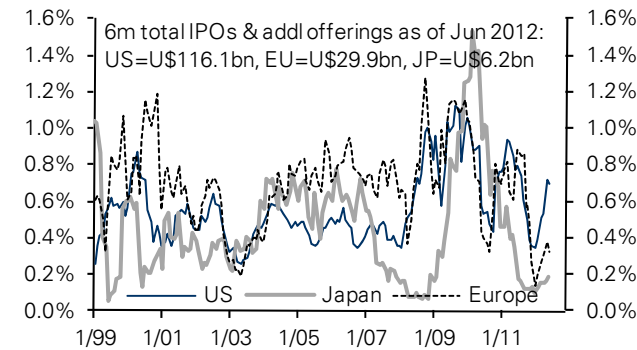
Source: Deutsche Bank

Figure 35: Energy Risk-Love indicator



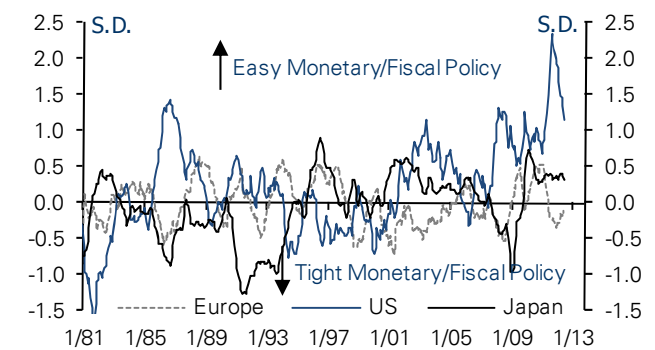
Source: Deutsche Bank

Figure 36: 6m total equity offerings\* as percentage of total market cap



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

Figure 37: 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 38: Market intelligence by country**

2Aug12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Region/Country (#Co)	U\$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
<b>North America (684)</b>	<b>13,938,685</b>	<b>-0.2</b>	<b>7.3</b>	<b>14.1</b>	<b>13.3</b>	<b>11.8</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>2.0</b>	<b>2.3</b>	<b>2.5</b>	<b>15.0</b>	<b>5.6</b>	<b>11.8</b>	<b>11.1</b>	<b>14.5</b>	<b>14.9</b>
Canada (102)	1,130,510	-1.2	-4.0	13.2	13.0	11.4	1.7	1.5	1.4	2.8	3.0	3.2	18.6	-0.8	13.1	13.1	11.6	12.7
US (582)	12,808,175	-0.1	8.4	14.1	13.3	11.9	2.2	2.0	1.8	2.0	2.2	2.5	14.7	6.2	11.7	10.9	14.9	15.1
<b>Europe (449)</b>	<b>6,117,486</b>	<b>0.7</b>	<b>2.6</b>	<b>10.8</b>	<b>10.9</b>	<b>9.8</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>3.8</b>	<b>4.1</b>	<b>4.4</b>	<b>0.4</b>	<b>-0.2</b>	<b>12.4</b>	<b>12.8</b>	<b>12.1</b>	<b>12.6</b>
Austria (8)	20,952	-3.6	-2.7	9.9	8.2	7.0	0.7	0.7	0.7	3.8	4.5	5.2	-22.2	20.4	17.5	7.3	8.5	9.4
Belgium (12)	105,025	2.1	24.2	16.9	13.6	13.3	1.7	1.6	1.5	2.6	3.2	3.5	-7.2	24.7	9.7	10.0	11.4	11.7
Denmark (12)	115,937	6.4	24.4	24.1	19.1	15.4	2.7	2.5	2.4	1.5	1.6	2.1	-16.3	31.9	24.3	10.0	12.5	14.4
Finland (15)	67,849	-0.9	-8.8	10.7	11.2	10.3	1.2	1.3	1.2	6.2	5.3	5.6	-19.3	-38.7	45.8	11.3	12.2	12.5
France (72)	823,291	-0.1	3.3	10.3	10.2	9.4	1.2	1.1	1.1	4.1	4.3	4.7	-0.7	-2.0	10.8	10.9	10.2	10.7
Germany (51)	755,752	1.8	8.6	11.0	10.1	9.2	1.4	1.2	1.2	3.9	3.9	4.2	-8.5	10.5	11.7	12.1	12.2	12.6
Greece (4)	6,399	-3.2	-20.8	11.5	14.5	17.4	1.5	1.3	1.2	0.0	1.4	2.1	-74.1	-3.3	90.2	23.1	3.6	18.6
Ireland (4)	26,486	-4.3	0.7	16.4	15.5	13.2	1.3	1.3	1.2	3.2	3.0	3.1	12.5	5.4	na	7.9	7.8	9.3
Italy (29)	185,121	-7.0	-11.0	8.1	8.2	7.3	0.9	0.9	0.9	4.1	5.0	5.6	-14.0	11.9	14.0	9.3	8.0	8.6
Netherlands (21)	234,832	3.9	6.1	11.6	12.7	11.4	1.4	1.3	1.2	2.7	3.5	4.1	-6.0	8.7	12.8	12.2	12.5	13.0
Norway (10)	89,976	2.9	3.2	10.7	10.0	9.2	1.5	1.4	1.3	4.6	5.0	5.3	21.5	6.2	8.8	14.3	13.9	14.0
Portugal (7)	15,125	-5.2	-20.4	10.8	10.4	9.8	1.3	1.1	1.1	4.9	2.5	3.1	-6.3	3.9	6.9	10.6	10.1	10.3
Spain (27)	213,214	-11.2	-25.8	7.0	9.3	7.5	0.9	0.9	0.9	5.7	5.8	5.9	-8.9	-29.5	30.6	11.9	9.6	11.2
Sweden (34)	315,079	3.0	6.6	13.5	13.2	11.7	1.9	1.7	1.6	3.8	4.1	4.4	-5.2	2.4	12.2	14.1	13.3	14.1
Switzerland (39)	841,903	4.6	7.4	14.1	13.2	11.7	2.2	2.0	1.9	3.5	3.7	4.0	-9.0	7.1	12.1	13.1	15.1	15.8
UK (104)	2,300,545	0.4	1.8	10.1	10.5	9.5	1.6	1.4	1.3	3.9	4.2	4.5	13.5	-3.5	10.5	14.7	13.3	13.4
Japan (315)	2,007,348	-4.8	0.6	14.2	11.7	9.9	0.9	0.9	0.8	2.7	2.8	3.0	-15.4	45.3	27.5	6.5	7.7	8.3
Asia Pac ex Japan (687)	3,370,431	1.7	5.8	12.6	11.8	10.4	1.6	1.5	1.4	3.4	3.4	3.7	0.1	9.2	13.0	12.5	12.9	13.2
Asia ex Japan (615)	2,448,089	1.0	5.8	12.6	11.6	10.1	1.6	1.5	1.3	2.8	2.8	3.1	-1.9	12.0	14.3	12.1	12.8	13.1
Australia (67)	909,718	3.7	5.8	12.6	12.3	11.2	1.7	1.6	1.5	4.8	5.0	5.4	5.5	2.3	9.4	13.4	13.1	13.5
China (144)	576,988	0.7	2.0	9.8	9.4	8.4	1.6	1.4	1.3	3.3	3.4	3.8	9.2	5.6	11.4	16.2	15.2	15.0
Hong Kong (45)	289,602	3.3	9.1	12.9	14.6	13.1	1.3	1.2	1.1	3.3	3.2	3.4	21.4	-11.8	11.0	9.7	8.2	8.6
India (71)	218,148	-1.2	11.9	15.5	14.1	12.2	2.7	2.4	1.9	1.5	1.7	1.9	11.0	11.9	13.8	17.4	17.2	15.6
Indonesia (25)	81,477	3.8	3.0	15.1	13.7	12.1	3.4	2.9	2.5	2.3	2.8	3.1	17.9	10.2	12.8	23.5	22.0	21.5
Korea (105)	516,876	1.5	5.0	12.2	9.5	8.0	1.3	1.2	1.1	1.0	1.3	1.4	-15.9	35.2	16.9	8.7	12.5	12.9
Malaysia (42)	117,412	1.5	4.7	16.3	14.9	13.6	2.0	2.0	1.8	2.7	3.4	3.6	7.8	10.6	10.3	12.4	13.3	13.5
New Zealand (5)	12,624	5.0	8.8	15.4	15.3	13.5	1.6	1.6	1.6	5.5	5.4	5.7	-1.6	0.4	13.2	10.2	10.4	11.5
Philippines (18)	31,498	0.0	20.4	19.5	17.3	15.4	2.9	2.7	2.4	2.4	2.3	2.5	5.5	12.8	12.3	14.8	15.4	15.6
Singapore (32)	188,552	4.5	16.2	14.5	13.8	12.7	1.6	1.4	1.4	3.6	3.6	3.8	-3.5	7.8	8.0	10.8	10.5	10.6
Taiwan (113)	357,191	-1.9	1.1	14.9	14.2	12.2	1.7	1.7	1.6	3.5	3.5	4.0	-29.7	14.9	25.1	12.4	12.0	13.1
Thailand (20)	70,344	0.2	14.9	13.6	11.2	9.7	2.4	2.0	1.6	3.3	3.9	4.5	17.3	19.2	15.4	17.8	16.9	17.5
<b>EM EU/M East/Africa (140)</b>	<b>604,395</b>	<b>2.3</b>	<b>6.5</b>	<b>10.4</b>	<b>10.4</b>	<b>8.9</b>	<b>1.3</b>	<b>1.2</b>	<b>1.1</b>	<b>3.3</b>	<b>3.9</b>	<b>4.3</b>	<b>25.5</b>	<b>-2.2</b>	<b>4.9</b>	<b>16.7</b>	<b>14.7</b>	<b>14.0</b>
Czech Republic (3)	10,164	0.5	-4.1	10.2	10.1	10.0	1.7	1.6	1.5	6.7	7.2	7.3	-12.4	0.4	1.1	16.8	16.0	15.4
Egypt (10)	12,435	1.6	41.7	9.7	10.3	8.8	0.9	1.7	1.7	0.0	3.8	5.0	8.5	38.2	19.8	6.8	8.0	9.0
Hungary (4)	9,790	0.3	1.9	7.3	8.5	6.9	0.9	0.8	0.8	0.5	3.7	4.5	14.4	-14.8	22.6	12.4	9.7	11.0
Israel (13)	57,436	1.9	-1.7	8.0	7.7	7.1	1.5	1.3	1.2	2.4	2.6	3.3	10.1	0.4	5.7	18.7	16.6	16.0
Morocco (3)	4,203	0.7	-11.2	12.6	11.9	11.1	3.2	3.1	2.9	5.4	5.2	5.6	-5.4	6.0	6.4	25.6	26.0	26.0
Poland (21)	44,764	-3.6	1.3	10.7	9.6	9.7	1.2	1.1	1.1	4.4	4.8	5.5	19.6	-11.4	-0.6	14.4	11.5	10.9
Russia (26)	204,282	0.0	0.4	6.8	8.1	6.7	0.8	0.7	0.7	2.3	3.9	4.1	36.0	-10.4	-2.0	17.9	14.8	13.1
South Africa (49)	266,943	5.1	9.6	14.3	12.3	10.6	2.4	2.1	1.9	3.3	3.8	4.3	20.3	16.9	15.7	15.7	16.7	17.3
Turkey (24)	51,816	3.5	22.8	11.3	10.3	9.2	1.8	1.6	1.4	na	3.1	3.4	-6.9	9.6	12.1	15.6	15.2	15.2
<b>Latin America (134)</b>	<b>705,631</b>	<b>0.4</b>	<b>2.1</b>	<b>12.6</b>	<b>12.4</b>	<b>10.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>3.7</b>	<b>3.3</b>	<b>3.6</b>	<b>0.7</b>	<b>1.8</b>	<b>15.1</b>	<b>12.4</b>	<b>13.0</b>	<b>14.2</b>
Brazil (78)	422,168	1.7	-0.1	10.1	10.5	9.2	1.2	1.3	1.2	4.1	4.1	4.4	-2.0	-4.6	14.0	12.1	12.6	13.2
Chile (19)	53,721	-7.1	-5.3	16.7	15.4	13.8	2.1	2.0	1.8	3.6	3.3	3.8	-6.7	8.6	11.8	12.6	13.5	14.1
Colombia (10)	34,451	1.5	7.3	18.2	14.7	10.4	1.6	1.2	1.2	2.3	3.2	3.8	32.3	34.7	41.1	8.9	7.1	7.4
Mexico (23)	173,903	1.0	10.1	23.1	18.4	14.7	2.9	2.6	2.5	3.4	1.7	1.9	8.8	25.3	17.2	12.8	14.5	19.5
Peru (4)	21,389	-7.7	-0.3	11.5	10.9	10.4	3.2	2.7	2.3	2.5	3.2	3.2	32.7	5.1	5.5	28.2	25.0	22.2
<b>Developed Markets (1610)</b>	<b>23,521,452</b>	<b>-0.1</b>	<b>5.4</b>	<b>13.0</b>	<b>12.4</b>	<b>11.0</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>7.3</b>	<b>5.7</b>	<b>13.1</b>	<b>11.0</b>	<b>12.6</b>	<b>13.0</b>
<b>Emerging Markets (812)</b>	<b>3,279,962</b>	<b>0.7</b>	<b>4.2</b>	<b>12.0</b>	<b>11.2</b>	<b>9.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.3</b>	<b>3.0</b>	<b>3.0</b>	<b>3.3</b>	<b>3.3</b>	<b>8.2</b>	<b>12.5</b>	<b>13.6</b>	<b>14.0</b>	<b>14.2</b>
<b>World (2422)</b>	<b>26,801,414</b>	<b>0.0</b>	<b>5.2</b>	<b>12.8</b>	<b>12.2</b>	<b>10.9</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>2.7</b>	<b>2.9</b>	<b>3.2</b>	<b>6.8</b>	<b>6.0</b>	<b>13.0</b>	<b>11.3</b>	<b>12.7</b>	<b>13.2</b>

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.





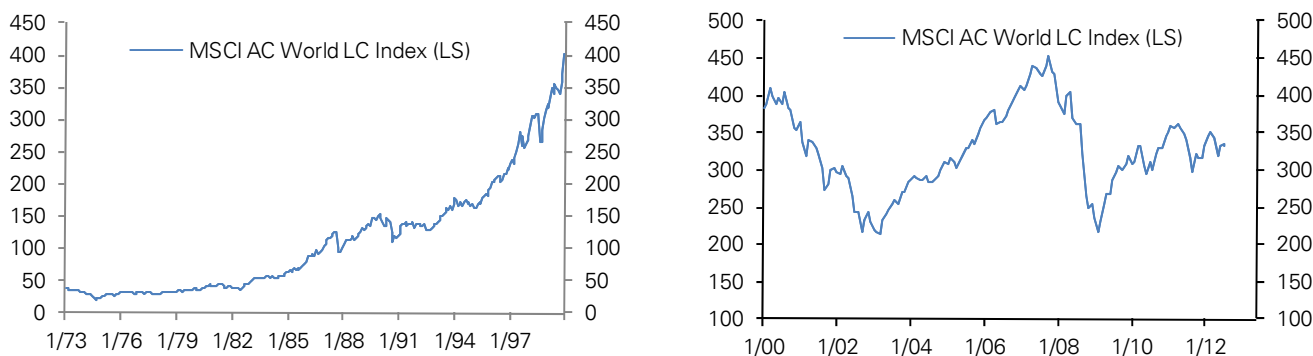
## Global – market intelligence (continued)

Figure 39: Market intelligence by sector

2Aug12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (169)	2,935,852	1.7	-3.3	9.6	10.6	9.6	1.5	1.3	1.2	2.9	3.2	3.3	26.9	-9.1	7.3	16.3	13.2	13.0
Materials (274)	1,930,644	-2.2	-4.0	10.8	11.5	9.5	1.4	1.4	1.3	2.8	2.9	3.2	14.6	-6.9	20.3	13.6	12.3	13.7
Capital Goods (241)	2,022,691	-0.6	3.1	12.1	11.6	10.2	1.9	1.7	1.5	2.7	2.9	3.2	15.7	7.8	11.8	14.9	14.8	15.1
Comm Svc (35)	194,064	0.4	5.7	18.0	16.4	14.4	2.3	2.2	2.1	2.6	2.7	2.8	4.4	10.0	13.6	12.7	13.2	14.4
Transportation (97)	553,638	-0.1	5.7	18.0	15.2	12.9	1.8	1.7	1.6	2.1	2.3	2.6	-13.8	23.9	20.5	10.2	11.2	12.5
Autos (72)	625,982	-2.1	6.0	10.8	8.7	7.4	1.2	1.1	0.9	2.2	2.5	2.9	5	26	20.5	10.8	12.2	13.1
Cons Durables (64)	357,317	-1.1	2.9	17.6	14.3	12.7	1.6	1.5	1.5	1.9	2.1	2.4	-80.6	483.0	57.1	8.1	13.6	12.4
Cons Svc (46)	377,118	-4.2	-2.2	18.0	17.1	14.8	3.3	3.1	2.8	2.4	2.5	2.8	16.5	4.9	13.9	18.4	18.0	19.5
Media (57)	666,355	1.9	18.7	16.6	14.4	12.6	2.2	2.1	1.9	1.7	2.0	2.2	18.4	14.8	14.6	12.9	13.6	14.4
Retailing (81)	713,372	0.1	13.5	19.2	17.5	14.8	3.2	2.9	2.7	1.7	1.8	2.0	12.8	10.0	15.4	16.2	16.8	18.1
Food/Staples Retail (51)	643,012	3.0	6.8	15.6	14.4	13.0	2.2	2.0	1.9	2.4	2.7	3.0	7.4	8.3	10.4	13.9	14.2	14.5
Food Beverage (113)	1,845,770	1.7	11.3	18.2	17.0	15.5	3.6	3.1	2.8	2.8	3.0	3.3	6.2	6.6	10.2	18.7	18.2	18.0
Household Products (26)	453,790	2.6	5.1	18.3	17.7	16.5	3.3	3.1	3.0	2.8	2.9	3.2	0.7	3.1	7.4	18.7	18.1	18.1
Health Care Equip/Svc (62)	599,525	-4.0	6.9	14.0	12.9	11.6	2.3	2.0	1.8	1.2	1.4	1.5	9.7	9.2	10.9	16.7	15.6	15.3
Pharma & Biotech (71)	1,987,897	3.3	11.1	12.9	12.9	12.0	2.9	2.7	2.5	2.9	3.1	3.4	3.8	0.4	6.9	21.7	20.8	19.4
Banks (191)	2,368,854	-0.3	6.1	9.6	9.2	8.4	1.1	1.0	0.9	3.7	3.9	4.4	10.6	2.8	11.2	10.3	10.1	10.5
Div Financials (103)	997,692	-4.3	4.8	11.4	10.0	8.4	0.8	0.7	0.7	2.1	2.3	3.0	-17.5	19.8	18.4	6.6	7.5	8.4
Insurance (98)	1,005,089	-1.2	6.0	14.7	10.0	9.0	1.0	0.9	0.9	3.7	4.0	4.2	-10.8	47.6	11.7	6.4	9.2	9.7
Real Estate (120)	784,213	2.4	18.2	19.0	19.9	18.1	1.4	1.3	1.2	3.2	3.3	3.5	11.4	-5.2	9.2	7.6	6.6	6.8
Software (74)	1,450,954	-0.9	9.5	15.7	14.0	12.5	4.1	3.5	3.0	1.2	1.3	1.4	14.2	11.8	12.4	22.4	24.8	23.6
Tech Hard/Equip (92)	1,349,781	-1.2	10.8	14.0	12.4	10.3	2.1	1.9	1.7	1.1	1.5	2.1	11.7	12.7	17.9	16.6	16.2	17.1
Semis (53)	615,399	0.1	6.3	13.6	12.4	10.6	2.2	2.1	1.8	2.1	2.2	2.4	-11.7	8.9	19.4	15.9	17.2	17.2
Telecom (95)	1,300,787	2.0	5.6	12.7	12.5	11.6	1.8	1.8	1.7	4.8	5.0	5.1	-0.9	1.0	9.1	3.5	13.6	14.1
Utilities (137)	1,021,618	-2.9	-1.5	13.5	13.3	12.5	1.3	1.2	1.2	4.5	4.5	4.7	-21.8	11.7	18.0	8.8	9.4	9.8
World (2422)	26,801,414	0.0	5.2	12.8	12.2	10.9	1.7	1.5	1.4	2.7	2.9	3.2	6.8	6.0	13.0	11.3	12.7	13.2

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 40: Equity market performance



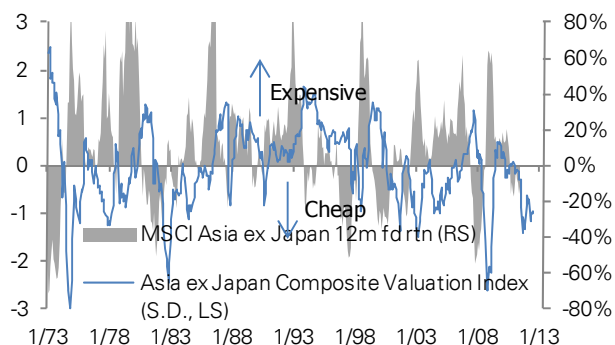
Source: Deutsche Bank, MSCI



## Asia – valuation

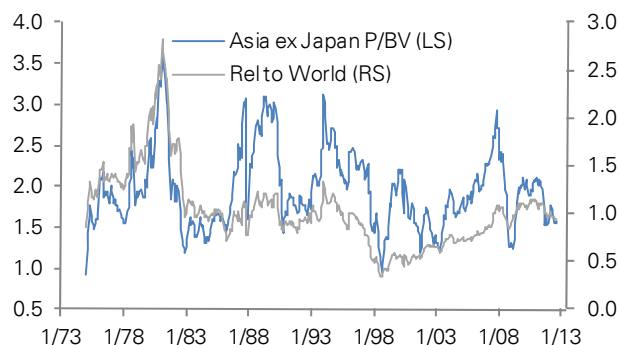
At 1.4x PB, and 11.1x forward PE, Asian equities are reasonably valued. On a trailing PE basis, one has to go to 1973, 1982 and 2008 to find lower valuation levels. China and India, in particular, look exceptionally cheap compared with their history.

