



The Japan Consumption Boost

Global Markets Weekly Kickstart

9 December 2024

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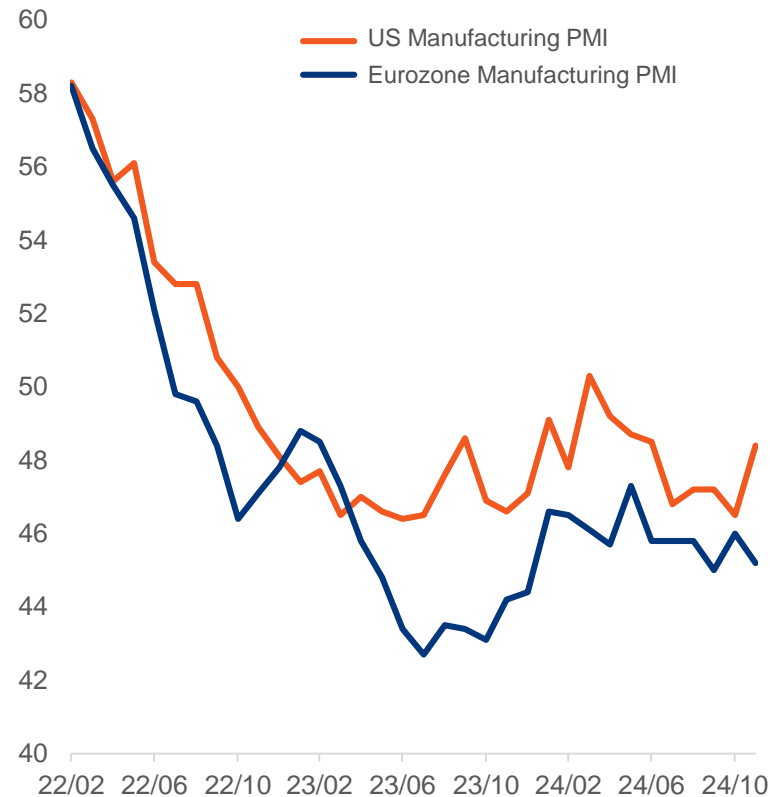
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Selection of HK, U.S., Taiwan Equities, Bonds and Funds/ETFs

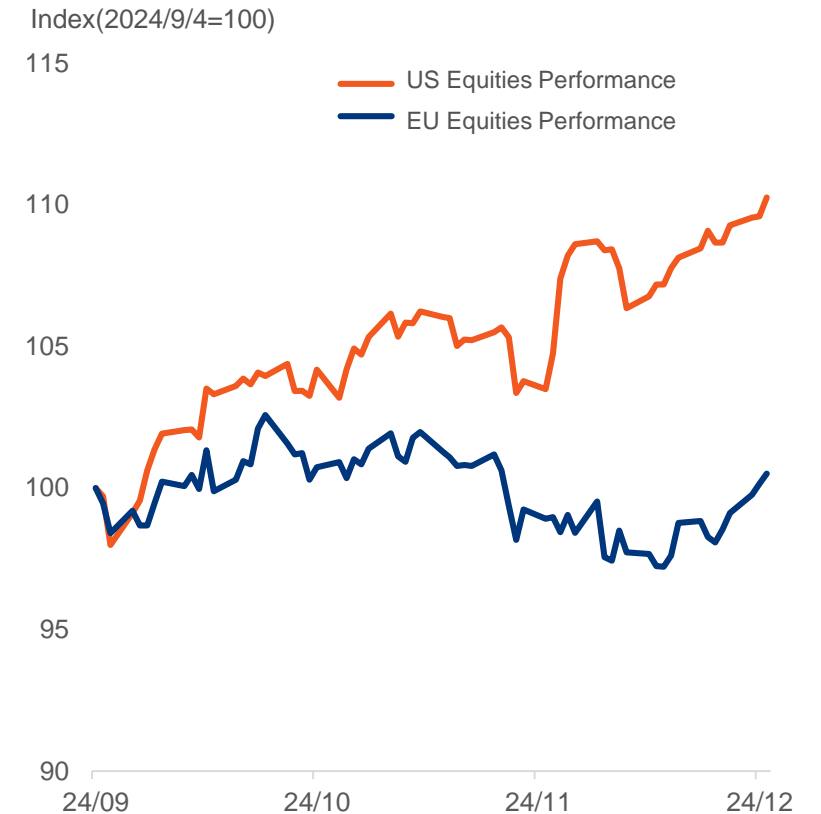
Diverging US and EU PMIs Reflect Contrasting Equity Market Trends

- ▶ While both US and European manufacturing remain in contraction territory (below 50), the latest data shows marginal improvement in US manufacturing, whereas Europe continues to decline. This divergence may be attributed to Europe's manufacturing sector being more reliant on trade with China, which remains sluggish. Consequently, the negative impact on Europe's real economy persists without signs of recovery.
- ▶ Over the past quarter, US and European equity market performance has diverged further. The US market, buoyed by an economy steadily progressing toward a soft landing, has seen confidence in corporate earnings growth drive new highs. Meanwhile, Europe faces stagnating economic conditions and market volatility. With Europe struggling to keep pace with US fiscal and economic momentum, and political disruptions in Germany and France, the gap in US and EU equity trends is expected to persist.

US ISM Manufacturing PMI Rebounds, While Europe Declines Further



US Equities Continue Climbing; European Equities Remain Volatile

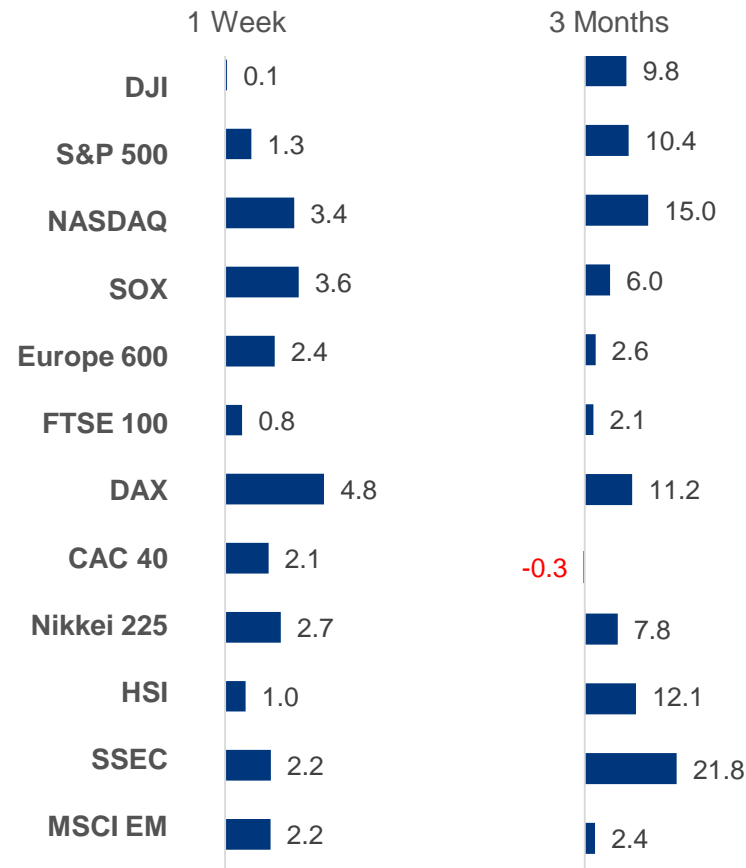


Market Recap

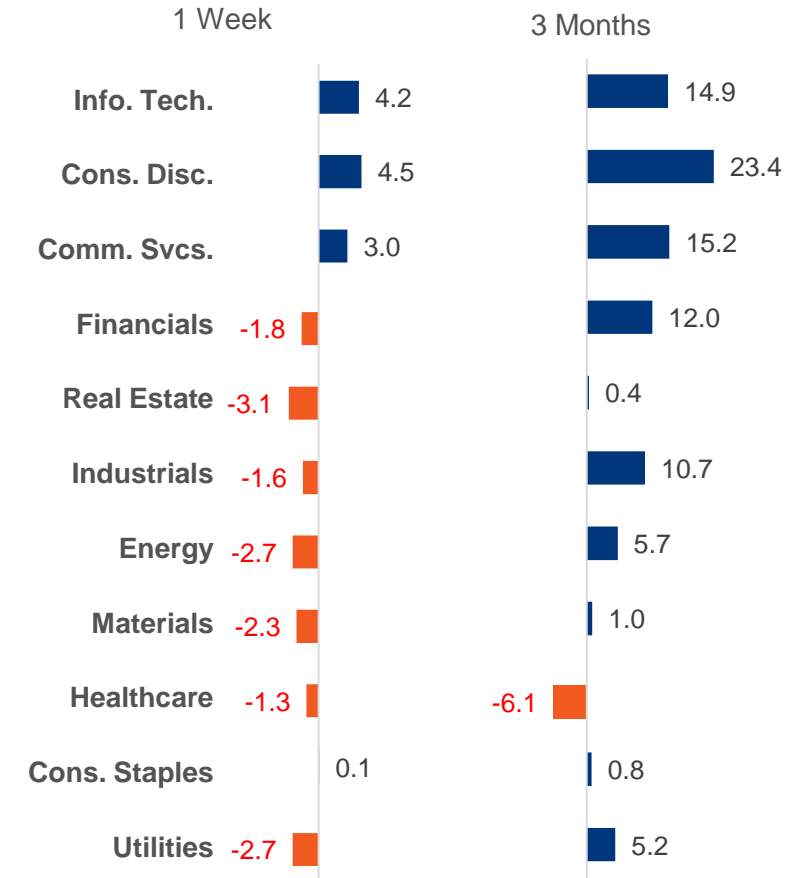
Geopolitical Turmoil in Europe and Asia Leaves Global Equities Unshaken

- ▶ Better-than-expected economic data and optimistic remarks from Jerome Powell on the U.S. economy supported continued gains in U.S. equity indices. Despite political turbulence in France following the collapse of its government, which weighed on French markets, stronger-than-expected data from China lifted German equities, contributing to solid performance across European stock markets last week.
- ▶ In Asia, a brief martial law declaration in South Korea on December 3 temporarily heightened market tension. However, as the issue remained a domestic political matter without escalating into regional geopolitical risk, Japanese and Chinese equities continued to rise.
- ▶ Sector-wise, tech stocks surged on individual company developments. Reports of groundbreaking innovations and expanded AI capabilities in Apple's next-generation iPhone, along with news of Intel CEO Pat Gelsinger's retirement, propelled the sector upward. Additionally, consumer discretionary stocks showed strength, buoyed by robust Black Friday sales and strong performance from Tesla. Other sectors saw limited interest due to a lack of significant news, leading to minor pullbacks.

Major Stock Indices Performance by Region (%)



US Stock Performance by Sector (%)

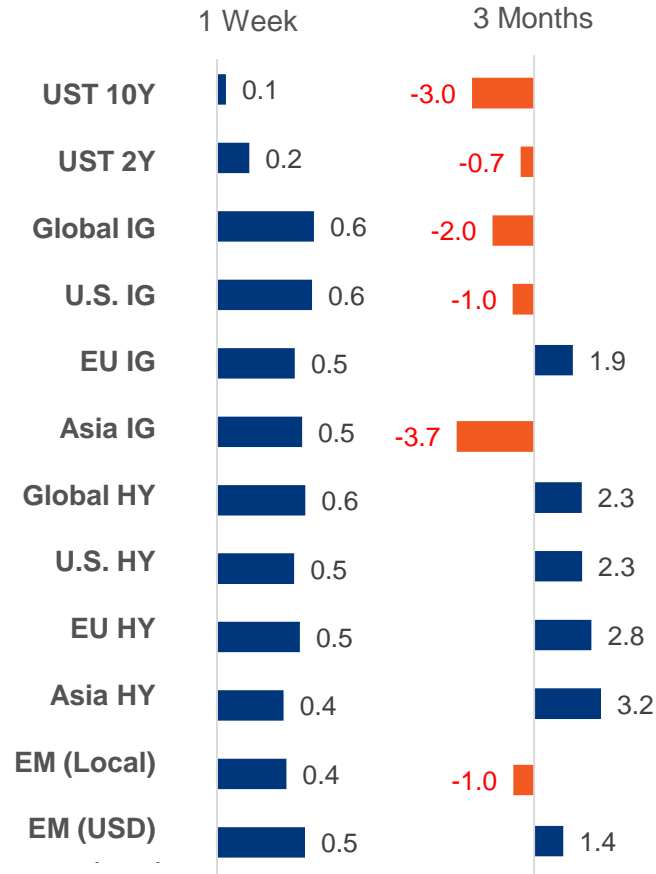


Source: Bloomberg, 6 Dec. 2024

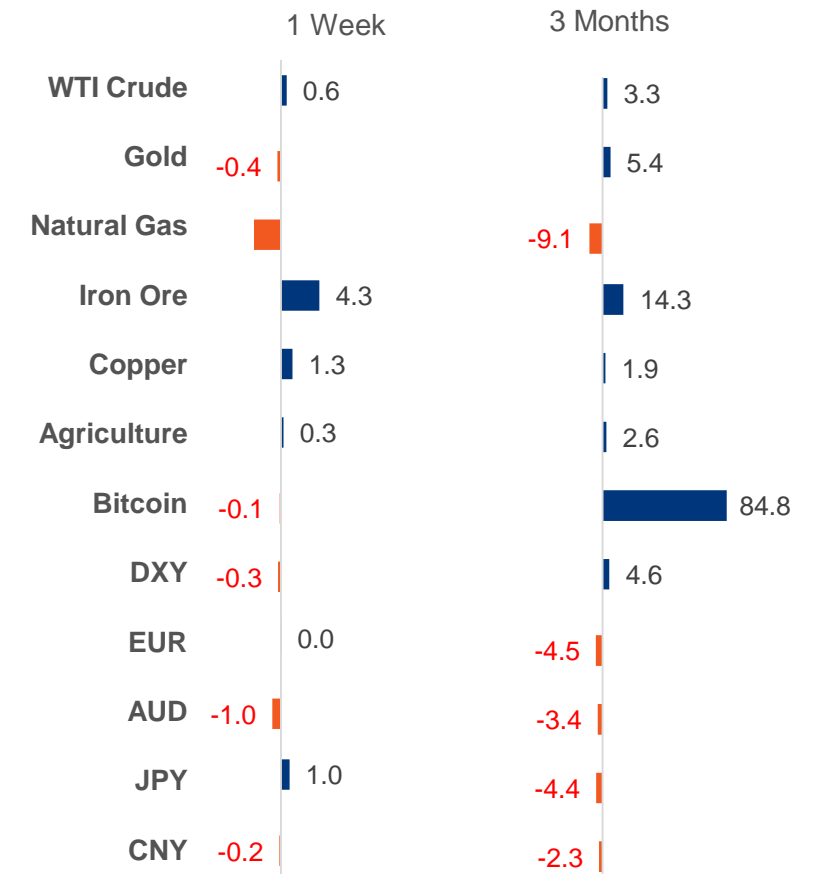
Falling Yields Lift Bond Returns, Bitcoin Breaks \$100K, Yen Rises on Rate Hike Expectations

