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Standard Chartered

Asia Top30 **equity strategy**

This reflects the views of the Wealth Management Group

equities | 19 February 2014

Rangebound – Offsetting forces in Asia

- **No changes to the Top30 this month**
- **On Watch:**
  - **Geely Auto (175 HK)** to cut (waiting for a rebound)
  - **ST Engineering (STE SP), Hutchison Whampoa (13 HK)** to add
- As expected, the region has continued to lag global equities despite attractive valuations. Asian equities' reaction to the recovery in global PMI has been muted so far and the renewed slowdown in China growth momentum is worrisome.
- Corporate earnings have been revised down to 11.8% from 12.9% since December. While the improvement in Developing Markets' economic growth could support Asia, it may be offset by tighter global liquidity and slower domestic growth, limiting potential upside.
- We upgrade Taiwan to an Overweight, where domestic and external growth are supportive. We close our Underweight on Indonesia, which worked well for us, and downgrade Malaysia to Underweight on concerns over further FX weakness.
- The China banks' rebound is likely to be short-lived, in our opinion. Valuations aside, credit risks remain an overhang. We prefer insurers and REITS including office, hospitality and healthcare. Singapore developers are likely to be range-bound, in our opinion.

Contents

Audrey Goh, CFA
Investment Strategist

Rob Aspin, CFA
Head, Equity Investment Strategy

Victor Teo, CFA
Investment Strategist

Asia Top30 (Refer to appendix for a summary of the rationale behind each stock's selection)

Ticker	Name	Country	Sector	Stock Price	Consensus Rating	12m Fwd P/E	12m Fwd P/B	Fwd Div Yield%	Div Payout%	1M% TR Local
175 HK	Geely Automobile	Hong Kong	Discretionary	3.03	4.1	6.6	1.1	1.3	12.8	-6.2%
1833 HK	Intime Retail Gr	China	Discretionary	7.79	4.2	10.3	1.3	3.1	39.1	1.3%
1928 HK	Sands China Ltd	Macau	Discretionary	57.50	4.7	19.0	8.8	4.0	113.2	-8.9%
1044 HK	Hengan Intl	China	Staples	82.95	3.8	21.6	5.8	2.2	59.4	-8.8%
WIL SP	Wilmar Internati	Singapore	Staples	3.25	3.9	11.1	1.0	1.7	20.7	-0.6%
386 HK	China Petroleu-H	China	Energy	6.08	4.5	7.2	0.9	5.1	41.7	0.7%
1088 HK	China Shenhua-H	China	Energy	21.45	4.1	7.8	1.1	5.6	39.1	-2.7%
1299 HK	Aia Group Ltd	Hong Kong	Financials	36.90	4.3	16.6	1.8	1.0	19.0	-4.8%
2388 HK	Boc Hong Kong Ho	Hong Kong	Financials	24.05	4.3	10.6	1.5	5.1	62.5	-1.4%
CCT SP	Capitacommercial	Singapore	Financials	1.40	3.9	18.4	0.8	5.8	62.5	-3.7%
CMA SP	Capitamalls Asia	Singapore	Financials	1.81	4.5	21.5	1.0	1.9	22.7	-4.0%
1109 HK	China Res Land	Hong Kong	Financials	18.76	4.5	9.2	1.2	1.8	18.5	-3.3%
DBS SP	Dbs Group Hldgs	Singapore	Financials	16.59	4.8	10.6	1.1	3.4	38.6	-4.7%
ICICIBC IN	Icici Bank Ltd	India	Financials	1009.15	4.6	NA	NA	2.0	24.0	-2.5%
1398 HK	Ind & Comm Bk-H	China	Financials	4.86	4.4	4.7	0.9	6.2	35.0	-0.4%
KBANK TB	Kasikornbank Pcl	Thailand	Financials	171.00	4.7	9.0	1.6	1.8	2.9	1.8%
2318 HK	Ping An Insura-H	China	Financials	66.55	4.4	11.9	1.8	1.0	17.8	-3.2%
4 HK	Wharf Hldg	Hong Kong	Financials	54.85	4.5	12.3	0.6	3.1	10.6	-5.7%
CIMB MK	Cimb Group Holdi	Malaysia	Financials	7.10	3.3	11.4	1.5	4.4	25.7	-0.1%
HPHT SP	Hutchison Port-U	Singapore	Industrials	0.64	3.3	23.3	0.7	8.3	213.3	-1.7%
347 HK	Angang Steel-H	China	Industrials	5.09	3.2	25.7	0.6	NA	NA	1.4%
694 HK	Beijing Cap Ai-H	China	Industrials	5.90	4.0	12.6	1.1	2.5	40.0	1.2%
SINA US	Sina Corp	China	Technology	70.00	4.3	30.5	2.8	NA	0.0	-6.7%
BIDU US	Baidu Inc-Sp Adr	China	Technology	167.48	4.4	24.2	6.5	NA	0.0	-1.6%
NTES US	Netease Inc-Adr	China	Technology	73.31	4.4	11.6	2.4	NA	25.0	-7.7%
992 HK	Lenovo Group Ltd	China	Technology	8.56	4.1	13.4	3.1	2.3	39.0	-14.7%
005930 KS	Samsung Electron	South Korea	Technology	1285000.00	4.7	6.6	1.2	1.1	5.2	-0.5%
914 HK	Anhui Conch-H	China	Materials	30.45	4.7	11.1	1.9	1.0	20.9	-0.5%
358 HK	Jiangxi Copper-H	China	Materials	14.32	3.3	12.2	0.8	4.4	33.5	3.9%
941 HK	China Mobile	Hong Kong	Telco	74.05	3.3	10.0	1.4	4.7	43.2	-4.9%

Source: Bloomberg, Standard Chartered, data as of 17 February 2014

Asia Top30

Our key themes and sector calls in Asia over the next 12 months	
Consumer Discretionary (OW)	• Macau Gaming for good earnings visibility. Prefer the mass segment over premium segment • Auto (Particularly in Korea)
Energy (OW)	• Prefer those companies that benefit from reforms in China – This includes clean energy, downstream refiners and gas producers
Technology (OW)	• Prefer China Internet, software and services • Focus on smartphone/component makers that can expand market share
Industrials (OW)	• Airlines • China infrastructure
Prefer North Asia over South Asia	• OW Korea (cheap valuation, exposure to DM and China recovery) • OW Taiwan (domestic economy improving, DM demand proxy)
Growth scarcity	• EM Asia is slowing. Stocks with good growth visibility deserve a premium valuation

Source: Standard Chartered

Top30 stocks review

We are not making any changes to the Top30 this month. We have, however, put a number of stocks on our watch list.

- **On Watch:**
  - Singapore Technologies (STE SP), Hutchison Whampoa (13 HK) to add
  - Geely Automobile (175 HK) to cut (awaiting for a technical rebound)

Stock	Ticker	Change
Singapore Technologies	STE SP	Potential Add
Hutchison Whampoa	13 HK	Potential Add
Geely Automobile	175 HK	Potential Cut
Angang Steel	347 HK	Update
Lenovo	992 HK	Update
Hutchison Ports Trust	HPHT SP	Results
CapitaCommercial Trust	CCT SP	Results
CapitaMalls Asia	CMA SP	Results
Kasikornbank	Kbank TB	Results
Samsung Electronics	005930 KS	Results
ICICI Bank	ICICIBC IN	Results

Asia ex-Japan markets continued to underperform Developed Markets (DM) over the month, with lacklustre Chinese data being a headwind. Both manufacturing and service confidence deteriorated. Energy, Materials and Financials were the month's worst-performing sectors.

We remain Underweight Asia ex-Japan but note the valuation at c.1.3 P/B is close to its 2008 lows. With the MSCI AxJ trading near its 200 DMA, a rebound cannot be ruled out, but we continue to expect the region to lag DM.

On Watch to ADD: Singapore Technologies (STE SP)

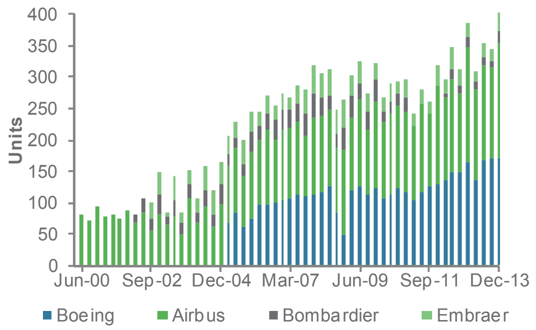
Profile: ST Engineering is an integrated engineering group. It is one of Asia's largest defence and engineering groups, with c.40% of its revenue coming from US and EU and the rest from Asia. Defence-related contracts account for c.30% of revenue.

It has four major business segments:

- **Aerospace** is the largest segment, contributing c.45% of total profits. It provides maintenance, repair and overhaul services to a diversified customer base of military and commercial airlines, freighters and low-cost carriers.
- The other segments include **a) Electronics** (25% of profits), which provides satellite communication, railway and traffic management systems, **b) Land systems** (15%), which provides ammunitions and systems to commercial and military vehicles and **c) Marine division** (18%), specialising in shipbuilding and repair services.

Growth in aircraft deliveries will help drive maintenance and repair orders (MRO)

Global aircraft deliveries (units)



Source: Bloomberg, Standard Chartered

The nature of the business tends to be sticky, with high barriers to entry. It also offers niche exposure to defence-related spending, which tends to be resilient, and offers upside exposure from any cyclical recovery in airlines.

Key drivers:

- **A recovery in global air travel and higher aircraft utilisation is expected to drive higher demand for maintenance and repair orders (MRO).** Typically, STE revenue lags improvements in aircraft utilisation by 4 – 6 months. The recent improvement in global aircraft utilisation since Q2 2013 should start to boost revenue from 2014 onwards.
- **About 40% of STE's aerospace revenue is derived from the US and Europe, where the scope for revenue growth improvement is greater.** These markets contribute c.45% of global aerospace revenue and STE, as the largest MRO provider in the world, should be well-poised to benefit from the recovery in these markets.
- **The significant pickup in aircraft delivery in 2006 – 2009 should be positive for MRO demand in 2014 - 2015.** Aircraft typically require thorough structural check/heavy maintenance every 5-8 years.

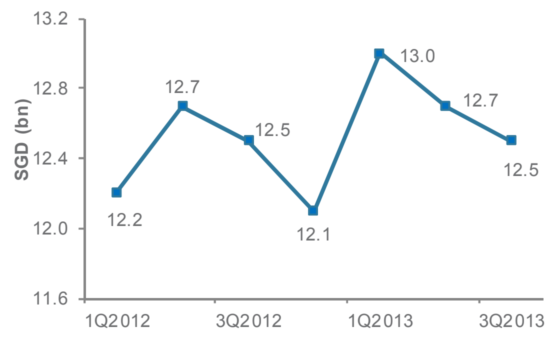
Valuations: The stock offers an attractive yield of c.5%, with net cash on its balance sheet. The c.18x 12-month forward P/E is in line with its historical mean, but an improving outlook for the aviation industry and MRO demand should drive upside for earnings, in our opinion.