Figure 41: Composite valuation index



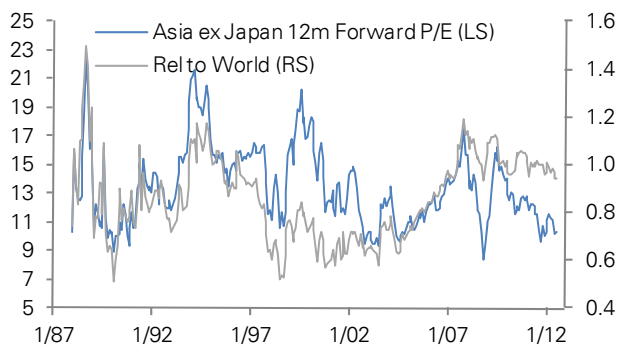
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 42: Price-to-book value



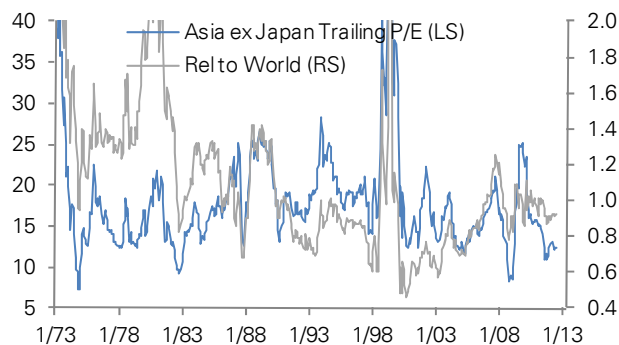
Source: Deutsche Bank, MSCI, DataStream

Figure 43: 12m forward P/E



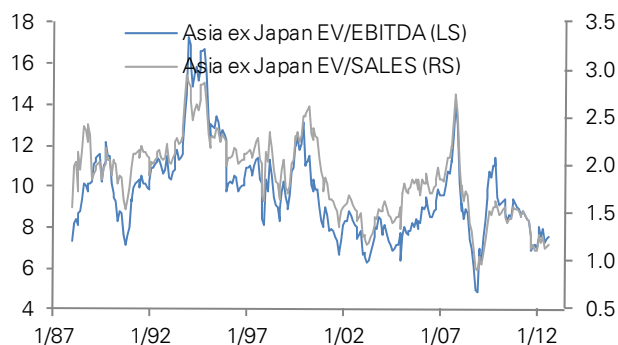
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 44: 12m trailing P/E



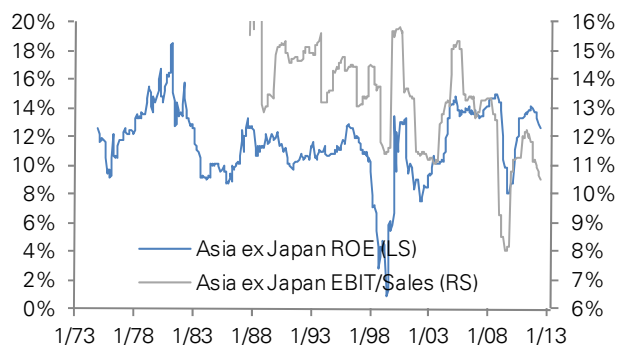
Source: Deutsche Bank, MSCI, DataStream

Figure 45: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 46: ROE and EBIT margin



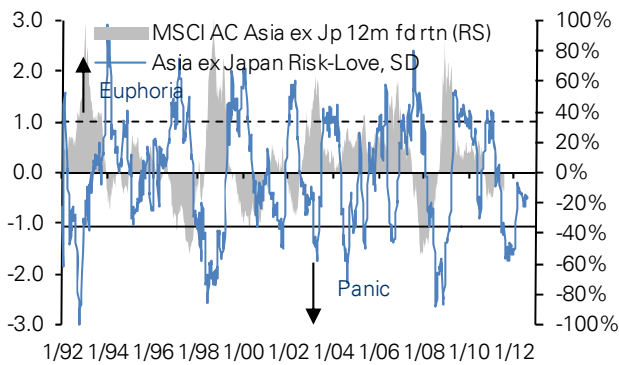
Source: Deutsche Bank, MSCI, FactSet



## Asia – investor sentiment

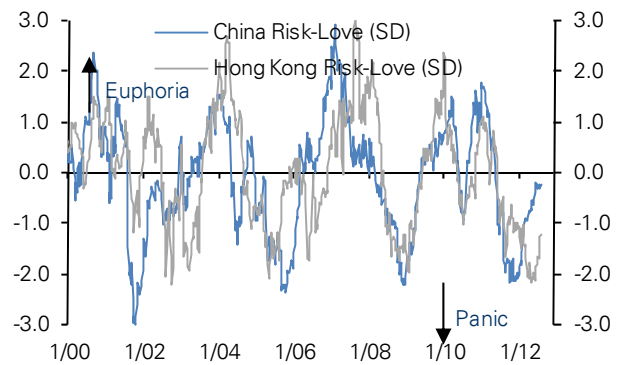
Risk-Love is at neutral, but high in the Philippines and Thailand.

Figure 47: Asia Risk-Love indicator



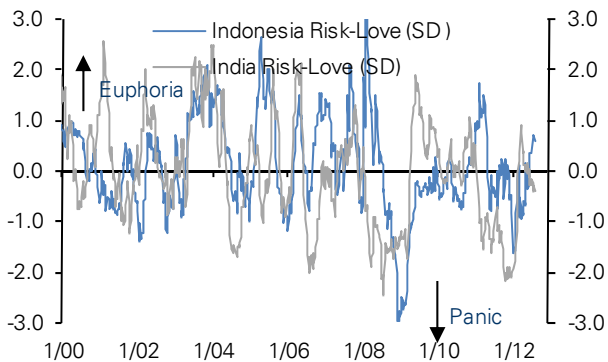
Source: Deutsche Bank

Figure 48: China and Hong Kong Risk-Love indicator



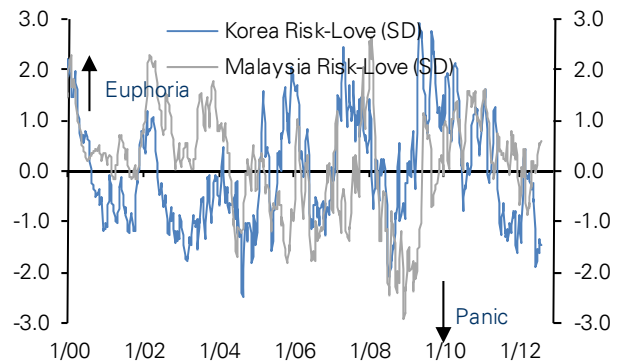
Source: Deutsche Bank

Figure 49: India and Indonesia Risk-Love indicator



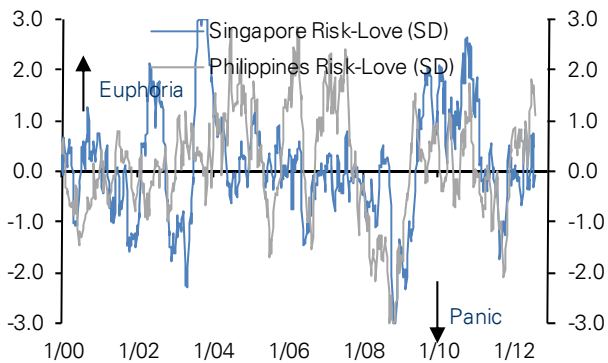
Source: Deutsche Bank

Figure 50: Korea and Malaysia Risk-Love indicator



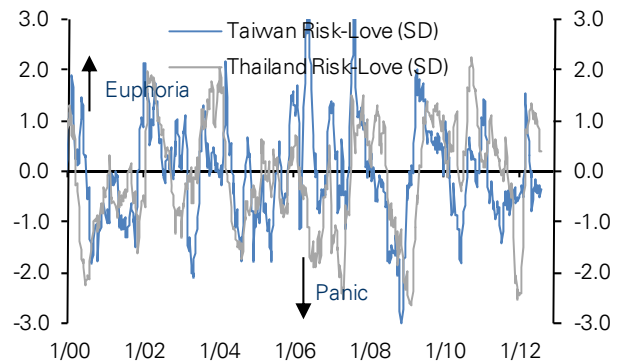
Source: Deutsche Bank

Figure 51: Philippines and Singapore Risk-Love indicator



Source: Deutsche Bank

Figure 52: Taiwan and Thailand Risk-Love indicator



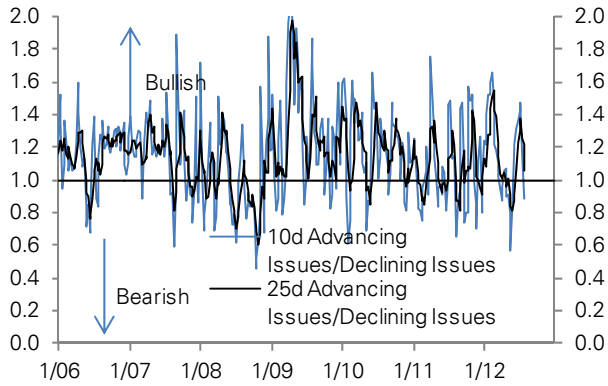
Source: Deutsche Bank



## Asia – technicals

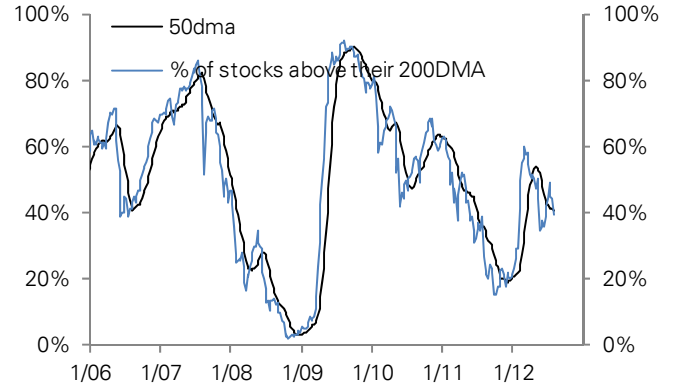
Technical indicators are neutral. The percentage of new lows in China is rising to worrisome levels.

Figure 53: Advance/decline ratio



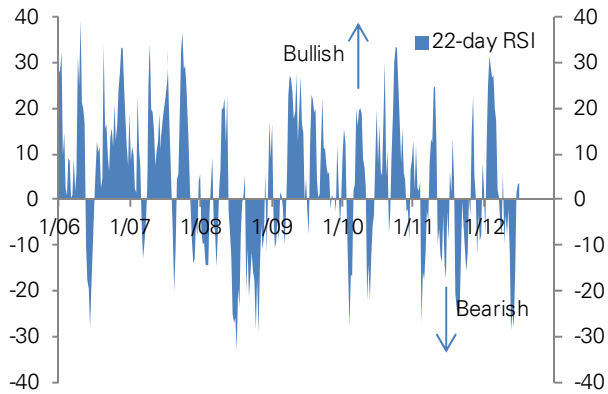
Source: Deutsche Bank, DataStream, FactSet

Figure 54: Percentage of stocks above their 200DMA



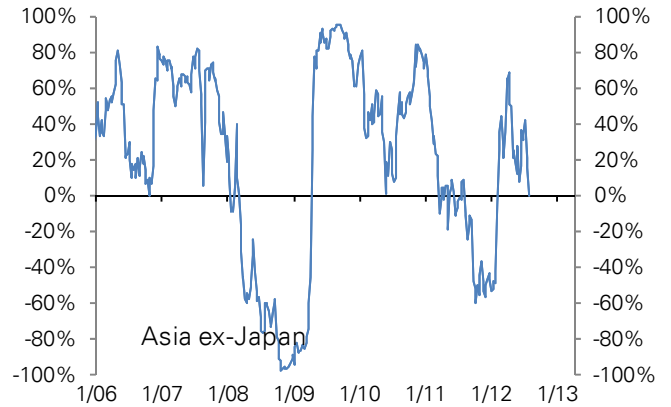
Source: Deutsche Bank, DataStream, FactSet

Figure 55: Relative Strength Index



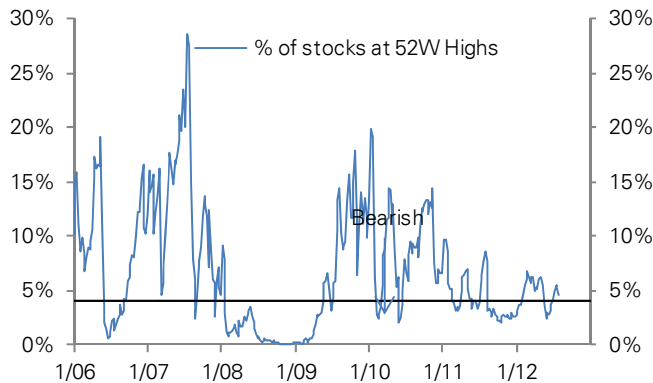
Source: Deutsche Bank, DataStream, FactSet

Figure 56: Market breadth



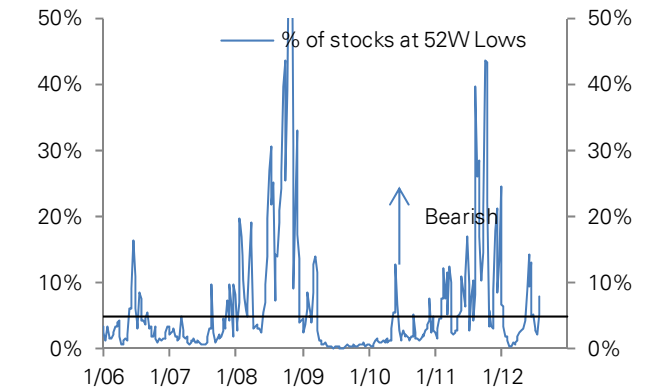
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 57: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 58: Percentage of stocks at 52w Lows



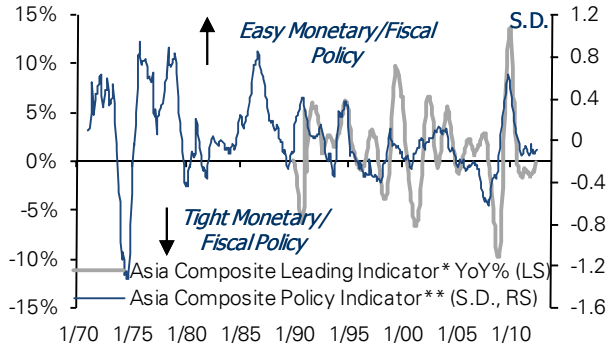
Source: Deutsche Bank, DataStream, FactSet



## Asia – growth and earnings

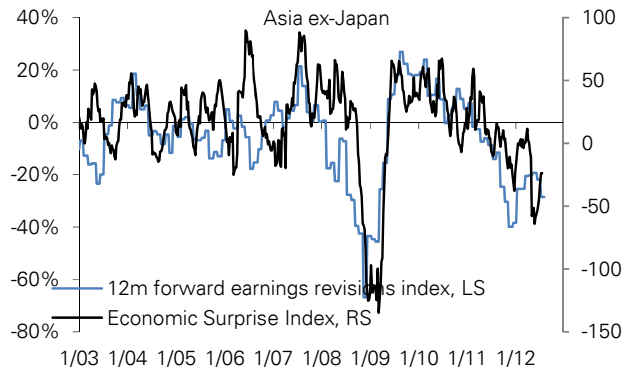
Economic surprises in Asia have become less bad, as expectations have been ratcheted down. The region's leading economic indicator has curled up. Earnings revisions have taken on paramount importance in generating alpha, at both the country and sector level, trumping pure valuations. Value has been a trap this year, earnings revisions a stubborn outperformer. Cyclical sectors continue to see savage downward EPS revisions.

Figure 59: Leading economic and composite policy indicators



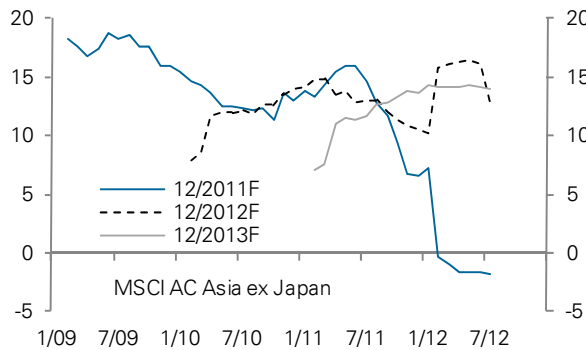
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP. Note: \*Market cap weighted average of composite leading economic indicators growth for China, India, Korea and Taiwan. \*\*GDP weighted average of composite policy indicators for China, HK, India, Indonesia, Korea, Malaysia, Philippines,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

Figure 60: Economic surprises



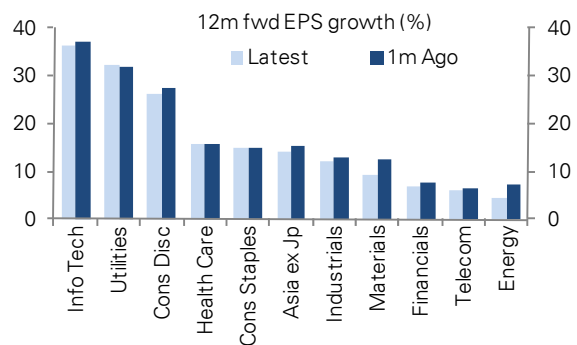
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP

Figure 61: Earnings growth forecast (%)



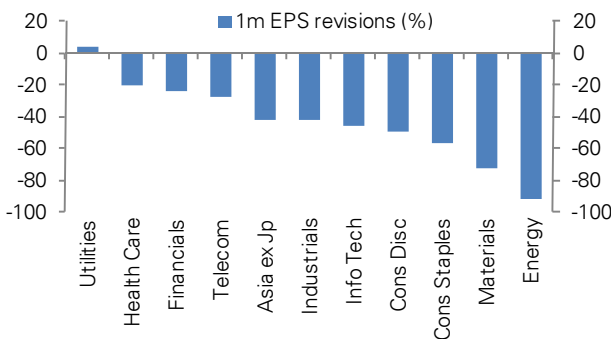
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 62: 12m forward growth forecast by sector



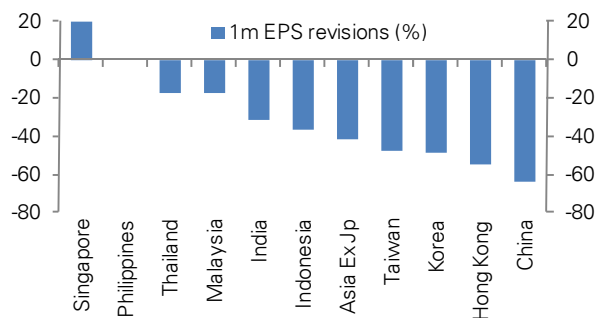
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 63: 12m forward EPS revisions by sector



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

Figure 64: 12m forward EPS revisions by country



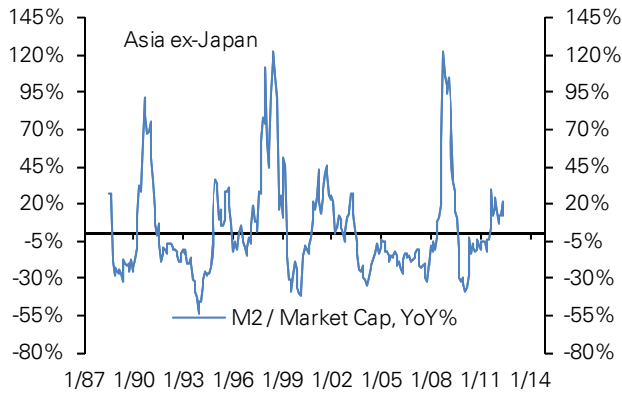
Source: Deutsche Bank, I/B/E/S, MSCI



## Asia – liquidity

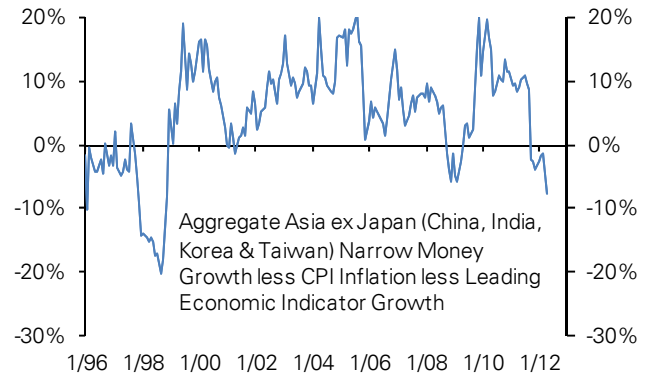
Free liquidity is falling, compressing multiples.

