

Asian equities in 2018

Select 2018

June 2018

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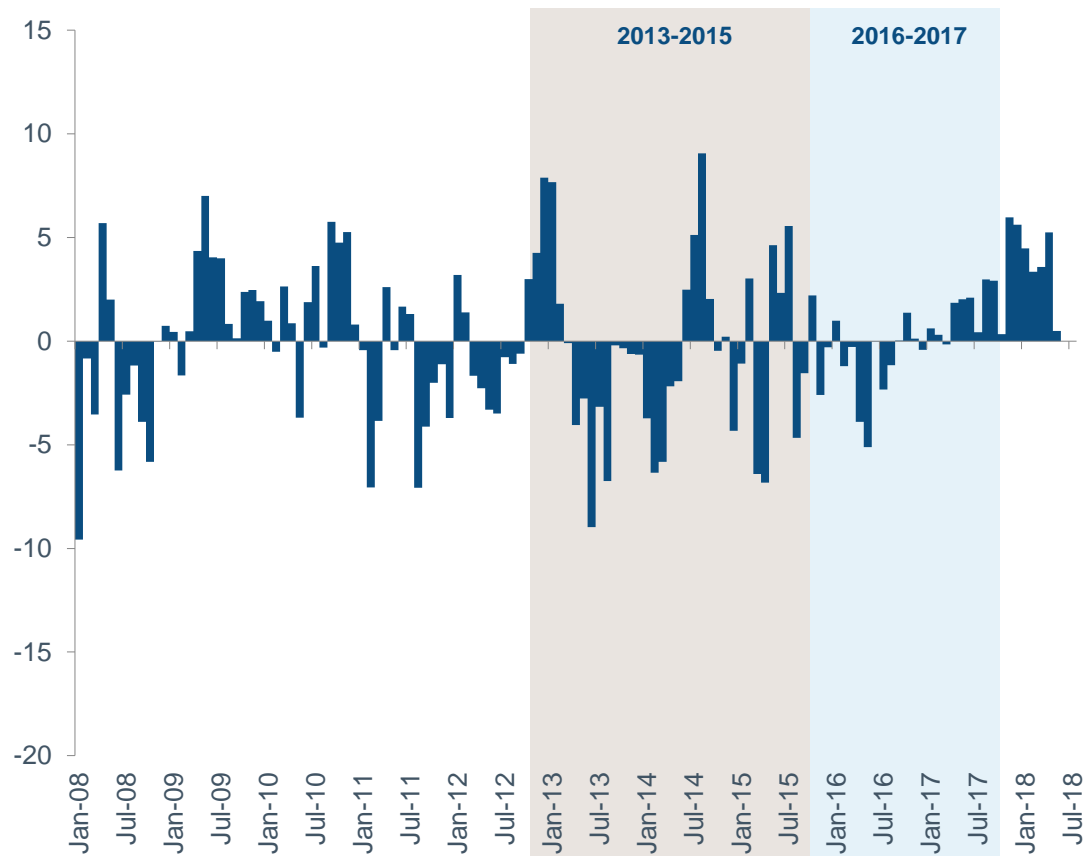
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- Investors should note that the views expressed may no longer be current and may have already been acted upon.
- Past performance is not a reliable indicator of future returns.

