Our Favourite Stocks and ETFs That Are Primed To Outperform

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3 Investment Themes We Are Optimistic On

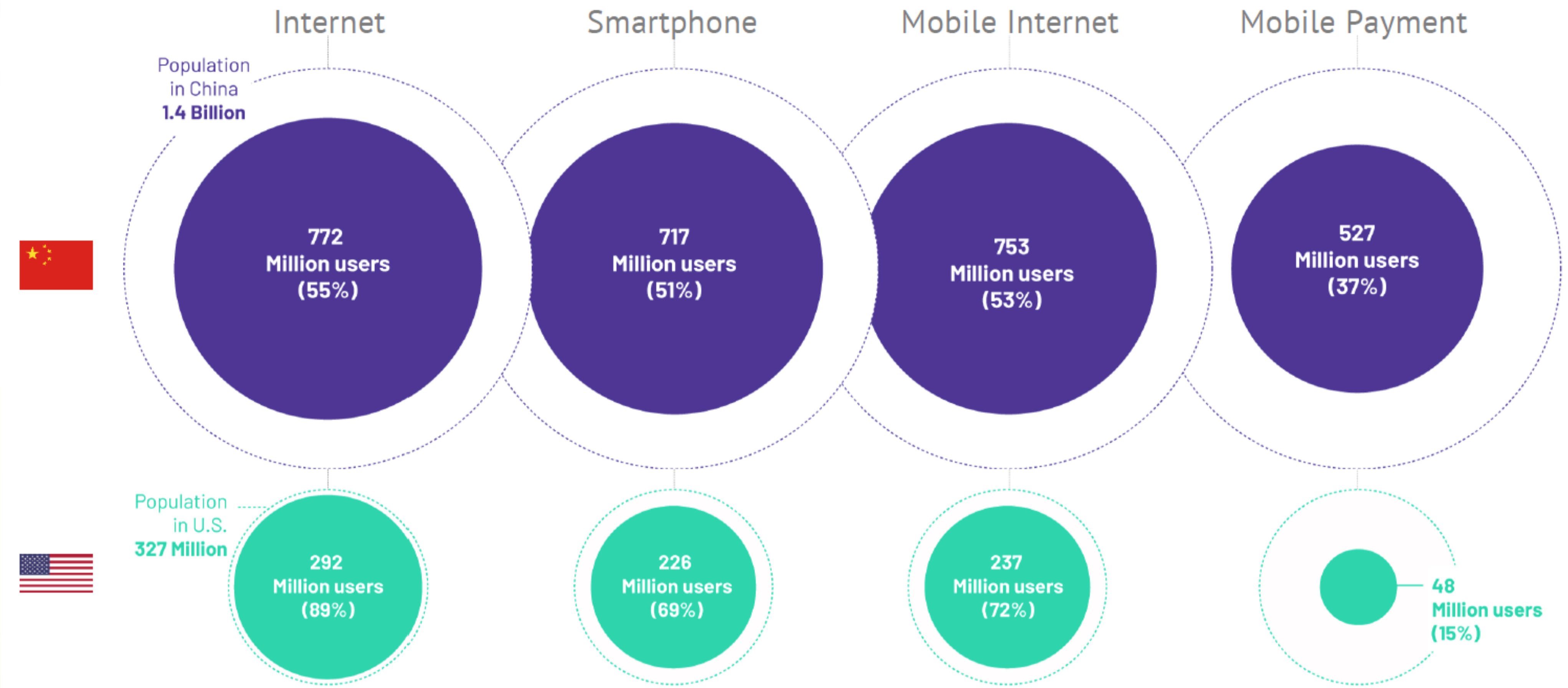
		

	Internet	Financials	Semiconductors
Stocks	Tencent (700.HK) Alibaba (NYSE.BABA)	BOC (3988.HK) ICBC (1398.HK) CCB (939.HK) ABC (1288.HK)	
ETFs	Invesco China Technology ETF (NYSE.CQQQ)	BMO HK Banks ETF (3143.HK)	VanEck Vectors Semiconductor ETF (NYSE.SMH)

1. China Technology

China Now Dwarfs US In The Internet Space

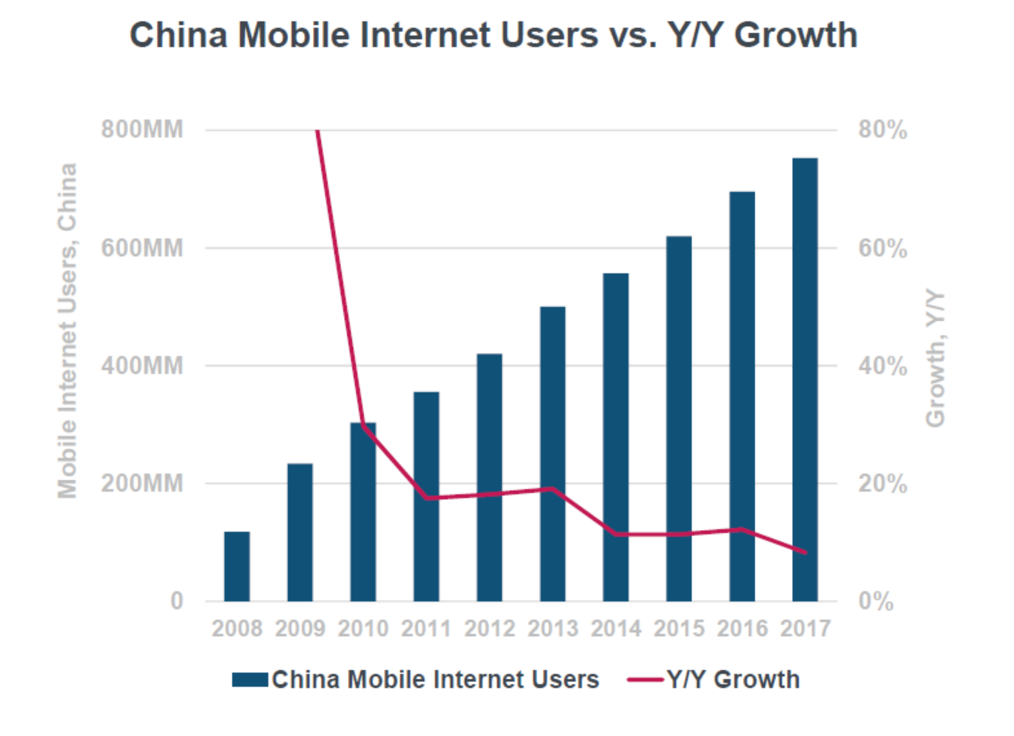
- **Ample Room For Growth** – China's Internet Penetration is at 55%, Still Lower than US's 90%



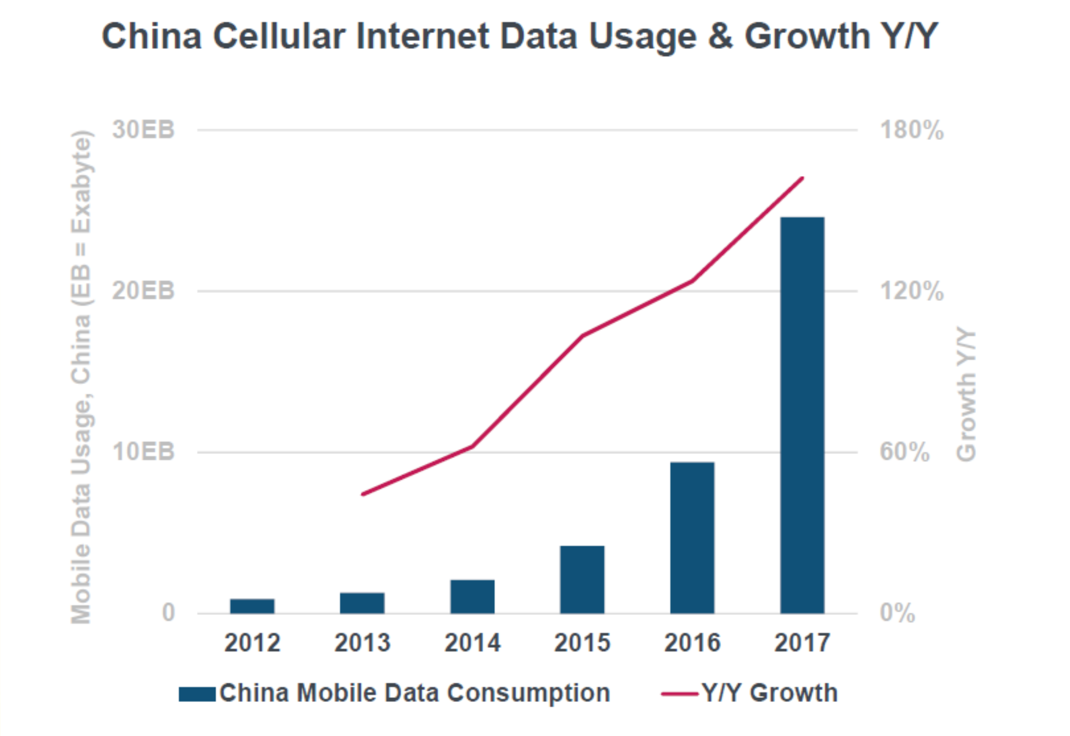
China Internet Usage is Accelerating

- **More than 95%** of Chinese Users Now Access the Internet Through Mobile – according to CNNIC