Figure 65: M2/market cap



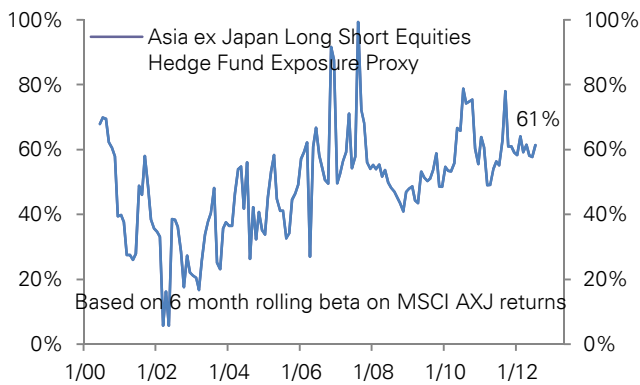
Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 66: Free liquidity



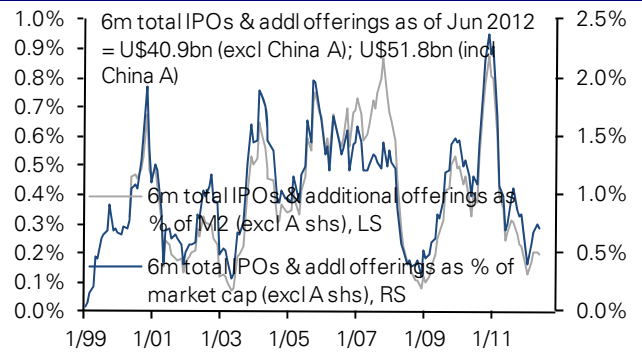
Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 67: Asia-focused hedge fund exposure estimates



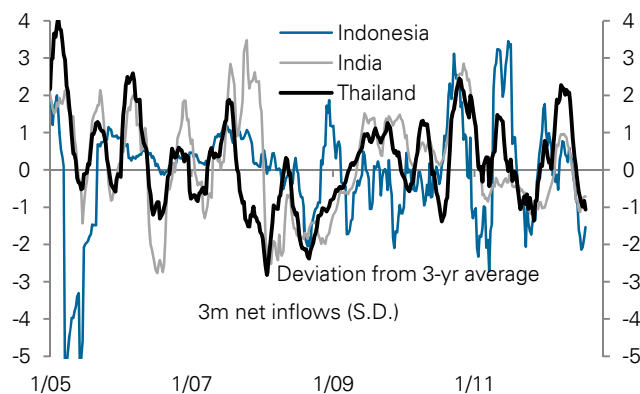
Source: Deutsche Bank, Bloomberg Finance LP

Figure 68: 6m total equity offerings\* as percentage of total market cap in Asia ex Japan



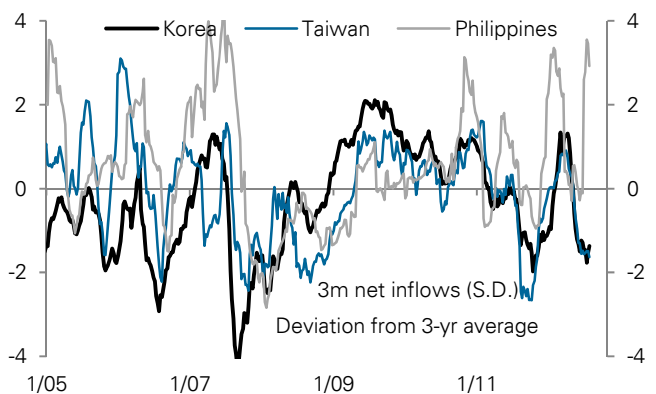
Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: \*Equity offerings includes IPO and additional equity offerings of primary and secondary shares.

Figure 69: Foreign fund flows



Source: Deutsche Bank, Bloomberg Finance LP

Figure 70: Foreign fund flows



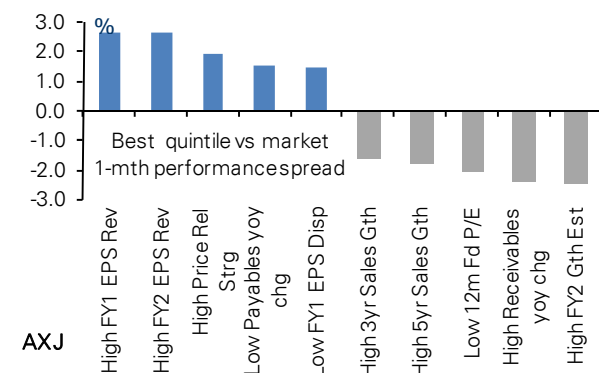
Source: Deutsche Bank, Bloomberg Finance LP



## Asia – factor performance

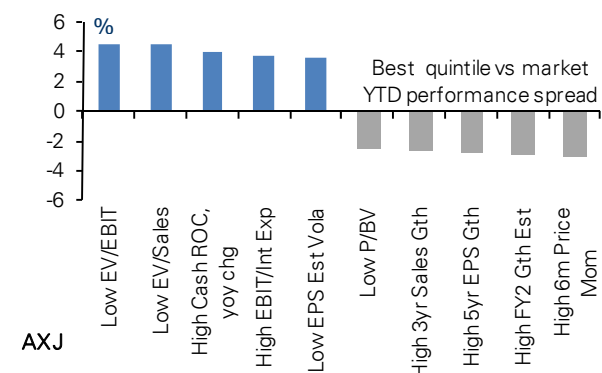
This year, high returns on capital have been alpha generators, as have EPS revisions and analyst opinions. Value, for the most part, has been less stellar.

Figure 71: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 72: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 73: Factor performance (sector neutral\*\*)

Asia ex Japan Jul 31, 12	Best quintile vs market relative performance (%)																
	Returns									Returns							
	YTD	1m	3m	6m	12m	5y	10y	15y	Ann. Rtn.	YTD	1m	3m	6m	12m	5y	10y	15y
<b>Valuation</b>																	
Low 12m Fd P/E	-0.7	-2.0	-1.3	-3.2	-0.1	5.1	7.3	5.9									
Low Trailing P/E	2.2	-1.0	-0.1	-1.2	1.5	8.5	8.6	8.1									
Low P/Op Inc	3.5	-1.1	1.1	0.4	3.4	7.6	8.1	7.3									
Low P/BV	-2.3	-0.9	-1.4	-4.5	-4.3	2.7	3.2	1.1									
Low Price/Sales	3.2	0.0	2.5	0.8	-1.1	1.6	3.2	1.9									
Low P/FCF	1.5	0.4	3.3	2.8	0.3	3.9	3.2	5.5									
Low EV/EBIT	4.5	1.0	3.8	2.6	5.9	8.5	7.8	8.5									
Low EV/EBITDA	0.7	0.4	1.2	-1.6	2.4	7.0	6.5	8.4									
Low EV/Cap Emp	-0.7	1.0	0.2	-3.4	1.5	3.2	3.0	2.4									
Low EV/Sales	4.5	0.4	2.2	3.2	4.5	5.7	5.5	6.0									
Low EV/Op CF	2.1	0.9	1.2	0.9	3.1	6.7	6.6	9.8									
Low EV/FCF	1.8	0.2	3.2	2.5	2.5	4.5	3.7	6.7									
High Dividend Yield	0.6	-0.8	1.1	0.0	-0.2	7.6	7.7	10.4									
<b>Average</b>	<b>1.6</b>	<b>-0.1</b>	<b>1.3</b>	<b>-0.1</b>	<b>1.5</b>	<b>5.6</b>	<b>5.7</b>	<b>6.3</b>									
<b>Price Momentum</b>																	
High 6m Price Mom	-2.9	0.3	1.0	0.6	-3.9	-4.0	-0.2	-0.5									
High 9m Price Mom	1.2	1.1	2.0	3.7	-0.5	-4.4	0.9	1.6									
High 12m Price Mom	2.8	1.4	2.1	5.9	0.8	-3.5	1.1	1.1									
High Price Rel Strg	0.6	1.9	2.1	4.6	0.3	-3.5	1.1	2.6									
High 3m chg in Price Mon	-1.9	-1.2	-0.8	-2.2	-5.3	-3.4	0.1	-1.4									
High Price Up/Dn Days	0.6	0.5	2.1	2.8	0.6	0.9	2.3	1.7									
<b>Average</b>	<b>0.1</b>	<b>0.7</b>	<b>1.4</b>	<b>2.6</b>	<b>-1.3</b>	<b>-3.0</b>	<b>0.9</b>	<b>0.9</b>									
<b>Earnings Momentum</b>																	
High FY1 EPS Mom	0.6	-0.2	0.1	2.1	0.6	0.1	2.9	1.4									
High FY2 EPS Mom	0.4	0.5	0.0	2.6	1.0	1.1	5.0	4.8									
High 12m Fd EPS Mom	0.0	0.8	-0.2	2.3	-0.3	-0.1	4.5	3.8									
High FY1 EPS Rev	3.3	2.6	3.3	5.1	-1.0	0.5	4.7	4.0									
High FY2 EPS Rev	2.0	2.6	2.0	3.6	-1.9	0.4	4.7	4.0									
<b>Average</b>	<b>1.3</b>	<b>1.3</b>	<b>1.0</b>	<b>3.1</b>	<b>-0.3</b>	<b>0.4</b>	<b>4.4</b>	<b>3.6</b>									
<b>Capex Deployment &amp; Earnings Accruals</b>																	
Low Capex/Depr	2.4	-0.3	0.3	3.2	3.7	-0.3	-1.8	-1.5									
Low Capex/Sales	3.5	1.1	3.3	5.1	3.8	3.3	2.2	1.7									
Low Capex/FA	0.0	0.2	0.9	0.8	-0.3	-3.3	-3.0	-3.6									
High Receivables yoy chg	-1.5	-2.3	-1.7	-1.2	-0.9	-0.2	0.1	0.9									
Low Inventory yoy chg	-0.5	-0.1	0.7	0.3	-0.4	-1.0	1.0	2.3									
Low Payables yoy chg	-1.0	1.5	-0.5	-2.5	-2.0	-2.6	-1.7	-0.7									
<b>Average</b>	<b>0.5</b>	<b>0.0</b>	<b>0.5</b>	<b>0.9</b>	<b>0.6</b>	<b>-0.7</b>	<b>-0.5</b>	<b>-0.2</b>									
<b>Profitability</b>																	
High Cash ROC	3.5	0.2	1.4	4.4	6.6	6.5	4.8	7.2									
High Cash ROC, yoy chg	4.0	-0.8	0.6	3.2	4.3	3.3	3.2	3.8									
High ROE	3.1	0.3	1.2	2.7	5.8	3.6	3.7	3.6									
High ROE, yoy chg	2.0	-0.2	0.2	1.1	2.6	4.0	3.6	3.5									
<b>Average</b>	<b>3.1</b>	<b>-0.1</b>	<b>0.8</b>	<b>2.8</b>	<b>4.8</b>	<b>4.4</b>	<b>3.8</b>	<b>4.5</b>									
<b>Growth</b>																	
High 3yr Sales Gth	-2.5	-1.5	-0.9	-3.1	-4.0	-2.5	-2.1	-3.6									
High 5yr Sales Gth	-1.9	-1.7	-1.7	-4.0	-3.0	-2.2	-1.2	-2.1									
High 3yr EPS Gth	2.6	0.4	0.6	3.1	3.0	-0.5	0.9	-1.5									
High 5yr EPS Gth	-2.6	-0.4	-2.5	-2.9	-3.4	-2.0	-0.5	-0.6									
High LT Gth Est	-0.7	-1.3	-1.2	-0.7	-3.8	-2.4	1.6	0.7									
High FY1 Gth Est	-2.2	-0.6	-1.8	-2.6	-4.5	-1.4	0.9	-1.3									
High FY2 Gth Est	-2.8	-2.4	-4.7	-5.8	-4.0	-4.2	-0.7	-1.9									
<b>Average</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-1.7</b>	<b>-2.3</b>	<b>-2.8</b>	<b>-2.2</b>	<b>-0.1</b>	<b>-1.5</b>									
<b>Stability</b>																	
Low EPS Vola	1.3	0.4	3.0	2.2	1.6	2.3	0.9	2.0									
Low Op Inc Vola	3.4	-0.1	2.3	4.4	5.4	3.0	1.7	3.6									
Low Book Value Vola	0.7	0.2	0.8	0.8	1.2	0.3	0.9	0.8									
Low Sales Vola	1.7	1.1	1.0	0.5	1.6	-0.5	-0.4	2.4									
Low EPS Est Vola	3.6	1.3	3.5	3.8	5.5	2.4	-1.4	0.7									
<b>Average</b>	<b>2.1</b>	<b>0.6</b>	<b>2.1</b>	<b>2.3</b>	<b>3.0</b>	<b>1.5</b>	<b>0.3</b>	<b>1.9</b>									
<b>Risk</b>																	
Low FY1 EPS Disp	1.0	1.5	3.3	3.7	0.8	1.4	1.3	4.5									
Low FY2 EPS Disp	2.9	1.4	3.6	5.4	4.1	0.6	1.1	3.4									
High EBIT/Int Exp	3.7	0.9	3.0	5.6	6.8	3.9	3.4	5.3									
Low Debt/Equity	-0.6	0.0	1.0	1.5	0.7	2.4	1.8	2.6									
High Altman Z Score	-0.1	0.6	1.5	3.1	-0.4	-1.5	-1.0	-0.7									
High Market Cap	-0.3	1.0	-0.6	0.2	3.7	0.8	0.8	1.8									
<b>Average</b>	<b>1.1</b>	<b>0.9</b>	<b>2.0</b>	<b>3.3</b>	<b>2.6</b>	<b>1.3</b>	<b>1.2</b>	<b>2.8</b>									
<b>Consensus Ratings</b>																	
High Analyst Rec	1.8	0.5	0.5	2.3	3.3	2.5	3.8	7.1									
High Analyst Rec 1m chg	1.9	0.2	0.3	0.3	2.8	3.3	4.8	4.8									
<b>Average</b>	<b>1.9</b>	<b>0.3</b>	<b>0.4</b>	<b>1.3</b>	<b>3.0</b>	<b>2.9</b>	<b>4.3</b>	<b>5.9</b>									

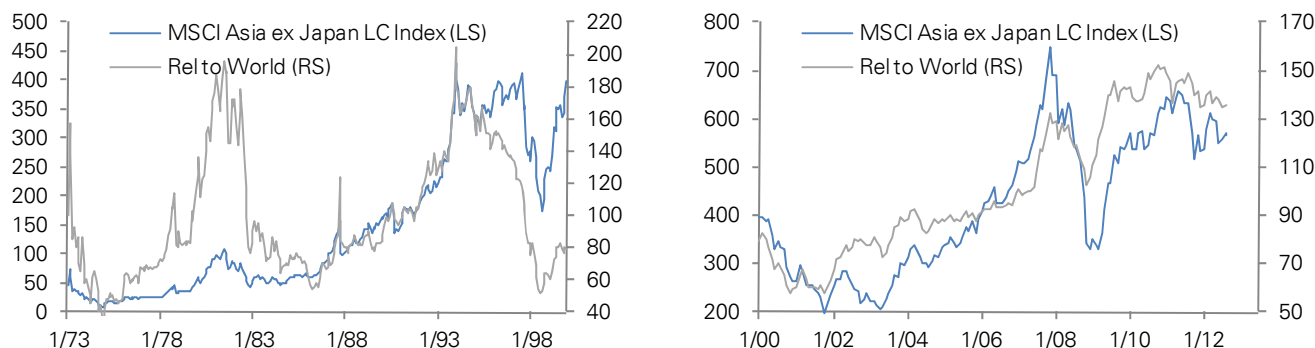
Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended July 2012. \*\*Quintile baskets are formed on a regional sector relative basis. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.





## Asia – market intelligence

Figure 74: Equity market performance



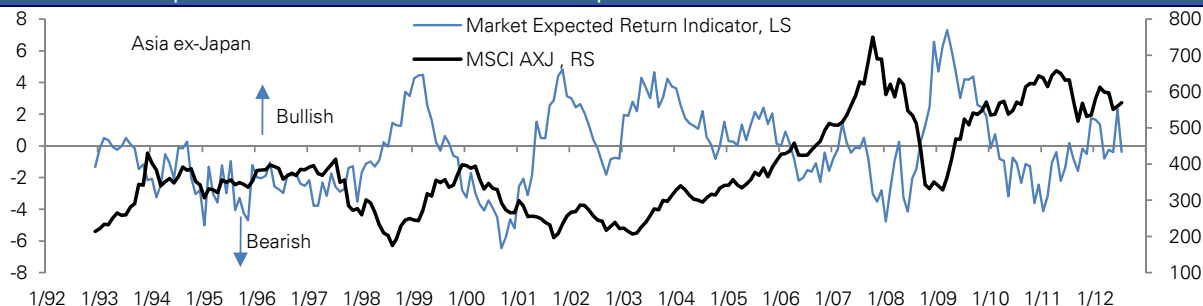
Source: Deutsche Bank, MSCI.

Figure 75: Market intelligence by sector

2Aug12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U\$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (28)	177,476	0.4	-1.3	9.0	9.3	8.5	1.6	1.4	1.3	3.4	3.5	3.8	18.4	-2.7	9.6	17.6	15.2	15.2
Materials (72)	178,008	0.3	-2.3	11.1	11.9	9.6	1.3	1.3	1.1	3.1	2.7	3.0	-9.9	-6.7	22.3	11.6	10.7	11.9
Capital Goods (74)	187,054	0.0	4.6	10.5	11.0	9.7	1.3	1.2	1.1	2.5	2.6	2.7	8.3	-3.2	12.3	13.2	11.3	11.7
Comm Svc (1)	857	-2.2	-2.1	16.3	15.2	13.7	2.7	2.7	2.7	na	2.3	2.4	7.1	7.1	11.4	16.4	17.5	19.8
Transportation (32)	49,552	2.5	4.7	20.2	17.6	13.7	1.2	1.1	1.1	2.8	2.7	3.2	nm	62.9	48.4	7.4	6.4	7.9
Autos (26)	115,431	0.8	7.2	12.3	8.3	7.4	2.0	1.7	1.4	1.3	1.2	1.4	0.4	48.1	12.2	16.6	20.9	19.3
Cons Durables (15)	19,290	1.3	-5.1	24.0	11.1	9.4	2.1	1.3	1.2	2.1	2.5	2.8	-56.2	117.1	17.2	0.9	11.5	12.7
Cons Svc (12)	39,025	-5.0	-4.9	16.1	14.4	12.2	2.7	2.4	2.1	2.4	2.6	2.9	21.6	12.2	18.0	15.0	15.1	15.8
Media (3)	7,925	6.7	17.6	20.2	19.2	18.0	3.8	3.7	3.1	4.2	4.6	4.9	-12.1	5.4	6.4	18.9	19.5	20.1
Retailing (18)	39,677	-1.2	-8.5	16.0	13.6	11.5	2.1	1.8	1.7	2.8	2.7	3.3	-17.8	18.6	17.8	13.0	13.3	14.1
Food/Staples Retail (7)	18,964	0.9	-5.3	22.8	18.2	15.5	3.0	2.1	1.9	2.1	1.9	2.2	10.6	8.4	17.3	13.0	11.3	12.0
Food Beverage (28)	89,759	-0.2	3.1	19.1	17.2	14.9	2.6	2.4	2.2	2.3	2.4	2.7	-4.1	11.0	15.3	14.5	14.1	14.7
Household Products (6)	26,685	-0.1	11.2	36.8	28.3	24.0	6.2	5.6	4.9	1.3	1.7	2.0	13.1	30.3	17.8	23.2	27.8	23.5
Health Care Equip/Svc (3)	4,735	4.2	14.3	26.0	21.5	17.6	2.4	2.2	2.0	1.1	1.1	1.4	21.5	20.9	22.3	9.4	10.2	11.2
Pharma & Biotech (10)	17,280	2.5	16.9	24.5	20.7	18.2	3.2	2.9	2.8	1.7	1.1	1.2	13.7	18.1	14.1	13.6	14.6	15.2
Banks (65)	433,698	2.2	9.5	9.3	8.9	8.0	1.4	1.2	1.1	3.6	3.8	4.1	23.6	7.7	6.9	14.9	14.5	14.0
Div Financials (25)	55,742	-0.6	0.4	14.1	13.7	12.4	1.7	1.6	1.5	3.2	3.0	3.4	0.6	3.1	10.6	11.5	11.3	11.7
Insurance (14)	97,850	1.5	7.2	18.9	14.8	12.9	1.9	1.7	1.5	1.4	1.6	1.9	-9.8	27.3	14.9	10.1	11.5	11.9
Real Estate (47)	171,997	4.0	20.2	12.0	12.8	11.6	0.9	0.9	0.8	3.3	3.0	3.2	16.8	-8.7	10.5	7.9	6.9	7.2
Software (10)	79,350	-2.3	11.1	23.1	19.2	16.3	6.4	5.1	4.0	1.0	1.0	1.1	21.1	20.4	17.7	27.3	26.1	24.6
Tech Hard/Equip (38)	112,811	-6.6	-3.1	13.3	12.2	9.9	1.4	1.4	1.3	2.9	3.0	3.8	-47.5	50.7	46.7	11.8	12.0	13.5
Semis (25)	251,686	1.5	11.0	15.5	10.9	9.1	1.9	1.9	1.6	1.9	2.0	2.1	-30.6	44.7	20.2	12.3	17.3	17.7
Telecom (26)	175,476	5.7	8.4	14.5	13.9	12.8	2.1	2.0	1.8	3.9	4.1	4.4	1.6	4.2	8.5	14.6	14.0	13.9
Utilities (30)	97,759	3.0	9.6	17.3	15.8	13.2	2.0	1.9	1.7	2.6	2.8	3.0	-22.2	56.2	19.4	5.6	9.0	10.1
Asia ex Japan (615)	2,448,089	1.0	5.8	12.6	11.6	10.1	1.6	1.5	1.3	2.8	2.8	3.1	-1.9	12.0	14.3	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 Asia ex Japan 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 76: Market Expected Return Indicator for Asia ex-Japan