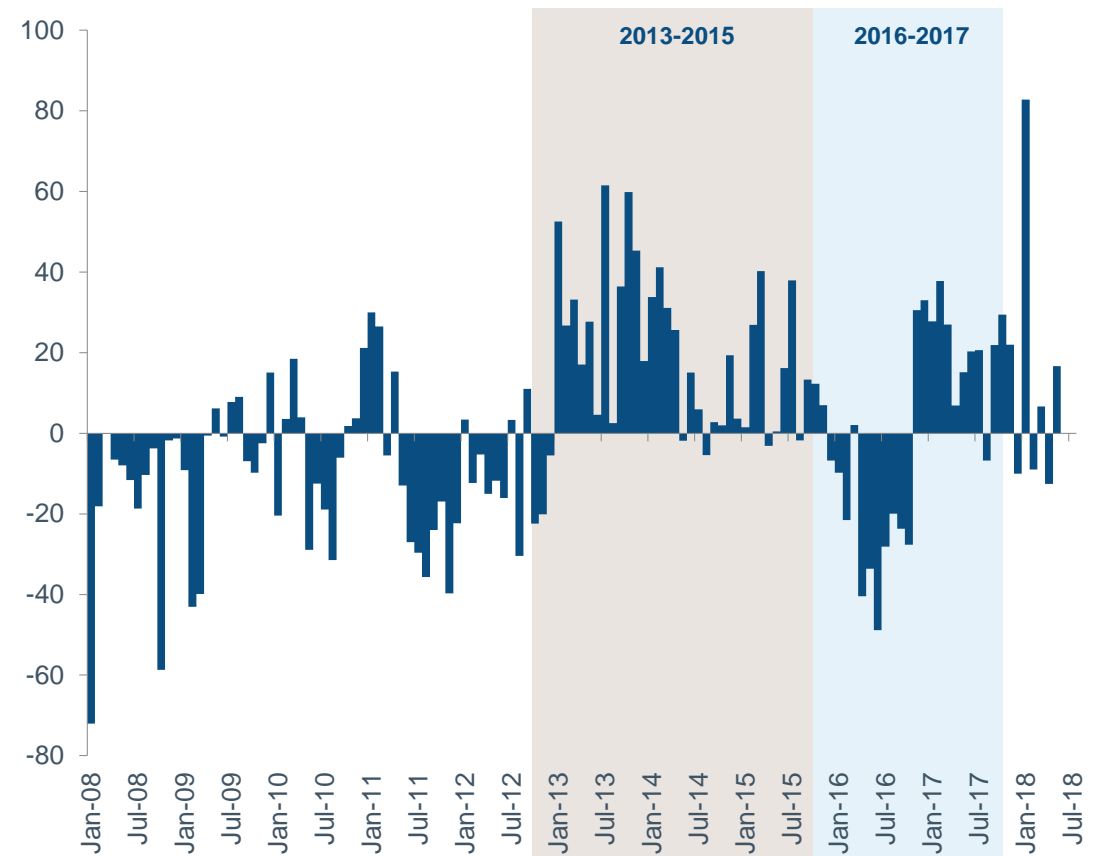
Asian market overview

Fund flows

Fund flows to Asia Pacific ex Japan (US\$Bn)



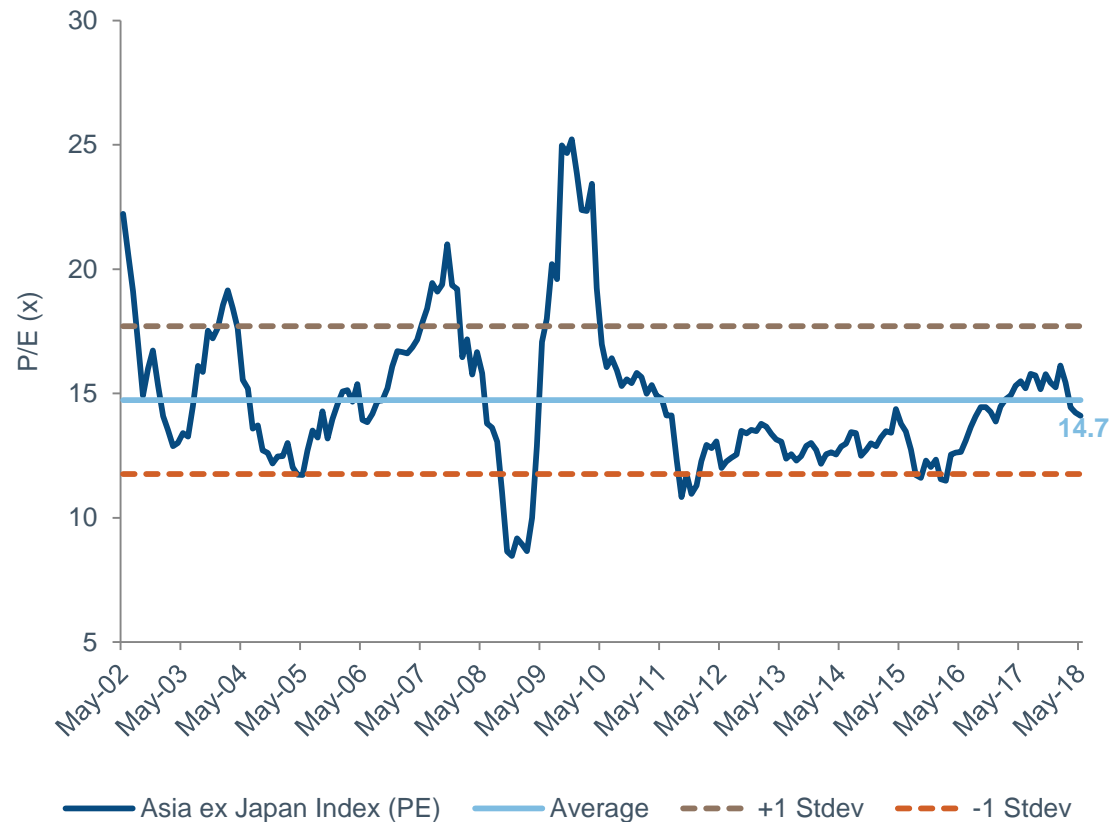
Fund flows to Developed Markets (US\$Bn)