1. Increase in Mobile Internet Users



2. Increase in Usage Duration



Internet Users: Chinese Millennials

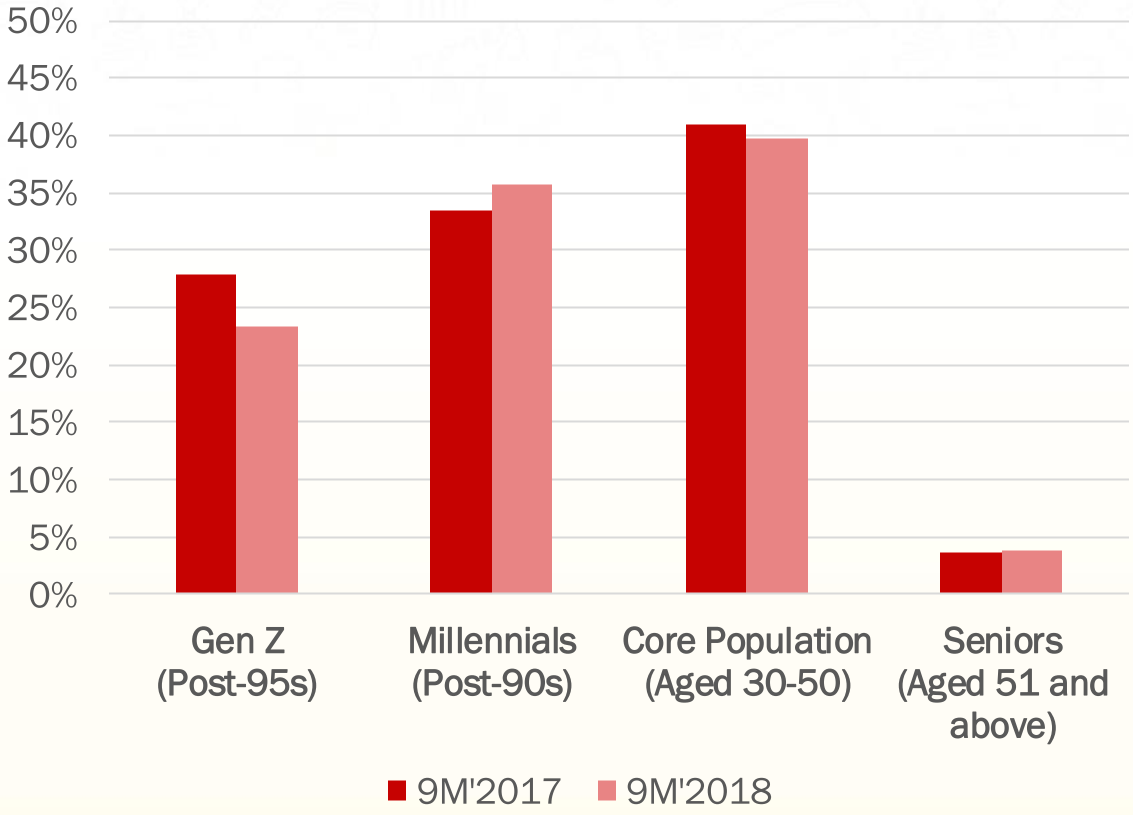
Millennials Make Up 25% of China's Population

- Totalling to 351M, which is 20M more than entire population of US.

The 'IT' Crowd

- Socially-conscious individuals who grew up using the Internet and Social Media.
- Born during the "One-Child Policy". Privileged and more demanding. Travelled more extensively and are better educated than previous generations.
- **High Propensity for Internet Purchases** – Paying for products and services online comes naturally.

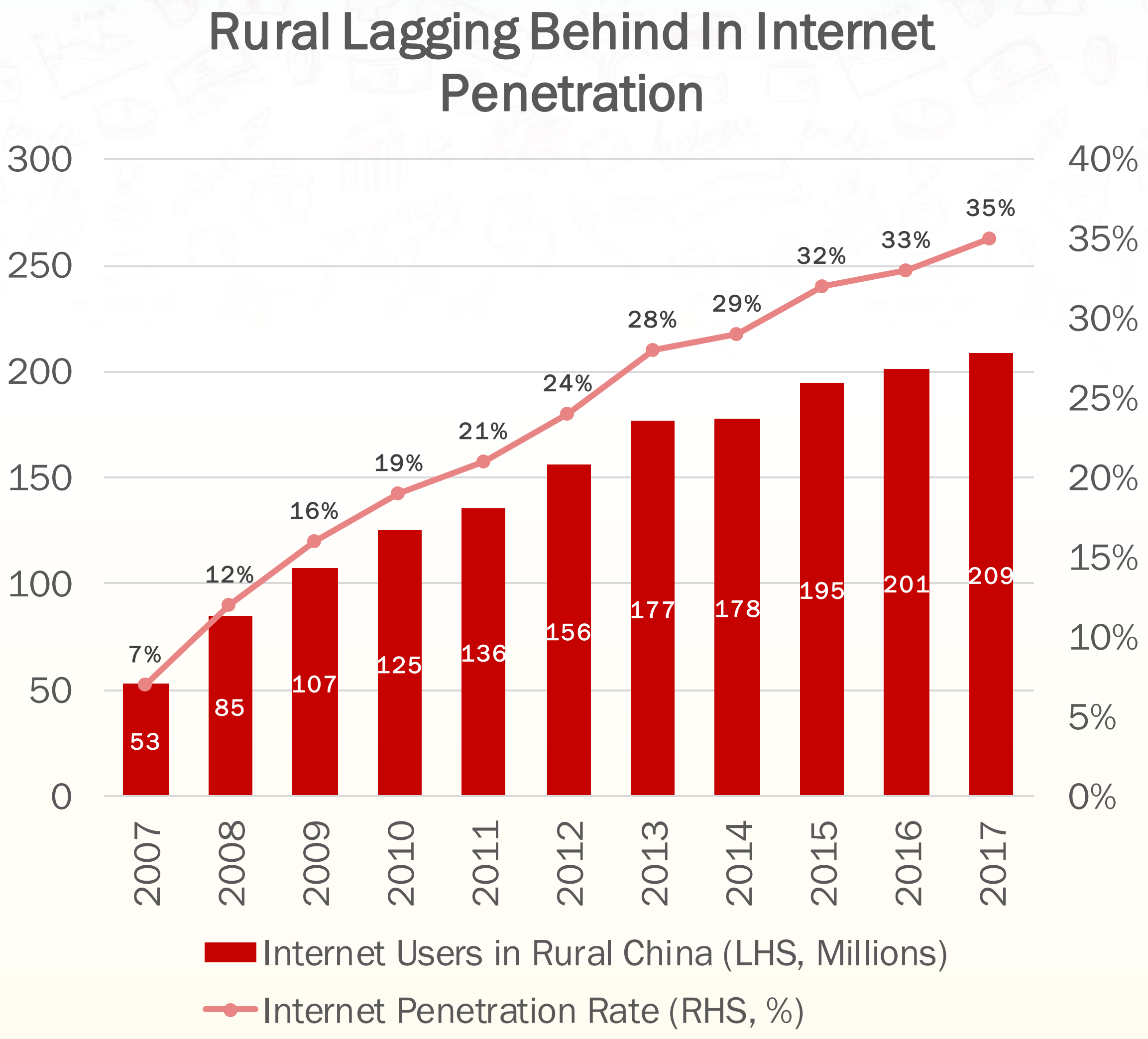
China Internet Usage Demographic Breakdown



Source: QuestMobile China

Internet Users: Rural Population

- China pushed big telecom players to **speed up construction of infrastructure for Internet** nationwide.
  - Laid 2.6 mil km of fiber optic cable in 2015.
- Internet penetration grew from 29% to 35% between 2014-17.
  - Still lags behind city level's 69.4%.
- Annual per capita disposable income of rural residents in China is only USD 1,870 in 2016, which is already **up close to 50% compared to 2012**.



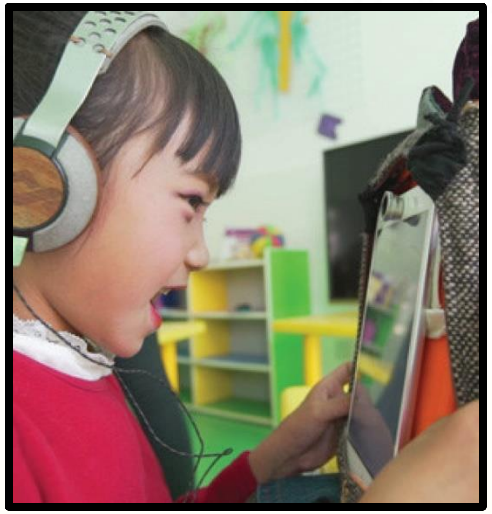
Source: : CNNIC, China National Bureau of Statistics

Internet Users: Rural Population

e-Commerce

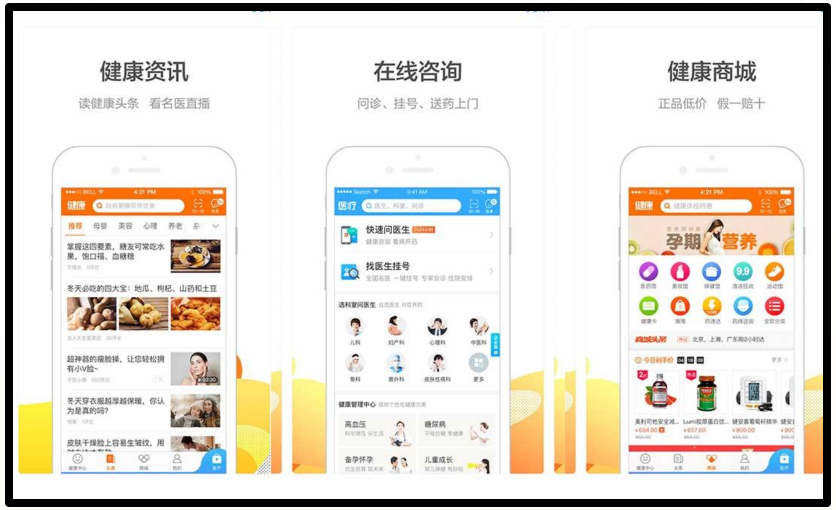
50%
of **poor villages** to be equipped with **e-commerce capabilities** by 2020

e-Education



8%
minimum of local govts' **annual budget** to be spent on **digitalisation of education**