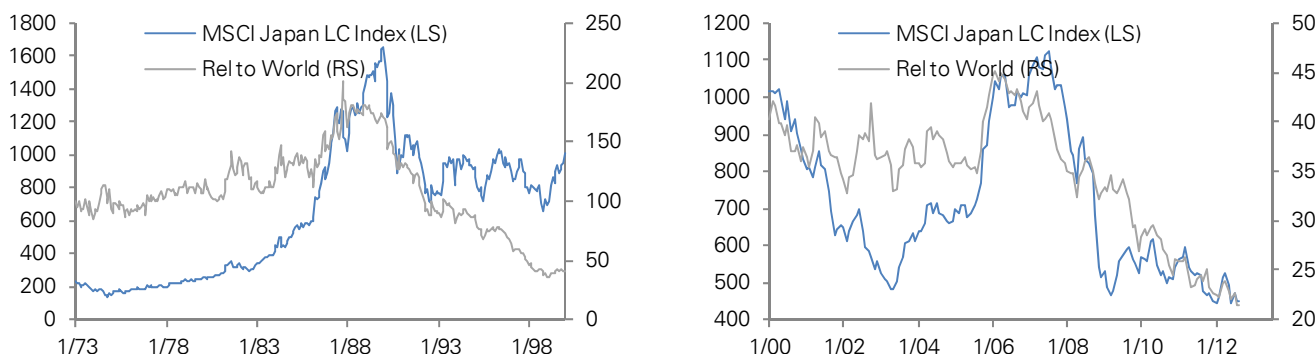
Source: Deutsche Bank, MSCI, Bloomberg Finance LP





## Japan – market intelligence

Figure 77: Equity market performance



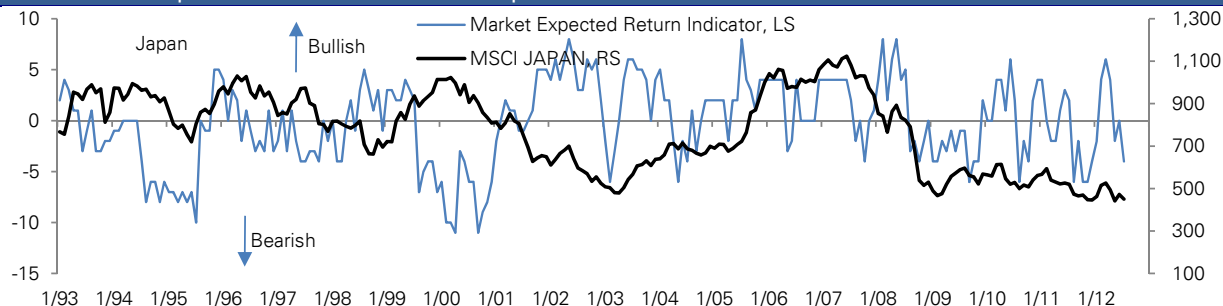
Source: Deutsche Bank, Bloomberg Finance LP, DataStream.

Figure 78: Market intelligence by sector

2Aug12 Sector (#Co)	Mcap US\$m	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
		1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (7)	29,904	-8.6	-17.4	6.2	7.9	7.5	0.6	0.6	0.5	3.2	3.2	3.3	38.3	-28.9	5.3	10.8	7.3	7.3
Materials (35)	127,851	-11.1	-12.9	15.6	12.1	9.2	0.8	0.7	0.7	2.6	2.7	3.0	-15.6	36.2	32.4	4.6	6.0	7.6
Capital Goods (47)	295,310	-5.3	-2.8	9.5	9.2	7.6	1.0	0.9	0.9	2.9	3.1	3.3	21.6	12.4	11.3	10.6	11.2	11.4
Comm Svc (3)	17,448	-3.0	-7.6	34.4	18.9	13.6	0.7	0.7	0.6	3.4	3.6	3.6	-54.5	82.4	39.2	2.0	3.5	4.7
Transportation (18)	99,942	-1.3	0.9	22.6	15.3	12.3	1.0	1.0	0.9	1.8	1.8	2.0	-27.1	56.3	26.4	4.3	6.4	7.6
Autos (22)	262,983	-6.2	9.0	16.6	10.6	8.4	1.0	0.9	0.8	1.9	2.4	2.9	nm	66.5	27.9	5.8	8.7	10.0
Cons Durables (14)	72,918	-8.0	-10.1	19.5	13.5	12.1	0.8	0.8	0.7	2.2	2.2	2.4	na	na	na	6.3	8.5	6.3
Cons Svc (3)	11,426	5.8	11.4	24.3	18.9	16.4	2.0	1.9	1.7	1.5	1.6	1.6	14.6	29.0	15.1	8.3	10.0	10.6
Media (4)	10,032	-6.6	-4.2	19.5	16.8	15.2	1.1	1.0	1.0	1.6	1.8	2.0	12.5	16.5	10.1	5.4	6.0	6.3
Retailing (12)	35,833	-1.3	0.4	13.1	12.4	12.4	1.3	1.2	1.1	1.6	1.8	1.8	58.5	5.6	0.3	9.7	9.4	8.8
Food/Staples Retail (4)	38,892	2.7	11.1	16.4	13.8	12.3	1.2	1.1	1.1	2.5	2.6	2.9	20.4	18.7	12.2	7.5	8.3	8.7
Food Beverage (13)	48,036	-0.9	6.6	22.8	16.6	14.8	1.1	1.0	1.0	1.9	2.0	2.1	1.4	37.3	12.2	4.8	6.3	6.7
Household Products (3)	26,068	-3.5	-0.4	29.9	24.2	20.6	2.3	2.2	2.1	2.4	2.4	2.5	-14.2	23.9	17.0	7.6	9.1	10.1
Health Care Equip/Svc (7)	23,017	2.1	14.2	57.5	23.7	15.9	1.6	1.5	1.4	1.3	1.3	1.5	-59.6	142.7	49.2	5.6	7.2	8.9
Pharma & Biotech (15)	121,021	1.7	7.4	19.4	17.7	16.1	1.4	1.4	1.3	3.8	3.8	3.9	-24.0	10.3	9.8	7.3	7.7	8.1
Banks (23)	204,254	-2.2	10.3	7.2	7.4	8.0	0.6	0.6	0.6	3.4	3.5	3.5	25.2	-7.3	-7.5	9.2	8.0	7.0
Div Financials (7)	37,549	-2.3	16.7	31.2	15.3	10.8	0.6	0.6	0.5	1.9	2.0	2.2	-20.8	103.9	41.5	1.8	3.6	5.2
Insurance (6)	69,002	-11.9	0.1	-17.3	43.0	15.6	0.7	0.7	0.7	3.9	4.0	4.0	-134.0	na	176.7	-3.9	1.6	4.2
Real Estate (14)	84,309	0.0	26.1	21.5	19.5	17.4	1.4	1.4	1.3	1.5	1.6	1.7	20.1	10.3	12.1	6.7	7.0	7.4
Software (12)	36,582	-4.3	-10.6	22.4	17.6	13.4	1.4	1.3	1.2	2.2	2.0	2.5	-41.3	27.4	31.1	6.2	7.5	9.2
Tech Hard/Equip (25)	180,107	-9.0	-9.1	13.1	12.7	10.3	1.0	0.9	0.9	2.7	2.8	3.0	-2.7	14.6	23.3	7.5	7.2	8.4
Semis (4)	14,507	-5.2	-4.9	31.2	32.0	15.7	0.9	0.9	0.8	2.2	1.8	2.2	-111.7	na	103.7	2.7	2.7	5.2
Telecom (4)	103,241	2.8	8.4	10.9	9.6	8.7	1.1	1.1	1.0	2.7	3.0	3.2	13.0	13.6	10.2	10.5	11.0	11.2
Utilities (13)	57,119	-21.7	-26.4	42.7	18.9	13.7	0.7	0.6	0.7	4.8	3.7	3.6	na	na	na	-0.9	4.8	6.7
Japan (315)	2,007,348	-4.8	0.6	14.2	11.7	9.9	0.9	0.9	0.8	2.7	2.8	3.0	-15.4	45.3	27.5	6.5	7.7	8.3

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 79: Market Expected Return Indicator for Japan



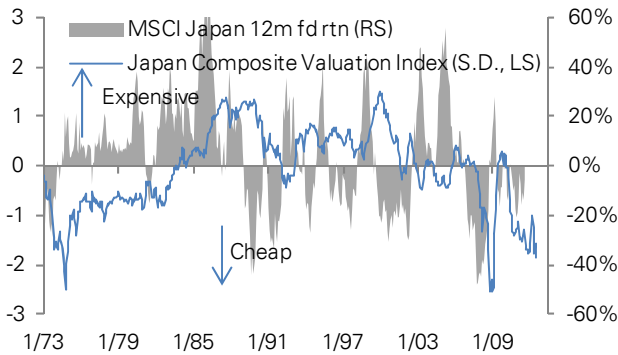
Source: Deutsche Bank, MSCI, Bloomberg Finance LP



## Japan – valuations

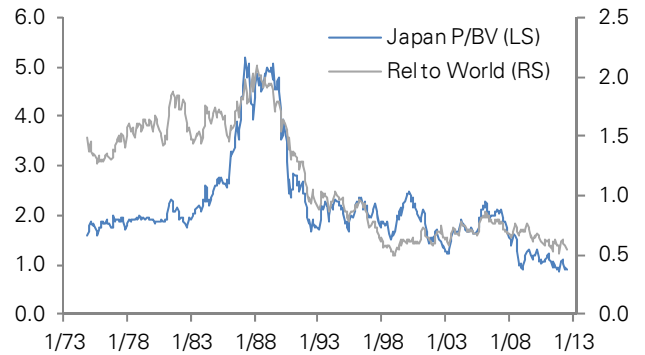
The market keeps getting de-rated. Why buy stocks when the real yield on “safe” government bonds is positive? The dividend yield is around 3% compared to the sub-1% JGB. No one seems to care.

Figure 80: Composite valuation index



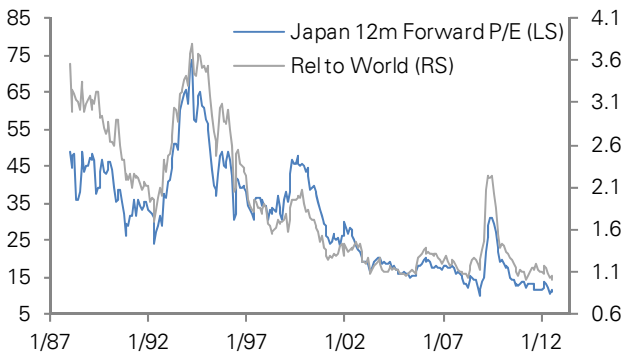
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 81: Price-to-book value



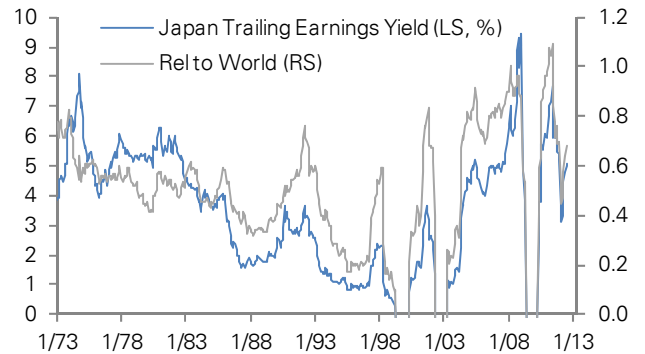
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 82: 12m forward P/E



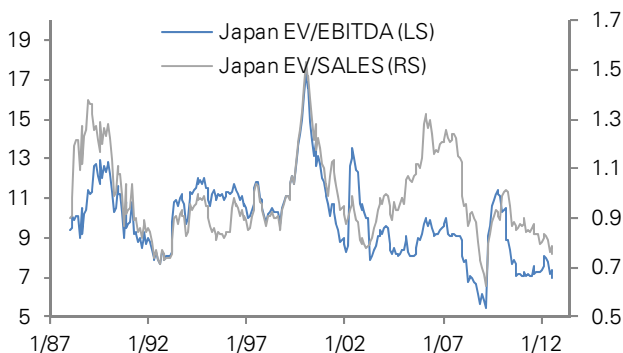
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 83: 12m trailing earnings yield



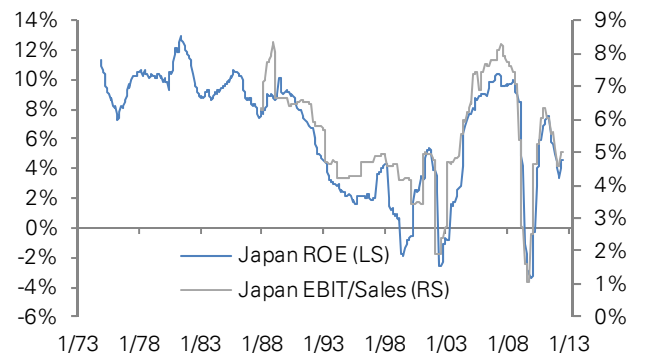
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 84: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 85: ROE and EBIT margin



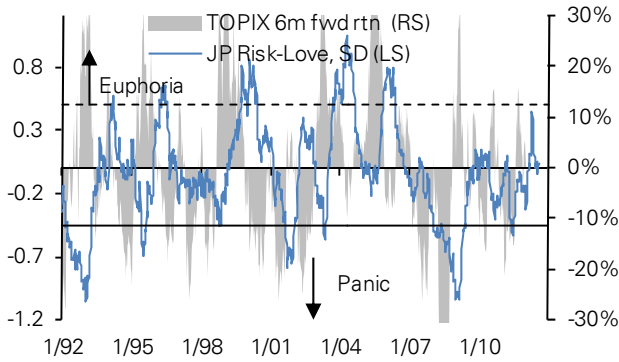
Source: Deutsche Bank, MSCI, FactSet



## Japan – investor sentiment

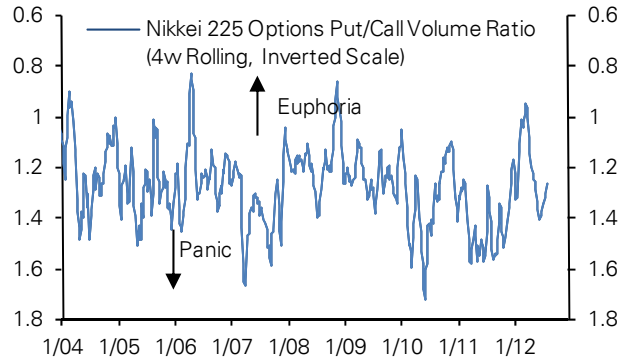
Sentiment is neutral.

Figure 86: Equity Risk-Love indicator



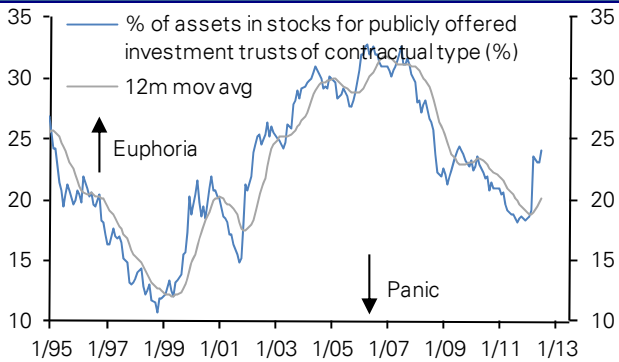
Source: Deutsche Bank, Bloomberg Finance LP

Figure 87: Market volatility (inverted scale)



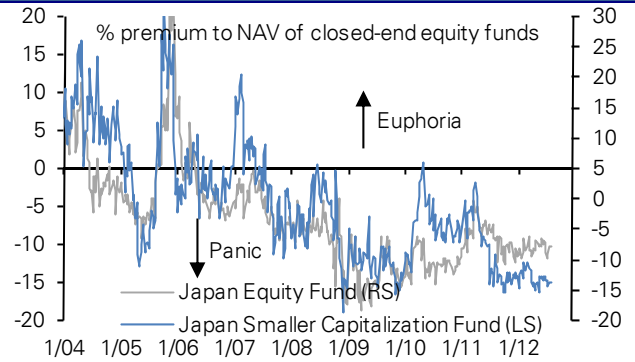
Source: Deutsche Bank, DataStream

Figure 88: Asset allocation to stocks for publicly offered investment trusts of contractual type



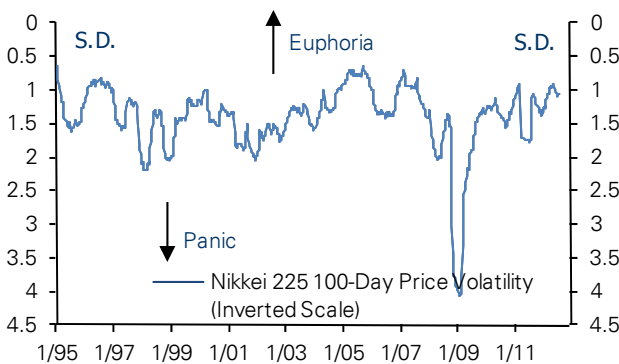
Source: Deutsche Bank, SENTIX Capital Markets Survey.

Figure 89: Percentage premium to NAV of closed-end equity funds



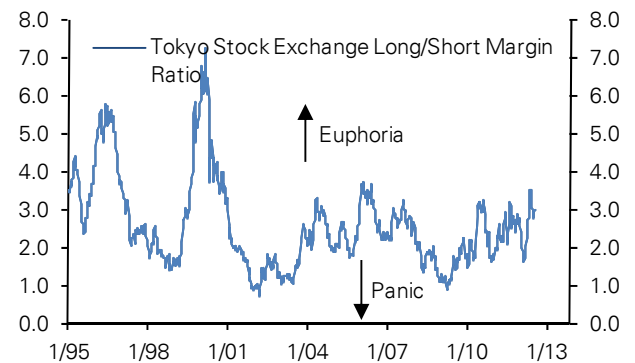
Source: Deutsche Bank, Cabinet Office, Shoko Chukin Bank.

Figure 90: Market volatility



Source: Deutsche Bank, DataStream

Figure 91: Margin ratio



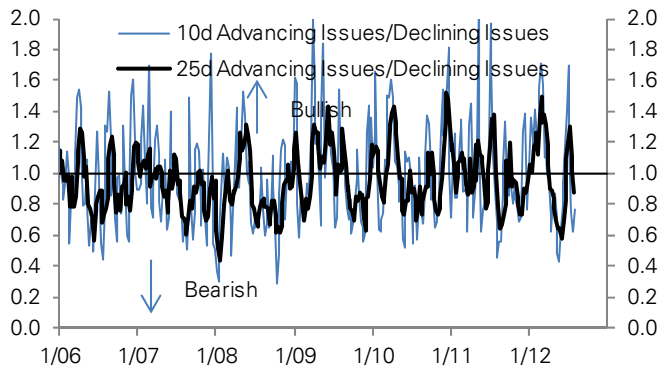
Source: Deutsche Bank, Tokyo Stock Exchange.