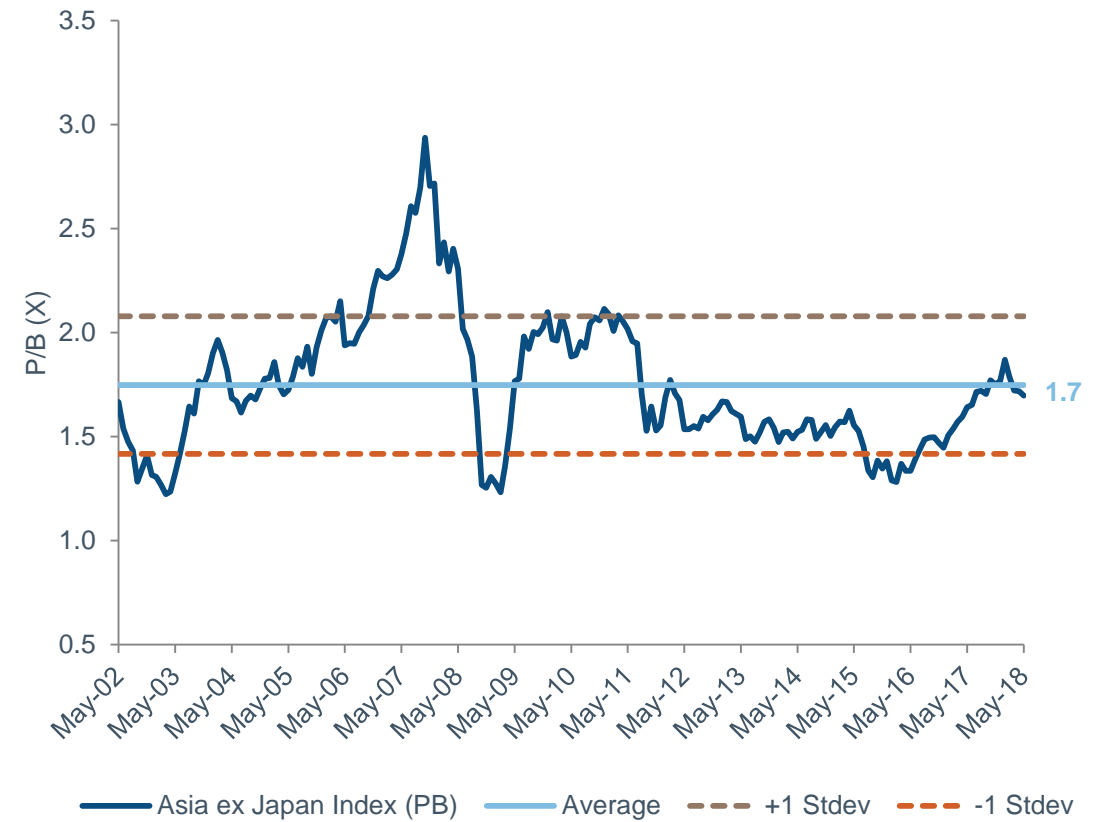
Source: EPFR Global, Equity Funds Flow Database, Morgan Stanley. Data as of 16 May 2018.