Technicals: The overall corrective decline from its August 2013 highs appears to be nearing completion, given the oversold nature of the momentum Indicators. The stock has been finding good support at current levels as it coincides with key retracement levels and maintains a broader positive structure. We think the corrective trend is most likely to reverse.

Risks: USD depreciation, as the bulk of MRO revenue is denominated in USD, while the majority of its costs are in SGD; weaker-than-expected global growth recovery and air travel demand; a significant rise in wage pressure, which contributes to the bulk of its cost base.

ST Engineering's order book offers c.2 years of revenue visibility

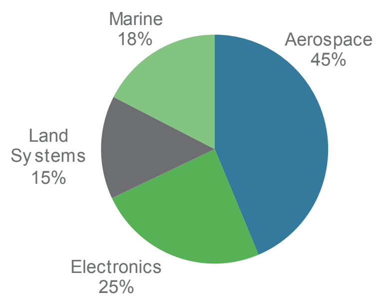
ST Engineering's net order book as of Q3 2013



Source: Company, Standard Chartered

Improving outlook for the aviation industry will help support MRO demand

ST Engineering's 9M 2013 net profit breakdown



Source: Bloomberg, Standard Chartered

On Watch to ADD: Hutchison Whampoa (13 HK)

We are considering to add Hutchison Whampoa to the Asia Top30 list. The stock has run up in recent weeks, and we would look to add it on weakness.

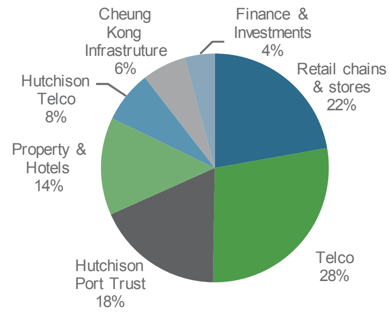
Profile: Hutchison Whampoa is a conglomerate listed in Hong Kong. It has six core businesses.

- It is one of the largest ports and retail operators in the world through **Hutchinson Ports Trust (HPHT SP)** and AS Watsons, respectively.
- It also operates telecom networks in Europe and Asia, and the former is starting to turn around after years of underperformance.
- It has interests in properties and hotels in HK/China and owns Husky Energy, an integrated oil and gas company listed in Canada.
- Cheung Kong Infrastructure (1038 HK) is its infrastructure investment arm specialising in transport, waste water management and energy-related infrastructure investments.

We like the company for its defensive business portfolio, which also offers growth upside from a recovery in its European businesses. Management are active, focusing on realising value from its assets.

Hutchison Whampoa offers a solid portfolio of diversified businesses

Hutchison Whampoa's 1H 13 EBITDA breakdown by business segments



Source: Bloomberg, Standard Chartered

These include sales of properties in Hong Kong and potential spinoff of its businesses to narrow the stock discount to its underlying asset values.

Key drivers:

- Asset divestment is key to unlocking value. Management is looking to divest AS Watsons via an IPO**, which we believe has not been fully priced in by the market.** A news report suggests that the divestment may occur sometime in 2H 2014.
- Recovery in Europe can drive earnings upside. Earnings from European ports, retail and telecoms accounted for c.35% of the group's EBITDA in 1H 2013, of which the UK contributed 22%.
- The company has low gearing, with net gearing at less than 25%. Cash flow from divestments should continue to reduce debt and enable the company to make accretive distressed acquisitions in Europe, particularly in the Telecom sector.
- Free cash flow is expected to improve on the back of improving business profitability. Hutchison has already paid for its 4G licences in Europe; hence, overall capex is likely to be stable for the next few years, with free cash flow yield expected to rise.

Valuations: The stock trades at c.1x P/B, in line with its historical mean. We note that earnings revisions have been creeping up, which should be supportive.

Technicals: The **l**onger term uptrend is positive but a short-term correction cannot be ruled out. As long as it continues to sustain above HKD 90 (a crucial support), the prospect of further upside is positive.

Risks: Weaker-than-expected recovery in Europe, lower-than-expected IPO price for asset divestment.

At 1x P/B the market is not factoring in much upside on any asset divestment

Hutchison Whampoa's 12m forward P/B

Source: Company, Standard Chartered

On Watch to CUT: Geely Automobile Holdings (175 HK)

- **The stock is under review for a potential cut.** The weaker than expected China passenger vehicle sales was a negative surprise. The decline in exports persisted, hurt by RMB strength, which we expect may continue into 2014.
- Investors remain concerned about the macro headwinds on the sector, including 1) car purchase restrictions in more cities in China, 2) slower credit growth impacting dealer inventories, 3) continued CNY strength, and 4) new capacity adds. We are turning cautious on the sector, expecting these headwinds to likely continue to dominate in 2014.
- While valuation is cheap at c.7x P/E, we note that consensus earnings have been falling, suggesting that the market is still digesting a slowdown in the China auto market.

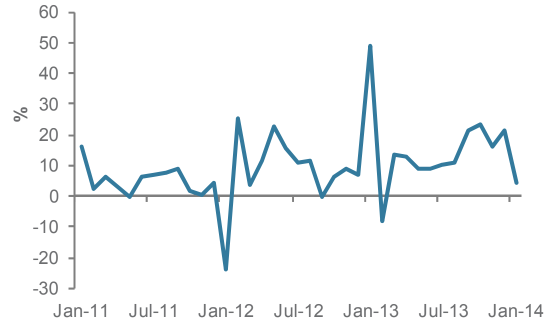
Technicals: Downside pressure may be fading but the longer term structure appears to be weakening. A failure to recover from 2.94 would expose the stock to further downside to 2.5.

View: We are looking to exit the name on a technical rebound and revisit it once its new model launches kick-start towards late 2014.

What to watch out in the near term: 1) FY13 results due end-March 2014, 2) Geely is expected to introduce a few new models, including the EX8 SUV and the KC platform in late 2014/15, and 3) a potential asset injection from Volvo.

A significant deceleration in car sales momentum

China passenger vehicle monthly sales y/y growth, %



Source: Bloomberg, Standard Chartered

Update: Angang Steel (347 HK)

- Steel imports to China have climbed amidst improving demand. The largest steel maker in China, Baosteel, has raised CRC prices by 1-2% for March delivery~~,~~ following a 2% price hike in February, which is a positive sign for steel prices.
- Angang's share price has been resilient, outperforming the broader Asia ex-Japan market since we added it on 23 September 2013. We believe resilience in steel prices and a recovery in cash spread should be supportive for the sector. Inventory though, has climbed slightly and would be something to monitor.
- **We would gradually reduce exposure on strength, as at 0.6x P/B (from 0.4x previously)~~,~~ some degree of improvement in profits have been priced in.**
- Short-term technicals seem to be trying to form a base.

Lenovo (992 HK) – Beat

- Q3 13 net income climbed 29.5% y/y to USD 265.3m, exceeding consensus estimates. The company consolidated its market share leadership at 18.1% of the global PC market. Shipments rose 6.6% y/y despite a decline in PC demand while mobile shipments hit a record high, +47% y/y to 13.9m units.
- The market has been concerned about its recent purchase of IBM's server unit and Motorola's handset business. We believe the purchase of IBM's servers would allow Lenovo to strategically diversify its revenue away from the pure PC space and enhances its global product offerings.
- The purchase of Motorola MMI, while likely dilutive initially, is expected to bring about cost synergies in the medium term. Management was relatively sanguine that they would be able to turn around the Motorola business and narrow its losses over the next few quarters.

View: We continue to like Lenovo, which has been successfully gaining market share in its core PC business. PC demand outlook is starting to stabilise and could present upside surprises if the capex recovery in the US takes hold.

Risk: Longer-than-expected integration of both businesses, increasing competition in smart devices within the EM space, continued weakness in PC demand.

Hutchison Port Holdings (HPHT SP) – Mixed

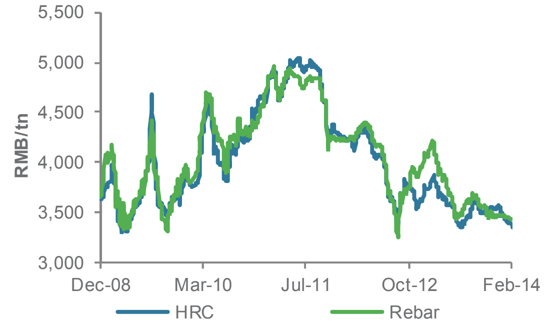
- Results were a mixed bag with profits coming in below expectations but operating cash flows and distributions surprising positively.
- 4Q 2013 net profit declined 46.9% y/y to HKD 334.8m on lower throughput volumes and higher expenses, a result of staff costs and one off expenses related to industrial action in 4Q 2013.
- Operating cash flow was better than expected, +17% y/y, driven by higher efficiency. The trust distributed HKD 0.41/share from HKD 0.512 a year ago, ahead of expectations.

View: We continue to like the name for its high yield of c.8%. Management was also relatively sanguine, with distributions expected to be supported by higher volume growth and upside to ASP in 2014.

Risk: Sluggish growth recovery out of both the US and Europe, increasing cost pressure i.e. labour cost, taxes, etc.

Likely limited downside on steel prices

China steel spot average prices



Source: Bloomberg, Standard Chartered

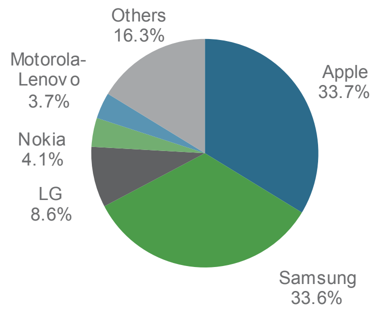
Lenovo was sold down after announcing its acquisition of Motorola Mobility

Lenovo's stock price

Source: Company, Standard Chartered

Lenovo could face difficulties in gaining market share in a competitive US market

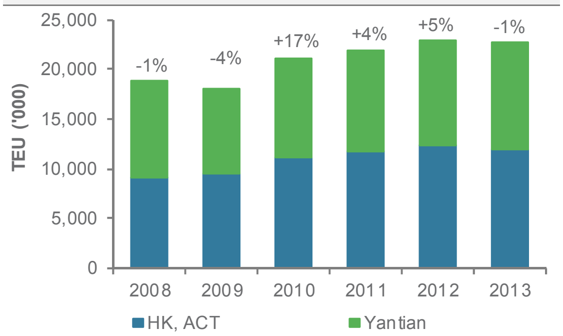
Q3 2013 US Smartphone market share by companies



Source: Bloomberg, Standard Chartered

Weak throughput volume in HK terminal has been a key drag on earnings

Hutchison Port's yearly throughput volume by ports



Source: Company, Standard Chartered

CapitaCommercial Trust (CCT SP) – In-line

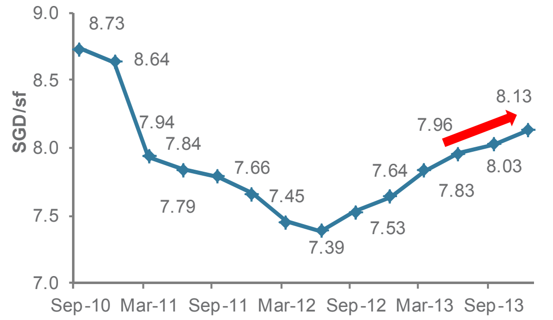
- Q4 2013 earnings were largely in line with market expectations. Revenue was up 1.5% y/y at SGD 98.6m. Net property income, however, fell 1.3% y/y to SGD 74.2m due to a negative tax impact and higher operating expenses.
- Q4 2013 distributable income rose 3.3% y/y to SGD 60.2m, with total FY13 distributable income at SGD 234.2m, +2.5% y/y. Portfolio occupancy rate improved to 98.7%, significantly higher than the central business district's average rate of 95.2%.

