

Key Highlights

- **2nd wave of Covid-19?** Though yet to be controlled, economic impact from a 2nd or 3rd wave of Covid-19 infections will likely not be too severe. Countries are now better prepared.
- **Democrat President?** A Democrat US President will likely spell more certainty for US-China relations, though we might not see immediate reversals of policies laid out by President Trump.
- **China.** We favour China for faster recovery of its domestic economy, higher revenue mix from local demand, government stimulus, prudent policy adjustment, access to new economy sectors, and long-term robust corporate earnings growth.
- **Opportunities.** Investors can consider Asia and China's securities. We highlight some names and reiterate **JP Morgan China A-Shares Opportunities Fund, Fullerton Asian Bond Fund, Alibaba (9988 HK), Tencent (700 HK) and NetEase (9999 HK), Dianjian Haiyu (Power Construction Corp.) USD 3.45% Senior Perp (callable Sept 25)**

SECOND WAVE OF COVID?

Why a second wave will be different? Although the world has yet to control or defeat Covid-19, a 2nd or 3rd wave of infections will be different from the March-April experience. The economic impact of local lockdowns due to a 2nd or 3rd wave will not be as severe, and nationwide lockdowns will not likely be re-imposed.

There will also unlikely be another sell-down of the magnitude that was experienced in March. The March sell-down was precipitated by a sudden realization that most economies were about to undertake a 1-2 month lockdown which would

paralyze the world economy. Companies and funds scrambled for USD liquidity by selling USD assets, but many corporates are better prepared now.

Policy response. Markets have a learning curve, and thus we expect future economic weakness from lockdowns will be met by central banks providing liquidity and government fiscal packages to affected households and companies.

This expectation reduces the size of negative outcomes even if a 2nd or 3rd wave worsens in the US. Globally, policy makers feel a moral obligation to cushion and mitigate the economic hardship from lockdowns because this pandemic has been no one's fault. It is highly possible that future waves of infection will be met with future stimulus.

SHIFTING SANDS?

Based on nationwide polls, President Trump had at some point earlier lagged Democratic candidate Joe Biden by almost 10 percentage points (though this gap has since narrowed).

A Biden win will likely be positive for federal management of the pandemic but a Democrat President for various sectors of the economy, is at first sight, worthy of caution.

How business-friendly is a Democrat President? We look at 4 issues Biden has campaigned on – higher corporate taxes, higher minimum wage, technology regulation, and his approach to China relations.

- **Taxation.** The Democrats' pre-pandemic campaign promise was to raise corporate taxes (from 21% now to 28%), which would reduce business investment, cut corporate cashflows (and therefore impact equity valuation) and share buybacks, all potentially negative for the macro-economy, although it could somewhat reduce the federal deficit.

However, we believe no attempt would be made to raise taxes in a period when the US

economy is struggling to recover from a recession; any tax hike would be delayed until the economy recovers (i.e. can be a few years out). Moreover, the Senate would have to be Democrat controlled for any tax bill to succeed. Tax hikes should also be judged in the context of Democrats' willingness to legislate a more generous fiscal stimulus, which counter-balances possible negative effect of high taxes (more on this later).

- o **A higher minimum wage (targeted to be \$12-\$15/hr from the existing \$7.25)** would spur consumption as the lower income households have a high propensity to spend, but from a corporate perspective, higher wages would hurt labour intensive industries, and turn export industries less competitive. Such a hike is likely to be phased in over many years.
- o **Technology regulation.** A House of Representatives anti-trust sub-committee this month published a report which concluded that companies such as Apple (AAPL US), Amazon (AMZN US), Facebook (FB US) and Alphabet (GOOG US) have exerted their market power to reduce competition and innovation, and made recommendations that include separating companies' dominant online platforms from their other businesses. This could become a starting point for future legislation, but require Democrats support for it, as none of the Republicans in the anti-trust sub-committee supported the conclusions. Although no new law is imminent, markets could have a knee-jerk reaction if Democrats control both houses in Congress.
- o **US-China relations.** Biden as president would likely be less confrontational, less unpredictable and less unilateral. His plan is to build an international consensus and common front against China. A Biden win is perceived as positive for Asia, although there may not be any immediate reversal of the

