APRIL 2025

MORNINGSTAR Market Outlook

Asia Market Outlook: 2025 Q2

Valuations are compelling, but uncertainties have heightened. Stay selective.

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Looking Ahead to Minimize Tariff Volatility

Announcements to Provide More Stimulus and Loosen Monetary and Fiscal Policies Were Major Catalysts

Year-to-Mach 31 Morningstar Asia Index sector returns.

Cyclical Sectors	All	Sensitive Sectors	All	Defensive Sectors	All
Basic Materials	**1.05%**	Comm. Services	**5.61%**	Consumer Defensive	**-0.18%**
Consumer Cyclical	**5.27%**	Energy	**-0.17%**	Healthcare	**-0.62%**
Financial Services	**5.84%**	Industrials	**-1.26%**	Utilities	**-3.71%**
Real Estate	**4.18%**	Tech	**-6.49%**	**Market**	**0.71%**

≤ -8% | -8% to -4% | -4% to 0% | 0% to 4% | 4% to 8% | ≥ 8%

Mixed Gains in Q1, Tariff-Related Losses at Start of Q2

Asian markets were mixed in the first quarter. While China received support from DeepSeek and artificial intelligence excitement, sliding US markets, tariff risks, and uncertainty over further Federal Reserve rate cuts weighed on sentiment. Asia technology stocks fell in alignment with their US peers, partly offsetting gains in the cyclical sectors. That was the calm. The first seven days of April, as the US announced global tariffs, saw the Morningstar Asia GMI decline 10.3% from the March 31 close.

Recession Risks Loom

The direct tariff impact is likely to be broad-based, but we see limited near-term substitution, so we expect a fair degree of the tariff costs to be passed on to customers. However, a decline in consumption and uncertainty over demand are likely to delay any growth plans by companies.

We are unsure about the culminating effects of retaliatory tariffs, but China has previously indicated that further stimulus is on the table. Any sign of fiscal support to help offset the tariff impact is likely to be met positively.

Source: Morningstar. Data as of Mach 31, 2025.

China's Retaliatory Tariffs Adds to Concerns of a Prolonged Trade War Leading to Growth Slowdown

Broad Sell-Off Following April 2 With All Sectors Posting Losses

Morningstar Asia Index returns, March 31 to April 7.

Cyclical Sectors	All	Sensitive Sectors	All	Defensive Sectors	All
Basic Materials	**-10.46%**	Comm. Services	**-8.96%**	Consumer Defensive	**-4.81%**
Consumer Cyclical	**-12.37%**	Energy	**-9.01%**	Healthcare	**-7.09%**
Financial Services	**-11.98%**	Industrials	**-11.03%**	Utilities	**-4.21%**
Real Estate	**-5.63%**	Tech	**-10.96%**	**Market**	**-10.29%**

≤ -20%	-20% to -10%	-10% to 0%	0% to 10%	10% to 20%	≥ 20%

Retaliatory Tariffs Have Exacerbated Risks

While Asian markets saw a relatively muted response on April 3-4 in the immediate aftermath of the US tariff hikes, the Morningstar Asia Index declined 10% after China announced retaliatory tariffs. The technology and consumer cyclical sectors saw the biggest impact, most likely due to concerns that retaliatory tariffs may prolong the trade war, which could lead to a macro growth slowdown.

While it's becoming increasingly difficult to predict how tariffs on both sides will hit consumers, we believe that dividend-yielding stocks with limited exposure to US revenue could provide even more insulation from further volatility.

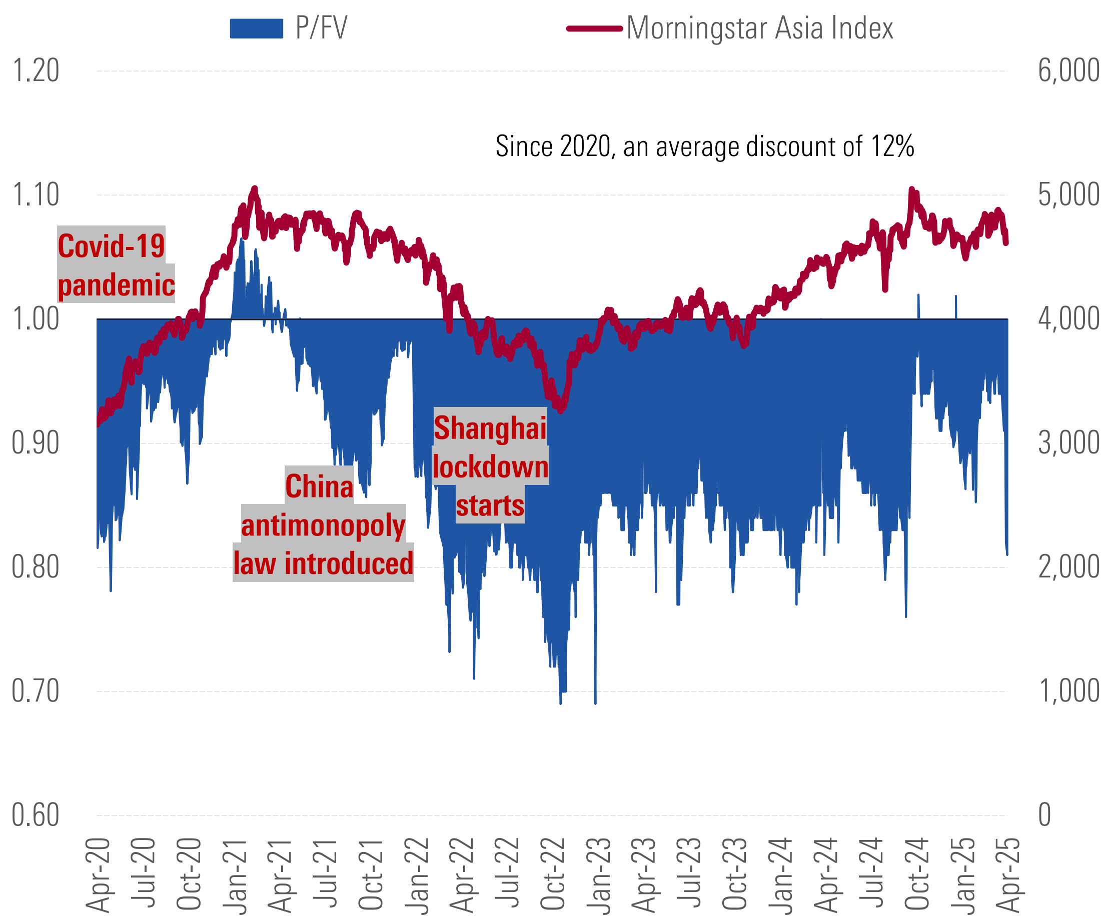
Japan Fell Sharply as JPY Strengthened, Dimming Hopes of a Rate Rise

Japanese banks, which had been a key driver of Japanese market performance since 2023 led the market lower as further rate hikes by the Bank of Japan seem unlikely. Amid the uncertainty, delays in spending are likely and this will dampen demand for Japan’s equipment exports.

Source: Morningstar. Data as of April 7, 2025.

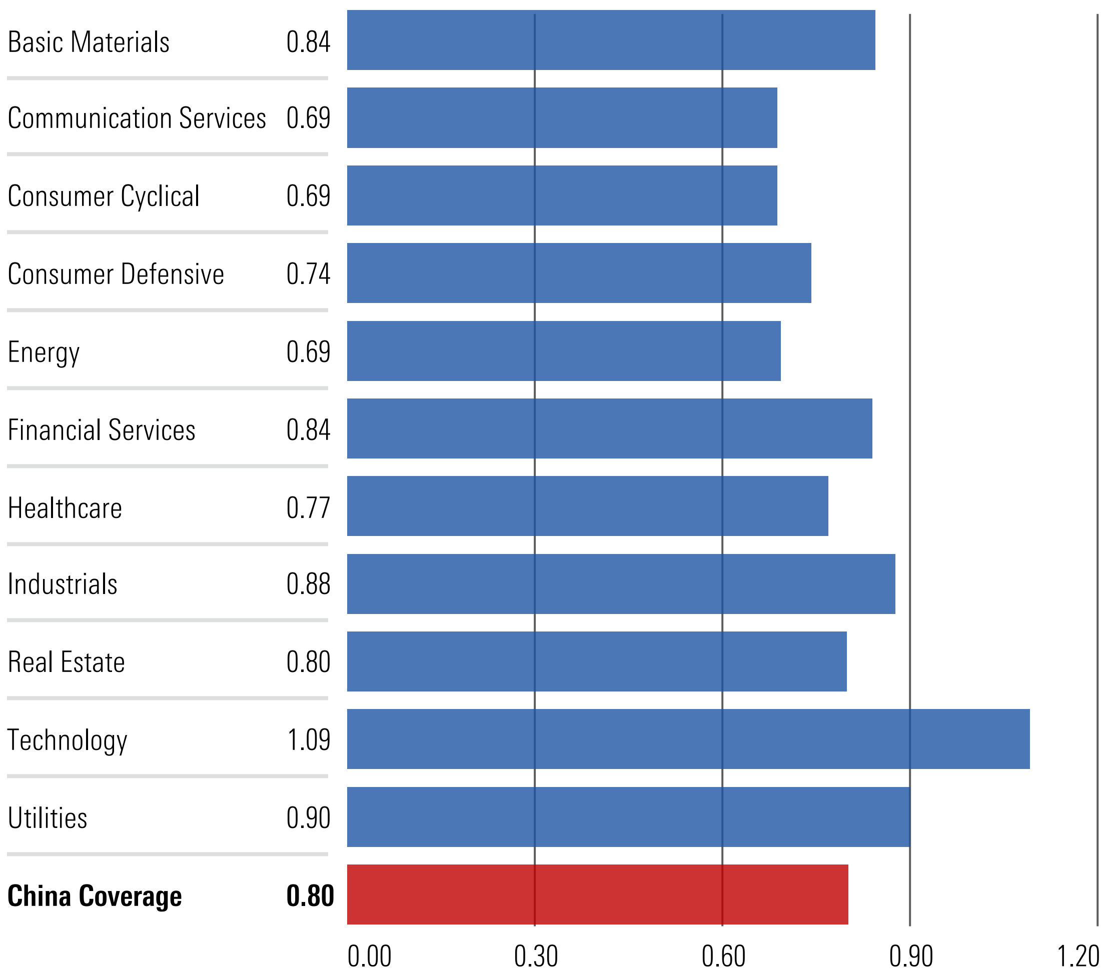
Our Coverage Has Widened to a 20% Discount to Fair Value Estimate; China Stocks Also on Par at 20%

Our Coverage Is Trading at a 20% Discount to Our Fair Value Estimate



China Coverage* Price/Fair Value Estimate Is on Par

A 20% discount to our fair value estimate, led by the energy sector.



Source: Morningstar. Data as of April 7, 2025.
Note: *We use the H-share price and fair value over the A-share where we cover both share classes.

Communication Services, Consumer Cyclicals, and Consumer Defensive Are the Most Undervalued After Sell-Off

Despite tariff risks, we believe the pullback provides opportunities in several sectors. The most undervalued sectors now are consumer cyclical, communication services, and consumer defensive names while our entire Asia coverage is trading at 0.80 P/FVE.

While we acknowledge that there will be continued volatility based on tariff-related headlines, we remain optimistic on undervalued opportunities in Asia markets given China's commitment to restoring consumer confidence through potential fiscal measures.

China has already allowed the yuan to weaken so that it can incentivize more exports to counter likely lower US demand. We also believe that state-owned funds are also likely providing a floor to stock prices by buying assets on the dip. We also expect China will continue its promise to help boost consumption that had been a central theme to our investment thesis prior to tariffs as its Two Session meetings announced several specific actions to help travel, leisure, appliances, and automobile industries.

Financial Services Now Fairly Valued, but There Are Opportunities in Consumer and Communication Services

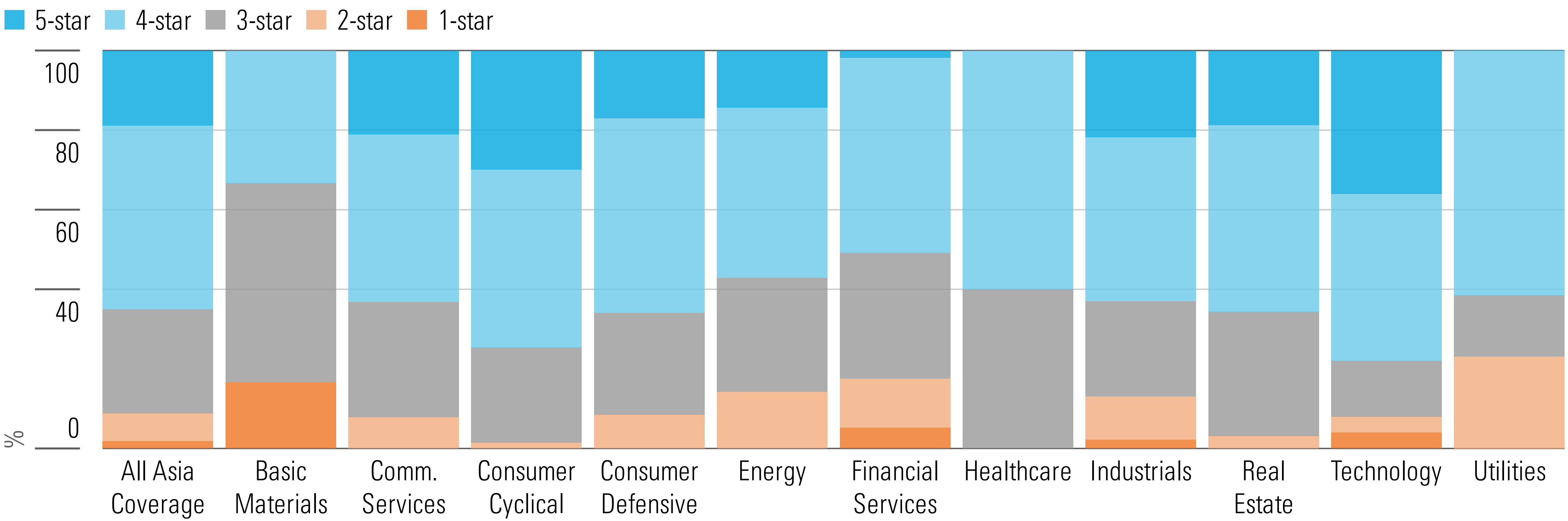
Cyclical Sectors	All	**Sensitive Sectors**	All	**Defensive Sectors**	All
Basic Materials	0.99	Comm. Services	0.77	Consumer Defensive	0.77
Consumer Cyclical	0.70	Energy	0.84	Healthcare	0.80
Financial Services	0.89	Industrials	0.83	Utilities	0.90
Real Estate	0.81	Tech	0.81	**Asia Coverage**	**0.80**

Source: Morningstar. Data as of April 7, 2025.

Bottom-Fishing Opportunities Are Starting to Surface Given Significant Pullback

After the sell-down on April 7, the proportion of 5-star stocks in our Asia coverage has increased to about 20% from 10%, led by communication services and technology stocks as these sectors tend to sell off first during times of volatility and should represent buying opportunities. Outside of these sectors, consumer defensive and Singapore REITs remained resilient during the first trade war and 5-star stocks are also available in those sectors. During the upswing when markets recovered the following year in 2019, the best performers were tech and SG REITs but the rally also included communication services and consumer cyclicals, which all have a significant proportion of 5-star stocks.

Star Rating Distribution by Sector



Source: Morningstar. Data as of April 7, 2025.

Cyclical Sectors: Top Picks

We highlight Keppel REIT as Singapore REITs were one of the most resilient sectors during the first trade war. JD.com is also attractive given China's commitment to provide trade-in subsidies for appliances. Yum China also trades in 5-star territory as we expect China consumers to continue their downtrading trend. We also prefer Geely out of all the auto companies given that its near-term catalysts include strong monthly sales momentum from Galaxy and Zeekr and profitability recovery.

Cyclical Sector Top Picks

Name/Ticker	Sector	Economic Moat	Currency	Fair Value Estimate	Price	P/FV	Uncertainty	Morningstar Rating
Anhui Conch Cement (00914)	Basic Materials and Energy	None	HKD	26.00	20.20	0.78	High	★★★★
CNOOC (00883)	Basic Materials and Energy	None	HKD	22.00	15.62	0.71	High	★★★★
Tianqi Lithium (09696)	Basic Materials and Energy	Narrow	HKD	29.00	20.25	0.70	High	★★★★
Geely Automobile Holdings (00175)	Consumer Cyclical	None	HKD	25.00	13.42	0.54	High	★★★★★
Grab Holdings (GRAB)	Consumer Cyclical	None	USD	5.10	3.48	0.68	Very High	★★★★
JD.com (09618)	Consumer Cyclical	Wide	HKD	272.00	126.40	0.46	High	★★★★★
Sands China (01928)	Consumer Cyclical	Narrow	HKD	25.80	13.36	0.52	High	★★★★★
Tongcheng Travel Holdings (00780)	Consumer Cyclical	None	HKD	27.00	18.08	0.67	Very High	★★★★
Topsports International (06110)	Consumer Cyclical	Narrow	HKD	6.80	2.80	0.41	High	★★★★★
Yum China (09987)	Consumer Cyclical	Wide	HKD	595.00	357.80	0.60	Medium	★★★★★
China Merchants Bank (03968)	Financials	Narrow	HKD	50.00	40.25	0.81	Medium	★★★★
HSBC Holdings (00005)	Financials	None	HKD	96.00	73.40	0.76	Medium	★★★★
Sumitomo Mitsui Trust Group (8309)	Financials	None	JPY	4,650	2,979	0.64	Medium	★★★★
China Overseas Land & Investment (00688)	Real Estate	None	HKD	21.00	12.54	0.60	High	★★★★
Keppel REIT (K71U)	Real Estate	None	SGD	1.16	0.81	0.70	Low	★★★★★
Wharf REIC (01997)	Real Estate	Narrow	HKD	31.00	17.36	0.56	High	★★★★★

Source: Morningstar. Data as of April 7, 2025.

Defensive Sectors: Top Picks

Consumer defensive and utilities were two of the three most resilient sectors during Trump's first trade war. While they provide lower upside during the market recovery, they have lower volatility for investors who may be more risk-averse during the current uncertainty. Prior to the escalation in tariffs, we saw pockets of stabilization in the consumer defensive sector and while baijiu and beer may take longer to recover, we prefer Kweichow Moutai and Budweiser APAC, given the long-term premiumization trend for consumer goods in China.

Defensive Sector Top Picks

Name/Ticker	Sector	Economic Moat	Currency	Fair Value Estimate	Price	P/FV	Uncertainty	Morningstar Rating
Asahi (2502)	Consumer Defensive	Narrow	JPY	2,200	1,850	0.84	Medium	★★★★
Budweiser Brewing Co. APAC (01876)	Consumer Defensive	Narrow	HKD	16.00	8.40	0.53	High	★★★★★
Kweichow Moutai Company (600519)	Consumer Defensive	Wide	CNY	1,780.00	1,500.00	0.84	Medium	★★★★
Daiichi Sankyo Company (4568)	Healthcare	Narrow	JPY	5,500	3,375	0.61	High	★★★★
Innovent Biologics (01801)	Healthcare	None	HKD	58.10	39.65	0.68	Very High	★★★★
Olympus (7733)	Healthcare	Narrow	JPY	2,560	1,640	0.64	High	★★★★
China Longyuan Power Group (00916)	Utilities	None	HKD	7.60	5.98	0.79	High	★★★★
CK Infrastructure Holdings (01038)	Utilities	None	HKD	58.00	47.30	0.82	Low	★★★★
ENN Energy Holdings (02688)	Utilities	Narrow	HKD	78.00	58.80	0.75	High	★★★★

Source: Morningstar. Data as of April 7, 2025.

Economically Sensitive Sectors: Top Picks

The most attractive name on this list is Taiwan Semiconductor Manufacturing Company, trading at 0.46 price/fair value estimate and we believe that it has one of the widest moats in our coverage given its lead on leading-edge chips and a high barrier to entry. Technology tends to see the sharpest during times of volatility, but tends to be one of the best-performing sectors under recovery as well. Other attractive stocks with good balance sheets include Tencent and NetEase, while China Unicom provides a dividend-yielding option for a 5-star stock.

Economically Sensitive Sectors Top Picks

Name/Ticker	Sector	Economic Moat	Currency	Fair Value Estimate	Price	P/FV	Uncertainty	Morningstar Rating
China Unicom (Hong Kong) (00762)	Communication Services	None	HKD	11.00	7.96	0.72	Low	★★★★★
NetEase (09999)	Communication Services	Narrow	HKD	248.00	135.20	0.55	High	★★★★★
Tencent Holdings (00700)	Communication Services	Wide	HKD	710.00	435.40	0.61	High	★★★★
Hitachi Construction Machinery (6305)	Industrials	Narrow	JPY	5,450	3,294	0.60	Medium	★★★★★
ST Engineering (S63)	Industrials	Narrow	SGD	6.50	6.22	0.96	Medium	★★★
Yaskawa Electric (6506)	Industrials	Wide	JPY	5,300	2,668	0.50	High	★★★★★
GlobalWafers (6488)	Technology	Narrow	TWD	620.00	297.00	0.48	High	★★★★★
Sony (6758)	Technology	Wide	JPY	4,200	3,009	0.72	Medium	★★★★
TSMC (2330)	Technology	Wide	TWD	1,800.00	848.00	0.47	Medium	★★★★★

Source: Morningstar. Data as of April 7, 2025.

Basic Materials and Energy

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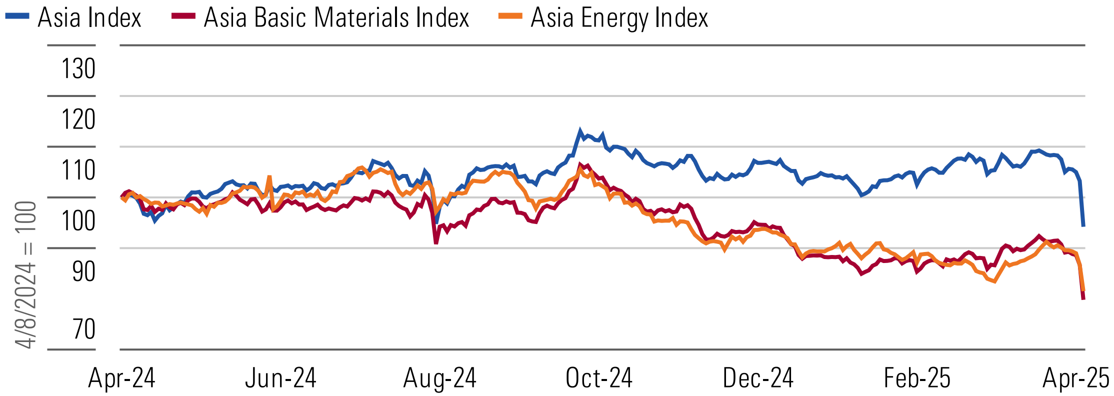
Oil Prices Continue to Weaken, While Lithium Prices Stabilize

The Asia Energy Index continued to underperform the broader market in the first quarter. Uncertainty surrounding global oil supply/demand has particularly weighed on stock performance. Trump's comprehensive new tariff plan has hit oil prices, driven by concerns about a weaker economic outlook. Meanwhile, the Organization of Petroleum Exporting Countries and its partners will increase crude production by 411,000 barrels per day in May, adding downward pressure on oil prices. Nonetheless, we believe H-shares of Chinese energy companies are currently undervalued. Our valuations already incorporate a long-term Brent oil price of USD 60 per barrel, which is below current oil prices.