- ▶ Hints from some Federal Reserve officials supporting a 25 bps rate cut in December, coupled with political turbulence in France and South Korea, spurred mild risk aversion, prompting funds to flow into U.S. Treasuries. This pushed yields lower from recent highs and boosted prices for both government and investment-grade bonds, leading to a broad recovery in the bond market.
- ▶ Middle East tensions showed no significant escalation, and OPEC+'s widely anticipated production cut extension resulted in flat trading for crude oil and gold. Industrial metals like iron ore and copper, however, rose on better-than-expected economic data from China. Bitcoin surged past the \$100,000 milestone for the first time, driven by news of Paul Atkins being appointed as the new SEC Chair.
- ▶ Currency markets saw modest movements. The euro remained subdued due to unresolved political issues in France, while the U.S. dollar retreated slightly from recent highs. Meanwhile, higher-than-expected Tokyo core CPI data and comments from Bank of Japan Governor Kazuo Ueda, signaling proximity to a rate hike, bolstered expectations for a December rate increase and lifted the yen.

Performance of Bonds (%)



Performance of Commodities and Currencies (%)



Source: Bloomberg, 6 Dec. 2024

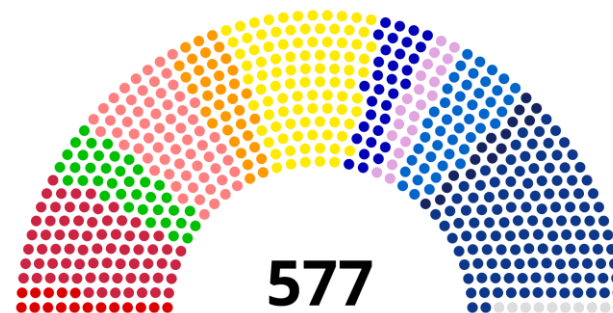
French Political Turmoil May Trigger Short-Term Volatility in European Stocks

► On December 4, the French National Assembly passed a no-confidence motion against Prime Minister Barnier with 331 votes (out of 577 seats), relegating his administration to a caretaker government. President Macron has vowed to remain in office and expedite the appointment of a new prime minister. As per the French Constitution, two parliamentary elections cannot be held within a year, following Macron's decision in June 2024 to dissolve the Assembly for an early election. With the National Assembly deeply divided, the 2025 budget remains deadlocked. In an extreme scenario, political gridlock may persist until mid-2025, when another parliamentary dissolution and election could break the impasse.

► France accounts for 17% of the STOXX Europe 600 Index, making it the second-largest contributor by weight. Since Macron's June 9 announcement to dissolve the Assembly, the CAC 40 Index has dropped nearly 10% at its worst, weighing on the broader European index. Given the ongoing political uncertainty in France, which is unlikely to be resolved in the short term, investors are advised to navigate cautiously around risks to European equities posed by these developments.

Ruling Coalition Holds Only 210 Seats in France's National Assembly

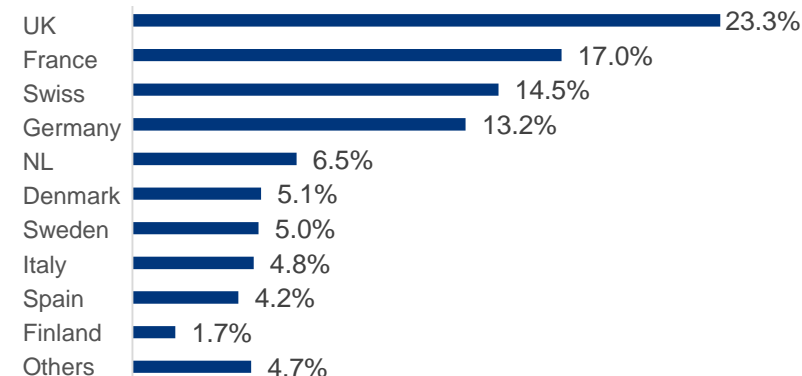
The distribution of party seats in the French National Assembly



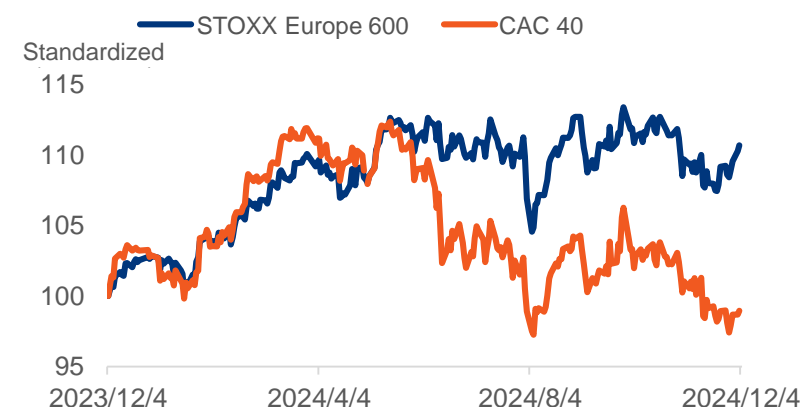
| The Ruling: 210 Seats | The Opposite: 355 Seats |
|--|---|
| ■ EPR(93) | ■ RN(124) |
| ■ DR(47) | ■ LFI-NFP(47) |
| ■ DEM (36) | ■ SOC(66) |
| ■ HOR(34) | ■ ECO(38) |
| Others: 12 Seats | ■ LIOT(23) |
| ■ Independents(9) | ■ GDR(17) |
| ■ Vacant Seats(3) | ■ UDR(16) |

French Indices Weaken After Macron's June Announcement of Early Elections

STOXX Europe 600 Weightings by Country

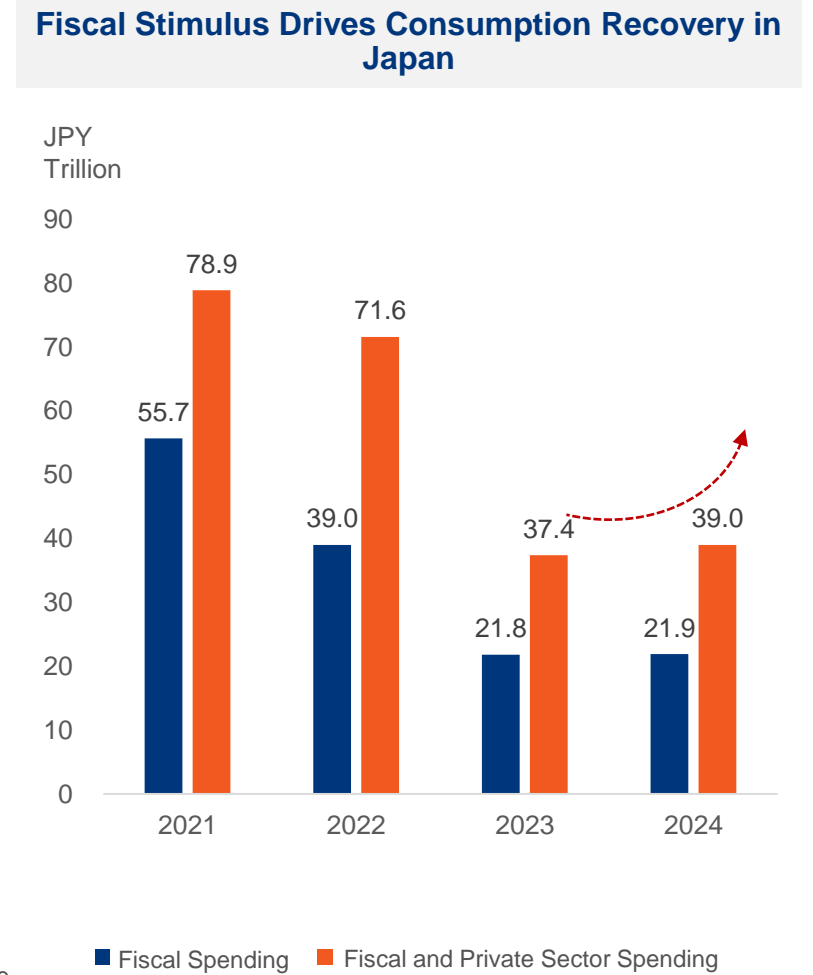
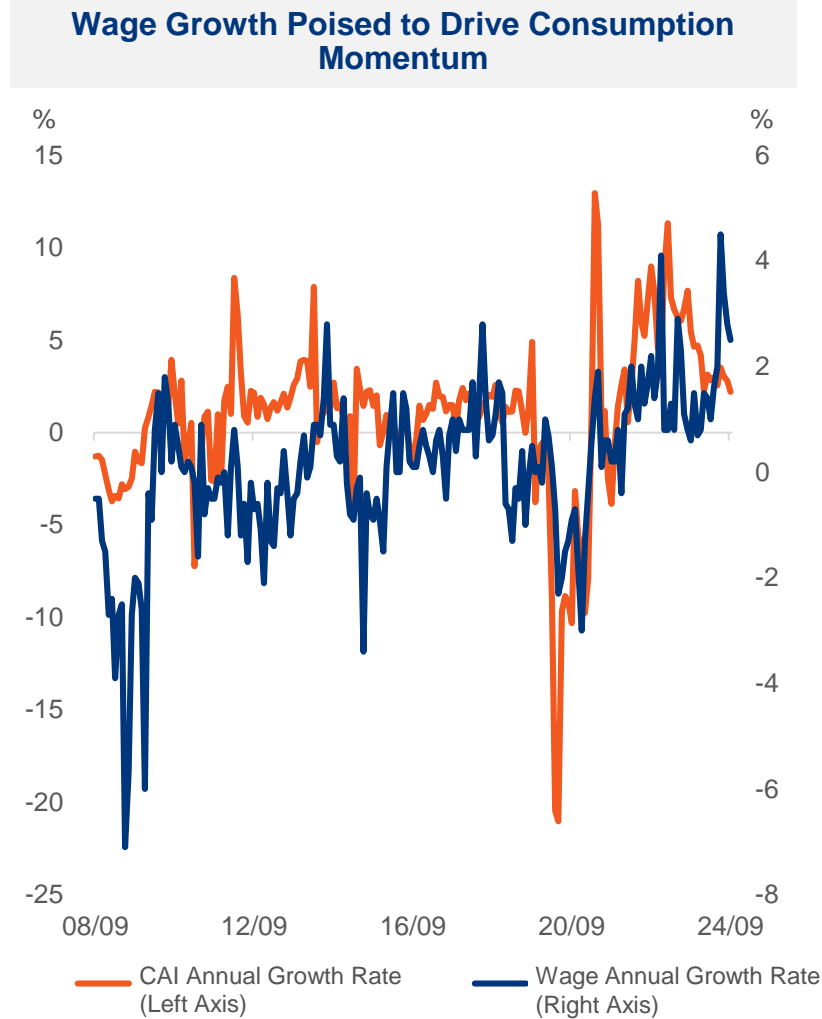


STOXX Europe 600 Index and CAC 40 Index 1Y Performance



Japan's Wage Growth and Fiscal Stimulus Expected to Revive Consumption

- ▶ Following the summer bonus season, year-over-year growth in regular wages eased in August-September but remained positive, reflecting structural support from spring wage negotiations. With labor demand exceeding supply, overall wage growth is expected to persist. Historical data indicates a close correlation between wages and private consumption, with clear boosts to spending observed when wage growth surpassed 0% in 2022. As annual wage growth steadily improves, Japan's domestic consumption is likely to regain momentum.
- ▶ On October 22, the Ishiba cabinet unveiled a ¥39 trillion economic stimulus package, including ¥13.9 trillion allocated from the supplementary budget for FY2024 (ending March 2025). The plan focuses on creating conditions for wage increases, addressing rising prices, and ensuring public safety and security. Notably, ¥19.1 trillion—nearly 50% of the package—has been earmarked for wage growth initiatives. Additional pro-consumption policies are anticipated as the ruling Liberal Democratic Party seeks to regain public support ahead of next year's mid-year Upper House elections.