Attractive valuations for equities in Asia ex-Japan

PE ratio close to long-term average



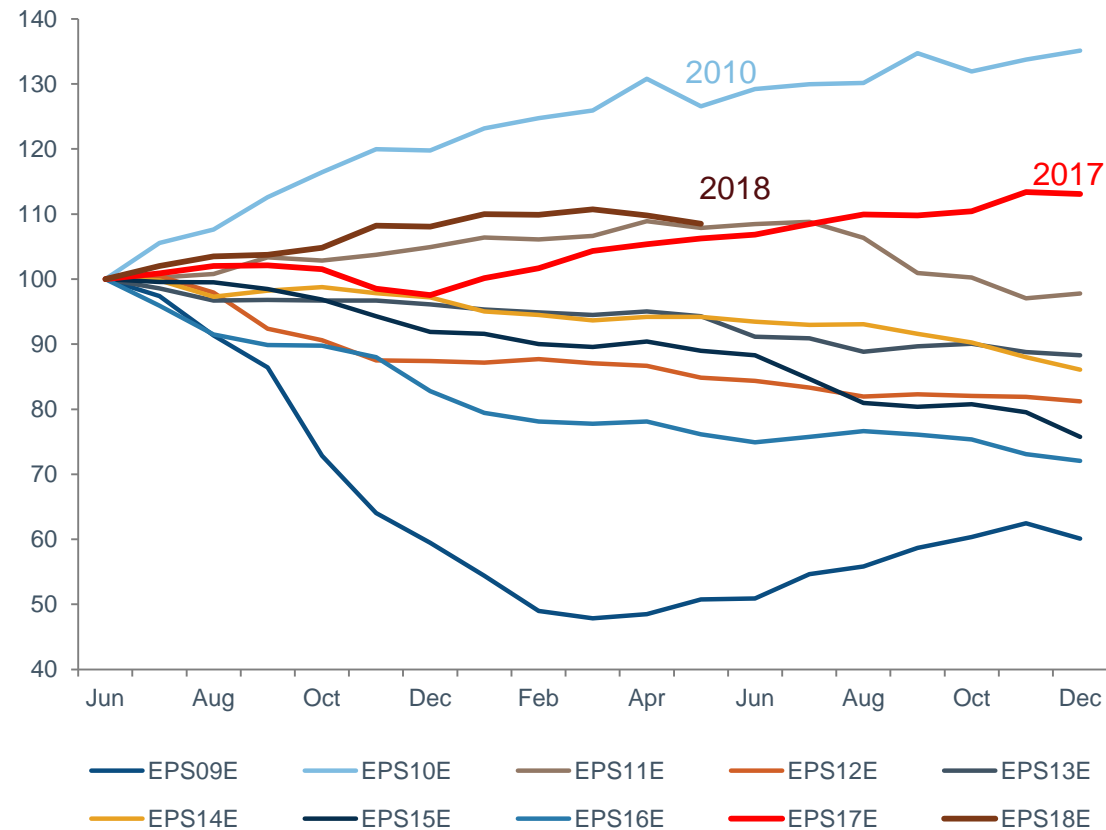
PB ratio remains close to average



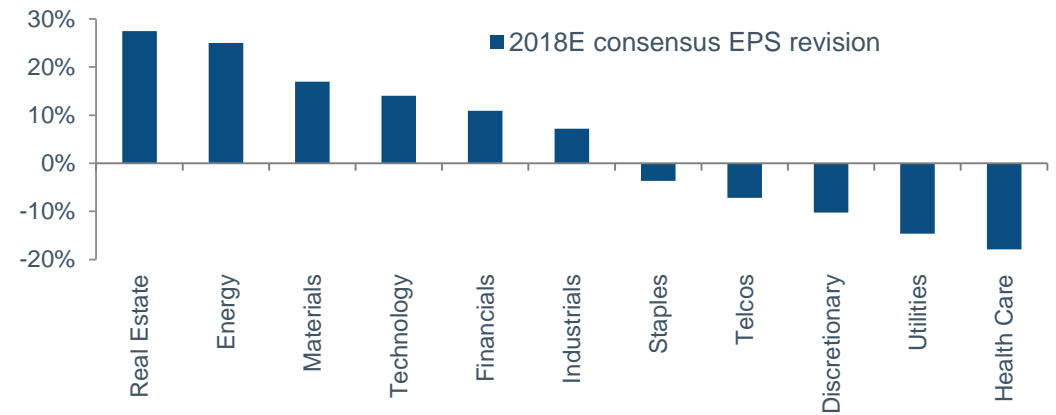
Source: Thomson Reuters DataStream, 31 May 2018. PE ratio is Price to Earnings ratio and PB ratio is Price to Book value ratio.

Sustained Asia ex-Japan earnings revisions

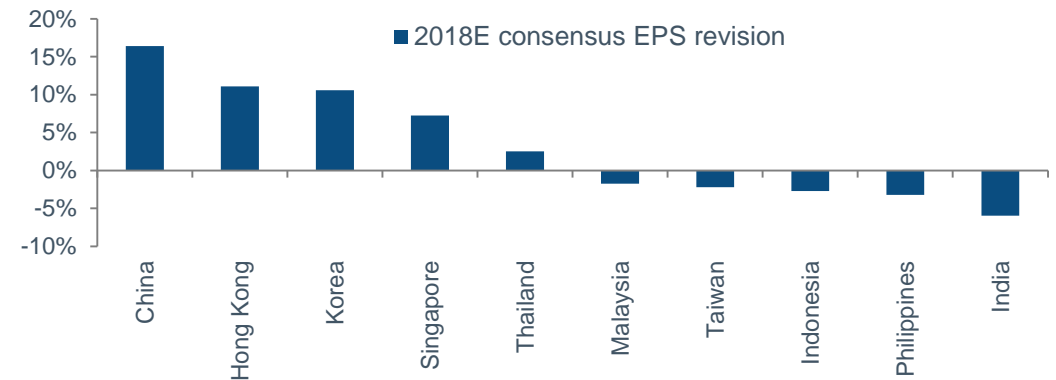
Asia ex Japan earnings upgrades



Asia ex Japan Sectors – EPS revisions over 12 months



Asia ex Japan Countries – EPS revisions over 12 months



These forecasts are not a reliable indicator of future performance.