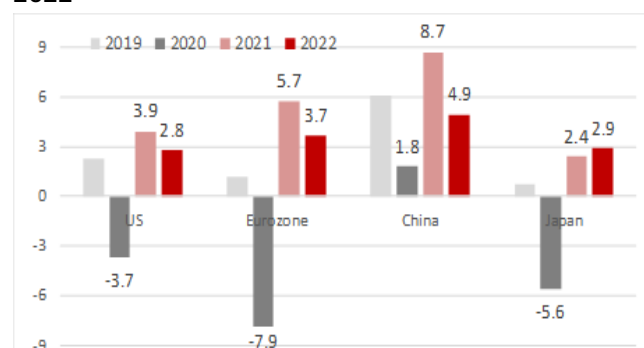
import tariffs imposed on Chinese imports to the US, or technology bans, erected by Trump.

Where do we go from here? The answer is an intersection of valuation, strength of a 2021 recovery, overlaid by probability of a vaccine. We expect to see the economic recovery in 2H 2020 to continue into 2021 and broaden out.

This is highlighted by our economic forecasts (Table 1 below) that have been upgraded for 2020, and a smaller rebound in 2021.

All four major economies (US, Eurozone, China, Japan) are expected to rebound in 2021, and China is expected to recover the strongest. However, by 2022, Chinese growth prospects will have moderated compared to US and EU, which are still above trend.

Table 1: Real GDP growth forecast of majors, 2019-2022



Source: CIMB Group

Other market forecasts also bear the signs of a recovery, e.g. Our UST 10Y yields imply an improvement in risk sentiment and improved economic conditions in 2021 (Table 2 Below).

CIMB Treasury Research forecasts rising UST 10Y yields in 2021 imply a recovering economy and 'risk on' environment, while an appreciating Chinese Yuan indicate a stronger Chinese economy and capital inflows to Asia.

Table 2: Key Benchmark Yields and Exchange Rates

| | 4Q2020 | 1Q2021 | 2Q2021 | 3Q2021 |
|-------------------------------------|--------|--------|--------|--------|
| US Treasury 10Y yield (qtr-end) (%) | 0.8 | 1.0 | 1.0 | 1.1 |
| Msian Govt Securities 10Y yield (%) | 2.60 | 2.70 | 2.75 | 2.95 |
| USDCNY exchange rate | 6.75 | 6.65 | 6.60 | 6.50 |
| USDMYR exchange rate | 4.18 | 4.17 | 4.16 | 4.15 |
| USDSGD exchange rate | 1.37 | 1.38 | 1.39 | 1.38 |

Source: CIMB Group

Our CIMB Treasury Research forecasts of a weaker USD vs Chinese Yuan are consistent with a wide growth gap between US and China. Other Asian currencies are likely to follow the Yuan appreciation. A stronger Chinese economy would also benefit commodity currencies such as AUD, NZD, MYR and Rupiah.

Bonds yields may rise. Our CIMB Treasury Research's projected 30-40 bps rise in UST yields in 2021 imply a meaningful recovery in the US economy, which means inflationary pressures will persist. Inflation of no more than 1.7%-1.8% in 2021 is expected, and Fed guidance that average annual inflation would have to exceed 2% before it considers raising rates, would mean no rate hikes over 1-2 years.

As the Fed prioritizes employment growth over fighting inflation, nominal GDP growth will eventually run higher, which is positive for corporate pricing power and profits, benefiting corporate earnings and credit quality; although this may only be apparent as the business cycle matures.

More fiscal spending. We believe further fiscal stimulus will eventually be passed in the US, because both parties in Congress favour one, and because infections are not under control.

The bill's passage will be smoother if one party controls both houses in Congress, but the size of the bill may not be very different. An independent public policy organization estimates that Trump's fiscal plans in a second term would provide a net fiscal boost of \$4.7tr over 10 years, while Biden's fiscal plans would provide a \$5.3tr fiscal boost.

