ASEAN

ASEAN Strategy

Near-term pain for long-term gain

- We see a material chance of a further escalation of US-China trade tensions.
- ASEAN exporters could face near-term demand disruption but gain export market share over the medium term.
- We see Vietnamese machinery/electrical equipment and textile exports, and Thai electrical and auto parts exports benefiting the most in the longer term.

The US and China locked in an escalating trade spat

The Trump administration first imposed tariffs on US$34bn worth of Chinese imports in Jun 2018 and then massively escalated this to cover US$235bn worth of Chinese imports in Sep 2018, with threats to expand this to the entire universe of Chinese imports worth a total of US$506bn. China, in retaliation, slapped tariffs on US$110bn worth of US imports.

We think trade tensions will continue to simmer despite the truce

We think the 90-day truce announced at the G20 summit in Nov is unlikely to resolve the "great power rivalry" that underpins the trade dispute. Although a slowing economy has pressured China to make concessions, we believe a lasting trade deal will be elusive as there are several thorny issues related to alleged forced technology transfers and intellectual property (IP) theft by China that will continue to find expression through terms of trade. We see a high likelihood of step-up in tariffs to 25% and a 40% probability of a tariff extension to cover all US$567bn of Chinese goods within 2019F.

ASEAN likely to gain export market share over the medium term

ASEAN currently accounts for only 6.6% share of US imports vs. 21.6% for China. In the near term, ASEAN exporters of intermediates to China that are used in Chinese downstream goods exports to the US will be negatively impacted. In the medium-to-long term, ASEAN exporters that compete with China will see gains in market share due to their enhanced competitiveness and wariness among US buyers of "China concentration risk". ASEAN exporters of products that are linked to Chinese end-consumption could face headwinds, however, due to a trade war-induced weakening of China's economy.

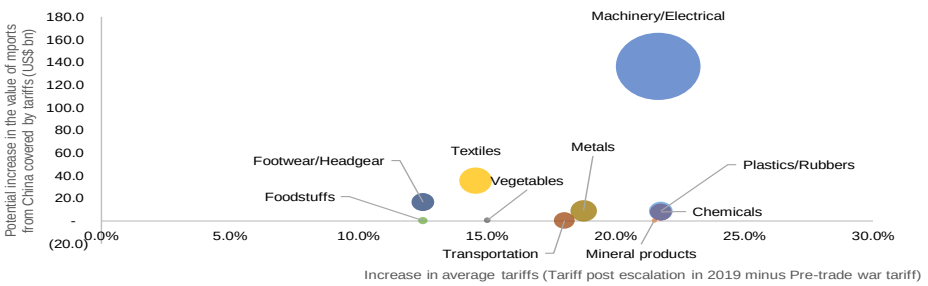
ASEAN exporters of machinery/electrical equipment, textiles and plastics/rubbers could see the greatest benefit longer term

Machinery and electrical goods represent by far the largest category of Chinese exports to the US in value terms (worth around US$256.6bn); they are also the most prone to disruption from a further escalation of trade tensions. Textiles is the second-largest category of Chinese exports to the US and although largely exempt under current tariffs, could see a 10x increase in tariff coverage in the event of a trade war escalation.

Vietnam and Thailand likely to be the greatest beneficiaries

We expect Vietnam to gain share in electrical/machinery and textile exports while Thailand gains share in electrical and auto part exports, over the longer term. Downside risks to our call include a breakthrough in trade talks and a trade-war led global downturn.

Figure 1: Changes in tariff rates and value of tariffed Chinese exports to the US in the event of a full-blown trade war



SOURCES: CGS-CIMB RESEARCH

Increase in average Tariffs is calculated as the mid-point of tariff range of each category. Bubble size: 2017 exports value to the US

Highlighted Companies

Riverstone Holdings (Singapore) ADD, TP S$1.30, S$1.17 close

Riverstone is a Malaysian-based rubber glove play that could offer some upside from the trade war. With nitrile gloves accounting for 94% of its FY17 sales, Riverstone is benefiting from a structural shift away from vinyl gloves produced in China towards nitrile gloves globally.

Malaysian Pacific Industries (Malaysia) ADD, TP RM15.4, RM9.84 close

We think MPI could benefit in the long-term if its customers decide to relocate their operations from China to Malaysia given that MPI has the spare capacity with two production plants in Malaysia.

Somboon Advance Technology (Thailand) ADD, TP THB27.0, THB17.6 close

SAT could benefit from the trade dispute. If some Japanese auto manufacturers relocate their facilities from China to Thailand, they may seek business partners in Thailand which could present SAT with an opportunity.

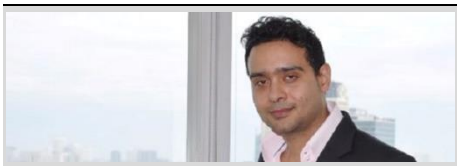
Summary Valuation Metrics

P/E (x)	Dec-18F	Dec-19F	Dec-20F
Riverstone Holdings	18.92	15.48	13.79
Malaysian Pacific Industries	12.48	10.81	9.75
Somboon Advance Technology	8.43	7.79	7.02

P/B (x)	Dec-18F	Dec-19F	Dec-20F
Riverstone Holdings	3.65	6.15	2.75
Malaysian Pacific Industries	1.61	1.47	1.35
Somboon Advance Technology	1.09	1.02	0.95

Dividend Yield	Dec-18F	Dec-19F	Dec-20F
Riverstone Holdings	2.11%	2.58%	2.90%
Malaysian Pacific Industries	3.25%	3.56%	4.07%
Somboon Advance Technology	5.70%	6.55%	7.12%

Head of Research, Vietnam



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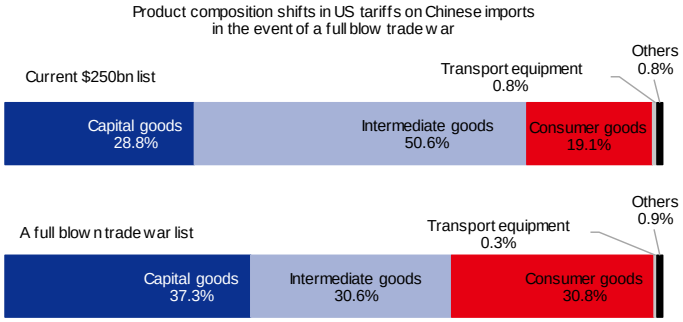
KEY CHARTS

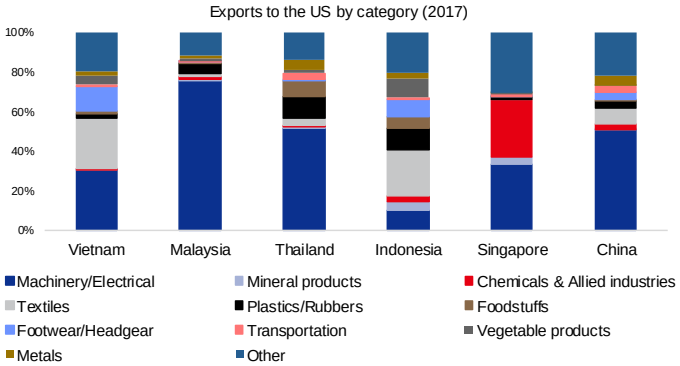
A trade war escalation will bring a wide range of consumer goods into the US tariff regime

So far, US tariffs on China have primarily targeted capital goods and intermediates in the electronic goods and machinery sector to minimise pain to US consumers. Finished consumer goods covered by the current tariff regime comprise only around a fifth of the total universe of Chinese exports to the US subjected to the tariffs, in value terms. But this will change dramatically if the trade war escalates.



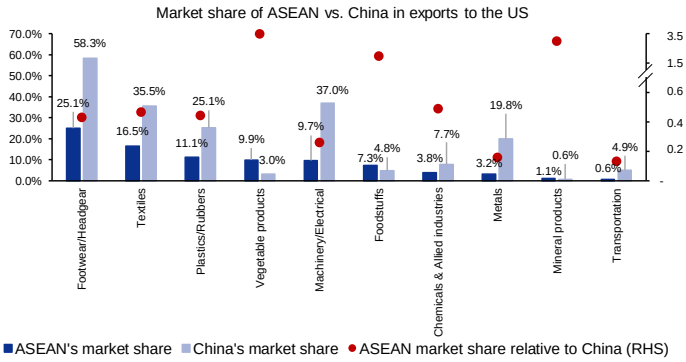
ASEAN already competes directly with China in several categories of exports to the US

Thai and Malaysian exports to the US are primarily concentrated in machinery and electrical products where China is a big player. Vietnam has a broad-based export mix with sizable contributions from both the machinery / electrical and textiles sectors which are the two largest categories of Chinese exports to the US.



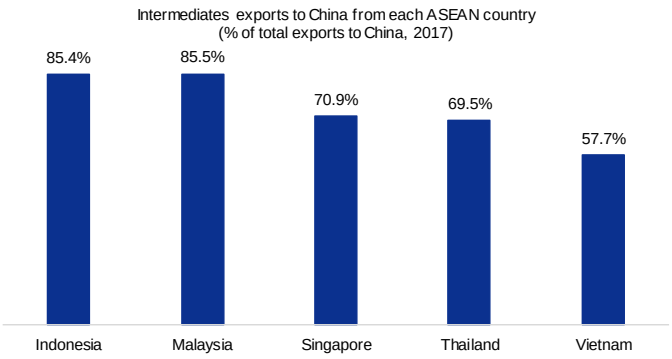
China still dominates over ASEAN in most categories of exports to the US

In the machinery / electrical, textiles, footwear / headgear and plastics / rubbers sectors, China has a large enough share of global exports to the US to allow for trade war-induced market share erosion to competing export nations. Meanwhile, ASEAN's market share relative to China's market share is large enough for it to overcome China's scale advantage and network/cluster effects.



ASEAN exporters to China are prone to near-term demand disruption

ASEAN has significant indirect exposure to Chinese exports to the US as it is a sizable exporter of raw materials and intermediates to China. Malaysia and Vietnam are the two largest ASEAN exporters to China, but Indonesia and Malaysia have the highest share of intermediates in their total exports to China.



SOURCES: CGS-CIMB RESEARCH

The US-China trade war will impact ASEAN exporters in multiple ways

Trade war background and high level implications for ASEAN exporters

The US and China are locked in an escalating trade spat since Jun 2018

The Trump administration first imposed tariffs on US$34bn worth of Chinese imports in Jun 2018. It extended tariffs to another US$16bn of imports in Aug 2018 and then massively escalated this to cover US$235bn worth of Chinese imports in Sep 2018, with threats to expand this to the entire universe of Chinese imports worth a total of US$506bn in early 2019. China, in retaliation, slapped import tariffs on US$110bn worth of US imports into China. Even though the two countries announced a 90-day "truce" at the G20 summit in Argentina in late-Nov under which the scheduled automatic increase in tariff rates starting in Jan 2019 would be put on pause, we believe trade tensions will continue to simmer as there are several thorny issues related to US allegations of forced technology transfers and intellectual property (IP) theft by China that will continue to find expression through terms of trade. The recent arrest of the Huawei CFO in Canada is a case-in-point.

In this report, we primarily focus on the impact US tariffs on Chinese imports will have on ASEAN exporters as we believe they present both greater opportunities as well as threats to ASEAN exporters, than Chinese tariffs on US imports would.

US tariffs on China have so far primarily targeted intermediates in the electronic goods and machinery sector

As shown in the chart below, the electrical and machinery category has accounted for the lion's share of Chinese goods exports to the US in recent years. This is not surprising when you consider that China has been rapidly moving up the export manufacturing value chain in recent years to reduce its dependence on labour cost arbitrage to drive export growth and also due to a sustained rise in wages as the labour market becomes tighter and policymakers reorient economic activity towards domestic consumption. These trends have led to an increasing shift away from low-end exports such as textiles into higher-end products such as electronics as well as an upstream migration within the electronics and machinery value chain into component manufacturing which is less labour-intensive than downstream assembly activity. The electronics and machinery category's share of total exports accounted for slightly over half of China's total goods exports into the US in 2017.

Furthermore, if the Trump administration's tariffs are primarily aimed at re-shoring manufacturing jobs to the US, it is also logical that the higher-end imports from China into the US would be the target of these efforts as bringing back lower-end manufacturing jobs into the US is neither a feasible nor desirable policy objective.

Figure 2: Chinese exports to US by product category in 2017 and 9M 2018

Unit: US$ bn	2017	9M2017	9M2018
Machinery/Electrical	256.6	180.7	196.6
Miscellaneous	80.4	57.9	61.7
Textiles	39.0	29.3	29.9
Metals	25.4	19.1	20.7
Plastics/Rubbers	19.8	14.7	17.1
Footwear/Headgear	18.0	13.9	13.7
Chemicals & Allied industries	15.1	11.2	13.6
Transportation	15.8	11.7	13.5
Stone/Glass	10.1	7.4	8.2
Wood & wood products	9.7	7.2	7.6
Raw hides, skins, leather & furs	7.4	5.7	5.5
Foodstuffs	3.0	2.2	2.4
Animal & Animal products	2.5	1.8	1.9
Vegetable products	1.6	1.2	1.2
Mineral products	1.1	0.8	1.0
Total	**505.5**	**364.7**	**394.7**

SOURCES: CGS-CIMB RESEARCH, USITC

NOTE: Miscellaneous include clocks, optical/medical instruments, musical instruments, toys, furniture, arms, etc.

Figure 3: Sectors covered by US$250bn tariff list - Current and potential tariff rates

Categories	HS code	Key products	Current tariff	Potential tariffs post step-up in 2019*	Note
Chemicals & Allied industries	28-38	- All kinds of chemical products - Includes cosmetics and cleaning agents (such as soap)	0-25%	25%	Lubricating preparations - not for the treatment of textile, Lubricating oil additives (tariff: 25%)
Foodstuffs	16-24	- Prepared meat, aquatic products, vegetables, fruit - Sugars and confectionary - Beverages and alcohol - Soy sauce and seasonings - Excludes cocoa and preparations	0-35%	25%-35%	
Footwear/Headgear	64-67	- Mainly headgear, shoes and umbrellas	0-48%	25-48%	
Machinery/Electrical	84-85	- In additional to various capital goods, also includes TVs & parts	0-25%	25%	
Metals	72-83	- Steel/alloy, copper, nickel, aluminum, ect.	0-25%	25%	Structures of iron or steel (tariff: 25%)
Mineral products	25-27	- All kinds of mineral products	0-25%	25%	Petroleum oils - not light oils and preparations (tariff: 25%)
Plastics/Rubbers	39-40	- Includes decoration materials - Includes consumer goods such as plastic bags, gloves, tires	0-25%	25%	Most of plastic products: 25%, rubber products: 10%
Textiles	50-63	- Mainly cover various cloths	0-20.9%	25%	
Transportation	86-89	- Mainly car parts	0-25%	25%	Railway, tramway locomotives (tariff: 25%)
Vegetable products	6-15	- All kinds of vegetables, fruits, nuts, cereals, fish oils	0-20%	25%	

SOURCES: CGS-CIMB RESEARCH, USTR, PIIE

NOTE: (*): Tariff increased was originally scheduled for Jan 2019 but has been put on pause until Mar 2019"

We see a 40% chance of an escalation in the US tariff regime to cover all US$567bn of Chinese imports starting in 2019F »

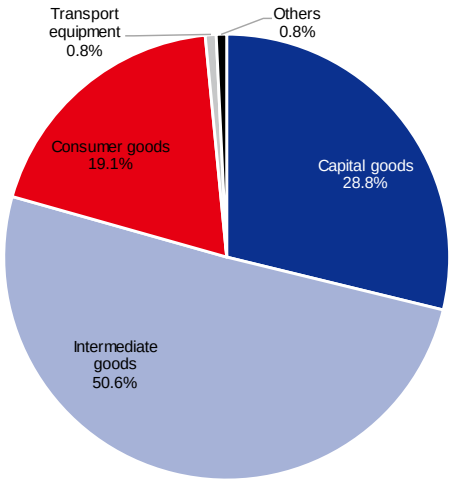
We view the US-China trade war as just one act in a protracted "great power rivalry" wherein the incumbent super power is increasingly paranoid about being dethroned by the emerging superpower. This is borne out in recent allegations by the Trump administration of Chinese attempts to spy on the US as well as attempts to meddle in US mid-term elections and, more recently, by US Vice President Mike Pence's attacks on China's political regime and branding of One Belt One Road strategy as "debt trap diplomacy". Growing US government scrutiny of sales of high-technology products to China also reflects growing US concerns around Xi Jinping's "Made in China 2025" programme aimed at making China a world leader in high-tech exports. Even though China has reduced tariffs on US car imports to 15% from 40% and agreed to recommence

purchases of US soybean, we see a threat of re-escalation in the future as there are limits to how much ground China can cede.

A trade war escalation will bring a wide range of finished consumer goods from China into the US tariff regime »

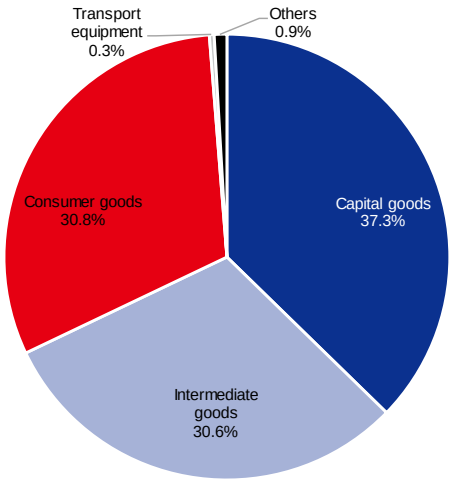
As mentioned earlier and illustrated by the chart below, the current tariff regime is targeted more at capital goods and intermediates rather than finished consumer goods imports from China into the US. Finished consumer goods covered by the current tariff regime comprise only around a fifth of the total universe of Chinese exports to the US subjected to the tariffs, in value terms. This appears to be a deliberate strategy by the Trump administration to soften the immediate impact of the trade war on US consumers and avoid a demand shock due to a sudden increase in prices of consumer goods. However, for the US to really up the ante on China, we believe it is necessary that the tariffs are extended to include finished consumer goods imports from China even at the risk of stoking consumer price inflation in the US as finished consumer goods are an instrumental pillar of China-US bilateral trade, accounting for an estimated 30.8% of Chinese goods exports to the US in 2017.

Figure 4: US imports from China subjected to $250bn list



SOURCES: CGS-CIMB RESEARCH, PIIE

Figure 5: US imports from China in 2017



SOURCES: CGS-CIMB RESEARCH, PIIE

If the Trump administration goes ahead and delivers on its threat to extend the tariff regime to cover the entire universe of Chinese goods imports into the US, this will cover a broad swath of finished consumer goods such as mobile phones, laptop computers as well as finished apparel, all of which have so far been spared from trade war related tariffs.

Figure 6: Value of Chinese imports covered by US tariffs: Current and post-escalation

Unit: US$ bn	Current status	Full-blown trade war
Machinery/Electrical	120.2	256.6
Miscellaneous	35.3	80.4
Textiles	3.4	39.0
Metals	16.4	25.4
Plastics/Rubbers	10.9	19.8
Footwear/Headgear	1.3	18.0
Transportation	14.6	15.1
Chemicals & Allied industries	7.7	15.8
Stone/Glass	5.0	10.1
Wood & wood products	6.4	9.7
Raw hides, skins, leather & furs	7.4	7.4
Foodstuffs	2.6	3.0
Animal & Animal products	1.8	2.5
Vegetable products	0.9	1.6
Mineral products	0.5	1.1
Total	**234.5**	**505.5**

SOURCES: CGS-CIMB RESEARCH, USTR, PIIE

NOTE: Data is based on US imports from China in 2017 | Miscellaneous include clocks, optical/medical instruments, musical instruments, toys, furniture, arms, etc.

The machinery/electrical and textiles sectors present the greatest opportunity for ASEAN exporters to benefit from the trade war

As shown in the chart below, machinery and electrical goods represent, by far, the largest category of Chinese exports to the US in value terms (worth a total of around US$256.6bn). They are also the most prone to disruption from a further escalation of trade tensions. In terms of value exposure to the existing tariff regime, this sector is also by far the largest; a total of US$120.2bn of machinery and electrical goods are already subjected to tariffs, comprising around 47% of the total value of Chinese exports to the US that are already subjected to tariffs.

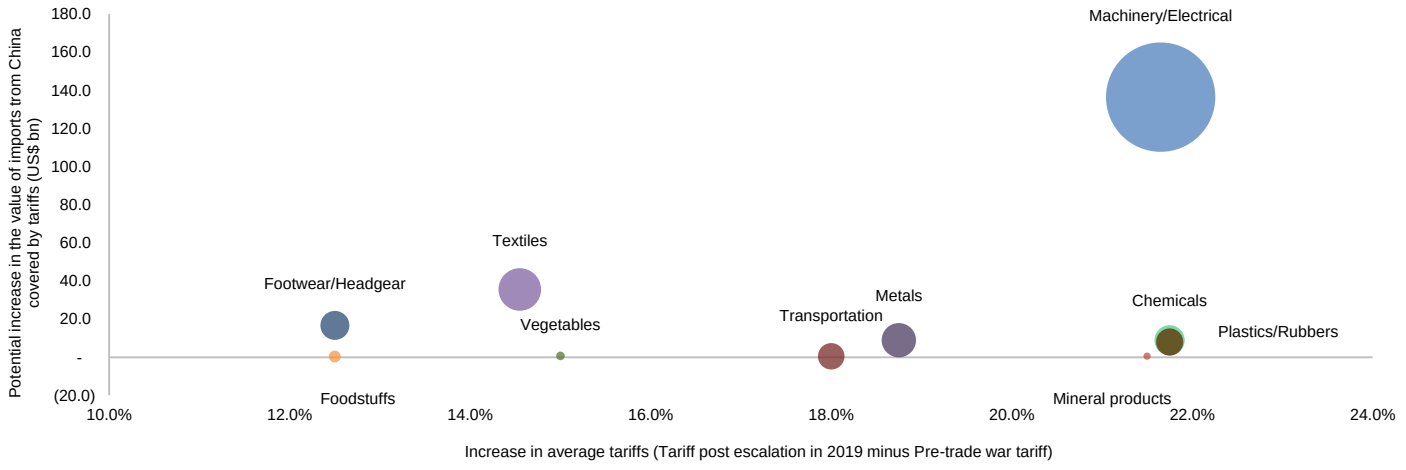
If the US goes ahead and extends the tariff regime to cover all US$506bn of Chinese imports into the US, this will expose an additional US$136bn worth of Chinese machinery and electrical goods exports to tariffs; this incremental value exposure is higher than the incremental value exposure in any other category of Chinese exports to the US. Even if the US does not extend the tariff regime to cover all US$506bn of Chinese imports to the US, we expect the machinery and electrical goods export sector to see significant disruption just from the tariff increases on the existing universe of tariffed goods: if the step-up in tariffs goes ahead after the expiry of the 90-day “truce” in 2019, the average tariff (non-weighted) levied on Chinese machinery and electrical goods imports into the US would have seen a 21.7% point increase from pre-trade war levels. This pre-trade war-to-post step-up increase in tariffs is matched only by the tariff increases in the chemicals and plastics/rubber categories which are much smaller in value terms than the machinery and electrical goods category.

Textiles comprise the second-largest category of Chinese exports to the US (worth a total of around US$39bn in 2017) and are largely exempt from trade war-related tariffs thus far, with just under 9% of the textile export universe from China to the US currently subjected to tariffs. In the event of an escalation of the trade war to cover all US$506bn of Chinese exports to the US, the total value of tariffed Chinese textile exports to the US could increase over 10x from current levels, equivalent to an incremental export value exposure of over US$35bn.

Other sectors that present great opportunities for exporters to the US to grab market share from China include transportation (largely automotive), metals and plastics/rubbers. The transportation sector looks attractive as it is sizable and already almost completely covered under the existing tariff regime. The metals and plastics/rubbers sectors are interesting because they are sizable in value

terms, meaningfully covered already under existing tariffs, and expected to see a sharp increase in tariff rates once the 90-day "truce" ends in 2019 (unless a new trade deal is negotiated by then) from pre trade-war levels, and could also see a meaningful increase in tariff exposure in value terms should the US extend tariffs to cover the entire universe of imports from China.

