



Yuanta Regional Monthly

August 22, 2019



Executive Summaries

Macro: The US economy has been relatively stable, and US private consumption has turned stronger. However, with external risks weighing on corporate confidence and capital expenses, the Fed may continue to cut rates as a precaution. For the eurozone, demand has remained weak. The ECB has followed the Fed and opted for easing policies. Coupled with continued political conflicts, the euro will likely remain weak. For Taiwan, the TAIEX has continued to consolidate at a high level, supported by positive news and government encouragement of capital flow-back. Meanwhile for China, growth has stopped decelerating for now.

Taiwan: The Sino-US trade war has continued, with the TAIEX seeing a slump since end-July as President Trump announced to levy 10% tariffs on US\$300 bn in Chinese imported goods and included China on its list of currency manipulators. As trade tension persists, we suggest investors not be too optimistic on the sides reaching an agreement during the scheduled September talks, and advise that investors remain cautious on potential risks.

Hong Kong: Cheap but risky is the theme for the Hong Kong stock market now. Aside from earnings reports, the Hong Kong market direction is being dictated by both the progress of China-US trade talks and local political events. Recent events indicate there should be no worsening of China-US trade relations for now. Regarding the HK protests, the HSI rose 1,000 points between Aug 13-19 following the end of the HK airport siege and largely peaceful protests last weekend. HK retail names may be ideal candidates for S-T rebounds, but L-T sustainable re-ratings are unlikely despite their cheap valuations. Defensive names in the food & beverage and sportswear sectors are our preferred choices. Our 12-month HSI range forecast remains at 26,000-30,000.

Shanghai: A-shares have climbed amid fluctuations in late August, supported by policy stimulus. The central government launched a series of policy catalysts, boosting the A-share market with ample liquidity. The PBoC unveiled reforms for the loan prime rate (LPR) quotation mechanism on August 17. The first LPR after implementation of the reforms was published on August 20, with one-year LPR of 4.25%, down 6 bps vs. the previous 4.31%. The purpose of unifying different rate quotation "tracks" this time is to lower financing costs for corporations, while curbing the asset bubble by maintaining some of the interest rates.

Korea: Many events are looming and the KOSPI's sensitivity to such events is increasing. Under the circumstances, it is hard to find any clear factors that will boost the KOSPI. However, weak fundamentals have been mostly reflected in share prices and there are positive changes in forex rates and base effect for exports.

Indonesia: Market closed at 6,295 on Aug 20, down by 2.49% MoM, with pressure from global uncertainty due to the continued China-US trade war. Also, the inverted bond yield in the US suggests a possible recession in US in 1-2 years, which raises concern about global growth. This also led to weaker Rupiah by 2.37% MoM to IDR14,268 vs the USD. The 10-year gov't bond yield jumped to 7.676% from its monthly low of 7.145%, but closed at 7.355% by the end of the month. Overall global uncertainty has pressured emerging markets, including Indonesia, where it has impacted asset classes, from equities to bonds and the currency.

Thailand: 2Q19 GDP came in at 2.3%, the lowest in 19 quarters, vs 2.8% in 1Q19. In order to boost the economy, the BOT in a surprise move lowered the policy rate by 25 bps and the government announced a stimulus package to boost tourism as well as free handouts to disadvantaged persons worth 0.5% of GDP starting in September 2019. We expect the market to move sideways down to the 1,580 level. We suggest staying defensive, with our top BUYs being CPALL, ADVANC, RS, BCH and SAPPE.

Vietnam: VNIndex rose 1.3% MoM to close at 994 on Aug 21 after a month of rangebound (965-998) trading. We still believe the balance of risk is to the downside in the S-T due to global macro/political risks that we believe are driving foreign selling in August. However, we have a more optimistic take on 4Q19, based on our view that global policymakers are likely to muddle through the various issues and we believe that global central banks (primarily the US Fed) will almost inevitably return to monetary softening.



Figure 1: Yuanta's Top Ten stock picks – Taiwan, Hong Kong, A Share, Korea, Indonesia, Thailand, Vietnam

| Market | Top ten picks | | | | | | | | | |
|---------------|------------------------|---------------------------|------------------------|-----------------|----------------------|----------------------------|------------------------|-----------------------------|--------------------------|--------------------------|
| Taiwan | Teco | KYEC | Topco | Largan | Parade Technologies | Wistron NeWeb | Egis Technology | Silergy | Ennoconn | Micro-Star International |
| Hong Kong | Zhongsheng Group | Brilliance China | Pou Sheng | Want Want China | China Mengniu | Nissin Foods | Shenzhou International | Li Ning | Wisdom Education | Anta Sports |
| China A share | CITS | Zhongji Innolight Co.,Ltd | Wuliangye | Sunwoda | M&G | Conch Cement | Ping An | CMB | Wanhua Chemical | Contemporary Amperex |
| Korea | Samsung Electronics | SK Hynix | Hyundai Motor | Hyundai Mobis | LG Chem | SK Telecom | NCsoft | Kakao Corp | GS Retail | Mertiz Securities |
| Indonesia | XL Axiata | Sarana Menara | Wijaya Karya | Adhi Karya | Astra International | Indofood CBP Sukses Makmur | Bank Mandiri | Bank Negara Indonesia | Ramayana Lestari Sentosa | Bumi Serpong Damai |
| Thailand | Bangkok Chain Hospital | Cpall | Charoen Pokphand Foods | RS | Major Cineplex Group | Advanced Info Service | Sappe | Osotspa | Amata Corporation | Global Power Synergy |
| Vietnam | Vinhomes | Sacombank | Vietcombank | BIDV Bank | PV Power | Phu Nhuan Jewelry | Nam Long | Ho Chi Minh City Securities | PV Drilling | Masan |

Source: Yuanta Investment Consulting



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Yuanta Investment Strategy

August 22, 2019

Macro Fundamentals

- ▶ **Global:** For macro fundamentals, the US economy was relatively stable, while demand in the eurozone remained weak. China's growth has stopped decelerating for now.
- ▶ **US:** US private consumption turned stronger. However, with external risks weighing on corporate confidence and capital expenses, the Fed may continue to cut rates as a precaution.
 - Policy direction of major central banks may change along with the Fed. The USD_X will likely consolidate at a high level.
 - The trade war has become protracted. The Fed has switched to an easing policy, and US equities may see ranged consolidation at a high level.
- ▶ **EU:** The eurozone has faced weak demand, with manufacturing PMI hitting a seven-year low. The ECB hinted at new policy to address the situation.
 - ECB has followed the Fed and opted for easing policies. Coupled with continued political conflicts, the euro will likely remain weak.
- ▶ **Taiwan:** TAIEX continued to consolidate at a high level, supported by positive news and gov't encouragement of capital flow-back.
 - Offshore RMB has stopped falling, but the Japan-Korea trade conflict has suppressed the won. Impacted by the mixed factors, the NTD has seen ranged consolidation.
- ▶ **Crude oil:** The summer high season for US oil consumption has come to an end, while oil refining demand in China and India has remained lackluster. Oil price has been under pressure.
- ▶ **Gold:** With the market generally expecting the Fed to continue to cut rates, and China and the US still in talks without having reached an agreement, gold price has touched the 2013 level of US\$1,500.

Figure 2-1: Global Investment Strategy (Developed Markets)

| | Economic status | Government policy | Central bank policy | Market trend |
|------------------|---|--|---|---|
| US | 2Q19 economic growth beat estimates, thanks to stronger private consumption offsetting weaker investment. | No obvious progress has been seen since the US & China re-entered negotiations. China faces rising pressure from Trump's new round of tariffs. | The US Fed has adopted an easing policy and preventive rate cut. It will likely engage in more rate cuts by year-end. | USDX remains relatively strong. Bond market should benefit from a loosening policy. US equities likely to be supported by corporate earnings. |
| Euro Zone | Eurozone June manufacturing PMI fell to a seven-month low, suggesting persistent weak momentum. | Rising political turbulence caused by higher risks of an Italian "Brexit", driven by divergence within the Italian gov't. | The ECB adjusted forward guidance and will continue its easing policy before end-2019. | Euro likely to consolidate at a low level. German bond yield to dip to a new low. European equities likely to see ranged consolidation. |
| Japan | June exports remained weak, while government expenditures increased, suggesting moderate economic growth. | Abe's party declared victory, winning a majority of seats in the upper house of Parliament. Abe will raise consumption tax as expected. | The BOJ said it will follow suit if the US Fed launches a rate-cut cycle. | JPY likely to trade sideways amid fluctuations. Japanese equities should trend up amid consolidations. |

Source: Yuanta Investment Consulting

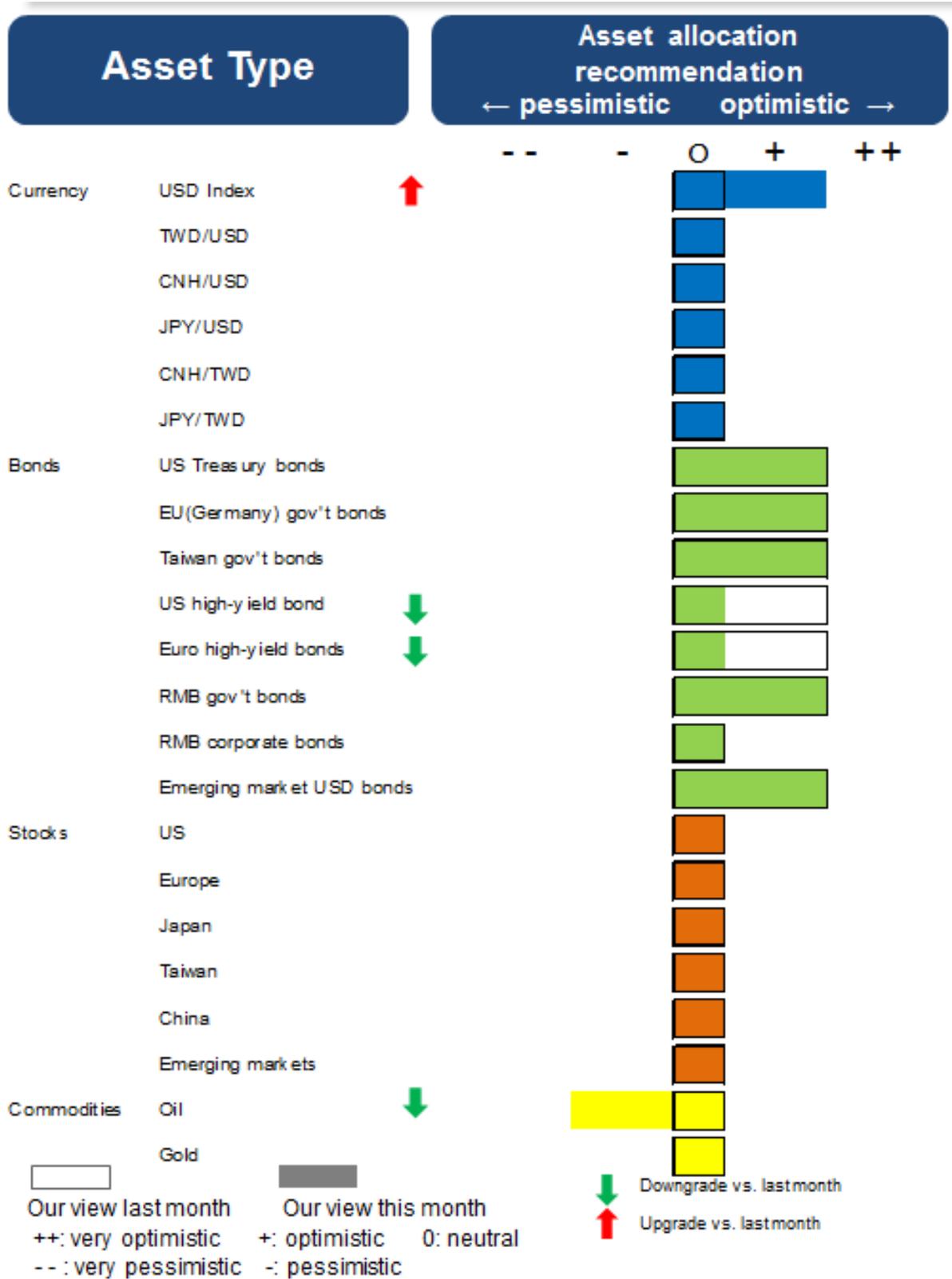
Figure 2-2: Global Investment Strategy (Developing Markets)