e-Healthcare

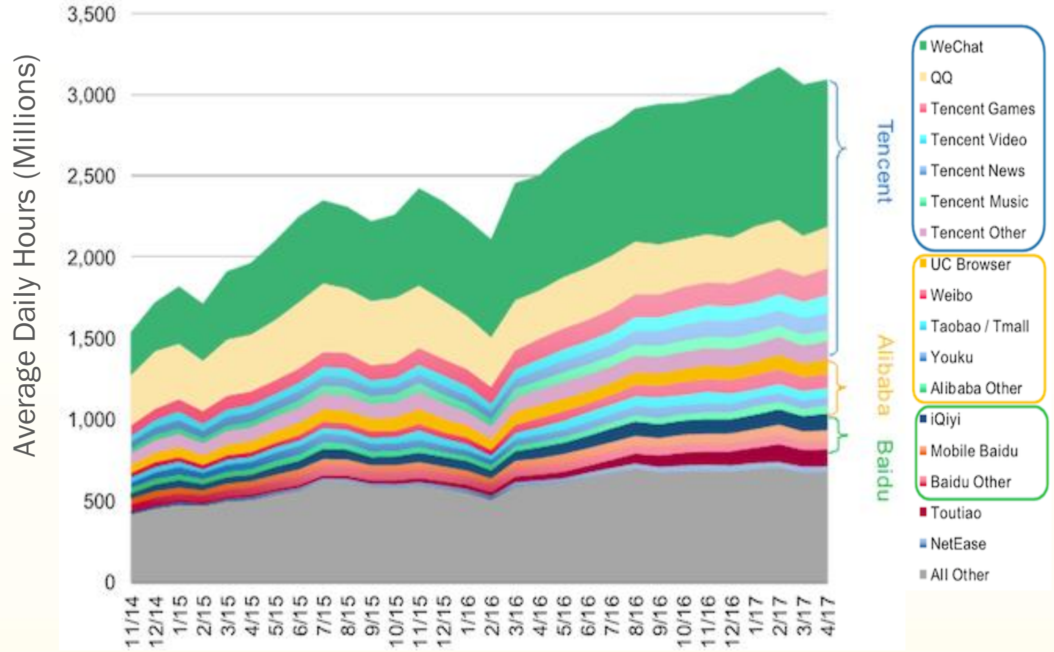


200 Million
elderly (aged 60 and above) by 2020, with most **residing in rural China**

Rising Usage Duration of Internet

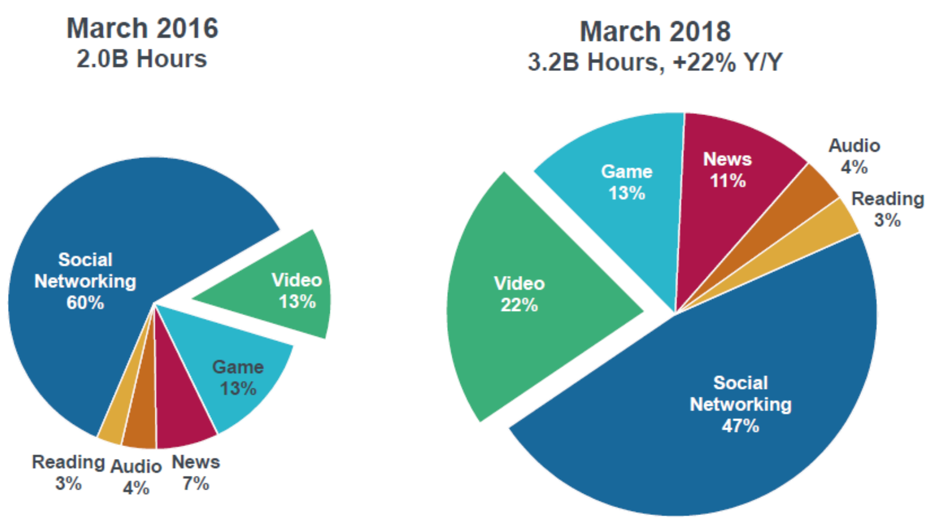
- **Internet usage duration almost doubled** between 2014-2017, driven by Media Content and Entertainment Consumption.

China Mobile Internet Daily Hours by App
(Nov-14 to Apr-17)



China Mobile Media / Entertainment Time Spent = +22% Y/Y…Mobile Video Growing Fastest

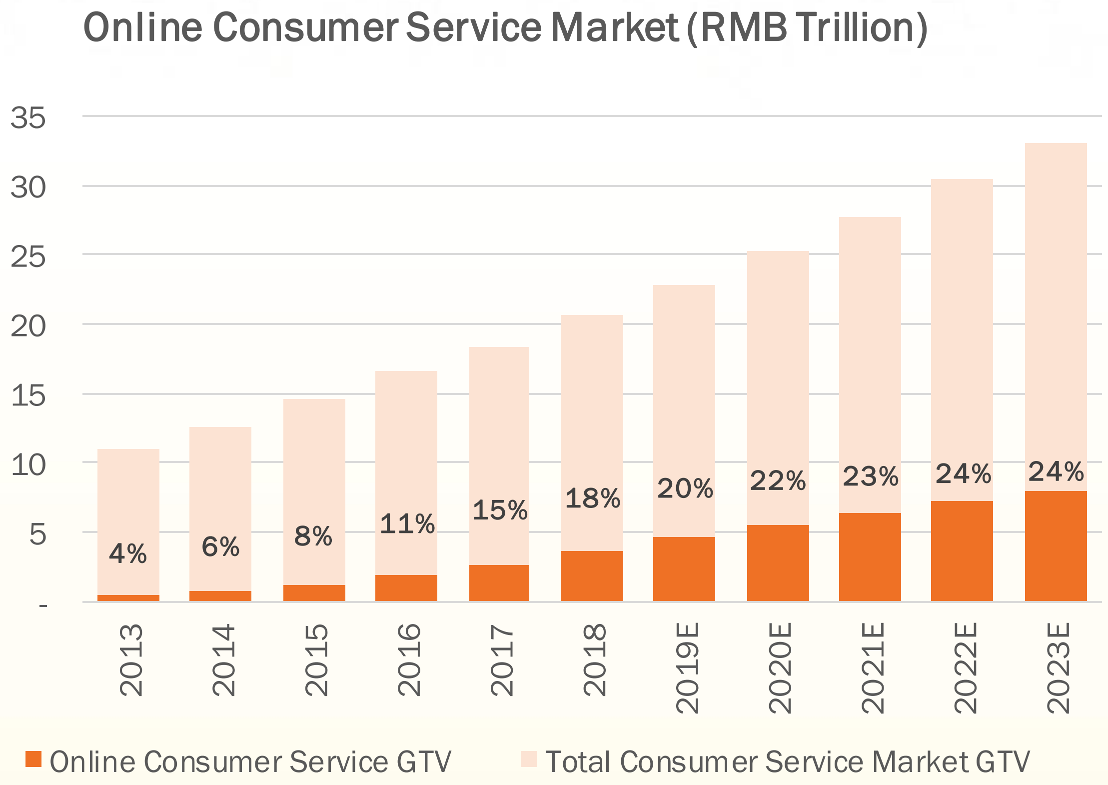
China Mobile Media / Entertainment Daily Time Spent



China Consumption Increasingly Digitalised

- More **physical goods** are purchased online
- Emergence of **digital goods** like micro-transactions, subscriptions, virtual online gifts.
- **Online services** like food delivery, on-demand ride hailing and travel booking.

Source: : CNNIC, China National Bureau of Statistics



Source: iResearch China
Data as of 2018. GTV stands for Gross Transactional Volume.

Internet Penetrate All Aspects of Everyday Life

NYSE:CQQQ – Invesco China Technology ETF

Constituent	Weighting (%)	*Upside Potential (%)
Tencent Holdings Ltd	10.4%	40%
Alibaba Group Holding Ltd	9.4%	42%
Baidu Inc	7.7%	42%
JD.com Inc	7.6%	23%
NetEase Inc	6.4%	11%
Ctrip.com International	4.3%	12%
58.com Inc	3.6%	41%
Sunny Optical Technology	3.5%	33%
Autohome Inc	3.1%	36%
Lenovo Group	2.9%	13%
Invesco China Tech ETF	**100%**	**31.3%**

Source: Bloomberg, Invesco. Portfolio weighting data as of 17 Jan 2019.
*Based on consensus estimates for 2019

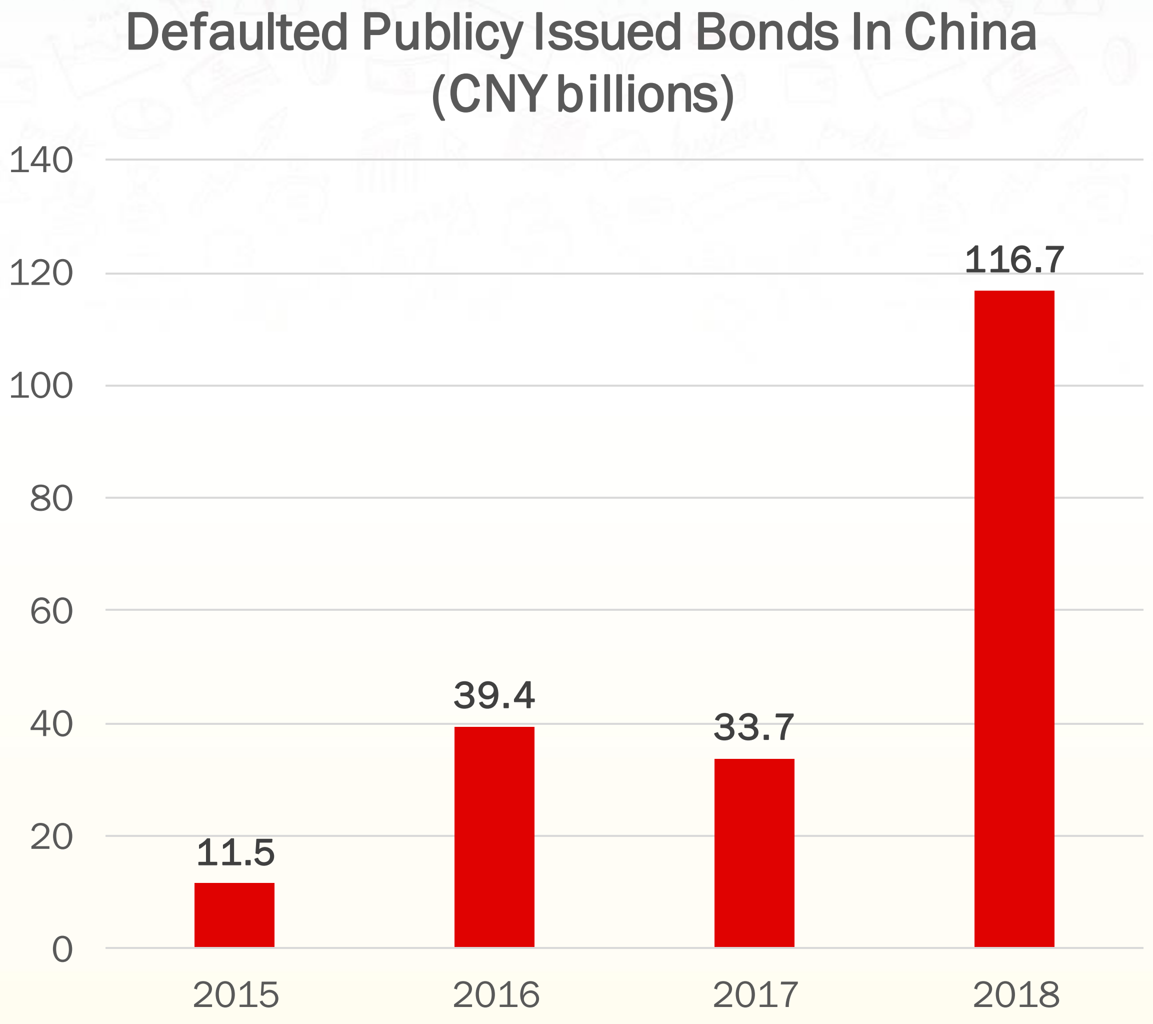
A Simple Package to Invest In China Tech!