View: We believe CCT is well positioned to benefit from firming Grade A office rentals. Asset enhancement initiatives in the pipeline would also be supportive. Net gearing at c.30% is one of the lowest in the sector. The company is less vulnerable to higher financing costs, as 80% of its debt is fixed, with c.55% of it maturing from 2016 onwards.

Risks: Slower-than-expected recovery in Singapore prime office rents, a sharper-than-expected spike in interest rates.

Healthy demand for office space should continue to support positive rental revisions

CCT - Average rent per month for office portfolio



Source: Company, Standard Chartered

CapitaMalls Asia (CMA SP) – Beat

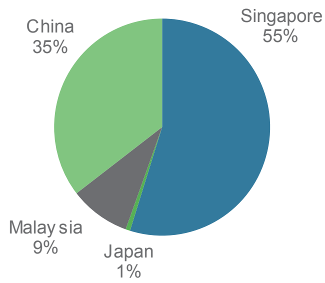
- CMA reported a solid set of Q4 2013 earnings. Net profit rose 17.1% to SGD216.4m. Tenant sales in both Singapore and China remained robust, posting growth of 3.2% sq/m and 10.1% sq/m, respectively. Management proposed a final dividend of SGD 0.175, which is a 7.7% increase from a year earlier.
- Despite macro concerns on retail consumption in China, CMA continued to deliver solid growth in its portfolio of China malls. We believe CMA remains well-positioned to benefit from rising middle-class affluence in China.

View: Valuation is inexpensive at only 1x P/B, which we believe does not price in any improvements in its China retail business. Management is guiding for a c.20% increase in profits after tax and minority interest in 2014 as its malls in China continue to stabilise.

Risk: Execution risks on its current developments and increased competition in the China retail space.

Singapore and China retail accounts for the bulk of CMA's earnings

CMA's 4Q13 earnings by country



Source: Company, Standard Chartered

KasikornBank (Kbank TB) – Beat

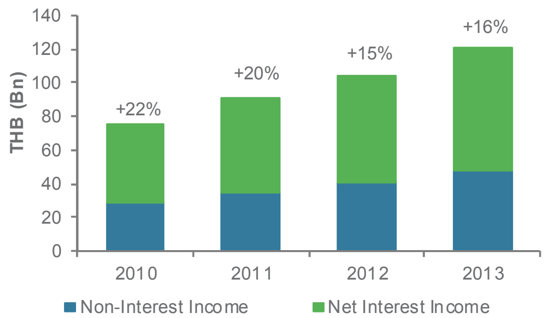
- Q4 2013 net income climbed 24% y/y to THB 9.5bn, driven by solid earnings growth in both its interest and non-interest income segments. Loan growth grew 8.5% y/y for the quarter driven by retail and corporates, while net interest margins were stable at c.3.6%, despite rate cuts during the quarter.
- Asset quality was sound, with its non-performing loans ratio flat at 2.11% and coverage ratio at 134.5%. Looking forward, management expects loan growth at c.9% in 2014 and net interest margin to remain resilient.

View: We believe current valuation at c.9x P/E and c.1.6x P/B is attractive. Negative earnings revision appears to be moderating. We believe Kbank should be able to maintain its above-industry net interest margin and resilient loan growth in 2014.

Risk: Prolonged political unrest; increased competition in the SME segment, leading to margin pressure

KasikornBank has delivered strong earnings growth in its key segments

KBank's total operating income growth



Source: Company, Standard Chartered

Samsung Electronics (005930 KS) – Miss

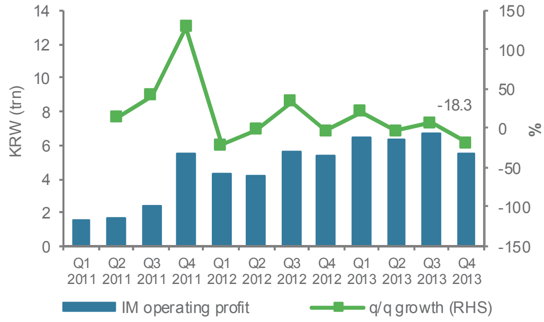
- Q4 2013 net income rose 5.4% y/y to KRW 7.22trn but missed analyst expectations on the back of slowing smartphone sales and a stronger KRW.
- Mobile division's operating income came in at KRW 5.47trn, down 18.3% q/q. Shipment growth and margins disappointed due to competition in the high-end smartphone space. We expect the upcoming Galaxy S5 launch in Q2 2014 to partly mitigate this slowdown in smartphone shipments, but handset margins are likely to remain under pressure.
- Operating profits in the semiconductor segment were up 40% y/y to KRW 1.99trn on the back of higher DRAM prices. Better demand and disruption to production at one of Hynix's (006660 KS) fabrication plants have pushed up DRAM prices.
- Longer term, we expect DRAM demand-supply dynamics to remain favourable, driven by a cut back in supply and a recovery in the corporate PC space.

View: The stock looks very attractively valued at c.6.4x forward price-to-earnings. Further downside is likely to be limited, in our opinion.

Risk: Weaker-than-expected smartphone penetration in EM and increasing competition in the low-mid tier may further erode handset margins.

Samsung's mobile division suffered a fall in revenues and earnings

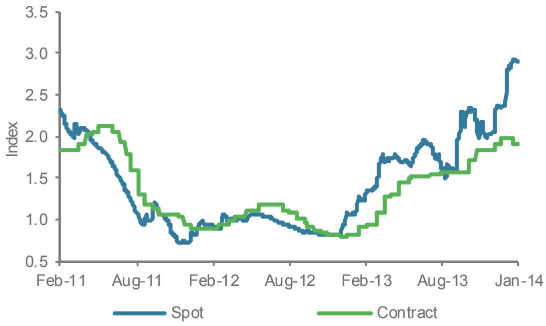
Samsung's revenue growth from mobile division



Source: Bloomberg, Standard Chartered

Strong recovery in DRAM prices has lifted profitability among semiconductor companies

DRAM 2GB DDR3 1333MHz spot and contract prices



Source: Bloomberg, Standard Chartered

ICICI Bank (ICICIBC IN) – In line

- The bank reported a stable set of results in Q3 FY14. Net profit grew 12.5% y/y, supported by higher net interest income (+21.6% y/y), driven by retail operations.
- NIM improved to 3.32% from 3.31% last quarter, while gross non performing assets declined 26bps y/y to 3.05%.
- Resilient earnings growth, stable asset quality and improvement in ROE could support a re-rating of valuations.

View: The stock is trading at attractive levels at 1.6x P/B versus a 10-year average of 2.3x and offers a dividend yield of 2.1%. A stabilising Rupee and growth outlook over the next 12 months should be supportive for ICICI bank.

Risks: Spike in non-performing assets, slower-than-expected growth recovery in India.

Top-down views

By Country:

- **We are upgrading Taiwan to OW (from Neutral) and Indonesia to Neutral (from Underweight).**
- **We downgrade Malaysia to Underweight (from OW).** Some select value starting to emerge in Thailand, but political risks remains.

By Sector:

- **Technology and Discretionary** are our two key preferred sectors. They have both outperformed since the beginning of the year**.**
- **Our downgrade of Financials last month was timely.** China banks underperformed. We remain lukewarm on the China banking space and continue to be Overweight Asian insurers and select REITs in Singapore.
- **We are considering downgrading Staples.** Valuation is expensive and consensus earnings have been revised lower since the beginning of the year.

Upgrade Taiwan to Overweight. Recent economic data has been positive, with both external and domestic indicators improving. The market has outperformed Asia ex-Japan since the beginning of the year and we believe this trend is likely to continue.

- Domestic growth has likely bottomed and appears to be firming. Both credit and retail sales are accelerating, suggesting firming domestic conditions, which have been a drag on the market for the past decade.
- A further improvement in cross-straits relationships may bring further upside. Both countries have already signed a series of agreements including the lifting of the ban on direct shipping and air transport. The ongoing negotiation on the economic cooperation framework agreement (ECFA) signed in 2010 is expected to further lower market access threshold for both sides, with Taiwan likely to be the disproportionate beneficiary.
- The continuing strength in global manufacturing PMI and acceleration in global trade should benefit Taiwan, given its export-orientation and c.50% of exports to Developed Markets.
- Valuation is inexpensive at c.14 P/E, and we believe the TWD may be a relative safe haven among Asian currencies, as it is less vulnerable to potential capital outflows from Fed tapering.

Within Taiwan, we would focus on:

- **Technology**: We prefer foundries benefitting from a rebound in global manufacturing. We would be selective within PC, focussing on component makers, which are able to gain market share. We also like smartphones and tablets-related companies.

Upgrade Indonesia to Neutral. We decided to close our Underweight as the market was down 18% since we initiated the trade in August 2013.

- The market is no longer expensive at c.13.6x 12-month forward P/E, trading in line with its long-term mean.

MSCI Asia ex-Japan's sector views

Consumer Discretionary	OW
Discretionary	OW
Industrials	OW
Information Technology	OW
Healthcare	N
Energy	N
Financials	N
Consumer Staples	N
Materials	N
Utilities	N
Telco	UW

Source: Standard Chartered

Recovery in domestic consumption after years of decline

Taiwan retail sales, % y/y (6mma)

Source: Bloomberg, Standard Chartered

Improving global manufacturing is positive for Taiwan

Global PMI and MSCI Taiwan Technology index

Source: MSCI, Bloomberg, Standard Chartered

- We believe Indonesia's monetary policy is probably close to the tail end of the rate hike cycle, with inflation likely to have peaked and domestic growth already moderating since rate hikes began last year.
- While upgrading, we note that any upside remains uncertain due to 1) uncertainties surrounding the presidential elections in 2014, b) potential downside risks to EPS estimates from a slowdown in domestic growth, and 3) timing on when the central bank would shift to a growth bias to stimulate a domestic recovery

Within Indonesia, we prefer to remain relatively defensive, focusing on:

- **Consumer Staples**: Tends to be more defensive and should be less impacted by the ongoing domestic slowdown. The minimum wage increase (21%) is also supportive for staples, and the sector's valuation looks less expensive post the recent correction.
- **Healthcare:** Indonesia's new universal healthcare programme is expected to generate significant demand for healthcare infrastructure, medical equipment and drugs.
- **Banks**: Are starting to look interesting, with several names trading at high single P/E multiples. We prefer exposure to rural financing, which should benefit from higher minimum wages across the country.

Downgrade Malaysia to Underweight on concerns over further weakening of the ringgit. The market has done well, up c.3.5% in local currency terms since we upgraded it in August 2013. In USD, however, the market was up only 1.2%, underperforming the MSCI Asia ex-Japan market.

