

APAC Equity Strategy

Inventory digestion sets up better cyclical climate

Equity Strategy

Asia Pacific

Top down data suggests inventory is being digested

Recent US data suggests new orders are stabilising and inventory digestion underway. This is mirrored in Asia in inventory data that is starting to fall helped in part by production cuts (see Duncan Wooldridge's ['Asia By The Numbers'](#)). While the inventory adjustment is not enough to cause a 2009 style demand recovery, it does support our economics view that Asian exports and industrial production might turn less bad in the second half, and that fears of an inventory-led manufacturing recession are overdone.

We take a look at inventory for cyclical sectors: Chemicals looks interesting

If inventory is low and falling, there is a good chance that final demand stabilisation improves profitability. Among the cyclical sectors in Asia and Japan (Chemicals, Steel, Tech and Autos) Chemicals looks most interesting, with generally low and falling inventory which lends cyclical optimism to the structurally bullish supply-side view our Asia chemicals team holds ([click here](#)). While more mixed, it also appears as if the Steel sector is undertaking an adjustment - inventory is relatively low in China and Taiwan and at more normal levels in Japan. Though higher in Korea, it is falling rapidly. Autos and Tech are mixed. China Autos looks the most compelling with low and falling inventories while our Tech team's analysis suggests that the inventory correction is over.

What's priced in? A mid-cycle slowdown. Better demand likely lifts valuations

Looking at what current P/B and cost of capital imply, it appears the market is pricing in a 7.4% point decline in ROE to 10% for these cyclical sectors. Many sectors appear to be pricing in a mid-cycle slowdown, much like 2005 (such as Semis, Components in Taiwan, Chemicals in Korea and China). Valuations are not pricing in a full scale global recession. But the important point is that if the inventory cycle leads to demand getting less bad in the second half, there is scope for ROEs and valuations to expand.

Chemicals sector has the most attractive inventory/valuation combination

Combining inventory data, valuations and our UBS colleagues' views, the Chemicals sectors appears to have the most compelling inventory story, though valuations to some extent reflect this in Korea and Taiwan (Chinese chemicals look more interesting in a valuation context). Our analyst's preferred stocks are Lotte Chemical, Sinopec Shanghai and Toray. China Autos low inventory and valuations look attractive, with GAC and SAIC the preferred stocks. While Tech is a mixed picture, our tech team thinks LG Display, Murata Manufacturing and SK Hynix look most attractive.

