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SECTOR REVIEW

MONTHLY MORNING MEETING APRIL 2018. PRESENTED BY iFAST FINANCIAL PTE LTD ©

SOUTH EAST ASIA

THAILAND – 3.0 STARS (ATTRACTIVE)

- Consumer Price Index slid to 0.42% y-o-y in Feb 18, similarly to the 0.68% y-o-y expansion in Jan 18
- Core CPI rose 0.63% y-o-y in Feb 18, after a 0.58% y-o-y increase in Jan 18
- Consumer economic confidence fell to 66.2 in Feb 18, up from 67.0 in Jan 18
- Consumer confidence improved to 79.3 in Feb 18, up from 80.0 in Jan 18
- Custom exports grew by 10.3% y-o-y in Feb 18, after an 17.6% y-o-y increase in Jan 18
- Custom imports grew 16.0% y-o-y in Feb 18, after a 24.3% y-o-y growth in Jan 18
- Custom trade balance deficit increased to USD 808 m in Feb 18, improved from prior value of USD -119 m in Jan 18

INDONESIA – 3.0 STARS (ATTRACTIVE)

- Exports grew to 11.8% y-o-y in Feb 18, after an upward-revised 7.9% y-o-y expansion in Jan 18
- Imports grew by 25.2% y-o-y in Feb 18, after an upward-revised 27.9% y-o-y growth in Jan 18
- Indonesia posted a trade deficit of USD -116 million in Feb 18, lower from previous' trade deficit of USD -756 million in Jan 18
- CPI slowed to 3.2% y-o-y in Feb 18, after a 3.3% y-o-y increase in Jan 18
- Consumer Confidence Index slipped to 122.5 in Feb 18, down from 126.1 in Jan 18
- Foreign reserves fell to USD 128.1 billion in Feb 18, down from USD 132.0 billion in Jan 18

MARKET OUTLOOK

In February, the SET Index had its 2018 and 2019 earnings forecasts downgraded by -0.1% respectively, bringing the Thai equities' earnings growth to 10.4% and 9.9% respectively over 2018 and 2019. Telecommunications did most of the heavy lifting, as analysts continue to upgrade the sector earnings by 0.4% over the month. Materials also saw its earnings upgraded by 0.2% over the month. Consumer-related sectors such as Consumer Discretionary (-0.1%) and Consumer Staples (-0.1%) saw earnings revised downward. The formers' downgrade was led by BEC World PCL, a Thai media company where market participants expect a decline advertisement revenue. Similarly, analysts slashed earnings forecasts for Utilities (-0.1%) and Industrials (-0.1%). Within Industrials, Bangkok Airways contributed the most towards the earnings downgrade, as analysts were sighting intense competition to continue pressure passenger yields on top of the higher fuel prices. The Energy, Healthcare and Real Estate sectors experienced little change in their earnings estimates over the month.

Looking south, Indonesian equities, represented by JCI Index, had its current year and next year's earnings estimates both revised upwards by 1.0% and 0.8% respectively. Meanwhile, the estimated earnings growth of Indonesian companies stood at 18.0% and 11.5% for 2018 and 2019 respectively. Within the sectors, earnings estimate among analysts' consensus for Financials sector were positive (+0.1%), particularly Bank Mandiri Tbk as it reported 7% and 2.4% year-on-year growth in their 4Q 17 operating revenue and net interest income respectively. Although the banking industry is loomed by lagging growth, Bank Mandiri is capable of posting the stable credit growth at the average of 10% within the last two years. It is bolstered by the robust performance of the corporate segment with the average growth of 15%.