| | Economic status | Government policy | Central bank policy | Market trend |
|-------------------------|---|---|---|---|
| China | June production, sales & investment stabilized, with concerns on growth momentum given the persistent US-China trade dispute. | Chinese government has launched six measures to stabilize the economy in response to challenges from US. | The PBoC will likely maintain current interest rates and policies, as the current interest rate level is appropriate. | RMB likely to trade sideways amid fluctuations. The SHCOMP likely to see ranged consolidation. |
| Taiwan | GDP growth likely to remain above 2% YoY, thanks to stabilized exports and strong company capex. | Passage of a special bill for returning funds and policies incentivizing overseas TW companies to move back to TW have accelerated returning fund flow. | Given external risks and mild inflation, the BOT will likely continue its current moderate easing policy. | NTD likely to see ranged consolidation. TAIEX likely to be under pressure due to its rising above the previous peak level. |
| Emerging markets | June emerging market manufacturing PMI of only 49.9 has ended the expansion seen over the past few months. | Most countries have focused on policy reform and pushed for structural changes to boost growth. | Central banks in emerging markets have begun to adopt easing policies following rate cuts in India, South Korea and South Africa. | Improving liquidity likely to help mitigate credit risks. |

Source: Yuanta Investment Consulting



Figure 3: Asset allocation recommendation



Source: Yuanta Investment Consulting

TAIEX Monthly Analysis

August 22, 2019

- ▶ Close (on August 21, 2019): 10,525.80 points
- ▶ TAIEX range forecast for the next month: 10,000–10,800 points

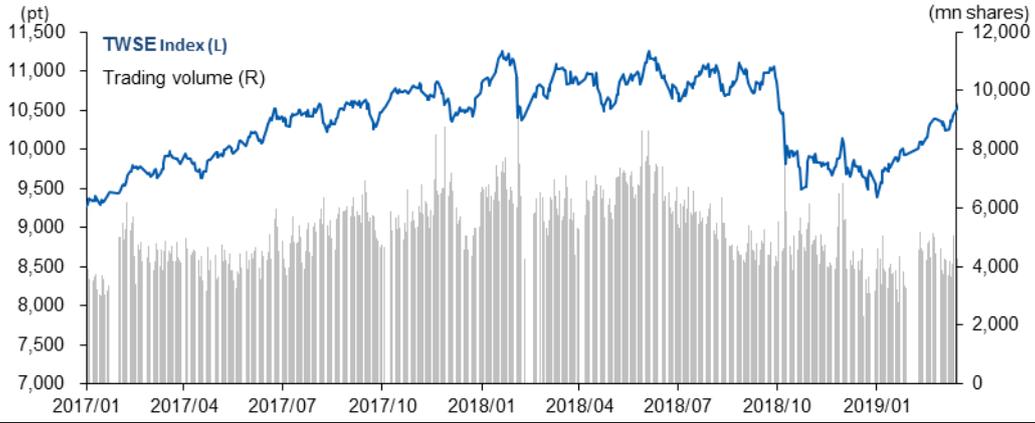
Taiwan strategy for next month (August 22–September 21): The Sino–US trade war has continued, with the TAIEX seeing a slump since end–July as President Trump announced to levy 10% tariffs on US\$300 bn Chinese–imported goods and included China on its list of currency manipulators. As trade tension persists, we suggest investors not be too optimistic on the sides reaching an agreement during the scheduled Sept talks and advise investors to remain cautious on potential risks. The escalation of the trade war may be attributed to China’s lack of response to US requests, which was deemed by the US as a strategy to buy time. Trump retaliated by hiking tariffs on Chinese goods worth US\$300 bn, with handset and NB at the top of the list. Trump even threatened that if China’s response were not satisfactory, the tariffs taking effect from September 1 may even be raised to 25%. In this worst–case scenario, the TAIEX may fall below the recent bottom, in our view. Overall, the impact of the Sino–US trade war has been extensive. Huawei remains on the US black list at the moment, and political pressure from Trump has caused Beijing to allow the RMB to depreciate, leading to a general pullback across Asian currencies. Meanwhile, Trump has expressed repeatedly in public his disfavor for a strong dollar, pressuring the Fed to create an easing environment that will support the equity market. Currently, consensus is that there is a 100% chance the Fed will cut interest rates by 0.25% in September. We suggest investors pay attention to changes in RMB valuation and how the Fed may proceed in its potential rate cuts.

Short–term uncertainties notwithstanding, the market still has high expectations on mid–term industry evolution to be brought about by 5G. The optimistic view has bolstered share prices of semiconductor, heat dissipation, and PCB plays in the past month, especially for companies that posted strong quarterly & monthly sales. We believe this is a sign that the bulls still have a chance for a comeback.

Although catalysts are limited for now, we believe the notable share price corrections are the biggest indicator of likely growth going forward. With the TAIEX pulling back to its previous level before the recent strong upcycle, we suggest investors not be too pessimistic on the outlook for the TAIEX. In addition, we expect Trump to change his tough attitude if the Democratic Party sees a rapid surge or if US equities see a major slump. This will likely create a more favorable environment for global stock markets. In terms of stock picks, we suggest investors focus on stocks with large capital inflow from institutional investors, strong fundamentals and favorable themes, such as 5G, AMD, data center, ADAS & EV, new opportunities from Apple, and the Tokyo Olympic Games.



Figure 4: TAIEX – last 12 months



Source: Bloomberg

Figure 5: Top 10 picks for the next month – TAIEX

| Ticker | Company | Rating | TP (NT\$) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|---------|--------|--------------|---------------|---------------------|-------------------|------------|---|
| 1504 TT | Teco | BUY | 30 | 19% | 1,581 | 3.6% | 14.0 | <ul style="list-style-type: none"> ▶ We believe Teco's large-motor business revenue will see 10% YoY growth in 2H19, as demand looks relatively stable. With its effective cost control, OPM should remain at >8% in 2019/20F. ▶ Teco has significant investments and undeveloped land, leading to NAV per share of NT\$39.2. Its current valuation at ~0.6x NAV also makes the stock look cheap, in our view. ▶ The company is adopting a production relocation strategy to diversify macro risks, with its new Vietnam/India plants to start mass production in 2H19/end-2019. We anticipate Teco to see better GM thanks to lower costs of its new plants. |
| 2449 TT | KYEC | BUY | 40 | 18% | 1,324 | 5.4% | 10.4 | <ul style="list-style-type: none"> ▶ We continue to expect 1) Robust networking orders from HiSilicon with higher testing time; 2) Faster rollout of 5G smartphone; and 3) Earlier turnaround of DL-tek to provide KYEC with more EPS upside. ▶ Given strong EPS growth and ROE expansion in the next two years, we see KYEC as the most undervalued 5G play in Taiwan, with the stock trading at 10.3x P/E. |
| 5434 TT | Topco | BUY | 110 | 17% | 543 | 6.7% | 9.3 | <ul style="list-style-type: none"> ▶ We view Topco as a defensive play with growth potential, with 2019/20 EPS expected to grow 18.8%/9.6% and 6-7% dividend yield. ▶ Mid/long-term key earnings drivers are semi materials demand and engineering services, driven by stable semi industry growth and advanced node migration, and Taiwan/China plant construction. |
| 3008 TT | Largan | BUY | 5678 | 48% | 16,383 | 2.2% | 15.5 | <ul style="list-style-type: none"> ▶ Largan delivered better than expected 2Q19 GM on better product mix and higher scale. In 3Q19F, the company will focus on iPhone's ramp-up (100% CUR), and we believe its total iPhone lens shipments will grow by 15% YoY in 2H19F. |

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|---------|---------------------|--------|--------------|---------------|---------------------|-------------------|------------|---|
| | | | | | | | | <ul style="list-style-type: none"> ▶ In 4Q19F, around 10% of shipped lenses will adopt 45%-value-added lens tech, nearly 100%-made by Largan; we believe Android OEMs' new tech adoption will offset the risk of an iPhone shipment decline. ▶ On top of the demand recovery by 5G in 2020F and more new tech adoption, Largan's 100% in-house production and equipment design capability should ensure its industry-leading position. |
| 4966 TT | Parade Technologies | BUY | 660 | 19% | 1,414 | 2.6% | 16.2 | <ul style="list-style-type: none"> ▶ Parade has once again delivered on its guidance to investors. We continue to like its solid execution and technological innovation, which will allow it to address more new markets in the longer-term, such as 1) PCIe 4.0 for datacenter; 2) eDP embedded touch solution for automotive; 3) Mini LED for NB/tablets; and 4) Micro LED T-Con for smart watch. ▶ Despite lots of macro uncertainty, mgmt reiterated its view that 2H will be stronger than 1H, driven by seasonal demand with various new product launches. |
| 6285 TT | Wistron NeWeb | BUY | 89 | 14% | 972 | 3.8% | 12.5 | <ul style="list-style-type: none"> ▶ Wistron NeWeb's July sales were NT\$5.99 bn, up 36% YoY, better than our expectation and hitting a record high, mainly due to North American clients worries on the US-China trade war impact, which caused them to place orders in advance. We are positive on 2H19 performance, and expect sales to continue to grow QoQ and hit a record high. ▶ The company is an outperformer in networking, with multiple catalysts such as auto electronics, 100G switch, ADAS anti-collision radar and 5G. ▶ We remain positive on Wistron NeWeb's 2020F outlook, expecting robust growth with GM returning to normal, and sales/earnings up 9%/39% YoY to record levels. |
| 6462 TT | Egis Technology | BUY | 300 | 17% | 584 | 4.8% | 9.3 | <ul style="list-style-type: none"> ▶ Our recent checks show 1) Egis will likely penetrate into another Chinese tier-1 player by end-2019; and 2) it is better positioned in the ultra-slim generation with almost no technology migration gap with leading peers, both of which will bring potential upside to the Street's |