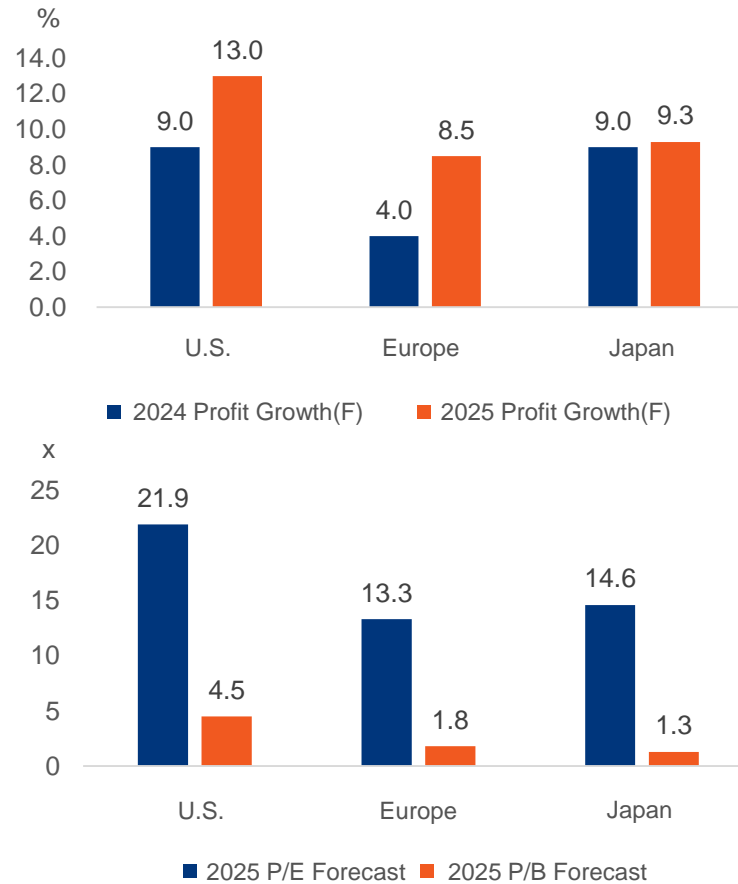


Source: Bloomberg

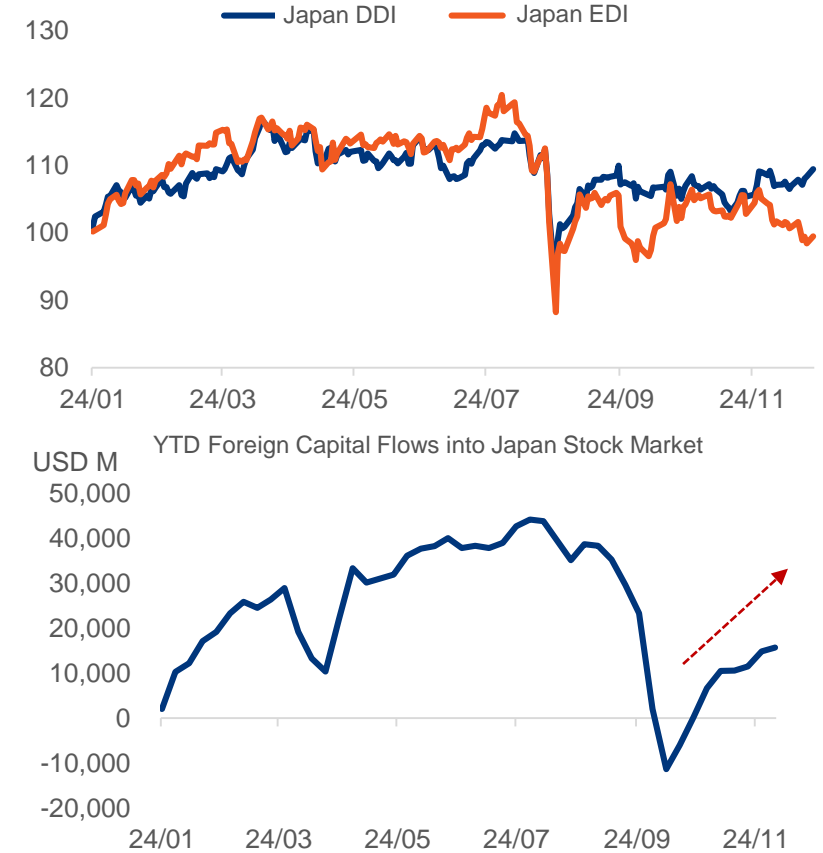
Stable Growth, Attractive Valuations Drive Foreign Interest in Japanese Domestic Stocks

- ▶ Among major developed markets, U.S. equities lead in earnings growth, with profits projected to grow double digits in 2025. Japanese equities maintain high single-digit growth momentum for both this year and the next, outpacing European equities.
- ▶ From a valuation perspective, U.S. equities remain the most expensive, while Europe and Japan trade at similar P/E levels. However, Japan holds the lowest price-to-book ratio, indicating valuation advantages. This also reflects the Tokyo Stock Exchange's push for companies to improve P/B ratios or risk delisting, fostering structural reforms and potentially driving long-term valuation expansion.
- ▶ Supported by wage growth and policy measures, Japan's domestic consumption is expected to recover. With Trump's return raising risks of higher tariffs globally, domestic stocks in Japan are gaining traction, while export-driven stocks face headwinds. This divergence highlights growing investor interest in domestic plays. Foreign investors, having moved past the sharp declines in Japanese equities during July-August, are now increasing their exposure, which could further fuel market performance.

Stable Earnings Growth and Attractive Valuations Support Japanese Equities



Domestic Demand Strengthens as Foreign Capital Flows Into Japanese Equities



Source: Bloomberg

Asset Strategy

| Asset Type | Market View | Preferred Assets |
|-----------------|--|--|
| Equities | <ul style="list-style-type: none"> ◆ Trump's pre-election policies, including tax cuts, deregulation, and support for traditional energy, will require monitoring for post-election alignment. The U.S. economy remains resilient, with soft landing as the base case, bolstered by strong consumer spending and pro-growth measures like tax cuts. Deregulation and elevated rates favor financials, while long-term AI and tech growth trends persist. ◆ Increased tariffs may suppress China's export momentum, while Europe faces trade policy uncertainty and NATO spending pressures. Rising wages and recovering consumption support Japanese equities. | <p>Style: Mid-to-large-cap stocks; financials, industrials, defense, AI, and tech.</p> <p>Regions: U.S., Japan, India</p> |
| Bonds | <ul style="list-style-type: none"> ◆ The new U.S. Treasury Secretary nominee stabilizes bonds, leading to a pullback in Treasury yields. With fiscal and monetary uncertainty, short-duration bonds offer secure yield, while long-duration bonds carry higher volatility. Investors should adjust allocation based on risk tolerance and consider mid-to-long bonds only if hard landing signs like weakening jobs data emerge. | <p>Duration: Short-term bonds for yield; allocate to mid- and long-duration cautiously.</p> <p>Types: Treasuries and IG bonds, favoring large corporations and financial bonds</p> |
| Forex | <ul style="list-style-type: none"> ◆ A unified Republican government under Trump may spark inflation expectations, gradually pushing U.S. Treasury yields higher and keeping the dollar strong through early 2025. Over the medium term, soft landing prospects and Fed rate cuts may weaken the dollar. ◆ Trade tariffs could slow non-U.S. economies, leading to wider rate cuts and currency depreciation. | <p>Dollar Strength Supported</p> <p>Yen expected to weaken short-term but gradually trending upward</p> |

Domestic Demand Recovers, Consumer Goods Exports Pressured

Domestic Demand Recovers, Export of Consumer Goods Under Pressure

▶ November's official manufacturing PMI rose to 50.3, expanding for the second consecutive month and surpassing expectations. However, small businesses remain weak, with a contraction reading of 49.1%, while medium-sized enterprises recorded 50, indicating stabilization rather than significant recovery. Sub-indexes show new orders improving, but export orders remain in contraction, reflecting stronger domestic demand relative to exports. Similarly, the Caixin manufacturing PMI showed a rebound in export orders driven by investment and intermediate goods, while consumer goods exports saw a slight decline.

Weak Pricing Power Suggests Industrial Profit Struggles in November

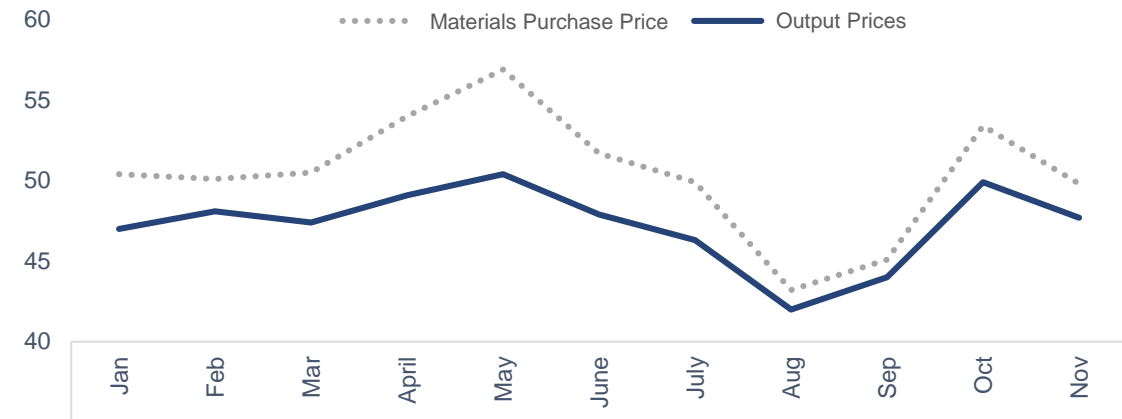
▶ The producer price index (PPI) remained in contraction for six consecutive months, falling to 47.4, down 2.2 from the previous reading. Meanwhile, input costs for key raw materials returned to contraction at 49.8. The sharper decline in output prices compared to raw material costs suggests further industrial margin compression. Despite revenue growth, industrial profits may struggle to reverse their downward trend.

Revised M1 Definition to Better Reflect Monetary Circulation in 2025

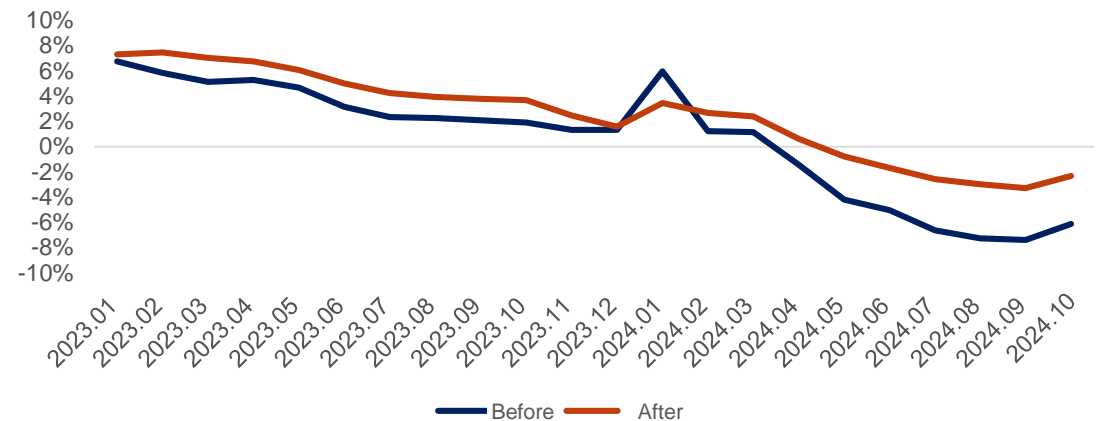
- ▶ The PBOC announced that starting January 2025, M1 will be redefined to include currency in circulation (M0), corporate demand deposits, individual demand deposits, and non-bank payment reserves (e.g., Alipay, WeChat Pay funds).
- ▶ Previously, M1 calculation included only M0 and corporate demand deposits, overlooking the liquidity of personal demand deposits and the impact of digital payment systems. This old methodology skewed M1 growth rates based on shifts between corporate demand and fixed deposits, ignoring household deposit trends.
- ▶ The inclusion of personal demand deposits and payment reserves in the new M1 framework will offer a more accurate view of China's monetary liquidity, reflecting consumer spending potential and investment sentiment. The new definition clarifies liquidity levels: cash (M0), demand deposits (M1), and time deposits (M2).

Source: Bloomberg

Breakdown of Official Manufacturing PMI



M1 Growth Rate



Meituan (3690)

Closing Price HK \$159.2

Target Price HK \$180.5

Profile

Meituan operates as a web based shopping platform for locally found consumer products and retail services. It offers deals of the day by selling vouchers on local services and entertainment, dining, delivery, and other services.

Highlights

■ Growth Potential in Local Services Sector

In 3Q24, on-demand delivery transactions grew 14.5% YoY to 7.078 billion, averaging 76.93 million daily orders. Flash purchases saw over 10 million daily orders with strong user growth. Recent stimulus measures have improved consumer sentiment, benefiting Meituan. Many instant retail categories remain underpenetrated, with consumption scenarios expanding beyond basics to gifts, entertainment, and shopping, driving higher order values.

Profitability benefits from scale as expanded categories boost user stickiness. The "Super Member" program, offering discounts across food delivery, in-store, and travel services, enhances cross-selling opportunities. In-store and travel orders rose over 50% YoY, with record-high active users and merchants.

■ Worthy Attempt of Middle East Expansion

Improved efficiency in "Meituan Select" narrowed new business losses in 2024 to RMB 2.75 billion, RMB 1.31 billion, and RMB 1.02 billion in the first three quarters. Other new businesses turned profitable in 3Q. However, concerns center on "Keeta" in Saudi Arabia, where spending may push new business losses to RMB 2 billion in 2025. With RMB 33.9 billion profit in 2024 and RMB 42.5 billion in cash reserves, Meituan's venture is feasible. Saudi Arabia's per capita GDP is twice China's, and replicating its HK success could provide a new growth driver.