Figure 7: Changes in tariff rates and value of tariffed Chinese exports to the US in the event of a full-blown trade war



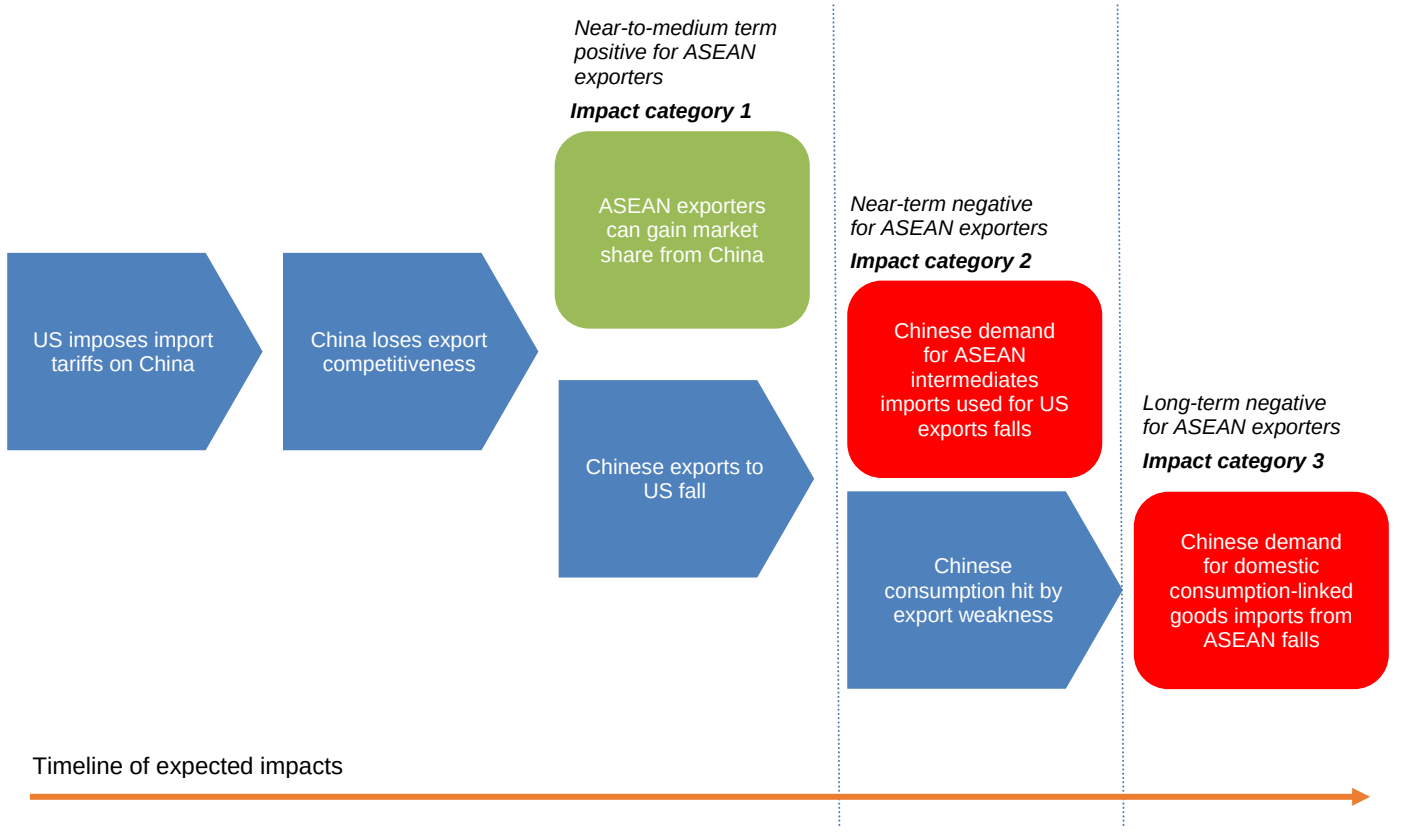
SOURCES: CGS-CIMB RESEARCH, USTR

NOTE: Increase in average Tariffs is calculated as the mid-point of tariff range of each category. Bubble size: 2017 exports value to the US

ASEAN winners and losers

We see ASEAN exports being impacted by the US-China trade tensions in three distinct ways

Figure 8: Trade war impact on ASEAN exporters: causal chain by category of impact



SOURCES: CGS-CIMB RESEARCH

Impact category #1. ASEAN exporters to the US could win market share from Chinese exporters due to enhanced competitiveness.

Rather fortunately for ASEAN countries, many of the key categories of Chinese exports to the US that are prone to the greatest disruption from the trade war (as identified above) also happen to be export categories in which ASEAN countries collectively have unique strengths and emerging export clusters. These include the machinery and electrical equipment, textiles, footwear/headgear, plastics/rubbers, metals, and to a lesser extent, the automotive (transportation) sectors as evinced in a) the sizable share contributed by each of these categories to total exports to the US for each of the ASEAN countries, and b) the size of the production base within each of these categories across ASEAN.

To arrive at our shortlist of "high potential" sectors in this impact category, we also look at the absolute value of China's exports in that sector, and the market share of ASEAN exports to the US in each category relative to China's market share as well as China's absolute market share in each of these categories.

We like categories which are large in terms of export value and those in which China has sizable global market share but in which ASEAN's market share relative to China's market share is not tiny. This is because in sectors in which China dominates, there is more room for market share erosion to ASEAN due to a high market share base and a growing realisation among US buyers of overreliance on sourcing from China. However, since export manufacturing dominance also creates network efforts and cluster benefits, sectors in which China has much higher market share relative to ASEAN are also sectors in which ASEAN will find it more difficult to dislodge China from its leadership position. This is particularly true in the area of electrical and machinery manufacturing which has complex supply chains and relies heavily on established component supplier ecosystems. Finally, we also give credit to those categories or sectors in which ASEAN has a significant domestic-facing manufacturing base even if it does not have a meaningful share of exports since it is conceivable that an export orientation can be developed among domestic-oriented manufacturers in recognition of the export opportunity created by the trade war.

Based on the above criteria, we identify **machinery and electrical equipment, textiles, footwear/headgear and plastics/rubbers as the sectors that present the greatest opportunities for ASEAN to benefit from the US-China trade war** for the following reasons:

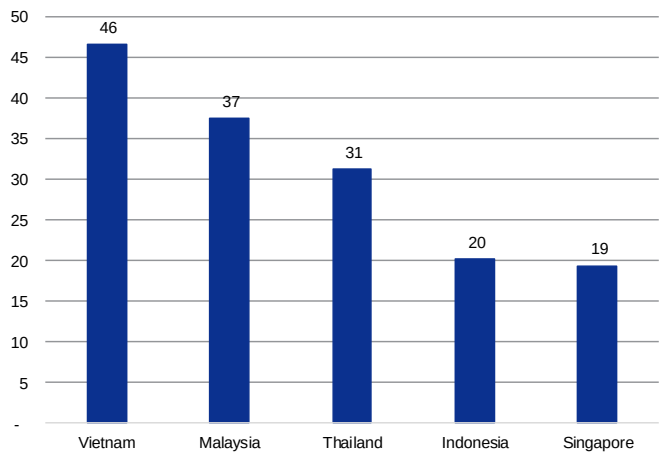
1) China's exports to the US in each of these categories is substantial in value terms, making them sizable opportunities for ASEAN;

2) In each of these categories, China has large enough market share positions to allow ASEAN competitors to "nibble at the periphery" and yet does not tower over ASEAN to an extent that would make it difficult for ASEAN countries to compete with China due to the aforementioned network effects.

3) In each of these categories, ASEAN, collectively, has a sizable domestic-facing manufacturing base even if its export market share is not significant, thereby allowing the region to leverage its domestic manufacturing base to grab export opportunities created by the decline in China's competitiveness.

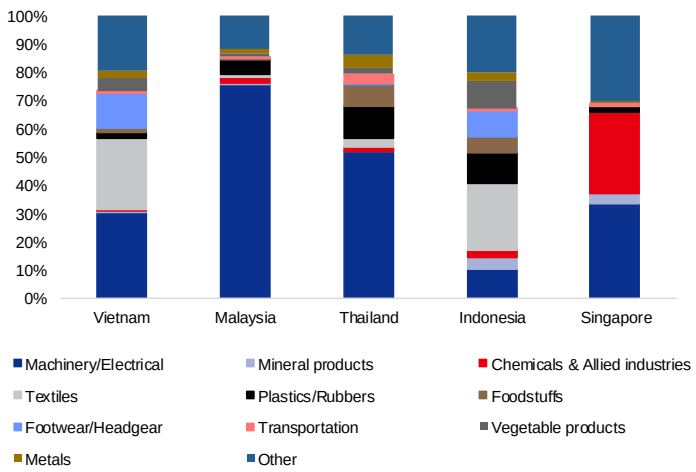
We include the automotive (transportation) sector on our shortlist even though it does not strictly meet these selection criteria because a) Thailand has a strong automotive manufacturing base, b) automotive products are already extensively covered by the existing tariff regime, meaning that benefits to ASEAN from the trade war in this category are not contingent upon a further escalation of the trade war. We discuss each of these sectors in greater detail below:

Figure 9: Total exports to the US from each ASEAN country (US$ bn)



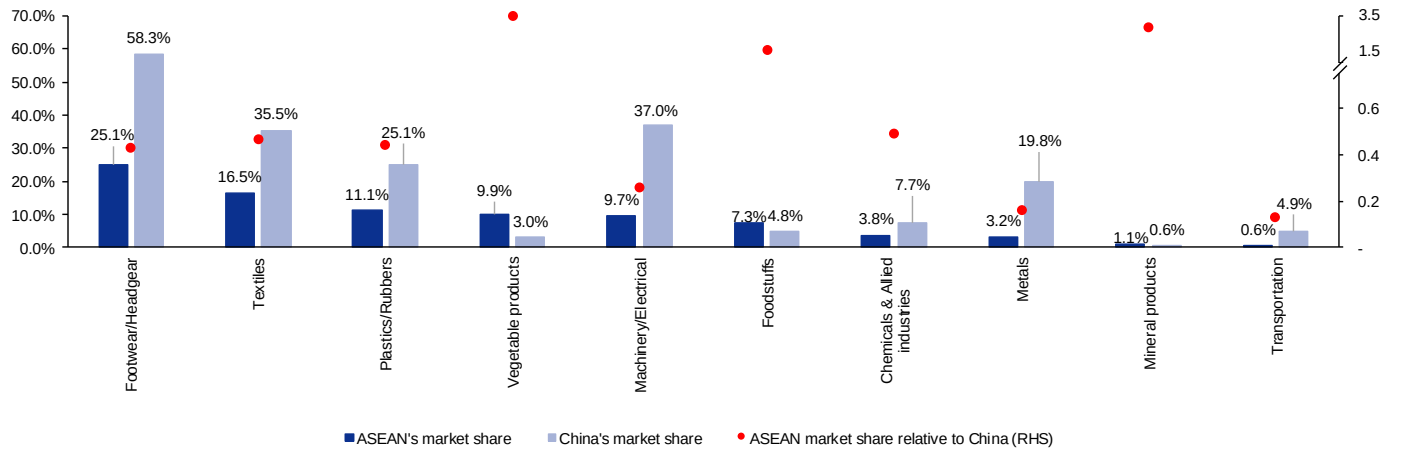
SOURCES: CGS-CIMB RESEARCH, USTR

Figure 10: ASEAN exports to the US by category (2017)



SOURCES: CGS-CIMB RESEARCH, USTR

Figure 11: Market share of ASEAN vs. China in exports to the US



SOURCES: CGS-CIMB RESEARCH, USITC

Figure 12: Summary of how we arrived at our shortlist of "high potential" sectors for ASEAN to benefit from the trade war

	Machinery/ Electrical	***Plastics/ Rubbers***	***Textiles/ Footwear& Headgear***	***Transportation (Automotive)***
How big Is the addressable market for ASEAN exporters (China's current exports to US)?	●	◑	◕	◔
How does ASEAN currently stack-up versus China in exporting to the US?	◑	◕	◕	◔
Is ASEAN's relative market share of exports to the US small enough to allow for market share gains from China (<0.5)?	*Yes*	*Yes*	*Yes*	*Yes*
How sizable is ASEAN's existing manufacturing base in the sector (for domestic + exports)?	◕	◕	◕	◑
How contained is the competitive threat from other regions ex-ASEAN in gaining export market share from China?	◕	◕	◔	◑
Overall attractiveness rating	●	◕	◑	◑

SOURCES: CGS-CIMB RESEARCH
NOTE: ● = "Very favourable"; ○ = "Unfavourable"

Machinery and Electrical

In the area of machinery and electrical equipment exports, Vietnam, Malaysia, Thailand and Singapore each already have a track record and an established or fast-emerging manufacturing base. While Singapore plays in high-tech categories and precision components which are not the current focus of Chinese exporters, Thailand, Malaysia and Vietnam are competitors to China in electrical and machinery exports to the US. Of these three countries, Malaysia perhaps has the greatest exposure to upstream value chain products such as semiconductor devices and photovoltaic cells and, hence, is a potential beneficiary even under the current tariff regime which targets electrical and machinery intermediates rather than finished goods.

Thailand plays primarily in downstream value chain segments of the machinery and electrical manufacturing industry with activity being centered more on production of finished consumer electrical appliances. In fact, Thailand has ASEAN's largest production base in the electrical appliances sector and the country is the world's second-largest producer of air conditioning units and fourth-largest producer of refrigerators (source: website of the Royal Thai Embassy in Mexico). The country exported US$2.4bn worth of air conditioning products and US$1.8bn worth of refrigeration products in 2017 (Source: Bank of Thailand) and remains a regional leader in these categories of consumer appliances even though it has ceded some market share to Vietnam in the television and microwave oven product categories in recent years.

Since global exports of electrical appliances are dominated by China, Thailand could be a big beneficiary of a potential future escalation of the trade war which will bring finished consumer electrical appliances under the tariff umbrella.

Vietnam probably has the least developed electrical and machinery export manufacturing base among the above three countries but is rapidly emerging as an electrical export manufacturing powerhouse thanks in large part to massive anchor investments by global OEMs such as Samsung, LG and Intel.

It is also important to note that although the current tariff regime mostly covers electrical and machinery intermediates, sheer anticipation of future trade war escalation to cover Chinese finished electrical goods exports to the US could already be catalysing some shift in export orders and manufacturing capacity out of China and into both Vietnam and Thailand. Hence, an escalation of the trade war is not a necessary precondition for both countries to grab electrical and machinery export market share from China, in our view.

Textiles, footwear/headgear

We lump these two sectors together as they are allied and countries with a strong textile export industry also tend to be strong in footwear/headgear exports. As shown in Figure 13, Vietnam and Indonesia have a sizable market share of exports to the US in both the textiles and footwear/headgear sectors. Given the labor-intensive nature of textile and footwear manufacturing, it is no surprise that the US export market share of ASEAN countries in these sectors is inversely correlated with labour costs – Vietnam is the biggest player in both categories followed by Indonesia. Thailand, Malaysia and Singapore, which have significantly higher labour costs than other ASEAN countries, have no meaningful presence in these sectors.

Figure 13: Market share of each ASEAN country vs. China in US imports

	Vietnam	Malaysia	Thailand	Indonesia	Singapore	China
Footwear/Headgear	18.7%	0.0%	0.4%	5.9%	0.0%	58.3%
Raw hides, skins, leather & furs	8.3%	0.0%	0.9%	1.7%	0.0%	53.2%
Machinery/Electrical	2.0%	4.1%	2.3%	0.3%	0.9%	37.0%
Textiles	10.8%	0.4%	1.0%	4.4%	0.0%	35.5%
Plastics/Rubbers	1.2%	2.3%	4.4%	2.8%	0.5%	25.1%
Wood & wood products	0.8%	0.5%	0.4%	1.4%	0.1%	22.2%
Metals	1.0%	0.4%	1.2%	0.5%	0.1%	19.8%
Stone/Glass	0.5%	0.2%	1.8%	0.4%	0.3%	12.6%
Animal & Animal products	3.0%	0.0%	1.6%	4.0%	0.1%	7.8%
Chemicals & Allied industries	0.1%	0.3%	0.2%	0.3%	2.8%	7.7%
Transportation	0.1%	0.1%	0.3%	0.1%	0.1%	4.9%
Foodstuffs	1.2%	0.4%	3.8%	1.8%	0.1%	4.8%
Vegetable products	4.0%	0.9%	1.2%	3.7%	0.1%	3.0%
Mineral products	0.1%	0.1%	0.0%	0.4%	0.4%	0.6%

SOURCES: CGS-CIMB RESEARCH, USITC

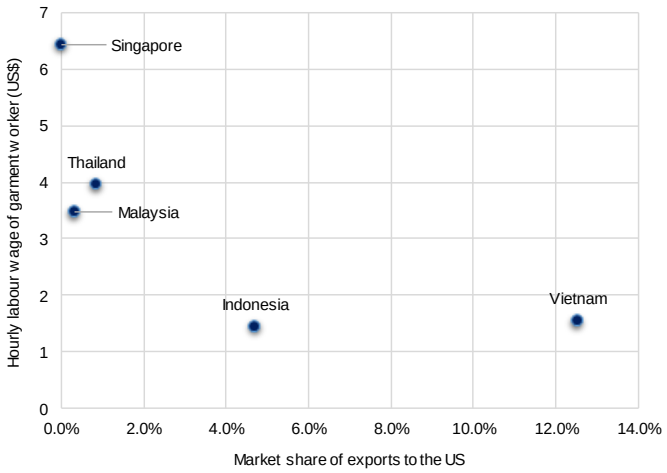
NOTE: Pink shading denotes the ASEAN market share leader in each category; orange shading denotes second largest ASEAN player in each category

Figure 14: Current factory labour cost of each ASEAN country

Unit: US$ per hour	Minimum wage	Actual garment factory labour wage
Singapore	na	6.42
Vietnam	1.31	1.55
Indonesia	1.46	1.44
Thailand	2.29	3.95
Malaysia	1.90	3.48

SOURCES: CGS-CIMB RESEARCH, SHENGLU, ASIABRIEFING

Figure 15: Labour cost vs. market share of textile and footwear/headgear exports to the US by ASEAN country



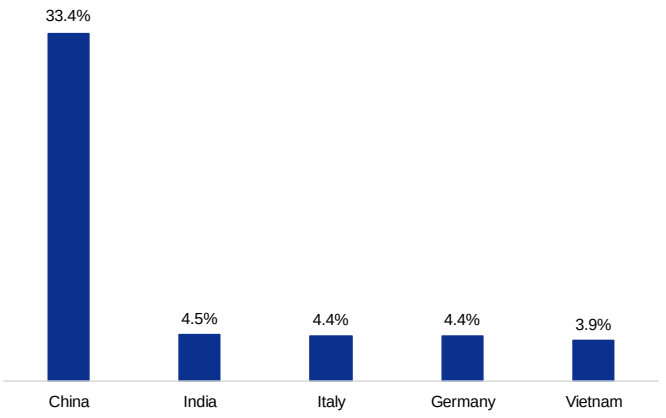
SOURCES: CGS-CIMB RESEARCH, SHENGLU, USITC

This sector is particularly potent for ASEAN to benefit from the trade war for three reasons:

1) A structural shift in textile, garment and footwear export manufacturing away from China to other low-wage countries has been underway as labour costs in China have been rising rapidly and the government there looks to reorient its manufacturing industry towards higher value-added and hi-tech sectors. The trade war will only accelerate this trend and ASEAN can benefit from the existing momentum created by the structural shift;
2) The textile and apparel sector has lower entry barriers and less supply chain complexity as compared with other sectors such as machinery and electronics, making it much easier to move facilities out of China;
3) ASEAN saw heavy investment along the entire textile value chain in the years leading up to the anticipated ratification of the Trans Pacific Partnership (TPP) in 2017 which was meant to include the US but exclude China. Vietnam, in particular, saw heavy investment in midstream and upstream segments of the textile and apparel value chain due to the yarn forward rules of origin stipulated by the TPP. Even though TPP was abandoned in 2017, the investment leading up to it has created a solid ecosystem within ASEAN to allow it to gain market share from China. The ratification of CPTTP could further reinforce this trend.

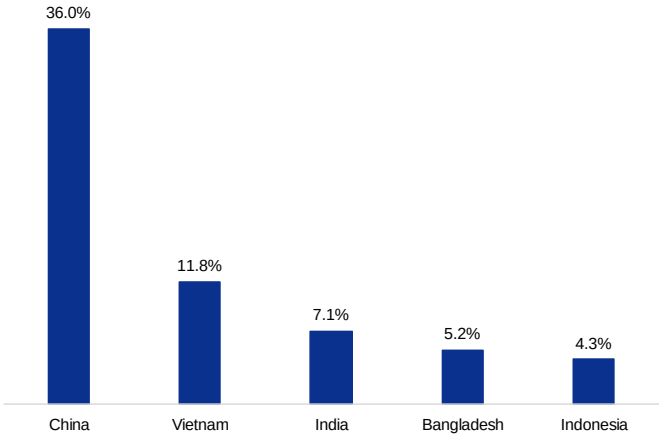
It must be noted, however, that the ASEAN countries touched upon in this report are up against formidable competitors in the sector including established incumbents such as Bangladesh, India, Sri Lanka and Cambodia as well as emerging textile and footwear export hubs such as Pakistan and Myanmar.

Figure 16: Top 5 textile and apparel exporters by global market share (2017)



SOURCES: CGS-CIMB RESEARCH, WTO

Figure 17: Top 5 textile and apparel exporter to US market by market share (9M2018)



SOURCES: CGS-CIMB RESEARCH, OFFICE OF TEXTILES AND APPAREL (OTEXA)

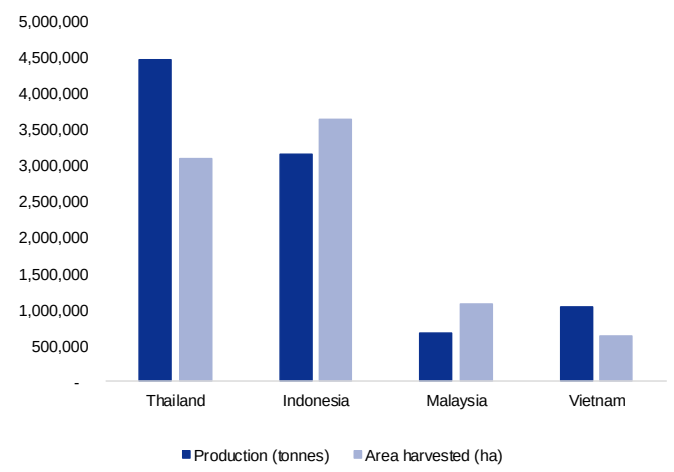
Plastics /rubbers

The plastics/rubbers sector is the fifth largest category of Chinese exports to the US. Plastics exports mostly include plastic packaging, pipes, tubes and household goods usually made of polymers like polyvinyl and polyethylene. Rubbers exports are mostly comprised of both natural and synthetic rubber products such as tyres, gloves and household or personal consumption items such as mats, belts, etc.

Total plastics/rubbers exports from China to the US in 2017 amounted to around $US20bn, equivalent to around 4% of total Chinese exports to the US in that year. Thailand, Malaysia and Indonesia are the three ASEAN players that have a significant share of total exports to the US in this sector. Thailand is particularly strong in plastic and synthetic rubber product exports due to its well-developed downstream energy and petrochemicals industries. Thailand, Malaysia and Indonesia have particular strengths in natural rubber product exports given their huge natural rubber plantation assets. Vietnam is a relative newcomer in these categories but is well positioned to increase its market share given that the country is investing heavily in petroleum refining capacity and also has significant land area (including in Cambodia and Laos, leased to Vietnamese rubber plantation owners) under natural rubber cultivation.

