Key Highlights

- **Rotation to Asia.** Asian valuations are now more attractive than their US peers. Asia is winning the fight against Covid19. Fed guidance could weigh on the US Dollar.
- **China is recovering.** Industrial production is picking up pace. Spending is gradually improving with numbers getting better month over month.
- **Potential 2nd wave of Coid19 infections**. There is a risk of a 2nd wave as we are seeing in Beijing. However, this appears isolated, unlike the US where it is more widespread.
- **Strategy**. Given the considerable run up of US equities and the relatively more attractive Asian markets, clients can consider looking to Asia. If US equities are still a consideration for some, there are opportunities within the US consumption space.

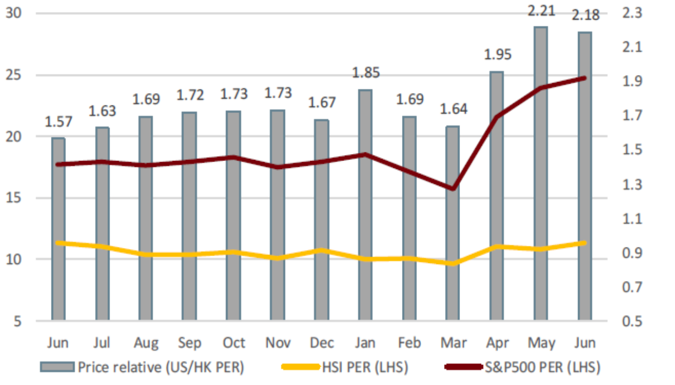
Investment Updates

China exposure for recovery, attractive valuation and relatively lower risk.

The rotation to Asia has multiple drivers. This leads us to believe that the Asian recovery could last a while. After a blistering recovery in US markets, we believe that a switch to Asian markets is sensible. 3 drivers that could make this rotation long lasting: (i) valuations; (ii) Asia is winning the fight against the virus and economic activity is recovering; and (iii) Fed rate guidance could weaken the US dollar.

Valuations. Asian equity valuations are lower and more attractive than US valuations. Though this has been the case for much of 2017-2020, the relative valuation between US and HK has now widened. The PER relative between the two markets (PER of S&P divided by PER of HSI) has increased from 1.7 to 2.2.

PER, PBR and other Valuation Metrics of selected indices



Source: Bloomberg, CIMB Private Banking

Part of the explanation includes a re-rating in many technology stocks (many of which have been beneficiaries of this crisis), the Fed's monetary support to markets, and the USD3 trillion fiscal stimulus. We believe this widening valuation differential will attract funds to Asia as China's recovery gathers pace.

PER, PBR and other Valuation Metrics of selected indices

	US	HK/China	Singapore	Malaysia
Index	S&P 500	Hang Seng	Straits Times	FBMKLCI
Index levels on 23 June 2020	3,118	24,907	2,635	1,507
YTD index price performance	-3.5%	-11.6%	-18.2%	-5.1%
2020F PER (x)	**24.8**	**11.6**	**14.3**	**19.8**
5-year mean PER (x)	18.0	11.5	13.3	16.4
2020F EPS growth	-24.5%	-14.5%	-28.9%	-14.8%
2020F ROE	14.6%	10.4%	8.0%	7.2%
2020F P/B (x)	3.42	0.98	0.90	1.48
2020F dividend yield	1.9%	3.4%	4.5%	3.1%

Source: Bloomberg, CIMB Private Banking

China is recovering. China's industrial production has risen steadily from March (+1.1% MoM), to April (+3.9% MoM) and May (+4.4% MoM). There are multiple data-points from Chinese companies and sectors; including property, tourism and consumer staples. These data-points suggest the recovery is progressing, albeit at varying speeds across the various sectors.

Spending is recovering. Retail sales in China for the month of May was only 2.8% lower YoY, an improvement from -7.5% YoY in April and -15.8% YoY in March:

- **Travel:** Trip.com, China's no. 1 online holiday booking portal, revealed data showing domestic holiday bookings have recovered to ~70% of pre-crisis levels. This contrasts with earlier data, which showed bookings falling between 65-90%. For some destinations, e.g. South Korea, and domestic short-haul package tours, bookings have even risen above the 2019 level.
- **Property sector:** China's sales in May surged +9.3% YoY, the fastest pace since July 2018, and contrasts with -1.5% YoY in April. Average sales price rose 6.3% YoY in May (April: -1.1% YoY). Overall YTD sales as of May declined 8.4% YoY. This is however, a marked improvement from -34.7% YoY in 2M2020.
- **Energy demand:** China's gas consumption recovered to 91% of pre-crisis level, after rising 9% YoY in April. This was driven primarily by demand recovery in the industrial sector. Coal consumption by six of the largest power companies in China shows coal usage at just 2.2% lower in June as compared to pre-crisis levels. However, commercial usage is still lagging.

Second wave of infections? China and Japan, the second and third largest economies in the world, have controlled the virus well, and are reopening. Although Beijing has been experiencing a rise in infections in recent days, this is very different from the second wave the US is now experiencing. The rise in infections in China is localized to parts of Beijing, and centred around a seafood market, unlike the US where infections are widespread, and rising in 29 (out of 51) US states.

US is a concern, but policy impact will lessen damage. Concerns over an emerging second wave of infections in the US are justified judging by the latest data, which show the latest increase in infections largely from US and South America. If this progresses, the US market is vulnerable to a change in risk sentiment.

Market reaction to a second wave may be less negative. Firstly, there is no certainty a second nationwide lockdown will be enforced. Locking down individual states will also not be as impactful. Secondly, the impact on markets will likely be less pronounced as the Fed is better prepared. Congress is also preparing further fiscal stimuli, which could be used to address the economic loss from a second wave of infections. Particularly for the US, further economic shocks will likely be met with additional monetary and fiscal support.

Markets react less to repeated negative events. Trade wars, and more specifically the rivalry between US and China, will remain a pervasive worry as the next flare-up and dimension of this rivalry is unpredictable. We note that market reaction to these flare-ups has diminished over time. The table below measures the index decline from the initial event to the bottom of the sell-off.

