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2008: Net profit drops 56.6% yoy. New trading system and direct market access to equity market will enhance market turnover in the longer term.

Update

IOI Corporation (SELL/RM3.92/Fair: RM2.55) Page 17
Privatise IOI Property at RM2.598/share via cash and issue of new IOI Corp shares. Book value enhancement but neutral on earnings.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7,956.7	-1.5	-5.0	-11.9	-9.3
ASX 200	3,382.3	-1.9	-1.5	-7.1	-7.6
CSI 300	2,166.4	2.7	7.2	15.1	19.2
FSSTI	1,707.4	-0.3	-3.3	-11.3	-3.1
FTSE 100	4,228.6	1.5	-1.6	-7.3	-4.6
HSI	13,063.9	2.2	3.9	-16.1	-9.2
JCI	1,320.4	1.2	-0.1	-8.1	-2.6
KLCI	876.8	-0.3	0.5	-4.8	0.0
KOSPI	1,195.4	2.8	3.2	1.9	6.3
Nikkei 225	8,038.9	2.7	-0.8	-11.1	-9.3
SET	299.4	0.6	-4.2	-12.0	-5.4
TWSE	4,390.0	0.4	0.5	-6.6	-4.4
CPO	1,740.0	-2.9	-3.7	1.1	6.8
BDI	1,316.0	4.5	13.2	48.5	48.3

Source: Bloomberg

UOBKH Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs			
China Life	2628 HK	21.80	36.00 65.1
China Mobile	941 HK	71.25	95.00 33.3
China Petroleum	386 HK	4.34	6.93 59.7
China Railway	390 HK	4.50	5.90 31.1
China Shenhua	1088 HK	17.40	23.00 32.2
Maanshan Iron	323 HK	2.91	3.20 10.0
Public Bank	PBK MK	8.80	10.90 23.9
DBS Group	DBS SP	8.69	10.98 26.4
Indofood Agri	IFAR SP	0.58	0.80 39.1
SingTel	ST SP	2.51	2.95 17.5
Advanced Info	ADVANC TB	75.00	101.00 34.7
Quality Houses	QH TB	0.89	1.49 67.4
Top SELLs			
Aluminum Corp	2600 HK	3.70	2.50 (32.4)
Parkson Retail	3368 HK	7.03	4.89 (30.4)
Wharf Hldg	4 HK	17.60	14.60 (17.0)
S'pore Airlines	SIA SP	11.06	9.70 (12.0)
S'pore Exchange	SGX SP	5.10	3.00 (41.2)
Amata Corp	AMATA TB	3.72	2.52 (32.3)

Key Assumptions

GDP (% yoy)	2007	2008	2009F
US *	2.2	1.3	(1.5)
Euro Zone *	2.6	0.9	(1.8)
Japan *	1.8	(0.2)	(2.0)
Singapore	7.5	1.2	(4.0)
Malaysia	5.8	5.1	0.9
Thailand	4.3	4.2	0.5
Indonesia	6.3	6.0	3.6
Hong Kong	6.0	2.2	(0.8)
China	11.5	9.0	7.1
Brent Crude Oil (US\$/bbl)	100.00	55.00	65.00
Gold Price London * (US\$/ounce)	872.59	866.80	900.54
Iron Ore * (US\$/dmtu)	152.51	106.64	99.29
Copper * (US\$/MT)	6,883.72	3,922.00	4,816.00
Aluminium * (US\$/MT)	2,623.02	1,857.00	2,238.00
CPO (US\$/MT)	818.07	520.00	685.00
BDI	7,082	6,338	2,500

* Bloomberg

Source: UOB, UOB Kay Hian

Corporate Events

	Venue	Type	Beg	Close
Regional/Plantation	Europe	NDR	6-Feb	12-Feb
China/Commodities-Energy	Singapore	AP	16-Feb	17-Feb
China/Commodities-Energy	Malaysia	AP	18-Feb	19-Feb
China/Commodities-Energy	Hong Kong	AP	20-Feb	20-Feb

* AP: analyst presentation; NDR: non-deal roadshow

*Thursday, February 05, 2009***SINGAPORE****Sector****REITs****Page 19**

Ascendas REIT, Ascott Residence Trust, Frasers Centrepoint Trust and Parkway Life REIT are most well-positioned in terms of financial risks.

Update**Singapore Airlines (SELL/S\$11.06/Fair: S\$9.70)****Page 22**

3Q09 earnings preview: Expecting steep write-downs.

THAILAND**Strategy**

Is the Thai government facing liquidity problems? Yes for now.

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Thursday, February 05, 2009

Jan 09 PMI

Rebound in PMI suggests economy picking up

DATA RELEASED (PMI in Jan 09): 45.3
PREVIOUS DATA (PMI in Dec 08): 41.2

PMI rebounded for the second month, indicating economy is recovering. China's Purchase Manager's Index (PMI) rebounded to 45.3 in Jan 09 from 41.2 in Dec 08, suggesting the economy is picking up in 1Q09. Compared with Dec 08, both the new order and production indices picked up by more than 6%, indicating economic activity is recovering with the help of the government's stimulus package. The decrease in inventory may suggest the de-stocking process is coming to the end. Thus, production could return to the normal pace. However, the employment index continued to drop, reflecting worsening labour market conditions (20m migrant workers have been laid off).

External demand still weak. New export order rose 3ppt to 33.7% in Jan 09 but is still the lowest among the sub-indices, reflecting sluggish external demand. This would increase pressure on China's employment. Hence, we are still cautious on China's economic outlook and downgraded our GDP growth forecast for 2009 to 7.1%.

PMI index for five sub-sectors have exceeded 50, with four new ones added in Jan 09. Tobacco production, beverage production, smelting and pressing of ferrous metals, food processing and production, paper making and cultural, educational and sports goods, have all expanded while only beverage production, and medical and pharmaceutical products were above 50 in Dec 08. For machinery sector, although overall PMI index is still below 50, both the new order and new production index have exceeded 50. However, PMI index for textile sector continued to drop, reflecting weak external demand.

PMI is expected to continue improve in the coming months. We see some positive signs that economy is resuming momentum recently.

- China Securities Journal disclosed that new loan growth in Jan is expected to exceed Rmb1.2t, far exceeding the previous monthly high of Rmb803b during Jan 08.
- Prices of a range of steel products jumped after the week-long Spring Holiday, reflecting a healthy start for the Year of Ox. For example, as of 3 February, the average prices of 6.5mm high-speed wire, 25mm thread steel and 1mm cold rolled steel stayed at Rmb3901/tonne, 3908/tonne and 4752/tonne respectively in major domestic markets, rising more than Rmb100/tonne.
- Chemical products prices show signs of stabilising. Prices of some products even start to rise recently. Price of benzene, for instance, rose 11% in Jan after dropping 28% in last December.

Impact on stock market is positive. Base materials are primary beneficiaries at this stage. As we expect enterprises to start re-stocking, output and price of coal, steel, cement and chemicals are expected to resume some momentum in the near term. Our top picks include **China Shenhua (1088 HK/BUY/Target: HK\$23)**, **Magang (0323 HK/BUY/Target: HK\$3.20)** and **Sinopec (0386 HK/BUY/Target: HK\$5.93)**

CHINA

Jan 09 PMI

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PMI Details

	Output	New Order	New Export Order	Finished Goods Stocks	Imports	Input Prices	Employment	Overall
2008								
Jan	56.1	55.2	49	48	51.3	67.7	49.7	53
Feb	55.4	56.9	51.3	47.3	50.7	70.1	49.8	53.4
Mar	55.3	63.8	59.1	47.3	57.5	74.6	53.4	58.4
Apr	66.5	65.0	58.9	47.2	56.1	75.1	52.9	59.2
May	55.7	55.4	53.4	48.7	50.3	73.9	51.2	53.3
Jun	54.2	52.6	50.2	49.5	50.9	75.7	50.3	52
Jul	47.4	46.2	46.7	47.8	45.4	71.3	50.6	48.4
Aug	48.7	46.0	48.4	49	45.3	57.8	50.7	48.4
Sep	54.6	51.3	48.8	50.5	46.4	44.7	50.3	51.2
Oct	44.3	41.7	41.4	51.4	39.4	32.3	47	44.6
Nov	35.5	32.2	29	50.8	32.2	26.6	44.3	38.8
Dec	39.4	37.3	30.7	44.7	33.3	32.7	43.3	41.2
2009								
Jan	45.5	45	33.7	43.5	39.9	41.5	43	45.3

Source: CEIC

Steel

Be prepared to make some gains on further rebound

Steel stocks - especially our top pick Maashan Iron - gained the most among metal stocks in the first five days after the Lunar New Year. On-going strength in steel prices and surprising PMI numbers may lengthen rally. Be prepared to take profit.

Sector Event

Continuing strength in steel prices, China's surprising January Purchasing Manager Index (PMI) and the overnight rebound in the US market helped to lift steel prices sharply yesterday.