Either fiscal plan would raise the deficit by \$4.95-\$5.6tr over 10 years. A Biden victory may nevertheless cause a knee-jerk spike in treasury yields, which may be short-lived, depending on the passage of an actual fiscal bill and the resulting inflation expectations.

China a potential net beneficiary from a Biden Win. Biden as president would likely be less confrontational and less unilateral. His plan is to build an international consensus and common front against China, which is likely to be positive for China, which should reduce the risk premium on China.

Under Biden, trade policy should be more predictable and more rules-based. That should reduce uncertainty for business which should be positive for trade, investment and overall growth.

CHINA RECOVERS

Chinese economy is a better bet. Since the Chinese economy re-opened in May, growth has been driven by public investment and industrial activity. Consumption and retail spending started to recover from August. Data from the October Golden Week holidays and import data show consumer spending is accelerating. We believe this will be an important pillar of growth especially at a time when external demand cannot be relied upon, or is subject to geopolitical whims. We have begun positioning our portfolios in these sectors.

Since the country has controlled the virus spread effectively, and has monetary and fiscal room to sustain a recovery, China is also a lower risk bet when considering the possibility of a future wave of infections. The next 5-year plan will likely project a larger role for domestic consumption spending and greater investment spending in the semiconductor sector and domestic electronics supply chains.

China economic outperformance. Due to its management, China has generally recovered from the negative economic impact of Covid-19.

It is interesting to note that tens of millions of Chinese toured around China during its Golden Week in Oct, while rest of the world remained under tight travel curbs.

GDP itself should climb into positive territory year to date, with our group economist's forecast implying a gain of 0.6% since January. Note that elsewhere in the G4, real GDP is not likely to regain its end 2019 level until 2022. Since the country has controlled the virus spread effectively, and has monetary and fiscal room to sustain a recovery, China is also a lower risk bet when considering the possibility of infections.

China's 14th Five-Year Plan. President Xi Jinping opened the Plenum session this week to map out the country's next phase of economic development. It is widely expected to center around technological innovation, economic self-reliance and a cleaner environment. This plan likely projects a larger role for domestic consumption spending and greater investment spending in the semiconductor sector and domestic electronics supply chains

The Plenum is expected to be wound up by this Thursday. If China, which is already recovering swiftly from the Covid-19, can stick to the growth trajectory of recent years, it will likely surpass the US within the next decade, according to Bloomberg.

We favour China for 1) faster recovery of its domestic economy; 2) higher revenue mix from local demand; 3) Government stepping up stimulus measures; 4) Prudent policy adjustment; 5) Access to China's new economy sectors; 6) long-term robust corporate earnings growth, driven by ongoing transformation, rising domestic consumption, and pro-market reforms.

Our preferred routes to market would be through diversified funds seeking alpha-generation. We reiterate **JP Morgan China A-Shares Opportunities Fund**.

For Fixed Income, we reiterate **Fullerton Asian Bond Fund**.

For stocks, we continue to like tech leaders geared towards strong domestic demand dynamics. We highlight **Alibaba (9988 HK)**, **Tencent (700 HK)** and **NetEase (9999 HK)**.

For individual fixed income credits, we reiterate **Dianjian Haiyu (Power Construction Corp.) USD 3.45% Senior Perp (callable Sept 25)**

Bond 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 | % |
|----------------------------------|-----|
| Ping An Insurance | 7.4 |
| Kweichow Moutai | 5.8 |
| Wuliangye Yibin | 4.2 |
| Jiangsu Hengrui Medicine | 3.3 |
| Foshan Haitian Flavouring & Food | 3.2 |
| China Merchants Bank | 2.9 |
| Ping An Bank | 2.6 |
| China International Travel | 2.6 |
| BOE Technology | 2.5 |
| Midea | 2.5 |

Source: Fund Factsheet (Aug 2020)

| Sector Breakdown | % |
|------------------------|------|
| Consumer Staples | 22.5 |
| Financials | 20.1 |
| Information Technology | 18.9 |
| Health Care | 16.9 |
| Industrials | 9.9 |
| Consumer Discretionary | 6.2 |
| Materials | 3.3 |
| Utilities | 1.2 |
| Others | 0.0 |
| Cash | 1.0 |

Source: Fund Factsheet (Aug 2020)

According to the factsheet, the Fund has a 1-Yr Beta of 0.98, and 1-Yr volatility of 19.50%

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.