Change in Hang Seng Index (HS Index) and S&P500 Index on news-flow

Index Sensitivity to:	Date	HS Index	S&P500
Initial trade war fears	Mar 2018	-22.3%	-7.3%
Failure to sign trade Deal	May 2019	-11.1%	-6.9%
HK Protests (Extradition Bill)	Jul 2019	-12.3%	no impact
Hk protest (National Security bill)	May 2020	-5.9%	no impact
Impact on Qualcomm shareprice of:			
Export restrictions on Huawei	May 2019	-23.9%	no impact
Stricter export restrictions on Huawei	May 2020	-5.9%	no impact

Source: Bloomberg, CIMB Private Banking

US dollar peaking. A third reason for preferring Asian equities, particularly those related to the Chinese recovery story, is an expectation the USD will stay strong at around the current levels till the end of the year, and thereafter gradually decline.

The underlying reasons for long-term USD weakness are: (i) US interest rates remaining low until US unemployment is significantly lower. The Fed is guiding to no rate hikes in 2021 and 2022. (ii) As the recovery gathers momentum from 2H2020 into 2021, risk aversion will decline and risk appetite improve, reducing risk aversion flows to the dollar.

Consensus EPS forecasts of S&P500 expect a turnaround and rebound in 3Q2020 EPS. If 'green shoots' of a US economic recovery does indeed materialize, the resulting risk-on environment will likely mean a weaker US dollar.

A recap of the S&P500 index performance. After a sharp 33% decline (18 Feb – 23 March), the S&P500 Index had since surged >40%, making it one of the fastest (if not the fastest) equity price recovery on record. This bear market rally was unusual not only for its speed but also for its drivers. In response to the recession outlook, we saw unprecedented policy responses in terms of fiscal & monetary injections, which surprised the markets given the size and speed of implementation.

Rates are likely to stay low for longer, meaning the search for yield will be a powerful driver. The latest Fed message in terms of the path of rates at its June FOMC meeting means ultra-low rates are likely to stay for some time.

The pace and uncertainty about the path of the US economy has led the Fed to present projections in which its board members see no policy rate changes through the end of 2022. This is also projecting no shift in either long-run inflation or the long-run unemployment rate, which seems to imply scepticism about the pace of inflation rising to 2% (the Fed's target).

Asset purchases may be possible. The likelihood of the Fed moving to negative overnight rates seems low, even in the presence of a second wave of infections. Instead, flattening of the Treasury curve through Treasury purchases and influencing broader credit conditions through buying risky corporate assets (with a Treasury backstop) seems more likely, according to CIMB Group Economist. Also possible would be a move to buy exchange-traded funds (ETFs), as the Bank of Japan (BoJ) has done for years. With a financial system that is more heavily weighted towards bond and equity markets than Europe or Japan, affecting bond and equity market conditions, rather than short-term borrowing rates, seems a more direct and powerful way to affect financial conditions in the US.

The Fed has not pointed to a desire to move its policy rates below zero, nor did it make any explicit comments about "yield curve control". The latter implies targeting a longer dated yield, which is the policy now being pursued by the Bank of Japan (BoJ).

Recent phase of equity market consolidation should be seen as an opportunity to engage in selective buys. We note a rotation in market leadership into cyclical and value stocks (such as those in the financials, industrials and energy sectors). Given the strong recovery, some consolidation should be expected.

Finally, policymakers have implemented unprecedented stimulus with reasonable success and the markets expect that they stand ready to do more, if needed. Recall that during the March meltdown, there was a real risk of a financial blow-up stemming from liquidity pressures. However, the policy response to date has largely diminished those risks. As such, it is unlikely that the March lows are tested again, but we remain watchful of the risks.

Conclusion: Given that the US market has recovered to within 8% of its peak, our relative preference is for Asian Equities, with focus on China equities. Valuation differentials are compelling, China's recovery is more entrenched, East Asia has controlled the virus better, and the US dollar will likely peak in 2H2020. Furthermore, a likelihood of a second wave of infections in the US is increasing, which would be negative for USD assets and the currency.

Stocks in the sectors that are benefiting from a China recovery include **AIA Ltd (1299 HK)**, **Alibaba (9988**

HK), **China Mengniu Dairy (2318 HK)**, **Tencent (700 HK).**

Investors can also consider the **JPM China A-Shares Opportunities Fund.**

For a more diversified exposure to the Asian region, we suggest the **Schroder Asian Income Fund**. The fund manager invests primarily in Asian equities and fixed income securities which offer attractive yields and sustainable dividend payments.

For customers looking to the US market, some ideas to consider on the US consumption story: **McDonalds (MCD US)**, **Starbucks (SBUX US)**, **Mondelez (MDLZ US)**, **Nike (NKE US)** and **Procter & Gamble (PG US).**

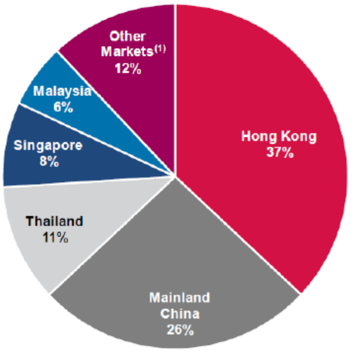
For individual credits, for clients who have higher risk appetite and are open to investing in perpetual bonds, we suggest financially sound issuers with perpetual bonds that have decent step up rate to ensure higher likelihood of calls in the future as well as those with dividend stopper and pusher clause. We reiterate SGD Perpetuals this week: 1) **Starhub 3.95% Perp (callable June 2022)** and 2) **ARA Asset Management 5.65% Perp (callable Mar 2023).**

Equity : AIA Group Ltd (1299 HK)

Summary. We like AIA's unique positioning in Asia; established foreign insurer with expanding foothold in under-penetrated China, as well as its geographical diversification in some of Asia's developing economies. We believe that its long-term investment thesis is intact, albeit weaker sales and investment yields in the near-term as a result of Covid-19 outbreak.

Background. AIA Group is the largest listed pure pan-Asian life insurer with presence in 18 countries in Asia Pacific. It is the first foreign insurer to enter China and is among the 5 largest foreign life insurers in China. AIA is in 15-year exclusive bancassurance deals to sell its insurance products through Citibank's Asia Pacific retail branches, as well as with Bangkok Bank in Thailand. Over the last 3 years, AIA has grown its Embedded Value (EV) at 13.8%, Value of New Business (VONB) at 17% and net profit at 16.9% CAGR. AIA Group's top shareholders include JP Morgan (9.31%), BNY Mellon (9.09%) and Capital Group (7.89%).

2019 VONB by Market Segment



Source: Compiled from company release

Considerations:

Higher demand for health and life insurance over the longer-term, on increased awareness of importance of insurance protection triggered by the Covid-19 outbreak. We believe that household income in China and ASEAN countries, over the longer-term would continue to grow and support premiums, as well as margin expansion amid shift to regular premium protection-focused products.