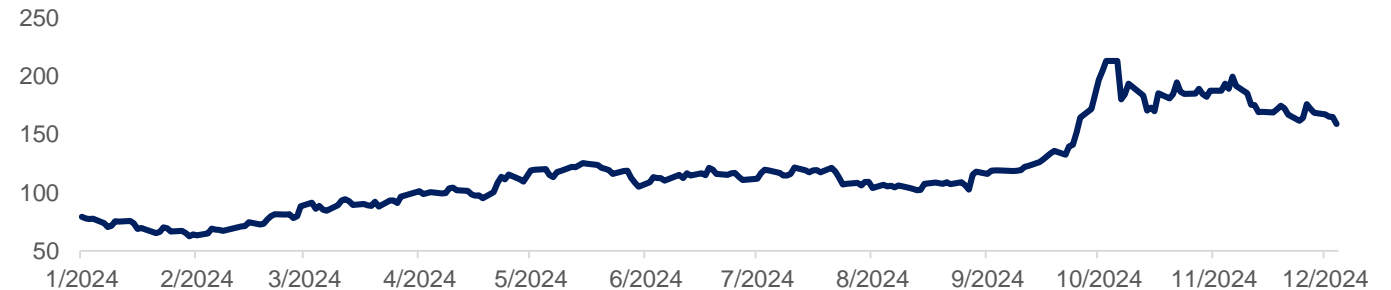
Source: Bloomberg

Financials

| | 2021 | 2022 | 2023 | 2024F | 2025F |
|------------------------------|--------|-------|-------|-------|-------|
| Net Income (100M CNY) | -155.7 | 28.2 | 232.5 | 434.5 | 546.4 |
| NI YoY(%) | -598.9 | 118.1 | 722.4 | 86.8 | 25.7 |
| EPS(CNY) | -3.9 | -1.09 | 2.11 | 5.8 | 7.18 |
| DPS(CNY) | 0 | 0 | 0 | 0 | 0 |
| P/E | NA | NA | 70.4 | 25.6 | 20.7 |
| Dividend Yield(%) | 0 | 0 | 0 | 0 | 0 |

Source: Bloomberg; 2024/25F are market estimates

YTD Performance



| As of 5 Dec. 2024 | 1M | 3M | YTD | 1Y | 3Y | 5Y |
|-------------------|--------|-------|-------|-------|--------|-------|
| Return (%) | -20.36 | 33.44 | 94.38 | 84.25 | -31.49 | 54.11 |

Valuations

● 5Y Average ◆ Current

| | | | | |
|-------|-------|---|---|--------|
| Price | 62.55 | ◆ | ● | 451.4 |
| P/E | 24.85 | ◆ | ● | 1099.3 |
| P/B | 2.35 | ◆ | ● | 22.65 |

China Mobile (941)

Closing Price HK \$72.5

Target Price HK \$80.9

Profile

China Mobile Limited provides telecommunication services. The Company offers wireline voice, broadband, roaming, and other related services. China Mobile serves customers throughout the mainland of China and in Hong Kong.

Highlights

■ Defensive Strength

The core businesses of China's three major telecom operators—telecommunications services and digital services—are focused solely on the domestic market, making them less impacted by U.S.-China tensions. Additionally, the People's Bank of China's RMB 500 billion swap arrangement provides downside protection for telecom stocks. As state-owned enterprises with stable operations and clear returns, these companies attract investments from domestic funds and insurers.

■ Leading in Digitalization

While telecom services in China are a mature market with limited growth potential, digital services—such as cloud computing and data centers—are key growth drivers. China Mobile's digital business led its peers with the highest YoY revenue growth in 1H24, making digital services a larger proportion of its total revenue compared to China Telecom.

■ Robust Cash Flow Supports Dividends

Benefits from strong free cash flow (FCF). Since 2020, China Telecom and China Unicom's FCF growth has been flat or slightly declining, while China Mobile saw significant growth after 2022. With stable capital expenditures, the company is well-positioned to distribute dividends. Its FCF is expected to remain superior to peers in 2024, aided by effective capital expenditure control. Since 2023, China Mobile's capex-to-operating cash flow ratio has been lower than its peers, and the market expects further improvement next year.

Source: Bloomberg

Financials

| | 2021 | 2022 | 2023 | 2024F | 2025F |
|------------------------------|-------|-------|-------|-------|-------|
| Net Income (100M CNY) | 11.61 | 12.54 | 13.17 | 13.86 | 14.66 |
| NI YoY(%) | 7.7 | 8.02 | 5.03 | 5.2 | 5.79 |
| EPS(CNY) | 5.67 | 5.88 | 6.16 | 6.48 | 6.8 |
| DPS(CNY) | 3.34 | 3.86 | 4.42 | 4.01 | 4.32 |
| P/E | 11.94 | 11.51 | 10.99 | 10.44 | 9.95 |
| Dividend Yield(%) | 4.93 | 5.70 | 6.53 | 5.92 | 6.38 |

Source: Bloomberg; 2024/25F are market estimates

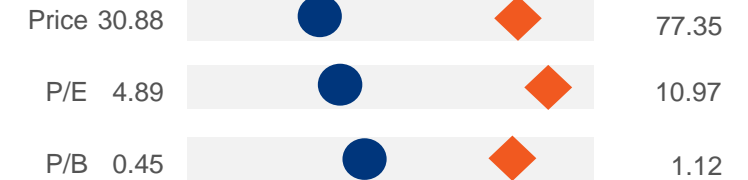
YTD Performance



| As of 5 Dec. 2024 | 1M | 3M | YTD | 1Y | 3Y | 5Y |
|-------------------|------|------|-------|-------|-------|-------|
| Return (%) | 1.46 | 0.69 | 19.62 | 23.24 | 97.17 | 71.96 |

Valuations

● 5Y Average ◆ Current



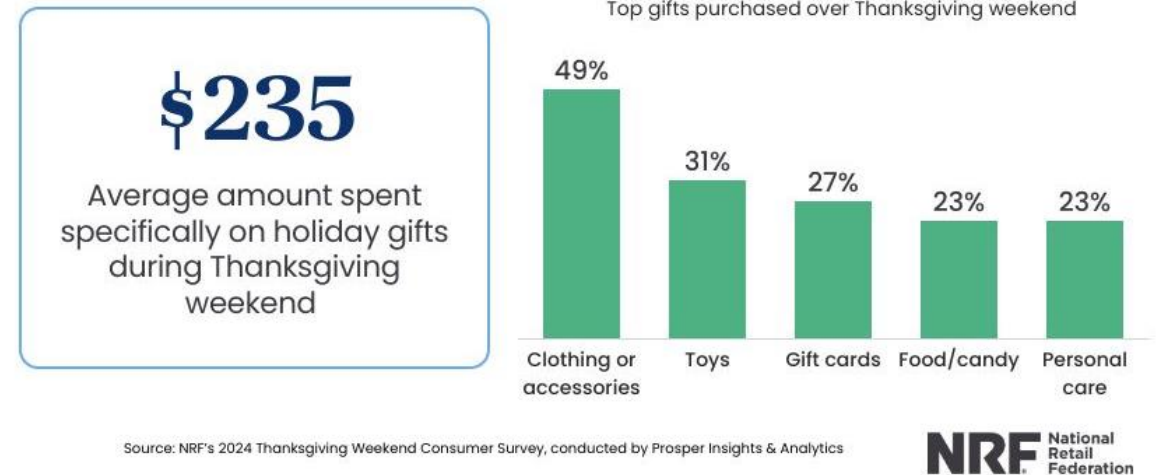


Consumer Sector Shows Year-End Strength

- ▶ The U.S. economy added 227K jobs in November, rebounding strongly from October's revised 36K and exceeding market expectations of 220K. Private sector job growth, however, slowed to a three-month low of 146K, below October's revised 184K and slightly missing the 150K forecast.
- ▶ November's ISM Manufacturing PMI rose to 48.4 from October's 46.5, surpassing expectations of 47.5, signaling a slower contraction. Conversely, the ISM Services PMI fell to 52.1 from 56.0, below the anticipated 55.7, indicating softened growth in the services sector.
- ▶ NRF data highlighted robust Thanksgiving shopping activity, with 197M consumers participating from Thanksgiving to Cyber Monday, slightly below 2023's record 200M but above the forecast of 183M. Black Friday online sales surged nearly 15%, boosting total sales by 3.4%, while in-store foot traffic rose modestly by 0.7%. The average consumer spent \$235, up \$8 YoY, mainly on apparel and accessories.
- ▶ Historically, U.S. equities perform well in year-end trading. Dip buying is advised.

Source: Bloomberg

Thanksgiving 2024 Shopping Trends



Sprouts Farmer Market (SFM)

Closing Price US \$151.04

Target Price US \$180

Stop-Loss Price US \$135

Profile

Sprouts Farmers Market, Inc. operates a chain of retail grocery stores. The Company offers meats, cheese, dairy products, bakery, beer and wine, bulk foods, vitamins, and supplements. Sprouts Farmers Market serves customers throughout the United States.

Highlights

■ High-End Consumers Focus on Food Quality

High inflation and interest rates have not reduced overall spending among U.S. high-end consumers, but purchasing habits have shifted. Post-pandemic, consumers have placed greater emphasis on food safety and quality. The demand for organic food has grown steadily in recent years, supported by the wealth effect of rising stock markets, leading to increased spending on higher-priced organic products.

■ Rapid Growth

As of 3Q24, the company operates 428 stores and plans to expand at an annual rate of 10%. Comparable store sales grew 8.4% YoY. Gross profit margin reached a record high of 38.1% in the third quarter. Online sales surged 36% YoY, contributing 14.5% of total revenue.

■ 3Q24 Financial Performance

Revenue rose 11.8% YoY to \$1.9 billion, beating market expectations by \$20 million. Non-GAAP EPS reached \$0.91, exceeding estimates by \$0.14. For the fourth quarter, the company forecasts net sales growth of about 12%, comparable store sales growth of 8%-10%, and adjusted diluted EPS between \$0.67 and \$0.71, above market expectations of \$0.58.

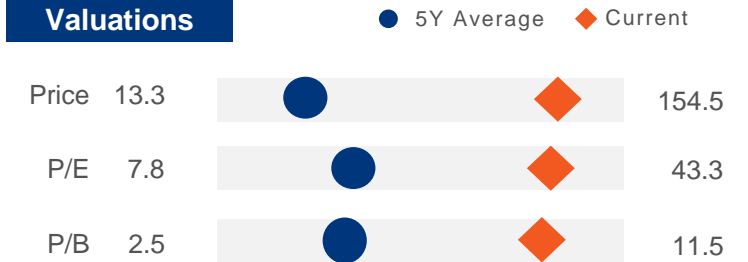
Source: Bloomberg

Financials

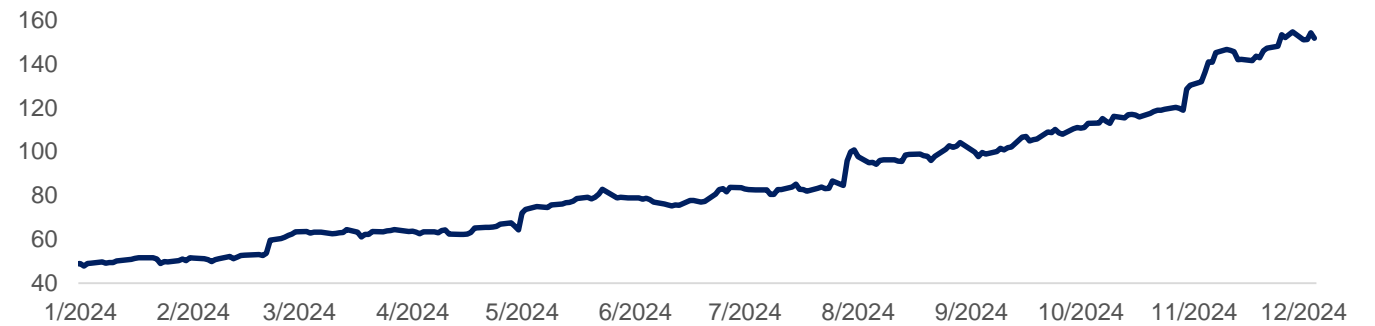
| | 2021 | 2022 | 2023 | 2024F | 2025F |
|-----------------------------|------|------|------|-------|-------|
| Revenue Growth(%) | -5.7 | 5.0 | 6.8 | 12.2 | 10.2 |
| EBITDA (%) | 7.5 | 7.6 | 7.7 | 8.3 | 8.5 |
| EPS (USD) | 2.10 | 2.39 | 2.84 | 3.68 | 4.18 |
| Net Profit Margin(%) | 4.0 | 4.1 | 4.2 | 4.9 | 5.0 |

Source: Bloomberg; 2024/25F are market estimates

Valuations



1-Year Performance



| As of 6 Dec. 2024 | 1M | 3M | YTD | 1Y | 3Y | 5Y |
|-------------------|------|------|-------|-------|------|------|
| Return (%) | 11.5 | 52.2 | 215.3 | 234.9 | 79.8 | 50.2 |

Tapestry (TPR)

Closing Price US \$62.25

Target Price US \$80.0

Stop-Loss Price US \$57

Profile

Tapestry, Inc. designs and markets clothes and accessories. The Company offers handbags, leather goods, footwear, fragrance, jewelry, outer wear, ready-to-wear, scarves, sun wear, travel accessories, and watches.

Highlights

■ U.S. Thanksgiving Spending Remains Strong

The NRF reported 197 million people shopped over Thanksgiving weekend, surpassing the forecast of 183 million. Total spending rose, with Black Friday online sales up nearly 15% and total sales up 3.4%. Foot traffic increased 0.7%. Average spending per consumer reached \$235, \$8 higher than last year, mainly on clothing and accessories.

■ Coach Gains Popularity

Coach regained traction through social media and millennial nostalgia, attracting Gen Z and millennials. Tapestry Inc.'s 1Q results showed Coach driving handbag revenue and average sales price growth. The Coach Tabby line significantly boosted full-price sales in 4Q24.

■ 1Q25 Earnings

Tapestry posted \$1.51 billion in revenue, flat YoY but \$40 million above estimates. Non-GAAP EPS of \$1.02 beat forecasts by \$0.07. FY25 revenue guidance rose to \$6.75 billion, up 1%-2%, exceeding estimates. Adjusted EPS is projected at \$4.50-\$4.55, above previous guidance. The company announced a \$0.35 dividend and a \$2 billion stock buyback plan.