Bond Fund: Fullerton Asian Bond Fund

Investment Objective. The fund manager aims to capture sources of alpha in interest rate, credit and currency via its investment process of top-down macro analysis, as well as bottom-up credit selection and yield curve positioning. The objective is to achieve long-term capital appreciation for investors.

Reference Index. The benchmark for the Fund is the JACI Investment Grade Total Return.

Investment Universe. The Fund invests primarily in debt securities denominated in USD and Asian currencies; issued by companies, governments and quasi-governments, agencies or supra-nationals in the Asian region.

The Asian countries include, but are not limited to; China (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines, Pakistan and Vietnam.

Within this framework, the Investment Manager will evaluate whether bond markets offer value, the relative value across markets and the outlook for credit. These views form the basis for formulating their duration, bond market allocation, currency and credit strategies. Foreign Direct Investments (“FDIs”) may be used for efficient portfolio management purposes.

Why this fund?

- The fund remains nimble on overall duration given the volatile rates market
- With the compression of spread differential between high yield and investment grade corporate, the fund manager took a conservative stance of focusing on the investment grade corporate papers. He remains selective in the high yield sector
- Fund more suitable for investors with appetite for opportunistic investments in Asian local currency and high yield credits

Investor Considerations.

The key risk of this fund would be region-specific risk. Some example of region-specific risk would be currency risk and geopolitical risk such as trade conflicts. Investors need to be aware that this is a Fund with specific exposure to these aforementioned unique risk reward profile before deciding to subscribe to this fund.

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 debt securities denominated in USD and Asian currencies (which may include non-investment grade securities).

*Please refer to the fund factsheet for more detailed information.

| Share Class | ISIN | Currency | Distribution Policy |
|-------------|--------------|----------|---------------------|
| A | LU0830378575 | SGD-H | DIST |
| R | LU1293085327 | SGD | ACC |
| A | LU0830378658 | USD | DIST |
| A | LU0790902711 | USD | ACC |

Equity: Alibaba (9988 HK)

Summary. We like Alibaba Group for a) its market leadership in China's retail e-commerce market with different platforms to fulfil the needs of different consumers; b) its strong ability to support industry chain reforms leveraging its cloud business, Alipay system and supply chain resources; c) its solid ability in cloud computing; and its integrated and interactive digital ecosystem; d) raising its potential to increase its share of the cloud service market as the market size grows.

Considerations.**Investor Day gives a glimpse of its future direction.**

Management expects Alibaba Cloud to turn profitable and operating cash flow of Cainiao to turn positive in FY3/21F.

In its China retail marketplace business, Alibaba will provide new monetization products that closely fit consumer preferences and strengthen the virtuous circle of consumer experience, merchant involvement and Alibaba's revenue growth, according to CGS-CIMB Research.

Building on its shared supply chain, logistics system and cloud-based retail information system, Alibaba's new retail and local services will continue to create and fulfill new customer demand with its innovative business formats.

CGS-CIMB Research has an Add rating because of:

Alibaba's market leadership in China's retail e-commerce market with different platforms to fulfil the needs of different consumers;

Company's abundant product categories and SKUs from domestic and global brands, manufacturers and agricultural producers;

Its strong ability to support industry chain reforms leveraging its cloud business, Alipay system and supply chain resources;

Its solid ability in cloud computing; integrated and interactive digital ecosystem;

Its potential in lower-tier markets and local retail markets; and increase its share of the cloud service market as the market size grows.

Key risks include 1) JD and PDD's threat in the e-commerce market, 2) more intense competition in the domestic retail market, and 3) global political issues

Equity: Tencent (700 HK)

Summary. We have a positive view on the online games market for China, and we have a preference for players with: (1) strong content development and operational track record; (2) solid pipeline with well-known IPs; and (3) mid-to-long term upside from overseas expansion.