## Japan – technicals

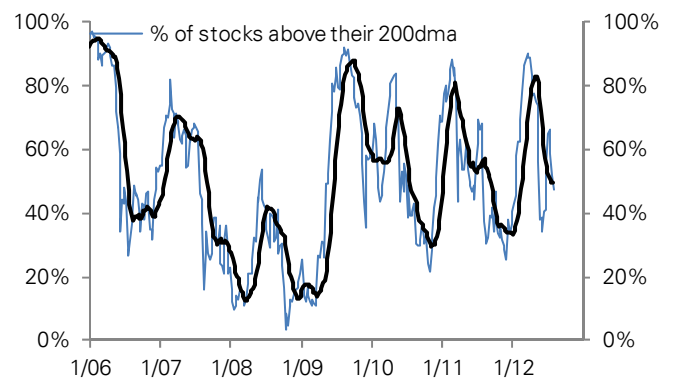
New lows have spiked, while overall technicals are neutral.

Figure 92: Advance/decline ratio



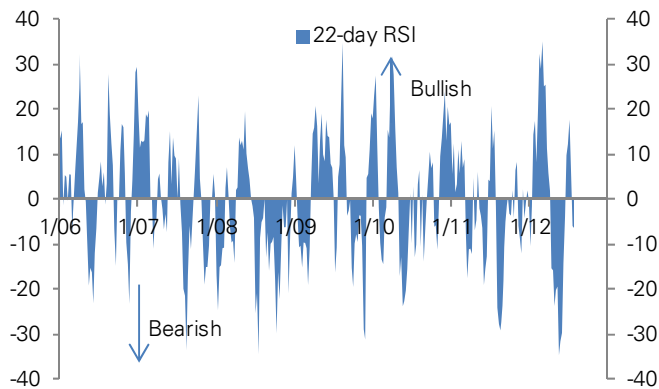
Source: Deutsche Bank, DataStream, FactSet

Figure 93: Percentage of stocks above their 200dma



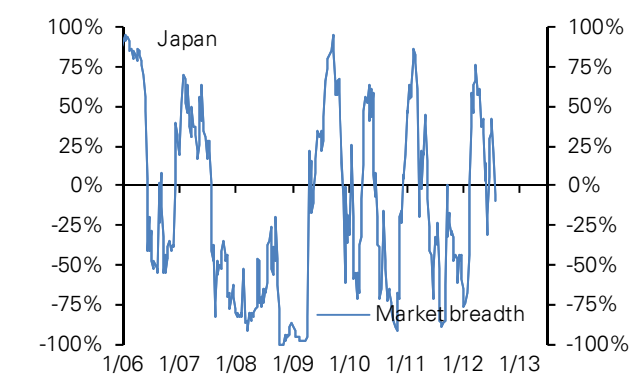
Source: Deutsche Bank, DataStream, FactSet

Figure 94: Relative Strength Index



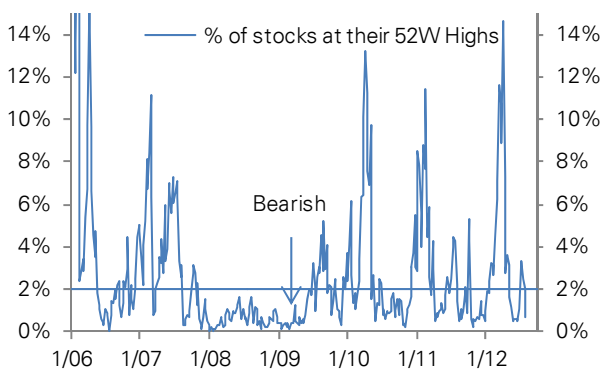
Source: Deutsche Bank, DataStream, FactSet

Figure 95: Market breadth



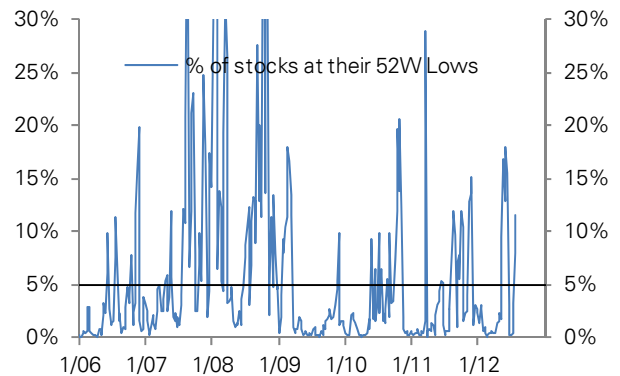
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 96: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 97: Percentage of stocks at 52w Lows



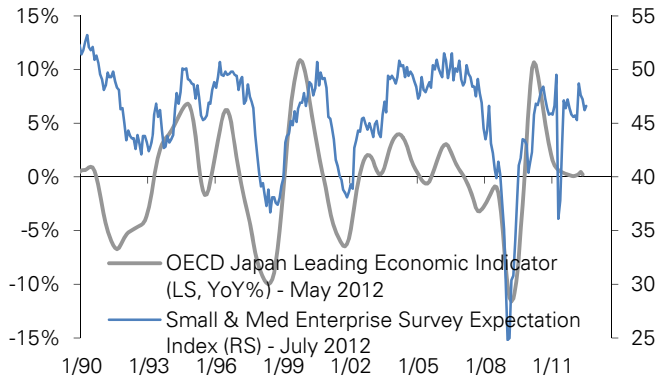
Source: Deutsche Bank, DataStream, FactSet



## Japan – growth and earnings

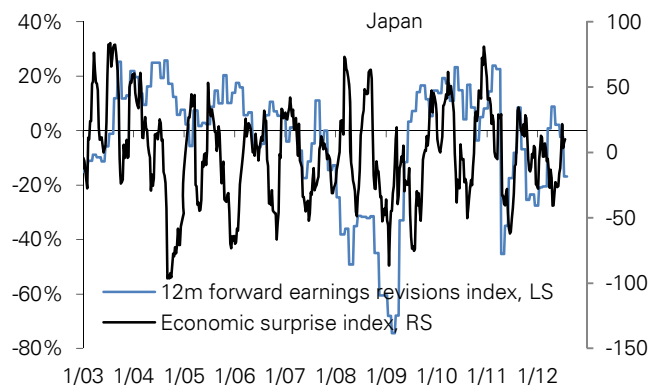
The leading economic indicator is bottoming, and economic surprises have been less bad.

Figure 98: Leading economic indicators



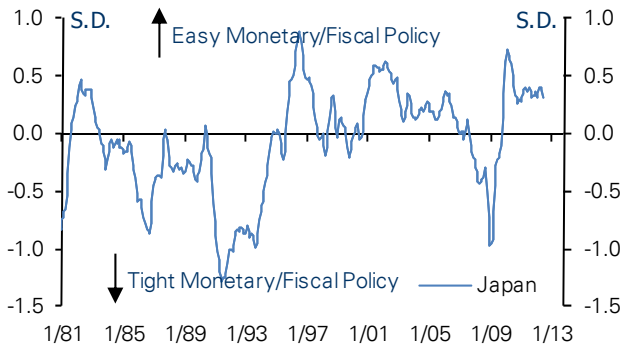
Source: Deutsche Bank, OECD, DataStream

Figure 99: Earnings revisions and economic surprises



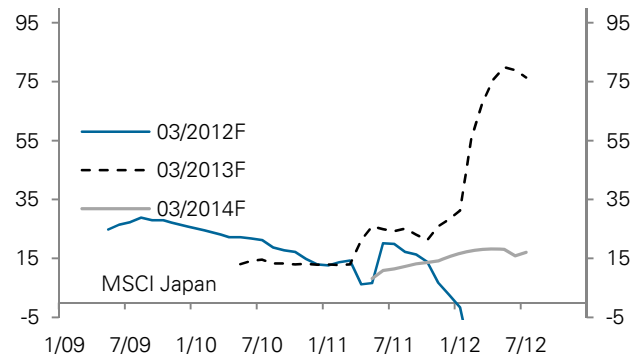
Source: Citigroup, I/B/E/S, Factset

Figure 100: Composite policy indicator



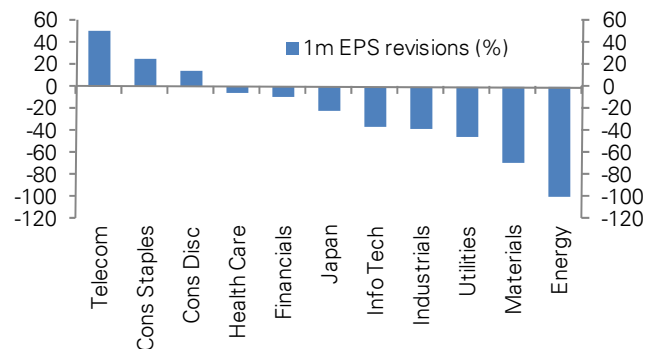
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 101: Earnings growth forecast (%)



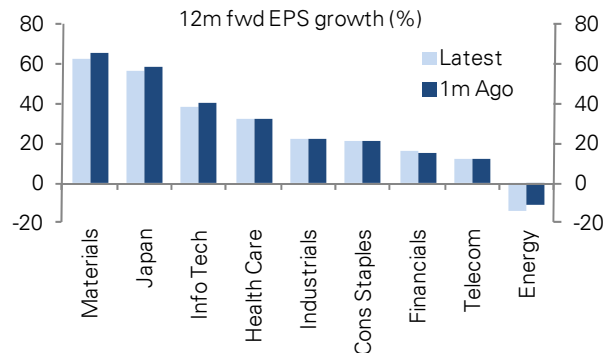
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 102: 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 103: 12m forward EPS growth forecast by sector



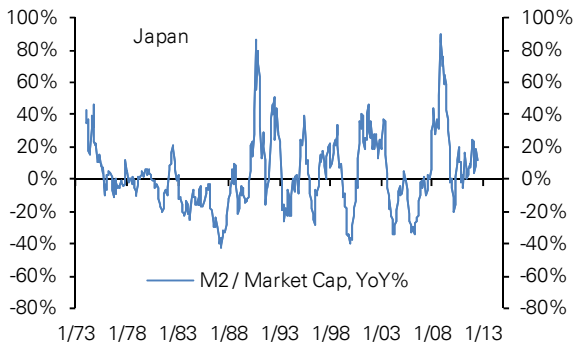
Source: Deutsche Bank, MSCI, I/B/E/S



## Japan – liquidity

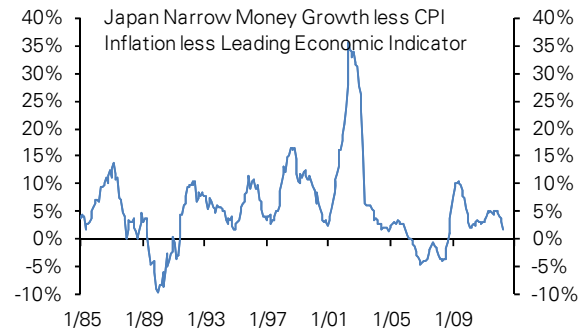
Japanese equities seem to rise only when the US 10-year bond yield rises, signaling a rise in global nominal GDP growth expectations. This model has worked well since 1990. A world of prolonged financial repression (negative real US 10-year bond yields) could mean a repressed Japanese equity market for even longer than the most jaded recognize – with a few intervals of respite.

Figure 104: M2/market cap



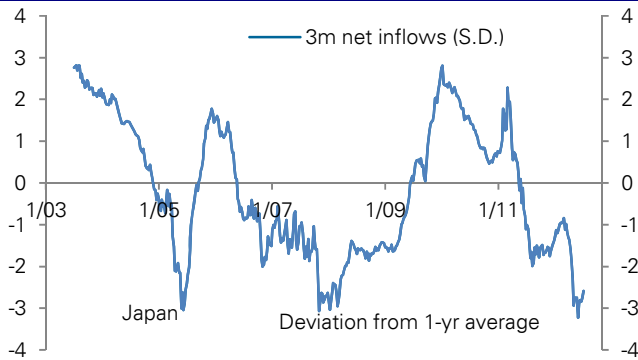
Source: Deutsche Bank, DataStream

Figure 105: Free liquidity



Source: Deutsche Bank, DataStream

Figure 106: Foreign fund flows into equities



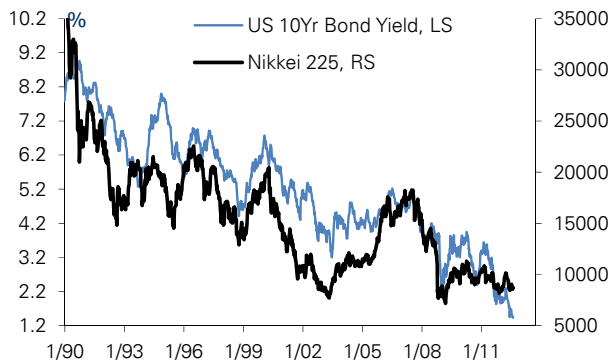
Source: Deutsche Bank, Bloomberg Finance LP

Figure 107: IPOs and additional equity offerings (6m rolling) as % of total market cap



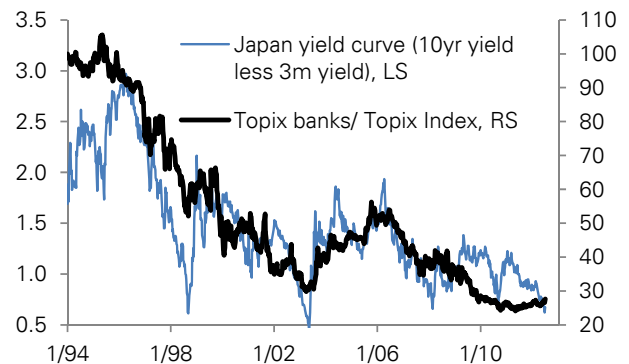
Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: \*Equity offerings includes IPO and additional equity offerings of primary and secondary shares.

Figure 108: US 10-year bond yield and Nikkei 225



Source: Deutsche Bank, DataStream

Figure 109: Japan yield curve



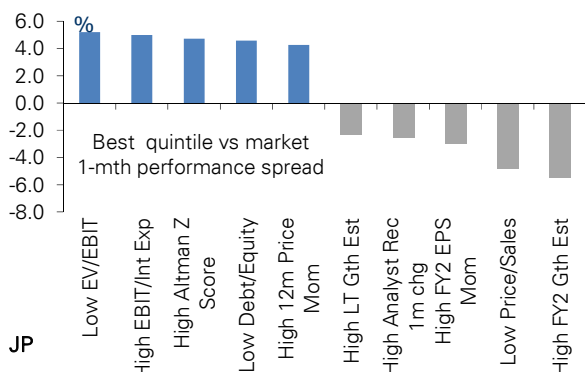
Source: Deutsche Bank, DataStream



## Japan – factor performance

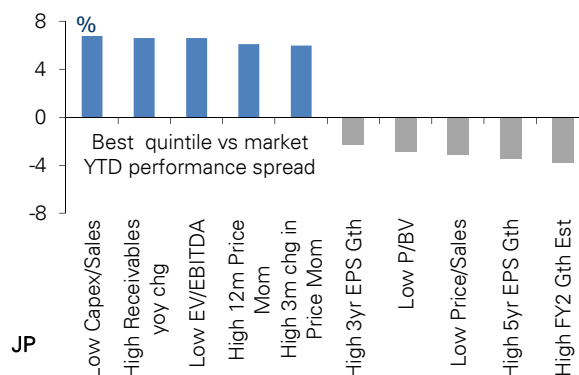
“Buy value” still works in Japan. This year the EV-based metrics seem to be doing better than usual. Throw in a dash of EPS revisions, and the tempura is good to go.

Figure 110: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 111: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 112: Factor performance (sector neutral\*\*)

Japan Jul 31, 12	Best quintile vs market relative performance (%)																							
	Returns									Returns														
	YTD	1m	3m	6m	12m	5y	10y	15y	YTD	1m	3m	6m	12m	5y	10y	15y								
Valuation																								
Low 12m Fd P/E	0.6	0.3	-1.4	0.4	-0.1	-1.8	3.6	5.5	High Cash ROC	4.0	2.2	4.0	5.0	3.8	1.6	2.2	2.6							
Low Trailing P/E	1.6	1.8	0.8	1.7	1.6	2.4	4.7	7.4	High Cash ROC, yoy chg	3.4	0.8	2.5	3.6	2.7	2.4	3.2	2.5							
Low P/Op Inc	1.1	0.5	-0.2	1.1	1.6	4.8	6.8	6.4	High ROE	5.5	3.4	4.0	5.9	5.0	-1.4	0.4	1.9							
Low P/BV	-2.9	-1.4	-1.8	-2.8	-2.1	6.8	4.8	5.8	High ROE, yoy chg	2.9	1.0	1.7	2.8	1.4	-1.5	1.2	2.0							
Low Price/Sales	-3.1	-4.8	-2.2	-3.1	-1.8	3.1	3.1	3.3	<b>Average</b>	<b>3.9</b>	<b>1.8</b>	<b>3.0</b>	<b>4.3</b>	<b>3.2</b>	<b>0.3</b>	<b>1.8</b>	<b>2.2</b>							
Low P/FCF	3.5	0.3	1.4	2.7	3.0	5.9	6.6	7.2	Growth															
Low EV/EBIT	5.3	5.2	4.1	5.6	5.8	2.9	4.4	5.8	High 3yr Sales Gth	-1.5	2.6	1.7	-0.4	-0.9	-3.3	-0.3	-0.7							
Low EV/EBITDA	6.6	4.3	3.8	6.6	6.7	5.6	6.1	4.9	High 5yr Sales Gth	-0.7	2.8	1.4	-0.1	-1.1	-2.3	-0.3	0.2							
Low EV/Cap Emp	-0.2	0.7	-0.8	0.0	1.6	5.5	4.1	5.0	High 3yr EPS Gth	-2.2	-1.6	-0.3	-1.6	-2.9	-2.1	0.7	1.4							
Low EV/Sales	5.7	1.8	5.2	5.8	7.3	5.2	3.8	3.6	High 5yr EPS Gth	-3.5	-0.6	-2.2	-2.9	-4.7	-1.2	-0.2	0.6							
Low EV/Op CF	3.8	3.6	2.8	3.7	4.5	7.5	6.6	6.6	High LT Gth Est	-0.2	-2.3	-1.4	-0.7	-2.9	0.1	1.3	0.1							
Low EV/FCF	4.8	3.7	2.8	4.5	5.9	4.9	5.6	6.1	High FY1 Gth Est	0.0	-1.5	-0.2	0.0	-2.4	-3.4	-0.2	0.0							
High Dividend Yield	-0.8	-1.2	-3.1	-0.3	1.4	6.3	6.7	7.4	High FY2 Gth Est	-3.8	-5.5	-4.6	-4.2	-5.2	-0.5	1.5	0.7							
<b>Average</b>	<b>2.0</b>	<b>1.1</b>	<b>0.9</b>	<b>2.0</b>	<b>2.7</b>	<b>4.5</b>	<b>5.1</b>	<b>5.8</b>	<b>Average</b>	<b>-1.7</b>	<b>###</b>	<b>-0.8</b>	<b>-1.4</b>	<b>-2.9</b>	<b>-1.8</b>	<b>0.4</b>	<b>0.3</b>							
Price Momentum																								
High 6m Price Mom	4.2	1.9	4.9	3.6	3.2	-5.8	-1.7	-0.9	Stability															
High 9m Price Mom	5.3	3.4	6.5	5.3	2.9	-5.7	-1.9	-0.4	Low EPS Vola	-0.2	1.5	1.5	0.4	1.3	0.4	-0.7	-0.9							
High 12m Price Mom	6.1	4.3	7.3	6.2	2.9	-4.3	-0.1	0.3	Low Op Inc Vola	1.5	2.1	2.1	2.3	3.9	2.0	-0.7	0.7							
High Price Rel Strg	4.8	2.8	6.3	4.9	2.2	-5.7	-1.1	0.9	Low Book Value Vola	1.5	1.4	1.4	1.3	3.4	3.2	0.0	-0.7							
High 3m chg in Price Mom	6.0	2.3	4.7	4.8	1.2	-1.6	0.5	1.3	Low Sales Vola	-1.8	-0.9	0.9	-0.7	0.0	0.4	-1.3	-0.6							
High Price Up/Dn Days	-1.4	-0.3	-0.5	-2.1	-1.5	-3.1	-1.2	-0.5	Low EPS Est Vola	5.2	4.2	5.7	6.5	8.2	0.7	-0.6	0.4							
<b>Average</b>	<b>4.2</b>	<b>2.4</b>	<b>4.9</b>	<b>3.8</b>	<b>1.8</b>	<b>-4.4</b>	<b>-0.9</b>	<b>0.1</b>	<b>Average</b>	<b>1.2</b>	<b>1.7</b>	<b>2.3</b>	<b>2.0</b>	<b>3.4</b>	<b>1.4</b>	<b>-0.7</b>	<b>-0.2</b>							
Earnings Momentum																								
High FY1 EPS Mom	-0.5	-1.2	-1.3	-1.1	-2.5	-4.8	-0.6	1.7	Risk															
High FY2 EPS Mom	-1.8	-3.0	-1.9	-2.3	-4.7	-5.0	-0.1	0.1	Low FY1 EPS Disp	0.0	1.8	1.3	0.0	0.4	-0.4	-0.9	-0.3							
High 12m Fd EPS Mom	1.3	0.4	1.5	0.9	-1.0	-3.6	0.5	2.0	Low FY2 EPS Disp	-0.4	3.4	1.2	-0.2	-0.5	-2.6	-2.7	-0.4							
High FY1 EPS Rev	2.9	2.6	3.6	3.6	0.6	-4.3	0.7	3.7	High EBIT/Int Exp	5.1	5.0	3.8	6.0	6.0	1.1	-0.7	0.4							
High FY2 EPS Rev	3.1	1.3	4.4	3.3	2.1	-4.2	2.8	2.6	Low Debt/Equity	2.7	4.6	3.3	3.4	3.5	1.8	-0.9	1.4							
<b>Average</b>	<b>1.0</b>	<b>0.0</b>	<b>1.3</b>	<b>0.9</b>	<b>-1.1</b>	<b>-4.4</b>	<b>0.6</b>	<b>2.0</b>	High Altman Z Score	4.6	4.7	4.2	6.1	3.6	-0.1	-1.2	-1.0							
Capex Deployment & Earnings Accruals																								
Low Capex/Depr	5.0	0.0	1.0	4.9	5.8	4.2	3.5	2.4	High Market Cap	2.3	1.3	1.4	1.8	3.0	-2.5	-1.8	-1.8							
Low Capex/Sales	6.8	2.9	3.5	7.1	9.1	2.5	1.8	1.3	<b>Average</b>	<b>2.4</b>	<b>3.5</b>	<b>2.5</b>	<b>2.8</b>	<b>2.7</b>	<b>-0.5</b>	<b>-1.4</b>	<b>-0.3</b>							
Low Capex/FA	-1.9	-1.8	-1.4	-2.2	-0.1	0.5	0.8	0.6	Consensus Ratings															
High Receivables yoy chg	6.6	2.0	5.5	6.0	6.5	3.0	3.7	2.1	High Analyst Rec	5.1	3.4	3.9	4.9	3.3	-3.6	-1.2	0.4							
Low Inventory yoy chg	0.6	0.8	1.1	-0.2	2.5	-0.2	-0.6	-1.5	High Analyst Rec 1m chg	-1.5	-2.5	-1.8	-0.7	-1.5	-0.5	-0.2	2.0							
Low Payables yoy chg	1.1	0.9	0.6	1.2	2.8	0.3	-0.7	-0.8	<b>Average</b>	<b>1.8</b>	<b>0.4</b>	<b>1.1</b>	<b>2.1</b>	<b>0.9</b>	<b>-2.1</b>	<b>-0.7</b>	<b>1.2</b>							
<b>Average</b>	<b>3.0</b>	<b>0.8</b>	<b>1.7</b>	<b>2.8</b>	<b>4.4</b>	<b>1.7</b>	<b>1.4</b>	<b>0.7</b>																

Source: Deutsche Bank, FactSet, I/B/E/S. Note: \*1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended July 2012. \*\*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.