Niall MacLeod

Strategist

niall.macleod@ubs.com

+852-2971 6186

Matthew Gilman

Strategist

matthew.gilman@ubs.com

+852-2971 8173

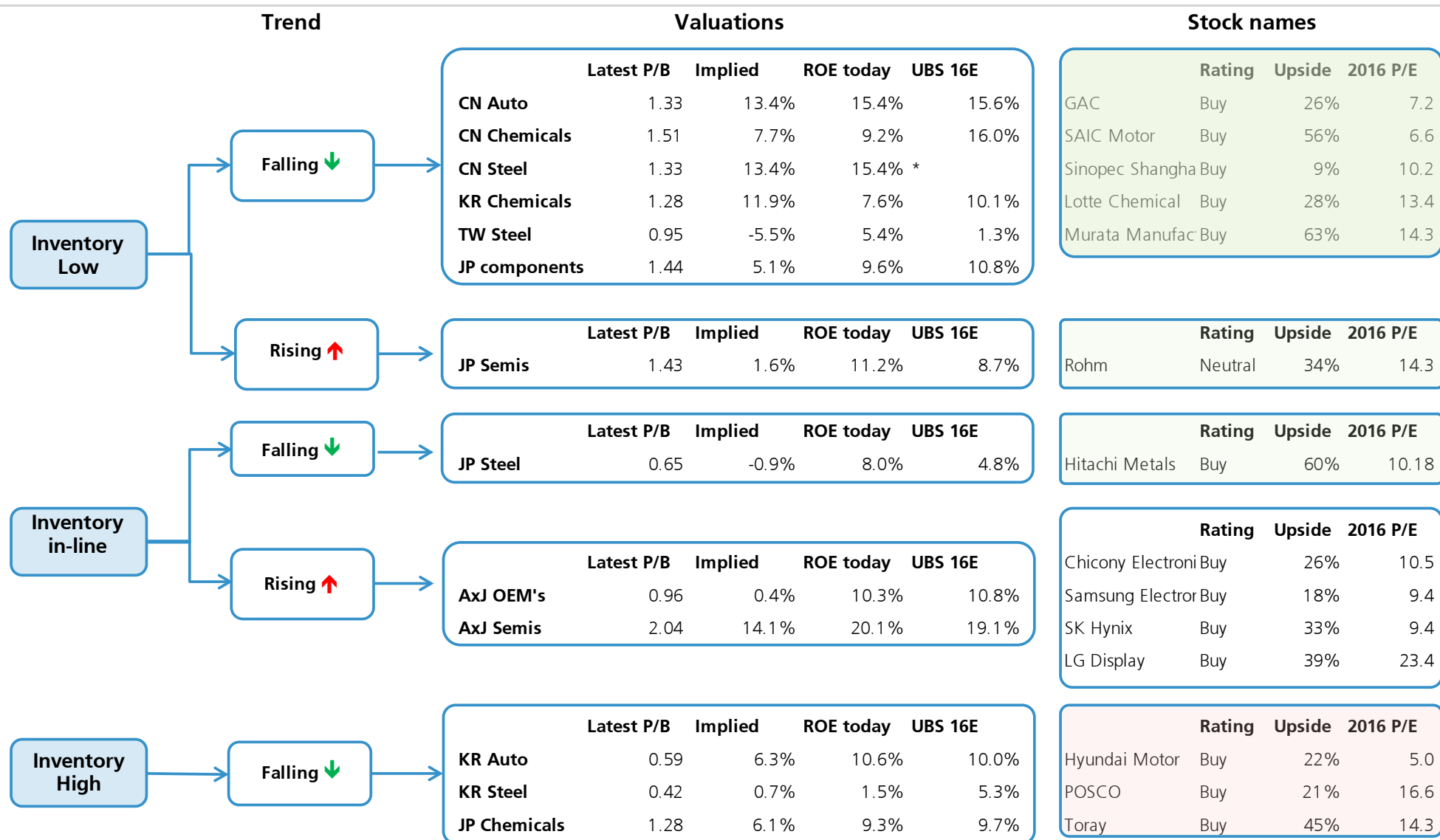
Yuka Murata

Strategist

yuka.murata@ubs.com

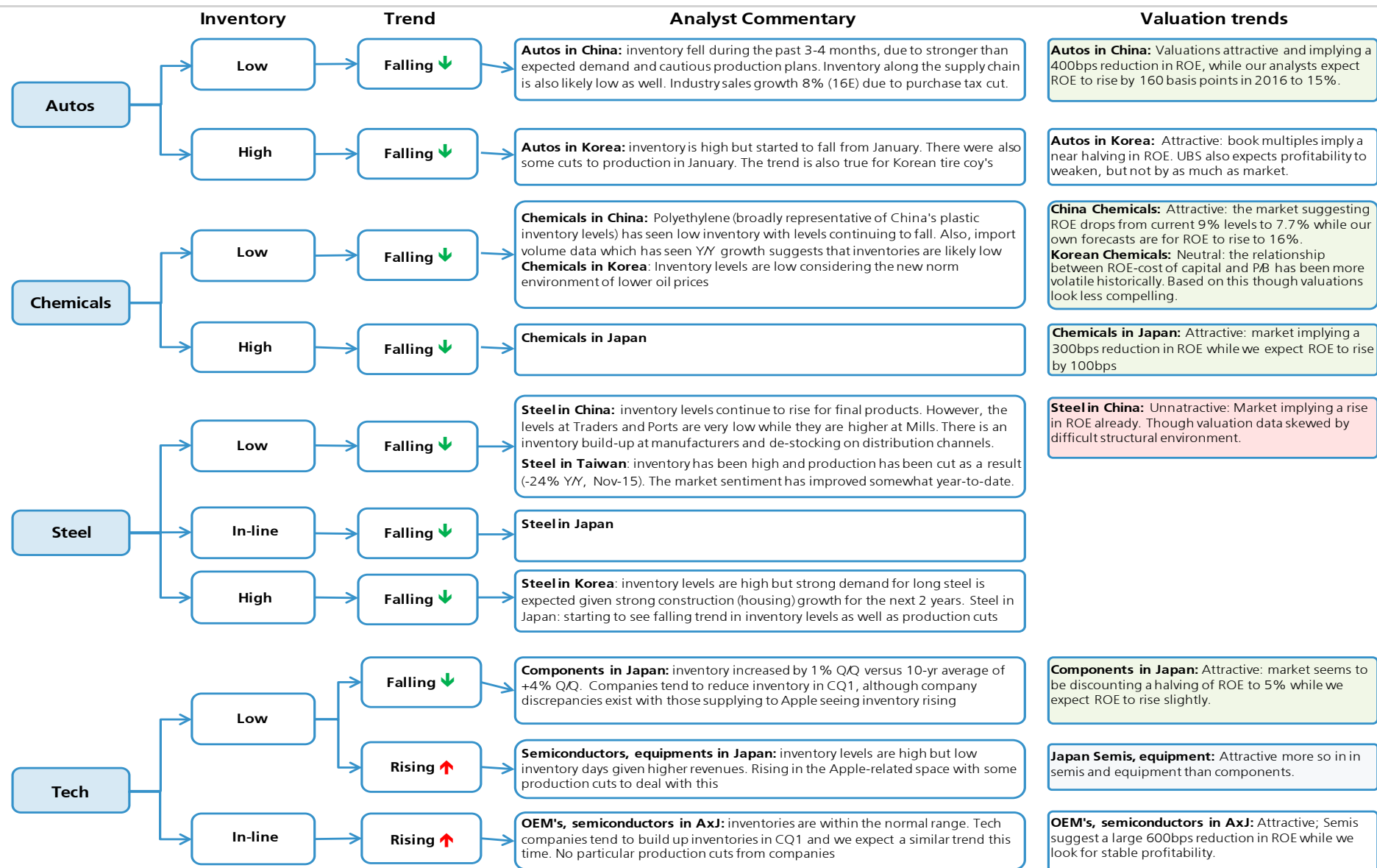
+852-3712-4951

Figure 1: How the inventory for the cyclical industries in the region sit



Source: UBS

Figure 2: What our analysts think about the inventory levels within their coverage sectors



Source: UBS

Figure 3: Inventory trends, valuations and ROE implications by sector

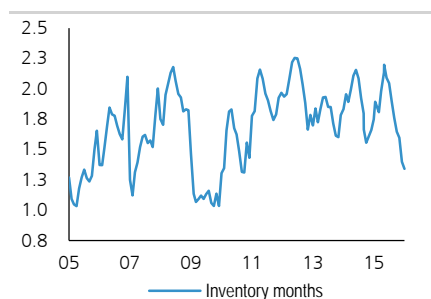
Industry			Inventory		Trend	Latest PB	ROE			Upside to implied taking UBS 16E	Index upside if UBS 16E ROE	
							Implied	today	UBS 16E			
Automobiles	AxJ	CN	Low	✓	Falling	✓	1.33	13.4%	15.4%	15.6%	2.18	35%
	AxJ	KR	High	✗	Falling	✓	0.59	6.3%	10.6%	10.0%	3.66	37%
Chemicals	AxJ	CN	Low	✓	Falling	✓	1.51	7.7%	9.2%	16.0%	8.33	270%
	AxJ	KR	Low	✓	Falling	✓	1.28	11.9%	7.6%	10.1%	(1.76)	-33%
	Japan	JP	High	✗	Falling	✓	1.28	6.1%	9.3%	9.7%	3.56	46%
Steel	AxJ	CN	High	✗	Stable	■	0.73	1.7%	-2.0%	*	NA	NA
	AxJ	KR	High	✗	Falling	✓	0.42	0.7%	1.5%	5.3%	4.58	43%
	AxJ	TW	High	✗	Falling	✓	0.95	-5.5%	5.4%	1.3%	6.76	22%
	Japan	JP	High	✗	Falling	✓	0.65	-0.9%	8.0%	4.8%	5.74	49%
Tech - components	AxJ	AxJ	Low	✓	Rising	✗	1.32	4.6%	10.7%	14.3%	9.73	129%
	Japan	JP	Low	✓	Falling	✓	1.44	5.1%	9.6%	10.8%	5.76	81%
Tech - OEM / ODM	AxJ	AxJ	In-line	■	Rising	✗	0.96	0.4%	10.3%	10.8%	10.44	123%
Tech - semi & semi equip	AxJ	AxJ	In-line	■	Rising	✗	2.04	14.1%	20.1%	19.1%	5.07	34%
	Japan	JP	Low	✓	Rising	✗	1.43	1.6%	11.2%	8.7%	7.04	64%

Source: Datastream, UBS

Inventory trends, valuation and ROE implications in charts

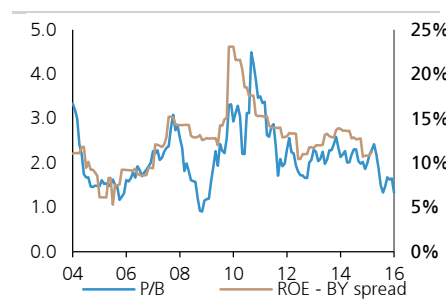
We take the logarithmic relationship between P/B and ROE spread over bond yields over history to find what current P/B levels imply for ROE today. We compare that to top-down industry ROE and UBS analyst ROE for the sector.