Steel Stocks: Top Performers After Lunar New Year

	4 Feb 09 Price	Price change (%)	
	HK\$	1D change	5D change
Maanshan Iron	2.91	10.6	28.2
Angang Steel	8.22	12.6	27.4
Chongqing Iron	2.15	8.0	21.5
Jiangxi Copper	5.84	9.8	18.7
China Shenhua	17.40	4.1	16.2
Chalco	3.70	7.2	15.6
China Coal	5.99	5.1	15.2
Hidili	2.71	7.5	12.0
Anhui Conch	38.75	7.3	11.8
Zijin Mining	4.21	1.7	11.7
Yanzhou Coal	5.47	6.6	11.6
H-share Index	7241.7	4.0	8.7
Hang Seng Index	13063.9	2.2	3.9

Source: Bloomberg

Spot Prices Of Key Steel Products

	(Rmb/tonne)*	3D %	1M %	3M %	6M %	Ytd
Steel Rebar 25mm	3951	4.0	6.9	5.9	(26.5)	6.9
Wire Rod 6.5mm	3939	3.7	7.3	5.7	(30.8)	7.3
HR Sheet 3mm	4172	4.3	5.9	20.7	(28.0)	5.9
CR Sheet 1mm	4750	1.9	4.8	10.5	(33.1)	4.8
Steel Plate 20mm	3991	5.0	7.3	7.8	(38.3)	7.3

* Price as at 4 Feb 09

Source: Bloomberg

Sector Impact

Spot steel prices gained between 2-5% this week following the Lunar New Year, which we had anticipated after Baosteel – the country's largest steel mill - hiked March prices before the Lunar New Year. Steel mills we talked to said the on-going strength in steel prices is due to moderately mom improving orderbooks in Jan 09 from traders and to an extent, end-users.

We have been writing about this for some time and thus upgraded the sector about three weeks ago. The anecdotal evidence from the mills was confirmed yesterday with the release of China's January PMI numbers. An interesting number was the nearly 8-point rise in "new orders" to 45, which served to confirm the substance of our conversations with the mills (there was no detailed breakdown in the "new orders" in this set of PMI numbers). Again, it was not a surprise to us as we had written several times about the re-stocking by traders and, more recently, the creeping back of some end-user demand.

CHINA

Steel

MARKET WEIGHT

Angang Steel (347 HK)

HOLD

Current Price: HK\$8.22

Fair Price: HK\$7.96

Maanshan Iron & Steel (323 HK)

BUY

Current Price: HK\$2.91

Target Price: HK\$3.20

Chongqing Iron & Steel (1053 HK)

HOLD

Current Price: HK\$2.15

Fair Price: HK\$2.31

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Stock impact

As a group, steel stocks were the best performers after the Lunar New Year. Backed by the "less bad" PMI numbers and strength in product prices, we will not be surprised to see the rally continue for a couple of days. But given the already impressive gains, one might want to lock in profit and buy again on dips.

Angang Steel

Just before the Lunar New Year, Angang had issued a profit warning, prompting us to cut our FY08 net profit forecast from Rmb6,050m to Rmb3,462m even though our numbers were already among the lowest on the street. The cut was to factor in higher inventory write-off, ramp-off costs at its new Baiyuquan mill and higher contract material costs.

Furthermore, we revised down our earnings forecast for FY09 from Rmb5,757m to Rmb4,756m to factor in low margins due to a weaker average selling price (ASP) for the entire year and the negative "lagging effect" of contract ores it buys from its parent company.

Maanshan Iron

We revised down Magang's FY08 earnings forecast from Rmb2,236m to Rmb1,718m to factor in higher inventory write-off and higher contract material costs but left our FY09 net profit forecast unchanged at Rmb2,262m, basically in line with the consensus.

Chongqing Iron

We cut our FY08 earnings forecast for Chongang from Rmb708m to Rmb425m to factor in higher inventory write-off, and left our 2009 forecast numbers unchanged at Rmb569m.

Conclusion

Steel stocks have enjoyed a strong rally after the Lunar New Year with Magang, Angang and Chongang gaining 28%, 27% and 21% respectively.

We re-iterate our BUY call on Magang with target price of HK\$3.20, it being the best proxy to China's robust railway expansion initiative.

We have HOLD on Angang Steel with a fair price of HK\$7.96 and an entry price of HK\$7.00. Yesterday's closing price of HK\$8.22 had overshot our fair price by 3%. We can expect a couple more days of over-shooting. But be prepared to lock in some profits.

Chongqing Iron (1053.HK) is a **HOLD** with a fair price of HK\$2.31 and entry price of HK\$1.80.

Fair/Target Price of Steel Stocks

		Price @ 4 Feb 09 (HK\$)	Target/Fair Price (HK\$)	Rating	2008 PE (x)	2009 PE (x)	P/B (x)	Yield (%)
Angang	347 HK	8.22	7.96	HOLD	15.1	11.0	1.0	2.1
Magang	323 HK	2.91	3.20	BUY	10.1	7.7	0.8	3.1
Chongang	1053 HK	2.15	2.31	HOLD	7.7	5.8	0.6	4.2

Source: UOB Kay Hian

China Merchants Bank

Lower risk of asset quality deterioration in 2009 on new influx of loans

In our highly unlikely pessimistic scenario where NPL balance increases by over 270% over two years, we arrive at a target price of HK\$14.70, reflecting 15% upside from current levels. We maintain BUY on attractive valuations.

Corporate Events

Premier Wen Jiabao recently noted that total loans worth Rmb900b were issued by Chinese banks in the first 20 days of January. Total new loans for January are expected to exceed Rmb1t, far exceeding the previous monthly high of Rmb803.6b in Jan 08.

Stock Impact

While the exceptionally strong loan growth shows the abundant liquidity within the Chinese banking system, we believe most of the new loans were directed towards areas targetted by the government stimulus package, thereby increasing policy-lending risk for major banks. However, as China Merchants Bank (CMB) is not under the control of the Ministry of Finance, it is not susceptible to any policy risk. Furthermore, as CMB would not be under government pressure to lend to government-funded projects, it is unlikely that loans to the private sector would be significantly squeezed out.

In terms of banks' asset quality, the high loan growth rate will ensure that corporations continue to receive much-needed financing, which will help reduce the number of corporate bankruptcies this year. With the Purchasing Managers Index (PMI) also improving over two consecutive months and with inventories beginning to fall, the economic slowdown seems to be stabilising, which may further improve operating conditions for Chinese companies.

Earnings Risk

Risks include a significant rise in non-performing loans (NPL) from small and mid-sized (SME) and asymmetrical interest cuts.

Recommendation/Valuation

In our pessimistic scenario, where we increase NPL ratio by 152bp in 2009 and another 80bp in 2010, we derive ROEs of 17.5% and 21.0% for the two years respectively, with 2010 equating our ROE assumption even given the very difficult operating conditions. Under this scenario, we further reduce our sustainable ROE estimate to 20% to arrive at a target price of HK\$14.70, which still implies 15% upside from current level. However, it is highly unlikely that our pessimistic scenario will materialise as NPLs will have to rise over 270% over a two-year period.

The primary overhang for Chinese banks remains the prospect of a severe deterioration in corporate loans. While foreign banks are plagued by a plethora of ailments such as asset write-downs and mortgage delinquencies, Chinese banks experience none of these issues. However, given the cut in our 2009-10 earnings forecasts, we reduce our sustainable ROE assumption by 1ppt to 21% and arrive at a new target price of HK\$16.90, or 2.1x 2009 P/B.

CHINA

China Merchants Bank (3968 HK)

BUY

Current Price: HK\$12.78

Target Price: HK\$16.90

(Previous: HK\$18.40)

Sector	Banking
52-Wk Avg Daily Vol. (m)	51.5
Market Cap (HK\$m)	232,186
(US\$m)	29,767
Major Shareholders (%)	
China Merchants	18.0
COSCO	10.0
Book NTA per Share (Rmb)	4.62
ROE (%)	24.8
Results Due	
Interim	August
Final	April

Price Chart



Source: Bloomberg

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Year to 31 Dec	Operating Income (Rmbm)	Pre-Provisioning Profit (Rmbm)	Net Profit (Rmbm)	EPS (Rmbm)	EPS Growth (%)	PE (x)	P/B (x)	DPS (Rmb)	Yield (%)
2006	24,866	13,775	6,794	0.54	61.4	21.3	3.07	0.12	1.0
2007	41,048	24,310	15,243	1.04	91.3	11.1	2.49	0.28	2.4
2008F	59,133	36,476	23,721	1.61	55.6	7.1	1.94	0.48	4.2
2009F	64,317	38,756	24,777	1.68	4.5	6.8	1.61	0.51	4.4
2010F	80,128	50,498	29,600	2.01	19.5	5.7	1.33	0.60	5.2

Consensus Net Profit – FY08: Rmb23,472m
 – FY09: Rmb24,705m

Current prices continue to factor in significant downside

In our pessimistic scenario, we assume CMB's NPL ratio would increase by 152bp yoy for 2009 to 2.80%, causing NPL balance to increase 151% yoy. For 2010, we further assume NPL formation will continue its uptrend, with NPL ratio increasing 80bp and NPL balance increasing 48% yoy. Credit costs will jump 150bp to 1.96% for 2009 and to 2.06% for 2010. Consequently, earnings will decrease 35% yoy for 2009, but will stage a strong comeback with a 36% earnings growth for 2010. ROE will fall to 17.5% for 2009, but will rebound to 21% for 2010 even with such hefty credit costs, which is just below our sustainable ROE forecast. This goes to show the resilience of CMB's earnings ability even after two consecutive years of very difficult operating conditions. Even if we reduce our sustainable ROE assumption to 20% in our valuation, we arrive at a target price of HK\$14.70, which is still above current market prices.

