Citi Research

Equities

28 November 2014 | 105 pages

Strategy
Pan Asia

Pan-Asia Road Ahead: 2015 Outlook

The Climb Continues: 10% Upside for Asia

- **2015 MXASJ target of 630 (P/B of 1.6x)** – On P/E and P/BV, Asia is either at or around 1 stdev below the historic mean. Over the last 39 years, P/E has been higher than the current level 87% of the time, P/BV 73% of the time. MSCI AC World is now trading at historical averages yet has delivered inferior earnings to Asia since the peak prior to the GFC. Within Asia, our preferred markets are China, Taiwan and Singapore. Sentiment is below average for Asia, according to our indicators, and EM investors generally prefer EMEA and Lat AM. At our MXASJ target, the total US$ return would be 12% (10% upside, 2% yield).

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The Climb Continues; 12% Total Return for 2015

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- **Asia has significant valuation support** – On P/E and P/BV, the region is either at or around 1 stdev below the historic mean. Over the last 39 years, P/E has been higher than the current level 87% of the time, P/BV 73% of the time. MSCI AC World is now trading at historical averages yet has delivered inferior earnings to Asia since the peak prior to the GFC. Within Asia, China, Korea and Singapore offer the most value in absolute terms and also relative to their own history. India, Indonesia and the Philippines are most expensive markets on an absolute basis; the latter two are also expensive vs their history, as is Thailand.

- **EPS revisions vs DM are slightly worse. Within EM, Asia is outperforming** – Earnings are not being revised upward for any market in Asia. In terms of downward revisions, China and India are least bad and Korea is the weakest. By sectors, banks are at the earnings cusp and consumers and cyclicals are in the doghouse. Since the GFC, earnings in North Asian have outperformed those of ASEAN but the reverse is true of market performance, with ASEAN now at a substantial premium. The divergence between the 3 most expensive markets vs the 3 cheapest is at a near-record. That is not supported by earnings differentials.

- **Decelerating central-bank liquidity makes for tougher markets** – For markets to move higher, the asset side of CB balance sheets needs to grow. Growth on the asset side signals exports are improving, which means stronger earnings, upward revisions to analyst forecasts and in turn capital inflows. For 2015, the stronger US$ will provide headwinds but also reduce inflationary pressure, setting the scene for lower rates. Within EM, Asia has the more ample liquidity.

- **Economic surprises in Asia still to the downside** – Economic data for Asia is coming in worse than expected, though misses are small rather than troubling. GDP forecasts have come off since the start of 2014 and may be clipped again for 2015, but subdued expectations mean the risk overall is small. Stronger US$ has meant sharp falls in commodity input costs, allowing Asia to cut interest rates further. As a commodity consumer, Asia benefits from weaker input costs.

- **Asia a consensus underweight; sentiment remains subdued** – Our sentiment indicators are below average for Asia. Investor focus is on ASEAN rather than North Asia. India, Indonesia, the Philippines and Thailand are consensus overweights. Korea, Taiwan and China are the biggest underweights. EM investors generally prefer EMEA and Lat AM to Asia. Our 2015 MXASJ target is 630 (1.6x P/B, or 12.5x 2015E P/E), vs 575 currently, for a total US$ return (incl. dividends) of 12%.

Pan-Asia Equity Strategy: Top Buys and Top Sells (Top Buys are a sub-set of Asia-Pacific Citi Focus List)

Top Buys					Top Sells				
Name	RIC	Rating	Price	Tgt Price	Name	RIC	Rating	Price	Tgt Price
Advanced Info	ADVANC.BK	Buy	Bt239.00	Bt280.00	China Coal Energy	1898.HK	Sell	HK$4.84	HK$3.10
CNOOC	0883.HK	Buy	HK$12.00	HK$15.00	Catcher	2474.TW	Sell	NT$262.50	NT$228.00
Fosun Pharma	2196.HK	Buy	HK$27.35	HK$38.00	Genting	GENT.KL	Sell	RM9.19	RM7.75
Largan Precision	3008.TW	Buy	NT$2,375	NT$2,950	HK & China Gas	0003.HK	Sell	HK$18.54	HK$16.00
Melco Crown	MPEL.O	Buy	US$25.55	US$43.00	Hyundai Heavy	009540.KS	Sell	W129,000	W80,000
Ping An	2318.HK	Buy	HK$64.20	HK$86.00	Jollibee	JFC.PS	Sell	P207.60	P148.00
SK Telecom	017670.KS	Buy	W283,500	W360,000	Mega FHC	2886.TW	Sell	NT$25.10	NT$20.50
Tata Motors	TAMO.BO	Buy	Rs520.75	Rs624.00	Petrochina	0857.HK	Sell	HK$8.70	HK$7.65
TPK	3673.TW	Buy	NT$200.00	NT$235.00	Tokyo Gas	9531.T	Sell	¥647.20	¥520.00
Wilmar	WLIL.SI	Buy	S$3.24	S$3.69	Wesfarmers	WESDD.AX	Sell	A$42.35	A$35.49

Source: Citi Research

12% Total Return in 2015E

A year has passed and so the pressure is on to take out the crystal ball, polish it, gaze in to it and seek answers to what 2015 will bring. The irony of this is that few, if any, are good at forecasting the future. Figure 1 looks at the returns in Asia of investing on the basis of forecast earnings vs trailing earnings. The latter, even with monthly rebalancing, has done better than using forecasts. Like it or not, the market ascribes a rather high risk premium to analyst projections. So, rather than work with an unknown, the future, it makes a lot more sense to work with probabilities.

Figure 1. Trailing vs Forward PE Factor Returns in Asia

Factor Returns in Asia ex JP since 2000	Annualised Average Monthly Returns Q1	Q2	Q3	Q4	Q5	Q1-Q5	IR
Earnings Yld - 12 m forward	23.8	16.6	12.4	8.2	5.1	17.9	1.2
Earnings Yld- 12 m historical	24.8	16.7	11.7	9.0	4.2	19.8	1.6

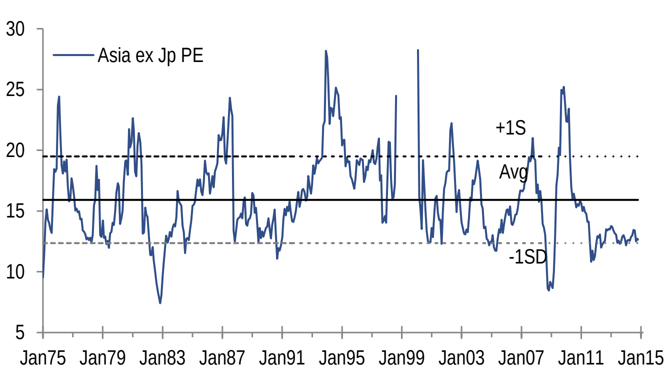
Source: Citi Research; Q1 is most attractive, Q5 is least attractive

Valuations remain very attractive for Asia

Asian valuations still at or close to 1SD below the long-run mean.

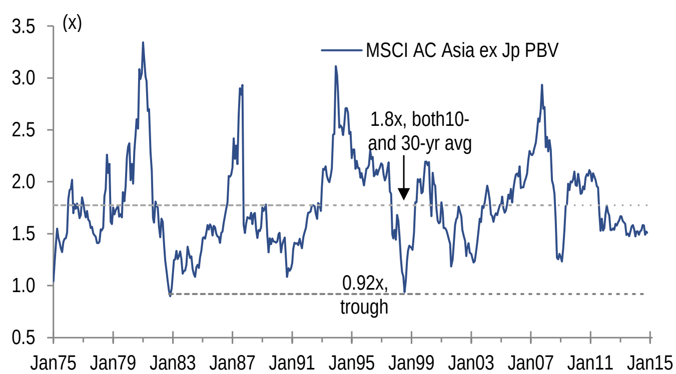
Leaving out end-of-the-world scenarios, markets in aggregate don't go to zero. So, valuations give a good idea of where upside to downside risk lies. As shown in Figure 2, Asia trades at 12.5x on trailing P/E, which puts it at a full standard deviation below the mean. Indeed, it has been at 1 stdev below the mean for the longest period since 1975 (before which we do not have the data). In those 39 years, P/E has been higher than it is today 87% of the time. So, from a P/E perspective, value is certainly to be had in Asia, and the outlook for positive returns is decent for investors with time horizons of 18 months or longer.

Figure 2. Asia: Trailing PE, 1975-2014



Source: MSCI, Citi Research

Figure 3. Asia: Trailing PB, 1975-2014



Source: MSCI, Citi Research

On trailing P/BV, the current multiple of 1.5x is only marginally better than 1 stdev below mean. Since 1975, the region has been cheaper on this metric at various periods, but they have been few and far between. Historically, Asia has only sunk to the current valuation level on some permutation of recession, financial crisis or pandemic. Over the period since 1975, P/B has been higher than today 73% of the time. Again, rather favourable compared to the long-run mean.

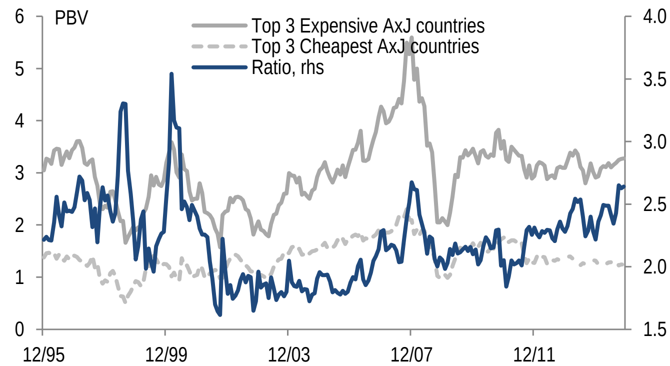
While Asia clearly would seem to offer compelling value, that is a necessary but not sufficient condition for markets to go higher. What we have within Asia is a wide spread of valuations. If we focus on P/BV, because it offers greater stability than P/E, then we have the spreads that are shown in Figure 4.

Figure 4. Market P/BVs Compared to Historical Averages

		Since 1995		
By markets	11/21/2014	Avg	Low	Hi
AxJ	1.50	1.8	0.9	2.9
EMAsia	1.53	1.9	1.1	3.1
CN	1.41	1.9	0.4	5.3
HK	1.35	1.6	0.8	2.5
IN	3.09	3.1	1.6	6.4
ID	3.60	2.9	0.8	5.8
KR	1.00	1.3	0.5	2.1
MY	2.07	2.1	0.6	3.7
PH	3.23	2.2	0.9	4.1
SG	1.40	1.7	0.8	2.6
TW	1.95	2.2	1.1	4.5
TH	2.35	2.0	0.6	3.6

Source: MSCI, Citi Research

Figure 5. P/BV Spreads: 3 Most Expensive and 3 Cheapest Markets



Source: MSCI, Citi Research

In absolute terms, KR, HK and SG are the cheapest markets. IN, ID and PH are the most expensive.

At the valuation low end are Korea, Singapore and Hong Kong. Korea suffers for its cyclical exposure and a negative perception of its corporate governance. The city-states of Singapore and HK have a mixture of real estate and financials (which trade at a market discount) and are greatly influenced by the flows from global trade. At the other end of the valuation scale are India, the Philippines and Indonesia. In the first cluster, the P/BV begins with a 1 for all three markets; in the second cluster the P/BV begins with a 3 for all three. Figure 5 shows the dispersion over time based on P/BV in Asia. The ratio of the top 3 vs bottom 3, on an equal weighted basis, is now quite elevated – and, indeed, has only been higher during the Asian crisis, the TMT bubble and the GFC. In effect, investors are paying 2.6 times more to own the most expensive vs the least expensive markets in Asia.

Only Indonesia, the Philippines and Thailand are trading at premiums vs their own histories.

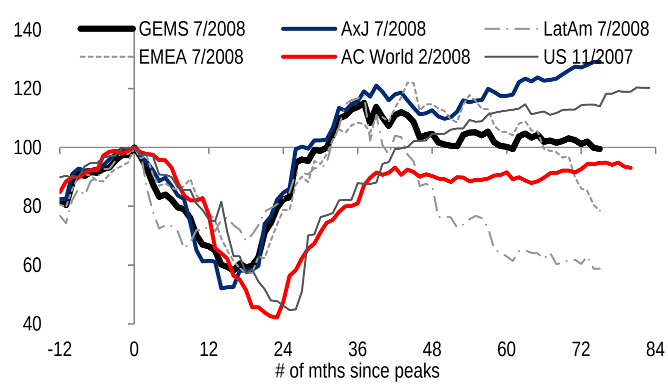
How do market valuations stack up relative to their own history? Trading at discounts to historical average are China, HK, India (just), Korea, Singapore and Taiwan. Indonesia, the Philippines and Thailand are trading above average. Malaysia is on par with the average. So, it is not the case that China makes Asia cheap; other large-cap markets also make the region cheap. In general, North Asia has been de-rated vs ASEAN and India.

Figure 6. Price and Earnings vs. pre-GFC Peaks

	Price		EPS	
11/20/2014	07/08 max date	% below peak	07/08 max date	% below peak
AxJ	Oct-07	-17%	Jul-08	29%
CN	Oct-07	-39%	Sep-08	61%
HK	Oct-07	-3%	Feb-09	31%
IN	Dec-07	-22%	Jul-08	9%
ID	Feb-08	14%	Sep-08	33%
KR	Oct-07	-21%	Dec-07	23%
MY	Dec-07	15%	Apr-08	7%
PH	Oct-07	57%	Nov-07	16%
SG	Oct-07	-10%	Apr-08	-8%
TW	Oct-07	-7%	May-08	-14%
TH	Feb-08	47%	Feb-07	24%

Source: MSCI, Citi Research

Figure 7. Regional EPS Trend Since pre-GFC Peaks



Source: MSCI, Citi Research

The irony comes when looking at the earnings delivery of individual markets since the earnings peak prior to the GFC (see Figure 6). Top of the earnings tree is China, where earnings in US$ terms are 61% higher. Next are Indonesia (earnings 33%

higher) and Hong Kong (31% higher). Then come Thailand (24% higher) and Korea (23% higher). All the North Asian markets are lower today than they were at the peak of the GFC. Other markets are all higher over the period, with the exception of India. The Philippines has been the best performer since the GFC peak (up 57%), yet it has increased earnings by only 16% over the period. Malaysia is 15% higher but earnings have risen by a mere 7%. Whereas the equity risk premium has risen in most of North Asia, it has gone down in ASEAN even though earnings have not been any stronger, to say the least.

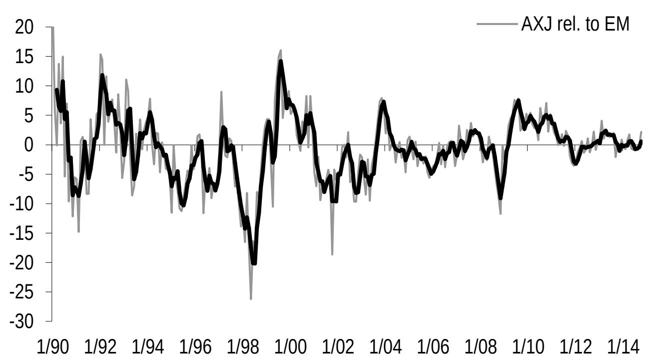
North Asia underperformed ASEAN in 2014 but it has outperformed in terms of EPS since the GFC.

In 2014, investors derived comfort from the outcomes of elections in India and Indonesia and from ASEAN being more domestic focused and less export dependent than North Asia. Also, ASEAN is far enough away from China to be spared scepticism among some investors about the mainland's ability to engineer an economic rebalancing without the wheels coming off.

Within EM, Asia significantly outperformed EMEA and Lat AM in terms of earnings (see Figure 7). Only Asia has delivered EPS above the prior peak. Lat AM has fared the worst. In this regard, Asia has also outperformed the AC World index and the US. Proof, if more were needed, of the strength of Asia's earnings power. Yet investors appear unpersuaded, otherwise valuations would not be at the low end of historical ranges.

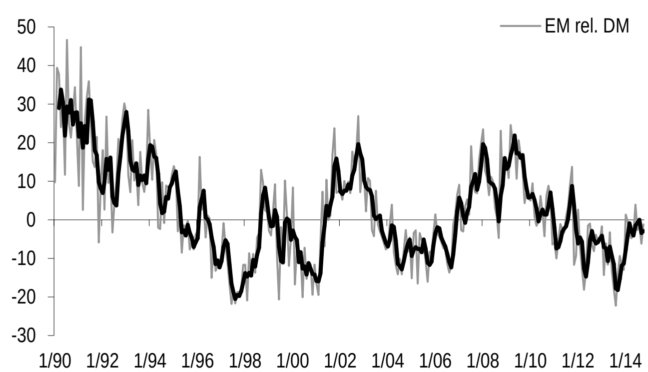
Earnings revisions: Asia doing better than the rest of EM

Figure 8. Earnings Revision Index in Asia Rel. to EM



Source: IBES Aggregate, Citi Research

Figure 9. Earnings Revision Index in EM Rel. to DM



Source: IBES Aggregate, Citi Research

EM earnings revisions slightly lower than those of DM. Asia an outperformer within EM.

What helps markets rise and take valuations higher is expectations of a better tomorrow. One signal of expectations is earnings revisions. Upward revisions tend to send markets higher, downward revisions see them get sold off. In terms of earnings revisions for Asia, there is good news and bad news. Relative to the rest of EM, Asian revisions are outperforming (see Figure 8). So for global investors looking to allocate to EM, Asia scores well on both value and revisions. EM vs DM is roughly flat; as such, Asia is slightly ahead vs DM but it is rather marginal.

Figure 10. Monthly Earnings Revisions as a % of Total for Asia Markets

	Oct-14	Sep-14	Jul-14	Apr-14	Oct-13
AXJ	-17.5	-18.2	-10.2	-15.9	-17.9
China	-13.2	-25.2	-9.4	-17.4	-4.7
India	-12.6	13.0	16.8	-12.0	-26.6
Indonesia	-26.4	-27.1	-17.5	-20.9	-66.2
Korea	-29.2	-30.2	-36.4	-35.5	-27.6
Malaysia	-30.3	-36.0	-9.9	-24.3	-33.9
Philippines	-12.8	-32.0	-20.8	2.6	-3.0
Taiwan	-18.2	-10.8	6.5	17.4	7.2
Thailand	-19.2	2.9	-14.8	-33.3	-33.3

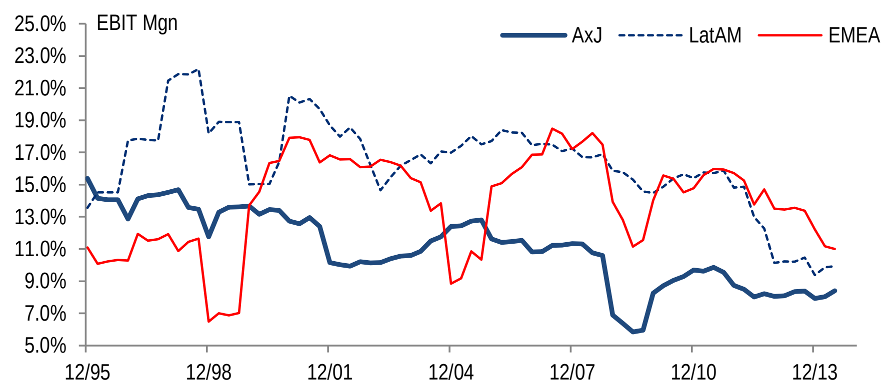
Source: Citi Research

Within Asia, revisions in the Philippines and in India have been outperformers, though last month brought with it more downward than upward revisions for India. Other outperformers were China and Taiwan. The worst revisions were for Malaysia, Korea and Indonesia.

As a net importer of commodities Asia benefits from the price decline.

Asia has an advantage over the other two regions of EM in that it is a net importer of commodities. Thus, current weakness in commodity prices is a positive terms of trade shock for Asia, but a negative shock for the other two regions. The effects are already visible in the region's margins (see Figure 11). Margins have been declining for EMEA and Lat AM and will only get worse given the latest price declines in the commodity space. Asia's margin outperformance bodes well for its earnings outlook.

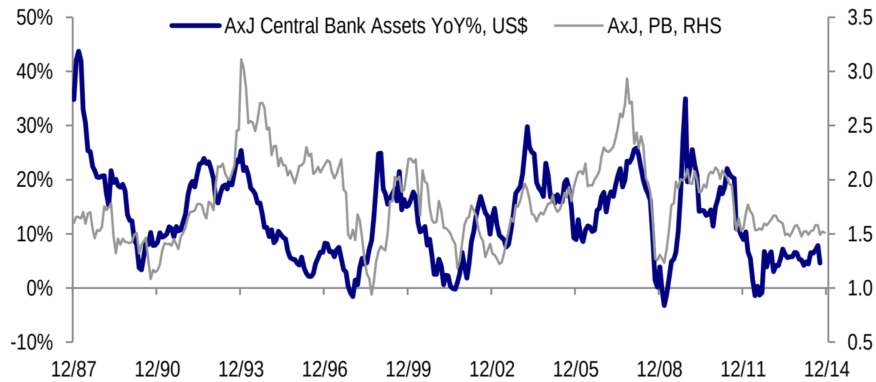
Figure 11. Margins in Asia vs the Other 2 EM Regions



Source: Worldscope, FactSet, Citi Research

Liquidity: asset side of central-bank balance sheets still expanding

Figure 12. Central Banks' Asset Expansion in Asia vs Market Valuation



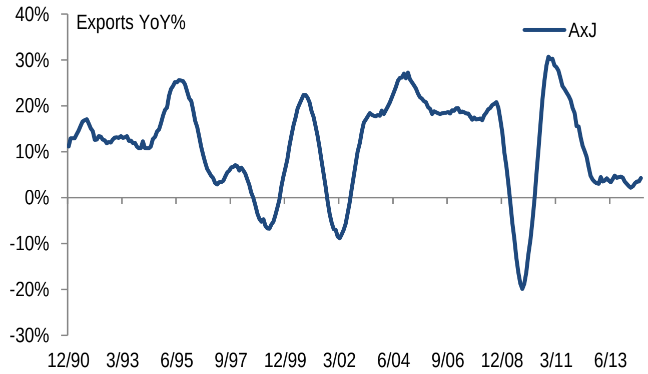
Source: Haver, CEIC, MSCI, Citi Research

Rising trade surpluses and +ve capital account flows will support Asian liquidity.

Without money to satisfy both the needs of the real economy and a little surplus for the stock market, equities will not do well. The asset side of central-bank balance sheets brings together the key drivers as it encompasses the trade side of the equation and the capital account (see Figure 12). Rising trade surpluses are an indication of improving earnings and provide upward pressure on the exchange rate, which in Asia has often been met with a loose monetary policy. As the economy improves so foreign capital comes in and the virtuous cycle is reinforced, thereby pushing up the stock market further. As that happens, more capital is attracted to the region/market. Asia has the highest trade surpluses in EM and the healthiest CA surpluses. The decline in commodity prices again helps in this regard, both in terms of the surpluses and fiscal positions (esp. for India and Indonesia), and also in terms of inflation. With inflation undershooting on the back of weaker input prices, 2015 will be a year during which most of Asia will have the option to lower rates. This will be supportive for equities in the region.

The second support is that we expect global growth to continue to be positive so the export side of Asia will continue to show modest growth. However, this export recovery is weaker than those that preceded it (see Figure 13). The weak export recovery is also why the asset side of central-bank balance sheets has shown only anemic growth. There is nothing to suggest that export growth in 2015 will be much different to that of 2014. For 2015, we expect high single-digit export growth for the region. CA surpluses for Asia will remain high, likely rising for the commodity importers. From the current vantage point, inflation will not be an issue for Asia in 2015 unless commodity prices recover quickly. As far as rates go, lower for longer will be the mantra. This will prove to be a positive for yield strategies as investors look to get some return on their investments as opposed to having no return.

Figure 13. Annualized Exports Growth in Asia



Source: Haver, Citi Research

Figure 14. % of Stocks With Div. Yields Greater Than Risk-free Rates

	RFR	Wgts (%) within ctry (by float adj. mkt cap)	Wgts (%) within ctry (by # of stks)
Australia	3.3%	92%	81%
China	3.7%	42%	33%
Hong Kong	1.8%	77%	90%
India	8.2%	0%	0%
Indonesia	7.8%	1%	3%
Korea	2.7%	9%	15%
Malaysia	3.9%	30%	26%
Philippines	4.3%	16%	10%
Singapore	2.3%	92%	90%
Taiwan	1.6%	94%	80%
Thailand	3.3%	60%	52%
Japan	0.5%	96%	96%

Source: MSCI, Bloomberg, IBES, Citi Research

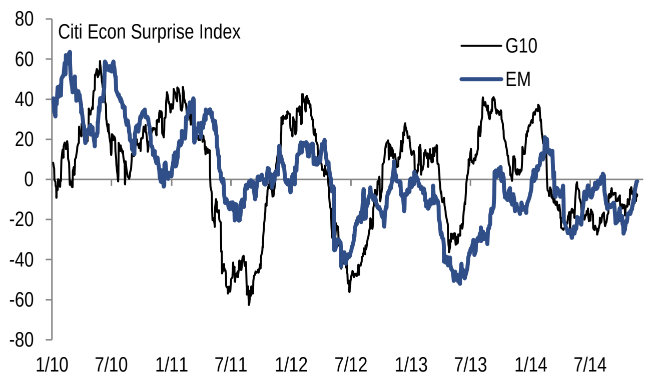
Weaker commodity prices will have a +ve impact on Asian inflation, allowing rates to decline in 2015. Good for income stocks.

As many of our readers will know, we have been enthusiastic supporters of income stocks over the years. Figure 14 highlights where in Asia are the highest number of stocks that have a dividend yield above the local bond yield. Most of Asia looks good on that basis, with the exceptions of India and Korea (not surprisingly as these are the lowest pay-out markets). India has the advantage over Korea in that its rates have a higher starting point, meaning they have a lot more room to come down than those in Korea. In addition, lower commodity prices are significantly more positive for the finances of India than for Korea.

Positive economic surprises hard to come by, in Asia and elsewhere

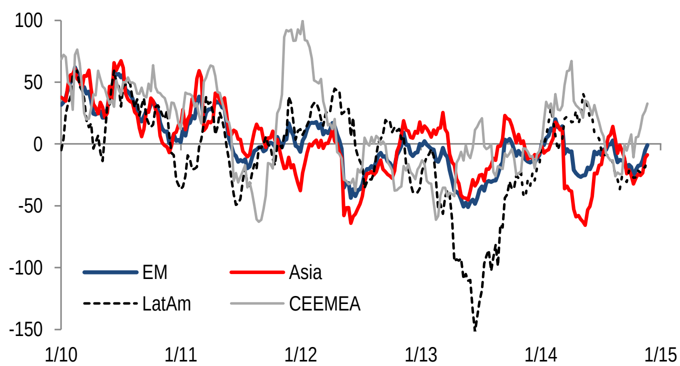
EM continues to see more negative than positive economic surprises (see Figure 15). As a broad asset class, EM isn't doing that much worse than the G10. In fact they are neck and neck. As we can see from the chart, economists cut their forecasts for fear of being too optimistic. Before long, these forecasts are too low and the data recover, leading to positive surprises.

Figure 15. Economic Surprises in EM vs DM



Source: Citi Research

Figure 16. Economic Surprises in EM Regions



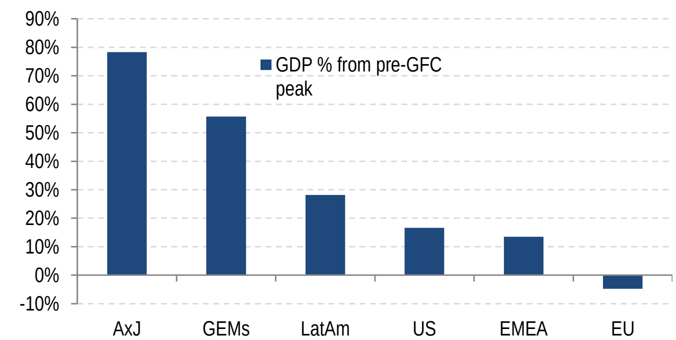
Source: Citi Research

Given the weight of Asia within EM, it is to be expected that economic surprises for Asia are similar to those of EM as a whole (see Figure 16). As an an FYI, the most positive economic surprises have been coming out of EMEA. Sudden shocks lead to sharp downward revisions of economic activity and, lo and behold, as observers we get more bearish than we should and hence the ensuing positive surprises.

EM and DM economic surprises are neck in neck. Asia has slightly more disappointing economic data than EM.

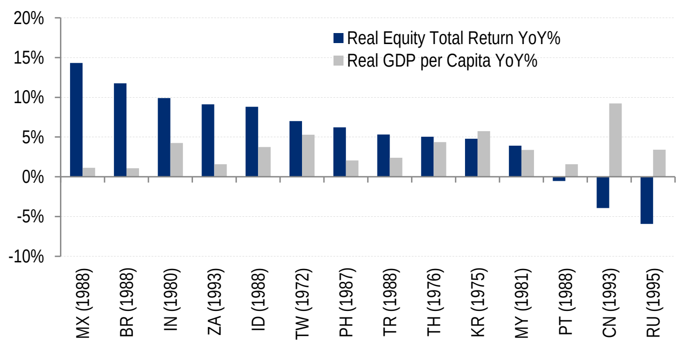
From the point of view of absolute economic performance, Asia has done well (see Figure 17). As a region Asia has not only outgrown the rest of the world in terms of EPS, as we saw earlier, but in terms of GDP this is also true. Yes, GDP growth will continue to slow driven by the base effect and a slowly aging population even in Asia. The three markets that will see the biggest increase in those aged over 64 are Hong Kong, Korea and Singapore. The best demographics are to be found in the Philippines, India and Indonesia. As populations age, the need for income becomes all the greater, as such dividends in a low rate environment only gain in importance.

Figure 17. Regional GDP Growth From pre-GFC peaks



Source: Haver, CEIC, Citi Research

Figure 18. GDP Growth vs Equity Returns



Source: Haver, Citi Research

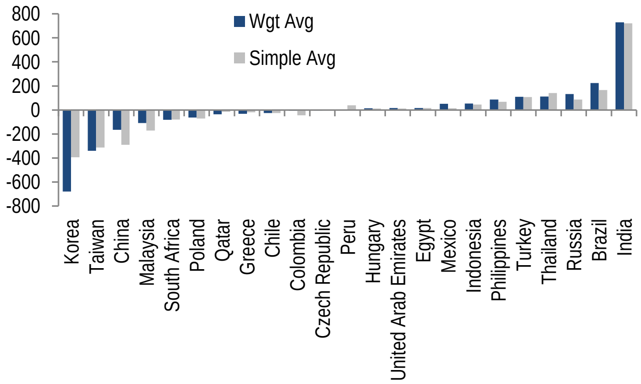
In 2015 we will no doubt get a few more growth scares: is Europe going to make it, will China blow up, what is happening in Russia, where will the yen go? What needs to be kept in mind is that there is a price for everything. Assets priced cheaply can withstand a knock or two. Assets priced above fair value do not have that cushion. What investors need to calibrate is what is being priced in and what is not. Asia as a whole, as we argued earlier, continues to offer plenty of value, with valuations either at or close to 1 stdev below the mean. This would suggest that investors are not expecting a great deal from the asset class. This is a good starting point.

A weaker Yen will continue to be a headwind for Korea. A stronger US$ will hurt commodity exporters but benefit the users of commodities.

The final point on the topic of GDP growth is that recessions clearly are not a good thing but nor can it be said that robust GDP growth is strongly correlated with market returns (see Figure 18). In many instances, less GDP growth means higher market returns. Counter-intuitive as it may sound, less GDP growth leads to more focused companies and less investment and thus more free cash flow, with the cash flowing to investors via dividends. It is the compounding of those dividends that ultimately delivers the riches. Compounding – one of the under-appreciated wonders of the world.

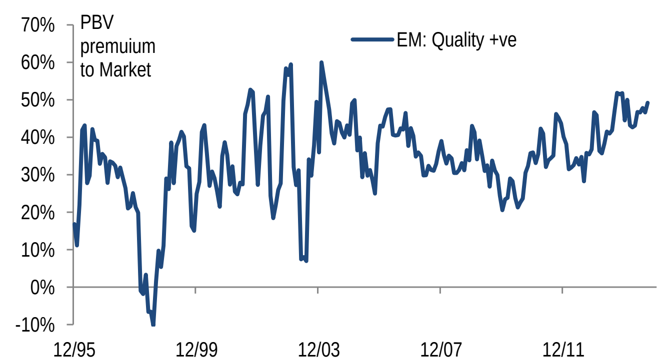
Sentiment and positioning suggest Asia is a consensus underweight

Figure 19. Country Allocations of EM funds vs MSCI EM in basis points



Source: FactSet, Citi Research

Figure 20. PBV of EM Quality Portfolio Relative to Market

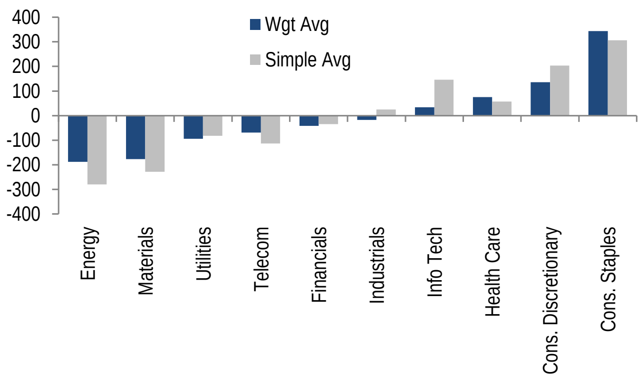


Source: Citi Research

The consensus is underweight Asia vs EMEA or Lat AM.

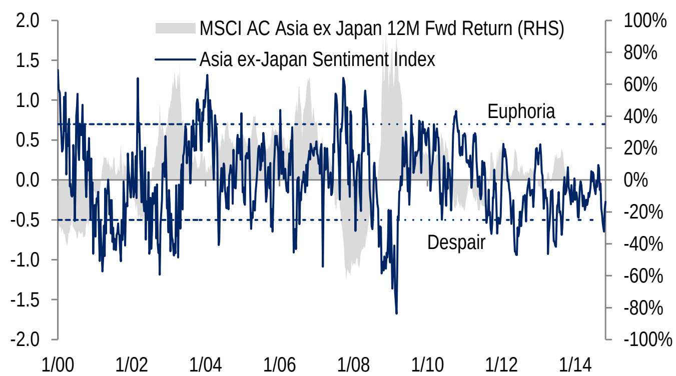
The consensus in EM is to be underweight Asia (see Figure 19). Korea, Taiwan, China and Malaysia are the underweights. India, Indonesia and Thailand are the overweights. This very much mirrors valuations; overweight markets generally are the more expensive. The overweights are also generally viewed as either more defensive (lower weighting of cyclicals) or more insulated from the global economy. From a quant perspective it is effectively the same as long "quality" and underweight a combination of "value and beta". The issue with the quality tilt is that, as per Figure 20, in EM it has become rather expensive.

Figure 21. Sector Allocation of EM funds vs MSCI EM in basis points



Source: FactSet, Citi Research

Figure 22. Asia Sentiment Index vs MSCI AC AXJ Fwd 12 Mth Returns



Source: MSCI, EPFR, Bloomberg, IBES Aggregates, Citi Research

In terms of sectors, see Figure 21 the overweights in Asia are consumer staples, consumer discretionary, health care and then tech, which is a marginal overweight. Anything cyclical, especially the likes of energy and materials, are underweights, as are financials. The average portfolio is thus quite defensive and priced for very little global growth upside at this juncture.

Sentiment remains weak with the consensus overweights being India, Indonesia and the Philippines.

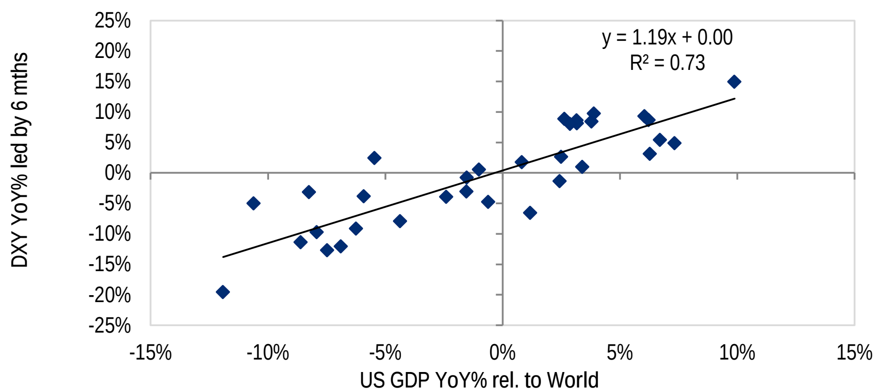
When it comes to sentiment, see Figure 22, this remains quite weak in Asia but it has improved recently compared to a few months ago when the region was well and truly in despair. It usually pays to buy the region when sentiment is weak rather than euphoric.

Key themes: US$, higher rates and commodity prices.

Strong currencies attract funds, leading to price increases in non-tradable goods. A strong US$ also depresses commodity prices.

The US$ has rallied and the house view is that the US$ will remain strong during 2015 as Europe and Japan do QE. Historically, a strong US$ has been negative for Asia. The last period of sustained US$ strength was 1995-2001/2. Asia then was effectively a fixed exchange rate bloc, which meant that a stronger US$ pushed all the adjustment onto the real economy, ie the economy had to deflate. Hence, a US$ rally caused a lot of pain to Asian economies, or indeed any economy with a fixed exchange rate to the US$. Only HK now has a fixed exchange rate to the US$. China is more of a managed float than a fixed exchange rate. As such, changes in the US$ do not have the same deflationary effect except for HK. A stronger US$ has also historically signaled a stronger growth profile for the US economy, see Figure 23, which has been a positive for export-oriented markets in Asia, especially those that were more US facing.

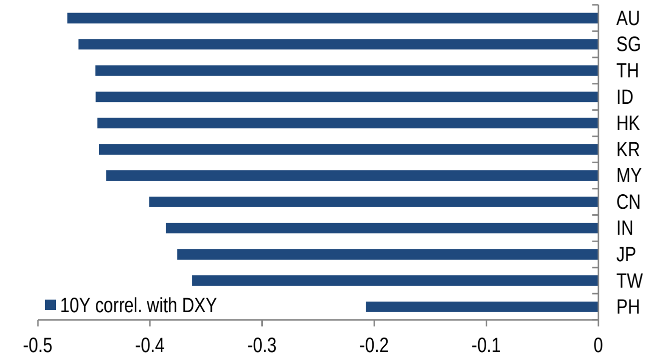
Figure 23. DXY Growth vs US GDP Growth since 1980



Source: Haver, Citi Research

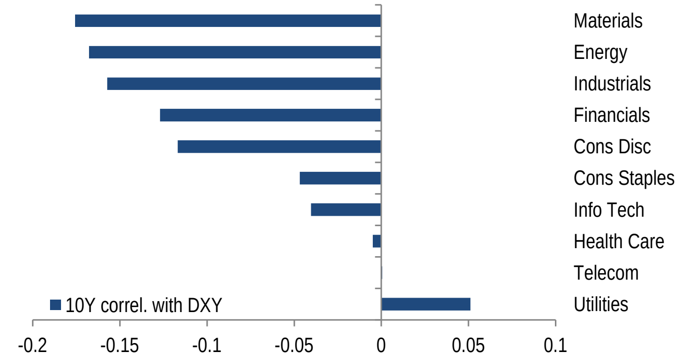
The flip side of a stronger US$ is that it depresses commodity prices. In that regard, Asia is a winner as it is a net importer of commodities, especially compared to the other two EM regions which are commodity exporters. Asia thus has a positive terms of trade shock while the other two parts of EM have a negative terms of trade shock. In terms of correlation with the US$, the least correlated over the last decade has been the Philippines (among the most expensive markets and a consensus overweight), followed by Taiwan, Japan, India (another consensus overweight) and then China. The highest correlations over the last decade have been Australia (commodity component is at play here), followed by Singapore, Thailand (consensus overweight), Indonesia (another consensus overweight) and then Hong Kong. Note, all the correlations are negative, ie DXY stronger and markets have been weaker (see Figure 24).

Figure 24. Market Correlation With US$ Strength



Source: MSCI, Haver, Citi Research

Figure 25. Asia Sector Correlation With US$ Strength



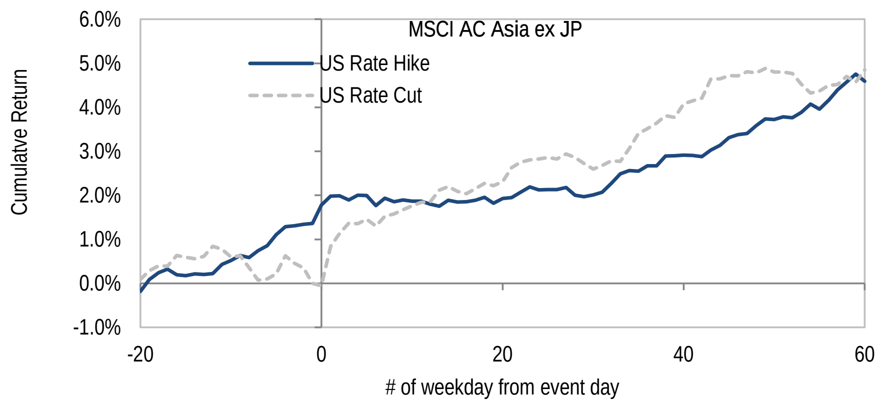
Source: MSCI, Haver, Citi Research

When it comes to sectors, see Figure 25, over the last decade the biggest negative correlations have come from materials, energy and industrials – note, though, the coefficients are quite low. Utilities have a small positive correlation with the DXY, telecoms is flat, then we have healthcare and finally we have tech. For healthcare and tech the correlations are minuscule.

Higher US short rates do not cause markets to fall. What really helps, though, is to run a CA surplus and be cheap.

Citi and seemingly consensus are convinced that both short and long rates will move in the US next year. In terms of short rates, the view is that higher rates are detrimental to Asian equities. Figure 26 would suggest that simply isn't the case. What is particularly helpful is to have a combination of current account surpluses and cheap valuations. Asia has both, so higher short rates are less of an issue for Asia than for the other parts of EM.