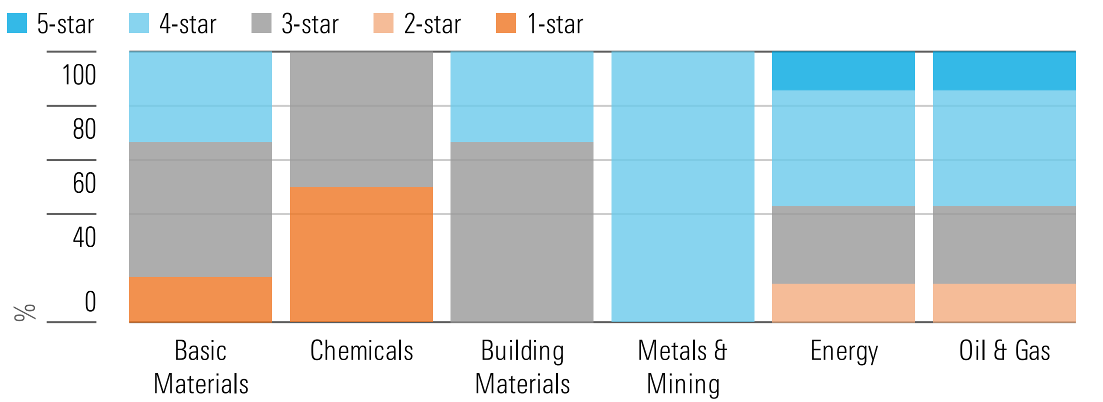
The China cement industry continues to see sluggish demand from the property sector as nationwide production volume declined by 10% in 2024, per National Bureau of Statistics. While the cement price surged in the fourth quarter of 2024, it pulled back subsequently due to pronounced oversupply. That said, we expect earnings of producers to gradually improve as supply and demand rebalance over time. Anhui Conch remains our preferred sector pick due to its stronghold in the wealthy Eastern China provinces.

The battery-grade lithium carbonate spot price in China—which fell 5% quarter over quarter in the fourth quarter—has stabilized in the first quarter with a 3% recovery from October 2024. With current lithium prices below the marginal cost of production, we expect supply growth to slow and for some higher-cost production to exit the market, which will move the market back to balance, following a period of oversupply. As demand growth remains strong, we expect lithium prices will start to rise modestly in 2025 versus current levels.

Performance of Asia Energy Stocks Remained Lackluster in Q1



Select Opportunities Remain in the Basic Materials and Energy Sector

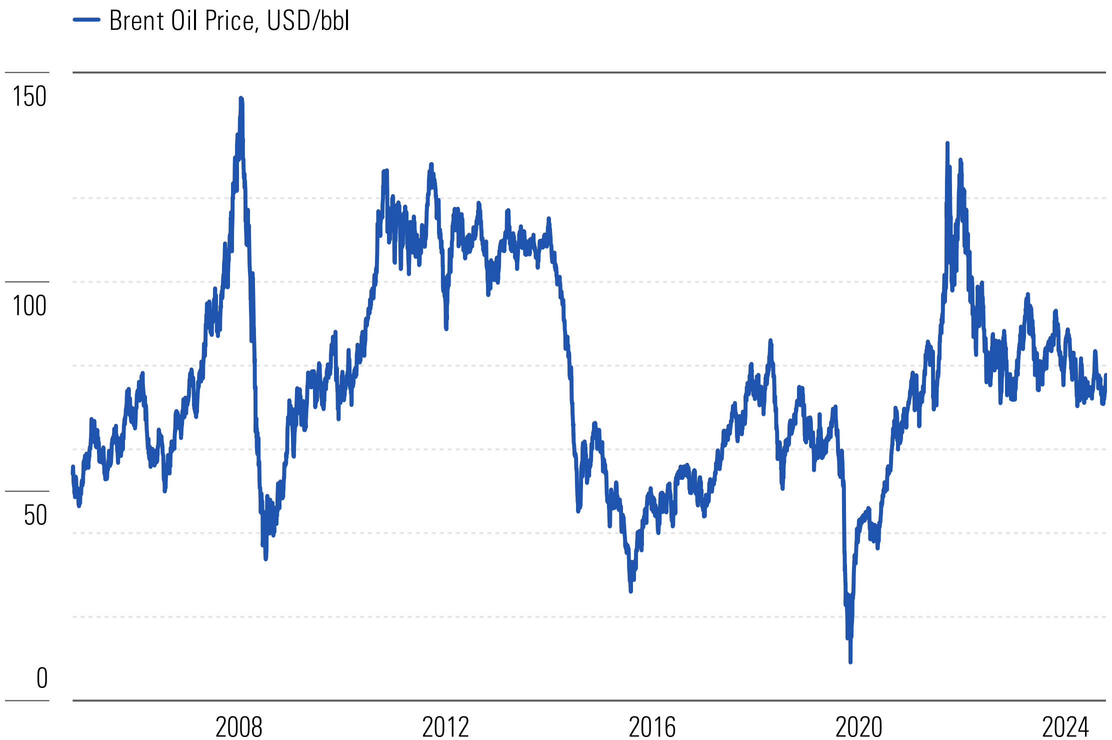


Source: Morningstar. Data as of April 7, 2025.

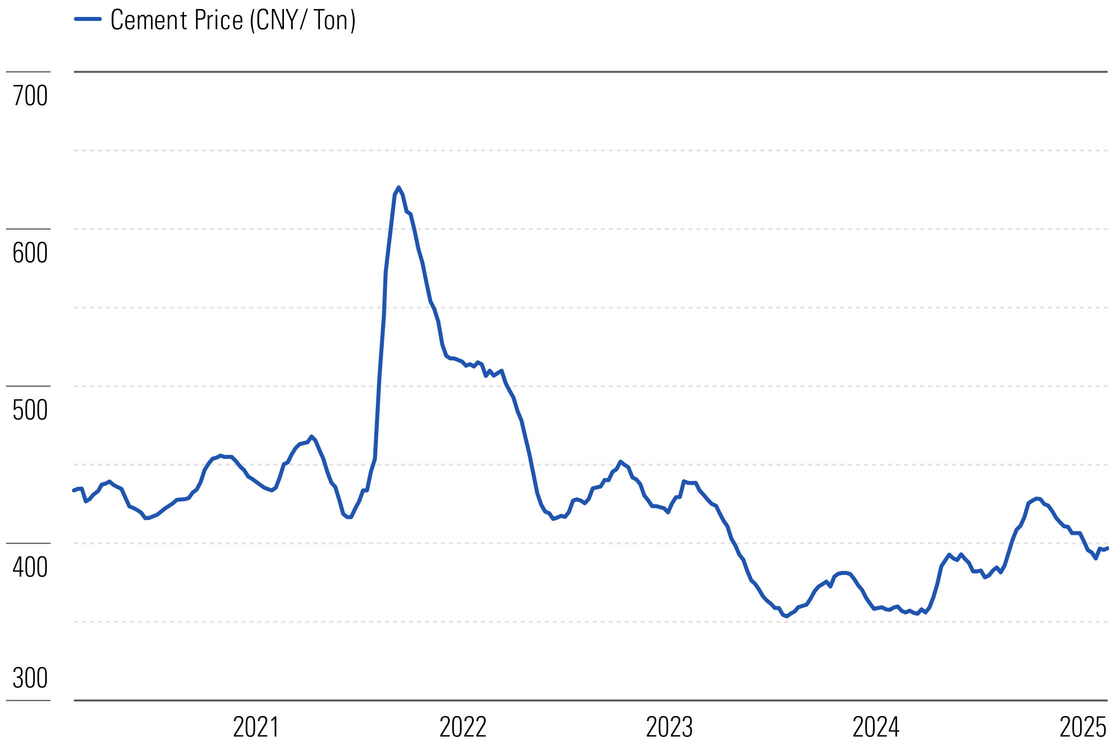
Uncertainties Surrounding US Trade Policy and Oil Oversupply; China's Cement Prices Abated

Global oil prices faced headwinds in the first quarter, with challenges likely to persist in 2025. OPEC continues gradual production increases, while a Russia-Ukraine peace deal could further pressure prices. Russian Deputy Prime Minister Alexander Novak suggested reversing production hikes if oversupply arises. In our view, OPEC could simply also want to replace barrels lost from tighter US sanctions on Venezuela and Iran. Higher oil supply could give Trump more leeway to restrict production elsewhere.

Weak Demand Continues to Weigh on Oil Prices



China's Cement Prices Receded From the Spike As Oversupply Lingered

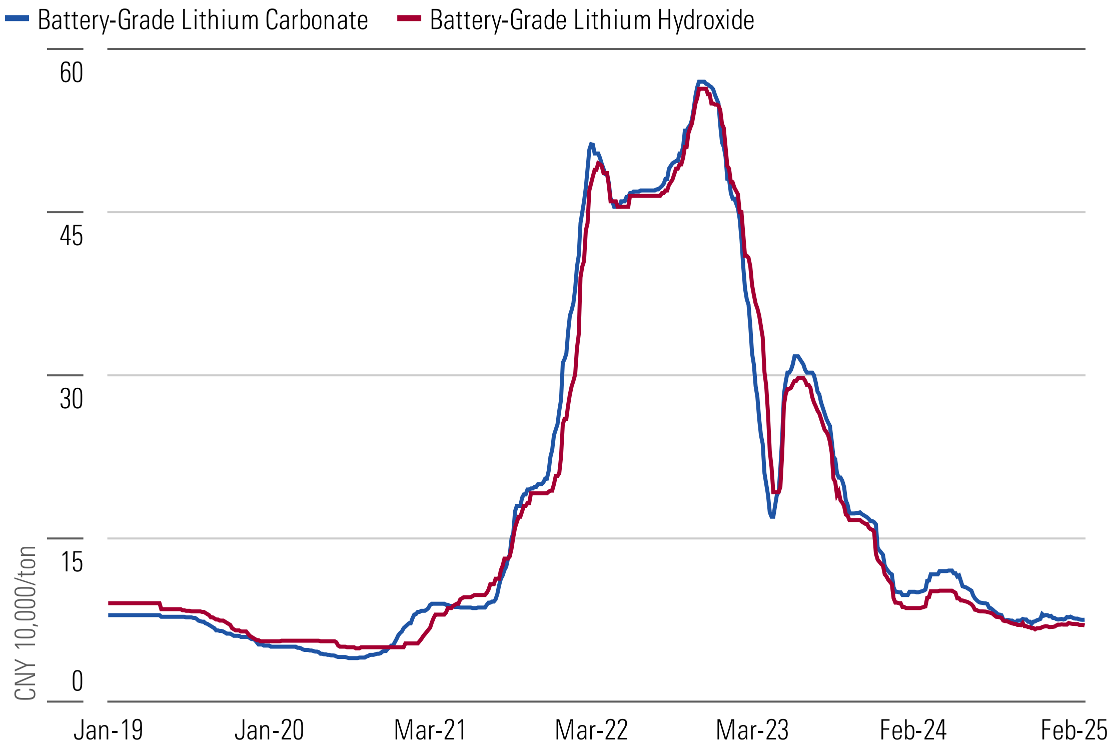


Source: CEIC. Note: EIA = Energy Information Administration.

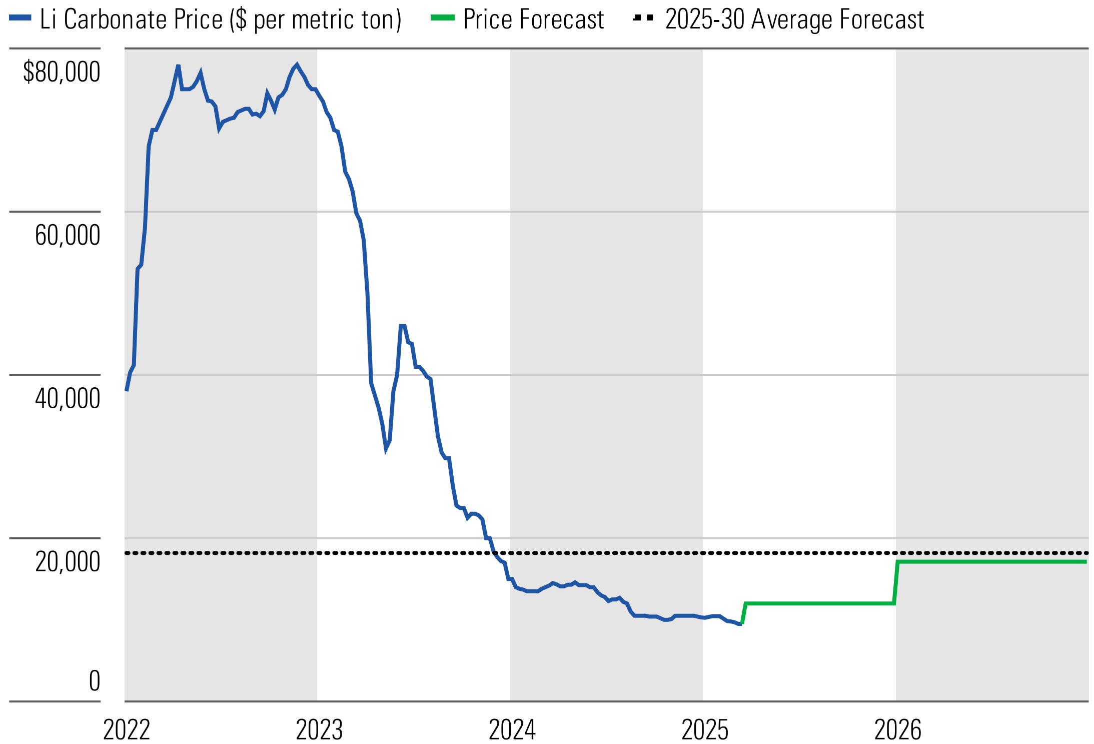
Lithium Prices Have Stabilized Since October 2024

We view current lithium prices as being at cyclically low levels. The rapid supply growth balanced out a tight 2023 market and lithium prices are now below the marginal cost of production. This has led to reduced production and new project delays. As supply growth slows, we expect the market will move back to balance, supporting lithium prices, in the next few years. Higher-cost production is exiting the market, allowing low-cost market-leading producers to benefit.

Lithium Compounds Prices Have Stabilized Since October 2024



We Expect Lithium Prices to Rise in 2025 Due to Supply Cuts



Sources: CEIC (left); Morningstar, London Metal Exchange, Platts, Fastmarkets, Benchmark Mineral Intelligence (right).

Basic Materials and Energy

Company (Ticker)		Rating
CNOOC (00883)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 15.62	HKD 22.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 789.1	None	Standard

CNOOC is the upstream arm of China's third state-owned oil company, China National Offshore Oil. As a result, it's the most direct option for investors seeking exposure to China's energy security policy and long-term plans to increase its oil supply. As it does not have downstream activities, the company has also avoided a large legacy labor force. None of the company's sales are subject to government price controls. We think CNOOC is currently undervalued, given its cost efficiency. We expect CNOOC to keep its average all-in cost at around USD 30 per barrel in our explicit five-year forecast periods, given the firm’s track record in containing costs. Hence, we believe the firm will remain profitable in the long term, even under our midcycle Brent oil price forecast of USD 60 per barrel.

Company (Ticker)		Rating
Anhui Conch Cement (00914)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 20.20	HKD 26.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 107.0	None	Standard

With annual cement production capacity of over 400 million metric tons in 2024, Anhui Conch Cement is one of the largest cement producers in the world. China’s cement industry is challenged by the shift toward a less construction-intensive economy. However, we believe Conch's strong balance sheet (net cash as of the end of 2024), best-in-class mining assets and strong representation in wealthy Eastern China region position it best to weather slowing demand in China. We think the firm should also capitalize on possible merger or acquisition opportunities to achieve modest market share gains, as overleveraged competitors gradually exit.

Company (Ticker)		Rating
Tianqi Lithium (09696)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 20.25	HKD 29.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 33.2	Narrow	Standard

Tianqi Lithium is a leading lithium miner and lithium compound producer. The company has fully vertically integrated lithium mines and has achieved 100% self-sufficiency in lithium raw materials, which provides the company with low-cost upstream support. We think Tianqi Lithium is currently undervalued, given its cost advantage that is supported by its access to low-cost and high-quality lithium resources. We remain positive about lithium demand for new-energy vehicle batteries. With current lithium prices below the marginal cost of production, supply growth has slowed, and some higher-cost production has exited the market. We believe Tianqi will remain one of the largest integrated lithium producers by capacity, which should enhance its leading market position and capture lithium demand growth opportunities.

Source: Morningstar. Data as of April 7, 2025.

Communication Services

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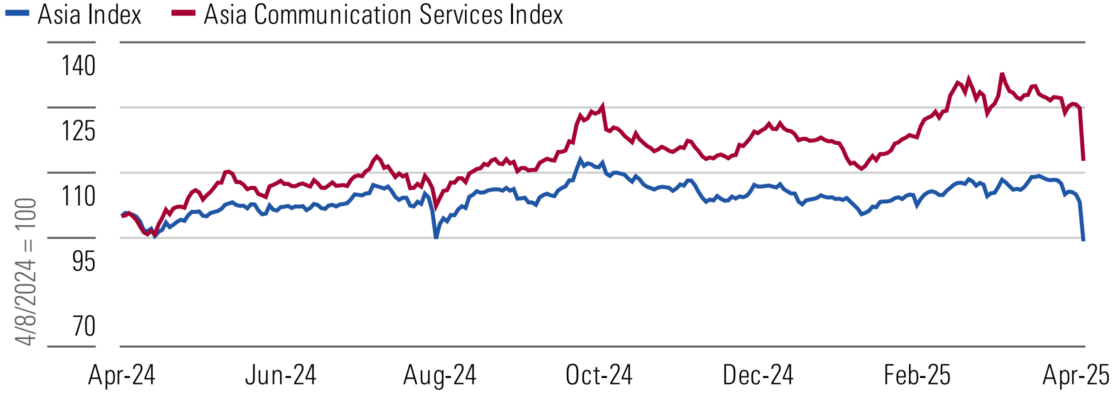
Attractive Valuations Make Asia Communication Services Stocks Appealing

Communication services was the top-performing sector in the quarter, driven by excitement around DeepSeek. Despite the rally, we continue to see numerous undervalued opportunities within the sector, with the average stock trading at a 20% discount to our fair value estimate. Additionally, we don't anticipate that the recent reciprocal tariffs will have a material impact on the sector's fundamentals.

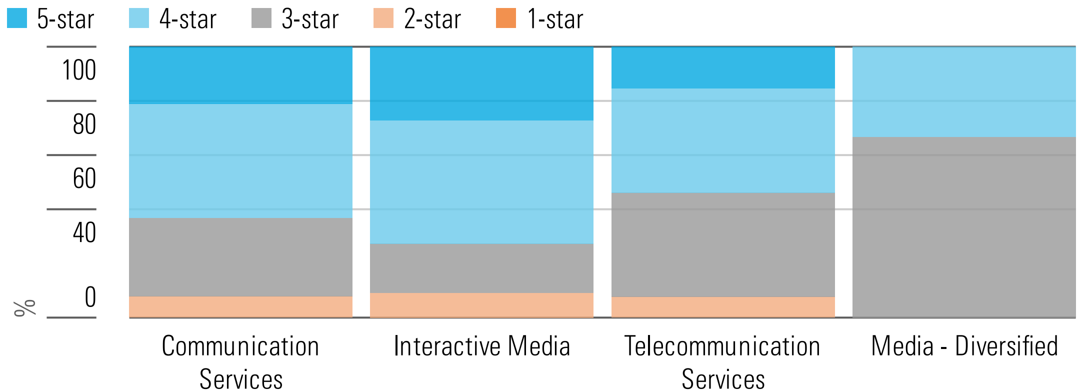
We remain cautiously optimistic about generative AI, with large hyperscalers and companies with proven use cases, such as advertising, expected to be the primary beneficiaries, including Tencent, Alibaba, and Baidu. However, our positive outlook for many companies in the sector does not hinge on the adoption of generative AI. Instead, it is supported by compelling valuations, improving earnings outlook, and a stable regulatory environment.

Within the sector, the Chinese online gaming industry continues to outperform broader macroeconomic trends. This resilience is largely attributed to a consistent schedule of content releases, which keeps players engaged and drives sales. Similarly, the music streaming industry has shown remarkable growth, benefiting from its affordability as a form of entertainment and the growing acceptance among consumers to pay for music.

Refocus on Growth and Reduced Regulatory Risks Helped Sector Recover



Attractive Valuation for Moaty Internet Companies in China

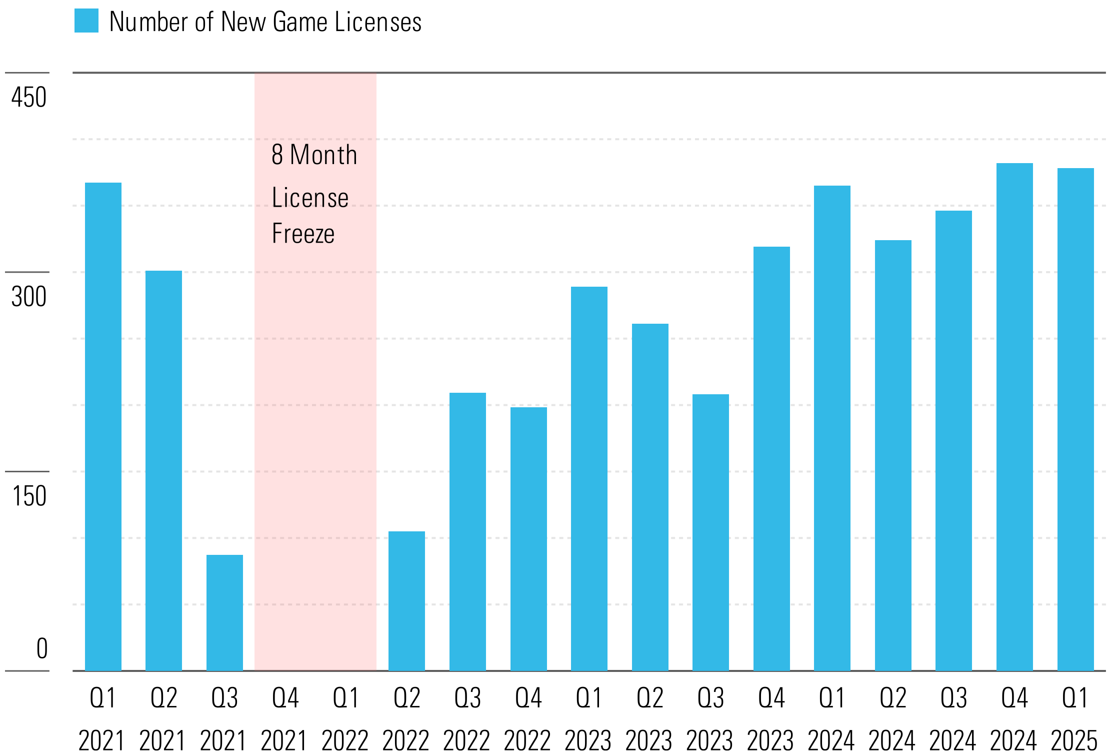


Source: Morningstar. Data as of April 7, 2025.