Figure 4: China Autos - inventory



Source: China Automobiles Assoc. Datastream, UBS

Figure 5: Valuation



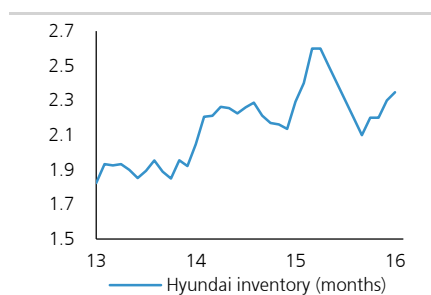
Source: Datastream, UBS

Figure 6: ROE implication

China Autos	
Latest P/B	1.33x
Implied ROE	13.4%
Industry ROE	15.4%
UBS 16E ROE	16.0%

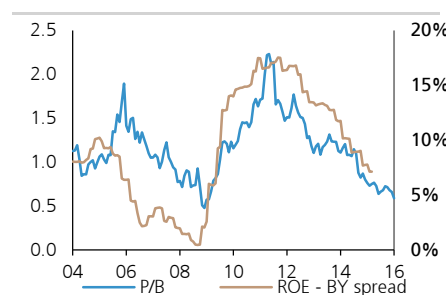
Source: Datastream, UBS

Figure 7: Korean Autos - inventory



Source: Hyundai Motor, Datastream, UBS

Figure 8: Valuation



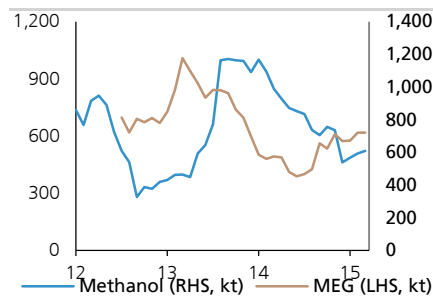
Source: Datastream, UBS

Figure 9: ROE implication

Korean Autos	
Latest P/B	0.59x
Implied ROE	6.3%
Industry ROE	10.6%
UBS 16E ROE	10.0%

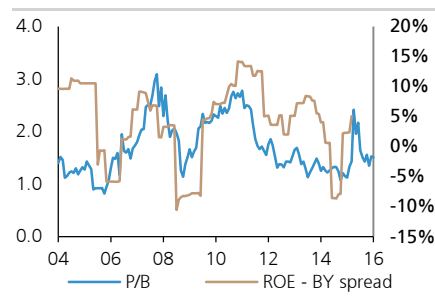
Source: Datastream, UBS

Figure 10: China chem - inventory



Source: Datastream, UBS* inventory at ports

Figure 11: Valuation



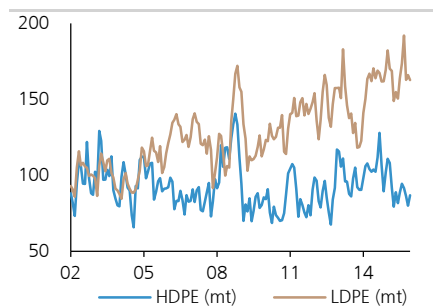
Source: Datastream, UBS

Figure 12: ROE implication

China Chemicals	
Latest P/B	1.51x
Implied ROE	7.7%
Industry ROE	9.2%
UBS 16E ROE	16.0%

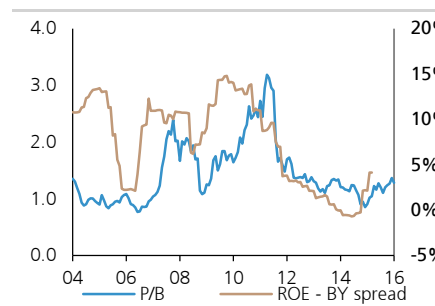
Source: Datastream, UBS

Figure 13: Korean Chem- inventory



Source: KOSIS, Datastream, UBS

Figure 14: Valuation



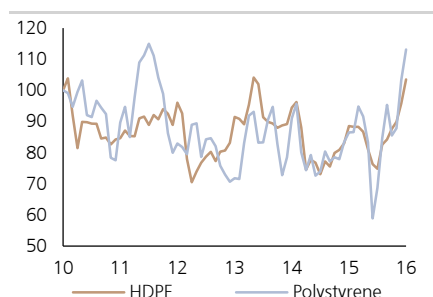
Source: Datastream, UBS

Figure 15: ROE implication

Korean Chemicals	
Latest P/B	1.28x
Implied ROE	11.9%
Industry ROE	7.6%
UBS 16E ROE	10.1%

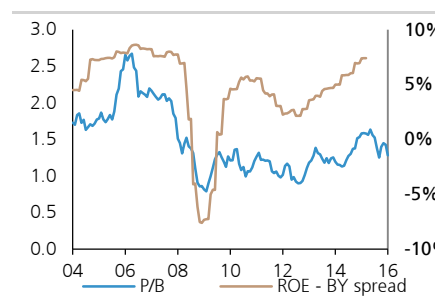
Source: Datastream, UBS

Figure 16: Japan Chem inventory



Source: JPCA, Datastream, UBS *inventory in KT where 1/2010=100*

Figure 17: Valuation



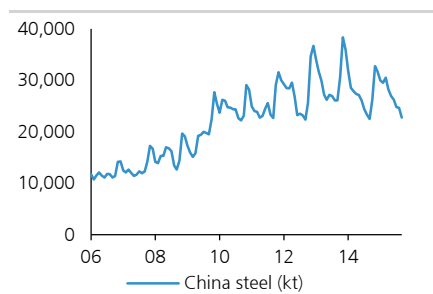
Source: Datastream, UBS

Figure 18: ROE implication

Japan Chemicals	
Latest P/B	1.28x
Implied ROE	6.1%
Industry ROE	9.3%
UBS 16E ROE	9.7%