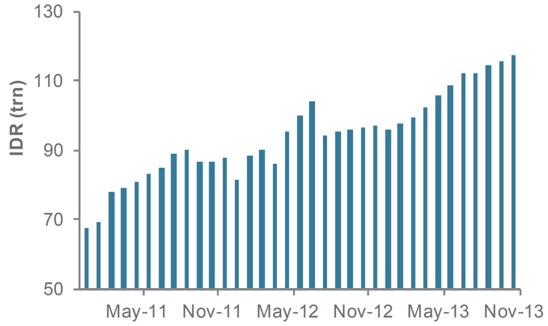
- We believe further weakness in the ringgit remains a key risk. While the capital account deficit narrowed slightly, there are concerns over portfolio flows, which tend to be a larger swing factor on the balance of payments.
- It still remains to be seen how flows into Malaysia are impacted by higher G3 interest rates, with foreign holdings in local bond markets constituting over c.40%.
- However, for domestic investors, a further acceleration of projects under the Economic Transformation Plan (ETP) would help sustain investment spending. Near term, the prudent fiscal stance on spending and cuts in energy subsidies may result in consumption weakness.

Within Malaysia, we prefer to focus on export sectors and sectors leveraged to the ETP.

- **Energy:** Should continue to see good demand from Petronas's plan to increase capex spending under the ETP.
- **Utilities:** Increase in tariffs is expected to be positive for Utilities.

Micro-loans expected to remain well supported by rising minimum wages in Indonesia

Indonesia micro-enterprises commercial loans



Source: Company, Standard Chartered

Weak ringgit likely to remain a key concern

Malaysian ringgit (USD-MYR)

Source: Bloomberg, Standard Chartered

By Sector:

We highlight Financials as the sector sold off by 4.1% after we downgraded it to a Neutral (from Overweight) last month. Chinese and Korean banks sold off significantly due to concerns over credit risks (in China) and earnings disappointment (in Korea). Singapore REITs though, outperformed, +3.2% against the MSCI Asia ex-Japan index.

We do not rule out any short-term rebound in Financials, given the depressed valuations, particularly in the Korean and Chinese banking sectors. Longer term, however, we would prefer Insurance within Asia Financials and select REITs in Singapore.

China banks: Oversold. A short-term rebound is likely, in our opinion.

The Chinese banks corrected between 2% - 11% since the beginning of 2014. Technically they look oversold in the short-term, with RSI hovering around 30 for most major banks in China.

- A short-term rally over the next few weeks is likely as liquidity conditions ease after the Chinese New Year holidays and investors look to the upcoming National People's Congress meeting for potential policy surprises.
- We expect the sector to be broadly range-bound for the year, barring any significant corporate default or credit crunch. Concerns over financial risks/insolvency will not be resolved overnight and the sector is likely to be volatile, in our opinion.
- **That said, investors are already underweight the sector and valuations at 5 - 6x P/E are undemanding. For sustained outperformance though, we need to see 1) a substantial pickup and peaking in NPL, and 2) a gradual deleveraging of corporates, which is still not visible at this juncture.**

Singapore developers: Downside likely to be limited, but significant upside catalysts are absent.

We expect the sector to trade within a range this year, supported by cheap valuations. Recent developments are supportive of a less negative view on the sector.

- The Singapore government is cutting back on new land sales supply by 23% compared to 2H 2013 to avoid a glut in the sector
- The total debt service ratio framework is being fine-tuned to exempt homeowners who bought property prior to 29 June 2013 from the 60% loan payment to income cap.
- Prices, particularly in the mass segment, are already starting to moderate, though we may need to see a more significant decline before there can be further policy easing, which is not our base case at this juncture.
- We would prefer REITS to developers until such time when price growth returns.

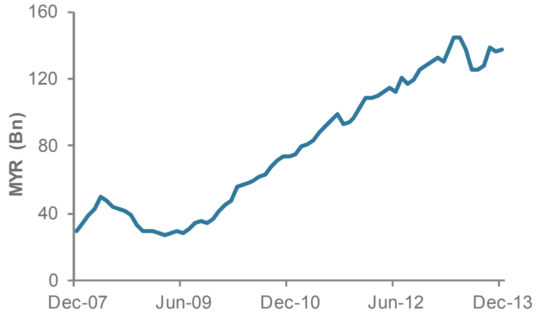
Singapore REITs: Yields to drive expected returns

The sector was largely flat over the month even as the Asia ex-Japan markets sold off. The statement by Yellen suggests the future pace of Fed tapering would likely remain gradual, and as a result less of a headwind for rate-sensitive sectors like REITs.

We prefer REITs with the ability to reprice "rents" higher in 2014, good fundamentals and trading at reasonable valuations.

Portfolio outflows remain a key risk given the significant holdings of debt by foreign investors

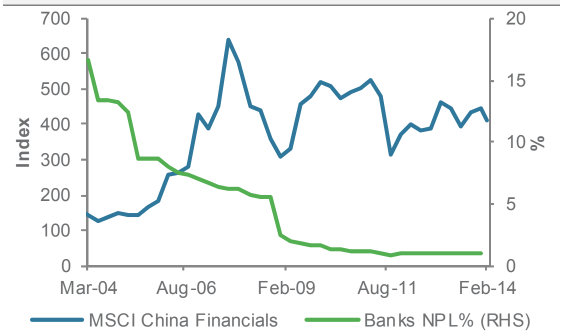
Malaysia foreign holdings in government debt securities



Source: Bloomberg, Standard Chartered

Banks tend to outperform only when NPLs ratio is expected to peak

China banks' NPL ratio and MSCI China Financials index



Source: MSCI, Bloomberg, Standard Chartered

Singapore property prices just starting to fall

SG residential price index and FTSE SG REIT index

Source: FTSE, Bloomberg,, Standard Chartered

- **Our preferred segments are Office, Hospitality and Healthcare REITs.**
- **Office:** Prime office rents recovering and better supply/demand likely in 2015.
  - **CapitaCommerical Trust (CCT SP)** is our preferred pick in the space due to its exposure to Grade A offices in Singapore – refer to Asia Top30 – 21 January 2014
- **Hospitality** – Weakness in Asian and Australian currencies is supportive. Most REITS in the sector yield in excess of 6-7%, though the sector tends to be more volatile given the short-term nature of the business.
  - Prefer CDL Hospitality (CDREIT SP) – bulk of hotel exposure (c.70%) to Singapore where the outlook is stabilising. Its exposure to Australia and New Zealand may see better upside from stabilising currencies, which hurt returns over the past year.
- **Healthcare** - Sector yields 4-8%. We believe demand for healthcare services are on a structural uptrend globally and the scarcity of quality healthcare assets in Singapore and Asia suggests the sector will likely trade at a premium to the market.
  - REITS exposed to the space include **Parkway REIT (PREIT SP)** and **First REIT (FIRT SP); both are unrated.**

Yields on the Singapore REIT index is likely to remain resilient on reduced fears of Fed tapering

FTSE SG REIT index – 12 month forward dividend yield

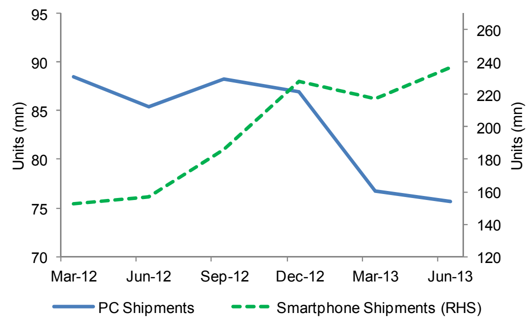
Source: Bloomberg, Standard Chartered

China Internet: Strong structural drivers, rising M&A activities. Advocate increasing exposure on dips.

- We highlight the sector as there were news reports suggesting that China e-commerce giant Alibaba plans to increase its stake in Sina Weibo (SINA US) from the current 18% to 30%-50%.
- This would not come as a surprise to us as we have previously highlighted that this could be a potential catalyst for SINA.
- In preparation for its impending IPO, Alibaba has been on a buying spree, spending in excess of USD 2bn, acquiring stakes or purchasing more than 10 smaller companies to shore up areas of weakness, particularly in mobile.
- As a result, share prices of internet companies such as QiHoo, Sina, Tencent have been well-bid in recent times.
- We expect the sector to continue outperforming, driven by positive structural drivers and rising M&A activities in the space.

Structural shift to mobile devices from PC

Global PC and smartphone shipments (quarterly)*



Source: Bloomberg, Standard Chartered

**Refers to PC and laptops*

Asia Div list

The Asia dividend list delivered a total return of -0.4% this month on an equally weighted basis. Year to date, the dividend list was down 3% in USD terms, underperforming the broader Asia ex-Japan market, which was down 2.4%.

Asia Dividend list

Ticker	Name	Sector	Stock Price	12m Fwd Dvd Yield	12m Fwd P/E	P/B Trailing	Div Payout%	Net Debt/ Equity	TR 1M%	TR YTD%
1088 HK	China Shenhua-H	Energy	21.45	5.0	7.8	1.3	39.1	10.3	-2.7%	-12.3%
MINT SP	Mapletree Indust	Financials	1.34	7.4	13.8	1.2	54.3	53.2	5.1%	1.9%
CCT SP	Capitacommercial	Financials	1.40	5.9	18.5	0.8	62.5	34.6	-3.7%	-1.0%
SGREIT SP	Starhill Global	Financials	0.77	6.5	14.5	0.8	44.3	39.2	2.9%	-0.3%
2388 HK	Boc Hong Kong Ho	Financials	24.05	6.0	10.6	1.7	62.5	-56.2	-1.4%	-3.2%
DBS SP	Dbs Group Hldgs	Financials	16.59	3.7	10.6	1.2	38.6	-26.6	-4.7%	-3.0%
PBK MK	Public Bank Bhd	Financials	19.18	3.0	14.7	3.3	44.8	-46.8	-0.1%	-1.1%
BBL TB	Bangkok Bank Pub	Financials	176.50	4.4	8.6	1.1	10.6	-104.8	-1.4%	-0.8%
1398 HK	Ind & Comm Bk-H	Financials	4.86	7.4	4.7	1.1	35.0	-184.2	-0.4%	-7.3%
HPHT SP	Hutchison Port-U	Industrials	0.64	8.3	23.1	0.7	NA	33.2	-1.7%	-0.9%
KEP SP	Keppel Corp Ltd	Industrials	10.50	4.3	11.7	2.0	39.2	8.0	-4.6%	-6.2%
ST SP	Singapore Teleco	Telco	3.59	4.9	14.8	2.5	76.2	29.3	2.0%	-1.9%
941 HK	China Mobile	Telco	74.05	4.5	NA	NA	43.2	-51.4	-4.9%	-7.9%

Source: Standard Chartered
Data as of 17 February 2014

Technical Commentary

Below, we present the technical views for our Asia Top30 stocks. The stocks are given a rating of 1-5, with 1 being the most favourable technicals and 5 being the least favourable technicals on a 1-3 month basis. This is from a pure technical standpoint and may run contrary to the fundamental views we hold on the stocks within the portfolio, which are on a 12-month basis.