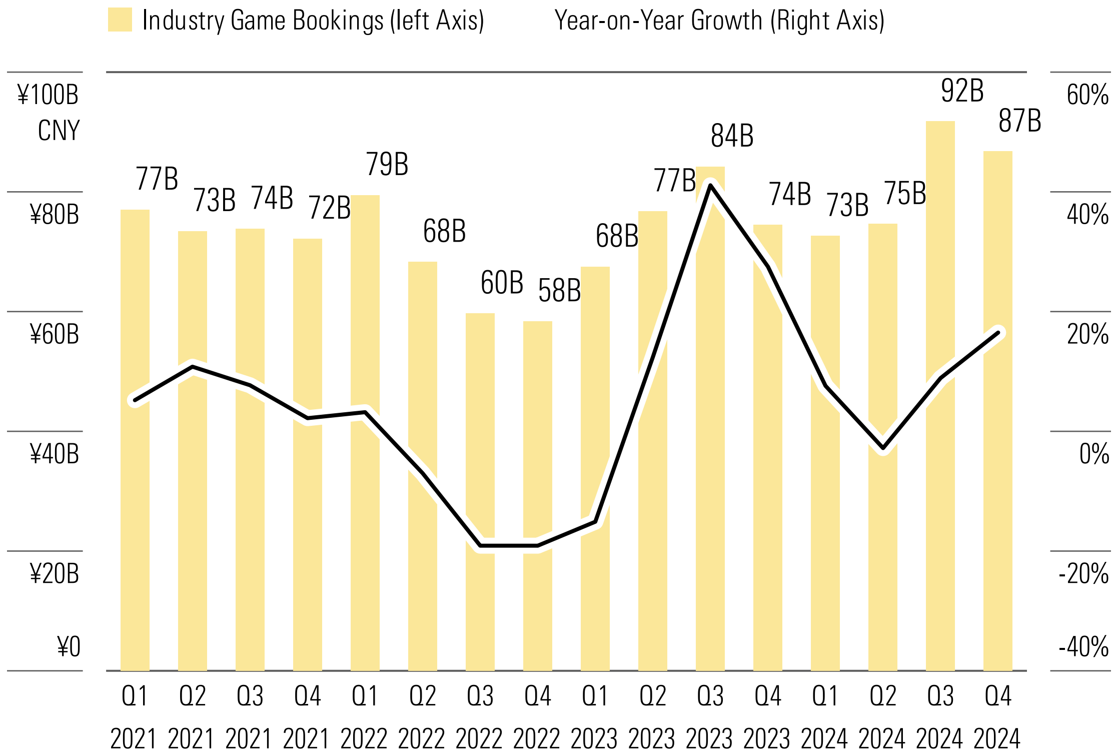
Stable Outlook and Moderate Growth for Chinese Gaming Industry in 2025

Industry game bookings grew 17% year over year in the fourth quarter, driven by new game releases, stronger performance from evergreen titles, and continued momentum from minigames. With slightly improving game license approvals, we maintain our expectation for mid- to high-single-digit growth in the industry in 2025.

Game License Approvals Exceed Precrackdown Levels



Game Bookings Growth Accelerates in the Fourth Quarter of 2024



Sources: National Press and Publication Administration (left); Gama Data (right).

Communication Services

Company (Ticker)		Rating
Tencent Holdings (00700)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 435.40	HKD 710.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 3,967.2	Wide	Exemplary

Tencent's current valuation stands at USD 615 billion, with its equity stakes in other companies comprising about 20% of its market cap. After excluding the value of its investment portfolio from the market cap, the forward P/E ratio is 20 times, a near-historic low. There is little debate that Tencent's business has enduring competitive advantages, a strong management track record, and a solid financial position. Therefore, we think the market will eventually recognize its worth. A turnaround in its gaming business and continued monetization of Video Accounts in 2025 should serve as catalysts for rerating.

Company (Ticker)		Rating
NetEase (09999)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 135.20	HKD 248.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 435.7	Narrow	Standard

NetEase's management continues to demonstrate unwavering dedication and patience in crafting next-generation games. This commitment should translate to continued outperformance, cementing NetEase as our top selection in the interactive media space. As we look ahead to 2025, we are enthusiastic about the lineup of game releases. The roster is impressive, featuring titles such as Where Winds Meet, FragPunk, and Ananta.

Company (Ticker)		Rating
China Unicom (Hong Kong) (00762)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 7.96	HKD 11.00	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 243.6	None	Standard

China Unicom had many years of poor cash flow and market share, but this turned around in 2017, with the company generating average free cash flow of over CNY 31.5 billion per year between 2017 and 2023, and its mobile market share is also stabilizing. We value the company at HKD 10.50 per share. The company generated free cash flow of CNY 28.5 billion in 2023 and we would expect this to lift to around CNY 40 billion in 2024, driven by reduced capital expenditure, increased earnings, and a focus on reducing accounts receivable. It also trades at a forward P/E ratio of 8.4 times, compared with China Telecom at 11.0 times and China Mobile at 10.0 times. The company's 2023 dividend implies a 55% payout ratio. Given the company's net cash position and strong cash flow generation, we expect that management could lift this payout ratio to 70% to match its two domestic telecom competitors, but the timing for this is uncertain.

Source: Morningstar. Data as of April 7, 2025.

Consumer Cyclical

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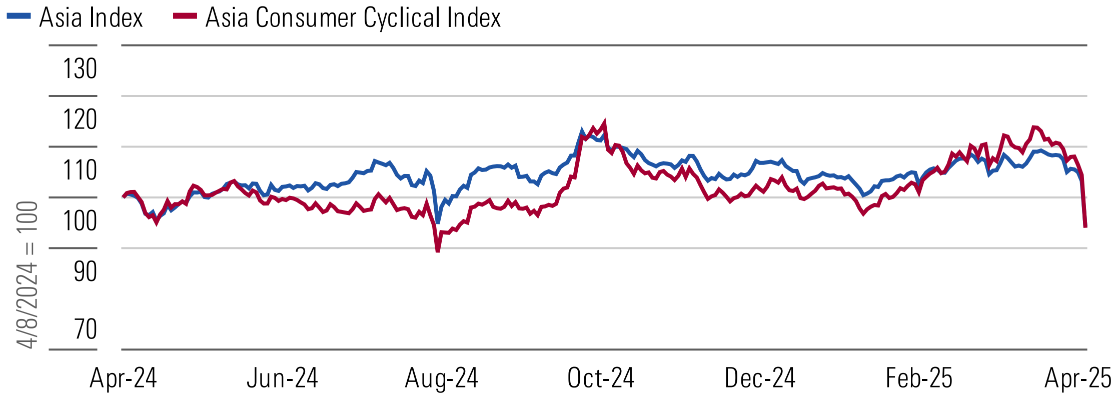
China Weighs Stimulus to Combat Worse-Than-Expected Tariffs; We Still See Undervalued Opportunities

For the quarter to March 31, 2025, the Asia Consumer Cyclical Index was the largest contributor to the Morningstar Asia index with a 5% rise. We still see undervalued opportunities in the subsectors of the Asia consumer cyclical space following the worse-than-expected US tariffs announced on April 2. There could be weakened growth in China due to a higher likelihood of a US and global recession. However, given Chinese restaurants and domestic trade-in beneficiaries have limited exposure to US exports we think they should be more resilient.

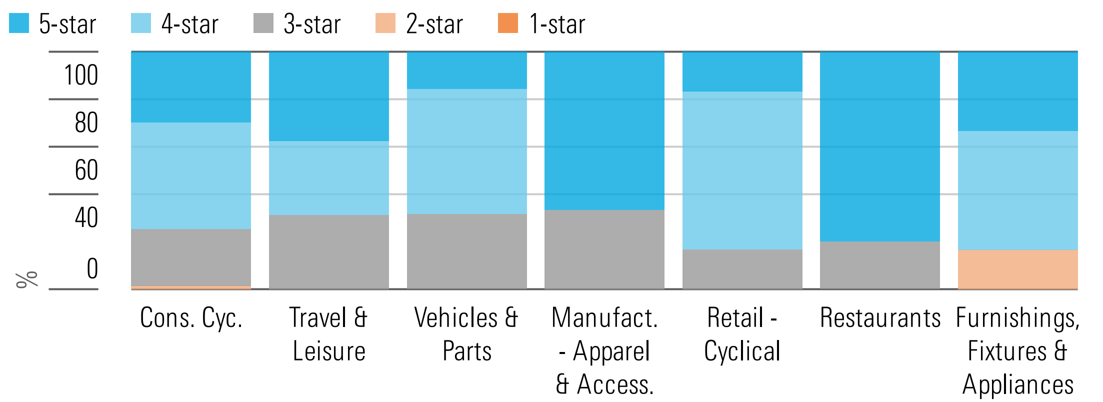
We observed continued positive developments in the Chinese restaurant sector. Leading operators like KFC, McDonald's, and Luckin Coffee have reported improved demand, which has supported selective price increases. As a result, we believe that industry demand—particularly for quick-service brands—has reached an inflection point, setting the stage for accelerated growth heading into 2025. The national trade-in subsidy program will amount to CNY 300 billion this year to support consumption, doubling last year's level. We assume the program will last for three years and the categories covered will expand gradually. JD.com reported positive macro consumption trends that helped performance in most of its categories, thanks to the trade-in subsidy.

China's new electric vehicle penetration, as a percentage of total vehicle sales, reached 44% in 2024 and we expect it to continue to rise, given increasing consumer adoption and government support. In January, the central government announced the renewal of fiscal support for auto purchases, as part of its effort to bolster economic growth. We see demand growth for new energy passenger vehicles of 15%-20% for 2025.

China's Policy Support Will Drive the Index's Performance



Strongest Buying Opportunities in Restaurants

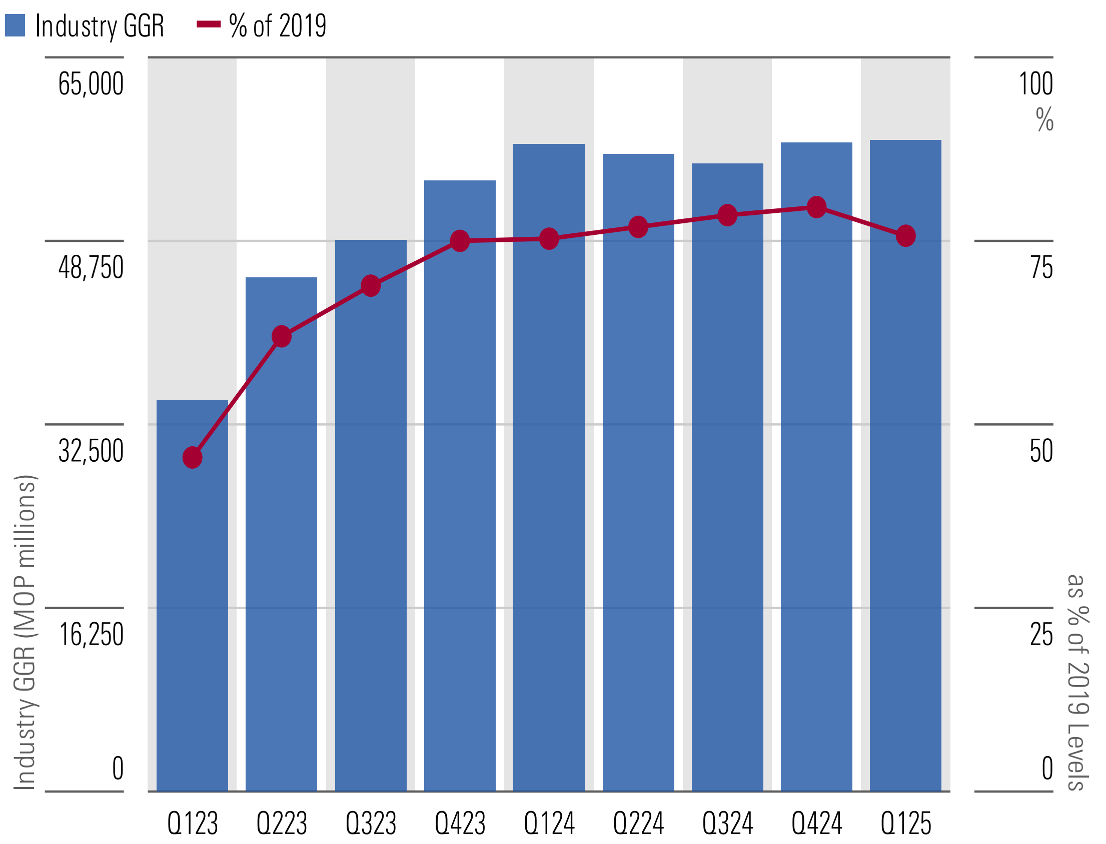


Source: Morningstar. Data as of April 7, 2025.

China's Discretionary Spending Growth Is Off Lows, but Remains Fragile

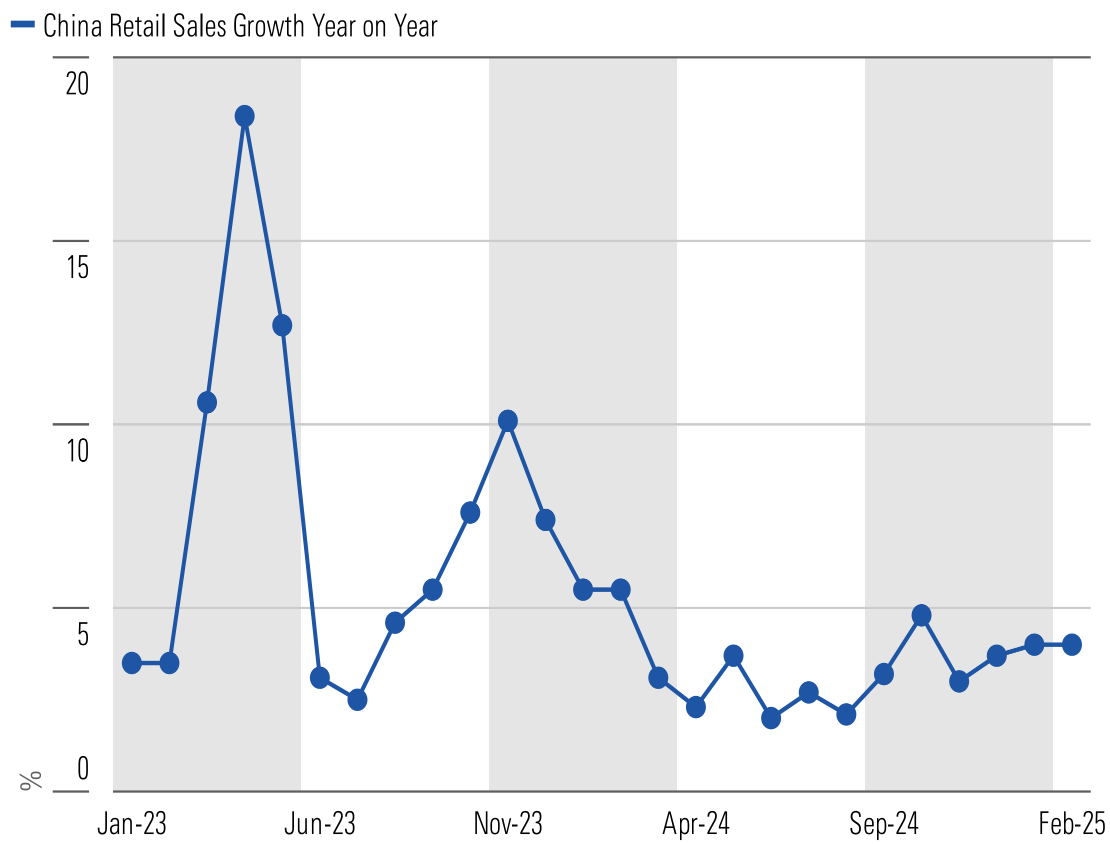
Macau Gross Gaming Revenue Extends its Postpandemic Recovery

We project industry GGR to grow 6% to MOP 240 billion in 2025.



China Retail Spending Growth

Trade-in program has improved China's retail sales growth recently.



Sources: Macao Gaming Inspection and Coordination Bureau, Morningstar (left); National Bureau of Statistics (right).
Note: GGR = gross gaming revenue.

SECTOR TOP PICKS

Consumer Cyclical

Company (Ticker)		Rating
Yum China (09987)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 357.80	HKD 595.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 134.1	Wide	Standard

We continue to view Yum China as a long-term beneficiary of China's demographic shifts. We believe there is significant room for fast food penetration to increase, driven mainly by long-term trends such as: (1) the increasing number of office-based workers, (2) rising disposable incomes, and (3) shrinking family sizes. Yum China's scale advantages translate into competitive pricing and consistent quality and service, building trust with consumers seeking reliable dining experiences. This positions the company to capture share in a market where chained restaurants represent only 20% of industry spending, compared with a 35% global average and 60% in the US.

Company (Ticker)		Rating
Sands China (01928)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 13.36	HKD 25.80	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 108.1	Narrow	Standard

Sands China is our preferred pick within our Macao gaming coverage. We believe the firm's focus on the mass market and its largest room counts in Macao, combined with a successful track record in nongaming activities, make it the key beneficiary of demand recovery in Macao. We also expect Sands China to benefit from completion of the Londoner phase 2 renovation project, which would strengthen the firm's long-term competitiveness and support sales growth. With the hits from renovation disruption coming to an end, we expect Sands China to reaccelerate sales growth and margin expansion from 2025. In addition, Sands China has resumed its dividend payout in 2024, enhancing shareholder returns and boosting investor confidence.

Company (Ticker)		Rating
Topsports International (06110)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 2.80	HKD 6.80	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 17.4	Narrow	Exemplary

Topsports, the largest distributor of Nike and Adidas in China, enjoys an entrenched position that's unlikely to be challenged, given its focus on operating monobrand stores operated under these globally recognized names. Despite a near-term slowdown in sales due to the underperformance of Nike's classic products, the enduring strength of its brand, combined with the consolidated nature of the market, help mitigate the risk of long-term price erosion. We anticipate a rebound in Nike's sales in the coming years, driven by investments in new products. Topsports shares are very undervalued and offer an attractive 10% dividend yield.

Source: Morningstar. Data as of April 7, 2025.

Consumer Cyclical

Company (Ticker)		Rating
JD.com (09618)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 126.40	HKD 272.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 366.9	Wide	Exemplary

We believe wide-moat JD.com is the key beneficiary of the Chinese government's trade-in subsidy program, which could include other electronics in 2025. We estimate approximately half of its 2024 revenue should come from home appliances and electronics sales. We also like JD.com's return of capital to shareholders through dividends and share repurchases, which we estimate account for approximately 8% of its current market cap in 2024. JD.com will continue to be the platform of choice for consumers who want the best quality and fast e-commerce delivery services, which are its intangible assets.

Company (Ticker)		Rating
Tongcheng Travel Holdings (00780)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 18.08	HKD 27.00	Very High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 42.1	None	Standard

We like Tongcheng Travel, given its 40% upside to our fair value estimate as spending for China's service sector still outpaces that for the retail goods sector. In our China travel coverage, we think Tongcheng is overlooked compared with Trip.com as it doesn’t have an ADR secondary listing or higher brand recognition, despite having similar overlapping domestic traveling options. Our fair value estimate implies a 27 times P/E ratio, but shares are trading at a high-teens P/E. We believe Tongcheng has low exposure to international revenue, which is currently ramping up and plans to triple its contribution to total revenue to 15% in the next three years. This should be faster growth, relative to Trip.com. In addition, we expect the firm to benefit from operating leverage as robust revenue growth into 2025 should result in operating margin expansion.

Company (Ticker)		Rating
Grab Holdings (GRAB)		★★★★
Price	**Fair Value**	**Uncertainty**
USD 3.48	USD 5.10	Very High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
USD 14.2	None	Standard

We like Grab because of its dominant market position in ride-hailing services in Southeast Asia. Its ride-hailing business has hit an inflection point and is now cash flow positive, a significant turnaround from a year ago. In addition, its delivery business is generating increasing operating margins, and Grab has already raised its long-term margin guidance in the segment. We believe it has multiple new long-term catalysts, including its advertising business, that it has yet to fully monetize. Share prices have recently run up since September, which makes Grab fairly valued, but there are long-term drivers such as increasing monetization rates, which could lift its valuation. The company has not yet announced that it will increase its monetization as it wants to maximize user experience first and we do not have any timing as to when it may do so, but our model suggests further valuation upside should Grab begin to increase take rates further.

Source: Morningstar. Data as of April 7, 2025.

Consumer Cyclical

Company (Ticker)		Rating
Oriental Land (4661)		★★★★★
Price	**Fair Value**	**Uncertainty**
JPY 2,949	JPY 4,450	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 4,833.9	Wide	Standard

Wide-moat Oriental Land is our top pick among Japanese consumer cyclical stocks, given its 30% upside to our fair value estimate. Its share price declined by over 30% in the past year, mainly due to the Tokyo Disney Resort attendance underperforming market expectations in the past three quarters. We remain confident in the company's strong position as the only Disney theme park in Japan, which protects its pricing power over the longer term. We believe park attendance will return to a growth trajectory in the next fiscal year, with the implementation of further dynamic pricing, free entry to Fantasy Springs, and limited special events. Over the longer run, we expect growth in overseas tourists, rising wages, and a higher proportion of household spending on entertainment to drive spending per guest. In April 2025, the company will announce its midterm business plan and capital allocation strategy, which may revive investors' confidence.