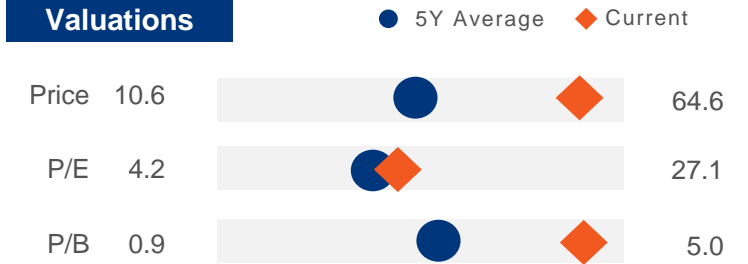
Source: Bloomberg

Financials

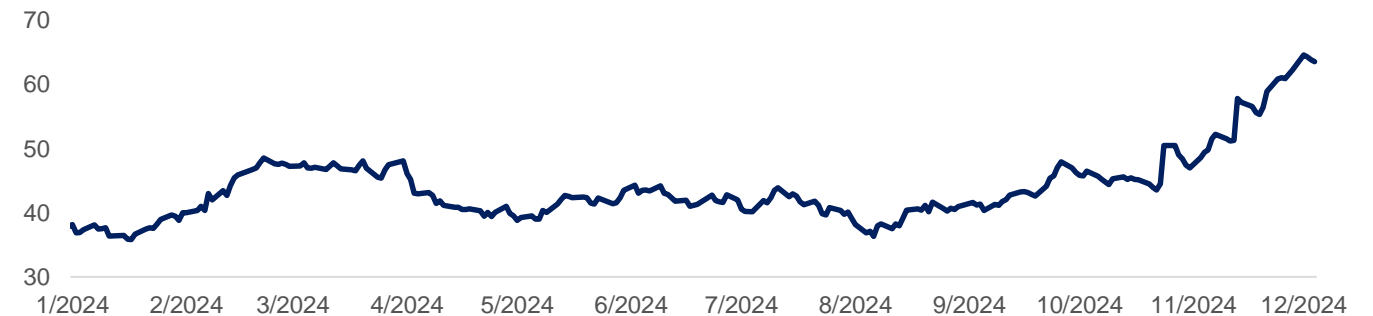
| | 2021 | 2022 | 2023 | 2024F | 2025F |
|-----------------------------|------|------|------|-------|-------|
| Revenue Growth(%) | 16.3 | -0.4 | 0.2 | 1.4 | 2.8 |
| EBITDA (%) | 21.2 | 20.3 | 21.3 | 22.2 | 22.7 |
| EPS | 3.47 | 3.88 | 4.29 | 4.61 | 4.93 |
| Net Profit Margin(%) | 14.0 | 14.1 | 15.0 | 15.8 | 15.9 |

Source: Bloomberg; 2024/25F are market estimates

Valuations



1-Year Performance



| As of 6 Dec. 2024 | 1M | 3M | YTD | 1Y | 3Y | 5Y |
|-------------------|------|------|------|------|------|------|
| Return (%) | 28.6 | 53.7 | 72.7 | 96.1 | 19.6 | 23.2 |



Heavyweight Stocks Lead Gains, Market Rebounds with Breakout Momentum

► Heavyweight Stocks Lead Gains; Breakout Signals Reversal

Driven by gains in electronic and financial heavyweight stocks, the market rebounded from a low of 22,055, swiftly reclaiming the 5-day, 10-day, half-year, and quarterly moving averages, marking a false break below the neckline at 22,231 (November 1 low). Technically, the index is exhibiting a reversal, with potential to challenge the recent high of 23,172 (November 25).

Despite a lackluster November that saw the index drop 557 points (-2.44%), historical data shows an 85% probability of December gains over the past 20 years. As year-end themes such as window dressing take hold and sentiment stabilizes, the market outlook appears increasingly optimistic.

► Small- and Mid-Cap Tech Stocks Lead; Focus on Catalyst-Driven Sectors

Following gains in blue-chip stocks, small- and mid-cap tech stocks are showing bullish momentum, creating a healthy rotation between large-cap and smaller stocks. Key drivers include the electronics and financial sectors, with notable strength in optical communications, BBU, supercapacitors, and hubs. AI-related sectors such as AI servers, thermal management, linear guides, and copper-clad laminates are poised to determine whether the market can challenge recent highs.

Investors should focus on catalyst-driven stocks that have regained moving averages or broken through prior resistance levels with strong rebounds.

Source: Bloomberg

Taiwan Indices Performance and Estimated P/E Ratios



C Sun Manufacturing (2467 TT)

Profile

C Sun Mfg. Ltd. develops, manufactures, and markets printed circuit board process equipment. It produces semiconductor packaging process equipment, printed circuit board process equipment, touch panel processing equipment.

Highlights

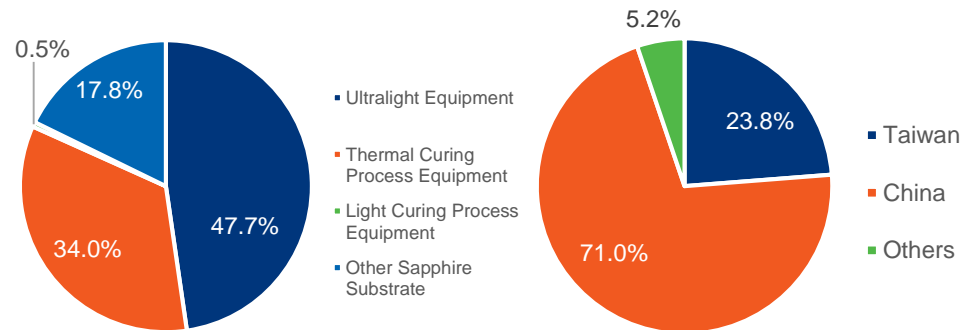
Advanced Packaging Capacity Expands Rapidly

With rising AI server demand, CoWoS monthly capacity is expected to reach 70-75k by the end of 2025. KGI Securities forecasts semiconductor equipment revenue contribution to increase from 32.2% in 2024 to 39.1% in 2025. Improved product mix is also expected to enhance gross margin performance.

US-Based Memory HBM as Another Growth Driver

KGISIA projects monthly HBM capacity for US-based memory manufacturers to grow from 3k at the end of 2023 to 25k in 2024 and 45k in 2025, serving as another growth engine for the company. Additionally, as HBM DRAM stacking layers increase, the number of process steps will rise, driving higher demand for baking equipment.

Revenue Sources and Regions



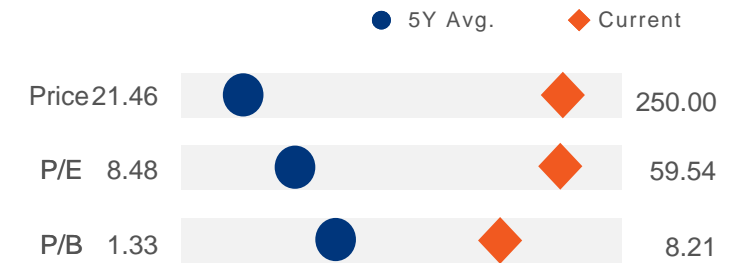
Source: Bloomberg

Financials

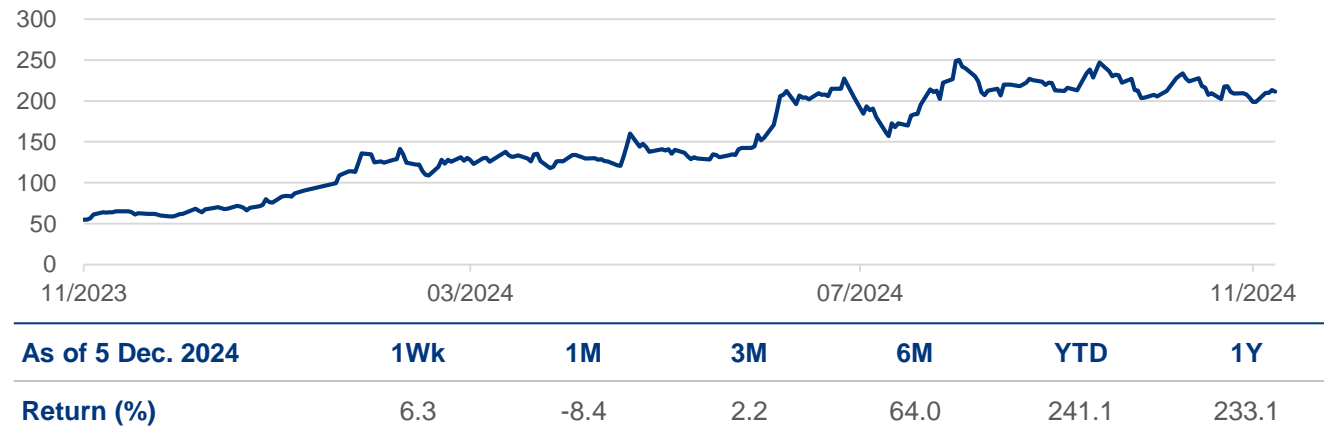
| | 2021 | 2022 | 2023 | 2024F | 2025F |
|----------------|------|------|-------|-------|-------|
| EPS (NTD) | 4.35 | 4.59 | 3.12 | 4.88 | 7.49 |
| EPS Growth (%) | 47.9 | 5.6 | -32.0 | 56.4 | 53.5 |
| P/E Ratio | 45.8 | 43.3 | 63.7 | 40.8 | 26.6 |
| ROE (%) | 24.7 | 23.9 | 15.5 | 17.9 | 19.9 |

Source: Company data, estimates of KGI analyst

Valuations



1-Year Performance



All Ring Tech (6187 TT)

Profile

All Ring Tech Co., Ltd. designs, manufactures, and markets automated machineries. The Company's products include cutting machine, testing machine, and digital telescope.

Highlights

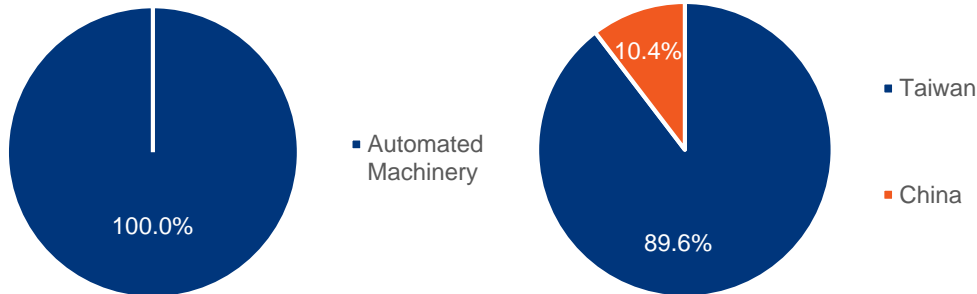
■ AOI's Critical Role in Advanced Packaging Yield Optimization

2.5D/3D advanced packaging involves vertical stacking technology, requiring AOI inspection after multiple steps to enhance product yield. Manz's AOI equipment primarily focuses on back-end processes. KGI Securities estimates CoWoS monthly capacity to reach 34k, 70-75k, and 120k by the end of 2024, 2025, and 2026, respectively. For every additional 10k in CoWoS capacity, Manz could generate revenue of NT\$1.6-2 billion.

■ CPO as the Next Revenue Growth Driver

Taiwanese wafer foundry CPO packaging solutions are expected to enter mass production in 2026, becoming a key growth driver for the company. Additionally, fan-out panel-level packaging (FOPLP) solutions could present potential growth opportunities, as FOPLP requires dispensing machines and related AOI equipment.

Revenue Sources and Regions



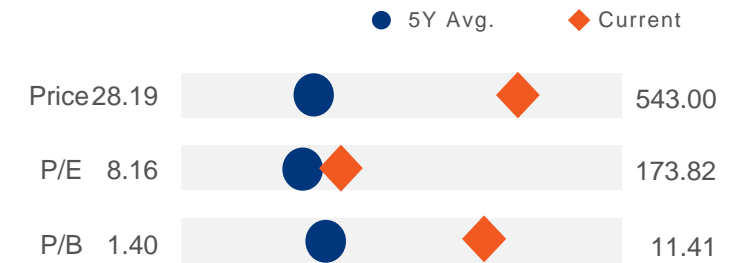
Source: Bloomberg

Financials

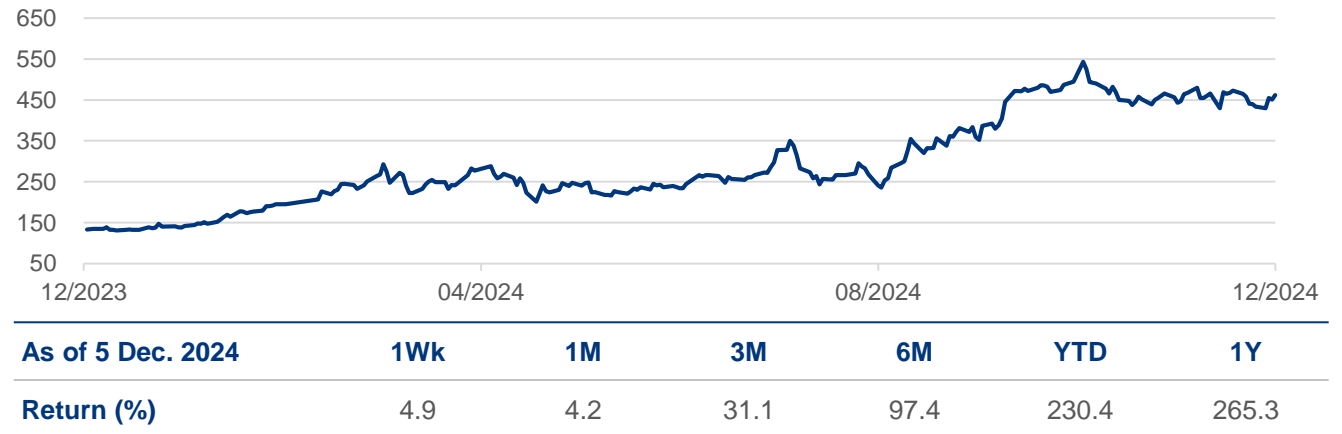
| | 2021 | 2022 | 2023 | 2024F | 2025F |
|----------------|-------|------|-------|-------|-------|
| EPS (NTD) | 6.64 | 6.15 | 1.70 | 14.81 | 23.23 |
| EPS Growth (%) | 120.7 | -7.5 | -72.3 | 768.7 | 56.9 |
| P/E Ratio | 65.2 | 70.5 | 254.3 | 29.3 | 18.7 |
| ROE (%) | 25.7 | 21.1 | 5.6 | 28.4 | 28.9 |

Source: Company data, estimates of KGI analyst

Valuations



1-Year Performance



Corporate Earnings Growth and Wage Hikes Likely to Boost Japanese Equities

Driven by corporate reforms improving profitability and rising wage growth, Japan's domestic economy is expected to warm, further supporting the performance of Japanese equities.

