

REGIONAL MARKETS UPDATE

ASEAN

THAILAND: 3.0 STARS (ATTRACTIVE)

- Consumer Price Index went up to 1.07% y-o-y in Apr 18, higher than previous' 0.79% y-o-y expansion in Mar 18
- Core CPI was nearly unchanged at 0.64% y-o-y in Apr 18, slightly higher than the 0.63% increase in Mar 18
- Consumer economic confidence improved to 67.8 in Apr 18, up from 66.8 in Mar 18
- Consumer confidence improved to 80.9 in Apr 18, up from 79.9 in Mar 18
- Custom exports grew by 12.3% y-o-y in Apr 18, after a 7.1% y-o-y increase in Mar 18
- Custom imports grew 20.4% y-o-y in Apr 18, after a 9.5% y-o-y growth in Mar 18
- Custom trade balance increased to USD 1283 m in Apr 18, improved from prior value of USD 1268 m in Mar 18
- Thailand's 1Q 18 GDP growth surged to 4.8% y-o-y, higher than the previous 4.0% growth in 4Q 17

INDONESIA: 3.0 STARS (ATTRACTIVE)

- Exports grew to 9.01% y-o-y in Apr, after an upward-revised 6.14% y-o-y expansion in Mar 18
- Imports grew by 34.68% y-o-y in Apr, after an upward-revised 9.07% y-o-y growth in Mar 18
- Indonesia posted a trade deficit of USD -1.63 billion in Apr, up from previous' trade deficit of USD -1.09 billion in Mar 18
- CPI rose to 3.41% y-o-y in Apr, after a 3.40% y-o-y increase in Mar 18
- Consumer Confidence Index recovered to 122.2 in Apr, up from 121.6 in Mar 18
- Foreign reserves fell to USD 124.9 billion in Apr, down from USD 126.0 billion in Mar 18
- Indonesia's 1Q 18 GDP growth slows to 5.06% y-o-y, lower than the previous 5.19% growth in 4Q 17

MARKET OUTLOOK

Across the month of May, the SET Index had its 2018 earnings forecasts upgraded by 1.5%, while 2019 earnings estimates remain unchanged. These brings the Thai equities' earnings growth to 9.9% and 8.8% respectively over 2018 and 2019. Energy (+0.7%) received earnings upgrades from analysts, with PTT PCL contributing most of the earnings upgrades. Market participants expect the company's earnings to remain resilient on the back of robust gas business (renewals on gas block concessions) and higher earnings contribution from downstream affiliates. Similarly, Industrials got its earnings estimates revised upwards by 0.6%. Synergetic Auto Performance, a Thailand car rental business is expected to generate higher revenues by higher volume of used car sales and a boost in rental rates by increasing tourist arrivals towards the end of 2018. Other sectors who witnessed an upgrade in earnings estimates are Health Care (+0.2%), Utilities (+0.2%) and Telecommunication.

Looking south, Indonesian equities, represented by JCI Index, had its current year and next year's earnings estimates both revised downwards by -0.5% and -1.4% respectively. Meanwhile, the estimated earnings growth of Indonesian companies stood at 16.3% and 11.8% for 2018 and 2019 respectively. Within the sectors, earnings estimate among analysts' consensus for Materials sector were negative (-0.8%), particularly Indah Kiat Pulp & Paper Corp Tbk PT as its earnings were negatively affected by China's strict environmental actions with the implementation of "Environmental Protection Tax". Analysts are in a view that the tax might lead to another round of supply consolidation, as it will create higher cost structures and increase pressure for smaller-scale players. Strict environmental inspections should continue in 2018 as the regulator has obtained power to enforce strict standards, hence unexpected capacity closures and downtimes could still occur in the future. Telecommunications (-0.2%) and Consumer Staples (-0.1%) were among other sectors that witnessed negative earnings revision.

Thailand's economy has beaten consensus view to deliver a 4.8% year-on-year growth over 1Q 18. The kingdom witnessed a continual improvement in private consumption, whereas investment and exports growth picked-up against a backdrop of encouraging global growth. Domestically, government consumption gained pace and public investments recovered from previous quarter's slowdown. Looking into sectors, manufacturing, wholesale and retail trade provided a material lift to economic growth on the back of stronger external demand. Businesses for hotels and restaurants also improved with higher tourist arrival. The agriculture sector, which experienced contraction in preceding quarter due to bad monsoon season has reversed to favourable growth rates. All these positive elements have put together a strong growth picture for Thailand. Looking at Indonesia, the GDP of Indonesia expanded 5.06% year-on-year in the first quarter of 2018 versus the estimate of 5.19% that economist had forecast. In the meantime, private consumption growth was recorded at 4.95%, slightly higher than the 4.93% growth rate on a year-on-year basis, which remains below the much desired 5.0% level. Looking ahead, we still expect Indonesia's economic growth will continue to accelerate in the coming quarters, albeit at a very modest pace. On the monetary front, considering downward pressures on the IDR caused by recent capital outflows, Bank Indonesia (BI) decided to hike its benchmark interest rate by 25 basis points to 4.50%, marking the first interest rate increase since November 2014. Although a higher benchmark interest rate should provide a cushion to the falling IDR, it will also bring pressure for Indonesian equities because higher interest rate tends to cloud corporates' future outlook. We opine that the rate hike was necessary, as Indonesia has a high share of imported inflation. Any further weakening of the IDR would increase inflationary pressures, disrupting the broader price stability seen over the past few years. With the country heading into election this year, the prospect of higher inflation driving up living costs is something the government does not want to risk.

We penned down a broad-based growth for Thailand previously, and the recent growth figures affirmed our view. Aside from lending support from sturdy external demand and tourism activities, the main drivers for domestic growth for the rest of the year will be relying on people's spending and government's expenditure on infrastructure projects. Despite the SET Index closing lower over the month, valuations are still looking rich relative to our fair PE ratio of 14.0X. With that, we maintain the star rating for Thai equity market at 3.0 stars (Attractive). As for Indonesia, the economic outlook continues to be positive with GDP growth projected to rise at a steady pace moving forward. We believe the imminent local elections in mid-2018 as well as the 2018 Asian Games will give additional boost to the local economy moving forward. In light of healthy domestic demand, contribution from net exports is expected to be muted as import growth strengthens. Given that Indonesia's economic outlook continues to be favourable as the conducive external environment persists and domestic conditions become more positive, we maintain the star rating for Indonesia at 3.0 stars (Attractive).