NPL formation to moderate this year, with some moved to 2010

In 4Q08, NPL formation for the banking sector increased slightly, and we expect CMB's NPL balance to have increased 19% over its 3Q08 figure, arriving at an NPL ratio of 1.45% for end-08 and a coverage ratio of 210% with a credit cost of 0.68%. As a result, we cut our end-08 net income forecast by 4.7% to Rmb23,721m, up 56% yoy over 2007.

In our base case for 2009, we cut our NPL formation rate to 55bp for the NPL ratio (to 2%, down from 2.28%), as we believe the increase in new lending will help stabilise firms this year and at least help postpone bankruptcies until 2010. With a 55bp rise in the NPL ratio, CMB's NPL balance will increase 60% yoy and credit costs will increase to 0.70%, allowing CMB to maintain a coverage ratio of 160%, above the regulatory minimum of 150% for mid-sized banks. Consequently we lower our 2009 net income forecast by 7% to Rmb24,777m, which is up 4.5% from 2008.

As a significant influx of new loans may increase credit risk in 2010, we assume a 50bp increase in NPL ratio for 2010, reflecting a 44% increase in NPL balance. To maintain a coverage ratio of 150%, credit costs will increase by 46bp to 1.16%, as CMB will no longer have the benefit of a massive cushion in impaired loan coverage. As a result, we lower our 2010 net income forecast by 8% to Rmb29,600m.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Net interest income	21,509	33,902	50,085	52,593	64,852
Operating expenses	(11,091)	(16,738)	(22,657)	(25,561)	(29,630)
Pre-provision profit	13,775	24,310	36,476	38,756	50,498
Net profit	6,794	15,243	23,721	24,777	29,600

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Cash and Balance with Central Banks	103,233	166,542	205,209	242,421	286,850
Due from other banks & fin institutions	88,171	225,669	282,086	338,504	389,279
Total Gross Loans	461,866	620,891	709,937	814,002	935,544
Total Assets	934,102	1,310,552	1,516,812	1,796,626	2,101,179
Due to other banks & financial institutions	63,047	32,996	43,247	76,603	265,123
Total Liabilities	878,942	1,242,568	1,429,225	1,691,378	1,973,765
Total Shareholder's Equity	55,160	67,984	87,587	105,248	127,415

Historical PE & P/B ranges

PE	2008*	2007	2006
Hi	17.4	73.9	27.4
Lo	4.9	26.8	17.2

P/B	2008*	2007	2006
Hi	3.9	10.4	7.1
Lo	1.1	3.8	4.4

* Based on estimated 2008 EPS and BPS
Source: Bloomberg, UOB Kay Hian

P/B Standard Deviation



Source: Bloomberg, UOB Kay Hian

Zijin Mining

A sparkle in the dark

Zijin Mining estimated last night it will see a 17% rise in 2008 net profit to more than Rmb3b. One of the only two stocks with a BUY rating in our metal universe, Zijin should be the only metal stock to report a 2008 earnings rise.

Corporate Event

Zijin Mining (Zijin) made a preliminary results announcement last night, saying that it expected its 2008 earnings to grow by 17% to over Rmb3b, mainly driven by strong gold and copper prices in the first three quarters of last year, as well as higher output. Earnings details were not disclosed.

Stock Impact

Zijin's preliminary 2008 earnings estimate of "more than Rmb 3b" came in within consensus forecast of Rmb3.2b.

From Jan-Sep 08, Zijin posted a net profit of Rmb2.57b, based on Chinese accounting standards. The 2008 earnings estimate by Zijin thus suggests that its 4Q08 net profit slowed to around Rmb550m. But the slowdown in 4Q net earnings was not unexpected because of the sharp qoq fall in the prices of copper (-37% qoq) and zinc (-33% qoq). These two segments collectively accounted for 25% of its turnover and 30% of gross profit in 1H08.

Zijin should be the only metal stock in our metal coverage to report a profit rise for 2008 and for the last quarter of the year.

Two weeks ago, we raised our target price for the stock to HK\$5.60 to reflect our conviction that the massive stimulus packages around the world would trigger fears of a return of the inflationary monster, and thus higher gold prices.

Earnings Revision

We have raised our 2008 earnings forecast by 8% to Rmb3.09b to take into account Zijin's estimate. We have also raised 2009 earnings forecast by 25% to incorporate higher copper price estimate of US\$1.9/lb from US\$1.6/lb previously. Our gold price assumptions for 2009 and 2010 are US\$950/oz and US\$1000/oz respectively. Our sensitivity analysis indicates a 1% change in gold and copper prices would swing 2009 earnings by 1.2% and 0.3% respectively.

Valuation/Recommendation

Being China's biggest gold producer (13% of market share in 1H08), Zijin will benefit from any explosive rise in the price of gold, one of few commodities whose average price rose in 2008. The average gold price last year was about US\$872/oz, a rise of 25%, the second strongest rate of increase since gold took off in 2002. With the humungous sums going into pump-priming economies around the world, inflation will come back to haunt us. Gold, which has been resilient, will be that economic refuge for investors wary of a return to inflation and rising government indebtedness (the US is expected to rack up a budget deficit of around 8-9% of its GDP in 2009). Maintain BUY on Zijin with a target price of HK\$5.60, based on DCF life-of-mine valuation methodology.

CHINA

Zijin Mining (2899 HK)

BUY

Current Price: HK\$4.21

Target Price: HK\$5.60

Sector	Metal
52-Wk Avg Daily Vol. (m)	43.1
Market Cap (HK\$m)	87,088.7
(US\$m)	11,163.8
Major Shareholders (%)	
Minxi Xinghang Asset Mgt Co.	29
Book NTA per Share (Rmb)	1.25
ROE (%)	10.3
Net Debt per Share (Rmb)	0.52

Results Due

1Q: Apr	2H: Aug
3Q: Oct	Final: Apr

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	10,679	3,242	1,705	0.13	(3.1)	28.6	25.2	0.07	1.9
2007	14,871	5,164	2,552	0.19	49.7	19.1	16.3	0.00	-
2008F	15,251	5,549	3,092	0.21	9.5	17.4	13.5	0.11	2.9
2009F	15,662	4,981	2,743	0.19	(11.3)	19.7	15.1	0.09	2.5
2010F	16,642	5,550	3,043	0.21	11.0	17.7	13.5	0.10	2.8

Consensus Net Profit – FY08: Rmb3214.5m
 – FY09: Rmb3131.5m

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	10,679	14,871	15,251	15,662	16,642
EBIT	2,919	4,634	5,035	4,357	4,816
Pre-tax Profit	2,869	4,432	4,979	4,417	4,901
Net Profit	1,705	2,552	3,092	2,743	3,043

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	3,679	4,396	11,778	11,059	11,795
Total Assets	11,349	16,799	25,805	26,602	28,755
Current Liabilities	3,495	6,656	4,680	4,026	3,955
Long-Term Liabilities	2,609	2,760	1,380	690	552
Shareholder Funds	3,652	5,337	16,839	18,210	19,732
Total Equity & Liabilities	11,349	16,799	25,805	26,602	28,755

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	2,606	4,438	3,240	3,877	4,051
Investing	(3,615)	(4,647)	(1,619)	(1,608)	(1,584)
Financing	1,946	428	5,022	(3,063)	(1,908)
Net Cash In/(Out) Flow	937	219	6,643	(794)	559
Begin Cash & Cash Equiv.	1,006	1,939	2,158	8,802	8,008
End'g Cash & Cash Equiv.	1,939	2,158	8,802	8,008	8,566

Technical Analysis

Shanghai A-share Index: 2212

Following a breakout from the 100-day moving average on Tuesday, Shanghai A-share Index gapped up yesterday to close at 2212, barely short of the intraday high of 2213 on strong volume in excess of the 20-day trade value moving average of Rmb8.53b.

Prior to the breakout on Tuesday, the index had been trading in the 1905-2206 range since 9 Dec 08. The closing of the index at 2212 yesterday means that resistance at 2212 no longer holds.