Company (Ticker)		Rating
Geely Automobile Holdings (00175)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 13.42	HKD 25.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 135.2	None	Standard

Geely is one of China's leading automakers, selling close to 2.2 million cars in 2024. We are positive on Geely as its new energy initiatives continue to show positive progress. Riding on popular NEV model launches, such as the Galaxy E8 sedan, Zeekr 007 sedan, and Lynk & Co 08 sport utility vehicle, Geely achieved 41% NEV sales penetration in 2024, compared with 29% in 2023, catching up with the overall market. Geely has guided for a 2025 sales target of 2.71 million vehicles, representing 25% year-over-year growth. Benefiting from a strong model lineup from Galaxy and Zeekr, we believe Geely will be able to increase NEV penetration further, which bodes well for its catch-up in electrification transition. The uptick in sales volume and lower battery cost could partially offset the pricing pressure amid industry competition. We think investors underestimate the long-term earnings potential from the company's various new energy brands. Near-term catalysts include strong monthly sales momentum from Galaxy and Zeekr and profitability recovery.

Source: Morningstar. Data as of April 7, 2025.

Consumer Defensive

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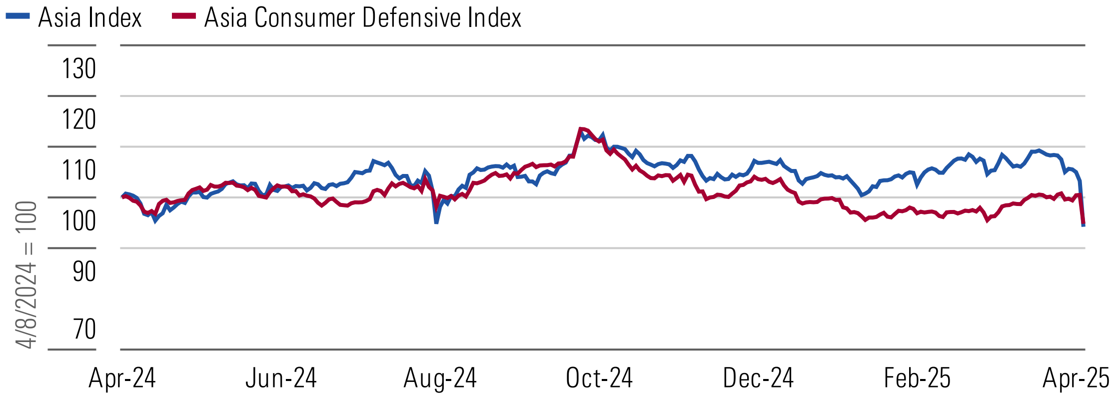
China Staples Outlook Should Improve Gradually in 2025, While Japan Benefits From Price Hikes

For the quarter to March 31, 2025, the Consumer Defensive Cyclical Index slightly underperformed the broader market. Most of the Chinese staples companies, except WH Group, have minimal US revenue exposure while largely dependent on the domestic consumer market.

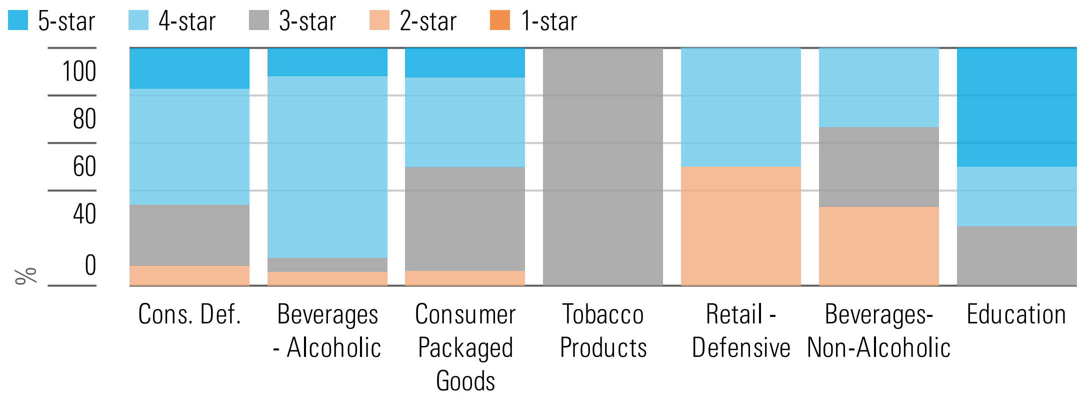
We continue to see undervalued opportunities in Chinese beer companies as signs of improving consumer sentiment are emerging as we approach 2025. China Resources Beer has reported a trend of increasing demand in catering and in-home channels through February. We anticipate that 2025 will be more favorable for Chinese beer brewers, particularly as demand in on-trade channels begins to accelerate again. Additionally, the Chinese government has implemented various measures to boost consumption and enhance consumer confidence. These policy initiatives should first benefit staple companies with a strong portfolio of premium products. While some companies remain cautious about the demand outlook for 2025, they are taking proactive steps to manage operating costs and improve operational efficiencies.

In Japan, food and beverage inflation has become more entrenched as shown in the latest inflation data. We have also observed a continued upward trend in service sector inflation as of March. The forthcoming shuntō, or spring wage negotiations, will play a vital role in determining whether wage growth can align with inflation, which may have implications for consumer spending. Despite these uncertainties, we believe that prominent staple companies such as Asahi and Unicharm are well positioned to adapt to the evolving landscape of price increases and benefit from this ongoing trend.

Consumer Defensives Underperformed in 2024



Buying Opportunities in Alcoholic Beverages and Cosmetics



Source: Morningstar. Data as of April 7, 2025.

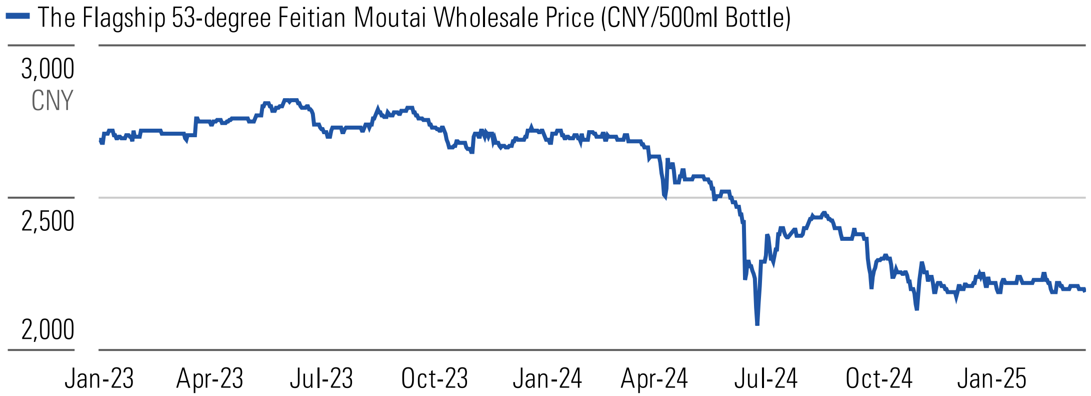
Macro Challenges Linger; Remain Selective on Premium Brands

Despite China's recent stimulus measures, we believe the cyclical weakness in baijiu demand will persist into 2025. We continue to prefer premium brands as demand is relatively resilient, underpinned by premium product quality and unparalleled brand strength.

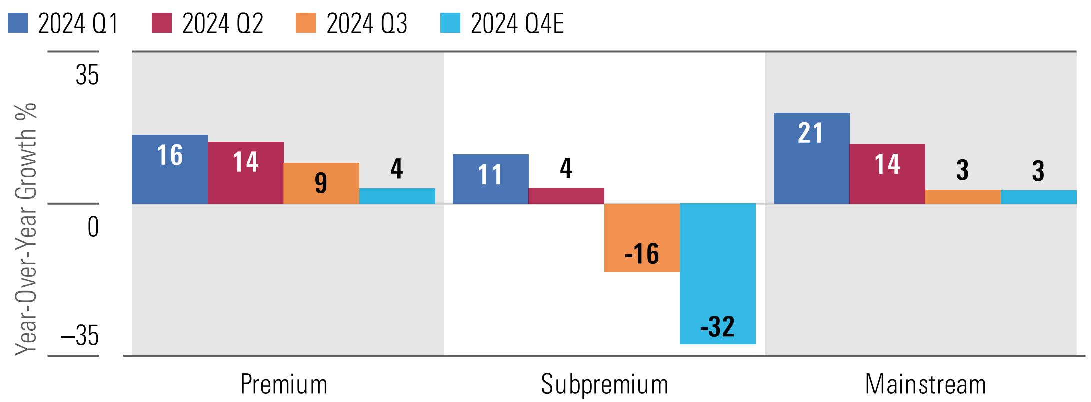
Near-term headwinds in the macro economy have dampened baijiu demand and eroded sector profitability, with year-over-year sales growth slowing across all segments since mid-2024. Our channel checks indicate persistent weakness in consumer sentiment and elevated inventory at distributor and retailer levels relative to the previous year. On a positive note, major baijiu firms are now prioritizing healthy long-term growth over specific 2025 sales targets, providing distribution channels with the flexibility to clear excess inventory and paving the way for recovery ahead. We anticipate lackluster baijiu sales through at least the first half of 2025, but performance is expected to vary. Demand for premium baijiu and mainstream-focused leading local brands appear relatively resilient, while high-end to subpremium brands are likely to face ongoing sales pressure.

Despite the challenges, some baijiu companies have lifted their dividend payout ratios. In particular, Moutai raised its regular payout ratio to 75% through 2024-26, up from 51.9% over the past six years, while Yanghe and Wuliangye have committed to a payout ratio of no less than 70% with a minimum annual cash payout of CNY 7 billion and CNY 20 billion, respectively, between 2024 and 2026. This demonstrates baijiu companies' increasing focus on shareholder returns and should lift investor confidence.

Moutai's Wholesale Price Remains Weak Amid Sluggish Consumer Sentiment



The Year-Over-Year Growth of Baijiu Sales Slowed Across Segments



Consumer Defensive

Company (Ticker)		Rating
Budweiser Brewing Co. APAC (01876)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 8.40	HKD 16.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 110.8	Narrow	Exemplary

Narrow-moat Budweiser APAC is our top brewery pick for exposure to the China market. Our fair value estimate of HKD 16 per share implies 2025 enterprise value/EBITDA of 11 times and P/E of 29 times. We think the company has the strongest premium portfolio among Chinese peers, which would be conducive to long-term share gain in the premium beer market in China. We are also constructive on its digitalized BEES distribution platform that could better monetize premiumization opportunities as volume matures. We think the market is primarily worried about the premiumization outlook, due to near-term economic headwinds and consumers' squeezed pockets. However, we think the long-term premiumization trend in the beer industry should remain intact and favor large players.

Company (Ticker)		Rating
Kweichow Moutai Company (600519)		★★★★
Price	**Fair Value**	**Uncertainty**
CNY 1,500.00	CNY 1,780.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
CNY 1,884.3	Wide	Poor

Among the 10 baijiu companies we cover, Kweichow Moutai is our preferred stock. We believe the firm's unique cultural status, unmatched brand image, and outstanding product quality make it the best positioned to weather the current difficulties in baijiu sales. These attributes also allow it to benefit from China's beverage premiumization trend over the mid- to long term. In addition, we think Moutai's commitment to lifting its regular dividend payout ratio to 75% through 2024-26, from 51.9% over the past six years, delivers a positive signal to the market, which should increase shareholder returns and lift investor confidence. Our 2025 estimated dividend per share of CNY 57.4, or a 75% payout ratio, implies a dividend yield of 3.6% currently.

Company (Ticker)		Rating
Asahi (2502)		★★★★
Price	**Fair Value**	**Uncertainty**
JPY 1,850	JPY 2,200	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 2,855.4	Narrow	Standard

Asahi Group Holdings is the preferred pick in our Japan consumer defensive coverage. The company has the strongest market position in the beer segment in Japan, which should benefit from consumers' continual mix shift from happoshu and new genres. We are confident about its pricing power in the domestic market as the company just announced another round of price hikes in April 2025, which was subsequently followed by competitors. The distribution strength underpins its ability to raise prices, in our view. We see a constructive path toward annual price hikes as inflation returns. The company is also the beer category leader in Australia and Central Europe, which should bode well for long-term positive mix shift and profit growth.

Source: Morningstar. Data as of April 7, 2025.

Financial Services

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Michael Makdad | michael.makdad@morningstar.com

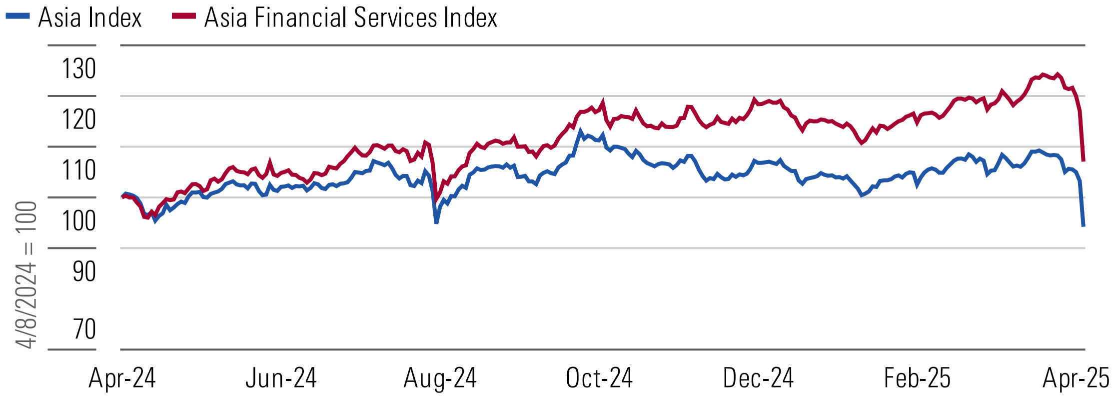
Banks and Insurers Outperformed in Q1, but Stumbled Sharply in Early April

Financials slightly outperformed the broader market in the first quarter, adding to the 2024 trend, but they are now underperforming year to date in 2025 after falling sharply in early April after Trump announced more severe-than-expected tariffs on imports.

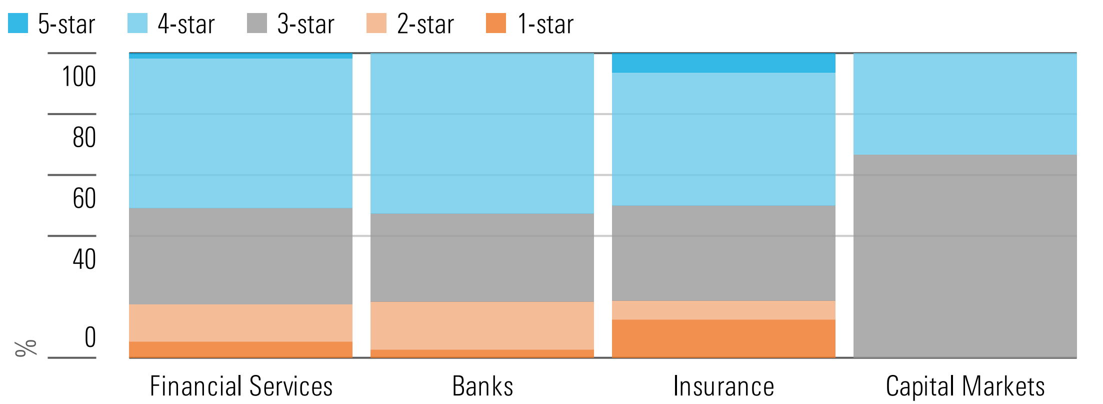
The China A-share financial stocks we cover appear overvalued following their rally in 2024. In contrast, we think H-share insurers and some banks are still undervalued. For 2025, we expect a gradual rebound in banks' fee income and smaller net interest margin contraction, despite larger interest-rate cuts than in 2024. We expect the CNY 520 billion capital injection for four state-owned banks to dilute 1% to 5% of book value per share, and 4% to 17% of earnings per share in 2024. But in our base case, we expect major state-owned enterprise banks' net profit growth will rebound in 2025 to a low-single-digit rate, offsetting the dilution impact.

Outside of China entities, most banks in our coverage are below our fair values after the sharp sell-off in early April, after having been close to fair value or somewhat overvalued before Trump's tariff announcement. Some of the stocks with the most upside are Sumitomo Mitsui Trust Group, MS&AD Insurance, and Dai-Ichi Life, Most Japanese, Hong Kong, and Singapore banks are looking undervalued after the sell-off.

Financial Services Slips on Tariff News, Was Top-Performing Sector in Q1



After Tariff Sell-Off, Buying Opportunities Abound, but Uncertainties are Raised

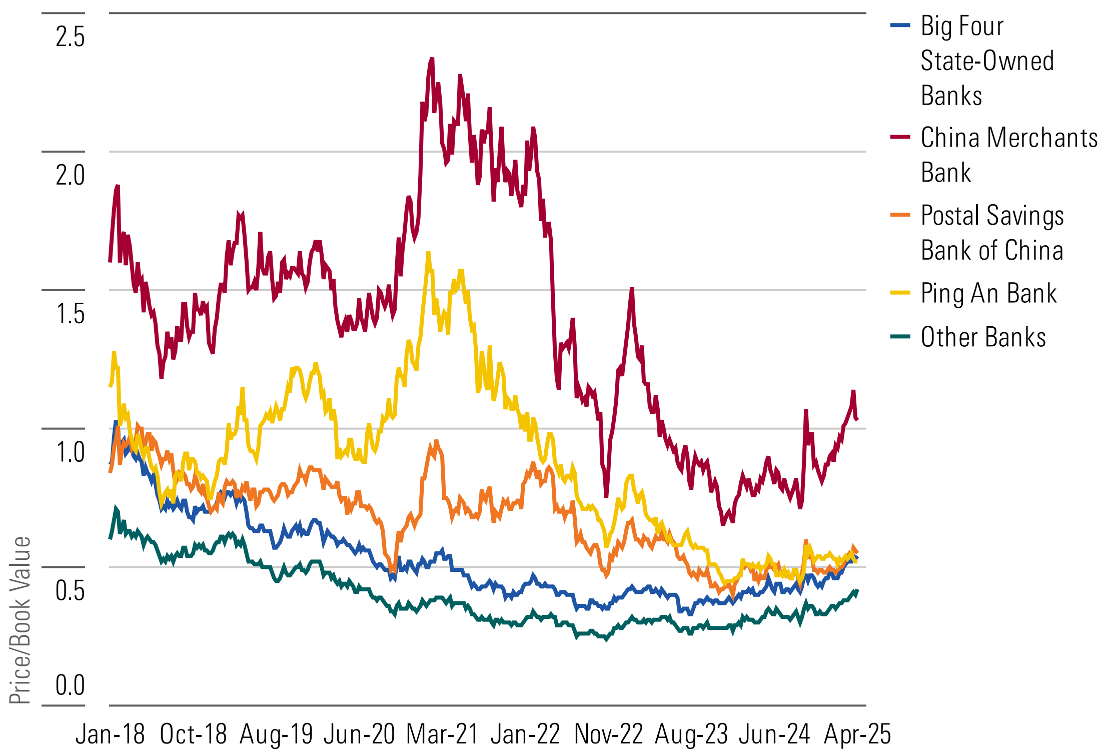


Source: Morningstar. Data as of April 7, 2025.

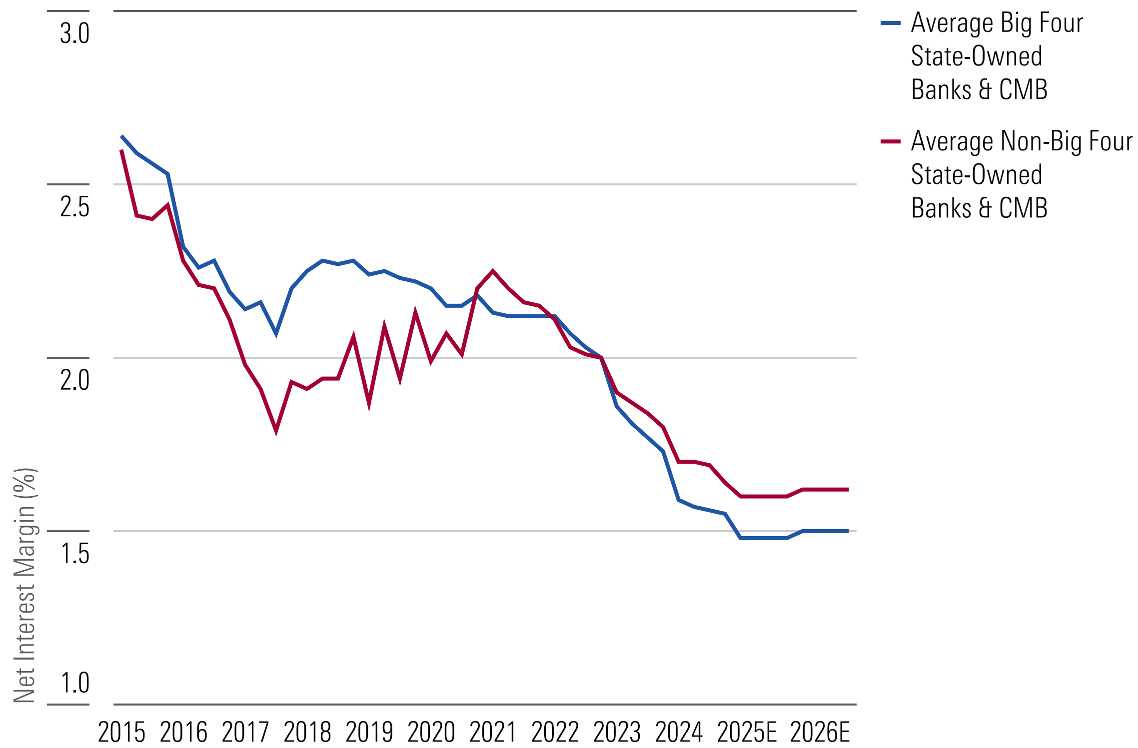
2025 Will Be a Tough Year for Chinese Banks; Investors Eye Inflection Point in Net Interest Margin

The Hang Seng Mainland Banks Index gained 10% in the first quarter of 2025, with banks set to benefit from China's intensified policy stimulus. However, we anticipate that the implementation of tariffs will dampen market risk appetite. Meanwhile, the government is expected to introduce progrowth policies to offset the hit from tariffs. Amid the current high level of uncertainties, we expect investors to shift from a wait-and-see stance to add positions in defensive stocks, such as state-owned banks, once the dividend yield of dividend-paying assets returns to relatively high levels.

