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Asia EM Equity Strategy | Asia Pacific

Asia's bull market – state of play for top 100 stocks

The broad MSCI Asia Pacific equities index has now entered a bull market, rising 25% from last October's low. We continue to favour Japan, Korea and Taiwan and stop the clock to look at the shape of the large cap stock investment universe exploring market and sector breakdowns, and their MS analyst views.

The investible universe for pan-Asia equities is changing rapidly for both top-down and bottom-up reasons. Within the MSCI Asia Pacific equities benchmark (ticker MXAP), Japan equities investible free float market capitalisation now stands at over US\$3.5trn, by far the largest single market. On this basis the market capitalisation of China has fallen below US\$2.0trn and is only around 2x that of India. Key developments / debates include Japan's improved nominal GDP growth environment – see [Japan Economics and Equity Strategy: Momentous Shift in Japan's Nominal GDP Path \(11 Jun 2023\)](#) – and China's reopening trajectory versus debt overhang / deflationary pressures – see [China Economics Mid-Year Outlook: Recovery to Continue \(4 Jun 2023\)](#) as well as India's improved structural growth environment – see [India Economics & Equity Strategy: How India has Transformed in Less than a Decade \(24 May 2023\)](#).

We would characterise valuations for the top 100 largest market capitalisation stocks in Asia at a reasonable level for an early to mid cycle environment at a median MS analyst forward P/E for 2024e of 15.2x for an anticipated ROE of 12.7%.

We continue to prefer Japan (top pick), Korea and Taiwan and the broad Semiconductor and Technology sectors. For details see our mid-year Outlook – [Asia EM Equity Mid-Year Outlook: Most Bullish Japan, then Korea and Taiwan; Reduce China OW \(4 Jun 2023\)](#). Large cap stock names in Asia where MS analyst have recently raised their targets include TSMC (2330.TW), Samsung Electronics (005935.KS) and Toyota Motor Corp. (7203.T). Stocks where analysts have reduced their targets include Commonwealth Bank of Australia (CBA.AX), Daiichi Sankyo (4568.T), and National Australia Bank (NAB.AX). Our Asia ex Japan focus list is included [here](#) – and our Japan focus list [here](#).

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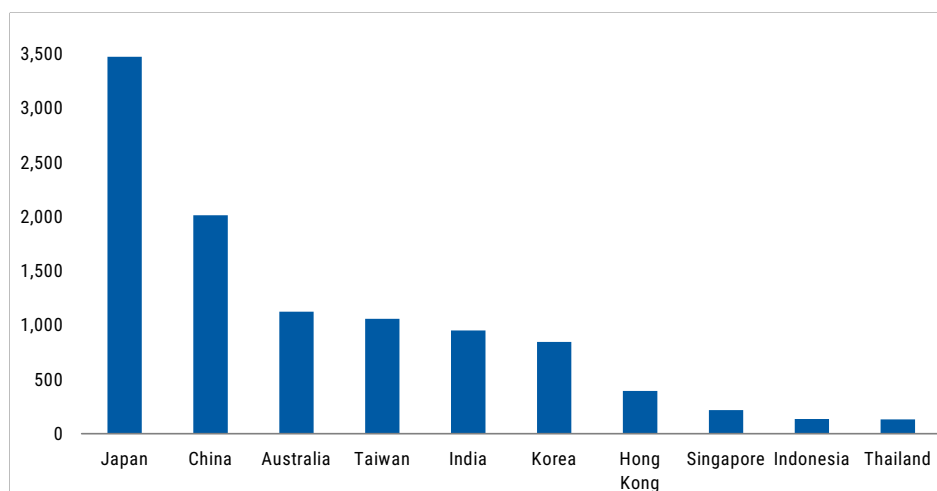
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Japan has the clear leading role in Asia Pacific equities universe

2023 has been characterised by sharp outperformance by Japan, Korea and Taiwan. Exhibit 1 shows the current state of play for the investible universe in Asia region in terms of MSCI Free Float Market Capitalization. Japan leads the way at around US\$3.5trn currently, versus around US\$2.0trn for China. Four markets – Australia, Taiwan, India and Korea – are all clustered at around the US\$0.8trn to US\$1.0trn mark. All told, Asian equities is an investible universe of around US\$10trn currently.