The index's RSI (Chart 2) registered a reading of 68.52 yesterday, surpassing its multi-month high at 63.18. According to Chart 3, the stock shows no immediate risk of reversal unless the RSI of the index tests its long-term overbought level at 80.

Given the above technicals, the odds are in favour of the index heading towards the 2450-2513 range. Note that 2450 is the index's previous high while 2513 is reckoned on the basis of the width of 1905-2206 trading range.

By the way, the strengthening of Shanghai A-share Index should lend support to the H-share Index to some extent.

Chart 1: Volume of Shanghai A-share Index



Source: Bloomberg

CHINA

Technical Analysis

Analyst

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Chart 2: RSI of Shanghai A-share Index



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000

Source: Bloomberg

Chart 3: Long-term RSI of Shanghai A-share Index



Source: Bloomberg

Esprit

1HFY09: The worst has yet to come

Esprit is losing ground to its global peers. The economic environment will worsen in 2HFY09 and currency headwinds will further aggravate its pain. Share price will head south as consensus forecasts are way too high. SELL.

1HFY09 Results

	2HFY07	2HFY08	yoy change	1HFY08	1HFY09	yoy change
Turnover						
Wholesale	8,541	10,493	22.9%	10,450	10,150	(2.9%)
Retail	6,387	8,083	26.6%	7,972	8,791	10.3%
Licensing & others	122	124	1.4%	105	123	17.1%
Total Turnover	15,050	18,700	24.3%	18,527	19,064	2.9%
Wholesale EBIT	2,310	2,736	18.5%	2,809	2,389	(15.0%)
Retail EBIT	782	810	3.6%	1,319	1,247	(5.5%)
Licensing EBIT	77	80	3.3%	53	66	24.5%
Total EBIT	3,198	3,701	15.7%	4,020	3,411	(15.1%)
Interest Inc	100	88	(12.3%)	102	64	(37.3%)
Interest expenses	0	0	n.a.	0	0	n.a.
Assoc Inc/(losses)	68	64	(6.5%)	81	91	12.3%
PBT	3,367	3,853	14.4%	4,203	3,566	(15.2%)
Tax	(586)	(696)	18.7%	(910)	(713)	(21.6%)
Net Profit	2,780	3,157	13.5%	3,293	2,853	(13.4%)
Euro-US\$	1.33	1.53	15.2%	1.41	1.41	0.0%

Source: Esprit, UOB Kay Hian

Results

Esprit's net profit dropped 13.4% yoy to HK\$2.853b in 1HFY09 (Jul-Dec 08). The results were below market expectation of HK\$3.06b. Interim dividend has been cut to HK\$0.80 from HK\$0.95. Esprit's operating performance lagged behind that reported by its major global peers. H&M posted a 14% yoy earnings growth in 4QFY08 (Sep-Nov 08) and Inditex reported a 2% yoy increase in 3Q08 net profit (Aug-Oct 08).

2HFY09 (Jan-Jun 09) will be more challenging than 1HFY09 when the economic environment in Europe (especially Germany) worsens and currency headwinds take a heavy toll on Esprit. The current Euro spot rate is 1.3 vs the average rate of 1.53 for 2HFY08, down 15%. We estimate a 1% decline in the Euro rate will translate into a 1.7% drop in Esprit's bottom line.

Earnings Revision

Earnings visibility will worsen as economies in Europe (particularly Germany) falter. As a result, we have cut our FY09, FY10 and FY11 earnings forecasts by 15%, 29% and 35% respectively. Consensus forecasts are way too high and most people believe earnings will recover in FY10. On the contrary, we expect earnings to drop further in FY10.

Year to 30 Jun	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2007	29,640	6,986	5,180	4.22	36.4	9.1	6.0	3.18	8.3
2008	37,227	8,616	6,450	5.21	23.5	7.4	4.8	4.20	10.9
2009F	36,867	6,912	5,126	4.00	-23.2	9.6	6.0	3.77	9.8
2010F	34,301	6,340	4,746	3.71	-7.4	10.4	6.5	3.65	9.5
2011F	34,319	6,366	4,809	3.76	1.3	10.3	6.6	3.67	9.5

Consensus Net Profit – FY09: HK\$6,192m
– FY10: HK\$6,690m

HONG KONG

Esprit (330 HK)

SELL

Current Price: HK\$38.55

Fair Price: HK\$26.30

(Previous: HK\$68.00)

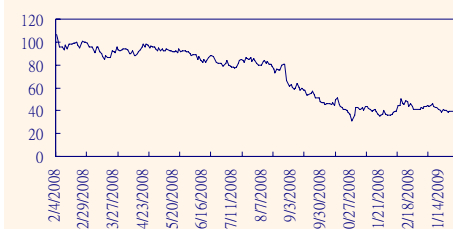
Sector	Retailing
52-Wk Avg Daily Vol. (m)	4.8
Market Cap (HK\$m)	47,997
(US\$m)	6,153
Major Shareholders (%)	
Capital Research & Management Company	18.0
Book NTA per Share (HK\$)	10.6
ROE (%)	46.0
Net Cash per Share (HK\$)	5.2

Results Due

Interim: Feb

Final: Aug

Price Chart



Source: Bloomberg

Analyst

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Valuation/Recommendation

In view of the low earnings visibility, we now reset our fair price by switching from PE- to P/B-based valuation. The stock is trading at 2.9x FY09 P/B, which is attractive compared with the global weighted average of over 4x. However, the unprecedented economic downturn in Europe may drag down sector valuations, particularly when the apparel retailing sector's performance has been resilient over the past 12 months (mainly due to outperformance of H&M and Fast Retailing, which reported robust quarterly earnings). The likelihood of a sector de-rating will force Esprit's valuation to test the historical P/B low of 1.3x in FY99. The stock is now trading at 2.9x P/B, which may be far from the trough. We cut our fair price from HK\$68 (based on 12.2x FY09 PE) to HK\$26.30 (2x FY09 P/B). Maintain SELL.

EBIT Margin Trend

	2HFY07	2HFY08	Chg in ppt	1HFY08	1HFY09	Chg in ppt
EBIT margin						
Wholesale	27.0%	26.1%	(1.0%)	26.9%	23.5%	(3.3%)
Retail	12.2%	10.0%	(2.2%)	16.5%	14.2%	(2.4%)
Licensing	63.4%	64.5%	1.1%	50.5%	53.7%	3.2%
Overall EBIT margin	21.2%	19.8%	(1.5%)	21.7%	17.9%	(3.8%)

Source: Esprit, UOB Kay Hian

Price Change – Major European Indices vs Apparel Retailers

Company	5-day (%)	1-mth (%)	3-mth (%)	6-mth (%)	12-mth (%)
FTSE 100 INDEX	(0.7)	(8.7)	(6.3)	(22.2)	(30.9)
CAC 40 INDEX	0.9	(11.0)	(15.5)	(30.9)	(40.1)
DAX INDEX	1.2	(12.0)	(13.0)	(31.6)	(37.2)
IBEX 35 INDEX	0.1	(11.9)	(9.4)	(27.7)	(38.0)
S&P/MIB INDEX	(0.4)	(11.4)	(18.3)	(37.2)	(49.0)
AEX-Index	0.9	(2.9)	(8.1)	(36.4)	(44.5)
OMX STOCKHOLM 30 INDEX	(0.2)	(10.2)	(6.8)	(27.1)	(36.2)
SWISS MARKET INDEX	(2.5)	(5.7)	(16.3)	(26.9)	(33.2)
Apparel Retailers (Global Weighted Average)	(0.1)	(7.9)	(1.5)	(15.4)	(15.1)

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	29,640	37,227	36,867	34,301	34,319
EBIT	6,389	7,866	6,169	5,649	5,675
Pre-tax Profit	6,538	8,056	6,403	5,927	6,006
Net Profit	5,180	6,450	5,126	4,746	4,809

Balance Sheet

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	11,463	15,106	15,367	14,424	13,961
Total Assets	17,029	21,892	22,810	22,577	22,822
Current Liabilities	4,570	5,560	6,044	5,604	5,604
Long-Term Liabilities	0	0	0	0	0
Shareholder Funds	12,081	15,944	16,378	16,585	16,830
Total Equity & Liabilities	17,029	21,892	22,810	22,577	22,822

Cash Flow

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	5,465	5,780	6,151	5,680	5,484
Investing	(798)	(1,793)	(1,400)	(1,400)	(1,400)
Financing	(2,017)	(2,521)	(4,405)	(4,633)	(4,548)
Net Cash In/(Out) Flow	2,649	1,466	346	(353)	(464)
Begin Cash & Cash Equiv.	2,583	5,055	6,521	6,867	6,514
End'g Cash & Cash Equiv.	5,232	6,521	6,867	6,514	6,050

Share Price And FY09 Consensus Net Profit Estimates



Source: Bloomberg, UOB Kay Hian

Euro Exchange Rate (US\$ per Euro)



Source: Bloomberg, UOB Kay Hian

Esprit – P/B Chart



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Mkt Cap (US\$m)	PB* (x)
Hennes & Mauritz	32,629	7.3
Inditex	23,865	4.4
Fast Retailing Co	13,105	4.4
Gap Inc/The	8,089	1.9
Esprit Holdings	6,153	3.0
Ross Stores Inc	3,815	3.9
Nordstrom Inc	2,839	2.5
ABC-Mart Inc	2,667	4.9
Limited Brands Inc	2,571	1.1
Urban Outfitters	2,677	3.1
American Eagle Outfitters	1,792	1.3
Abercrombie & Fitch	1,616	1.0

Global Weighted Average 4.5

* Historical
Source: Bloomberg, UOB Kay Hian

Bursa Malaysia

2008: Improving outlook yet expensive valuation

Net profit drops 56.6% yoy to RM104m in 2008. The current low velocity implies limited downside for market turnover. New trading system and direct market access to equity market will enhance market turnover in the longer term.

