

SOUTH EAST ASIA

THAILAND – 3.0 STARS (ATTRACTIVE)

- Consumer Price Index climbed to 0.32% y-o-y in Aug 17, after a 0.17% y-o-y expansion in Jul 17
- Core CPI expanded 0.46% y-o-y in Aug 17, after a 0.48% y-o-y increase in Jul 17
- Consumer economic confidence improved slightly to 62.4 in Aug 17, up from 62.2 in Jul 17
- Consumer confidence increased to 74.5 in Aug 17, up from 73.9 in Jul 17
- Custom exports grew by 13.2% y-o-y in Aug 17, after a 10.5% y-o-y increase in Jul 17
- Custom imports grew 14.9% y-o-y in Aug 17, after a 18.5% y-o-y growth in Jul 17
- Custom trade balance increased to USD 2090m in Aug 17, up from prior value of USD -188m in Jul 17

INDONESIA – 3.0 STARS (ATTRACTIVE)

- Exports surged to 19.2% y-o-y in Aug 17, after an upward-revised 41.1% y-o-y expansion in Jul 17
- Imports grew by 8.9% y-o-y in Aug 17, after a 54.0% y-o-y growth in Jul 17
- Indonesia posted a trade surplus of USD 1720 million in Aug 17, up from previous' trade deficit of USD -270 million in Jul 17
- CPI fell to 3.8% y-o-y in Aug 17, after a 3.9% y-o-y increase in Jul 17
- Consumer Confidence Index fell to 121.9 in Aug 17, down from 123.4 in Jul 17
- Foreign reserves inched up to USD 128.8 billion in Aug 17, increased from USD 127.8 billion in Jul 17

MARKET OUTLOOK

Over the month of September, Thai equities had its 2017's and 2018's earnings forecasts downgraded by -0.1% and -0.2% respectively, bringing the SET Index's earnings growth to 4.4% and 10.4% for 2017 and 2018 respectively. Analysts downgraded the earnings estimates of the materials sector by -3.7%, which is attributable to STP&I PCL, a company engaged in steel fabrication work. The company has posted disappointing earnings results in 2017 thus far, and its outlook in the near-term is subdued given its major LNG plant project was cancelled in July 2017. Industrials companies (-0.1%) operating within airlines industry such as Bangkok Airways PCL are facing headwinds in their earnings prospects, as fierce competition outweighs growth in passenger traffics against a backdrop of higher fuel costs. On the other hand, analysts remain positive on the earnings prospects of the energy sector, revising the sector's earnings estimates upwards by 0.2% over the month. PTT PCL has contributed to most of the sector's earnings upgrade, given improvement in earnings at PTT itself and at key subsidiaries. Analysts were also positive on the telecommunications and consumer discretionary sectors, with both sectors' earnings revised upward by 0.1% over the month.

Across the Malaccan Strait, Indonesian equities, represented by JCI Index, had its current year and next year's earnings forecasts revised downwards by -0.4% and downwards by -0.5% respectively, bringing its earnings growth to 15.2% and 14.2% for 2017 and 2018 respectively. The earnings estimates for the financials sector were slashed by -0.2% over the month, as outlook for loan growth remains soft. Similarly, earnings estimates for the materials and utilities sectors were revised downwards by -0.2% and -0.1% respectively over the month. Within Utilities, earnings downgrade was attributable to natural gas distributor Perusahaan Gas Negara Persero Tbk, as its earnings fell short of analysts' estimates due to higher than expected distribution margin squeeze and operating expenditures. On the contrary, analysts revised earnings estimates for the real estate sector upwards by 0.1% over the month, while earnings estimates for energy, Healthcare and Industrials and other sectors saw little changes over the month.

Thailand's SET Index has risen by more than 5% over the month of September, and the rally came in after the former prime minister Yingluck Shinawatra failed to show up for negligence ruling. With various headlines mentioning her fleeing out of the country, it is possible that market participants are pricing-in lesser confrontations coming from her supporters, which points towards better political stability and business environment. On the trade front, Thailand's exports have risen in the fastest pace since 2013 in August 2017. Thailand continues to witness robust demand for its agriculture products, particularly rice and rubber, while electrical and electronic exports remain strong. Looking south, a month after its first rate cut in 2017, Bank Indonesia (BI) surprised the market yet again by slashing its reverse repo rate by 25 basis points on 22nd September in aim to lift economic growth. The central bank has also mentioned that it hopes to help boost the pace of bank lending without reigniting too much of inflationary pressures. While we do not rule out possibilities of further rate cut, we think it is unlikely for the central bank to cut its policy rate again in the near-term, as further rate cuts may begin to intensify volatilities on the domestic currency, the IDR.

Thailand's macroeconomic picture remains healthy at this juncture, with stable political scene as a positive add-on. Better agriculture yields and improving tourism activities should remain supportive to people's income, which may help stimulate private consumption. We expect Thai exports to continue to do well for the remaining of 2017 against a backdrop of global economic recovery. In expenditure terms, the disbursement of government budget for infrastructure project is expected to boost both private and public investment activities. With that, we have decided to maintain the star rating for Thai equity market at 3.0 stars (Attractive). As for Indonesia, we foresee private consumption to recover gradually, and infrastructure spending to provide an additional thrust to its economic growth. The recent easing measures undertaken by BI may also provide a material lift to lending activities, which could stimulate investment and consumption activities going forward. Given that Indonesia's fundamentals remain sound, we maintain the star rating for Indonesia at 3.0 stars (Attractive).



Thailand (3.0 STARS- ATTRACTIVE)

Why we like it

1. Decent Agriculture Yields Are Supportive of Private Spending
 - End of drought season and rainy weather in 2H 2017 will be a positive backdrop for agriculture activities;
 - Better agriculture yields may continue to underscore farmers' income;
 - Benign inflation plus a better income will be supportive of private spending.
2. Tourism Activities to Pick Up in 4Q 2017
 - Tourism-related sectors have shown encouraging signs of recovery in 2017;
 - Thailand is witnessing higher tourism receipts over recent months, particularly Chinese tourists amid recovery from previous "zero-package" tours clampdown;
 - Tourism-related businesses such as hotel and restaurants are expected to benefit from higher tourism receipts.
3. Infrastructure Spending a Leg-up to Growth
 - Disbursement of infrastructure investment budget from the finance ministry has been slow thus far in 2017;
 - We expect the disbursement of budget to accelerate in 2H 2017, which may stimulate both public and private investment activities on the domestic front.

What we don't like

1. Valuation Are at Premium
 - As of 22 September 2017, Thai equities' 2017 and 2018 earnings have been revised downwards by -1.7% and -2.4% respectively over 3Q2017;
 - Valuations of the Thailand equity market remain relatively stretched at this point of time;
 - While earnings growth remains a major driver to the potential returns within the Thai equities' landscape, the annualized expected return susceptible to the expected annualized compression of PE ratios.