- Reasonable 0.7% Expense Ratio
- AUM of USD 466.2 Million
- 30-Days Average Trading Volume: 241.2 K Units
- BAT Trio weigh **close to 30% of ETF**
- Portfolio of over sixty China Technology stocks
- Potential upside of **more than 30%.**

2. China Banks

Record High Bond Defaults

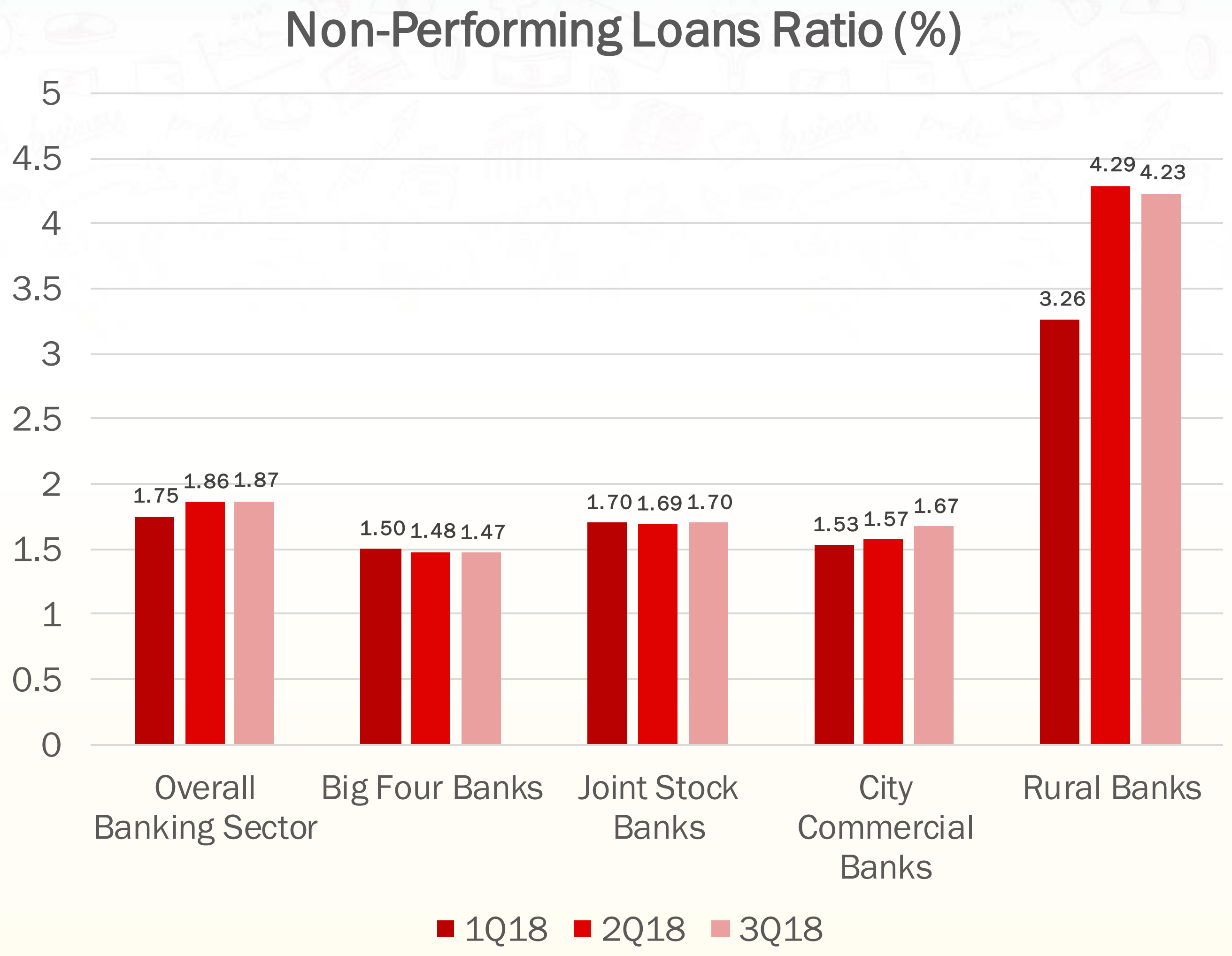
- Fears over mounting defaults caused by the government's nationwide deleveraging campaign.
- Clampdown on bad debt has made it difficult for firms to refinance their loans.
- Government seems increasingly comfortable with letting debt-ridden firms fail, raising concerns amongst investors.



Source: Wind, iFAST Compilations
Data as of end-2018

Rural Banks Hit Hardest

- Bad debts are mainly concentrated in rural banks, asset quality of the Big 4 remains strong.
- Over 2018, the NPL ratio of rural banks recorded a substantial increase, while NPL ratio of the big four banks recorded a slight decrease.
- The average capital adequacy ratio of the big four banks is at 14.6%, one of the healthiest across China's banking sector.

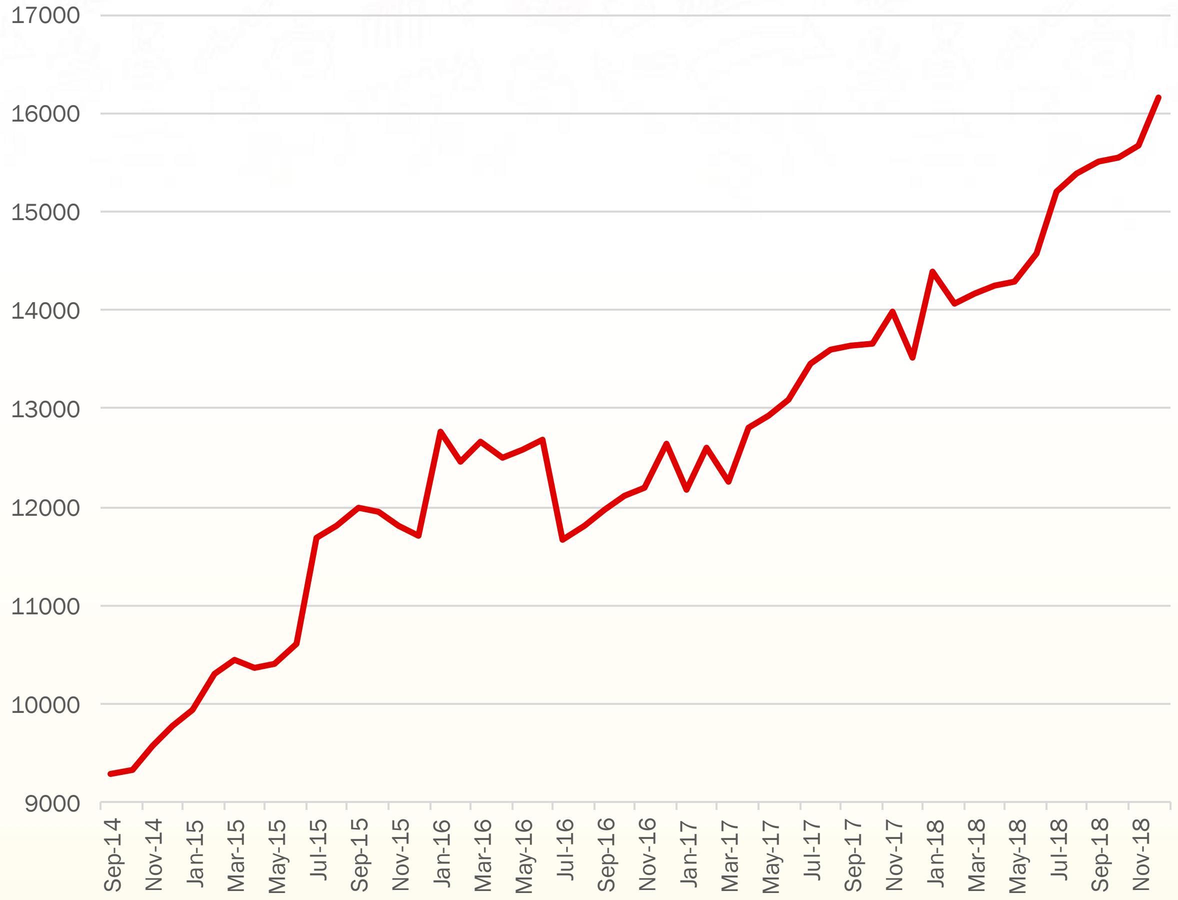


Source: China Banking and Insurance Regulatory Commission, iFAST Compilations
Data as of 3Q 2018

Stronger Loan Growth Expected

- Loan growth remains robust even amid a deleveraging campaign.
- Loan growth is driven mostly by SMEs, which have long faced financing difficulties as they are perceived to be riskier.
- The PBOC introduced several measures to boost lending such as tax breaks, flexible loan quotas and has even set up a national fund to guarantee loans made to SMEs.
- Interest rate liberalisation and the continued crackdown on WMPs is likely to drive borrowers back to banks for their funding needs.