Chinese Banks Trading at Historically Low Valuation Levels on Bearish Sentiment



Net Interest Margins Are Expected to Stabilize in the Second Half of 2025

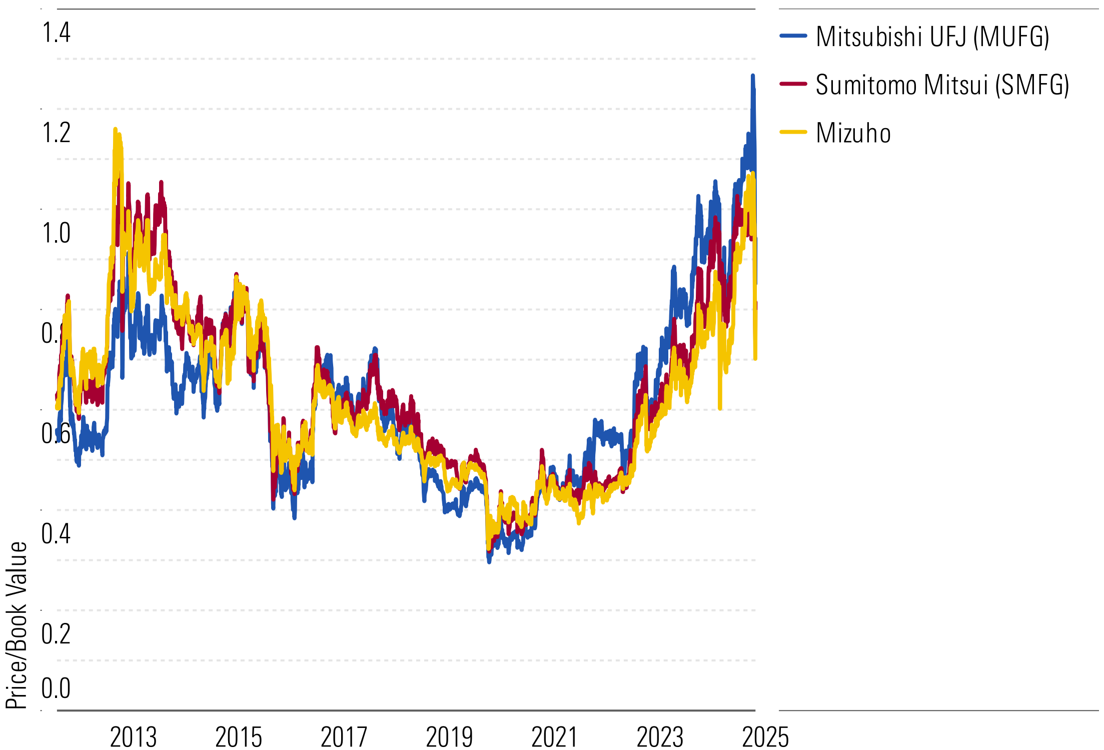


Sources: PitchBook (left); Company disclosures, iFinD (right).

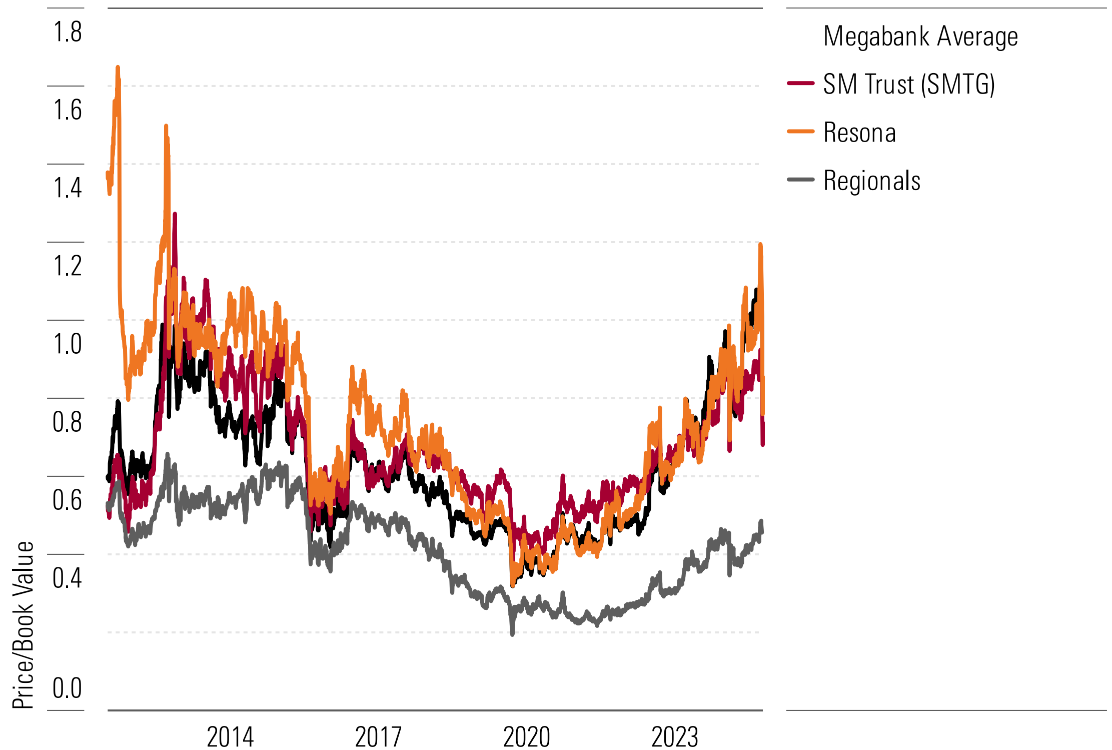
Japan Banks Appear Undervalued After Tariff Sell-Off; Sumitomo Mitsui Trust Is Our Top Pick

Japanese bank shares had been fairly valued to slightly overvalued in the first quarter of 2025 but now have around 20% to our fair value estimates after the sharp volatility in early April. We see the most upside for Sumitomo Mitsui Trust Group, which now has around 40% upside to our fair value and trades at a larger discount to book value than other major Japanese banks, but which we think continues to have the largest benefit to capital from the unwinding of cross-held shares.

Price/Book Values of Japanese Megabanks



Price/Book Values of Japan's Second-Tier and Regional Banks

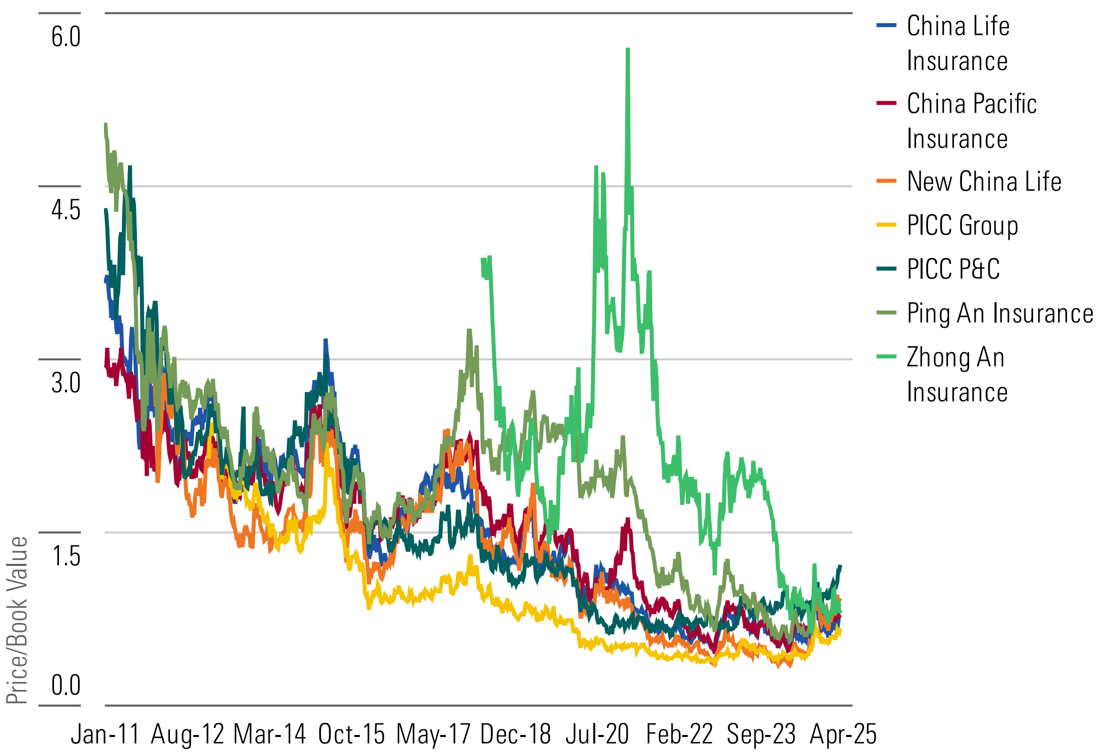


Source: Morningstar, Japan Exchange. Data as of April 7, 2025.

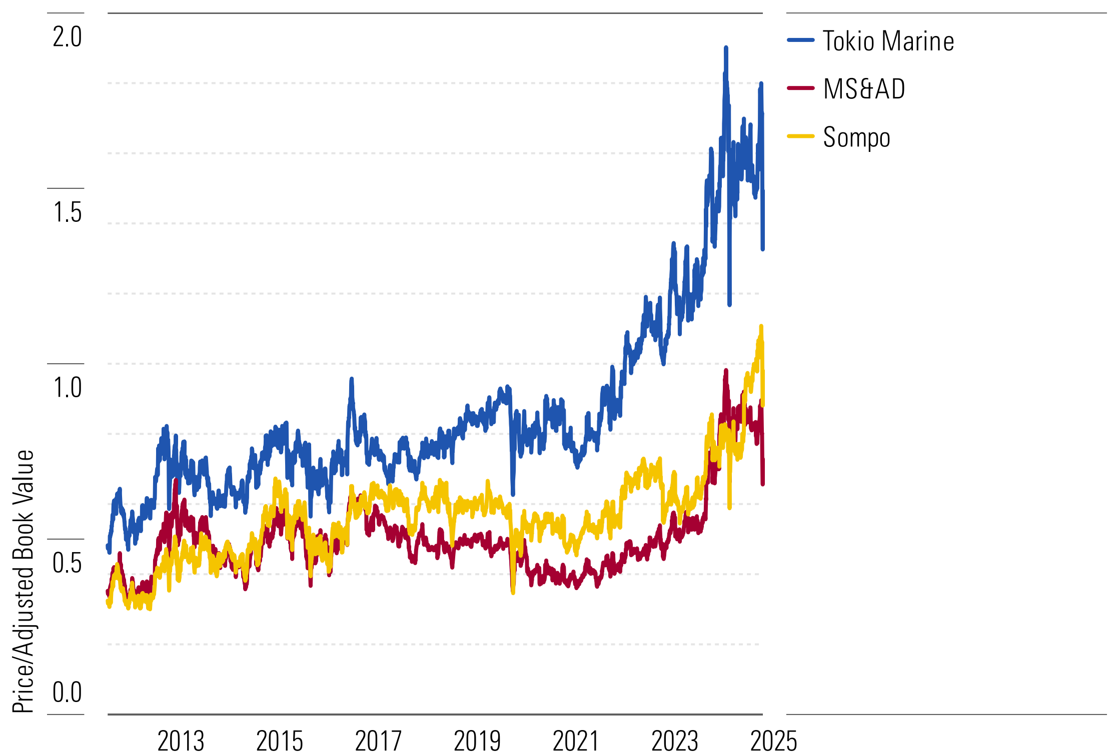
Chinese Insurers Remain Undervalued; Japanese Insurance Valuations Range From Fair to Undervalued

H-shares of Chinese insurers remain undervalued despite a strong rally in 2024. In the first half of 2025, we expect single-digit growth in new business value driven by lower pricing rates and product mix optimization. We believe insurers' downward adjustment to key economic assumptions should ease concerns about spread loss risks. Shares of Japanese nonlife insurers had been running ahead of their fundamental improvement, including large reductions in risk from long-held equities in Japanese corporations, but we now see upside for MS&AD.

Chinese Insurers: Price/Book Value



Japanese Nonlife Insurers: Price/Adjusted Book Value



Source: Morningstar, PitchBook, Japan Exchange. Data as of April 7, 2025.

Financial Services

Company (Ticker)		Rating
China Merchants Bank (03968)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 40.25	HKD 50.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 1,015.1	Narrow	Exemplary

China Merchants Bank is the largest joint-stock bank by asset size. It has a leading position in retail banking, evidenced by an expanding premium customer base with retail assets under management representing about 120% of CMB's total assets. Retail deposits contribute only 25% of total assets under management. Its asset-light business model has resulted in an industry-leading return on equity, rising to over 14%. We expect CMB’s bad debt formation in property-related loans to decline in 2025 thanks to its prudent loan underwriting and ahead-of-peer risk disposal. It increased its dividend payout ratio to an industry-leading 35%, from 30% in 2023. We believe this reflects strong long-term growth potential, boosted by its higher-than-peer return on risk-weighted assets. We expect CMB to have more upside than state-owned banks when consumer sentiment recovers.

Company (Ticker)		Rating
Sumitomo Mitsui Trust Group (8309)		★★★★
Price	**Fair Value**	**Uncertainty**
JPY 2,979	JPY 4,650	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 2,308.5	None	Standard

In contrast to Japanese megabanks MUFG and SMFG, which have reached 1.0 times book value (a goal set by Japan Exchange last year for stocks trading below book value), Sumitomo Mitsui Trust Group still trades at a 10%-15% discount, but we don't think its future ROE will be inferior to the megabanks. One key reason is that SMTG will release proportionally more capital from sales of long-held equity (SMTG is still the only bank to publicly commit to eliminating, not just reducing, such holdings), benefiting the denominator of ROE. Another reason is that SMTG's reliance on fee income rather than net interest income doesn't mean, in our view, that it will benefit less as Japan exits deflation and interest-rates rise. SMTG's fiduciary services, asset management, and real estate businesses should rather benefit directly from such trends.

Company (Ticker)		Rating
HSBC Holdings (00005)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 73.40	HKD 96.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 1,299.1	None	Standard

We think the significant structural changes announced by new CEO Georges Elhedery in October aimed at simplifying HSBC's sprawling global operations will not only help to control costs, but broadly improve returns by increasing accountability, though there are undeniable execution risks. We think HSBC shares look undervalued on the view that Elhedery's long experience in HSBC should help the group avoid execution pitfalls and deliver on the simplification. Furthermore, even as the global interest-rate cycle turns downward, pressuring net interest margins, HSBC didn't fully benefit from the good times in the past two years given weakness in its core market of Hong Kong, meaning it may prove resilient if Hong Kong continues to at least muddle through, with upside if Hong Kong sees real improvement in economic conditions.

Source: Morningstar. Data as of April 7, 2025.

Healthcare

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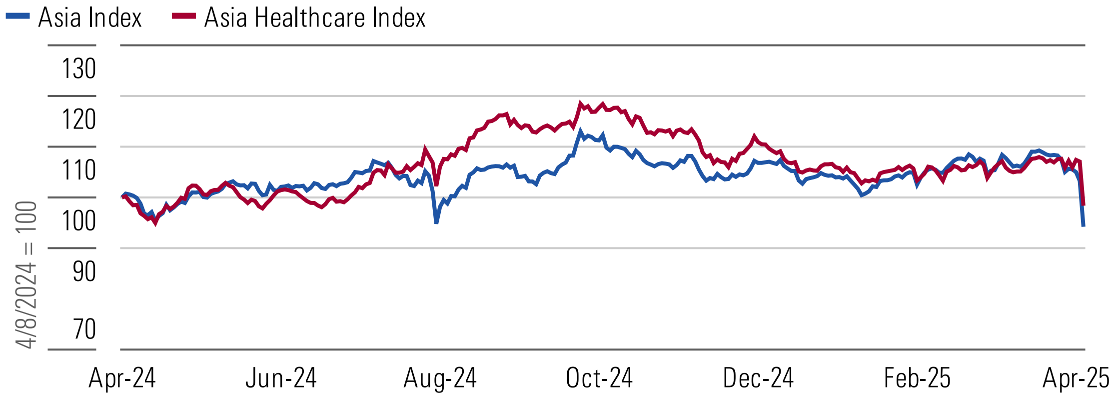
AI-Related Sentiment Waves Might Splash to Healthcare Throughout 2025, but Eyes on Fundamentals

The Asia healthcare sector's first-quarter performance has diverged from the broader Asia market since the end of January after the introduction of DeepSeek. Within our coverage, we are seeing companies trading at a wide valuation range. We think it is time to emphasize active equity selections rather than subsector allocation.

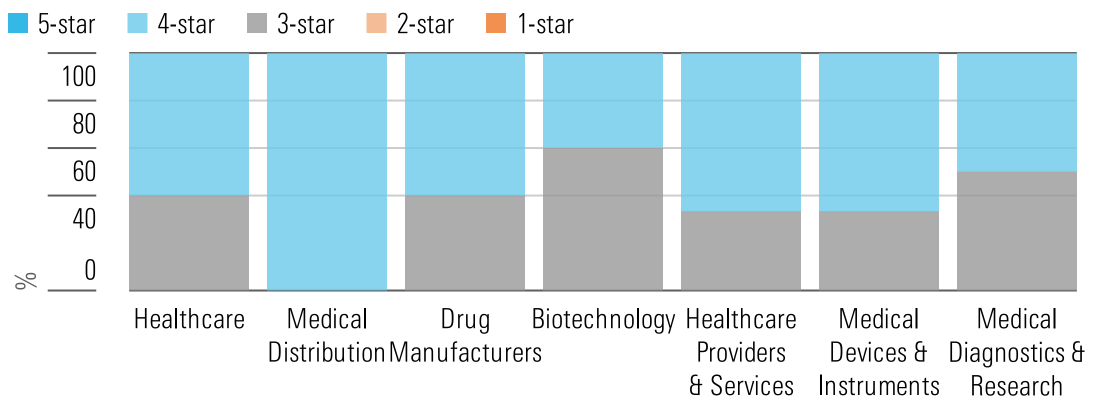
Looking ahead, tariffs, supply chain shifts, volume-based procurements in China, and potential budget cuts in the US are likely leading to more revenue uncertainty in 2025 as many well-established drug and devicemakers have global revenue contributions, such as Olympus, Celltrion, Daiichi Sankyo, and Chugai Pharmaceutical. However, we are less concerned about near-term volatility as we believe the core of healthcare is therapeutic innovation.

We maintain our view that a complete ban on Chinese healthcare products in the US market is very unlikely. As such, we still see opportunities in innovative therapies targeting largely unmet needs. Among innovative therapies, we emphasize oncology treatments. Globally, there continue to be numerous commercial successes across modalities, including traditional large and small molecules, CAR-T, antibody-drug conjugates, and radiopharmaceuticals. Additionally, development in novel modalities continues to be showing progress, including Moderna's cancer vaccine, which has the potential to radically improve the treatment paradigm for some early-stage cancers, and AkesoBio's PD-1 and VEGF targeting bispecific antibody. In Asia, we prefer Daiichi Sankyo and BeiGene, which have both demonstrated world-class innovation capabilities in oncology.

Healthcare Lost Ground to Broader Asia Markets Due to Tech-Related Rallies



Buying Opportunities Exist Across Healthcare Subsectors

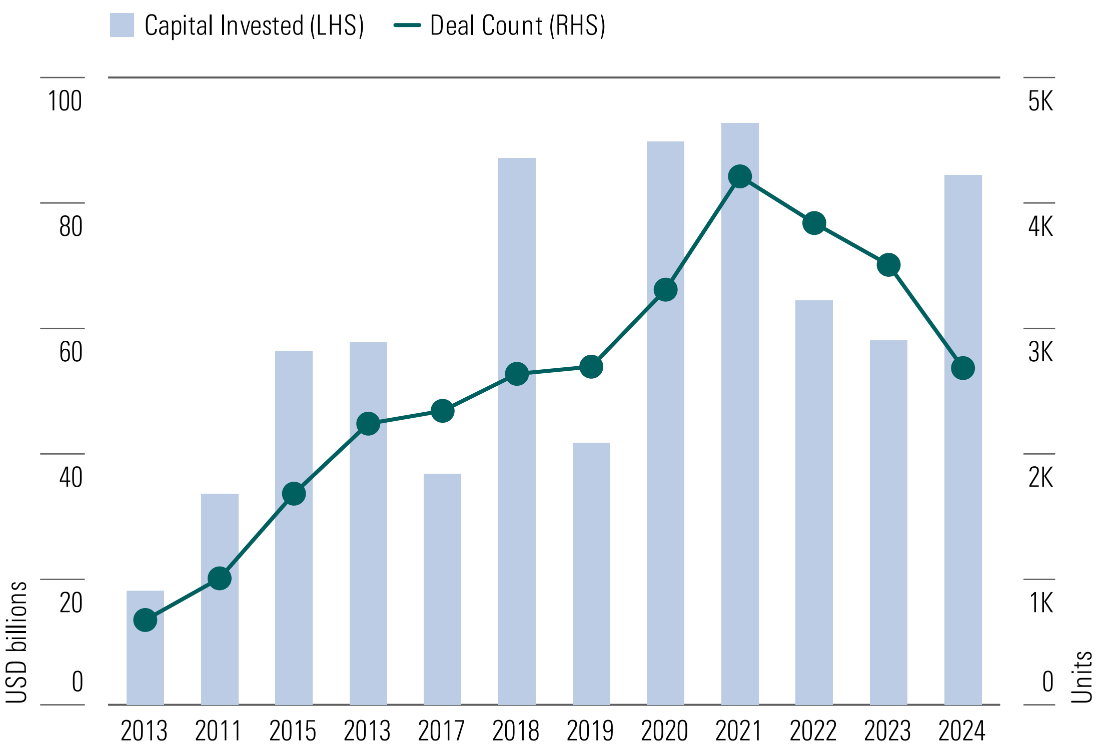


Source: Morningstar. Data as of April 7, 2025.