Expansion of footprint in the under-penetrated insurance market of China. This is supported by efforts of the Chinese government to liberalize their financial markets, which are positive for wholly-owned foreign insurers such as AIA. China's liberalization of financial markets should level the playing field for AIA versus other foreign insurers which have mostly been operating and expanding in China via joint ventures with local partners.

A key medium-term catalyst for AIA is further regulatory approvals to expand in China. Early 2019, AIA received approval from the China Banking and Insurance Regulatory Commission (CBIRC) to set up sales and services centres in the cities of Tianjin and Hebei province's Shijiazhuang, its first expansion within China since 2002. In less than 6 months, AIA opened new sales and service centres in those areas and currently has operations in 7 municipalities/cities; Shanghai, Beijing, Shenzhen, Guangdong, Jiangsu, Tianjin and Shijiazhuang. We think that AIA will benefit as market shares of foreign insurers in China's life insurance market have been gradually rising in the last 10 years, and is expected to continue.

AIA's longer-term growth positioning is intact, despite near-term struggles. VONB attributable to Mainland Chinese Visitors (MCV) captured under Hong Kong VONB account for about 20% of total VONB. This had taken a hit in 2H2019 due to Hong Kong protests, and will likely remain weak in 1H2020.

CGS-CIMB estimates that a 50bp fall in investment yield reduces VONB by 5%, and has factored in 100bp fall that would dampen AIA's 2H2020 and 1H2021 VONB, an assumption we think is reasonable. As such, they expect VONB and net profit CAGR of 14.8% and 7.5% respectively for the coming 3 years, the negative growth in 2020 to be reversed in 2021 onwards. Despite near-term struggles, we believe AIA's longer-term positioning in its key markets is intact.

Management. AIA is having a new CEO in June, whose appointment back in 4Q2019 had been well-received by the investment community, given his extensive local experience in China and multiple Asian markets. Mr Lee Yuan Siong is from Ping An Insurance Group, and had worked with CITIC-Prudential Life Insurance joint venture. AIA's current CEO will be retiring.

Resilient and superior solvency position. As at end-2019, AIA boasts a 362% solvency ratio, higher than peers' and well above the 100% statutory minimum.

Key risks include worse than expected VONB growth and investment yields, higher than expected claims dampening margins, weaker local currency and growth in its key Asian markets and unfavourable regulations.

Equity : Alibaba (9988 HK)

Summary. We reiterate that Alibaba is attractive for its exposure to China's rapidly expanding middle class and untapped potential of Chinese cloud market. We believe some of the key catalysts will be (a) stronger than expected China online retail sales' growth, (b) successful expansion to lower-tier market, (c) stronger than expected growth of cloud computing business.

Background. Alibaba is the world's largest online and mobile commerce company as measured by Gross Merchandise Value (GMV). The company operates China's most visited online marketplaces, including Taobao (consumer-to-consumer) and Tmall (business-to-consumer).

Alibaba also derives its revenue from international retail/ wholesale marketplaces (AliExpress, Alibaba.com, Lazada), cloud computing (AliCloud), digital media and entertainment platforms (Youku, Alibaba Pictures, etc.), local consumer services (Ele.me and Koubei), logistics services (Cainiao) and innovation initiatives/others (Amap.com, Tmall Genie, etc.).

Considerations:

Alibaba as a proxy for China's expanding middle class. China's middle class is estimated to be at nearly 400 million, less than a third of the total population. In comparison, more than half of the US population is considered middle class. The expanding middle class with higher consumption per capita is likely to drive total retail sales as China transitions into a developed country. China retail e-commerce sales as a percentage of total retail sales is estimated to grow from 30% in 2018 to 64% in 2023, an average annualized rate of 16% (Source: eMarketer). Alibaba has the potential to be the largest beneficiary of Chinese consumption growth story.

Alibaba's core commerce monetization model can be classified into customer management, commission-based and others. Customer management primarily consists of performance-based marketing services (merchants bid for keywords that appear on browse results on a cost-per-click basis) and display marketing services (merchants bid/purchase for display positions on a cost-per-thousand impression basis). In addition, Alibaba also generates commissions based on a percentage of transaction value (typically 0.3-5% on Tmall, 5-8% on AliExpress). Others' revenue are primarily through revenue from product sales (New Retail), fixed annual membership fees, cloud servicing fees (AliCloud), logistics service provider fees (Cainiao and third-party providers) and on-demand delivery service fees (Ele.me).

Market leader in cloud computing. AliCloud is the leading cloud player in China with 43.2% market share (Source: IDC) in China Public Cloud IaaS, followed by Tencent Cloud (12.2%). AliCloud provides cost-effective IT solutions and digital transformation services, such as digitization of customer insights, inventory, workflow and resource planning. Given the low penetration rate of Chinese public cloud market (10% vs 22% in US); there is still vast potential for AliCloud.

Strategic synergies across Alibaba's ecosystem. About 25% of Annual Active Customers (AAC) from Alibaba's China retail marketplace (Taobao and Tmall) are users of Ele.me and Koubei. Hence, large cross-selling opportunities exist for the remaining 506 million users to be funnelled to local consumer services. With that, unit economics such as Ele.me's delivery cost per order are likely to improve further.

Strong profitability and cash flows. Unlike most of its Chinese internet peers, Alibaba has demonstrated strong profitability and free cash flows since FY2011.

Alibaba reported stronger than expected 4QFY2020 results with total revenue up 22% YoY (consensus: +14.5%) and adjusted net income up 12% YoY (consensus: -27.5%). Main segments such as core commerce grew 19% YoY and cloud computing was up 58% YoY.

FY2020 revenue was up 35% YoY with the increase mainly driven by China commerce retail business (mainly Tmall & Taobao platforms) segment and cloud computing, which registered a robust 62% YoY growth. Alibaba also achieved a RMB1 trillion Gross Merchandise Volume (GMV) milestone in fiscal year 2020, which accounted for one-sixth of total retail sales in China.

Key risks include: (1) Margin pressures from competition and investments; (2) Regulatory risks related to Ant Financial; (3) Macro slowdown in China.

Equity : China Mengniu Dairy (2319 HK)

Summary. We like China Mengniu Dairy as a consumption upgrade play to ride on the structural growth of China's dairy sector, being the second largest dairy producer. Mengniu's continuous shift to higher-margin products through new product launches and accretive overseas M&As enables it to ride on consumer 'premiumization' trends with China's expanding middle class. Its new distribution channels enabled through Alibaba's LST system allows it to quickly scale up its reach to lower tier cities.