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|---------|-----------------------------|--------|--------------|---------------|---------------------|-------------------|------------|---|
| | | | | | | | | <p>estimates in the coming quarters.</p> <ul style="list-style-type: none"> ▶ Meanwhile, the market will be more willing to adopt a higher P/E moving forward, with its successful customer diversification in 2019 and potential opportunities from non-fingerprint products. ▶ Our 2019/20F EPS forecasts of NT\$20.6/27.4 are 15%/21% higher than consensus. Further upside would come from design-wins at another Chinese OEM(s). |
| 6415 TT | Silergy | BUY | 760 | 9% | 2,025 | 1.1% | 24.9 | <ul style="list-style-type: none"> ▶ Silergy's share price has risen by ~40% since our previous report published in mid-June, in which we highlighted both near-term & long-term catalysts and encouraged investors to accumulate shares, eyeing at least a catch-up rally with strong-performing fabless names YTD, such as MTK, NTK, and RTK. ▶ After the recent rally, we believe our near-term catalysts could be largely priced-in (bottomed quarterly sales YoY in 1Q19 followed by an upward trend throughout 2019). Though fast money will become more difficult to make post this rally, we still see long-term catalysts yet to be priced in, including 1) various new TAM expansion with higher GM (i.e., 5G, Auto, etc.); and 2) acceleration of China's local insourcing post Huawei's blacklisting. |
| 6414 TT | Ennoconn | BUY | 260 | 10% | 628 | 2.2% | 16.7 | <ul style="list-style-type: none"> ▶ Ennoconn has previously issued an ECB1 and CB2 to raise funds for multiple investment projects. It posted poor 1H19 earnings, due to one-off recognition of amortization costs from its CB premium. ▶ We believe its core business is intact and expect Ennoconn sales to grow >10% YoY, driven by aggressive IoT business development and their synergy from M&A. |
| 2377 TT | Micro-Star International | BUY | 103 | 15% | 2,406 | 6.2% | 9.9 | <ul style="list-style-type: none"> ▶ We expect greater gaming demand in 2H19F, driven by AMD's Radeon RX 5700 hitting the |

| Ticker | Company | Rating | TP (NT\$) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|---------|--------|--------------|---------------|---------------------|-------------------|------------|---|
| | | | | | | | | <p>market and NVIDIA also announced the launch of Super GPUs in July.</p> <ul style="list-style-type: none"> ▶ We expect limited impact from the trade war on MSI's production, but the impact on demand remains to be seen. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Hong Kong Monthly Update

August 22, 2019

HSI Monthly Analysis

Cheap but risky is the theme for the Hong Kong stock market now. Aside from earnings reports, the Hong Kong market direction is being dictated by both the progress of China-US trade talks and local political events. After a fruitless face-to-face meeting between Trump and Xi in Shanghai in late July and a subsequent conference call on August 13, it seems both sides will continue their dialogue going forward, and US President Trump has decided to defer imposition of the 10% tariff on an additional US\$300 bn in Chinese imports until December 1. These events indicate there should be no worsening of China-US trade relations for now. Regarding the HK protests, the Hang Seng Index (HSI) rose 1,000 points between August 13-19 following the end of the HK airport siege and largely peaceful protests last weekend. Following the HSI's recent surge, the current P/E of 10.0x is still 10% below its past ten year average of 11.2x (range: 8.6x-16.3x). HK retail names may be ideal candidates to see short-term rebounds, though we believe long-term sustainable re-ratings are unlikely despite their cheap valuations. Defensive names in the food & beverage and sportswear sectors are our preferred choices. Our 12-month HSI range forecast remains at 26,000-30,000.

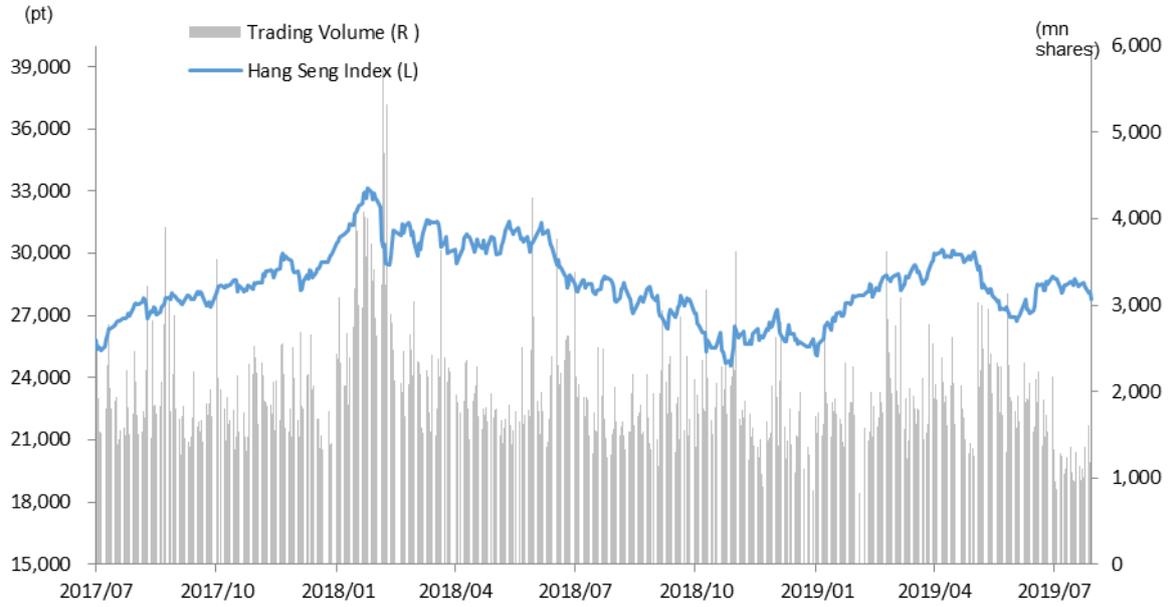
Figure 6: Key Macro numbers releases in the last two weeks (HK/China)

| Release Date | Data | Result |
|--------------|---|------------|
| 08/01/2019 | Hong Kong Retail Sales for June 2019 | (6.7%) YoY |
| 08/09/2019 | China Consumer Price Index for July 2019 | 2.8% YoY |
| 08/09/2019 | China Purchasing Price Index for July 2019 | (0.3%) YoY |
| 8/16/2019 | China Retail Sales Value for July 2019 | 7.6% YoY |
| 8/19/2020 | Hong Kong Unemployment rate for May - July 2019 | 2.9% |

Source: Bloomberg, Yuanta Investment Consulting



Figure 7: Hang Seng Index movement



Source: Bloomberg, Yuanta Investment Consulting

12M HSI range forecast: 26,000–30,000 points

Figure 8: Top 10 picks for the next month – HKSE

| Ticker | Company | Rating | TP (HK\$) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|------------------|--------|--------------|---------------|---------------------|-------------------|---------|--|
| 881 HK | Zhongsheng Group | BUY | 26.0 | 9.7 | 6,864 | 1.9 | 11.3 | <ul style="list-style-type: none"> ▶ We prefer auto dealers like Zhongsheng that possess a strong and loyal customer base to achieve persistent growth in aftersales revenue and value-added service income, which will alleviate potential earnings fluctuation, as they rely less on new car sales. |
| 1114 HK | Brilliance China | BUY | 11.2 | 48.1 | 4,863 | 11.2 | 4.6 | <ul style="list-style-type: none"> ▶ Brilliance remains our top pick and only BUY stock among PRC automakers, considering BBA's strong YTD sales volume and potential margin recovery in 2H19, with 2018-21F EPS CAGR of 19%. |
| 3813 HK | Pou Sheng | BUY | 2.65 | 6.5 | 1,701 | 1.1 | 16.2 | <ul style="list-style-type: none"> ▶ Pou Sheng reported a stellar 39% YoY net profit increase in 1H19. 1Q19/2Q19 net profit growth rates were at 36%/41%, respectively. Sales increase and profit margin expansion were the earnings drivers. Mgmt also raised its sales guidance for full-year 2019 to mid-to-high teens YoY increase (previously low teens). ▶ We have raised our EPS estimates for 2019/20/21F by 11%/11%/10%, respectively after the 1H19 results release. |
| 151 HK | Want Want China | BUY | 6.8 | 8.3 | 9,940 | 5.1 | 17.6 | <ul style="list-style-type: none"> ▶ Supported by 15-20% lower paper costs YoY (4% of sales), and lower VAT (low-single digit contribution to GM), the company has seen strong margin accretion since April. With historically low valuation and 5% dividend yield, we view Want Want as defensive play amid turbulence. ▶ The stock is trading at our FY2020/21F P/E of 17x/15x based on a 4%/11% sales/EPS CAGR between FY2020-22F. |
| 2319 HK | China Mengniu | BUY | 31.7 | 4.3 | 15,225 | 0.9 | 28.0 | <ul style="list-style-type: none"> ▶ The company is on our long-term BUY list given 1) rising domestic dairy demand; 2) product mix trade up on high margin UHT milk and infant milk formula; and 3) improving cost structure of raw milk on closer relationship with China Modern Dairy. ▶ The stock is trading at our 2019/20F P/E of 28x/22x based on an 11%/ 25% sales/EPS CAGR between 2019-21F, with lower PEG valuation of 0.8 vs. Yili's 2.9x. |
| 1475 HK | Nissin Foods | BUY | 5.60 | 2.9 | 745 | 2.8 | 21.2 | <ul style="list-style-type: none"> ▶ With 1) solid revenue growth in China's premium instant noodle market; and 2) Nissin Foods' announcement to raise product ASP in Hong Kong starting from 2H19, we have raised our target price for Nissin Foods. ▶ The stock is trading at our 2019/20F P/E of 21x/18x, around 1 standard deviation above its historical average. We suggest investors accumulate when its share price |

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|---------|------------------------|--------|--------------|---------------|---------------------|-------------------|---------|--|
| | | | | | | | | pulls back to 18x P/E. |
| 2331 HK | Li Ning | BUY | 24.50 | 11.9 | 6,441 | 0.4 | 36.5 | <ul style="list-style-type: none"> ▶ Li Ning reported a 1.1x net profit increase for its 1H19, with net profit being 27% above its previous alert of not less than RMB440 mn. Higher sales and profit margin expansion were the earnings drivers. ▶ We have raised our EPS estimates for 2019/20/21F by 57%/35%/30% after the 1H19 results release. |
| 6068 HK | Wisdom Education | BUY | 5.80 | 68.2 | 900 | 2.5 | 15.8 | <ul style="list-style-type: none"> ▶ Wisdom Education recorded a 33% YoY net profit rise for its FY1H19. Sales increase and profit margin expansion were the earnings drivers. ▶ In view of the uncertain economic outlook in China, we believe leading education players should be safe choices. |
| 2313 HK | Shenzhou International | BUY | 127.0 | 13.7 | 21,408 | 1.6 | 28.1 | <ul style="list-style-type: none"> ▶ Nike, Adidas and Puma are major sportswear clients of Shenzhou. The recent satisfactory product demand, in particular for Nike, will be positive to Shenzhou. ▶ Among HK-listed textile plays, Shenzhou remains our preferred choice. |
| 2020 HK | Anta Sports | BUY | 75.20 | 23.0 | 21,060 | 1.4 | 28.0 | <ul style="list-style-type: none"> ▶ After our recent channel checks and inclusion of earnings impact from the Amer Sports acquisition, we have raised our EPS estimates on Anta for 2019/20/21F by 7%/13%/12% to reflect higher sales and profit margin assumptions. ▶ Anta will release its 1H19 results on August 26. As the company has issued a positive profit alert (not less than 25% YoY net profit increase), we believe the solid results will be a positive to Anta. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Shanghai Monthly Update