4Q08 Results

Year to 31 Dec (RMm)	2Q08	3Q08	4Q08	yoy % chg	qoq % chg
Revenue from equity market	35.9	26.1	25.9	(55.0)	(0.7)
Revenue from derivatives market	9.8	11.3	10.3	4.1	(8.7)
Stable revenue	27.2	25.9	23.8	2.0	(8.0)
Other operating income	2.3	1.4	1.2	(37.2)	(15.3)
Total Operating Revenue	75.2	64.6	61.2	(34.0)	(5.3)
Other income	10.5	9.0	10.0	(5.4)	10.2
Staff costs	(20.5)	(21.7)	(20.9)	0.1	(3.6)
Depreciation & amortization	(4.8)	(5.0)	(6.2)	74.8	24.8
Other operating expenses	(21.1)	(20.6)	(20.7)	(2.6)	0.2
Tax	(10.4)	(6.0)	(9.6)	22.2	60.9
Net Profit	28.6	20.2	13.5	(72.7)	(33.0)
Daily Securities market (RMm)	1.3	0.9	0.9	(52.1)	2.2

Source: UOB Kay Hian

Results

Net profit dropped 72.7% yoy to RM13.5m in 4Q08 (down 33% qoq). 2008 full-year net profit declined 56.6% yoy to RM104m. Results were in line with our expectations. Revenue from the equity market edged down 0.7% qoq while revenue from the derivatives market and stable revenue dropped 8.7% and 8.0% qoq respectively. Final dividend was cut substantially from 25.0 sen in 2007 to 7.8 sen in 2008.

Outlook

Velocity for Bursa Malaysia (BM) dropped to 19% in Dec 08, the lowest since Apr 03. Current velocity for Malaysia's stock market is the lowest compared with that of Hong Kong (101%) and Singapore (52%). Hefty investment in a new trading system has enabled BM to handle trade more efficiently, mitigating the likelihood of major system failure and preparing it for the next bull market. The prospective direct market access capability for the equity market (to be launched in 2H09) is positive for BM and this development bodes well for velocity in the long run. Experience in other exchanges indicates that the DMA Equity will increase volume by 20-25%. We expect BM's ongoing business initiatives to improve velocity in the long term.

Earnings Revision

Current velocity is very low not only in relative terms but also in absolute terms. We have raised our average daily turnover (ADT) assumptions for 2009 (from RM0.9b to RM1.2b) and 2010 (from RM0.9b to RM1.9b). Our 2009 and 2010 ADT assumptions represent turnover velocity of 42% and 67% respectively. As a result, we have raised our 2009 and 2010 earnings forecasts by 34% and 96% respectively.

MALAYSIA

Bursa Malaysia (BURSA MK)

SELL

Current Price: RM5.05

Fair Price: RM2.30

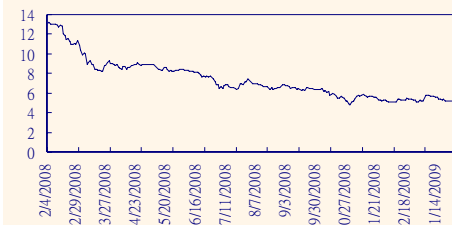
(Previous: RM1.90)

Sector	Exchange
52-Wk Avg Daily Vol. (m)	1.5
Market Cap (RMm)	2,656
(US\$m)	733
Major Shareholders (%)	
Ministry of Finance	19.1
Book NTA per Share (RM)	1.36
ROE (%)	30.3
Net Cash per Share (RM)	1.91

Results Due

1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

Malaysia Research Team
research@uobkayhian.com.hk

Year to 31 Dec	Turnover (RMm)	EBITDA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (sen)	Yield (%)
2007	443	301	241	46.1	120.2	11.0	6.0	85.0	16.8
2008	290	138	104	19.9	(56.9)	25.4	10.9	24.3	4.8
2009F	286	131	93	17.7	(10.9)	28.5	12.0	21.7	4.3
2010F	366	199	136	25.9	46.3	19.5	7.4	31.7	6.3
2011F	373	207	143	27.1	4.6	18.6	7.2	33.1	6.6

Consensus Net Profit – 2009: RM112m
– 2010: RM130m

Valuation/Recommendation

We raise our fair price from RM1.90 to RM2.30, which is based on 13.4x 2009 PE (global weighted average of major exchanges). The stock is trading at 29x 2009 PE, which is still the most demanding valuation for all publicly traded exchanges. Maintain SELL.

Average Daily Turnover & Market Cap & Annualised Turnover Velocity

Period	Average Daily Turnover* (RMm)	yoy chg (%)	Total Market Cap (RMm)	yoy chg (%)	Annualised Turnover Velocity (%)
Jul-07	2,466	168.4	1,052,390	46.9	58.1
Aug-07	2,084	216.5	964,940	32.3	53.6
Sep-07	1,615	110.0	1,008,120	37.4	39.7
Oct-07	2,085	141.7	1,063,930	40.6	48.6
Nov-07	1,638	15.8	1,041,410	27.2	39.0
Dec-07	1,487	(2.6)	1,081,350	29.7	34.1
Jan-08	2,407	14.5	1,034,410	14.4	57.0
Feb-08	1,689	(52.6)	1,006,650	8.8	41.1
Mar-08	1,603	(32.0)	932,220	(3.4)	42.1
Apr-08	1,169	(54.6)	958,870	(7.3)	29.9
May-08	1,253	(43.7)	954,180	(8.3)	32.2
Jun-08	1,141	(46.3)	885,040	(16.9)	31.6
Jul-08	910	(63.1)	860,810	(18.2)	25.9
Aug-08	771	(63.0)	819,050	(15.1)	23.1
Sep-08	783	(51.5)	757,400	(24.9)	25.3
Oct-08	1,192	(42.8)	643,850	(39.5)	45.4
Nov-08	861	(47.4)	644,840	(38.1)	32.7
Dec-08	510	(65.7)	652,170	(39.7)	19.2

*OMT only

Source: BM, Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2007	2008	2009F	2010F	2011F
Turnover	443	290	286	366	373
EBIT	287	117	92	149	157
Pre-tax Profit	319	146	124	182	190
Net Profit	241	104	93	136	143
Avg Daily Turnover (RMb)	2.3	1.3	1.2	1.9	1.9

Balance Sheet

Year to 31 Dec (RMm)	2007	2008	2009F	2010F	2011F
Current Assets	957	1,265	1,212	1,296	1,292
Total Assets	1,447	1,730	1,697	1,801	1,817
Current Liabilities	639	947	909	989	992
Long-Term Liabilities	0	0	0	0	0
Shareholder Funds	780	732	737	761	774
Total Equity & Liabilities	1,447	1,730	1,697	1,801	1,817

Cash Flow

Year to 31 Dec (RMm)	2007	2008	2009F	2010F	2011F
Operating	371	444	149	242	192
Investing	3	(28)	(58)	(70)	(70)
Financing	(268)	(146)	(143)	(92)	(126)
Net Cash In/(Out) Flow	106	270	(53)	80	(4)
Begin Cash & Cash Equiv.	720	841	1,144	1,091	1,171
End'g Cash & Cash Equiv.	841	1,144	1,091	1,171	1,167

Turnover Velocity For Regional Exchanges

Period	HKEx Velocity (%)	SGX Velocity (%)	BM Velocity (%)
Jan 07	110.7	78.6	57.6
Feb 07	97.6	86.5	95.6
Mar 07	92.7	69.3	60.6
Apr 07	101.5	78.4	61.8
May 07	109.3	74.3	53.0
Jun 07	124.6	83.0	49.5
Jul 07	128.0	95.1	58.1
Aug 07	135.1	90.0	53.6
Sep 07	145.2	71.6	39.7
Oct 07	189.5	92.0	48.6
Nov 07	166.3	78.9	39.0
Dec 07	120.6	57.5	34.1
Jan 08	174.7	85.4	57.0
Feb 08	118.0	64.4	41.1
Mar 08	131.3	67.1	42.1
Apr 08	116.7	63.7	29.9
May 08	103.7	62.8	32.2
Jun 08	100.3	54.0	31.6
Jul 08	94.0	48.6	25.9
Aug 08	96.5	50.2	23.1
Sep 08	135.9	69.4	25.3
Oct 08	166.1	91.3	45.4
Nov 08	117.8	70.0	32.7
Dec 08	101.4	52.0	19.2

Source: HKEx, SGX, BM, Bloomberg, UOB Kay Hian

IOI Corporation

Privatise IOI Property at RM2.598/share

IOI Corp will privatise IOI Property at RM2.598/share, valuing IOI Property at PE of 8.88x and P/BV of 0.66x. Pricing is in line with current sector trading average. This is a BV enhancement deal but neutral on earnings.