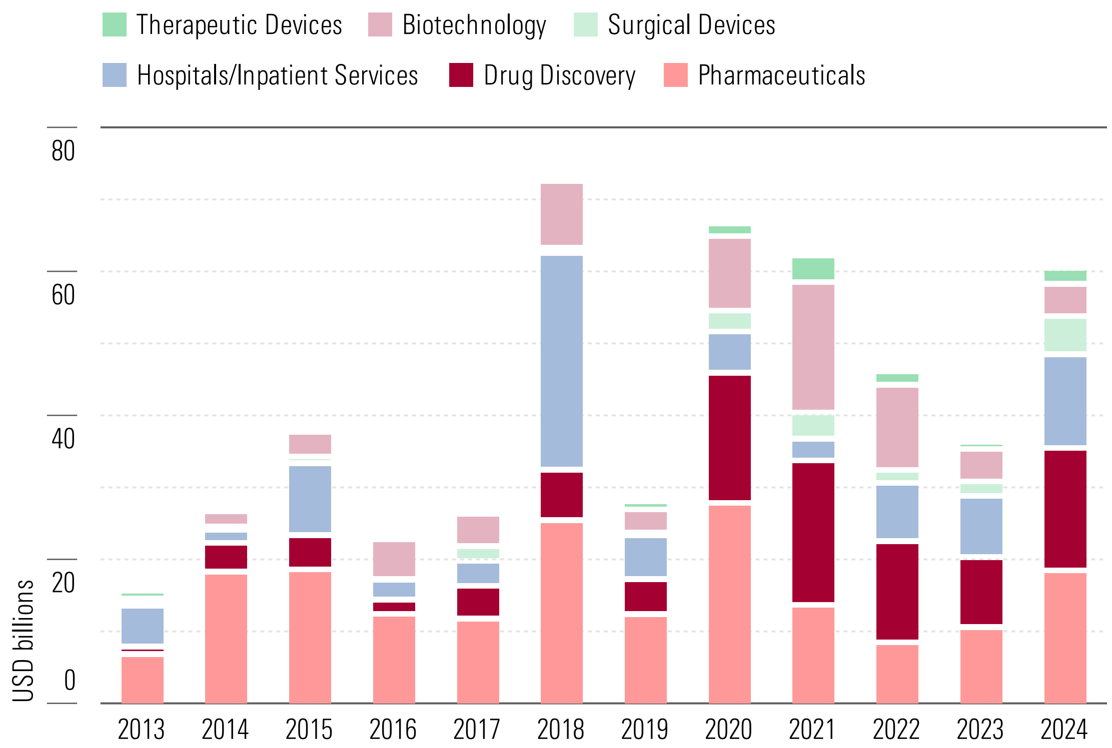
We Prefer Firms Supporting Trends in Innovative Therapies or Enhancing Medical Diagnostics

In the past two years, many Chinese pharmaceutical and biotechnology companies out-licensed their innovative pipeline drugs to global pharmaceutical firms, including companies like AkesoBio, Biotheus, and others. This is partly due to a lack of, excluding China, development and commercialization capacity, but also partly due to funding constraints. Thanks to falling interest rates and government support, we expect the biotech funding environment to recover. We think companies with promising late-stage innovative pipelines should benefit the most.

Asia Healthcare Investment Started to Recover in 2024



Innovative Therapies Are at the Heart of Healthcare Investment In Asia



Sources: PitchBook. Data as of Dec. 12, 2024.

Healthcare

Company (Ticker)		Rating
Daiichi Sankyo Company (4568)		★★★★
Price	**Fair Value**	**Uncertainty**
JPY 3,375	JPY 5,500	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 6,357.2	Narrow	Exemplary

Daiichi Sankyo is a global leader in antibody-drug conjugate drugs for cancer treatment. Its flagship drug, Enhertu, is a HER2-targeting ADC that has become a transformative treatment for some types of HER2-expressing cancers, and Daiichi has a pipeline of other ADC candidates for other cancers. We view shares as modestly cheap based on our cautious assessment of currently available clinical data, but we also expect share price volatility since its prospects are so reliant on future readouts. In September, a disappointing readout for Dato-DXd (TROP2-targeting ADC) in second-line lung cancer put a dent in Daiichi's near-term growth prospects, but we think it should still enjoy strong growth, thanks to Enhertu.

Company (Ticker)		Rating
Olympus (7733)		★★★★
Price	**Fair Value**	**Uncertainty**
JPY 1,640	JPY 2,560	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 1,951.0	Narrow	Standard

Olympus is a Japanese medical devicemaker with a leading position in the endoscope market and a diversified global revenue stream. We expect Olympus to enjoy long-term secular tailwinds as people pay more attention to the early detection of diseases and have a wider adoption of minimally invasive treatments. We believe the share is currently oversold from the senior leadership shifts on Oct. 28, 2024, and guidance revised down due to weaker sales in China in the last earnings call. First, we do not think its current leadership uncertainties would have an impact on its fundamentals. The interim CEO Yasuo Takeuchi, also the chairman, is a veteran senior leader within the firm. Second, we expect China's revenue contribution to decrease to 10% or lower in the following three years. Looking beyond the guidance cut, we believe the slowdown is temporary.

Company (Ticker)		Rating
Innovent Biologics (01801)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 39.65	HKD 58.10	Very High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 64.6	None	Exemplary

Innovent is one of the leading biotechnology firms in China. Innovent has strong research capability in oncology, anchored by its core asset Tyvyt, the second approved Chinese PD-1 drug. Tyvyt is included in China's National Reimbursement Drug List for the first-line treatments of five major cancer types. Innovent's core upcoming pipeline in 2025 is Mazdutide, a GLP-1R/GCGR dual agonist for obesity and Type 2 diabetes. In addition, more than a dozen pipelines are planned for data readout release this year. Other than oncology, there are three under ophthalmology and one under autoimmune, all with largely unmet medical needs. We think Innovent has sizable growth potential, but we also expect the share price to be sensitive to sector sentiment.

Source: Morningstar. Data as of April 7, 2025.

Industrials

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Slowing Global Growth Risk Rises on Tariff War Uncertainty, but China Exposure Should Be a Buffer

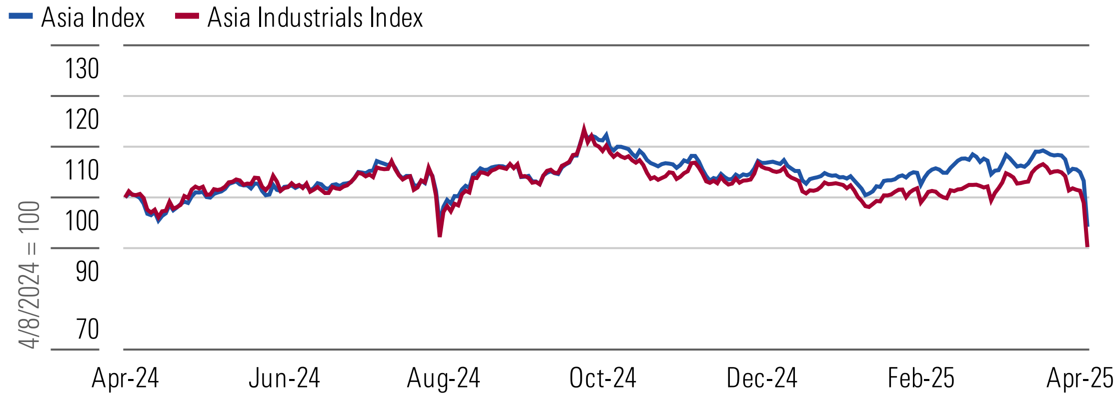
Prior to the Trump tariff announcements, Asian industrials had underperformed the broad market in the quarter to March 31, with a 1.26% fall versus the Asia Index's 0.71% rise. This is not unwarranted given that the sector was fairly valued in our view and had outperformed in 2024. With our outlook for slowing global growth amid tariff uncertainties, we see heightened risks, but anticipate the Chinese government and global defense spending to provide some support to select industries. With the tariff sell-off, our industrials sector coverage is now trading at 0.85 price/fair value. A deeper global recession is a key risk.

Our industrials sector coverage gained a market cap-weighted 3.7% in the March quarter, with China industrial robots company Hengli Hydraulic, Shenzhen Innovance, and Singapore's ST Engineering leading the pack. The Cheung Kong Group has been mired in geopolitical issues that may hamper its deal to sell port assets. After rising on the initial sales news, the share price has fallen back.

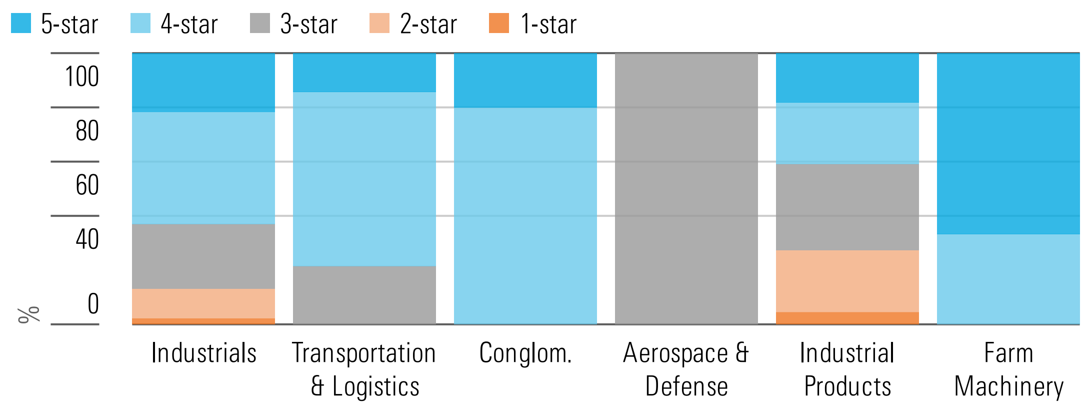
We see upside for the factory automation industry as we anticipate stronger shipment growth as the hit from the renewable energy sector fades, while shipments to the electronics, auto parts, and general machinery industries are expected to continue growing. Also, global defense spending should lift the aerospace and defense industry.

In contrast, we think uncertainty over tariff negotiations between the US and the rest of the world and a higher likelihood of a recession in the US will lead to weak transpacific trade and logistics demand in 2025.

Industrials' Share Prices Have Lagged; We Would Be More Selective in 2025



Sell-Off Presents Buying Opportunities for Select Stocks and Japanese Industrials



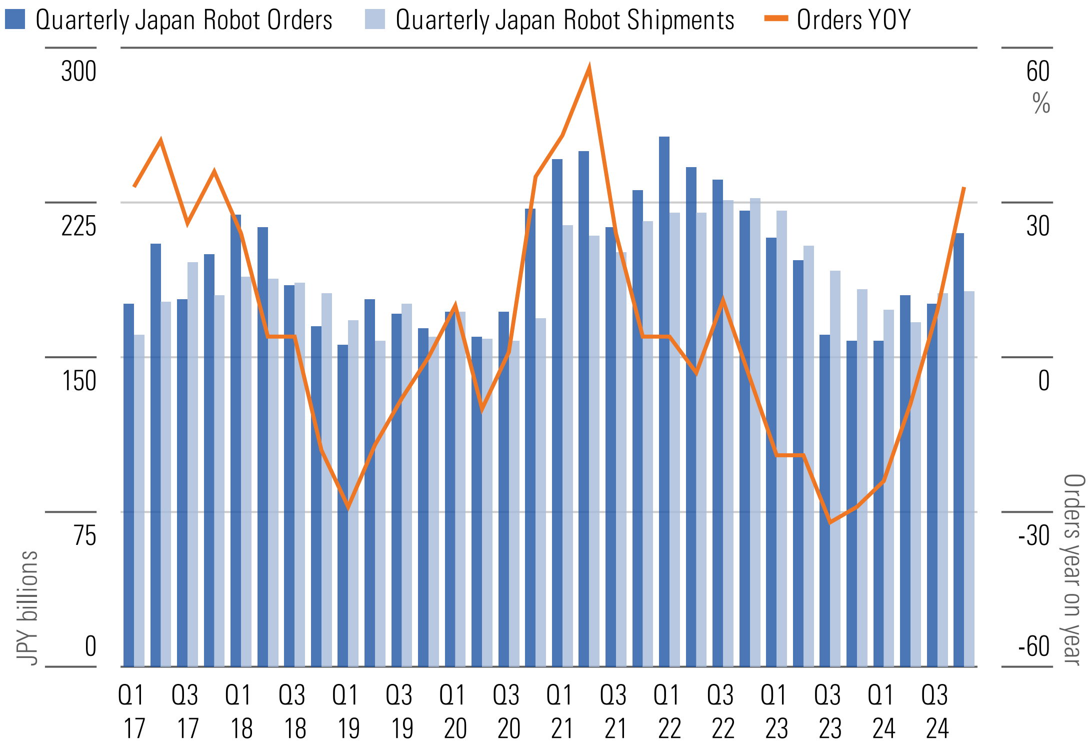
Source: Morningstar. Data as of April 7, 2025.

Rising Risks in 2025; Prefer Capital Equipment Industrials as Transport to Lag

Industrial robot orders grew 33.2% year on year in October-December 2024. This supports our view that industrial robot demand has bottomed out after a prolonged delay of investments related to EV production. But tariff uncertainty may curtail a second-quarter recovery.

Japan's Industrial Robot Orders See Growth Resume

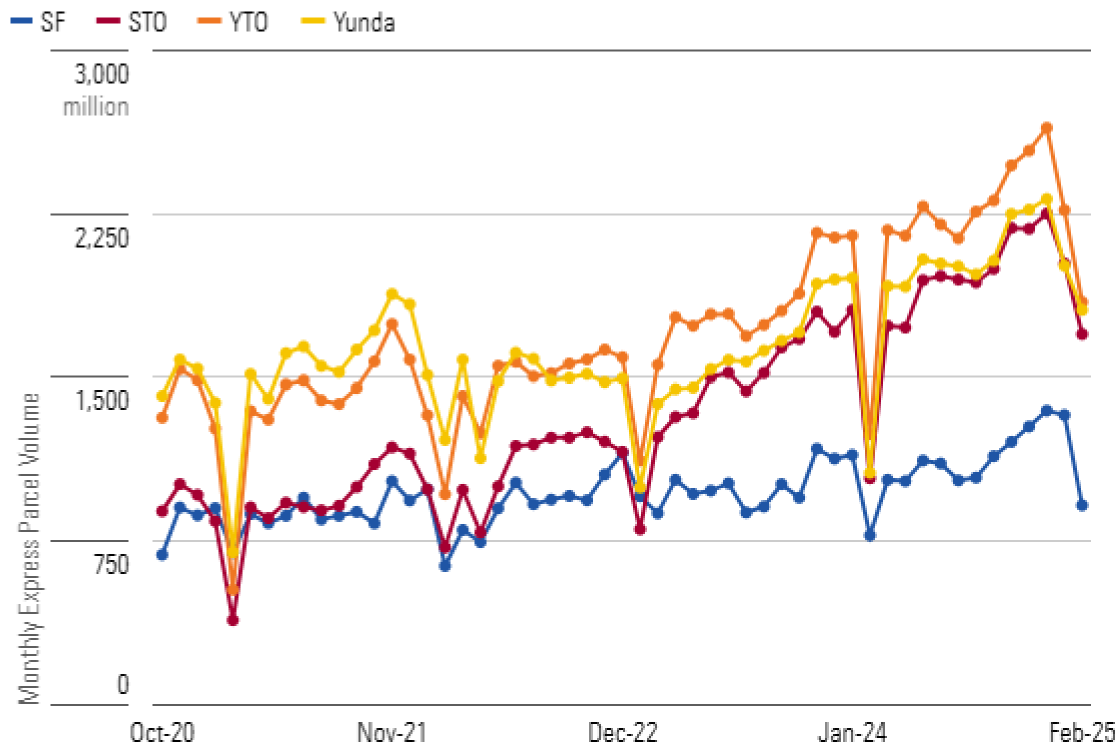
Orders rise for the two consecutive quarters, the first time in the past three years.



Uncertainty over tariffs, the elimination of the de minimis exemption, and a potential recession in the US have led to weaker transpacific trade and logistics demand year to date. We expect transpacific logistics demand to be subdued in 2025.

Logistics Demand Weakened Ahead of Tariff News

After the end-2024 rise in orders ahead of Trump's inauguration, shipments fell back.



Source: Japan Robot Association (left); Company reports, Morningstar (right).

Industrials

Company (Ticker)		Rating
Hitachi Construction Machinery (6305)		★★★★★
Price	**Fair Value**	**Uncertainty**
JPY 3,294	JPY 5,450	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 764.7	Narrow	Standard

We believe Hitachi Construction Machinery shares are undervalued as the market is overly concerned about its North America business, which is suffering from sluggish demand due to high interest rates and undergoing restructuring. However, the near-term shortfall of new machine sales only reflects the inherent nature of the cyclical capital investment in the construction and mining businesses. It will eventually be overcome as the growing population and consequent increasing demand on buildings, infrastructure, and energy will continue to boost demand for construction and mining equipment, which we believe Hitachi Construction Machinery will continue to benefit from with its long track record and enhanced aftermarket services. In the long term, the company will achieve stable growth, mainly driven by the mining and value chain business, with its strong reputation and improved parts and service support through recent acquisitions.

Company (Ticker)		Rating
ST Engineering (S63)		★★★
Price	**Fair Value**	**Uncertainty**
SGD 6.22	SGD 6.50	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
SGD 19.6	Narrow	Standard

Singapore Technologies Engineering is driving growth through improved utilization of its capital alongside a plan to contain costs. It has divested noncore activities to focus on areas that will provide synergies to its maintenance, repair, and overhaul and smart city activities. We expect STE to post relatively strong three-year average earnings per share growth of 15.5% on the back of average 9.9% growth in revenue and operating margin, and for this to improve to 9.6% in 2026 from 9.1% in 2023. Concerns over its high net gearing—at 2.1 times in 2023 due to the acquisition of TransCore in 2022—have been an overhang to share price performance in this high-interest-rate environment. However, we expect net gearing to be manageable and to fall back to 0.4 times in 2028 on positive free cash flow.

Company (Ticker)		Rating
Yaskawa Electric (6506)		★★★★★
Price	**Fair Value**	**Uncertainty**
JPY 2,668	JPY 5,300	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 763.4	Wide	Standard

Wide-moat Yaskawa is the world's largest supplier of servo motors with roughly 20% market share and is one of the Big Four industrial robot manufacturers. We see Yaskawa's 2024-28 earnings growing at a compound annual rate of 5.5%, primarily driven by secular growing demand for robotics products as the labor shortage continues. The company is transforming itself from a pure productmaker into a solution provider through its "i3-Mechatronics" initiative (in which i3 stands for integrated, intelligent, and innovative). We think Yaskawa's shares are undervalued because the market is overly concerned about competition with local peers, especially in China. However, we see Yaskawa keeping its share in key applicable industries such as automotive and semiconductor manufacturing, supported by its substantial intangible assets (decades-long record, collaboration with top-tier customers) and extremely high switching costs from its customers' perspectives.

Source: Morningstar. Data as of April 7, 2025.

Real Estate

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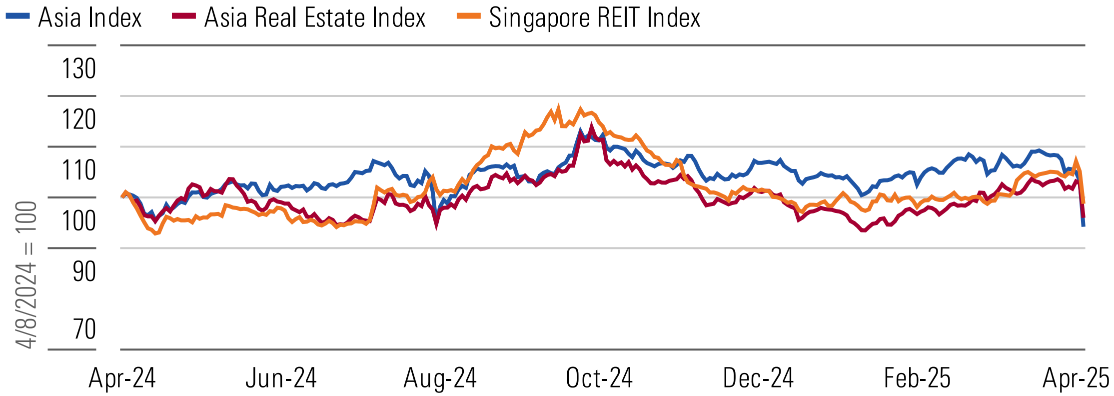
Policy Tailwind Conducive to Property Sales in China; Rate Cuts and Lending Relaxation Boost Hong Kong Housing

The Morningstar Asia Real Estate Index and the Morningstar Singapore REIT Index had a volatile first-quarter 2025 as the markets digested the impact of Trump's tariffs and escalating trade war on the interest-rate path. Although we continue to see buying opportunities for select Singapore REITs, our preference is still Hong Kong real estate companies and REITs, as well as select developers in China.

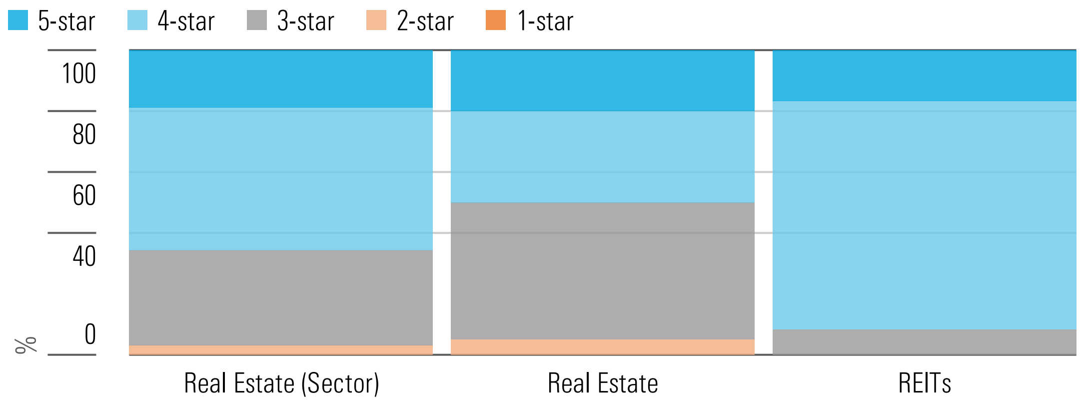
The Chinese government reiterated support for the property sector in the National People's Congress Meeting in March 2025, in line with our expectation. In addition, we foresee an acceleration in the offloading of unsold properties in 2025 as local authorities issue more special bonds for funding. The value of new home sales remained weak with a 6% year-on-year contraction in January-March 2025 for the top-100 developers. While this may have suppressed investors' sentiment, we believe shares of state-owned peers such as China Overseas Land & Investment and China Resources Land still see material discounts to our valuation, given their higher asset quality and stronger balance sheets.

Hong Kong's residential prices resumed a downward trend after a brief period of stabilization at the end of 2024. We think this is unsurprising given the excess inventory in the market weighing on housing prices. Nevertheless, we maintain our view that transaction volumes will improve in 2025 on the back of better mortgage rates and improving rental yields.