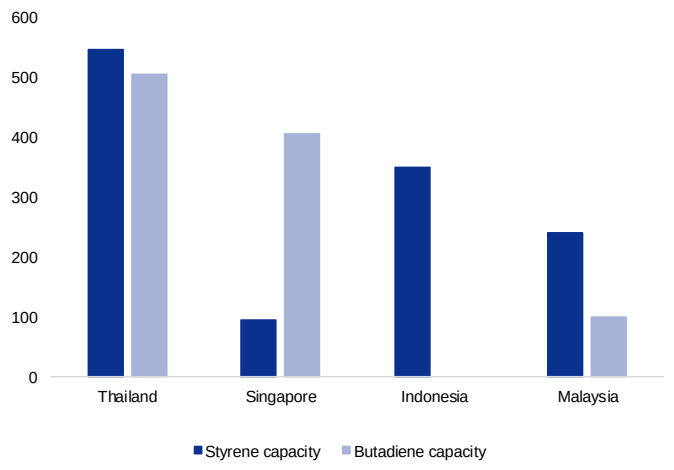
China supplies a quarter of total plastics/rubber exports to the US. This is sizable enough to allow for some market share erosion to ASEAN, especially given that ASEAN has certain key strengths in terms of raw material supply (natural rubber, crude) as well as an existing manufacturing ecosystem (petrochemical production) and, as a result, a still sizable market share relative to China. Also, in the event of a future escalation of trade tensions or a resumption of the tariff escalation post expiration of the “moratorium” period recently agreed between the US and Chinese delegations at the G20 trade summit in Argentina, this sector would see one of the steepest hikes in tariffs. Also, if the tariff umbrella is extended to cover all Chinese imports to the US, the total tariffed value of Chinese exports would nearly double from US$11bn today to nearly US$20bn. While the incremental value of exports to be brought under the tariffs regime is small relative to that of the machinery/electrical and textiles sectors, it represents a big increase in percentage terms.

Figure 18: Annual natural rubber production and harvested area by ASEAN country (2016)



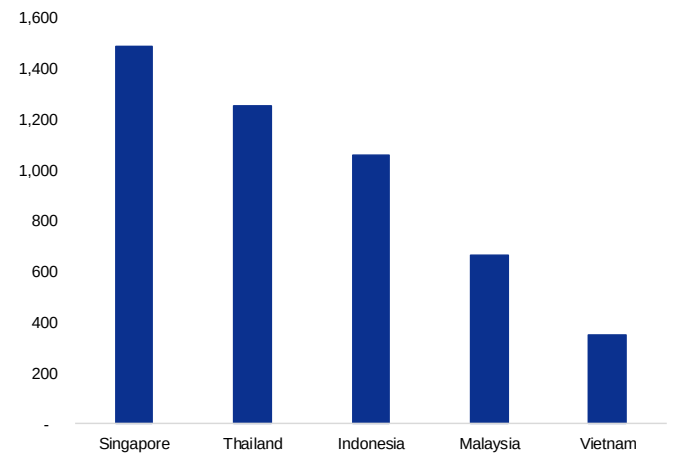
SOURCES: CGS-CIMB RESEARCH, FAO

Figure 19: Styrene and butadiene capacity by ASEAN country (2018, '000 tpa)



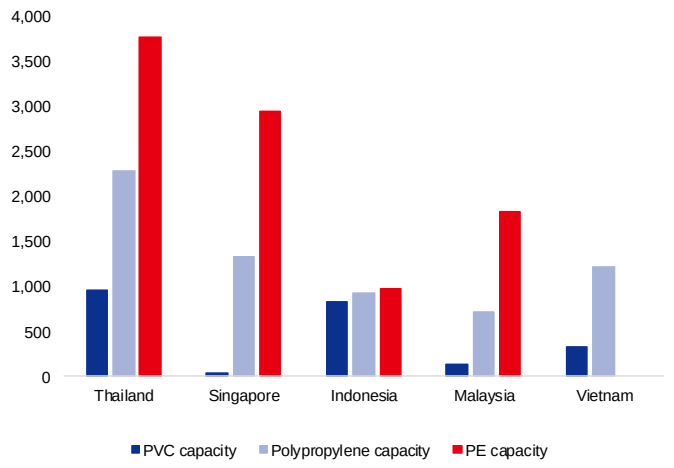
SOURCES: CGS-CIMB RESEARCH, BMI

Figure 20: Refining capacity by ASEAN country ('000 b/d)



SOURCES: CGS-CIMB RESEARCH, BMI

Figure 21: Capacity of select petrochemical products by ASEAN country ('000 tpa)



SOURCES: CGS-CIMB RESEARCH, BMI

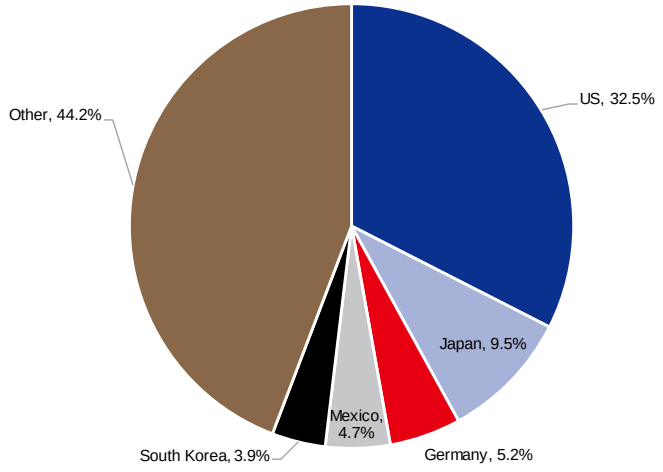
Automotive (Transportation)

The transportation category largely comprises of automotive products. While this is only the eight biggest category of Chinese exports to the US, we believe it deserves mention since it is not insignificant in value terms ($US16bn in 2017) and is a sector in which Thailand has a particularly strong competitive advantage given its status as the "Detroit of Asia".

However, it is important to note that most of China's automotive product exports are comprised of auto parts rather than finished vehicles. Although we do not have data on how much of China's transportation product exports to the US relate to finished vehicle exports, The Economist Intelligence Unit (EIU) estimates that finished vehicle exports accounted for only 0.3% of China's total exports globally in 2017, worth around US$7.2bn. This compares with an estimated US$31bn worth of auto parts exports globally by China in the same year, equivalent to 1.4% of total Chinese exports in that year. The same source estimates that China is the world's fourth largest exporter of auto parts with 8.0% market share in 2017, after Germany (16.1%), the US (11.6%) and Japan (8.9%), and the US is the biggest market for Chinese auto part exports. Hence, ASEAN

countries with a strong auto parts and components manufacturing ecosystem will be positioned to benefit from this.

Figure 22: China's top auto parts export markets (2017)



SOURCES: CGS-CIMB RESEARCH, INTERNATIONAL TRADE CENTRE

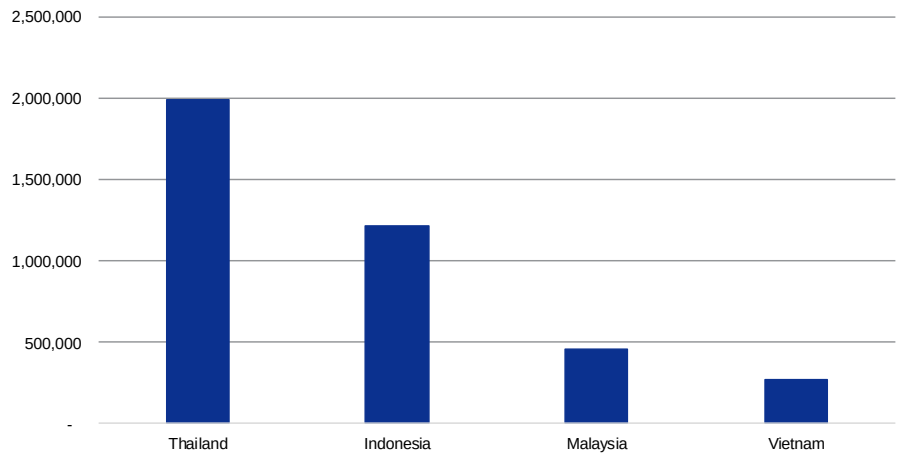
Thailand has a long history of automotive production following a period of heavy and sustained investment by Japanese auto OEMs in the nineteen eighties and nineties. Like the machinery/electrical sector – and unlike the textiles and footwear/headgear sectors – automotive production comes with complex supply chain dependencies and requires an intricate ecosystem of component suppliers. This makes it difficult to move production assets quickly but, given that Thailand already has a strong auto parts manufacturing ecosystem in place and that over half of its automotive production is geared towards exports (source: EIU), we believe it is well positioned to grab market share from China on the back of the trade war.

Although Malaysia is a small player in automotive exports, Malaysia has a vibrant – if somewhat fragmented – auto parts manufacturing ecosystem with over 800 auto component manufacturers (source: EIU). This could allow the country to grab market share from China which, if it happens, could significantly boost Malaysian automotive exports given the current low base.

Even though Vietnam's government is trying to develop a local automotive manufacturing sector, the auto component industry in the country remains underdeveloped and the local market is still small, thereby limiting potential for economies of scale in producing auto components in the country. Furthermore, with the Asian Free Trade Agreement (AFTA) reducing import tariffs on auto exports within the ASEAN region to zero, we believe Vietnam will find it challenging to compete versus entrenched incumbents such as Thailand in this industry. Finally, this sector is less reliant on labour than on capital thereby making Vietnam's low labour costs less of an advantage than in labour-intensive sectors such as textiles and footwear.

It is worth noting, however, that other Asian countries such as India will also be vying for a share of automotive exports that leave China's shores. India has a sizable domestic car market and its components sector has benefitted from the presence of several large global car manufacturers. However, the country's automotive manufacturing has a domestic orientation which, combined with infrastructure bottlenecks, makes it less formidable of a competitor to ASEAN.

Figure 23: Automotive production by ASEAN country (units, 2017)



SOURCES: CGS-CIMB RESEARCH, OICA
NOTE: Data is not available for Singapore

As a final step in vetting our shortlist of ASEAN sector beneficiaries in impact category 1, we also look at the differential in tariffs imposed by the US on the imports from China versus on imports from the ASEAN region in each key export category as this is clearly an important determinant of the competitiveness of ASEAN versus China in exporting to the US. In calculating the tariff differential, we use the expected tariffs on Chinese imports into the US, post a step-up in the tariff rates as we believe that the recently struck trade war "truce" at the G20 summit in Argentina is temporary in nature and, eventually, the tariffs will be raised to increase the pressure on China. We use ranges rather than a single value for the tariff rate as there are hundreds of product lines within each export category and each product line is subject to a different tariff rate. This analysis (refer to figure below) should be treated more as a "sanity check" on the overall conclusion on which sectors lend themselves to ASEAN, as a region, gaining market share from China in exports to the US as a consequence of the trade tensions. Based on this analysis and the shortlist of key sectors identified earlier, we can see that the top end of the tariff range on Chinese exports to the US (post step-up) is significantly higher than on ASEAN exports to the US in the machinery/electrical and plastics/rubbers sectors while ASEAN's relative "tariff advantage" over China is more nuanced in the textiles, footwear/headgear and transportation (automotive) sectors. Despite ASEAN'S "tariff advantage" in the minerals, metals and chemicals/additives categories, we do not include these in our shortlist of sectors in which ASEAN can benefit from the trade war because of the following reasons:

1) Chinese mineral exports to the US are small relative to other sectors.
2) In the metals sector, ASEAN's market share relative to China is rather small which, combined with the overcapacity in the Chinese metals industry, limits the extent to which ASEAN can win market share from China.
3) In the chemicals/additives sector, ASEAN supply is concentrated in Singapore where production is dominated by large global multinational corporations, rather than local players.

Figure 24: Tariffs on ASEAN exports to the US compared with tariffs on Chinese exports to the US

Product category	HS Code	Key products	China		ASEAN
			Current tariffs	Potential tariffs	
Machinery/Electrical	84-85	- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof - Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	0-25%	25%	0-15%
Mineral products	25-27	- Salt; sulfur; earths and stone; plastering materials, lime and cement - Ores, slag and ash - Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0-25%	25%	0-7%
Chemicals & Allied industries	28-38	- Chemicals, pharmaceutical products, fertilizers, other chemical products	0-25%	25%	0-6.5%
Textiles	50-63	- Silk, wool, cotton, including yarns and woven fabrics - Fibers, filaments, - Carpets, textile floor coverings - Knitted or crocheted fabrics - Articles of apparel and clothing accessories	0-20.9%	25%	0-28.6%
Plastics/Rubbers	39-40	- Plastics/Rubbers products	0-25%	25%	0-14%
Foodstuffs	16-24	- Edible preparation of fish, meat - Sugars/ Cocoa - Preparation of cereals, flour, starch, vegetables, fruit, nuts - Beverages, spirits, vinegar - Tobacco	0-35%	25-35%	0-35%
Footwear/Headgear	64-67	- Footwear, headgear, umbrellas	0-48%	25%-48%	0-48%
Transportation	86-89	- Railway locomotives, track fixtures, other vehicles, aircraft, ships, boats	0-25%	25%	0-25%
Vegetable products	6-15	- Vegetables, fruit, nuts, coffee, tea, cereals,, oil seeds, etc	0-20%	25%	0-29.8%
Metals	72-83	- Iron and steel, copper, aluminium, lead, zinc, tin, etc	0-25%	25%	0-15%

SOURCES: CGS-CIMB RESEARCH, TARIFFDATA.WTO.ORG

NOTE: ASEAN countries include Vietnam, Thailand, Malaysia, Indonesia | Singapore has FTA with the US, tariff is 0% for above categories

Figure 25: Comparative advantage of each ASEAN country by sector

Country	Sector	Reason
Singapore	**High-tech**	- Singapore is not competitive in manufacturing due to its high operating costs and strong currency. - Manufacturing is focused on high value, low volume products or those that customers insist on doing in Singapore given its strong intellectual property protection regime.
Vietnam	**Textile, clothing & footwear**	- Vietnam has much lower labour costs than China and most ASEAN peers with sizable labour forces. - The country has been a major exporter of textile, apparel and footwear for well over a decade and therefore, has a strong skills base relative to other ASEAN countries.
	Electronics	- The country is shifting gear into electronics manufacturing, spurred by large anchor investments from Samsung and LG. - Vietnam's proximity to China's Pearl River Delta and long coastline make it easy to ship in components and parts which is a crucial advantage given the complex supply chains in this sector and China's position as a dominant supply hub.
Indonesia	**Food and beverage**	- Huge domestic market potential and well supported by productive agricultural sector and relatively predictable yields.
	Textile and clothing	- Low labour costs relative to China and a large labour force - Indonesia's textile exports contribute c.2% of the world textile demand, the second largest exporter after Vietnam in ASEAN implying a strong skills base. - Expertise in production of functional clothing (i.e. sports-wear) on top of basic clothing production ability.
	Automotive	- Indonesia has the largest automotive production capacity within ASEAN and was second only to Thailand in terms of auto exports in 2017.
	Plastics/ Rubbers	- Indonesia is the second largest natural rubber producer globally. Around 85% of Indonesia's rubber production is exported, while domestically sold rubber is mostly consumed by the automotive sector.
Thailand	**Automotive**	- Thailand has been the auto production hub in Southeast Asia over the past few decades as Thailand has a large domestic market and the government never had a national car brand development policy, thereby making way for global OEMs. - The Thai labour force is highly-skilled relative to most of ASEAN. - Strong presence of Japanese OEMs has also attracted many auto parts suppliers into the country, that have learnt to supply auto makers on a just-in-time basis. - Strong road, rail and port infrastructure helps reduce logistics costs.

	Electronics	- Strong automotive manufacturing ecosystem has created spillovers into electronics auto part manufacturing capabilities. - Thai electronic companies have ventured into making components for mobile phones and IT telecom equipment which also gives it an advantage in finished electronic goods production. Thailand is a major producer of consumer electrical appliances.
	Food and beverage	- Thailand is one of the largest food producers in the world due to a large agrarian base; the country has been a leading producer of processed food for years.
	Plastics/ Rubbers	- Thailand ranks as the largest rubber producer and exporter in the world. Complementing the natural rubber industry, Thailand is also growing its synthetic rubber segment by leveraging its robust petrochemicals production base. - Tyres are the number one rubber-based export from Thailand, with tyre producers accounting for roughly half of domestic rubber consumption given the country's large automotive manufacturing base. - Thailand has a large petrochemicals industry and is a regional leader in plastics production. Plastic packaging accounts for 48% of Thailand's raw plastic consumption, followed by 15% for its electronic sector, 14% for its construction sector and 8% for its automotive sector, according to ASEAN Briefing.
Malaysia	**Semiconductor**	- Malaysian semiconductor companies have built niche capabilities in assembly, packaging and testing of semiconductor chips. - Malaysian semiconductor companies have been the preferred partners/suppliers for foreign MNCs that are concerned over Intellectual Property (IP) infringement issues experienced with contract manufacturers in China. - The sector is supported by a strong ecosystem of local suppliers in Penang.
	Automotive	- Malaysia has a strong ecosystem of auto parts suppliers, many of which leverage its strong electronics parts and components manufacturing ecosystem.
	Plastics/ Rubbers	- Malaysia is the ASEAN region's top plastic export country. Its primary export destinations include Europe, China, Singapore, Japan and Thailand. - The Malaysian plastics market was estimated at US$3,305.4m, by revenue, in 2017 and is likely to expand at an estimated CAGR of 5.27%, during the forecast period 2018-2023, according to Mordor Intelligence.

SOURCES: CGS-CIMB RESEARCH

Figure 26: Importance of success factor by export sector and potential ASEAN trade-war beneficiaries by sector

	Machinery/ Electrical		*Plastics/ Rubbers*		*Textiles/ Footwear & Headgear*		*Transportation (Automotive)*	
Cheap labour force	◑	VN, ID	◔	VN, ID	●	VN, ID	◔	VN, ID
Proximity to major component supply base	●	VN, TH	◔	SG, TH, MY, VN	◑	VN, TH	◕	TH, MY, VN
Strong existing manufacturing/relevant skills base	◕	MY, TH, VN	◑	SG, TH, ID, MY	◔	VN, ID	●	TH, MY
Captive raw material supply base	◔	NONE	◕	TH, ID, MY	◑	TH	◔	TH, ID, VN
Strong existing US export orientation	◕	MY, TH, VN	◑	TH, ID, MY	◑	VN, ID	●	TH
Biggest potential beneficiaries in ASEAN by sector, based on comparative advantage	**MY, TH, VN**		**TH, ID, MY**		**VN, ID**		**TH, MY**	

SOURCES: CGS-CIMB RESEARCH

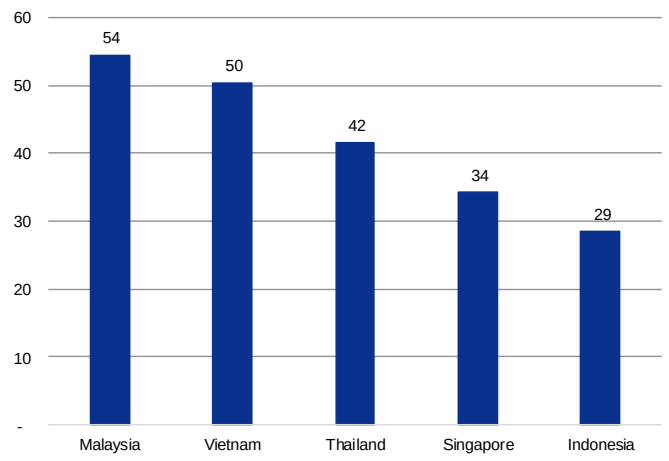
NOTE: ● = "Critical success factor", ○ = "Unimportant success factor"

Impact category #2. ASEAN exporters of intermediate products to China which are used as inputs for re-export from China to the US could see a slowdown in demand

ASEAN has significant indirect exposure to Chinese exports to the US as it is a sizable exporter of raw materials and intermediates to China. Malaysia and Vietnam are the two largest ASEAN exporters to China but Indonesia and Malaysia have the highest share of intermediates in their total exports to China. This is not surprising when you consider that ASEAN is mostly an exporter of basic materials and commodities to China, rather than of finished goods, and Indonesia is a large global exporter of hard commodities (iron ore, coal, etc.) while both Malaysia and Indonesia are big producers of palm oil and natural rubber; nearly 90% of total exports to China from both these countries is

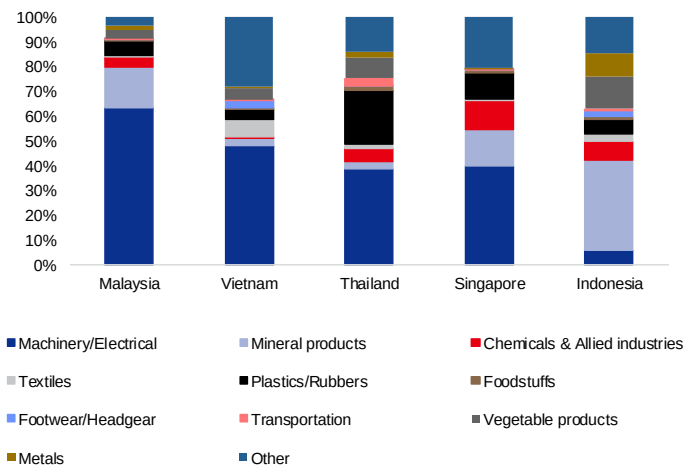
comprised of intermediates. Singapore has a sizable chunk of its exports to China being comprised of intermediates but this is more in the area of high-tech or precision components as well as chemicals and advanced materials. Notably, Vietnam has the lowest share of its exports to China contributed by intermediates. Being more of a mid-to-downstream value chain operator in export manufacturing which is more focused on assembly work, Vietnam's exports to China include a mix of intermediates and finished products (such as mobile handsets) although the country appears to be rapidly moving up the value chain into intermediates as evinced in Samsung's recent addition of LCD display manufacturing capacity in Vietnam.

Figure 27: Exports to China from each ASEAN country (2017, US$ bn)



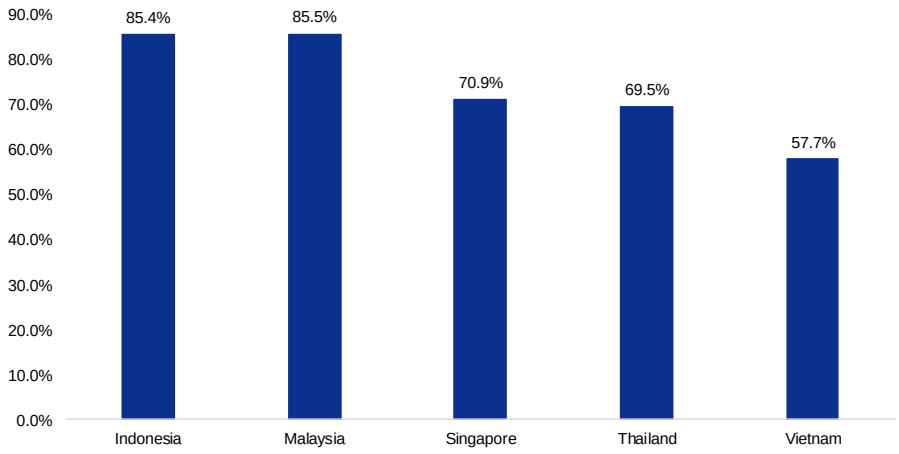
SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Figure 28: ASEAN exports to China by category (2017)



SOURCES: CGS-CIMB RESEARCH, TRADEMAP

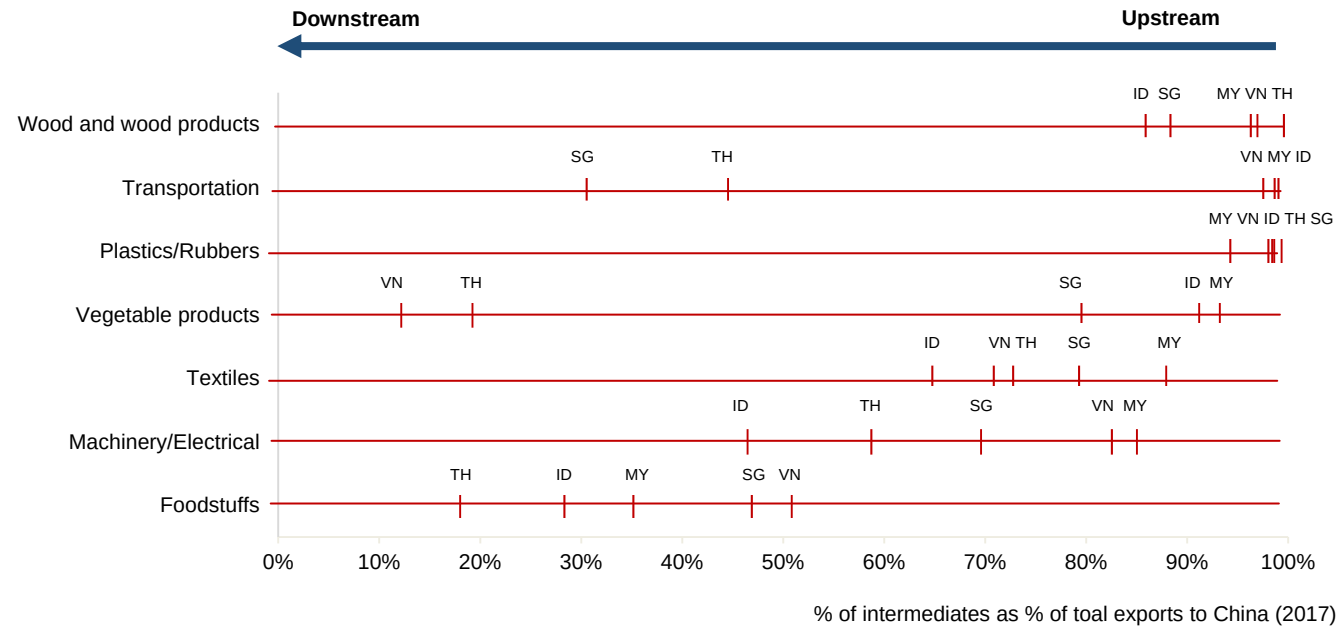
Figure 29: Intermediates exports to China from each ASEAN country (% of total exports to China, 2017)



SOURCES: CGS-CIMB RESEARCH, TRADE MAP, UNSTATS

While supply chain linkages between ASEAN intermediates exports to China and China's exports to the US are complex and there is no data to map this, we attempted to qualitatively evaluate the degree to which ASEAN exports to the China are consumed in Chinese goods exports to the US, by export category or sector. Just to illustrate this, Indonesian timber is used to manufacture furniture and other wooden products in China which are then exported to US; Thai and Indonesian rubber exports to China are used to produce tyres for export to the US while Malaysian and Singapore electronic components and precision parts exported to China are used for production of finished electrical products and machinery which are then exported from China to the US.