Background. China Mengniu Dairy ("Mengniu") is the second largest dairy product manufacturer in China. Mengniu's product range includes liquid milk products (UHT milk, milk beverages, yoghurt), ice cream, milk formula and other dairy products, such as cheese and plant-based nutritional food.

Key sales contributor is liquid milk, followed by milk formula, and ice cream & others (6%). Within the liquid milk segment, growth has been driven by UHT milk (key brands: Milk Deluxe, Mengniu Pure Milk) and yoghurt (key brands: Just Yoghurt, Champion, Yoyi C). Mengniu's main costs comprise imported milk powder, domestic raw milk, sugar and packaging materials.

Mengniu's largest shareholder is COFCO, China's state-owned food processing company, with 32% stake. Mengniu has strategic partnerships with Danone and Arla Foods (largest dairy producer in Scandinavia), coupled with a JV with Whitewave Foods (US-listed organic food manufacturer).

China's Mengniu also has controlling stakes in two listed companies; 58.2% in China Modern Dairy (largest raw milk producer in China) and 51% stake in Yashili (infant milk formula producer). It has minority stakes in Shengmu & YST Dairy. Mengniu's competitors are Yili Group (market leader) and Bright Dairy.

Considerations:

Structural growth of China's dairy sector. China's dairy consumption per capita is relatively low, at about 36kg a year, vs Japan and South Korea's 50kg. Dairy demand is set to grow, driven by increasing health awareness, an expanding middle class, urbanization and relaxation of the One Child policy. Yoghurt has enjoyed the fastest growth and in particular, room temperature (UHT) yoghurt, given that it can be distributed to remote areas whereby the chilled chain infrastructure is still underdeveloped. Other products like cheese, butter and plant-based milk are seeing increasing demand.

We believe Mengniu is in a good position to benefit from this structural growth with the highest market share in chilled yoghurt (34.5%) & e-commerce liquid milk (26.5%) and second highest for UHT milk (28.5%) as at 1H2019, according to Nielsen Research.

Riding on consumer 'premiumization' trends. With the expanding middle class with rising disposable income, Chinese consumers are trading up and demanding better quality products with more varieties, including imports. High-end products such as organic milk, room temperature and chilled yoghurt, chilled fresh milk, cheese products, organic formula and goat milk powder are key growth engines. Mengniu is able to tap on this trend with its continuous product innovations to cater for the higher-end market.

Penetration to lower tier cities. About two years ago, Mengniu started to work with Alibaba's LST (Ling Shou Tong) system in Tier 3 & 4 cities. The LST system allows Mengniu to connect with traditional mom-and-pop stores in China, whereby storeowners can place their orders online without going through multiple layers of distributors. In addition, LST brings their businesses online and provides big data analytics on customer preferences, pricing strategies and inventory levels.

In 1H2019, Mengniu covered nearly 4k counties and towns, and added 189k incremental point-of-sales (POS). Mengniu plans to add another 1 million POS in the next 3 years (current: 2 million POS). Management expects higher profitability for LST vs traditional distribution business once critical mass is reached.

Management's 2025 plan. Mengniu is ranked the 10th largest dairy companies globally. Management intends to focus on quality growth and narrow margin gap with peers. For its core business, it targets to be No. 1 for UHT milk (from No. 2), maintain its No. 1 position for chilled yoghurt and increase sales contribution from infant milk formula to 10-15% (from 4-5%) over the next 5-6 years. Other areas of growth will be from: (1) new business units for cheese and fresh milk; (2) expanding overseas business, mainly to South East Asia; and (3) pursue mergers & acquisitions.

Key risks include: (1) Higher raw milk prices in China impacting margins; (2) Intense price competition; and (3) Longer-than-expected approval for overseas M&A.

Equity : Tencent (700 HK)

Summary. We believe Tencent's enterprise demand for cloud services (remote working, online education, etc.) is likely to accelerate. Despite the tapering off effect of mobile gaming usage as the pandemic situation normalizes, the financial benefits will still be seen over the next few quarters due to deferred revenue recognition.

Background. Tencent is a Chinese internet giant with businesses primarily in social networking (WeChat & QQ), PC and mobile games, contents (news, videos, music, comics, etc.), cloud computing and fintech (WeChat Pay). As of 1Q2020, it derives majority of its revenue from gaming (43%), payments and cloud (24%), and online advertising (16%) segments.

Considerations:

Resilient gaming business. Mobile & PC games remains a key segment of Tencent's business. Growth momentum of mobile game revenue is likely to maintain. Several key mobile gaming titles; such as League of Legends, Dungeon & Fighter, Call of Duty, are slated to launch in 2020. Moving forward, Tencent will develop mobile games based on popular international IPs owned by its partners, further increasing the share of international mobile gaming revenue from the teens currently. Call of Duty Mobile (partnership with Activision Blizzard) is one recent example of success, having attracted over 20 million gamers within the first 2 days of its worldwide debut (ex-China) in October – one of the most successful mobile game launches ever.

Untapped monetization opportunity with large, sticky user base. Tencent's platforms are essentially the equivalent of Facebook, Whatsapp (WeChat), Netflix, Spotify and PayPal combined. Tencent's associates JD.com and Meituan Dianping are also similar in some respects to Amazon and Uber Eats/Groupon. Vast collection of user data through social, payment (Tenpay) and entertainment platforms (Tencent Video) allows Tencent to leverage on the technology of artificial intelligence for accurate user ad targeting.

Furthermore, Tencent has accumulated extensive amount of online gaming related Intellectual Property (IP) with continuous acquisitions/investments in top online gaming studios globally, such as Riot Games (developer of League of Legends), Supercell (Clash of Clans), Epic Games (Fortnite), Activision Blizzard (Call of Duty) and others. With its rich IP portfolio, entertainment content like movies can be developed.

Tencent is transforming from consumer Internet to industrial Internet. CEO Pony Ma believes the future of the Internet is using artificial intelligence to process Big Data in the cloud, allowing industries to aggregate and unlock value in their data. Tencent aims to help industries to connect to consumers through its platforms, such as WeChat. Miniprograms, official accounts, and Weixin Pay can facilitate communications between consumers and industries and transactions. Tencent has a strong position in social networking and entertainment (such as gaming, online video and online music), and is advancing into finance, government, smart retail, and industrial verticals.