Thailand's consumer sentiment dipped for the first time in 7 months, as consumers have grown particularly concerned over the geopolitical and trade tension between US and China. While beating consensus estimate, exports growth has eased from previous month's five-year high figure. The growth momentum was sustained by cars, computers and parts, together with plastic related goods and chemicals. Thailand's commerce ministry has expressed their concerns on the Baht's strength (YTD +4.4% against the dollar), which may have already started to impact exports of agricultural goods and foods. Despite that, the ministry remains positive that its targeted exports growth of 8% is achievable on the back of supportive global macroeconomic backdrop. Looking at Indonesia, the trade balance of Indonesia showed another deficit in February 2018, the nation's third consecutive monthly trade deficit. The USD -116 million trade deficit is primarily caused by rapidly rising imports. Although Indonesian exports also rose strongly due to the better economic environment and stronger commodity prices, the gain in current account was offset by robust imports. In our view, the rising imports are the aftermath of growing production and investment in Indonesia, thus this would be a sign that economic activity is accelerating in its economy. On monetary front, Bank Indonesia has decided to maintain its reference rate at 4.25% as it believes the current level can provide macroeconomic and financial system stability as well as support the recovery of the domestic economy. The decision was consistent with the efforts to maintain macroeconomic and financial system stability, and it also supports the recovery of the domestic economy.

Although Thailand's economic growth moderated in 4Q17, we think that it still has capacity for stronger growth. The acceleration of global economic growth is likely to continue to lend its support to the Kingdom's growth via external trades and tourism activities, which could continue to stimulate investment activities within the non-agricultural sectors. The weather impact on agriculture sector should start to ease in the coming months, thereby resuming its support to economic growth. All these are putting together a more broad-based economic expansion moving forward. With that, we maintain the star rating for Thai equity market at 3.0 stars (Attractive). As for Indonesia, we foresee its economic growth is set to rise at a steady pace moving forward, on the back of lagged impact of lower interest rates and inflation, easing credit and a recovery in commodity prices. Investment growth could provide upside surprises to the Indonesian economy. The easing measures undertaken by Bank Indonesia back in 2017 may also provide a material lift to lending activities, which could stimulate investment and consumption activities going forward. 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).



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STAR RATINGS REVIEW

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Thailand (3.0 STARS- ATTRACTIVE)

Why we like it

1. Agriculture Growth to Improve in 2Q2018
 - Heavy rain and cold temperature in the northeast and southern regions of Thailand back in 4Q 17 affected paddy yields and fisheries production, which led to a slowdown in agriculture growth;
 - On top of a high-base effect, downward pressure could persist over the 1Q 18 given the high amount of rain experienced over Jan – Feb 18;
 - However, from a medium-term perspective, weather condition could improve when the dry season approaches (Mar-May);
 - The level of water in major dams are now higher amid rainy weather occurred in 4Q 17 and the beginning of 2018, this could underpin level of employment in agricultural sector during dry season, which is a plus for farmers' income.
2. Tourism to Ride on Global Growth Momentum
 - Foreign tourist arrival jumped 19.5% y-o-y in 4Q 17, which fueled growth in tourism-related sectors;
 - The extension of global economic recovery is likely to lend further support for long distance and other regional tourists;
 - Government has continued to support tourism-friendly initiatives, such as easing visa approval process, which would help boost tourist arrival figures moving forward.
3. Increasing Non-Agricultural Employment, A Boon to Private Consumption
 - Tourism-related sectors and manufacturing sectors are seeing higher contribution to Thailand's GDP growth, which could help cushion the impact from slowdown in agricultural sector;
 - Higher non-agricultural employment is also pointing to more resilient consumer spending, plus a low inflation backdrop;
 - We foresee spending on durable goods and services to continue its growth into 2018.

What we don't like

1. Premium valuation – Ball and Chains for Thai Equities
 - Thai equities' valuation continues to reflect its decent domestic growth stories and increasing political clarity;
 - PE ratios for 2018 and 2019 stood at 16.2X and 14.7X, compared to a fair PE of 14.0X (as of 23 March 2018);
 - 2018 and 2019 earnings growth currently stood at 10.4% and 9.9% respectively (as of 23 March 2018);
 - While the SET Index is susceptible to valuation contraction, given the ameliorating macroeconomic condition, earnings growth should remain supported, which may underscore Thai equities' performance moving forward.