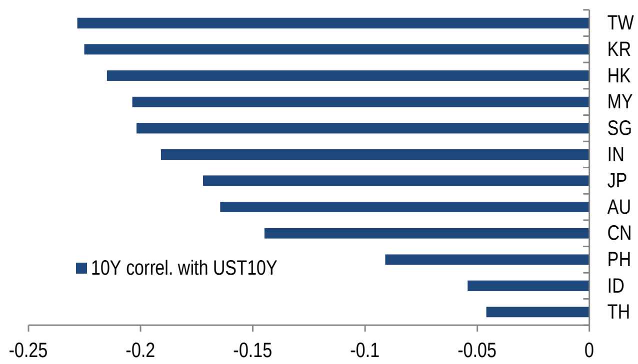
Figure 26. MSCI Asia ex JP Performance Post US Rate Hikes and Rate Cuts



Source: Haver, MSCI, Citi Research

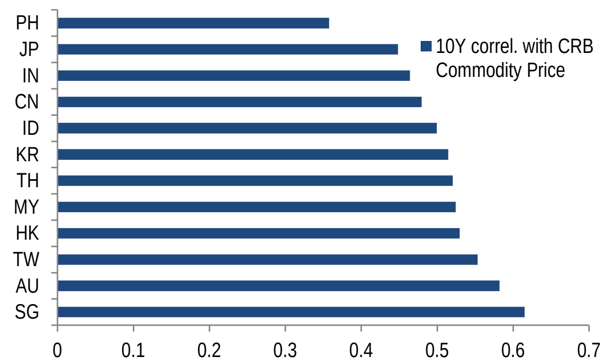
When we look at the long end of the yield curve, the expectation is that this too will rise in 2015 and the 10-year will reach 3.05% compared to 2.3% at present. Overall, correlations with the UST yield are not very strong, the highest being -0.22. The correlation is weakest for Thailand, followed by Indonesia, the Philippines and then China. Correlations have been most negative for Taiwan, Korea and then Hong Kong.

Figure 27. Market Correlation vs US Treasury



Source: MSCI, Haver, Citi Research

Figure 28. Market Correlation vs Commodity Price



Source: MSCI, Haver, Citi Research

Weaker commodity prices are a negative for Australia.

The impact of the stronger US$, though, is on the commodity price. Looking at it using the CRB Commodity Price index and the correlations over the last decade have been strongest with Singapore, Australia and then Taiwan. For Singapore, it has more to do with what commodities mean for global growth rather than the market's direct commodity exposure. For Australia, it is to do with the weight of commodities in the index, and for Taiwan it is a combination of the petrochemical/steel and global cycle at play. The lowest correlations are with the Philippines, Japan and then India. China comes in 4^{th} place.

So what does all of this tell us? For Australia it is quite straightforward. Weaker commodity prices will impact the stock market as they have a direct effect. For Singapore, Taiwan or HK it is harder to make a black or white call. Are commodity prices off because of weaker global growth or because of the discovery of additional reserves, ie oil, or excessive investment by iron ore, coal companies etc. If global growth is the reason, then it is clearly negative. However, if prices are down due to excess supply then lower prices are an effective tax cut for the global consumer, which is a positive for demand and here Asia is well positioned as a bloc this is quite open to global trade.

2014 was about value and growth, 2015 won't be that different

In 2014 investors rewarded value and growth; expect more of the same in 2015.

During 2014, value as a pure attribute did very well in Asia, doing twice as well as growth. In EM Asia, so excluding both HK and Singapore, the spread between value and growth was significantly smaller, suggesting that EM investors had a stronger growth bias than was the case for the Asia dedicated investor. What did not work well in 2014 was risk as an attribute, ie beta and volatility, showing that overall investors remained rather risk averse. This is echoed by the sentiment charts we highlighted earlier. Beta and volatility are also currently mostly found in the cyclical sectors which are clearly not flavor of the day. The other attribute which failed to generate returns was size, with investors avoiding the bigger caps (think cyclicals/banks) and seeking smaller caps, think also North Asia vs ASEAN. Any improvement in sentiment towards global growth will swing the size preference around quite quickly.

Value combined with momentum has a strong and constant track record in Asia.

Why will it be similar in 2015? Well, value has a strong track record in Asia, see Figure 29; not only does it show the best returns but it also has the strongest consistency on a quarterly basis. Growth is nowhere near as constant, nor does it show equally strong returns. Quality attributes, which for a while had been much sought after by investors, have seen their returns roll over recently for the simple reason that many of these stocks are now expensive and have not exactly shown great earnings prowess.

Figure 29. Quarterly Returns of Different Styles Since 2001

	Average Return (2001-2014)			
Asia	Q1	Q2	Q3	Q4
Growth	0.8%	1.0%	-1.4%	-1.7%
Momentum	0.9%	2.1%	0.6%	2.8%
Quality	1.3%	0.1%	3.2%	-1.1%
Risk	0.6%	-0.3%	-2.1%	2.3%
Size	-0.1%	1.1%	-0.2%	-0.1%
Value	4.4%	2.4%	0.9%	3.0%

Source: Citi Research

So, what could be the swing factors? Oil and commodity prices have had quite a tumble during 2014. If these begin to stabilize during 2015, this is one area where investors have large consensus underweights and where value increasingly can be found. Earnings revisions are still clearly not helpful to stock returns, but that could change. Another attribute linked to the "risk" trade is growth. Any signs of better growth globally and the subsequent search for growth plays would be positive for both Asia and EM assets. The greater degree of certainty for returns comes from value, which is why we spend so much time focusing on it.

Figure 30. Market Weightings

Region//Market	Weighting	Why	Bull Arguments	Bear Arguments
Asia	Overweight within EM	Cheap valuations, better earnings revisions, strongest liquidity generator within all regions, main beneficiary of weaker commodity prices. CA surpluses shield from higher US rates.	Earnings in line with historical trend and at a new peak. Positioned to capture global growth pick-up from high asset turn ratio and weaker commodity prices. Rates to fall in 2015.	Concerns mainly on credit cycle. External credit growth driving aggregate credit growth the most in Asia. China to see weaker growth. Global growth will disappoint and US$ will rally.
China	Overweight	Second-lowest implied EPS growth to perpetuity, consensus underweight, low FX vulnerability, room for policy makers to ease further.	Very low valuations, poor sentiment means it does not take much to change expectations, reforms continue to be undertaken.	Policy paralysis leads to hard-landing, credit sector seizes up. NPL issues understated and will cause a hard-landing.
Hong Kong	Underweight	Upside limited due to stronger US$ and rising rates in the US.	Cheap market, US$ rally fleeting and no US rate increases until 2016.	Real estate market expensive, earnings growth deceleration into 2015.
India	Underweight	Well held, little valuation support, very price momentum sensitive, valuations not expensive vs self but expensive vs EM. One of the highest implied EPS growth markets to perpetuity. EPS revisions rolling over.	Room for interest rate cuts in 2015, CA deficit has improved. Beneficiary from lower commodity prices on CPI and the fiscal side, reforms offer plenty of low-hanging fruit.	Usually over promises, under delivers. Biggest overweight in EM equities. Earnings revisions rolling over. Not exactly cheap.
Indonesia	Underweight	Foreign investors overweight the local bond market, CA deficit looks sticky. One of Asia's most expensive markets and a prem to self. EPS momo slowing.	Large populace, good demographics, domestic growth driven not exports. CA will adjust and growth resume. Potential for political reforms.	Interest rate cycle on the up. Further foreign selling of bonds could happen due to stronger US$. Well held, expensive. Reform agenda not straightforward.
Korea	Underweight	Weak earnings revisions, poor terms of trade and weak domestic demand. Trades at discount due to overinvestment, falling ROIC and low dividend pay-out.	Few own it, many dislike it. Further rate cuts and fiscal stimulus. Stronger global growth will help exports. Laggard in Asia esp. vs Taiwan.	Cyclical, always cheap, doesn't pay dividends. Monetary policy still too tight. Yen weakness will hurt profitability.
Malaysia	Underweight	Defensive market, not particularly cheap, commodity exposure will be a drag.	Defensive market, consensus underweight, large domestic pool of money. If EM markets fall, this one will outperform.	Weaker commodity prices a drag, too small to be a domestic story, high foreign ownership of local bonds.
Singapore	Overweight	Cheap market, robust growth will benefit from rising US rates.	Underperformer in 2014, sound finances, cheap, will benefit from stronger global growth.	Hollowing out of the manufacturing sector, weak population growth, no catalysts.
Taiwan	Overweight	Good earnings revisions vs EM. Monetary cycle supportive as are valuations. Consensus underweight.	Large underweight by investors, valuations supportive, little FX vulnerability. Huge CA surplus.	Cyclical market, not expensive but neither outright cheap; who needs another tech gizmo?
Thailand	Underweight	Earnings revisions far from good and valuations now expensive. Domestic side expensive but cyclical part of the market still cheap. Exports remain weak.	Populist administration, large foreign reserves, relative stability, valuations expensive but have been worse.	Consensus overweight, had a consumer boom, weak exports, political uncertainty with expensive valuations.

Source: Citi Research

Country

Australia

Market Is Consolidating As the Economy Transitions

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- **2015 may see moderate gains continue near term** – The modest rise in the market in 2014, after valuations had returned more or less to normal at the outset, from their lows earlier in the financial crisis, and earnings growth continued to be challenging to generate, could extend for a while into the coming year, as the aftermath of the resources boom sees a more subdued phase for the market and the economy continue in the near term.

- **Valuations are fuller and sentiment still seems cautious** – The rebound in the market in 2012 and 2013 brought the aggregate PE back to its medium-term average (fig 1), or even a little higher after allowing for some of the structural changes in the market over time. Yet earnings growth has generally been weak since the GFC, and investor sentiment has remained cautious (fig 2), so further re-rating would seem unlikely to be a source of significant gains in the market.

- **Earnings momentum could remain challenging** – In recent years, reasonable earnings growth has been sustained by the broader market excluding resources, despite subdued business conditions, helped by the fall in the AUD, recovering financial markets, and cost cutting (fig 3). This seems likely to continue to be achievable (fig 4) and, while declining resource earnings have been making it hard for the overall market to record growth, there may remain downside risk.

- **Economy may record only trend growth at best** – The investment phase of the resources boom is passing to the production phase, and despite strong export growth, the decline in investment is containing the economy's trajectory, even as the housing market recovers strongly (fig 5). Although the "rebalancing" is proceeding better than some feared (fig 6), the decline in resource investment has further to go, and seems likely to contain growth for a while near term.

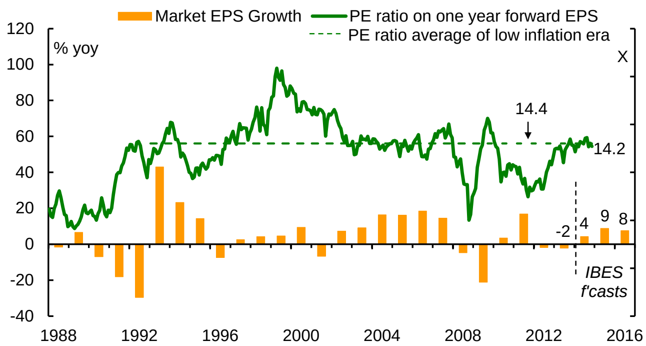
- **Risks to market returns seem fairly balanced** – Relative to our expectations, the risks to the downside may be a little greater, with the potential for earnings growth to continue to fall short, given the pressure on commodity prices, and the constraints on the domestic economy's growth, though greater AUD weakness could help. Globally, the flip side would be a stronger USD, as the Fed moves toward raising rates next year, while the ECB and BOJ continue QE, but that may be associated with rising bond yields, which may be the main risk for the market.

Australia: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Macquarie Group	MQG.AX	Buy	A$58.45	A$64.00	4.8	12.8	15.8	1.6	10.3
Annuity-led growth, relatively modest valuation multiples and good momentum across most parts of the business make MQG an attractive proposition									
ResMed Inc	RMD.AX	Buy	A$6.02	A$7.56	2.1	23.4	21.8	4.2	20.5
New products have been launched, the impact from Competitive Bidding is abating and there is optionality from a strong balance sheet									
Rio Tinto	RIO.AX	Buy	A$56.41	A$71.00	4.1	26.4	9.7	2.0	22.4
Capacity for capital management in 2016+ and valuation discount relative to peers make Rio our preferred diversified exposure									
Top Sells									
Cochlear	COH.AX	Sell	A$69.44	A$53.21	2.8	-21.6	36.2	12.0	31.9
Expensive in absolute and relative terms, given risk of continued market share losses and recent anemic market growth									
Leighton Holdings	LEI.AX	Sell	A$19.98	A$19.49	5.3	0.5	11.4	2.0	17.9
Core earnings risks remain with uncertainty around the infrastructure pipeline and possible debtor impairment									

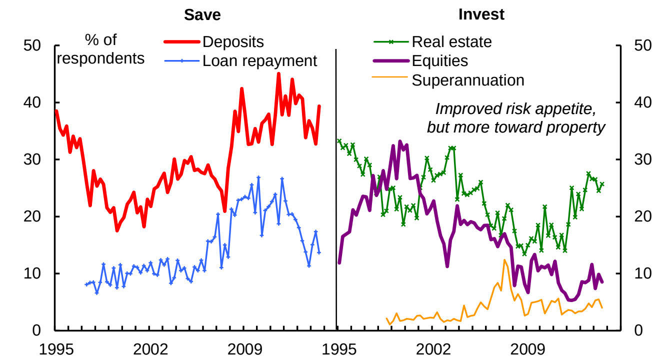
Source: Citi Research estimates

Figure 1. Australian Market PE and EPS growth



Source: IBES, MSCI, Datastream, Citi Research

Figure 2. Consumers' Preferred Use of Savings Quarterly



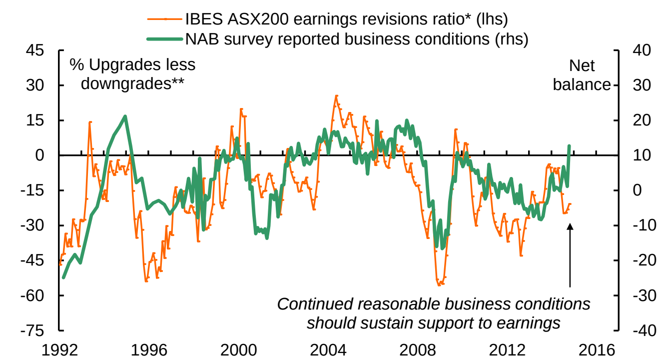
Source: Westpac/Melbourne Insitutue, Citi Research

Figure 3. Consensus EPS Growth Forecast*

	1-Sep-14			26-Nov-14		
	FY13	**FY14**	**FY15**	**FY13**	**FY14**	**FY15**
Market	-4.5	12.6	4.3	-4.8	11.0	3.7
Resources	-23.0	24.0	0.6	-22.9	22.9	-4.9
Banks	6.3	7.5	5.7	6.3	4.7	7.6
Industrials ex Banks	5.5	8.4	6.3	5.6	7.0	7.9
Selected Sectors						
Building Materials	-0.9	33.7	18.1	-0.9	34.1	19.2
Engineering	-16.4	4.1	1.5	-14.6	7.7	-7.8
Transport	17.0	-46.7	91.7	17.0	-46.7	101.7
Media	-17.5	-13.0	8.1	-17.4	-16.3	11.1
Retail	5.4	2.3	5.1	5.6	2.5	3.4
Health Care	19.2	17.0	12.8	19.2	16.8	16.8
Insurance	6.4	22.7	4.5	6.3	23.1	6.6
Diversified Financials	15.3	21.5	9.4	15.1	22.1	10.0
Telecommunications	8.3	15.0	-1.0	8.3	7.1	7.6

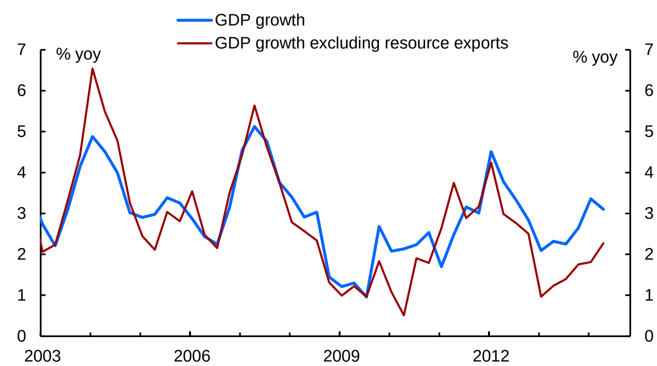
*Pro-rated June year-ends, which is a different aggregation to the estimates in Figure 1 above. Source: IBES, S&P, Citi Research

Figure 4. Business Conditions and Earnings Revisions



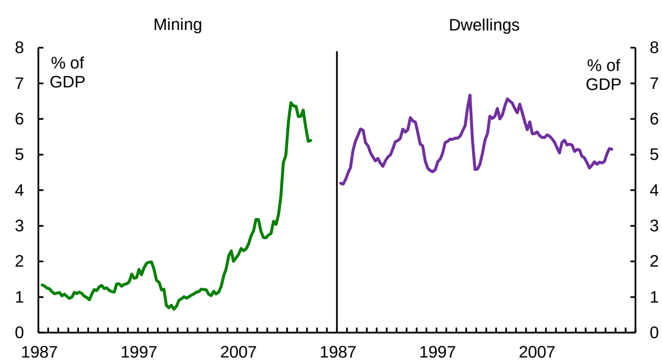
*Three month moving average. **As percent of all ASX200 stocks.
Source: IBES, Datastream, Citi Research

Figure 5. GDP Growth



Source: Haver, ABS, Citi Research

Figure 6. Mining and Dwelling Investment



Source: Haver, ABS, Citi Research

China

Steady Returns Under New Normal

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- **A new cycle of 6-7% GDP growth but with better quality** – China is entering a new seven-year cycle, with GDP quantity growth stagnating at 6-7% but more essentially with improving GDP quality supported by incremental reforms ahead. We estimate final consumption as % of GDP to be ~40% by 2020E from ~37% as of 2013. We forecast MSCI China at 77, ~20% upside potential.

- **Cyclical and reform focus in 2015** – On the cyclical side, we believe low oil price benefits China's consumption, and the negative impact from US$ strength is limited given cheap valuation and a positive current account. We continue to expect FAI moderation on the back of property investment weakness but with more friendly monetary policies to avoid a hard-landing. We forecast another 50bps in rate cuts in 1H15 after recent 25bps 1-year deposit rate cut. In terms of reforms, we expect continuing initiatives relating to the fiscal side, SOEs, *hukou*, land and the financial sector, with consumption benefiting the most.

- **High single-digit EPS growth** – We forecast 7% 12-m fwd. EPS growth for MSCI China, and high single-digit EPS CAGR until 2020E. Sectors such as Insurance, IT, Health Care, Consumer Staples/ Discretionary and Brokerages will likely outperform the index EPS growth, with Telecom, Energy and Property underperforming.

- **Valuation close to trough level** – MSCI China's valuation is at 0.8x StDev the historical average since 2007, pricing in zero EPS growth after 2016, making it one of the cheapest markets globally. We expect 12-m fwd. P/E to recover to Aug 14 levels at ~9.5x, when investors had reasonable expectations on growth and reform. This implies ~10% valuation normalization from here, on the back of reasonable reform progress.

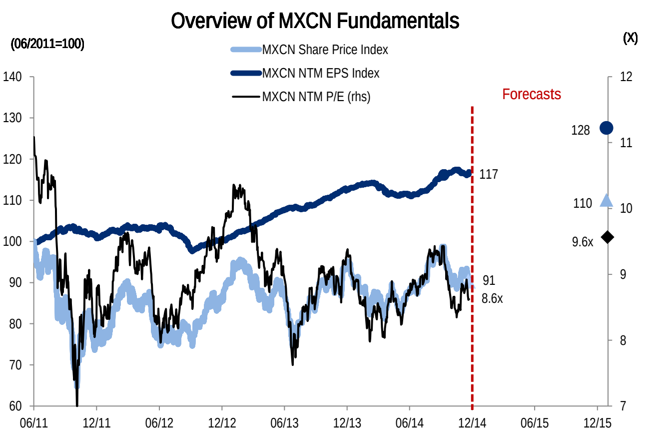
- **Sector allocations and stock picks** – Our sector allocation is based on a scorecard analysis combining 1) structural growth potential; 2) 2015 cyclical beneficiaries or losers; 3) EPS growth potential; and 4) valuation. We overweight Insurance, Property, IT, Brokerages, Consumer Discretionary and Transportation, and underweight Telecom, Energy and Materials. Our top stock picks are China Life, Banks of China, and Tencent.

China: Top Buys and Top Sells

			Price	Target	Yield	ETR	2015E		
	Ticker	Rating	(Nov. 21)	Price	(%)	(%)	P/E (x)	P/BV (x)	ROE (%)
Top Buys									
Bank of China	3988.HK	Buy	HK$3.70	HK$4.20	5.5	18.4	4.6	0.7	17.0
As the most internationally oriented bank, BOC is a key beneficiary of RMB internationalization and the outward expansion of Chinese enterprises									
China Life	2628.HK	Buy	HK$23.00	HK$27.00	1.9	19.7	13.5	1.8	14.1
Under-appreciated reform progress and growth pick-up by the market could possibly surprise on the upside									
Tencent	0700.HK	Buy	HK$124.2	HK$151.0	0.3	22.2	29.6	8.2	29.0
Dominant SNS player with leading market shares in PC and mobile games, strengthening ecosystem through open platform strategy and partnership with category leaders									
Top Sells									
China Coal	1898.HK	Sell	HK$4.7	HK$3.1	0.9	-33.3	18.7	0.5	3.0
Earnings highly sensitive to coal price decline; balance sheet is deteriorating									
PetroChina	0857.HK	Sell	HK$8.7	HK$7.7	3.7	-8.1	12.1	1.0	8.6
We believe consensus earnings estimate for 2015 is too high and valuation is not attractive on recurring earnings									

Source: DataCentral and Citi Research estimates

Figure 1. MXCN Fundamentals

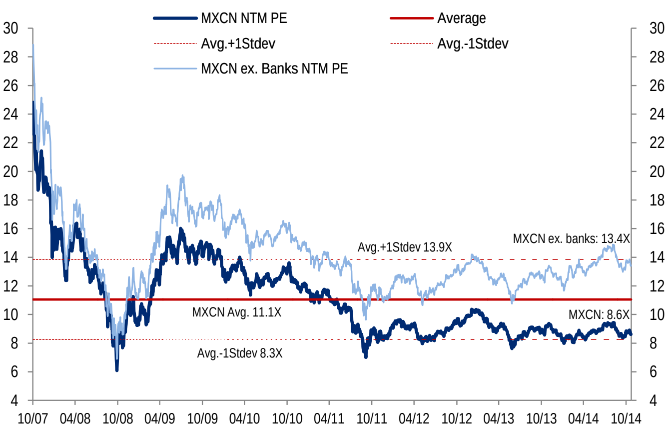


Source: FactSet and Citi Research

Figure 2. China's Index EPS Growth Is Highly Correlated With Nominal GDP Growth Despite Higher Volatilities

Source: Wind and Citi Research

Figure 3. MXCN fwd. P/E at Avg-0.8 StDev

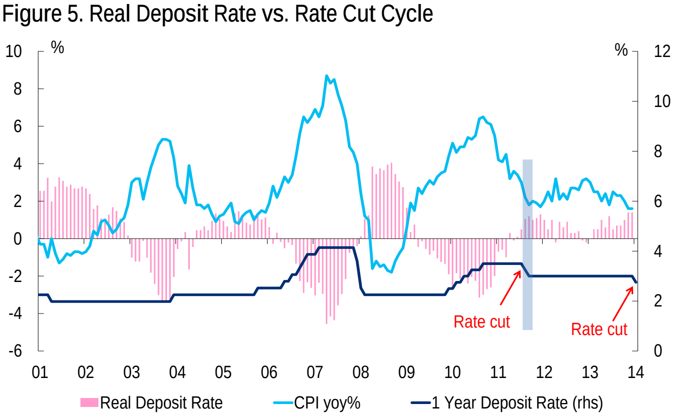


Source: Factset and Citi Research

Figure 4. MXCN Is Now Pricing in 0% Perpetual Growth After 2016

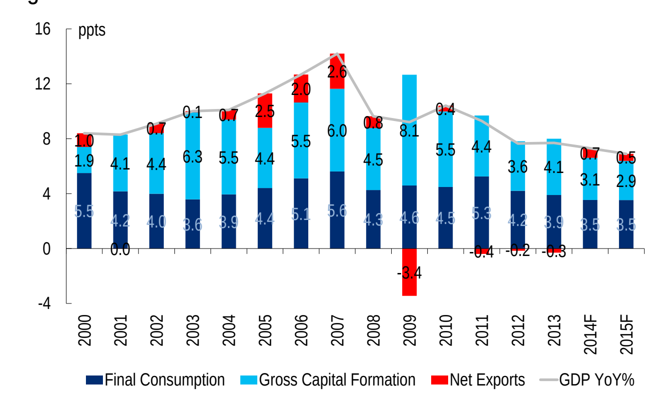
Source: FactSet and Citi Research

Figure 5. Real Deposit Rate vs. Rate Cut Cycle



Source: NBS and Citi Research

Figure 6. GDP Contribution With Forecast



Source: NBS, CEIC and Citi Research

Hong Kong

Positive on Gaming and Property Developers

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Raymond Choi / Conglomerates & Gaming

Oscar Choi / Property

Ken Yeung / Property

Pierre Lau / Utilities

- **FY15 HSI target at 25,000 but upside risk following PBOC's rate cut** – At 10.3x 2015E P/E, the HSI is below the historical average of 12.7x (or 10.8x post-GFC). We maintain our 2015 index target at 25,000 (+10% return, including ~4% yield) but see upside risk with China's PBOC announced rate cut on 21 Nov. Our China economist expects the rate cut (followed by more in 1H15) to help contain risks of a macro over-correction and deflation. That would likely relieve investor concerns and could lead to valuation multiple expansion and earnings upgrade (our HSI model forecasts 4% EPS growth in FY15). Our bottom-up methodology (based on Citi analysts' TPs) suggests a more bullish HSI target of 27,500.

- **Macau Gaming** — We maintain our bullish view on the sector as strong 3Q14 RevPAR growth and 98-100% occupancies at major properties reaffirm our view that the hotel shortage was the main reason for the mass growth deceleration. That said, we believe GGR growth will likely remain sluggish for most of 1H15 due to the contracting VIP business and the hotel shortage.

- **Property** — Different (again) to the Street, we forecast HK home price will rise 8% in 2015, based on: 1) a slower rise in HK mortgage rates, 2) annual supply shortages in 2015-17, 3) 4.5% wage rise on low unemployment, 4) government curbs filtering out weak buyers, and 5) low secondary-market supply. We are less positive on landlords/REITs on a flat rental outlook and higher long bond yields.

- **Conglomerates** — Our Hong Kong and China conglomerate universe is trading at a 32% discount to estimated NAV, more than one standard deviation below the 22% historical average discount. We prefer Fosun and Wharf.

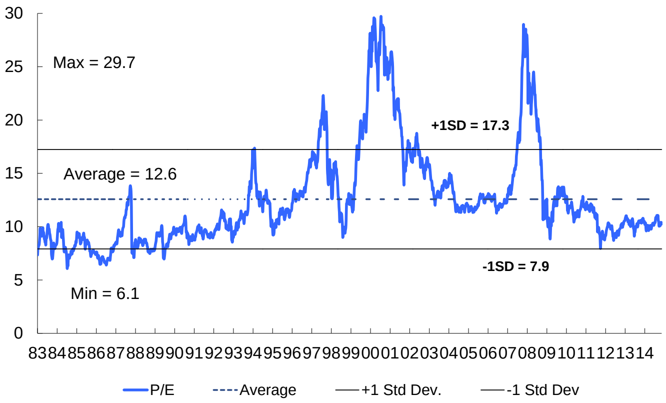
- **Banks** — We maintain a favorable view on HK banks for the strategic importance to the HK-China financial connection. Banks may noticeably increase total customer relationship balances due to Stock Connect and future developments.

Hong Kong: Top Buys and Top Sells

			Price	Target	Yield	ETR	2015E		
	Ticker	Rating	(Nov.21)	Price	(%)	(%)	P/E (x)	P/BV (x)	ROE (%)
Top Buys									
BoCHK	2388.HK	Buy	HK$26.80	HK$32.00	4.3	23.7	10.3	1.5	15.3
Potential mid-/long-term upside via its strategic strength in RMB businesses and SH-HK Stock Connect									
Henderson Land	0012.HK	Buy	HK$51.20	HK$65.70	2.1	30.5	14.5	0.6	4.5
Speeding up farmland conversion for cheap land bank									
Melco Crown	MPEL.O	Buy	US$26.11	US$43.00	1.5	66.2	16.3	2.8	15.3
Cheapest name in the Macau gaming space; further potential upside from Studio City and Philippines project									
SHK Props	0016.HK	Buy	HK$112.80	HK$150.90	3.0	36.7	14.5	0.7	5.1
Land banking in HK to pay off on brighter residential outlook									
Wynn Macau	1128.HK	Buy	HK$26.10	HK$34.00	6.5	36.8	18.9	17.6	87.9
Opening of Wynn Palace (expected in mid-2016) to allow Wynn to become a significant player in premium mass									
Top Sells									
CITIC Pacific	0267.HK	Sell	HK$12.86	HK$12.50	2.7	-0.1	5.8	0.7	12.1
Valuation unattractive; lack of rerating catalysts									
Hang Lung Prop	0101.HK	Sell	HK$22.50	HK$20.55	3.3	-8.7	13.3	0.7	5.7
Poor initial yields for three upcoming projects up to end-2017									
Hong Kong Gas	0003.HK	Sell	HK$18.74	HK$16.00	1.9	-12.8	25.8	3.5	14.0
Low profit growth in Hong Kong; stock looks overvalued									

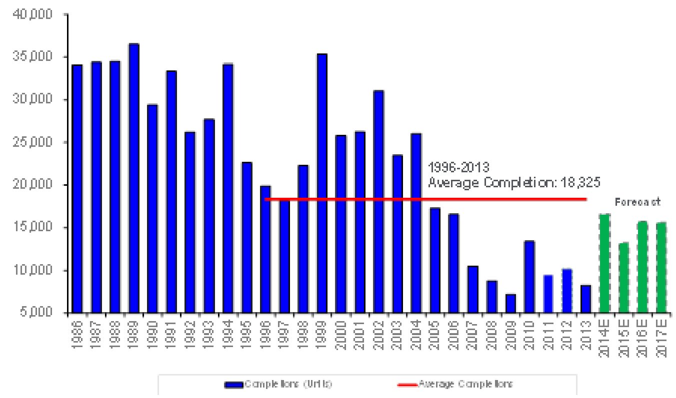
Source: Citi Research estimates

Figure 1. Hang Seng Index – Forward P/E



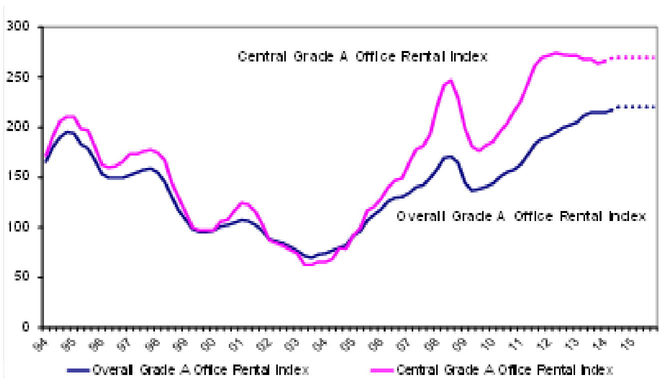
Source: Citi Research Estimates

Figure 2. HK Property: Residential Completions



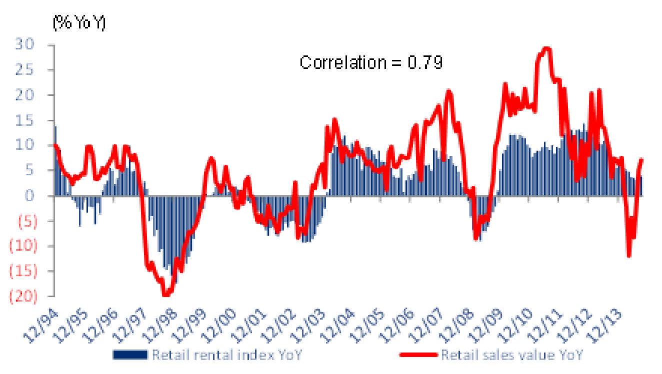
Source: Rating and Valuation Dept; Citi Research estimates

Figure 3. HK Property — HK Office Rental Index (with 2015 projections)



Source: Rating and Valuation Dept; Citi Research estimates

Figure 4. HK Prop – Retail Rentals Strongly Correlate With Retail Sales



Source: Rating and Valuation Dept. CEIC, Citi Research

India

Rates Before Recovery … Accompanied By Reform

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- **A journey to look forward to** – We expect 2015 to be a decent year: raise Dec 2015 market targets, Sensex 33,000 (+16%), Nifty (9,850), at 16x Dec16E. 2015 should be front-loaded with falling rate gains, back-loaded with an actual economic/investment recovery; and accompanied by steady regulatory/execution reform. A seamless transition; falling rates to a rising economy/earnings could fire the market more. More likely, a post rate and pre-economic deliverance, stall.

- **Rate engine has ignited** – Recently renewed momentum reflects falling rate expectations. That's fair: policy rates should fall 75bps in 2015 - with downside risks to inflation, could well be more. With the best market gains usually leading into/early stage of rate cuts, upsides on the level and slope of yield curve (policy cuts at short end): the rate engine will fire now, and in early 2015.

- **But the economic / earnings fuel will likely stay cool, till mid-year** – The mood surge, cyclical bottoming, and market appetite apart, a real economic response has been slow coming. With still modest near-term visibility (loan growth/pipeline, investments), corporate caution/discipline and regulatory reform still underway, a consistent economic/earnings uptick is likely only in mid-2015. The market's largely front-ended this recovery; post rate gains, will wait for it.

- **And reform will be a constant, but sober, travelling companion** – We see government-driven reform as a constant; a mix of execution and policy (in that order), backed by ongoing monetary/financial sector evolution. That said, it's unlikely to be a big bang (The Finance Minister speaks … to Investors), a likely mix of small surprises and disappointments. It should however be a constant companion in the economy/markets journey, and that itself should lend support.

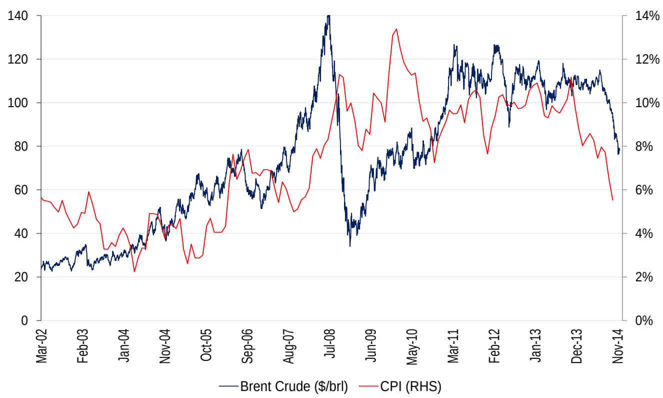
- **Potential cracks in the tracks** – While the India train has momentum, there are risks. There's high ownership, eco/governmental expectations, key-man risks and valuations a little over mean. But more importantly - rapidly falling commodity prices start becoming too much of a good thing: on earnings (~15-20% of earnings linked to commodities (net-basis), on falling global agri-prices (rural demand), and on expected investment pick-up (Oil & Gas, Metals, Mining – key investment drivers in the last cycle). We would keep a keen eye on the tracks.

India: Top Buys

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	FY16E P/E (x)	FY16E P/BV (x)	FY16E ROE (%)
Top Buys									
Axis Bank	AXBK.BO	Buy	Rs477	Rs570	1.2	20.7	12.9	2.2	18.1
Decent momentum on P&L, accelerating growth and continued traction on retail asset franchise. Asset quality remains within guided range									
Bharti Infratel	BHRI.BO	Buy	Rs297	Rs340	2.9	17.4	25.8	3.1	12.1
Defensive telcos play that offers stable and predictable growth, leverage to mobile data growth and potential for dividend upside									
BHEL	BHEL.BO	Buy	Rs253	Rs335	1.6	34.0	17.8	1.7	10.0
Stock should do well on: (a) better order inflow prospects, (b) earnings recovery (43% EPS CAGR over FY15-17E) and (c) severe institutional under-ownership									
HCL Tech	HCLT.BO	Buy	Rs1,639	Rs1,985	2.2	23.1	13.6	3.5	29.2
Portfolio and good execution should help deliver industry-leading growth; valuations at ~13x FY16E appear reasonable									
HPCL	HPCL.BO	Buy	Rs534	Rs710	4.3	37.4	7.6	1.0	13.8
Highest leverage to marketing should be positive in environment of marketing reforms (only ~17% of marketing portfolio is now regulated). BS improvement is also positive									
ICICI	ICBK.BO	Buy	Rs1,742	Rs2,020	1.6	17.6	14.9	2.2	15.6
Upward looking outlook (though moderate). Continued momentum on costs, potential gains on fees, leveraged to asset quality and growth improvements									

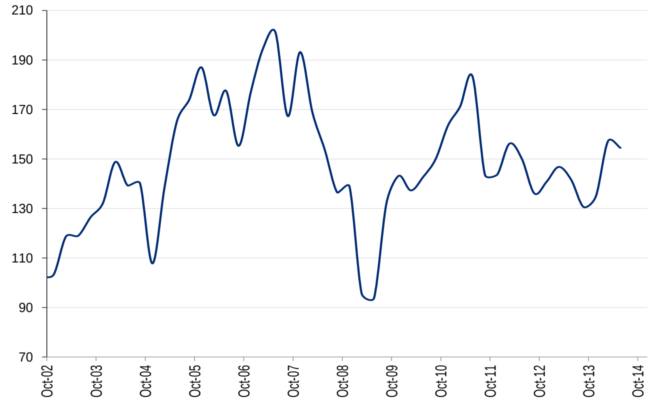
Source: Citi Research estimates

Figure 1. India CPI Inflation vs. Oil Price



Source: Bloomberg and CSO

Figure 2. Business Optimism Index



Source: Dunn & Bradstreet and CEIC

Figure 3. Equities vs. Interest Rates

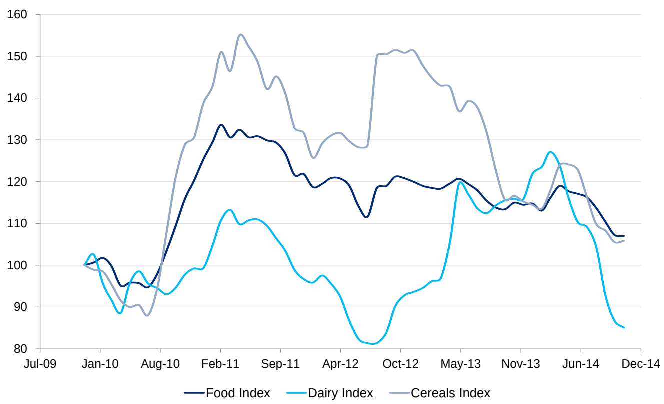
Source: Bloomberg

Figure 4. Pipeline of Govt Reform/ Execution Agenda

Area	Topic	Status
Finance	GST	New deadline 2016
	Retrospective amendments to tax laws	Addressal through Committee, not reversed
	Increase in FDI limit in insurance sector to 49%	Decision, but sent to Committee
Energy	Modification in incentive regime for hydrocarbon exploration (from cost-recovery to revenue-sharing model)	Work in progress
Mining	Coal Allocation	Ordinance to e-auction has been introduced. Auction likely to take place in 1QCY15
Land acquisition	Making the recent law less onerous	Under discussion
Economic planning	Planning commission scrapped	Replacement institution/ framework to be announced
Food	National common market for agricultural produce	Contingent upon reforms by state govts in APMC
Investments	Single-window clearance for capital intensive steel, coal and power projects	In the works

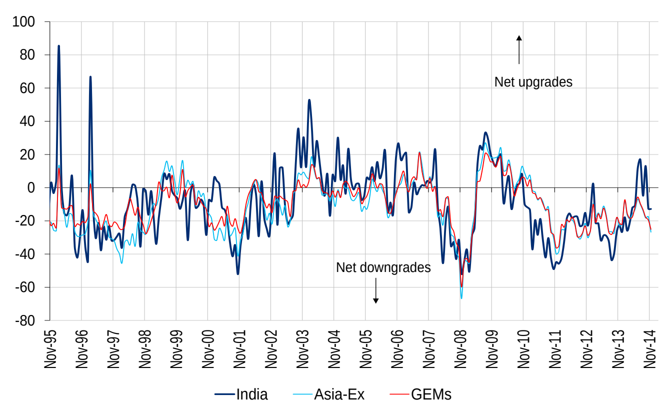
Source: Govt, media reports and Citi Research

Figure 5. UN FAO World Retail Food Prices



Source: Bloomberg; all indices are rebased to 100 at the beginning

Figure 6. Earnings Revisions: India vs. Peers



Source: IBES, Factset and Citi Research

Indonesia

More Reforms on Way; Index Target of 5,925

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- **Fuel price hike is just the first step** – The government's increase in the fuel price by Rp2,000/L means subsidy is becoming minimal at the current oil price. This fuel price hike will be enough to improve the gov't budget and allow more resources to be allocated to infrastructure-related sectors. As a result, sentiment overall should be positive for both the equity market and the rupiah, although earnings will be under pressure in the short-term. Maintain our end-2015 index target of 5,925. Our top picks are BBNI, SMGR, INTP, CPIN and UNTR.

- **Smaller subsidy now; CPI and trade impact** – The fuel price hike will provide the government with Rp94.2trn in the 2015 budget. The impact on inflation may be around 2.6ppt against a no-hike scenario, including second-round impacts to transportation tariffs. Our economist expects inflation to reach 7.1% by end-2014 and the trade balance should improve on reduced profiteering arising from fuel subsidies coupled with a reduction in non-fuel imports, especially of durable goods. We expect a current-account deficit of 2.9% in 2015 vs 3.1% in 2014.