Figure 30: Map shows how upstream or downstream a country plays in exporting to China within each category



SOURCES: CGS-CIMB RESEARCH

ASEAN's transportation (automotive), machinery/electrical, foodstuffs, vegetable products and wood and wood products exports to China are consumed in moderate-to-high degrees in production of goods that China exports to the US, as shown in the table below:

Figure 31: Degree to which ASEAN intermediates exports to China by category are consumed in China's exports to the US

Product category	China intermediates imports from ASEAN country (US$ million)					Degree of consumption in China's exports to US
	Vietnam	Thailand	Singapore	Malaysia	Indonesia	
Machinery/Electrical	19,942	9,441	9,446	29,332	796	Moderate
Mineral products	1,410	1,249	1,459	8,223	10,011	Low
Chemicals & Allied industries	278	1,997	3,812	2,172	1,934	Insignificant
Textiles	2,606	470	44	181	584	Low
Plastics/Rubbers	1,856	8,892	3,724	2,952	1,650	Low
Foodstuffs	193	131	140	160	121	Moderate
Footwear/Headgear	2	1	0	0	0	Low
Transportation	238	531	38	145	183	High
Vegetable products	274	690	9	1,652	3,453	Very high
Metals	190	994	183	954	2,585	Low
Wood and wood products	1,094	1,965	291	248	2,878	Very high

SOURCES: CGS-CIMB RESEARCH

For these abovementioned categories of ASEAN exports to China that are highly exposed to Chinese exports to the US, the demand-side disruption may only be temporary in nature as the entire supply chain becomes less China-centered. For example, in the machinery/electrical sector, Malaysia and Singapore may initially see a strong decline in the demand for precision parts and components from China as downstream Chinese exporters of finished electrical products are unable to competitively export to the US. However, if ASEAN becomes more competitive in exports of the downstream products to the US than China, then the Malaysian and Singapore upstream suppliers can re-direct their exports to supply ASEAN manufacturers of finished electrical products and machinery who will gain market share from their Chinese competitors, thereby ultimately offsetting the impact of lower Chinese demand.

However, given China's dominance in multiple categories of exports to the US, ASEAN and other competing regions could take significant time to gain market share from China and this implies that ASEAN suppliers of intermediates to

China which are linked to Chinese exports of downstream products to the US are likely to be negatively impacted in the near term.

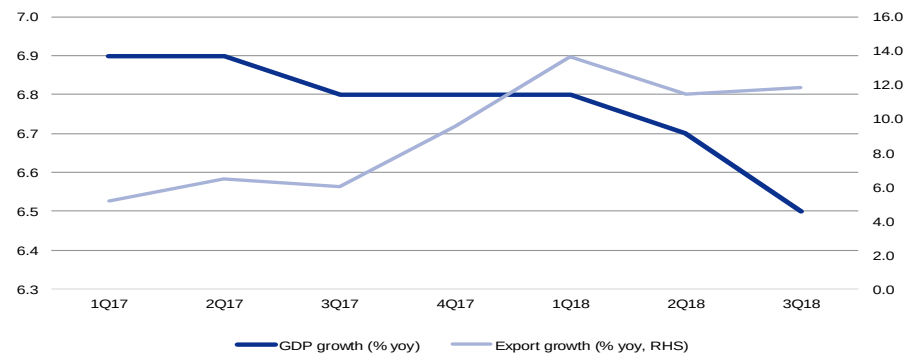
Even though we earlier identified machinery/electrical and transportation as sectors which present great potential for ASEAN to gain market share from China in exports to the US (impact category #1), investors will need to be discerning when honing in on countries or companies to ride this theme. Vietnam, for example, exports both components and parts as well as finished products to China (e.g. mobile handsets) and could, in the interim, feel the twin impact of a disruption in Chinese finished goods exports as well as falling Chinese domestic consumption in sectors of the economy that are vulnerable to weakening demand. It will benefit in longer term as factories are relocated out of China to Vietnam. Malaysia, which plays even further upstream from Vietnam in electronics manufactured exports to China (e.g. semiconductors), is likely to see a pronounced negative impact in the near term. However, because the US tariffs on Chinese electronics and machinery goods currently apply only to intermediates and components (which is Malaysia's strength), certain exporters in Malaysia could capitalise on this opportunity to gain market share from Chinese competitors.

Thailand, on the other hand, has a sizable contribution of finished electrical appliance exports to total exports and is already a major exporter to the US in this category. Even though current US tariffs on Chinese imports do not cover finished electrical appliances, the imminent threat of an escalation of the trade war will already lead to a shift in finished electrical appliances to Thailand, at China's expense, in our view.

Impact category #3. ASEAN exporters of products to China which are primarily driven by Chinese end-consumption will be impacted by a slowdown in the Chinese economy

One final, albeit indirect, manner in which we see ASEAN's exports being impacted by the trade war is through the fallout of the trade war on China's economy. China's economy was slowing even before the trade war due to efforts by the government to reduce leverage, reduce environmental pollution and root out corruption. In the last few months, China's exports to the US accelerated as US buyers resorted to hoarding Chinese imports before the anticipated step-up in tariffs to 25% starting in Jan 2019, which was subsequently delayed under the terms of the "truce" agreed upon at the G20 summit in Nov 18. Even though China's overall export growth slowed markedly in Nov 2018 to just 5.4% yoy, down from 15.6% yoy in Oct 2018, according to the data released by the General Administration of Customs, this appeared to be driven more by slowing demand conditions globally rather than a direct result of the trade war; Chinese exports to the US in Nov grew by a still robust 10.0% yoy, down from 13.2% yoy in Oct.

Figure 32: China's GDP growth vs. exports growth (quarterly, % yoy)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

However, we expect China's export growth to the US to slow markedly in the coming months as some of these "front-end loading" effects taper off. This, together with a general souring of sentiment due to the trade war, is certain to exacerbate China's economic slowdown unless, of course, the government steps up stimulus measures.

Nevertheless, we focus on categories of ASEAN exports to China that will be impacted by weaker Chinese consumption rather than those impacted by capital investment since we believe that, in the event of a sharp deterioration of economic conditions, the Chinese government is likely to ramp up fixed asset investment to stimulate the economy even if that requires "kicking the deleveraging can down the road". Any such stimulus will have an immediate impact on capital investment but could take time to be transmitted to the wider economy; hence, consumption is likely to weaken in the medium term, even if the government resorts to stimulus measures.

While there is no reliable data mapping ASEAN's exports to end-consumption in China (as opposed to exports of downstream goods out of China), **we qualitatively identify ASEAN's exports of textiles/footwear & headgear, plastics/rubbers and vegetable products as having significant exposure to China's domestic consumption.** In the machinery/electrical sector, the picture is mixed: Vietnam's exports to China are likely more exposed to end-consumption, relative to Malaysia, as they include a sizable amount of finished products such as mobile handsets which are consumed in China whereas Malaysia mostly exports components and parts some of which are used in Chinese finished machinery and electrical goods for export (only some of which are destined for the US market).

Of these four categories of ASEAN exports to China which are likely to have significant exposure to Chinese domestic consumption, vegetable products are likely to be the least impacted by a slowdown in China; vegetable-based products such as palm oil (imported in large quantities from Malaysia and Indonesia) are used widely for production of personal care products and processed foods which are relatively staple in nature. However, given the relatively discretionary nature of apparel, footwear and consumer electronics (such as smartphones), ASEAN's exports of textiles, footwear & headgear and certain types of electronic products are likely to suffer from the fallout of any further deceleration in the Chinese economy. Plastics and rubbers exports from ASEAN are also vulnerable to a slowdown in Chinese consumption – for example, rubber gloves imported from ASEAN are used by Chinese manufacturing workers and manufacturing activity in China is likely to feel the twin impact of falling exports and a slowdown in domestic consumption; meanwhile, rubber exports from ASEAN to China are likely to be negatively impacted by a further weakening of car sales in China.

However, since ASEAN is increasingly competing with China in global exports of textiles/footwear & headgear as well as consumer electronics, the impact of a Chinese slowdown on ASEAN exporters of these categories of products is likely to be transitory in nature; over time, ASEAN exporters can shift their export focus away from the Chinese market and to the US market to capitalise on the opportunities created by the trade war and to offset demand weakness in China.

Figure 33: Degree of ASEAN exports to Chinese end consumption

Product category	China imports from ASEAN country (US$ million)					Degree of exposure to Chinese-end consumption
	Vietnam	Thailand	Singapore	Malaysia	Indonesia	
Machinery/Electrical	24,160	16,075	13,573	34,498	1,713	Low
Mineral products	1,430	1,374	5,070	8,928	10,366	High
Chemicals & Allied industries	365	2,189	4,050	2,366	2,103	Low
Textiles	3,678	646	56	206	902	High
Plastics/Rubbers	1,893	9,029	3,753	3,131	1,677	High
Foodstuffs	381	727	298	455	426	Low
Footwear/Headgear	1,510	55	0	1	595	Moderate
Transportation	244	1,192	126	147	185	Low
Vegetable products	2,247	3,589	11	1,772	3,787	Moderate
Metals	223	1,022	187	959	2,586	Low

SOURCES: CGS-CIMB RESEARCH

Figure 34: Summary of the trade war impact on manufacturing sector in ASEAN region by key sector

Export category	Opportunities under Impact Category 1	Downside risks from Impact Category 2	Downside risks from Impact Category 3	Net near/medium - term impact	Net long-term impact	Net longer-term strong / (mild) beneficiary countries in ASEAN
Machinery / Electronics	High	Moderate	Low	Negative-to-Neutral	Positive	VN, MY, (TH)
Plastics/ Rubbers	High	Low	High	Neutral	Mild Positive	TH, MY, (VN)
Textiles/ Footwear & Headgear	Moderate	Low	Moderate-to-High	Positive	Mild Positive	VN, (ID)
Transportation (Automotive)	Moderate	High	Low	Negative	Positive	TH, MY

SOURCES: CGS-CIMB RESEARCH

Figure 35: Summary of trade war-based investment strategy for ASEAN region

Export Category	High level investment strategy for ASEAN region
Machinery / Electronics	*Medium-term:* Avoid exporters with high exposure to China. *Long-term:* Buy upstream, midstream and downstream exporters in MY and TH that can meet US quality standards. In VN, buy service providers to machinery and electronics export manufacturers as a proxy for exports in this category (e.g. logistics services, air cargo services, industrial park operators) as electrical and machinery exports are dominated by unlisted subsidiaries of foreign enterprises.
Plastics/ Rubbers	*Medium-term:* Buy exporters of packaging, plastics and rubber with significant exposure to the US. Avoid exporters that are exposed to key sectors of the Chinese consumption that are already showing weakening (tyres/auto, industrial gloves, etc.). *Long-term:* Buy exporters in MY and TH that can meet US quality standards. Consider up-and-coming plastics exporters in VN that will benefit from greater domestic petrochemical production capacity expansion in the country. Avoid exporters that have high exposure to China and are unable to meet US import standards.
Textiles/ Footwear & Headgear	*Medium-term:* Buy VN yarn producers and garment exporters, especially those with significant exposure to the US market. *Long-term:* Buy VN yarn producers and garment exporters. Avoid exporters that have high exposure to China and are unable to meet US import standards.
Transportation (Automotive)	*Medium-term:* Avoid exporters with high exposure to China. *Long-term:* Buy TH and MY automotive parts and components suppliers with sizable US exposure or potential to increase US exposure.

SOURCES: CGS-CIMB RESEARCH

Key stocks that will be impacted by the trade war

Malaysian Pacific Industries (Malaysia) (ADD, TP of RM15.4)

- The group recently highlighted that one of its customers have started to diversify its manufacturing exposure outside of China, albeit at small volume, in view of a potential escalation in US-China trade war. We think MPI could benefit in the long term if more customers decide to relocate their operations from China to Malaysia given that MPI has the spare capacity with two production plants in Malaysia.
- MPI is targeting to double its revenue from US$377m in FY6/18 to over US$750m within 3-5 years, driven by new customers and design wins in automotive and industrial (A&I) and communication segments.
- The group plans to keep its capex level in FY19F similar to FY18's circa RM170m as it continues to invest in automation in a bid to boost efficiency.
- We maintain Add with a RM15.40 TP, still based on 16x CY20F P/E, in line with our target sector P/E. MPI trades at 7.5x CY19F P/E-ex cash.

Unisem (Malaysia) (ADD, TP of RM3.30)

- We see the potential entry of a new single-largest shareholder, China-based Tianshui Huatian Technology (TSHT), as positive for Unisem as it could assist the group to penetrate the Chinese market.
- In addition, we think Unisem could also benefit from Chinese customers' plans to find a new manufacturing site out of China as the group has two production facilities in Ipoh and Batam.
- Unisem is investing in a 12-inch wafer bumping line at its Ipoh plant. The new line is undergoing equipment installation and we expect the line to enter qualification process in 1Q19F and commence operation in 2Q19F.
- We maintain Add and RM3.30 TP, based on 14.4x CY20F P/E, a 10% discount to the target sector P/E of 16x.

Riverstone Holdings (Singapore) (ADD, TP of S$1.30)

- Riverstone is a Malaysia-based rubber glove play that could offer some upside from the trade war, in view of resilient demand for its nitrile rubber gloves which appears to be benefiting from a trade war-induced acceleration in the shift away from vinyl gloves.
- With nitrile gloves accounting for 94% of its FY17 sales, Riverstone is benefiting from a structural shift away from vinyl gloves produced in China towards nitrile gloves globally as China tackles air pollution and curbs vinyl glove manufacturers' production.
- Though medical gloves are not included in the US tariff list, tariffs on vinyl (which is not getting any cheaper) could possibly exacerbate the shift towards nitrile gloves, making Riverstone a potential beneficiary.
- We retain our Add call and TP of S$1.30, pegged to 16.7x FY19F P/E that represents 16% discount to its Malaysia peers' average.

Delta Electronics (Thailand) (ADD, TP of THB87.0)

- With DELTA expanding facilities to cater to the increasing demand for automotive power supply (APS) products, we believe the company is poised to benefit from the increasing number of EV cars produced across the globe amid tightening environmental regulations worldwide.
- We note the US has levied a 25% import tariff on power supply parts from China for automatic data processing machines (HTS Codes: 8504.40.60, 8504.40.70). We believe DELTA can be a substitute supplier for these products from its production facilities in Thailand.
- We maintain our Add rating for DELTA with an end-19 target price of THB87.00, based on 15x FY20F P/E (-0.5 s.d. from DELTA's 5-year historical mean).

Somboon Advance Technology (Thailand) (ADD, TP of THB27.0)

- SAT manufactures and sells automobile parts to automobile OEMs. Its major clients include Mitsubishi, Toyota/Hino. We think SAT should benefit from strong auto production growth as SAT supplies spare parts mainly for commercial vehicles (CV).
- SAT could benefit from the US-China trade dispute. If some Japanese auto manufacturers relocate their manufacturing facilities from China to Thailand, they may seek business partners in Thailand which would present SAT with an opportunity.
- Our target price of THB27.0 is based on 12x FY19F P/E (+1 s.d. of 5-year average). Catalysts that could lift its share price further are 1) synergy with new business partners in terms of cost savings, and 2) political stability.

Hana Microelectronics (Thailand) (HOLD, TP of THB38.0)

- We see risks to HANA's automotive segment, given China's domestic passenger car sales (all brands) contracted by 12.6% yoy in Nov 2018, the largest monthly decline in six years.
- Despite a relatively low direct exposure to the supply chains between the US and China, HANA is vulnerable to China's economic outlook due to its high exposure to China and we believe that the trade war could continue to pressure China's economic growth.
- We also see that US tariffs on EU automotive imports could further hurt HANA.
- We maintain our Hold call on HANA with an end-19F target price of THB38, based on 11.5x FY20F P/E (-1 s.d. from its 5-year mean).

Sri Trang Agro-Industry (Thailand) (REDUCE, TP of THB16.0)

- STA is the world's largest fully integrated natural rubber company headquartered in Thailand.
- STA's share price jumped 70% between 29 Jun 18 and 7 Dec 18 and we believe there could be limited upside due to 1) lower sales from low selling natural rubber (NR) prices, especially to China, 2) low sustained NR margins, and 3) recent government policies to shore up low prices for domestic NR.
- We expect the general slowdown in Chinese economy and its auto sector to negatively affect rubber prices, partly driven the trade war. We expect only a 2% yoy increase in rubber price in 2019 after a 17% decline YTD this year.
- We keep our Reduce rating and target price of THB16, based on 15.5x CY19F blended P/E (1 s.d. below its historical 5-year average).

An Phat Plastic JSC (Vietnam) (Non-rated)

- AAA is the largest plastic packaging manufacturer and exporter in Southeast Asia in terms of production capacity.
- According to management, AAA stands to benefit from the trade war between the US and China as US importers are seeking non-Chinese plastic bag suppliers to reduce the impact of the 13% tariff imposed on Chinese plastic packaging.
- Rather than solely concentrating on the existing packaging production (accounting for 68% of the company's FY17 total revenue), AAA will start to launch new products through its subsidiaries, including hi-tech injection molding spare parts, premium industrial bags and building materials such as plastic walls and floor tiles in 2019F.
- AAA is currently trading at a TTM P/E of 9.5x, an 8.4% discount to the peer average TTM P/E of both domestic and regional plastic producers (10.3x).

Century Synthetic Fiber Corp (Vietnam) (Non-rated)

- STK is the second-largest polyester yarn manufacturer in Vietnam (in terms of capacity), accounting for 28% of national polyester yarn exports in 2017.
- The US's package of recently-imposed tariffs in Sep 18 on Chinese imports includes synthetic fibers and other polyester-based products, hence making Vietnamese synthetic yarn manufacturers like STK more competitive, said STK's management.

- According to STK's management, the Trang Bang 5 factory (TB5) will begin operations in 1Q19 at a utilisation rate of 90%, after the trial phase in 4Q18. TB5 will raise STK's total production capacity to 63,300 tonnes of yarn, up 5.5% from current levels.

Kinh Bac City Corp (Vietnam) (Non-rated)

- Management expects the US-China trade war to boost leasing from 2019F, as foreign companies in China are seeking to diversify their production bases to Vietnam to bypass US trade tariffs.
- According to management, KBC will launch a new industrial park Nam Son Hap Linh with an NLA of 66ha in 2019F, adding to its current total NLA of 453ha available for lease (as at end-2017).
- The stock currently trades at a discount to its BVPS of VND20,364 as at end-3Q18.

Saigon Cargo Service Corp (Vietnam) (Non-rated)

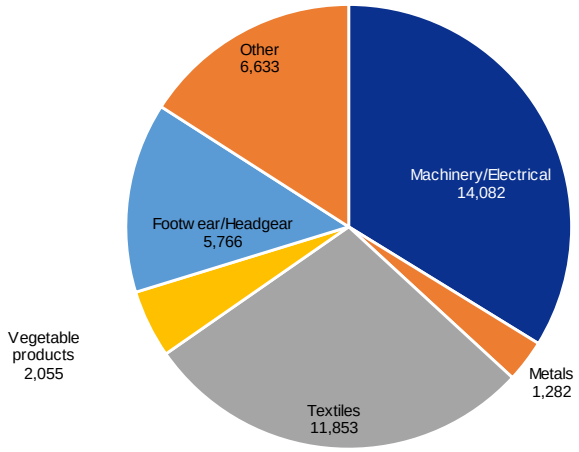
- SCS is one of Vietnam's two integrated air cargo service providers servicing the Tan Son Nhat airport (SGN) in Ho Chi Minh City.
- Air cargo service providers at SGN are faced with capacity constraints. But SCS is the only one able to expand capacity as its competitor, TCS has no available land bank for expansion. SCS's current cargo-handling capacity is 200,000 tonnes and the company plans to increase it to 350,000 tonnes in 2019, per management.
- Global companies have yet to adjust their supply chains to circumvent US trade tariffs on China. Therefore, cargo throughput volumes at SGN could be hurt in the short term and this will negatively affect cargo service providers like SCS, per management.
- However, management expects SCS to be a beneficiary of the trade war in the medium-to-long term as factories, particularly in the electronics industry, relocate from China to Vietnam.

Thanh Cong Textile Garment JSC (Vietnam) (Non-rated)

- TCM is the only Vietnamese textile manufacturer that operates a fully vertically-integrated production chain ranging from yarn to garment products.
- According to TCM's Management, under the current US tariff regime, sewed/knitted products (e.g. fabric) from China will be taxed at 25% on average vs. a tariff rate of 17.5% on similar goods imported from Vietnam. Therefore, TCM expects to benefit from the trade war, as fabric contributed 13.4% of TCM's 9M18 revenue.
- TCM's Vinh Long dyeing factory (capex of ~US$10m in FY19F and capacity of 2,500m of fabric per day) will serve in-house fabric production needs after expected commissioning around FY19-20F, reducing its reliance on outsourced dyeing and boosting margins, says management.

