CLSA

Navigator

Emerging market and Asia-Pacific strategy

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Global
Macro Strategy

Base case
EM EPS growth exceeds DM
End of EM underperformance
2020 less bad than 2019
Rangebound renminbi
Need and fear supports equities
Shallow US recession
Trade dispute rumbles on
EM led by North Asia
Asean and India lack catalysts

MSCI Index targets
EM 1,200 (+14%)
EM Asia 600 (+13%)
Pacific ex-Japan 1,420 (+5%)
Asia Pacific ex-Japan 580 (+11%)

Key calls
O-WT Taiwan and Korea IT
O-WT China IT and ecommerce
U-WT subtrend-growth economies of India and Asean

EM	APxJ
Overweight	**Overweight**
Korea	Korea
Taiwan	Taiwan
Russia	
Underweight	**Underweight**
India	Australia
Asean	Hong Kong
South Africa	India
Mexico	Asean
Neutral	**Neutral**
China	China
Brazil	

2020 Vision

Emerging markets come out of the shadows

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For important disclosures please refer to page 104.

With *Navigator*, global strategist Adrian Mowat charts investment strategy with the help of the CLSA research team.

See our inaugural *Navigator* for more on EM trends

Contents

All prices quoted herein are as at close of business 27 November 2019, unless otherwise stated

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Emerging markets come out of the shadows

O-WT: Korea and Taiwan
U-WT: India, Asean and developed Asia

Off the tightrope and out on a limb, we finally have 20/20 vision on how emerging markets could start to outperform. Investors in this asset class are *growth tourists* who require premium EPS growth to justify the cross-border risk. Frustratingly, for much of the past decade, emerging markets have failed to deliver this. The result was an EM return of 40% and 155% for DM from end-2009. We are calling for an end to this underperformance with 2020 EM EPS growth likely to exceed that of their developed counterparts.

Highlights:

EM outperforms DM (finally)
Driven by relative EPS growth

Stay largecap and liquid
What global investors will buy

Need and fear
Low rates continue to support equities

Ask about the renminbi
Stable to strong CNY is required for EM to perform

Semis and ecomm lead rally
Long North Asia

Middle-road kingdom
Less policy and market volatility

ESG moves mainstream

Navigator is constantly asked about our view on the US dollar. We believe investors are focusing on the wrong currency - they should be asking about the renminbi. China is 45% of Asia Pacific GDP, comprises a third of MSCI EM and MSCI China firms derive the bulk of their revenue locally. It is a more important source of demand than the USA for many emerging economies. When the yuan weakens, other Asian currencies follow suit. The renminbi depreciated from 6.25/US$ (26 March 2018) to 7.19/US$ (2 September 2019); a peak-to-trough decline of 13%. This huge headwind for emerging markets (EM) fades in 2020 with rangebound Asian currencies.

Our asset allocation continues to favour North Asia (semis and ecommerce) over India and Asean. Within APxJ a more cautious view on Australian banks results in our market downgrade to Underweight. This report introduces MSCI Index targets for the region and markets: EM 1,200 (+14%), EM Asia 600 (+13%), Pacific ex-Japan 1,420 (+5%) and Asia Pacific ex-Japan 580 (+11%).

Investment outlook

Base	Bull	Bear
EM EPS growth exceeds DM	Trade war de-escalation *US-China, Japan, Korea*	Deeper US slowdown
End of EM underperformance	Renminbi appreciates to 6.85	Trade dispute escalates *Weak renminbi*
2020 less bad than 2019	Economic data stabilises *US ISM near 50* *EU stable - German fiscal stimulus*	Semis-cycle fades
Rangebound renminbi	Asian pro-growth policy traction	Democrat presidential candidates' anti-big-tech policies
Need and fear supports equities	HK protests resolution	Hard Brexit sterling crisis
Shallow US recession	Soft or no Brexit	
Trade dispute rumbles on		
EM led by North Asia		
Asean and India lack catalysts		

Source: CLSA

Potential risks to our view include: deeper US recession, risk of break up of big tech in USA (dependent on Democrat presidential nominee), weaker semis-cycle/tech demand, renminbi weakness and China ecommerce growth disappointing.

MSCI Index targets (base case):

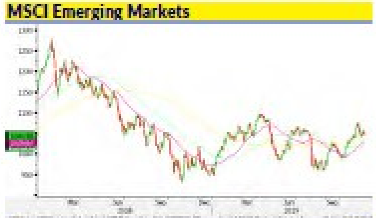
EM 1,200 (+14%)

EM Asia 600 (+13%)

Pacific ex-Japan 1,420 (+5%)

Asia Pacific ex-Japan 580 (+11%)

MSCI Emerging Markets



Source: CLSA, Bloomberg

MSCI Asia Pacific ex-Japan

Source: CLSA, Bloomberg

More bullish on EM, making the case for EM outperformance

The case for EM is:

Δ EM EPS > Δ DM EPS

Stable EM FX

Laurence Balanco's *Flight path* makes the technical case for the end of the EM secular bear market

Navigator 2020 brief

We think 2020 will be a good year for emerging markets. In our view, 2020 EPS growth in EM will be higher than in developed markets (consensus forecasts EM 14% and DM 9%). This premium EPS growth is the critical factor for EM equities' outperformance. The next critical factor is EM Asia forex stability, with a rangebound renminbi (page 17). We are not making a relative value case (page 28). Our first *Navigator* report devoted 14 pages to EM's decade-long underperformance of developed markets (DM) (see Section 3 of our 23 October 2019 *Groundhog on a tightrope* report). We have spent the last month meeting investors who are disillusioned with the asset class. Bulls were, understandably, very rare. With EM's long-term underperformance of DM, we would expect global asset allocators to be underweight.

Bullish case for emerging markets

Taiwan, Korea and growth sectors in China are leading the recovery. These markets are 57% of EM. They offer global investors large-cap liquid exposure. We maintain our Overweight in Korea and Taiwan. This report introduces index targets for the region and markets: MSCI EM 1,200 (+14%), EM Asia 600 (+13%), Pacific ex-Japan 1,420 (+5%) and Asia Pacific ex-Japan 580 (+11%). See page 10 for more details.

MSCI EM index targets:

Base 1,200 (+14%)

Bull 1,300 (+25%)

Bear 1,050 (flat)

MSCI Emerging Markets with base (green), bull (black) and bear (red) end 2020 index targets

Source: CLSA, Bloomberg

See *Market maps* for base, bull and bear case for each market in APxJ

Investment outlook

Base	Bull	Bear
EM EPS growth exceeds DM	Trade war de-escalation *US-China, Japan, Korea*	Deeper US slowdown
End of EM underperformance	Renminbi appreciates to 6.85	Trade dispute escalates *Weak renminbi*
2020 less bad than 2019	Economic data stabilises *US ISM near 50*	Semis-cycle fades
Rangebound renminbi	*EU stable - German fiscal stimulus*	Democrat presidential candidates' anti-big-tech policies
Need and fear supports equities	Asian pro-growth policy traction	Hard Brexit sterling crisis
Shallow US recession	HK protests resolution	
Trade dispute rumbles on	Soft or no Brexit	
EM led by North Asia		
Asean and India lack catalysts		