Real Estate Shares Had a Volatile Q1 as Markets Digest Trump's Tariffs



Real Estate Developers' Valuations Are Undemanding

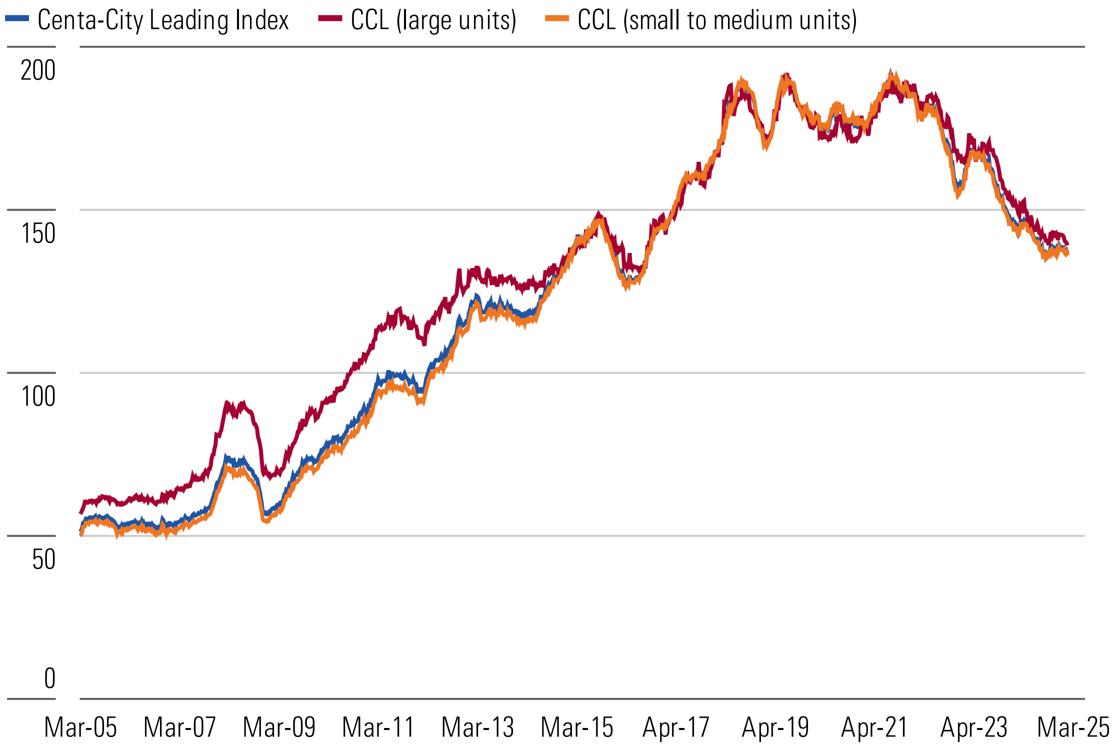


Source: Morningstar. Data as of April 7, 2025.

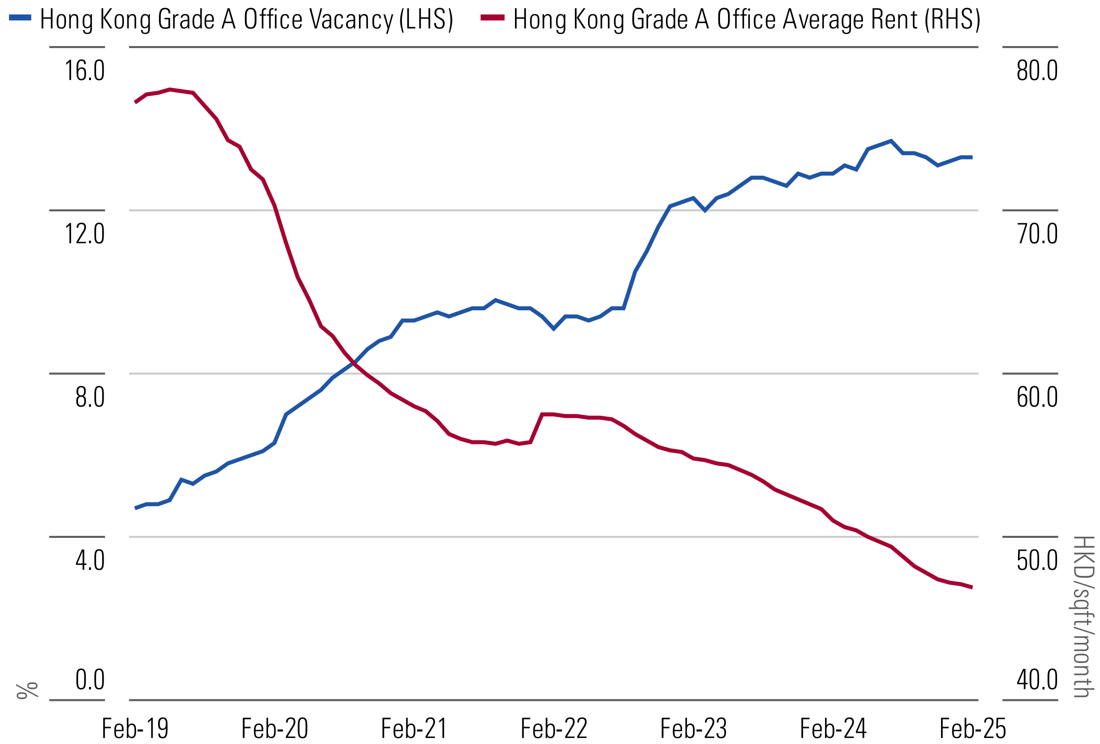
Hong Kong Office and Retail Rents Remain Under Pressure

Hong Kong office rents continue to fall 0.5% month on month as Grade A office vacancies remained elevated at 13.3% in February, according to data from JLL. We expect office rents to remain under pressure in 2025, given the oversupply of office spaces. That said, we think that flight to quality will continue to benefit landlords with Grade A office space. Meanwhile, the decline in retail sales narrowed in the fourth quarter of 2024 and we expect the retail environment to stabilize in 2025.

Hong Kong Home Prices Remain Under Pressure From Excess Inventory



Elevated Office Supply and Weak Demand to Continue Weighing on Office Rents

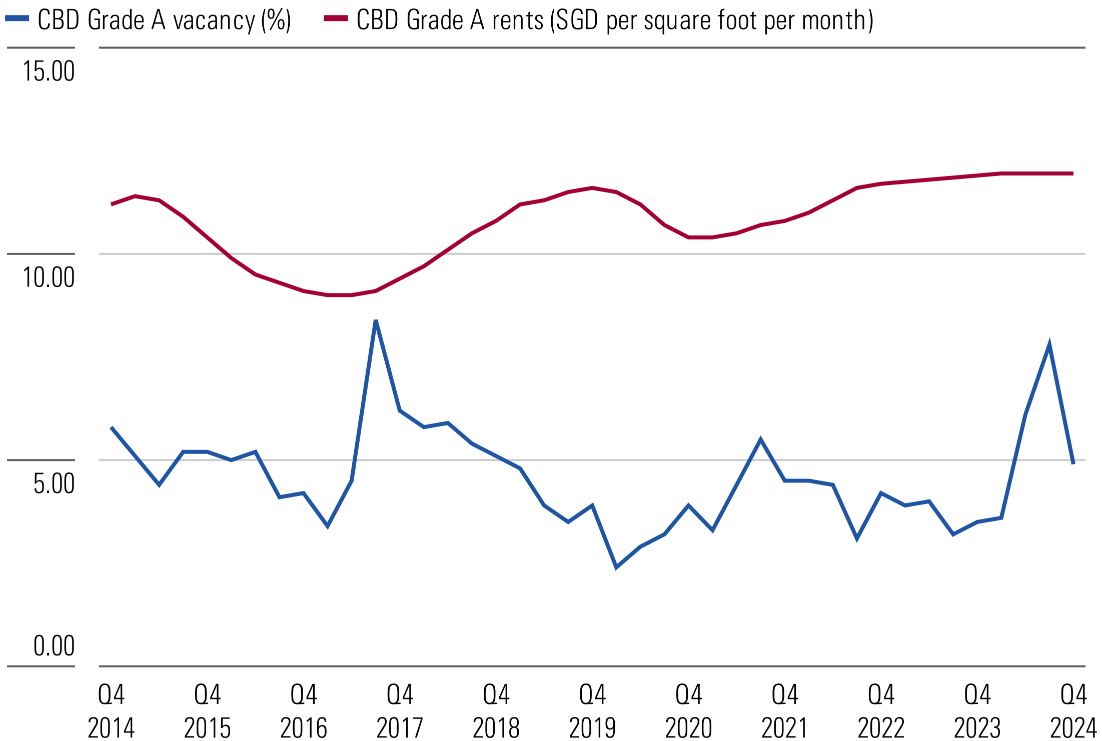


Sources: Centaline (left); JLL (right).

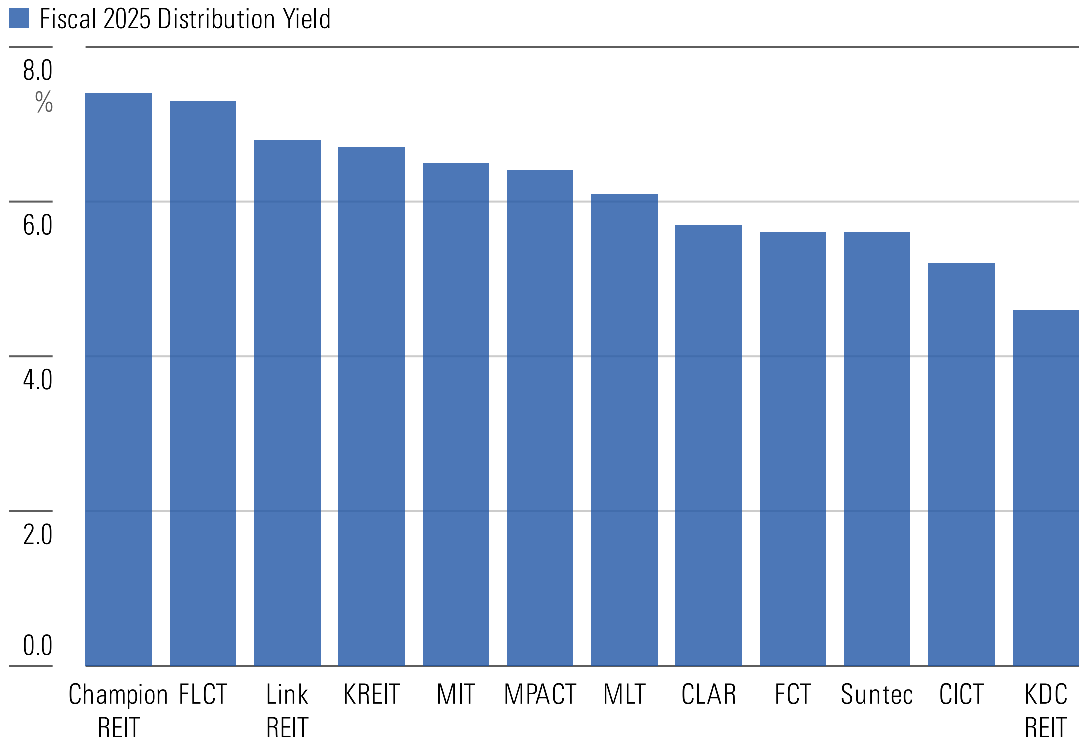
Singapore Office Market Vacancies Improve; Retail Demand Supported by Healthy Event Pipeline

The progressive take-up of IOI Central Boulevard helped to bring down the central business district Grade A office vacancy rate to 4.9% as at end-December 2024 from a high of 7.8% as at end-September 2024. We expect office REITs within our coverage to continue to report healthy rental reversions as they renew expiring office leases. On the retail side, prime retail rents in Orchard Road continue to grow 0.8% quarter on quarter to take full-year 2024 growth to 4.0%. With a strong pipeline of events and concerts, we expect this to support demand for retail space.

Singapore Office Vacancy Rate Improves on Strong Absorption



Hong Kong-Listed REITs Are Trading at More Attractive Yields



CICT – CapitaLand Integrated Commercial Trust
CLAR – CapitaLand Ascendas REIT
FCT – Frasers Centrepoint Trust
FLCT – Frasers Logistics and Commercial Trust
KDCREIT – Keppel DC REIT
KREIT – Keppel REIT
MIT – Mapletree Industrial Trust
MLT – Mapletree Logistics Trust
MPACT – Mapletree Pan Asia Commercial Trust
Suntec – Suntec REIT

Sources: CBRE (left); Morningstar (right).

Real Estate

Company (Ticker)		Rating
Keppel REIT (K71U)		★★★★★
Price	**Fair Value**	**Uncertainty**
SGD 0.81	SGD 1.16	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
SGD 3.2	None	Standard

Keppel REIT holds a portfolio of high-quality office assets across Singapore, Australia, South Korea, and Japan. Most of its assets are Grade A office buildings located in central business districts, where they are highly coveted for their good-quality office space and proximity to businesses and key transport nodes. Further, the trust's tenant base is one of the best in class, with government agencies and international banks in its register. In our view, the trust's high-quality portfolio and healthy balance sheet should enable it to weather any economic uncertainty and deliver good dividends for unitholders. We think the trust is undervalued at the current price, as it trades at an attractive 2024 dividend yield of 6.8%.

Company (Ticker)		Rating
Wharf REIC (01997)		★★★★★
Price	**Fair Value**	**Uncertainty**
HKD 17.36	HKD 31.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 52.7	Narrow	Standard

Our fair value estimate for Wharf REIC is HKD 31 per share, implying a 2025 price/book ratio of 0.5 and an enterprise value/EBITDA of 12.4 times. Wharf REIC's flagship properties, Harbour City and Times Square, are the largest retail assets in the respective areas and collectively accounted for 8%-10% of Hong Kong's retail sales prior to the pandemic. While a change in the consumption patterns of mainland China tourists could pose challenges to the Hong Kong retail sector, we expect Harbour City, the company's largest asset, to benefit from a consolidation trend, where luxury brands reduce their footprint elsewhere in the city, but expand their space in key shopping locations, such as Harbour City. We think shares are undervalued at the current price, more than a 40% discount to our fair value estimate.

Company (Ticker)		Rating
China Overseas Land & Investment (00688)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 12.54	HKD 21.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 137.2	None	Standard

COLI is a large state-owned real estate developer in China with a healthy financial position relative to peers. This allows the firm to possess more financial headroom under credit constraints and to expand the well-located landbank in higher-tier cities. As such, we expect COLI to navigate the current real estate market challenges with a stronger market position versus competitors. We think COLI should see faster inventory absorption, given its strong brand recognition among homebuyers and a sound balance sheet with ample liquidity. With homebuyer sentiment turning positive as the Chinese government doubled down on support, we expect COLI to see progressive earnings improvement.

Source: Morningstar. Data as of April. 7, 2025.

Technology

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Semiconductor Orders Losing Momentum; Consider Investing in Quality Stocks During the Downcycle

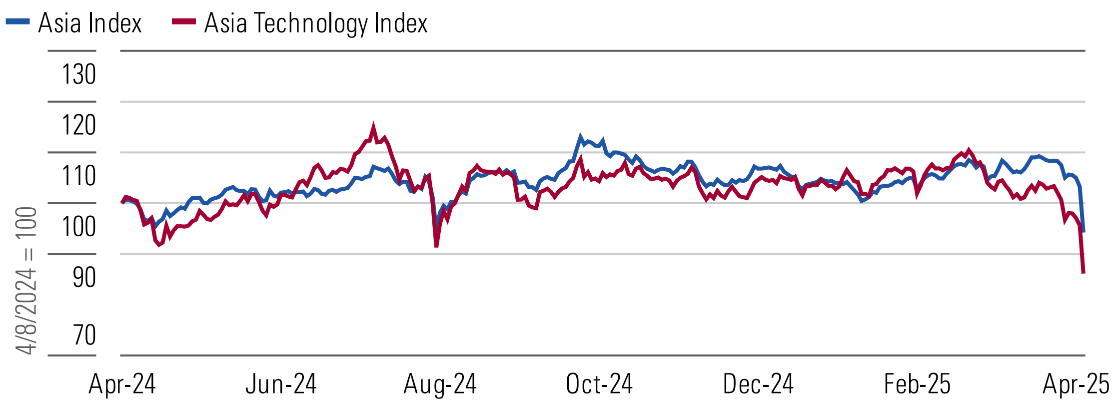
After outperforming in the first half of 2024, the Morningstar Asia Technology Index underperformed the benchmark since the second half of 2024. While robust investment by hyperscalers for AI servers is expected to continue throughout 2025, demand for industrial applications is subdued, a recovery in PC and smartphone shipments is sluggish, and growth in automotive applications is not as strong as expected due to slowing growth in electric vehicles. As a result, we expect semiconductor demand will gradually lose momentum toward the end of this year.

With the US market accounting for about 25%-30% of PC shipments and 10%-15% of mobile shipments (35% -40% if limited to iPhones), it is inevitable that the technology industry will be hit by the reciprocal tariffs announced by the Trump administration. Hardware companies have been focused on diversifying their manufacturing locations to mitigate risk, but high tariffs will be imposed on a wide range of Southeast Asian countries. We are concerned that the tariffs will have an impact on hardware companies' profitability due to increased costs and if product prices were raised to compensate, US shipments could cool.

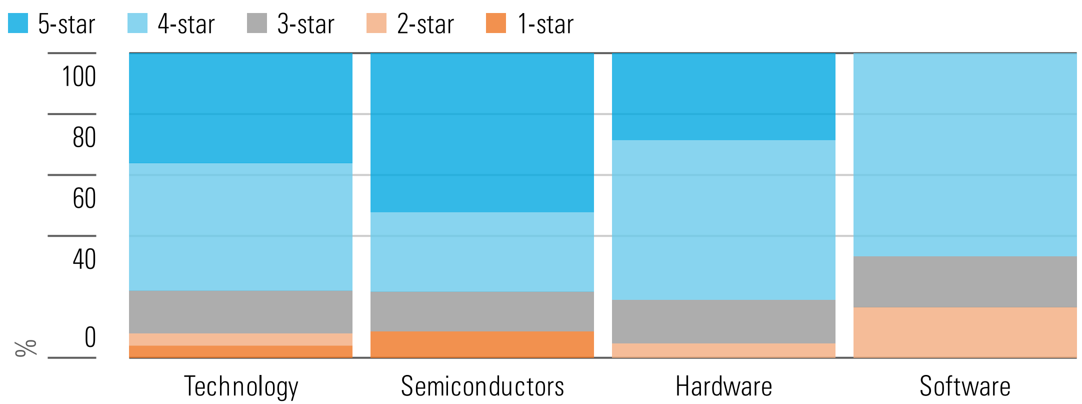
Semiconductors are exempt from the reciprocal tariffs, but the Trump administration intends to impose sector-specific tariffs later. Even if semiconductor-specific tariffs are announced, uncertainty will remain as the exact definition has not yet been revealed.

Given the near-term headwinds, we continue to suggest being selective and consider investing in quality stocks during the down cycle.

The Technology Index Slightly Underperformed in Q1



Technology Stocks Are Fairly Valued, With Chinese Semiconductors Overshot

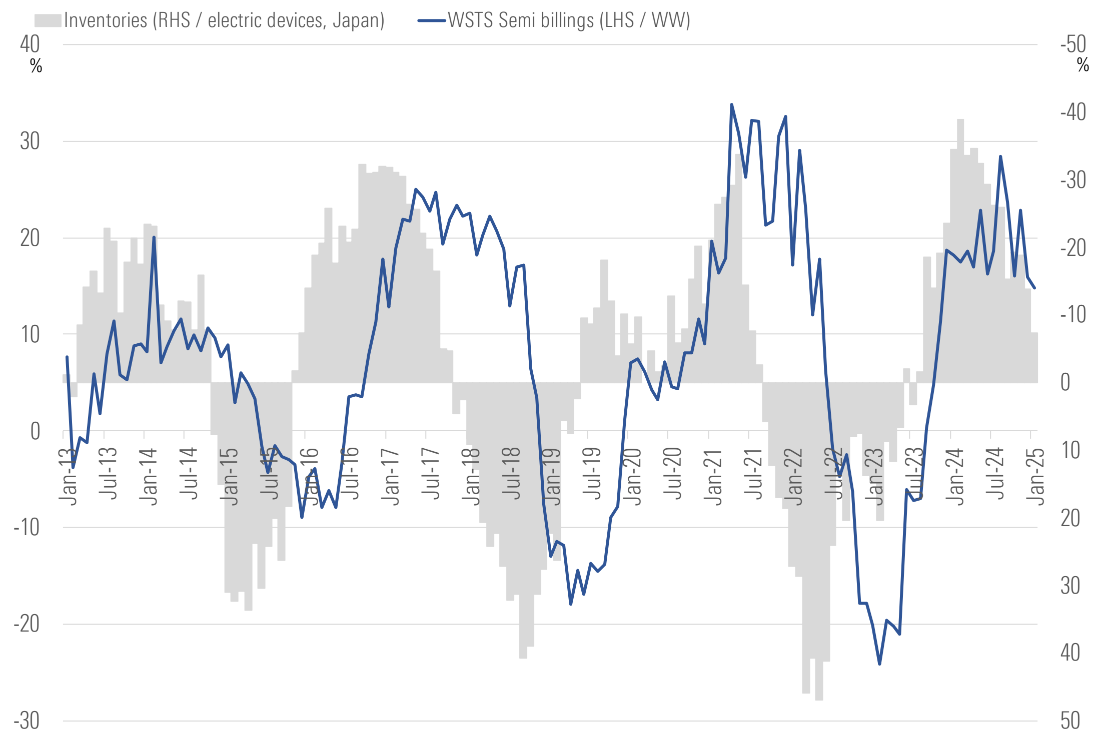


Source: Morningstar. Data as of April 7, 2025.

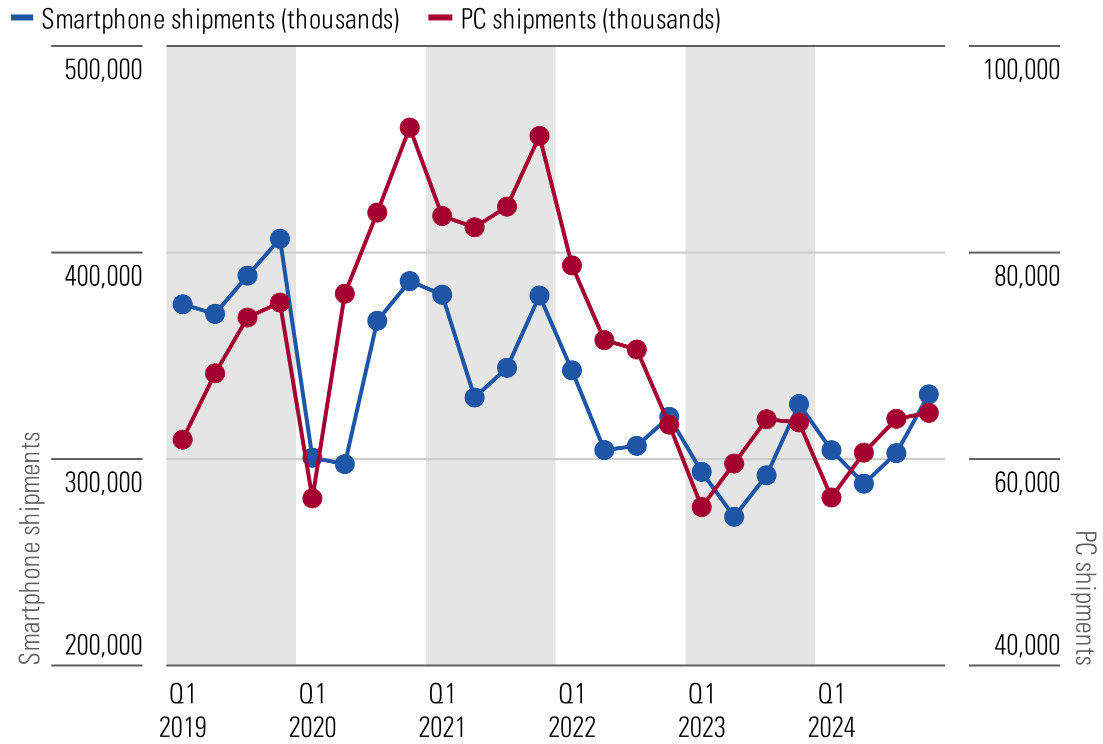
While Robust AI Server Investment Continues, Other Applications Remain Subdued

After two years of recovery, semiconductor orders are likely to lose momentum over the next few quarters. The left exhibit below suggests that inventory improvement is slowing and semiconductor orders are peaking. The right exhibit shows that PC and smartphone shipments are still below prepandemic levels. We expect AI-enabled devices to provide a tailwind for device shipments and the end of Windows 10 support in October 2025 should drive enterprise PC replacement, but the recovery has been slow.