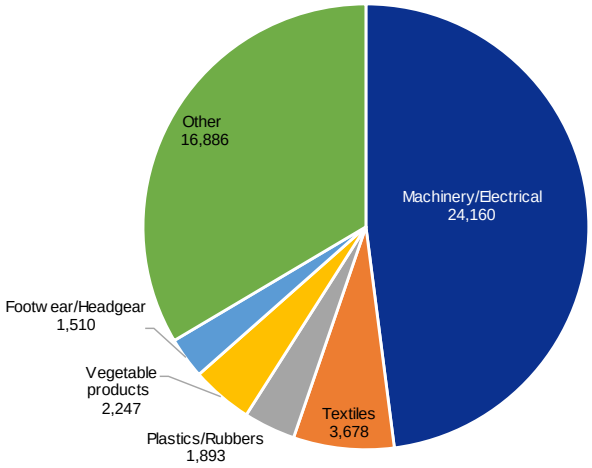
APPENDIX – TOP 5 EXPORTS TO CHINA & US

Figure 36: Vietnam exports to US (2017, US$ m)



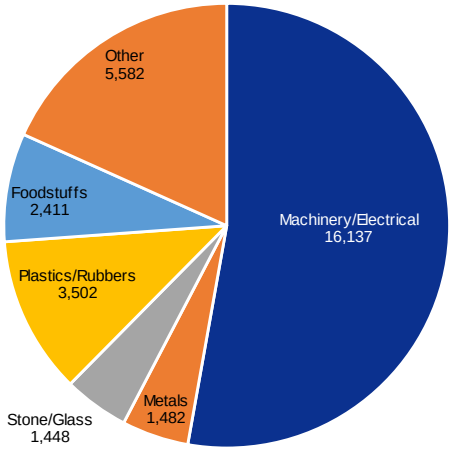
SOURCES: CGS-CIMB RESEARCH, USITC

Figure 37: Vietnam exports to China (2017, US$ m)



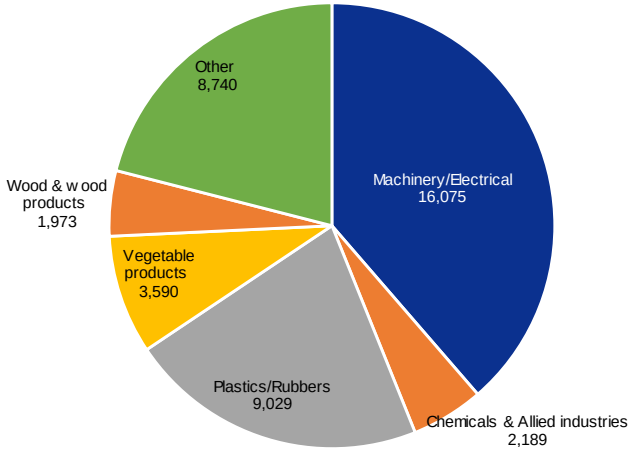
SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Figure 38: Thailand exports to US (2017, US$ m)



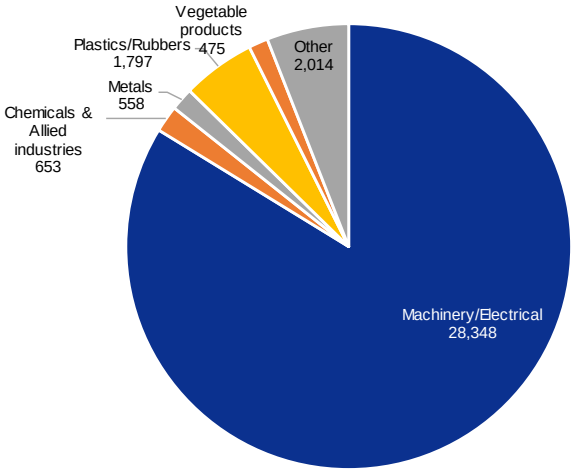
SOURCES: CGS-CIMB RESEARCH, USITC

Figure 39: Thailand exports to China (2017, US$ m)



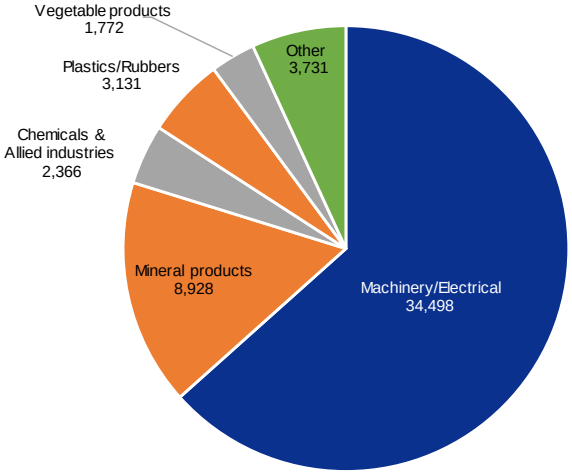
SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Figure 40: Malaysia exports to US (2017, US$ m)



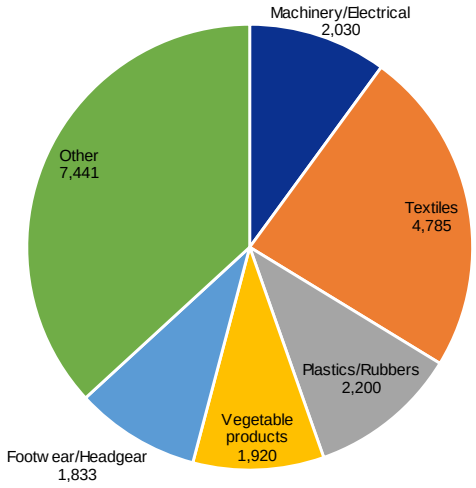
SOURCES: CGS-CIMB RESEARCH, USITC

Figure 41: Malaysia exports to China (2017, US$ m)



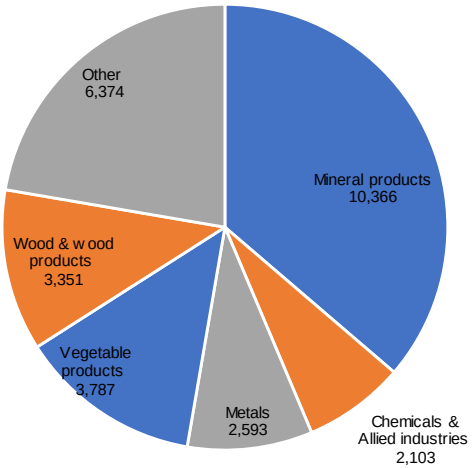
SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Figure 42: Indonesia exports to US (2017, US$ m)



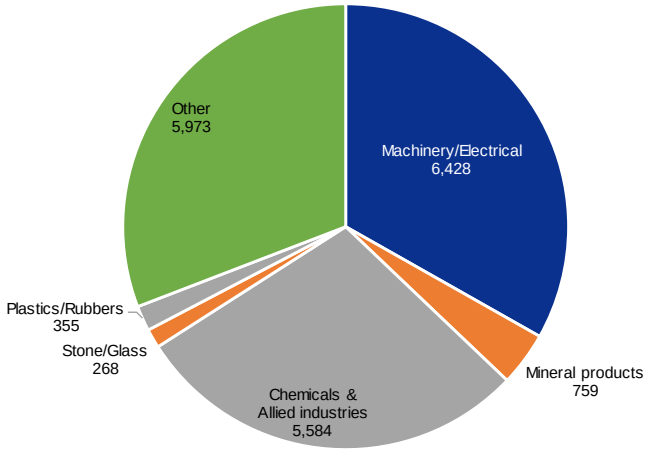
SOURCES: CGS-CIMB RESEARCH, USITC

Figure 43: Indonesia exports to China (2017, US$ m)



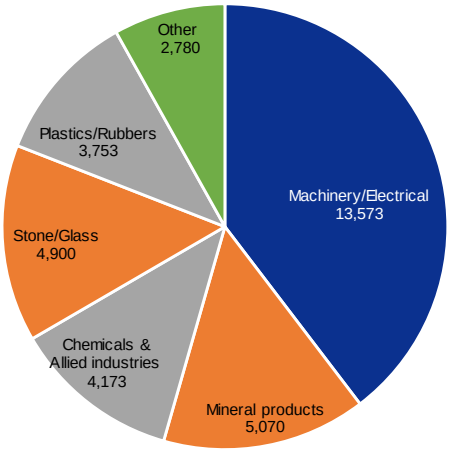
SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Figure 44: Singapore exports to US (2017, US$ m)



SOURCES: CGS-CIMB RESEARCH, USITC

Figure 45: Singapore exports to China (2017, US$ m)



SOURCES: CGS-CIMB RESEARCH, TRADEMAP

Malaysia

ADD *(no change)*

Consensus ratings*:	Buy 5	Hold 3	Sell 0

Current price:	RM9.84
Target price:	RM15.40
Previous target:	RM15.40
Up/downside:	56.5%
CGS-CIMB / Consensus:	20.5%
Reuters:	MPIM.KL
Bloomberg:	MPI MK
Market cap:	US$468.9m
	RM1,957m
Average daily turnover:	US$0.58m
	RM2.41m
Current shares o/s	209.9m
Free float:	44.4%

Source: Bloomberg

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-18.3	-23.6	-20
Relative (%)	-14.1	-14.8	-13.3

Major shareholders	% held
Hong Leong Manufacturing	50.3
EPF	5.4

Analyst(s)

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Malaysian Pacific Industries

Top pick for Malaysian semiconductor

- MPI targets to double its revenue from US$377m in FY6/18 to US$750m in 3-5 years, driven by new design and customer wins in A&I and communication.
- It also plans to invest in robotics equipment in FY19F to promote automation and improve efficiency, while reducing its dependence on human interface.
- Maintain Add and RM15.40 target price. MPI is our sector top pick in view of its attractive growth prospects in the A&I segment.

Tepid industry demand growth projected for 2019F

- Semiconductor market research group WSTS projects 2.6% industry sales growth in 2019F, driven by higher demand across all four markets – Asia Pacific, Americas, Japan and Europe – driven by optoelectronics, sensors and discrete demand. WSTS projects 15.9% semiconductor industry sales growth in 2018F, mainly driven by a 33.2% surge in memory demand. Stripping out the memory segment, WSTS expects the semiconductor industry to grow at 9% yoy in 2018F.

Exciting long-term prospects

- MPI is targeting to double its revenue from US$377m in FY6/18 to over US$750m within 3-5 years, driven by new customers and design wins in automotive and industrial (A&I) and communication segments. For example, the group is in discussions with one of its customers to transfer its existing assembly and packaging business to MPI. Moreover, MPI is planning to introduce new sensor applications to strengthen its position in A&I chip assembly and packaging.

Investing in robotics to drive efficiency and quality improvement

- The group plans to keep its capex level in FY19F similar to FY18's circa RM170m as it continues to invest in automation in a bid to boost efficiency. For example, it is investing in automated guided vehicles (AGV) to help with its packaging and testing processes. The AGVs will replace human beings as part of the process of placing the wafers into wire bonders and tester equipment.

Potential beneficiary from US-China trade war

- The group recently highlighted that one of its customers has started to diversify its manufacturing exposure outside of China, albeit at small volume, in view of a potential escalation in US-China trade dispute. We think MPI could benefit in the long term if more customers decide to relocate their operations from China to Malaysia given that MPI has the spare capacity with two production plants in Malaysia.

Maintain Add and target price

- Maintain Add with a RM15.40 TP, still based on 16x CY20F P/E, in line with our target sector P/E. MPI trades at 7.5x CY19F P/E-ex cash. Earnings-accretive acquisitions, ringgit depreciation vs. US$, and higher dividends are potential re-rating catalysts. Wafer supply constraints and a stronger ringgit vs. US$ are key downside risks.

Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (RMm)	1,545	1,542	1,640	1,761	1,847
Net Profit (RMm)	184.2	146.6	165.5	191.0	211.8
Core EPS (RM)	0.88	0.70	0.79	0.91	1.01
Core EPS Growth	23.0%	(20.4%)	12.8%	15.4%	10.9%
FD Core P/E (x)	11.21	14.08	12.48	10.81	9.75
Price To Sales (x)	1.34	1.34	1.26	1.17	1.12
DPS (RM)	0.27	0.29	0.32	0.35	0.40
Dividend Yield	2.74%	2.95%	3.25%	3.56%	4.07%
EV/EBITDA (x)	4.06	4.44	3.76	3.10	2.60
P/FCFE (x)	6.90	10.51	11.69	7.01	5.95
Net Gearing	(33.4%)	(40.8%)	(46.0%)	(55.8%)	(65.1%)
P/BV (x)	1.84	1.74	1.61	1.47	1.35
ROE	17.5%	12.7%	13.4%	14.2%	14.4%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.99	1.00	1.05

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Net Revenues	**1,542**	**1,640**	**1,761**	**1,847**
Gross Profit	**1,542**	**1,640**	**1,761**	**1,847**
Operating EBITDA	**385**	**436**	**472**	**480**
Depreciation And Amortisation	(182)	(194)	(193)	(172)
Operating EBIT	**203**	**242**	**279**	**308**
Financial Income/(Expense)	(1)	1	2	4
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**202**	**243**	**281**	**311**
Exceptional Items				
Pre-tax Profit	**202**	**243**	**281**	**311**
Taxation	(25)	(39)	(45)	(50)
Exceptional Income - post-tax				
Profit After Tax	**177**	**204**	**236**	**262**
Minority Interests	(30)	(39)	(45)	(50)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**147**	**165**	**191**	**212**
Recurring Net Profit	147	165	191	212
Fully Diluted Recurring Net Profit	**147**	**165**	**191**	**212**

Balance Sheet

(RMm)	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Cash And Equivalents	648	807	1,085	1,412
Total Debtors	249	294	316	331
Inventories	118	157	169	177
Total Other Current Assets	3	0	0	0
Total Current Assets	**1,018**	**1,258**	**1,570**	**1,920**
Fixed Assets	647	623	570	497
Total Investments	0	0	0	0
Intangible Assets	0	0	0	0
Total Other Non-Current Assets	32	32	32	32
Total Non-current Assets	**678**	**654**	**601**	**529**
Short-term Debt	75	75	75	75
Current Portion of Long-Term Debt				
Total Creditors	211	224	240	252
Other Current Liabilities	5	5	5	5
Total Current Liabilities	**291**	**304**	**320**	**332**
Total Long-term Debt	0	0	0	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	20	42	67
Total Non-current Liabilities	**0**	**20**	**42**	**67**
Total Provisions	0	0	0	0
Total Liabilities	**291**	**324**	**363**	**399**
Shareholders' Equity	1,188	1,286	1,403	1,531
Minority Interests	217	306	408	521
Total Equity	**1,405**	**1,592**	**1,811**	**2,052**

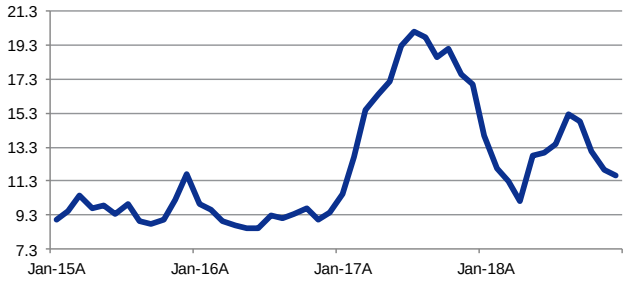
Cash Flow

(RMm)	Jun-18A	Jun-19F	Jun-20F	Jun-21F
EBITDA	385.1	436.3	471.9	480.1
Cash Flow from Invt. & Assoc.				
Change In Working Capital	24.7	(71.1)	(16.7)	(11.9)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(1.2)	0.9	1.8	3.5
Tax Paid	(30.0)	(19.5)	(22.5)	(24.9)
Cashflow From Operations	**378.7**	**346.7**	**434.6**	**446.8**
Capex	(170.7)	(170.0)	(140.0)	(100.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.7	0.0	0.0	0.0
Cash Flow From Investing	**(170.0)**	**(170.0)**	**(140.0)**	**(100.0)**
Debt Raised/(repaid)	(12.2)	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.5	0.0	0.0	0.0
Shares Repurchased				
Dividends Paid	(76.1)	(17.5)	(16.2)	(20.4)
Preferred Dividends	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.5	0.0	0.0	0.0
Cash Flow From Financing	**(87.4)**	**(17.5)**	**(16.2)**	**(20.4)**
Total Cash Generated	121.3	159.1	278.4	326.4
Free Cashflow To Equity	**196.5**	**176.7**	**294.6**	**346.8**
Free Cashflow To Firm	**211.9**	**179.7**	**297.6**	**349.8**

Key Ratios

	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue Growth	(0.14%)	6.35%	7.34%	4.88%
Operating EBITDA Growth	(14.6%)	13.3%	8.1%	1.7%
Operating EBITDA Margin	25.0%	26.6%	26.8%	26.0%
Net Cash Per Share (RM)	2.73	3.49	4.81	6.37
BVPS (RM)	5.66	6.13	6.69	7.30
Gross Interest Cover	63.3	80.7	92.9	102.6
Effective Tax Rate	12.6%	16.0%	16.0%	16.0%
Net Dividend Payout Ratio	37.6%	40.6%	38.5%	39.6%
Accounts Receivables Days	62.08	60.41	63.38	63.93
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	22.9%	29.1%	31.8%	36.6%
ROCE (%)	14.2%	15.6%	16.0%	15.7%
Return On Average Assets	10.7%	11.3%	11.5%	11.2%

12-mth Fwd FD P/E (x) - Malaysian Pacific Industries



Key Drivers

	Jun-18A	Jun-19F	Jun-20F	Jun-21F
ASP Change (%, Main Product)	-99.9%	-100.0%	-100.0%	-100.0%
Unit sales growth (%, main prod)	N/A	N/A	N/A	N/A
No. Of Lines (main Product)	5	5	5	5
Rev per line (US$, main prod)	N/A	N/A	N/A	N/A
ASP chg (%, 2ndary prod)	N/A	N/A	N/A	N/A
Unit sales grth (%, 2ndary prod)	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A
Rev per line (US$, 2ndary prod)	N/A	N/A	N/A	N/A

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Malaysia

ADD *(no change)*

Consensus ratings*:	Buy 1	Hold 4	Sell 2
Current price:			RM3.05
Target price:			RM3.30
Previous target:			RM3.30
Up/downside:			8.2%
CGS-CIMB / Consensus:			5.6%
Reuters:			UNSM.KL
Bloomberg:			UNI MK
Market cap:			US$531.3m
			RM2,218m
Average daily turnover:			US$1.84m
			RM7.66m
Current shares o/s			730.4m
Free float:			75.2%

*Source: Bloomberg

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.2	-2.6	-9.8
Relative (%)	-2	6.2	-3.1

Major shareholders	% held
John Chia	24.8

Analyst(s)

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Unisem

New growth driver from China?

- We project Unisem to record stronger earnings growth in FY19F, driven by its new 12-inch wafer bumping capacity expansion and favourable forex.
- Unisem could benefit from having a new single-largest shareholder, TSHT, which will help to penetrate the China market and create economies of scale.
- Maintain Add and RM3.30 TP, based on 14.4x CY20F P/E.

Tepid demand growth projected for 2019F

- Semiconductor market research group WSTS projects 2.6% industry sales growth in 2019F, driven by higher demand across all four markets – Asia Pacific, Americas, Japan and Europe – driven by optoelectronics, sensors and discrete demand. WSTS projects 15.9% semiconductor industry sales growth in 2018F, mainly driven by a 33.2% surge in memory demand. Stripping out the memory segment, WSTS expects the semiconductor industry to grow at 9% yoy in 2018F.

Investing for future growth with new 12-inch bumping capacity

- Unisem is investing in a 12-inch wafer bumping line at its Ipoh plant. The new line is undergoing equipment installation and we expect the line to enter qualification process in 1Q19F and commence operation in 2Q19F. The group plans to raise its wafer bumping capacity in Chengdu as it is exploring the possibility of adding a Chinese wafer foundry customer following its capacity expansion in Chengdu in 2018.

Potential beneficiary from US-China trade dispute?

- We see the potential entry of a new single-largest shareholder, China-based Tianshui Huatian Technology (TSHT), as positive for Unisem as it could assist the group to penetrate the Chinese market. To recap, Unisem received a pre-conditional voluntary take-over offer of RM3.30/share in Sep 2018; it was a joint-offer from TSHT and existing major shareholders. The deal will require more than 50% acceptance from Unisem's shareholders. In addition, we think Unisem could also benefit from Chinese customers' plans to find a new manufacturing site out of China as the group has two production facilities in Ipoh and Batam.

New growth driver in microphone assembly programme

- We learnt that its new piezoelectric microphone assembly and packaging programme for US-based acoustic sensor developer Vesper began contribution in 3Q18, albeit at a small percentage. Vesper produces microphone sensors for voice-assisted devices, such as smart speakers. Vesper is planning to ramp up its production volume from several thousand microphones shipped in 1H18 to several million per month in 2019.

Maintain Add and target price

- Maintain Add and RM3.30 TP, based on 14.4x CY20F P/E, a 10% discount to the target sector P/E of 16x. Key downside risks to our call are appreciation of the ringgit vs. US$, and a slowdown in semiconductor industry demand.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	1,323	1,466	1,403	1,494	1,562
Net Profit (RMm)	162.3	159.5	108.5	132.5	170.2
Core EPS (RM)	0.21	0.23	0.15	0.18	0.23
Core EPS Growth	(7.8%)	11.4%	(35.0%)	22.1%	28.5%
FD Core P/E (x)	14.85	13.34	20.53	16.81	13.09
Price To Sales (x)	1.68	1.52	1.59	1.49	1.43
DPS (RM)	0.11	0.11	0.10	0.12	0.14
Dividend Yield	3.62%	3.62%	3.29%	3.95%	4.61%
EV/EBITDA (x)	5.92	5.48	6.43	5.28	4.27
P/FCFE (x)	8.81	11.63	22.13	13.69	8.84
Net Gearing	(14.2%)	(20.8%)	(22.4%)	(27.0%)	(35.5%)
P/BV (x)	1.58	1.53	1.49	1.45	1.39
ROE	10.8%	11.6%	7.4%	8.8%	10.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.14	1.06	1.24

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**1,466**	**1,403**	**1,494**	**1,562**
Gross Profit	**1,466**	**1,403**	**1,494**	**1,562**
Operating EBITDA	**352**	**295**	**345**	**390**
Depreciation And Amortisation	(168)	(173)	(189)	(190)
Operating EBIT	**184**	**122**	**156**	**200**
Financial Income/(Expense)	3	3	3	5
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**187**	**125**	**160**	**205**
Exceptional Items	(6)	0		
Pre-tax Profit	**181**	**125**	**160**	**205**
Taxation	(19)	(15)	(26)	(33)
Exceptional Income - post-tax				
Profit After Tax	**161**	**110**	**134**	**172**
Minority Interests	(2)	(1)	(2)	(2)
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**159**	**108**	**132**	**170**
Recurring Net Profit	167	108	132	170
Fully Diluted Recurring Net Profit	**167**	**108**	**132**	**170**

Balance Sheet

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	349	381	462	618
Total Debtors	187	179	191	200
Inventories	163	156	166	173
Total Other Current Assets	26	26	26	26
Total Current Assets	**725**	**742**	**845**	**1,017**
Fixed Assets	1,118	1,125	1,086	996
Total Investments	0	0	0	0
Intangible Assets	1	1	1	1
Total Other Non-Current Assets	1	1	1	1
Total Non-current Assets	**1,121**	**1,127**	**1,088**	**998**
Short-term Debt	36	36	36	36
Current Portion of Long-Term Debt				
Total Creditors	280	268	285	298
Other Current Liabilities	5	5	5	5
Total Current Liabilities	**320**	**308**	**326**	**339**
Total Long-term Debt	9	9	9	9
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	8	8	8	8
Total Non-current Liabilities	**17**	**17**	**17**	**17**
Total Provisions	45	45	45	45
Total Liabilities	**382**	**370**	**388**	**401**
Shareholders' Equity	1,455	1,491	1,535	1,602
Minority Interests	7	9	10	12
Total Equity	**1,463**	**1,499**	**1,545**	**1,615**

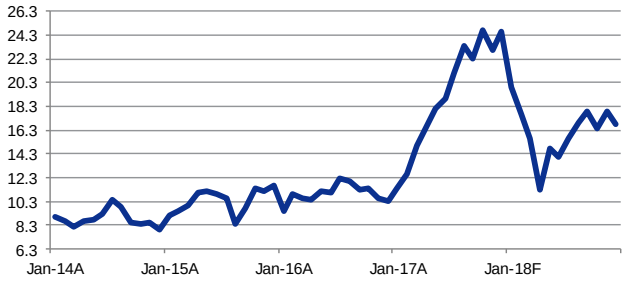
Cash Flow

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	352.1	295.3	345.1	390.3
Cash Flow from Invt. & Assoc.				
Change In Working Capital	27.3	3.0	(4.4)	(3.3)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow				
Net Interest (Paid)/Received	(2.3)	(2.7)	(2.5)	(2.2)
Tax Paid	(29.0)	(15.0)	(25.5)	(32.8)
Cashflow From Operations	**348.0**	**280.6**	**312.7**	**352.0**
Capex	(156.5)	(180.0)	(150.0)	(100.0)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow				
Cash Flow From Investing	**(156.5)**	**(180.0)**	**(150.0)**	**(100.0)**
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(80.7)	(73.4)	(88.1)	(102.7)
Preferred Dividends				
Other Financing Cashflow	(2.3)	(2.7)	(2.5)	(2.2)
Cash Flow From Financing	**(83.0)**	**(76.1)**	**(90.5)**	**(105.0)**
Total Cash Generated	108.5	24.6	72.2	147.0
Free Cashflow To Equity	**191.5**	**100.6**	**162.7**	**252.0**
Free Cashflow To Firm	**193.9**	**103.3**	**165.2**	**254.2**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	10.8%	(4.3%)	6.5%	4.6%
Operating EBITDA Growth	2.6%	(16.1%)	16.9%	13.1%
Operating EBITDA Margin	24.0%	21.0%	23.1%	25.0%
Net Cash Per Share (RM)	0.42	0.46	0.57	0.78
BVPS (RM)	1.99	2.04	2.10	2.19
Gross Interest Cover	79.69	45.27	63.23	89.19
Effective Tax Rate	10.7%	12.0%	16.0%	16.0%
Net Dividend Payout Ratio	48.7%	67.6%	66.5%	60.4%
Accounts Receivables Days	50.62	47.73	45.25	45.79
Inventory Days	N/A	N/A	N/A	N/A
Accounts Payables Days	N/A	N/A	N/A	N/A
ROIC (%)	14.6%	10.1%	12.8%	17.0%
ROCE (%)	12.4%	8.1%	10.1%	12.4%
Return On Average Assets	9.09%	5.76%	6.87%	8.48%

12-mth Fwd FD P/E (x) - Unisem



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP Change (%, Main Product)	N/A	N/A	N/A	N/A
Unit sales growth (%, main prod)	9.9%	10.6%	-1.0%	1.0%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A
Rev per line (US$, main prod)	0.2	0.2	0.2	0.2
ASP chg (%, 2ndary prod)	N/A	N/A	N/A	N/A
Unit sales grth (%, 2ndary prod)	N/A	N/A	N/A	N/A
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A
Rev per line (US$, 2ndary prod)	N/A	N/A	N/A	N/A

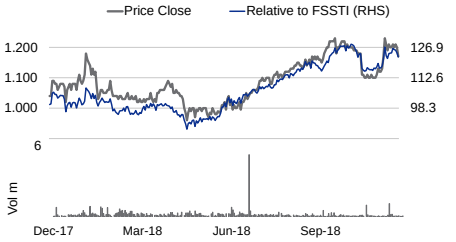
SOURCES: CIMB RESEARCH, COMPANY REPORTS

Singapore

ADD *(no change)*

Consensus ratings*:	Buy 1	Hold 1	Sell 0
Current price:			S$1.17
Target price:			S$1.30
Previous target:			S$1.30
Up/downside:			11.1%
CGS-CIMB / Consensus:			5.3%
Reuters:			RVHL.SI
Bloomberg:			RSTON SP
Market cap:			US$629.9m
			S$867.1m
Average daily turnover:			US$0.09m
			S$0.12m
Current shares o/s			741.1m
Free float:			32.6%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.4	2.6	13.6
Relative (%)	5.3	5.3	24

Major shareholders	% held
Ringlet Investment Limited	50.8
Lee Wai Keong	10.9
Wong Teck Choon	3.2

Riverstone Holdings

Growing capacity; beneficiary of trade war

- Perceived rubber glove play looks sheltered from trade-war fallout with c.50% of sales fuelled by healthcare glove consumption in the US and Europe.
- The structural shift from vinyl gloves (produced in China) to nitrile could possibly be exacerbated amid tariffs on vinyl, favouring Riverstone.
- Maintain Add. Our TP of S$1.30 is based on 16.7x FY19F P/E.