We believe industry leaders such as Tencent will continue to lead the market due to its leading mobile games titles.

Considerations.

Tencent (700 HK) will have an advantage over peers as it has a good balance of a leading publishing platform, rich IP-based game portfolio, proven operational and R&D capability, and growing overseas network.

Its popular titles - Honour of Kings and Peacekeeper Elite/PUBG are still taking the lead in the domestic market, while its strong IP-based mobile game pipeline, such as DnF Mobile, will provide upside in the near term.

Tencent reported strong 2Q20 results with total revenue up 29% YoY (2% above consensus) and non-IFRS net profit up 28% YoY (3% above consensus).

Online games segment remains the key growth driver with revenue up 38% YoY, driven by continued strong outperformance of mobile game (+62% YoY).

Key mobile game titles such as Honour of Kings, Peacekeeper Elite fueled the solid growth in both China and overseas markets.

Separately, online advertising revenue was up 13% YoY with social ads grew by 27% albeit offset by media ads revenue decline of 25%.

Near term risks: Currently there are some concerns over risk of a ban of Tencent Apps in the US and a requirement of a forced sales of Tencent's major US gaming assets. In the event of a ban on WeChat's parent company Tencent, the direct financial impact is still rather limited- it only derives 4% of its total revenue from international markets. However, a strict interpretation of the broadly drawn executive orders could potentially see Apple and Google removing WeChat and its Chinese sister app Weixin from their app stores. At this juncture, this risk is low, and any share price weakness is an opportunity.

Equity: NetEase (9999 HK)

Summary. We like NetEase for its proven track-record and leading game development expertise, highly recurring gaming business with strong pipeline of titles, attractive valuation, and overseas gaming expansion with potential for margins improvement.

Considerations

Reputable game developer with proven track record of developing blockbuster game titles. Over the past two decades, NetEase has consistently rolled-out self-developed popular gaming titles such as Westward Journey Online (WJO), Fantasy Westward Journey Online (FWJ), Onmyoji series and Knives Out. WJO, debuted in 2001, remains popular with gamers today which demonstrates the longevity of its games supported by continued innovative content updates.

NetEase also has exclusive partnerships with global gaming studios and IP houses for game licensing primarily in the Chinese market.

With global game market expected to grow at a CAGR of 8.3% in 2019-2023F and mobile gaming being the fastest growing segment- NetEase is well-positioned to benefit from this macro tailwind.

Highly cash generative and recurring gaming business. Over the past few years, NetEase's quarterly online game revenues and gross margins have been consistently above RMB10bn and 60% (higher than Tencent's 44%) respectively, mainly driven by existing games. Its self-developed flagship titles have long lifespans which lead to highly recurring cash flows.

New game launches and revenue growth/margins improvement of NetEase Cloud Music and Youdao are re-rating catalysts. Highly anticipated mobile games (Harry Potter, Diablo Immortal and Pokemon Quest) slated to release in 2H20 and 1H21 are likely to be key growth drivers for gaming while Youdao (learning) and NetEase Cloud Music continued strong growth and gross margin expansions are potential share price catalysts too.

Attractive valuation with potential for multiples expansion. As one of the largest gaming companies with highly recurring earnings, strong in-house game development expertise, and solid pipeline of game titles,

NetEase's relative valuation discount to global peer group still appear underappreciated.

Key downside risks: 1) Regulatory risks such as delay in game approvals in China, 2) Faster than expected decline in legacy games revenue due to intensifying competition, 3) Marketing spend in e-commerce business may drag down profitability.

Fixed Income: Dianjian Haiyu (Power Construction Corp.) USD 3.45% Senior Perp (callable Sept 25)

Summary. Senior perp is issued by Dianjian Haiyu and guaranteed by onshore parent, Power Construction Corporation of China (“PCCC”).

Credit is supported by the group’s large business scale (FY19 total asset: RMB813.22 bn), revenue visibility (FY19 order backlog of RMB1,349.8 bn) and leading market position in China’s power plant engineering and construction industry, which is considered a high entry barrier sector. Even though the paper is a perpetual bond, non-call risk is partially mitigated by a 300-basis point step up feature.

