REGIONAL MARKETS UPDATE

ASEAN

THAILAND: 3.0 STARS (ATTRACTIVE)

- Consumer Price Index went up by 0.38% y-o-y in Apr 17, after a 0.76% y-o-y increase in Mar 17
- Core CPI rose by 0.50% y-o-y in Apr 17, after a 0.62% y-o-y increase in Mar 17
- Consumer economic confidence increased to 65.4 in Apr 17, up from 65.1 in Mar 17
- Consumer confidence increased to 77.0 in Apr 17, up from 76.8 in Mar 17
- Custom exports grew by 8.5% y-o-y in Apr 17, after an upward-revised 9.2% y-o-y increase in Mar 17
- Custom imports grew 13.4% y-o-y in Apr 17, after a downward-revised 19.3% y-o-y growth in Mar 17
- Custom trade balance plunged to USD 57m in Apr 17, down from prior value of USD 1.62b in Mar 17
- 1Q 17 GDP grew at 3.3% y-o-y, up from a previous 3.0% in 4Q 16

INDONESIA: 3.0 STARS (ATTRACTIVE)

- Exports grew by 12.63% y-o-y in Apr 17, after an upward-revised 24.29% y-o-y increase in Mar 17
- Imports grew by 10.31% y-o-y in Apr 17, after a downward-revised 17.53% y-o-y increase in Mar 17
- Indonesia posted a trade surplus of USD 1238 million in Apr 17, down from prior upward-revised trade surplus of USD 1395 million in Mar 17
- CPI increased to 4.2% y-o-y in Apr 17, after a 3.6% y-o-y increase in Mar 17
- Consumer Confidence Index increased to 123.7 in Apr 17, from 121.5 in Mar 17
- Foreign reserves climbed to USD 123.25 billion in Apr 17, from USD121.81 billion in Mar 17
- 1Q 17 GDP grew at 5.01% y-o-y, up from a previous 4.94% in 4Q 16

MARKET OUTLOOK

As the calendar flips towards the end of May, Thai equities had its 2017's and 2018's earnings forecasts downgraded by -0.4% and -0.7% respectively, bringing the SET Index's earnings growth to 6.4% and 11.2% for 2017 and 2018 respectively. The consumer staples sector received the most downgrade in its earnings, with analysts slashing -3.9% on its current year's earnings forecasts. The downgrade was attributable to BigC Supercenter PCL, as we believe analysts were in view that the recent bomb incident that occurred in its Pattani Muang's outlet early May is serving as an additional headwind to its already slowing retail sales. The earnings revisions for the industrials sector has continued to be revised southwards, with earnings estimates slashed by -2.2% as the prospects of a higher oil price does not bode well for the aviation-linked companies such as Thai Airways PCL. On top of that, pressure on passenger yields and higher aircraft maintenance costs are likely to cap the profitability of the industry players. The healthcare, financials and consumer discretionary sectors have witnessed cuts in earnings estimates as well, with analysts slashing -2.0%, -0.7% and -2.8% respectively for the aforementioned sectors. On the other hand, the energy and materials sectors have continued to receive positive earnings revision, with both figures revised upwards by 2.1% and 3.0% respectively over the month. PTT PCL and PTT Global Chemical PCL were amongst the corporates that have driven the upward revisions.

Looking south, Indonesian equities, represented by the JCI Index, continue to receive upward revisions in their earnings forecasts, with 2018's earnings forecast revised upwards by 0.4%. 2017's earnings figure remains almost unchanged over the month. Earnings growth for 2017 and 2018 are currently sitting at 15.6% and 15.0% respectively. The consumer discretionary sector has contributed the most towards the upward revisions, with analysts revising its earnings upwards by 2.1%. Like their Thailand peers, analysts remained favorable towards the energy sector, as earnings were upgraded by 2.7% over the same period. The industrials and telecommunication sectors received 1.6% and 0.8% of earnings upgrades respectively as well. In contrast, the materials received a hefty -4.0% downward revision in its earnings, with most of the drag coming from the cement companies such as Holcim Indonesia Tbk Pt, as the domestic cement players are still clouded by oversupply issues and a tightening market competition.

Thailand's 1Q 17 GDP growth came in at 3.3% year-on-year, higher than the consensus estimate of 3.1% and previous' 3.0%. Domestic spending remains as a dominant driver for economic growth, on the back of a higher farmer income plus a better consumer and business confidence. Better weather conditions post-El Nino and higher commodity prices were positive inputs to support the people's spending. Apart from private consumption, external trades have also drove the kingdom's growth on the back of improving global aggregate demand, particularly for electronics and rubber-related goods, and a further push from a higher oil price. As for Indonesia, 1Q 17's GDP growth came in at 5.01% year-on-year, higher than previous' 4.94%. Similar to Thailand, the nation's growth catalyst was sourced from the decent trade activities, as depicted by the double-digit growth for both exports and imports over the recent months, albeit helped by a low-base effect from oil-related products. Scoping onto the domestic front, private consumption growth has experienced a slowdown, which we attribute to the heightened political tensions during local government elections. We believe the political event has also hindered private investments, though higher government consumption has managed to offset some of these negative factors that weighed on the growth of the economy. These have resulted a modest pickup in GDP growth for the Indonesian economy over the quarter.

Less than 2 weeks ago, Indonesia has received the long-awaited credit rating upgrade by Standard & Poor's, bring its credit rating to investment grade. Moody and Fitch have already upgraded Indonesia's credit rating to similar status back in 2012 and 2011 respectively. The upgrade was done on the base of ameliorating prospects of the government's fiscal position, as portrayed by the reduction in fiscal deficit over the recent years. S&P viewed that this will allow the Indonesian government to accommodate external uncertainties, and recognised the government's effort in rolling out the much-needed reforms such as subsidies removal and tax amnesty program which points to better utilisation of the government's budget, and increase the fiscal budget for infrastructure spending. Following the recent move by S&P, we foresee more foreign direct investments flowing into the Indonesia's capital market, facilitated by the on-going initiatives by the government to ease business condition and cutting the red tape for foreign investments. These foreign fund flows are likely to ease the burden for the Indonesian government, as foreign investors may look to invest in some of the infrastructure projects and development plans within the nation.

Going forward, we foresee that external demand will remain robust as the recovery of global economy remains on track, which could underpin external demand for the ASEAN nations in near future. Nonetheless, having posted months of strong growth figures, we expect the exports figures to moderate further amid diminishing low-base effect from depressed oil price last year. In expenditure terms, we foresee private consumption to recover gradually on Indonesia's front as the political effect subsides, while Thailand's to remain resilient moving forward. Infrastructure spending is expected to provide an additional thrust to both nations' economic growth. As the macroeconomic condition and growth story remains intact for both nations, we maintain both of these nations' star ratings at 3.0 stars (Attractive).