Perceived rubber glove play sheltered from trade war

- Riverstone is a Malaysia-based rubber glove play that could offer some shelter from the trade war, in view of resilient demand for its nitrile rubber gloves.
- Sales to the US are trending upwards and formed 19% of Riverstone's FY17 sales at RM159m. More stringent US Pharmacopeia (USP) Convention standards (requires double-gloving for workers handling hazardous drugs) that will come into effect in Dec 2019 could fuel US demand further.
- China accounted for c.7% of FY17 sales at RM55m, comprising mainly gloves and cleanroom consumables.
- Riverstone's annual glove capacity is set to expand 18% to 9bn pieces by end-FY18F and another 16% to 10.4bn by end-FY19F. This underpins our c.14% CAGR in our FY18-20F sales growth forecasts.

Tariffs could possibly exacerbate shift from vinyl towards nitrile

- With nitrile gloves accounting for 94% of its FY17 sales, Riverstone is benefiting from a structural shift away from vinyl (PVC) gloves produced in China towards nitrile gloves globally as China tackles air pollution and curbs vinyl glove manufacturers' production.
- Though medical gloves are not included in the US tariff list, tariffs on finished goods containing PVC could dampen the demand for PVC in China. This could exacerbate production cuts for PVC-based goods (including gloves) and facilitate the shift towards nitrile gloves, which we believe could benefit Riverstone.

Healthy balance sheet to boot

- At end-Sep 18, Riverstone had a net cash position of RM86m, supporting further capacity expansion without running into any solvency risk.
- We project 3% dividend yield in FY19-20F, based on a conservative c.40% payout and supported by 12-22% EPS growth forecasts in the same period.

Maintain Add

- At 16x FY19 P/E, we see Riverstone as a laggard play, trading at c.22% discount to Malaysian peers' average of 20x.
- We retain our Add call and TP of S$1.30, pegged to 16.7x FY19F P/E that represents 16% discount to its Malaysia peers' average.
- Re-rating catalysts could come from better-than-expected margins and earnings growth. Increase in raw material costs remains a key risk.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (RMm)	655	817	920	1,083	1,204
Operating EBITDA (RMm)	167.9	184.2	208.1	248.3	276.4
Net Profit (RMm)	120.4	129.3	139.4	170.3	191.2
Core EPS (RM)	0.16	0.17	0.19	0.23	0.26
Core EPS Growth	(4.9%)	7.4%	7.8%	22.2%	12.2%
FD Core P/E (x)	21.91	20.40	18.92	15.48	13.79
DPS (RM)	0.06	0.07	0.08	0.09	0.10
Dividend Yield	1.82%	1.97%	2.11%	2.58%	2.90%
EV/EBITDA (x)	15.09	13.83	12.22	10.04	8.77
P/FCFE (x)	117.8	43.6	47.2	25.1	19.2
Net Gearing	(18.6%)	(14.1%)	(13.0%)	(17.2%)	(22.3%)
P/BV (x)	4.76	4.16	3.65	3.15	2.75
ROE	23.2%	21.8%	20.6%	21.9%	21.3%
CIMB/consensus EPS (x)			1.02	1.04	1.07

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Analyst(s)

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BY THE NUMBERS

Profit & Loss

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**817.4**	**920.4**	**1,083.1**	**1,203.6**
Gross Profit	**197.8**	**202.5**	**255.6**	**284.1**
Operating EBITDA	**184.2**	**208.1**	**248.3**	**276.4**
Depreciation And Amortisation	(34.5)	(44.8)	(48.7)	(52.3)
Operating EBIT	**149.7**	**163.2**	**199.6**	**224.1**
Financial Income/(Expense)	1.1	0.8	0.8	0.8
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**150.8**	**164.0**	**200.4**	**224.9**
Exceptional Items				
Pre-tax Profit	**150.8**	**164.0**	**200.4**	**224.9**
Taxation	(21.5)	(24.6)	(30.1)	(33.7)
Exceptional Income - post-tax				
Profit After Tax	**129.3**	**139.4**	**170.3**	**191.2**
Minority Interests	0.0	0.0	0.0	0.0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**129.3**	**139.4**	**170.3**	**191.2**
Recurring Net Profit	129.3	139.4	170.3	191.2
Fully Diluted Recurring Net Profit	**129.3**	**139.4**	**170.3**	**191.2**

Balance Sheet

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	114.3	119.0	169.1	238.8
Total Debtors	160.3	191.9	223.1	246.2
Inventories	71.1	98.3	113.4	126.0
Total Other Current Assets	5.5	5.5	5.5	5.5
Total Current Assets	**351.1**	**414.8**	**511.1**	**616.5**
Fixed Assets	419.8	460.0	496.3	529.0
Total Investments	0.0	0.0	0.0	0.0
Intangible Assets	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	9.7	9.7	9.7	9.7
Total Non-current Assets	**429.6**	**469.7**	**506.0**	**538.7**
Short-term Debt	6.0	6.0	6.0	6.0
Current Portion of Long-Term Debt				
Total Creditors	101.7	118.0	136.0	151.2
Other Current Liabilities	8.4	8.4	8.4	8.4
Total Current Liabilities	**116.2**	**132.5**	**150.5**	**165.6**
Total Long-term Debt	19.0	19.0	19.0	19.0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0.2	0.2	0.2	0.2
Total Non-current Liabilities	**19.2**	**19.2**	**19.2**	**19.2**
Total Provisions	11.0	11.0	11.0	11.0
Total Liabilities	**146.4**	**162.7**	**180.7**	**195.8**
Shareholders' Equity	634.3	721.8	836.4	959.4
Minority Interests				
Total Equity	**634.3**	**721.8**	**836.4**	**959.4**

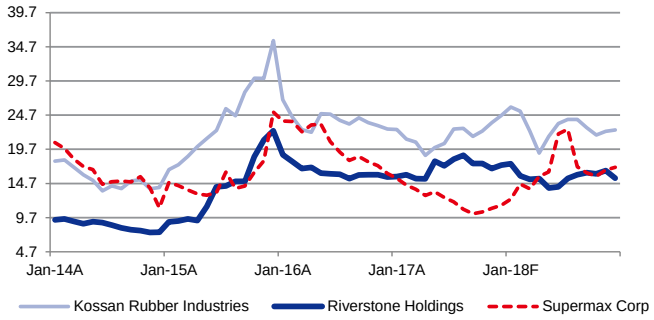
Cash Flow

(RMm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	184.2	208.1	248.3	276.4
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(11.9)	(42.6)	(28.2)	(20.6)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(6.6)	(0.8)	(0.8)	(0.8)
Net Interest (Paid)/Received	1.1	0.8	0.8	0.8
Tax Paid	(21.3)	(24.6)	(30.1)	(33.7)
Cashflow From Operations	**145.7**	**140.9**	**190.1**	**222.0**
Capex	(111.3)	(85.0)	(85.0)	(85.0)
Disposals Of FAs/subsidiaries	1.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(110.3)**	**(85.0)**	**(85.0)**	**(85.0)**
Debt Raised/(repaid)	25.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0
Dividends Paid	(48.1)	(51.9)	(55.8)	(68.1)
Preferred Dividends				
Other Financing Cashflow	0.0	0.0	0.0	0.0
Cash Flow From Financing	**(23.1)**	**(51.9)**	**(55.8)**	**(68.1)**
Total Cash Generated	12.3	4.0	49.3	68.9
Free Cashflow To Equity	**60.4**	**55.9**	**105.1**	**137.0**
Free Cashflow To Firm	**36.4**	**56.7**	**105.9**	**137.8**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	24.8%	12.6%	17.7%	11.1%
Operating EBITDA Growth	9.7%	12.9%	19.3%	11.3%
Operating EBITDA Margin	22.5%	22.6%	22.9%	23.0%
Net Cash Per Share (RM)	0.12	0.13	0.19	0.29
BVPS (RM)	0.86	0.97	1.13	1.29
Gross Interest Cover	146	204	249	280
Effective Tax Rate	14.3%	15.0%	15.0%	15.0%
Net Dividend Payout Ratio	40.1%	40.0%	40.0%	40.0%
Accounts Receivables Days	63.67	63.72	64.74	66.68
Inventory Days	40.67	43.08	46.69	47.63
Accounts Payables Days	56.61	55.86	56.03	57.15
ROIC (%)	26.8%	24.4%	25.9%	26.4%
ROCE (%)	24.5%	23.1%	24.7%	24.2%
Return On Average Assets	17.7%	16.7%	17.8%	17.5%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%, main prod./serv.)	20.2%	14.3%	11.0%	11.2%
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	20.2%	23.0%	19.0%	11.2%
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

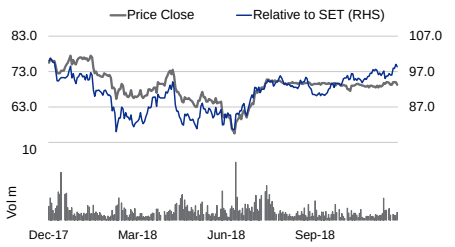
Thailand

ADD *(no change)*

Consensus ratings*:	Buy 8	Hold 4	Sell 3

Current price:	THB69.25
Target price:	THB87.00
Previous target:	THB87.00
Up/downside:	25.6%
CGS-CIMB / Consensus:	12.7%
Reuters:	DELT.BK
Bloomberg:	DELTA TB
Market cap:	US$2,633m
	THB86,381m
Average daily turnover:	US$1.77m
	THB58.02m
Current shares o/s	1,247m
Free float:	36.9%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	-0.7	-11.8
Relative (%)	3	5.9	-5.6

Major shareholders	% held
Deltron Holding Ltd	27.7
Delta Electronics Taiwan	20.0

Delta Electronics (Thailand)

Marching steadily forward

- We retain our positive outlook on DELTA and expect robust earnings growth in FY19F, thanks to its unique exposure to data centres and electric vehicles.
- We believe DELTA stands to benefit from the trade war between the US and China.
- Maintain Add with an end-19 target price of THB87, based on 15x FY20F P/E (-0.5 s.d. from its historical mean).

Demand for data centre components likely to stay strong in FY19F

- We believe the demand for servers will remain strong in FY19F, driven by exponential growth in data usage and investments in data storage facilities.
- We believe the need for more data infrastructure is the result of the prevalence of social media, e-commerce and other technologies, such as Internet of Things (IOT), the 5G network and artificial intelligence, which require massive computing power as well as large data storage infrastructure.

Automotive to remain the key earnings driver in the next 5 years

- We reiterate our strong positive view as we expect an increase in the number of electric vehicles (EV) across the world which should have a positive impact on DELTA.
- Unlike its local peers whose businesses focus on traditional cars, DELTA is unaffected by the environmental regulations in China and Worldwide Harmonised Light Vehicle Test Procedure (WLTP) in Europe as its automotive exposure is to the EV industry.
- With DELTA expanding facilities to cater to the increasing demand for automotive power supply (APS) products, we believe the company is poised to benefit from the increasing number of EV cars produced across the globe amid tightening environmental regulations worldwide.

A clear trade war beneficiary

- We note the US has levied a 25% import tariff on power supply parts from China for automatic data processing machines (HTS Codes: 8504.40.60, 8504.40.70)
- We believe DELTA can be a substitute supplier for these products from its production facilities in Thailand.
- Moreover, we believe the EV market is relatively shielded from the trade war as EVs have become increasingly prevalent in China, and sales significantly increased in 2018 due to the central and local government subsidies for EV purchases in China.

Maintain Add with an end-19 target price of THB87

- We maintain our Add rating for DELTA with an end-19 target price of THB87.00, based on 15x FY20F P/E (-0.5 s.d. from DELTA's 5-year historical mean).
- We believe a potential re-rating catalyst is strong capex momentum at large tech companies, while a key risk to our call is a potential slowdown in Chinese EV industry.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (THBm)	46,887	49,269	53,157	61,983	71,030
Net Profit (THBm)	5,516	4,929	5,650	6,392	7,250
Core EPS (THB)	4.28	4.65	4.41	5.12	5.81
Core EPS Growth	(15.4%)	8.8%	(5.3%)	16.3%	13.4%
FD Core P/E (x)	16.20	14.88	15.71	13.51	11.91
Price To Sales (x)	1.84	1.75	1.63	1.39	1.22
DPS (THB)	3.10	3.00	2.20	2.60	3.00
Dividend Yield	4.48%	4.33%	3.18%	3.75%	4.33%
EV/EBITDA (x)	11.03	10.32	9.95	8.64	7.50
P/FCFE (x)	23.60	39.95	12.06	26.85	14.62
Net Gearing	(62.1%)	(53.3%)	(58.9%)	(56.3%)	(56.2%)
P/BV (x)	2.71	2.66	2.38	2.30	2.09
ROE	17.1%	18.0%	16.0%	17.3%	18.4%
CIMB/consensus EPS (x)			1.04	1.02	1.04

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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BY THE NUMBERS

Profit & Loss

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**49,269**	**53,157**	**61,983**	**71,030**
Gross Profit	**13,669**	**13,707**	**16,228**	**18,372**
Operating EBITDA	**6,694**	**6,530**	**7,550**	**8,428**
Depreciation And Amortisation	(1,123)	(1,341)	(1,416)	(1,343)
Operating EBIT	**5,571**	**5,190**	**6,134**	**7,085**
Financial Income/(Expense)	173	173	165	170
Pretax Income/(Loss) from Assoc.	59	150	153	156
Non-Operating Income/(Expense)	(598)	372	276	220
Profit Before Tax (pre-EI)	**5,205**	**5,885**	**6,728**	**7,632**
Exceptional Items				
Pre-tax Profit	**5,205**	**5,885**	**6,728**	**7,632**
Taxation	(276)	(235)	(336)	(382)
Exceptional Income - post-tax				
Profit After Tax	**4,929**	**5,650**	**6,392**	**7,250**
Minority Interests	0	0	0	0
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**4,929**	**5,650**	**6,392**	**7,250**
Recurring Net Profit	5,804	5,498	6,392	7,250
Fully Diluted Recurring Net Profit	**5,804**	**5,498**	**6,392**	**7,250**

Balance Sheet

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	17,535	21,578	21,302	23,291
Total Debtors	10,468	11,417	13,313	15,256
Inventories	7,684	8,535	9,870	11,299
Total Other Current Assets	866	866	866	866
Total Current Assets	**36,554**	**42,397**	**45,352**	**50,713**
Fixed Assets	7,302	7,347	7,518	7,761
Total Investments	0	0	0	0
Intangible Assets	940	940	940	940
Total Other Non-Current Assets	1,358	353	353	353
Total Non-current Assets	**9,600**	**8,641**	**8,812**	**9,055**
Short-term Debt	229	183	146	117
Current Portion of Long-Term Debt	0	0	0	0
Total Creditors	10,480	11,761	13,699	15,654
Other Current Liabilities	1,127	1,127	1,127	1,127
Total Current Liabilities	**11,836**	**13,071**	**14,972**	**16,898**
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	423	423	423	418
Total Non-current Liabilities	**423**	**423**	**423**	**418**
Total Provisions	1,421	1,421	1,421	1,421
Total Liabilities	**13,680**	**14,915**	**16,817**	**18,737**
Shareholders' Equity	32,459	36,338	37,565	41,236
Minority Interests	15	0	0	0
Total Equity	**32,474**	**36,338**	**37,565**	**41,236**

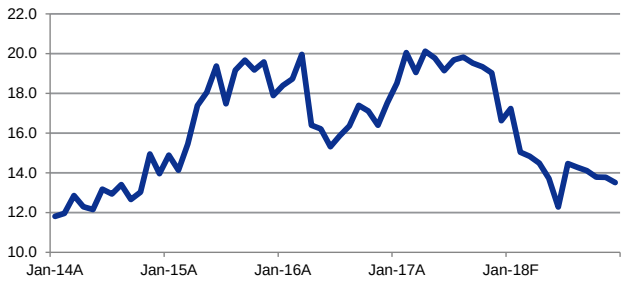
Cash Flow

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	6,694	6,530	7,550	8,428
Cash Flow from Invt. & Assoc.	0	0	0	0
Change In Working Capital	(1,028)	(520)	(1,292)	(1,417)
(Incr)/Decr in Total Provisions	1	0	1	2
Other Non-Cash (Income)/Expense	2,483	2,833	(704)	1,239
Other Operating Cashflow	(3,111)	(795)	(975)	(952)
Net Interest (Paid)/Received	173	173	165	170
Tax Paid	(276)	(235)	(336)	(382)
Cashflow From Operations	**4,936**	**7,986**	**4,408**	**7,089**
Capex	(2,378)	(1,300)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(303)	524	346	349
Cash Flow From Investing	**(2,681)**	**(776)**	**(1,154)**	**(1,151)**
Debt Raised/(repaid)	(92)	(46)	(37)	(29)
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(3,742)	(2,775)	(3,164)	(3,579)
Preferred Dividends				
Other Financing Cashflow	200	0	0	0
Cash Flow From Financing	**(3,634)**	**(2,821)**	**(3,201)**	**(3,609)**
Total Cash Generated	(1,380)	4,389	54	2,330
Free Cashflow To Equity	**2,162**	**7,164**	**3,218**	**5,909**
Free Cashflow To Firm	**2,274**	**7,229**	**3,282**	**5,961**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	5.1%	7.9%	16.6%	14.6%
Operating EBITDA Growth	10.9%	(2.4%)	15.6%	11.6%
Operating EBITDA Margin	13.6%	12.3%	12.2%	11.9%
Net Cash Per Share (THB)	13.87	17.15	16.96	18.58
BVPS (THB)	26.02	29.13	30.12	33.06
Gross Interest Cover	283.7	264.3	218.0	315.3
Effective Tax Rate	5.31%	4.00%	5.00%	5.00%
Net Dividend Payout Ratio	75.9%	49.1%	49.5%	49.4%
Accounts Receivables Days	78.40	75.14	72.82	73.61
Inventory Days	76.80	75.03	73.41	73.57
Accounts Payables Days	111.9	102.9	101.5	102.0
ROIC (%)	39.5%	30.5%	37.0%	39.3%
ROCE (%)	17.7%	15.5%	17.0%	18.4%
Return On Average Assets	10.3%	11.3%	11.8%	12.4%

12-mth Fwd FD P/E (x) - Delta Electronics (Thailand)



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP Change (%, Main Product)	0.0%	0.0%	0.0%	0.0%
Unit sales growth (%, main prod)	5.1%	7.9%	16.6%	14.6%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A
Rev per line (US$, main prod)	N/A	N/A	N/A	N/A
ASP chg (%, 2ndary prod)	0.0%	0.0%	0.0%	0.0%
Unit sales grth (%, 2ndary prod)	10.5%	12.3%	13.1%	14.6%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A
Rev per line (US$, 2ndary prod)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

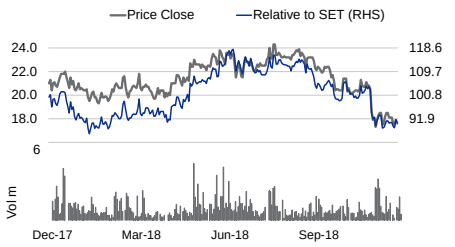
Thailand

ADD *(no change)*

Consensus ratings*:	Buy 12	Hold 0	Sell 1

Current price:	THB17.60
Target price:	THB27.00
Previous target:	THB27.00
Up/downside:	53.4%
CGS-CIMB / Consensus:	0.9%
Reuters:	SAT.BK
Bloomberg:	SAT TB
Market cap:	US$228.1m
	THB7,483m
Average daily turnover:	US$0.54m
	THB17.60m
Current shares o/s	425.2m
Free float:	58.1%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-15.4	-24.1	-17.8
Relative (%)	-12.8	-17.5	-11.6

Major shareholders	% held
Somboon Holding Co.,Ltd.	29.9
Thai Nvdr Co., Ltd.	13.9
Kitaphanich Family	10.0

Somboon Advance Technology

A clear road ahead

- We forecast SAT's FY18 core earnings to be the highest in the past decade.
- Strong auto domestic demand should drive SAT's earnings going forward.
- Our Add call and TP are intact. Potential dividend yield is over 6% in FY19F.

FY18 core earnings likely the highest in the past 10 years

- We expect core net profit of THB888m (+11% yoy) in FY18F while SAT earned THB656m core net profit in 9M18 which accounted for 74% of our FY18F forecast. If our forecast materialises, SAT's FY18 core earnings will be the highest since 2008.
- The factors that drove earning growth this year included 1) higher sales from strong auto production growth in FY18F, 2) efficient cost control, and 3) higher GPM (18% in 9M18 vs 15.9% in 9M17).

Strong support from auto industry growth

- We project Thailand auto production to rise 6.6% yoy in FY18F. We think SAT should benefit from strong auto production growth as SAT supplies spare parts mainly for commercial vehicles (CV). Its major clients include Mitsubishi, Toyota/Hino.
- In addition, Thailand has two big exhibitions a year to boost auto sales i.e. Motor Expo (29 Nov – 10 Dec 18) and Motor Show (27 Mar 19 – 7 Apr 19) which typically generate double-digit sales growth each year. We think it should be positive to SAT's sales.