Corporate Events

IOI Corporation (IOI Corp) will privatise IOI Property (IOI Prop) by acquiring all 199.7m (23.96%) IOI Prop shares not already owned by IOI Corp at RM506m or at an offer price of RM2.598/share. This VGO will be partial cash and share consideration. Basis of consideration for every IOI Prop share will be satisfied via:

- a) RM0.33 cash; and
- b) 0.60 new IOI Corp share at an issue price of RM3.78/ share.

Stock Impact

At the offer price of RM2.598/share, IOI Prop is valued at P/BV and FY09 PE of 0.66x and 8.88x respectively. Based on the closing price of IOI Corp at RM3.92/share, the implied offer price will be RM2.682/share, implying 20.8% premium to IOI Prop's closing price of RM2.22/share. We think the offer is at fair valuation given that property stocks now trade at 0.5 -0.6x P/BV.

Earnings Risk

No material impact on EPS. The offer is expected to complete in 3Q09. Thus, the earnings of IOI Prop will only be fully incorporated into IOI Corp's net profit in FY10. IOI Corp's FY10 EPS would be enhanced by 1.2% from the privatising of IOI Prop. Book value per share is expected to enhance by 6.4% to RM1.47/share.

Estimated Financial Impact

	FY10
Net Profit (RMm)	
- IOI Corp	2,020.6
- IOI Prop (arising from balance 23.96% stake)	60.5
Enhanced Net Profit (RMm)	2,081.1
Enlarged number of shares (m)*	6102.9
Fully Diluted EPS (sen)	34.1
IOI Corp's FY10 EPS prior to privatization (sen)	33.7

Source: UOB Kay Hian, Bloomberg

Recommendation

Maintain **SELL** on IOI Corp with a fair price of RM2.55. A share price pullback is expected on the back of crude palm oil price retracement. At RM3.92, IOI is trading at a FY09 PE and FY10 PE of 14.2x and 11.6x respectively, making it the most expensive plantation stock compared to its regional peers.

MALAYSIA

IOI Corporation (IOI MK)

SELL

Current Price: RM3.92

Fair Price: RM2.55

Sector	Plantation
52-Wk Avg Daily Vol. ('000)	17,176
Market Cap (RMm)	24,110
(US\$m)	6,654

Major Shareholders (%)	
Tan Sri Dato' Lee Shin Cheng	42.3

Book NTA per Share (RM)	1.39
ROE (%)	27.7
Net Debt per Share (RM)	0.65

Results Due	
Interim	February
Final	August

Price Chart



Source: Bloomberg

Analyst

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Year to 30 Jun	Turnover (RMm)	EBITDA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2007	8,952.7	2,245.3	1,482.1	24.5	78.8	16.0	11.0	7.0	1.8
2008	14,665.4	3,394.5	2,231.6	36.9	50.6	10.6	7.9	17.0	4.3
2009F	17,799.1	3,076.9	1,649.6	27.5	(25.3)	14.2	9.0	12.5	3.2
2010F	19,380.6	3,307.4	2,020.6	33.7	22.5	11.6	8.0	15.0	3.8
2011F	21,501.6	3,426.2	2,106.5	35.1	4.3	11.2	7.4	20.0	5.1

Consensus net profit - FY09: RM1,521.6m
 - FY10: RM1,548.2m

Impact on the Balance Sheet

	Audited as at 30 June 2008 (RMm)	After Offer (RMm)	change
Share capital	613.7	625.4	
Share premium	1,923.3	2,353.4	
Other reserves	5,854.2	6,102.9	
Shareholders' funds	8,391.4	9,081.8	
No. of shares (less treasury shares) (m)	5,986.1	6,102.9	+2.0%
Net Assets per share (RM)	1.40	1.49	+6.4%
Total borrowings	5,964.1	5,964.1	
Gearing(x)	0.71	0.66	

Source: IOI Corp

Profit & Loss

FYE 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Turnover	8,952.7	14,665.4	17,483.7	19,986.5	22,894.9
EBIT	2,058.2	3,172.0	2,950.6	2,996.7	3,529.6
Pre-tax Profit	1,991.1	3,095.2	2,869.1	2,945.6	3,479.9
Net Profit	1,482.1	2,231.6	2,093.9	2,149.7	2,539.7
EPS (sen)	24.5	36.9	34.6	35.5	41.9

Balance Sheet

FYE 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Current Assets	5,806	7,500	9,146	10,615	12,519
Total Assets	13,681	17,261	18,971	20,487	22,360
Current Liabilities	1,146	2,410	2,689	3,003	3,397
Shareholders' Funds	7,739	8,391	9,996	11,000	12,288
Total Equity & Liabilities	13,681	17,261	18,971	20,487	22,360

Cash Flow

FYE 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Operating	1,317	1,399	1,070	1,962	2,310
Investing	(992)	(1,818)	(650)	(795)	(795)
Financing	1,175	562	(421)	(471)	(524)
Net Cash In/out flow)	1,501	143	(1)	696	991
Begin Cash & Cash Equiv.	1,220	2,721	2,880	2,878	3,575
End'g Cash & Cash Equiv.	2,721	2,880	2,878	3,575	4,566

Real Estate Investment Trusts

Distressed REITs

We surveyed financial risks in our REITs universe based on ICR. Our conclusion: Ascendas REIT, Ascott Residence Trust, Frasers Centrepoint Trust and Parkway Life REIT are most well-positioned.

Sector Events

We surveyed financial risks in our REITs universe based on interest coverage ratio (ICR). ICR is usually a key component in loan covenants.

REITs with healthy ICR are Ascendas REIT at 4.6x, Ascott Residence Trust at 4.5x, CDL Hospitality Trusts at 6.9x, Frasers Centrepoint Trust at 4.3x and Parkway Life REIT at 6.2x. Two REITs, Cambridge Industrial Trust (CIT) and Frasers Commercial Trust (FCOT) have ICR below 3x. Any further drop in rental income during the current economic downturn could trigger a breach of loan covenants, resulting in a default for both REITs.

Stock Impact

Cambridge Industrial Trust (BUY/S\$0.29/Target: S\$0.44).

- CIT secured a three-year S\$390.1m syndicated term loan from HSBC, National Australia Bank and Royal Bank of Scotland (RBS) in Dec 08. The effective all-in interest rate for the syndicated loan is 6.6% (4.85% if we exclude amortisation of upfront transaction costs) and higher-than-average effective interest rate of 3.4% in 2008.
- **Stress test.** We have assumed that average occupancy deteriorates from current 99.5% to 85% in mid-10. We estimated ICR at 2.88x in 2Q09 after the syndicated term loan is drawn down in Feb 09. We see ICR bottoming at 2.61x in mid-10 based on our simulation, which is still higher than ICR of 2.2x in its loan covenant.
- CIT reported DPU of 1.373 cents in 4Q08, a decline of 7.9% qoq. Earnings were affected by higher property tax due to revision in annual value for 22 properties and doubtful debt provision of S\$0.6m related to Olivine Magnetics, a previous tenant at 130 Joo Seng Road.
- Weighted average lease term to expiry is 5.7 years. Leases expiring in 2009, 2010 and 2011 account for only 0.5%, 0.7% and 2.2% of portfolio income, respectively (total of 3.4%). CIT is protected by security deposits averaging 16 months for its portfolio.
- A potential weakness comes from having RBS as its largest lender. Adverse developments at RBS could invoke market disruption clauses. Fortunately, RBS has already been nationalised.
- CIT has rebounded 48.7% since securing refinancing in Dec 08. Maintain BUY as it continues to trade at a huge discount of 60.8% to NAV/share of S\$0.74. Current 2009 distribution yield is 13.8%. It is a takeover target for competing industrial REITs.

Frasers Commercial Trust (NOT RATED/S\$0.21).

- FCOT's gearing is the highest in the sector at 54.4%. Management stated that the company is reviewing its capital structure and could potentially embark on an equity fund raising in 1H09.
- We estimate FCOT's interest coverage ratio at 1.55x in 4Q08. The company did not disclose the ICR in its loans covenant, which is monitored on a half-yearly basis. Further deterioration in earnings could result in a breach of loan covenant in 1H09.