- **Concrete signal on reform momentum; possible upgrade by S&P** – The fuel price hike is a first concrete signal on reform momentum and should be seen positively by the market. We expect earnings to slow in 4Q14 and 1Q15 (2-3% earnings revisions) but to recover from 2Q15, partly helped by the hike in the minimum wage (up ~10-15%) along with the direct cash transfer to the poor. We also expect S&P to upgrade Indonesia's rating, with the agency having previously cited a fuel price hike as a catalyst for lifting the country to investment grade.

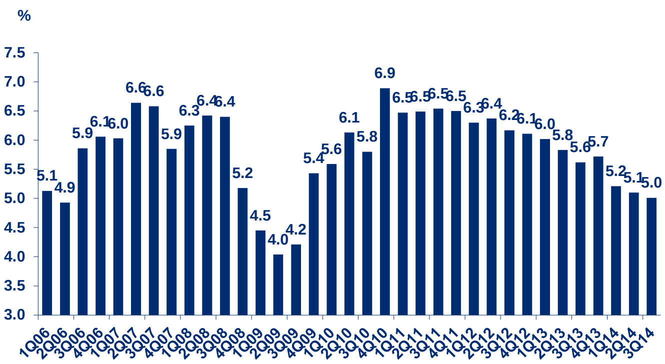
- **What are the catalysts and risks?** – Catalysts: 1) execution of new land acquisition by January 1, 2015; 2) a political party moving to the Jokowi camp, securing him a parliamentary majority. Risks to the market: 1) a significant rebound in oil prices; 2) parliamentary obstruction of reforms; 3) a sharp hike in the Fed rate.

Indonesia: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Bank Negara	BBNI.JK	Buy	Rp5,775	Rp6,750	2.0	19.7	10.2	1.7	17.3
Healthy revenue momentum, slower opex growth, restrained lending to SMEs prior to cycle downturn; limited potential for NPL spike, valuations are lower than for peers									
Charoen Pokphand Ind.	CPIN.JK	Buy/1H	Rp3,980	Rp4,750	1.1	20.4	19.3	4.6	26.4
More defensive in volatile times as rising costs can be passed to customers due to economies of scale. Processed chicken with highest margin to be additional growth driver									
Indocement	INTP.JK	Buy/1H	Rp24,400	Rp28,400	2.1	18.5	16.2	3.1	20.7
Operational efficiency improvements have been done – expect enhancement on margins, on-track expansion, and good cost control with net cash position									
Semen Indonesia	SMGR.JK	Buy	Rp16,100	Rp19,500	2.7	23.9	14.8	3.4	24.6
Well-planned and on-track capacity expansion, better exposure to ex-Java area, and good cost control									
United Tractor	UNTR.JK	Buy/1H	Rp18,275	Rp24,500	3.4	37.2	10.6	1.6	16.0
Attractive valuations, sturdy performance of mining contracting business (Pama), and brighter outlook from diversification									
Top Sell									
Mitra Adiperkasa	MAPI.JK	Sell/3H	Rp5,450	Rp4,655	0.3	-14.3	26.1	3.0	12.2
Earnings down-cycle to continue as margins remain under pressure due to aggressive discounting to offload inventory and improve working capital									

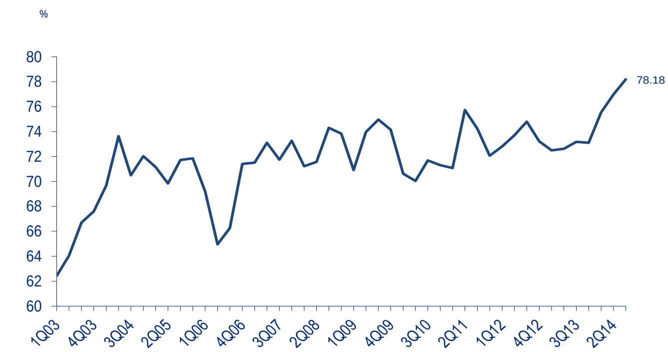
Source: Citi Research estimates

Figure 1. Indonesia: Quarterly GDP



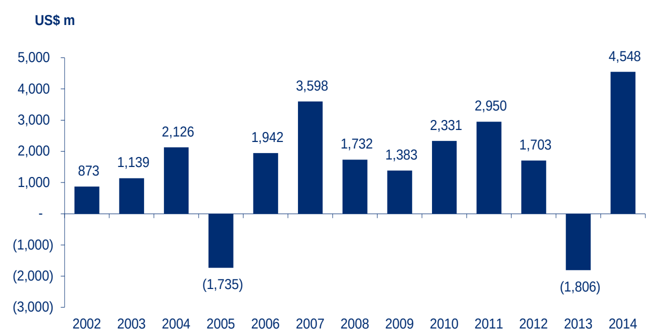
Source: Citi Research, Bloomberg

Figure 2. Indonesia: Manufacturing Utilization Rate as at 3Q14



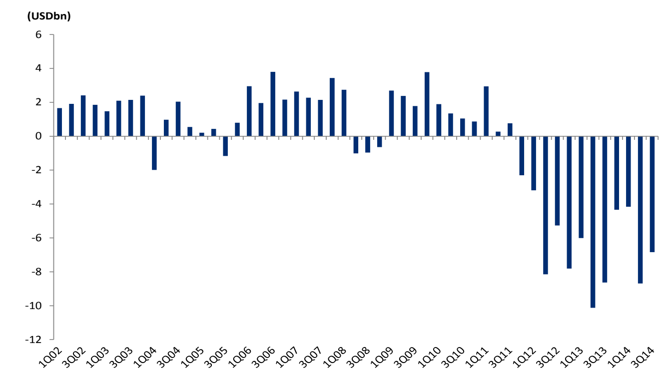
Source: Citi Research, Bloomberg

Figure 3. Equity Net Foreign Inflow/Outlow, as at Nov 21st 2014



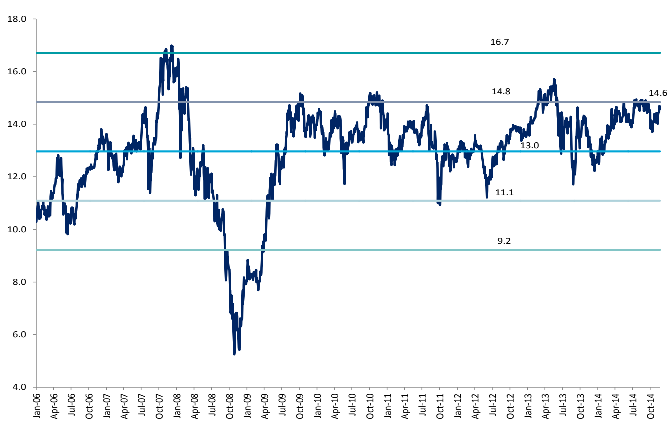
Source: Citi Research, IDX, Bloomberg

Figure 4. Quarterly CAD, 2002 - 3Q14



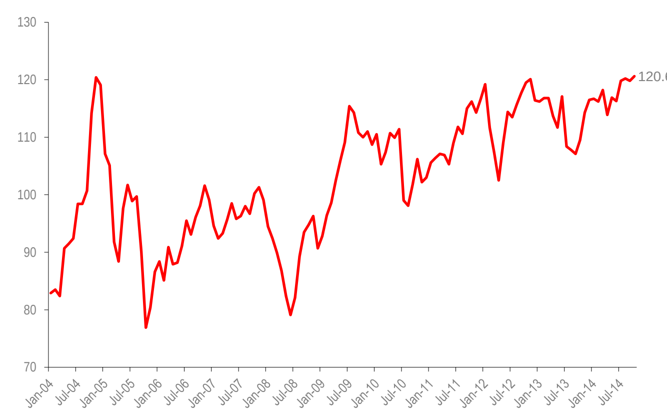
Source: Citi Research, Bloomberg

Figure 5. Indonesia: 1 Year Forward PE



Source: Citi Research, IBES, Bloomberg

Figure 6. Indonesia: Consumer Confidence Index Upto Oct'14



Source: Citi Research, BI survey, CEIC

Japan

Escape From Deflation Boosts Equities

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- **Escape from deflation** – The Japanese government and the BOJ are implementing policy measures aggressively, which is likely to put an end to Japan's long-lasting deflation. This is positive for Japanese equities as the measures would help the economy to recover, likely keep the yen weak, increase earnings and expand valuations.

- **The government and the BOJ's policies** – The government prioritized getting Japan out of deflation by postponing the consumption tax rate hike. It also is applying pressure on corporate managers to raise wages. The BOJ showed its strong commitment to the inflation goal of 2% by increasing asset purchases. These policies are likely to put an end to Japan's long-lasting deflation.

- **Economy has restarted to recover** – Japan's economy may have fallen into recession after the consumption tax rate hike in April. Recent indicators, however, such as industrial production, retail sales and exports, suggest the economy has restarted to recover. The government's decision to postpone the second consumption tax hike should help the recovery gain momentum.

- **Yen is likely to remain weak** – The BOJ's strong commitment to the inflation goal of 2%, expected hikes in the US policy rate and GPIF investment reform will likely keep the yen weak, which could take Japanese corporate earnings to a historical high.

- **Valuations far below previous peaks** – The CAPE of the TOPIX is about 12.9x, which is well below the average previous peak of c19x, suggesting plenty of upside for Japanese equities. In terms of international comparisons, Japan's PER of 14.4x is between the 16.3x for the US and 14.1x for Europe ex-UK. Expectations that Japan can escape deflation would expand valuations for Japanese equities as corporate earnings would return to an uptrend.

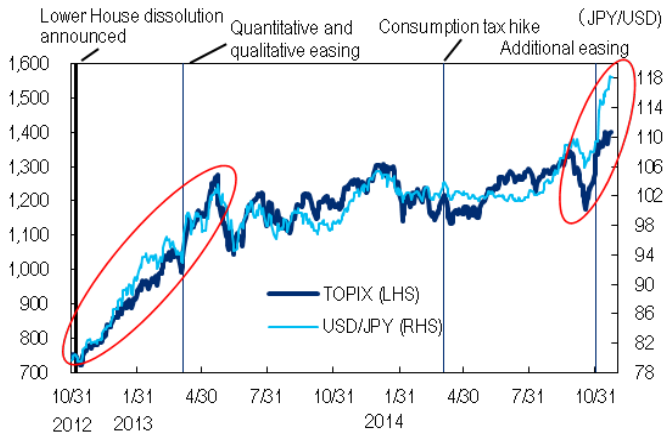
- **Overweight Auto, Machinery and Financials** – Given the likely depreciation of the yen and the improvement in the US economy, auto and machinery are likely to outperform the market. We are seeing signs of a capex recovery, which would benefit the machinery sector. Financials have been a big laggard and benefit from asset price increases caused by anti-deflationary policies.

Japan: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Bridgestone	5108.T	Buy	¥3,917.5	¥4,700.0	1.5	22.3	9.7	1.5	15.3
Impressive price control thanks to strong brand value; high exposure to the North American market, where latent demand has accumulated									
Sumitomo Mitsui Financial	8316.T	Buy/1H	¥4,482.0	¥6,500.0	2.7	47.9	8.8	0.8	7.1
Valuations have fallen to historically low levels. We believe interest-rate normalization and other positives have not been priced in									
Top Sell									
Tokyo Gas	9531.T	Sell/3H	¥640.3	¥520.0	1.6	-17.2	13.0	1.6	8.9
We expect profits to decrease and total shareholder returns to shrink. Valuations do not look attractive									

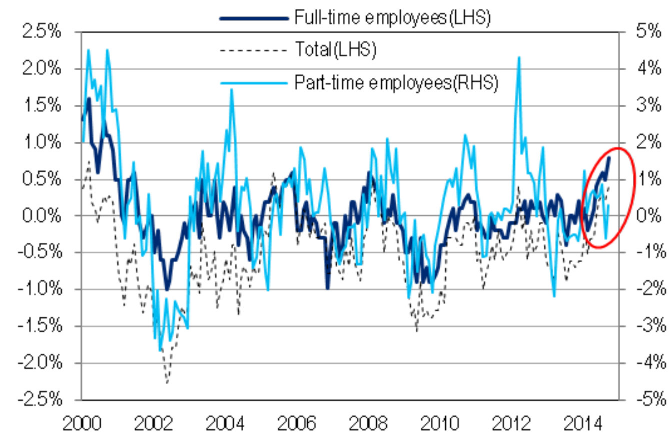
Source: Citi Research estimates

Figure 1. TOPIX and USD/JPY Under Abenomics



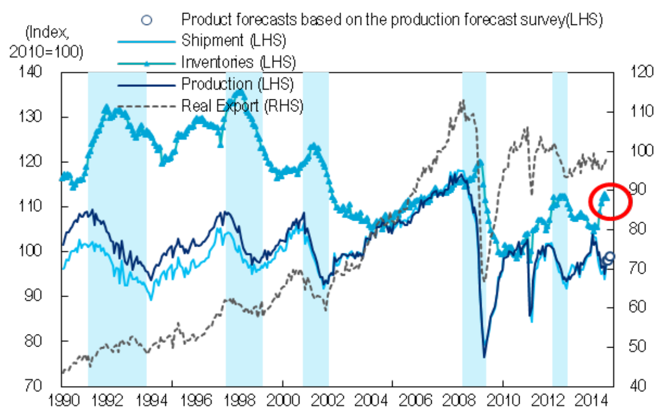
Source: Datastream, Citi Research

Figure 2. Scheduled Wages



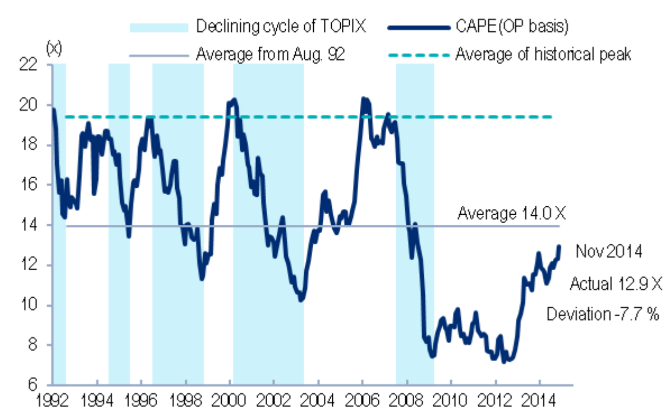
Source: MHLW, and Citi Research

Figure 3. Industrial Production, Inventory, Exports



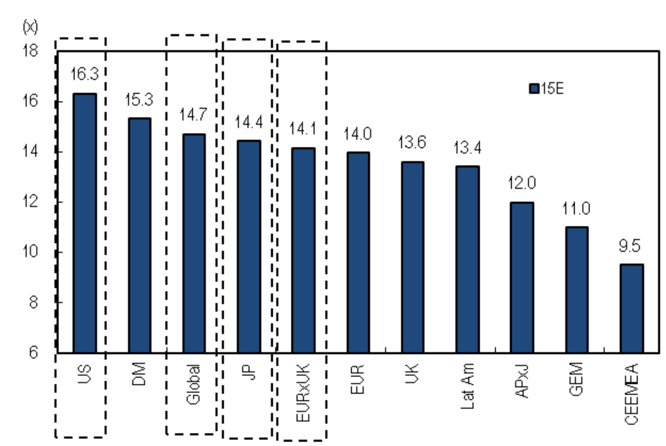
Source: BoJ, METI, Datastream

Figure 4. Cyclically Adjusted PER of TOPIX



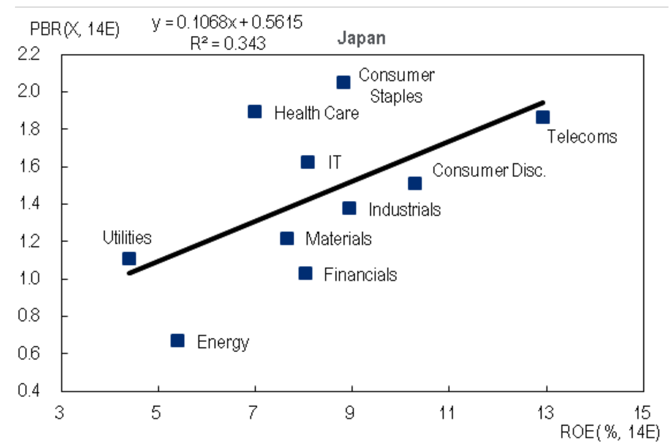
Source: Astra Manager, Citi Research

Figure 5. International Comparison of PER



Source: Worldscope, MSCI, Factset, Citi Research

Figure 6. ROE and PBR by sectors



Source: Worldscope, MSCI, Factset, Citi Research

Korea

Slowed Growth Profile and Low Payout to Press on KOSPI

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- **KOSPI target of 2150** – We set our 2015E KOSPI target at 2150, based on a 2015E P/B of 1.02x, around a 20% discount to the historical average of 1.24x (ROE of 10.7%). We apply a 20% discount to reflect 1) a slowing GDP growth profile, 2) lower dividend payout (15%) vs. a regional average of 32%, and 3) downside risks to economic growth in 2015.

- **Korea vs. EM** – Our regional strategist focuses on value, EPS revisions and price momentum. Korea is at around the same valuations as the rest of EM. However, Korea is one of the worst markets in terms of earnings revisions. Meanwhile, the Korean government recently has been paying attention to the issue of dividends. Any move by the government to successfully increase the cash that goes back to shareholders and leads to an increase in the ROIC of Korea would be positive for the equity market.

- **Downside risk to economic growth** – We expect real GDP growth of 3.6% in 2014 and 3.8% in 2015. However, we see downside risks, mostly due to subdued economic sentiment, financial market volatility and, importantly, the lack of tax revenue which will delay government spending to next year. Meanwhile, we expect headline inflation to stay at low-1% until end-1H15. Given the downside risks to economic growth, fiscal constraints, and very low inflation, we expect an extra BoK rate cut, by 25bps, early next year, probably in Jan.

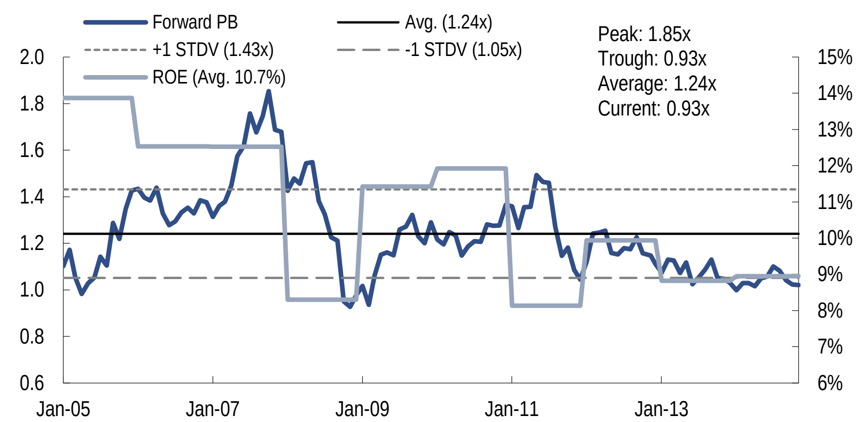
- **Top picks** – Top Buys are DGB, Hana Financial, Hyundai Wia, KEPCO, POSCO, SK Hynix and SKT. Top Sells are Hyundai Heavy and NCSoft. POSCO is newly added on ROE accretion resulting from a bottoming out of steel margins and asset restructuring.

Korea: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
DGB	139130.KS	Buy/1H	W12,150	W21,500	2.5	80.2	5.3	0.5	10.1
Attractive valuation, including div yield of 2.5% by the year end. SME lending growth and regional economy remain solid									
Hana Financial	086790.KS	Buy	W33,850	W49,000	1.5	46.5	6.9	0.4	6.3
Focused on SME lending, the most profitable loan segment, and best positioned for NIM protection									
Hyundai Wia	011210.KS	Buy	W175,000	W260,000	0.3	48.9	8.4	1.6	18.6
Sector-high 15% EPS growth from confirmed capacity growth for core-parts and well-fitted for global trend of engine-downsizing and fuel-efficiency									
KEPCO	015760.KS	Buy	W45,400	W56,500	2.6	27.1	3.0	0.5	16.9
Record-high profit in 3Q14; Generation mix improvement in 2H14-FY15E for more from economical nuclear power									
POSCO	005490.KS	Buy	W300,000	W400,000	2.7	36.0	14.1	0.5	5.8
ROE accretion on bottoming out of steel margins and asset restructuring. Attractively valued at P/B of 0.5x and dividend yield of 2.5%									
SK Hynix	000660.KS	Buy	W46,450	W65,000	0.0	39.9	7.2	1.6	24.0
Key beneficiary of multi-year memory growth. Confirming DRAM sustainability / improving NAND (3D, SSD) capability will be key catalysts for rerating									
SKT	017670.KS	Buy	W283,500	W360,000	3.3	30.3	9.5	1.4	15.9
Expect re-rating to continue as earnings visibility improves with Handset Distribution Act and less regulatory pressure going forward									
Top Sells									
Hyundai Heavy	009540.KS	Sell	W124,500	W80,000	1.6	-34.1	25.2	0.6	2.4
No meaningful recovery in shipping fundamentals, consistent sluggish order outlook for offshore projects due to oil price softness, and shrinking backlog									
NCSoft	036570.KS	Sell	W165,500	W120,000	0.4	-27.1	20.7	2.5	12.6
Market expectations for new game pipeline seem too high									

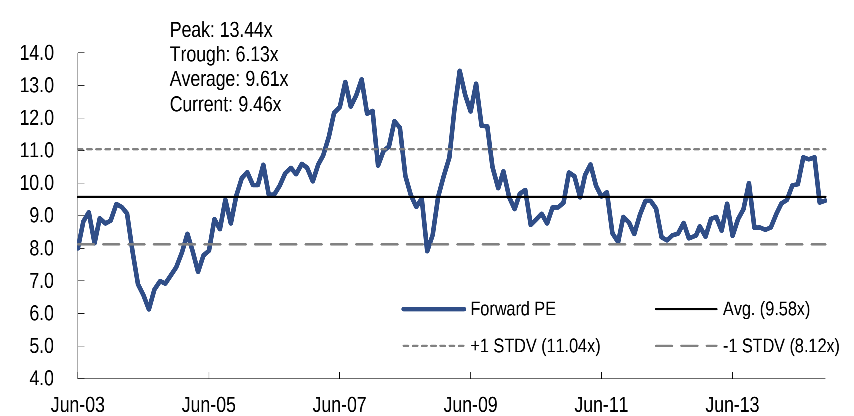
Source: Citi Research estimates

Figure 1. Forward PB Trends



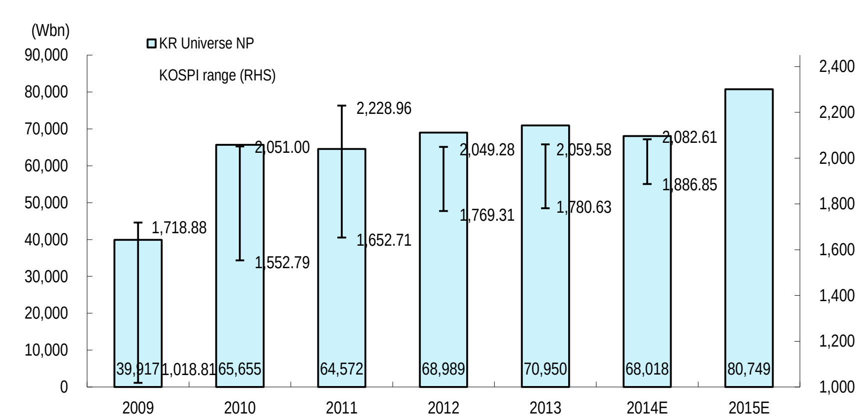
Source: Citi Research

Figure 2. Forward PE Trends



Source: Citi Research

Figure 3. KR Universe NP Trends vs. KOSPI Range



Source: Citi Research

Malaysia

Watching the Consumer Wallet on Subsidy Cutbacks

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- **Strength from subsidy cutbacks, risks from GST** — Malaysia has reduced subsidies to consumers in its attempt to reduce 2014's deficit to 3.5% of GDP (RM37.1bn) vs 4% in 2013. Unpopular moves to reduce subsidies/float RON95 petrol indicate to investors that the government is steadily acting to narrow its budget deficit. Consumption as a theme may be more constrained, given already high levels of household debt. Lower taxes for middle- and lower-income workers and a 1%-point reduction in corporate tax (from 25% previously) and targeted social transfers are especially important to mitigate impact of weaker consumption (~48% of GDP) as GST implementation comes 1 Apr 2015 (at 6%). There is risk here, witnessing weakness that hit Singapore's consumption back in 1994 post the country's GST implementation from 0% to 3%.

- **Aiming for stronger FDI** — Malaysia is positioned as an easy, cost-effective gateway to the rest of Asean, especially with the Asean Economic Community's kick-off in 2015. FDI from Singapore and increasingly China is seen as key to rejuvenate growth. We like a company such as IJM – as a partner to the Chinese.

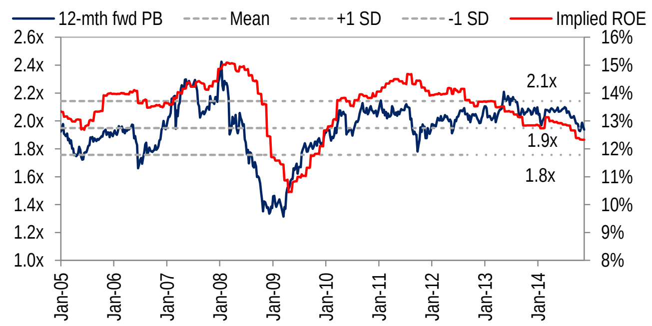
- **Key stock picks** — Despite GDP growth of ~6% in 2014, negative earnings revision weighed on KLCI as investors digested domestic challenges. We expect the KLCI to be range-bound, with an index target of 1,940. Index is trading at +1 S.D. forward PER of 15.7x and 1.94x PB, slightly below mean of 1.95x. Key catalyst includes improved earnings momentum for listed firms from GDP growth of 5.3% in 2015. Our key stock picks: *AirAsia* (beneficiary of new KLIA2 Terminal), MAHB (KLIA2 Terminal retail footprint, ISG acquisition), *IJM Corp* (steady construction, Chinese partners at Kuantan port/industrial park), *Maybank* (diversified bank for rising investment cycle) and *Tenaga* (electricity demand, stable coal prices and gas supply). Stocks that we do not like include *Maxis* (operational weakness, expensive valuations) and *Genting Bhd* (0% discount to its interests in its listed subsidiaries).

Malaysia: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
AirAsia	AIRA.KL	Buy	RM2.41	RM2.80	nm	18.1	8.3	1.1	13.9
Beneficiary of new KLIA2 Terminal and its new leasing entity will provide a new avenue for growth and access financing									
IJM Corp	IJMS.KL	Buy	RM6.81	RM7.62	2.2	14.1	14.2	1.3	9.7
Recent M&A activity as key strategic moves by mgmt. for future earnings growth and visibility. Potential beneficiary of contracts under Budget 2015									
Malaysia Airports	MAHB.KL	Buy	RM6.48	RM9.40	1.1	46.1	47.2	1.5	3.2
KLIA2 will position as a new regional hub and enhance its retail footprint. ISG acquisition will contribute significantly and diversify its overall footprint									
Maybank	MBBM.KL	Buy	RM9.52	RM11.11	5.9	22.0	11.2	1.7	14.9
Diversified business model to play the rising investment cycle, Malaysia's econ transformation success									
Tenaga	TENA.KL	Buy	RM13.94	RM16.38	2.1	19.7	11.4	1.6	15.2
Encouraging operating environment in terms of electricity demand, stable coal prices and gas supply									
Top Sells									
Genting	GENT.KL	Sell	RM9.40	RM7.75	0.6	-17.0	19.3	1.2	8.1
Trading at 0% discount to its interests in its listed subsidiaries, the stock offers investors little incentive to buy the subsidiaries via the parent									
Maxis	MXSC.KL	Sell	RM7.06	RM5.50	3.8	-17.3	26.1	11.3	41.7
Operational weakness, expensive valuations and risk of a dividend cut									

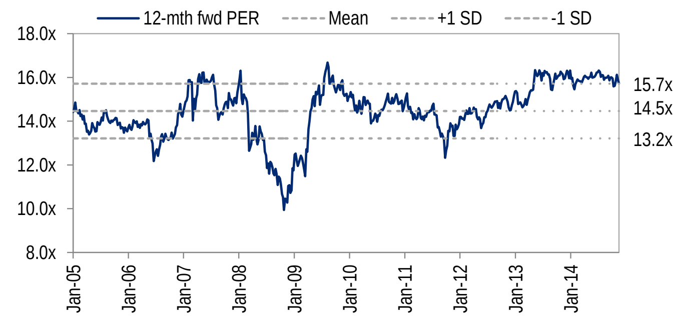
Source: Citi Research estimates

Figure 1. KLCI 12M Forward PB vs ROE



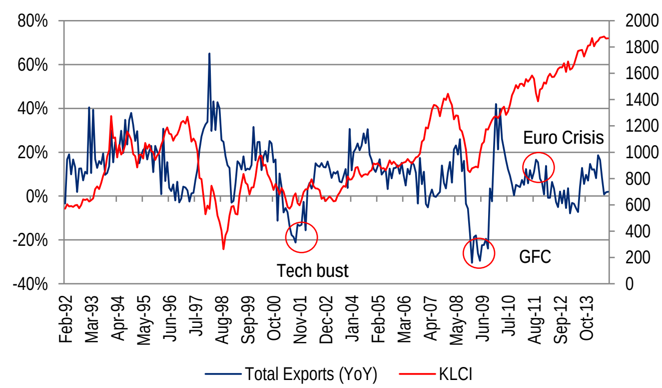
Source: MSCI, Factset and Citi Research

Figure 2. KLCI 12M Forward PE



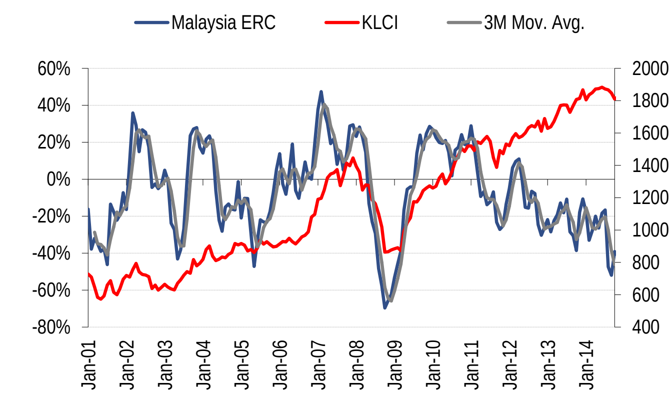
Source: MSCI, Factset and Citi Research

Figure 3. Malaysia Total Exports Growth (YoY) vs KLCI



Source: CEIC and Citi Research

Figure 4. Malaysia Earnings Revision Count



Source: Factset and Citi Research

Figure 5. Malaysia – EPS Growth by Sector

EPS Growth	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14E	CY15E
Commercial Banks & Other Financial Services	59%	18%	3%	20%	21%	9%	6%	6%	8%
Industrials (Conglomerates)	28%	-20%	-11%	6%	26%	15%	19%	14%	15%
Industrials (Offshore)					-20%	14%	13%	36%	7%
Industrials (Transport)			161%	42%	-13%	-143%	-19%	-10%	170%
Consumer Staples	47%	2%	-14%	33%	0%	-19%	-7%	12%	8%
Consumer Discretionary	-16%	8%	11%	51%	5%	-5%	-12%	1%	11%
Real Estate	0%	-69%	4%	74%	10%	17%	-31%	-6%	-5%
Telecommunications	21%	-28%	-2%	26%	4%	2%	6%	0%	8%
Healthcare	19%	20%	63%	10%	-32%	-15%	14%	11%	24%
Utilities/Materials	31%	-26%	-6%	-9%	-9%	31%	16%	6%	8%
TOTAL	26%	-11%	0%	26%	5%	9%	3%	5%	9%

Source: Citi Research estimates

Philippines

Modest Earnings Recovery in Prospect

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- **Aquino's final year "legacy spending" could mitigate growth risks** – We expect GDP to grow at 6.3% in 2015, with investment and stable consumption still the key drivers. While government underspending has dragged on 2014 growth, "legacy" spending of the Aquino Administration has become more imperative with his term ending in May 2016, hence could spark 2015 growth. This could offset risks to the economy from a power supply gap in 2Q15 and a Japanese recession. Current-account surplus should mitigate impact of USD strength, with interest-rate policy expected to remain neutral in 2015.

- **Modest earnings recovery in 2015** – Citi/consensus estimates point to a modest 11% recovery in PSEi constituent earnings, from 7% in 2014. In terms of sectors, earnings recovery is expected to be driven by banks (+17.3% YoY) as credit demand is supported by rising corporate capex. Consensus estimates point to property sector earnings growth at 18.6% (from 17.2% in 2014), with top-lines supported by booking of revenues from projects nearing completion. Consumer earnings are expected to grow modestly on stable topline growth. Competitive pressures eroding margins, impact of expected power supply gap in 2Q15 and regulatory changes are key risks to earnings, in our view.

- **PSEi target of 7600 in 2015** – Market is trading at 17.3x 2015E earnings, 0.8std above mean. Earnings recovery and a positive macro outlook should sustain above-mean valuation, in our view. Our bottom-up valuations point to a target PE of 18.3x, 1.1std above mean. This translates to 7,600, 6% upside to current level. Meanwhile, YTD net foreign buying is still close to US$1bn, hence risk of foreign flow reversal, although domestic liquidity remains robust and supportive.

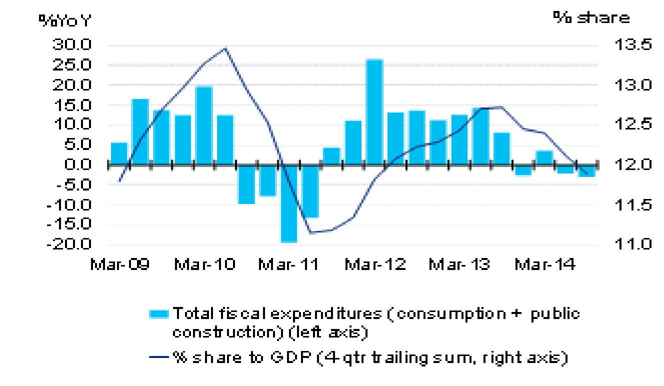
- **Stock picks** – We remain selective and favor laggards with strong competitive position – we prefer Globe Telecom, Metrobank, Puregold and SM Investments.

Philippines: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Globe	GLO.PS	Buy	P1,733.0	P2,020.0	5.5	22.0	15.6	4.8	31.6
Consistently gaining subscriber and revenue market share; favorably placed to benefit from mobile price improvements									
Metrobank	MBT.PS	Buy	P85.1	P100.0	1.2	18.4	12.9	1.5	12.1
Focus is on growing asset base; strong niche in auto lending; catalyst is ability to address recap overhang amid regulatory changes									
Puregold	PGOLD.PS	Buy	P37.00	P45.0	0.9	21.9	20.9	2.7	13.6
Still a strong domestic pure play food retailer; catalysts would be sustained SSSG and margins recovery amid competitive pressures									
SM Investments	SM.PS	Buy	P800.0	P920.0	1.5	16.1	17.4	2.2	14.0
Attractive core holding play on the Philippines; retail recovery and potential asset revaluation are key catalysts									
Top Sells									
Jollibee	JFC.PS	Sell	P199.6	P148.0	0.9	-25.3	37.5	7.1	20.5
Strong brand franchise factored in rich valuations; escalating raw material prices with USD pressure could be a challenge									

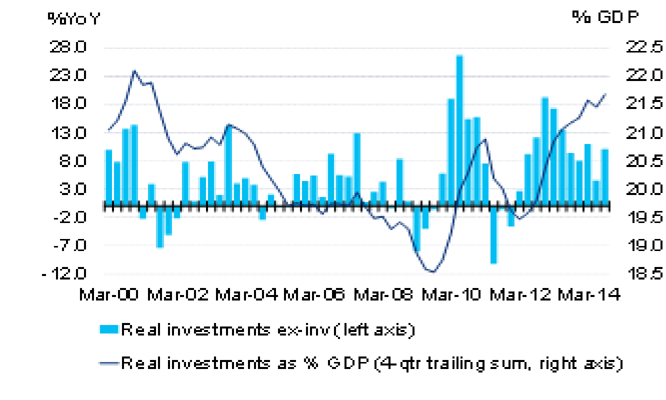
Source: Citi Research estimates

Figure 1. Fiscal Underspending Key Drag to 3Q14 GDP Growth



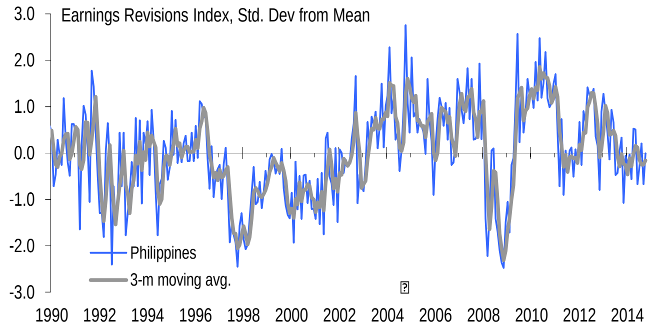
Source: CEIC, Citi Research

Figure 2. Real Investments As % of GDP Remain Elevated



Source: CEIC, Citi Research

Figure 3. Earnings Revisions Still Mildly Negative But Modest Recovery of 11% Expected in 2015



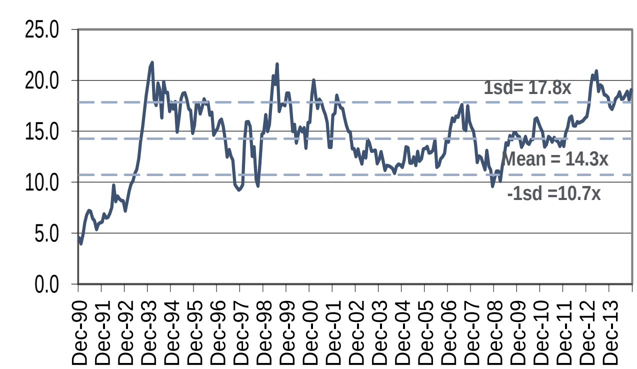
Source: DataStream

Figure 4. 2015E Earnings Uptick to Be Led by Banks and Property

	2014E	2015E
Banks	-3.3%	17.3%
Conglomerates	21.3%	16.8%
Consumer	16.0%	12.5%
Gaming	164.1%	359.0%
Property	17.2%	18.6%
Telco	-0.7%	3.5%
Transport	12.1%	26.2%
Utilities	5.2%	2.1%

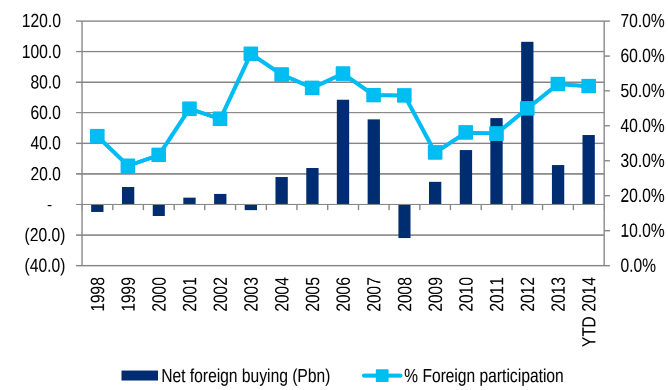
Source: DataStream

Figure 5. Valuations Expected to Remain at a Premium



Source: DataStream

Figure 6. Net Foreign Flows Still Positive



Source: PSE, as of 21 November 2014

Singapore

Trilogy of Lower Oil Price, Stronger US, Domestic Bottom

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- **Domestic factors "bottom"** — Vox populi challenges (stricter labor laws, higher cost/wage pressures) may have hit a peak. The economy's rebalancing phase is at equilibrium and we believe a recalibration is likely post the general elections. Together with weaker asset prices and a stronger US$ (i.e. a relatively weaker S$), this will create a base for Singapore's "domestic" story to start bottoming in 2015 and help exports. While Singapore's exports had bottomed in early 2013, the uptick in 2014 was tepid on domestic cost pressures, labor woes and muted global growth. Singapore has started to retool, with green shoots in digital industries. Asian IT giants have started to use Singapore as a launch pad as they internationalize their products or as hubs for ASEAN activities.

- **Benefits and challenges from lower oil price** — As a key export destination, the US benefits from lower oil prices (Energy 2020: Out of America); key neighbors Indonesia and Malaysia will also benefit in the medium term by ridding wasteful fuel subsidies. Near term, lower oil/commodity prices and reduced fuel subsidies at neighbors suggest lukewarm regional consumption, tourism and intra-ASEAN trends. Rig builders also have to digest a weaker industry backdrop.

- **Miss, Miss, Miss —** Earnings revisions declined sharply in 2Q14, with the trend for 3Q14 remaining weak, and only banks have generated beats. For our coverage universe, aggregate EPS growth is expected at 5% in 2014 and 9% in 2015. This leads to a little upside for the STI over 2015 – our Gordon Growth derived STI target is 3,416, equating to a P/E of 15.5x. STI is trading at 15.2x P/E, in-line with historical mean, and at 1.2x fwd P/B (c.1SD below the mean).

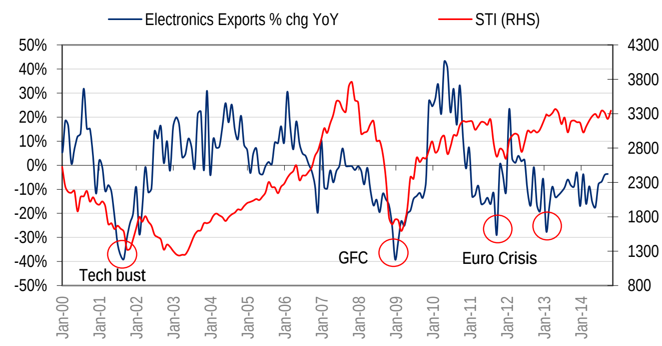
- **Top stock picks** — *DBS* (highest NIM leverage to eventual rates rises), *OCBC* (synergy upside from Wing Hang acquisition) and China-exposed firms such as *Capitaland* (sizeable investment portfolio is a hedge against a weak residential market), *Wilmar* (proxy for Asia's food needs), with both also buying back shares in the last 12 months, and *HPHT* (more positive stance on HK/China exports). Investors will likely continue reducing weights in interest-rate sensitive segments, which have become expensive.