Asia Top30 Technical rating

Name	Ticker	Sector	Rating
Sina Corp	SINA US	Technology	1
Sands China Ltd	1928 HK	Discretionary	2
China Shenhua-H	1088 HK	Energy	2
Capitamalls Asia	CMA SP	Financials	2
China Res Land	1109 HK	Financials	2
Ind & Comm Bk-H	1398 HK	Financials	2
Kasikornbank Pcl	KBANK TB	Financials	2
Wharf Hldg	4 HK	Financials	2
Samsung Electron	005930 KS	Technology	2
NetEase	NTES US	Technology	2
Baidu	BIDU US	Technology	2
Geely Automobile	175 HK	Discretionary	3
Intime Department	1833 HK	Discretionary	3
Hengan Intl	1044 HK	Staples	3

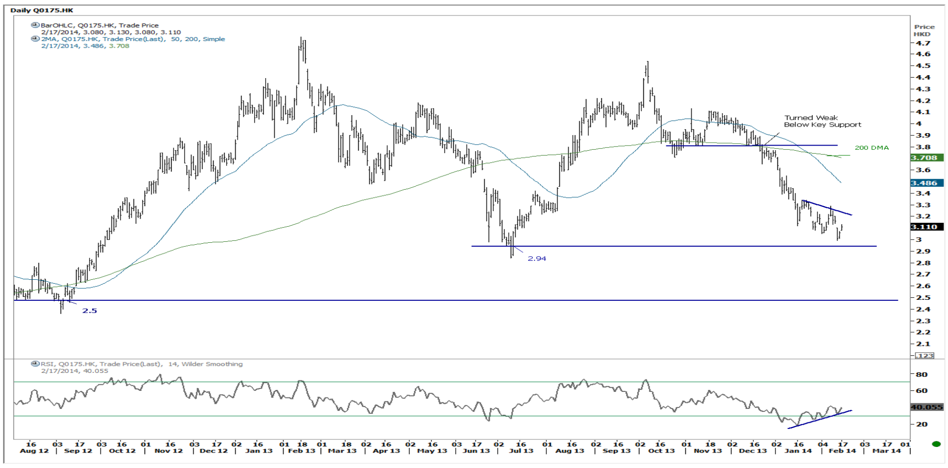
Name	Ticker	Sector	Rating
China Petroleu-H	386 HK	Energy	3
AIA Group Ltd	1299 HK	Financials	3
Boc Hong Kong Ho	2388 HK	Financials	3
Icici Bank Ltd	ICICIBC IN	Financials	3
CIMB Group	CIMB MK	Financials	3
Ping An Insura-H	2318 HK	Financials	3
Hutchison Port-U	HPHT SP	Industrials	3
Angang	347 HK	Materials	3
Jiangxi Copper	358 HK	Materials	3
China Mobile	941 HK	Telco	3
Wilmar Internati	WIL SP	Staples	4
Dbs Group Hldgs	DBS SP	Financials	4
Lenovo Group Ltd	992 HK	Technology	4
Anhui Conch-H	914 HK	Materials	4

Source: Standard Chartered
Views as of 17 February 2014

On the following pages, we present the Technical charts for stocks which are most favourable.

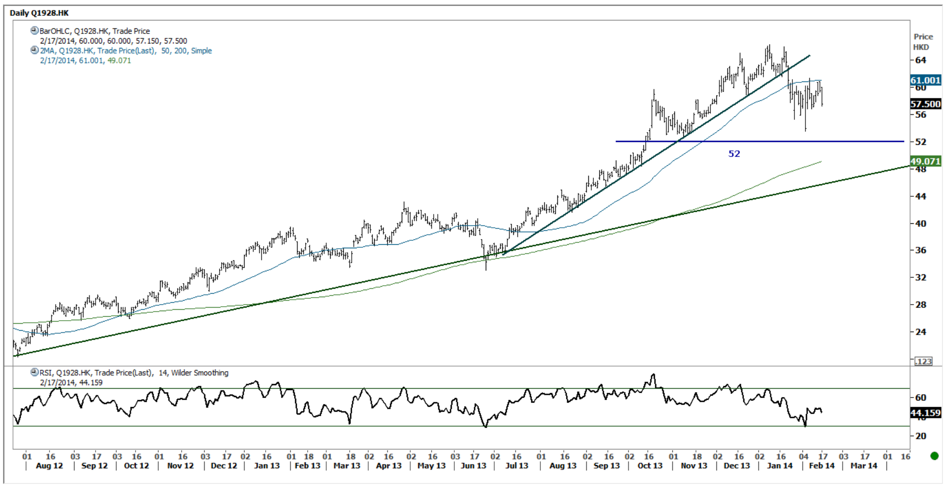
Technical Commentary (cont'd)

- **Geely Automobile Holdings Ltd (175 HK) –** The stock has corrected and declined to the earlier January-June 2013 support at 3. The momentum indicator has shown some positive divergence, which suggests downside pressure may be fading. A failure to reasonably recover from the 2.94 bottom would expose the stock to a further decline to 2.5.



Daily Chart

- **Sands China Ltd (1928 HK) –** The stock has slipped into a short-term corrective decline after it peaked in January 2013 and breached the short-term trendline. The 50 DMA at 61 appears to be providing resistance, which coincides with the short-term weak momentum indicator. However, the longer-term chart structure continues to look bullish.



Daily Chart

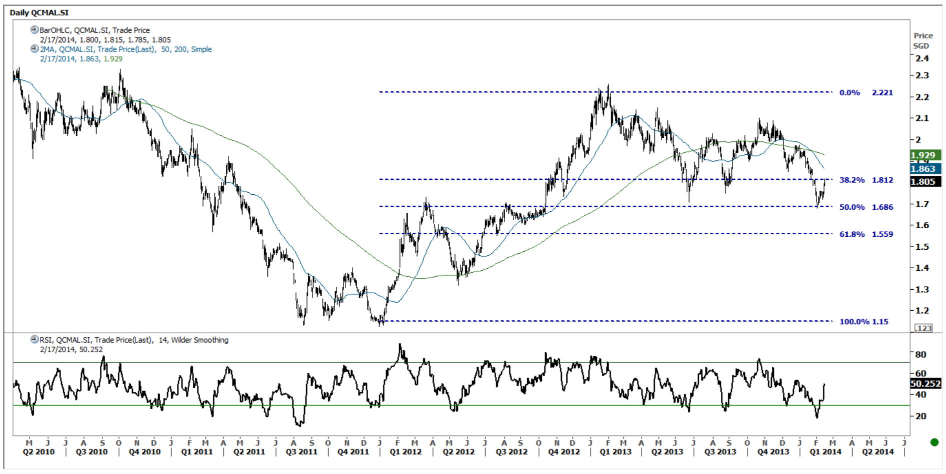
- **China Shenhua (1088 HK) –** The stock has slipped into a downtrend since it broke the crucial support line at 27.2. A break below 19 can take it lower to the 2009 lows of 14.5.

Weekly Chart

Source: Reuters, Standard Chartered

Technical Commentary (cont'd)

- **Capitalmalls Asia (CMA SP) –** The short-term momentum indicator has turned up, which coincides with a rebound in the stock price from the 50% retracement level at 1.686. Given the longer-term constructive outlook for the stock, any further decline to 1.686 - 1.559 range should support a potential rebound.



Daily Chart

- **Sina Corp (SINA US) –** The stock has rebounded from 66 after falling below the initial strong support of 76. The momentum indicator has rebounded from the oversold line, while the stock reverted to the 50 and 200 DMA levels around 75. We think the correction may be limited after the recent fall, given that it has created a nice base prior to the earlier strong upmove in July.

Daily Chart

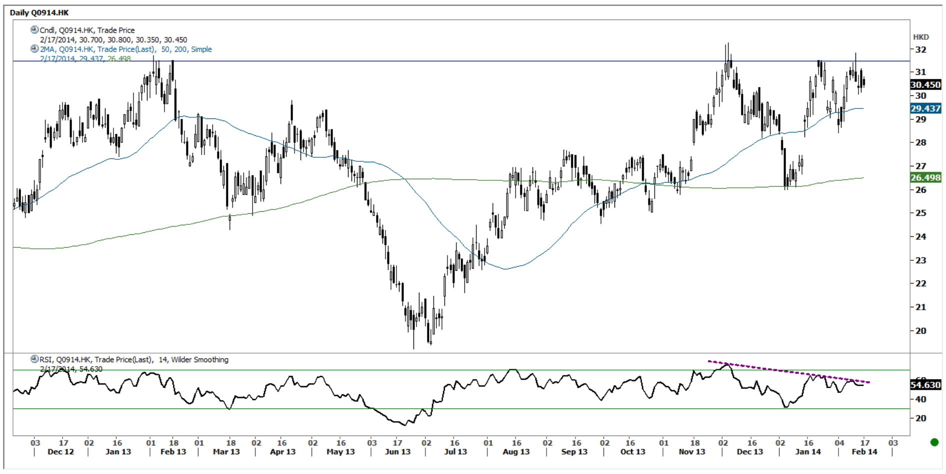
Source: Reuters, Standard Chartered

- **Industrial & Commercial Bank of China Ltd (ICBC HK) –** The stock has fallen to the lower band of the rising trendline, which had earlier supported a recovery. Given the gradual uptick in momentum and sizeable deviation from the key moving averages, the risk-reward clearly favours a recovery.

Daily Chart

Technical Commentary (cont'd)

- **Anhui Conch (914 HK) –** The stock has rallied to all-time highs and it appears to be running into some resistance. Momentum indicators are forming some negative divergence, which can be a potential reversal point at current levels.



Daily Chart

- **NetEase (NTES US) –** The stock has been in a strong uptrend since the start of the year, almost doubling from the last major correction in 2012. It remains closely perched on the upward sloping trendline running at 71.50. However, any potential decline should be accumulated, considering that it could rebound quickly.

Weekly Chart

- **Baidu (BIDU US) –** A recovery above 171 would signal the start of a fresh upleg. However, if the current correction phase persists and gets worse from here on, the maximum projected downside is the133 level, which looks less likely considering the historical upcycle.