Source: IBES Aggregate, Thomson Financials DataStream, 31 May 2018.

US – China trade war an unknown outcome



Eye for an eye
Trade tensions rise between China and the U.S. after both propose a series of tariffs on imports

MARCH 1: U.S. proposes imposing 25% & 10% tariff upon steel & aluminium imports (including from China)

APRIL 2: Beijing proposes duties of about \$3 bn on U.S. exports such as pork, wine and fruit

APRIL 3: U.S. releases a \$50 bn list, which includes imports like electronics, aircraft parts and satellites

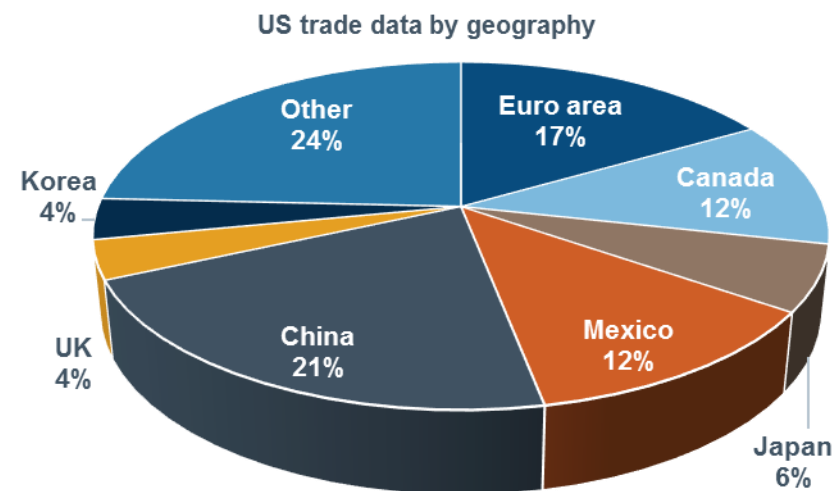
APRIL 4: China proposes 25% tariff on 106 U.S. products unless U.S. abandons proposed tariffs on Chinese goods

Trump announces \$50bn in new tariffs on Chinese imports

The world's two largest economies have taken a step closer to a trade war with the Trump administration on Friday unveiling new tariffs on \$50bn in imports from China that will take effect within days.

"My great friendship with President Xi of China and our country's relationship with China are both very important to me," President Donald Trump said in a statement on Friday. "Trade between our nations, however, has been very unfair, for a very long time. This situation is no longer sustainable."

- Tariff and trade war news flow prompting uncertainty in the stock market.
- US-China trade war seems unlikely
- Both countries are key mutual trade partners, US not insulated.
- Bilateral negotiations, concessions likely middle path



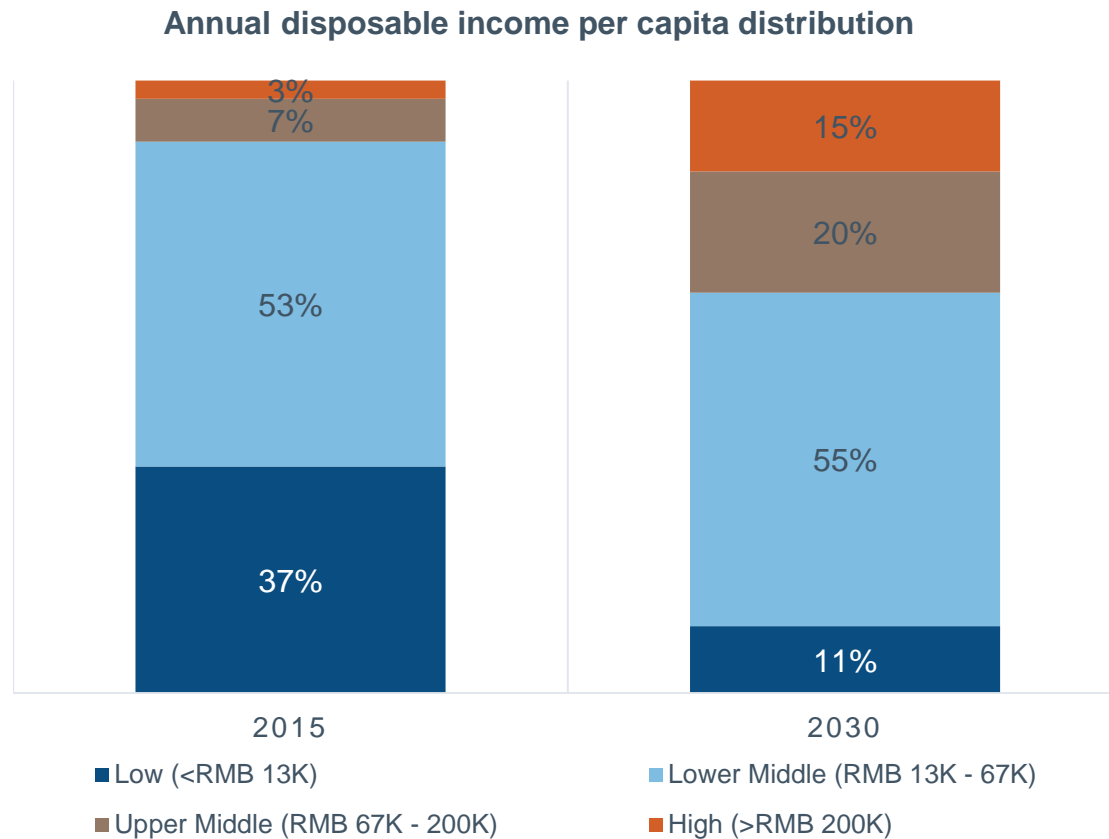
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Source: Fidelity International, Thomson Reuters Datastream April 2018. Financial Times June 2018.