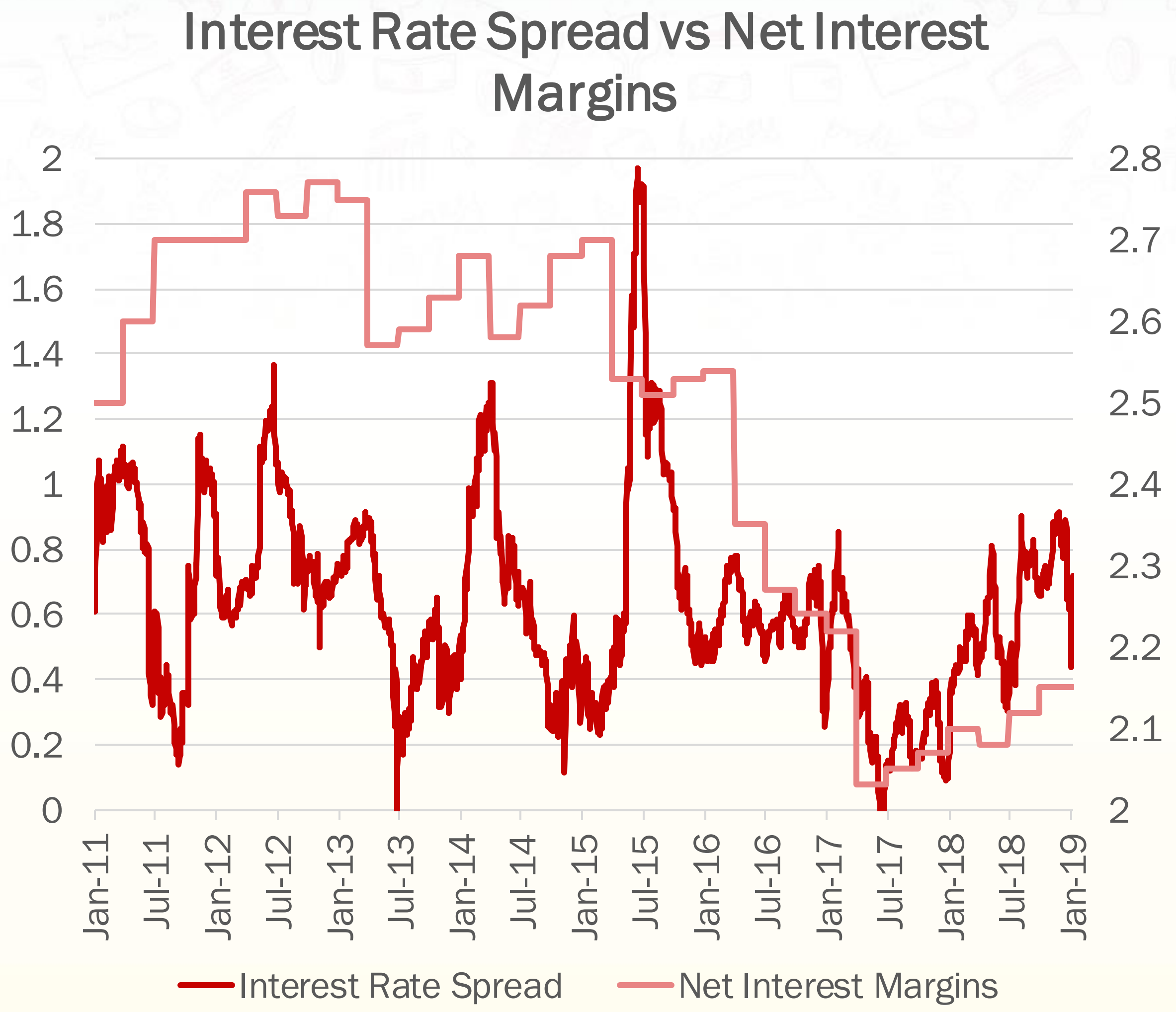
China CNY Monthly New Loans (Trailing 12-Months, Billions)



Source: Bloomberg, iFAST Compilations
Data as of end-Nov 2018

Potential Recovery In Net Interest Margins

- Higher net interest margins increases a bank's profitability, as interest income is greater than interest expense.
- Net interest margins generally follow the direction of interest rate spreads.
  - Deposit rates guided by short-term rates
  - Lending rates guided by long-term rates
- Interest rate spreads in China is expected to continue rising, and is a potential catalyst for the share prices of banks to re-rate.



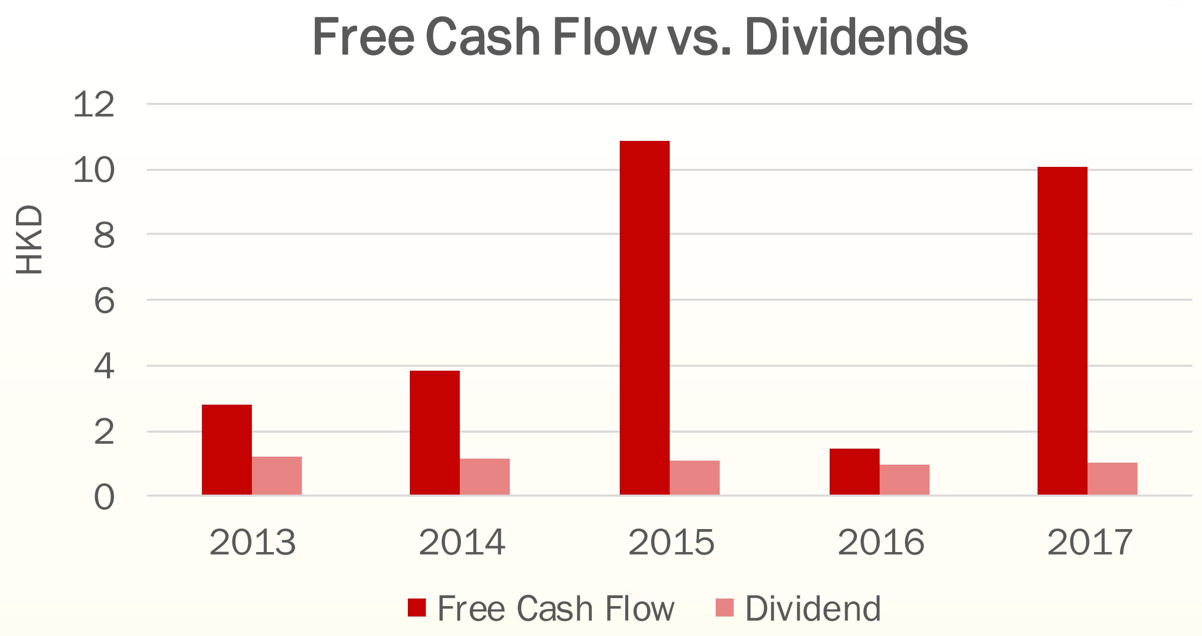
Source: Bloomberg, iFAST Compilations
Data as of 17 Jan 2019

Sustainable High Dividends

- Average dividend yield of 5.62% is a good source of income as investors wait for share prices to re-rate.
- Low dividend pay-out ratios indicate that there is plenty of room for dividends to grow.
- Given their strong financial position and cash flow generating ability, investors can reasonably expect the high dividend pay-outs to be sustainable.

Company	*Div Yield (%)	^Payout Ratio (%)
Bank of China	6.06	31.8
ICBC	5.01	31.5
China Construction Bank	5.27	31.6
Agricultural Bank of China	6.16	31.6
Average	**5.62**	**31.6**

Source: Bloomberg, iFAST Compilations
***Consensus estimate for FY2019; ^5-year average**
Data as of 17 Jan 2019



Source: Bloomberg, iFAST Compilations
Data in HKD per share basis
Data as of 17 Jan 2019

Massive Potential Upside

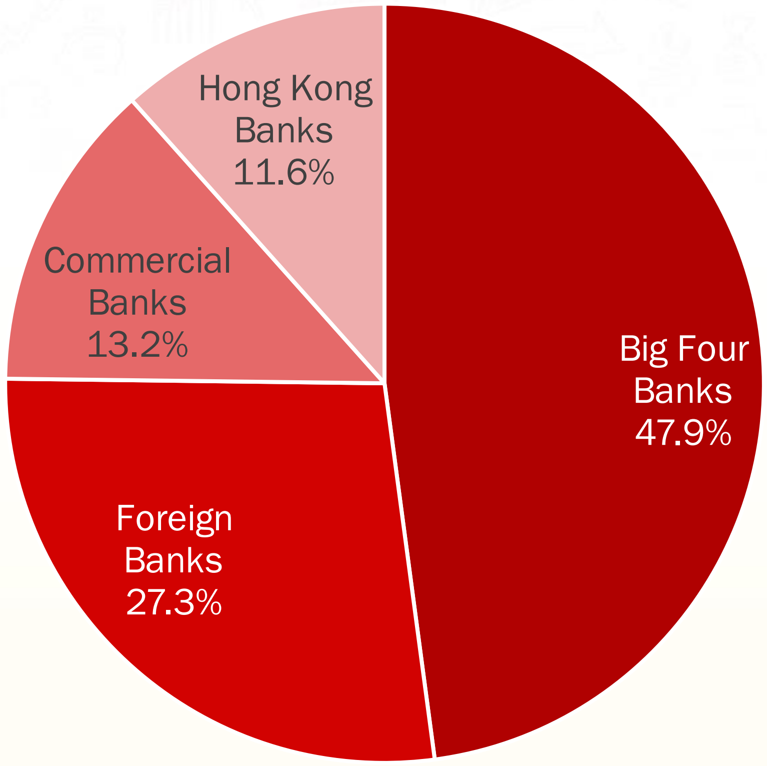
Company	Current Price (HKD)	*Intrinsic Value (HKD)	Upside Potential (%)
Bank of China	3.44	4.58	33.13
ICBC	5.71	6.97	22.07
China Construction Bank	6.57	8.40	27.85
Agricultural Bank of China	3.56	5.05	41.85
Average	-	-	**31.22**

Source: Bloomberg, iFAST Compilations
Data as of 17 Jan 2019
*Based on PB ratio of 1.0, PB ratio of 0.8 was used for Bank of China

HKEX:3143 – BMO Hong Kong Banks ETF

- Designed to track the NASDAQ Hong Kong Banks Index.
- Close to half the ETF is weighted towards the big four banks.
- Annual expense ratio of only 0.45%, offers investors a low-cost, diversified method to participate in the recovery of China's banking sector.