August 22, 2019

Chinese government launches multiple measures to stabilize the economy; northbound capital surges into A-share markets

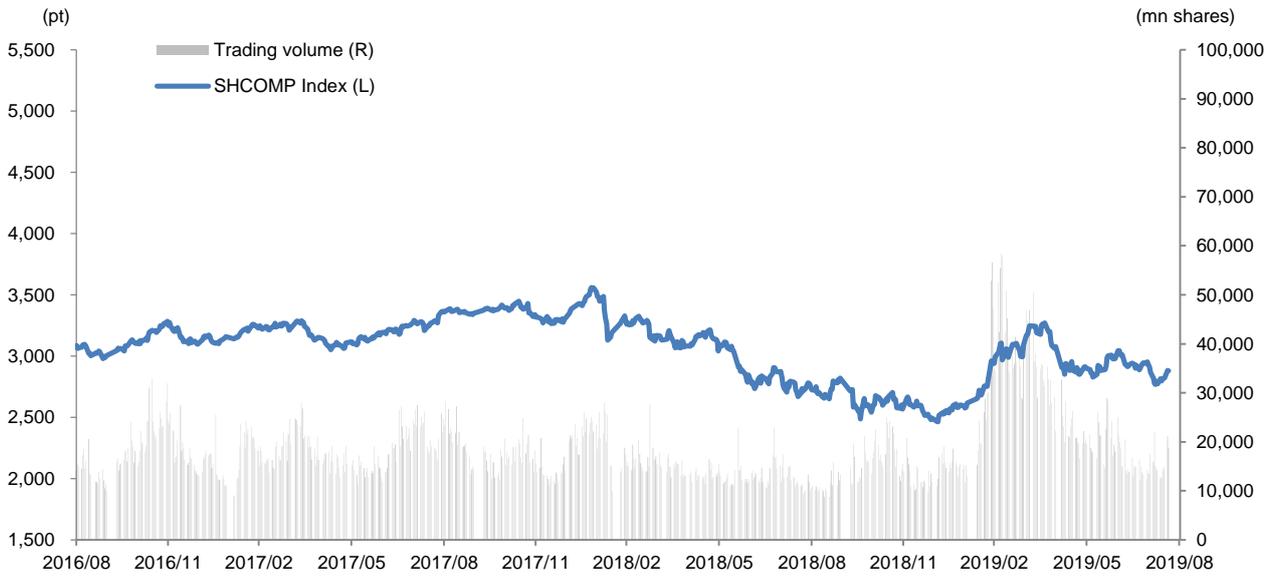
in recent trough: A-shares have climbed amid fluctuations in late August, supported by policy stimulus. The central government launched a series of policy catalysts, boosting the A-share market with ample liquidity. The PBoC unveiled reforms for the loan prime rate (LPR) quotation mechanism on August 17. The first LPR after implementation of the reforms was published on August 20, with one-year LPR of 4.25%, down 6 bps vs. the previous 4.31%. The purpose of unifying different rate quotation “tracks” this time is to lower financing costs for corporations, while curbing the asset bubble by maintaining some of the interest rates. As a slowdown cycle for the real estate market will drag economic growth, the government is aiming to stabilize growth momentum by combining monetary and fiscal tools. Meanwhile, the central government has issued documents that support Shenzhen’s building of a demonstration pilot zone, hoping the modernization effect will permeate into nearby areas. We believe the PBoC will further lower other open market operation interest rates, and the easing monetary policy will lead interest rates to dip further.

Both US and UK government bonds have faced interest rate inversion recently, triggering concerns for a potential global recession. The US extended Huawei’s temporary procurement permission by 90 days on August 19, but still included 40+ Huawei subsidiaries in its Entity list. Coupled with the US finalizing arms sales to Taiwan, we believe uncertainty still persists over China-US tension. However, both countries still have incentives to reach an agreement before the conflict worsens. With the next US presidential election approaching, we believe 4Q19 will be an important period to watch whether tension between the two countries eases.

Given slower economic growth globally, foreign investors have increased their positions in A-share stocks, with daily northbound capital inflow of RMB7.8 bn, hitting the highest level since June 10. Starting from August 27, the MSCI A-share IIF will rise from 10% to 15%, while the FTSE Index will also raise A-share weighting from September. With the launch of LPR mechanism reform, loosening regulations on margin trading, and temporary easing of the trade disputes, we expect market liquidity and strength to rise further. With the A-share market forming a bottom, there has been large amount of northbound capital inflow for bottom-fishing. As such, we suggest investors buy on dips and focus on brokerage and 5G/semi/consumer stocks owing to their recoveries.



Figure 9: SHCOMP performance



Source: Bloomberg, Yuanta Investment Consulting

12M SHCOMP range forecast: 3,200–3,500 points

Figure 10: Top 10 picks for the next month – China A shares

| Ticker | Company | Rating | TP (RMB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|-----------|---------------------------|--------|-------------|---------------|---------------------|-------------------|---------|--|
| 601888 CH | CITS | NR | N/A | - | 24,640 | 0.9 | 36.7 | <ul style="list-style-type: none"> ▶ Favorable duty-free policies and the Chinese government's encouragement of domestic consumption have boosted growth of the Chinese duty-free market. ▶ Hainan Province's further loosening of offshore duty-free limitations has boosted duty-free consumption. ▶ CITS's 1H19 sales rose 15.46% YoY to RMB24.34 bn, while net profit attributable to the parent also grew 70.87% YoY to RMB3.28 bn. Its subsidiaries, China Duty Free and Sun Rise Duty Free (China), have dominated 80% of the duty-free market. We expect CITS's leading position in the duty-free market to be further bolstered by strong earnings contribution from Hainan Duty Free this year. |
| 300308 CH | Zhongji Innolight Co.,Ltd | BUY | 40.30 | 0.22 | 4,086 | 0.5 | 39.8 | <ul style="list-style-type: none"> ▶ Data center: North American client demand for 100G has recovered in 2Q19F to the high level seen last year. 400G products will ramp up in 2H19F and likely see sales double in 2020F. ▶ 5G demand is focused on base station preamble at the moment. Zhongji Innolight has a clear advantage in middle transmission and back transmission, which have a higher technology barrier. We believe Zhongji Innolight will maintain its position among the top three equipment providers. ▶ 2H19F earnings should continue to rise HoH. 5G construction and 400G demand will likely take off in 2020F, boosting Zhongji Innolight's earnings. |
| 000858 CH | WULIANGYE | NR | N/A | - | 69,542 | 1.8 | 28.7 | <ul style="list-style-type: none"> ▶ Benefiting from rising demand for high-end baijiu driven by consumption upgrade, the company will see higher market consolidation and ASPs going forward. 1Q19 sales |

| Ticker | Company | Rating | TP (RMB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|-----------|---------|--------|-------------|---------------|---------------------|-------------------|---------|--|
| | | | | | | | | of RMB17.59 bn achieved 35% of mgmt's sales target of RMB50 bn. It has entered a crucial phase in its distribution and management reform: 1) on the management side, the company has divided its seven main distribution centers into 21 distribution areas to further streamline its distribution system. It is also enhancing control in distribution channels by building a clearer channel network through digital technologies; 2) on the product side, the company has further streamlined its brands and restructured its pricing system. It has launched a high-end product (501 Wuliangye) and plans to launch the 8 th gen of "regular Wuliangye" at a price of RMB889 in June, continuing its product mix upgrade. |
| 300207 CH | SUNWODA | NR | N/A | - | 2,743 | 1.0 | 18.7 | <ul style="list-style-type: none"> ▶ The company engages in manufacturing lithium battery packs for consumer electronics and has won orders from major companies at home and abroad. Sunwoda has become a leading lithium battery module supplier in China, with market share of nearly 25%. The company posted 1Q19 sales of RMB4.683 bn (+32.5% YoY), with net profit attributable to the parent of RMB134 mn (+15.9% YoY) and net profit attributable to the parent excluding non-recurring profit or loss of RMB90.5 mn (+19.4% YoY). Consumption-related business has seen relatively stable performance, while power battery business will see accelerated growth going forward after obtaining orders from Renault, supported by foreign car makers. Mgmt expects power battery capacity to exceed 20GWh in 2020F. |
| 603899 CH | M&G | BUY | 41.67 | 4.70 | 5,213 | 1.0 | 36.2 | <ul style="list-style-type: none"> ▶ We like the company's potential in business and consumer stationery markets. For the business market, market value has reached RMB1.6 bn, while competition dynamics are healthy. Colipu kept ~90% of Office Depot (China)'s clients after acquiring the latter, which should boost its profitability. For consumer business, the |

| Ticker | Company | Rating | TP (RMB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|-----------|--------------|--------|-------------|---------------|---------------------|-------------------|---------|--|
| | | | | | | | | company continues to upgrade its >70k traditional retail terminals, while steadily expanding stores for high-end cultural and creative business. The acquisition of Shanghai Amarsoft Information & Technology should help it develop the new market of children's artistic education and overseas markets, providing new growth drivers. |
| 600585 CH | Conch Cement | BUY | 45.50 | 18.52 | 28,965 | 4.7 | 6.5 | <ul style="list-style-type: none"> 1) Conch Cement is a leading cement maker in the Yangtze Delta, the center of urban construction. 1Q19 sales gained 27% YoY, while 2Q19F sales/price may both increase; 2) the company is a cash cow with a cash position of RMB41.0 bn in 1Q19 (+65% YoY). Market share is expanding both domestically and overseas, while the market is growing more concentrated; 3) cement price in 2019F may be stronger than expected thanks to countercyclical control and construction of city clusters. We forecast 2019/20F net profit contributable to parent of RMB31.4 bn (+5% YoY)/31.5 bn (+0% YoY). |
| 601318 CH | Ping An | NR | N/A | - | 213,635 | 2.5 | 11.1 | <ul style="list-style-type: none"> We recommend Ping An due to the following: 1) Pingan's bad loan ratio has been relatively flat at 1.68% for two consecutive quarters, with bad loan ratio of personal loans also being relatively flat at 1.05%. The ratio of non-overdue accounts transferring to 30 days overdue accounts has remained at lower historical levels, with the quality of new accounts improving; 2) The stock is trading at 0.8x P/B, close to its historical trough. With its transition to retail banking and increased efforts to address bad loans, we expect the company to see re-rating following mitigation of NPL issues. |
| 600036 CH | CMB | BUY | 42.00 | 20.48 | 123,381 | 3.5 | 10.0 | <ul style="list-style-type: none"> We recommend CMB for the following: 1) CMB's overall earnings growth, ROE level, asset quality and asset and liability structure all outperform peers, reflecting its advantage as a retail banking leader; 2) CMB announced previously that its number |

| Ticker | Company | Rating | TP (RMB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|-----------|----------------------|--------|-------------|---------------|---------------------|-------------------|---------|---|
| | | | | | | | | of personal savings accounts had surpassed 100 mn, with subscribers of its two major APPs reaching over 100 mn and retail customers reaching 125 mn. The increase in its number of savings accounts is likely to drive upside for its core indicators such as customer deposits and AUM of its retail customers. 3) CMB posted 2018 bad loan ratio of 1.36%, down 0.25 ppt from end –2017, also lower than 1.42% in 3Q18, indicating better asset quality than peers. |
| 600309 CH | Wanhua Chemical | BUY | 54.10 | 26.17 | 19,166 | 0.0 | 11.1 | <ul style="list-style-type: none"> ▶ Post-CNY end demand drove the MDI price uptrend. The polymeric MDI price has risen by 17.3% YTD. For 2019F, Wanhua will add 500k tons of new capacity, while Covestro plans to add 200k tons of new capacity. However, capacity ramp-up remains to be seen and mid- and long-term MDI demand-supply dynamics will still likely improve. |
| 300750 CH | Contemporary Amperex | BUY | 91.20 | 24.08 | 22,961 | 0.2 | 38.9 | <ul style="list-style-type: none"> ▶ We recommend CATL, as it is the biggest power battery company in the world, with 21.3GWh in installments and also the unchallenged leader in the China market, accounting for 41.3% market share. According to GGII, its 2019M1 installments increased to 2.17GWh with 43.6% market share in China. We expect the 2019Q1 installment of CATL will reach 5GWh,+YOY 104.8%. Based on the strong bargaining power of upstream suppliers, we expect the gross margin of CATL will still be higher than most of its competitors in 2019. Also, partnering with Honda recently will speed up overseas client base expansion for CATL. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