Semiconductor Orders May Have Peaked …



… Due to Sluggish PC and Smartphone Shipments

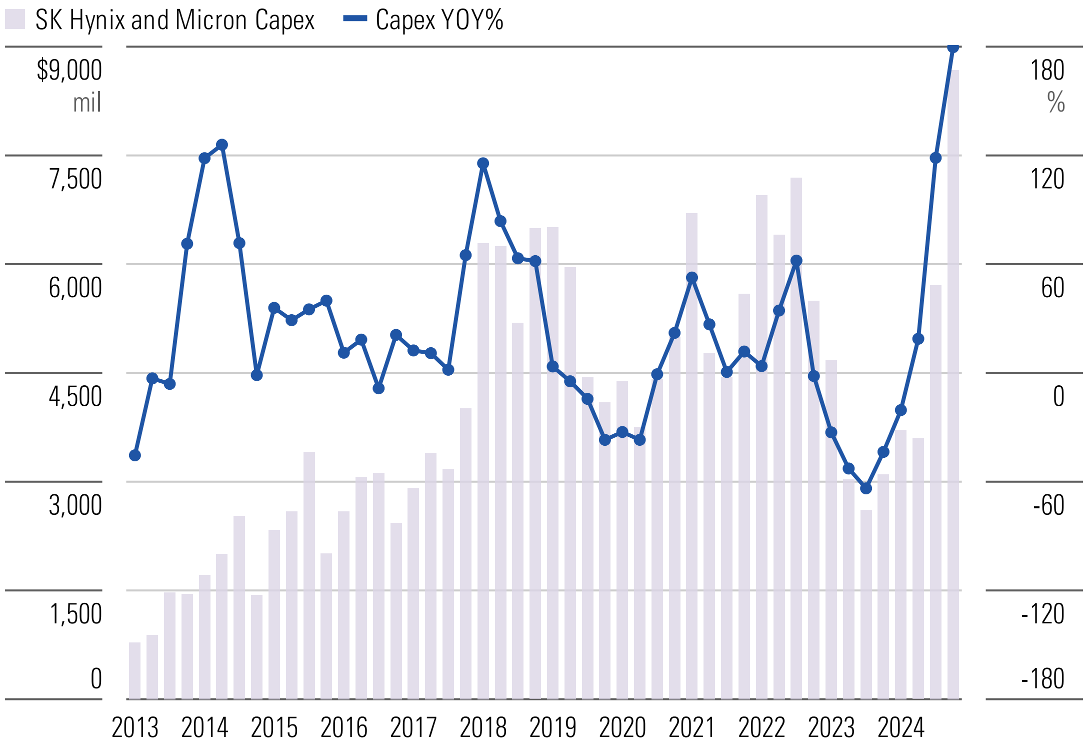


Sources: World Semiconductor Trade Statistics; Ministry of Economy, Trade and Industry, Japan (left); Gartner (right).
Note: MLCC = multilayer ceramic capacitors.

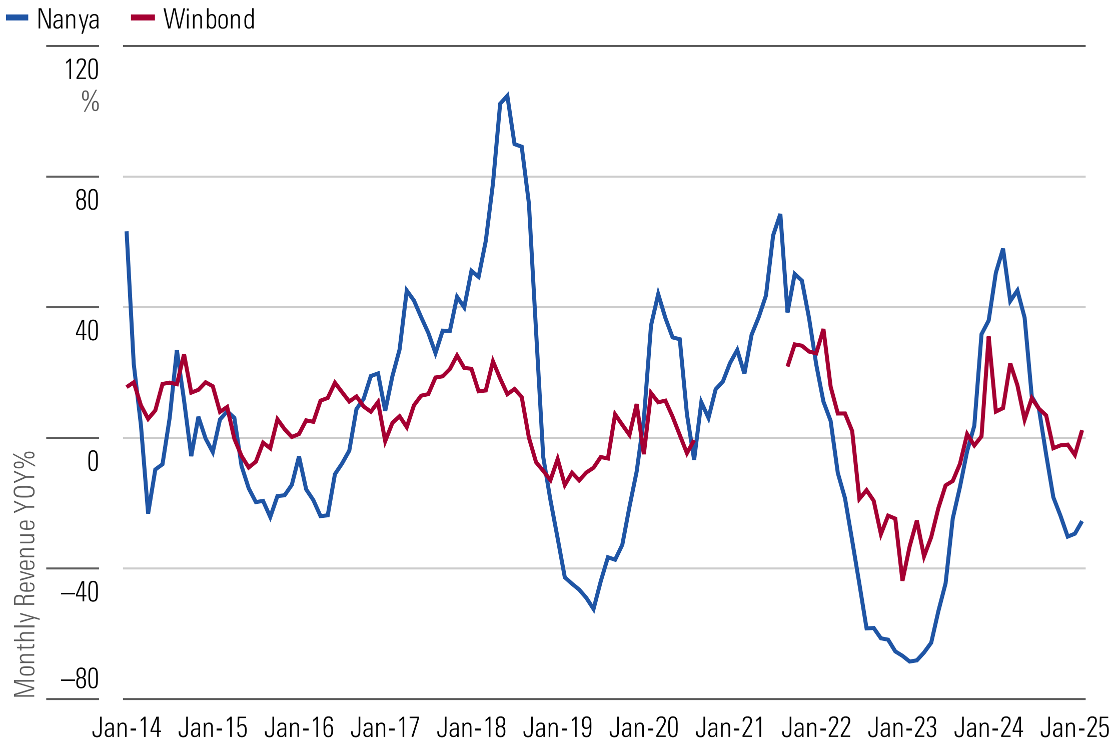
Memory Suppliers to Focus on Investment in HBM; Legacy Node Memory Prices to Bottom Soon

Supported by the robust investment demand from hyperscalers, memory suppliers' capital expenditures have improved significantly from the second half of 2024 onward, mainly focusing on high-end memory such as high-bandwidth memory and DDR5, while Chinese suppliers continue to invest aggressively in legacy products. In addition, major memory suppliers are accelerating the conversion of existing legacy production lines to high-end memory. As a result, conventional memory price erosion is expected to bottom in the first half of 2025.

Memory Investment Picked Up in the Second Half of 2024, With a Focus on HBM



Taiwanese Suppliers' Monthly Sales Suggest Memory Prices May Bottom Soon



Source: Company filings. Data as of Dec. 15, 2024.

Technology

Company (Ticker)		Rating
Sony (6758)		★★★★
Price	**Fair Value**	**Uncertainty**
JPY 3,009	JPY 4,200	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
JPY 18,123.5	Wide	Exemplary

Over the past decade, Sony has focused on acquiring and leveraging attractive content to develop businesses with recurring revenue that enable long-term monetization from customers, such as games, and streaming music and movies. In addition, the company has remained disciplined in its consumer electronics business to protect profitability and cash flow through vigilant inventory control. As a result, Sony's business portfolio is much less vulnerable to economic fluctuations and can deliver solid earnings growth amid uncertainty. We forecast operating income growth of 10% for fiscal 2024 (ending March 2025), in line with the company's medium-term plan to achieve double-digit operating income growth.

Company (Ticker)		Rating
TSMC (2330)		★★★★★
Price	**Fair Value**	**Uncertainty**
TWD 848.00	TWD 1,800.00	Medium
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
TWD 21,991.0	Wide	Standard

TSMC is a primary beneficiary of AI as it has a dominant share in cutting-edge contract manufacturing. It is immune to market share shifts as almost every AI company relies on TSMC's supply. We anticipate that TSMC's average selling prices will benefit from higher cutting-edge chip demand and greater demand for the bigger AI chips running on servers. TSMC's Arizona plant will cushion the blow from US tariffs. We believe its technological lead means it has the pricing power to pass on most incremental costs to customers. Shares are trading at 17 times 2025 P/E, which we view as undervalued given TSMC's dominant position and strong EPS growth in the coming two years. We think the share price is pressured by renewed fears of a recession that are flamed by threats to escalate tariffs and news of new CEO Lip-Bu Tan at Intel who pulled off a turnaround in one of his prior roles.

Company (Ticker)		Rating
GlobalWafers (6488)		★★★★★
Price	**Fair Value**	**Uncertainty**
TWD 297.00	TWD 620.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
TWD 142.0	Narrow	Standard

GlobalWafers is a catch-up play that benefits from growing silicon wafer demand thanks to expansion globally. We view GlobalWafers' share price as having bottomed and expect sentiment to improve as electric vehicles, industrials, and other non-AI applications are recovering. Wafer producers' performance lags their customers' by about two quarters as customers stock up only when the market is booming. Shares are trading at 13 times 2025 P/E, which we think is undervalued as GlobalWafers' Texas site has been the only source of 300mm wafer supply in the US for the last two decades. The site will be useful in softening tariff hits. We previously estimated a 5% cost advantage over wafers imported from Germany and Japan; that may become as high as 30% post-tariffs should Trump implement sectoral tariffs.

Source: Morningstar. Data as of April 7, 2025.

Utilities

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Utilities Sector Losing Steam in Q1; Select Opportunities Remain

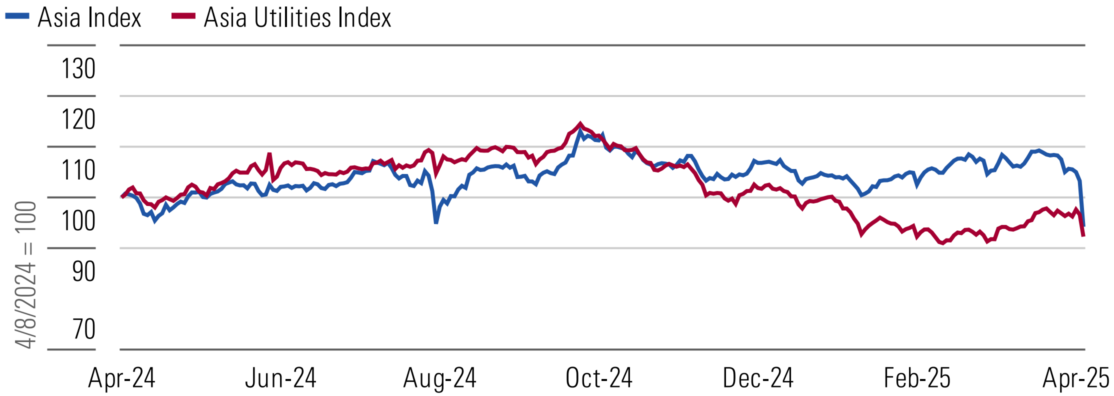
The Morningstar Asia Utilities Index underperformed the broader Asia market in the first quarter. However, the sector's defensive attributes have led to relative resilience following Trump's reciprocal tariffs that led to market sell-offs.

Operationally, the 2024 results for Chinese power utilities under our coverage were mixed. Near-term challenges such as declining average tariffs and increasing curtailments were evident. Government subsidy collections remain slow, comparable with or below 2023 levels, leading to rising average net gearing ratios for these companies due to ongoing capital expenditures. On a positive note, a lower capex trend is expected in 2025 as the focus shifts from expansion to profitability, driven by uncertainties surrounding the new policy on market trading of renewable energy. As a result, we believe that stock selection is important.

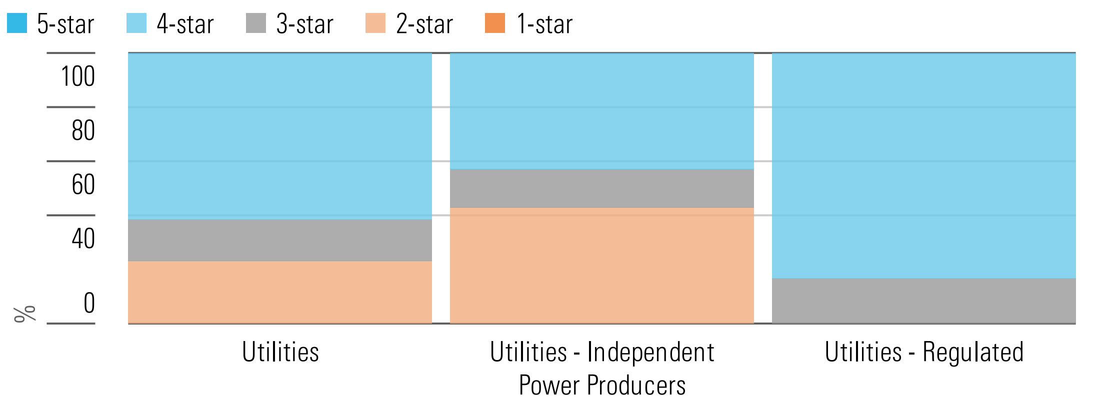
ENN Energy and China Resources Gas experienced mixed share price performances in the first quarter. ENN outperformed, driven by a privatization offer from its parent company, while China Resources Gas was hit by disappointing 2024 results. Overall, both companies saw their 2024 retail gas sales volume growth fall below guidance due to a warm winter in China. On a positive note, retail gas sales dollar margins continued to improve in 2024, with further growth anticipated in 2025 due to ongoing cost pass-through.

CKI Holdings' share price fell following concerns that the Chinese government could interfere with its future asset sales, which is an issue for parent CK Hutchison. We see CKI as a buying opportunity as we think the risks are unlikely to surface.

Utilities Underperformed in Q1



Buying Opportunities Remain in Utilities

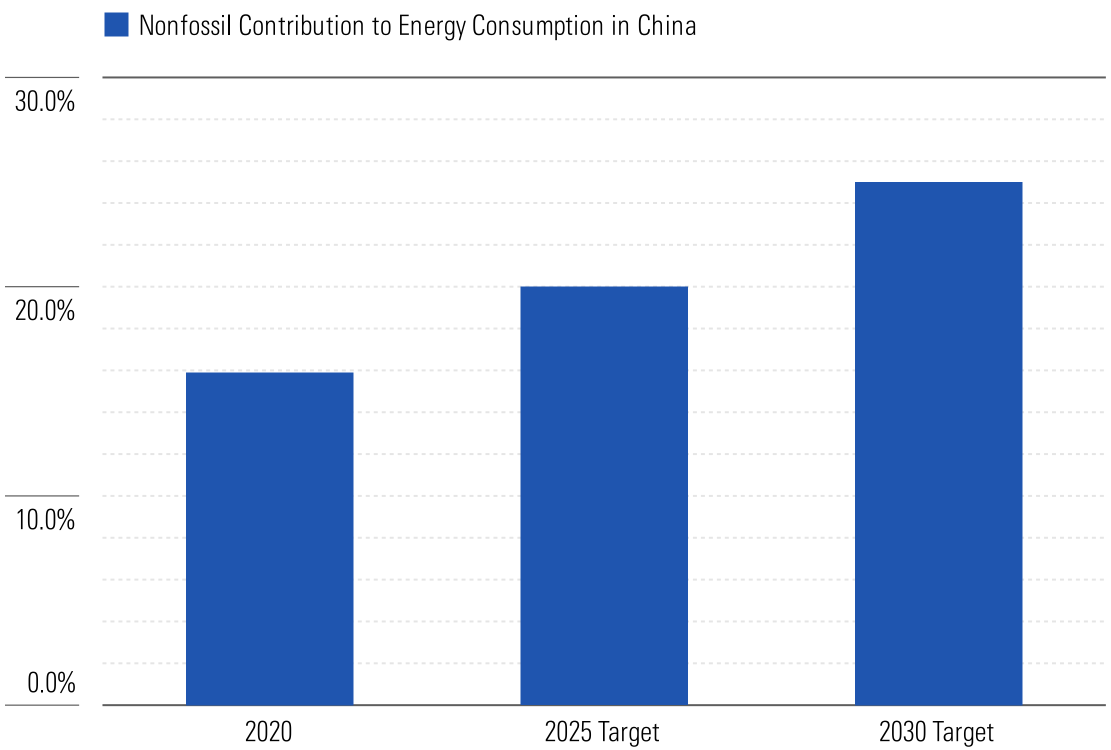


Source: Morningstar. Data as of April 7, 2025.

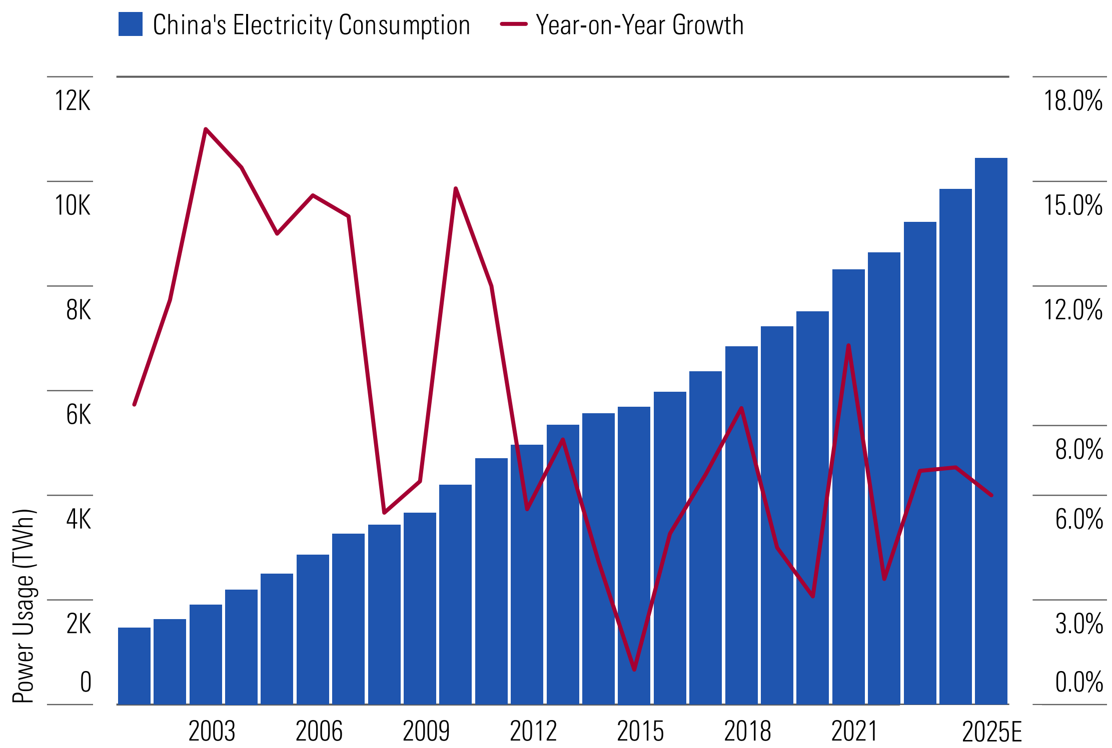
Slightly Slower Yet Robust China Electricity Demand Growth Expected in 2025

China's nationwide electricity consumption increased by 6.8% in 2024 and the China Electricity Council projects full-year growth of around 6.0% for 2025. Although the ongoing trade war with the US has raised concerns about slowing economic growth, we believe that rising electrification (especially in transport) and increased usage of artificial intelligence (data center expansion) in China will support electricity consumption. Additionally, the government is likely to bolster domestic growth through stimulus measures as needed.

Nonfossil Contribution to Energy Consumption in China Expected to Rise



China's Electricity Demand Growth Should Remain Robust in 2025



Sources: China Electricity Council, Morningstar.

Utilities

Company (Ticker)		Rating
ENN Energy Holdings (02688)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 58.80	HKD 78.00	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 65.3	Narrow	Standard

ENN Energy is a non-state-owned gas utility company in China engaged primarily in distributing and retailing natural gas. We are confident that ENN will generate returns above its cost of capital over the next decade, supporting our narrow moat rating. We believe China's goal to reduce pollution by increasing gas usage to 15% of the country's energy sources by 2030—from below 10% in 2020—will maintain long-term demand growth for gas. We estimate ENN's retail natural gas sales volume to increase at a 4.8% CAGR during 2024-29. We think its long-term gas supply contracts can help it to secure its gas source at a more competitive price and should reduce the risk of supply bottlenecks versus domestic alternatives. Furthermore, ENN's earnings would also be underpinned by rising contributions from integrated energy and value-added businesses, in our view.

Company (Ticker)		Rating
China Longyuan Power Group (00916)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 5.98	HKD 7.60	High
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 50.0	None	Standard

Longyuan is a pioneer in China's wind power development. This first-mover advantage, coupled with a capable management team, enabled the firm to secure better wind farm locations, which helps to maximize wind farm utilization rates. Longyuan's annual wind power utilization hours have consistently outperformed the industry average in China by more than 50 hours during the past decade. We estimate Longyuan's net profit to grow at a five-year CAGR of 10.7% over our explicit forecast period. In the medium term, we think there could be further positive development for the firm, including the injection of wind power assets by its parent, China Energy Investment.

Company (Ticker)		Rating
CK Infrastructure Holdings (01038)		★★★★
Price	**Fair Value**	**Uncertainty**
HKD 47.30	HKD 58.00	Low
Market Cap (bil)	**Economic Moat**	**Capital Allocation**
HKD 119.2	None	Standard

CKI owns a portfolio of regulated utilities and other infrastructure-related activities with stable income streams. The company receives dividends from its assets and builds up cash to make periodic acquisitions of similar assets. Low- to mid-single-digit organic earnings growth is lifted by income contribution from acquisitions. In our view, CKI is attractive currently at 1.1 times price/book and 5.4% dividend yield as of April 7. Management is particularly upbeat on acquisition potential in 2025. CKI has historically increased its earnings and dividends via acquisitions, and we think the market would react positively if some deals are closed. Given CKI's track record, we believe the firm is unlikely to overpay for an asset.

Source: Morningstar. Data as of April 7, 2025.

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