

REGIONAL MARKETS UPDATE

ASEAN

THAILAND: 3.0 STARS (ATTRACTIVE)

- Consumer Price Index rose to 1.3% y-o-y in Sep 18, down from a 1.6% y-o-y growth in Aug 18
- Core CPI rose 0.80% y-o-y in Sep 18, up from the 0.75% y-o-y increase in Aug 18
- Consumer economic confidence fell to 69.4 in Sep 18, down from 70.2 in Aug 18
- Consumer confidence came in at 82.3 in Sep 18, down from 83.2 in Aug 18
- Custom exports contracted by -5.2% y-o-y in Sep 18, down from a 6.7% y-o-y increase in Aug 18
- Custom imports grew 9.9% y-o-y in Sep 18, down from 22.8% y-o-y growth in Aug 18
- Custom trade balance increased to USD 487 million in Sep 18, up from prior value of USD -588 million in Aug 18

INDONESIA: 3.5 STARS (ATTRACTIVE)

- Consumer Price Index fell to 2.9% y-o-y in Sep 18, down from a 3.2% y-o-y growth in Aug 18
- Core CPI eased to 2.8% y-o-y in Sep 18, moderated from a 2.9% y-o-y growth in Aug 18
- Consumer confidence came in at 122.4 in Sep 18, up from 121.6 in Aug 18
- Exports rose 1.7% y-o-y in Sep 18, down from an upward-revised 4.5% y-o-y growth in Aug 18
- Imports rose 14.2% y-o-y in Sep 18, down from a downward-revised 24.5% y-o-y growth in Aug 18
- Trade balance came in at USD 227 million in Sep 18, up from prior's downward-revised value of USD -944 million in Aug 18
- Foreign reserves came in at USD 114.9 billion in Sep 18, down from USD 117.9 billion in Aug 18

MARKET OUTLOOK

As the calendar flips across a volatile month of October, SET Index earnings estimates for both FY 2018 and 2019 estimates were revised upwards by 0.6% and 0.9% respectively. These brings the Thai equities' earnings growth to 8.2% and 9.9% respectively over 2018 and 2019. Most of the earnings thrust came from Industrials (+0.5%), specifically from Airports of Thailand. Its equity price has come under pressure since the Phuket boat disaster, but analysts are now looking at a brighter earnings prospect due to incentive schemes from the Thai govt to attract international tourist, still-resilient tourist arrival growth and duty-free concession bidding over the next two quarters. Financials (+0.2%) and Consumer Discretionary (+0.1%) have also witnessed upgrades in their earnings estimates. On the other hand, consensus has slashed earnings forecast for Consumer Staples (-0.1%) and Materials (-0.1%), while the earnings estimates for the other sectors remain largely unchanged over the period.

Sailing across the Straits of Malacca, Indonesian equities (as represented by the JCI Index) had both its current and upcoming years' earnings estimates revised downwards by -0.6% and -0.5% respectively. The estimated earnings growth figures stood at 15.9% and 14.0% for 2018 and 2019 respectively. Analysts are still painting a gloomy earnings picture for Materials (-0.3%), which contributed most of the index' earnings downgrade. Financials (-0.2%) and Energy (-0.1%) have experienced downgrades in their earnings estimates as well. The only sector that witnessed upgrades in its earnings estimates was Consumer Discretionary (+0.1%), as consensus expect better FY18 result from conglomerate companies such as Astra International. Earnings forecasts for other segments have saw little changes over October.

Looking at macro data, Thailand's exports fell -5.2% in the month of September, marking its first decline in 19 months amid high base effect and slowing demand from China and other major trading partners. Key exports such as automobile parts, electrical and electronic components have continued to slow, which could suggest that trade activities and external demand may have peaked. Rotating our view towards Thai consumers, their confidence dropped on rising oil prices and the on-going trade issues between US and China, and these negative elements have affected their confidence towards the overall economy. Going forward, we expect exports and tourism activities to slow on stronger Baht, and the kingdom is likely to rely more on domestic and government spending for growth. As for Indonesia, its central bank has continued to utilise its foreign reserves and increasing benchmark interest rates to defend the Rupiah. As inflation appears to be under control, we believe the current economic condition is still conducive for consumer spending, which is the main driver of Indonesia's economy. However, we think market participants could be expecting some weakness in the upcoming growth figures in 3Q18 due to the earthquakes that happened in Central Sulawesi and Bali.

Our view on Thailand remains largely unchanged. The kingdom continues to source growth from sturdy external demand and tourism activities, but the current strength of the Baht leaves little headroom for further growth. That said, Thailand's growth engine could be relying more on domestic spending and government expenditure going forward, where the latter could give a potential leg-up to domestic growth. Given that SET Index valuations are still looking rich relative to our fair PE ratio of 14.0X, **we maintain the star rating for Thai equity market at 3.0 stars (Attractive)**. As for Indonesia, GDP growth is expected to ease in 2H 18. Headwinds from moderating government investment and higher borrowing costs are likely to reduce lending appetite and limit capital spending growth. While fundamentals of the Indonesia economy remain intact, the JCI index is still currently trading below to its estimated fair PE ratio of 16.0X. With that, we **maintain the star rating for Indonesia at 3.5 Stars (Attractive)**.