Singapore: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Capitaland	CATL.SI	Buy	S$3.27	S$3.35	2.4	4.9	23.0	0.8	4.0
Sizeable investment portfolio (c.75% of revenue from recurring income) better positions the group in hedging weakness in Singapore and China residential markets									
DBS	DBSM.SI	Buy	S$19.88	S$22.10	4.0	15.2	10.9	1.3	11.9
Highest NIM/earnings leverage to eventual SGD rates rise									
HPHT	HPHT.SI	Buy	US$0.69	US$0.75	7.7	16.3	24.7	0.8	3.0
More positive stance on HK/China exports complex									
OCBC	OCBC.SI	Buy	S$10.47	S$11.50	3.7	13.5	11.7	1.4	12.0
Potential S$280m synergy upside from Wing Hang acquisition by 2017									
Wilmar	WLIL.SI	Buy	S$3.25	S$3.69	2.3	15.3	11.0	0.9	8.8
Conduit for Asia's food needs, and now part of Indonesia's energy needs									
Top Sell									
Starhub	STAR.SI	Sell	S$4.13	S$3.52	4.8	-9.9	18.7	51.8	NM
Operating momentum remains pedestrian and behind peers; structural challenges with OTT cannibalization in pay-TV space and aggressive competition in broadband									

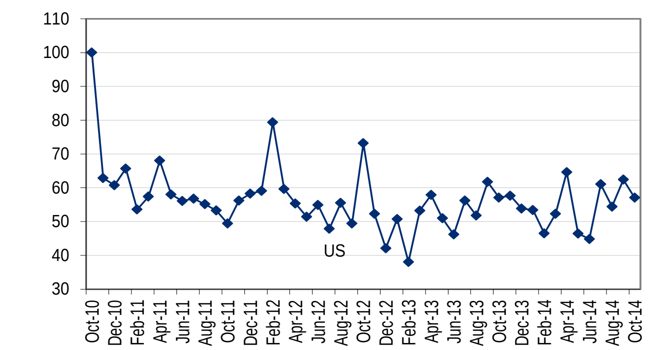
Source: Citi Research estimates

Figure 1. Singapore Electronics Exports % Chg YoY vs STI



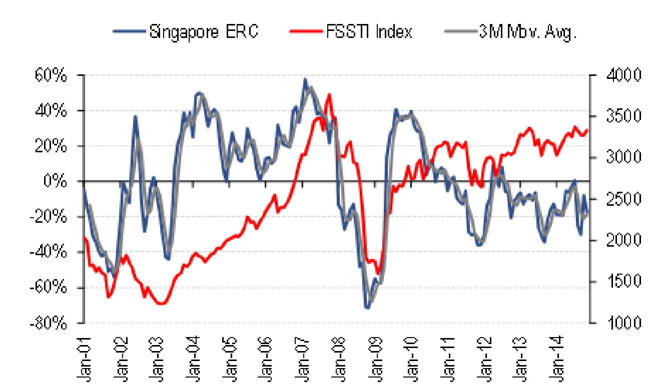
Source: Bloomberg, CEIC, Citi Research

Figure 2. Singapore Exports to US (Rebased to 100 as of Oct 2010)



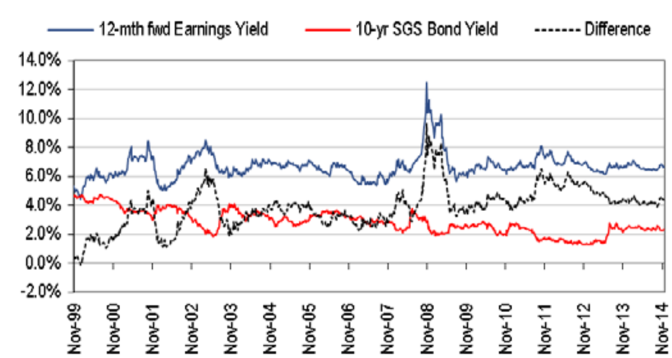
Source: CEIC, Citi Research

Figure 3. Singapore Earnings Revision Count



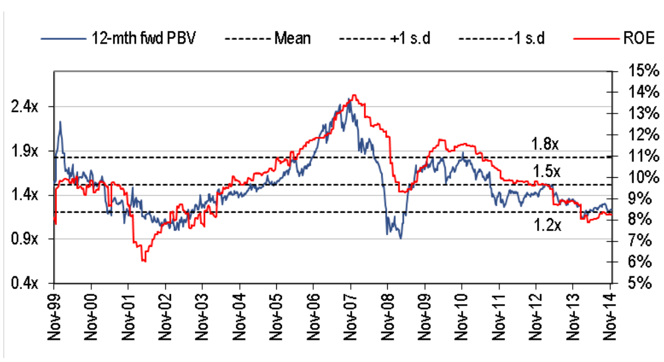
Source: Factset, Citi Research

Figure 4. STI 12M Forward STI Earnings Yield vs SGS 10 Bond Yield



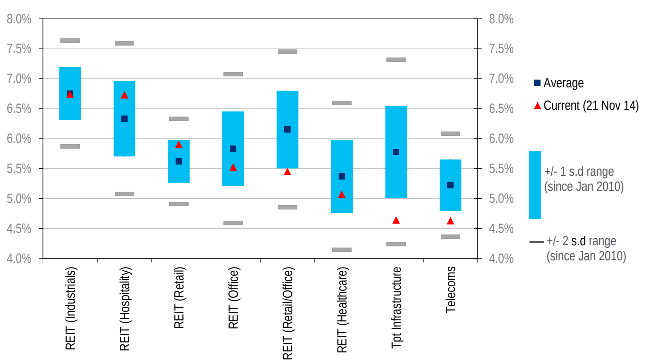
Source: Datastream, Citi Research

Figure 5. STI 12M Forward PB vs ROE



Source: Datastream, Citi Research

Figure 6. SG Dividend Plays – Current Dividend Yield vs Mean and SD



Source: Datastream, Citi Research * Div yield calculated using consensus estimates.

Taiwan

Seasonality & Cyclicality Converge: Buy Tech

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- **Seasonal selling of tech particularly strong this year** – Seasonal selling of tech stocks was particularly strong this year, but this, in our view, creates an optimum entry point. We expect continued sell-through for the Apple supply chain and growing demand for electronic components from the auto sector. Taiwan tech stocks look cheap and thus remain our preferred sector for 1H15.

- **TWSE further impacted by global risk-off trade** – Historically, a surge in DXY and sharp fall in oil prices has correlated with a poorly performing TWSE, presumably as sharp moves in these asset classes imply a potential demand shock. Taiwan, being a more cyclical, export-dependent economy, is more at risk. However, once DXY and oil reach new equilibria, a stronger USD and weaker oil are beneficial to Taiwan exporters and should allow the market more upside.

- **Switch from Financials to Tech** – We recently downgraded our view on the Financials sector due to lower interest rate expectations and falling life insurance FYP sales, an important driver to bank fee income as well as insurance industry earnings growth. The Financials were a safe haven for during the recent tech sell-off and yet tech now offers better value, in our view.

- **Cross-straits relations continue to cool** – Recent student protests in Taiwan and HK, slowing PRC economic growth and concerns over the integrity of the cross-strait negotiations process have stalled the ECFA process at least, in our view, until a new administration takes office in 2H16. However, the absence of these omnibus agreements doesn't preclude separate negotiations on individual issues, especially in the financial sector.

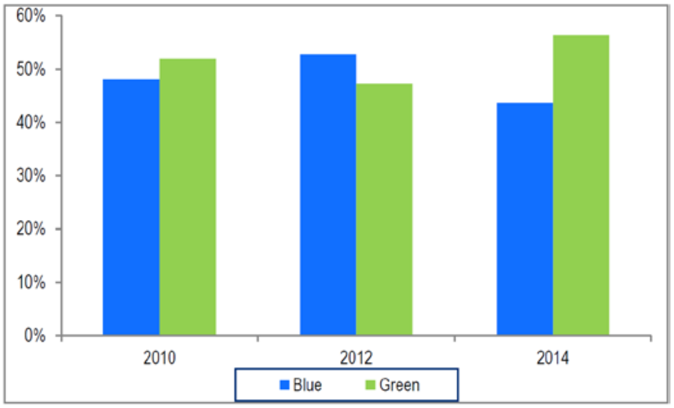
- **Remain confident for 2015 with 10,000 index target** – Despite the recent sharp market pullback, we expect the index will challenge the 10,000 level by mid-2015. We recommend a re-weighting back into Tech, reversing the rotation into Financials over the summer, and consider positioning into Telecom.

Taiwan: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Far Eastone	4904.TW	Buy	NT$67.50	NT$69.0	5.6	7.9	16.8	2.9	17.0
Unexpected rationalization of telco competition									
Largan	3008.TW	Buy	NT$2,335.0	NT$2,950.0	2.5	28.9	14.2	5.4	42.7
Rising lens content per device, OIS and 13 MP adoption to drive sequential growth through 2016									
TSMC	2330.TW	Buy	NT$138.5	NT$160.0	2.2	17.7	11.0	2.5	25.3
Strong outlook ahead, more positive clarity on finFET share for 2015									
Top Sells									
Catcher	2474.TW	Sell	NT$255.5	NT$228.0	2.6	-8.2	10.7	1.8	18.5
Capacity glut in CNC versus tight capacity only in 2013/14									
MediaTek	2454.TW	Sell	NT$445.0	NT$360.0	4.7	-14.4	17.3	2.6	15.2
China to become more aggressive in expanding chipset market share, especially in the low-end market									

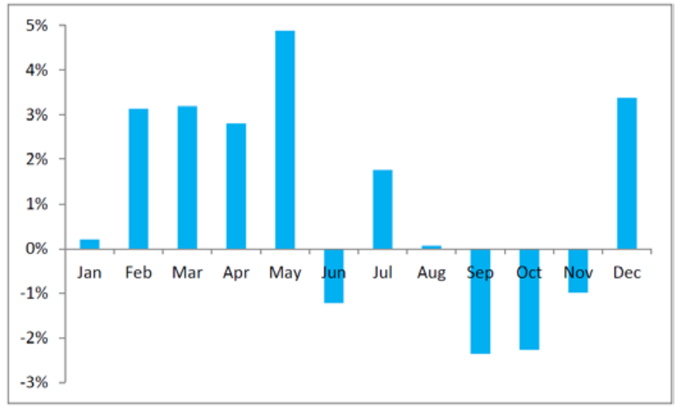
Source: Citi Research estimates

Figure 1. Popular Vote Mix among the Blue and Green Camps



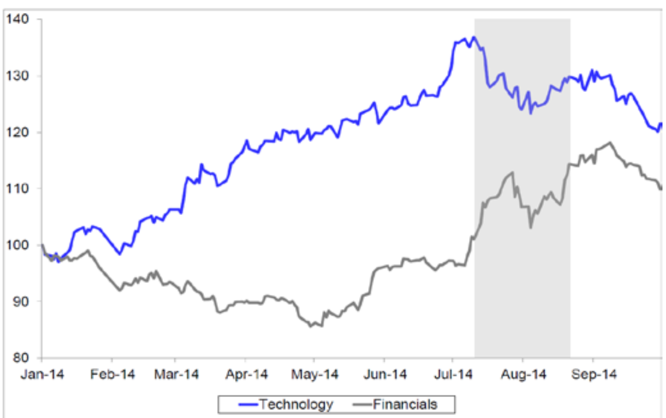
Source: Ministry of the Interior, Various Polls, Citi Research
Note: Blue Camp is primarily the KMT and the Green Camp is primarily DPP

Figure 2. Taiwan Apple Suppliers: Share Price Performance



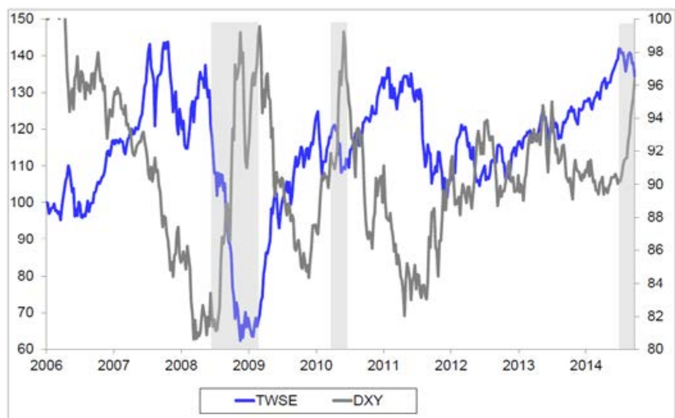
Source: Citi Research
Note: We took the median share price performance for each month since 2007 when the iPhone was first launched for key suppliers

Figure 3. FINI Holdings in Top Technology vs Financial Stocks



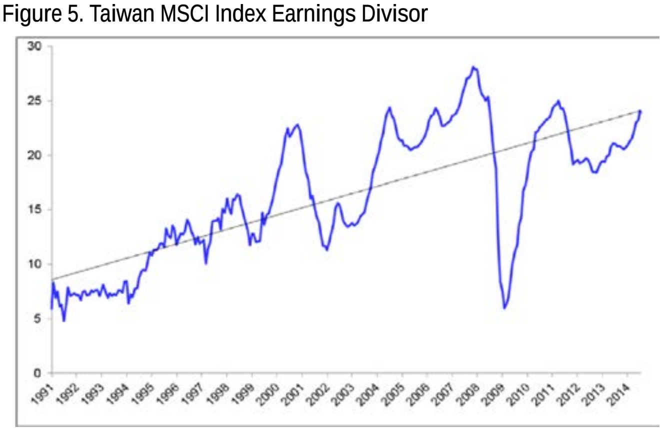
Source: Ministry of the Interior, Various Polls, Citi Research

Figure 4. TWSE v DXY



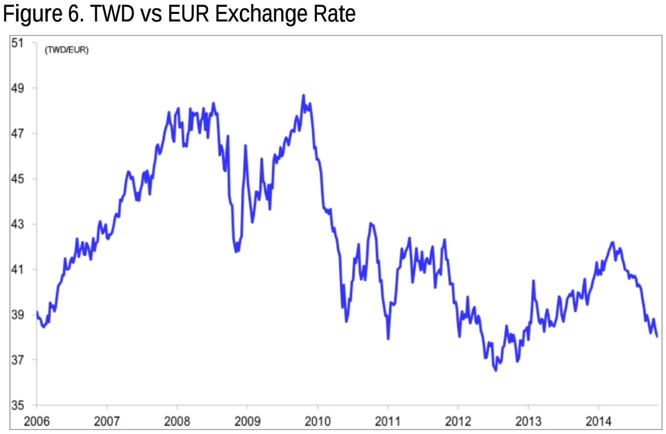
Source: Citi Research

Figure 5. Taiwan MSCI Index Earnings Divisor



Source: MSCI, Citi Research

Figure 6. TWD vs EUR Exchange Rate



Source: Bloomberg, Citi Research

Thailand

Divergent Domestic Recovery Story

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- **Modest upside led by earnings recovery** – SET has performed well in FY14 despite political turmoil, a coup and sluggish earnings. With an economic recovery likely in FY15, we believe market valuations may stay above average and the SET could hit 1730 (14x fwd EPS), esp. if gov't investment plans offer growth visibility in FY16-17. With rates staying low and lower energy costs lifting household budgets, we expect domestic sectors to outperform. *Key risks:* controversial constitutional / political reforms and an increase in VAT (3Q15).

- **Economy up 3% in 15E (14E: 0.5%): Key themes** –1) *Urban-rural divide*: While the overall economy should revive in FY15, rural areas could miss out given dips in crop prices, a subsidy shake-up, slower wage rises, and energy reform capping diesel gains from falling oil prices. 2) *Rates lower for longer:* BOT has lowered growth expectations and sent out more dovish signals. We expect *no* rate hike in FY15, which would alleviate household debt burdens amid slower wage increases.

- **Gov't infra spending could be pushed out** – A recently released draft plan and feedback from contractors that bids will be under closer scrutiny suggest the gov't's infra program (Bt2.4trn, ex. higher speed rail) will make only limited progress in FY15. Higher infra spending may not contribute much to growth before FY16.

- **Politics: constitution takes center stage** – The return to electoral democracy is on track. Reform Council / Constitution Drafting Committee have been formed. Draft of key elements should emerge in 2Q15. Referendum is also up for discussion. NCPO will likely regard an enduring settlement as more critical than speed, so elections may be delayed to FY16. We expect power to be re-balanced away from old-school politicians to a technocratic class that will strive to boost the economy while making the public feel it has not be disenfranchised.

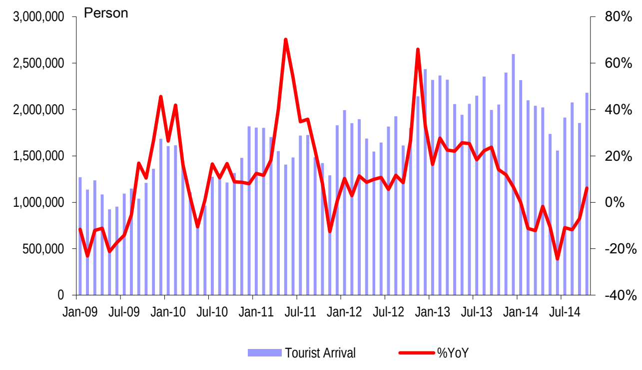
- **Strategy: buy plays on domestic recovery** – 2014 EPS forecasts have been edging lower in response to the sluggish economy. However, the numbers now look realistic, and 11% growth in 15E seems achievable. We favor sectors exposed to a domestic recovery, such as *banks*, *telcos*, *property* and *tourism*.

Thailand: Top Buys and Top Sells

	Ticker	Rating	Price (Bt) (Nov. 21)	Target Price (Bt)	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
ADVANC	ADVANC.BK	Buy	237.0	280.0	6.0	24.1	16.7	14.5	89.4
Continued improvement in profitability with 3G conversion to lower concession structure; overly discounted on spectrum auction delay									
AOT	AOT.BK	Buy	264.0	280.0	1.5	7.6	25.8	3.5	14.3
Proxy for a turnaround in the tourism sector									
BBL	BBLf.BK	Buy	204.0	225.0	4.1	14.4	9.8	1.1	12.1
Cheap valuation; exposure to business loan recovery in line with macro improvement									
SCC	SCC.BK	Buy	448.0	545.0	3.8	25.4	13.0	2.7	22.2
Chemical margin benefits from lower naphtha input price; cement demand could improve with resilient property market and infra build-out									
SPALI	SPALI.BK	Buy	25.3	28.7	4.8	18.5	8.3	2.2	28.5
Good earnings and presales momentum									
Top Sell									
TRUE	TRUE.BK	Sell	11.4	9.3	0.0	-18.9	93.4	3.7	7.2
Market overly excited on China Mobile strategic shareholding and revenue growth; we view low profitability despite improving volume a concern, as well as valuation									

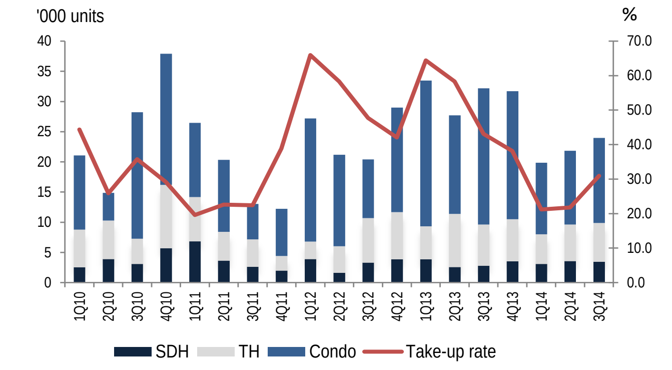
Source: Citi Research estimates

Figure 1. Tourism Turnaround in FY15E; Oct-14 Turning the Corner



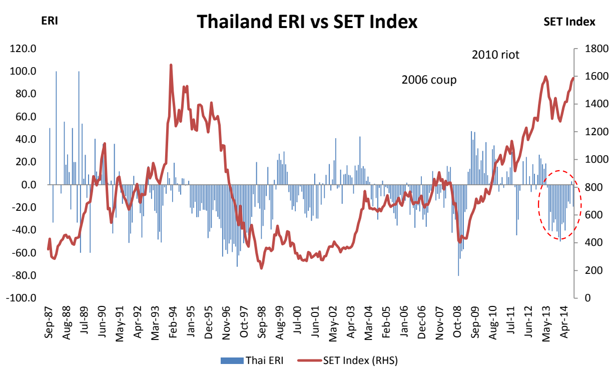
Source: Tourism Authority of Thailand

Figure 2. Property Market Off Bottom and More Resilient Than Expected



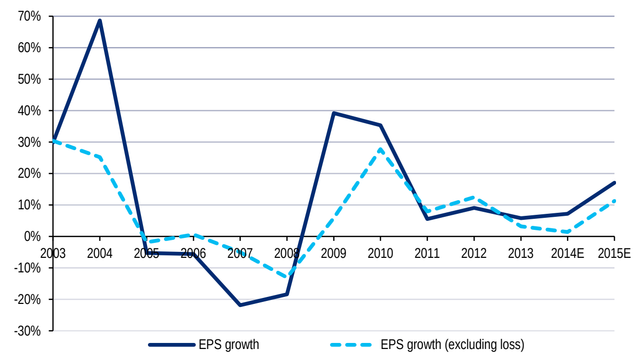
Source: Citi Research; AREA

Figure 3. SET Earnings Revision: Worst Is Over



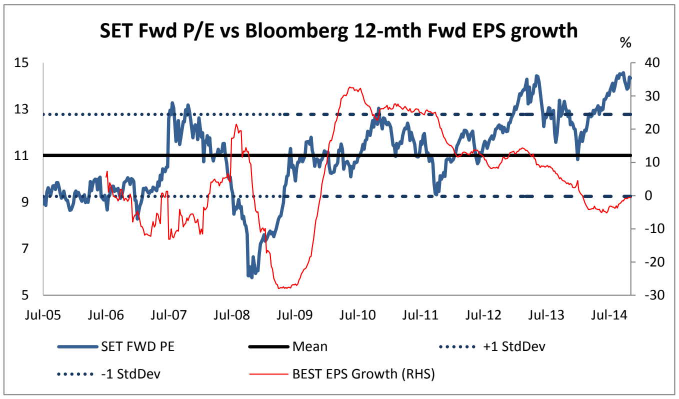
Source: Factset, Bloomberg

Figure 4. Core Earnings Trend: +11% in 15E from 1.4% in 14E



Source: Bloomberg

Figure 5. Thai Equity Market: Valuation



Source: Bloomberg

Figure 6. Earnings By Sector

EPS Growth (%)	2010	2011	2012	2013	2014E	2015E
SET	35.3%	5.6%	9.1%	5.8%	7.2%	17.1%
SET50	30.1%	7.6%	8.2%	2.0%	4.4%	13.8%
SETBank	23.4%	19.7%	22.6%	20.6%	5.6%	11.5%
SETProp	28.6%	-7.0%	48.7%	23.2%	10.5%	12.1%
SETCommunication	7.6%	19.6%	34.4%	20.5%	12.7%	22.2%
SETCommerce (Retail)	24.8%	21.1%	25.6%	18.4%	2.8%	23.7%
SETTransport	98.6%	-82.6%	412.7%	-42.9%	-32.5%	128.8%
SETEntertainment (Media)	44.8%	10.3%	5.9%	-1.2%	-24.4%	36.6%
SETEnergy	28.5%	17.9%	-7.3%	-13.2%	4.1%	10.5%
SETPetro	61.7%	28.7%	-1.5%	-9.2%	-4.8%	14.3%
SETConmat	37.6%	27.1%	-43.2%	40.9%	3.7%	13.6%
SETHealthcare	-4.7%	27.7%	60.1%	-10.9%	4.3%	18.8%

Source: Bloomberg

Sector

Autos & Auto Parts

China Still Revving; Japan Boosted By Weaker Yen

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- **China: Near-term headwinds but still growing** – We forecast 10% PV volume growth in 2015, driven by wealth effects and low auto penetration. Though growth may slip versus 2014E (~12% PV organic growth) and 1H15 will be particularly tough on a high base, this is still higher growth than in most other auto markets. We like SAIC as an EU/US mass market play and for market share gains, and Yutong on bus market consolidation. Both should gain from SH-HK Connect.

- **India: Fairly constructive for 2015** – A combination of lower fuel prices and lower inflation should result in lower rates, which in turn should lead to a more broad-based recovery. Our key picks (Tata Motors, Maruti Suzuki and Mahindra & Mahindra) are essentially 'self-help' stories, where the model cycle is driving growth and delivering growth ahead of the industry.

- **Indonesia: Challenging outlook but volume will remain positive** – The hike in fuel prices will have some impact on 4W volume but we believe most buyers are ready to absorb the higher fuel price. We expect 4W and 2W volume to grow 10% and 5% in 2015, respectively. Fuel price hike should be positive for 4W volume over the medium to longer term as the government could spend more on roads, especially outside Greater Jakarta.

- **Japan: Enhanced cost competitiveness on yen weakness** – Yen weakening versus the dollar will enhance cost competitiveness, improve product appeal, and expand shareholder returns. Our top pick is Yamaha Motor.

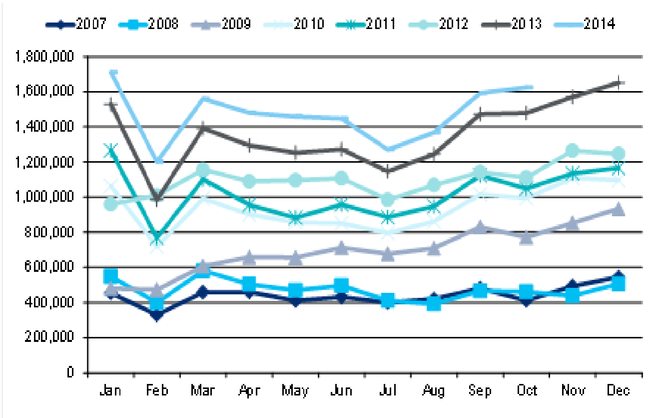
- **Korea: Restoring credibility is key** – We are bearish on KR autos post the over-priced landsite acquisition. Roadmap for shareholder-friendly actions should be a pre-requisite of multiple normalization. Stiffer competition among leading OEMs amid slower auto demand indicates a tougher 2015E; but KR makers have a relatively fresh model cycle with more SUV launches.

Autos & Auto Parts: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Astra International	ASII.JK	Buy	Rp6,950	Rp8,150	3.5	20.8	12.9	2.6	20.9
Strong market shares in both 2W and 4W and first-mover advantage in LCGC									
Hyundai Wia	011210.KS	Buy	W175,000	W260,000	0.3	48.9	8.6	1.5	18.6
Sector-high 15% EPS growth from confirmed capacity growth for core-parts and well-fitted for global trend of engine-downsizing and fuel-efficiency									
Maruti Suzuki	MRTI.BO	Buy	Rs3,343	Rs3,785	1.4	14.6	18.2	3.7	21.6
Strong model cycle with a slew of new model and refreshes planned in FY16. Depreciating JPY should aid margins significantly									
SAIC Motor	600104.SS	Buy	Rmb19.29	Rmb22.00	6.7	20.8	6.8	1.3	19.3
Expect multiple re-rating from SH-HK Connect, as well as continuous market share gain of EU/US brands at the expense of Japanese brands									
Tata Motors	TAMO.BO	Buy	Rs531	Rs624	0.2	17.7	6.5	1.5	26.8
Strong JLR product line-up augers well for volumes and profitability. A depreciating GBP vs USD should aid JLR profits. Domestic MHCV should see a revival on a weak base									
Yamaha Motor	7272.T	Buy	¥2,508	¥3,100	1.4	25.0	14.0	2.0	15.0
Able to hike prices in emerging market motorcycles and marine									
Yutong	600066.SS	Buy	Rmb18.75	Rmb23.00	4.8	27.5	8.9	2.0	24.0
Continuous market share gain, ASP and margin lift to deliver earnings growth, helped by new energy bus contribution									
Top Sell									
BYD	1211.HK	Sell	HK$45.40	HK34	0.1	-25.0	NA	3.3	4.7
Excessive valuation and rising competition in electric and hybrid car market									

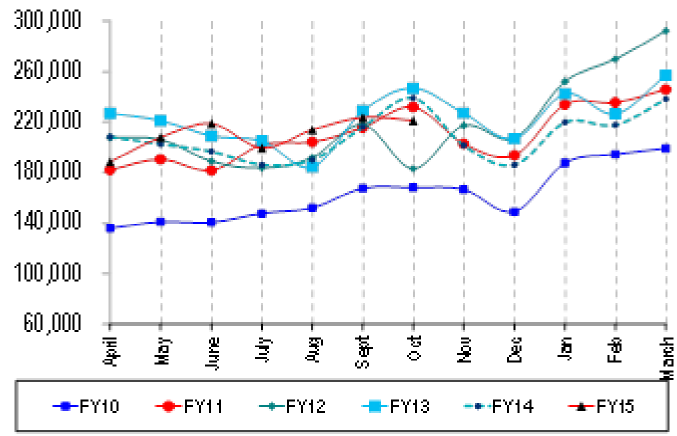
Source: Citi Research estimates (Note: For Indian companies, FY is Mar ending, thus 2015 corresponds to FY16)

Figure 1. China PV: Monthly / Annual Domestic Volumes (units)



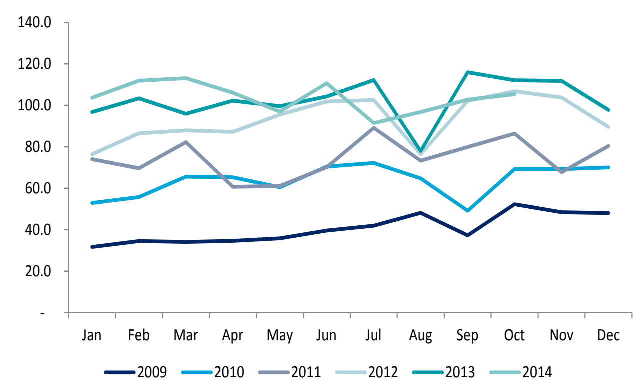
Source: CAAM

Figure 2. Indian PV: Monthly / Annual Domestic Volumes (units)



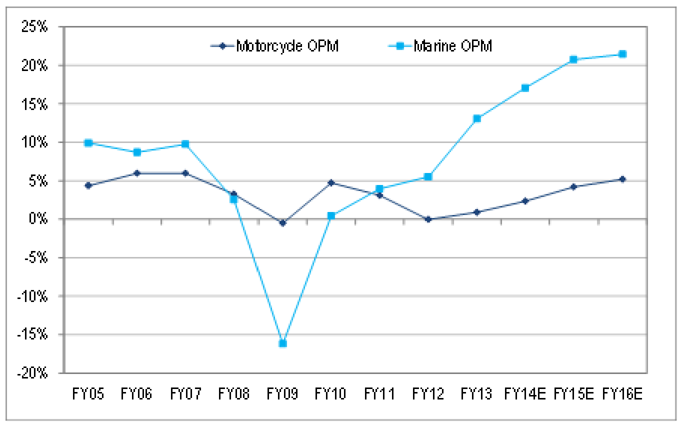
Source: SIAM

Figure 3. Indonesia Monthly / Annual Domestic Volumes ('000 units)



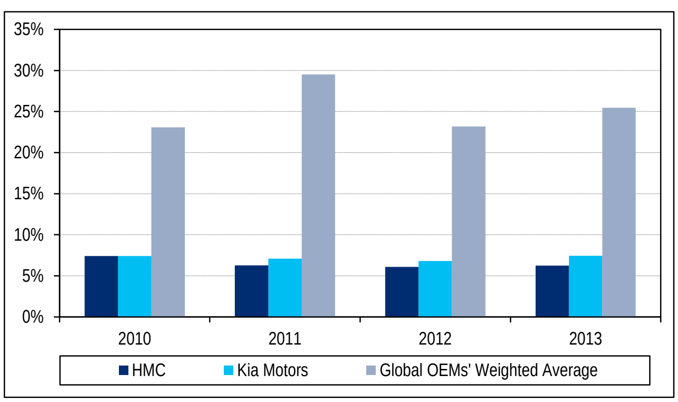
Source: Indonesia Auto Association, Gaikindo

Figure 4. Yamaha Motor: Motorcycle and Marine Segment OPM Trends



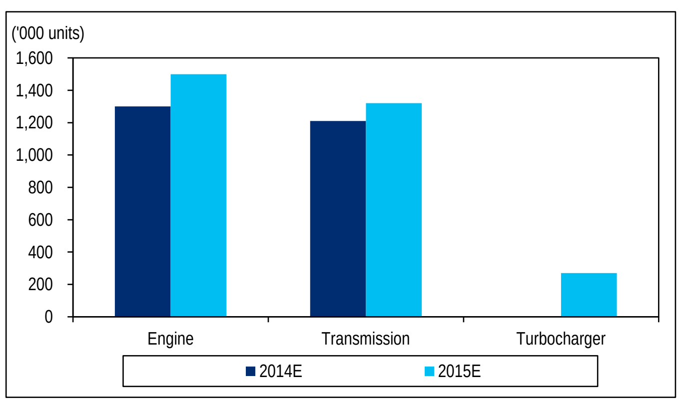
Source: Company data, Citi Research

Figure 5. Korean OEMs: Dividend Payout Ratios vs. Global average



Source: Company Reports, Citi Research

Figure 6. Hyundai Wia: Global Capacity Expansion



Source: Citi Research

Banks

Surviving the Regulatory and Macro Changes

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Kritapas Siripassorn / Thailand

- **Regulatory changes** – Global and regional regulatory change will continue to impact the banks. Australian regulator's "Financial System Inquiry" will have an adverse effect on the banks there. As for global regulations, clarification of TLAC eliminated the overhang for G-SIBs (Mizuho, MUFG, SMFG, ABC, BOC, ICBC). However, IRRBB is the remaining uncertainty, and implementation may affect the banks' ALM and consequently the yield curve. Potentially higher capital requirements are an uncertainty in HK, Singapore, Malaysia and the Philippines.

- **Macro change** – Pressure continues in emerging markets (especially Indonesia) from the US Fed's end of QE and a potential rate hike, but weak energy price may somewhat indirectly offset the negative impact. NIMs in Japan, HK, Singapore and Taiwan will benefit.

- **China NPL risk** – NPLs in China will accelerate in 2015 as economic growth further slows, the property market continues to consolidate and reforms and restructuring take place in LGFV debt and industries with overcapacity. HK and Singapore banks may also feel some ripple effects from this.

- **Divergence of share price performance** – 2014 was a year of clear divergence in the share price performance of Asian banks, depending upon region. Past performance may provide the investment opportunities; weak performers that could survive the environmental changes described above include banks in Japan, China and Korea.

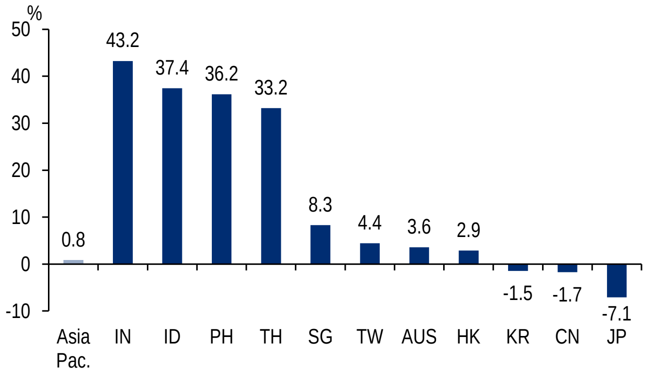
- **Asian bank preference** – Markets that we like are Japan and China (on more of a near-term view). We also like HK and Singapore as beneficiaries of higher US rates. We are cautious on Australia, Korea and Malaysia.

Banks: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Bank of China	3988.HK	Buy	HK$3.73	HK$4.20	7.8	20.4	4.7	0.7	15.3
Most international of the Chinese banks with strong growth in overseas lending and a beneficiary of US rate hikes									
Bank of China (HK)	2388.HK	Buy	HK$26.8	HK$32.0	4.5	23.9	10.5	1.5	14.6
Prudent management, strategic strength in RMB and SH-HK Stock Connect, beneficiary of rate rises									
BSFG	138930.KS	Buy	W15,700	W20,000	1.9	29.3	8.9	0.8	9.0
Highest loan growth among Korean banks; M&A with Kyongnam bank is positive catalyst									
MUFG	8306.T	Buy	¥671	¥1,000	3.0	52.0	9.1	0.6	7.0
Strong momentum in domestic/overseas core earnings growth and potential improvement in shareholder returns									
OCBC	OCBC.SI	Buy	S$10.47	S$11.50	3.7	13.5	11.6	1.4	11.8
Key catalyst will be management's ability to deliver synergy surprises from the WHB acquisition									
Top Sells									
Bank Central Asia	BBCA.JK	Sell	Rp13,325	Rp10,425	1.2	-20.5	16.9	3.4	20.4
Expensive valuation relative to weak earning asset and fee income growth									
Mega FHC	2886.TW	Sell	NT$25.05	NT$20.50	4.2	-14.0	11.6	1.2	10.2
Strategic uncertainty on state-bank consolidation; dividend payout ratio may not be sustainable									

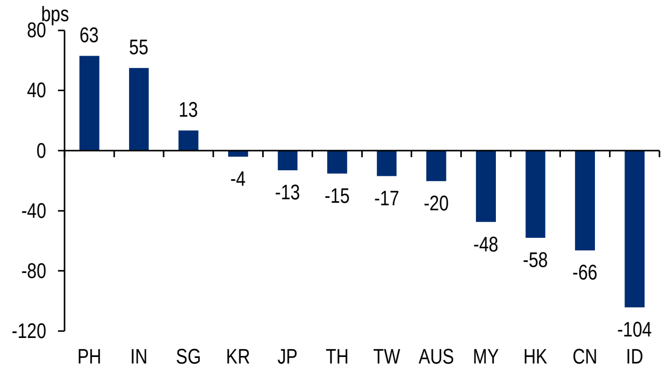
Source: Citi Research estimates

Figure 1. Asian Banks Share Price Performance 2014Ytd (%)



Source: Company Reports and Citi Research Estimates

Figure 2. Asian Banks ROE Change (FY2015E – FY2014E) (%)

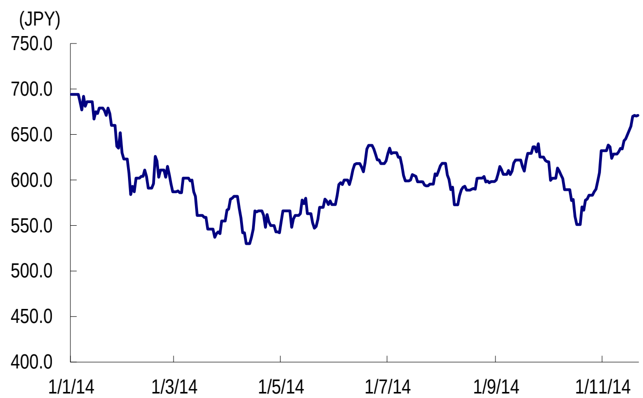


Source: DataStream, Citi Research

Figure 3. Share Price of Top Buy Stock: Bank of China

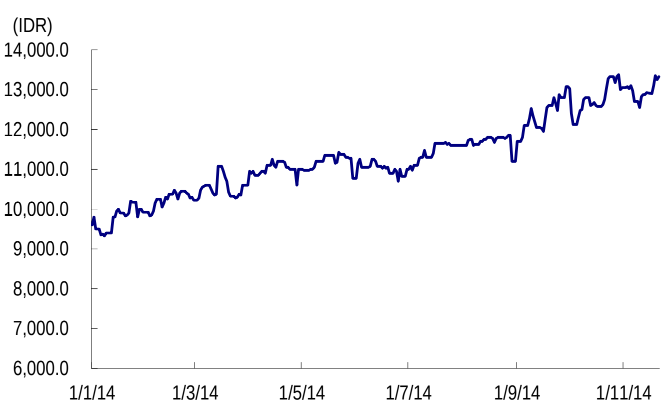
Source: Citi Research

Figure 4. Share Price of Top Buy Stock: MUFG



Source: Citi Research

Figure 5. Share Price of Top Sell Stock: Bank Central Asia



Source: Citi Research

Figure 6. Share Price of Top Sell Stock: Mega FHC

Source: Citi Research

Conglomerates

Valuation Attractive; Prefer Fosun and Wharf

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- **Trading at deep discount to NAV** – Despite our Hong Kong and China conglomerate universe being up 6% YTD, outperforming the Hang Seng Index (+2% YTD), the universe is still trading at a 32% discount to estimated NAV, more than one standard deviation below the 22% historical average.

- **Fosun** – Fosun remains one of our top conglomerate picks and we expect it to further re-rate thanks to the following catalysts: 1) Shanghai BFC (~10% of NAV) is set to complete in 2015 and the pre-sale is expected to launch soon; 2) Cainiao commenced construction for eight logistics network projects across China in 1H14, with another 16 projects signed; and 3) further business detail regarding the joint venture with Alipay to operate a privately-owned bank in China, which Fosun expects to commence operation in 2015. Fosun is trading at a 37% NAV discount or 0.97x FY15E P/B (vs. 1.2x historically).

- **Wharf** – We continue to like Wharf for the cash flows from its defensive HK IP portfolio, and the potential upside from the ramp-up of its China IP (+57% in 1H14). Future dividend policy will likely be based on the performance of its IP portfolio. Management changed course on China development property, highlighting poor returns relative to IP. Wharf will shift its resources from China DP to IP upon project completion. The group will continue to look for investment opportunities in IP in first- and second-tier cities.