BMO Hong Kong Banks ETF

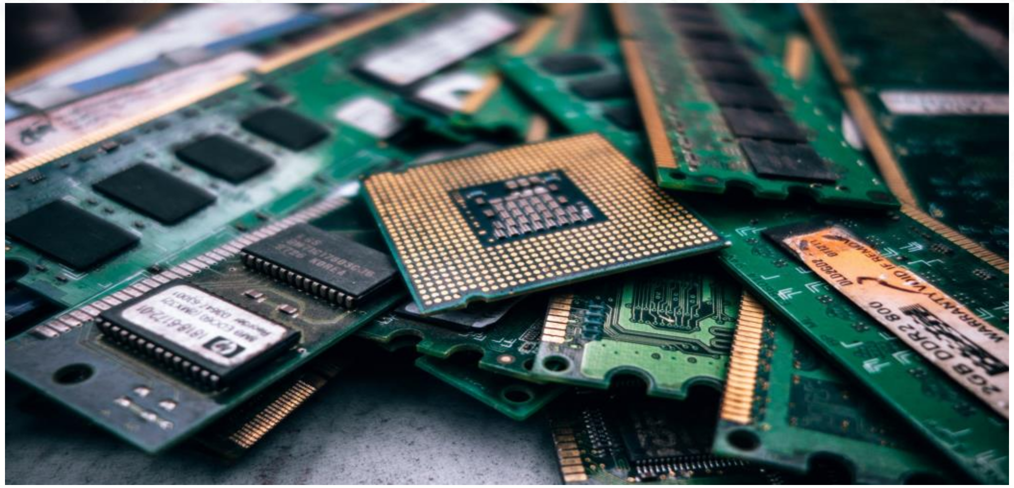


Source: BMO Global Asset Management
Data as of 17 January 2019

3. US Semiconductor

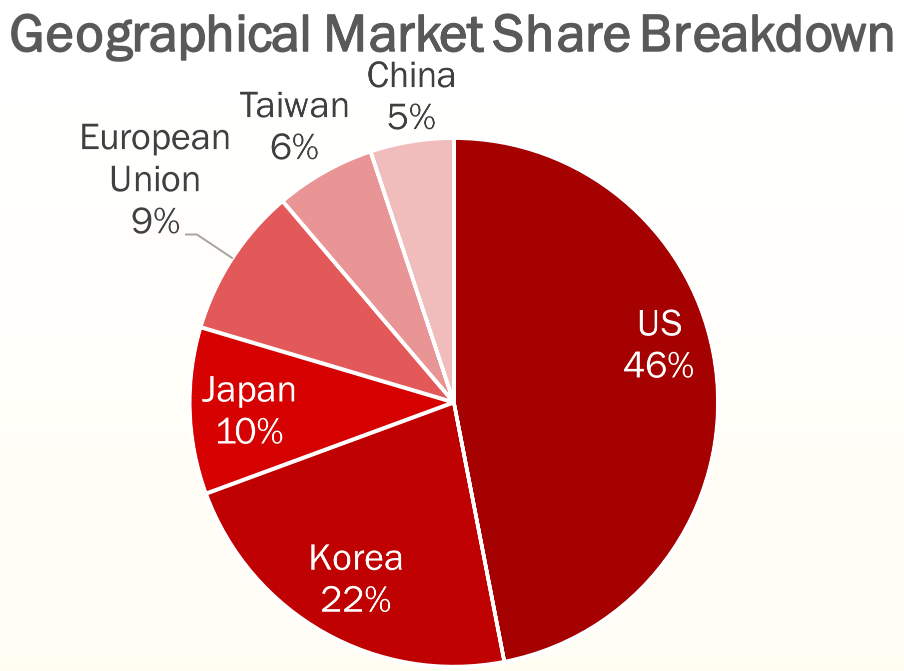
What Are Semiconductors?

- Semiconductor devices are essential components of electronic circuits.
- Semiconductor products include: memory, microprocessors and integrated circuits.
- Types of companies:
  - **Pure Play Foundries:** Companies that do not have any design capabilities as they focus only on the fabrication and testing of semiconductor products.
  - **Fabless:** Fabless companies are involved only in the design and sale of semiconductor products, while outsourcing the fabrication to foundries.
  - **Integrated Device Manufacturers (IDMs):** IDMs are companies that design, fabricate and sell semiconductor products.

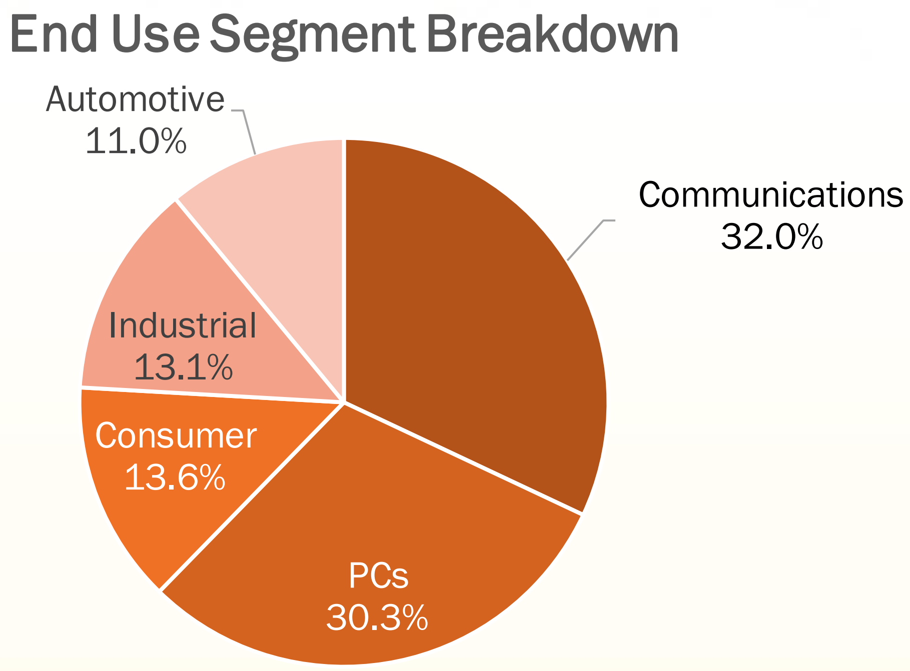


US Is The Global Leader In The Semiconductor Industry

- US based firms holds the largest market share at 46%, owing to their leading position in R&D and design.
- The largest end use segment for semiconductor products is communications.



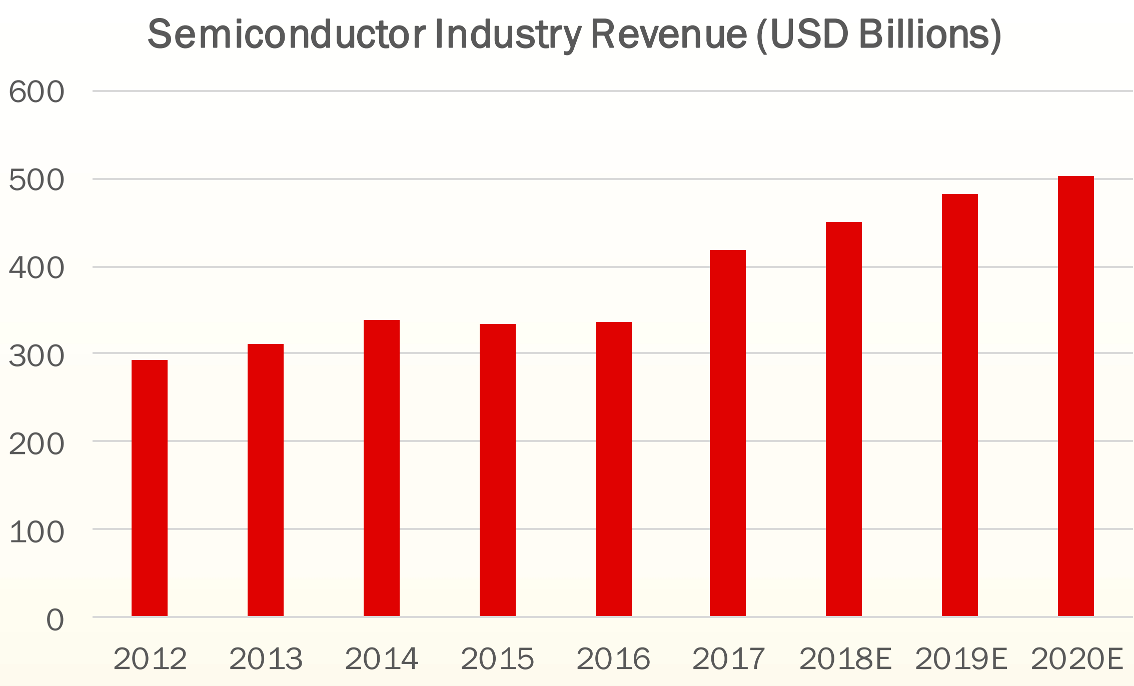
Source: Semiconductor Industry Association