SINGAPORE

REITs

OVERWEIGHT

Ascendas REIT (AREIT SP)

BUY

Current Price: S\$1.30

Target Price: S\$1.97

Ascott Residence (ART SP)

BUY

Current Price: S\$0.48

Target Price: S\$1.06

Frasers Centrepoint (FCT SP)

BUY

Current Price: S\$0.645

Target Price: S\$1.15

Parkway Life REIT (PREIT SP)

BUY

Current Price: S\$0.84

Target Price: S\$1.25

Cambridge Industrial Trust (CIT SP)

BUY

Current Price: S\$0.29

Target Price: S\$0.44

(Previous: S\$0.62)

Frasers Commercial Trust (FCOT SP)

NOT RATED

Current Price: S\$0.21

Analyst

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- FCOT had difficulty refinancing S\$70m loan notes issued to the Commonwealth Bank of Australia last year. The loan notes were repaid with S\$70m unsecured loan facility of S\$70m from F&N Treasury due in May 09. A larger S\$550m loan note facility is due later this year (S\$400m in Jul 09 and S\$150m in Dec 09), creating more risks for the stock.
- FCOT recognised a write-down on revaluation of S\$54.5m for KeyPoint in Singapore, Caroline Chisholm Centre in Canberra, Australia and Allco Wholesale Property Fund (AWPF) units in 4Q08, resulting in a reduction for NAV/share from S\$1.20 to S\$0.97. Its portfolio was affected by sharp depreciation of the Australian dollar and steep recession in Japan. Australia and Japan accounted for 23.8% and 14.7% respectively of its portfolio in terms of assets value. Management is exploring the divestment of Cosmo Plaza in Japan and AWPf units, which is not in line with long-term investment strategy.
- F&N could inject Alexandra Point, Alexandra Technopark and office and the retail component of Valley Point, a portfolio estimated to worth S\$700m, into FCOT via a share swap. This could boost equity capital but a DPU accretive transaction would be complicated given depressed share price (new FCOT shares likely to be priced at a premium).
- FCOT trades at a huge discount of 78.4% to NAV/share of S\$0.97 and provides annualised distribution yield of 24% based on 4Q08 DPU of 1.26 cents. A dilutive equity fund raising is probably on the way.

Financial Strength Of Singapore REITs (Feb 09)

	Corporate Rating	Borrowings (S\$m)		Debt/ Assets (%)	EBIT/ Interest (x)	Sponsor	Next Major Refinancing
		Short-term	Long-term				
RETAIL							
CapitaMall Trust	A2	652.9	2504.0	43.2	3.5	CapitaLand	S\$320m term loan, S\$335m commercial mortgage backed securities and S\$200m short-term loan due in Aug 09.
Frasers Centrepoint Trust	Baa1	62.0	260.0	28.5	4.3	Frasers Centrepoint/ Fraser & Neave	S\$260m commercial mortgage backed securities due in Jul 11.
Suntec REIT	Baa1	823.7	1037.1	34.3	3.2	Independent	S\$700m commercial mortgage backed securities due in Dec 09.
INDUSTRIAL							
Ascendas REIT	Baa1	738.1	1177.4	33.7	4.6	Ascendas/ Jurong Town Corporation	S\$300m term loan due in Mar 10.
Cambridge Industrial Trust	BBB-	0.0	369.1	37.8	2.9	Independent	S\$390m syndicated term loan due in Feb 12.
OFFICE							
CapitaCommercial Trust	Baa1	696.0	1865.5	37.6	2.8	CapitaLand	S\$650m secured term loan due in Jul 10.
Frasers Commercial Trust	BB	624.5	332.0	54.4	1.6	Frasers Centrepoint/ Fraser & Neave	S\$70m loan from F&N Treasury due in May 09. S\$550m loan note facility due in 2009 (S\$400m in Jul 09 and S\$150m in Dec 09).
K-REIT Asia	Baa3	0.0	577.1	27.6	3.1	Keppel Land	S\$391.3m revolving credit facility from Keppel Corporation due in Mar 11. S\$190m fixed rate mortgage loan due in May 11.
HOSPITALITY							
Ascott Residence Trust	Baa2	117.5	506.9	38.3	4.5	Ascott Group/ CapitaLand	S\$93.6m term loan due in Sep 09.
CDL Hospitality Trusts	BBB-	273.1	0.0	18.2	6.9	Millennium & Copthorne Hotel/ City Developments	S\$212m secured term loan and S\$42m revolving credit facility due in Jul 09.
HEALTHCARE							
Parkway Life REIT	BBB+	34.0	218.2	23.3	6.2	Parkway Holdings	S\$218.2m term loan and revolving credit facility due in Oct 11.
Average:				34.3	4.0		

Source: Respective Companies

Peer Comparison – Singapore REITs

Name	Bloomberg Code	Rec	Price 4 Feb 09	Target Price	Market Cap (\$m)	Hist	Yield (%)			Debt to Asset (%)	NAV ps (\$)	P/NAV (x)
							Curr	Fwd				
HEALTHCARE												
First REIT	FIRT SP	NR	0.46	n.a.	126.1	16.6	15.7	n.a.	15.0	0.93	0.49	
PLife REIT	PREIT SP	BUY	0.84	1.25	506.3	8.1	9.0	9.3	23.6	1.34	0.63	
HOSPITALITY												
AscottREIT	ART SP	BUY	0.48	1.06	293.2	18.3	15.7	17.1	37.0	1.47	0.33	
CDL Htrust	CDREIT SP	BUY	0.585	1.29	484.4	18.2	14.7	14.8	18.3	1.42	0.41	
INDUSTRIAL												
Ascendasreit	AREIT SP	BUY	1.30	1.97	1,846.7	10.9	12.2	10.9	33.0	1.82	0.72	
AscendasIndT	AIT SP	NR	0.49	n.a.	391.5	16.5	14.3	14.5	5.9	0.94	0.52	
Cambridge	CREIT SP	BUY	0.29	0.44	231.0	20.7	14.5	15.0	37.7	0.74	0.39	
MacCookIReit	MIREIT SP	NR	0.245	n.a.	64.1	32.2	38.0	37.1	38.8	1.30	0.19	
MapletreeLog	MLT SP	NR	0.395	n.a.	766.0	18.3	13.7	13.2	38.1	0.89	0.44	
OFFICE												
CapitaComm	CCT SP	BUY	0.89	1.66	1,243.5	12.4	13.1	12.5	37.3	2.97	0.30	
FrasersComm	FCOT SP	NR	0.21	n.a.	154.6	30.2	19.5	18.1	53.8	1.01	0.21	
Indiabulls	IPIT SP	NR	0.20	n.a.	471.3	n.a.	25.6	49.1	5.0	1.18	0.17	
K-REIT	KREIT SP	BUY	0.62	1.18	407.7	14.4	14.7	14.2	27.6	2.28	0.27	
SuntecReit	SUN SP	BUY	0.63	1.07	994.6	16.9	17.8	14.3	34.3	2.20	0.29	
RETAIL												
CapitaMall Trust	CT SP	BUY	1.49	1.84	2,483.6	9.6	10.0	8.7	42.0	2.45	0.61	
CapitaRChina	CRCT SP	NR	0.72	n.a.	445.7	10.5	11.3	11.3	31.3	1.25	0.58	
Fortune Reit (HK\$)	FRT SP	NR	2.12	n.a.	1,740.1	17.5	17.3	15.1	26.4	7.53	0.28	
FrasersCT	FCT SP	BUY	0.645	1.15	401.8	11.3	11.5	12.5	28.5	1.23	0.52	
LippoMapleT	LMRT SP	NR	0.22	n.a.	235.1	22.8	29.5	27.7	11.8	0.71	0.31	
Starhill Gbl	SGREIT SP	BUY	0.505	0.81	485.2	14.6	12.9	11.7	30.8	1.44	0.35	
RESIDENTIAL												
Saizen	SZREIT SP	NR	0.105	n.a.	47.5	69.1	53.8	n.a.	44.1	64.57	0.10	
Average:						17.4	17.0	17.6	29.9	n.a.	0.38	
(exclude MacArthurCook, Indiabulls, LippoMapletree and Saizen)						15.6	14.0	12.5	30.6	n.a.	0.43	

Source: Bloomberg, UOB Kay Hian

Singapore Airlines

3Q09 earnings preview: Expecting steep write-downs

We expect SIA to book in market to market fuel hedging losses of about S\$2.1b.