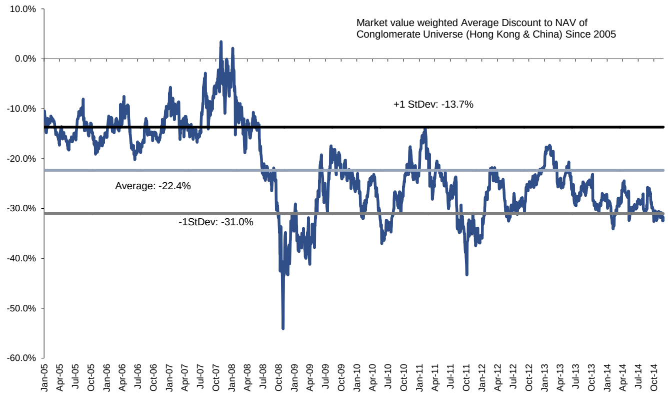
- **CITIC Pacific** – The CITIC stock is trading at a 20% discount to our FY15E NAV, higher than the conglomerate average of 31% (25% historically). In our view, investors would be better investing in CITIC's listed subsidiaries directly or other listed companies to gain direct exposure to their preferred industries. Some investors view CITIC as the pilot for SOE reform and believe it will be an active participant (hoping that value could be unlocked via spin-offs and NAV could grow through acquisitions). However, given CITIC's huge market cap, it will be difficult to find sizable, value-enhancing transactions. In our view, Fosun and Shanghai Industrial are better plays on this theme.

Conglomerates: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buy									
Fosun	0656.HK	Buy	HK$8.83	HK$13.50	1.7	55.1	8.5	0.9	11.4
Multiple catalysts for further re-rating; should benefit from the recent rate cut in China									
Wharf	0004.HK	Buy	HK$55.15	HK$67.50	3.5	25.9	12.0	0.5	4.4
De-emphasizing China DP; focusing on new IP opportunities									
Top Sell									
CITIC Pacific	0267.HK	Sell	HK$12.86	HK$12.50	2.7	-0.1	5.8	0.7	12.1
Valuation unattractive; lack of re-rating catalysts									

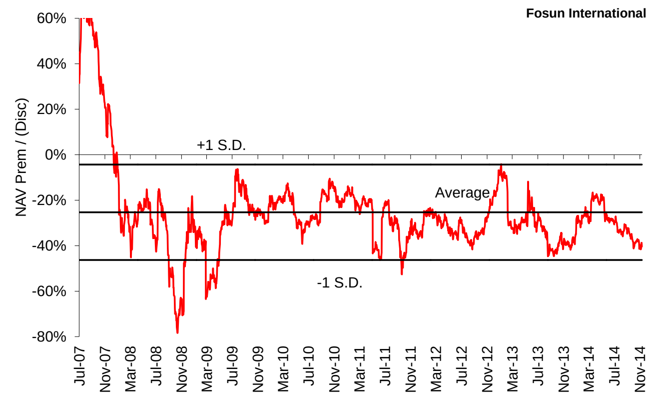
Source: Citi Research estimates

Figure 1. Regional Conglomerates – Price to Mean NAV Discount



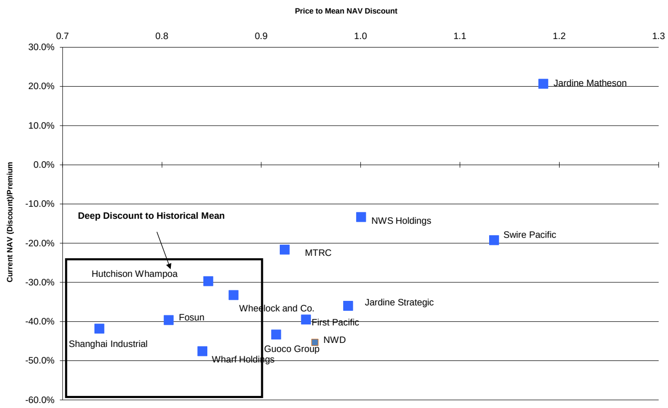
Source: Citi Research Estimates

Figure 2. Fosun – NAV Discount Chart



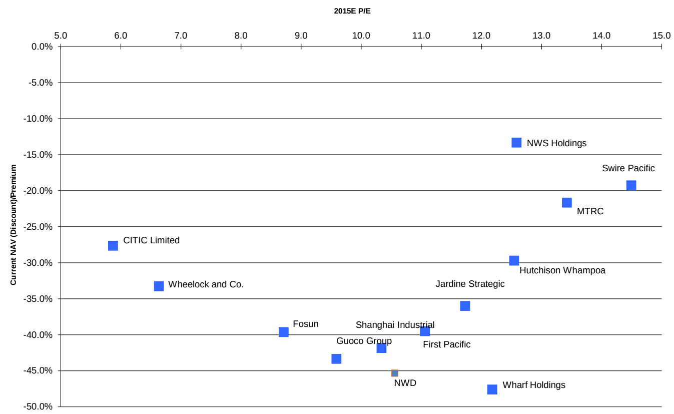
Source: Citi Research Estimates

Figure 3. Regional Conglomerates – Price to Mean NAV Discount



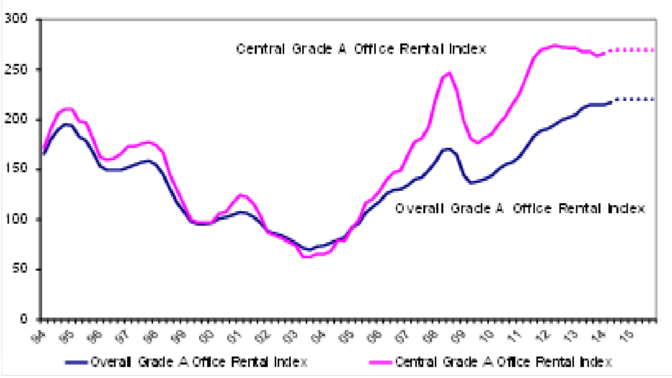
Source: Citi Research Estimates

Figure 4. Regional Conglomerates – 2015E P/E vs. NAV Discount



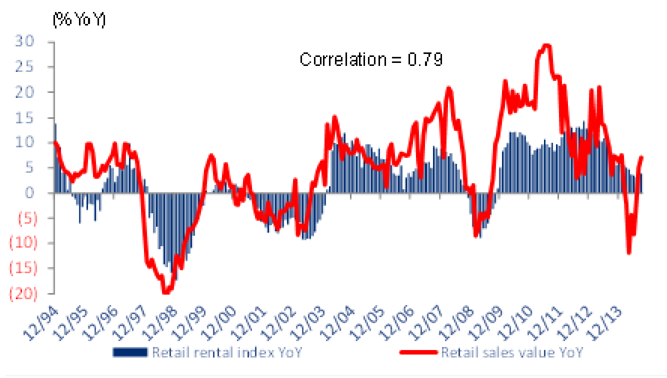
Source: Citi Research Estimates

Figure 5. HK Property — HK Office Rental Index (with 2015 projections)



Source: Rating and Valuation Dept; Citi Research estimates

Figure 6. HK Prop – Retail Rentals Strongly Correlate With Retail Sales



Source: Rating and Valuation Dept. CEIC, Citi Research

Consumer

Margin Gains Are the Focus

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Jasmine Bai / China
Jamshed Dadabhoy / India & Indonesia
Aditya Mathur / India
Masataka Kunito / Japan
Shusuke Terada / Japan
SS Kim / Korea
Sean Lee / Korea
Timothy Chen / Taiwan
Pimolrat Sathaworawong / Thailand

- **Consumer spending backdrop across Pan Asia is weak** – Retail spending has slowed in Korea, China and Japan. Australian spending has been robust, but now enters a period of lapping good growth. Given soft employment growth in these markets, spending is likely to remain subdued. We prefer companies with specific cost savings, or upstream input cost reductions.

- **Australian retailing spending improving** – Overall Australian retail sales growth will be supported in the next 12 months by lower petrol prices, a smaller Federal Budget drag, and less leakage to online and travel. We prefer retailers with control of margin gains through sourcing and supply chain savings, such as Super Retail Group.

- **Korean spending is weak** – Korean retail sales have been in decline over the past six months. This has impacted both department stores and hypermarkets. Pressure from rising rents and weak employment growth is keeping a lid on spending. With a weak local market backdrop, our preference is CJ O Shopping, which has an online shopping business locally and which is expanding into other developing markets.

- **Japanese sales growth decelerating** – Japanese retail spending has slumped since the consumption tax change in April 2014. The yen has depreciated significantly in recent months and will put inflationary pressure on local food & beverage companies. Our preference is Asahi Group. The company will benefit from tax changes on new genre beers making regular beer products more attractive (70% of Asahi's sales). In addition, the company has pledged at least a 50% return ratio to shareholders through dividends and buybacks.

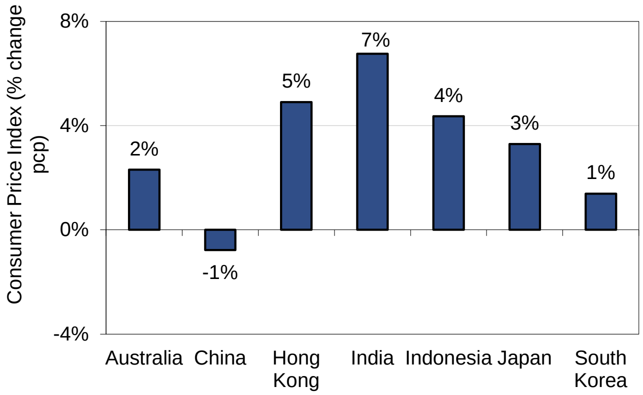
- **Chinese retail spending has slowed** – Chinese retail sales growth should stay around 12% as economic growth moderates. We prefer Inner Mongolia Yili given its dairy exposure and lower input costs. Global dairy prices have fallen by at least 10%. Yili's focus on UHT products provides strong growth prospects and its distribution reach is better than for competitors.

Consumer: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Asahi Group	2502.T	Buy	¥3,651	¥4,400	1.6	22.1	19.8	2.0	10.1
Valuation is undemanding as trading-up occurs in the Japanese beer market, and relative to global peers									
CJ O Shopping	035760.KQ	Buy	W255,200	W450,000	0.8	77.1	9.7	1.5	16.8
Potential to become the leading Asian home-shopping retailer, with strong earnings growth driven by online and overseas operations									
Inner Mongolia Yili	600887.SS	Buy	Rmb24.79	Rmb36.00	3.4	48.6	15.3	3.7	25.6
Attractive earnings growth potential with margin expansion continuing to be driven by product mix upgrades and operating leverage									
Super Retail Group	SUL.AX	Buy	A$7.62	A$9.60	5.7	31.7	12.8	1.9	14.9
Will benefit from new store openings, higher sales productivity, gross margin expansion through sourcing and private label and supply chain savings									
Wilmar International	WLIL.SG	Buy	S$3.25	S$3.69	2.3	15.8	11.0	0.9	8.8
Continuing to grow through strategic acquisitions as it positions itself as a conduit of Asia's food needs									
Top Sell									
Wesfarmers	WESDD.AX	Sell	A$41.56	A$35.50	5.3	-9.3	18.6	1.9	10.0
Trades at steep premium to its sum-of-parts valuation. Risk of PE de-rating, especially as food inflation slows in 2015									

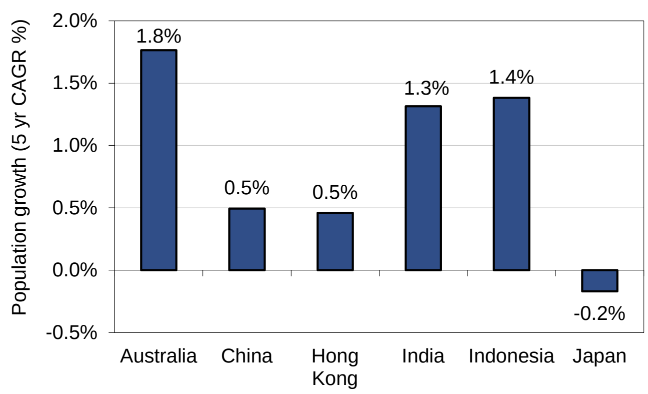
Source: Citi Research estimates

Figure 1. CPI By Country



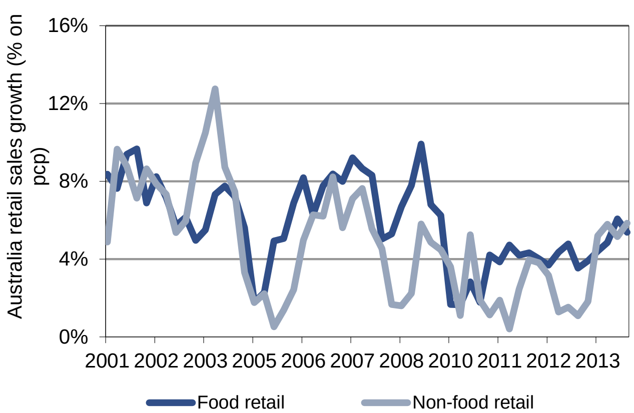
Source: Datastream, September 2014 vs September 2013

Figure 2. Population Growth By Country



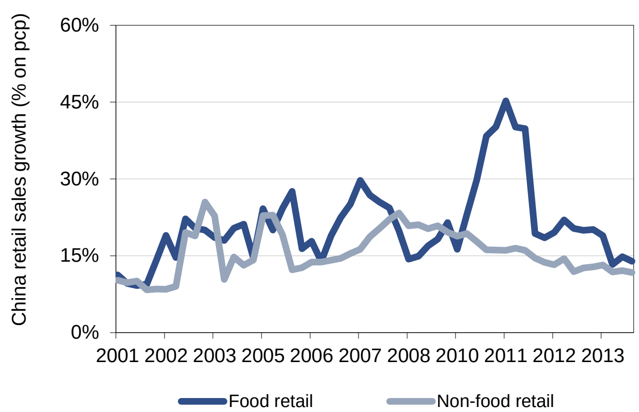
Source: Datastream, Population 5 year CAGR to December 2013

Figure 3. Australia: Retail Sales Trends



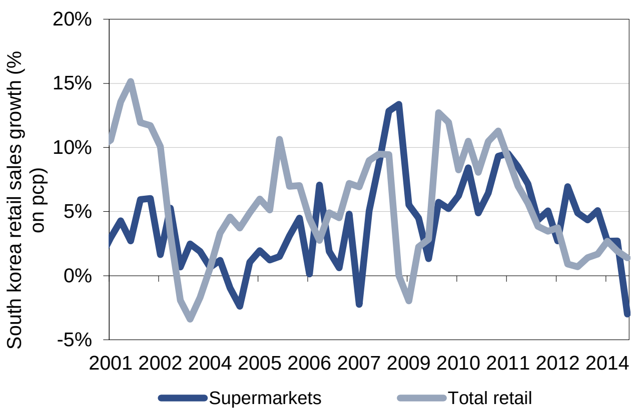
Source: Datastream, Quarterly data to September 2014

Figure 4. China: Retail Sales Growth



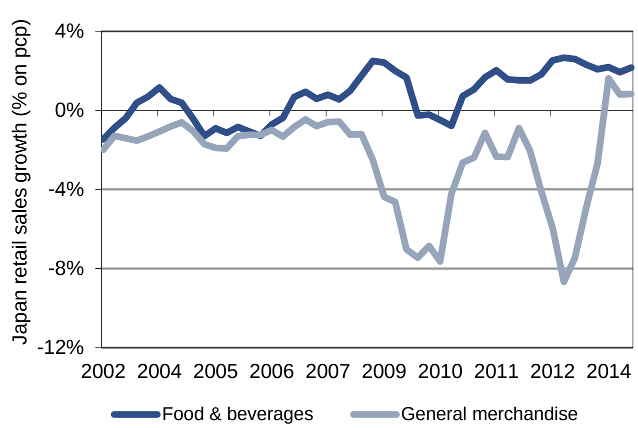
Source: Datastream, Quarterly data to September 2014

Figure 5. South Korea: Retail Sales Growth



Source: Datastream, Quarterly data to September 2014

Figure 6. Japan: Retail Sales Growth



Source: Bloomberg, Quarterly data to September 2014

Gaming

Expect GGR Growth Inflection in 2Q15

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- **Difficult comps to weigh on near-term GGR growth** — We believe Macau GGR growth will likely remain sluggish for most of 1H15 due to the contracting VIP business and the hotel shortage. We do not foresee any positive catalysts emerging that could buck the negative GGR momentum until Macau has new hotel supply and enters easy-comp periods starting 2Q15.

- **Demand is still there** — Strong 3Q14 RevPAR growth (+13% YoY) and 98-100% occupancies at major properties reaffirm our view that the hotel shortage was the main reason for the mass growth deceleration. Managements see no impact from the smoking ban thus far and reiterated their view that Macau remains a supply-driven market, which echoes our thesis that GGR growth will likely turn positive when new supply comes online starting mid-2015.

- **Extension of border hours to benefit all six operators, esp. Cotai players** — The National Council of the Central Government recently approved the extension of the operating hours at both the Lotus Bridge border (will operate 24 hours a day) and the Gongbei border (between 6am to 1am vs. currently 7am to midnight). We believe the increase in operating hours at the borders will translate into more time spent at the tables for visitors. It could also lead to more rapid infrastructure development in Hengqin. With the flexibility of a 24-hour border directly connecting Cotai to the Mainland, we expect more critical mass to move towards the Cotai properties away from the Peninsula.

- **Philippines** — In 2015, we expect GGR to rise 42% YoY to US$3.0bn, as the opening of CoD Manila and Phase 1A of Solaire should lead to critical mass at Entertainment City and help expand the market during the year. We expect RWM's market share loss will accelerate after the opening of CoD Manila.

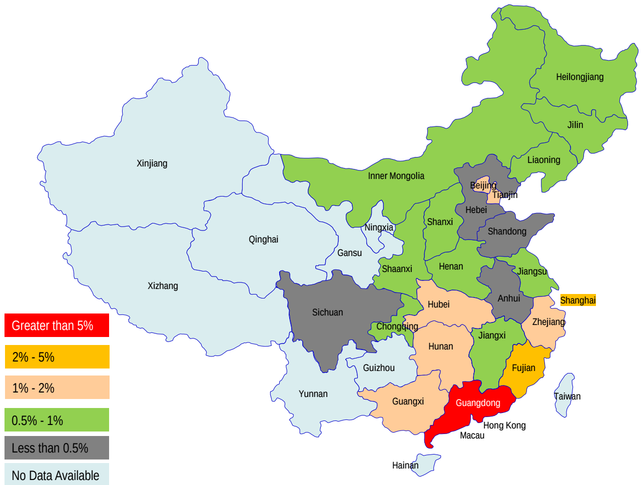
- **Australia** — Australian GGR is showing a recovery in FY15E following flat GGR growth in FY14E. GGR is particularly strong in NSW and QLD which are benefitting from improved economic conditions. Our top Buy is Aristocrat as continued market share gains in North America and Australia, integration of the VGT acquisition and ramp-up of social gaming support its stellar growth profile.

Gaming: Top Buys and Top Sells

			Price	Target	Yield	ETR	2015E		
	Ticker	Rating	(Nov. 21)	Price	(%)	(%)	P/E (x)	P/BV (x)	ROE (%)
Top Buys									
Aristocrat Leisure	ALL.AX	Buy	A$6.71	A$7.60	2.7	15.9	21.1	5.5	27.3
Continued market share gains in North America and Australia, integration of the VGT acquisition and ramp-up of social gaming support its stellar growth profile									
Melco Crown	MPEL.O	Buy	US$26.11	US$43.00	1.5	66.2	16.3	2.8	15.3
Cheapest name in the Macau gaming space; further potential upside from Studio City and Philippines project									
Melco Crown (Philippines)	MCP.PS	Buy	P14.32	P17.50	0.0	22.2	24.2	3.2	14.1
Cheapest name in the Philippines gaming space (23% discount to Philippine peers); expecting COD Manila to gain market share in 2015									
Summit Ascent	0102.HK	Buy	HK$5.04	HK$11.50	0.0	128.2	28.0	5.1	20.5
Only pure play for gaming in the IEZ and will operate as a monopoly for four years; project set to open in 2Q15									
Wynn Macau	1128.HK	Buy	HK$26.10	HK$34.00	6.5	36.8	18.9	17.6	87.9
Opening of Wynn Palace (expected in mid-2016) to allow Wynn to become a significant player in premium mass									
Top Sell									
Genting	GENT.KL	Sell	RM9.40	RM7.75	0.6	-17.0	19.3	1.2	8.1
Trading at par to its interests in listed subsidiaries									

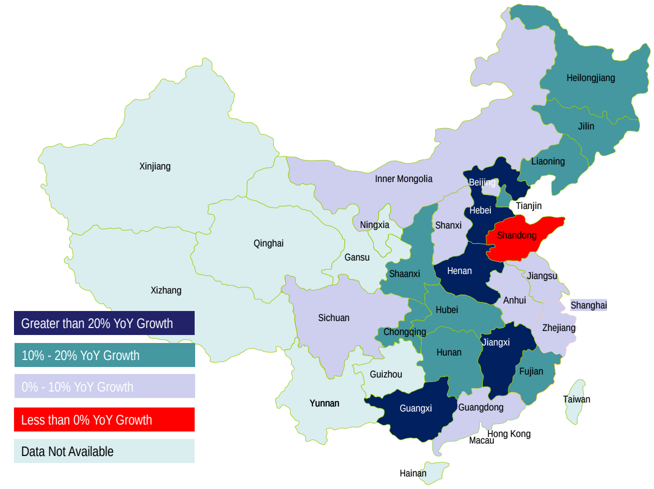
Source: Citi Research estimates

Figure 1. Mainland China Visitation to Macau (Penetration Rate)



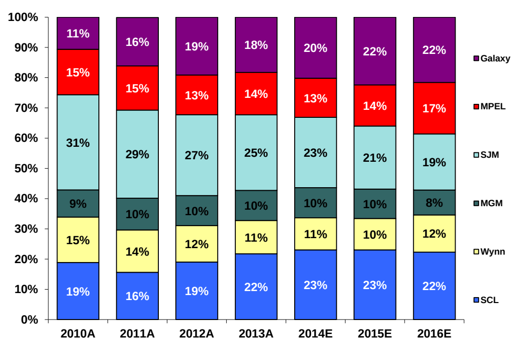
Source: DSEC; Citi Research

Figure 2. Mainland China Visitation to Macau (YoY Growth Rate)



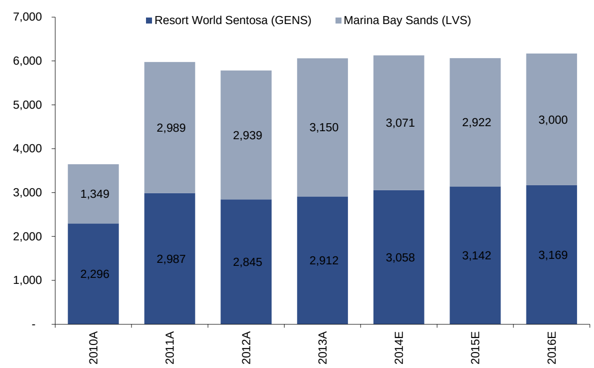
Source: DSEC; Citi Research

Figure 3. Macau – Overall Market Share (2010A – 2016E)



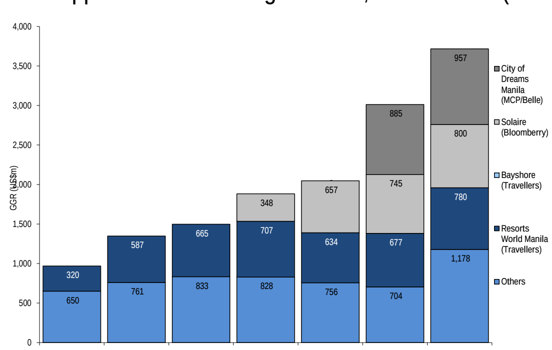
Source: Company Report; Citi Research estimates

Figure 4. Singapore – Market Share By Property (2010A – 2016E)



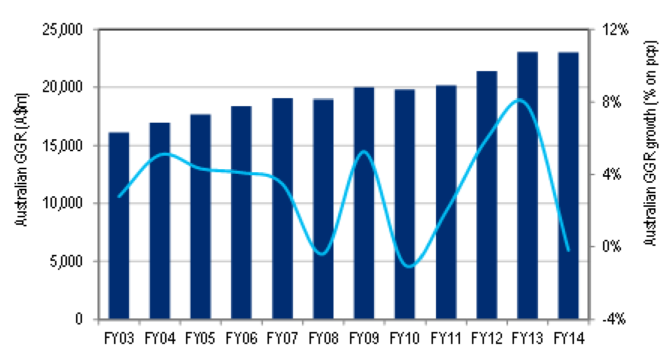
Source: Company Report; Citi Research estimates

Figure 5. Philippines Gross Gaming Revenue, 2010 – 2016E (in US$m)



Source: Company Report; Citi Research estimates

Figure 6. Australian Gambling Expenditure



Source: ABS, Citi Research

Healthcare

Bullish on India, selective on China, Japan

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- **China: Market-driven policies signal more changes** – Checks with industry experts and MNC / domestic managements suggest sector growth in low-teens in '15 and in the 12%-14% range in the next several years, with drug tenders and potentially more market-driven policies the key risks / changes in '15. With sector valuations relatively high, we prefer stocks with potential to deliver strong earnings or beat market expectations, namely CSPC and Fosun Pharma.

- **India: Potential upgrades, benign valuations augur well** – We remain positive on pharma despite recent outperformance (+27% vs. market in 6 months, post elections) and its diminished appeal as a relative safe haven. EPS upgrades on back of US pricing tailwinds should continue, medium-term growth is robust and progress on value chain initiatives should support multiples (now below long-term mean). LUPN is our top large-cap pick; we flag ARBN & GLEN among mid-caps.

- **Japan: New drug newsflow is the key** – Newsflow on new drugs will be key to stock performance in 2015, in our view. We see the global launch of Ono's Opdivo for immuno-oncology and the filing and potential approval of Nippon Shinyaku's selexipag for PAH (Pulmonary Arterial Hypertension) as major events. Even though there will be no cuts to national health insurance prices in 2015, negative newsflow will likely be rich in the second half of 2015, as the government starts preparing for reform. As such, we remain neutral.

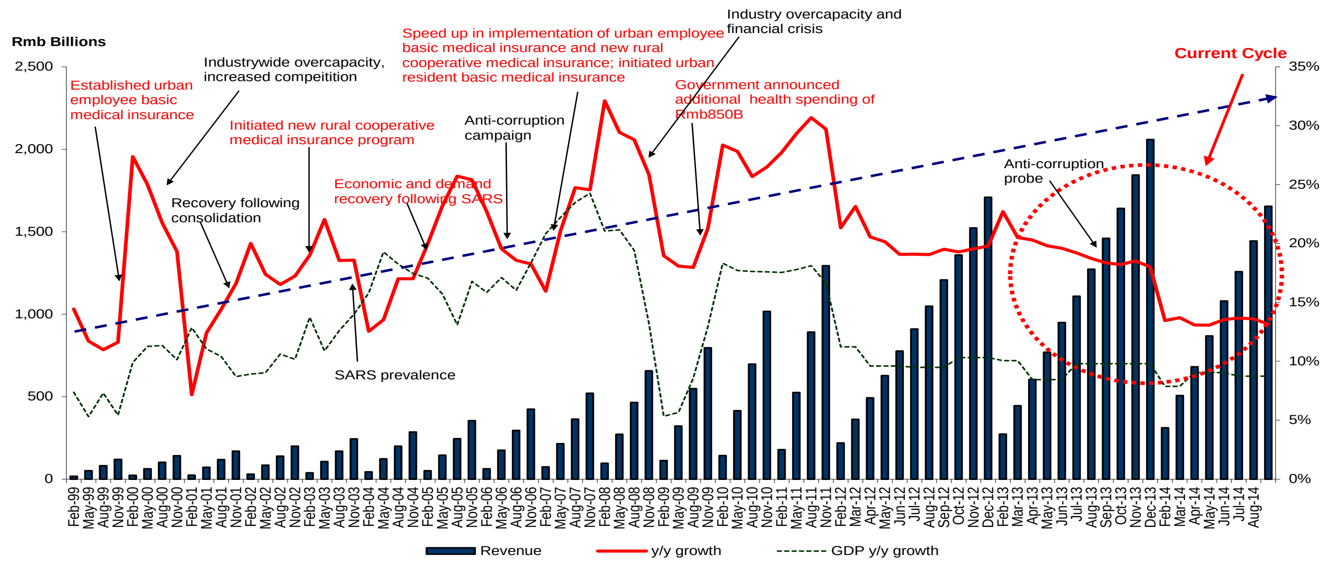
- **Korea: Fresh new negatives in domestic and export markets** – The introduction of the gov't's new compliance program and the failure of peripheral EM-focused exports will curb growth, in our view, pushing down valuations from >20x P/E. We prefer Seegene and Osstem, expecting their technology/channel leadership to support growth in global markets.

Healthcare: Top Buys

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Aurobindo Pharma	ARBN.BO	Buy	Rs1,119.15	Rs1,500.00	0.3	34.3	18.9	6.1	37.8
Now compares favorably to mid-cap peers on multiple operating & financial parameters. Execution excellence, scale and growth point to further re-rating									
CSPC Pharma	1093.HK	Buy	HK$7.11	HK$8.60	0.8	22.0	25.0	3.6	15.3
Solid growth in key drugs; well-established R&D platform and strong pipeline									
Fosun Pharma	2196.HK	Buy	HK$27.00	HK$38.00	0.7	41.4	18.8	2.5	14.2
Well positioned to seize growth in the hospital market; among the first-tier hospital acquirers in China with a focused expansion strategy through M&A									
Lupin	LUPN.BO	Buy	Rs1,465.00	Rs1,650.00	0.4	13.0	25.9	7.1	31.7
With dominance in key markets, differentiated products and industry-leading metrics, we believe Lupin will further re-rate as it makes progress on long-term growth avenues									
Nippon Shinyaku	4516.T	Buy	¥3;510	¥5,600	0.7	60.3	38.8	2.4	6.4
Selexipag showed promising Phase-3 data in 2014. The drug will be filed in 2015 and can be approved in 2015. This drug may generate ¥180bn retail sales at peak									
Ono Pharmaceutical	4528.T	Buy	¥10,560	¥14,000	1.7	34.3	95.7	2.4	2.6
Opdivo, an innovative immune-oncology drug already selling well in Japan, will be launched globally next year, and our expectation is for it to become a best-selling treatment									
Seegene	096530.KQ	Buy/1H	W49,000	W80,000	0.0	63.3	63.1	7.7	13.4
Disruptive innovator in the fast-growing molecular diagnostics (MDx) market; 57% EPS CAGR over 2014-17E on expanding global market share									

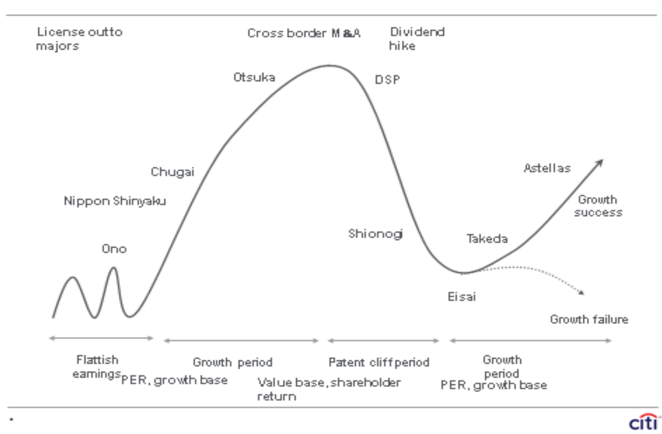
Source: Citi Research estimates

Figure 1. Chinese Pharma Market Cycle Analysis (1999~Sep 2014)



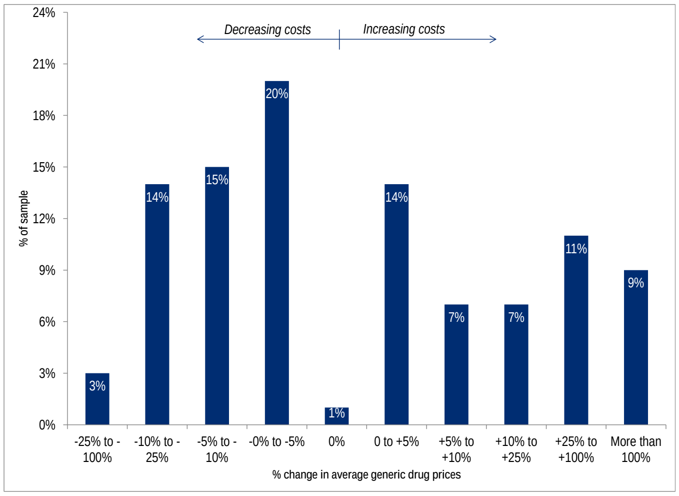
Source: Citi Research, Wind

Figure 2. Japan: Growth Pattern and Valuation to Be Used



Source: Citi Research

Figure 3. India: US Pricing Buoyancy to Drive Upgrades



Source: Drug Channels Institute Survey (Nov '14)

Insurance

Bias for Life Insurance over P&C

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- **Australia** – Challenges are increasing. The commercial lines insurance premium cycle is seeing downward pressure from excess capacity. Meanwhile, personal lines general insurers are still facing intense competition from new entrants and banks. The life insurance industry is dealing with increased levels of claims and lapses, albeit assumptions have been adjusted closer to actual experience. Even so, we wonder whether lapses will improve as quickly as some insurers assume.

- **China** – We believe the life insurance upcycle will sustain in FY15. NBV growth is likely to further accelerate driven by rising agent productivity, modest agent expansion and product mix improvement. Bancassurance may also return to positive NBV growth in FY15, off a low base. However, P&C underwriting profit may remain lackluster in FY15 given the uncertainty of auto insurance pricing deregulation. We believe the growth rate of non-standards would decline from here, and that asset quality concerns are likely overdone. We stay positive on China insurance, China Life in particular.

- **Korea** – We expect share performance to be driven by 1) market share gain, 2) dividend upgrade, 3) above average insurance profits and new biz growth. In this context, we prefer Samsung Life (sector-high insurance profit and new biz growth and sector-high dividend upside risk) and Korean Re (attractive risk-return, removal of second local reinsurer, and margin mean-reversion in domestic P&C).

- **Taiwan** – We remain conservative on insurers on the view that (i) FYP growth will likely slow following regulatory drive to control deposit-like insurance product distribution, (ii) risks on interest rate hike expectations delay, (iii) reduction in risk appetite on softer turnover in equity and property markets. We prefer Cathay over Fubon for Cathay's greater reliance on the agency channel.

- **ASEAN (SG/TH)** – **Singapore.** We expect Great Eastern to recover from soft 2014 premium growth, from an abnormally strong 2013 base, but also addressing weaker 2014 sales from its Singapore bancassurance channel. **Thailand.** Positive sentiment post-coup and banks' focus on selling savings products helped support mid-teen FYP growth in FY14. FY15 will be more challenging with return of competition between deposits-savings products.

Insurance: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
China Life	2628.HK	Buy	HK$23.00	HK$27.00	1.9	19.3	13.2	1.7	14.1
Under-appreciated reform progress and growth pick-up by the market could possibly surprise on the upside									
Ping An	2318.HK	Buy	HK$58.75	HK$86.00	2.2	48.6	8.4	1.3	17.4
Strong operating trends across all its business segments, the most visible NBV and earnings growth among insurers									
QBE Ins	QBE.AX	Buy	A$10.87	A$12.00	3.1	13.5	11.2	1.1	10.4
Offering access to a potential turnaround story and leverage to rising interest rates									
Samsung Life	032830.KS	Buy	W120,000	W130,000	2.1	10.4	19.7	1.1	5.8
Sector-leading growth in earnings, new biz growth and dividend; benefits from Samsung group restructuring									
Top Sell									
Bangkok Life	BLA.BK	Sell	Bt51.00	Bt50.00	0.3	-1.6	15.9	3.1	21.2
Reserve pressure from yield curve downward movement; sluggish FYP after previous sales of single premium product; keener competition from banking deposits in FY15									

Source: Citi Research estimates

Figure 1. APE, NBV and EV growth forecasts

		2011	2012	2013	2014E	2015E	2016E
APE							
China Life	Rmb mn	59,646	55,236	49,832	54,796	61,590	69,239
China Pacific	Rmb mn	19,304	17,367	17,257	19,949	23,039	26,546
China Taiping	Rmb mn	8,524	8,465	12,750	16,719	20,343	24,537
NCI	Rmb mn	19,494	16,337	12,559	15,576	16,728	19,144
Ping An	Rmb mn	42,643	41,264	45,752	52,862	61,329	71,570
AIA	US$ mn	2,251	2,562	3,148	3,567	4,037	4,624
Great Eastern	S$ mn	798	837	1,043	919	1,008	1,098
Hanwha Life	Won bn	2,345	2,933	1,634	2,473	2,616	2,763
Samsung Life	Won bn	3,807	5,193	2,959	3,833	4,146	4,428
Tongyang Life	Won bn	934	974	567	1,154	1,255	1,347
Dongbu	Won bn	2,219	2,284	1,409	2,000	2,080	2,163
HM&F	Won bn	2,469	2,670	2,403	2,499	2,599	2,703
Samsung F&M	Won bn	3,217	4,005	1,872	4,097	4,302	4,517
Cathay Life	NT mn	83,005	98,864	74,148	121,999	129,742	138,004
Fubon Life	NT mn	68,410	76,669	67,276	57,914	58,048	58,762
Bangkok Life	Bt mn	7,052	5,313	7,190	6,896	6,902	7,884
AMP	A$ mn	1,889	2,014				
New business value							
China Life	Rmb mn	20,199	20,834	21,300	22,922	25,376	28,690
China Pacific	Rmb mn	6,714	7,060	7,499	8,747	10,209	11,953
China Taiping	Rmb mn	2,244	2,304	3,148	4,387	5,590	7,036
NCI	Rmb mn	4,360	4,172	4,236	4,820	5,560	6,476
Ping An	Rmb mn	16,822	15,915	18,163	21,076	24,839	29,596
AIA	US$ mn	932	1,188	1,490	1,839	2,207	2,607
Great Eastern	S$ mn	365	353	423	386	423	460
Hanwha Life	Won bn	457	557	304	558	584	615
Samsung Life	Won bn	1,080	1,148	855	1,216	1,301	1,375
Tongyang Life	Won bn	160	116	64	138	150	161
Dongbu	Won bn	403	413	298	420	437	454
HM&F	Won bn	335	397	277	407	424	441
Samsung F&M	Won bn	696	935	482	1,141	1,198	1,258
Cathay Life	NT mn	46,000	50,000	51,000	53,040	55,692	58,477
Fubon Life	NT mn	28,000	31,700	28,742	29,403	30,364	31,641
Bangkok Life	Bt mn	1,605	1,911	1,862	1,675	1,729	2,153
AMP	A$ mn	385	370				
Embedded value							
China Life	Rmb mn	292,854	337,596	342,224	408,256	448,316	488,584
China Pacific	Rmb mn	113,564	135,280	144,378	161,339	176,486	192,726
China Taiping	Rmb mn	21,574	29,286	45,390	56,945	66,409	77,478
NCI	Rmb mn	48,991	56,870	64,407	77,729	89,725	102,658
Ping An	Rmb mn	235,627	285,874	329,653	392,091	447,155	510,006
AIA	US$ mn	27,239	31,408	33,822	37,372	41,746	46,733
Great Eastern	S$ mn	7,465	8,605	9,214	9,866	10,695	11,567
Hanwha Life	Won bn	7,735	7,030	8,617	9,370	10,906	11,922
Samsung Life	Won bn	23,741	24,863	23,965	26,847	30,653	35,279
Tongyang Life	Won bn	1,759	1,980	1,959	2,349	2,697	3,025
Dongbu	Won bn	4,117	4,917	5,296	6,035	6,893	7,823
HM&F	Won bn	3,652	4,250	4,382	5,640	6,429	7,233
Samsung F&M	Won bn	11,218	12,884	12,542	14,795	16,809	18,826
Cathay Life	NT mn	475,000	565,000	635,000	695,660	761,727	830,742
Fubon Life	NT mn	176,000	217,900	245,897	272,618	300,308	329,206
Bangkok Life	Bt mn	25,406	29,260	32,640	38,147	44,614	50,832
AMP	A$ mn	10,300	11,072				

Source: Citi Research

Internet & Games

All About Mobile Monetization

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- **Critical year for mobile internet transformation** – 2015 will focus on mobile monetization after a multi-year investment cycle. In 2014, China's BAT (Baidu, Alibaba and Tencent) extended their leadership from PC to mobile in search, games and e-commerce. Among mid-caps stocks, Vipshop and Ctrip look poised to capture opportunities as mobile is a perfect match with flash sales and travel. The focus for 2015 is hence about momentum of monetization across the mobile ecosystem for the BAT platforms and others, particularly around games, O2O, location-based services and internet finance.

- **Large-caps ramp up mobile monetization and embrace new opportunities** – China's BAT extended leadership to mobile in respective sub-sectors this year. Baidu's mobile traffic surpassed PC and the revenue contribution reached 36% of the total in 3Q14. Tencent's solid execution of its open platform strategy enabled it to capitalize on its strengths in social traffic through strategic partnerships with different vertical leaders. In mobile games, Tencent strengthened its backend infrastructure in 2H14 to enhance user engagement and solidify its market share. In online shopping, Alibaba has created a sustainable ecosystem with over 300m buyers and 8m sellers, with mobile contributing about 36% of GMV in its China retail marketplace in 3Q14.

- **Flash sales and travel are poised to surf the mobile internet wave** – Vipshop has a unique flash sales model, a perfect match for customers making impulse purchase decisions on mobile. It has successfully transitioned into mobile e-commerce, which contributed 57% of total GMV in 3Q14. As a consolidator in China's fragmented travel market, Ctrip has a strong brand with solid execution and is poised to ride the secular trend, amid low online travel penetration in China compared to overseas markets. Its mobile apps reached 200m accumulated activations covering diversified travel offerings.