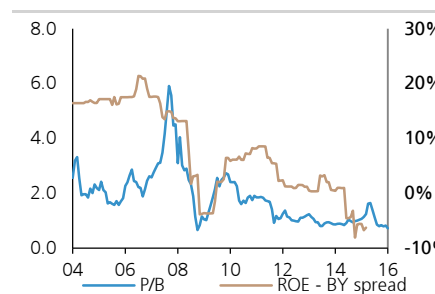
Source: Datastream, UBS

Figure 19: China steel - inventory



Source: Mysteel, Datastream, UBS *total inventory at Mills + Traders*

Figure 20: Valuation



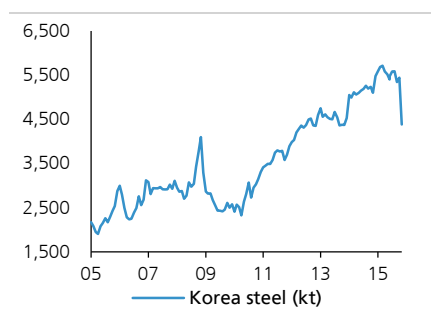
Source: Datastream, UBS

Figure 21: ROE implication

China Steel	
Latest P/B	0.73x
Implied ROE	1.7%
Industry ROE	-2.0%
UBS 16E ROE	NA

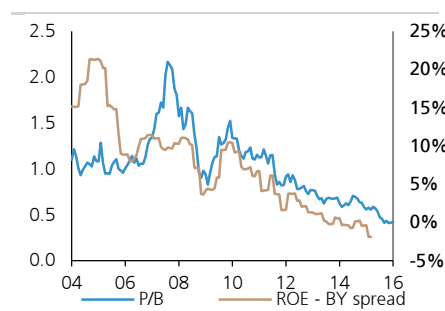
Source: Datastream, UBS

Figure 22: Korean Steel- inventory



Source: KOSA, Datastream, UBS *total of long + flat steel*

Figure 23: Valuation



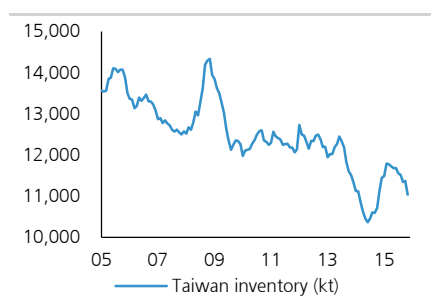
Source: Datastream, UBS

Figure 24: ROE implication

Korean Steel	
Latest P/B	0.42x
Implied ROE	0.7%
Industry ROE	1.5%
UBS 16E ROE	5.3%

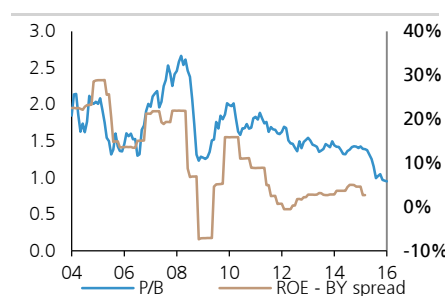
Source: Datastream, UBS

Figure 25: Taiwan Steel - inventory



Source: Taiwan Steel & Iron Industries Assoc. Datastream, UBS*total of Final + Semi prod.*

Figure 26: Valuation



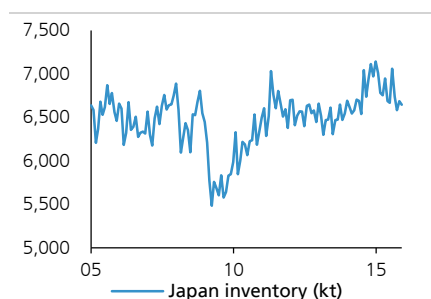
Source: Datastream, UBS

Figure 27: ROE implication

Taiwan Steel	
Latest P/B	0.95x
Implied ROE	-5.5%
Industry ROE	5.4%
UBS 16E ROE	1.3%

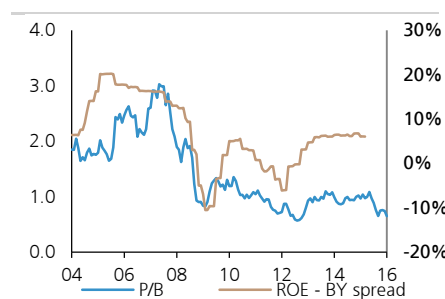
Source: Datastream, UBS

Figure 28: Japan Steel inventory



Source: JISF, Datastream, UBS

Figure 29: Valuation



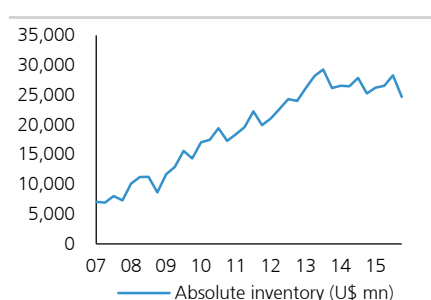
Source: Datastream, UBS

Figure 30: ROE implication

Japan Steel	
Latest P/B	0.65x
Implied ROE	-0.9%
Industry ROE	8.0%
UBS 16E ROE	4.8%

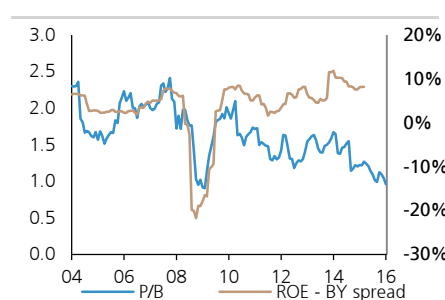
Source: Datastream, UBS

Figure 31: AxJ Tech: OEMs - inventory



Source: Company data, Datastream, UBS

Figure 32: Valuation



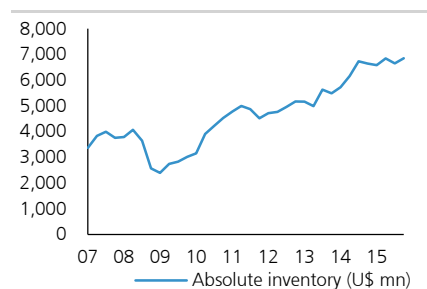
Source: Datastream, UBS

Figure 33: ROE implication

AxJ Tech OEMs	
Latest P/B	0.96x
Implied ROE	0.4%
Industry ROE	10.3%
UBS 16E ROE	10.8%

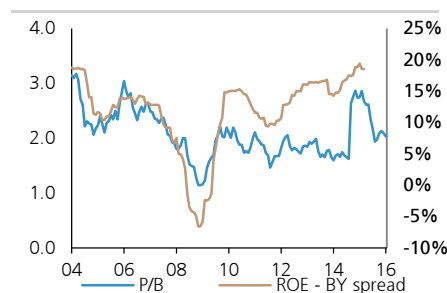
Source: Datastream, UBS

Figure 34: AxJ Tech: Semi - inventory



Source: Company data, Datastream, UBS

Figure 35: Valuation



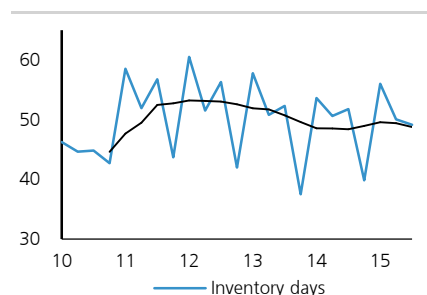
Source: Datastream, UBS

Figure 36: ROE implication

AxJ Tech Semiconductors	
Latest P/B	2.04x
Implied ROE	14.1%
Industry ROE	20.1%
UBS 16E ROE	19.1%