Higher revenue contribution expected from Kubota

- Agricultural machinery producer Kubota contributed 19% of SAT's revenue in 9M18. Kubota estimates its tractor production to increase 13.6% yoy in 2018, given strong demand for tractor machinery in the domestic and export markets.

2019F outlook

- Recently, SAT received new orders to manufacture axle shafts for 1.5 tonne pick-up trucks from foreign auto manufacturers. We expect these orders to generate some c.THB70m revenue in 4Q18F and THB300m-350m p.a. over the next six years (the typical cycle for a car model). However, SAT does not need to expand its production facilities as it ran at 67% utilisation rate in 3Q18.
- SAT could benefit from the US-China trade dispute. For instance, if some Japanese auto manufacturers relocate their manufacturing facilities from China to Thailand, they may seek business partners in Thailand which would present SAT with an opportunity.

Maintain Add, target price of THB27.0

- Maintain Add. Our target price of THB27.0 is based on 12x FY19F P/E (+1 s.d. of 5-year average). Catalysts that could lift its share price further are 1) synergy with new business partners in terms of cost savings, and 2) political stability.
- Downside risk to our call is weaker than expected demand for auto vehicles.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (THBm)	8,299	8,593	8,544	9,670	10,728
Operating EBITDA (THBm)	1,377	1,440	1,497	1,478	1,518
Net Profit (THBm)	608	811	888	960	1,065
Core EPS (THB)	1.44	1.64	2.09	2.26	2.51
Core EPS Growth	(4.9%)	14.1%	27.4%	8.1%	10.9%
FD Core P/E (x)	12.25	10.73	8.43	7.79	7.02
DPS (THB)	0.60	0.90	1.00	1.15	1.25
Dividend Yield	3.41%	5.11%	5.70%	6.55%	7.12%
EV/EBITDA (x)	5.44	4.12	3.07	2.53	1.92
P/FCFE (x)	8.43	8.20	7.40	6.81	6.30
Net Gearing	6.0%	(17.6%)	(34.2%)	(41.8%)	(47.6%)
P/BV (x)	1.27	1.17	1.09	1.02	0.95
ROE	10.7%	11.3%	13.4%	13.5%	14.0%
CIMB/consensus EPS (x)			1.03	1.02	1.04

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Analyst(s)

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BY THE NUMBERS

Profit & Loss

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**8,593**	**8,544**	**9,670**	**10,728**
Gross Profit	**2,120**	**2,110**	**2,168**	**2,290**
Operating EBITDA	**1,440**	**1,497**	**1,478**	**1,518**
Depreciation And Amortisation	(789)	(693)	(620)	(563)
Operating EBIT	**651**	**804**	**858**	**955**
Financial Income/(Expense)	(58)	(45)	(45)	(44)
Pretax Income/(Loss) from Assoc.	92	126	139	146
Non-Operating Income/(Expense)	75	88	100	111
Profit Before Tax (pre-EI)	**760**	**973**	**1,052**	**1,167**
Exceptional Items	134	0	0	0
Pre-tax Profit	**894**	**973**	**1,052**	**1,167**
Taxation	(83)	(85)	(91)	(102)
Exceptional Income - post-tax				
Profit After Tax	**811**	**888**	**960**	**1,065**
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**811**	**888**	**960**	**1,065**
Recurring Net Profit	697	888	960	1,065
Fully Diluted Recurring Net Profit	**697**	**888**	**960**	**1,065**

Balance Sheet

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	2,339	3,250	3,957	4,625
Total Debtors	1,519	1,466	1,659	1,841
Inventories	428	523	610	686
Total Other Current Assets	200	0	0	0
Total Current Assets	**4,486**	**5,239**	**6,226**	**7,152**
Fixed Assets	4,114	3,621	3,201	2,838
Total Investments	418	544	683	829
Intangible Assets	18	18	18	18
Total Other Non-Current Assets	536	187	187	187
Total Non-current Assets	**5,085**	**4,370**	**4,089**	**3,872**
Short-term Debt	200	0	0	0
Current Portion of Long-Term Debt	537	212	208	206
Total Creditors	1,216	1,169	1,363	1,533
Other Current Liabilities	511	464	488	476
Total Current Liabilities	**2,465**	**1,845**	**2,059**	**2,215**
Total Long-term Debt	469	693	685	679
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	218	217	245	272
Total Non-current Liabilities	**687**	**910**	**930**	**951**
Total Provisions	0	0	0	0
Total Liabilities	**3,152**	**2,754**	**2,989**	**3,166**
Shareholders' Equity	6,419	6,855	7,326	7,859
Minority Interests				
Total Equity	**6,419**	**6,855**	**7,326**	**7,859**

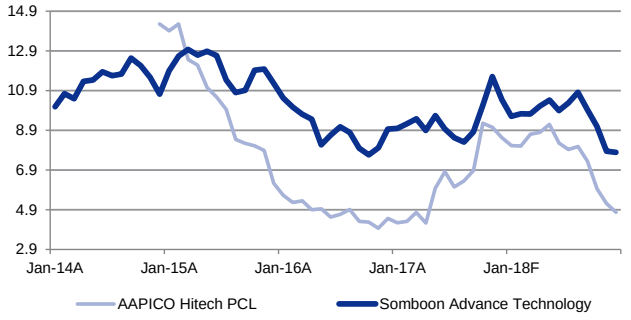
Cash Flow

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	1,440	1,497	1,478	1,518
Cash Flow from Invt. & Assoc.				
Change In Working Capital	70	(89)	(86)	(88)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	226	60	182	148
Net Interest (Paid)/Received	(58)	(45)	(45)	(44)
Tax Paid	(83)	(85)	(91)	0
Cashflow From Operations	**1,594**	**1,338**	**1,438**	**1,534**
Capex	0	(200)	(200)	(200)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments	(196)	(126)	(139)	(146)
Other Investing Cashflow	(486)	(0)	0	(0)
Cash Flow From Investing	**(681)**	**(327)**	**(339)**	**(346)**
Debt Raised/(repaid)				
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(251)	(383)	(426)	(426)
Preferred Dividends				
Other Financing Cashflow	(643)	(149)	(28)	(26)
Cash Flow From Financing	**(893)**	**(531)**	**(454)**	**(452)**
Total Cash Generated	19	479	646	737
Free Cashflow To Equity	**913**	**1,011**	**1,100**	**1,189**
Free Cashflow To Firm	**971**	**1,056**	**1,144**	**1,233**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	3.5%	(0.6%)	13.2%	10.9%
Operating EBITDA Growth	4.55%	3.97%	(1.26%)	2.74%
Operating EBITDA Margin	16.8%	17.5%	15.3%	14.2%
Net Cash Per Share (THB)	2.66	5.52	7.21	8.80
BVPS (THB)	15.10	16.12	17.23	18.48
Gross Interest Cover	11.25	17.76	19.20	21.58
Effective Tax Rate	9.30%	8.70%	8.68%	8.75%
Net Dividend Payout Ratio	56.5%	48.0%	51.0%	50.0%
Accounts Receivables Days	62.63	63.77	58.99	59.71
Inventory Days	29.68	26.98	27.57	28.11
Accounts Payables Days	66.32	67.65	61.61	62.81
ROIC (%)	10.5%	15.8%	20.5%	25.0%
ROCE (%)	8.5%	10.4%	10.7%	11.3%
Return On Average Assets	7.7%	9.7%	10.1%	10.4%

12-mth Fwd FD P/E (x)



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%, main prod./serv.)	-0.7%	7.4%	13.4%	9.7%
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	8.9%	5.7%	8.7%	4.5%
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

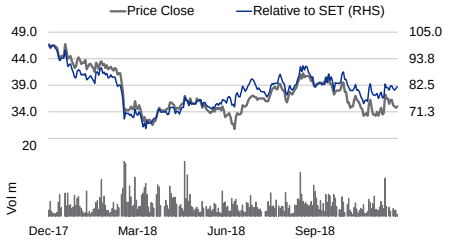
Thailand

HOLD *(no change)*

Consensus ratings*:	Buy 10	Hold 4	Sell 1

Current price:	THB35.00
Target price:	THB38.00
Previous target:	THB38.00
Up/downside:	8.6%
CGS-CIMB / Consensus:	-9.3%
Reuters:	HANA.BK
Bloomberg:	HANA TB
Market cap:	US$858.7m
	THB28,171m
Average daily turnover:	US$3.37m
	THB110.4m
Current shares o/s	804.9m
Free float:	49.7%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.3	-13.6	-26.3
Relative (%)	7.9	-7	-20.1

Major shareholders	% held
OMAC (HK) LIMITED	21.4
CREDIT SUISSE AG, SINGAPORE BRANCH	10.5
Thai NVDR	7.3

Analyst(s)

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Hana Microelectronics

Still not out of the woods

- We believe HANA's strong sales growth and GPM momentum in 3Q18 are unlikely to sustain given the current weak semiconductor outlook.
- While easing trade war tensions could help improve the sentiment for HANA given its semiconductor exposure, we see limited gains.
- We remain cautious on its outlook for the next 3-6 months. Maintain Hold and TP of THB38, based on 11.5x FY20F P/E (-1 s.d. from 5-year mean).

Growth driven mainly by customers' market share consolidation

- Sales growth in printed circuit board assembly (PCBA) remained robust in 3Q18, driven by strong auto and chip testing demand. Integrated circuit (IC) sales growth was attributable largely to higher volumes from customers' M&A activities.
- We expect a slowdown in HANA's revenue growth in FY19F as the momentum of order inflows from consolidation activities subside.
- While the 90-day halt on additional tariffs by the US on Chinese imports could lift the sentiment for HANA, we see limited direct benefits for the company due to its low US exposure.

Weakening economic outlook in China poses risks for automotive

- Despite a relatively low direct exposure to the supply chains between the US and China, HANA is vulnerable to China's economic outlook due to its high exposure to China.
- We see risks to HANA's automotive segment, given China's domestic passenger car sales (all brands) contracted by 12.6% yoy in Nov 2018, the largest monthly decline in six years.
- We believe this is due to weakening consumer confidence amid escalating US-China trade conflict, falling equity prices and a softening property market.
- As such, we are concerned about an eventual demand slowdown in China, should the US-China trade war escalate in FY19F.

US automotive tariffs on EU imports could further hurt HANA

- We observed that both Germany car production and exports fell by 22% in Nov 2018.
- In 2017, the US was the biggest export destination for European cars. However, if the 25% import tariff is implemented by the US, we believe it could lead to a further slowdown in the EU car industry which could hurt HANA.

Maintain Hold with an end-19F target price of THB38

- We remain conservative on HANA's outlook for the next 3-6 months as semiconductor demand has started to show signs of stagnation.
- We maintain our Hold call on HANA with an end-19F target price of THB38, based on 11.5x FY20F P/E (-1 s.d. from its 5-year mean).
- Stronger-than-expected growth in its automotive and smartphone segments is a potential re-rating catalyst; an escalation of the US-China trade conflict is a key risk.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (THBm)	20,523	21,551	22,292	24,381	26,649
Net Profit (THBm)	2,105	2,888	2,174	2,348	2,675
Core EPS (THB)	2.52	2.93	2.62	2.92	3.32
Core EPS Growth	(12.9%)	16.3%	(10.5%)	11.3%	13.9%
FD Core P/E (x)	13.90	11.95	13.35	12.00	10.53
Price To Sales (x)	1.37	1.31	1.26	1.16	1.06
DPS (THB)	2.00	2.00	2.00	2.00	2.00
Dividend Yield	5.71%	5.71%	5.71%	5.71%	5.71%
EV/EBITDA (x)	5.67	4.65	5.45	5.09	4.41
P/FCFE (x)	10.03	27.84	12.68	21.16	16.94
Net Gearing	(48.3%)	(44.8%)	(47.0%)	(44.9%)	(45.9%)
P/BV (x)	1.48	1.38	1.35	1.30	1.24
ROE	10.8%	11.9%	10.2%	11.0%	12.1%
CIMB/consensus EPS (x)			1.03	0.96	1.00

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**22,583**	**23,120**	**24,959**	**27,280**
Gross Profit	**5,330**	**5,105**	**5,270**	**5,712**
Operating EBITDA	**4,110**	**3,389**	**3,646**	**4,050**
Depreciation And Amortisation	(1,083)	(1,101)	(1,160)	(1,219)
Operating EBIT	**3,027**	**2,289**	**2,486**	**2,831**
Financial Income/(Expense)	(7)	(7)	(7)	(7)
Pretax Income/(Loss) from Assoc.	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**3,020**	**2,281**	**2,479**	**2,823**
Exceptional Items	0	0	0	0
Pre-tax Profit	**3,020**	**2,281**	**2,479**	**2,823**
Taxation	(132)	(107)	(130)	(148)
Exceptional Income - post-tax				
Profit After Tax	**2,888**	**2,174**	**2,348**	**2,675**
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	**2,888**	**2,174**	**2,348**	**2,675**
Recurring Net Profit	2,357	2,110	2,348	2,675
Fully Diluted Recurring Net Profit	**2,357**	**2,110**	**2,348**	**2,675**

Balance Sheet

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	9,274	9,924	9,810	10,515
Total Debtors	3,904	3,861	4,223	4,616
Inventories	4,083	4,000	4,375	4,782
Total Other Current Assets	632	632	632	632
Total Current Assets	**17,893**	**18,418**	**19,040**	**20,544**
Fixed Assets	6,066	5,915	6,337	6,268
Total Investments	138	138	138	138
Intangible Assets	50	50	50	50
Total Other Non-Current Assets	256	256	256	256
Total Non-current Assets	**6,510**	**6,359**	**6,781**	**6,712**
Short-term Debt	0	0	0	0
Current Portion of Long-Term Debt	0	0	0	0
Total Creditors	2,921	2,976	3,246	3,548
Other Current Liabilities	465	465	465	465
Total Current Liabilities	**3,386**	**3,441**	**3,711**	**4,012**
Total Long-term Debt	0	0	0	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	327	327	327	327
Total Non-current Liabilities	**327**	**327**	**327**	**327**
Total Provisions	0	0	0	0
Total Liabilities	**3,713**	**3,768**	**4,038**	**4,340**
Shareholders' Equity	20,476	20,903	21,642	22,707
Minority Interests	214	214	214	214
Total Equity	**20,690**	**21,117**	**21,856**	**22,921**

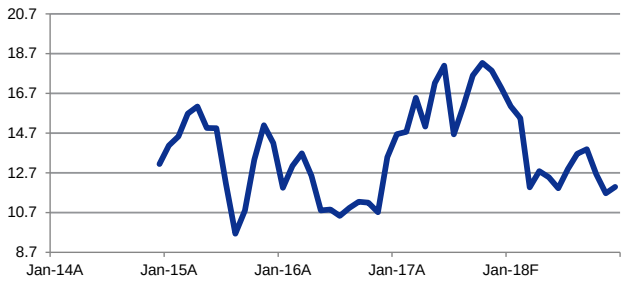
Cash Flow

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	4,110	3,389	3,646	4,050
Cash Flow from Invt. & Assoc.	0	0	0	0
Change In Working Capital	(581)	71	(1,007)	(1,101)
(Incr)/Decr in Total Provisions	0	0	0	0
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	(327)	(497)	(387)	(387)
Net Interest (Paid)/Received	(7)	(7)	(7)	(7)
Tax Paid	0	0	0	0
Cashflow From Operations	**3,195**	**2,956**	**2,245**	**2,554**
Capex	(943)	(950)	(1,150)	(1,150)
Disposals Of FAs/subsidiaries	16	0	0	0
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	(1,256)	216	237	259
Cash Flow From Investing	**(2,183)**	**(734)**	**(913)**	**(891)**
Debt Raised/(repaid)	0	0	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(1,610)	(1,610)	(1,610)	(1,610)
Preferred Dividends				
Other Financing Cashflow	0	0	0	0
Cash Flow From Financing	**(1,610)**	**(1,610)**	**(1,610)**	**(1,610)**
Total Cash Generated	(598)	613	(278)	53
Free Cashflow To Equity	**1,012**	**2,223**	**1,332**	**1,663**
Free Cashflow To Firm	**1,019**	**2,230**	**1,339**	**1,670**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	5.01%	3.44%	9.37%	9.30%
Operating EBITDA Growth	19.8%	(17.5%)	7.6%	11.1%
Operating EBITDA Margin	19.1%	15.2%	15.0%	15.2%
Net Cash Per Share (THB)	11.52	12.33	12.19	13.06
BVPS (THB)	25.44	25.97	26.89	28.21
Gross Interest Cover	415.6	314.2	341.3	388.6
Effective Tax Rate	4.37%	4.68%	5.26%	5.26%
Net Dividend Payout Ratio	55.7%	74.0%	68.5%	60.2%
Accounts Receivables Days	63.22	63.57	60.51	60.70
Inventory Days	81.81	81.88	77.63	77.69
Accounts Payables Days	60.39	59.74	57.67	57.64
ROIC (%)	28.3%	19.7%	22.1%	23.3%
ROCE (%)	14.9%	10.9%	11.6%	12.6%
Return On Average Assets	12.0%	8.9%	9.3%	10.1%

12-mth Fwd FD P/E (x) - Hana Microelectronics



Key Drivers

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP Change (%, Main Product)	8.9%	5.0%	3.9%	5.0%
Unit sales growth (%, main prod)	7.8%	10.5%	7.2%	9.8%
No. Of Lines (main Product)	N/A	N/A	N/A	N/A
Rev per line (US$, main prod)	356.4	393.7	422.2	463.5
ASP chg (%, 2ndary prod)	0.3%	5.0%	1.9%	2.4%
Unit sales grth (%, 2ndary prod)	12.5%	5.4%	4.8%	9.4%
No. Of Lines (secondary Product)	N/A	N/A	N/A	N/A
Rev per line (US$, 2ndary prod)	257.3	271.1	284.2	310.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Thailand

REDUCE *(no change)*

Consensus ratings*:	Buy 6	Hold 0	Sell 1

Current price:	THB16.90
Target price:	THB16.00
Previous target:	THB16.00
Up/downside:	-5.3%
CGS-CIMB / Consensus:	-19.1%
Reuters:	STA.BK
Bloomberg:	STA TB
Market cap:	US$791.2m
	THB25,958m
Average daily turnover:	US$8.71m
	THB285.5m
Current shares o/s	1,536m
Free float:	55.2%

Source: Bloomberg

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.5	30	32
Relative (%)	-1.9	36.6	38.2

Major shareholders	% held
Sri Trang Holding	22.4
Mr. Viyavood Sincharoenkul	10.7
Sincharoenkul family	12.4

Analyst(s)

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Sri Trang Agro-Industry

Positive newsflow likely factored in

- In our view, most positive newsflow has been priced in and STA offers limited upside.
- Weak demand and excess supply could pressure natural rubber prices.
- Reiterate Reduce and our target price of THB16. We recommend switching to related rubber stocks, i.e. automobile counters.

Limited upside potential

- STA's share price jumped 70% between 29 Jun 18 and 7 Dec 18 and we believe there could be limited upside due to 1) lower sales from low selling natural rubber (NR) prices, especially to China, 2) low sustained NR margins, and 3) recent government policies to shore up low prices for domestic NR.
- We believe most positive factors have been priced in. Moreover, demand from China has yet to recover and excess supply continues to put pressure on NR prices.

4Q18F – NR prices unlikely to recover yet

- We think that NR prices remained weak due to 1) excess supply as a result of the high number of trees planted in 2010-2012, 2) lower demand from China due to trade tensions and rising stockpiles in Qinqdao and in the Shanghai Futures Exchange (SHFE) rubber stocks, and 3) short-term policies by the Thai government (15 Dec 18-16 Jan 19) to increase domestic NR consumption, which should have a minimal impact on operations as STA exports more than 80% of total output.

Acquisition could increase glove capacity in 2Q19F

- STA is expected to manufacture 17.2bn gloves in FY18F and it plans to acquire ThaiKong (TK, unlisted), which will add another c.4bn gloves p.a. If the acquisition goes through, STA will have production capacity of c.21.2bn gloves p.a.
- According to company disclosure, FY18F capacity for Kossan Rubber is 26.5bn pieces p.a., Supermax Corp 25.4bn pcs p.a., Top Glove Corp 60.5bn pcs p.a. and Hartalega 32.7bn pcs p.a.

Outlook in 2019F

- We expect NR prices to rise to c. US$1.4/kg in FY19F on the SICOM futures market given 1) excess supply carried forward from 4Q18 in Thailand, 2) rising supply from Indonesia after the tapping period ends in Feb 19, and 3) high stockpiles in China from weak demand in the auto industry. We forecast that STA will sell 1.4m tonnes of NR in FY19F vs. 1.37m tonnes in FY18F, though selling prices could remain low.

Maintain Reduce call

- We keep our Reduce rating and target price of THB16, based on 15.5x CY19F blended P/E (1 s.d. below its historical 5-year average). Potential de-rating catalysts are 1) appreciation of Thai baht against US$, which could hurt its export sales, and 2) high capex to expand its glove business. Key upside risks are 1) stronger-than-expected demand for gloves, and 2) higher NR prices.