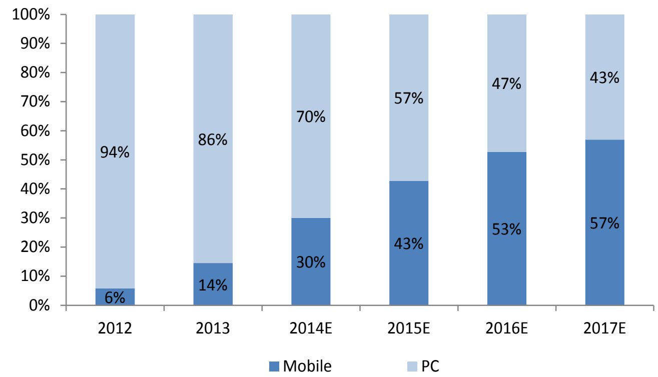
- **Regional focus** – Microchat and regionalizing China mobile games IP will continue to dominate the focus across SE Asia, Korea and Japan. In India and SE Asia we expect an intense private equity and VC focus, particularly in O2O and e-commerce.

Internet: Top Buys

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Alibaba	BABA.N	Buy	US$109.82	US$120.90	0.0	10.1	35.0*	9.5*	33.8*
Dominant ecommerce player that has created a sustainable ecosystem; asset-light model with nationwide logistics network through collaboration									
Gamevil	063080.KQ	Buy	W142,800	W160,000	0.0	12.0	21.5	3.9	20.0
Strategy of game download base expansion globally should make Gamevil a major player in the global mobile gaming scene in the long term									
MakeMyTrip	MMYT.O	Buy	US$28.40	US$39.00	0.0	37.3	n.a.	7.5	-9.0
Benefits from improving sector trends, M&A and macro uptick									
Tencent	0700.HK	Buy	HK$125.70	HK$151.00	0.3	20.4	30.0	8.3	32.2
Dominant SNS player with leading market shares in PC and mobile games; strengthening ecosystem through open platform strategy and partnership with category leaders									
Vipshop	VIPS.N	Buy	US$22.64	US$28.66	0.0	26.6	47.8	17.8	48.9
Leading player in online discount retail sales transforming into mobile ecommerce through a flash sales model									

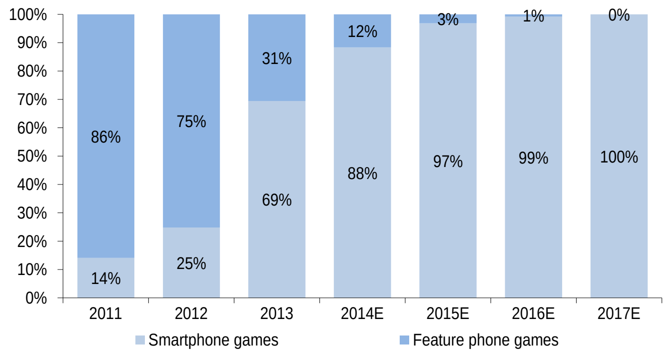
Source: Citi Research estimates, * for 12-months ended March 2016

Figure 1. GMV Mix Between PC and Mobile in e-commerce



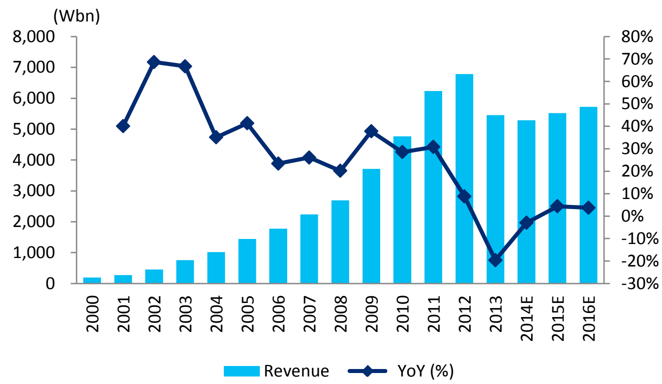
Source: iResearch

Figure 2. Revenue Mix Between Smartphone and Feature Phone Games



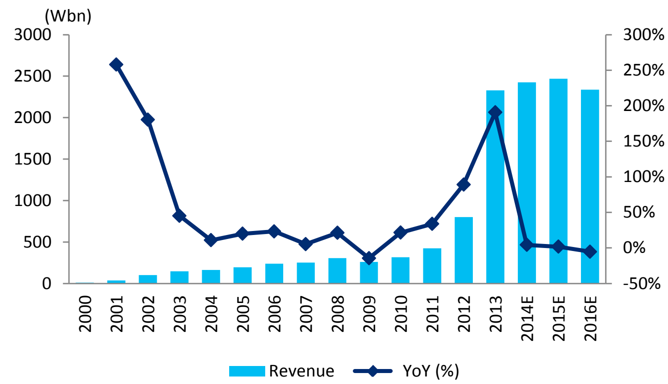
Source: iResearch

Figure 3. Korea - Online Game Market Size



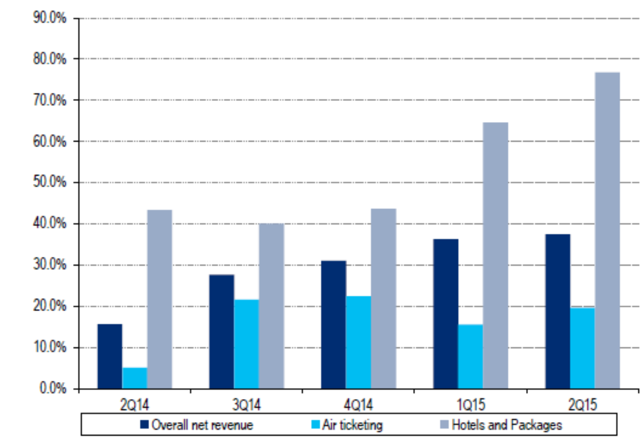
Source: 2014 White Paper on Korean Games

Figure 4. Korea - Mobile Game Market Size



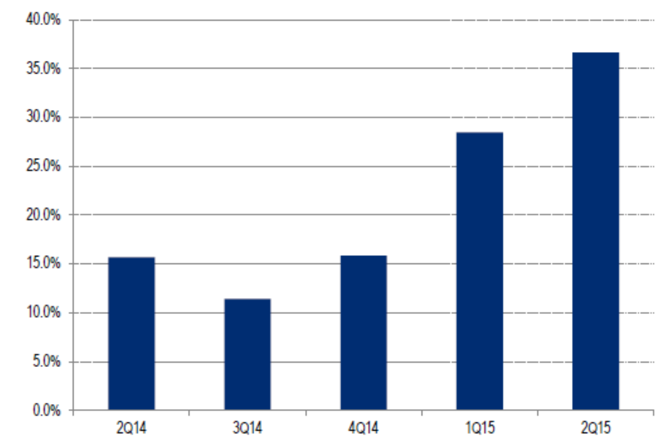
Source: 2014 White Paper on Korean Games

Figure 5. MakeMyTrip - Net Revenue yoy Growth (Total and segmental)



Source: Citi Research

Figure 6. MakeMyTrip - Operating Expenditure[1] yoy Growth



Source: Citi Research, Note:[1] Doesn't include personnel cost

IT Services

Take a Breather – Positives Priced In?

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- **Macro uplift not fully translating to revenue acceleration** — Top 5 companies grew ~12% yoy in 2QFY15 vs. ~15% in 2QFY14. This could be due to the changing IT services landscape and some impact of the law of large numbers. EBITDA growth was even slower at ~7% yoy (vs. ~36% yoy in 2QFY14), partly impacted by some INR appreciation yoy – materially slower than the recent quarter trends. Global peers are also reporting some moderation in bookings.

- **Changing IT services landscape** — (a) High market share in the applications business, particularly in US; (b) commoditization in some of the traditional service lines; (c) cloud/SaaS impacting enterprise solutions segment. Longer-term impact of cloud is something to watch out for.

- **Pricing pressure?** — While companies attribute the change in realizations to mix, this is something to monitor. Global peers have talked about pricing pressure and some Indian companies are also vocal about pressures in large deals as well as commoditization of some part of the business.

- **Medium-term growth drivers remain** — The industry can still grow at low double digits: (a) new markets like continental Europe offer growth opportunities (Europe Opportunity – The 'New Normal'); (b) newer technologies (analytics, mobility etc.) can become significant; (c) penetration is still low in the relatively new services lines (including BPO/ITO); (d) better capital allocation can support growth/multiples (M&A, Capital Return the Next Potential Catalysts).

- **We recently moderated our bullish stance** — The Indian IT services sector has seen strong outperformance (~40% in two years). Valuations are close to four-year highs of ~18x one-year forward earnings – difficult to be constructive here (Take a Breather — Positives Priced in?).

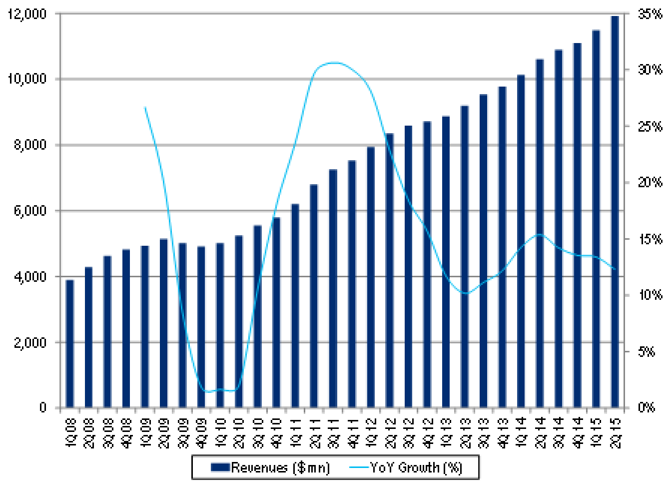
- **Currency/"relative argument" remain the wild cards** — INR remains the wild card – further depreciation from current levels can keep masking the pressures which businesses face. "Relative argument" in a buoyant India market context does help stocks recover fast from earnings disappointments and can lead to some absolute performance. However in the medium term, we expect fundamentals to prevail.

IT Services: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
HCL Tech	HCLT.BO	Buy	Rs1,639	Rs1,985	2.1	23.1	14.5	3.9	31
HCLT's portfolio and good execution should help deliver industry-leading growth. Valuations at ~13x FY16E appear reasonable									
Top Sells									
Tech Mahindra	TEML.BO	Sell	Rs2,672	Rs2,375	1.1	-10.2	19.4	4.6	27
TechM trades at premium to larger peers, which we think is not justified given higher portfolio concentration (telecom now ~55% of rev) and relatively lower cash generation									
Mindtree	MINT.BO	Sell	Rs1,211	Rs1,000	2.1	-15.6	17.4	4.6	29
Mindtree continues to deliver well, but this looks adequately reflected in the sharp re-rating in the stock and near-term catalysts are lacking									

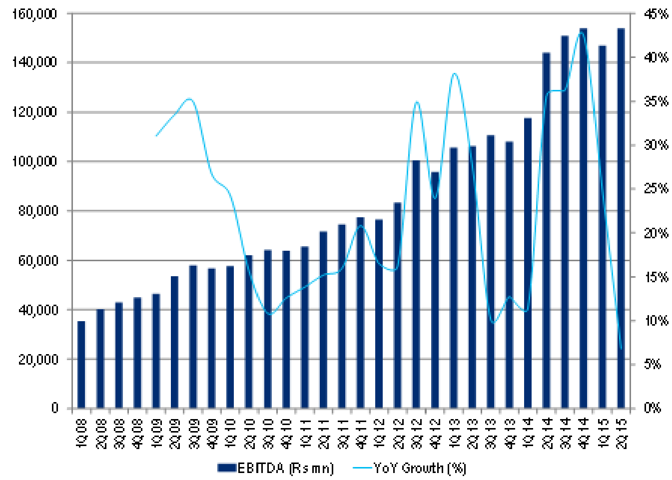
Source: Citi Research estimates

Figure 1. Offshore IT Services – Revenue Growth Is Coming Off



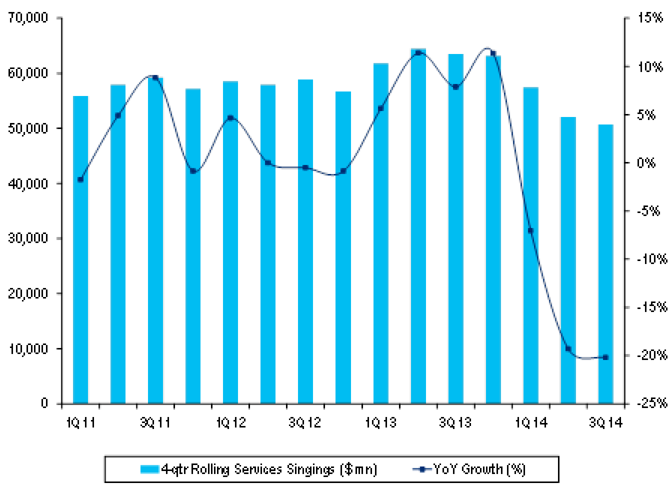
Source: Company Reports; Revenue growth for the top 4 Indian IT Services companies and Cognizant

Figure 2. Indian IT Services – EBITDA Growth At Multi-year Lows



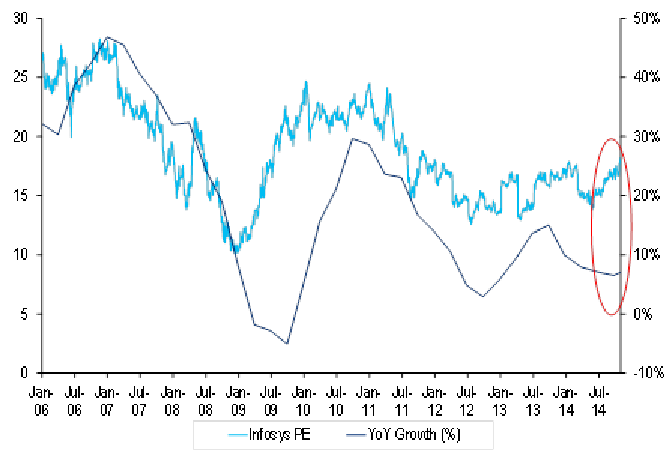
Source: Company Reports; EBITDA Growth for the top 4 Indian IT Services companies

Figure 3. IBM Services Signings Have Dropped Over Last 3 Quarters



Source: Company Reports, Citi Research

Figure 4. Infosys – Correlation Between Valuations & Revenue Growth



Source: Company Reports, Citi Research

Figure 5. BSEIT Index - Rolling 1-year Forward P/E

Source: Bloomberg, Citi Research

Figure 6. Reverse DCF - Growth Expectations Are Running Fairly High

	Infosys	TCS	Wipro	HCLT
10 year EBIT growth (%)	15.8%	19.0%	11.9%	9.9%
Terminal growth rate	4.0%	4.0%	4.0%	4.0%
Discounting Assumptions				
Cost of capital	13.2%	13.0%	12.6%	12.9%
Target Debt/Equity	0.0%	0.0%	0.0%	0.0%
Cost of Equity	13.2%	13.0%	12.6%	12.9%
Risk free rate	8.3%	8.3%	8.3%	8.3%
Equity risk premium	6.0%	6.0%	6.0%	6.0%
Beta - Bloomberg	0.82	0.79	0.72	0.77
Discounted Cash Flow				
DCF value	4,142	2,609	572	1,639

Source: Bloomberg, Citi Research

Metals & Mining

Slowing Growth vs. Increasing Supply

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Tatsuro Ochi / Japan

Sungmee Park / Korea

- **The Supply Differential** – The key differentiator of commodities performance is expected to remain the supply side, as demand growth is slowing but remains largely consistent across the base and bulk commodities suite. We are most bearish on iron ore in 2015 due to ~130mt of new cost supply being expected to hit the market almost regardless of price. Coal is further through the price-driven supply-curtailment phase and new projects are declining, which offers more upside as demand recovers. Nickel is our preferred base metal, but we also have aluminium and copper prices rising in 2015 as the supply growth rate slows.

- **Australia** – Partially offsetting lower commodity prices and likely further weakness for iron ore is the expected continued depreciation of the A$. Significant reductions across the industry in labour and input costs have also provided a cushion, although the collapse in iron ore prices has seen cash flow generation evaporate for the diversifieds and Fortescue despite this.

- **China** – With slowing demand, prolonged overcapacity and shares more or less pricing in a bearish commodity price outlook, we look for alpha opportunities in China. Steel is the sector opportunity, in our view. While steel demand will grow at ~1% in 2015, a new capacity slowdown and rising Chinese steel exports should ease local oversupply and margins can expand on lower iron ore price.

- **India** – While optimistic on demand with likely higher infrastructure spend (new gov't), India is not insulated from global commodity price trends. We focus on alpha drivers – self-help, capital structure, event-based triggers, dividend yield, and valuations. Additionally, areas of focus: 1) impact of Coal Mines (Special Provisions) Ordinance 2014 on domestic coal production and imports; 2) resolution of iron ore mining bans – impact on domestic pricing, imports, exports.

- **Indonesia** – Domestic demand is likely to improve with the new government focusing on infrastructure-related spending. We expect moves to limit coal supply, especially from illegal miners, and the building of more coal-fired power plants. In addition, coal producers have been benefiting from a lower exchange rate and lower oil prices (oil accounts for 30-40% of the total cash costs).

Metals & Mining: Top Buys and Top Sells

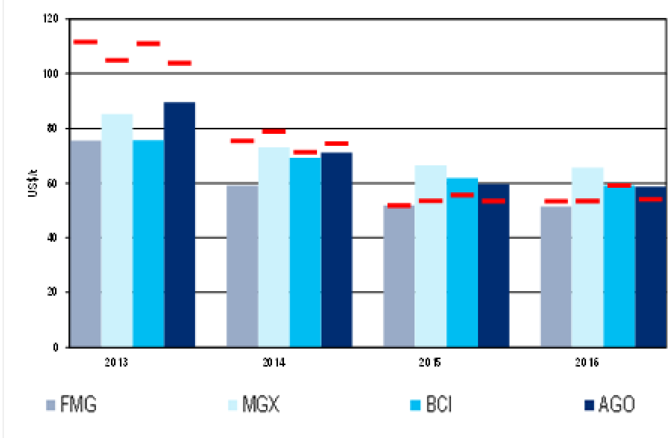
	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
Baosteel	600019.SS	Buy	Rmb4.59	Rmb5.85	4.6	32.1	8.9	0.6	7.1
High-end product mix ensures earnings visibility, valuation at 0.6x PB is more than 1SD below historical average. Strong BS, dividend yield at 5%									
Iluka Resources	ILU.AX	Buy	A$6.79	A$10.90	2.1	62.6	12.0	1.5	13.8
Benefits from lower A$ and we also expect a cyclical recovery in sales in 2015 driving strong cash flow generation as excess inventory is reduced									
Indo Tambang Raya Megah	ITMG.JK	Buy	Rp18,125	Rp31,950	8.9	85.2	6.4	1.5	24.5
Our only Buy-rated coal name in Indonesia on attractive valuation (6.4x FY15 PE) with strong B/S (US$350m net cash) and an exceptionally high yield									
Tata Steel	TISC.BO	Buy	Rs463.40	Rs615.00	2.2	34.9	17.2	1.1	6.3
Resilient India volumes, disconnect between steel price and raw materials to help TSL Europe's spreads and potential sale of its Long Products Europe business									
Top Sells									
Alumina Ltd	AWC.AX	Sell	A$1.72	A$1.40	1.8	-16.9	18.1	1.4	7.3
Although we expect bauxite and alumina prices to rise on Indonesian ore export ban, margin expansion looks to be more than priced in									
Harum Energy	HRUM.JK	Sell	Rp1,510	Rp1,310	4.1	-9.1	7.9	1.0	13.4
Weak 3Q14 results with combination of lower sales volume/production, lower ASP and higher cash costs likely to continue unless coal rebounds to >US$70/t									

Source: Citi Research estimates

Figure 1. Iron Ore Supply Growth Should Slow in Response to Falling Prices

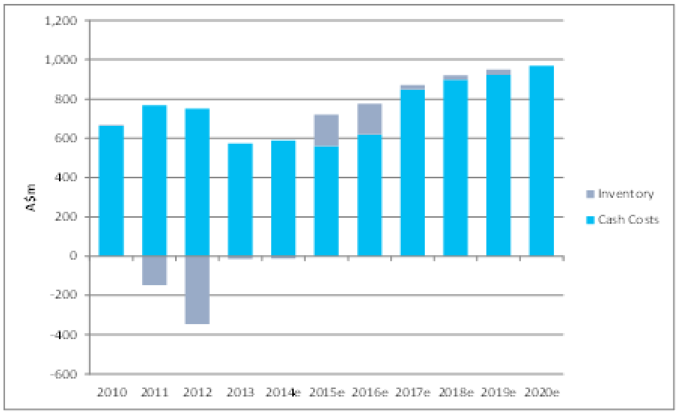
Source: GTIS, NBS, Citi Research

Figure 2. Realised Price (Red Line) v All-in Sustaining Cost (Bar) at Citi's Iron Ore Price



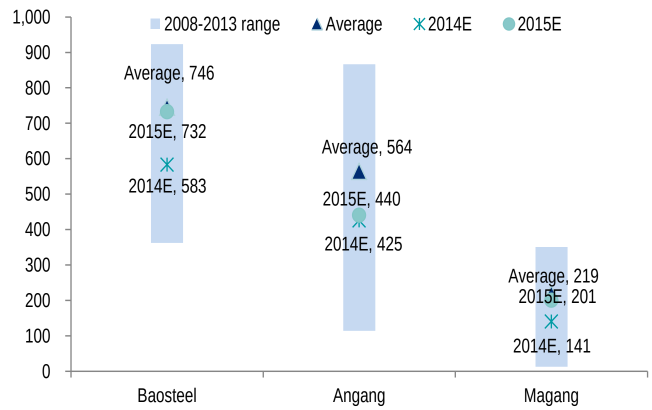
Source: Company Reports and Citi Research Estimates

Figure 3. Iluka: Cash Costs and Inventory Movement



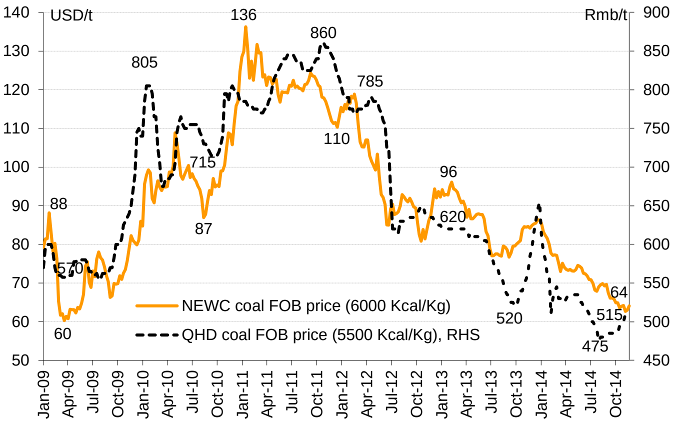
Source: Company Reports and Citi Research Estimates

Figure 4. China Steel to See Modest Margin Expansion in 15E



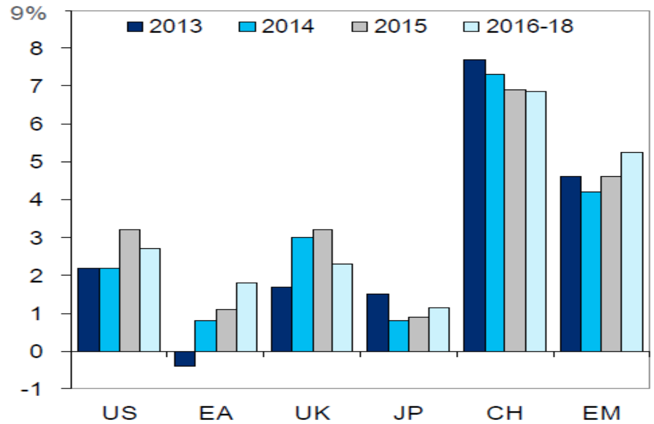
Source: Company reports, Citi Research Estimates

Figure 5. QHD vs. NEWC Coal Price



Source: SXCOAL, Citi Research

Figure 6. Citi Economic Forecasts For Selected Countries and Regions



Source: Citi Research forecasts as of Oct 2014

Oil, Gas & Chemicals

It All Depends on the Oil Price

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- **Oil price outlook** – Our global commodities team expects long-term Brent price between US$70-90/bbl. This is based on their assessments using four models: long-dated futures, Citi's "Fair Cost" Index, the Adelman Method and breakeven costs for marginal projects.

- **China Oils** – We forecast 28%/ 22%/ 30% recurring earnings drop for PetroChina/ Sinopec/ CNOOC in 2015 respectively as we assume US$85/bbl Brent in 2015, down from US$103/bbl in 2014. CNOOC is our top pick in the China oil big-cap space as we expect production growth to pick up in 2015 from four years of flattish growth from 2011-2014. Moreover valuation is attractive. We have a Sell on PetroChina as we believe consensus earnings estimate for 2015 is too high and there is risk of earnings downgrade on the street. We rate Sinopec as Neutral. Although the stock looks reasonably valued on an SOTP basis, valuation looks high on a whole-company PE basis. How management is to deploy the cash from marketing sell-down is the next thing to watch.

- **Chemicals** – We see naphtha crackers to benefit from low oil price and naphtha surplus. We stay positive on the global ethylene cycle in the next 2-3 years after cutting 2016/17 capacity growth to 3.1%/3.0%, given delays in US greenfield crackers and no new naphtha crackers in China over 2H14-2017. Our preferred products are ethylene, PE and PP. MEG and SM supply additions are limited but softer demand may cap margin upside. Phenol, AN, PTA, oxo-alcohols, CPL and synthetic rubber will remain tough on rising self-sufficiency in China.

- **India** – The regulatory environment is improving as the gov't announced the first round of reforms – gas price hike, diesel deregulation, and revival of DBTL. We are hopeful of further improvements in the subsidy-sharing environment through much needed transparency, improvement in the regulatory & investment climate for gas development, and incentivizing E&P. With global crude prices easing and lower subsidy burden, we are more positive on state-owned OMCs (all three are Buys), with HPCL as our preferred pick. Among upstream companies, ONGC remains our top pick. GAIL is our preferred gas sector stock.

Oil, Gas & Chemicals: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
CNOOC	0883.HK	Buy	HK$11.88	HK$15.00	3.0	29.2	11.0	1.0	9.8
We expect production growth to pick up in 2015, and valuations look attractive									
LG Chem	051910.KS	Buy	W204,000	W280,000	1.9	36.5	11.2	1.0	9.6
Beneficiary of naphtha surplus & low oil price; differentiated product mix. I&E vulnerable to Yen depreciation									
Lotte Chem	011170.KS	Buy	W169,000	W210,000	0.6	37.3	9.9	0.8	8.1
Most leveraged to naphtha surplus and low oil price, healthy PE/PP margins									
ONGC	ONGC.BO	Buy	Rs384	Rs440	3.5	17.5	9.7	1.6	17.2
1) Meaningful upside from lower subsidies, 2) material contribution from deregulated businesses, 3) less risky prod'n growth as new projects start coming online									
Siam Cement	SCC.BK	Buy	Bt448	Bt545	3.4	25.6	13.0	2.7	9.5
Healthy PE/PP margins. Brighter cement outlook in 2015. Beneficiary of naphtha surplus & low oil price									
Top Sell									
PetroChina	0857.HK	Sell	HK$8.7	HK$7.65	3.7	-8.4	12.1	1.0	8.6
We believe the consensus earnings estimate for 2015 is too high and valuation is not attractive on recurring earnings									

Source: Citi Research estimates

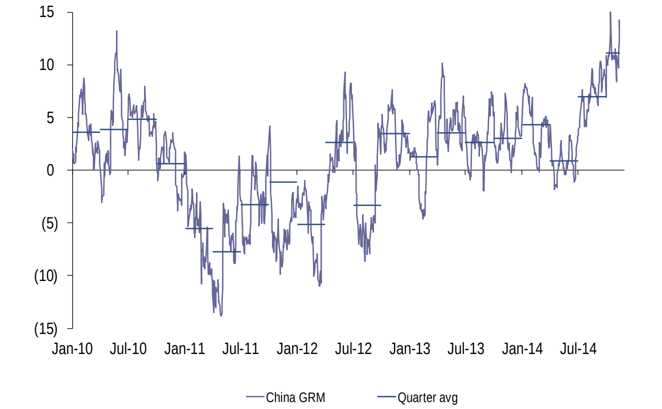
Figure 1. China Oils – 2015E EPS sensitivity to oil price and refining margin (Rmb)

Sinopec	Refining margin (US$/bbl)						
Brent (US$/bbl)	$3.6/bbl	$3.1/bbl	$2.6/bbl	$2.1/bbl	$1.6/bbl	$1.1/bbl	$0.6/bbl
105	0.67	0.64	0.60	0.57	0.53	0.50	0.46
100	0.64	0.60	0.57	0.53	0.50	0.46	0.43
95	0.60	0.57	0.53	0.50	0.46	0.43	0.39
90	0.57	0.53	0.50	0.46	0.43	0.39	0.36
85	0.53	0.50	0.46	0.43	0.39	0.36	0.32
80	0.50	0.46	0.43	0.39	0.36	0.32	0.29
75	0.46	0.42	0.39	0.35	0.32	0.28	0.25
70	0.42	0.38	0.35	0.31	0.28	0.24	0.21
65	0.37	0.34	0.30	0.27	0.23	0.20	0.16

PetroChina	Refining margin (US$/bbl)						
Brent (US$/bbl)	$3.2/bbl	$2.7/bbl	$2.2/bbl	$1.7/bbl	$1.2/bbl	$0.7/bbl	$0.2/bbl
105	0.92	0.89	0.87	0.84	0.81	0.78	0.75
100	0.86	0.83	0.80	0.77	0.74	0.71	0.68
95	0.79	0.76	0.73	0.70	0.67	0.64	0.62
90	0.72	0.69	0.66	0.64	0.61	0.58	0.55
85	0.65	0.63	0.60	0.57	0.54	0.51	0.48
80	0.59	0.56	0.53	0.50	0.47	0.44	0.41
75	0.52	0.49	0.46	0.43	0.40	0.37	0.34
70	0.44	0.41	0.38	0.35	0.33	0.30	0.27
65	0.36	0.33	0.30	0.27	0.25	0.22	0.19

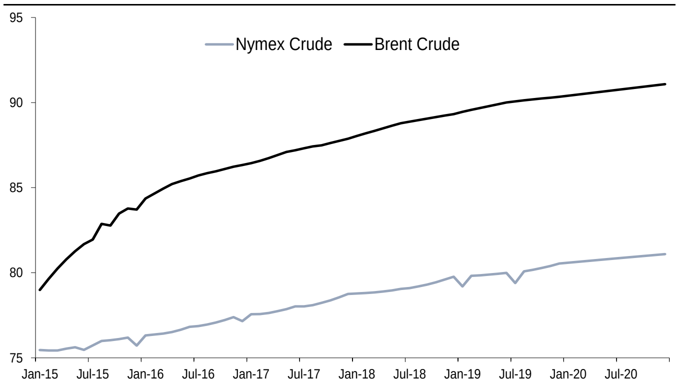
Source: Citi Research

Figure 2. China Domestic GRM (US$/bbl)



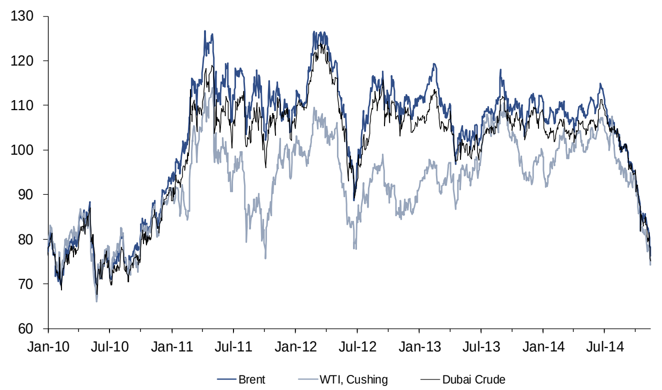
Source: Bloomberg, NDRC, Citi Research

Figure 3. Brent/WTI Forward Price Curve (Contango/ Backwardation – US$/bbl)



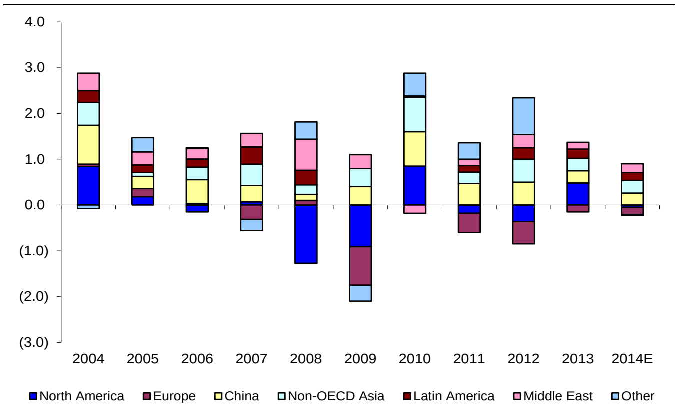
Source: Bloomberg, Citi Research

Figure 4. Brent, WTI and Dubai (US$/bbl)



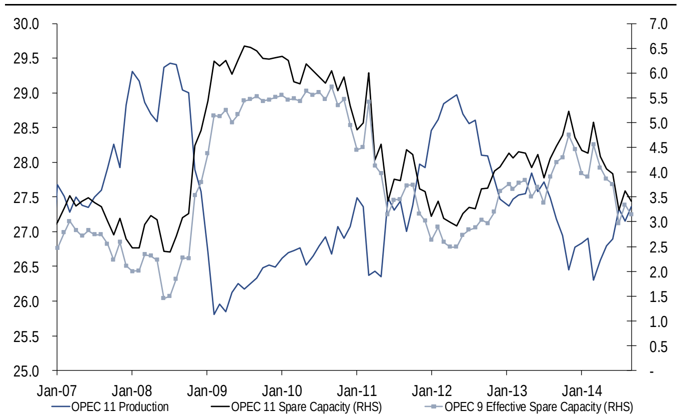
Source: Bloomberg, Citi Research

Figure 5. IEA Forecasts – Global Oil Demand Growth (mbpd)



Source: IEA, Citi Research

Figure 6. OPEC Production and Spare Capacity (mbpd)



Source: Bloomberg, Citi Research

Property

Selective Picks Amid Divergent Regional Outlook

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- **China: Potent policy easing to stabilize market; Liquidity loosening cycle begins** – Powerful policy loosening in 2H14 (*interest rate cut, mortgage loosening, removal of HPR*) should underpin stability in the property market in 2015. With a new liquidity loosening cycle just beginning – we expect total 100bps rate cuts before 1H15 (and several RRR cuts) – and more economic reforms to come, we believe the benign macro setting favors the property sector to outperform in 2015.

- **Hong Kong: Developers preferred to landlords/REITs** – Differing yet again from the Street's estimate of a 5-20% decline, we forecast HK home prices will rise 8% in 2015 even if the rate cycle turns in 2015E. Developers will therefore continue to outperform landlords and REITs, in our view, benefiting from both rising prices and higher transaction volumes. We are less positive on landlords/REITs on a flat rental outlook and higher long bond yields.

- **Singapore: Looking for inflexion points** – In 2014 YTD, S-REITs (+8%) outperformed developers (+4%) as well as the broader market (+6%). S-REITs are trading at 0.6 stdev above historical mean while developers are at 0.9 stdev below. Heading into 2015, we see inflexion points for both segments – the S-REITs will grapple with a likely rate hike scenario while the developers should see further deterioration in operating environments in Singapore and China.

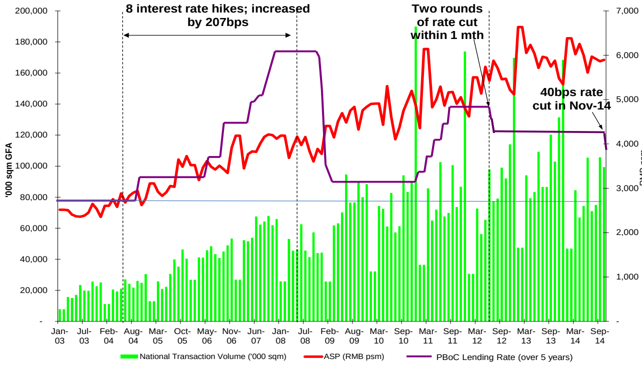
- **India: Demand closer to historical bottom** – While decline in residential absorption (~20% yoy) is still substantial, the pace of demand decline has moderated in recent quarters. A reform-focused government has caused some pick-up in confidence. But we believe full recovery is some time away, and prefer developers with healthier balance sheets, cash flows and transparent NAVs.

Property: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E Yield (%)
Top Buys									
A-REIT	AEMN.SI	Buy	S$2.26	S$2.54	6.5	18.8	15.7	1.1	6.2
Potential turnaround story; track record of sourcing assets with good-quality specifications									
COLI	0688.HK	Buy	HK$20.40	HK$28.00	2.6	39.9	7.8	1.2	2.6
Solid track record, steady growth and a strong financial position make it a likely industry consolidator									
CR Land	1109.HK	Buy	HK$17.38	HK$22.70	2.6	33.2	10.6	1.1	2.4
Recently announced injection of decent assets should be a positive inflection point; high-quality IP portfolio provides resilience in a market downturn									
Kaisa	1638.HK	Buy	HK$2.79	HK$4.08	6.1	52.3	3.3	0.5	6.0
Visible pipeline, growth momentum, and attractive valuations. Differentiated from smaller peers by its scalability and its edge in procuring urban redevelopment projects									
Poly China	600048.SS	Buy	RMB5.88	RMB8.10	3.9	41.6	5.6	0.9	3.6
Deep-rooted penetration in core prime cities, consistent execution, leverage off its parent's wide business scope and privileged funding costs as an SOE									
SHK PROPS	0016.HK	Buy	HK$112.80	HK$150.90	3.0	36.7	14.7	0.7	2.9
Direct beneficiary of a continuing recovery in HK residential sentiment as the most aggressive buyer of HK residential landbank over the past two years									
Sunac	1918.HK	Buy/1H	HK$6.18	HK$9.20	4.9	53.8	4.3	0.9	4.7
With visible pipeline ready to begin contributing to sales, we expect the stock to re-rate as continuing evidence of financial management offers comfort to the market									
Vanke	000002.SZ	Buy	RMB9.37	RMB14.00	5.0	54.4	5.7	1.0	5.2
On-track growth momentum and better protected core net margin due to lower overall borrowing costs with access to more funding channels									
Top Sell									
Hang Lung Ppt	0101.HK	Sell	HK$22.50	HK$20.55	3.3	-5.3	13.9	0.8	3.2
Structural de-rating likely to continue due to: 1) China's corruption crackdown hitting luxury spending; 2) mall oversupply, esp. in tier-2 cities; 3) surge in online retail sales									

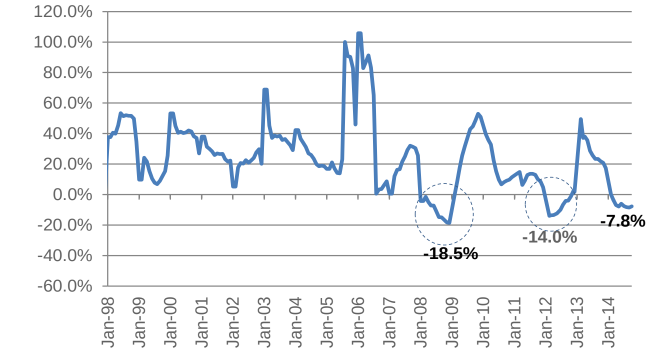
Source: Citi Research estimates

Figure 1. China Property – Interest Rate and Transaction Volume



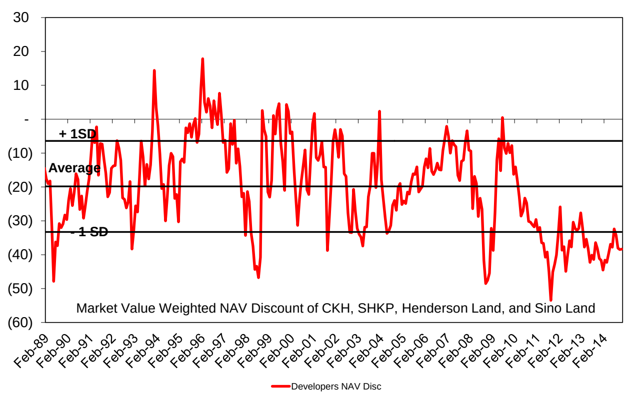
Source: PBOC, NBS, Citi Research

Figure 2. China Property – YoY Growth in Property Sales Volume



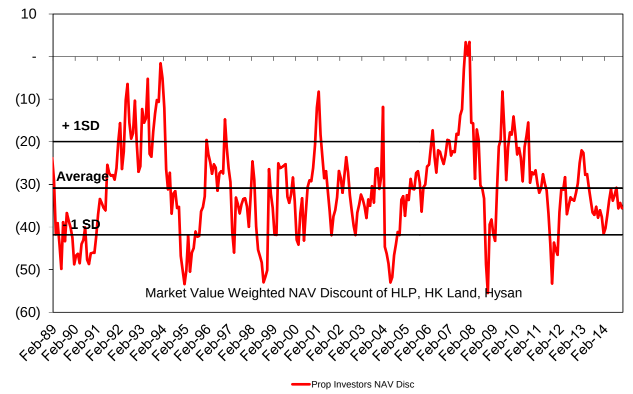
Source: NBS, Citi Research

Figure 3. HK Property — NAV Discount of Developers (17 Nov 2014)



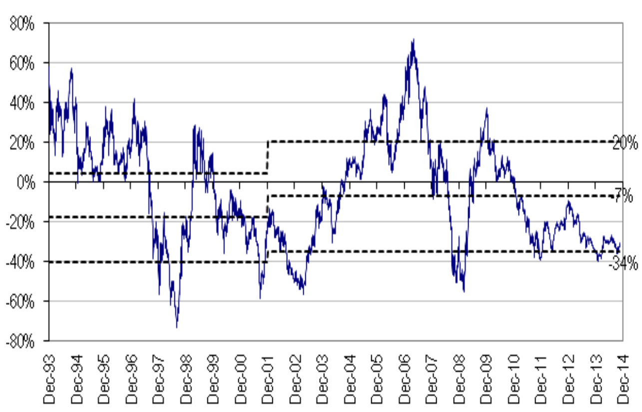
Source: Company; Citi Research

Figure 4. HK Property — NAV Discount of Landlords (17 Nov 2014)



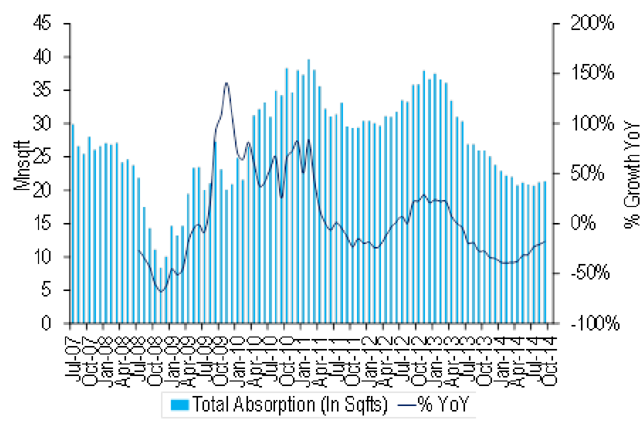
Source: Company; Citi Research

Figure 5. Singapore Developers – Price to RNAV



Source: dataCentral, Citi Research

Figure 6. India Property - Residential Demand: Some Bottoming Out



Source: Prop Equity, Citi Research, * 11 key cities in India excluding Mumbai

Semiconductors & TFT-LCDs

Competitive Landscape Largely Intact; New Technology and 4G LTE Driving Demand

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- **Foundry: 20nm/16nm ramp in 2015** – 4G LTE roll-out and smartphone demand in emerging markets will continue to drive overall foundry sector demand in 2015. Besides Apple, other communication chip vendors will migrate to 20nm in 2015, and TSMC/Samsung's 16/14nm production at end of 2Q15 suggests next generation A9's migration to FINFET. With limited expansion, trailing-edge 8" capacity for the major foundries in Asia would continue to be tight in 2015.