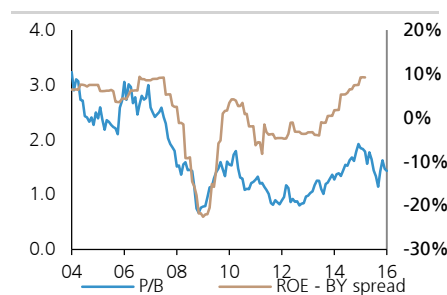
Source: Datastream, UBS

Figure 37: Japan Tech: Semi inventory



Source: Company data, Datastream, UBS

Figure 38: Valuation



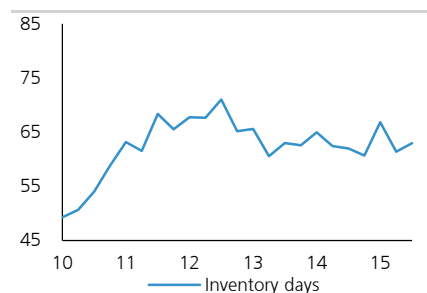
Source: Datastream, UBS

Figure 39: ROE implication

Japan Semiconductors	
Latest P/B	0.65x
Implied ROE	-0.9%
Industry ROE	8.0%
UBS 16E ROE	4.8%

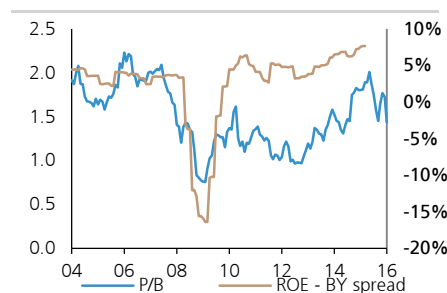
Source: Datastream, UBS

Figure 40: Japan Tech: Components



Source: Company data, Datastream, UBS

Figure 41: Valuation



Source: Datastream, UBS

Figure 42: ROE implication

Japan Components	
Latest P/B	1.44
Implied ROE	5.1%
Industry ROE	9.6%
UBS 16E ROE	10.8%

Source: Datastream, UBS

Figure 43: UBS Asia ex Japan and Japan coverage of cyclical stocks

Name		MC U\$	Industry	Rating	price	Upside	ROE 16	ROE 17	P/E 16E	P/E 17E	P/B 16E	P/B 17E
Aisin Seiki	JP	11.9	Auto Components	Buy	4,610	11%	8%	8%	12.9	12.2	1.04	0.98
Bharat Forge	IN	2.7	Auto Components	Buy	790	27%	19%	20%	23.6	19.6	4.24	3.69
Bosch	IN	7.8	Auto Components	Buy	16,853	19%	18%	21%	36.7	26.5	6.19	5.22
Denso	JP	34.1	Auto Components	Buy	4,418	18%	8%	8%	13.5	12.4	1.00	0.95
Hyundai Wia	KR	2.3	Auto Components	Buy	108,500	38%	13%	12%	6.4	6.1	0.79	0.70
Motherson Sumi Systems	IN	4.8	Auto Components	Buy	244	39%	34%	34%	19.4	14.5	5.81	4.35
NGK Spark Plug	JP	4.1	Auto Components	Buy	2,156	86%	14%	14%	8.8	8.0	1.16	1.05
Sumitomo Electric Industries	JP	9.8	Auto Components	Buy	1,418	48%	NA	NA	9.8	9.1	0.68	0.62
Cheng Shin Rubber Ind	TW	5.7	Auto Components	Neutral	58	-3%	15%	16%	13.1	11.8	1.93	1.79
Hankook Tire Co Ltd	KR	5.3	Auto Components	Neutral	52,600	-1%	13%	12%	9.3	8.7	1.13	1.01
Hanon Systems	KR	4.3	Auto Components	Neutral	9,800	4%	NA	NA	17.5	16.2	2.70	2.43
Hyundai Mobis	KR	19.9	Auto Components	Neutral	251,000	6%	NA	NA	7.5	7.1	0.83	0.76
Toyota Industries Corporation	JP	14.0	Auto Components	Sell	4,925	-19%	6%	6%	11.2	12.3	0.72	0.69
Dongfeng Motor	CN	10.4	Automobiles	Buy	9	33%	NA	NA	5.8	5.3	0.73	0.65
Great Wall Motor	CN	7.4	Automobiles	Buy	6	103%	22%	20%	4.8	4.5	0.99	0.86
Guangzhou Automobile	CN	14.5	Automobiles	Buy	7.09	20%	13%	13%	7.6	6.6	0.92	0.84
Hyundai Motor	KR	25.4	Automobiles	Buy	150,000	20%	NA	NA	5.0	5.0	0.45	0.42
Kia Motors	KR	15.6	Automobiles	Buy	47,400	24%	11%	10%	6.6	6.4	0.71	0.65
Mahindra & Mahindra	IN	10.5	Automobiles	Buy	1,199	19%	NA	NA	16.0	13.6	1.99	1.79
Maruti Suzuki India	IN	16.2	Automobiles	Buy	3,612	47%	NA	NA	16.0	13.5	3.50	2.96
Mazda Motor	JP	8.6	Automobiles	Buy	1,637	22%	14%	13%	6.8	6.4	0.91	0.82
Nissan Motor	JP	38.5	Automobiles	Buy	1,051	14%	11%	11%	7.5	7.1	0.82	0.76
SAIC Motor	CN	31.9	Automobiles	Buy	18.94	52%	17%	17%	6.8	6.3	1.11	1.02
Brilliance China Automotive	CN	4.4	Automobiles	Neutral	7	68%	NA	NA	6.0	4.5	1.16	0.94
Fuji Heavy Industries	JP	26.6	Automobiles	Neutral	3,900	-5%	26%	20%	8.5	9.2	1.98	1.74
Honda Motor	JP	48.6	Automobiles	Neutral	3,086	-3%	7%	8%	10.0	8.7	0.73	0.69
Tata Motors Ltd.	IN	15.9	Automobiles	Neutral	317	34%	NA	NA	7.1	6.3	1.07	0.92
Toyota Motor	JP	167.7	Automobiles	Neutral	6,097	0%	11%	9%	9.5	10.4	1.00	0.94
Bajaj Auto	IN	9.6	Automobiles	Sell	2,234	1%	NA	NA	16.2	14.8	4.50	3.91
Geely Automobile	CN	3.5	Automobiles	Sell	3	14%	13%	14%	8.3	7.2	1.05	0.93
Hero MotoCorp	IN	8.3	Automobiles	Sell	2,808	-18%	NA	NA	16.8	15.2	6.30	5.38
Suzuki Motor	JP	14.2	Automobiles	Sell	2,903	-7%	9%	9%	13.4	12.5	1.17	1.08
Mabuchi Motor	JP	3.2	Electrical Eq.	Buy	5,240	32%	6%	8%	24.2	18.4	1.52	1.44
Shanghai Electric	CN	15.0	Electrical Eq.	Buy	4	54%	NA	NA	14.6	12.1	1.02	0.96
Zhuzhou CSR Times Electric	CN	6.0	Electrical Eq.	Buy	40	64%	21%	21%	12.9	11.6	2.57	2.22
Bharat Heavy Electricals	IN	3.5	Electrical Eq.	Sell	97	-28%	NA	NA	(165.5)	(458.7)	0.71	0.71
HTC Corporation	TW	2.0	Comm. Eq.	Sell	81	-22%	NA	NA	(7.3)	(6.1)	1.16	1.43
Advantech Co.	TW	4.4	Tech H/W	Buy	230	17%	26%	26%	22.8	20.5	5.57	5.13
Casetek Holdings	TW	1.9	Tech H/W	Buy	182	7%	14%	13%	11.2	9.6	1.41	1.17
Chicony Electronics	TW	1.6	Tech H/W	Buy	73	26%	20%	21%	10.6	9.4	2.04	1.86
Lenovo Group Ltd	CN	9.6	Tech H/W	Buy	7	24%	21%	21%	11.7	10.4	2.29	1.99
Pegatron	TW	6.4	Tech H/W	Buy	81	8%	15%	15%	8.4	8.1	1.24	1.14
Asustek Computer Inc.	TW	6.2	Tech H/W	Neutral	274	2%	12%	11%	10.3	10.0	1.18	1.14
Catcher Technology	TW	6.3	Tech H/W	Neutral	279	-9%	16%	15%	9.9	9.4	1.51	1.30
Compal Electronics Inc.	TW	2.7	Tech H/W	Neutral	20	-9%	8%	9%	10.1	9.3	0.83	0.81
Foxconn Technology	TW	2.9	Tech H/W	Neutral	69	-11%	NA	NA	10.1	9.0	1.00	0.93
INNOLUX Corporation	TW	3.0	Tech H/W	Neutral	10	10%	6%	4%	7.5	10.9	0.40	0.39
Lite-On Technology Corp.	TW	2.7	Tech H/W	Neutral	37	-14%	NA	NA	12.8	12.4	1.11	1.08
Quanta	TW	6.6	Tech H/W	Neutral	57	-3%	NA	NA	12.6	11.4	1.62	1.56
Simplo Technology	TW	1.0	Tech H/W	Neutral	113	1%	NA	NA	11.3	11.1	1.51	1.43
Wistron Corporation	TW	1.5	Tech H/W	Neutral	20	-20%	NA	NA	12.3	10.6	0.71	0.69
Acer Inc.	TW	1.1	Tech H/W	Sell	12	-11%	NA	NA	69.8	72.7	0.56	0.56
Alps Electric Co.	JP	3.4	Elec. Eq. & Inst.	Buy	2,043	115%	18%	20%	8.8	7.0	1.48	1.27
Delta Electronics	TW	9.9	Elec. Eq. & Inst.	Buy	137	46%	17%	17%	15.9	14.4	2.49	2.31