Key risks include: (1) Government's regulations on online gaming can put pressure on online gaming business; (2) Intense competition and investment in the new businesses will put pressure on Tencent's margins.

Equity: McDonalds (MCD US)

Summary. We believe McDonald's is a strong ship in choppy waters and will likely recover from the Covid-19 faster and potentially emerging stronger. It has a good track record and scale. Its continual investments through efficiency, technology platforms etc means it will be positioned to win more market share ceded by the weaker players over time.

Description: McDonald's generates revenue through company-owned restaurants, franchise royalties, and licensing pacts. Restaurants offer a uniform value-priced menu with some regional variations. As of Dec 2019, there were roughly 38,700 locations in more than 120 countries: 36,100 franchisee/affiliate units and 2,600 company units.

Considerations

Experience of the Future. After reorganizing the company into segments based on the maturity and competitive position of its different markets, refranchising 4,000 locations, the company is focused on "velocity growth accelerators" such as an Experience of the Future layout (counter, kiosk, web ordering and table service), mobile ordering and payments, and delivery alternatives. These initiatives had proven successful and continued to be rolled out globally.

Good long term track record. While the company must still contend with Covid 19-related guest traffic pressures, aggressive industry promotional activity, across many global markets, we believe MCD's technology investments, value platform, and franchisee health will allow it to sustain mid-single-digit system sales growth over longer horizon, with operating margins improving due to its ongoing initiatives (e.g. through new menu innovations, modernized customer experience including a more personalized digital experience).

Same Store Sales Growth (%)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
US	4.5%	5.7%	4.8%	5.1%	0.1%
Int'l Operated Markets	6.0%	6.6%	5.6%	6.2%	-6.9%
Int'l Development Licensed Markets & Corp	6.0%	7.9%	8.1%	6.6%	-4.3%
Total	**5.4%**	**6.5%**	**5.9%**	**5.9%**	**-3.4%**

Revenue (mil)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Sales by Co-Operated Restuarants	2,240.5	2,400.4	2,416.6	2,363.3	2,025.8
Revenue from franchised restaurants	2,715.1	2,940.9	3,014.0	2,985.7	2,608.0
Others	-	-	-	-	80.6
Total Revenue	**4,955.6**	**5,341.3**	**5,430.6**	**5,349.0**	**4,714.4**

Source: Compiled from company releases

Strong ship in choppy waters. Smaller F&B outlets may not be able recover as fast as MCD, nor have the sufficient means to compete. Investors should prioritize those that have the scale to be more aggressive on pricing near-term, have developed robust mobile platforms, and have healthy balance sheets. Clearly MCD is such a player and it is well positioned to compete for market share lost by the smaller players once the economy recovers from Covid-19.

Key Risks include protracted impact from the Covid-19, further social distancing and affecting in-dining traffic, higher competition form other delivery aggregators.

Equity: Starbucks (SBUX)

Summary. Starbucks is well-positioned to leverage its digital assets and new operating formats, like contact-less pickup to expand service to customers. Mgmt is confident to regain the momentum they had prior to COVID-19. Longer term, Starbucks is still poised for top-line growth and margin expansion. In US, Starbucks still has domestic potential, including new store formats, menu innovations, greater engagements thru mobile/ digital tools (and memberships expansion), plus more partnerships. It can expand its long-term channel and geographic growth potential such as in China and other emerging markets.

Description: Starbucks has a global chain of stores (~32K globally) with 18.3K in Americas and 13.7K internationally (including about 4.4K in China). The company distributes products under the Starbucks and Teavana brands under the Global Coffee Alliance partnership with Nestle. In addition, Starbucks markets bottled beverages, ice creams, and liqueurs through partnerships with Pepsi, Anheuser-Busch, Tingyi, and Arla. In FY2019, Starbucks' Americas represented ~69% of total revenue, Int'l segment (including China) at 23%, then channel development at ~8%.

Considerations.

Recovery playbook in China. SBUX believes China's SSS will continue to improve in the 2H of fiscal 2020. Starbucks remain optimistic about their ability to capitalize on the long-term growth potential of the premium coffee market in China. The recent problems in Luckin' Coffee (a domestic player which had problems of mis-reporting some revenue) may be a tailwind for Starbucks.

SBUX is well prepared for this mitigate-and-contain phase in the US. SBUX is leveraging more digital tools that enable it to monitor the COVID-19 situation in every community across the US, and leverage a variety of service options from contactless service, entry-way pickup, curbside delivery where parking is available, and at-home delivery that allow SBUX to thoughtfully reopen stores and scale up operations.

Comparable Store Sales	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Comparable Store Sales						
Group SSS	**4%**	**3%**	**6%**	**5%**	**5%**	**-10%**
Americas	4%	4%	7%	6%	6%	-3%
International	2%	2%	5%	3%	1%	-31%
-China	1%	2%	6%	5%	3%	-50%

Source: Compiled from company releases

Selling through multiple channels amplifies the brand and extends its reach beyond its retail store. Through the Global Coffee Alliance with Nestlé and its ready-to-drink partners, including Pepsi and Tingyi, SBUX offers a wide range of products through various channels which help in diversification.

Key Risks include 1) extend delay from Covid-19 or a 2nd wave infection; 2) stiffer competition from US/ China; 3) poor execution to stall growth recovery

Equity: Mondelez (MDLZ US)

Summary. Mondelz is a leading player in the global snack arena with a presence in the biscuit, chocolate, gum/candy etc and its portfolio includes well-known brands. We believe it has been able to grab market share because customers were relying on brands they know and trust. We believe that that larger companies (Mondelez) have more established supply chains and thus a greater ability to consistently deliver product, and we expect this trend to continue. Importantly MDLZ is also executing well its strategy which led to its more defensive growth profile, which is a quality we view favorably.

Description: The firm is a leading player in the global snack arena with a presence in the biscuit (44% of sales), chocolate (32%), gum/candy (13%), beverage (4%), and cheese and grocery (7%) aisles. Mondelez's portfolio includes well- nown brands like Oreo, Chips Ahoy, Halls, Trident, and Cadbury, among others. The firm derives just over one third of revenue from developing markets, a similar level from Europe, and the remainder from North America.

Considerations.