Exhibit 1: MSCI Free Float Market Capitalization of Key Asia Markets (US\$bn) – Japan leads the way

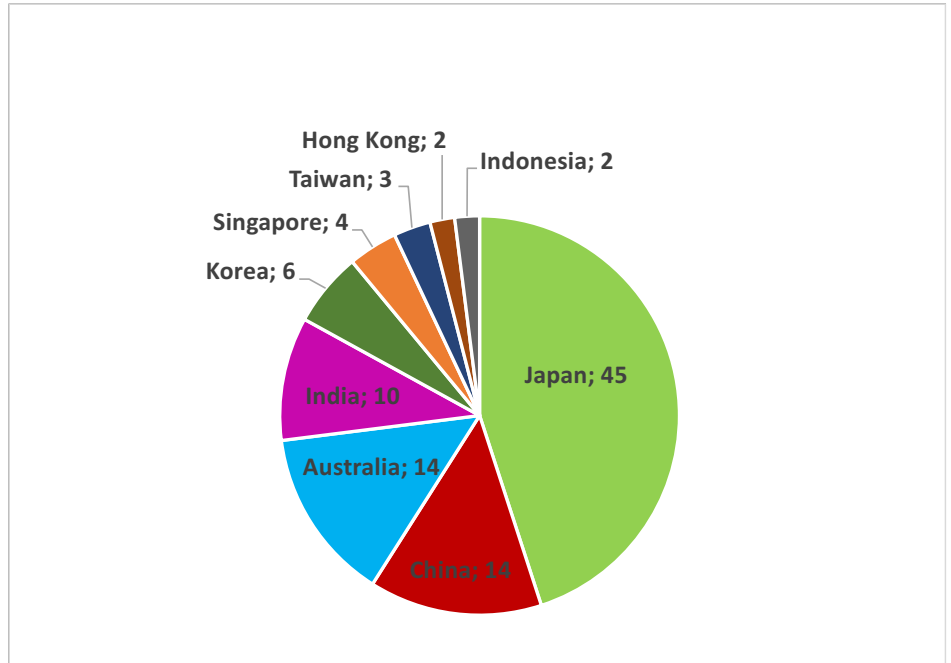


Source: Factset, MSCI, Morgan Stanley Research. Data as of June 7, 2023

Cutting the large cap universe of the top 100 stocks in MSCI Asia Pacific one finds that Japan accounts for 45 names dominating the country breakdown. China and Australia each total 14 followed by India with 10. There are six names from Korea, four from Singapore and three from Taiwan.

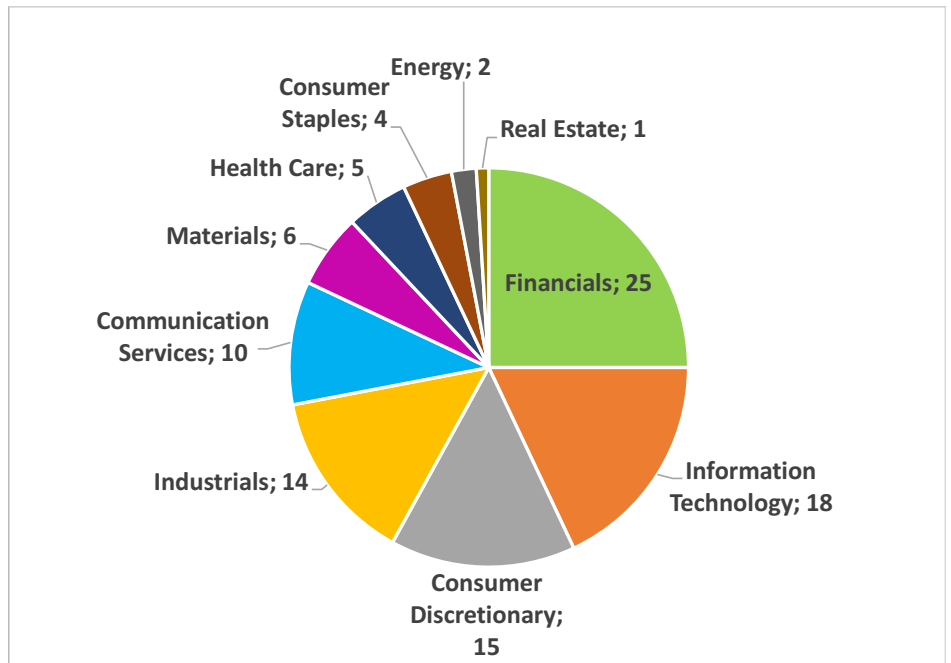
By sector, there is more diversification with 25 stocks coming from the Financials sector, 18 from Information Technology, 15 from Consumer Discretionary and 14 from Industrials. Only two names are from the Energy sector and six from Materials.