Name	MC	U\$	Industry	Rating	price	Upside	ROE 16	ROE 17	P/E 16E	P/E 17E	P/B 16E	P/B 17E
Hitachi	JP	20.8	Elec. Eq. & Inst.	Buy	492	113%	10%	10%	7.3	6.7	0.69	0.63
LG Display	KR	7.2	Elec. Eq. & Inst.	Buy	24,850	37%	NA	NA	23.7	6.9	0.72	0.66
LG Innotek	KR	1.4	Elec. Eq. & Inst.	Buy	86,000	31%	10%	13%	11.1	7.7	1.05	0.93
Murata Mfg.	JP	27.0	Elec. Eq. & Inst.	Buy	14,580	51%	16%	16%	14.3	13.3	2.20	1.96
SEMCO	KR	3.2	Elec. Eq. & Inst.	Buy	54,200	25%	NA	NA	14.3	13.5	0.88	0.84
Synnex Technology	TW	1.6	Elec. Eq. & Inst.	Buy	34	46%	15%	15%	8.0	7.6	1.17	1.15
Yokogawa Electric	JP	2.6	Elec. Eq. & Inst.	Buy	1,108	62%	11%	10%	10.5	10.5	1.12	1.03
AAC Technologies	CN	9.0	Elec. Eq. & Inst.	Neutral	56	-2%	NA	NA	17.5	16.0	4.32	3.69
AU Optronics	TW	2.7	Elec. Eq. & Inst.	Neutral	9	-6%	NA	NA	(10.4)	(10.3)	0.44	0.46
Hirose Electric	JP	4.1	Elec. Eq. & Inst.	Neutral	13,260	9%	7%	7%	20.7	19.8	1.48	1.42
Hon Hai Precision	TW	38.4	Elec. Eq. & Inst.	Neutral	80	6%	NA	NA	10.4	10.6	1.16	1.08
Kyocera	JP	16.5	Elec. Eq. & Inst.	Neutral	5,157	1%	4%	4%	20.2	19.2	0.78	0.76
Omron	JP	5.9	Elec. Eq. & Inst.	Neutral	3,155	43%	8%	9%	16.0	14.0	1.32	1.26
Samsung SDI	KR	5.6	Elec. Eq. & Inst.	Neutral	101,000	-6%	NA	NA	5.6	20.9	0.56	0.55
TDK	JP	6.9	Elec. Eq. & Inst.	Neutral	6,270	42%	9%	9%	10.6	9.6	0.94	0.87
Yaskawa Electric	JP	3.1	Elec. Eq. & Inst.	Neutral	1,343	4%	12%	12%	15.4	13.6	1.73	1.57
Zhen Ding Technology	TW	1.9	Elec. Eq. & Inst.	Neutral	80	-10%	16%	14%	8.9	9.2	1.35	1.23
Novatek Microelectronics	TW	2.5	Semi.s & Semi. Eq.	Buy	136	8%	24%	25%	11.6	10.6	2.73	2.57
Samsung Electronics	KR	143.4	Semi.s & Semi. Eq.	Buy	1,197,00	16%	10%	9%	9.5	9.5	0.89	0.82
SK Hynix	KR	18.3	Semi.s & Semi. Eq.	Buy	30,950	29%	NA	NA	9.7	10.2	0.96	0.90
TSMC	TW	119.8	Semi.s & Semi. Eq.	Buy	153	5%	23%	23%	12.8	11.4	2.83	2.49
ASE	TW	9.1	Semi.s & Semi. Eq.	Neutral	38	-2%	12%	12%	15.2	14.5	1.79	1.69
ASM Pacific Technology	HK	3.3	Semi.s & Semi. Eq.	Neutral	65	-4%	18%	16%	16.8	16.8	2.83	2.59
Inotera Memories	TW	5.6	Semi.s & Semi. Eq.	Neutral	28	5%	NA	NA	12.0	11.8	1.23	1.11
MediaTek Inc.	TW	11.1	Semi.s & Semi. Eq.	Neutral	234	-15%	11%	11%	14.1	13.5	1.49	1.44
Rohm	JP	4.5	Semi.s & Semi. Eq.	Neutral	4,910	28%	4%	4%	16.8	15.7	0.68	0.66
Siliconware	TW	4.8	Semi.s & Semi. Eq.	Neutral	51	-2%	16%	15%	13.9	14.0	2.09	2.01
Tokyo Electron	JP	10.3	Semi.s & Semi. Eq.	Neutral	7,215	-7%	11%	10%	17.6	17.5	1.84	1.75
UMC	TW	5.1	Semi.s & Semi. Eq.	Neutral	13	-10%	5%	5%	15.6	14.1	0.75	0.73
Realtek Semiconductor.	TW	1.3	Semi.s & Semi. Eq.	Sell	83	-40%	11%	11%	19.5	18.8	2.16	2.11
Semiconductor Manufacturing	CN	3.7	Semi.s & Semi. Eq.	Sell	1	-6%	5%	5%	18.1	19.5	0.91	0.87
Vanguard	TW	2.6	Semi.s & Semi. Eq.	Sell	52	-45%	16%	16%	19.3	19.5	3.08	3.07
Asahi Kasei	JP	8.2	Chemicals	Buy	670	64%	9%	9%	8.6	8.0	0.78	0.74
Asian Paints Ltd.	IN	12.4	Chemicals	Buy	872	15%	33%	34%	43.5	37.4	13.54	11.77
Formosa Plastics	TW	15.4	Chemicals	Buy	80	14%	NA	NA	15.0	13.4	1.58	1.50
Hitachi Chemical	JP	3.5	Chemicals	Buy	1,951	28%	10%	9%	10.7	10.1	0.99	0.93
Kuraray	JP	3.9	Chemicals	Buy	1,282	40%	9%	9%	9.5	9.0	0.85	0.80
Lotte Chemical	KR	9.2	Chemicals	Buy	331,000	24%	NA	NA	13.8	11.9	1.33	1.20
Nitto Denko	JP	9.5	Chemicals	Buy	6,562	52%	13%	13%	12.3	11.5	1.51	1.38
PTT Global Chemical	TH	7.0	Chemicals	Buy	55	1%	8%	9%	12.9	11.1	1.02	0.98
Shanghai Petrochemical	CN	9.1	Chemicals	Buy	3.64	4%	16%	14%	10.6	10.8	1.62	1.47
Sumitomo Chemical	JP	7.3	Chemicals	Buy	510	57%	12%	12%	7.8	7.3	0.92	0.85
Teijin	JP	3.3	Chemicals	Buy	381	44%	15%	14%	8.1	7.9	1.14	1.03
Toray	JP	13.0	Chemicals	Buy	932	39%	10%	10%	13.7	12.4	1.33	1.22
UPL Ltd	IN	2.6	Chemicals	Buy	412	46%	18%	19%	11.4	9.5	1.93	1.67
Formosa Chemicals & Fibre	TW	13.4	Chemicals	Neutral	76	-1%	NA	NA	18.6	18.1	1.41	1.37
JSR	JP	3.3	Chemicals	Neutral	1,644	9%	8%	8%	12.3	11.6	0.98	0.94
LG Chemical	KR	16.8	Chemicals	Neutral	312,000	9%	NA	NA	14.7	12.9	1.45	1.33
Mitsubishi Chemical Holdings	JP	7.8	Chemicals	Neutral	611	28%	9%	10%	9.4	8.0	0.85	0.79
Mitsui Chemicals	JP	3.2	Chemicals	Neutral	368	39%	10%	10%	8.2	7.6	0.80	0.74
Nan Ya Plastics	TW	15.5	Chemicals	Neutral	65	-6%	NA	NA	15.8	14.6	1.46	1.40
Shin-Etsu Chemical	JP	22.1	Chemicals	Neutral	5,946	8%	7%	7%	17.1	16.6	1.19	1.13
PETRONAS Chemicals	MY	13.3	Chemicals	Sell	7	-9%	11%	11%	21.5	19.7	2.22	2.10
ACC Limited	IN	3.3	Const. Materials	Buy	1,243	27%	NA	NA	20.8	16.0	2.60	2.42
Siam Cement	TH	15.4	Const. Materials	Buy	456	16%	NA	NA	12.2	11.7	2.39	2.13