- **OSAT: sector margin expansion continues** – Our thesis of an upward margin trend in the OSAT sector from 2013 onward (thanks to increasing operating leverage, improving efficiency and maximized operation) is playing out, and low raw material price is another positive. Technology migration of communication chips continues driving high-end OSAT demand, such as FC CSP/bumping/SiP.

- **Memory: Multi-year growth on low supply from technology complexity –** Lean DRAM inventory will result in only moderate price decline in 1H15E. Despite mid-term oversupply concern on recent capex hike/new fab plan, we expect DRAM industry supply growth rate will remain at low level of ~25% given increasing complexity (difficulty) in new advanced technology nodes, which will not lead to significant supply glut, price collapse and cyclical downturn. We also expect NAND chip scaling challenges in new technologies (3DNAND and 16nm Quad-Patterning) will limit actual supply growth.

- **TFT: Healthy supply-demand environment extending to 2015** – We are positive on TWN panel makers, premised on: 1) additional LCD TV panel demand after major plasma TV makers cease PDP production; 2) stabilizing panel price with less inventory concern; 3) rising contribution from premium TV products (curved/UHD) as well as continuous size migration. The improving industry dynamics and product offerings should support secular earning growth.

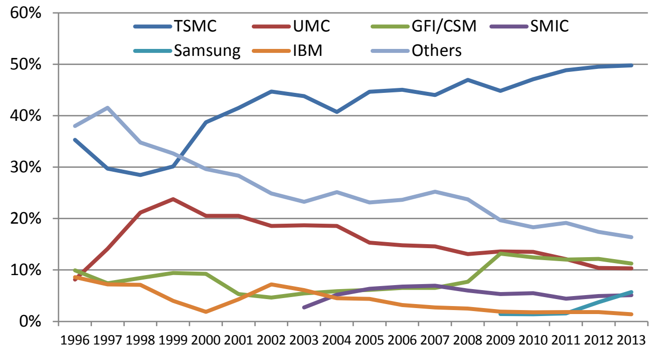
- **Touch: Beneficiary of rising IoT opportunities** – We expect the industry to see multiple new growth drivers by tapping into Internet of Things (e.g. wearables, connected cars). Pick-up of touch NB/Chromebook demand is another positive.

Semiconductors & TFT-LCDs: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
LG Display	034220.KS	Buy	W34,450	W45,000	0.0	30.6	8.5	0.9	11.6
New premium mobile panel cycle along with stable commodity TFT-LCD panel pricing will be the key catalysts									
SK Hynix	000660.KS	Buy	W46,450	W65,000	0.0	39.9	7.2	1.6	24.5
Key beneficiary of multi-year positive memory growth. Confirming DRAM sustainability / improving NAND (3D, SSD) capability will be key catalysts for rerating									
TPK	3673.TW	Buy	NT$191	NT$235	0.2	23.3	11.4	1.3	11.9
Regain earnings power in 2015E/16E by tapping into Internet of Things (IoT) opportunities including iWatch (from 4Q14) and connected cars (2015/16)									
TSMC	2330.TW	Buy	NT$138	NT$160	2.2	17.7	12.5	2.9	25.3
Strong 20nm ramp to continue in 2015. We expect TSMC to outperform on its sustainable technology leadership in 28nm, 20nm and 16nm									
Top Sells									
Mediatek	2454.TW	Sell	NT$445	NT$360	4.0	-15.0	18.7	2.8	15.2
We expect MTK to underperform given its lagging position in 4G LTE solutions, inferior margins in 4G (compared to 3G), and the trend of low-priced LTE smartphones									
Sharp	6753.T	Sell	¥293	¥220	0.0	-24.9	21.2	1.9	10.2
Financial condition remains crucial and Sharp's guidance for Jan-Mar has risk of shortfall in small size LCD panel									

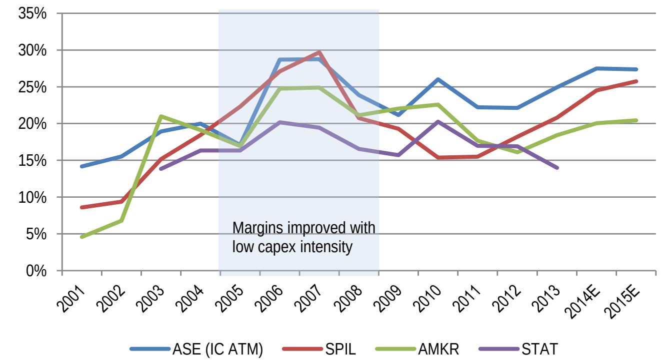
Source: Citi Research estimates

Figure 1. Foundry Market Share Trends



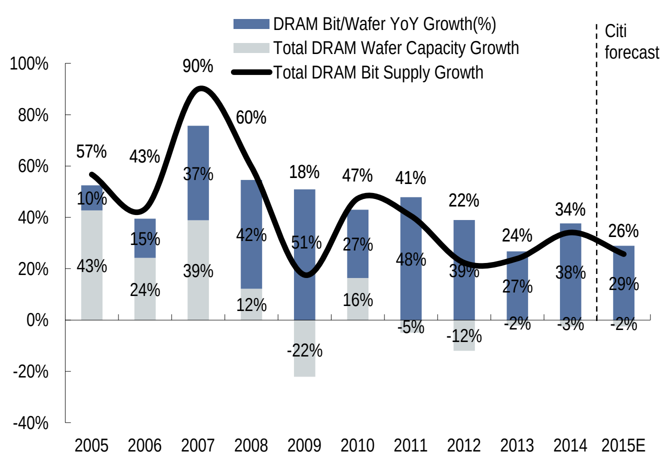
Source: Gartner

Figure 2. Gross Margin Trends of Top 4 OSAT Makers



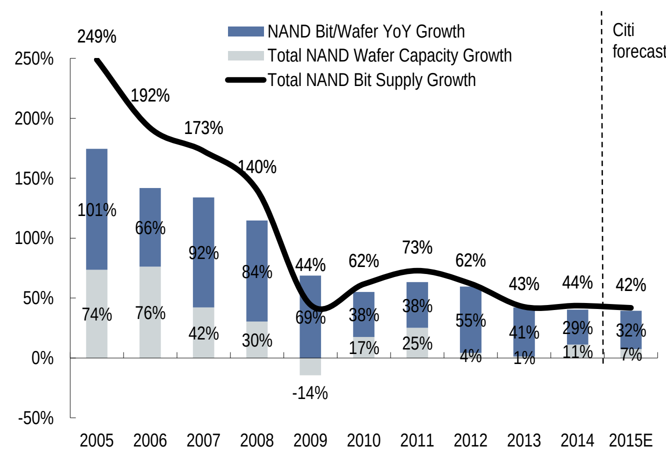
Source: Company data, Citi Research

Figure 3. DRAM Supply Growth Forecast



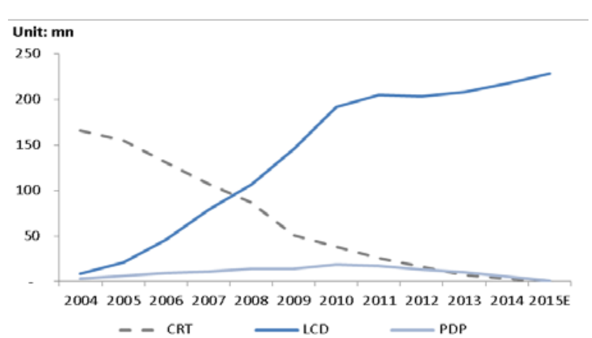
Source: WSTS, Company data, Citi Research estimates

Figure 4. NAND Supply Growth Forecast



Source: WSTS, Company data, Citi Research estimates

Figure 5. Global TV Shipment by Technology



Source: DisplaySearch, Citi Research

Figure 6. Market Value of Auto Sensing System (Camera) and Displays (LCD Panel + Touch)

US$ bn	2014E	2016E	2020E	*2014-20 CAGR*
Whole-Sensing Camera	1.6	5.0	8.2	*31%*
Display Module	4.0	4.8	5.7	*6%*
Touch Module	0.2	0.7	2.1	*46%*
Subtotal	**5.8**	**10.5**	**15.9**	***18%***

Source: DisplaySearch, TSR Report, Citi Research estimates

Small/Mid-Caps

Be Long Greater China

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- **ASEAN is increasingly expensive** – Top Asia small-cap performers YTD 2014 are India (+21%), Thailand (+14%), Korea (+11%) and Malaysia (+3%) compared with Pan Asia x J being flat. Greater China is an underperformer, down 5-12%. Thailand / Malaysia are trading at 22-44% premiums to their P/B means. Given the end of QE in Oct and expectation of US rate upcycle from end-2015, ASEAN is exposed to downside risk. We are bullish on Greater China for lower valuation (c9% discount to mean) and the start of a rate downcycle in China.

- **China rate cut is an inflection point** – China has begun a rate downcycle and we expect two more rates cut till 1H15. Highly geared and deep cyclical stocks should be among the winners, including *Nine Dragons (2689.HK)* and *Zoomlion (1157.HK).* Property-related sector will also benefit. We like *Haier (1169.HK)* for its leading position as a maker of washing machines and water heaters. Rate cut also should boost corporate confidence, raising capital goods investment. *Haitian (1882.HK)* has earnings upside risk. Lower funding costs also aid local governments to finance social housing build. Earnings profile of *CSCI (3311.HK)* should further improve given it is a proxy for social housing construction.

- **Remain positive on China exporters** – Improving US/EU economies in 2015 should aid top-line growth for China exporters. Our stock preferences are *Yue Yuen (0551.HK), Techtronic (0669.HK), Vtech (0303.HK)* and *King Slide (2059.TW)*. But we have a Sell rating on *Pacific Textiles (1382.HK)* for rich valuation not factoring in cotton price downtrend next year.

- **Greater China consumption** – We like *Poya (5904.TWO)* for its leading position in female discretionary products in TW and its continued network expansion. In the China market, we are positive on the accelerating momentum of low-priced smartphones. *Sunny Optical (2382.HK)* should a key winner given the heavy exposure of handset camera modules to domestic brands. Growing popularity of vehicle lens among US/EU automobile industry is a strong driver as well.

Small/Mid-Caps: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
China State Cons	3311.HK	Buy	HK$10.98	HK$16.60	3.0	53.6	9.7	2.1	22.2
Key proxy to China's affordable housing investment in 2011-15 providing long-term growth opportunity and potential asset injection from parent									
Haier Electronics	1169.HK	Buy	HK$19.92	HK$26.40	0.7	33.3	13.6	3.2	28.0
Margin has upside risk on the back of low steel costs for mfg segment (~60% of EBIT) and efficiency gains on integrated channel services (~40% of EBIT)									
Haitian	1882.HK	Buy	HK$16.20	HK$18.30	2.4	15.4	14.12	2.6	18.9
Largest PIMM company with a 30-35% mkt share by volume and well positioned to win further share from China's PIMM upgrading trend and import substitution									
Poya	5904.TWO	Buy	NT$236.50	NT$237.00	3.4	3.2	24.9	8.8	36.9
20% earnings CAGR over next 3 years led by accelerating store expansion and low store penetration in Taiwan									
Sunny Optical	2382.HK	Buy	HK$13.98	HK$16.30	1.7	18.1	14.5	3.0	22.8
Earnings growth led by migration into 4G era and phenomenal growth of vehicle lens shipment									
Yue Yuen Ind	0551.HK	Buy	HK$27.50	HK$31.00	4.8	16.5	10.9	1.2	12.1
Margin expansion ahead (from 19% in 2013 to 21-22% in 2016E on footwear mfg arm) driven by plant relocation into Vietnam and Indonesia									
Top Sell									
Pacific Textiles	1382.HK	Sell	HK$10.34	HK$9.00	5.9	-6.5	15.3	4.0	25.4
Slower sales growth momentum and weak ASP trend given on-going lower cotton yarn prices									

Source: Citi Research estimates

Figure 1. Ranking of Small-cap P/B Among Asian Markets – Thailand the Most Expensive and Indonesia the Cheapest

	Oct-14	Historical range since 1996 Historical avg	Lowest	Highest	Premium / discount: current vs mean
Asia ex JP & AUS	1.4	1.4	0.6	2.5	0%
Thailand	2.2	1.5	0.4	3.0	44%
S. Korea	1.3	1.0	0.3	2.3	30%
Malaysia	1.5	1.3	0.6	2.8	22%
HK	1.1	1.1	0.4	2.2	1%
Singapore	1.1	1.2	0.4	2.1	-5%
India	2.1	2.2	0.8	5.3	-8%
Taiwan	1.4	1.5	0.6	3.2	-9%
China	1.2	1.3	0.3	4.6	-9%
Indonesia	1.7	2.0	0.3	6.9	-15%

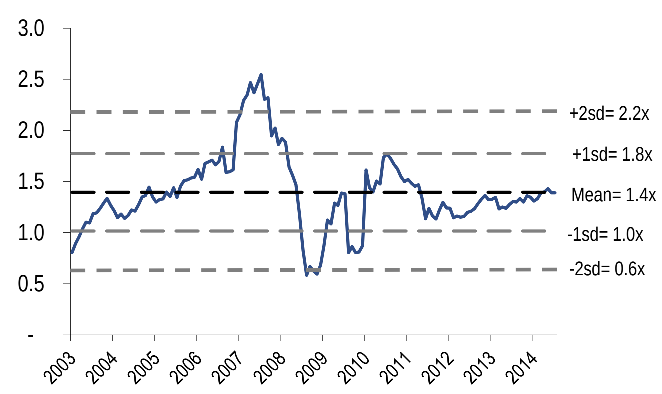
Source: Citi Research, S&P

Figure 2. Citi S&P Small-Caps Relative Performance (Small-Caps vs. Large-Caps) By Markets, 2000-14 YTD

Relative Performance	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	2014YTD
Pan Asia x Japan	-4.1%	11.7%	9.2%	14.0%	0.0%	4.1%	2.4%	4.0%	-7.3%	28.8%	1.0%	-7.6%	-1.0%	-0.5%	2.6%	-1.7%	1.7%	-0.3%
India	2.6%	10.1%	15.2%	70.5%	10.8%	-7.3%	-2.0%	28.6%	-9.4%	39.9%	-2.5%	-10.8%	17.8%	-16.2%	-0.2%	18.7%	-3.0%	20.5%
Thailand	9.5%	18.5%	-9.5%	-79.3%	-7.3%	-21.3%	4.7%	-25.3%	-3.5%	32.5%	8.5%	-5.1%	10.7%	-1.0%	2.5%	4.9%	5.2%	13.6%
South Korea	-5.9%	22.7%	-9.2%	16.4%	0.5%	34.1%	4.5%	25.5%	-4.3%	-10.7%	-11.9%	5.0%	-12.1%	-0.7%	6.4%	-2.5%	10.4%	11.4%
Malaysia	-15.8%	1.9%	-1.5%	-4.0%	-14.7%	-15.9%	21.5%	2.9%	-12.3%	17.5%	5.2%	-3.5%	0.8%	8.8%	4.0%	3.5%	3.3%	2.5%
Singapore	-0.3%	16.2%	18.3%	22.2%	9.7%	17.3%	6.0%	1.5%	-13.1%	26.3%	1.3%	-4.8%	15.3%	-5.6%	4.3%	-0.3%	-3.7%	-4.9%
China	19.7%	18.4%	-19.1%	-69.1%	-4.9%	-4.9%	-8.8%	10.7%	-4.3%	58.5%	6.7%	-16.1%	5.3%	11.8%	4.5%	-6.9%	-0.5%	-5.0%
Hong Kong	-8.0%	18.0%	15.4%	43.8%	-4.4%	-8.4%	2.1%	-10.0%	-10.2%	39.0%	-9.1%	-15.7%	-10.9%	5.6%	-0.1%	-6.5%	2.7%	-6.3%
Indonesia	-2.0%	-10.4%	10.5%	1.5%	-8.6%	22.1%	-9.4%	2.3%	-10.3%	-36.7%	26.0%	-1.1%	5.6%	-6.6%	6.0%	-9.0%	-2.5%	-8.2%
Taiwan	-6.5%	13.1%	17.0%	-8.5%	-5.0%	0.6%	7.0%	-5.4%	-3.0%	50.6%	-6.8%	-10.1%	6.2%	13.6%	5.1%	-4.0%	-2.9%	-12.4%
Australia	-4.9%	4.1%	9.8%	-43.1%	17.0%	-1.9%	3.7%	-3.7%	-11.6%	19.3%	11.9%	-4.3%	-9.5%	-10.8%	-0.5%	-1.4%	1.0%	-3.1%
Japan	13.7%	8.2%	8.2%	13.8%	6.2%	12.5%	-17.6%	-4.7%	8.8%	-0.4%	5.1%	10.3%	-2.5%	-3.3%	3.4%	1.7%	-0.9%	-0.3%

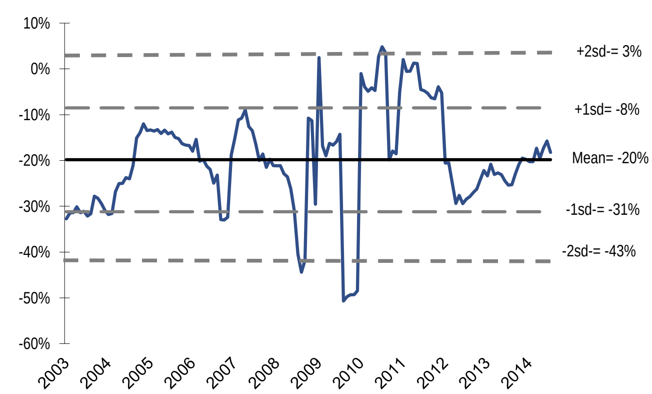
Source: Citi Research, S&P

Figure 3. Citi S&P Asia Pacific ex-Japan Small Caps: Historical P/B



Source: Citi Research, S&P

Figure 4. P/B Discount of Small-Cap vs. Large-cap in Asia x Japan



Source: Citi Research, S&P

Telecoms

Cautious as Higher US Rates Impact Yield Support

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- **Five-year sector bull-run can end with higher rates** — Asian telcos had been a great trade over the last 1-5 years, ranking #1 in returns among the MSCI sector indices in a 3-5 year period. Cheap money allowed the operationally unimpressive telcos a long period of absolute and relative outperformance given their high-yield characteristics. With low interest rates fueling the party, the high-yield telcos looked a lot more attractive than they normally would. The key change now is that the US Fed's bond re-purchase/QE program, which had helped deflate bond yields, is confirmed to have ended in October 2014. Sector upside opportunity is now more limited and downside risk is magnified.

- **Low rates are priced in given stretched valuations, higher rates aren't**— Citi expects bond yields to rise in US/EU/JPN in 2015. Admittedly, there are arguments against this, such as lower oil prices which afford a looser monetary policy as well as EU/JPN's own QE program in the horizon. However, we think Asian telcos are now stuck with an unfavorable risk-reward option. The market had already been pricing in the low interest rate environment, as evidenced by stretched valuations and dividend yield compression. Unless bond yields *decline further* from current low levels, we see a low likelihood of further outperformance for the crowded telco yield plays. On the other hand, yield de-rating is a risk. If bond yields go up, highly correlated dividend yields could follow and, in the absence of earnings/pay-out growth, this would be driven by price declines.

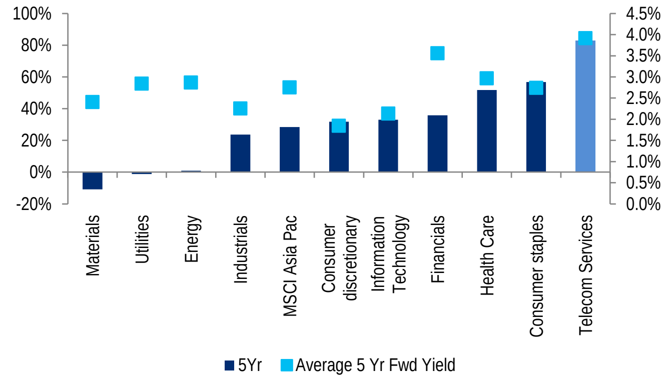
- **Our sector picks** — Given the risk, we find discretion to be the better part of valor. We prefer mainly the relatively under-owned names in markets where optimism has been more contained or faced recent de-rating or underperformance, such as China, India, Korea, and Thailand. Our preferred stocks are China Mobile, Bharti Infratel, SKT, and AIS. We reiterate our Sells on the crowded high-yield, low-growth names – M1, StarHub, TM, Maxis and CHT.

Telecoms: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
AIS	ADVANC.BK	Buy	Bt237.00	Bt280.00	5.2	23.3	16.7	14.5	89.4
.Aggressive investment will allow resumption of leadership in 3G network, in turn driving superior voice/data growth as well as market share. Strong dividend yield protection									
Bharti Infratel	BHRI.BO	Buy	Rs297.00	Rs340.00	2.5	17.4	26.8	3.1	12.1
Room for rising asset colocation as operators start to move towards LTE. Increased mobile competition actually plays into the hands of Infratel given capacity needs									
China Mobile	0941.HK	Buy	HK$94.85	HK$115.00	3.2	24.5	13.2	1.7	13.0
Move into LTE space, coupled with cheap and wide-ranging handset offerings vs. peers, should allow gains in service revenue and EBITDA market shares in FY14-16E									
SKT	017670.KS	Buy	W283,500	W360,000	3.3	30.3	9.5	1.4	15.9
Greater transparency on handset subsidy given regulation raises room for rationality. Dividend push from the gov't could see SKT being more aggressive on pay-outs									
Top Sells									
Maxis	MXSC.KL	Sell	RM7.06	RM5.50	5.7	-17.3	26.1	11.3	41.7
Operating performance is well behind that of peers with continuous revenue & subs market share losses. Looming payout cut will also put pressure on share price in FY15E									
Starhub	STAR.SI	Sell	S$4.13	S$3.52	4.8	-9.9	18.7	51.8	NM
One of key beneficiaries of yield-led share price performance. Structural challenges include OTT cannibalization in Pay TV space and aggressive competition in broadband									

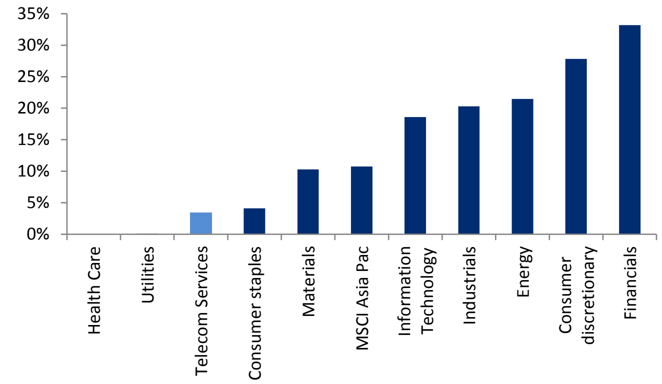
Source: Citi Research estimates

Figure 1. 5-Year MSCI Asia Sector Returns – Telcos Have Best Returns



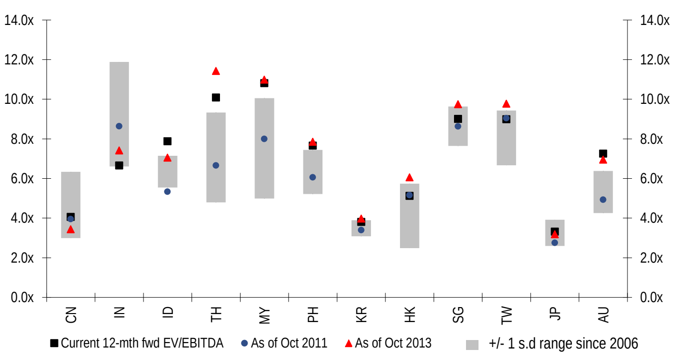
Source: Citi Research, Bloomberg

Figure 2. MSCI Asia Sector Last 5-year EBITDA CAGR – Telcos Have 3rd Worst Sectoral EBITDA Momentum



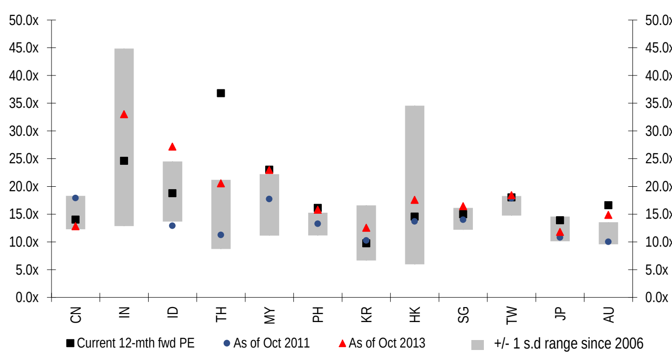
Source: Citi Research, Bloomberg

Figure 3. EV/EBITDA Valuation Range



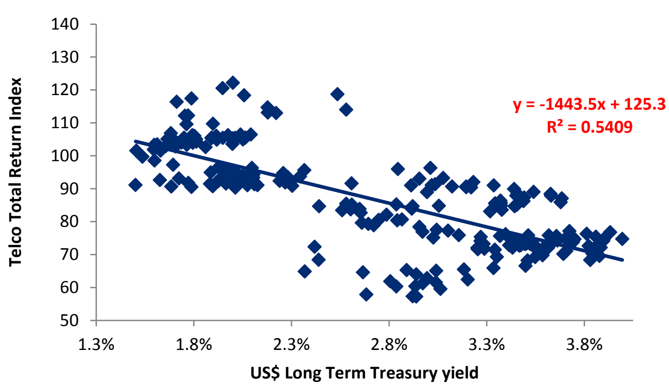
Source: Citi Research

Figure 4. PER Valuation Range



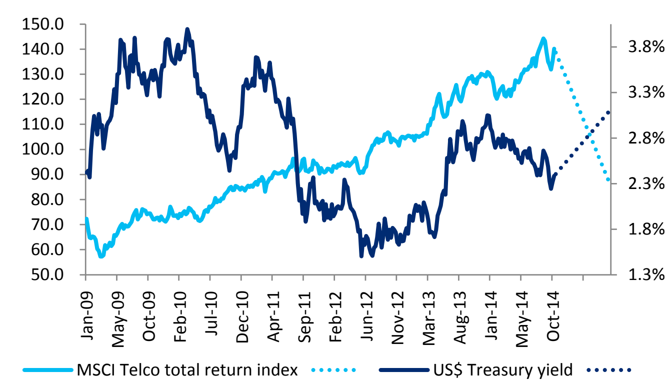
Source: Citi Research

Figure 5. US$ Treasury Yield to MSCI Telco Total Return Index (incl of dividends) Regression Chart



Source: Citi Research

Figure 6. US$ Treasury Yield to MSCI Telco Total Return Index



Source: Citi Research

Transportation

Staying Constructive on HK/China Names

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- **China/HK names to relatively outperform** – With the monetary policy easing and gradually stabilized domestic economy, we expect China/HK names to outperform their ASEAN peers, which are either under structural challenges and/or have stretched valuations.

- **Logistics will continue to be the sector focus** – China's e-commerce will continue its fast growth with an expected growth rate of 20+% in 2015, with cross-border e-commerce growing at a faster rate. Sinotrans is our top pick given its exposure to e-commerce (via Sinoair) and its cheap valuation. Despite its rich valuation, KLN remains a Buy for its leading market position and its acquisitions in North America and SE Asia will aid future growth.

- **Chinese airlines benefit the most from lower fuel prices** – Lower jet fuel price will be the single largest positive factor for airline operators in 2015, releasing cost pressure and improving earnings. Chinese airlines are best positioned to benefit from the trend given their zero hedging position. On the other hand, most ASEAN carriers will continue to struggle with the reduced travel from weakening currencies and a structurally challenged competitive landscape (although we believe AirAsia is one of the best positioned).

- **We like SHIA for stable earnings growth and potential re-rating** – We like airport business models given their fixed cost operating nature. SHIA is our top pick for its globally attractive valuation and earnings growth potential amid Disneyland opening and a potential re-rating amid HK-China Connect. We rate both AOT (an obvious traffic recovery in 2015) and MAHB (further contribution from KLIA2 and ISG) as Buys, though valuations have become less compelling.

- **Ports: sector to stay muted** – Ports earnings should continue to improve in 2015, supported by export growth and likely higher ASP. However, we expect the sector to stay muted given its defensive nature and EU economic fluctuations.

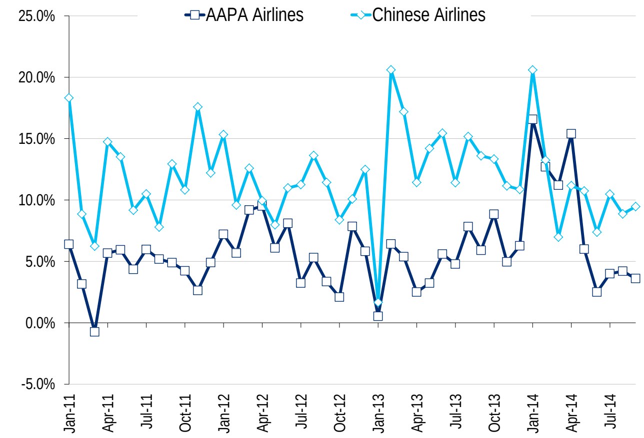
- **Shipping: a prolonged cycle** – Container shipping will remain under pressure with the supply-demand gap widening to 2.6% in 2015; dry bulk industry's recovery is likely to delay with mild demand from China and new vessel orders.

Transportation: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
AirAsia	AIRA.KL	Buy	RM2.41	RM2.80	3.0	18.1	8.3	1.1	13.9
Rebound in traffic/yield growth; lower fuel price and attractive hedging positions									
Air China	0753.HK	Buy/1H	HK$5.23	HK$6.08	1.2	17.2	12.5	0.9	7.0
Given its industry leadership/international network, Air China is best placed to benefit from booming outbound visitation. Lower oil price will help to lift earnings in 2015E									
Kerry Logistics	0636.HK	Buy	HK$12.60	HK$15.00	1.0	20.0	20.1	1.3	6.8
Expanding footprint in China/ASEAN aided by acquisitions in North America and SE Asia									
Sinotrans	0598.HK	Buy	HK$5.57	HK$6.90	1.8	25.4	13.6	1.5	11.9
Beneficiary of fast growth of China's logistics industry and cross- border e-commerce; asset restructure will unlock hidden value									
SHIA	600009.SS	Buy	Rmb16.71	Rmb17.34	2.1	5.7	14.0	1.6	11.9
Fast traffic growth as a result of opening of Shanghai Disneyland in 2015; one of cheapest airports globally and HK-China Connect might help with a re-rating									
Top Sell									
China COSCO	1919.HK	Sell	HK$3.62	HK$2.91	0.0	-19.6	n/a	1.4	1.3
Valuation stretched; both dry bulk and container segments will continue to face operational pressure in 2015E									

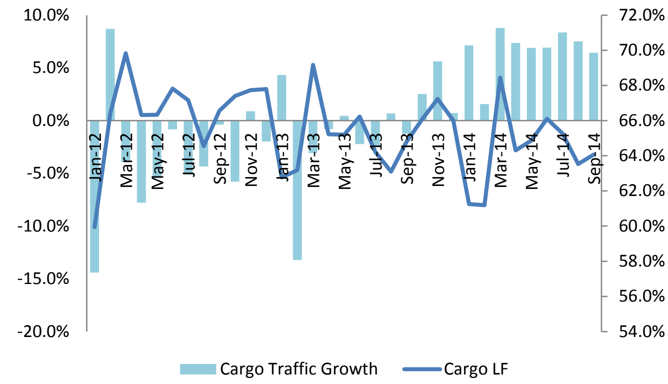
Source: Citi Research Estimates

Figure 1. China and Asian Airlines: RPK Growth



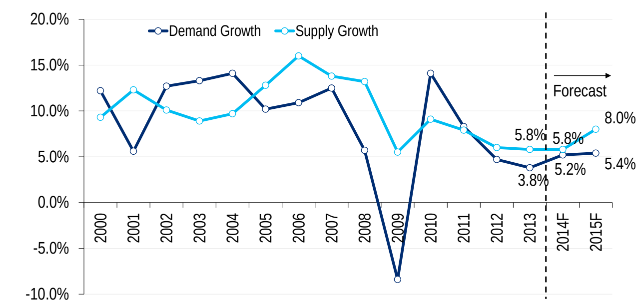
Source: AAPA, CEIC, Citi Research

Figure 2. Asia Pacific Airlines Cargo Traffic and LF



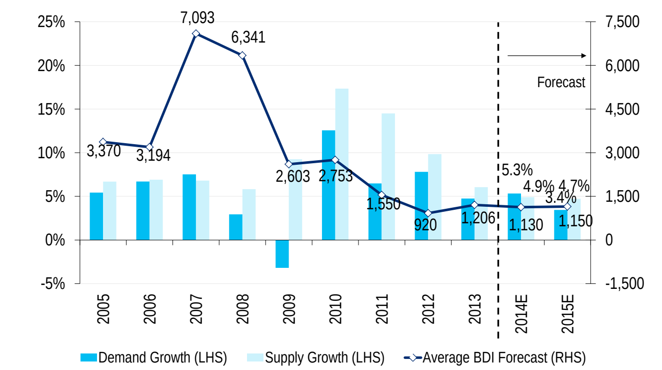
Source: AAPA, Citi Research

Figure 3. Container Shipping Demand and Supply



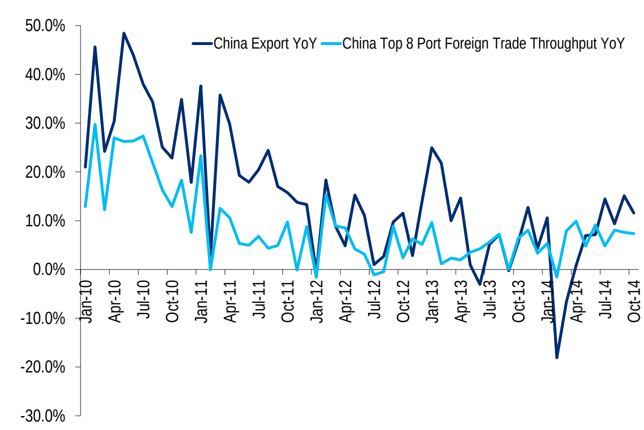
Source: Alphaliner, Citi Research

Figure 4. Dry Bulk Shipping Demand and Supply



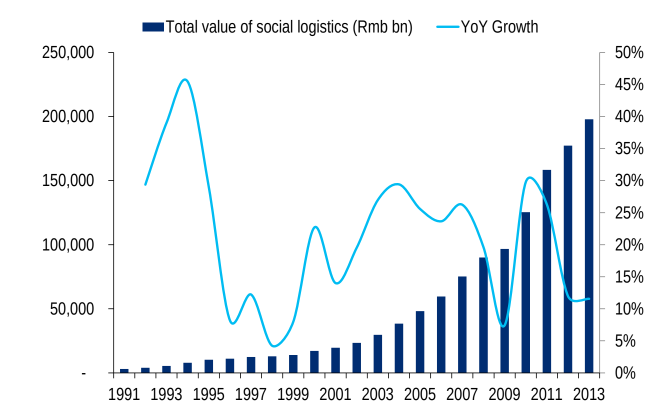
Source: Clarkson, Citi Research

Figure 5. China Port Foreign Trade Throughput vs Export Growth



Source: Chineseport.cn, CEIC, Citi Research

Figure 6. China Logistics Industry CAGA, 1991 - 2013



Source: CEIC, Citi Research

Utilities

Positioning for Winners

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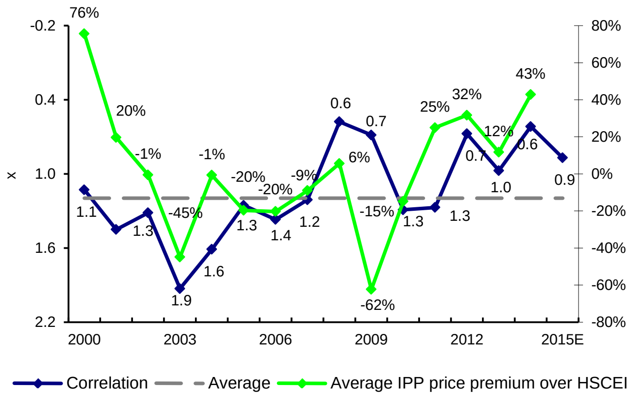
- **Summary** – We are positive on Chinese IPPs due to low coal prices and removal of the tariff-cut overhang, and also on wind-equipment names for an industry up-cycle with volume and margin growth. Dollar margin cut concerns for gas names would be mitigated by raising retail NG prices in 4Q14, while wind-farm operators should see utilization rise yoy from December. Top picks: CRP, Datang Power, Goldwind, ENN, Huaneng Renewables, and Sound Global.
- **PRC IPPs: bullish amid long low-coal-price cycle** – Coal prices should stay low given ample supply, though some major coal miners plan to lift Qinhuangdao spot coal prices in 4Q14E. We like CR Power and Datang Power.
- **PRC power equipment: positive on wind; negative on coal** – The down-cycle for coal-fired power-equipment makers should persist until at least mid-2015. In contrast, wind equipment makers are in an up-cycle with rising revenue and margins for the next 12 months, based on orders on hand. We like Goldwind and CHST but not Shanghai Electric and Harbin.
- **PRC gas: accumulation on weakness** – Gas companies should announce retail NG price hikes in 4Q14E to gradually pass through incremental city-gate NG prices to end users. We like ENN for high volume growth.
- **PRC wind farm operators: headwind persists until November** – The drop in wind-farm utilization rates yoy on a high base should end in November. We like Huaneng Renewables for capacity growth.
- **PRC renewables and water: re-rating for inexpensive plays** – We like Sound Global for a potential re-rating with more revenue mix from BOT.
- **Hong Kong utilities: Proxy for bond investment** – Share-price rebound amid US$ 10-year bond yield down from 3.0% to 2.3% YTD looks unsustainable. Citi expects the yield to reach 3% in 2015E. We prefer PAH for M&A benefits.
- **Other regional utilities** – KEPCO would benefit from structural change to raise its generation from low cost nuclear from 31% in FY13 to 38% in FY15E.