KOSPI Monthly Update

August 22, 2019

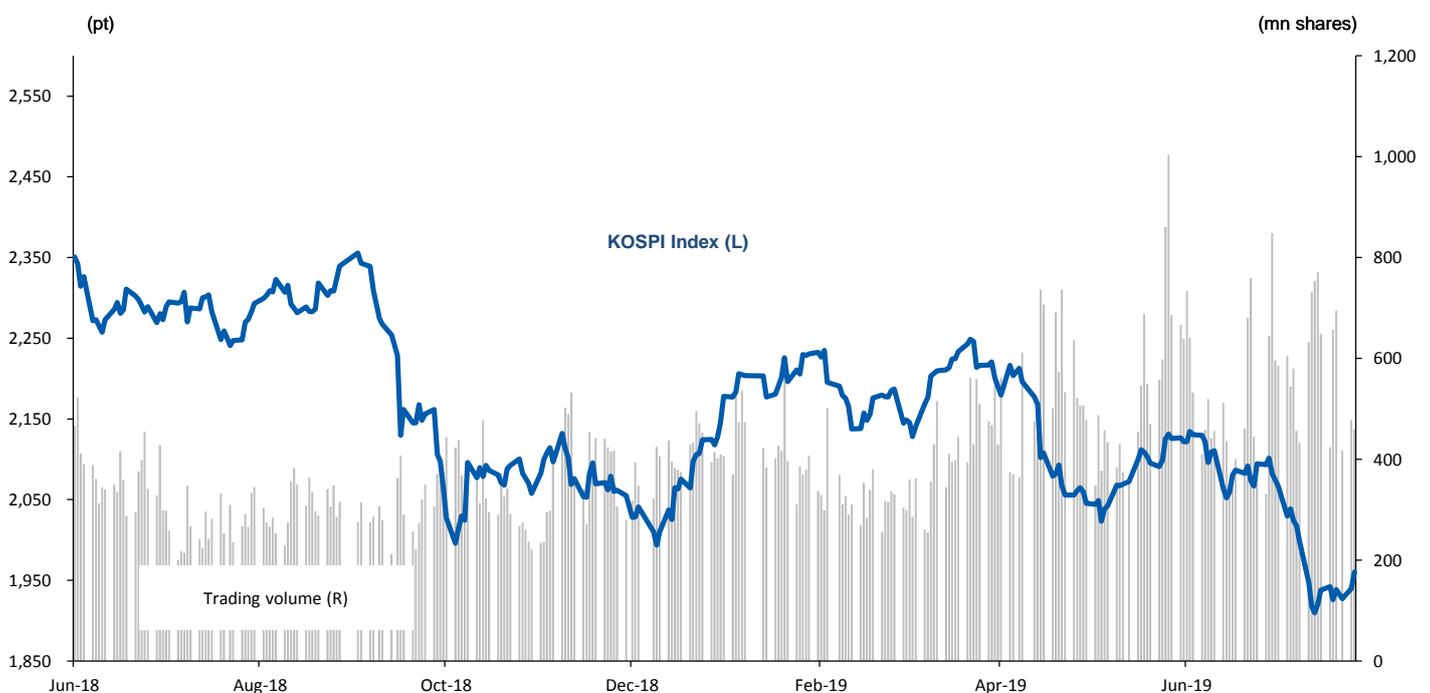
KOSPI Monthly Analysis

- ▶ **Close (on 21 Aug):** 1,964.65 points
- ▶ **KOSPI range forecast for the next month (Aug 22–Sept 21):** 1,890–2,050 points

Macro forecasts remain difficult given the lingering US–China trade dispute and uncertainties over the Fed’s monetary policy. Despite the lack of any clear factor to boost the KOSPI, we note that weak fundamentals have mostly been reflected in share prices. In addition, there are positive changes in forex rates and base effect for exports.

Opinions on the macroeconomic cycle are mixed. There are expectations that the economy is nearing a bottom given its prolonged sluggishness, but also pessimism that trade disputes will continue to be a burden. We cannot be certain about any immediate economic recovery, but we expect the economy to bottom–out given the low base effect for exports, a macro indicator highly correlated with the KOSPI. As for the earnings outlook, consensus OP and 12–month–forward EPS growth are both expected to find a bottom. Current consensus implies that KOSPI–listed companies’ OP reached a bottom in 2Q19, while 12–month–forward EPS growth, which had remained in negative territory, turned positive last week for the first time in 34 weeks. Valuation also stands at a historical low. Foreign net–buying, one of the most important factors, will likely shift, as foreign currency rates are already at a high level. KOSPI volatility remains a concern given looming issues and the market’s sensitivity to them, but we believe the KOSPI is more likely to bottom–out than see an additional rapid drop.

Figure 11: KOSPI performance



Source: Bloomberg, Yuanta Investment Consulting

Figure 12: Top 10 picks for the next month – KOSPI

| Ticker | Company | Rating | TP (₩) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|---------------------|------------|-----------|---------------|---------------------|-------------------|---------|--|
| A005930 | Samsung Electronics | BUY | 56,000 | 25.8 | 219,514 | 3.1 | 13.2 | <ul style="list-style-type: none"> ▶ Business conditions to improve on production cuts by memory semiconductor makers. ▶ Memory semiconductor demand to rebound in 2020 on expansion of 5G service and DDR5. ▶ Rising high-priced TV and home appliance market share is positive. |
| A000660 | SK Hynix | BUY | 100,000 | 31.9 | 45,598 | 2.3 | 22.5 | <ul style="list-style-type: none"> ▶ Business conditions to improve on production cuts by memory semiconductor makers. ▶ Demand for memory semiconductor to rebound in 2020 on expansion of 5G service and DDR5. |
| A005380 | Hyundai Motor | BUY | 170,000 | 35.5 | 22,158 | 4.1 | 5.3 | <ul style="list-style-type: none"> ▶ Profit starting to improve on better mix and solid domestic and N American sales thanks to new model effects (including “Sonata” and “Pallisade”). ▶ OP improves and global price competitiveness strengthens on weak won. |
| A012330 | Hyundai Mobis | BUY | 260,000 | 6.1 | 19,294 | 4.1 | 5.3 | <ul style="list-style-type: none"> ▶ After-sales business earnings to improve on weak won. ▶ Likely to benefit from business revaluation if Hyundai Motor Group carries out governance restructuring in 2H19. |
| A051910 | LG Chem | Strong Buy | 600,000 | 82.9 | 19,133 | 1.9 | 24.6 | <ul style="list-style-type: none"> ▶ Earnings to start recovering from 2H19 as one-off expense of W240 bn for battery business (fire accidents at ESS) will be removed. |
| A017670 | SK Telecom | BUY | 340,000 | 42.9 | 15,880 | 4.0 | 21.1 | <ul style="list-style-type: none"> ▶ 2Q-3Q19 earnings to stand out among peers. ▶ ARPU to turn around. |
| A036570 | NCsoft | BUY | 680,000 | 26.9 | 9,720 | 0.1 | 0.6 | <ul style="list-style-type: none"> ▶ Decent earnings from existing games including “Lineage M.” ▶ High expectations for new title momentum both in Korea and overseas from |

| Ticker | Company | Rating | TP (₩) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|-------------------|--------|-----------|---------------|---------------------|-------------------|---------|--|
| | | | | | | | | “Lineage 2M” in 4Q19. |
| A035720 | Kakao Corp | BUY | 180,000 | 36.9 | 9,081 | 4.5 | 8.2 | ▶ Earnings improve on new chatting tab ads. |
| A007070 | GS Retail | BUY | 56,000 | 44.9 | 2,459 | 4.1 | 6.4 | ▶ Convenience store (CVS) growth likely solid despite poor conditions in 2Q. ▶ As industry leader, likely to benefit from CVS sector restructuring. |
| A008560 | Mertiz Securities | BUY | 6,500 | 36.6 | 2,428 | 5.3 | 5.3 | ▶ 2Q19 net profit strong; subsidiary dividend income expands ability to invest. ▶ Earnings also likely to be strong in 2H19, as cost-to-income ratio should continue falling thanks to rising share of interest income. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Indonesia Monthly Update

August 22, 2019

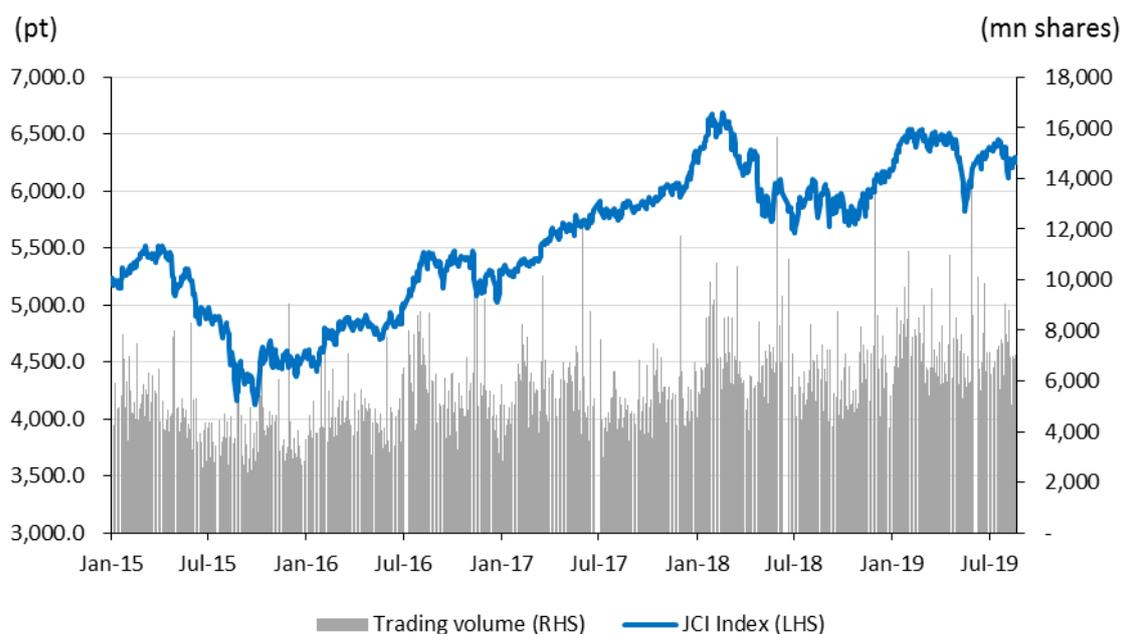
Indonesia Monthly Analysis

- ▶ **Close (on Aug 20):** 6,295.738 points
- ▶ **JCI range forecast for the next month (Date Aug 20–Sep 20):** 6,198–6,400 points

Market closed at 6,295 on Aug 20 down by –2.49% MoM with pressure coming from global uncertainty due to the continued trade war between China and US. Additionally, the inverted bond yield in the US suggests a possible recession in US in 1–2 years, which then raises concern about global growth. This also led to weaker Rupiah by 2.37% MoM to IDR14,268 vs the USD. The 10-year government bond yield jumped to 7.676% from its monthly low of 7.145%, but closed at 7.355% by the end of the month. Overall global uncertainty has put pressure on emerging markets, including Indonesia, where it has impacted asset classes, from equities to bonds and the currency. Equities foreign outflow was IDR9.0 tn in the past four months, while trading value slightly dried up to IDR8.5 tn per day (vs IDR8.8 tn per day).