Name	MC	U\$	Industry	Rating	price	Upside	ROE 16	ROE 17	P/E 16E	P/E 17E	P/B 16E	P/B 17E
UltraTech Cement	IN	12.1	Const. Materials	Buy	2,974	16%	15%	18%	24.8	18.1	3.50	3.02
Ambuja Cements	IN	4.4	Const. Materials	Neutral	196	10%	NA	NA	24.6	18.6	2.77	2.59
Anhui Conch Cement	CN	12.8	Const. Materials	Neutral	18	36%	NA	NA	NA	NA	NA	NA
Asia Cement	TW	2.8	Const. Materials	Neutral	27	13%	3%	3%	20.2	18.5	0.51	0.50
Taiwan Cement	TW	3.3	Const. Materials	Neutral	30	9%	7%	8%	13.2	12.0	0.94	0.92
Indocement	ID	5.6	Const. Materials	Sell	20,175	-32%	NA	NA	17.2	16.6	2.81	2.75
Lafarge Malayan Cement	MY	1.8	Const. Materials	Sell	9	-11%	NA	NA	21.8	19.8	2.42	2.41
Semen Indonesia	ID	4.6	Const. Materials	Sell	10,400	-14%	NA	NA	14.4	12.6	2.14	1.93
Hitachi Metals	JP	4.8	Metals	Buy	1,279	60%	NA	NA	10.1	9.4	1.02	0.94
Hyundai Steel	KR	5.4	Metals	Buy	56,900	11%	NA	NA	9.0	7.8	0.49	0.46
JSW Steel	IN	4.1	Metals	Buy	1,133	10%	6%	9%	20.1	12.7	1.18	1.10
Korea Zinc	KR	6.6	Metals	Buy	456,000	21%	11%	11%	14.0	13.1	1.47	1.36
Nippon Steel&Sumitomo	JP	17.4	Metals	Buy	2,094	24%	NA	NA	12.9	9.0	0.67	0.64
POSCO	KR	13.7	Metals	Buy	211,500	13%	NA	NA	17.7	9.3	0.44	0.43
Tata Steel	IN	3.8	Metals	Buy	267	24%	3%	8%	25.4	10.0	0.79	0.75
JFE Holdings	JP	8.0	Metals	Neutral	1,491	1%	NA	NA	19.8	9.8	0.47	0.45
Kobe Steel	JP	2.9	Metals	Neutral	91	-1%	NA	NA	21.0	12.5	0.44	0.43
Maruichi Steel Tube	JP	2.3	Metals	Neutral	3,145	3%	NA	NA	19.5	17.4	1.05	1.02
Mitsubishi Materials	JP	4.0	Metals	Neutral	344	-10%	NA	NA	10.0	11.0	0.74	0.72
Sumitomo Metal Mining	JP	6.1	Metals	Neutral	1,251	-12%	2%	5%	41.6	13.8	0.69	0.67
China Steel	TW	9.5	Metals	Sell	20.9	-34%	1%	3%	86.7	35.2	1.10	1.08
Nine Dragons Paper	CN	3.5	Paper	Buy	6	49%	NA	NA	9.2	7.9	0.81	0.76