Source: CLSA

Quantifying the upside

Higher returns in North Asia

Pacific and Asean return below par

MSCI and Local indices, base/bull/bear cases forecasts for 2020

	MSCI country Index Forecast							Local Index Forecast							
	Current Level	Base Target Level	Base Target % return	Bull Target Level	Bull Target % return	Bear Target Level	Bear Target % return	Local Index	Current Level	Base Target Level	Base Target % return	Bull Target Level	Bull Target % return	Bear Target Level	Bear Target % return
APxJ	523	580	11	630	20	500	(4)								
PxJ	1,347	1,420	5	1,530	14	1,240	(8)								
Australia	1,352	1,430	6	1,470	9	1,330	(2)	ASX200	6,731	7,100	5	7,300	8	6,600	(2)
Hong Kong	16,334	16,500	1	19,000	16	12,000	(27)	HSI	26,993	29,600	10	32,600	21	24,700	(8)
Singapore	1,722	1,770	3	1,980	15	1,700	(1)	STI	3,221	3,310	3	3,700	15	3,180	(1)
EM	1,049	1,200	14	1,300	24	1,050	0								
EM Asia	531	600	13	650	22	520	(2)								
China	79	92	16	100	27	80	1								
Korea	662	770	16	840	27	620	(6)	Korea	2,124	2,480	17	2,680	26	1,990	(6)
Taiwan	440	510	16	570	30	470	7	TWSE	11,562	13,500	17	15,000	30	12,300	6
India	1,362	1,500	10	1,600	17	1,400	3	Nifty50	12,074	13,500	12	14,500	20	12,000	(1)
Thailand	568	620	9	630	11	580	2	SET	1,615	1,780	10	1,800	11	1,750	8
Indonesia	6,993	7,600	9	8,200	17	6,600	(6)	JKSE	6,071	6,600	9	7,100	17	5,700	(6)
Malaysia	546	570	4	600	10	500	(8)	KLCI	1,591	1,670	5	1,760	11	1,450	(9)
Philippines	1,314	1,470	12	1,590	21	1,250	(5)	PSEI	7,772	8,700	12	8,400	21	7,400	(5)

Note: Regional MSCI indices based on USD, while country MSCI indices based on local currency. Source: CLSA Factset

Note these EPS numbers, as our call on EM is all about relative EPS growth

At least EM EPS has easy-to-remember symmetry of 77-88-99

MSCI EPS Integer forecast

	MSCI Index EPS Integer			EPS Growth, %	
	2019E	2020F	2021F	20/19	21/20
US	151	167	185	10	11
DM	129	141	154	9	9
EM	77	88	99	14	13

Note: MSCI index EPS based on USD. Source: CLSA, Factset

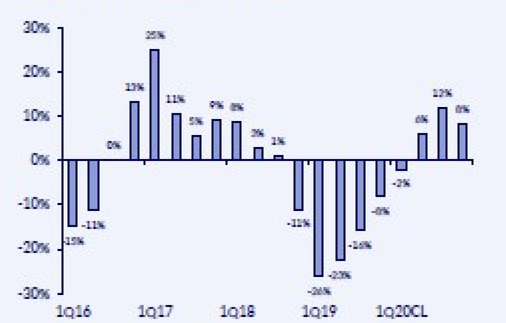
Markets to finish 2020 supported by improving economic data and low short rates

We factor in a shallow US recession mid-2020 to our returns. The key assumption is that economic data will improve from 4Q20 and markets will finish the year discounting this reacceleration in growth. With inflation still below central bank targets, it is likely that we finish 2020 with lower short rates versus today.

Running our current North Asia O-WT asset allocation

Our asset allocation continues to favour North Asia (semis and ecommerce) over India and Asean. We start and finish our asset allocation with the investable universe (see Section 2: Flight plan). North Asia is outperforming. Newsflow for both ecommerce and tech is supportive of our Overweight stance.

Global DRAM quarterly ASP forecast



Source: CLSA, DRAMeXchange, IDC, SK Hynix

NAND suppliers' inventory

Source: CLSA, Trendforce, IDC, Samsung Electronics, SK Hynix

Indian and Asean data disappoints

Deflation in Malaysia

Economic data in Asean and India is underwhelming. Note how Malaysian banks declined as deflation fears increased. The country's nominal GDP at 3.9% YoY is at a post-GFC low. The GDP deflator is negative 0.5%. Thailand's nominal growth slowed to 2.6% in 3Q19 from an average 3.9% growth in 1H19. India's real GDP growth decelerated to 5% YoY, a six-year low.

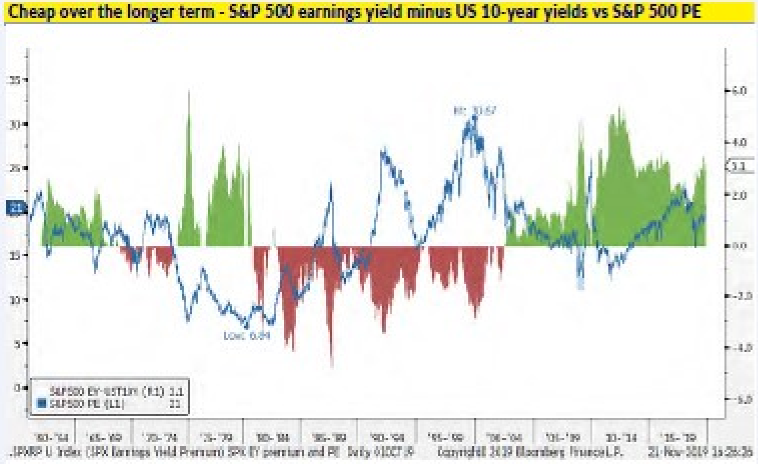
Themes for 2020

Need and fear: Equities are not cheap versus their history, but are relative to bonds

1. **Need and fear** (continues): The argument that equities are cheap relative to bonds is not new. A lack of credible alternatives has supported US equities and it will require a deeper recession than our base case to significantly reduce the earnings yield (EY) and thus makes the case for US equities. There is a margin of safety as the relatively-high EY premium implies low investor confidence in earnings growth.

Groundhog day - Equities being cheap relative to bonds is not a new story, but still valid. There has been a positive risk premium for more than a decade. There is an implicit low belief in EPS growth. Obviously, the argument fails if earnings fail

Cheap over the longer term - S&P 500 earnings yield minus US 10-year yields vs S&P 500 PE



Note: Red and green area show EY-BY discount and premium. Source: CLSA, Bloomberg

Beyond the bleeding edge: The slowdown arrived early in 2019 (weak renminbi, exports and semis cycle); 2020 delta will not be as tough

2. **Beyond the bleeding edge:** This year has been tough for EM, particularly in Asia. The slowdown arrived early in Asia for semiconductors and autos. Markets and economies suffered from: the Sino-US trade war, a sharp decline in auto sales, a strong dollar, weak renminbi, falling commodity prices, the Hong Kong protests, Japan-Korea disputes, (another) Argentine crisis, Indian capital market taxes and the endless Brexit saga. In much of Asia, GDP growth slowed this year and analysts revised their profit forecasts lower. The 2020 delta is unlikely to be quite as negative and will be helped by policy support. As we exit 2020, we forecast a modest reacceleration of growth. Based on this forecast, markets are likely to finish the year healthy as they discount the recovery.

Breaking-up may be the biggest risk to the US bull market

3. **Trade to trust busting**: Since May 2018, the Sino-US trade war has been the dominant policy risk. It is possible that in mid-2020 this rotates to trust busting if the democratic presidential nominee is in favour of breaking up big tech. This would be very damaging for some of the largest components of the S&P500. Market correlation will transmit the correction even if this policy has no business impact on EM tech. After, policy may encourage rotation into EM, but the risk is that it proves to be a pyrrhic victory.

Embracing a dull policy outlook as it reduces market volatility

4. **Middle-road kingdom**: Policy limitations, in our view, will result in a decline in Chinese capital market volatility. China's two policy goals are: (1) full employment and (2) debt stabilisation. Demographics result in (1) requiring lower growth each year (-0.25% pa). Non-financial debt approaching 300%/GDP leaves little room for stimulus. The result is gradual deceleration of growth without significant policy volatility. This leads to lower market volatility and more attractive market for investors.

Environmental, social and governance issues matter

The transition for some industries and markets will be painful

5. **ESG moves mainstream**: The EU directive on ESG disclosure accelerates this. At our 26th CLSA Investors' Forum, Pascal Gautheron, of Bain & Company, highlighted technologies approaching tipping points. Climate change deniers are likely to get poor as they ignore the fact that carbon-neutral technologies are competitive. We thus have a structural bias against carbon fuels and old utilities. The impact is broader and we worry about Indonesia's export mix with coal and palm oil. Gautheron is forecasting an EV tipping point in the early 2020s. This is good for the battery-supply chain, but the path is less clear for legacy-car manufacturers. Companies with a high ESG scores in EM may develop a scarcity premium.

EM outperforms DM as:

Δ EM EPS > Δ DM EPS

6. **Not a groundhog year for EM**: The conditions for EM outperformance are higher premium EPS growth in EM and stable/strengthening EM currencies. The case for EM outperformance in 2020 in building. Stay largecap and North Asia to benefit from global investor flows.