► NEXT FUNDS TOPIX-17 Banks ETF (1631 JP)

- Tracks the TOPIX-17 Banks Index, which reorganizes 33 traditional Japanese industries into 17 sectors.
- Uses a floating market-cap weighting, with the top three holdings accounting for about 70%.

► Eastspring Japan Dynamic Equity Fund

- A benchmark-agnostic, bottom-up approach focused on undervalued Japanese equities with long-term growth themes.
- Concentrated portfolio of 30-50 high-quality stocks.
- Diversifies across small-, mid-, and large-cap stocks, targeting companies with strong growth potential and returns.
- Managed by a seasoned team with over 16 years of experience in Japanese equities, demonstrating strong performance.

| Product | NEXT FUNDS TOPIX-17 BANKS ETF(1631.JP) | | Eastspring Japan Dynamic Fund | |
|--------------------|---|-----|---|--|
| Features | Tracks the TOPIX-17 Banks Index, which reorganizes 33 traditional Japanese industries into 17 sectors. | | Diversifies across small-, mid-, and large-cap stocks, targeting companies with strong growth potential and returns. | |
| AUM | JPY 14.0B | | JPY 367.3B | |
| Tracking Index | TOPIX-17 BANKS Index | | - | |
| Holdings | 78 | | - | |
| 3M/YTD Returns | 18.67% / 49.46% | | 0.78% / 9.66% | |
| Top-5 Sectors (%) | Banking | 100 | Industrials 27.90 Discretionary 16.30 Materials 15.30 Financials 14.70 Information Technology 9.10 | |
| Top-5 Holdings (%) | Mitsubishi UFJ Financial Group 34.01 Sumitomo Mitsui Financial Group 22.75 Mizuho Financial Group 14.91 Resona Holdings 4.52 Sumitomo Mitsui Trust Group 3.86 | | Panasonic Holdings Co 6.00 Takeda Pharmaceutical 5.70 East Japan Railway Co 5.30 Sumitomo Mitsui Financial Group 4.20 Ricoh Co 4.10 | |

Source: Bloomberg

NEXT FUNDS TOPIX-17 BANKS ETF (1631.JP)

Profile

NEXT FUNDS TOPIX-17 BANKS ETF is an exchange-traded fund incorporated in Japan. The objective of the Fund is to provide investment results that correspond to the performance of the TOPIX-17 Banks Index.

■ Focused Investment in Japan's Banking Sector

This ETF primarily invests in large-cap Japanese banking stocks, including Mitsubishi UFJ Financial Group, Sumitomo Mitsui Financial Group, and Mizuho Financial Group.

■ Globalized Operations

Japanese banks have extensive global operations, enabling them to capture opportunities and generate returns in international markets.

■ Improved Economic Fundamentals

Japan's economic fundamentals are improving, with core CPI hitting its highest level in over 20 years, signaling an end to prolonged deflation. The banking sector is poised to benefit from rising inflation-driven interest rates, boosting profitability.

| | | | |
|-----------------------|-------------|------------------------------|-----------|
| Inception Date | 25 Mar 2008 | AUM | JPY 14.0B |
| ETF Category | Equities | Holdings | 78 |
| Expense Ratio | 0.352% | 3Y Stand. Dev. (Ann.) | 19.12% |

Source: Bloomberg, 4 Dec. 2024

Sectors



1-Year Performance



As of 4 Dec. 2024

Return (%)

1M

3M

YTD

1Y

3Y

5Y

13.63

18.67

49.46

44.36

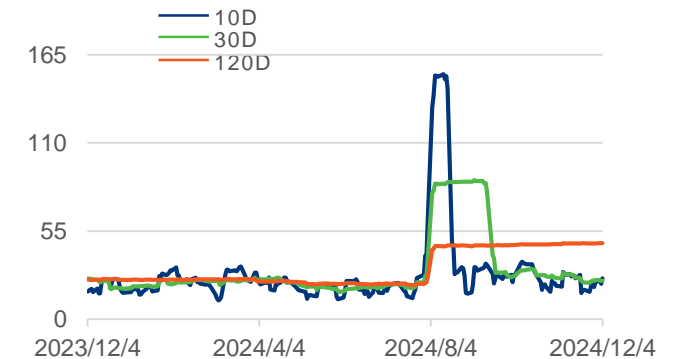
129.12

181.03

Top-5 Holdings (%)

| | |
|------------------------------------|-------|
| Mitsubishi UFJ Financial | 34.01 |
| Sumitomo Mitsui Financial | 22.75 |
| Mizuho Financial Group Inc | 14.91 |
| Resona Holdings Inc | 4.52 |
| Sumitomo Mitsui Trust Group | 3.86 |

1-Year Volatility



Eastspring Japan Dynamic Fund

Profile

Eastspring Japan Dynamic Fund aims to generate long-term capital growth through a concentrated portfolio of equities, equity-related securities and bonds of companies which are incorporated, listed in or have their area of primary activity in Japan, as well as currencies.

Selective Value Investing

Focuses on identifying stocks with consistent profitability and undervalued prices across various market cycles, uncovering opportunities for long-term gains.

Concentrated Stock Selection Strategy

Unconstrained by market capitalization, benchmarks, or themes, the fund employs a concentrated portfolio strategy, selecting 30 to 50 high-quality small, mid, and large-cap stocks based on growth potential and expected returns.

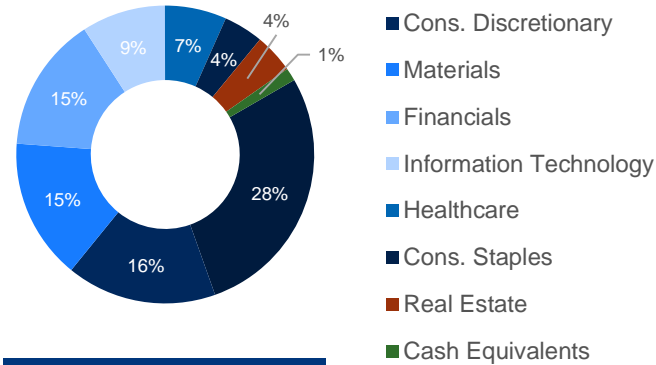
Experienced Investment Team

Backed by over 16 years of expertise in Japanese equities, the team specializes in uncovering undervalued Japanese companies with strong fundamentals that are overlooked by the market, delivering a solid performance track record in navigating the Japanese stock market.

| | | | |
|-----------------------------|--------------------------|------------------------------|-------------|
| Inception Date | 7 Feb 2011 | AUM | JPY 367.3 B |
| Morningstar Category | Japan Large-Cap Equities | Fund Type | Equities |
| Morningstar Ratings | ★★★ | 3Y Stand. Dev. (Ann.) | 19.55% |

Source: Bloomberg, 4 Dec. 2024

Sectors



1-Year Performance



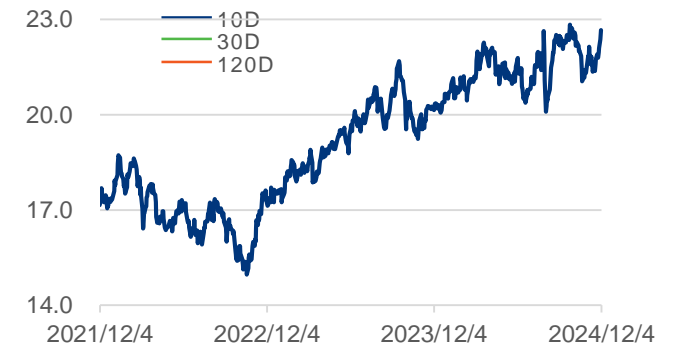
As of 4 Dec. 2024

| | 1M | 3M | YTD | 1Y | 3Y | 5Y |
|-------------------|------|------|------|-------|-------|-------|
| Return (%) | 6.34 | 0.78 | 9.66 | 11.94 | 30.61 | 32.12 |

Top-5 Holdings (%)

| | |
|--|-----|
| Panasonic Holdings | 6.0 |
| Takeda Pharmaceutical | 5.7 |
| East Japan Railway | 5.3 |
| Sumitomo Mitsui Financial Group | 4.2 |
| Ricoh | 4.1 |

1-Year Volatility



Bonds HY Bonds Outperform IGs YTD; Focus Shifts to Short-to-Medium-Term Opportunities

► Rakuten 8.125 PREP

- Rakuten Group, a major Japanese e-commerce company, operates across internet services, finance, and mobile communications.
- In 2024, Rakuten achieved significant progress in refinancing, addressing the bulk of its 2025 debt maturities. Year-to-date, the group issued approximately \$3.8 billion in offshore senior unsecured bonds, \$349 million in onshore senior unsecured bonds, and \$1.1 billion through domestic finance leases, alongside a new \$550 million offshore subordinated perpetual bond.
- The mobile communications segment continues to improve. EBITDA for mobile operations improved by ¥30.5 billion YoY, reducing losses to ¥5.2 billion. Rakuten aims to achieve positive monthly EBITDA for this segment by the end of 2024.

► SOFTBK 6.875 PERP

- SoftBank Group, a Japan-based investment holding company, focuses on global tech investments and telecom businesses in Japan and the U.S. The company manages \$100 billion private investment funds, SVF1 and SVF2, targeting unlisted tech companies.
- SoftBank boasts a robust portfolio, delivering high returns from rapidly growing and unlisted companies like Arm, SoftBank, and T-Mobile. The successful shift of its major investment focus from Alibaba to Arm further highlights its exceptional investment track record.
- SoftBank adheres to a disciplined financial policy: 1) Maintain LTV below 25%; 2) Retain cash reserves sufficient to cover bond maturities over the next two years; 3) Ensure all interest and dividend payments are funded by dividends from SoftBank funds and subsidiaries.

| Products | Rakuten 8.125 PREP | SOFTBK 6.875 PERP |
|-----------------------------|--|--|
| ISIN | USJ64264AM64 | XS1642686676 |
| Highlight | Mobile communications segment continues to improve | SoftBank adheres to a disciplined financial policy |
| Maturity Date | Perpetual | Perpetual |
| Coupon (%) | Float/8.125/Bi-Annual | Float/6.875/Bi-Annual |
| Currency | USD | USD |
| Years to Maturity | - | - |
| Rating (Moody's/ Fitch/S&P) | -/-/B | B2/-/B+ |
| Seniority | Subordinated | Subordinated |
| YTM/YTC (%) | 8.15/7.80 | 8.22/6.88 |

Source: Bloomberg

Rakuten 8.125 PREP

Profile

Rakuten Group operates across three main segments: Internet Services, Financial Services, and Mobile Communications. Its Financial Services segment includes online banking, securities, credit cards, life and non-life insurance, and electronic money services. Rakuten is also Japan's fourth Mobile Network Operator (MNO), offering both MNO and Mobile Virtual Network Operator (MVNO) services.

Highlights

- In 2024, Rakuten made significant progress in refinancing most of its 2025 debt maturities. Year-to-date, the group has issued approximately \$3.8 billion in offshore senior unsecured bonds, \$349 million in domestic senior unsecured bonds, \$1.1 billion in domestic finance leases, and recently launched a \$550 million offshore subordinated perpetual bond.
- The group's Mobile Communications division continues to improve. For FY2024 Q3 (July–September), consolidated non-GAAP operating profit improved by ¥53.4 billion YoY, reaching ¥12.3 billion, marking its first quarterly profit since FY2019 Q3.
- The Fed's rate-cutting cycle presents opportunities to lock in yields with high-quality bonds. Investors can assess issuers with low credit risk and consider adding high-quality bonds as rates stabilize to hedge against market volatility.

| Financials | 2021 | 2022 | 2023 |
|---------------------------|-------|--------|-------|
| EBITDA Margin(%) | 0.18 | -5.60 | 4.19 |
| Free Cash Flow (100M USD) | 26.95 | -42.91 | 37.82 |
| Interest Coverage Ratio | 0.17 | -3.92 | 1.83 |

Overview

| | | | |
|--|-------------------------|------------------------------------|---------------|
| Name | Rakuten 8.125 PREP | ISIN | USJ64264AM64 |
| Maturity Date | 12 Mar 2028 | Remaining Maturity | - |
| Coupon (%) | Float/8.125/Semi-Annual | YTM/YTC(%) | 8.15/7.80 |
| Currency | USD | Min. Subscription/Increment | 200,000/1,000 |
| Ratings (Moody's/Fitch/S&P) | -/-/B | Seniority | Subordinated |

Price Since Issuance



Source: Bloomberg, 5 Dec 2024; Note: Coupon reset date is Dec. 15, 2029, with semi-annual payments. The new rate will be based on the average yield of U.S. 5-year Treasuries during the reset period, plus 4.00%.

SOFTBK 6.875 PREP

Profile

SoftBank Group, has a focus on global technology companies and telecommunications businesses in Japan and the U.S. It manages two private equity funds, SVF1 and SVF2, totaling \$100 billion, which specialize in unlisted tech companies. As of March 31, 2024, its investment assets were valued at approximately ¥33 trillion. Founder Masayoshi Son holds about 29% of the company, making him the largest shareholder.

