YOUR GOALS,
OUR COMMITMENT.

ASEAN equity outlook 2024

Focus on growth pockets, quality opportunities and earnings resilience

By the Asian Equity Team
December 2023

ASEAN well placed for growth in 2024

Global monetary tightening and the dollar's exceptional strength stood out in 2023, and these factors were a major headwind for most emerging markets including ASEAN. In our view, focus in 2024 will shift from interest rate tightening towards growth, or more specifically, finding pockets of growth amid a slowing global economy. We expect ASEAN to perform relatively well as the region, in our view, possesses a relatively stronger growth narrative and a more accommodative policy backdrop.

ASEAN's growth as a region is poised to edge up from an estimated 4.0% in 2023 to 4.5% in 2024*. Though incremental, ASEAN's growth may be stronger compared to the rest of the world, where growth in general is expected to moderate. We see ASEAN's growth improving on the back of resilient domestic consumption and a technology (tech)-led recovery in exports in the second half of 2024. Export-oriented economies such as Singapore, Malaysia, Vietnam and Thailand may benefit most from the tech export recovery. More domestically-driven economies such as Indonesia and the Philippines could experience steady to improving consumption growth supported by their governments' proactive fiscal policies.

* Forecast is not necessarily indicative of future performance.

Policy remains accommodative while valuations look attractive

Policy conditions are accommodative in most parts of ASEAN with central banks generally appearing to be sanguine about inflation risks. Looking towards 2024, we expect anchored interest rates and falling core inflation globally to offer ASEAN policymakers a more favourable tailwind relative to their peers and help drive stronger equity performances in the region compared to 2023. Should core inflation surprise to the downside and allow central banks to ease, we believe ASEAN economies are well placed to benefit from positive liquidity conditions.

The region's valuations look attractive, with ASEAN markets trading at a 12 times price to forward earnings, about one standard deviation below the historical mean[1]. We see valuations in 2024 remaining attractive and expect improving economic prospects to support corporate earnings growth in ASEAN. With the prospect of peak rates, ASEAN's corporate earnings could also be primed for upward revisions.

ASEAN's best growth and quality companies

We expect global growth to moderate in 2024 due to high interest rates and restrictive monetary policies. This affirms the importance of growth, especially at a time when global growth remains moderate and liquidity is constrained. Risk-free alternatives such as cash and cash equivalents are also yielding attractive low single-digit returns, making the risk premium of equities less attractive.

ASEAN ranks well as a relative growth story, both from a macro and micro perspective. Within ASEAN, we remain most optimistic in the foreign direct investment (FDI) story and investment opportunities geared towards the tech supply chain and energy transition. We believe that these two conviction sectors—in which structural positive change drivers remain at play—offer sustainable growth and defensible cash flows.

Technology to benefit from supply chain diversification

Green shoots are starting to emerge in ASEAN, with an improved outlook for tech exports in 2024. We see lower inventories and a replacement tech cycle in the US favouring ASEAN tech. We favour tech companies that appear well placed to benefit from this recovery, particularly firms that are part of the shift towards high value-added manufacturing. These companies include those linked to semiconductors, medical/industrial tech opportunities and advanced manufacturing in ASEAN.

We see the ASEAN tech supply chain benefitting strongly from global supply chain shifts and trade reconfiguration due to China-US tensions. We believe this shift remains at an early stage. In our view, the trend to diversify from China will continue to accelerate over the next three to five years and help ASEAN become a prime destination benefitting from the supply chain diversification. We favour the semiconductor and electronics and equipment sectors in Singapore, Malaysia, Thailand and Vietnam, which could benefit from the influx of FDI into the region.

Industrials riding on infrastructure boom, headed for green transition

We see industrials outperforming as we continue to see strong FDI and infrastructure spending in Indonesia and the Philippines in 2024. Infrastructure spending and "debottlenecking" (improving efficiency by finding areas that inhibit workflows) are key to unlock long-term growth for emerging economies such as Indonesia and the Philippines. We see opportunities in industrials and materials as ASEAN governments continue to prioritise infrastructure spending and investments into national infrastructure systems in transport, water and energy. An example is the recent push in Indonesia to increase value-added manufacturing in metal ore processing, and we expect the country's exports to continue gaining traction. This may in turn further drive the development in the country's transport ecosystem, notably of electric vehicles.

ASEAN's energy transition and the growing trend in which capital expenditure is being allocated to green energy and power is another theme we are keenly focused on. We see this particularly as a catalyst for positive growth and change for industrials in Singapore and Malaysia. These developments are taking place when energy markets are tight globally and energy security is growing in importance for ASEAN governments. We believe utilities in Singapore and Malaysia may experience the greatest change during the energy transition. The move towards alternative and renewable energy and the tightness seen in some of the region's electricity markets offer attractive growth opportunities for the next few years. Energy transition is our key strategic theme in Singapore and the rest of ASEAN; over the last two years, energy transition has come to occupy a prominent spot in our strategic narrative. In October 2022, Singapore committed to achieve net zero emissions by 2050. Since then, Singapore has revealed a series of

[1] Source: Bloomberg, 2023

energy transition plans, which include ramping up its renewable energy capacity and importing green energy from neighbouring countries. Singapore corporates are in a good position to leverage and benefit from these developments. Our focus remains on power generators moving from brown to green energy, and providers of engineering solutions for wind power.

Summary

We remain relatively constructive on ASEAN as we approach 2024. The ASEAN macro story remains encouraging. We believe ASEAN offers investors good pockets of growth and quality opportunities, as well as earnings resilience and protection amid some of the prevailing global macro headwinds. The region's domestic policy conditions are more accommodative as inflation risks are lower. Valuations are attractive and a positive surprise could be in store as earnings growth is yet to be fully priced in.

Within ASEAN, we remain particularly optimistic about the FDI story and opportunities linked with the energy transition, infrastructure and the tech supply chain. Of the various ASEAN sectors in 2024, we favourably view those continuing to undergo positive structural change and have sustainable growth, good balance sheets and defensible cash flows.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request. The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.