Fearing restriction, Chinese customers seek local suppliers

Trading volume shifts from US exchanges to Asia

7. **China trumps Trump**: US attempts to restrict China's access to US technology accelerates "made in China 2025", as Chinese business seek suppliers closer to home. The innocently named *Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act* boosts local capital markets, notably Hong Kong as ADR companies move their listings. Alibaba's (9988 HK) listing leads the way.

Index targets - Quantifying the upside

An index target is an assumption/estimation of:

1. Forward EPS at target date
2. Forward PE at target date

Are you confident in the EPS forecast?

Will the market re/derate?

It is CY2021 EPS that maters for end-2020 target

The calculation uses FactSet's EPS for 2021 (Figures 1-4). This is the forward EPS for end 2020. We check this EPS integer against the Bloomberg estimate (EEO function). When we have more time, we will move to a bottom-up (index constituent) calculation with CLSA analyst forecasts.

Our assumptions on forward PE at end date embeds both our view on re/derating factors and risk (up/downgrades).

MSCI or local indices?

MSCI targets for asset allocators

Local targets so that we can remember them!!

Our global clients use MSCI as their benchmark. They use market MSCI when calculating performance attribution. But the press and local investors are more familiar with headline local indices (ie, Kospi, Nifty, Hang Seng, KLCI, etc).

MSCI and local indices map well for Korea, Taiwan, India, Malaysia, Thailand, Indonesia, the Philippines, Australia and Singapore. For these markets the strategist can opt to set local index targets for base, bull and bear case and then the regional strategy team will map into MSCI. Mapping is more convoluted between MSCI HK and MSCI China with Hang Seng and HSCEI. The regional strategy team calculate China and Hong Kong targets.

Methodology

There are numerous ways to use formulas to justify an index target. View the range of potential targets using different calculation as the statically reasonable. Ultimately the target opted for is based on our experience/views.

Market strategist actions:

1. Review EPS forecast for 2020 and 2021. Use the Rate of Climb section on page 60 to understand the sector and stocks are driving EPS growth. As a strategist what are the risks to these forecasts? Check consensus versus CLSA forecasts.
2. Consider factors that would drive de/rerating.
3. Provide base, bull and bear case with drivers

Reasonable spread of returns

Figure 1

MSCI and Local indices, base/bull/bear cases forecasts for 2020

	MSCI country Index Forecast							Local Index Forecast							
	Current Level	Base Target Level	Base Target % return	Bull Target Level	Bull Target % return	Bear Target Level	Bear Target % return	Local Index	Current Level	Base Target Level	Base Target % return	Bull Target Level	Bull Target % return	Bear Target Level	Bear Target % return
APxJ	523	580	11	630	20	500	(4)								
PxJ	1,347	1,420	5	1,530	14	1,240	(8)								
Australia	1,352	1,430	6	1,470	9	1,330	(2)	ASX200	6,731	7,100	5	7,300	8	6,600	(2)
Hong Kong	16,334	16,500	1	19,000	16	12,000	(27)	HSI	26,993	29,600	10	32,600	21	24,700	(8)
Singapore	1,722	1,770	3	1,980	15	1,700	(1)	STI	3,221	3,310	3	3,700	15	3,100	(1)
EM	1,049	1,200	14	1,300	24	1,050	0								
EM Asia	531	600	13	650	22	520	(2)								
China	79	92	16	100	27	80	1								
Korea	662	770	16	840	27	620	(6)	Korea	2,124	2,480	17	2,680	26	1,990	(6)
Taiwan	440	510	16	570	30	470	7	TWSE	11,562	13,500	17	15,000	30	12,300	6
India	1,362	1,500	10	1,600	17	1,400	3	Nifty50	12,074	13,500	12	14,500	20	12,000	(1)
Thailand	568	620	9	630	11	580	2	SET	1,615	1,780	10	1,800	11	1,750	8
Indonesia	6,993	7,600	9	8,200	17	6,600	(6)	JKSE	6,071	6,600	9	7,100	17	5,700	(6)
Malaysia	546	570	4	600	10	500	(8)	KLCI	1,591	1,670	5	1,760	11	1,450	(9)
Philippines	1,314	1,470	12	1,590	21	1,250	(5)	PSEi	7,772	8,700	12	9,400	21	7,400	(5)

Note: Regional MSCI indices based on USD, while market MSCI indices based on local currency. Source: CLSA Factset

The base cases typically assume modest derating, which provides our margin for modest downgrades

Figure 2

MSCI Index EPS forecast details

	MSCI Index EPS Integer		EPS Growth, %		Implied PE of 2020 Targets			Implied re/de-rating of 2020 Targets, %		
	2020F	2021F	20/19	21/20	Base	Bull	Bear	Base	Bull	Bear
APxJ	40	44	12	12	15	14	11	(3)	5	(17)
PxJ	89	95	4	5	15	16	15	0	8	(15)
Australia	81	83	5	2	17	18	16	5	6	(4)
Hong Kong	1,144	1,245	4	9	13	15	10	(8)	6	(35)
Singapore	155	144	6	4	12	14	12	(3)	9	(6)
EM	88	99	14	15	12	15	11	(1)	7	(15)
EM Asia	42	48	15	14	12	13	11	(3)	5	(16)
China	7	8	12	15	11	12	10	1	10	(12)
Korea	61	74	26	22	10	11	8	(8)	(1)	(26)
Taiwan	27	30	12	12	17	19	15	2	14	(7)
India	76	88	25	15	17	19	15	(6)	1	(17)
Thailand	38	41	8	7	15	16	14	0	5	(6)
Indonesia	477	524	11	10	14	16	13	(5)	4	(16)
Malaysia	55	57	6	6	15	16	13	(3)	5	(15)
Philippines	88	95	12	6	16	17	15	4	12	(12)

Note: Regional MSCI indices based on USD, while market MSCI indices based on local currency. Source: CLSA Factset

Wide range of 'statistically justifiable' targets . . . always check the assumptions

Figure 3

MSCI market indices: 2020 forecast by different methodologies

	Current MSCI Index Level	2020 Year-end Target calculations (MSCI Index)													
		No PE rerating		PE at 5 year avg		PE at -1SD		PE at +1SD		CLSA's TP		Consensus TP		EY-BY	
		Level	% return	Level	% return	Level	% return	Level	% return	Level	% return	Level	% return	Level	% return
APxJ	520	600	15	570	9	530	1	600	15	590	13	580	11	620	19
PxJ	1,347	1,420	5	1,380	3	1,300	(4)	1,460	8	1,340	(1)	1,390	3	1,430	6
Australia	1,363	1,390	3	1,260	(7)	1,170	(13)	1,350	(0)	1,330	(2)	1,330	(2)	1,410	4
Hong Kong	16,334	17,900	10	18,700	14	17,400	7	20,000	22	16,200	(1)	18,300	12	17,600	8
Singapore	1,722	1,800	5	1,850	7	1,710	(1)	1,980	15	1,830	6	1,850	7	1,840	7
EM	1,049	1,200	14	1,100	5	1,100	5	1,200	14	na	na	1,200	14	1,300	24
EM Asia	531	620	17	580	9	540	2	620	17	630	19	600	13	650	22
China	79	90	14	90	14	80	1	100	27	90	14	90	14	100	27
Korea	662	840	27	690	4	620	(6)	770	16	810	22	800	21	860	30
Taiwan	440	500	14	420	(5)	380	(14)	460	5	500	14	450	2	520	18
India	1,363	1,600	17	1,500	10	1,400	3	1,700	25	1,700	25	1,500	10	1,700	25
Thailand	568	620	9	580	2	530	(7)	630	11	650	14	650	14	600	6
Indonesia	6,993	7,900	13	7,900	13	7,200	3	8,400	20	8,100	16	7,700	10	7,800	12
Malaysia	546	590	8	580	6	560	3	620	12	590	8	570	4	580	6
Philippines	1,324	1,430	8	1,590	20	1,460	10	1,730	31	1,530	15	1,460	10	1,360	3

Note: Regional MSCI indices are on USD basis, while market MSCI indices are on local currency basis.
Source: CLSA Factset