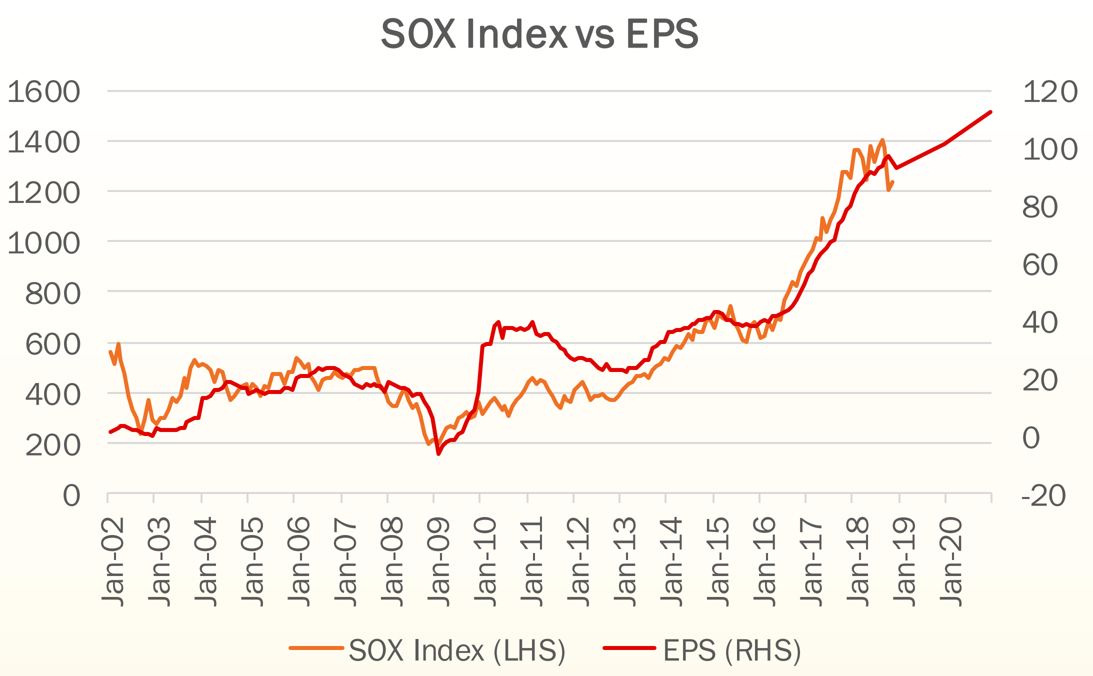
Source: Semiconductor Industry Association

Positive Expectations For Revenue Growth

- Between 2012-2017, revenue grew at CAGR of 7.25%, reaching record high of USD 417 billion in 2017.
- Going forward, estimates show that revenue should grow at a CAGR of 6%, crossing the USD 500 billion mark for the first time in 2020.
- A recent survey by KPMG shows most industry players remain optimistic about the semiconductor industry even amidst global uncertainties.



Source: Bloomberg, iFAST Compilations, Gartner, Statista
Data as of 17 January 2019



Source: Bloomberg, iFAST Compilations
Data as of 17 January 2019

Communications Segment A Major Demand Driver

FSM One

- Communication semiconductors are used in devices that are capable of sending and receiving signals such as your mobile phone and modem.
- With rising smartphone penetration rates, the communications segment should contribute to a large part of the overall demand.
- China, India and Indonesia's weighted average smartphone penetration rate is only 35.8%, while the developed markets average stands at 69.68%.
- As the world continues to embrace ecommerce and mobile payment services, we believe that there is immense potential for smartphone penetration rates to grow.

Developed Countries*	Penetration Rates (%)
United Arab Emirates	80.63
Sweden	72.23
Switzerland	71.76
South Korea	71.53
Taiwan	70.47
Canada	69.83
United States	69.38
Netherlands	68.87
Germany	68.84
United Kingdom	68.67
Developed Average*	69.68
China, Indonesia, India	35.88

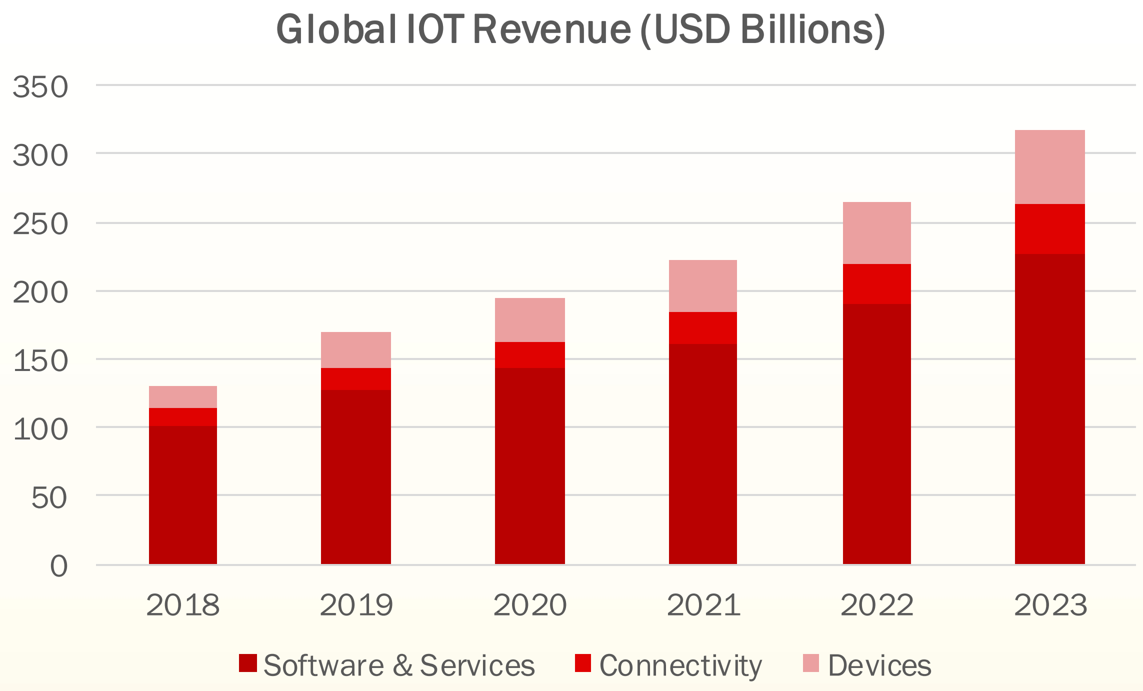
Source: Newzoo, iFAST Compilations
*Based on top 10 countries with the highest penetration rates

Communications Segment A Major Demand Driver

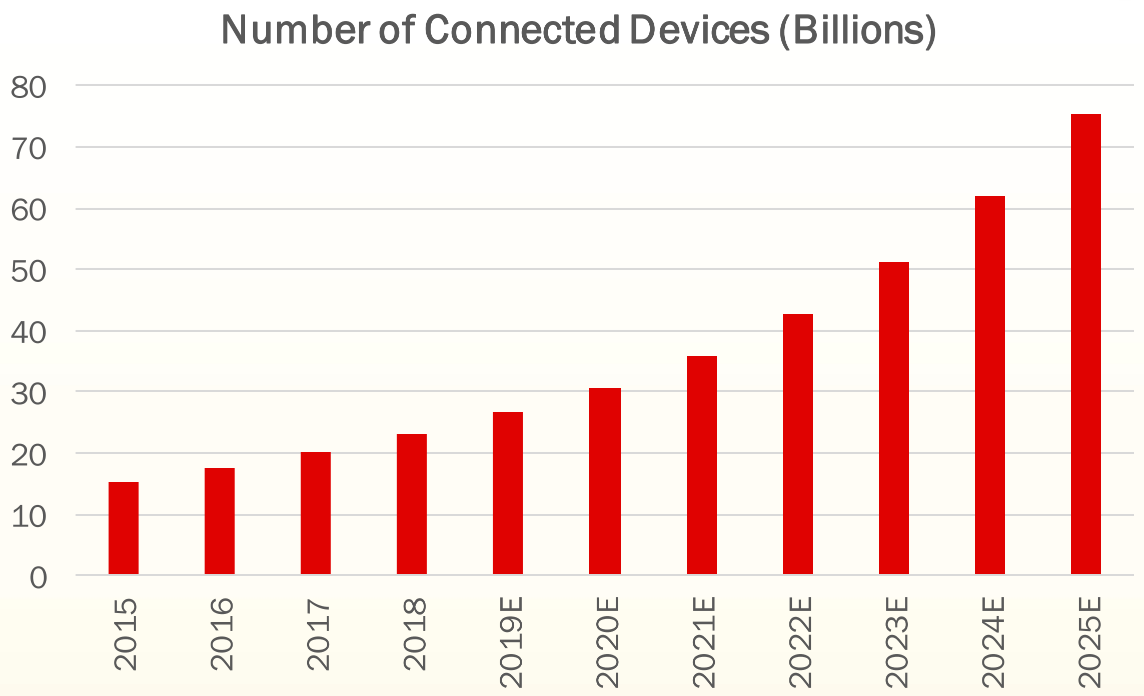
- Deployment of 5G networks will also significantly contribute to semiconductor demand from the communications segment.
- 5G is the fifth generation of wireless networking technology which will eventually replace the existing 4G networks. It promises to provide speeds of up 10x faster than 4G networks.
- Before 5G becomes a reality for consumers, mobile operators have to upgrade their networks to be 5G compliant, which will require significant investments into various hardware and networking equipment.
- Consumer electronics will also have to be 5G compliant in order to reap the maximum benefits of the network.

Rise In Hardware Spending For IOT Applications

- The global IOT market is projected to grow at CAGR of 20% to USD 318 billion in 2023.
- Hardware spending is the brightest segment, with the highest CAGR of nearly 30%.
- By 2025, there will be approximately 75 billion connected devices in the world, all of which would require some form of semiconductors.