Background: PCCC was formed in 2011 as a result of consolidation of construction subsidiaries of State Grid Corporation of China, China Southern Power Grid Corp. Ltd. and other state-owned entities (“SOEs”).

It is a leading power construction company in China, primarily engaged in the provision of engineering, construction, planning and design for mainly hydropower, and other energy infrastructure.

Issuer is 58.34% indirectly owned by PCCC, which is in turn 100%-owned by China central government. Projects are conducted via public-private partnership (“PPP”) and build-operate-transfer (“BOT”) projects.

| Salient Terms of Bond (ISIN: XS2229091124) | |
|--|--|
| Issuer | Dianjian Haiyu Ltd. |
| Guarantor | Power Construction Corp. of China |
| Ticker | CHPWCN 3.45% Perp |
| Issue Rating | BBB (Fitch) |
| Guarantor Rating | Baa1 (stb)/BBB+ (neg)/BBB+ (stb) by Moody’s/S&P/Fitch |
| Issue Size/ Min Denom. | US\$300.0 mil / US\$200k |
| Call Dates | 29th Sept 2025 (1 st call date; and on any distribution date thereafter |
| Maturity | Perpetual |
| Coupon | 3.45% p.a. (payable semi-annual) |

| | |
|---|--|
| Coupon Reset | If not called, coupon reset based on prevailing 5Y UST + 318.9 bps + 300 bps (1 time step up). |
| Indic. Ask Price/YTC* | 100.80/ 3.27% |
| Type/Ranking | Senior perpetual |
| Optional Coupon Deferral | Yes, at Issuer’s discretion; deferred coupons are cumulative; subject to dividend pusher/stopper. |
| Early Redemption – Change of Control (“CoC”) Event | Increase by 300 bps upon occurrence of CoC* *CoC is defined as, amongst others, SASAC ceases to own or control of more than 50% of voting rights of the issued share capital, directly or indirectly, of the Guarantor. |
| Dividend Pusher | Yes, 3-month look back period on junior & parity securities. |
| Dividend Stopper | Yes, on junior & parity securities |

*Source: CIMB Treasury (as of 27th Oct 20); on gross basis

Consideration:

Strong ownership – Guarantor is a central SOE 100%-owned by China’s State-Owned Assets Supervision and Administration Commission (“SASAC”). SASAC exerts control over group’s board and senior management (8 out of 9 senior management members SASAC-appointed).

Rating agencies are of the view that government support is forthcoming in times of need; as evidenced by rating uplift applied to Guarantor’s standalone rating.

Dominant market position with established reputation – The group has participated in over 65% of hydropower stations since 1950s in China; with total installed capacity >200,000MW.

Group plays a strategic role in the country’s infrastructure construction sector and benefits from the efforts of consolidating/restructuring of state’s resources in the power sector. In addition, group shares a duopoly in domestic power construction sector with China Energy Engineering Corp.

Sound profitability stemming from high barrier of entry –

Group achieved revenue growth of c. 9% in 1H20 over same period in 2019. Meanwhile, EBITDA margin remained healthy at 9.04% (TTM) vs 10.04% in 1H20. PCCC's expertise in the hydropower construction business, a sector that has significant entry barriers, also supports its profitability.

Key Risks:

High debt leverage position – Group's consolidated debt level has increased from RMB209.51 bn in FY16 to RMB320.30 bn in FY19. Consequently, group's leverage position has weakened as measured by adjusted debt/EBITDA ratio weakened to 9.5x for 12 months ended June 20 from 8.6x as of end FY19. High debt level is partly attributed to business expansion as well as high capex investment where projects are primarily debt-funded and require upfront investments.

However, group had been achieving healthy order backlog as reflected by FY19 orderbook of RMB1,349.8 bn (+14.7% yoy). Group has also been expanding its overseas business. In FY19, group signed new contracts for overseas projects amounting to RMB251.6 bn. Furthermore, Moody's is of the view that group is expected to deleverage in coming FYs as earnings growth will gradually outpace debt growth. Deleveraging effort is also supported by the potential disposal of some of its PPP projects.

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