Daily Chart

Source: Reuters, Standard Chartered

Asia Top30 – Performance & Valuations

Asia Top30 performance and valuations (local currency)

Ticker	Name	Country	Sector	Stock Price	Consensus Rating	12m Fwd P/E	12m Fwd P/B	Fwd Div Yield%	Div Payout%	1M% TR Local
175 HK	Geely Automobile	Hong Kong	Discretionary	3.03	4.1	6.6	1.1	1.3	12.8	-6.2%
1833 HK	Intime Retail Gr	China	Discretionary	7.79	4.2	10.3	1.3	3.1	39.1	1.3%
1928 HK	Sands China Ltd	Macau	Discretionary	57.50	4.7	19.0	8.8	4.0	113.2	-8.9%
1044 HK	Hengan Intl	China	Staples	82.95	3.8	21.6	5.8	2.2	59.4	-8.8%
WIL SP	Wilmar Internati	Singapore	Staples	3.25	3.9	11.1	1.0	1.7	20.7	-0.6%
386 HK	China Petroleu-H	China	Energy	6.08	4.5	7.2	0.9	5.1	41.7	0.7%
1088 HK	China Shenhua-H	China	Energy	21.45	4.1	7.8	1.1	5.6	39.1	-2.7%
1299 HK	Aia Group Ltd	Hong Kong	Financials	36.90	4.3	16.6	1.8	1.0	19.0	-4.8%
2388 HK	Boc Hong Kong Ho	Hong Kong	Financials	24.05	4.3	10.6	1.5	5.1	62.5	-1.4%
CCT SP	Capitacommercial	Singapore	Financials	1.40	3.9	18.4	0.8	5.8	62.5	-3.7%
CMA SP	Capitamalls Asia	Singapore	Financials	1.81	4.5	21.5	1.0	1.9	22.7	-4.0%
1109 HK	China Res Land	Hong Kong	Financials	18.76	4.5	9.2	1.2	1.8	18.5	-3.3%
DBS SP	Dbs Group Hldgs	Singapore	Financials	16.59	4.8	10.6	1.1	3.4	38.6	-4.7%
ICICIBC IN	Icici Bank Ltd	India	Financials	1009.15	4.6	NA	NA	2.0	24.0	-2.5%
1398 HK	Ind & Comm Bk-H	China	Financials	4.86	4.4	4.7	0.9	6.2	35.0	-0.4%
KBANK TB	Kasikornbank Pcl	Thailand	Financials	171.00	4.7	9.0	1.6	1.8	2.9	1.8%
2318 HK	Ping An Insura-H	China	Financials	66.55	4.4	11.9	1.8	1.0	17.8	-3.2%
4 HK	Wharf Hldg	Hong Kong	Financials	54.85	4.5	12.3	0.6	3.1	10.6	-5.7%
CIMB MK	Cimb Group Holdi	Malaysia	Financials	7.10	3.3	11.4	1.5	4.4	25.7	-0.1%
HPHT SP	Hutchison Port-U	Singapore	Industrials	0.64	3.3	23.3	0.7	8.3	213.3	-1.7%
347 HK	Angang Steel-H	China	Industrials	5.09	3.2	25.7	0.6	NA	NA	1.4%
694 HK	Beijing Cap Ai-H	China	Industrials	5.90	4.0	12.6	1.1	2.5	40.0	1.2%
SINA US	Sina Corp	China	Technology	70.00	4.3	30.5	2.8	NA	0.0	-6.7%
BIDU US	Baidu Inc-Sp Adr	China	Technology	167.48	4.4	24.2	6.5	NA	0.0	-1.6%
NTES US	Netease Inc-Adr	China	Technology	73.31	4.4	11.6	2.4	NA	25.0	-7.7%
992 HK	Lenovo Group Ltd	China	Technology	8.56	4.1	13.4	3.1	2.3	39.0	-14.7%
005930 KS	Samsung Electron	South Korea	Technology	1285000.00	4.7	6.6	1.2	1.1	5.2	-0.5%
914 HK	Anhui Conch-H	China	Materials	30.45	4.7	11.1	1.9	1.0	20.9	-0.5%
358 HK	Jiangxi Copper-H	China	Materials	14.32	3.3	12.2	0.8	4.4	33.5	3.9%
941 HK	China Mobile	Hong Kong	Telco	74.05	3.3	10.0	1.4	4.7	43.2	-4.9%

Source: Bloomberg, Standard Chartered

Closed trades (local currency)

Ticker	Name	Country	Sector	Closed Price	Initiation Date	Closed Date	Local P/L TR
1818 HK	Zhaojin Mining-H	China	Materials	8.26	20130131	20130513	-29%
753 HK	Air China Ltd-H	China	Industrials	5.8	20130131	20130612	-12%
823 HK	Link Reit	Hong Kong	Financials	37.95	20130131	20130813	-4%
700 HK	Tencent Holdings	China	Technology	409.2	20130131	20130923	51%
SUN SP	Suntec Reit	Singapore	Financials	1.675	20130131	20130923	1%
BBRI IJ	Bank Rakyat Indo	Indonesia	Financials	7850	20130514	20130923	-16%
1114 HK	Brilliance China	Hong Kong	Discretionary	13.4	20130131	20131112	30%
2 HK	Clp Hldgs Ltd	Hong Kong	Utilities	59.6	20130131	20140120	-4%
KEP SP	Keppel Corp Ltd	Singapore	Industrials	10.94	20130131	20140120	2%

Source: Bloomberg, Standard Chartered
As of 17 February 2014

Asia Top30 – Stock Rationales

Asia Top30 stock rationales (pg1)

Company	Ticker	Sector	Rationale
AIA Group	1299 HK	Financials	Only insurer with pan-Asia exposure and wholly owned insurance operations in China. Structural tailwinds from low insurance penetration in Asia. Steeper yield curve to lead to higher reinvestment rates, resulting in stronger EV and value of New Business Growth.
Angang Steel	347 HK	Materials	One of the largest steel companies in China. Expected to be a long-term beneficiary from China's drive to consolidate industry's overcapacity and closing down of polluting, small mills.
Anhui Conch	914 HK	Materials	Product upgrades and fixed asset investment are key drivers for the company. Recovery of property and infrastructure investments is likely to drive demand outlook going forward. Sector dynamics are favourable, given the government has restricted capacity addition and is looking to consolidate the industry. Anhui, being one of the largest cement producers, should benefit.
Baidu ADR	BIDU US	Technology	The leading search engine in China with c.80% share by revenue. It is well positioned to benefit from a transition to mobile internet, with a large traffic base to monetise. Recent acquisition of 91 Wireless, the largest app distributor in China, further augments its mobile-related offerings.
Beijing Capital Int Airport	694 HK	Industrials	Beijing Capital Airport is the sole international airport in Beijing. It has two key segments: Aeronautical-related revenue (58% of total revenue in 2012) from fees levied on both passengers and airlines (landing fees) using its facilities, and Non-aeronautical-related revenue (42%). We expect the company to benefit from continued growth in passenger volume as well as Chinese airlines' plan to add capacity. Valuation is inexpensive against its own history.
BOC HK	2388 HK	Financials	Increased use of CNY in cross-border trade settlement business is supportive of BOC HK's CNY-related business. Loan growth outlook in Hong Kong is lacklustre.
CapitaCommercial Trust	CCT SP	Financials	CapitaCommercial Trust is one of largest office REITs in Singapore. It derives 91% of its net property income (as of September 2013) from Grade A and prime offices. A gradual pickup in prime office demand and limited new prime office supply in 2015 are supportive factors. Prime office rents bottomed in 2013 and started picking up on the back of better leasing activities.
Capitamalls Asia	CMA SP	Financials	A stock for longer-term holding, as management continues to build scale in China. Almost half of its retail mall portfolio is in China, where operating leverage is expected to improve after the initial investments over the past few years; potential capital recycling through the sales of its mature assets is a longer objective to improve ROE.
China Mobile	941 HK	Telco	First mover in the shift to higher speed LTE 4G. We expect China Mobile to benefit from rising data demand, given the strong growth in smartphone unit sales. Near-term risks from higher subsidies for iPhone and potential capex increase on its 4G network. We expect its attractive dividend yield of 4% to offer good valuation support.
China Resources Land	1109 HK	Financials	China Resources Land is one of the largest property developers in China. Its landbank is well diversified, with presence in more than 70 cities and focus on first and second tier cities. Demand and supply appears well balanced into 2014. Expect undersupply in first and second tier cities to continue, which should benefit CRL. Significant policy risks likely limited, though noise surrounding the implementation of property tax could resurface.
China Shenhua	1088 HK	Energy	A more defensive proxy within the China coal space. Further downside in coal prices is fairly limited, but upside is curbed by increased import supply as well as a continued ramp up in domestic capacity.
CIMB Group Holdings	CIMB MK	Financials	Expected to benefit from higher loan growth in Malaysia due to the Economic Transformation Programme. A steeper yield curve should lead to better investment opportunities. CIMB is one of the better managed banks in Malaysia. Recent capital raising is positive to boost capital adequacy. Potential risks from renewed IDR depreciation impacting profits from its Indonesia operations through Bank Niaga.
DBS Group	DBS SP	Financials	The largest Singapore bank with the best deposit franchise among peers; most leveraged to benefit from higher interest rates. Limited exposure to Southeast Asian countries relative to peers.
Geely Holdings	175 HK	Discretionary	We are turning cautious on the name due to a potential slowdown in the overall China auto sector. Macro headwinds from 1) car purchase restrictions in more cities in China, 2) slower credit growth, 3) continued CNY strength and 4) new capacity adds are likely to continue to dominate in 2014. Valuation is cheap, but there will be limited upside catalysts until new model launches kick-start towards end 2014.
Hengan Intl	1044 HK	Staples	Continues to solidify its position as the market leader in hygiene products through new product launches. Better product mix and cost control should drive margin expansion over time. Also a small beneficiary of the abolishment of China's one-child policy.
Hutchison Ports Holdings	HPHT SP	Industrials	Largest port operator in the world, with key assets in Shenzhen and Hong Kong. Recent concerns over dividend cuts from lower throughput growth may be misplaced. Valuation is attractive, with dividend yield of c.8%, supported by strong cash flow generation from its mature portfolio of port holdings.

Source: Standard Chartered

Asia Top30 – Stock Rationales (cont'd)

Asia Top30 stock rationales (pg2)