Wide range of 'statistically justifiable' targets . . . always check the assumptions

Figure 4

Local indices: 2020 forecast by different methodologies

		Current Local Index level	2020 Year-end Target calculations (Local Index)													
			No PE rerating		PE at 5 year avg		PE at -1SD		PE at +1SD		CLSA's TP		Consensus TP		EY-BY	
			Level	% return	Level	% return	Level	% return	Level	% return	Level	% return	Level	% return	Level	% return
APxJ*	MSCI	520	600	15	570	9	530	1	600	15	590	13	580	11	620	19
PxJ*	MSCI	1,347	1,420	5	1,380	3	1,300	(4)	1,460	8	1,340	(1)	1,390	3	1,430	6
Australia	ASX200	6,731	6,930	3	6,290	(7)	5,840	(13)	6,740	0	6,620	(2)	6,630	(2)	7,010	4
Hong Kong	HSI	26,993	30,000	12	31,000	14	28,000	3	34,000	25	30,000	11	31,000	14	32,000	18
Singapore	STI	3,221	3,400	6	3,500	9	3,200	(1)	3,700	15	3,400	6	3,500	9	3,400	6
EM*	MSCI	1,049	1,200	14	1,100	5	1,100	5	1,200	14	na	na	1,200	14	1,300	24
EM Asia*	MSCI	531	620	17	580	9	540	2	620	17	630	19	600	13	650	22
Korea	Korea	2,124	2,700	27	2,200	4	2,000	(6)	2,500	18	2,600	22	2,600	22	2,700	27
Taiwan	TWSE	11,562	13,200	14	11,100	(4)	10,000	(14)	12,100	5	13,200	14	11,900	3	13,300	15
India	Nifty50	12,074	14,400	19	13,600	13	12,500	4	14,700	22	15,100	25	13,200	9	14,600	20
Thailand	SET	1,615	1,750	8	1,650	2	1,480	(8)	1,800	11	1,840	14	1,830	13	1,730	7
Indonesia	JKSE	6,071	6,800	13	6,800	12	6,200	2	7,300	20	7,100	17	6,700	10	6,800	12
Malaysia	KLCI	1,591	1,710	7	1,700	7	1,630	2	1,770	11	1,730	8	1,660	4	1,700	7
Philippines	PSEi	7,772	8,400	8	9,400	21	8,600	11	10,200	31	8,900	15	8,500	9	7,900	2

Note: Regional indices based on MSCI indices with USD basis. Source: CLSA Factset

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Flight path - What a difference a decade makes

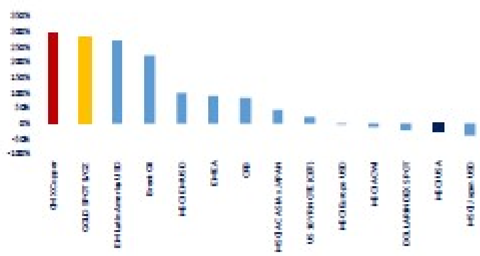
As we approach the end of this decade and start of the next, it's always enlightening to have a look back to see where markets have come from. It's interesting how history can rhyme!

Figure 5

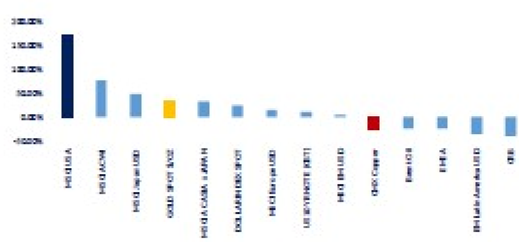
Market performance over the past three decades

As an example, the MSCI USA recorded a gain of over 323% in the 1990-1999 period only to be followed by a -26% return in the following decade between 2000-2009. The alternation of performance has continued with the MSCI USA leading this decade's return of over 170%. Gold and copper have essentially alternated with the US equity markets through the decades, underperforming when US equity market performs and outperforming when US equity markets underperform.

1990-1999 - The EM Latam and US equities market lead gains in the 1990s with gold and copper recording the lowest return for the decade.



2000-2009 - Gold and copper lead returns through the 2000-2009 period with the USA and Japan lagging.



2010-2019 - After lagging through 2010-2009, the MSCI once again leads.

Figure 6

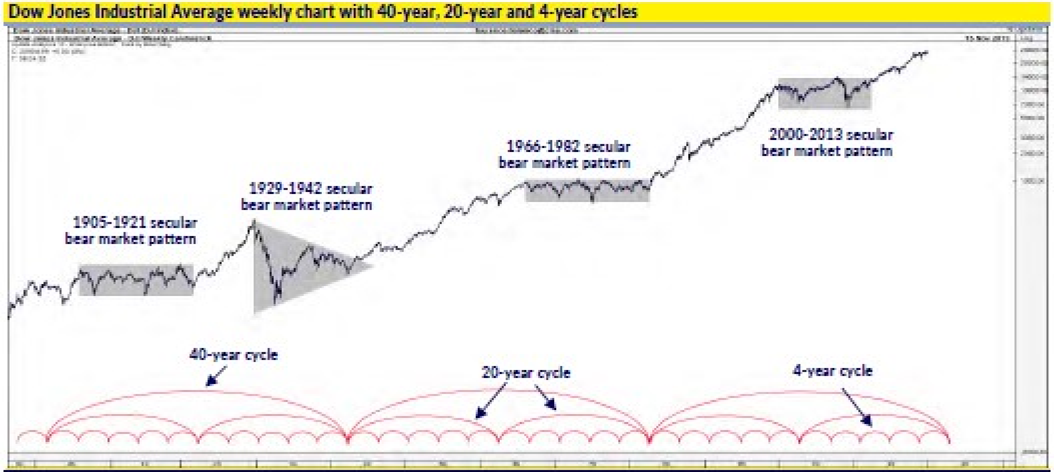
MSCI US, MSCI EM and Gold market

Historically markets have traced out periods of between 10-16 years of cyclical price swings without recorded net gains

From a chart-pattern perspective, history has shown us markets tracing out periods of roughly 10-16 years of a number of cyclical advances and declines without making new significant/sustainable new highs essentially resulting in large trading ranges - the typical secular bear market pattern. These periods are often referred to as the lost decades, but once complete, these cyclical ranges ultimately lay the platform for the next secular bull market phase of 10-16 years. Using the Dow Jones Industrial Average as a proxy with its price history that dates back to 1896, we can observe only four periods identifiable as structural bear markets 1905-1921; 1929-1942; 1966-1982 and 2000-2013.

Figure 7

Dow Jones Industrial Average weekly chart with 40-year, 20-year and 4-year cycles



Asia ex-Japan and EM have traced out typical secular bear market price action since 2007 peaks

Using the characteristics observed in the US markets over the past 123 years, we can see that the both the regional (MSCI Asia ex-Japan) and emerging market (MSCI EM) benchmarks reflect a secular bear market pattern since their respective 2007 highs as they have continued to experience cyclical advances and declines without making new significant/sustainable new highs.