Utilities & Clean Energy: Top Buys and Top Sells

	Ticker	Rating	Price (Nov. 21)	Target Price	Yield (%)	ETR (%)	2015E P/E (x)	2015E P/BV (x)	2015E ROE (%)
Top Buys									
CR Power	0836.HK	Buy	HK$20.40	HK$29.00	4.7	42.2	6.8	1.1	18.1
Strong capacity growth; low coal prices; inexpensive valuations									
Datang Power	0991.HK	Buy	HK$4.20	HK$5.10	4.4	21.4	7.5	0.8	11.7
Re-rating from disposal of loss-making and risky chemical business; low coal prices									
ENN Energy	2688.HK	Buy	HK$47.40	HK$62.00	1.7	31.9	14.9	3.0	22.1
High NG sales volume growth; ability to pass through gas price hike; inexpensive valuations									
Goldwind	2208.HK	Buy	HK$12.64	HK$14.50	4.0	18.0	12.8	1.7	13.6
Strong market demand; stabilized WTG selling prices									
Huaneng Renewables	0958.HK	Buy	HK$2.79	HK$3.38	1.4	22.1	14.4	1.2	8.8
High capacity growth; utilization to improve yoy in FY15E from low base; inexpensive valuations									
Top Sell									
Shanghai Electric	2727.HK	Sell	HK$4.36	HK$2.50	2.0	-42.7	20.0	1.3	6.5
Down-cycle of coal-fired power-equipment continues with revenue and margins cut; looks over-priced									

Source: Citi Research estimates

Figure 1. Correlation between (i) multiple of PRC annual power demand growth vs. PRC annual GDP growth; and (ii) relative performance of PRC IPP share prices and HSCEI



Source: China Electricity Council, National Bureau of Statistics & Citi Estimates

Figure 2. PRC Annual Power Demand and GDP Growth

Source: China Electricity Council, National Bureau of Statistics & Citi Estimates

Figure 3. PRC IPPs – 2014E Net Profit Sensitivity

(Rmbm, except for HK$m for CRP)	Huaneng	Datang	Huadian	CRP	CPI	Average
Base case net profit	13,793	5,865	5,899	14,285	2,819	n/a
Case 1. net profit change with extra 1% cut in average coal price	390	135	191	281	58	n/a
% change	2.8%	2.3%	3.2%	2.0%	2.1%	2.5%
Case 2. net profit change with extra 1% cut in power tariff	-733	-297	-393	-594	-143	n/a
% change	-5.3%	-5.1%	-6.7%	-4.2%	-5.1%	-5.3%
Case 3. net profit change with extra 1% hike in utilization hours	294	150	168	295	80	n/a
% change	2.1%	2.6%	2.8%	2.1%	2.8%	2.5%
Case 4. net profit change with extra 25bps interest rate cut	225	111	181	158	67	n/a
% change	1.6%	1.9%	3.1%	1.1%	2.4%	2.0%

Source: Company Reports and Citi Research Estimates

Figure 4. Other Stocks Mentioned

		Mkt Cap		Current	Target		P/E (x)		EV/EBITDA (x)		P/B (x)		Div yield (%)		Debt / equity (%)	
Company	Ticker	US$ (M)	Ccy	Price	Price	Rating	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
ABC	1288.HK	152,073	HK$	3.63	4.20	1	5.1	4.7	NA	NA	1.0	0.8	6.8	7.4	NA	NA
AIA Grp	1299.HK	70,457	HK$	45.35	47.40	1	21.3	18.3	NA	NA	2.4	2.2	1.1	1.3	10.5	10.5
Airport Thailand	AOT.BK	12,119	Bt	278.00	280.00	1	31.4	25.8	18.2	15.5	4.0	3.6	1.3	1.5	43.7	45.5
AMP Ltd	AMP.AX	14,383	A$	5.69	6.10	2	16.2	15.1	NA	NA	2.1	2.0	4.5	5.1	197.2	193.1
Angang	000898.SZ	5,086	Rmb	4.250	4.400	2	27.3	19.6	6.4	6.0	0.6	0.6	1.8	2.5	60.7	54.6
Baidu	BIDU.O	86,291	US$	246.03	283.00	1	37.6	28.1	33.1	23.0	10.0	7.5	0.0	0.0	43.1	32.2
China Gas Hld	0384.HK	9,248	HK$	14.28	18.05	1	22.7	18.0	16.2	13.2	3.8	3.3	0.7	0.8	96.3	83.6
China High Speed	0658.HK	1,118	HK$	5.30	8.00	1	13.6	11.1	5.0	4.1	0.7	0.6	0.0	1.5	91.5	84.7
China Pacific	2601.HK	38,163	HK$	32.65	34.00	1	19.9	16.7	NA	NA	2.1	1.8	1.9	2.3	17.4	15.0
China Power	2380.HK	3,374	HK$	3.84	4.60	1	7.7	7.4	6.8	6.7	0.9	0.9	5.3	5.4	181.3	167.5
China Res Power	0836.HK	13,983	HK$	22.60	29.00	1	8.6	7.5	6.6	5.2	1.5	1.3	3.7	4.3	99.6	85.7
CTIH	0966.HK	8,138	HK$	20.30	17.67	2	15.4	18.4	NA	NA	2.1	2.0	0.0	0.0	35.9	32.4
Chunghwa	2412.TW	23,287	NT$	92.70	85.00	3	18.5	18.3	8.3	8.0	2.0	1.9	5.4	5.5	0.6	0.6
Ctrip.Com	CTRP.O	7,614	US$	53.50	68.80	1	nm	78.8	nm	nm	3.7	3.5	0.0	nm	59.3	56.2
Datang Power	0991.HK	7,417	HK$	4.32	5.10	1	9.5	7.8	7.7	6.7	1.0	0.9	3.5	4.3	288.2	155.5
Dongbu Ins	005830.KS	3,590	W	55,800	46,000	2	9.4	8.1	NA	NA	1.2	1.1	2.4	2.8	0.0	0.0
First Pacific	0142.HK	4,548	HK$	8.20	10.30	1	12.1	11.0	9.8	9.4	1.2	1.1	2.5	2.5	75.3	72.5
Fortescue Metals	FMG.AX	7,717	A$	2.90	3.20	2	4.5	22.1	3.8	6.5	1.0	1.1	5.2	1.4	127.8	134.8
Fubon	2881.TW	16,802	NT$	50.70	43.50	2	13.0	12.4	NA	NA	1.6	1.5	2.4	2.5	NA	NA
GAIL	GAIL.BO	10,007	Rs	488.00	522.00	1	15.0	13.0	10.3	8.5	2.1	1.9	2.1	2.4	39.9	32.8
Glenmark Pharm	GLEN.BO	3,543	Rs	808.00	890.00	1	26.4	19.9	15.8	12.5	6.1	4.7	0.1	0.1	79.0	62.0
Great Eastern	GELA.SI	8,710	S$	23.90	22.60	2	13.5	15.7	NA	NA	2.0	1.8	2.3	2.3	0.0	0.0
Guoco	0053.HK	3,941	HK$	92.85	112.00	1	7.4	8.7	8.9	10.8	0.5	0.5	3.8	3.5	71.9	64.4
Hanwha Life	088350.KS	6,678	W	8,460	8,300	2	13.0	11.0	NA	NA	1.0	0.9	2.2	2.8	0.0	0.0
Harbin Electric	1133.HK	870	HK$	4.90	5.00	3	11.3	9.5	13.9	12.8	0.4	0.4	2.1	2.1	137.2	132.2
HPCL	HPCL.BO	3,011	Rs	550.00	710.00	1	8.8	8.0	7.6	6.8	1.2	1.1	3.7	4.1	186.3	151.7
Huadian Power Intl	1071.HK	7,214	HK$	6.35	6.80	2	7.9	7.5	6.8	6.7	1.4	1.3	5.2	5.4	264.4	242.6
Huaneng Power	0902.HK	16,889	HK$	9.08	10.20	1	8.1	7.3	6.0	5.5	1.5	1.3	6.2	6.8	183.8	166.0
Hutchison Whampoa	0013.HK	53,726	HK$	97.70	123.00	1	13.8	12.4	2.9	2.5	0.9	0.8	9.7	3.0	51.3	43.3
Hyundai Mar & Fire	001450.KS	2,165	W	26,650	27,000	3	7.0	6.2	NA	NA	1.0	0.9	3.7	4.3	0.0	0.0
Hyundai Motor	005380.KS	35,935	W	179,500	191,000	2	5.1	4.9	2.5	2.5	0.7	0.6	1.2	1.3	79.2	71.8
ICBC	1398.HK	237,127	HK$	5.23	6.60	1	5.4	4.9	NA	NA	1.0	0.9	6.7	7.3	NA	NA
Infosys	INFY.BO	40,310	Rs	4,363.95	4,065.00	2	20.8	18.7	14.5	12.6	4.8	4.2	1.8	2.3	0.0	0.0
Jardine Matheson	JARD.SI	43,118	US$	62.42	49.00	3	14.9	13.4	8.9	8.4	0.5	0.5	2.3	2.3	27.3	26.4
Jardine Strat	JSH.SI	41,013	US$	36.60	39.00	2	13.5	12.2	8.4	7.7	0.5	0.5	0.7	0.7	25.2	23.9
KEPCO	015760.KS	26,750	W	45,850	56,500	1	10.0	3.0	6.8	6.6	0.6	0.5	2.6	3.0	117.7	98.6
Kia Motors	000270.KS	20,631	W	56,000	56,000	2	6.7	6.4	3.7	3.6	1.0	0.9	1.4	1.5	16.3	16.9
King Slide	2059.TW	1,231	NT$	399.00	460.00	1	24.6	20.4	17.6	14.4	5.3	4.6	2.0	2.4	7.1	6.1
M1	MONE.SI	2,616	S$	3.65	3.15	3	19.0	17.5	10.8	10.2	8.6	7.8	4.2	4.6	84.7	75.9
Maanshan Iron	0323.HK	2,026	HK$	2.04	2.60	2	nm	12.1	5.4	4.5	0.5	0.5	0.2	2.5	65.8	58.9
Mahindra Mahndra	MAHM.BO	12,962	Rs	1,291.00	1,459.00	1	22.4	18.5	14.5	11.5	4.0	3.5	1.3	1.6	19.3	14.3
Malaysia Airport	MAHB.KL	2,812	RM	6.85	9.40	1	51.1	49.9	14.4	10.0	1.6	1.6	0.9	1.0	71.1	108.3
Mizuho	8411.T	41,993	¥	202.6	320.0	1	8.4	8.1	NA	NA	0.8	0.7	3.4	3.6	NA	NA
MTR	0066.HK	23,439	HK$	31.20	34.00	1	19.3	13.3	12.6	12.8	1.1	1.1	3.0	3.0	17.9	21.2
New China Life	1336.HK	14,244	HK$	35.40	32.50	1	11.0	11.0	NA	NA	1.8	1.5	1.0	1.2	31.2	26.0
New World Dev	0017.HK	10,394	HK$	9.30	10.00	2	10.5	10.2	7.4	7.0	0.5	0.5	4.6	4.8	60.0	58.1
Nine Dragons	2689.HK	3,996	HK$	6.64	8.60	1H	12.6	10.6	9.7	9.0	1.0	0.9	1.7	2.0	141.1	135.0
NWS Hld	0659.HK	6,883	HK$	14.26	14.50	1	13.5	12.0	8.5	7.0	1.2	1.1	4.7	4.9	37.2	27.8
Osstem Implant	048260.KQ	479	W	37,100	54,500	1H	31.1	21.4	15.9	12.0	5.3	4.3	0.0	0.0	101.2	89.0
Ping An	2318.HK	66,268	HK$	64.90	86.00	1	10.6	9.6	NA	NA	1.8	1.5	2.0	2.0	0.0	0.0

		Mkt Cap		Current	Target		P/E (x)		EV/EBITDA (x)		P/B (x)		Div yield (%)		Debt / equity (%)	
Company	Ticker	US$ (M)	Ccy	Price	Price	Rating	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
Power Assets	0006.HK	20,316	HK$	73.80	80.00	1	2.6	18.3	36.8	95.1	1.5	1.5	3.5	3.5	11.6	13.7
Samsung Fire Ins	000810.KS	13,304	W	309,000	290,000	1	19.3	16.8	NA	NA	1.8	1.6	1.4	1.6	0.0	0.0
Samsung Life	032830.KS	22,175	W	122,000	130,000	1	18.5	20.0	NA	NA	1.2	1.1	2.0	2.0	0.0	0.0
Shanghai Ind	0363.HK	3,345	HK$	23.95	31.50	1	8.5	10.2	7.6	6.8	0.7	0.7	4.0	4.0	64.1	59.3
Sinopec	0386.HK	94,005	HK$	6.24	7.62	2	9.5	12.1	4.7	4.7	0.8	0.8	4.4	3.5	40.4	38.6
Sound Global	0967.HK	1,656	HK$	8.75	10.50	1	16.2	14.1	7.5	5.5	2.6	2.7	0.3	0.3	106.4	102.5
SMFG	8316.T	51,790	¥	4,458.5	6,500.0	1	8.3	8.2	NA	NA	0.8	0.7	2.9	3.1	NA	NA
Swire	0019.HK	19,877	HK$	106.20	108.00	2	16.5	14.8	13.4	12.6	0.7	0.7	3.5	3.5	24.5	24.4
Tata Consult	TCS.BO	84,163	Rs	2,658.00	2,690.00	2	24.7	21.5	18.4	15.8	8.9	7.3	2.6	2.2	0.5	0.4
Techtronic	0669.HK	5,798	HK$	24.55	26.00	1	19.6	15.9	11.7	9.8	3.0	2.6	1.3	1.8	40.6	33.1
Tong Yang Lf Ins	082640.KS	1,090	W	11,150	11,300	2	7.4	6.2	NA	NA	0.8	0.7	3.5	3.6	0.0	0.0
VTech Hld	0303.HK	3,493	HK$	107.80	115.00	1	16.5	15.7	12.1	11.6	6.3	6.3	6.0	6.3	0.0	0.0
Wharf	0004.HK	21,907	HK$	56.05	67.50	1	14.6	12.2	14.8	13.7	0.5	0.5	3.5	3.7	23.3	23.6
Wheelock	0020.HK	10,234	HK$	39.05	47.50	1	10.4	6.7	15.8	12.5	0.5	0.4	2.8	4.1	36.9	35.9
Wipro	WIPR.BO	23,181	Rs	584.90	625.00	2	17.1	15.4	12.3	10.7	3.8	3.3	1.9	2.4	14.7	13.1
Zoomlion	1157.HK	4,672	HK$	4.70	4.93	1	23.7	19.1	13.9	12.7	0.7	0.7	1.2	1.6	64.6	63.2

Source: Citi Research, and dataCentral. Financials and ratios are calendar year basis. (28 Nov 2014)

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

CJ O Shopping (035760.KQ)

Ratings and Target Price History
Fundamental Research

Analyst: Ss Kim
Covered since June 16 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Apr-12	1	*296,000.00	203,400.00
3	12-Sep-12	1	*340,000.00	224,800.00
4	16-Nov-12	Coverage terminated		
5	16-Jun-14	1	*450,000.00	335,700.00

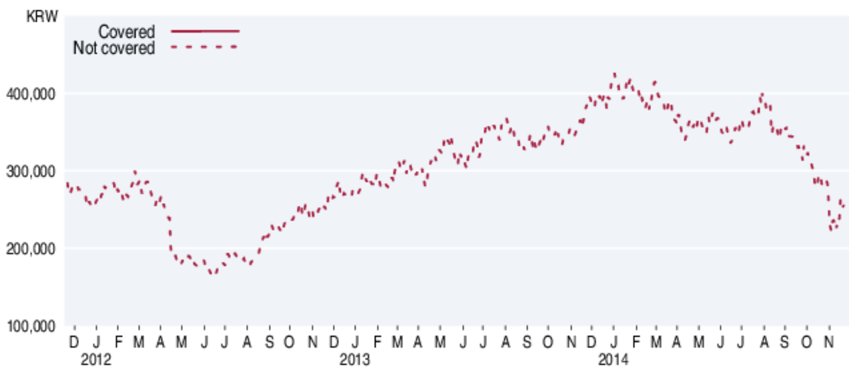
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

CJ O Shopping (035760.KQ)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ss Kim
Covered since June 16 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gamevil (063080.KQ)

Ratings and Target Price History
Fundamental Research

Analyst: Irene Cho
Covered since February 13 2012

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Feb-12	1H	*86,000.00	66,500.00
3	14-May-12	1H	*92,000.00	72,500.00
4	19-Jun-12	1H	*118,000.00	94,000.00
5	13-Aug-12	1H	*121,000.00	87,100.00
6	13-Nov-12	1H	*160,000.00	126,000.00
7	13-Feb-13	1H	*120,000.00	87,400.00
8	29-Jul-13	1H	*94,000.00	73,000.00
9	11-Nov-13	1H	*57,000.00	40,000.00
10	12-Feb-14	1H	*68,000.00	54,000.00
11	6-Aug-14	1H	*150,000.00	113,800.00
12	6-Oct-14	1H	*160,000.00	127,100.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Gamevil (063080.KQ)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Irene Cho
Covered since February 13 2012

	Date	Rating	Target Price	Closing Price
1	3-Feb-12	*ADD MP	-	66,400.00
2	14-Feb-12	*REM MP	-	68,700.00

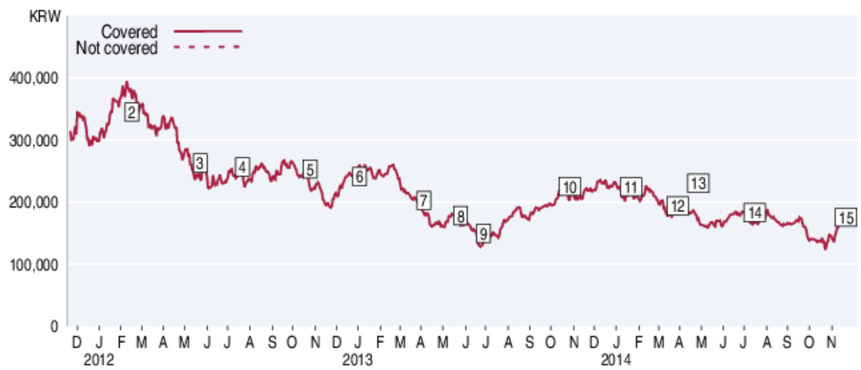
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lotte Chemical (011170.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Oscar Yee



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Feb-12	2H	*390,000.00	369,000.00
3	23-May-12	2H	*295,000.00	237,000.00
4	23-Jul-12	2H	*285,000.00	245,000.00
5	25-Oct-12	2H	*280,000.00	222,500.00
6	3-Jan-13	*1	*320,000.00	260,000.00
7	4-Apr-13	1	*275,000.00	182,000.00
8	27-May-13	1	*255,000.00	162,000.00
9	27-Jun-13	1	*195,000.00	136,500.00
10	28-Oct-13	1	*240,000.00	202,500.00
11	22-Jan-14	1	*280,000.00	216,500.00
12	28-Mar-14	1	*260,000.00	188,000.00
13	28-Apr-14	1	*235,000.00	173,500.00
14	16-Jul-14	1	*210,000.00	168,000.00
15	21-Nov-14	1	*240,000.00	175,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lotte Chemical (011170.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Oscar Yee

	Date	Rating	Target Price	Closing Price
1	30-Jan-13	*ADD MP	-	249,500.00
2	27-May-13	*REM MP	-	162,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NCSOFT (036570.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Irene Cho
Covered since February 13 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	5-Jan-12	*2	*300,000.00	276,500.00
3	15-Feb-12	*3	*240,000.00	305,000.00
4	15-May-12	3	*210,000.00	248,500.00
5	8-Aug-12	3	*180,000.00	224,000.00
6	7-Nov-12	3	*150,000.00	213,000.00
7	5-Feb-13	3	*110,000.00	132,500.00
8	14-Aug-13	3	*135,000.00	181,500.00
9	13-Feb-14	3	*150,000.00	215,000.00
10	10-Jul-14	3	*130,000.00	163,000.00
11	8-Oct-14	3	*110,000.00	130,000.00
12	18-Nov-14	3	*120,000.00	157,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NCSOFT (036570.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Irene Cho
Covered since February 13 2014

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DGB Financial Group (139130.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Joanne Lee
Covered since May 14 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	4-Mar-13	*2H	17,643.82	16,245.81
3	13-May-13	2H	*18,029.47	15,763.74
4	22-Aug-13	2H	*17,643.82	14,992.42
5	20-Nov-13	Coverage terminated		
6	14-May-14	*1H	*19,282.86	15,426.29
7	18-Sep-14	1H	*20,729.07	16,535.05

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DGB Financial Group (139130.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Joanne Lee
Covered since May 14 2014

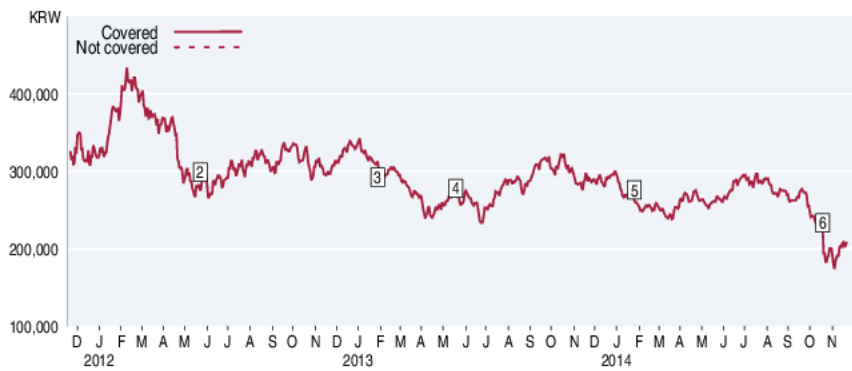
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LG Chem (051910.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Oscar Yee



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	23-May-12	1	*390,000.00	275,000.00
3	29-Jan-13	1	*360,000.00	313,000.00
4	20-May-13	1	*350,000.00	278,000.00
5	27-Jan-14	1	*320,000.00	262,000.00
6	20-Oct-14	1	*280,000.00	226,000.00

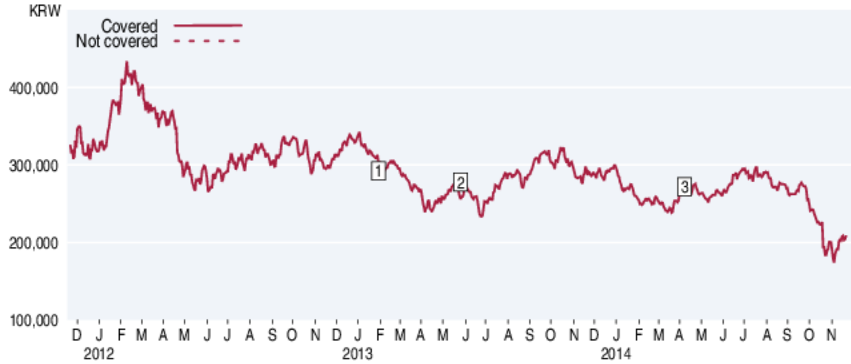
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LG Chem (051910.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Oscar Yee



	Date	Rating	Target Price	Closing Price
1	30-Jan-13	*REM MP	-	302,000.00

	Date	Rating	Target Price	Closing Price
2	27-May-13	*ADD MP	-	256,000.00

	Date	Rating	Target Price	Closing Price
3	8-Apr-14	*REM MP	-	272,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BS Financial Group (138930.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Joanne Lee
Covered since May 15 2014

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	4-Mar-13	*2	16,281.26	15,419.31
3	10-Jun-13	2	*16,568.57	14,126.38

	Date	Rating	Target Price	Closing Price
4	20-Nov-13	Coverage terminated		
5	15-May-14	*1	*18,196.70	15,275.65
6	10-Jul-14	1	*19,000.00	15,500.00

	Date	Rating	Target Price	Closing Price
7	18-Sep-14	1	*20,000.00	17,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

BS Financial Group (138930.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Joanne Lee
Covered since May 15 2014

	Date	Rating	Target Price	Closing Price
1	4-Apr-12	*REM MP	-	12,881.35

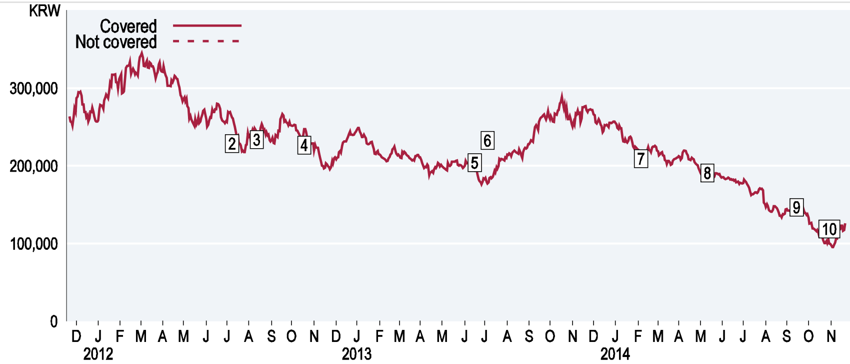
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hyundai Heavy Industries (009540.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Ethan Kim



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	9-Jul-12	1H	*340,000.00	262,000.00
3	13-Aug-12	1H	*300,000.00	243,500.00
4	18-Oct-12	*1	*290,000.00	247,000.00
5	17-Jun-13	*2	*220,000.00	193,500.00
6	4-Jul-13	2	*200,000.00	177,000.00
7	6-Feb-14	*3	*170,000.00	213,000.00
8	12-May-14	3	*155,000.00	185,000.00
9	15-Sep-14	3	*120,000.00	141,000.00
10	30-Oct-14	3	*80,000.00	100,000.00

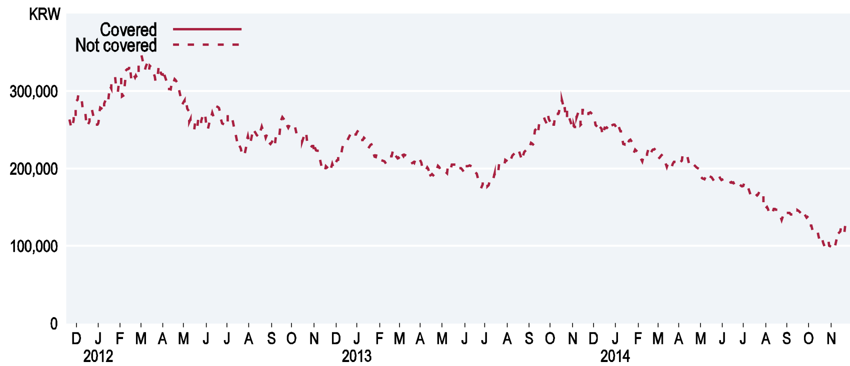
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hyundai Heavy Industries (009540.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ethan Kim



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

KEPCO (015760.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Pierre Lau, CFA

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	5-Dec-11	1	*32,000.00	25,200.00
3	16-Feb-12	1	*30,000.00	24,900.00
4	8-Oct-12	1	*35,000.00	27,700.00
5	15-Mar-13	1	*39,000.00	31,100.00
6	12-Aug-13	1	*38,000.00	29,550.00
7	11-Feb-14	1	*43,500.00	36,500.00
8	13-May-14	1	*47,500.00	40,800.00
9	8-Aug-14	1	*50,000.00	44,350.00
10	12-Nov-14	1	*56,500.00	44,600.00

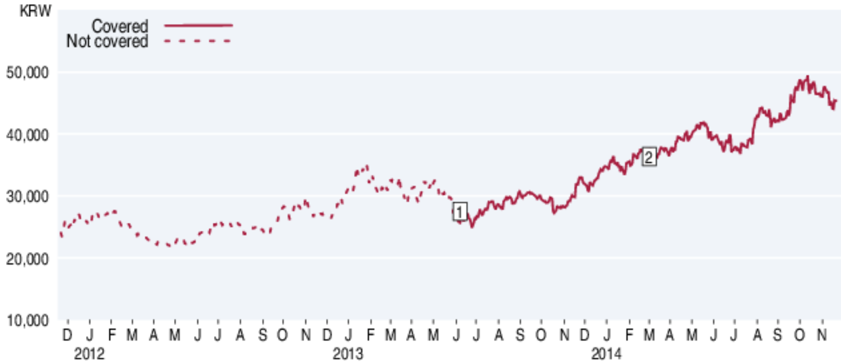
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

KEPCO (015760.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Pierre Lau, CFA



	Date	Rating	Target Price	Closing Price
1	7-Jun-13	*ADD MP	-	25,600.00
2	3-Mar-14	*REM MP	-	37,550.00

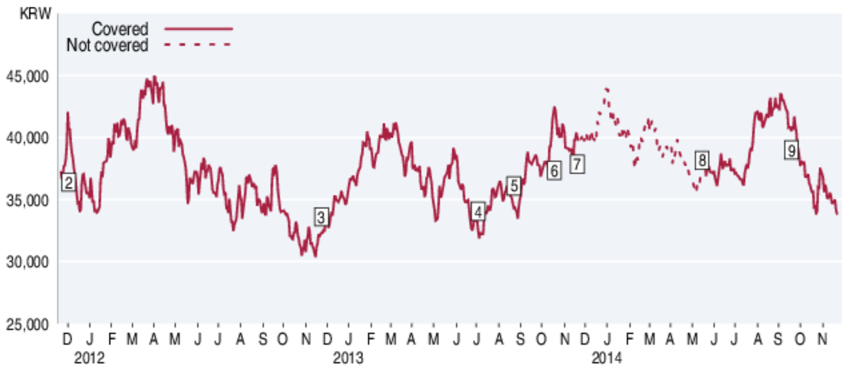
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hana Financial Group (086790.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Joanne Lee
Covered since May 15 2014



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	2-Dec-11	1	*57,000.00	40,700.00
3	23-Nov-12	1	*53,000.00	32,300.00
4	3-Jul-13	1	*48,000.00	32,500.00
5	22-Aug-13	1	*47,000.00	34,300.00
6	18-Oct-13	1	*52,000.00	42,500.00
7	20-Nov-13	Coverage terminated		
8	15-May-14	1	*45,000.00	37,800.00
9	18-Sep-14	1	*49,000.00	40,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hana Financial Group (086790.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Joanne Lee
Covered since May 15 2014

	Date	Rating	Target Price	Closing Price
1	4-Apr-12	*ADD MP	-	44,200.00
2	5-Mar-13	*REM MP	-	40,350.00

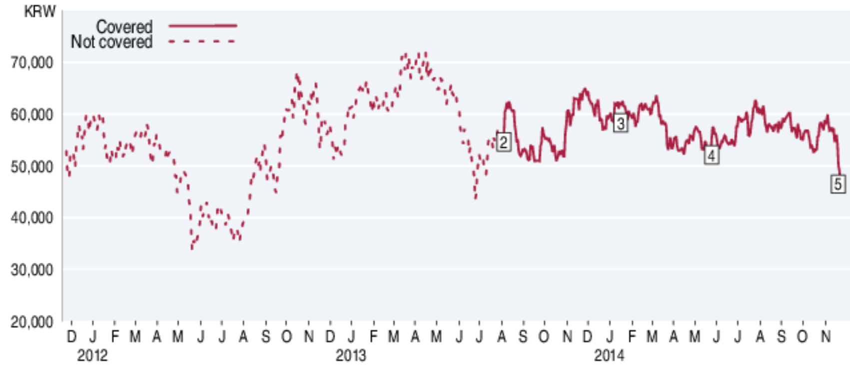
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Seegene (096530.KQ)

Ratings and Target Price History
Fundamental Research

Analyst: Ss Kim
Covered since August 5 2013



	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	5-Aug-13	*1H	*90,000.00	55,700.00
3	16-Jan-14	1H	*91,000.00	61,900.00
4	26-May-14	1H	*80,000.00	55,500.00
5	20-Nov-14	1H	*84,000.00	50,000.00

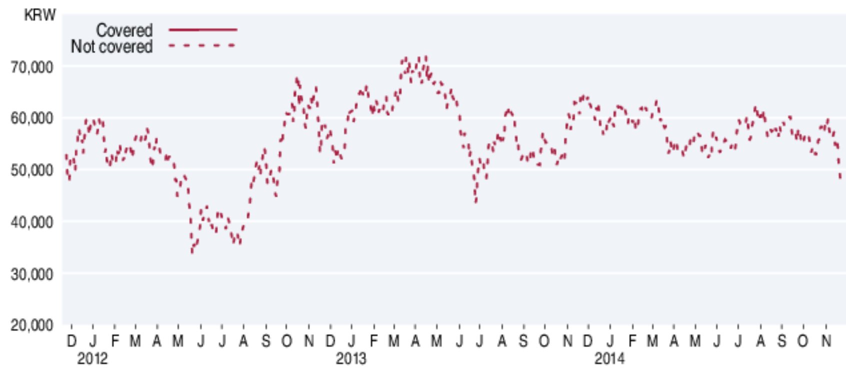
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Seegene (096530.KQ)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ss Kim
Covered since August 5 2013



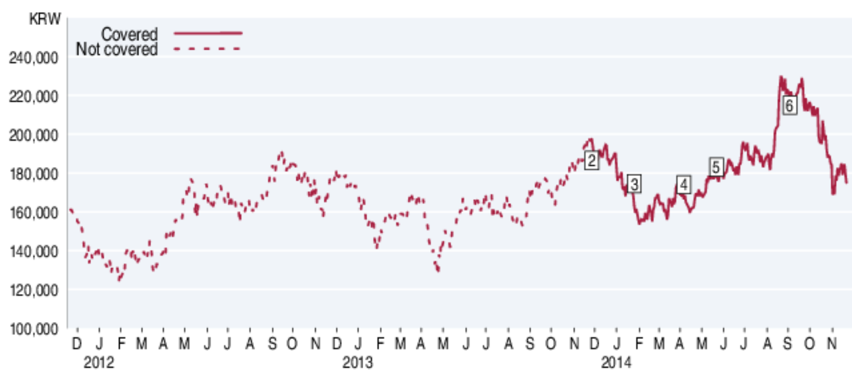
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hyundai Wia (011210.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Ethan Kim
Covered since November 27 2013



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	27-Nov-13	*1	*245,000.00	197,500.00
3	26-Jan-14	1	*220,000.00	168,000.00
4	7-Apr-14	1	*210,000.00	166,500.00
5	22-May-14	1	*225,000.00	178,500.00
6	3-Sep-14	1	*260,000.00	215,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Hyundai Wia (011210.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ethan Kim
Covered since November 27 2013

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SK Hynix (000660.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Henry H Kim, CFA

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	7-Dec-11	1	*33,000.00	22,400.00
3	21-Feb-12	1	*34,000.00	28,300.00
4	28-Mar-12	1	*41,000.00	30,550.00
5	26-Jul-12	1	*39,000.00	20,400.00
6	26-Jun-13	1	*45,000.00	30,250.00
7	10-Jan-14	1	*52,000.00	38,500.00
8	9-Jun-14	1	*62,000.00	46,100.00
9	23-Oct-14	1	*65,000.00	45,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SK Hynix (000660.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Henry H Kim, CFA

	Date	Rating	Target Price	Closing Price
1	16-Mar-12	*REM MP	-	28,800.00

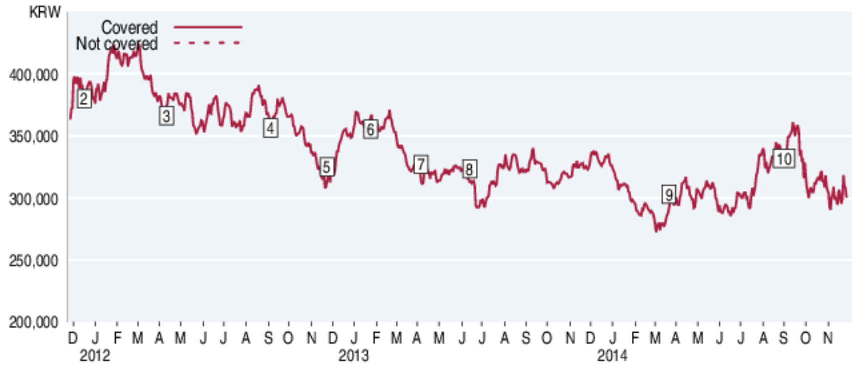
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

POSCO (005490.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Sungmee Park, CFA



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Dec-11	1	*470,000.00	386,500.00
3	11-Apr-12	1	*440,000.00	371,500.00
4	5-Sep-12	1	*420,000.00	358,000.00
5	23-Nov-12	1	*370,000.00	313,500.00
6	24-Jan-13	*2	*380,000.00	365,500.00
7	5-Apr-13	2	*360,000.00	312,500.00
8	13-Jun-13	2	*340,000.00	313,000.00
9	21-Mar-14	*1	*350,000.00	292,000.00
10	1-Sep-14	1	*400,000.00	334,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

POSCO (005490.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Sungmee Park, CFA

	Date	Rating	Target Price	Closing Price
1	8-Feb-12	*REM MP	-	407,000.00
2	9-Feb-12	*ADD MP	-	409,000.00
3	24-Sep-12	*REM MP	-	377,000.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SK Telecom (017670.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Sean Lee, CFA

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	23-Mar-12	1	*170,000.00	142,000.00
3	5-Jul-12	1	*155,000.00	128,500.00
4	27-Sep-12	1	*175,000.00	144,500.00
5	16-Jan-13	1	*190,000.00	166,000.00
6	24-Apr-13	1	*230,000.00	189,500.00
7	31-Jul-13	1	*254,000.00	220,500.00
8	10-Oct-13	1	*270,000.00	228,000.00
9	4-Aug-14	1	*300,000.00	263,500.00
10	3-Sep-14	1	*360,000.00	288,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

SK Telecom (017670.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Sean Lee, CFA

	Date	Rating	Target Price	Closing Price
1	16-Jan-13	*ADD MP	-	166,000.00
2	5-Feb-14	*REM MP	-	204,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Osstem Implant (048260.KQ)

Ratings and Target Price History
Fundamental Research

Analyst: Ss Kim
Covered since August 5 2013

	Date	Rating	Target Price	Closing Price
1	8-Oct-11	Stock rating system changed		
2	5-Aug-13	*1H	*38,000.00	29,300.00
3	16-Jan-14	1H	*35,300.00	28,050.00
4	24-Mar-14	1H	*35,000.00	24,050.00
5	6-Oct-14	1H	*54,500.00	43,550.00

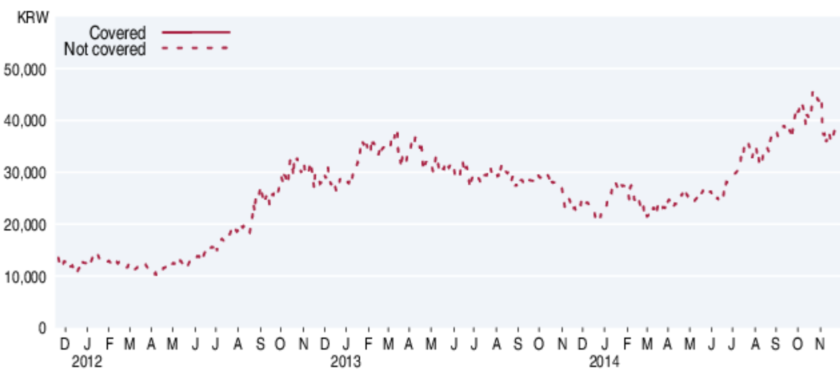
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Osstem Implant (048260.KQ)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ss Kim
Covered since August 5 2013



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Korean Re (003690.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Ss Kim

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	29-Mar-12	1	*16,666.66	13,088.23
3	14-Nov-12	1	*14,215.68	10,049.02
4	2-Jul-14	1	*13,500.00	10,400.00

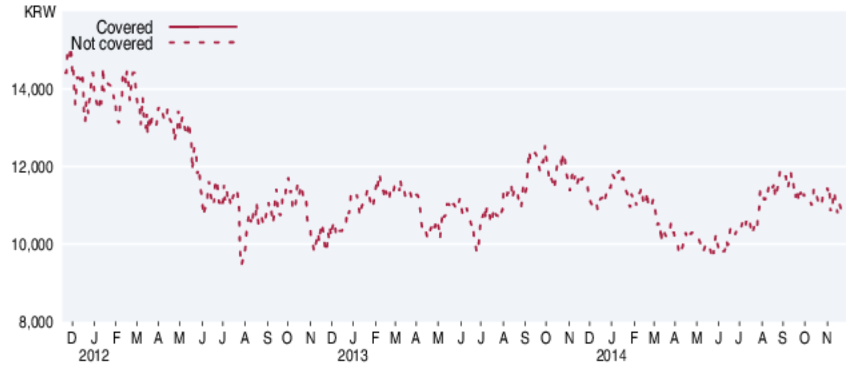
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Korean Re (003690.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ss Kim



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LG Display (034220.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Henry H Kim, CFA
Covered since August 16 2012

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	13-Jan-12	1	*33,000.00	26,850.00
3	13-Jun-12	1	*32,000.00	22,750.00
4	17-Aug-12	1	*31,000.00	27,000.00
5	12-Oct-12	1	*32,000.00	27,150.00
6	30-Oct-12	1	*36,000.00	32,500.00
7	10-Jan-13	*2	*32,000.00	29,850.00
8	4-Jul-13	2	*30,500.00	26,900.00
9	11-Oct-13	*1	30,500.00	24,300.00
10	24-Jan-14	1	*32,000.00	26,750.00
11	24-Apr-14	1	*36,000.00	28,750.00
12	24-Jul-14	1	*40,000.00	33,150.00
13	23-Oct-14	1	*45,000.00	33,100.00

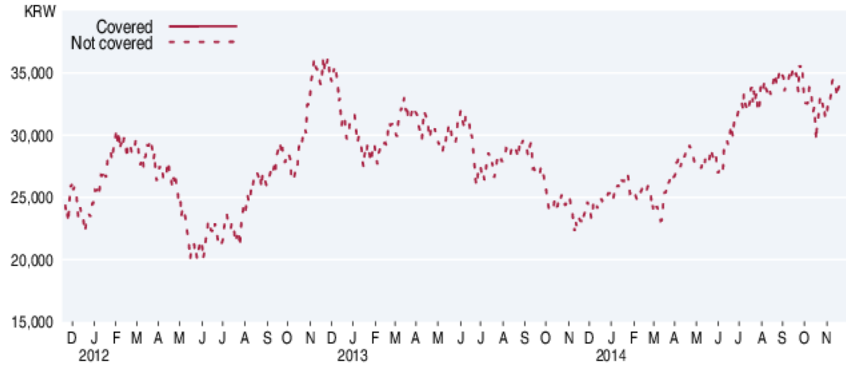
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LG Display (034220.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Henry H Kim, CFA
Covered since August 16 2012



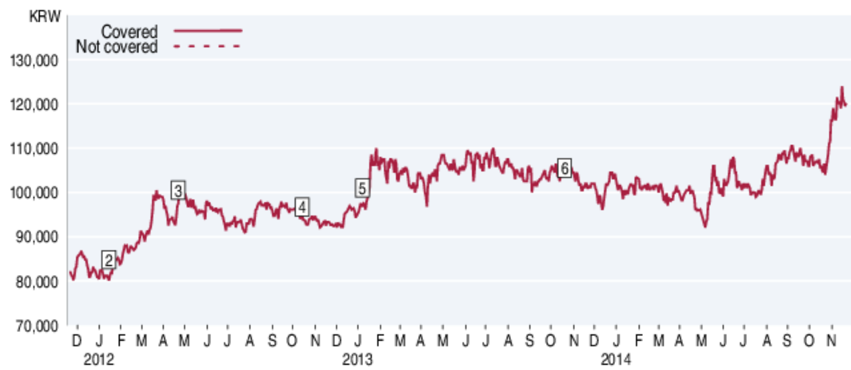
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Samsung Life (032830.KS)

Ratings and Target Price History
Fundamental Research

Analyst: Ss Kim



#	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Jan-12	2	*90,500.00	80,100.00
3	23-Apr-12	*1	*121,000.00	97,500.00
4	14-Oct-12	1	*115,000.00	94,900.00
5	8-Jan-13	1	*118,000.00	96,800.00
6	21-Oct-13	1	*130,000.00	104,500.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Samsung Life (032830.KS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ss Kim

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			*Relative Rating*		
Data current as of 30 Sep 2014	Buy	Hold	Sell	Buy	Hold	Sell
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% of companies in each rating category that are investment banking clients	66%	63%	56%	0%	64%	0%

Guide to Citi Research Fundamental Research Investment Ratings:

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