Highlights

- Boasts a diverse investment portfolio, highlighted by its transformation from Alibaba to Arm as its largest holding, demonstrating an impressive investment track record. As of March 2024, Arm constituted approximately 52% of SoftBank's portfolio value, with listed assets accounting for 70%, providing strong liquidity reserves. SoftBank adheres to a disciplined financial policy: 1) Maintain LTV below 25%; 2) Retain cash reserves sufficient to cover bond maturities over the next two years; 3) Ensure all interest and dividend payments are funded by dividends from SoftBank funds and subsidiaries.
- The Fed's rate-cutting cycle presents opportunities to secure yields with high-quality bonds. Assess issuers with low credit risk and consider adding premium bonds to hedge against market volatility.

| Financials | 2021 | 2022 | 2023 |
|-----------------------------|--------|--------|-------|
| EBITDA Margin(%) | 159.62 | -30.3 | 10.52 |
| Free Cash Flow (100M USD) | -8.6 | 168.35 | 7.95 |
| Loan-to-Value Ratio(LTV)(%) | 21.6 | 18.2 | 8.4 |

Source: Bloomberg, 5 Dec 2024; Note: The coupon reset date is July 19, 2027. New rate will be based on the compound average of the U.S. 5-year SOFR fixed-term swap rate during the reset period, plus 4.85%.

Overview

| | | | |
|---------------------------------------|-------------------------|------------------------------------|---------------|
| Name | SOFTBK 6.875 PREP | ISIN | XS1642686676 |
| Maturity Date | Perpetual | Remaining Maturity | - |
| Coupon (%) | Float/6.875/Semi-Annual | YTM/YTC(%) | 8.22/6.88 |
| Currency | USD | Min. Subscription/Increment | 200,000/1,000 |
| Ratings (Moody's/Fitch/S&P) | B2/-/B+ | Seniority | Subordinated |

Price Since Issuance



Appendix

Key Economic Data / Events

▶ DEC 2024

2 Monday

- U.S. Nov. S&P Global Manufacturing PMI Final Value (Actual:49.7 Est:48.8 Prev:48.8)
- U.S. Nov. ISM Manufacturing PMI (Actual:48.4 Est:47.5 Prev:46.5)
- Japan Nov. Jibun Bank PMI Mfg Final Value (Actual:49.0 Prev:49.0)
- Eurzone Nov. Manufacturing PMI (Actual:45.2 Est:45.2 Prev:45.2)
- Eurzone Nov. Unemployment Rate (Actual:6.3% Est:6.3% Prev:6.3%)

3 Tuesday

- U.S. Oct. JOLTS Job Openings (Actual:7,744k Est:7,519k Prev:7,372k)

4 Wednesday

- U.S. Nov. ADP Employment Change (Actual:146k Est:150k Prev:184k)
- U.S. Nov. ISM Services Index (Actual:52.1 Est:55.7 Prev:56.0)
- U.S. Oct. Durable Goods Orders Final Value (Actual:0.3% Est:0.2% Prev:0.2%)
- Eurzone Nov. Services PMI Final Value (Actual:49.5 Est:49.2 Prev:49.2)
- Eurzone Oct. PPI YoY (Actual:0.4% Est:0.4% Prev:0.4%)

5 Thursday

- U.S. Initial Jobless Claims (Actual:224k Est:215k Prev:215k)
- Eurzone Oct. Retail Sales MoM (Actual:-0.5% Est:-0.3% Prev:0.5%)
- Taiwan Nov. CPI YoY (Prev:1.69%)

6 Friday

- U.S. Nov Change in Nonfarm Payrolls (Est:200k Prev:12k)
- U.S. Nov. Initial Jobless Claims (Est:4.1% Prev:4.1%)
- U.S. Dec. U. of Mich. Sentiment (Est:73.3 Prev:71.8)
- Eurzone Q3 GDP YOY Final Value (Est:0.9% Prev:0.9%)

9 Monday

- Japan Q3 GDP QoQ Final Value (Est:0.3% Prev:0.2%)
- Eurzone Dec. Sentix Investor Confidence (Est:-13.2 Prev:-12.8)
- China Nov. CPI YoY (Est:0.5% Prev:0.3%)
- China Nov. PPI YoY (Est:-2.9% Prev:-2.9%)

10 Tuesday

- China Nov. Export YoY (Est:8.5% Prev:12.7%)
- Japan Nov. Machine Tool Orders YoY Initial Value (Prev:9.4%)

11 Wednesday

- U.S. Nov. CPI YoY (Est:2.7% Prev:2.6%)
- U.S. Nov. Core CPI YoY (Est:3.3% Prev:3.3%)
- Japan Nov. PPI YoY (Est:3.4% Prev:3.4%)

12 Thursday

- U.S. Initial Jobless Claims (Prev:224k)
- U.S. Nov. PPI YoY (Prev:2.4%)
- Eurzone Dec. ECB Main Refinancing Rate (Est:3.15% Prev:3.40%)

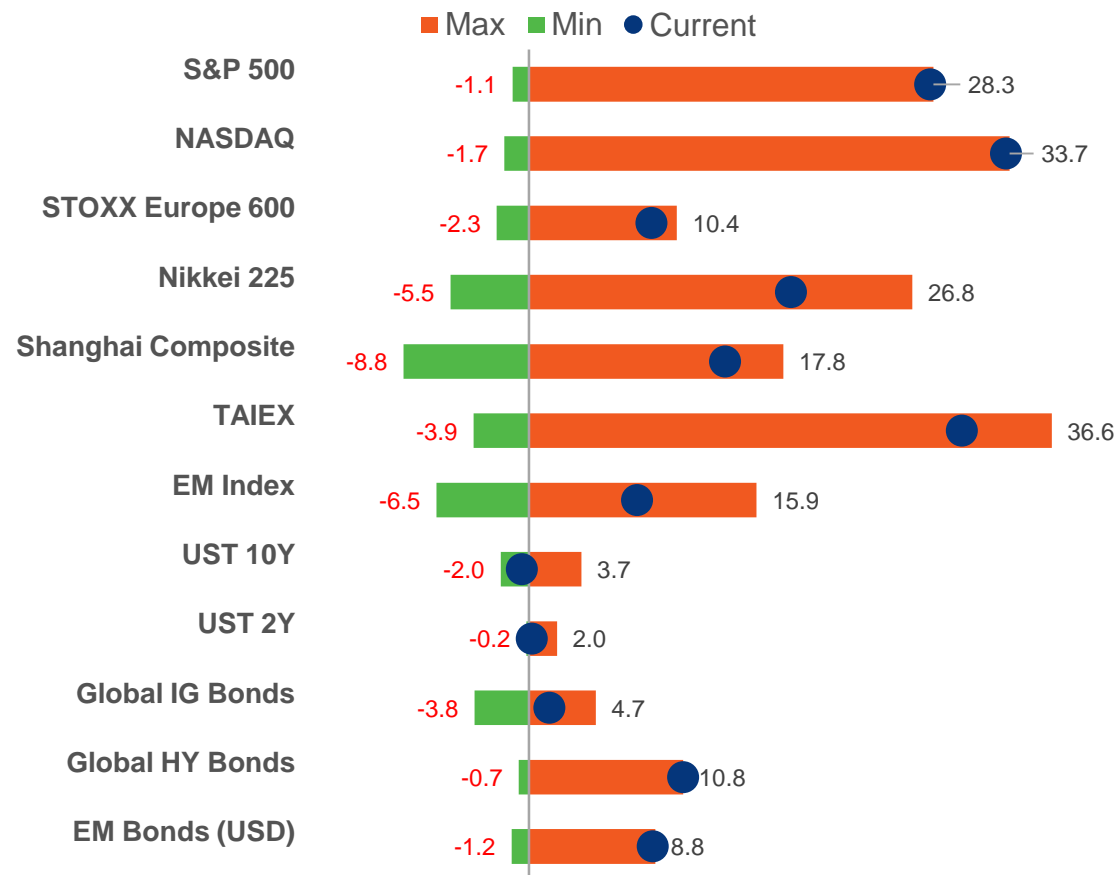
13 Friday

- Japan Oct. Industrial Production MoM (Prev:3.0%)
- Japan Oct. Industrial Production MoM (Est:0.0% Prev:-2.0%)

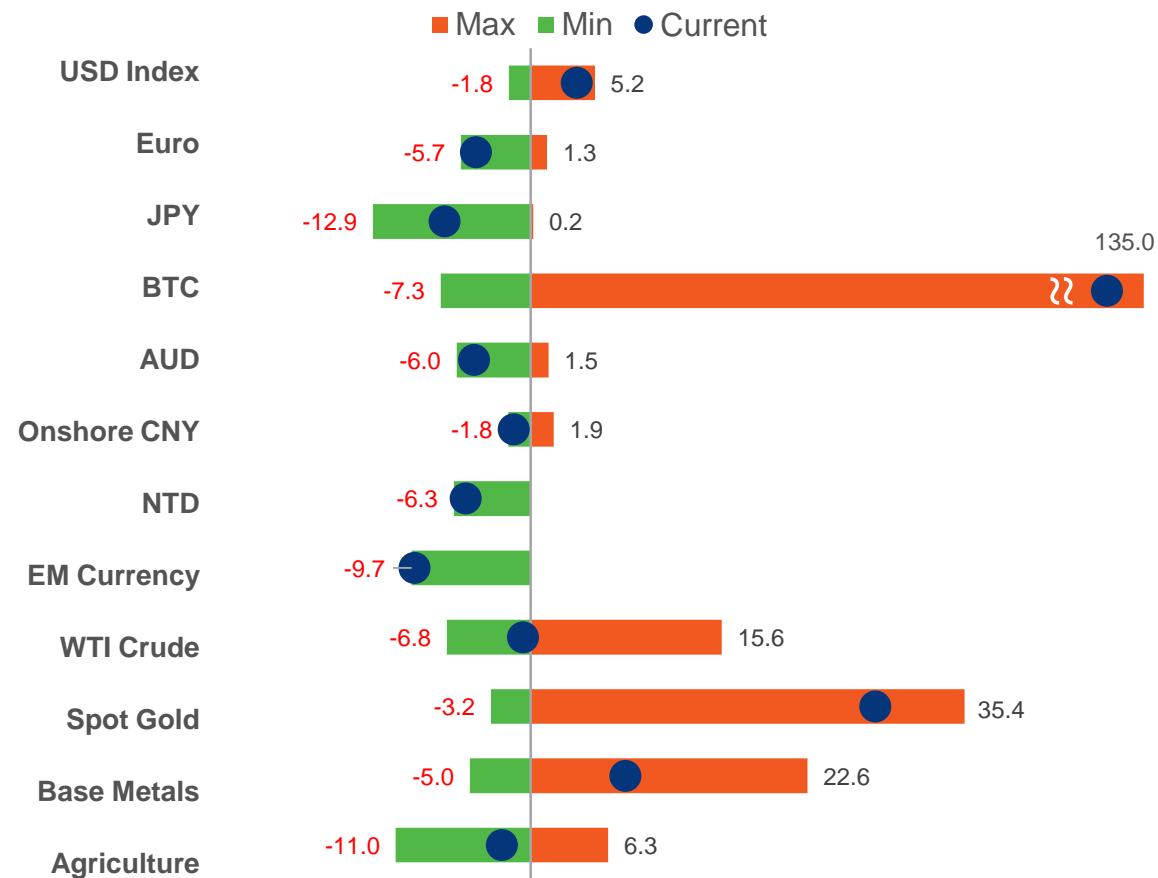
Source: Bloomberg

YTD Major Market / Asset Performance

Stock and Bond Market YTD Performance (%)



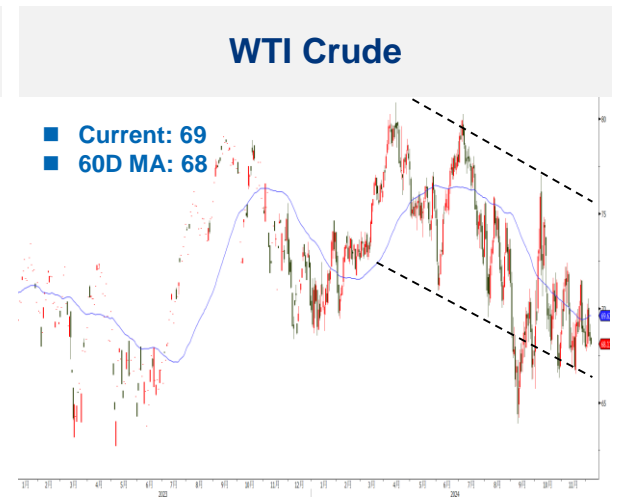
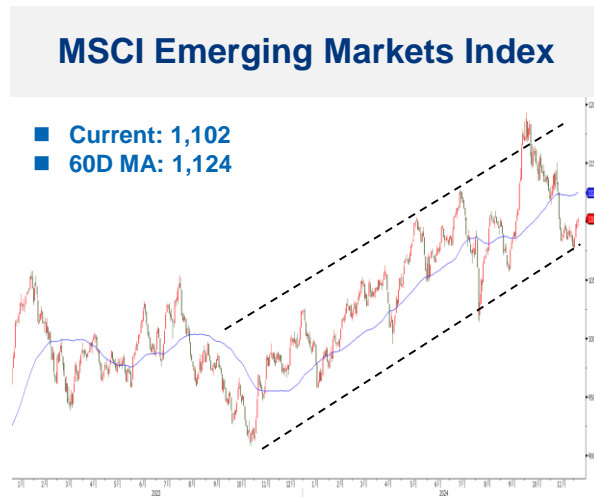
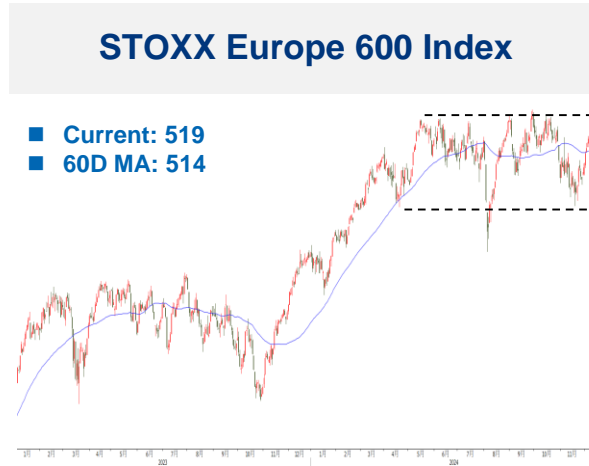
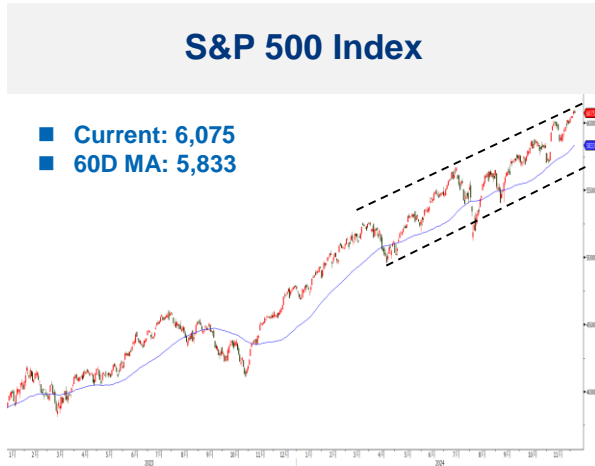
Currencies and Futures Market YTD Performance (%)