Figure 8

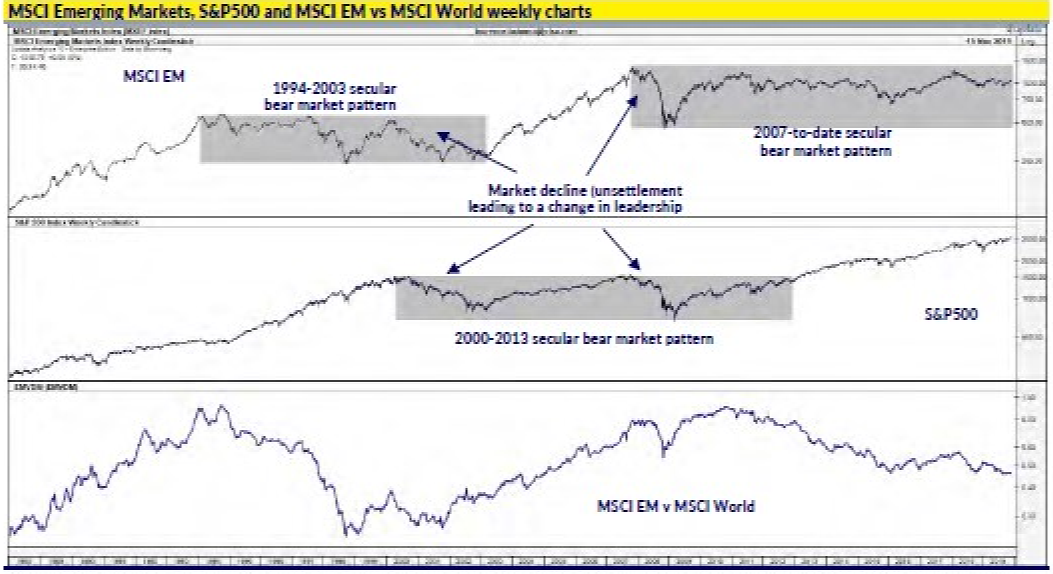
MSCI Asia ex-Japan and MSCI EM - Long-term cycles

Heading into the start of a new decade, investors should be aware of these long-term profiles and potential for rotation into Asia and emerging markets as they emerge from secular bear market patterns

The long-term positive Asia ex-Japan and emerging markets are now 12 years into a secular bear market pattern. Historically, regional and EM structural bear durations last 10-16 years, which means we are that much closer to the initiation of the next structural bull market phase. We define the identification of the next structural bull market as a sustainable new all-time high in the indices, through the 2007 and 2018 peaks. Heading into the start of a new year and a new decade, investors should be aware of these long-term profiles and the potential for rotation into Asia and emerging markets as they emerge from secular bear market patterns. It's worth noting that market rotation often results in market unsettlement to resolve the rotation (as the old leaders correct, break down, and new leaders break out, and pull back during market declines).

Figure 9

MSCI Emerging Markets, S&P500 and MSCI EM vs MSCI World weekly charts



At the market level, the MSCI China (USD), MSCI Korea (USD), MSCI Taiwan (USD) and MSCI India (USD) all display the decade long-trading range structure, which should provide the platform for major bullish breakouts in the coming decade.

Figure 10

Regional secular breakout candidates

MSCI China (USD) - Since the late 2007 highs, the MSCI China has traced out a number of contracting price swings, which had formed the boundaries of a large triangle consolidation pattern. A break above the 2018 highs would be the major bullish event and suggest an end to the 2007-to-date secular bear market pattern.

MSCI Korea (USD) - The MSCI Korea managed to clear resistance provided by its 2007 high in 2018, but has since fallen back into the more than decade-long consolidation. As such, it would take a break above the 2018 highs to confirm the breakout and the start of a structural uptrend.

MSCI Taiwan (USD) - The MSCI Taiwan is leading the region with its recent test and rebound off the 2007/2014 and 2015 highs. Clearing the 2018 highs would reinforce the initial decade-long breakout and new secular uptrend.

MSCI India (USD) - Like the MSCI China, the MSCI India has formed the boundaries of a more than decade-long triangle consolidation pattern. A break above the 2018 highs would be the major bullish event and suggest an end to the 2007-to-date secular bear market pattern.

2020 EPS growth forecast:

EM:14%
DM: 9%
USA: 10%

The case for EM

1. EM EPS growth > DM EPS growth
   a. Initially driven by semis-cycle and ecommerce
   b. Index evolution towards higher growth companies
2. No EM forex weakness (driven by renminbi outlook)
3. Domestic financial conditions support equities
   a. Need and fear
   b. Falling rates
4. Exit 2020 with firmer economies
   a. Headwind more moderate than in 2019
   b. US mid-year dip with 4Q20 return to modest growth
5. Years of underperformance - bearish consensus positioning

Can EM EPS growth (finally) exceed DM?

Section 3 of our October 2019 *Groundhog on a tightrope* report provided a detailed analysis of EM underperformance versus DM in the past decade. The fundamental reason was that from end-2009 the 3.6% EM EPS Cagr was less than half of the 8.8% US EPS Cagr. The Figure below tracks the relative performance of EM index versus DM and the EM EPS to DM EPS ratio.

Relative performance of the indices tracks relative performance of EPS

Figure 11

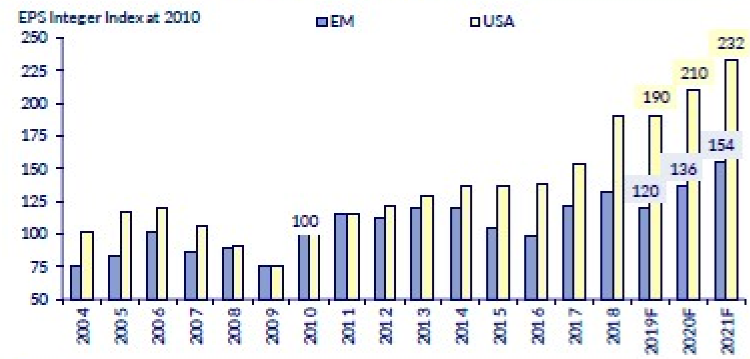
Relative performance market performance driven by relative EPS growth

Source: CLSA, Factset, MSCI

Another perspective is to plot the EPS integer for both EM and USA

Figure 12

EPS integer for MSCI EM and USA index at 100 in 2010



Source: CLSA, Factset

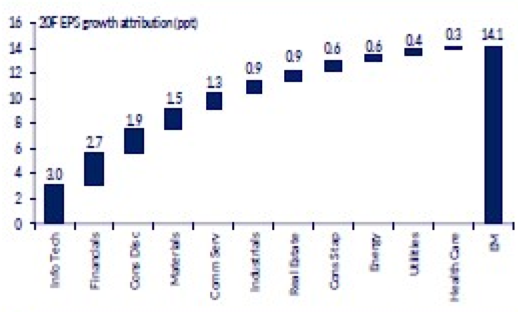
Next year's EM EPS growth exceeds DM

The case we are making is that in 2020 EM EPS growth exceeds DM. And based on current forecasts, this will be the case. EM 2020 EPS is 14% versus US 10% and DM 9%. EM EPS revisions for much of the past decade have been much worse than the USA. This trend has improved more recently. *Navigator*'s view is that the EM should finish 2020 with circa 10% EPS growth:

- Rangebound EM forex with potential dollar weakness
- Financials partially factor in lower rates and margins
- Room for positive EPS revisions in tech
- Consumer discretionary driven by ecommerce plus autos recovery
- Materials at risk although Vale and cement should grow

Figure 13

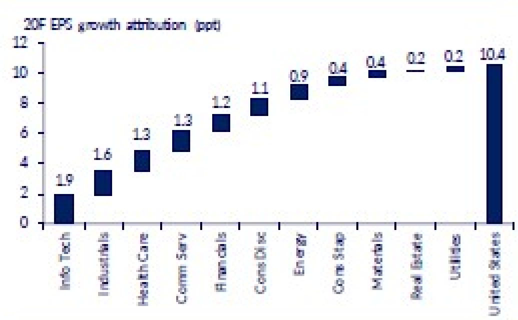
Sector attribution of EM's 14% EPS growth in 2020



EPS growth attribution analysis is bottom-up aggregated on a like-to-like basis, based on Factset's consensus. Source: CLSA, MSCI, Factset

Figure 14

Sector attribution of USA 10% EPS growth in 2020



EPS growth attribution analysis is bottom-up aggregated on a like-to-like basis, based on Factset's consensus. Source: CLSA, MSCI, Factset

Figures 15 to 18 show both the forecast and actual EPS series. From the GFC, forecasts have been too high. But the downgrade has not stopped markets rising. From an EM vs DM perspective, the 2010-2018 EPS Cagr for DM is 5%, USA 8%, EM (US$) flat and EM (local FX) 4%.