Opportunities in China

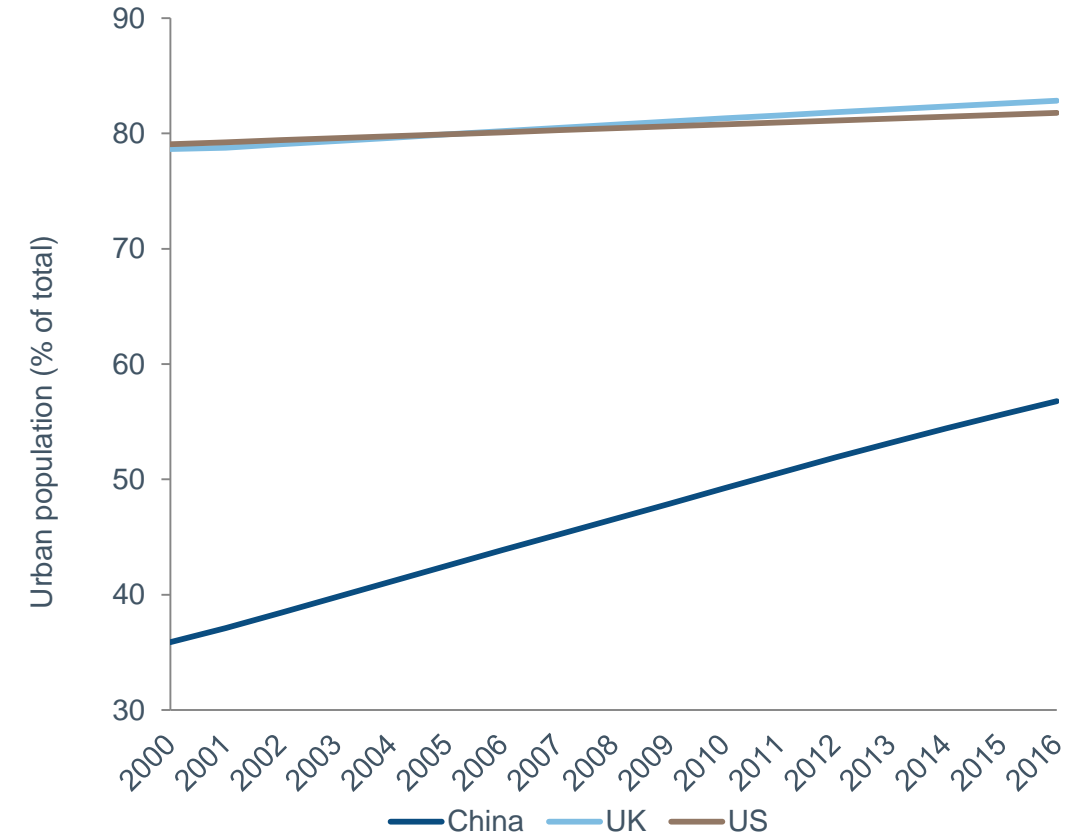
The importance of China's rising middle class

China's increasing middle class



Source: EIU, November 2016, % of population, constant 2015 prices

Rising urbanisation rate



Source: Thomson Reuters, World Bank, 2017

China's "Belt and Road" initiative is gaining momentum

Will all roads lead back to China?