The President gave a state speech on Aug 16, which included the proposed state budget for FY20. He stated that the state budget will be focused on 1) improving human capital; 2) accelerating infrastructure development; 3) improving the social safety net in anticipation of an aging population and demographic challenges; 4) fiscal decentralization; and 5) anticipation of global uncertainty. With these main goals, state budget revenue is set at IDR2,221 tn, an increase of 9.4% vs the FY2019 outlook, while expenditure is set at IDR2,528.8 tn (+8.0%) leading to a budget deficit of 1.8%. We expect government spending to be directed to human capital and infrastructure to support sustainable growth and to diversify from commodity related economic activity.

Figure 13: JCI Index Performance and Volume



Source: Bloomberg, Yuanta Investment Consulting

Figure 14: Top 10 picks for the next month- Indonesia

| Ticker | Company | Rating | TP (Rp) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|---------------|--------|------------|---------------|---------------------|-------------------|---------|---|
| EXCL | XL Axiata | BUY | 4,000 | 23% | 2,483 | 0.5 | 39.7 | <ul style="list-style-type: none"> ▶ XL Axiata has made strong progress in generating revenue from data growth. Recent consolidation has helped to stabilize the data price and minimize the substitution effect with voice and SMS. ▶ XL Axiata continues to expand its network outside Java, while trying to improve profitability of these new networks. We expect better profitability with greater operating leverage in the future. |
| TOWR | Sarana Menara | BUY | 850 | 19.7% | 2,805.8 | 2.3 | 17.2 | <ul style="list-style-type: none"> ▶ Protelindo has indicated it will participate in Indosat tower divestment. We believe Protelindo could be a preferred choice due to its independence and greater flexibility on the deal structure. ▶ The company is likely to benefit from accelerated capex for network expansion especially from Indosat and XL Axiata. |
| WIKAIJ | Wijaya Karya | BUY | 2,980 | 26.8 | 1,525 | 2.4 | 9.5 | <ul style="list-style-type: none"> ▶ WIKA has the most conservative balance sheet SOE construction companies, with debt to equity of 0.8x in 1Q19. Thus it should have the greatest flexibility to drive revenue growth due to its strong balance sheet. ▶ WIKA participated in 47 government projects out of a total of 227 projects that are in the national strategic project list. It expects its new orders to pick up in 2H19. |
| ADHI IJ | Adhi Karya | BUY | 2,200 | 54.9 | 435 | 2.8 | 4.2 | <ul style="list-style-type: none"> ▶ It is likely to get payments receivable on LRT of IDR3.0 tn out of the outstanding value of IDR7.0 tn. The LRT project is expected to be completed in mid FY2020 and start commercial operations in FY2021. |



| Ticker | Company | Rating | TP (Rp) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|----------------------------|--------|------------|---------------|---------------------|-------------------|---------|--|
| | | | | | | | | <ul style="list-style-type: none"> ▶ Development of LRT phase 2 is expected to be in mid FY2020, but with lower costs due to landed construction. |
| ASII IJ | Astra International | BUY | 8,900 | 25.3 | 20,530.9 | 3.4 | 11.9 | <ul style="list-style-type: none"> ▶ Astra's 4W sales have been revived after the Ramadan season with growth of 67.1% MoM increasing its market share to 49.8% from the previous month's 44.6%. ▶ Bank Permata's divestment is in the news again. If the deal goes through, we expect it to be a positive catalyst for Astra as it can reinvest the proceeds into other areas with potential with higher returns, such as its financing companies. |
| ICBP IJ | Indofood CBP Sukses Makmur | BUY | 12,500 | 5.9 | 9,652.2 | 2.0 | 28.8 | <ul style="list-style-type: none"> ▶ The company is seeing a persistently solid contribution from its noodle business. Noodles remain the backbone of its business with a 65% contribution to revenue. ▶ The dairy industry has a promising outlook. We expect dairy sales volume to grow by an average of 6.0% in the next three years to 564 k tonnes. ▶ ICBP adaptive product innovations will maintain its strong brand equity, especially in the noodle segment. |
| BMRI IJ | Bank Mandiri | BUY | 9,200 | 27.3 | 23,646 | 3.3 | 12.2 | <ul style="list-style-type: none"> ▶ Share price pressure lately has been from a possible increase in bad debt level from some of its debtors, namely Krakatau Steel and Duniatex. So far, the accounts are still paying their obligations and have enough collateral to cover possible losses. Mandiri has stated that any increase in the provision level for these accounts would not increase its credit cost target for this year. |



| Ticker | Company | Rating | TP (Rp) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|---------|--------------------------|--------|------------|---------------|---------------------|-------------------|---------|--|
| BBNI IJ | Bank Negara Indonesia | BUY | 10,600 | 39.9 | 9,907 | 3.7 | 8.2 | <ul style="list-style-type: none"> ▶ As with Mandiri, pressure on the share price lately has come from a possible increase in bad debt levels from some of its debtors, namely Krakatau Steel and Duniatex. BNI also stated that any increase in the provision level for these accounts would not increase its credit cost targets for this year. |
| BSDE IJ | Bumi Serpong Damai | BUY | 1,700 | 28.3 | 1,820 | - | 16.4 | <ul style="list-style-type: none"> ▶ Declining rate outlook may bring positive sentiment to share price. ▶ Given its huge land bank at a strategic location, BSDE has better ability to adjust product mix with the respective economic cycle. ▶ Attractively trading at around 73% discount to its RNAV. |
| RALS IJ | Ramayana Lestari Sentosa | BUY | 1,620 | 24.1 | 649.8 | 3.8 | 13.1 | <ul style="list-style-type: none"> ▶ Its stores transformation from Ramayana to Ramayana Prime should attract a wider target market and more traffic, thus helping top-line growth going forward. ▶ It is seeing continued margin improvement from closing underperforming supermarket stores and store revitalization. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Thailand Monthly Update

August 22, 2019

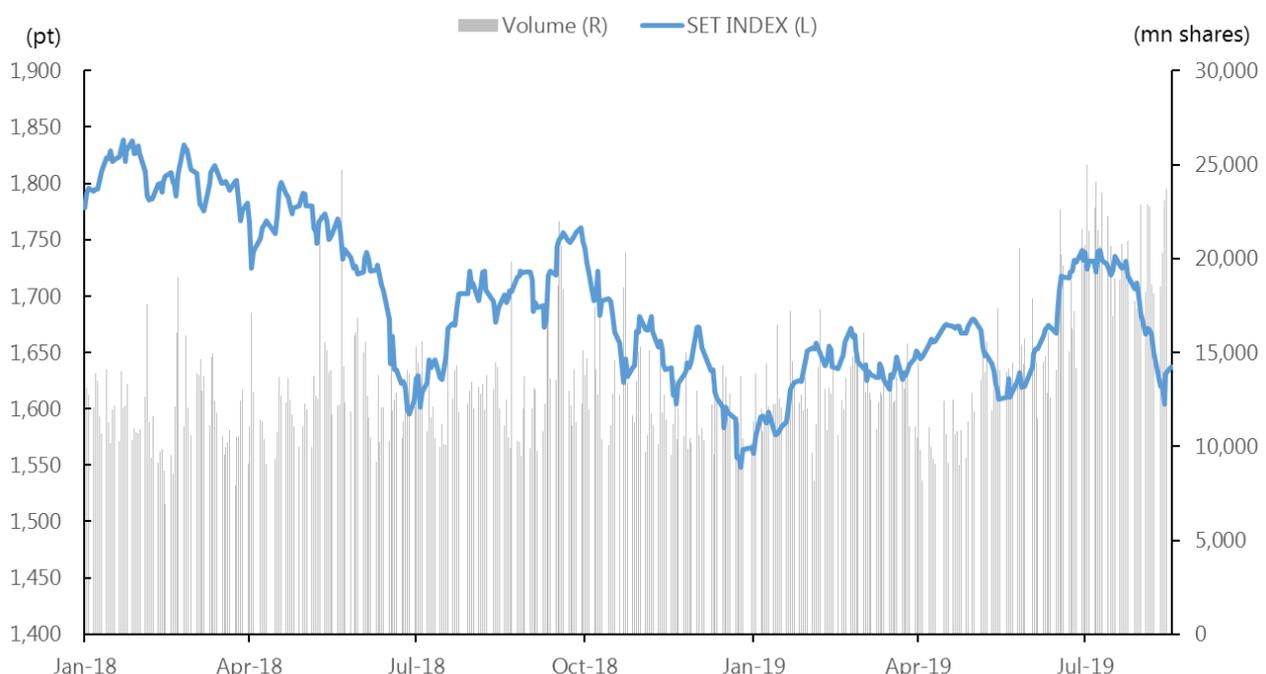
Thailand Monthly Analysis

- ▶ **Close (on August 19):** 1,637.26 points
- ▶ **Thailand market range forecast for the next month:** 1,550–1,580 points.

The SET Index fell 5% from July 18 to August 19 and is now up 3.4% YTD. Foreign investors net sold THB42.87 bn in Thai shares during the period, with retail investors and local funds net buying THB31.79 bn and THB19.17 bn in Thai shares, respectively. 2Q19 earnings disappointed, led by massive declines in earnings of refinery, petrochemical, construction materials, banking, property, hospital, & contractor names. The energy sector was hit by inventory loss, lower gross refinery margins and petrochemical spreads. Construction materials saw weak demand due a slowdown in public investment and the rainy season. The Property sector was dragged by the new LTV regulations, which make it more difficult for home buyers to obtain mortgage loans. The Banking sector continues to be hit by weak fee income, tepid loan growth and higher NPLs. The two sectors that outperformed were 1) Telcos on higher revenue growth as mobile operators removed the unlimited data packages; and 2) the Consumer sector, which saw resilient demand, leading to both top and bottom line growth. Post 2Q19 SET EPS is now at THB101.26, down from THB117 at January 2019.

2Q19 GDP came in at 2.3%, the lowest in 19 quarters, vs 2.8% in 1Q19. Exports were down by 5.8% YoY, Tourism and services fell by 5.8% YoY, Private Investment rose by 2.2% YoY, and Public Investment was up by 1.4% YoY. In order to boost the economy, the BOT in a surprise move lowered the policy rate by 25 bps and the government announced a stimulus package to boost tourism as well as free handouts to disadvantaged persons worth 0.5% of GDP starting in September 2019. We expect the market to move sideways down to the 1,580 level. We suggest staying defensive, with our top BUYs being CPALL, ADVANC, RS, BCH and SAPPE.