Source: Datastream, UBS

Figure 44: Country performance and valuations

MSCI	Performance US\$ (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
	1m	3m	YTD	2015	2015	2016	2017	2015	2016	2017	2015	2016	2017	2016	2016
China	-0.1	-15.5	-13.1	-10.0	10.2	9.6	8.4	1.29	1.17	1.06	0.7	5.5	14.1	3.0	12.2
Hong Kong	1.5	-9.4	-8.5	-3.3	14.4	13.5	12.5	1.03	0.99	0.95	-13.5	6.6	8.0	3.6	7.4
India	-4.1	-9.1	-10.6	-7.4	19.0	16.1	13.7	2.72	2.44	2.22	2.1	18.5	17.0	1.9	15.2
Indonesia	5.2	8.4	8.0	-21.0	16.5	15.4	13.6	2.83	2.57	2.30	-4.5	6.9	13.4	2.5	16.7
Korea	-3.0	-12.4	-8.0	-7.9	9.9	10.4	9.5	0.95	0.89	0.83	20.6	-4.4	8.9	2.0	8.6
Malaysia	-0.5	0.9	1.9	-22.4	16.3	15.7	14.4	1.69	1.62	1.53	-2.6	3.6	9.3	3.1	10.3
Philippines	0.4	-5.8	-4.6	-8.1	18.9	16.9	15.3	2.51	2.29	2.09	5.8	11.9	10.2	2.1	13.6
Singapore	4.9	-6.0	-5.7	-20.8	11.6	11.6	10.9	1.06	1.00	0.95	-3.2	0.3	6.1	4.5	8.7
Taiwan	4.4	-2.2	0.4	-14.4	12.5	12.5	11.4	1.57	1.49	1.40	1.6	0.0	9.1	4.2	11.9
Thailand	6.2	1.4	10.3	-25.5	15.3	14.1	12.3	1.86	1.70	1.57	-0.4	8.6	14.1	3.2	12.1
Asia ex Jp	0.4	-9.4	-7.3	-11.3	11.9	11.6	10.4	1.31	1.22	1.13	2.6	3.3	11.4	3.0	10.6
Japan	-5.3	-12.5	-11.2	7.8	14.7	13.6	12.1	1.17	1.10	1.03	5.6	8.0	13.1	2.3	8.0
Australia	-1.4	-8.9	-9.0	-14.1	13.5	15.0	14.7	1.53	1.64	1.59	-4.0	-10.6	2.6	5.2	10.9
APAC	-2.3	-10.6	-9.1	-4.3	12.8	12.1	11.0	1.23	1.16	1.09	3.2	5.4	9.8	3.1	9.6
USA	1.9	-6.4	-3.6	-0.8	17.4	16.9	14.9	2.61	2.52	2.38	0.2	2.6	13.7	2.3	14.9
Europe	-1.2	-9.9	-7.4	-5.3	15.1	14.7	13.1	1.61	1.60	1.52	-4.3	2.7	12.6	3.9	10.8
Emerging	1.4	-8.8	-5.2	-17.0	12.1	11.5	10.0	1.32	1.21	1.11	-5.9	5.9	15.2	3.1	10.5
World	0.6	-8.0	-5.3	-4.3	15.7	15.1	13.4	1.84	1.80	1.70	-1.9	3.5	13.1	2.9	11.9

Source: IBES, Thomson Datastream, UBS APAC Equity Strategy

Figure 45: Asia ex Japan sector performance and valuations

MSCI	Performance US\$ (%)				P/E (x)			P/Book (x)			EPS growth (%)			DY (%)	ROE (%)
	1m	3m	YTD	2015	2015	2016	2017	2015	2016	2017	2015	2016	2017	2016	2016
AxJ															
Materials	5.9	-0.4	0.2	-11.9	17.4	14.4	12.4	1.06	1.02	0.97	3.4	21.6	16.0	2.8	7.1
Utilities	2.1	-3.9	-3.5	-11.5	8.8	10.4	9.9	1.28	1.19	1.11	52.0	-14.9	4.8	3.6	11.4
Energy	3.7	-4.5	-1.2	-21.4	13.4	13.6	10.1	0.86	0.83	0.79	-29.3	-1.8	35.7	2.8	6.1
Telecoms	1.3	-4.6	-1.9	-11.5	15.1	14.6	13.5	1.83	1.75	1.65	5.9	3.1	8.5	4.0	12.0
Cons Stpls	-1.9	-6.9	-4.4	-3.1	23.5	21.0	18.6	2.93	2.69	2.51	12.6	12.0	12.6	2.0	12.8
Health Care	-5.2	-7.1	-7.8	6.2	28.5	23.5	19.3	4.19	3.72	3.17	23.6	21.4	18.1	0.9	15.8
Tech	0.8	-8.4	-5.5	-8.2	14.7	14.1	12.4	2.11	1.91	1.72	-3.1	4.1	13.5	2.2	13.5
Cons Disc	0.9	-9.2	-6.8	-16.4	13.1	12.0	10.7	1.56	1.43	1.31	-6.0	8.7	12.5	2.4	11.9
Industrials	-0.9	-11.4	-8.2	-10.5	12.5	12.1	10.7	1.13	1.05	0.97	12.2	2.9	13.6	2.6	8.7
Financials	-0.4	-13.7	-12.2	-12.7	8.4	8.2	7.6	0.90	0.84	0.78	4.4	2.2	7.9	4.2	10.3
Asia ex Jap	0.4	-9.4	-7.3	-11.3	11.9	11.5	10.3	1.31	1.22	1.13	2.6	3.3	11.4	3.0	10.6

Source: IBES, Thomson Datastream, UBS APAC Equity Strategy

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Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Chicony Electronics	2385.TW	Buy	N/A	NT\$73.70	03 Mar 2016
Guangzhou Automobile	2238.HK	Buy	N/A	HK\$7.04	03 Mar 2016
Hitachi Metals	5486.T	Buy	N/A	¥1,309	03 Mar 2016
Hyundai Motor ^{5, 7}	005380.KS	Buy	N/A	Won147,500	03 Mar 2016
LG Display ^{7, 16}	034220.KS	Buy	N/A	Won24,250	03 Mar 2016
Lotte Chemical	011170.KS	Buy	N/A	Won316,500	03 Mar 2016
Murata Manufacturing	6981.T	Buy	N/A	¥14,600	03 Mar 2016
POSCO ¹⁶	005490.KS	Buy	N/A	Won213,500	03 Mar 2016
Rohm	6963.T	Neutral	N/A	¥4,975	03 Mar 2016
SAIC Motor	600104.SS	Buy	N/A	Rmb18.98	03 Mar 2016
Samsung Electronics	005930.KS	Buy	N/A	Won1,220,000	03 Mar 2016
Sinopec Shanghai Petrochemical ¹⁶	0338.HK	Buy	N/A	HK\$3.59	03 Mar 2016
SK Hynix	000660.KS	Buy	N/A	Won31,950	03 Mar 2016
Toray	3402.T	Buy	N/A	¥922.3	03 Mar 2016

Source: UBS. All prices as of local market close.

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