Source: AsiaOne, April 2015

China's IT companies are challenging global market leaders

Annual sales volume of Huawei's smartphones

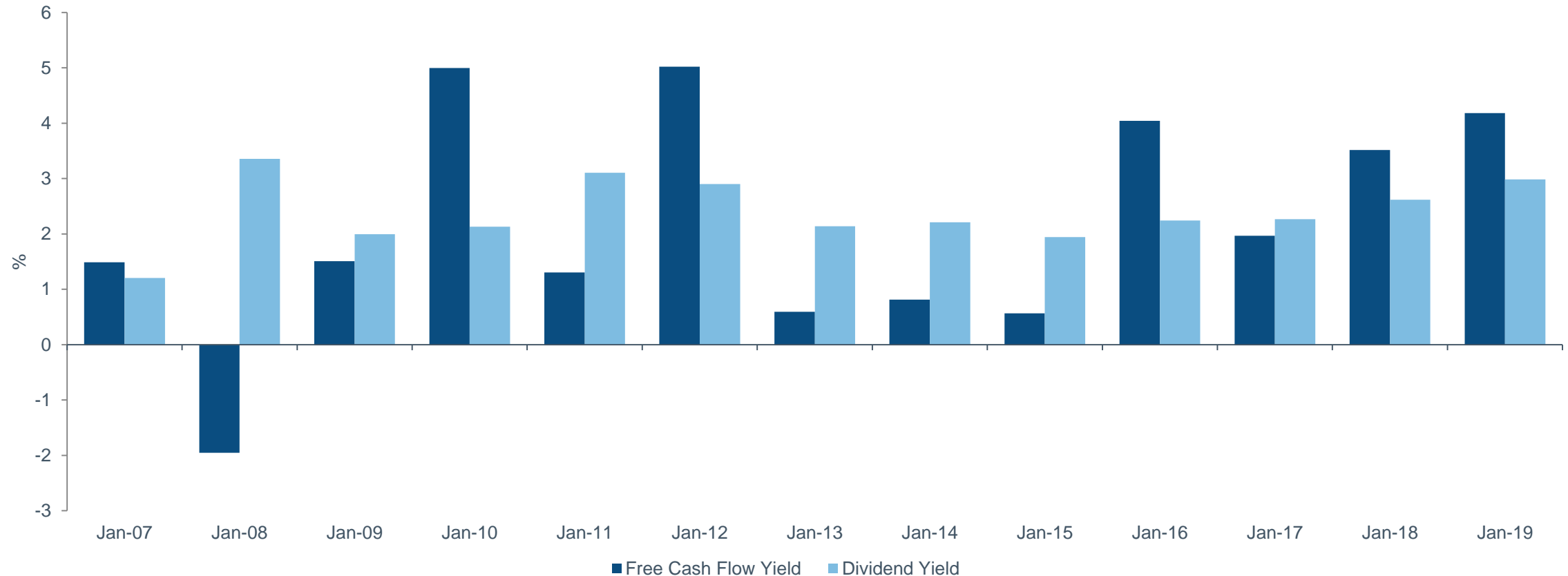
Year	Flagship Smartphone Models		Selling Price for flagship models (in USD)	Annual total sales volume (mn units)		
2010	U8500		175~206	1.8		
2011	U8800		286~349	17.1		
2012	P1		349~444	29.1		
2013	P6		Mate		349~429; 349~430	49.0
2014	P7		Mate 7		286~458; 407~587	73.8
2015	P8		Mate 8		301~458; 436~791	107.0
2016	P9		Mate 9		468~811; 499~1,323	139.3
2017	P10		Mate 10		577~821	150.0

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Source: Company data, Morgan Stanley.

What should investors focus on when it comes to investing in China?

A different mindset and focus – free cash flow yield and dividend yield



Past performance is not indicative of future returns.

Source: Fidelity International and Factset, July 2017. Data derived from a basket of Chinese stocks listed in China, HK and US.

Reforms in India

What to expect on economic reforms

Big push towards affordable housing in rural and urban areas

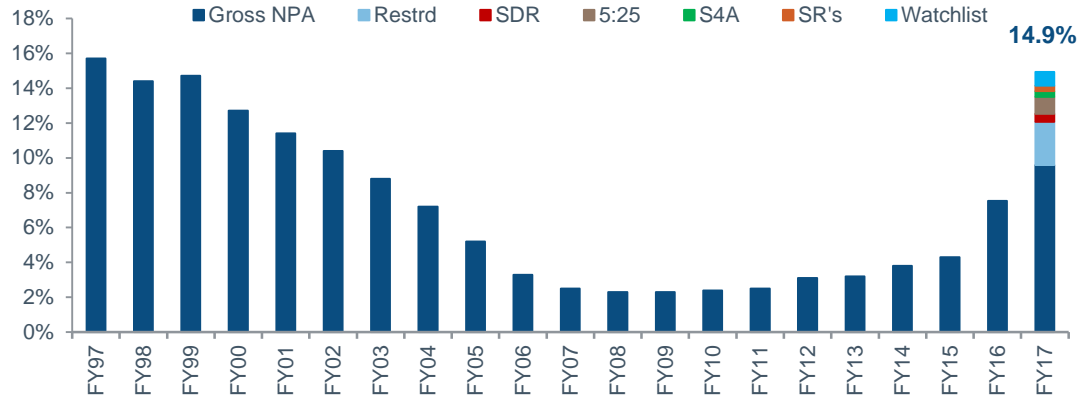
Strategic disinvestment in public sector companies (Air India, BEML, SAIL, etc.)