Company	Ticker	Sector	Rationale
ICBC 'H'	1398 HK	Financials	Favour larger banks within the banking sector, as they would be better positioned to withstand further tightening on the interbank markets and deposit liberalisation. Valuation is cheap, with c.7% dividend, though significant upside is probably limited.
ICICI Bank	ICICIBC IN	Financials	Structural growth prospects from reform measures to boost loans and investment growth. Prefer ICICI Bank, given its relatively strong balance sheet compared to state-owned banks.
Intime Department Store Group	1833 HK	Discretionary	Intime is a play on the shift to consumption in China. Performance has been lacklustre due to the ongoing anti-corruption campaign by policymakers. It has the best stores profile with more than half of its portfolio 2-5 years old, the best period to enjoy operating leverage. Its malls are well located in cities with low vacancy rates. We believe retail sales in China have likely bottomed, though any recovery is not visible yet.
Jiangxi Copper	358 HK	Materials	Jiangxi Copper is the largest copper producer and integrated copper mining and smelting company in China. It is one of the lowest cost producers in China and has a strong balance sheet (less than 20% gearing), allowing it to better weather severe industry conditions.
Kasikornbank	KBANK TB	Financials	Dominant player in SME banking in Thailand. Well leveraged to housing loans growth and corporate spending in Thailand. Macro unrest has impacted the stock and the valuation now looks more attractive.
Lenovo Group	992 HK	Technology	Lenovo is the largest notebook and consumer PC brand in the world. Near-term growth drivers to come from its smartphone segment, particularly in non-China EM sales, where margins are higher. A bottoming in the PC market and any recovery would provide upside to Lenovo. Lenovo continues to be on the lookout for M&A targets.
NetEase	NTES US	Technology	NetEase is one of the largest online game developers in China. Online games-related fees contributed to 87.8% of total revenue in 2012. The company's legacy games such as World of Warcraft, Westward Journey and Westward Journey II have been remarkably successful and helped the company acquire a large user base, generating stable recurring free cash flows. Key drivers to come from growth of new PC and mobile games, given the relative maturity of its legacy games.
Ping An Insurance 'H'	2318 HK	Financials	To benefit from reforms to China insurance. The expansion of healthcare insurance coverage, potential pricing liberalisation and further momentum in premium growth are key catalysts for the stock to get re-rated. Ping An has the largest life insurance agency force in China and would be well positioned in the policy drive towards more protection-related products; steeper yield curve to lead to higher reinvestment rates, resulting in stronger EV and value of new business growth.
Samsung Electronics	005930 KS	Technology	Samsung is a global leader in the tech industry, with market leadership in most of its segments (memory, panels, handsets, etc). Earnings momentum has been weak recently due to a slowdown in smartphone sales. While there are limited fresh significant catalysts to drive growth, we believe Samsung's earnings will likely remain resilient on the back of its well-diversified portfolio of products. Current valuation is very cheap.
Sands China	1928 HK	Discretionary	Proxy to mass gaming in Macau. To benefit from a lack of casino supply in Macau for the next two years. Upside from revenue growth and margins as utilisation improves.
Sina Corp ADR	SINA US	Technology	Sina Corp is one of the best known online companies in China. Its Sina.com (online advertising) portal focuses on news and media content; Weibo is a microblogging platform, sometimes known as the Twitter of China, which has over 400mn users. Rising monetisation of Weibo (China's no. 1 micro blog) to drive profit growth. Alliance with ecommerce platform Alibaba also offers significant upside.
Sinopec	386 HK	Energy	A key beneficiary of fuel price reform to a more market-based regime. Refining margins expected to improve on the back of improving demand. Shale gas development would be a longer-term positive.
Singapore Technologies	STE SP	Industrials	STE is expected to benefit from a recovery in Maintenance and Repair Orders (MRO), which is driven by higher global aircraft utilisation. A recovery in airlines' profitability, particularly in the US and Europe, will be supportive, given that c.40% of its revenue has exposured to these regions. The stock offers an attractive yield of c.5% with a strong net cash balance sheet.
Wharf Holding	4 HK	Financials	Wharf Holding is a diversified property developer in Hong Kong. Its exposure is mostly within Hong Kong and China, with both retail, residential and commercial assets. We like it for its over one-third exposure to HK prime retail, which we expect to do well from increasing tourist arrivals from China.
Wilmar International	WIL SP	Staples	Asia's largest integrated agriculture business. Valuation is inexpensive. Near-term drivers from margin recovery in the grains and seeds segment. Mandates to increase biodiesel-diesel blending in parts of Asia are positive for Wilmar, though any delay in the implementation of these mandates may post downside risks.

Source: Standard Chartered

Sector and Country – Performance and Valuations

MSCI Asia ex-Japan Sectors (USD)

Name	Last Price	12m Fwd P/E	12m Fwd P/B	Div Yield%	Div Payout%	1M TR USD	YTD TR USD
Consumer Staples	408.8	20.0	2.6	1.9	45.8	-0.8%	-3.0%
Consumer Discretionary	583.4	11.2	1.8	1.9	21.4	-1.6%	-2.4%
Energy	605.4	8.6	1.1	3.8	36.8	-3.4%	-7.2%
Financials	282.7	9.0	1.0	3.1	26.8	-1.3%	-4.1%
Healthcare	610.1	21.7	2.9	0.8	25.9	-1.3%	3.6%
Industrials	167.9	13.4	1.2	2.2	43.9	-0.9%	-4.1%
Information Technology	331.1	11.4	1.9	1.6	17.8	0.9%	0.7%
Materials	311.1	12.5	1.1	2.0	35.4	-2.1%	-5.6%
Telecommunication Svs	132.1	13.1	1.8	4.3	58.4	-1.7%	-4.6%
Utilities	212.7	12.9	1.4	2.5	39.8	0.3%	-1.2%
Index	534.6	10.9	1.3	2.5	28.8	-1.0%	-3.0%

Source: Bloomberg, Standard Chartered

MSCI Asia ex-Japan Countries (local currency)

Name	Last Price	12m Fwd P/E	12m Fwd P/B	Div Yield%	Div Payout%	1M TR USD	YTD TR USD
China	60.7	8.5	1.2	3.3	30.3	-0.7%	-3.9%
South Korea	564.1	8.9	1.0	1.0	10.2	0.5%	-4.7%
Thailand	471.1	11.3	1.8	3.4	33.4	4.1%	4.6%
Singapore	1637.4	13.2	1.3	3.7	47.2	-0.4%	-3.5%
Hong Kong	11746.7	14.2	1.2	2.9	31.0	-4.7%	-4.0%
Indonesia	5305.6	13.6	2.8	2.5	45.9	5.8%	12.2%
India	787.2	13.6	2.1	1.5	23.2	-3.6%	-3.4%
Philippines	1045.4	17.7	2.6	2.3	34.9	4.7%	4.9%
Malaysia	650.5	15.3	2.0	3.3	43.7	0.6%	-2.7%
Taiwan	299.8	14.2	1.7	2.8	42.8	-1.3%	-2.4%
Index	534.6	10.9	1.3	2.5	28.8	-1.0%	-3.0%

Source: Standard Chartered

Asia ex-Japan Country Preferences

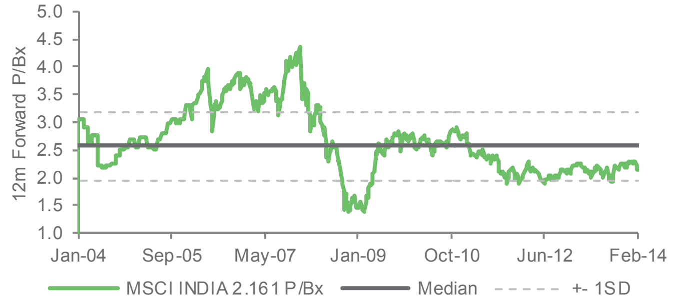
Country	View	Rationale
South Korea	OW	Cheap valuations. A DM and China recovery proxy
Taiwan	OW	Domestic growth seems to have bottomed, with potential upside from a recovery in DM tech demand
Hong Kong	N	Valuation is fair. We expect property/banks may likely be negatively impacted from higher rates and credit control in China
China	N	Mixed outlook as policymakers more focused on controlling credit than growth
Thailand	N	Valuations look increasingly attractive, but continued political unrest remains a key risk
Singapore	N	Lack of domestic drivers, but market still offers attractive dividend yield
India	N	Monetary policy likely to stay tight in the near term, with potential impact on domestic growth
Indonesia	N	Valuations have corrected. Rupiah volatility a key risk factor. Upcoming elections could pose uncertainty in the market
Malaysia	UW	Domestic growth is supportive but sustained ringgit weakness a potential risk.

Source: Standard Chartered

As of 17 February 2014

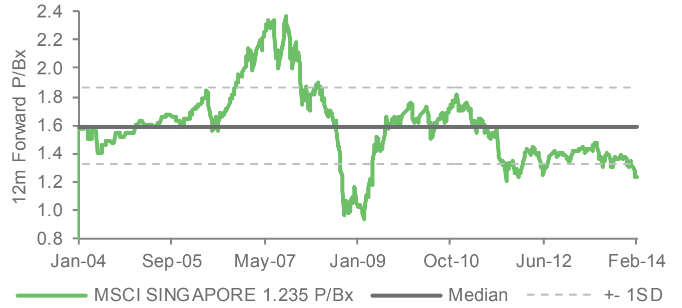
Valuations and Earnings revisions

12m Forward P/E – MSCI India

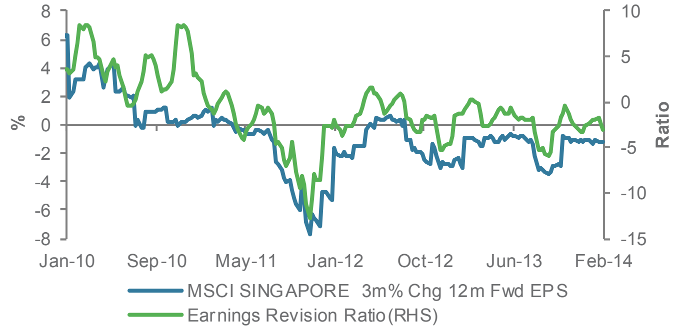


Earnings Revisions Ratio – MSCI India

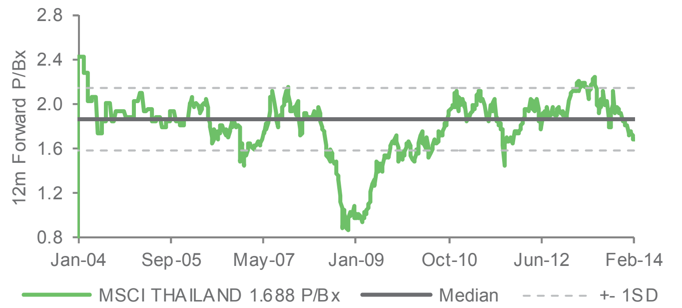
12m Forward P/E – MSCI Singapore



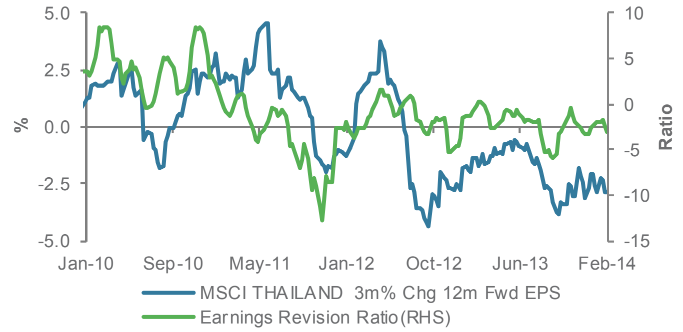
Earnings Revisions Ratio – MSCI Singapore