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (THBm)	77,266	89,387	74,945	78,972	83,273
Operating EBITDA (THBm)	1,370	455	2,984	3,348	3,384
Net Profit (THBm)	(758)	(1,437)	2,151	1,579	1,741
Core EPS (THB)	0.18	(1.38)	0.69	0.76	0.84
Core EPS Growth	899%	(877%)		10%	10%
FD Core P/E (x)	95.21	NA	24.48	22.30	20.21
DPS (THB)	0.40	0.00	0.42	0.42	0.42
Dividend Yield	2.37%	0.00%	2.49%	2.49%	2.49%
EV/EBITDA (x)	36.5	111.0	14.3	12.2	12.0
P/FCFE (x)	NA	NA	9.64	16.70	74.49
Net Gearing	150%	115%	67%	58%	55%
P/BV (x)	1.09	1.13	1.04	1.01	0.97
ROE	1.11%	(9.08%)	4.44%	4.60%	4.88%
CIMB/consensus EPS (x)			1.33	0.87	0.99

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Net Revenues	**90,073**	**75,127**	**79,152**	**83,438**
Gross Profit	**6,314**	**8,077**	**8,714**	**9,042**
Operating EBITDA	**455**	**2,984**	**3,348**	**3,384**
Depreciation And Amortisation	(1,852)	(1,839)	(1,932)	(1,882)
Operating EBIT	**(1,397)**	**1,145**	**1,416**	**1,502**
Financial Income/(Expense)	(1,196)	(617)	(618)	(595)
Pretax Income/(Loss) from Assoc.	130	456	481	507
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	**(2,463)**	**984**	**1,278**	**1,414**
Exceptional Items				
Pre-tax Profit	**(2,463)**	**984**	**1,278**	**1,414**
Taxation	(21)	71	(108)	(122)
Exceptional Income - post-tax	504	1,091	415	456
Profit After Tax	**(1,980)**	**2,146**	**1,586**	**1,748**
Minority Interests	(19)	5	(7)	(7)
Preferred Dividends				
FX Gain/(Loss) - post tax	562	0	0	0
Other Adjustments - post-tax				
Net Profit	**(1,437)**	**2,151**	**1,579**	**1,741**
Recurring Net Profit	(1,941)	1,060	1,164	1,285
Fully Diluted Recurring Net Profit	**(1,941)**	**1,060**	**1,164**	**1,285**

Balance Sheet

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Total Cash And Equivalents	2,650	4,823	5,118	5,160
Total Debtors	8,023	7,022	7,399	7,802
Inventories	17,123	15,231	16,001	16,900
Total Other Current Assets	554	434	494	464
Total Current Assets	**28,349**	**27,510**	**29,012**	**30,326**
Fixed Assets	26,022	27,220	26,435	25,704
Total Investments	730	880	880	880
Intangible Assets	3,414	3,377	3,409	3,400
Total Other Non-Current Assets	1,193	1,128	1,106	1,158
Total Non-current Assets	**31,358**	**32,606**	**31,830**	**31,142**
Short-term Debt	22,637	21,695	20,219	20,074
Current Portion of Long-Term Debt	0	0	0	0
Total Creditors	2,615	2,315	2,432	2,568
Other Current Liabilities	3,299	9,226	9,708	8,634
Total Current Liabilities	**28,550**	**33,236**	**32,359**	**31,275**
Total Long-term Debt	4,500	0	0	0
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	3,073	1,422	2,053	2,676
Total Non-current Liabilities	**7,573**	**1,422**	**2,053**	**2,676**
Total Provisions	308	247	277	262
Total Liabilities	**36,431**	**34,904**	**34,690**	**34,214**
Shareholders' Equity	22,908	24,848	25,781	26,877
Minority Interests	369	364	371	377
Total Equity	**23,277**	**25,211**	**26,152**	**27,254**

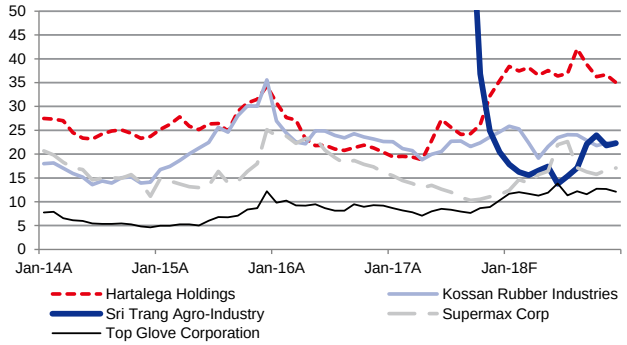
Cash Flow

(THBm)	Dec-17A	Dec-18F	Dec-19F	Dec-20F
EBITDA	455	2,984	3,348	3,384
Cash Flow from Invt. & Assoc.				
Change In Working Capital	3,959	2,592	(1,030)	(1,166)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	851	(304)	392	324
Net Interest (Paid)/Received	(1,196)	(587)	(591)	(578)
Tax Paid	(21)	71	(108)	(122)
Cashflow From Operations	**4,049**	**4,756**	**2,012**	**1,842**
Capex	(10,467)	(3,000)	(1,100)	(1,100)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	5,226	936	643	(394)
Cash Flow From Investing	**(5,241)**	**(2,064)**	**(457)**	**(1,494)**
Debt Raised/(repaid)				
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	0	(645)	(645)	(645)
Preferred Dividends				
Other Financing Cashflow	2,378	(7,313)	261	165
Cash Flow From Financing	**2,378**	**(7,958)**	**(385)**	**(481)**
Total Cash Generated	1,186	(5,266)	1,170	(132)
Free Cashflow To Equity	**(1,192)**	**2,693**	**1,554**	**348**
Free Cashflow To Firm	**4**	**3,310**	**2,172**	**944**

Key Ratios

	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue Growth	15.7%	(16.2%)	5.4%	5.4%
Operating EBITDA Growth	(67%)	555%	12%	1%
Operating EBITDA Margin	0.51%	3.98%	4.24%	4.06%
Net Cash Per Share (THB)	(17.42)	(10.98)	(9.83)	(9.71)
BVPS (THB)	14.91	16.18	16.78	17.50
Gross Interest Cover	(1.17)	1.86	2.29	2.52
Effective Tax Rate	0.00%	0.00%	8.42%	8.66%
Net Dividend Payout Ratio	NA	61%	55%	50%
Accounts Receivables Days	34.20	36.64	33.33	33.41
Inventory Days	82.92	88.06	80.92	80.93
Accounts Payables Days	12.60	13.42	12.30	12.30
ROIC (%)	(3.13%)	1.96%	2.86%	3.04%
ROCE (%)	(2.67%)	2.29%	3.02%	3.19%
Return On Average Assets	(1.24%)	2.65%	2.82%	2.95%

12-mth Fwd FD P/E (x)



Key Drivers

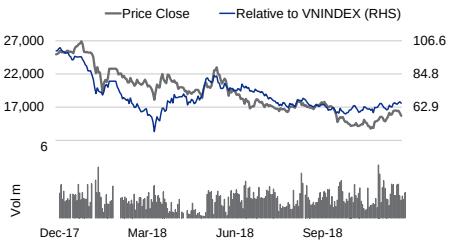
	Dec-17A	Dec-18F	Dec-19F	Dec-20F
ASP (% chg, main prod./serv.)	28.4%	-15.0%	2.0%	0.8%
Unit sales grth (%, main prod./serv.)	-11.4%	5.7%	2.8%	4.1%
Util. rate (%, main prod./serv.)	74.1%	72.4%	73.3%	74.2%
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Vietnam

NON RATED

Current price:	VND15,700
Consensus Tgt Price:	VND15,913
Up/downside:	N/A
Reuters:	AAA.HM
Bloomberg:	AAA VN
Market cap:	US$115.3m
	VND2,687,840m
Average daily turnover:	US$1.26m
	VND29,309m
Current shares o/s:	171.2m
Free float:	57.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.1	-7.7	-37.2
Relative (%)	8.9	-1	-34

Major shareholders	% held
An Phat Holdings JSC	46.6
Kallang Limited	7.6
PYN Fund Elite (Non-Ucits)	5.0

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An Phat Plastic JSC

Unwrap the packaging to discover more

- AAA is the largest plastic packaging manufacturer and exporter in Southeast Asia in terms of production capacity.
- AAA could be a prime beneficiary of the trade war between the U.S and China, according to the company.
- 2018 marks an inflection point for AAA, as it rapidly diversifies beyond just plastic packaging into plastic parts and building materials production.
- The stock now trades at a TTM P/E of 9.4x, an 8.7% discount to the domestic and regional plastic packaging industry peer TTM average of 10.3x.

The no.1 plastic packaging exporter in Vietnam

AAA is the largest manufacturer of plastic packaging in Southeast Asia, with current production capacity of 8,000 tonnes/month. Almost all its revenue from selling self-manufactured products comes from exports to foreign markets, such as the U.S, Japan and European countries as at 3Q18. AAA has focused on equipping itself with modern production lines that meet the standards of international markets. According to management, this gives AAA a sizable competitive advantage vis-à-vis other domestic plastic packaging manufacturers that focus on more commoditised, lower quality packaging.

Jumping on the trade war bandwagon

According to management, AAA stands to benefit from the trade war between the U.S and China as U.S importers are seeking non-Chinese plastic bag suppliers to reduce the impact of the 13% tariff imposed on Chinese plastic packaging. Given that Vietnamese plastic bags are subjected to U.S. import tariffs of only 3%, AAA believes that the U.S market could be a new growth driver for its plastic packaging segment. Illustratively, AAA's plastic packaging exports to the U.S surged by 324% yoy in Sep 2018.

AAA is restructuring to be more than just a plastic bag producer

Rather than solely concentrating on the existing packaging production (accounting for 68% of the company's FY17 total revenue), AAA will start to launch new products through its subsidiaries, including hi-tech injection molding spare parts, premium industrial bags and building materials such as plastic walls and floor tiles in 2019F. Notably, the company, via its subsidiary An Trung, is striving to become the primary smartphone parts supplier for Samsung Electronics Vietnam – a giant FDI enterprise in Vietnam, management said.

Poor 9M18 business results, TTM P/E of 9.4x

For Jan-Sep 2018, the company reports it has realised VND5,809bn in revenue (+119% yoy, fulfilling 97% of its 2018 full year revenue target) but only VND159bn in PAT (-16% yoy, completing only 48% of the full year net profit target). The management blamed the striking divergence in topline and bottomline results on the rapid expansion of the low-margin trading segment, part of a deliberate initiative to develop a market for its upcoming new products. AAA is currently trading at a TTM P/E of 9.4x, an 8.7% discount to the peer average TTM P/E of both domestic and regional plastic producers (10.3x).

Financial Summary	Dec-13A	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Revenue (VNDb)	1,158	1,561	1,615	2,144	4,070
Operating EBITDA (VNDb)	129	132	156	280	534
Net Profit (VNDb)	55	41	40	142	224
Core EPS (VND)	2,778	1,035	808	2,493	2,679
Core EPS Growth		-63.0%	-22.0%	208.0%	7.0%
FD Core P/E (x)	5.8	15.6	19.9	6.5	6.0
DPS (VND)	474		539	1,540	1,540
Dividend Yield	2.9%		3.3%	9.6%	9.6%
Net Gearing	51.9%	15.3%	17.1%	144.2%	115.0%
P/BV (x)	0.6	0.8	1.0	1.0	1.0
ROE	10.4%	7.1%	4.0%	15.3%	17.7%

SOURCES: VND RESEARCH, COMPANY REPORTS

Analyst(s)

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Vietnam

NON RATED

Current price:	VND17,600
Consensus Tgt Price:	VND22,000
Up/downside:	N/A
Reuters:	STK.HM
Bloomberg:	STK VN
Market cap:	US$45.27m
	VND1,054,905m
Average daily turnover:	US$0.06m
	VND1,405m
Current shares o/s:	59.94m
Free float:	44.2%

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-10.2	20.5	-24.5
Relative (%)	-13.4	27.2	-21.3

Major shareholders	% held
Huong Viet Investment Consultan Corporation	20.2
Dang Trieu Hoa	13.9
Dang My Linh	8.5

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Analyst(s)

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Century Synthetic Fiber Corp

Changing product mix to boost margin

- STK is the second-largest polyester yarn manufacturer in Vietnam (in terms of capacity), accounting for 28% of national polyester yarn exports in 2017.
- Management believes STK should benefit of the US-China trade war.
- Trang Bang 5 factory, which will start commercial operations in 1Q19, will raise STK's total production capacity by 5.5% to 63,300 tonnes of yarn.

Second-largest synthetic fiber manufacturer in Vietnam

STK's current total capacity of 60,000 tonnes of yarn, makes it the largest Vietnamese synthetic yarn manufacturer, and it is ranked second-largest in the domestic market, after Taiwanese firm, Formosa (1326 TT, Not rated). STK produces Fully-Drawn Yarn (FDY), Drawn-Textured Yarn (DTY) and recycled yarn, which are used as key input materials for the textile industry.

Demand driven by recent trade agreements

Vietnam's total domestic yarn production only met 39.2% of domestic demand in 2016. STK's management said that Vietnam's downstream textile industry is also benefitting from growing export demand driven by a slew of new Free Trade Agreements (FTAs), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and relatively low labour costs. Management believes that these conditions bode well for STK.

Direct beneficiary of US-China trade war, per management

The US's package of recently-imposed tariffs (Sep 2018) on Chinese imports includes synthetic fibers and other polyester-based products, hence making Vietnamese synthetic yarn manufacturers like STK more competitive, said STK's management.

Shift in product mix towards high-margin recycled yarn

According to STK's management, the product mix will also shift towards recycled yarn, which has gross margins of around 22%, higher than that of normal yarn which is 12%. STK's management aims to increase recycled yarn revenue contribution from 6% in FY17 to 30% in FY20F, in order to raise blended margins.

Trang Bang 5 to begin operations in 1Q19

According to STK's management, the Trang Bang 5 factory (TB5) will begin operations in 1Q19 at a utilisation rate of 90%, after the trial phase in 4Q18. TB5, with designed capacity of 3,300 tons of DTY and 1,500 tons of recycled chips (which is used as material for producing recycled yarn), will raise STK's total production capacity to 63,300 tonnes of yarn, up 5.5% from current levels.

Downside risks, according to management

Synthetic fiber's input material is the PET chip, which, being a downstream petrochemical product, is exposed to oil price volatility. According to management, Chinese manufacturers of yarn are also relocating to Southeast Asia and could pose direct competition to STK by establishing a presence in Vietnam.

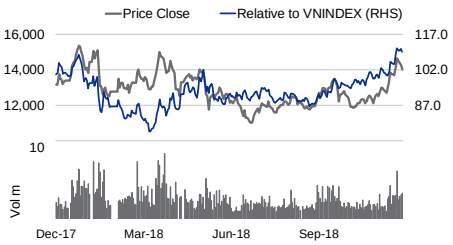
Financial Summary	Dec-13A	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Revenue (VNDb)			1,035	1,358	1,989
Operating EBITDA (VNDb)			210	181	274
Net Profit (VNDb)			72	29	100
Core EPS (VND)			1,537	539	1,670
Core EPS Growth				-64.9%	209.5%
FD Core P/E (x)			11.5	32.6	10.5
DPS (VND)			1,363	431	265
Dividend Yield			7.7%	2.5%	1.5%
EV/EBITDA (x)			7.9	10.6	6.5
Net Gearing			117.5%	137.3%	88.7%
P/BV (x)			1.2	1.4	1.4
ROE			9.1%	4.1%	13.5%

SOURCES: VND RESEARCH, COMPANY REPORTS

Vietnam

NON RATED

Current price:	VND14,000
Consensus Tgt Price:	VND16,000
Up/downside:	N/A
Reuters:	KBC.HM
Bloomberg:	KBC VN
Market cap:	US$282.2m
	VND6,576,643m
Average daily turnover:	US$1.40m
	VND32,915m
Current shares o/s:	475.7m
Free float:	37.0%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	15.7	15.2	6.5
Relative (%)	12.5	21.9	9.7

Major shareholders	% held
Dang Thanh Tam	16.0
Kinh Bac Consulting and Investment	9.6
Dragon Capital	5.6

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Kinh Bac City Corp

Vietnam's Industrial Park Giant

- Experiencing steady rental growth and high occupancy rates and facing a healthy demand for industrial properties in northern industrial zones.
- Expecting to launch Nam Son Hap Linh industrial park phase 1 in FY19F, comprising 66ha, adding to its total available NLA of 453ha as at end-2017.
- Residential real estate segment now a big revenue contributor.
- Management guides for 2018F revenue of VND2,339bn (+85.6% yoy) and net profit of VND 718.9bn (+ 23% yoy).

Burgeoning northern industrial zones enjoy healthy rental growth

Based on estate services firm, Jones Lang Lasalle's figures, northern industrial land leasing in 2018F is expected to reach an average occupancy rate of 85% (+400 bp yoy) and an average rental rate of US$82/sq m/lease term (+10% yoy). Meanwhile, management expects the US-China trade war to boost leasing from 2019F, as foreign companies in China are seeking to diversify their production bases to Vietnam to bypass US trade tariffs. With the second largest net leasable area (NLA) of 519ha in the northern industrial zones, KBC expects to benefit from strong demand for industrial property in the medium term; it believes occupancy and rental rates will rise in 2019F given this backdrop.

The Nam Son Hap Linh industrial park (phase 1) launches in 2019

According to management, KBC will launch a new industrial park Nam Son Hap Linh with an NLA of 66ha in 2019F, adding to its current total NLA of 453ha available for lease (as at end-2017). KBC has guided that this new park will realise a healthy rental rate of US$80/sq m/lease term and rising occupancy driven by its proximity to Que Vo industrial parks, the local manufacturing hubs of South Korean multinational giants.

Strong pre-sales backlog for residential segment

The management stated in Mar 2018 that the Phuc Ninh townhouse project is being launched in two phases with total first net saleable area (NSA) of 13.9ha. Management also guides for total contracted sales of VND2,337bn over 2018-20F and reported unbooked presales of VND1,361bn at end-2017. However, the People's Committee of Bac Ninh province has issued a notice in Oct 2018 of KBC's non-compliance with the master zone plan.

Management guides for strong growth in 2018F

On the back of rising contribution from residential real estate and strong growth in leasing sales from its sizable nationwide industrial land bank, KBC's management is targeting 2018F revenue of VND2,339bn (+85.6% yoy), net profit of VND718.9bn (23% yoy).

Stock trading under book value

The company has yet to launch its Trang Cat Townhouse project, the largest component of its inventory valued at VND3,498bn, due to market timing issues, as per management. The stock currently trades at a discount to its BVPS of VND20,364 as at end-3Q18.

Financial Summary	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Total Net Revenues (VNDb)	1,069.0	1,434.8	1,972.5	1,260.2
Operating EBITDA (VNDb)	517.7	478.4	980.5	512.6
Net Profit (VNDb)	325.6	611.9	557.4	584.5
Core EPS (VND)	904	1,316	1,176	489
Core EPS Growth		46%	(11%)	(58%)
DPS (VND)	-	-	-	-
Dividend Yield	0%	0%	0%	0%
EV/EBITDA (x)	12.70	13.74	6.71	12.83
P/FCFE (x)	118.59	83.18	98.30	31.39
Net Gearing	62.4%	29.0%	19.4%	24.5%
P/BV (x)	0.87	0.82	0.76	0.73
ROE	5.2%	7.6%	6.5%	6.5%

SOURCES: VND RESEARCH, COMPANY REPORTS

Analyst(s)

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Vietnam

NON RATED

Current price:	VND149,000
Consensus Tgt Price:	VND178,500
Up/downside:	N/A
Reuters:	SCS.HM
Bloomberg:	SCS VN
Market cap:	US$329.9m
	VND7,587,830m
Average daily turnover:	US$0.07m
	VND1,703m
Current shares o/s:	49.99m
Free float:	33.7%

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.3	-4.8	32
Relative (%)	-2.4	-2.2	27.8

Major shareholders	% held
Gemadept Corporation	36.9
Airport Corporation of Vietnam	15.0
A41 Aircraft Repairing Company	14.4

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Saigon Cargo Service Corp

Integrated air cargo service provider

- SCS is one of Vietnam's two integrated air cargo service providers servicing the Tan Son Nhat airport (SGN) in Ho Chi Minh City.
- Management believes SCS is well-positioned to ride the air cargo boom and is the only air cargo terminal operator at SGN able to expand its capacity.

Vietnam's air cargo sector is expected to see sustained growth

According to the Ministry of Transportation, the country's air cargo throughput volume is forecast to grow at a CAGR of 18% over FY16-20F, with growth to be propelled by the burgeoning cross-border trade. Additionally, the rapid growth of Vietnamese e-commerce will be a new growth engine for the air cargo sector, according to Ministry of Transportation.

An integrated air cargo service provider

SCS is one of two air cargo terminal operators located in the Tan Son Nhat airport (SGN), which serves Ho Chi Minh City and southern Vietnam. SCS operates in a duopolistic market with its only competitor being Tan Son Nhat Cargo Service JSC (TCS), a subsidiary of Vietnam Airlines (HVN VN Not rated). SCS has three main business lines: air cargo services, airport apron leasing and office & parking space leasing. Its core business, air cargo services, accounted for 93% of total revenue in 1H18. Meanwhile, office leasing and airport apron leasing contributed 6% and 1% to 1H18 revenue, respectively.

Technology is a key differentiator versus competition

SCS increased market share of international cargo through-put volume in SGN from 22% in 2013 to 36% in 8M2018. According to management, SCS uses newer technology which enables higher levels of automation and better monitoring of customer requests this is driving differentiation in its service levels, according to management. Meanwhile, TCS is running at full capacity since 2017.

The only air cargo terminal operator at SGN able to expand capacity

Both air cargo service providers at SGN are faced with capacity constraints according to the Ministry of Transportation. But SCS is the only one able to expand capacity as its competitor, TCS has no available land bank for expansion according to SGN airport. SCS' current cargo-handling capacity is 200,000 tonnes and the company plans to increase it to 350,000 tonnes in 2019F, per management. The extension is possible as management says SCS has a vacant 13,000 sq m land bank to the south of SGN.

Implications of the Chins-US trade war

Global companies have also yet to adjust their supply chains to circumvent US trade tariffs on China. Therefore, cargo throughput volumes at SGN could be hurt in the short-term and this will negatively affect cargo service providers like SCS, according to its management team. However, management expects SCS to be a beneficiary of the trade war in the medium-to-long term as factories, particularly in the electronics industry, relocate from China to Vietnam.

Financial Summary	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Revenue (VNDb)	275	314	496	588
Operating EBITDA (VNDb)	190	241	343	443
Net Profit (VNDb)	92	135	245	344
Core EPS (VND)	1,924	2,818	4,838	6,232
Core EPS Growth	NA	46.5%	71.7%	28.8%
FD Core P/E (x)	76.4	52.2	30.4	23.6
DPS (VND)	NA	1,062	2,682	4,150
Dividend Yield	NA	0.7%	1.7%	2.7%
P/BV (x)	14.1	11.6	10.2	9.2
ROE	NA	24.4%	35.6%	40.9%

SOURCES: VND RESEARCH, COMPANY REPORTS

Analyst(s)

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Vietnam

NON RATED

Current price:	VND24,600
Consensus Tgt Price:	VND27,750
Up/downside:	N/A
Reuters:	TCM.HM
Bloomberg:	TCM VN
Market cap:	US$57.1418m
	VND1,331,588m
Average daily turnover:	US$0.92m
	VND21,412m
Current shares o/s:	54.230m
Free float:	52.2%

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-1.6	-17.5	-11.6
Relative (%)	-4.8	-10.8	-8.4

Major shareholders	% held
E-Land Asia Holding Pte., Ltd.	43.2

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Thanh Cong Textile Garment JSC

Changing sales mix and vertical integration

- TCM is the only Vietnamese textile manufacturer that operates a fully vertically-integrated production chain ranging from yarn to garment products.
- Restructuring of product portfolio to focus on garments has helped to raise gross margin by 190bp yoy during 9M18, according to management.
- Bankruptcy of Sears (TCM's customer) has put VND95bn of TCM's receivables in doubt, the company said.

The only vertically-integrated textile manufacturer in Vietnam

TCM owns a near-complete production chain, including yarn, fabric and garments, allowing it to reduce its reliance on imported materials (yarn, fabric). According to TCM's management, the majority of materials used for making garments (annual capacity of 27m units), are insourced from two yarn factories (11,000 tonnes of cotton yarn) and two fabric factories (capacity of 15,000 tonnes of knitted fabric and 9.6m metres of woven fabric).

Improving product mix fuelling gross margin expansion

9M18 revenue from yarn fell by 36.2% yoy (after selling one yarn factory and switching another's production to fabric), while fabric and garment revenue surged 47.6% yoy and 26.5% yoy, respectively, with the purchase of a new garment factory in 3Q18. This has expanded blended gross margin by 190bp yoy to reach 17.8% in 9M18.

Dyeing factory to further support margins, per management

The dyeing stage, a stage between fabric and garment making, has been a bottleneck for the Vietnamese textile industry, as not many companies have been able to obtain licenses for dyeing, due to the strict environmental rules for disposal of dyeing chemicals. TCM's Vinh Long dyeing factory (capex of ~US$10m in FY19F and capacity of 2,500m of fabric per day) will serve in-house fabric production needs after expected commissioning around FY19-20F, reducing its reliance on outsourced dyeing and boosting margins, says management.

A potential beneficiary of US – China trade war, per management

According to TCM's Management, under the current US tariff regime, sewed/knitted products (e.g. fabric) from China will be taxed at 25% on average vs. a tariff rate of 17.5% on similar goods imported from Vietnam. Therefore, TCM expects to benefit from the trade war, as fabric contributed 13.4% of TCM's 9M18 revenue.

Management says Sears' bankruptcy creates some receivables risk

Sears Holding Corporation (SHLD US, Not rated), a key customer of TCM that contributed 7% of TCM's annual revenue in FY17 and accounted for 19% of total receivables outstanding as at 9M18, filed for bankruptcy in the US on Oct 14, 2018.

Financial Summary	Dec-13A	Dec-14A	Dec-15A	Dec-16A	Dec-17A
Revenue (VNDb)	2,554	2,571	2,792	3,071	3,209
Operating EBITDA (VNDb)	237	264	289	265	349
Net Profit (VNDb)	124	168	154	116	193
Core EPS (VND)	2,408	3,265	2,986	2,246	3,753
Core EPS Growth		35.6%	-8.5%	-24.8%	67.1%
FD Core P/E (x)	10.2	7.5	8.2	11.0	6.6
DPS (VND)	635	998	1,197	831	639
Dividend Yield	2.6%	4.1%	4.9%	3.4%	2.6%
EV/EBITDA (x)	8.7	7.5	8.1	9.2	6.8
Net Gearing	108.8%	89.5%	119.4%	129.8%	105.6%
P/BV (x)	1.6	1.5	1.3	1.3	1.2
ROE	18.2%	21.8%	18.1%	12.7%	16.5%

SOURCES: VND RESEARCH, COMPANY REPORTS

Analyst(s)

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Reduce	13.7%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** –

Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 31, 2018) are categorized into:

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

* The company, its director or management had been reportedly accused for breaching proper corporate governance such as violation of the SEC's regulations or charged with corruption.

RECOMMENDATION FRAMEWORK

Stock Ratings	Definition:
Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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