Figure 15
EPS Integer for MSCI DM (US$)

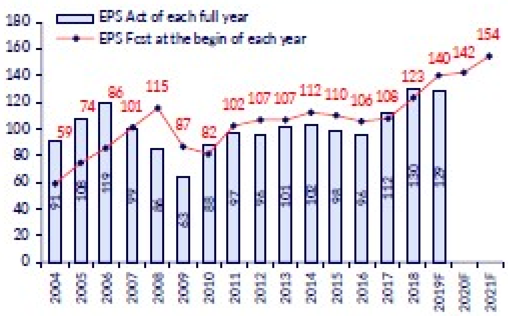


Figure 16
EPS Integer for MSCI USA (US$)

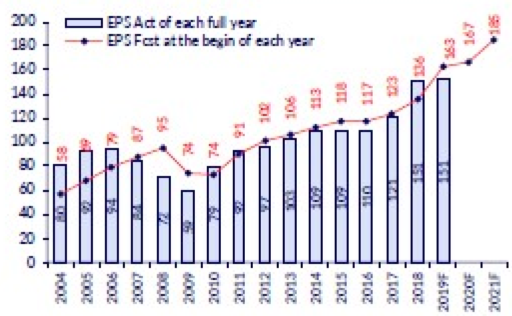
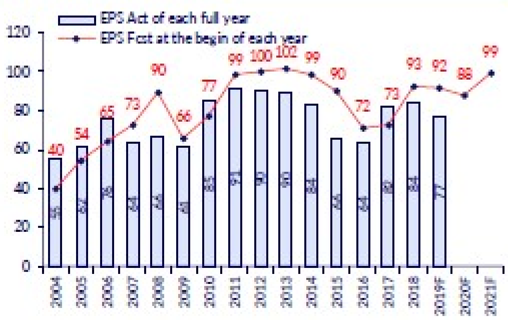
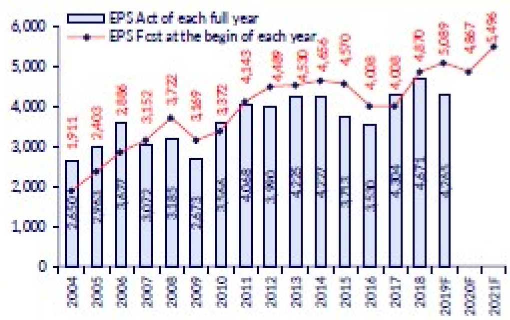


Figure 17
EPS Integer for MSCI EM (US$)



Source: CLSA, MSCI, Factset

Figure 18
EPS Integer for MSCI EM (llcy)



Source: CLSA, MSCI, Factset

The top-25 for both MSCI EM and MSCI US have a higher weight to growth companies. The trailing weighted EPS Cagr for both indices is 13%. The big difference is the weighted forward PE of 12 x for EM top-25 versus 19 for the US top-25. For EM note that the EPS Cagr for the 2009 top-25 is just 2% versus today's 13%. This reflects the shift from energy, materials and financials to higher growth sectors.

Figure 19

Top 25 MSCI EM Constituents October 2019

Company	Sector	EPS Cagr, from 2010 to 2019F (%)	NTM PE	NTM PE / 5-yr avg
Alibaba	Cons Disc	28	22	-16
TSMC	Info Tech	9	19	54
Tencent	Comm Serv	31	25	-19
Samsung Electronics	Info Tech	5	15	59
CCB	Financials	7	5	-5
Naspers	Cons Disc	12	19	-37
Ping An	Financials	25	9	-16
Reliance Industries	Energy	9	17	31
HDFC	Financials	18	31	10
China Mobile	Comm Serv	-1	10	-17
ICBC	Financials	7	6	2
Gazprom	Energy	4	5	59
Itau Unibanc	Financials	9	12	17
Sberbank Russia	Financials	19	5	-9
Hon Hai	Info Tech	4	11	8
LUKOIL	Energy	2	8	26
SK Hynix	Info Tech	-8	18	74
Vale	Materials	-15	6	-56
Infosys	Info Tech	11	17	2
Bank of China	Financials	5	4	-15
Baidu	Comm Serv	16	16	-55
B Bradesco	Financials	11	10	4
Petrobras	Energy	-2	11	9
CNOOC	Energy	1	8	-40
Tata Consultancy	Info Tech	16	28	15
	Weighted Average :	13	12	5

Sector	Weights in Top 25 (%)	Count in Top 25	Weights in Index (%)	Count in Index
Comm Serv	5.7	3	11.2	76
Cons Disc	5.9	2	13.4	123
Cons Stap	0.0	0	6.6	102
Energy	3.5	5	7.7	65
Financials	6.9	8	24.7	248
Health Care	0.0	0	2.8	75
Industrials	0.0	0	5.3	162
Info Tech	10.6	6	15.7	98
Materials	0.7	1	7.2	128
Real Estate	0.0	0	2.9	64
Total	0.0	0	0.0	0
Utilities	0.0	0	2.7	61
Total	33.3	25	100.0	1202

Note: Alibaba CAGR (2019/201). Source: CLSA Factset, MSCI

Figure 20

Top 25 MSCI EM Constituents December 2009

Company	Sector	EPS Cagr, from 2010 to 2019F (%)	NTM PE	NTM PE / 5-yr avg
Samsung Electronics	Info Tech	5	15	59
Petrobras	Energy	-2	11	9
Gazprom	Energy	4	5	59
China Mobile	Comm Serv	-1	10	-17
Petrobras	Energy	-1	10	4
Teva	Health Care	na	na	na
TSMC	Info Tech	9	19	54
Itau Unibanc	Financials	9	12	17
America Movil	Comm Serv	-1	15	-8
Vale	Materials	-15	6	-56
CCB	Financials	7	5	-5
ICBC	Financials	7	6	2
China Life	Financials	6	11	-24
Hon Hai	Info Tech	4	11	8
Posco	Materials	-7	7	-22
B Bradesco	Financials	11	10	4
Bank of China	Financials	5	4	-15
Reliance Industries	Energy	9	17	31
CNOOC	Energy	1	8	-40
LUKOIL	Energy	2	8	26
Infosys	Info Tech	11	17	2
PetroChina	Energy	-11	11	-55
Sberbank Russia	Financials	19	5	-9
MTN	Comm Serv	-2	12	-15
Sasol	Energy	-2	8	-17
	Weighted Average :	2	9	3

Sector	Weights in Top 25 (%)	Count in Top 25	Weights in Index (%)	Count in Index
Comm Serv	3.8	3	8.6	54
Cons Disc	0.0	0	5.8	70
Cons Stap	0.0	0	5.6	58
Energy	9.6	8	14.7	48
Financials	7.6	7	24.2	173
Health Care	1.6	1	2.2	12
Industrials	0.0	0	6.7	113
Info Tech	5.8	4	13.5	84
Materials	2.3	2	14.9	110
Real Estate	0.0	0	0.0	0
Total	0.0	0	0.0	0
Utilities	0.0	0	3.7	45
Total	30.7	25	100.0	767

Source: CLSA Factset, MSCI

Exposure to growth stocks in the USA has also increased.

Figure 21

Top 25 MSCI USA Constituents October 2019

Company	Sector	EPS Cagr, from 2010 to 2019F (%)	NTM PE	NTM PE / 5-yr avg
Apple	Info Tech	14	20	41
Microsoft	Info Tech	8	26	25
Alphabet	Comm Serv	14	24	7
Amazon	Cons Disc	26	65	-50
Facebook	Comm Serv	50	22	-19
JPMorgan Chase	Financials	11	12	9
Johnson & Johnson	Health Care	7	15	-6
Visa	Info Tech	20	28	10
P&G	Cons Stap	2	24	15
Bank of America	Financials	14	11	2
ExxonMobil	Energy	-9	19	-3
Berkshire Hathaway	Financials	10	20	3
AT&T	Comm Serv	5	11	-10
Disney	Comm Serv	9	26	49
Unitedhealth	Health Care	15	17	-1
Intel	Info Tech	9	12	-3
MasterCard	Info Tech	21	32	18
Verizon	Comm Serv	9	12	0
Home Depot	Cons Disc	19	20	2
Wells Fargo	Financials	8	13	7
Chevron	Energy	-4	17	-20
Merck	Health Care	5	15	0
Coca-Cola	Cons Stap	2	24	8
Pfizer	Health Care	3	13	-2
Comcast	Comm Serv	19	13	-17
Weighted Average		13	19	6