Current environment help large food companies take market share. MDLZ has benefited from consumers stocking their pantries, but mgmt. believed that consumption trends have also been bolstered. Consumers have shown a preference for favored and trusted brands in this uncertain times. We believe that that larger companies (such as MDLZ) tend to have more established – and vertically integrated – supply chains and thus a greater flexibility to consistently deliver quality products. We think the firm's portfolio of leading brands, combined with its established retail relationships, should ensure that its share position holds or even be boosted going forward.

Fiscal Yr ending Dec(USD 'mil)					
Geographical Revenue USD 'mil	**1Q 19**	**2Q 19**	**3Q 19**	**4Q 19**	**1Q 20**
LatAm	800	737	736	745	726
Asia, ME & Africa	1,541	1,352	1,419	1,458	1,502
Europe	2,551	2,247	2,377	2,797	2,584
North America	1,646	1,726	1,823	1,913	1,895
Consolidated Revenues	**6,538**	**6,062**	**6,355**	**6,913**	**6,707**

Organic Growth by Geography	**1Q 19**	**2Q 19**	**3Q 19**	**4Q 19**	**1Q 20**
LatAm	8.4%	10.9%	4.3%	7.6%	7.0%
Asia, ME & Africa	6.1%	4.7%	5.3%	4.9%	2.2%
Europe	2.7%	3.9%	5.0%	3.3%	4.3%
North America	0.5%	2.5%	2.5%	3.1%	13.4%
Total	**3.7%**	**4.6%**	**4.2%**	**4.1%**	**6.4%**

Source: Compiled from company releases

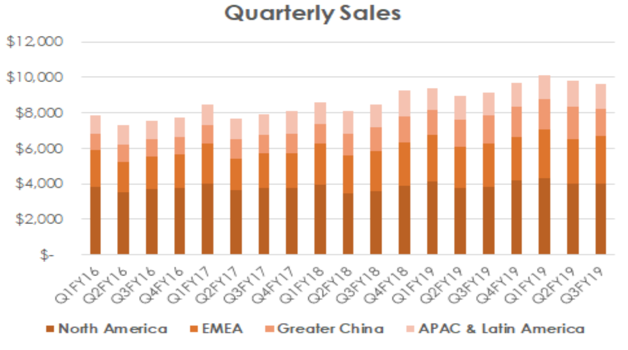
Continued investments. Its strategy is to maintain investment spending behind the business to expand market share further. We think this should put MDLZ in a better position relative to peers. The firm has further committed to increasing its spending behind its smaller, niche local brands that had previously been deprived from investment. Finally, Mondelez is empowering leaders that cater to local consumer tastes to make faster decisions regarding product innovation and distribution. We viewed such strategy quite favorably

Key Risks: Near term could be a bit uncertain as developed markets prove resilient but are offset by challenges in emerging regions. Added costs related to logistics, supply chain, labor, and manufacturing and product safety could eat into some of the benefit from volume gains seen in 1Q so far.

Equity: Nike Inc (NKE US)

Summary. We view Nike as the leader of the athletic apparel market and believe it will overcome the extraordinary challenge of COVID-19.

Description: Nike is the the largest athletic footwear brand in all major categories and in all major markets, where it dominates categories like running ($5 billion in annual sales) and basketball ($4 billion in annual sales) with well-known brands like Jordan, Air.



Source: Compiled from company releases

Considerations.

Nike is increasingly focusing on direct-to-consumer sales. Nike continues to develop its direct-to-consumer (DTC) business as some of its traditional retail channels. Nike direct, which includes e-commerce and Nike-branded stores, generates about a-third of Nike brand revenue. Digital sales had been growing well since it was implemented. DTC and digital sales growth should mitigate some negative impact from the store closures due to Covid-19.

Nike's gross margins may expand by a few dozen basis points per year through automation, e-commerce, and higher prices. Nike is actively shifting sales to differentiated retail in North America to increase full-priced sales. We believe Nike's innovative product development, marketing strategy and e-commerce will allow it to hold its market position and premium pricing.

Nike has a great opportunity in fast-growing markets like China. We believe Nike has a great opportunity for growth in China and other emerging markets. Nike has experienced double-digit growth in each of the last four fiscal years in China and should overcome the fiscal 2020 coronavirus shutdowns. Moreover, the firm, with worldwide distribution and $3.8 billion in fiscal 2019 digital sales, should benefit as more people in China, India, and other emerging countries move into the middle class and this segment may embrace Nike products.

Key risks include 1) worse than expected breakout of the Covid-19 in terms of spread; 2) Further delay in major sporting events such as Tokyo Olympics; 3) poor execution of Nike's strategy which leads to share loss of Nike to competitors; 4) Nike is exposed to a changing retail landscape in the U.S. as department, shoe, and sporting goods stores must compete with e-commerce and discount retail. Store closures have affected Nike in recent years.

Equity: Procter & Gamble (PG US)

Summary. Procter & Gamble ("PG") has consistently generated good returns to its shareholders. Holistic strategy with strong execution capabilities coupled with innovation had established its well-entrenched position and allowed PG to stay competitive. PG is arguably in a stronger position now to growth its key products and markets. It is able to better navigate the current tough macro-environment posed by the Covid-19 pandemic. We believe the stability of the operating business coupled with its dividend outlook should serve as a good defensive addition to a diversified portfolio.

Description. PG's Global Business Units (GBUs) are organized into 10 product categories, and aggregated into 5 reportable segments: 1) Beauty; 2)Grooming; 3) Healthcare; 4) Fabric & Home Care; 5) Baby, Feminine & Family Care:

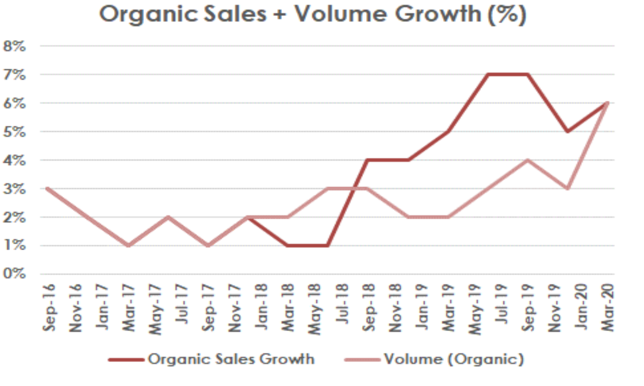
- **Beauty (19% of net sales and 22% of net earnings in FY2019)**. It is the global market leader in the retail hair care market with more than 20% global share primarily behind its Pantene, and Head & Shoulders brands. In Skin & Personal Care, its Olay brand its main brand.
- **Grooming (9% of net sales and 13% net earnings in FY2019)**. Behind the Gillette franchise, their global blades and razors market share is more than 60%.
- **Health Care (12% of net sales and 13% net earnings in FY2019)**. For Health Care, PG holds the No. 2 market share position with ~20% global share behind brands like Oral-B and Crest. In personal health care, main brands are Vicks (respiratory treatments), and Pepto Bismol/ Align (for digestive wellness).
- **Fabric & Home Care (33%/ 29% of FY19 sales/ net earnings respectively)**. In fabric care, PG has the No. 1 or No. 2 position in markets they compete in and is the global market leader with >25% global share, behind brands like Tide, Ariel and Downy brands. In home care, PG's global market share is > 20% across categories.
- **Baby, Feminine & Family Care (27%/23% of FY19 net sales/ earnings respectively)**. In baby care, PG is the global market leader (>25% global share) for taped diapers, pants and baby wipes. PG has the No. 1 or No. 2 share primarily behind Pampers, which is PG's largest brand with annual net sales of ~$8 bn. PG is the global market leader in the feminine care category with ~25% global share, primarily behind brand "Always". PG also compete in the adult incontinence market with about 10% global share. Its Family Care business is predominantly a US business comprising largely of "Bounty" paper towel and "Charmin" toilet paper brands. Its US market share is >40% for Bounty and >25% for Charmin.

Considerations.

Clear strategy and focused execution translating to steady performance. PG's strategy focuses on achieving superiority across all elements of their consumer proposition – products, packaging, brand communication, retail execution (in-store and online), and consumer & customer value. In particular, they have been able to innovate.

With a portfolio of some of the world's most popular brands in various product categories, P&G relies on expanding and innovating within these brands to drive growth. P&G's strong brand choices and commitment to innovation have successfully helped them establish their position in various consumer markets.

We believe the above translated to firm/ stable Organic Sales Growth and Organic Volume growth in the past many quarters.



Source: Compiled from company releases

Operational Optimization and Productivity Program. PG is focused on operational optimization and cost-savings plans to boost margins and maximise efficiency. Through its supply chain transformation, PG gets to enjoy greater negotiating and purchasing leverage, ultimately enhancing cost edge. P&G is currently in the middle of its second five-year productivity program that it estimates will deliver some $10 billion in savings.

Relatively Strong Performance amidst Adversity. The 2020 coronavirus crisis may have impacted P&G adversely, where its Beauty and Grooming segment took a hit. This was however, offset by the increase in demand for Healthcare, Fabric and Home care, Baby, Feminine and Family care segment products. P&G's diversified portfolio assured it withstand well during the 2008 Global Financial (GFC) crisis with sales volume falling by only 3%. P&G recovered shortly after.

PG is in a better position now to grow its key markets. For instance, back in 2007, PG grew share in 41% of its categories in US. Today, more than 70% of its US categories are gaining share. And such share gains are driven by category growth and increased household penetration, rather than just taking share from competitors.

Company raised its cash payout recently, marking the 64th straight year that it had increased its dividend. In the current environment where many are cutting back dividends, PG dividend outlook would likely attract yield seekers.

Key risks: 1) Promotional Spending – The usage of promotions have conditioned some customers to expect lower prices. 2) further Covid-19 impact to stall demand recovery; 3) stiff competition from certain product categories such as men's grooming and e-commerce.

Fixed Income: StarHub 3.95% Perp (Callable Jun 2022)

Salient Terms of Bond (ISIN: SG7DD8000003)	
Issuer	StarHub Ltd.
Issue Size	S$200 mil (Min denom.: S$250k)
Issue Rating	Unrated
Maturity	Perpetual
Coupon	3.95% p.a., payable s/a; reset only at Reset Rate on Reset Date
Ask Price/ YTC^	101.0/3.42%(indic)
Ranking	Subordinated
Call Date	16th June 2022
Reset Date	16th June 2027; every 10 years thereafter
Reset Rate	10Y SGD Swap Rate + 1.715% + 100 bps (step up rate)
Deferred Distribution	Yes, at Issuer's discretion; deferred interest is cumulative & compounding.
Dividend Stopper	Yes
Dividend Pusher	Yes, 6 months look back

**Source: CIMB Treasury (as of 16th June 20); on gross basis.*

Background: StarHub Ltd. ("STHSP") is a fully integrated info-communication company with majority Temasek shareholding (55.79%). It is smaller in size than peer Singtel (STHSP mkt cap. S$2.4 bn vs STSP S$43 bn).

Investment Considerations:
Weakening profitability but decent leverage position: STHSP reported weaker profitability compared to STSP (STSP Gross margin: 65.5% vs STHSP: 53.9%). Intense competition had led to weaker post-paid average revenue per-user over the last few quarters (1Q19:$39; 4Q19:$40 1Q20: $34). STHSP fared better than STSP in terms of leverage (STSP net debt/EBITDA: 2.6x vs STHSP 1.64x).

Cashflow generation to preserve adequate financial liquidity: Despite weaker profitability, 1Q20 net cashflow from operation stood at S$153.9 mil (1Q19 S$66.7 mil). STHSP is looking to scale up its enterprise business (eg. cybersecurity solutions) as mobile competition intensifies.

STHSP is expected to meet its ST debt obligation in 2H20 of S$407.6 mil as it has secured new loans for refinancing. Furthermore, group has cash & cash equivalent position of S$219 mil and new committed credit facilities of S$300 mil to meet liquidity needs during this challenging period. In addition, news in relation to agreement with M1 to jointly submit a 5G license bid in SG could ease high capex burden of building nationwide network compared to STSP who is likely to bear high upfront cost alone.

Non-call risk: Despite no coupon step up coming into effect on 1st call date, market is still pricing in likelihood of call. Barring no unforeseen liquidity crunch/ credit deterioration, Issuer is expected to be able to refinance at an even lower all in rate. (Note: Initial spread was 171.5 bps). Perp structure is strengthened by dividend pusher (6 month look back period) and dividend stopper. We derive comfort that STHSP has consistently been paying out dividend to equity holders (dividend yield >6% in past FYs).