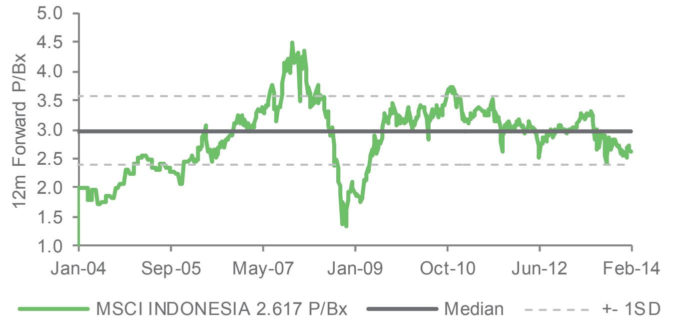
12m Forward P/E – MSCI Thailand



Earnings Revisions Ratio – MSCI Thailand



12m Forward P/E – Indonesia

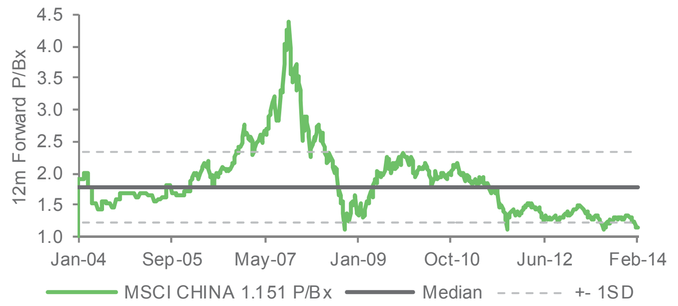


Earnings Revisions Ratio – Indonesia

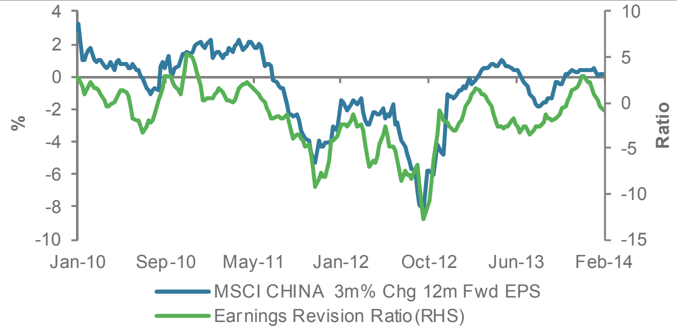
Source: Datatream, Standard Chartered

Valuations and Earnings revisions (cont'd)

12m Forward P/E – MSCI China

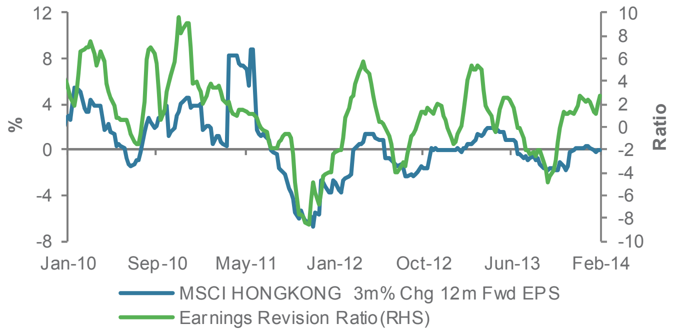


Earnings Revisions Ratio – MSCI China

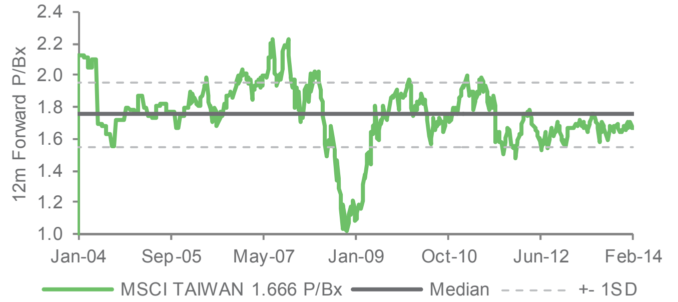


12m Forward P/E – MSCI Hong Kong

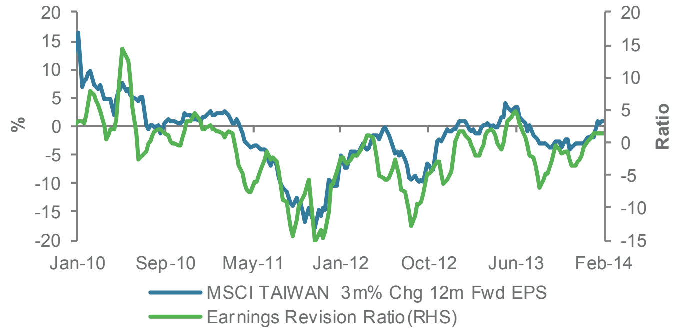
Earnings Revisions Ratio – MSCI Hong Kong



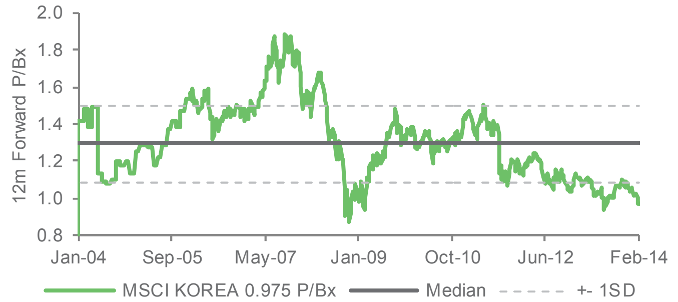
12m Forward P/E – MSCI Taiwan



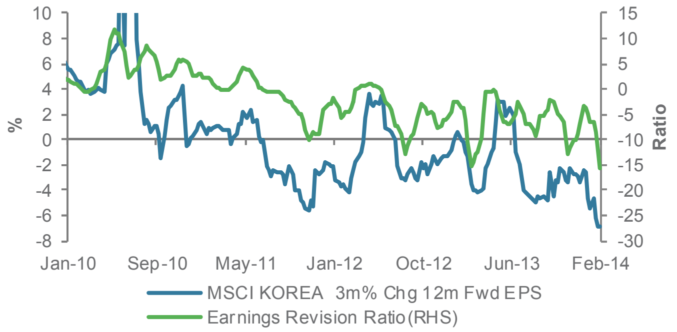
Earnings Revisions Ratio – MSCI Taiwan



12m Forward P/E – South Korea



Earnings Revisions Ratio – South Korea



Source: Datastream, Standard Chartered

Definitions

YTD: Year to date.

ITD: Inception to date.

PT: Price Targets (SCB uses an investment horizon of 12 months for its price targets).

RSI: Relative Strength Index.

Relative Volatility index: A measure of the standard deviation of the daily price change.

MA: Moving Average.

Basket average performance: Basket average is the un-weighted performance of the shortlisted stocks

Consensus rating: A rating provided by Bloomberg which reflects the aggregation of all brokers rating for a particular stock. 1 is a Sell, while 5 is a Strong Buy.

P/E: Price/Earnings ratio. The Trailing P/E refers to 12m of trailing earnings, while the forward refers to 12m forecast earnings, against current price.

P/B: Price/Book ratio. The book value refers to total shareholder's equity, while the forward refers to 12m forecast book value, against current price.

EV/EBITDA: Enterprise value/Earnings Before Interest, Tax and Depreciation Amortisation.

Earnings revision ratio: Net earnings revision (upgrades - downgrades) / Total earnings revision (upgrades + downgrades)

ROE and ROA: Return on Equity (book value) and Return on Assets.

Dividend Yield: Dividend paid/ current price.

Net Interest Margin (NIM): Is a measure of difference between the net interest income generated from lending by financial institutions and the amount of interest paid out to their lenders (for example deposits)

Beta: Correlation between a stock and the market. Is based on two years of weekly data, but modified by the assumption that a security's beta moves toward the market average over time.

Total return: Capital appreciation + dividend income received.

Short term: Time horizon of 1-4 weeks.

Medium term: Time horizon of 3-6 months.

Strategy Team:

Steve Brice
Chief Investment Strategist

Rob Aspin, CFA
Head, Equity Investment Strategy

Audrey Goh, CFA
Investment Strategist

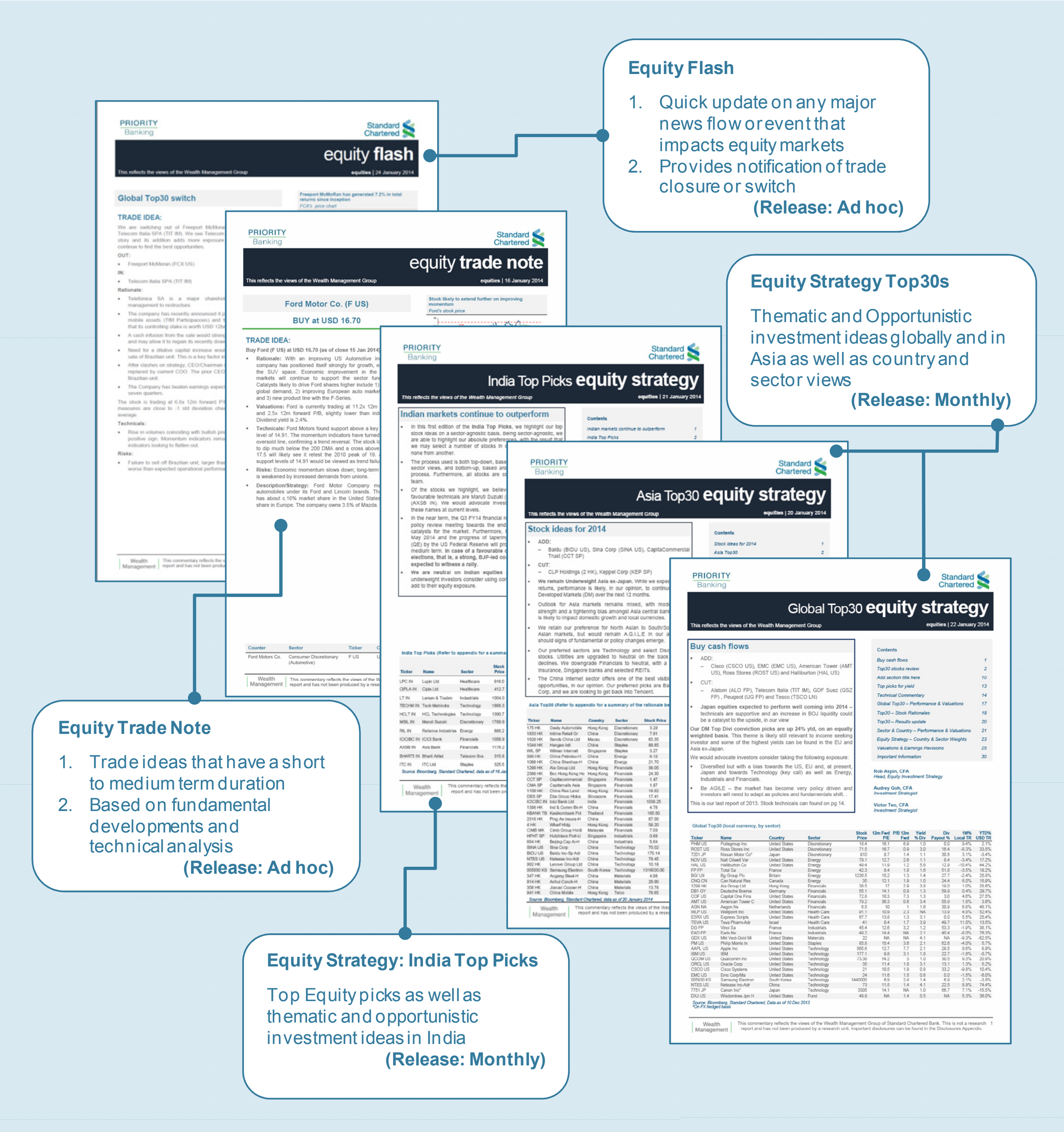
Victor Teo, CFA
Investment Strategist

Manpreet Gill
Head, FICC Investment Strategy

Aditya Monappa, CFA
Head, Asset Allocation & Portfolio Construction

Tariq Ali, CFA
Investment Strategist

List of Equity Market Commentary Publications



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