## China Strategy

- 1. Policy and Economics:** Economic activities remain sluggish while the disinflation trend has accelerated. July HSBC flash PMI came in at 49.5; it has been below 50 for last nine months consecutively, the longest period on record. The near-term growth momentum will likely remain subdued on heightened destocking pressure and weakening demand. 2Q GDP increased 7.6% yoy, close to the government target of 7.5% for 2012. Consensus is expecting a mild recovery in 2H12, but increasingly the recovery will likely be feeble at best given the low visibility of the fiscal stimulus and external economic volatility. June industrial production growth (+9.5% yoy) and retail sales (+13.7% yoy) are the lowest since Mar 2009. The slowdown of IP is largely due to deceleration of infrastructure investment, such as rail and road. The sales growth slowdown of home appliance and auto can be attributed to the expiry of the subsidy program in late 2011. While June export growth (+11.3% yoy) remains in line and is unlikely to rebound given that the New Order sub-index within PMI has been below 50 for the last few months. We expect export growth to moderate to 10% in 2H12 as external demand from both US and EU has deteriorated in the last few months. However, M2 growth for June is 13.6% (close to the official target of 14%). New loan growth is also in line with the government target, with total bank loans increasing by RMB920bn in June, but medium-to-long-term loan growth remains weak, due to weak investment demand and tight lending restrictions toward property developers and infrastructure. On a positive note, June CPI inflation fell to 2.2% yoy as both food price and core inflation moderated. We expect CPI to fall further to below 2% in 3Q12 as both PPI deflation and food price declines will resume. Policymakers have been stepping up policy easing, including interest rate cuts and the reduction of lending restrictions toward LGFV and infrastructure. Property sales have rebounded strongly since April to 25% yoy. We still expect a mild recovery in 4Q12 on the rebound of infrastructure investment.
- 2. Company Rating Changes:** 1) Downgrade China Mengniu to Hold on management change, 2) Downgrade Gome and ZTE to Hold on the weak outlook, 3) Downgrade PetroChina to Hold on policy risks on its gas business, 4) Suspended coverage of New Oriental on SEC investigation.

**Fund flows and investor views:** MSCI China index is largely flat in July despite high volatility. Defensive sectors like telco, utilities and healthcare outperformed the materials and consumer discretionary sector. Markets are buffeted by weak domestic data flow and expectation of ECB/FED policy intervention. The index heavy weight banks were hit by an asymmetric interest cut at the beginning of the month. But over the next six months, the policy easing will accelerate to cushion the downside. We believe the forthcoming policy easing should include more monetary easing (three more RRR cut and one interest rate cut), selective credit easing on infrastructure, some tax reductions, and some increase in independent bond issuance by local governments. We prefer property, insurance and brokers, construction materials, internet and healthcare while cautious on retailing, staple and utilities.

- 3. Events/data/risk to watch for:** a) Chinese policy toward infrastructure, property and lending, b) ECB LTRO and FED QE3. c) China reflation in 4Q12
- 4. Top stock ideas:** Our top buys are Baidu, China Life, CNOOC, ICBC, CR Land, CNBM, China Shenhua, Belle, Shanghai Electric and Mindray.

Hui Miao, PhD.





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## Hong Kong Strategy

- 1. Policy and Economics:** Economic growth is moderating on sluggish financial market activity and a slowdown in trade and tourism. June exports fell 4.8% yoy while retail sales growth resumed its downward trend to 8.8%, significantly below the two-year average of 20%, as Chinese tourists rein in their spending. The job market is still tight with the unemployment rate edging down to 3.2% in June, although recent announcements of some job cuts in the financial sector will likely increase unemployment in the next few months.

The CPI inflation rate declined to 3.7% in June on stabilizing food and rental prices. The property market, the mass market segment particularly, had a small rebound in volume and price as pent-up demand from end-users came back to the market. But we are skeptical about the sustainability of rising property prices. The new administration of the Hong Kong government will likely see major change by shifting its focus on increasing supply of property and land in the medium term.

Chinese tightened credit card policies for visitors to Macau for gaming. Together with a slowdown in gaming revenue, the casino stocks underperformed. The Casino sector is a leveraged play on Chinese SME sector. As long as the coal price remains low and export growth is moderating, we don't expect gaming revenue to rebound in the near term.

- 2. Fund flows and investor views:** The MSCI Hong Kong index rose 3% in July, supported by property, transportation and utilities. The Gaming sector lagged on slowing Chinese tourist spending. Property sector rebounded as government did not release any new measures on property while the physical property market remain strong. Recent enhanced market expectation of more quantitative easing from the ECB/FED also boosts the property sector on the possible reflation of property prices. Banks like BoC(HK) and HangSeng are in line with index performance.

The index valuation (12-month FPE 14x) is still one standard deviation away from the long-term average (16x), with earnings having been marked slightly down to -6% with analysts downgrading Casino and Industrial sector earnings. The current index dividend yield of 3.4% is attractive. The market valuation is still attractive, given the low interest rate environment.

We prefer stay with the reflation trade with banks and properties in the near term, while the near-term expectation for monetary easing from ECB/Fed might remain heightened.

- 3. Events/data/risk to watch for:** a) ECB LTRO b) Fed September meeting, c) New government policy toward property sector d) Chinese tourist arrivals and spending.
- 4. Top stock ideas:** Our top buys are BOC (Hong Kong), AIA, Hang Seng Bank, CLP, New World Development, SHK, Sands, and Wharf.

Hui Miao, PhD.



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## India Strategy

- 1. Economics and strategy view:** We have a tactically bullish stance on the Indian market, although risks to our stance have risen recently, as much-awaited reform measures are yet to come through. After the recent cabinet reshuffle though, some hope is emerging that a full time Finance Minister should be able to deliver on some of the policy measures which should help avert the risk of sovereign downgrade. After the euphoria in July, investors had turned skeptical over government's ability to move ahead on critical economic agenda. The key has been fear that the political constraints may limit the government's ability to act decisively and quickly to manage an eroding economic environment and possible external shocks. The window of opportunity for announcing path-changing reforms is also narrowing fast and the government needs to at least move ahead on some of these measures in the very near term. The monsoon session of Parliament begins on 8 August and markets will be very enthused if some meaningful announcement comes before that.

The June-quarter earnings season is more than midway through, and to date, aggregate numbers for Deutsche Bank coverage stocks have been broadly in line with our estimates on Revenue and EBITDA. However aggregate PAT has come in 7% ahead of our estimates on account of a favorable mix of FX gains/MAT credit entitlement (Cairn India), MTM gains on investments (Hindustan Zinc, Bank of India), dividend income from subsidiaries (L&T), lower interest costs (Sterlite) and higher other income (HUVR, Sterlite) across different companies. Positive surprises on PAT have outnumbered negative surprises by a ratio of 62:38, while positive and negative surprises on EBITDA have been evenly distributed. We have observed the following key sectoral trends to date: (i) Clear divergence between PSU banks and private banks on asset quality issues; (ii) Consumer Staples have done well even as weakness in discretionary demand has come into sharp relief; (iii) Auto companies benefitted from better mix and pricing but margins impacted due to weak INR and SG&A costs; (iv) Weak refining/petchem margins impacted the Oil segment while lower volumes impacted the Gas segment; (v) Aluminum/Steel margins were better than expected but Copper impacted due to weak TC/RC realizations; (vi) Cement realizations jumped by 12-14%; Cap goods continue to see margin pressure; (vii) Utility companies benefitted from better execution and coal availability; (viii) INR depreciation lent strong support to IT/Pharma numbers.

RBI, in its latest monetary policy review, maintained the status quo on repo rates and CRR, citing the apparent inflationary pressures. However, it cut SLR by 24% to 23%, in an attempt to free up some bank lending towards more productive segments, albeit we wonder how many banks will benefit from SLR relaxation as the system as a whole is already invested in SLR securities at ~28%.

Looking forward, there is little scope for RBI to change its monetary policy stance this year. The central bank is expecting inflation to remain around 7% through March of next year, and is likely to remain on hold for the rest of 2012. Provided there is no further flare-up in global commodity prices, and growth remains well below 7%, the RBI could see prices flattening enough and the output gap widening sufficiently to embark on policy easing from March 2013 onward. The RBI could cut policy rates by 100bps through the course of 2013, although inflation risks could persist and compromise the magnitude of rate cuts. If there were major fiscal consolidation measures undertaken in the coming months and/or if both global and domestic growth weakened sharply to impose a disinflationary impact on the economy, then the RBI could cut more.



2. **Key domestic developments to watch out for:** (i) Favorable changes on the political front may give the government headroom on moving ahead on the critical economic agenda. (ii) A domestic fuel (Diesel/LPG/kerosene) price hike remains the most eagerly awaited event. The timing and quantum of a fuel price hike will be a key test of the government's ability to drive a political consensus and its resolve on subsidy rationalization as well as a move ahead on reforms. (iii) Any resolute move by the government to put the capex cycle back on track.
3. **Events/data/risks to watch for:**
  - (1) June Industrial production on 9 Aug 2012
  - (2) July WPI inflation on 14 Aug 2012
  - (3) July CPI inflation in 20 Aug 2012
  - (4) Apr-Jun qtr GDP growth yoy on 31 Aug 2012
4. **Top stock ideas:** L&T, ICICI Bank, Yes Bank, Axis Bank, Tata Steel, ITC.

Abhay Lajawala  
Abhishek Saraf



## Indonesia Strategy

1. **Trade Deficit:** A record trade deficit in June (US\$1.3bn vs. US\$0.2bn in May) certainly appears alarming on the surface. In fact, one may immediately infer currency depreciation and spiraling inflation going forward. We, however, are less concerned about this issue, though admittedly we are a minority voice. Two parts to this thought process: firstly, on imports, looking at the data closer, imports are actually not growing extraordinarily or hardly excessive at 11% yoy (+13% yoy for non oil and gas). Importantly, the fastest-growing imports are once again the “Capital Goods” (c.\$3.4bn), which grew by 25% yoy (YTD +36% yoy) and account for some 40% of incremental imports. Clearly the issue is not a trade deficit per se, as indeed this is very much a reflection of the state of the economy, an investment-led growth economy. To be sure, had there not been a surge in investment, we would not have the current account deficit problem to begin with. Rather, the issue is whether we can afford such deficit. Judging from the FDI run-rate of \$24-25bn p.a. and a GDP of \$1tr, this economy can afford c.2-3% of current account deficit. As long as MNC still view Indonesia as an attractive country to invest in, the CA deficit will remain, but equally, it can be well funded. Secondly, note that the weak exports (-16% yoy in June) result from commodity price weakness; the latter is indeed difficult to predict given its news flow-driven nature. In any case, assuming commodity prices weaken 10% across the board, we estimate that this would lead to a decline in net exports proceeds of \$20-25m/day; which is not large, especially compared with capital outflow in the financial markets that could reach \$200m-plus a day. Hence, it should not significantly impair the Rupiah, in our view. Note that FDI continues to charge higher in 2Q12 at c.US\$6bn.

2. **Budget:** Overall, as of 1H12, state revenue is within target, at 43.7% of FY12 budget (vs. 42.5% in 1H11), while expenditure is ahead at 40.7% of FY12 budget (vs. 33.5% in 1H11). The latter, however, was due to higher spending on items that it shouldn't be spending (i.e. fuel subsidy) and unfortunately lower spending on those that it should be spending (i.e. capital spending). The fuel subsidy in 1H12 accounts for a whopping 65% of FY12 target whilst non-fuel spending is only a mere 38% of FY12 target. The MoF attributed the soaring fuel subsidy to higher ICP, weakening Rp, as well as slow progress in power plant development and weak gas supply.

Overall, 1H12 revenue was Rp593.2tr, expenditure was Rp629.4tr and deficit was Rp36.1tr (the first time at deficit in 1H of the fiscal year). The MoF estimated that the fuel subsidy by the end of the year could reach 55-60% more than the initial allocation. However, it also reiterated the fact that the government does have budget buffers (savings and reserves) that could be used to offset higher fuel spending, which could help maintain the deficit below the 3% legal threshold. On the whole, we believe the government fiscal spending, at a mere 8% of GDP, does not play a vital role in the overall economy; rather the key is to maintain fiscal discipline to ensure macro stability for the private sector to drive economic growth.

3. **Inflation:** 4.6% yoy (+0.7% mom) for the month of July, as expected. On a 3m/3m SA annualized basis, CPI was up 5%. Core inflation rose to 4.3%. Food (7% yoy in July vs. 7.2% in June) and processed food (5.9% vs. 5.4%) components drove the outcome, somewhat unsurprisingly as the last 10 days of July fell in the religious month of Ramadan when food demand tends to spike. Among other items, there was a small spike in education costs (+4.2% yoy, +0.6% mom)



4. **Fund flows:** Foreigners net bought equity in July (a c.US\$485mn net buy in July vs. a net sell of c.US\$210mn in June). However, the market's average daily turnover remains below the YTD average (c.US\$450m in July vs. US\$480m YTD avg.). The JCI was up 5% mom in July, trading around the 4,000 index level. YTD Indonesia is still an underperformer among its regional peers. Robust 2Q12 results provided a catalyst for the market, with foreign flows picking up post the results release. The fixed income market also saw a turnaround in foreign flow in July, recording a foreign net buy of c.US\$1bn. The 10-year government bond yield as of the end of July was 5.7% (vs. 6.2% at the end of June).
5. **Top stock ideas:** Bank Mandiri, Semen Gresik, United Tractors, Indofood, Gudang Garam, Jasa Marga, Indomobil, Sumarecon.

[Heriyanto Irawan](#)



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## Philippines Strategy

- 1. Policy and economics:** The Bangko Sentral ng Pilipinas (BSP) cut overnight policy rates by 25bps in July, which took some by surprise, despite unsubtle hints leading up to the actual rate reduction. The overnight lending rates (reverse repo) now stand at 3.75%, an all-time low. The Deutsche Bank economics team issued a report, "*We beg to differ*", questioning the rationale for the cut. While headline inflation has remained low (sub-3%) core inflation has started to pick up. And with global grain prices (wheat and corn) spiking, it's only a matter of time before the effects are felt domestically. Furthermore, GDP growth surprised strongly to the upside, coming in at 6.4% in 1Q. Initial government estimates are that 2Q could be in the same vicinity. Industry data seem to confirm this. Electricity demand remained elevated, growing 10% YoY in 2Q, including a 20% surge in industrial demand. Cement sales volumes are also up 26% in 2Q, driven by accelerated government spending. Loan growth continues to stay strong, up 15% YoY in May. While this is a slowdown from the 20% in 1Q12 and end-2011, this is largely a base-effect from the large government loans issued in May 2011. We suspect part of the motivation for the policy rate reduction was a) to slow the Peso's strength and b) to reduce the intermediation and sterilization costs. The BSP recorded a net loss of P34bn in 2011 following an even larger loss in 2010. Meanwhile, the government has launched another PPP project, the NAIA 3 Expressway, with bidding planned for 1Q13.
- 2. Company visits/results:** Early 2Q11 remain mixed. Consumer-related companies, property developers and banks are showing surprisingly strong volume growth. Net profits though have been uneven, with margin pressures persisting for all three. Telco and media companies have disappointed, belying hopes that industry consolidation would lead to less competition. General business sentiment remains high, though.
- 3. Fund flows and investor views:** Foreign interest remains strong. Net foreign buying now stands at close to \$2bn year-to-date. Even domestic institutions continue to allocate more funds to equities. Unsurprisingly IPOs, share placements, and rights issues are all the rage. New share issues (i.e. ex-secondary placements) in the first half alone were around P106bn, nearly matching the full-year figure at the peak in 2007 of P119bn. Banco de Oro (BDO.PS) completed its \$1bn rights issue, the largest ever equity raising in the Philippines.
- 4. Events/data/risks to watch for:** a) 2Q GDP on 30 Aug; b) large PPP infrastructure projects launching in 3/4Q; c) escalation of tensions with China over Scarborough shoal territorial claims.

Rafael Garchitorea



## Singapore Strategy

- 1. Policy and economics:** Deutsche Bank economists have trimmed their 2012 GDP forecast to 2.5% (from 3.5%) and 2013 to 3.5% (from 4.5%) as the ongoing slowdown in major economies impacts Singapore's trade, manufacturing, finance, and tourism sectors. While the Singapore economy posted a healthy 1.9% yoy in 2Q12, Q2 GDP disappointed with a -1.1% QoQ contraction. Encouragingly, June NODX increasing by 6.7% on a mom basis and 6.8% in yoy terms (June in line with DB's 6.5% vs. a +3.2% in May) and industrial production rose by 3.9% mom (sa) in June (7.6% yoy). Singapore's inflation edged to 5.3% yoy in June, from 5.0% in May. The bulk of the inflation outturn was due to rises in housing (+9.7% yoy) and transportation (+8.7% yoy) costs. On a core basis, inflation remained stable at 2.7% for the third consecutive month. We believe that the risk for inflation remains considerable, given the rise in global food prices; we expect inflation to remain above 4% this year. However, with rising downside risks to the economy, we believe that the authorities will be forced to remain on the sidelines in regards to monetary policy. Credit growth in the private sector was 14.7% in May and was the slowest since February 2011, when it had grown by 14.9% yoy. Singapore's June PMI was 50.4, above consensus expectations of 50.1.
- 2. Company visits/results:** Midway through 2QCY12 reporting season, aggregate core earnings have trended in line with Deutsche Bank expectations. The key upside surprise thus far has been Keppel Crop on the back of continued recognition of its Reflections projects. While SIA also delivered a stronger-than-expected result, passenger yields continue to decline, with promotional efforts continuing to put downward pressure on yields. To date, 80% of the companies have reported in line with expectations, while 20% have reported above vs. 45% reporting in line with expectations and 30-38% above expectations the previous two quarters. The key issues for investors during our post-2Q results meeting with Keppel Land were capital allocation and property market trends. Meanwhile, at our post-1Q13 investor meeting with SATS, investors were focused on dividends, M&A, costs and organic growth.
- 3. Fund flows and investor views:** Investor interest has focused on Fraser & Neave following Thaibev's acquisition of OCBC's stake in FNN for S\$8.88/sh and APB (S\$45/sh), and follow-on offer for APB at S\$50/sh (c.17.2x P/E). Suntory's move to privatize locally-listed Cerebos Pacific has further spurred interest in the consumer sector. At our recent meetings in HK and Singapore, investors were generally positive on the O&M industry outlook as demand continues for offshore assets such as rigs, FPSOs, support vessels, platforms, and other related assets. Investors understood that industry capex would continue despite recent oil price volatility and the key Singapore yards appear well positioned to benefit. Investor interest in ST Engineering was healthy with focus largely on their operational resilience, balance sheet strength, and dividend stability.
- 4. Events/data/risks to watch for:** a) NODX (17 Aug), Industrial Production (24 Aug), Retail Sales (15 Aug), CPI (23 Aug), Credit statistics (31 Aug), CPI (23 Aug), GDP (11 Aug) b) Property-related data points such as new residential launches and land tenders. Continued sales momentum may raise the risk of additional measures.
- 5. Top stock ideas:** Ascendas REIT, Mapletree Logistics Trust, CapitaMalls Asia, SATS, Ezra Holdings, Fraser & Neave, Keppel Corp, Mapletree Commercial, Neptune Orient Lines, Sembcorp Industries.