Figure 15: SET – historical performance



Source: Bloomberg, Yuanta Investment Consulting

Figure 16: Top 10 picks for the next month – Thailand

| Ticker | Company | Rating | TP (THB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|---------------------------|--------|-------------|---------------|---------------------|-------------------|---------|---|
| BCH | BANGKOK CHAIN HOSPITAL | BUY | 21.8 | 37.97% | 1,280.42 | 1.46% | 35.28 | <ul style="list-style-type: none"> ▶ 2H19 profit should improve HOH supported by cash and Social Security Office (SSO) patients, improving GM at World Medical Hospital (WMC) and KH Ramkhamhang, as the hospital ramps up its capacity. ▶ Maintain our FY2019 net profit growth forecast of 9% YoY. ▶ In 2020, the SSO is considering a 10% YoY increase in its treatment budget, which would likely boost BCH's earnings. ▶ The recent dip in share price has priced in weak 2Q19 earnings, in our view. ▶ We recommend a BUY on likely improving 2H19 earnings. |
| CPALL | CPALL | HOLD | 90.0 | 6.19% | 24,740.60 | 1.42% | 35.75 | <ul style="list-style-type: none"> ▶ 1H19 SSS growth was strong at 3.7% YoY. We forecast 2H19F SSS growth of 3.0% YoY. ▶ MAKRO's SSS growth continues to be strong due to a recovery in chicken and pork prices. ▶ Beneficiary of the government's recent stimulus, free cash handouts to disadvantaged persons and measures to boost tourism. ▶ Likely top and bottom line growth in the range of 5-8% over the next few years. |
| CPF | CHAROEN POKPHAND FOODS | BUY | 37.5 | 28.20% | 8,185.33 | 2.22% | 16.82 | <ul style="list-style-type: none"> ▶ 1H19 net profit reached 60% of our FY2019F forecast. ▶ Strong rebound in pork prices in Vietnam on supply shortage. CPF is a beneficiary of Asian swine flu (ASF) impact in China and Vietnam. ASF in China has increased chicken demand, leading to significant rise in chicken exports to China. |



| Ticker | Company | Rating | TP (THB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|-----------------------|--------|----------|------------|------------------|----------------|---------|--|
| | | | | | | | | <ul style="list-style-type: none"> ▶ Soybean price has weakened due to the trade war, lowering feed costs for CPF. |
| RS | RS | BUY | 18.8 | 10.00% | 564.46 | 2.62% | 37.17 | <ul style="list-style-type: none"> ▶ We have a positive view on BTS's acquisition of a 7% stake in RS, foreseeing synergy benefits. ▶ RS plans to expand its MPC (Multi-platform Commerce) business via BTS channels, driving revenue upward. ▶ In 2H19, RS will benefit from the waiver of Digital TV license payment installments. This will cut costs by THB700 mn and mean depreciation of THB63 mn/year. |
| MAJOR | MAJOR CINEPLEX GROUP | BUY | 31.0 | 18.10% | 775.93 | 3.53% | 19.79 | <ul style="list-style-type: none"> ▶ Thai movies account for a significant portion of Major's revenue, at 33% in 1Q19. ▶ Additionally, in 2019 there is a strong Hollywood movie line-up, which should boost box office ticket sales. ▶ Selling its Thai movies to streaming companies is another source of revenue. ▶ Strong dividend yield of 3.5% per year. |
| ADVANC | ADVANCED INFO SERVICE | BUY | 239.0 | 6.70% | 21,642.79 | 3.16% | 22.99 | <ul style="list-style-type: none"> ▶ 2Q19 earnings were up 5.8% QoQ and 0.1% YoY on recovering ARPU. ▶ Dividend payout ratio for 1H19 increased to 73% vs historical payout ratio of 70%. ▶ We revise up our FY2019-20F net profit forecasts by 3% and 5%, respectively. Our new TP is THB239. |
| SAPPE | SAPPE | BUY | 28.4 | 26.22% | 222.56 | 2.93% | 18.63 | <ul style="list-style-type: none"> ▶ Net profit in 2H19 should grow 50% YoY driven by significant rise in GM and turnaround for ALL Coco business line. ▶ We anticipate double digit% YoY revenue growth in 2019-2020, supported by new product launches in Thailand and improving overseas businesses. |



| Ticker | Company | Rating | TP (THB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|-------------------|--------|-----------------------------|------------|------------------|----------------|---------|---|
| | | | | | | | | <ul style="list-style-type: none"> ▶ GM should expand from the synergy through its JV with Danone. ▶ We revise up our FY2020F normalized profit forecast by 22% to THB508 mn, up 37.7% YoY to a new high. |
| OSP | OSOTSPA | BUY | 40.0-42.0 (Under review) | 8.1% | 3,587.28 | 1.88% | 34.94 | <ul style="list-style-type: none"> ▶ 2Q19 earnings beat our/market expectations by 14% due to lower provisions as NPLs declined from 5.4% to 5.2% of total loans. Credit costs fell from 144 bps to 108 bps. ▶ LG during the quarter was strong at +1.6% QoQ and +2% YTD from corporate and retail loans. NIM improved to 3.2% from 3.1% on higher-yield retail loans. ▶ 1H19 net profit reached 51% of our FY2019F forecast. Earnings in 2H19F should improve HoH due to C-Viit capacity increase of 20%. ▶ OSOTSPA's Energy Drink market share increased to 54.1% vs its major peer's market share of 20.5% (new low). ▶ International sales will likely grow on the softening THB and more marketing events in Cambodia. ▶ We are revising up our earnings growth forecasts for 2019F and 2020F and upgrade our recommendation to BUY. |
| AMATA | AMATA CORPORATION | HOLD | 25.0 | 2.88% | 842.59 | 1.65% | 23.35 | <ul style="list-style-type: none"> ▶ AMATA posted 2Q19 net profit growth of +51% QoQ and +122% YoY driven by strong presales and power profit on resumption of operations for its power plant. ▶ Earnings in 2H19 should outpace 1H on clearer government policy and ongoing relocation of factories from China to Thailand. ▶ We forecast FY2019F net profit growth of 35% YoY due to strong backlog. |



| Ticker | Company | Rating | TP (THB) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|----------------------|--------|----------|------------|------------------|----------------|---------|--|
| | | | | | | | | <p>Additionally, YTD presales remain solid.</p> <ul style="list-style-type: none"> ▶ Share price has outperformed since our BUY recommendation. TP is under review for potential upgrade. |
| GPSC | GLOBAL POWER SYNERGY | BUY | 77.0 | 9.6% | 3,420.5 | 1.78% | 30.88 | <ul style="list-style-type: none"> ▶ GPSC's fundamentals are solid following its acquisition of GLOW. Power capacity will grow by 123% post acquisition, making it the third largest producer in Thailand. ▶ Synergy benefit will drive EBITDA up to THB1.6bn/year and lower expenses by THB2.5bn/year. ▶ GPSC's dividend payout may increase on high cash generation portfolio of GLOW. <p>GPSC may be added to Global Index due to its large market capitalization.</p> |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Vietnam Monthly Update

August 22, 2019

VN Index Monthly Analysis

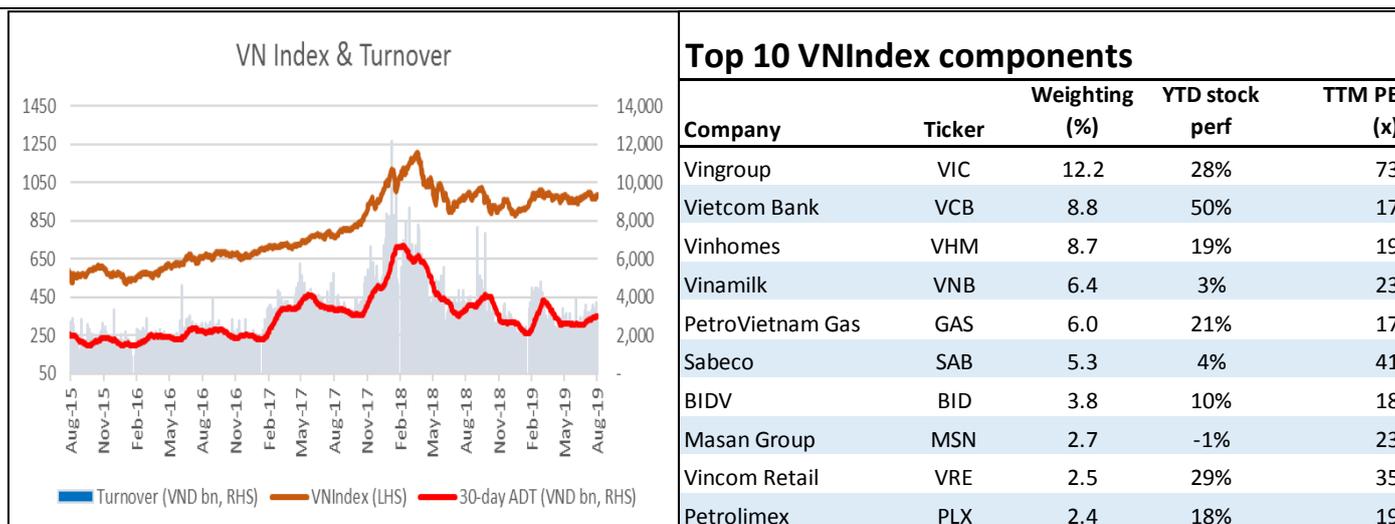
► Close (Aug 21): 994

► VN Index range forecast for the next two weeks (date August 23–September 6): 975–1,010

Foreigners fade the rally. The VNIndex rose 1.3% MoM to close at 994 on August 21 after a month of rangebound (965–998) trading. Average daily turnover in the past month reached US\$130 mn on the HOSE, which is about 4% higher than the 7M19 average. However, foreign institutions have been net sellers almost every day this month (the exception is the bounce that occurred on August 19) and our sense is that August may be the first full month of net foreign selling in 2019. Although foreigners only account for 16–18% of turnover, their impact on prices is typically higher than that figure would imply. This is because domestic retail investors typically monitor closely foreigners' activity and either chase foreign flows or better yet try to get in (and out) ahead of the foreign flows. Thus, it is difficult to envision a strong and broad bull market in Vietnam unless foreign investors are participating in it. For this reason, we think that we'll be rangebound at best for the next few weeks as investors grapple with the litany of global macroeconomic and political concerns.