Source: Bloomberg, 6 Dec. 2024

Technical Analysis

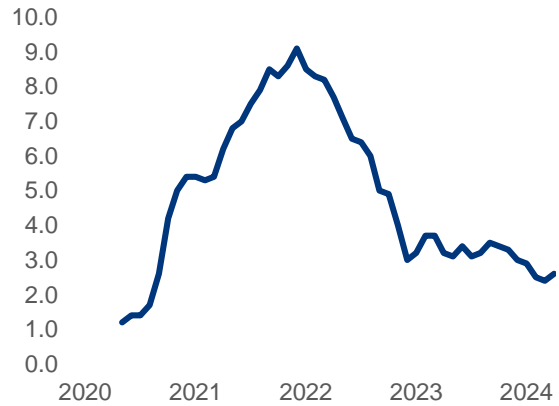
— 60D MA



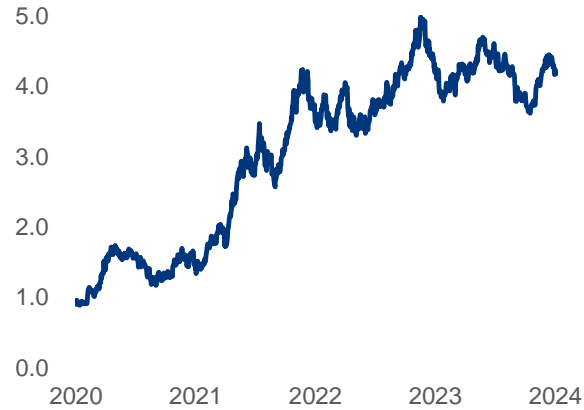
Source: Bloomberg, 6 Dec. 2024

Market Monitor

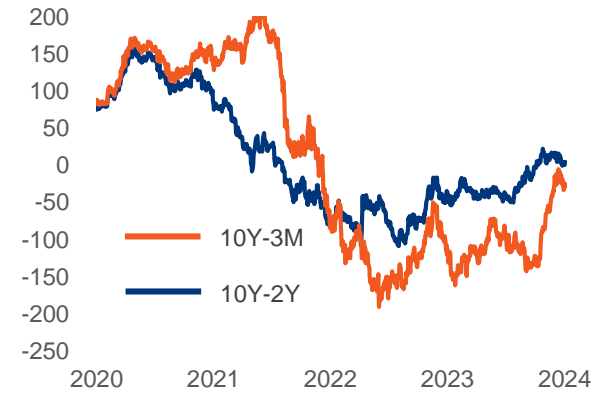
U.S. CPI YoY Growth Rate (%)



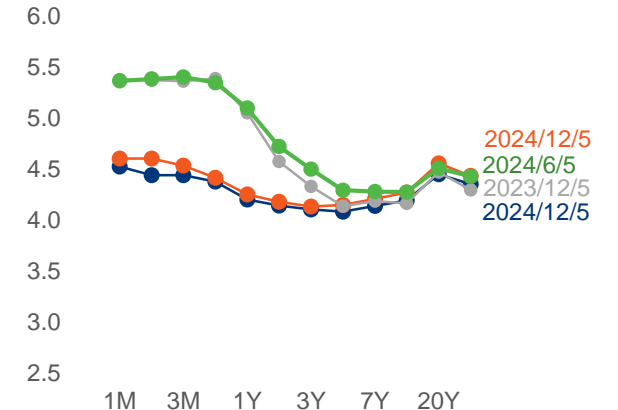
U.S. 10-Year Treasury Yield (%)



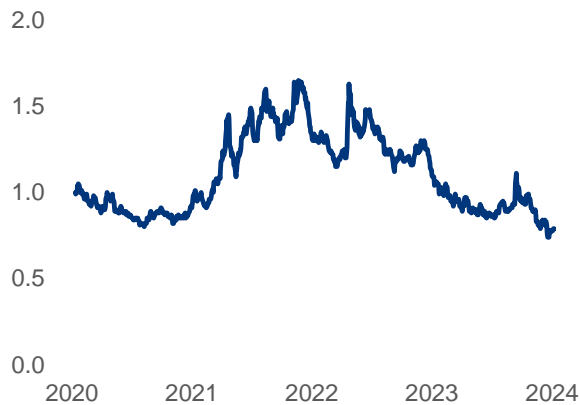
U.S. Treasury Yield Spread (bps)



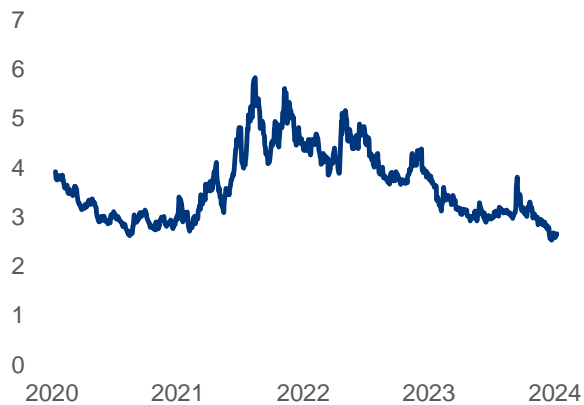
U.S. Treasury Yield Curve (%)



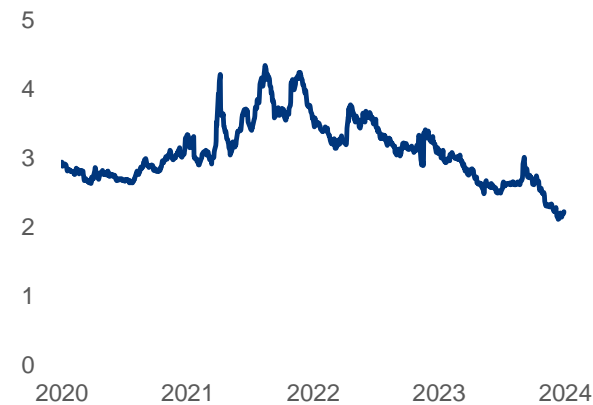
USD IG Credit Spread (%)



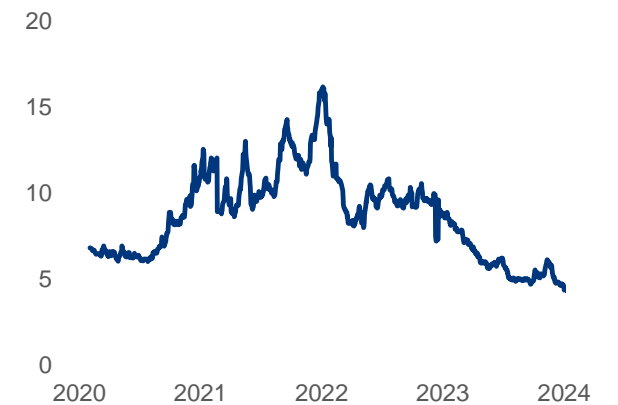
USD HY Credit Spread (%)



USD EM Credit Spread (%)



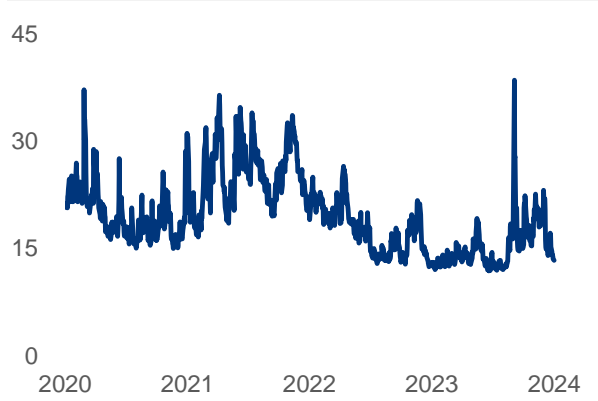
USD Asia Credit Spread (%)



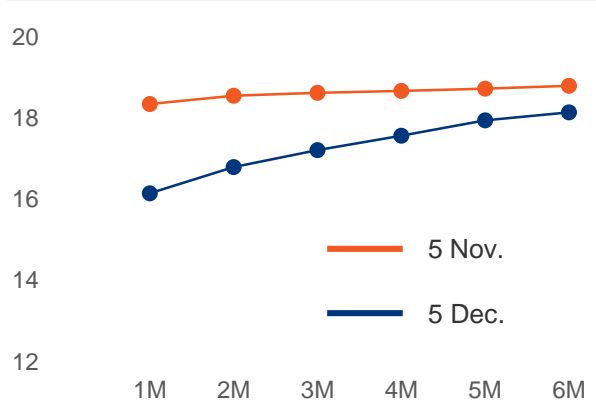
Source: Bloomberg, 5 Dec. 2024

Market Monitor

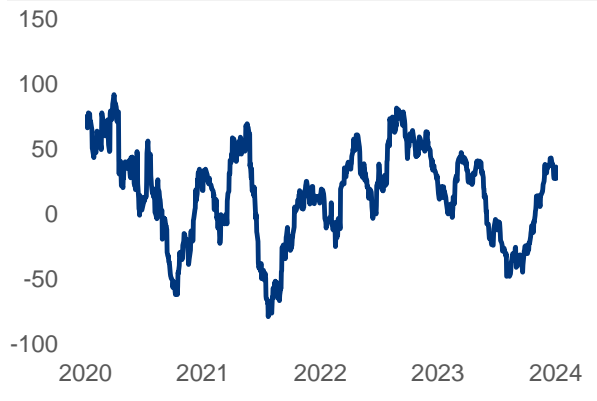
VIX Index



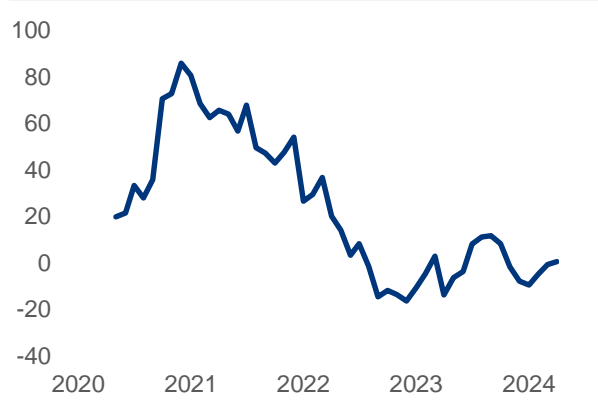
VIX Term Structure



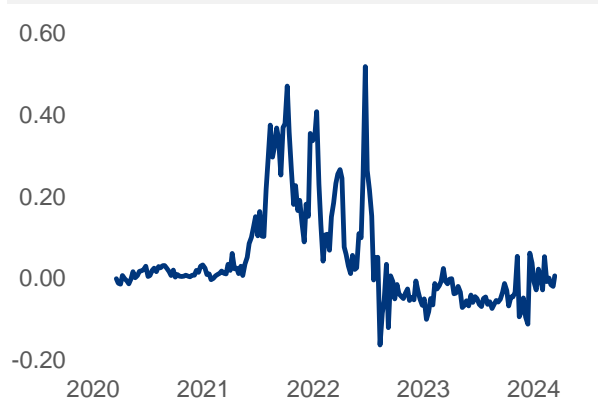
U.S. Citi Economic Surprise Index*



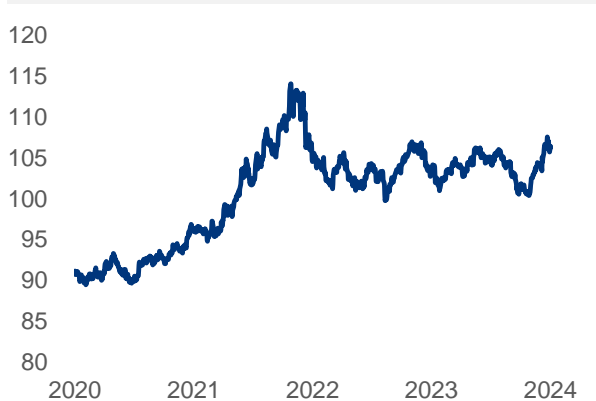
U.S. Citi Inflation Surprise Index*



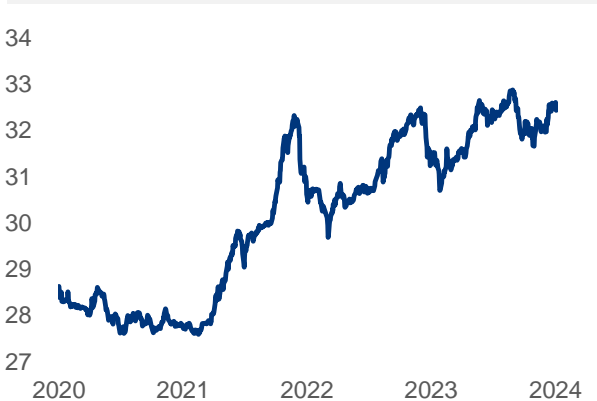
TED Spread (bps)



U.S. Dollar Index



USD to TWD



USD to JPY



Source: Bloomberg, 5 Dec. 2024; *The Citi Economic/Inflation Surprise Index measures the deviation between economic data/actual inflation and market expectations. A rising index indicates economic improvement/inflation exceeding market expectations.

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