Sector	Weights in Top 25 (%)	Count in Top 25	Weights in Index (%)	Count in Index
Comm Serv	8.3	6	10.5	41
Cons Disc	3.6	2	9.9	77
Cons Stap	1.9	2	7.0	35
Energy	1.9	2	4.3	33
Financials	4.6	4	13.1	92
Health Care	3.9	4	14.0	73
Industrials	0.0	0	9.3	87
Info Tech	11.5	5	22.9	94
Materials	0.0	0	2.6	32
Real Estate	0.0	0	3.2	40
Total	0.0	0	0.0	0
Utilities	0.0	0	3.2	31
Total	35.6	25	100.0	635

Source: CLSA Factset, MSCI

Figure 22

Top 25 MSCI USA Constituents December 2009

Company	Sector	EPS Cagr, from 2010 to 2019F (%)	NTM PE	NTM PE / 5-yr avg
ExxonMobil	Energy	-9	19	-3
Microsoft	Info Tech	8	26	25
Apple	Info Tech	14	20	41
Johnson & Johnson	Health Care	7	15	-6
P&G	Cons Stap	2	24	15
IBM	Info Tech	1	10	-3
AT&T	Comm Serv	5	11	-10
JPMorgan Chase	Financials	11	12	9
General Electric	Industrials	-7	17	7
Chevron	Energy	-4	17	-20
Alphabet	Info Tech	14	24	7
Pfizer	Health Care	3	13	-2
Cisco	Info Tech	8	14	0
Wells Fargo	Financials	8	13	7
Bank of America	Financials	14	11	2
Wal-Mart Stores	Cons Stap	2	23	28
HP	Info Tech	-8	9	-6
Coca-Cola	Cons Stap	2	24	8
Intel	Info Tech	9	12	-3
Merck	Health Care	5	15	0
Oracle	Info Tech	6	14	-5
PepsiCo	Cons Stap	3	23	10
Verizon	Comm Serv	9	12	0
Philip Morris Intl	Cons Stap	3	15	-19
Abbott Labs	Health Care	-3	23	17
Weighted Average		4	15	5

Sector	Weights in Top 25 (%)	Count in Top 25	Weights in Index (%)	Count in Index
Comm Serv	2.5	2	3.2	13
Cons Disc	0.0	0	9.6	93
Cons Stap	5.8	5	11.0	48
Energy	4.6	2	11.8	51
Financials	4.1	3	14.5	99
Health Care	5.0	4	12.7	64
Industrials	1.5	1	10.2	76
Info Tech	11.7	8	19.8	83
Materials	0.0	0	3.6	33
Real Estate	0.0	0	0.0	0
Total	0.0	0	0.0	0
Utilities	0.0	0	3.7	40
Total	35.2	25	100.0	600

Source: CLSA Factset, MSCI

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Key issues:

- Temasek's restructuring to underpin performance
- Yield plays remain focus amid benign interest rate outlook
- Capital inflow benefits DBS, OCBC, City Dev, CCT, Keppel Reit, SGX
- BUY Thai Bev, CapitaLand, Sea Ltd

Recent research:

Singapore - Underweight

Captain's log

The STI index is at the midpoint of its 3,050/3,400 range. Property (strong primary sales boosted by new policies) and yield plays have outperformed. Cyclicals have underperformed. Keppel Corp's share price rose from S$5.90 to S$6.90 after Temasek announced an increase in its stake.

Weather forecast

We use a conservative 13x five-year average PE for our base case index target of 3,300 (+3%). The bull case 3,700 (15%) valuation is within one standard deviation. Downside risk is modest with equities supported by low interest rates and our bear case is 3,200 (flat).

Issues to watch in 2020 include: the general elections, ongoing trade war, potential further SGD easing in April by the MAS, capital flight from Hong Kong and possible M&A among Temasek-linked companies. Our base case remains that the general election will be a non-event. It may be a marginal boost for consumption and thus retail Reits benefit. The ongoing turmoil in Hong Kong is expected to benefit high-end residential property demand, wealth management, office demand and capital markets. However, we do not believe the capital inflow will be significant enough to form near-term asset bubbles. In addition, as detailed in our September 2019 *Red Dot rebuilding blocks* report, we expect Temasek to accelerate restructuring of its portfolio of companies, having increased its stake in Keppel Corp most recently. Yield plays should continue to perform well (our Economist team forecasts Fed rate cuts of 0.63% by end-2020). The CLSA dividend portfolio remains our core strategy.

Flight plan

We continue to like Thai Bev (THBEV SP – O-PF) for its expansion into Vietnam, which should drive topline growth and margin expansion. We also favour CapitaLand (CAPL SP – BUY) for its asset recycling story and attractive valuations. We also like Sea Limited (SE US – BUY) for its traction in gaining market share in Asean ecommerce and gaming platforms. Key beneficiaries from capital inflows include DBS, OCBC, City Dev, CCT, Keppel Reit and SGX. Avoid Venture Corp given low earnings visibility and uncertain outlook guidance from management.

Figure 92

Investment outlook: base, bull and bear

Base	Bull	Bear
Elections remain a non-event for capital markets	Trade war de-escalates	Deeper US slowdown
Slight monetary easing in April	Temasek restructuring accelerates	Trade war escalates
Incremental capital inflow into Singapore, but not significant enough to drive meaningful market rerating	Lowering of corporate income tax	
	Deepening HK crises drives capital flight to Singapore	
Target: 3,300	Target: 3,700	Target: 3,200

Source: CLSA

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Key issues:

- Low nominal growth
- Fiscal stimulus and monetary easing required
- Risks: US-CN trade tension and deflation
- Focus on value with limited earnings downside
- BUY Kasikornbank, PTT, AIS, CP Foods and Central Pattana

Recent research:

Thailand - Underweight

Captain's log

The SET broke below 1,600 in November (9% below the July high). Third-quarter GDP of 2.4% YoY was below consensus. The slowdown in nominal GDP growth was particularly striking, slowing from an average of 3.9% in 1H19 to 2.6% in 3Q19. The falling GDP deflator to 0.3% in 3Q reflects the combined global and domestic deflationary trend. Energy, basic material and consumer names led the recent correction, while transportation and utilities outperformed. Both consumer and businesses sentiment visibly weakened. There has been rising public pressure on the government to deliver more policy stimulus beyond the digital spending vouchers and cheap travelling packages.

Weather forecast

A recovery is the market is dependent on more policy stimulus, both fiscal and monetary. The passing and disbursement of the long-delayed 2020 annual budget by February will shore up domestic activity. Further monetary easing and relaxation of capital outflows should weaken the baht and provide easier credit conditions. By then, we expect global trade and Thai exports to bottom out and should not drag on the economy. A clearer US-China trade deal will pave the way for regional trade and FDI to flow more smoothly; and should allow the Eastern Economic Corridor plan to progress more meaningfully. Downside risks include further global trade deterioration, which would suppress economic activity and strengthen deflationary pressures.

Flight plan

Our year-end 2020 SET target is 1,780 (0.25sd below mid-cycle PB) based on a view that growth will recover after 1H20 as policy stimuli gains momentum and global trade reaccelerates. If and when growth sentiments revert, we expect investors to rotate out of richly-valued utilities and transportation names into cyclical. Our strategy is to focus on value names that are trading below their mid-cycle PBs with limited earnings downside. We are BUYers of Kasikornbank, PTT, AIS, CP Foods and Central Pattana. We have a SELL rating on Airport of Thailand and Underweight power names.

Figure 99

Investment outlook: base, bull and bear

Base	Bull	Bear
Global trade to bottom in 1H20	US & China manufacturing PMI recovers above 50	US recession
More fiscal and monetary policy accommodation	China-led global reflation	Chinese tourist decline
		Re-election in Thailand
Target: 1,780	Target: 1,800	Target: 1,750

Source: CLSA

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Key issues:

- Weak consumption and lack of fiscal stimulus
- Possible upside from policy reforms on labour and corporate tax
- Prefer domestic sectors
- O-WT telcos, banks, property and infra
- U-WT commodities and low-end retail

Recent research:

Indonesia - Underweight

Captain's log

The JCI is at the lower end of its recent 6,000/6,500 trading range. It continues to underperform EM. With nominal GDP growth slowing to 5.9% YoY (close to its Asian financial crisis low of 5% YoY), investors understandably prefer high ROA banks (BCA and BRI), staples and yield plays. Cyclicals (Astra and UT) and tobacco stocks are underperforming. President Jokowi's election win and parliament majority was positive news. His diverse and promising second-term cabinet was well received. However, the index remained sluggish as investors waited for signs of reform and/or a cyclical improvement. The 100bps rate cut is yet to make an impact. Cement and autos sales have improved. For cement, this suggests a pickup in construction activity post-election. Property sales also showed some recovery. Overall consumption remains weak as credit grew 6.8% and overall growth decelerated to 7.9%.