Exhibit 2: Number of Stocks by Geography within Top 100 Free Float Market Cap Stocks in the MSCI AC Asia Pacific index



Source: MSCI, Morgan Stanley Research Data as of June 8, 2023

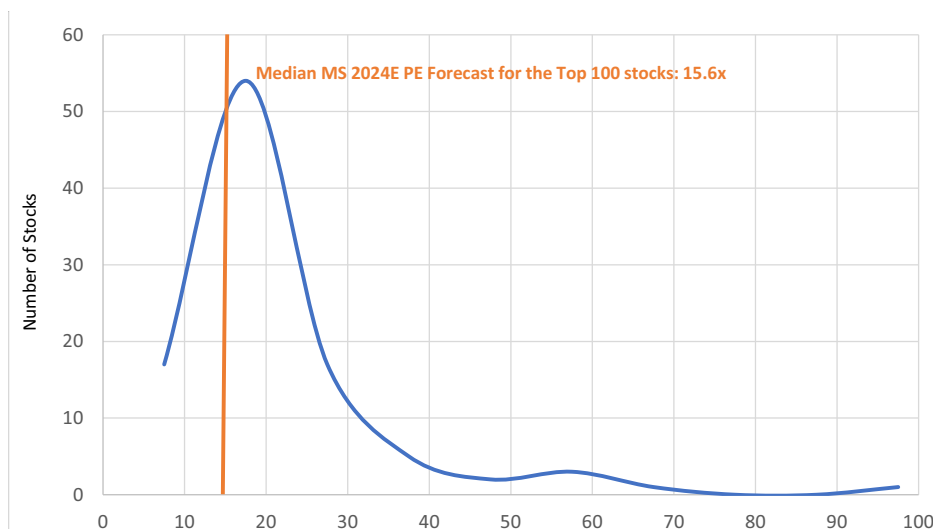
Exhibit 3: Number of Stocks by Sector within Top 100 Free Float Market Cap Stocks in the MSCI AC Asia Pacific index



Source: MSCI, Morgan Stanley Research Data as of June 8, 2023

Exhibit 4 gives summary valuation, profitability, target price and recommendation information for the top 100 stocks in MSCI AC Pacific by free float market capitalisation.

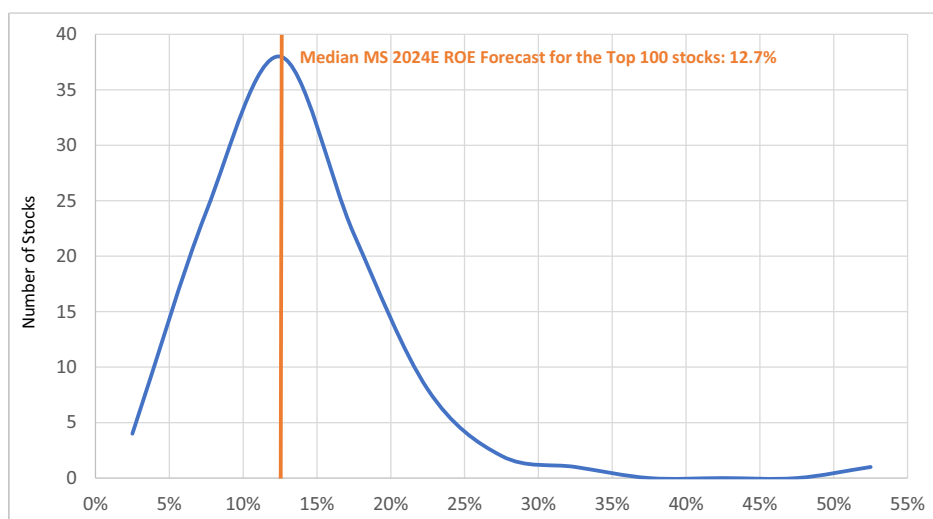
Exhibit 5: Distribution of MS 2024E PE Forecasts for Top 100 MSCI Free Float Market Cap Stocks in the MSCI AC Asia Pacific Index



Source: Morgan Stanley Estimates, Morgan Stanley Research Data as of June 13, 2023

Looking at the distribution of MS analysts' expected ROE for 2024, we find that the range of ROE spans from the lowest of 3.0% (Xiaomi Corp.) to the highest of 51.1% (Tata Consultancy Services Limited), with the median ROE of these Top 100 Asia stocks is 12.7%. Again the distribution is right skewed, with most of the stocks (38) falling into the 10-15% ROE group, 24 stocks which fall into the 5-10% group, 22 stocks in the 15-20% group, eight in the 20-25% group and then four in the group below 5%. The distribution of the remaining groups is quite scattered.