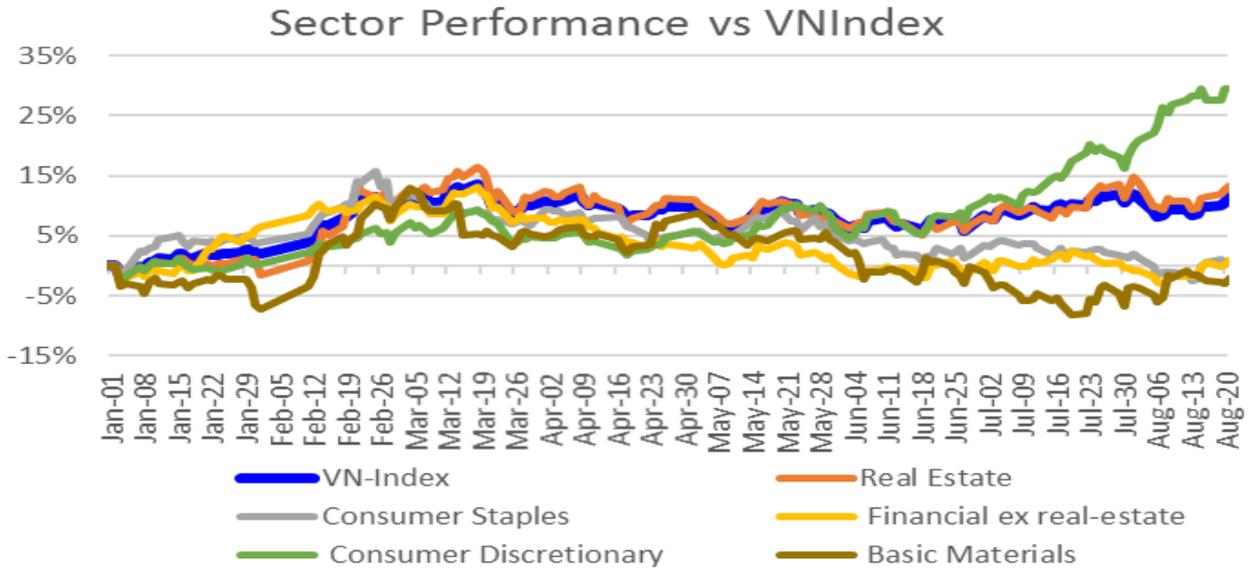
Cautious strategy view despite marginally positive technicals. We still believe that the balance of risk is to the downside in the short term due to the global macro/political risks that we believe are driving the foreign selling in August. However, we have a more optimistic take on 4Q19, based on our view that global policymakers are likely to muddle through the various issues and we believe that global central banks (primarily the US Fed) will almost inevitably return to monetary softening. This implies greater global liquidity and a weaker dollar, which could catalyze a recovery for emerging/frontier markets generally. For Vietnam specifically, we also expect newsflow about capital market reforms in 4Q19 that might enable foreign investors to obtain greater pricing transparency and liquidity in full-FOL stocks. Possible product-based solutions include non-voting depositary receipts and a "full-FOL" ETF.

Figure 17: Volumes and index levels were supported despite persistent net foreign selling in August.



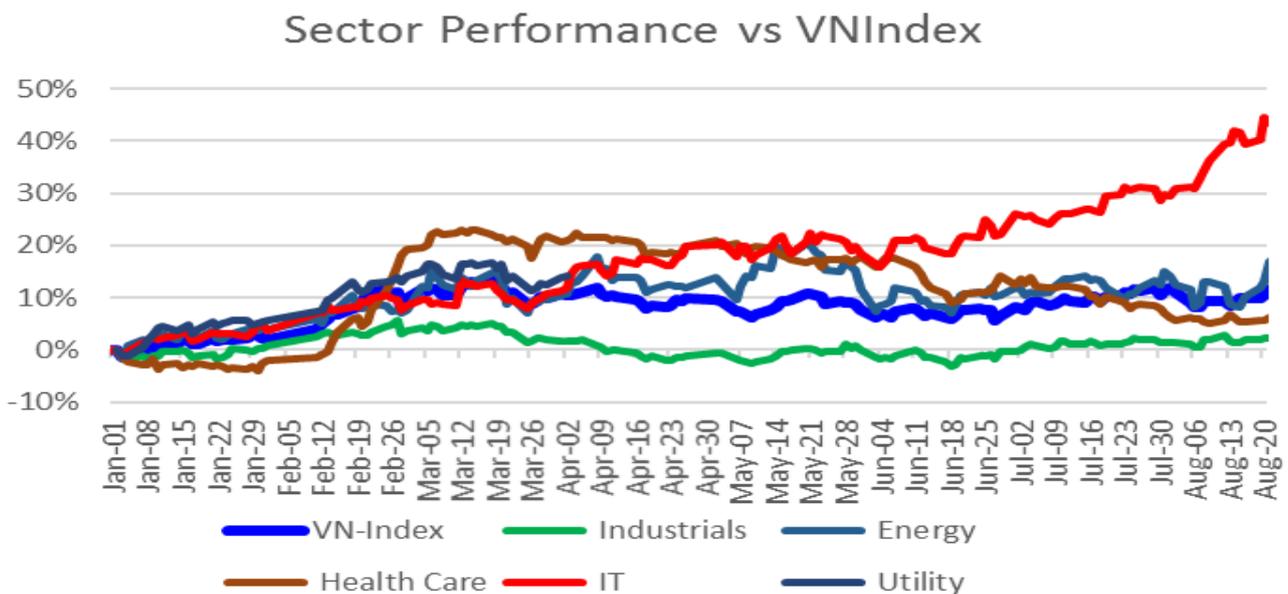
Source: Bloomberg, FiinPro, Yuanta Research

Figure 18: Consumer discretionary plays have been on a tear. Our favorite in the sector is PNJ, a jewelry retail business that we see as Vietnam’s best play on soaring domestic gold demand... Other popular (full-FOL) consumer names such as MWG have also spiked, while the Vin Group stocks have largely taken a break since July.



Source: Bloomberg, Yuanta Vietnam

Figure 19: Meanwhile, FPT continues to lead the IT sector higher on strong execution in technology outsourcing. Given the possibility of new products to be introduced in 4Q19 that would allow foreign investors greater access to full-FOL stocks such as FPT, we think the full-FOL stocks will continue to lead the index as locals try to get in front of the foreign flows.



Source: Bloomberg, Yuanta Vietnam

Figure 20: Top 10 picks for the next two weeks – Vietnam

| Ticker | Company | Rating | TP (VND) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|-------------|--------|-------------|---------------|---------------------|-------------------|---------|---|
| VHM VN | Vinhomes | BUY | 94,862 | 8.7% | 12,603 | 1.1% | 15.9 | <ul style="list-style-type: none"> ▶ Residential property leader, by a wide margin. Proxy on middle class home ownership aspirations. ▶ Refocusing from high-end / luxury segment to mid-end, the main target for Vietnam's real residential demand. ▶ Early monetization of its vast landbank by engaging in block sales/land sales is increasing the speed of capital returns. |
| STB VN | Sacombank | BUY | 14,101 | 37.6% | 797 | 0.4% | 11.2 | <ul style="list-style-type: none"> ▶ Restructuring story that trades at an excessive discount (at 1x PB) to its peers (at c. 2x PBV). ▶ Underlying operations are strong. Value to emerge as legacy NPLs are worked out. ▶ Low LDR vs sector should allow for NIM outperformance. |
| VCB VN | Vietcombank | BUY | 75,275 | -5.9% | 12,788 | 1.2% | 19.3 | <ul style="list-style-type: none"> ▶ Market leading deposit franchise allows for high and stable NIM without undue credit risk. ▶ Fee income set to soar along with bancassurance deal with Prudential. ▶ Valuations are not cheap, but this is the quality play in the banks. |
| BID VN | BIDV Bank | BUY | 38,713 | 2.3% | 5,577 | 2.3% | 19.6 | <ul style="list-style-type: none"> ▶ Capital issuance to KEB Hana will give the bank room to grow. ▶ Broadest SME and retail banking footprint in Vietnam. ▶ Valuations are compelling, FOL limit is not a problem. |
| POW VN | PV Power | BUY | 17,457 | 31.3% | 1,342 | 2.3% | 12.4 | <ul style="list-style-type: none"> ▶ A proxy on Vietnam's rapidly growing demand for electricity amidst the shortage of |



| Ticker | Company | Rating | TP (VND) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|-----------------------------|--------|----------|------------|------------------|----------------|---------|--|
| | | | | | | | | <p>supply.</p> <ul style="list-style-type: none"> ▶ Diversified production capacity to provide for smooth revenues when any single source of power is disrupted by input constraints or weather. ▶ Long-term purchasing power agreements mean that POW is not exposed to input costs. |
| PNJ VN | Phu Nhuan Jewelry | BUY | 118,489 | 38.4% | 821 | 2.3% | 13.5 | <ul style="list-style-type: none"> ▶ Gold jewelry business is the jewel in the crown. ▶ Plenty of room for growth on industry consolidation and as gov't policy limits sales of gold bars. ▶ Watches could become a growth driver if PNJ is able to achieve scale advantages. |
| NLG VN | Nam Long | BUY | 32,000 | 1.4% | 312 | 1.6% | 14.8 | <ul style="list-style-type: none"> ▶ Strong financial structure: low financial leverage and large cash position. ▶ International partnerships shore up funding for the firm's big projects. ▶ Beneficiary of the burgeoning middle class: Focus on affordable and mid-end housing. |
| HCM VN | Ho Chi Minh City Securities | BUY | 36,219 | 68.9% | 283 | 4.3% | 9.6 | <ul style="list-style-type: none"> ▶ Key beneficiary of increased institutional investor activity in Vietnam in the years ahead. ▶ Confidence in management's ability to execute while managing the operational risks. ▶ Beneficiary of the burgeoning middle class: Focus on affordable and mid-end housing. |
| PVD VN | PV Drilling | BUY | 21,707 | 24.4% | 317 | 0.0% | 23.3 | <ul style="list-style-type: none"> ▶ A proxy on retail investor growth in the years ahead. ▶ Market leading online trading platform should allow for operational efficiency as VND increases market share. |



| Ticker | Company | Rating | TP (VND) | Upside (%) | Mkt Cap (USD mn) | Div. yield (%) | P/E (x) | Comments |
|--------|---------|--------|----------|------------|------------------|----------------|---------|--|
| | | | | | | | | <ul style="list-style-type: none"> ▶ Valuation is cheap -- PERs are the lowest in our coverage. |
| | | | | | | | | <ul style="list-style-type: none"> ▶ Proxy on the Vietnam consumer with subsidiaries in F&B and meat consumption/animal feed. |
| MSN VN | Masan | BUY | 93,035 | 20.8% | 3,879 | 0.0% | 18.0 | <ul style="list-style-type: none"> ▶ Potential upside (finally) from its tungsten mine if China halts exports. ▶ The stock has been hit hard by various negative news and now trades at an attractive valuation. |

Source: Yuanta, Bloomberg consensus estimates are used for Not Rated stocks

Appendix A: Important Disclosures

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BUY: We have a positive outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors add to their position.

HOLD–Outperform: In our view, the stock's fundamentals are relatively more attractive than peers at the current price. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile.

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SELL: We have a negative outlook on the stock based on our expected absolute or relative return over the investment period. Our thesis is based on our analysis of the company's outlook, financial performance, catalysts, valuation and risk profile. We recommend investors reduce their position.

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- Strong Buy: Expected to return 30% or more
- Buy: Expected to return between 10% and 30%
- Hold: Expected to return between –10 and +10%
- Sell: Expected to return –10% or less

Sector ratings suggest 6 to 12 – month forward investment weighting of a given sector compared to its market capitalization weighting.

- Overweight: Investment weighting is higher than the market capitalization weighting
- Neutral: Investment weighting is equal to the market capitalization weighting
- Underweight: Investment weighting is lower than the market capitalization weighting

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