Weather forecast

For 2020, we forecast 5.1 % real GDP growth, 2.5% year-end inflation, a 75bps rate cut to 4% and a year-end 14,700 IDR/USD. Though the fiscal deficit is below the 3% of GDP regulatory cap, the government is unlikely to offer more fiscal stimulus to retain a buffer for unexpected expenses. Against a backdrop of weak commodity prices, the government plans to partially remove electricity and diesel subsidies. This fiscal drag could further weaken consumption. Key reform catalysts are labour-law revisions (especially high severance pay), staged corporate-tax cuts (20% by 2023, 25% from now), bureaucracy reform, revision of the negative investment list and human capital investment. Indonesia needs to develop export industries to reduce its current account deficit and offset the risk to thermal coal and palm-oil exports.

Flight plan

We are Overweight telcos, banks, property (end-user segment) and infra. Lower rates help relieve funding pressure on banks albeit credit growth may still be soft. Our top picks are Telkom, Mandiri, Ciputra and Surya Semesta. Any de-rating also creates opportunities in solid blue-chips such as BCA. We also like Indofood CBP and cement play Semen Indonesia, both rated Outperform. Remain Underweight coal, palm oil, oil and gas plus low-end retail sectors.

Figure 106

Investment outlook: base, bull and bear

Base	Bull	Bear
GDP growth remains soft	Anticipated reforms delivered early	No signs of reforms
Currency stays around current level	Credit growth accelerates	Commodity prices weaken more
Uptick in inflation	Investment and consumption picks up	Currency volatility (with sharp weakening)
Room for rate cuts	Global risks (ie, trade war) dissipate	Investment and consumption weakens
Weak low-end consumption		
Some policy improvement		
Target: 6,600	Target: 7,100	Target: 5,700

Source: CLSA

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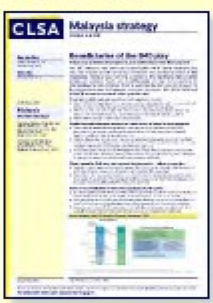
Key issues:

- Weak nominal growth and deflation
- Need infrastructure stimulus
- Lower rates help growth, but lower bank NIMs
- CPO prices are rising
- B40 (bottom 40% of domestic household income) consumer plays

Recent research:



Malaysia - Underweight

Captain's log

MSCI Malaysia was the worst performer in Asia YTD. The large/midcap indices have significantly underperformed the smallcap index. Banks have been notable underperformers as deflation fears increase. Nominal GDP at 3.9% YoY is at a post-GFC low. The GDP deflator is -0.5%. Malaysia's approved FDI had hit record highs in 2018 and continued to move higher through 1H19. The 2020 budget, announced in October 2019, will continue to support strong foreign direct investment (FDI), the key driver to GDP growth, for the next two years.

Weather forecast

Our base case for the market include: (1) Stimulus from large infrastructure projects. (2) Only one interest rate cut for the year and thus concerns on bank NIMs ease (we conservatively assume one rate cut of 25bps against our economists' forecast for 75bps of cuts through 2020). (3) A recovery in CPO prices (YTD 2019 average RM2,054 versus November average RM2,480). We remain positive on infrastructure and construction plays. We would turn more positive on banks (large-cap proxy to the market; 36% weighting in the KLCI) assuming the interest-rate easing cycle stops after one rate cut, barring asset-quality blips. With signs of foreign fund flows bottoming out, banks might benefit further. The higher CPO price is a positive for the plantations sector. Both these sectors have positive earnings momentum. Telcos, the third-largest sector in the KLCI index may be neglected due to a lack of earnings growth.

Flight plan

Our key themes are FDI, consumer names focusing on B40 and dividend yields, and our top picks are Westports (WPRTS MK – TP RM4.75), Axis Reit (AXRB MK – TP RM2.20), Inari Ametron (INRI MK – TP RM2.40), Hartalega (HART MK – TP RM6.00), Aeon Credit (ACSM MK – TP RM18.00) and RHB Bank (RHBBANK MK – TP RM6.90). On big caps, we like Maybank (MAY MK – TP 9.60) and Tenaga (TNB MK – TP RM15.40). Assuming the CPO price recovery is sustainable, Genting Plantations (GENP MK – TP RM9.80) and Sime Darby Plantations (SDPL MK – N-R) are good proxies. We would watch Petronas Chemicals (PCHEM MK – TP RM7.30) for downside risks. The property sector remains without catalysts at this juncture, shy of any event risks.

Figure 116

Investment outlook: base, bull and bear case

Base	Bull	Bear
One OPR rate cut CPO price at RM2,350 Oil price to hover at current level	CPO price rises to RM2,5000 sustainably Telcos able to control costs well, leading to better earning trends	Two OPR cuts CPO price drops to RM2,200 sustainably Telcos face headwinds on spectrum costs (capex and opex)
Target: 1,670 (17x PE)	Target: 1,760 (18x PE) on revised bull case earnings assumptions	Target: 1,450 (15x PE) – on revised bear case earnings assumptions

Source: CLSA

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Key issues:

- Key catalysts include strong GDP growth and a 50bps rate cut
- Tax reform
- EPS growth of 11-12%

Recent research:


CLSA Philippines strategy

Philippines - Underweight

Captain's log

PSEi is at the lower end of its 7,600/8,400 range. Conglomerates (PHLDG) also appear rangebound. Banks (PFINC) are the best performing sector, breaking above 1,900-1,925. Property (PROP) is trading in a narrow range between 3,882-4,500 and it would take a break above 4,500 to improve the sector outlook. Finally, the industrials/consumer (PCOMM) sector is testing the 10,050-10,230 support and a clear break would have bearish repercussions.

Weather forecast

Key catalysts ahead are: (1) strong GDP growth of 6%, (2) continued inflation softness, which should result in a 50bps cut in overnight rates by the end-1H20, (3) passage of the P4.1tn (US$80bn) national budget by YE19, (4) passage of Package 2 of the Comprehensive Tax Reform Program (CTRP) by end of 1H20, (5) EPS growth of 11% to 12% in 2020, and (6) improving US-China trade relations. We see downside risk if these catalysts do not materialise. In the next 12 months, we believe the PCOMP has the potential to break the 2019 high of 8,419 in 2020 and would open the index to challenge an all-time high of 9,078.

Flight plan

For conglomerates, we like Ayala Corporation (AC) a Philippine proxy. Its market cap equals its stake in Ayala Land and Bank of the Philippine Islands and implies no value to the balance of its businesses. In consumer, we like Universal Robina and Robinsons Retail, both good plays on the country's young demographic profile and rising per-capita income. In property, we like SM Prime and Robinsons Land. Both should benefit from a falling interest-rate environment (CLSA forecasts a 75bps cut to 4% in 2020) which should be positive for property sales and asset values. In banking we like Bank of the Philippine Islands as it aims to increase its presence in the corporate middle-market and consumer banking, as well as Security Bank, which continues to gain market share in the consumer-banking space.

Figure 110

Investment outlook: base, bull and bear

Base	Bull	Bear
Shallow US recession	Trade war de-escalation	Deeper US slowdown
Continued trade dispute	Economic data stabilises	Trade dispute escalates
Below trend GDP growth	HK protest resolution	Hard Brexit sterling crisis
2020 national budget passed by 1Q20	2020 national budget passed before YE19	2020 budget not passed before 2Q20
Package 2 tax reform passed 1H20	Package 2 tax reform passed in 1H20	Package 2 tax reform not passed in 1H20
50bps cut in overnight rate	Overnight repo cut >50bps	Rapid peso depreciation prompts monetary tightening
200bps cut reserve requirement	>200bps reserve requirement cut	
Target: 8,700	Target: 9,400	Target: 7,400

Source: CLSA