Exhibit 6: Distribution of MS 2024E ROE Forecasts for Top 100 MSCI Free Float Market Cap Stocks in the MSCI AC Asia Pacific Index



Source: Morgan Stanley Estimates, Morgan Stanley Research Data as of June 13, 2023

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1357	37%	274	43%	20%	603	39%
Equal-weight/Hold	1661	46%	298	47%	18%	720	47%
Not-Rated/Hold	2	0%	0	0%	0%	0	0%
Underweight/Sell	612	17%	66	10%	11%	223	14%
TOTAL	3,632		638			1546	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

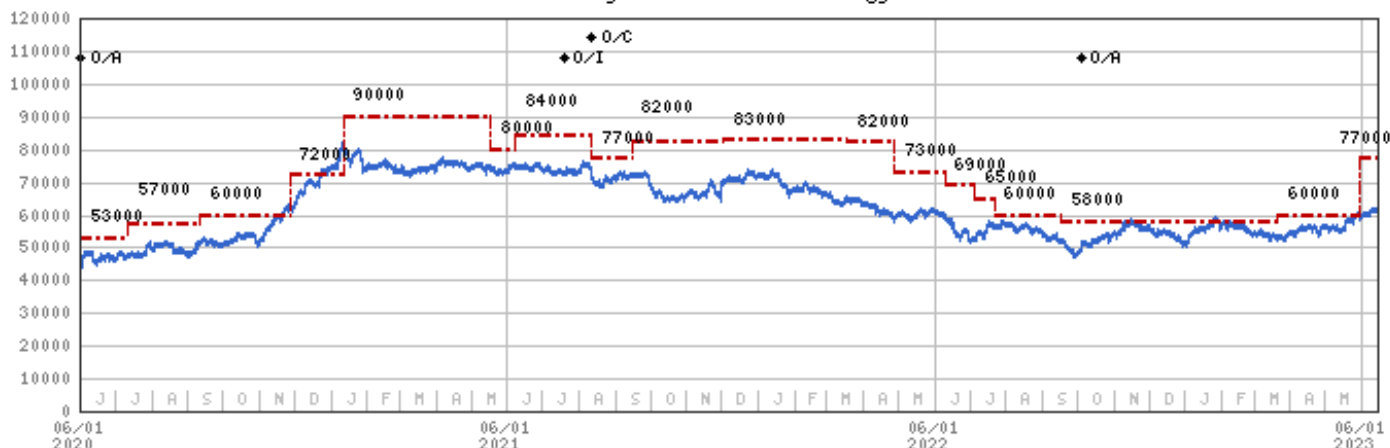
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)

Samsung Electronics (005935.KS) - As of 6/13/23 in KRW
Industry : S. Korea Technology



Stock Rating History: 6/1/18 : E/C; 7/30/19 : E/I; 11/18/19 : O/A; 7/19/21 : O/I; 8/12/21 : O/C; 10/4/22 : O/A

Price Target History: 5/31/18 : 40000; 4/30/19 : 30000; 6/4/19 : 33000; 7/30/19 : 43000; 11/18/19 : 49000; 1/14/20 : 59000;
2/26/20 : 62000; 3/19/20 : 56000; 4/29/20 : 53000; 7/12/20 : 57000; 9/11/20 : 60000; 11/27/20 : 72000; 1/12/21 : 90000;
5/18/21 : 80000; 6/8/21 : 84000; 8/12/21 : 77000; 9/15/21 : 82000; 12/3/21 : 83000; 3/18/22 : 82000; 4/28/22 : 73000;
6/10/22 : 69000; 7/5/22 : 65000; 7/22/22 : 60000; 9/17/22 : 58000; 3/21/23 : 60000; 5/30/23 : 77000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ---
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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