Gregory Lui, CFA



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## Taiwan Strategy

1. **Policy and economics:** Industrial production surprised to the downside, contracting 2.4% yoy in June after a 0.2% decline in May, as export orders fell 2.6% yoy last month. Export orders continued to contract in June, by 2.62% yoy vs. 3.04% in May, marking its fourth consecutive month of decline. On a nsa mom basis, export orders fell 0.25% in June, partially reversing the 1.07% growth reported in May. Exports again surprised to the downside in June, contracting 3.2% yoy, vs. the market and our forecast of 2.3% and 2.0% growth, respectively, albeit better than the 6.3% fall reported in May. By goods, this weakness was led by a 26.5% fall in exports of information/communication goods, albeit better than the 30.6% fall reported in May.

Headline inflation rose to 1.77% yoy (0.12% sa mom) in June, from 1.74% (0.04%) in May, led by higher food price inflation. The latter rose to 4.40% in June from 3.75% in May, as heavy rain limited food production.

The capital gains tax was approved by the Legislative Yuan on 25 July with two tracks of taxation between 2013 and 2014 and only one tax scheme beyond 2015. For track 1, CGT will be levied based on imputed income only if the index level is above 8,500. However, investors meeting the following criteria will be subject to CGT (track 2): (1) selling 100K+ of emerging board stocks, 10K+ of IPO stocks and unlisted stocks, (2) non-Taiwan residents. Starting 2015, in addition to the criteria in track 2, investors with selling volume over NT\$1bn will be subject to CGT as well.

2. **Company visits/results:** Currently, 34% of TWSE market capitalization reported 2Q12 preliminary results. Within that, only 30% beat/met consensus forecast in the bottom line. We are not surprised about the weakness, given below-seasonal 2Q12 preliminary revenue (as known through monthly sales)
3. **Fund flows and investor views:** Foreigners remained net sellers in July (US\$2.0bn net sold) while both ITC and Prop Desks reported net buys. Short interest retreated significantly due to the ex-dividend short covering season while margin long continued to trend down (equivalent to the 1Q09 level), suggesting weak sentiment. Daily trading volume shrank by 27% in July compared to the past three-year average due to Europe and CGT. It indicates investors are mostly staying on the sidelines amid the great uncertainties.
4. **Events/data/risks to watch for:** a) 2Q12 results; b) earnings downward revisions; c) prolonged European sovereign crisis; d) contraction of Taiwan export growth.
5. **Top stock ideas:** Delta, Hon Hai, TSMC, Mediatek, Foxconn Tech, TPK, Simplo, Chailease, Formosa Plastic, Uni-President.

Joelian Tseng





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## Thailand Strategy

- 1. Policy and economics:** We believe mid-single digit GDP growth is still achievable for 2012/13, despite a negative contribution from net exports this year, on the back of consumption and investment. Key drivers for consumption include the wealth effect from SET gains (+15% YTD for Bt0.9tr domestic-owned equity wealth creation), and the impact from minimum wage hikes (Bt0.6tr increment into the pockets of high marginal propensity to consume consumers). Key drivers for investment include strained capacity utilization, now at all time high, public infrastructure and power development projects, and FDI.
- 2. Balance of payments:** BOT FX intervention response to sustained QE-anticipation fixed income capital account inflows is now being mitigated by weakness on the current account, the main drags being the collapse in the natural rubber price (Thailand's number one crop export), and foregone rice export volumes (number two crop) due to the government rice pledge program stockpiling policy. On the manufacturing side, softer external demand is partly countered by continued inward FDI as Thailand's role as an export production hub for the auto industry in particular continues to gain strength.
- 3. Earnings:** 15 August marks second quarter earnings reporting deadline for listed non-financial companies. Earnings in aggregate stand to decline by a double-digit percentage QoQ due mainly to inventory losses in the petroleum products sector (25% of the index), as well as base effect of inflated 1Q profits caused by pent up sales volumes after the floods. Looking ahead, 3Q earnings should rebound QoQ with inventory losses swinging to gains (from higher oil), and recovery in spreads in the petrochemical sector. YoY growth comps in the back half of the year will be flattered by the base effect of last year's floods.
- 4. Politics watch:** The Thai Parliament is again in session, raising again the political risk meter related to the government's proposed reconciliation bill, derided by opponents as a thinly-veiled amnesty bill. The opposition party meanwhile has signaled it will submit a no confidence motion, emphasizing the drawbacks of the rice pledging program – not least the hit to rice export volumes and susceptibility of the program to smuggled rice imports to avail of the pledge price c.40% premium to world export clearing price.
- 5. Top stock ideas:** ADVANC, KBANK, SCC, TUF, HEMRAJ, MINT, STEC.

Derek Bloomfield



## Companies Mentioned

Figure 113: Companies Mentioned

S.No	Country	Company	DB Rating	Bloomberg Ticker	Price (3 Aug)	S.No	Country	Company	DB Rating	Bloomberg Ticker	Price (3 Aug)
1	CN	China Mengniu Dairy	Hold	2319 HK	22.5	49	ID	Gudang Garam	Buy	GGRM IJ	51000.0
2	CN	Gome	Hold	493 HK	0.7	50	ID	Jasa Marga	Buy	JSMR IJ	5700.0
3	CN	ZTE Corp-H	Hold	763 HK	10.4	51	ID	Indomobil	Buy	IMAS IJ	6150.0
4	CN	PetroChina	Hold	857 HK	9.4	52	ID	Summarecon	Buy	SMRA IJ	1600.0
5	CN	New Oriental	NA	NOEDTZ CN	NA	53	MY	Sime Darby Bhd	Hold	SIME MK	9.8
6	CN	Baidu	Buy	BIDU US	124.8	54	MY	SP Setia	Hold	SPSB MK	3.6
7	CN	China Life	Buy	2628 HK	21.3	55	MY	Public Bank	Buy	PBKF MK	14.5
8	CN	CNOOC Ltd	Buy	883 HK	15.3	56	MY	DiGi.Com	Buy	DIGI MK	4.6
9	CN	ICBC	Buy	1398 HK	4.5	57	MY	Bursa Malaysia	Hold	BURSA MK	6.2
10	CN	China Resources Land	Buy	1109 HK	14.9	58	MY	Genting Malaysia BHD	Buy	GENM MK	3.4
11	CN	CNBM	Buy	3323 HK	8.0	59	SG	Genting Singapore PLC	Hold	GENS SP	1.3
12	CN	China Shenhua Energy	Buy	1088 HK	29.3	60	MY	IJM Corp	Buy	IJM MK	5.1
13	CN	Belle Int'l Holding	Buy	1880 HK	13.9	61	MY	Hong Leong Bank	Buy	HLBK MK	13.6
14	CN	Shanghai Electric	Buy	2727 HK	3.0	62	MY	AirAsia	Buy	AIRA MK	3.7
15	CN	Mindray Medical	Buy	MR US	30.6	63	MY	Telekom Malaysia	Hold	T MK	5.8
16	HK	BOC Hong Kong Holdings	Buy	2388 HK	23.8	64	MY	CIMB Group	Buy	CIMB MK	7.9
17	HK	Hang Seng Bank	Buy	11 HK	108.4	65	PH	Banco de Oro	Buy	BDO PM	62.9
18	HK	Ala	Buy	1299 HK	26.8	66	SG	Singapore Airlines	Sell	SIA SP	10.9
19	HK	CLP Holdings	Buy	2 HK	66.9	67	SG	Thaibev	NR	THBEV SP	0.3
20	HK	New World Dev	Buy	17 HK	10.1	68	SG	OCBC	Buy	OCBC SP	9.4
21	HK	SHK Properties Ltd	Buy	16 HK	97.0	69	SG	Fraser & Neave Ltd.	Buy	FNN SP	8.4
22	HK	Sands China	Buy	1928 HK	23.6	70	SG	APB	NR	APB SP	48.8
23	HK	Wharf	Hold	4 HK	45.3	71	SG	Cerebos Pacific	NR	CER SP	6.6
24	TW	Delta Electronics	Buy	2308 TT	99.0	72	JP	Suntory	NR	SUNTZ JP	NA
25	TW	Hon Hai Precision	Buy	2317 TT	81.6	73	SG	ST Engineering	Buy	STE SP	3.3
26	TW	TSMC	Buy	2330 TT	79.8	74	SG	Ascendas Real Estate	Buy	AREIT SP	2.3
27	TW	Mediatek	Buy	2454 TT	279.0	75	SG	Mapletree Logistics Trust	Buy	MLT SP	1.0
28	TW	Foxconn Technology	Buy	2354 TT	100.0	76	SG	CapitaMalls Asia	Buy	CMA SP	1.7
29	TW	TPK Holding	Buy	3673 TT	351.5	77	SG	SATS	Buy	SATS SP	2.5
30	TW	Simplo Technology	Buy	6121 TT	176.5	78	SG	Ezra Holdings	Buy	EZRA SP	1.0
31	TW	Chailease Holding	Buy	5871 TT	49.0	79	SG	Fraser & Neave Ltd.	Buy	FNN SP	8.4
32	TW	Formosa Plastics	Hold	1301 TT	82.4	80	SG	Keppel Corp Ltd	Buy	KEP SP	11.3
33	TW	Uni-President	Buy	1216 TT	52.0	81	SG	Mapletree Commercial Trust	Buy	MCT SP	1.1
34	IN	Cairn India	Hold	CAIR IN	334.6	82	SG	Neptune Orient Lines	Buy	NOL SP	1.2
35	IN	Hindustan Zinc	Hold	HZ IN	118.3	83	SG	Sembcorp Industries Ltd	Buy	SCI SP	5.3
36	IN	Bank of India	Hold	BOI IN	289.0	84	TH	AIS	Buy	ADVANC TB	207.0
37	IN	Larsen & Toubro Ltd	Buy	LT IN	1382.2	85	TH	Kasikornbank	Buy	KBANK TB	172.5
38	IN	Sterilite Industries	Buy	STLT IN	102.1	86	TH	Siam Cement	Buy	SCC TB	324.0
39	IN	HUL	Hold	HUVR IN	467.2	87	TH	Thai Union Frozen	Buy	TUF TB	73.8
40	IN	ICICI Bank	Buy	ICICIB IN	939.7	88	TH	Hemraj Development	Buy	HEMRAJ TB	3.0
41	IN	Yes Bank	Buy	YES IN	368.1	89	TH	Minor International PLC	Buy	MINT TB	15.7
42	IN	Axis Bank	Buy	AXSB IN	1040.9	90	TH	Sino-Thai Engineering	Buy	STEC TB	15.3
43	IN	Tata Steel Limited	Buy	TATA IN	397.0	91	TW	UNI-PRESIDENT ENTERPRISE	Buy	1216 TT	52.0
44	IN	ITC	Buy	ITC IN	259.4	92	HK	SJM HOLDINGS LTD	Buy	880 HK	13.8
45	ID	Bank Mandiri	Buy	BMRI IJ	8300.0	93	PH	MEGAWORLD CORP	Buy	MEG PM	2.2
46	ID	Semen Gresik	Buy	SMGR IJ	12450.0	94	TH	BEC WORLD PUBLIC CO LTD	Buy	BEC TB	54.5
47	ID	United Tractors	Buy	UNTR IJ	21300.0	95	CN	BELLE INTERNATIONAL HOLI	Buy	1880 HK	13.9
48	ID	Indofood	Buy	INDF IJ	5400.0	96	HK	BOC HONG KONG HOLDING	Buy	2388 HK	23.8



Figure 113: Companies Mentioned (continued)

S.No	Country	Company	DB Rating	Bloomberg Ticker	Price (3 Aug)	S.No	Country	Company	DB Rating	Bloomberg Ticker	Price (3 Aug)
1	CN	CHINA COMMUNICATIONS SERVI-H	Buy	552 HK	3.9	49	HK	Hang Lung Properties	Buy	101 HK	27.3
2	CN	CHINA COMMUNICATIONS CONST+	Buy	1800 HK	6.7	50	TW	Delta Electronics	Buy	2308 TT	99.0
3	CN	Haitong Securities	Buy	6837 HK	9.7	51	CN	Franshion	Buy	817 HK	2.3
4	CN	CHINA MOBILE LTD	Hold	941 HK	88.0	52	MY	Genting Bhd	Hold	GENT MK	9.1
5	CN	CNOOC LTD	Buy	883 HK	15.3	53	TH	Kasikornbank	Buy	KBANK TB	172.5
6	TW	FAR EASTONE TELECOMM CO LTD	Buy	4904 TT	74.6	54	KR	Nexen Tire	Hold	002350 KS	19200.0
7	TH	MINOR INTERNATIONAL PCL	Buy	MINT TB	15.7	55	TW	Orise Technology	Buy	3545 TT	30.9
8	HK	GIORDANO INTERNATIONAL LTD	Hold	709 HK	5.3	56	CN	Shanghai Electric	Buy	2727 HK	3.0
9	CN	GUANGDONG INVESTMENT LTD	Buy	270 HK	5.6	57	MY	DiGi.Com	NR	DIGI MK	NA
10	TH	SINO THAI ENGR & CONSTR PCL	Buy	STEC TB	15.3	58	IN	Bank of Baroda	Buy	BOB IN	650.9
11	IN	ICICI BANK LTD	Buy	ICICIBC IN	939.7	59	CN	China CITIC	Hold	998 HK	3.9
12	KR	HYUNDAI MOBIS	Buy	012330 KS	296000.0	60	IN	Asian Paints	Hold	APNT IN	3750.3
13	KR	HYUNDAI MOTOR CO	Buy	005380 KS	233000.0	61	KR	Hyundai Heavy	Buy	009540 KS	233500.0
14	CN	IND & COMM BK OF CHINA-H	Buy	1398 HK	4.5	62	KR	Korean Reinsurance	Buy	003690 KS	10650.0
15	ID	INDOCEMENT TUNGGAL PRAKARSA	Buy	INTP IJ	20000.0	63	CN	Sinopec-H	Hold	386 HK	7.0
16	MY	Telekom Malaysia Bhd.	Hold	T MK	5.8	64	HK	Cathay Pacific	Sell	293 HK	12.7
17	SG	Keppel Land Ltd.	Buy	KPLD SP	3.5	65	CN	Maanshan-H	Hold	323 HK	1.8
18	KR	DONGBU INSURANCE CO LTD	Buy	005830 KS	40700.0	66	TW	Siliconware Precision	Hold	2325 TT	32.5
19	KR	SAMSUNG ELECTRONICS CO LTD	Buy	005930 KS	1243000.0	67	KR	DSME	Buy	042660 KS	25350.0
20	KR	SK INNOVATION CO LTD	Buy	096770 KS	156000.0	68	KO	OCI Company	NR	010060 KS	199000.0
21	TW	NOVATEK MICROELECTRONICS COF	Hold	3034 TT	86.1	69	ID	BRI	Buy	BBRI IJ	7000.0
22	IN	OIL INDIA LTD	Buy	OINL IN	487.1	70	KR	Samsung Eng.	Hold	028050 KS	180000.0
23	IN	OIL & NATURAL GAS CORP LTD	Buy	ONGC IN	280.5	71	TH	Siam Cement	Buy	SCC TB	324.0
24	KR	LG CHEM LTD	Buy	051910 KS	306000.0	72	CN	KWG Property	Buy	1813 HK	4.2
25	IN	Infrastructure Development Finance C	Buy	IDFC IN	130.4	73	CN	SOHO China	Buy	410 HK	5.8
26	TH	PTT PCL	Hold	PTT TB	320.0	74	KO	Hyundai Dept Store	Buy	069960 KS	122500.0
27	SG	SEMBCORP INDUSTRIES LTD	Buy	SCI SP	5.3	75	HK	SJM	Buy	880 HK	13.8
28	SG	SEMBCORP MARINE LTD	Buy	SMM SP	4.8	76	TW	Taiwan Cement	Hold	1101 TT	35.8
29	HK	SUN HUNG KAI PROPERTIES	Buy	16 HK	97.0	77	TW	Powertech Technology	Sell	6239 TT	52.3
30	TW	SIMPLO TECHNOLOGY CO LTD	Buy	6121 TT	176.5	78	KO	Amorepacific Corp.	Hold	090430 KS	1015000.0
31	CN	SOUFUN HOLDINGS LTD-ADR	Buy	SFUN US	12.7	79	MY	Hong Leong Bank Bhd.	Buy	HLBK MK	13.6
32	SG	STARHUB LTD	Hold	STH SP	3.8	80	KO	Industrial Bank of Korea	Hold	024110 KS	11900.0
33	IN	GRASIM INDUSTRIES LTD	Buy	GRASIM IN	2911.4	81	KO	KT&G Corp.	Hold	033780 KS	82900.0
34	CN	db x-trackers CSI300 Index ETF	NA	3049 HK	NA	82	PH	Aboitiz Power Corp.	Hold	AP PM	34.0
35	CN	Agri. Bank of China	Buy	1288 HK	3.1	83	TH	Krung Thai Bank Public Co., Ltc	Hold	KTB TB	17.2
36	HK	Anta Sports	Hold	2020 HK	4.1	84	ID	PT Charoen Pokphand Indones	Buy	CPIN IJ	2925.0
37	SG	Fraser & Neave	Buy	FNN SP	8.4	85	ID	PT Perusahaan Gas Negara (P	Buy	PGAS IJ	3800.0
38	CN	China Shineway	Hold	2877 HK	11.2	86	SP	Yangzijiang Shipbuilding (Holdin	Hold	YZJ SP	1.0
39	TW	Chunghwa Tel	Hold	2412 TT	89.5	87	TW	Formosa Chemicals & Fibre	Hold	1326 TT	79.9
40	TW	Far EasTone Telecom	Buy	4904 TT	74.6	88	CN	China Construction Bank-H	Hold	939 HK	5.3
41	PH	First Philippine Hldgs	Buy	FPH PM	77.3	89	HK	Wharf Holdings ltd	Hold	4 HK	45.3
42	KR	LIG Insurance	Buy	002550 KS	22850.0	90	IN	Wipro Ltd	Buy	WPRO IN	347.0
43	ID	Perusahaan Gas Negara	Buy	PGAS IJ	3800.0	91	ID	United Tractors Tbk Pt	Buy	UNTR IJ	21300.0
44	MY	PLUS Expressways	NR	PLUS MK	NA	92	MY	Public Bank	Buy	PBKF MK	14.5
45	SG	SATS	NA	SATS SP	NA	93	TW	Mstar Semiconductor Inc	Buy	3697 TT	208.5
46	MY	Top Glove	Hold	TOPG MK	5.4	94	CN	Bank of China Ltd-H	Buy	3988 HK	3.0
47	HK	Wynn Macau	Buy	1128 HK	16.9	95	KO	Hyundai Marine & Fire Ins Co	Buy	001450 KS	30250.0
48	CN	Dongfeng Motor	Buy	489 HK	10.9	96					



# Appendix A

In the stock ranking model, optimized weights based on back-tests are given to various factors (see Figure 114) 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 114: 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 115: Bottom-up sector ranking (Rank 1 = Best)