Fixed Income: ARA Asset Mgt 5.65% Perp (callable Mar 2023)

Salient Terms of Bond (ISIN: SG7ND7000003)	
Issuer	ARA Asset Management Ltd.
Issue Size	S$300 mil (Min denom.: S$250k)
Issue Rating	Unrated
Maturity	Perpetual
Coupon	5.65% p.a., payable s/a; reset only at Reset Rate on Reset Date
Ask Price/ YTC^	97.0/6.85%(indic)
Ranking	Subordinated
Call Date	14th Mar 2023
Reset Date	14th Mar 2028; every 10 years thereafter
Reset Rate	10Y SGD Swap Rate + 3.128% + 300 bps (step up rate)
Deferred Distribution	Yes, at Issuer's discretion; deferred interest is cumulative & compounding.
Dividend Stopper	Yes
Dividend Pusher	Yes, 12 months look back

**Source: CIMB Treasury (as of 16th June 20); on gross basis.*

Background: ARA Asset Management Ltd. ("ARASP") is a fund manager focusing on management of REITs and real estate funds. It was taken private back in 2017; key shareholders include Warburg Pincus, Straits Trading, AVIC Trust, Mr John Lim and CK Asset Holdings Ltd.

Investment Considerations:

Portfolio diversity and strong growth: Acquisitive nature led substantial AUM growth to c.S$88 bn from S$35 bn before privatisation. FY19 revenue grew 9% yoy to S$197.6 mil, of which 95% came from management fee. ARASP is presently the manager for public REITs such as, ARA US Hospitality, ARA Logos, Suntec, Fortune, Huixian and Prosperity. Management fee structure is a function of, REIT portfolio value and NPI.

Weak credit metrics: FY19 operating cash flow (including distributable income) turned negative due to bigger deficit in working capital requirements. FY19 total debt, including perpetuals, increased to S$1,423 mil (+37% yoy). Consequently, net debt//equity weakened to 1.28x (FY18: 1.13x). While estimated debt/EBITDA level deteriorated to >8x.

Private Company status: As a private company, bondholders will not have the same disclosure compared to public companies. That said, ARASP bonds contain a covenant ensuring that it will provide consolidated audited accounts.

Selloff amidst Covid-19: We saw a broad selloff in ARASP bonds in March as market priced in heightened non-call risk; weaker NPI and portfolio value of managed REITs. However, prices have somewhat stabilised in recent weeks. Investors should monitor near term corporate exercises such as listing of private REITs and its own listing once it reaches AUM of S$100 bn, which will improve near term liquidity. We note that ARASP listed its stapled securities, ARA Hospitality Trust back in 2Q19 with gross IPO proceeds of US$498 mil. Perp is trading at YTC of > 6.5%, which is a fairly attractive risk-to-reward proposition to investors. Paper is more suitable for investors with a higher risk appetite and looking for additional yield pick-up.

Unit Trust Fund: JPM China A-Shares Opportunities Fund

Objective. To provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC).

Philosophy. The investment objective of the China A-Share Opportunities Fund is to provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC). The Fund uses an investment process based on a fundamental, bottom-up stock selection process. It uses a high conviction approach to finding the best investment ideas and seeks to identify high quality companies with superior and sustainable growth potential.

At least 67% of assets invested in China A-Shares of companies that are domiciled, or carrying out the main part of their economic activity, in the PRC through the China-Hong Kong Stock Connect Programmes, the RQFII and QFII quotas. These investments may include small capitalisation companies. The Fund may be concentrated in a limited number of securities or sectors from time to time.

Top 10 Holdings	%
Kweichow Moutai	6.4
Ping An Insurance	6.3
Jiangsu Hengrui Medicine	4.1
China Merchants Bank	3.9
Wuliangye Yibin	3.8
Midea Group	2.9
Ping An Bank	2.8
Foshan Haitian Flavouring & Food	2.6
China Vanke	2.6
Glodon	2.5

Source: Fund Factsheet (May 2020)

Sector Breakdown	%
Consumer Staples	21.7
Information Technology	20.6
Financials	20.3
Health Care	18.3
Industrials	9.1
Consumer Discretionary	6.0
Materials	1.6
Utilities	1.6
Others	0.0
Cash	0.8

Source: Fund Factsheet (May 2020)

According to the factsheet, the Fund has a 1-Yr Beta of 0.93, and 1-Yr volatility of 15.43%

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to the Chinese equity market.

Unit Trust Fund: Schroder Asian Income Fund

Objective. To fund aims to provide income and capital growth over the medium to longer term by investing in primarily Asian equities (including real estate investment trusts) and Asian fixed income securities.

Philosophy. The fund will actively allocate berween Asian equities, Asia fixed income securitiesm cash and other permissible investments to achieve its objective. The fund will use a cyclical approach to asset allocation where the asset mix will be adjusted according to the four phases of the economic cycle – recovery, expansion, slowdown and recession – based on a combination of fundamental and quantitative factors such as asset class valuation, macroeconomic data and liquidity. Cash will be treated as a separate asset class and will be deployed if necessary to limit downside risk during adverse market conditions.

In addition to active asset allocation, the Fund will also perform active security selection for its investments in Asian equities, Asian fixed income and other permissible investments. For the Asia equities portfolio, the Fund intends to select securities that deliver attractiive yield and capital growth taking into accont both fundamental and technical views such as valuationm demand/supply conditions and liquidity. The Fund will also perform duration management based on the Manager's interet rate views.

Top 5 Equities	*%*
HK Electric Investments	2.6
Ausnet Services Ltd	*1.9*
Power Assets Holdings Ltd	*1.7*
Power Grid Corporation of India Ltd	*1.6*
Singapore Telecommunications ltd	*1.6*

Source: Fund Factsheet (May 2020)

Top 5 Fixed Income	*%*
Perusahaan Penerbit Surat Berharga 4.45% 20/02/2029	0.6
CNAC HK Finbridge Company Limited 3.8750% 19/06/2029	0.4
Siam Commercial Bank 4.4% 11/02/2029	4.1
Cscec Finance (Cayman) II Ltd Regs 3.5% 05/07/2027	3.9
Bangkok Bank Pcl /Hong Kong Mtn Regs 3.733% 25/09/2034	3.8

Source: Fund Factsheet (May 2020)

Sector Breakdown	*%*
Financials	17.6
REITS	15.1
Utilities	14.8
Communications	8.7
Real Estate	8.1
Cash & Cash Equivalents	6.7
Energy	5.8
EM Allocation	5.4
Materials	5.3
Government	3.7
Industrials	3.4
Technology	3.3
Others	2.2

Source: Fund Factsheet (May 2020)

According to the factsheet, the Fund has a 3-Yr annual volatility of 9.1%

The Fund may be suited for investors who seek long-term capital gain, and understand the risks associated with investing in Asian equities and Asian fixed income securities.

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