Push for resolution of bad assets in the banking sector

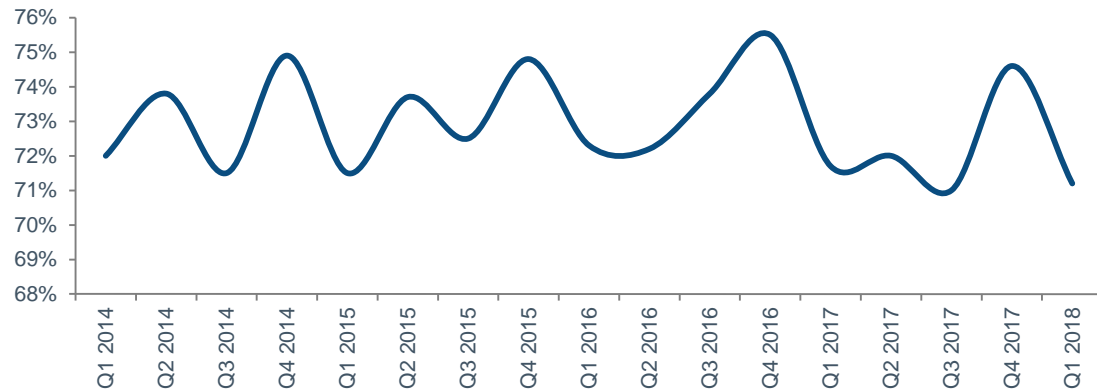
Focus on consolidation and execution

Credit growth and private capex growth remains weak

Bad asset problem close to resolution



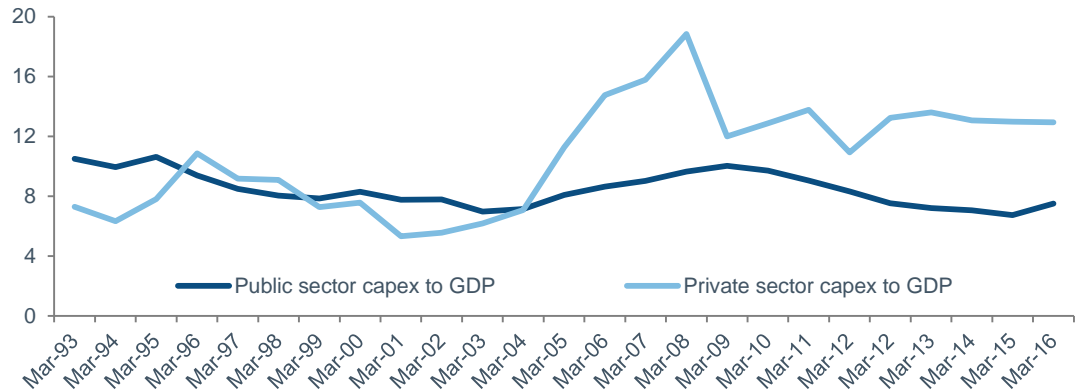
Capacity utilisation rangebound



Weak credit growth



Private sector capex recovery is delayed




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Source: Thomson Reuters DataStream, RBI data, March 2018


Structural growth in ASEAN

ASEAN – remain selective

Improving fundamentals

	Thailand – economy is bottoming out, elections in 2019
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	Indonesia – improving consumer sentiment, elections in 2019
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	Philippines – government execution needed to drive infrastructure and consumption
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	Malaysia – signs of stability, post election adjustment
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ASEAN's attractiveness vs. North Asia



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Source: Fidelity International, Thomson Reuters Datastream, April 2018

Summary

- Asian markets have outperformed over the past 18 months. In the absence of major global shocks they should continue to do so: the momentum of the earnings cycle remains robust, valuations are only mid range and the opportunities for stock pickers are significant.
- The relative political landscape continues to reflect increasing instability in liberal western democracies and a combination of democratic reform and strong leadership in Asia. India and China follow different models, but progress in both has been compelling.
- Whilst nominal growth is strong the Chinese economy needs to rebalance: the evidence suggests that is exactly what is happening.
- India's weakness remains credit growth. The recent recapitalisation of India's public banks is a good start, but the banking system also needs proper rationalisation and reform.

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