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	Korea	Banks	39,516	0.6	5.3		-0.05	-0.23	13.6	0.97	1%	++	O	O	-
2	Japan	Food & Staples Retailing	38,444	1.2	11.7	6.1	0.36	0.71	10.6	1.09	13%	++	++	O	++
3	Philippines	Banks	5,651	1.9	11.7		1.00	0.75	15.9	1.14	11%	O	++	+	++
4	Japan	Banks	197,695	0.5	9.3		0.11	0.11	4.4	0.94	-1%	++	+	--	--
5	Singapore	Banks	59,058	1.4	11.9		0.86	0.62	11.0	1.04	8%	+	++	O	+
6	Thailand	Banks	27,905	1.8	11.1		0.75	0.81	12.4	1.12	22%	O	++	O	++
7	Korea	Automobiles & Components	72,693	1.4	6.9	6.8	0.73	0.33	15.1	0.98	31%	++	++	+	O
8	China	Banks	112,944	1.1	5.0		-0.25	-0.13	21.0	0.94	8%	++	O	++	-
9	Philippines	Utilities	4,290	2.7	11.7	12.3	0.51	1.00	14.8	1.10	28%	O	++	+	++
10	Thailand	Food & Staples Retailing	2,368	9.2	22.2	18.0	0.62	0.68	33.4	1.23	26%	--	++	++	++
11	Indonesia	Household & Personal Products	3,752	38.0	36.0	31.4	0.75	0.50	87.7	1.18	15%	--	++	++	++
12	Thailand	Telecommunication Services	5,670	3.9	16.4	14.3	0.86	0.50	19.0	1.17	23%	--	++	++	++
13	Korea	Utilities	6,621	0.3	10.1	12.7	0.30	0.04	2.6	0.98	30%	++	+	--	O
14	Hong Kong	Real Estate	97,529	0.5	11.8	6.4	0.20	0.33	12.0	1.00	6%	++	+	O	O
15	China	Real Estate	32,957	0.8	5.8	5.9	0.00	-0.27	17.5	1.06	14%	++	O	+	++
16	Japan	Telecommunication Services	99,010	1.0	8.6	6.7	0.04	0.11	10.3	0.96	13%	++	+	-	-
17	Philippines	Real Estate	4,257	1.6	11.0	17.1	0.55	0.75	7.9	1.11	18%	-	++	-	++
18	Japan	Energy	29,552	0.6	10.0	7.5	-0.33	0.00	6.2	0.91	-8%	++	O	--	--
19	Japan	Media	9,987	0.9	13.8	6.4	0.07	0.50	5.0	1.00	9%	++	+	--	O
20	Japan	Diversified Financials	35,809	0.7	10.5		0.85	-0.21	4.6	1.01	19%	++	++	--	+
21	Singapore	Retailing	3,911	2.8	10.3	7.6	0.50	0.25	23.5	1.01	15%	+	++	++	+
22	Japan	Retailing	35,552	1.0	11.5	6.9	0.10	0.16	9.2	1.00	12%	++	+	-	O
23	Taiwan	Banks	30,234	1.0	11.8		0.67	0.10	8.2	0.96	7%	+	++	-	-
24	India	Banks	50,358	0.8	4.8		-0.24	-0.66	18.3	0.99	16%	++	-	+	O
25	Japan	Consumer Durables & Apparel	69,003	0.8	11.7	9.2	0.20	0.25	4.7	0.96	16%	++	+	--	-
26	Japan	Health Care Equipment & Services	22,566	0.9	13.8	8.1	0.17	0.27	7.0	1.04	17%	+	+	--	+
27	Thailand	Food Beverage & Tobacco	3,045	2.9	11.0	14.7	0.00	0.78	16.7	1.08	12%	-	++	+	++
28	Indonesia	Utilities	4,374	5.0	12.8	10.8	0.27	0.27	36.6	1.10	12%	-	+	++	++
29	Japan	Commercial Services & Supplies	17,196	0.9	14.3	6.8	0.20	0.20	4.9	0.99	23%	++	+	--	O
30	Korea	Technology Hardware & Equipment	14,284	1.6	9.4	13.1	0.41	0.32	9.9	1.08	27%	O	++	-	++
31	Korea	Insurance	14,459	1.2	5.6		-0.47	-0.33	17.2	0.93	14%	++	-	+	--
32	Malaysia	Banks	31,299	2.0	12.2		0.41	0.20	16.7	1.04	10%	O	++	+	+
33	China	Utilities	13,967	1.1	9.7	19.5	0.24	0.41	5.5	1.05	34%	O	++	--	+
34	India	Software & Services	31,847	3.3	12.2	9.6	0.33	0.33	21.7	1.05	18%	-	++	++	+
35	Indonesia	Pharmaceuticals & Biotechnology	1,784	4.5	17.4	14.9	0.50	0.33	22.6	1.07	22%	--	++	++	++
36	Japan	Automobiles & Components	251,325	0.9	7.9	8.0	0.00	-0.20	6.8	0.99	34%	++	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. All the metrics shown above except market cap are median data for the sector. ++ Very favorable, + Favorable, O Neutral, - Unfavorable, Very unfavorable



Figure 115: Bottom-up sector ranking (Rank 1 = Best), continued

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
37	India	Household & Personal Products	8,032	11.2	27.3	26.1	0.20	0.67	35.0	1.10	19%	--	++	++	++
38	Singapore	Real Estate	25,759	0.9	15.5	12.4	0.40	0.18	11.2	1.05	6%	-	+	O	+
39	Indonesia	Banks	29,331	2.0	9.9		0.20	0.16	18.3	1.00	13%	O	+	+	O
40	Hong Kong	Utilities	41,448	1.7	13.2	19.6	0.25	0.33	11.5	1.01	8%	-	++	O	+
41	Malaysia	Telecommunication Services	11,718	2.6	20.2	16.0	0.20	0.30	16.3	1.10	13%	-	+	+	++
42	Japan	Transportation	97,340	0.9	11.8	20.8	0.20	0.00	5.0	0.98	19%	+	+	--	O
43	Korea	Hotels Restaurants & Leisure	1,893	2.6	12.3	9.0	0.39	-0.03	18.5	1.08	31%	O	+	++	++
44	Japan	Real Estate	81,467	1.0	13.2		-0.08	0.29	5.0	1.02	10%	O	+	--	+
45	Hong Kong	Banks	28,178	1.1	11.3		0.12	-0.11	10.3	0.96	6%	+	+	-	-
46	Thailand	Energy	18,694	1.4	8.7	7.5	-0.31	-0.42	18.5	0.97	14%	++	O	++	O
47	Thailand	Media	1,551	2.6	18.5	18.2	0.00	0.23	16.8	1.16	14%	--	+	+	++
48	Japan	Software & Services	36,288	1.2	11.3	7.0	-0.33	0.23	8.5	0.97	19%	+	O	-	-
49	Malaysia	Utilities	12,995	1.5	13.5	12.3	-0.27	0.15	10.0	1.12	12%	O	O	-	++
50	Korea	Food Beverage & Tobacco	13,464	1.0	11.0	9.7	-0.42	0.17	10.4	1.04	20%	+	O	-	+
51	Philippines	Capital Goods	6,448	3.0	12.1	13.7	-0.10	-0.10	22.0	1.18	8%	-	O	++	++
52	Japan	Food Beverage & Tobacco	47,963	1.0	14.5	13.0	-0.18	0.00	5.0	0.99	15%	+	O	--	O
53	Japan	Capital Goods	291,058	0.8	11.3	9.6	-0.19	-0.14	5.9	0.96	17%	++	O	--	-
54	India	Diversified Financials	8,410	1.5	10.2		-0.27	-0.22	18.4	1.05	16%	+	O	++	++
55	Hong Kong	Telecommunication Services	1,572	1.7	11.1	11.3	0.17	-0.33	15.7	1.00	13%	O	O	+	O
56	Japan	Materials	126,468	0.7	9.9	11.5	-0.30	-0.22	5.6	0.92	21%	++	O	--	--
57	Philippines	Diversified Financials	1,708	2.3	16.0		0.17	0.17	9.4	1.14	22%	--	+	-	++
58	Singapore	Diversified Financials	4,537	1.5	13.5		0.00	0.00	7.7	1.01	7%	O	+	-	+
59	Taiwan	Telecommunication Services	20,630	3.1	16.4	16.2	0.23	0.00	12.7	1.05	14%	--	+	O	+
60	Hong Kong	Capital Goods	20,415	0.8	9.3	6.4	-0.78	-0.30	13.2	0.98	-3%	++	-	O	O
61	Taiwan	Real Estate	1,814	1.1	7.9	20.3	0.00	-0.25	11.3	1.03	-4%	O	O	O	+
62	Singapore	Capital Goods	35,421	1.0	11.0	10.5	-0.42	0.00	9.1	1.04	11%	+	O	-	+
63	India	Materials	18,936	2.0	8.3	10.0	-0.17	-0.11	14.2	0.99	17%	+	O	+	O
64	Indonesia	Automobiles & Components	1,378	2.0	12.2	12.7	-0.31	0.37	18.8	0.96	20%	-	+	++	-
65	India	Automobiles & Components	16,056	2.5	12.1	11.1	-0.27	0.00	21.6	1.03	20%	O	O	++	+
66	Japan	Technology Hardware & Equipment	170,078	0.9	11.8	8.9	-0.20	-0.20	5.1	0.95	33%	++	O	--	-
67	Korea	Energy	13,487	0.9	7.0	8.7	-0.92	-0.39	16.4	0.90	5%	++	-	+	--
68	China	Software & Services	31,225	1.6	10.0	7.3	0.03	-0.51	16.7	0.99	14%	+	O	+	O
69	Japan	Household & Personal Products	25,815	1.6	15.7	9.3	-0.24	0.00	8.8	0.97	17%	O	O	-	O
70	Taiwan	Consumer Durables & Apparel	5,149	1.9	13.0	15.9	0.00	0.00	13.8	0.97	13%	-	+	O	-
71	Taiwan	Semiconductors & Semiconductor Equipment	94,673	1.3	13.5	16.1	0.00	0.00	7.7	1.00	19%	-	+	-	O
72	India	Energy	24,231	1.2	8.4	9.7	-0.45	-0.33	12.2	0.95	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. All the metrics shown above except market cap are median data for the sector. ++ Very favorable, + Favorable, O Neutral, - Unfavorable, Very unfavorable



Figure 115: Bottom-up sector ranking (Rank 1 = Best), continued

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
73	India	Pharmaceuticals & Biotechnology	11,541	4.3	16.8	17.1	-0.03	0.05	20.4	1.02	17%	--	+	++	+
74	Japan	Pharmaceuticals & Biotechnology	119,758	1.4	15.9	9.5	-0.20	-0.20	8.3	1.00	12%	O	O	-	O
75	Malaysia	Automobiles & Components	1,576	1.1	10.5	7.6	-0.50	-0.50	13.1	1.08	14%	+	-	O	++
76	Korea	Consumer Durables & Apparel	6,435	1.4	8.8	11.7	-0.33	-0.33	12.3	0.95	21%	+	O	O	-
77	Hong Kong	Semiconductors & Semiconductor Equipment	2,523	1.9	6.2	5.3	-0.83	-0.80	38.2	0.95	18%	++	--	++	-
78	Indonesia	Materials	7,712	2.7	11.1	13.0	-0.16	-0.16	13.8	1.01	14%	-	O	O	+
79	Korea	Materials	55,928	0.9	8.3	10.0	-0.33	-0.53	10.0	0.85	18%	++	-	-	--
80	Indonesia	Food Beverage & Tobacco	9,291	2.9	13.3	13.3	-0.23	-0.17	21.9	1.01	15%	-	O	++	+
81	Hong Kong	Transportation	8,037	0.9	15.5	14.2	0.03	-0.50	8.8	0.98	0%	O	O	-	O
82	Taiwan	Insurance	9,549	1.2	14.9		0.00	-0.33	6.2	0.92	6%	O	O	--	--
83	China	Telecommunication Services	84,606	1.2	12.9	7.2	-0.76	-0.41	13.0	1.04	10%	+	-	O	+
84	Philippines	Telecommunication Services	3,307	3.3	14.7	14.4	-0.27	-0.33	20.5	1.01	1%	-	O	++	+
85	China	Technology Hardware & Equipment	6,126	1.1	7.4	6.8	-0.92	-0.23	9.9	0.97	18%	++	-	-	-
86	Singapore	Media	4,982	3.1	16.9	15.7	-0.50	0.11	17.2	1.02	2%	--	O	+	+
87	Malaysia	Food Beverage & Tobacco	13,999	2.4	15.3	12.8	-0.38	-0.21	17.1	1.05	8%	-	O	+	+
88	Japan	Insurance	66,505	1.2	12.6		-0.20	-0.17	2.5	0.96	30%	O	O	--	-
89	Taiwan	Diversified Financials	9,735	0.9	13.0		-0.50	-0.11	4.9	0.95	0%	O	O	--	-
90	Malaysia	Energy	2,740	1.5	13.7	15.3	0.10	0.00	8.2	0.97	79%	O	+	-	O
91	China	Energy	101,346	1.5	8.2	7.5	-0.58	-0.59	16.2	0.96	11%	+	-	+	-
92	Indonesia	Telecommunication Services	11,195	1.4	16.0	20.8	0.17	-0.20	2.2	0.84	15%	-	O	--	--
93	Korea	Capital Goods	57,975	1.0	9.4	12.4	-0.45	-0.27	8.8	0.91	28%	+	O	-	--
94	China	Capital Goods	23,916	0.9	7.1	8.8	-0.80	-0.80	12.1	0.96	9%	++	--	O	-
95	Korea	Telecommunication Services	5,588	0.8	8.4	13.5	-0.64	-0.53	5.7	0.90	42%	++	-	--	--
96	Singapore	Food Beverage & Tobacco	9,056	1.7	11.6	10.0	-0.50	-0.78	16.5	1.11	11%	O	-	+	++
97	Thailand	Materials	7,495	1.3	8.5	9.1	-0.73	-0.52	14.9	0.96	13%	+	-	+	-
98	China	Transportation	13,444	0.8	8.4	9.8	-0.75	-0.60	10.4	0.92	4%	++	--	-	--
99	Korea	Retailing	5,167	1.0	7.3	7.6	-0.50	-0.67	9.9	0.87	21%	++	-	-	--
100	Malaysia	Capital Goods	13,971	1.3	13.0	11.3	-0.33	-0.60	11.9	0.99	15%	O	-	O	O
101	Malaysia	Materials	6,006	1.4	9.5	10.1	-0.78	-0.50	10.9	1.05	14%	+	-	O	+
102	Japan	Semiconductors & Semiconductor Equipment	13,745	1.1	17.1	(39.4)	0.09	0.09	-2.1	0.92	55%	--	+	--	--
103	China	Automobiles & Components	11,806	1.2	6.6	9.2	-0.64	-0.89	16.8	0.96	14%	+	--	+	-
104	Taiwan	Technology Hardware & Equipment	86,717	1.2	10.8	10.9	-0.68	-0.56	10.3	0.97	13%	+	-	-	O
105	Hong Kong	Hotels Restaurants & Leisure	17,898	1.0	12.0	16.5	-0.50	-0.35	12.4	0.99	17%	-	-	O	O
106	China	Materials	24,432	0.8	6.5	7.6	-1.00	-0.88	12.9	0.88	13%	++	--	O	--
107	Singapore	Telecommunication Services	23,665	5.2	13.8	15.9	-0.50	-0.38	21.4	1.01	5%	--	-	++	+
108	Taiwan	Capital Goods	7,272	1.4	12.4	10.3	-1.00	0.00	9.2	0.99	20%	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. All the metrics shown above except market cap are median data for the sector. ++ Very favorable, + Favorable, O Neutral, - Unfavorable, Very unfavorable





Figure 115: Bottom-up sector ranking (Rank 1 = Best), continued

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
109	India	Food Beverage & Tobacco	11,176	2.7	18.9	13.6	-0.60	-0.23	19.2	1.05	21%	--	-	++	++
110	Hong Kong	Retailing	12,488	1.6	9.9	7.8	-0.53	-0.78	18.2	0.96	17%	+	--	+	-
111	Indonesia	Capital Goods	3,675	2.8	12.0	8.3	-0.64	-0.66	17.7	0.99	16%	O	-	+	O
112	Korea	Transportation	4,755	1.4	17.7	122.5	-0.20	-0.10	-6.3	0.95	18%	--	O	--	-
113	Malaysia	Diversified Financials	4,013	1.1	12.4		-0.62	-0.68	10.3	0.98	8%	O	--	-	O
114	India	Utilities	9,989	1.5	10.8	15.4	-0.46	-0.50	11.2	0.92	16%	O	-	O	--
115	Korea	Pharmaceuticals & Biotechnology	2,570	2.0	16.9	15.5	-0.28	-0.14	5.6	0.90	8%	--	O	--	--
116	Hong Kong	Technology Hardware & Equipment	657	0.8	8.6	7.7	-0.67	-1.00	14.7	0.89	18%	++	--	+	--
117	Korea	Diversified Financials	7,366	0.6	8.3		-0.50	-1.00	5.5	0.91	12%	++	--	--	--
118	Korea	Household & Personal Products	7,520	3.2	21.1	16.2	-0.50	-0.33	9.3	1.05	24%	-	-	-	+
119	Malaysia	Transportation	3,809	1.7	16.1	15.7	-0.50	-0.50	11.4	1.01	13%	-	-	O	+
120	Hong Kong	Consumer Durables & Apparel	3,221	1.3	7.4	5.7	-1.00	-1.00	17.1	0.95	19%	++	--	+	-
121	India	Capital Goods	10,665	2.0	11.1	9.3	-0.78	-0.60	15.3	0.97	14%	O	--	+	O
122	Singapore	Food & Staples Retailing	1,894	2.3	13.9	13.3	-0.95	-0.89	36.3	0.97	21%	+	--	++	-
123	Indonesia	Energy	6,546	2.4	8.2	7.5	-0.73	-0.86	21.4	0.84	1%	+	--	++	--
124	Singapore	Transportation	12,003	1.7	15.9	15.9	-0.43	-0.70	10.7	1.00	7%	-	-	O	O
125	Korea	Semiconductors & Semiconductor Equipment	134,913	1.6	8.6	12.5	-0.57	-0.50	8.3	0.93	44%	+	-	-	--
126	China	Health Care Equipment & Services	4,506	3.7	23.5	8.6	-0.83	-1.00	58.3	1.04	23%	-	--	++	+
127	Taiwan	Materials	47,882	1.3	13.2	16.0	-1.00	-0.43	7.9	0.97	8%	O	--	-	O
128	Korea	Food & Staples Retailing	4,257	0.9	9.4	9.2	-0.64	-0.80	12.6	0.85	39%	+	--	O	--
129	Singapore	Hotels Restaurants & Leisure	5,947	0.8	17.4	11.9	-0.90	-0.57	8.6	0.97	14%	O	--	-	O
130	Taiwan	Retailing	2,425	1.9	13.6	15.8	-0.71	-0.83	14.2	0.98	15%	O	--	+	O
131	China	Food Beverage & Tobacco	18,595	1.4	16.2	13.2	-0.60	-0.50	11.7	0.92	21%	-	-	O	--
132	Taiwan	Transportation	4,133	1.2	14.2	17.2	-0.25	-0.20	7.8	0.95	144%	-	O	-	-
133	Japan	Utilities	58,972	0.4	-21.5	54.2	-0.40	-0.57	-1.5	0.86	40%	O	-	--	--
134	Japan	Hotels Restaurants & Leisure	11,244	1.2	10.4	12.7	-1.00	-1.00	9.5	1.00	16%	+	--	-	+
135	Malaysia	Hotels Restaurants & Leisure	9,928	1.8	14.4	10.3	-0.93	-0.73	12.2	0.99	11%	O	--	O	O
136	Hong Kong	Diversified Financials	15,618	0.8	9.0		-1.00	-1.00	7.5	0.92	13%	+	--	--	--
137	China	Insurance	42,293	2.2	13.9		-0.75	-0.64	7.7	0.96	25%	-	--	-	-
138	India	Real Estate	1,929	0.8	10.8	11.5	-0.46	-1.00	5.1	0.95	38%	O	--	--	-
139	India	Telecommunication Services	4,531	2.0	18.5	19.3	-0.33	-0.75	4.1	0.87	34%	-	-	--	--
140	Korea	Software & Services	13,313	2.7	13.5	20.4	-0.79	-0.32	12.0	0.87	16%	--	-	O	--
141	India	Media	1,258	4.1	13.0	11.7	-0.89	-0.67	18.0	0.93	17%	-	--	+	--
142	Taiwan	Food & Staples Retailing	2,940	1.5	22.5	22.3	-0.64	-0.80	15.5	0.96	9%	--	--	+	-
143	China	Retailing	12,759	1.2	9.3	7.8	-1.00	-1.00	14.0	0.85	14%	+	--	O	--
144	Taiwan	Automobiles & Components	6,656	1.4	15.9	19.5	-1.00	-1.00	7.7	1.00	7%	-	--	-	O
145	China	Food & Staples Retailing	6,132	2.9	12.9	16.5	-1.00	-1.00	19.5	0.94	13%	--	--	++	-
146	China	Household & Personal Products	6,627	1.6	NA	(1.6)	-1.00	-1.00	-14.1	0.96	37%	--	--	--	-

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. All the metrics shown above except market cap are median data for the sector. ++ Very favorable, + Favorable, O Neutral, - Unfavorable, Very unfavorable





# Appendix 1

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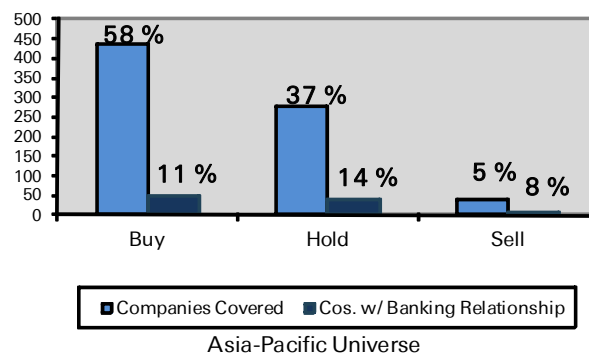
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