

REGIONAL MARKETS UPDATE

ASEAN

THAILAND – 3.0 STARS (ATTRACTIVE)

- Consumer Price Index slid to 0.36% y-o-y in Dec 18, down from a 0.04% y-o-y growth in Nov 18
- Core CPI came in at 0.68% y-o-y in Dec 18, slightly below the 0.69% y-o-y increase in Nov 18
- Consumer economic confidence came in at 66.3 in Dec 18, down from 67.5 in Nov 18
- Consumer confidence came in at 79.4 in Dec 18, down from 80.5 in Nov 18
- Custom exports contracted -1.7% y-o-y in Dec 18, down from a -1.0% y-o-y decrease in Nov 18
- Custom imports contracted -8.2% y-o-y in Dec 18, down from 14.7% y-o-y growth in Nov 18
- Custom trade balance increased to USD 1065 million in Dec 18, up from prior value of USD -1180 million in Nov 18

INDONESIA – 3.5 STARS (ATTRACTIVE)

- Consumer Price Index came in at 3.1% y-o-y in Dec 18, slightly below the 3.2% y-o-y increase in Nov 18
- Core CPI increased to 3.0% y-o-y in Dec 18, unchanged since Nov 18
- Consumer confidence came in at 122.0 in Dec 18, down from 122.7 in Nov 18
- Exports contracted -4.6% y-o-y in Dec 18, down from -3.3% y-o-y contraction in Nov 18
- Imports fell to 1.2% y-o-y in Dec 18, down from 11.7% y-o-y growth in Nov 18
- Trade balance came in at USD -1102 million in Dec 18, up from prior's USD -2050 million in Nov 18
- Foreign reserves came in at USD 120.65 billion in Dec 18, up from USD 117.20 billion in Nov 18

MARKET OUTLOOK

As 2018 marches across its final month, SET Index earnings estimates for both FY 2019 and 2020 estimates were revised downwards by -2.5% and -2.3% respectively. These brings the Thai equities' earnings growth to 5.5% and 8.3% respectively over 2019 and 2020. Most of the downgrades were attributable to Energy (-0.7%) and Financials (-0.4%). The only sector to have its earnings estimates revised upwards was Materials (+0.1%), where analysts expected better earnings prospect for companies such as TPI Polene PCL, attributable to higher capacity utilization and expansion. The remaining sectors' earnings forecast remains largely unchanged over the month.

Looking south, the earnings revision trend for Indonesian equities is akin to their Thailand counterpart. The JCI Index had both its current and upcoming years' earnings estimates revised downwards by -1.8% and -1.4% respectively, with most of the earnings downgrade attributable to Energy (-0.2%) and Materials (-0.1%) companies. The estimated earnings growth figures stood at 11.6% for 2019 and 12.0% for 2020 respectively. On the other hand, sectors such as Consumer Discretionary (+0.1%) and Industrials (+0.1%) have their earnings forecasts upgraded by analysts. The other sectors saw little changes to their earnings forecast over the month.

On the trade front, Thailand's trade numbers have continued to show signs of weakness amid faltering external demand from its major trading partners. Although trade conflicts have simmered for the time being, the effect of a slowing global growth on top of US trade tariffs may have started to feed into the global supply chain, which we believe have led to a weakening consumer confidence in recent periods. On a positive note, inflation data remains accommodative for consumer spending, which is the dominant force to sustain Thailand's economic growth momentum. Looking towards the political front, the Election Commission has set the election date on March 24 2019, which will determine the new ruling government for the first time since the coup in May 2014. A new ruling government is likely to bring further clarity on Thai's political scene, which could push forth many investment and business decisions on both private and public segments.

Looking back at Indonesia, we observed a similar picture on the nation's trade front. Trading activities with ASEAN, China and developed markets have slowed significantly. However, given that the Fed has hinted that there could be adjustments to the pace of rate hikes to preserve the US's economic momentum, there has been a relief rally across emerging currencies against the greenback, which includes the Indonesian Rupiah. As a result, foreign exchange reserve of the country has been increasing gradually over the past 2 months. Policymakers from both monetary and fiscal front can now channel more efforts in building the country's economic growth momentum.

We are holding onto our view that the influx of uncertainties from global trade front have started to feed into ASEAN countries' trade numbers, which essentially means we are unlikely to witness very robust (double-digit) exports growth level in the near future. An economic backdrop with a slowing Chinese economy is among the top concerns of market participants now, and have led to the current softening external demand. With that, we expect both nations to derive more growth from domestic spending and government expenditure going forward, where the latter could lend meaningful support to domestic growth. Looking into 2019, SET Index valuations are looking attractive compared to our fair PE ratio of 14.0X. Hence, we **maintain the star rating for Thai equity market at 3.0 stars (Attractive)**. As for Indonesia, we believe government spending could play a prominent role in fueling economic growth going forward, while the declination in energy price are likely to keep inflation contained in the near future. If US Fed maintains their current stance, the current stability in Rupiah is likely to continue. Consumers' purchasing power could improve in quarters ahead, which could lend some support to private consumption. While current valuation is creeping gradually towards its fair value of 16.0X, the JCI index is still looking attractive from a longer-term perspective. With that, we **maintain the star rating for Indonesia at 3.5 Stars (Attractive)**.