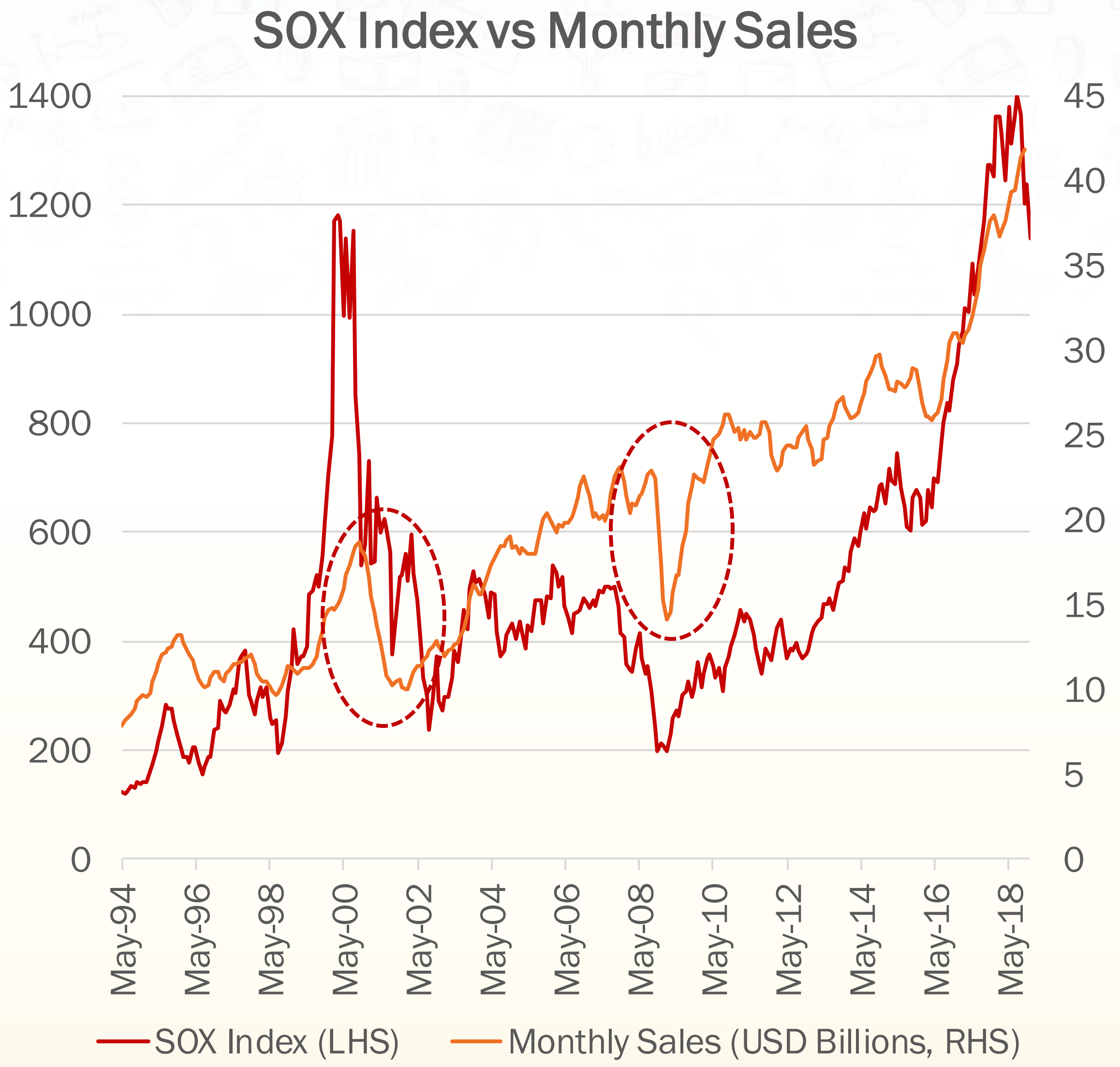
Source: GlobalData



Source: Statista

Recent Sell-off An Attractive Entry Opportunity

- Only twice in history semiconductor sales have seen a 30% drop, but after both times sales eventually recovered to higher levels.
- Industry might be cyclical in the short term, but in the long run it moves in a clear uptrend.
- Share prices may be volatile in the short term, but in the long run they should reflect the true value of the industry.
- Recent sell off is an attractive entry opportunity for long term investors.



Source: Bloomberg, iFAST Compilations
Data as of 17 January 2019

Attractive Upside Potential

- The slightly lower estimated earnings growth reflects the rough patch the industry is going through now, but it does not affect the long term growth story.
- NPM and ROE are pretty decent compared to the broader market and the technology sector.
- Estimated a potential upside for 2019 is 23%.

	*PE Ratio	*Earnings Growth (%)	^ROE (%)	^Net Profit Margin (%)
MVIS Index	12.36	5.98	18.92	18.72
S&P 500	15.43	15.32	13.85	9.15
S&P 500 IT Index	16.34	11.48	21.59	16.38

Source: Bloomberg
Data as of 17 January 2019
*Based on 2019 estimates; ^5-year average

Holding	Current Price (USD)	Target Price (USD)	Weighted Upside
Intel	48.13	54.79	1.90
TSMC	35.64	40.74	1.31
Texas Instruments	97.17	109.32	0.74
Broadcom	251.7	293.03	0.94
Nvidia	148.84	217.4	2.64
Others	-	-	15.61
		Total Upside	**23.14**

Source: Bloomberg
Data as of 17 January 2019

NYSE:SMH - VanEck Vectors Semiconductor ETF

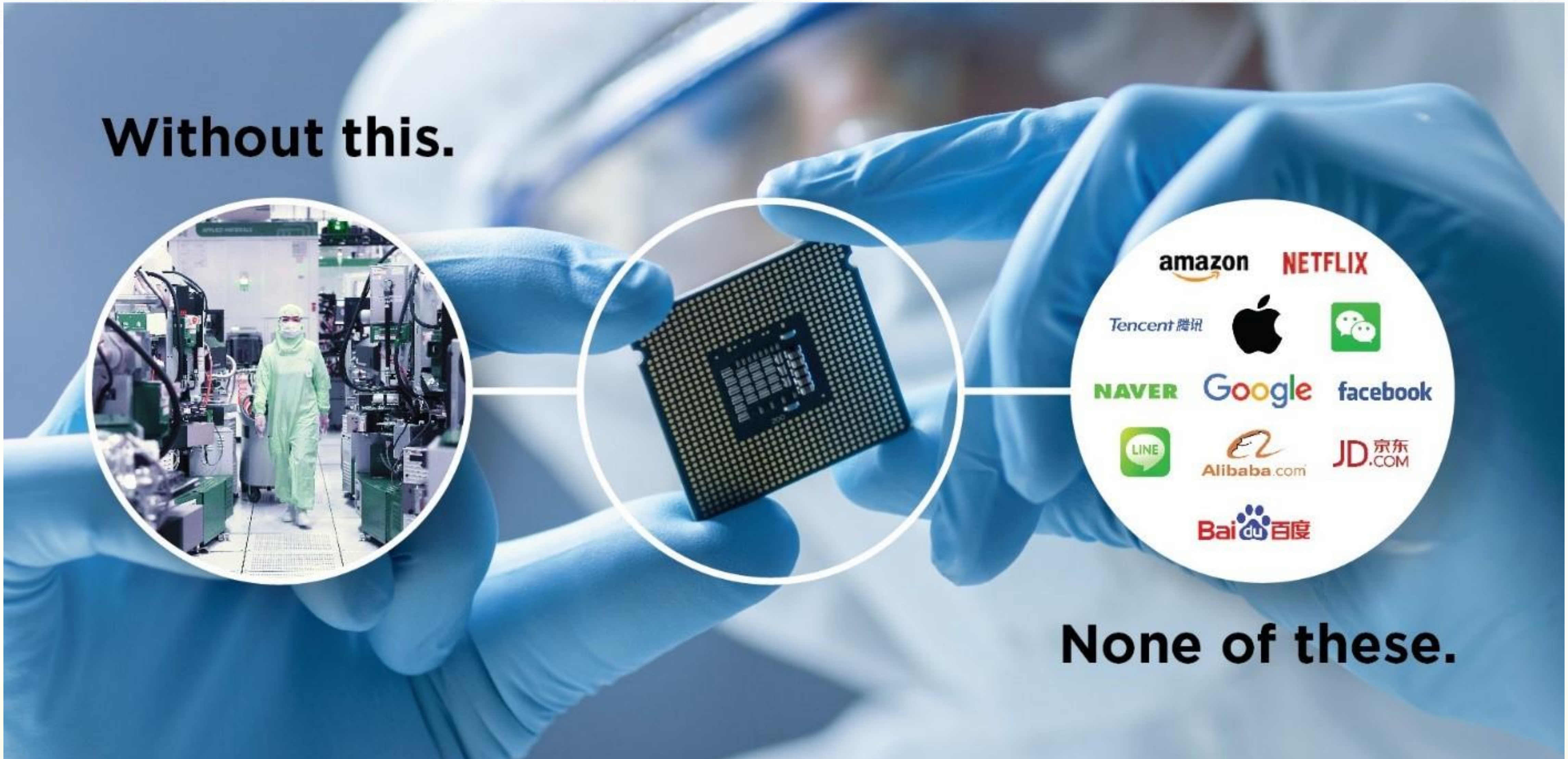
FSM One

- Tracks the MVIS US Listed Semiconductor 25 Index, which follows the overall performance of the semiconductor industry.
- Top 10 holdings includes several industry leaders such as Intel, TSMC and Broadcom.
- ETFs eliminates company specific risk, providing investors with diversification.

Expense Ratio	0.36%
Assets Under Management	USD 821 million
Tracking Difference	0.07%
90 Day Average Daily Volume	7.7 million

Top 10 Holdings	Weighting (%)
INTEL CORP	13.70
TAIWAN SEMICONDUCTOR	9.16
TEXAS INSTRUMENTS INC	5.89
BROADCOM INC	5.74
NVIDIA CORP	5.73
QUALCOMM INC	4.86
ASML HOLDING NV-NY REG SHS	4.83
APPLIED MATERIALS INC	4.49
NXP SEMICONDUCTORS NV	4.49
ANALOG DEVICES INC	4.46
Top 10 Total	**63.35**

Source: Bloomberg
Data as of 17 January 2019



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