3Q09 - Estimate Operating Earnings

	1H09	3Q09E
Airline Profit(S\$m)	495.2	86.6
Cargo profit(S\$m)	(76.0)	(70.4)
SIAEC(S\$m)	56.5	29.4
SATS(S\$m)	82.0	40.0
Silk Air(S\$m)	5.0	2.0
Total operating profit(S\$m)	574.9	87.7
Non-operating profit(S\$m)	303.3	30.0
Pre-tax profit(S\$m)	878.2	117.7

Source: UOB Kay Hian

SIA's Estimated Fuel Hedges

	No of barrels(m)	Average Price (\$US)
As at 31 October	25.0	119
As at 31 December	25.0	110.6
Jet Kerosene	25.0	54.2
as at 31 December		
Marked to market loss (S\$)		2011
Loss per share(S\$)		1.70

Source: UOB Kay Hian

Results/Corporate Events

We expect SIA to book in S\$2b in fuel hedging losses as it marks to market its hedged fuel exposure, which we estimate averaged at US\$110.6 as at end-December. While this would be a paper loss, it will nonetheless result in book value dropping from S\$12.25 to S\$10.55. This could be partially offset by gains on forex hedges on Australian dollar and British pound. On the earnings front, we expect passenger yields to drop to 11.5cents in FY3Q09, led by a steep decline in premium traffic and falls in Australian dollar and British pound against the Singapore dollar. Overall, we expect operating profit to decline to S\$118m in 3Q09 due mainly to losses from cargo operations and lower airline revenue.

Non operating revenue would be impacted by sharply lower investment and interest income with potentially no gains from sale of aircraft spares and sharply reduced earnings from associates, Virgin Atlantic, Tiger Airways and cargo operator, Great World airlines.

SINGAPORE

Singapore Airlines (SIA SP)

SELL

Current Price: S\$11.06

Fair Price: S\$9.70

(Previous: S\$12.25)

Sector	Aviation
52-Wk Avg Daily Vol. ('000)	2538
Market Cap (S\$m)	13123
(US\$m)	8698

Major Shareholders (%)	
Temasek	54.3

Book NTA per Share (S\$)	12.26
ROE (%)	14.6
Net Cash per Share (S\$)	4.30

Results Due	
3Q:Dec	Feb
4Q:Mar	Final:June

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield (%)
2007	14,494.4	2,687.8	1,707.8	172.6	69.6	6.41	5.9	100.0	9.0
2008	15,972.5	3,655.8	2,049.4	168.5	(2.4)	6.57	4.4	100.0	9.0
2009F	15,143.8	2,443.9	915.3	76.2	(54.8)	14.51	6.8	60.0	5.4
2010F	14,186.9	2,187.5	691.6	57.0	(25.2)	19.40	7.3	50.0	4.5
2011F	14,932.8	2,401.4	870.5	71.6	25.6	15.45	6.6	60.0	5.4

Consensus Net Profit – FY08: \$1182.4m
 -- FY09: \$1107.4m

Thursday, February 05, 2009

Earnings Revision

The steep decline in passenger traffic, cargo traffic and premier traffic have led us to revise down our FY09 operation assumptions as follows; passenger traffic from 3.0% to 1.2%, cargo traffic from -3.5% to -7.5% and passenger yield from 12.1¢ to \$11.40¢. This has led to our lower estimated FY09 net profit to S\$915.3m from S\$1,425.1m. We have also cut our dividend payout estimates for FY09, FY10 and FY11 to 60 cents, 50 cents and 60 cents respectively from \$1.00.

Valuation/Recommendation

We believe the market would treat any write-down in book value as negative, even if it is non-cash adjustment. We also remain doubtful as to whether there would be any significant write-backs to equity from fuel future price appreciation. Meanwhile, the new reference point is the adjusted price to book value. We estimate this at S\$10.77 for FY09. Until, signs of stabilising passenger cargo traffic emerge, we peg fair value at a 10% discount to book. We thus lower our target price for the stock to S\$9.70 from S\$12.25.

Airline Statistics

	1H09	3Q09E
Cargo ATK	6,477.0	3,117.9
Cargo LTK	3,955.7	1,819.5
Passenger capacity	60,690.7	29,671.3
Passenger RPK	47,295.2	23,295.9
Pax yield ¢	12.6	11.5
Cargo yield ¢	41.6	40
Cargo unit cost¢	26.4	25.6
Pax Unit cost¢	9.14	8.9

Source: SIA, UOB Kay Hian

Profit & Loss

Year to 31 Dec (\$m)	2006	2007	2008F	2009F	2010F
Turnover	13,341.1	14,494.4	15,143.8	14,186.9	14,932.8
EBIT	1,213.3	1,314.4	974.9	682.4	922.8
Pre-tax Profit	1,662.1	1,863.6	1,160.4	898.2	1,119.8
Net Profit	1,240.7	2,128.8	915.3	691.6	870.5

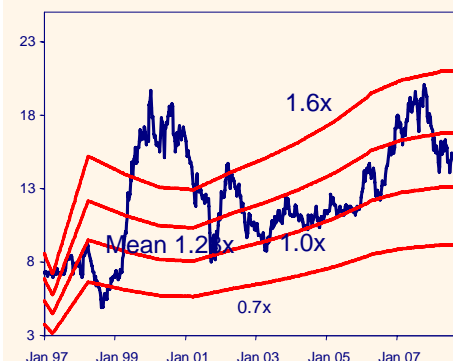
Balance Sheet

Year to 31 Dec (\$m)	2006	2007	2008F	2009F	2010F
Current Assets	5,938.3	8,248.8	8,155.9	4,185.2	5,189.9
Total Assets	23,369.5	25,992.0	26,255.1	24,078.9	25,792.8
Current Liabilities	4,842.5	5,258.4	6,858.6	5,697.5	5,991.5
Long-Term Liabilities	1,824.4	1,805.8	1,475.8	1,382.4	1,272.1
Shareholder Funds	13,470.6	15,100.0	12,775.3	13,153.6	14,636.0
Total Equity & Liabilities	23,369.5	25,992.0	26,255.1	24,078.9	25,792.8

Cash Flow

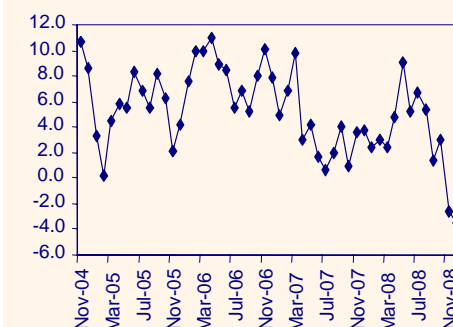
Year to 31 Dec (\$m)	2006	2007	2008F	2009F	2010F
Operating	2,309.6	3,163.5	2,978.7	2,669.5	3,093.9
Investing	(1,448.2)	(278.0)	(1,613.8)	(2,005.1)	(1,921.2)
Financing	(544.9)	(816.0)	(1,348.8)	(845.6)	(742.7)
Net Cash In/(Out) Flow	316.5	2,069.5	16.1	(181.1)	430.0
Begin Cash & Cash Equiv.	(149.0)	(117.0)	(100.0)	(100.0)	(100.0)
End'g Cash & Cash Equiv.	2,814.0	3,141.2	5,119.0	5,035.1	4,754.0

SIA- Price to Book



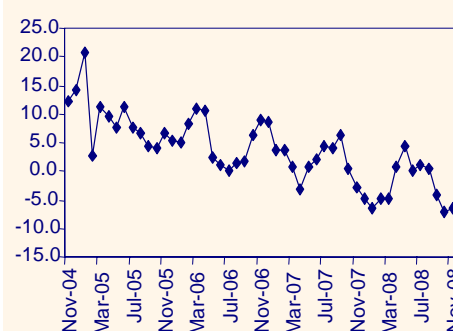
Source: SIA, UOB Kay Hian

Pax Traffic & Capacity Growth (yoy)



Source: SIA, UOB Kay Hian

Cargo Traffic Growth (yoy)



Source: SIA, UOB Kay Hian

Strategy

Government cash on hand is enough for just 1.5 months of expenses

The Thai government seems to be facing cash flow problems. Cash on hand is equivalent to Bt51b, enough for 1.5 months of expenses. Normally, there should be enough for four months.

The government is facing the problem of declining revenue. From the revenue structure shown below, net revenue collection after deductible items during the first three months of fiscal year 2009 (Oct-Dec 08) has fallen 16.4% yoy.

Government Revenue By Collection Tax Base

In Btb	2006	2007	2008	3M09	3M08	% chg yoy
Income tax	1,057,200	1,119,194	1,276,080	226,928	231,922	(2.2)
Personal	170,079	192,795	204,847	42,065		
Corporate	374,689	384,619	460,650	58,847		
Petroleum	56,524	65,735	74,033	3,697		
VAT	417,772	434,272	503,439	115,939		
Specific business	30,623	34,406	25,133	4,450		
Excise	274,095	287,231	278,303	55,400	71,014	(22.0)
Custom	96,232	90,625	99,602	24,177	24,869	(2.8)
Income tax+ Excise tax+ Custom	1,427,528	1,497,050	1,653,985	306,505	327,805	(6.5)
Income from govt offices and SOEs	153,996	206,724	183,659	34,759	48,089	(27.7)
Government offices	73,500	80,593	77,546	21,050		
Treasury	3,330	3,052	4,682	1,785		
State Enterprize	77,165	86,129	101,430	11,924		
Total revenue	1,581,524	1,703,775	1,837,643	341,263	375,894	(9.2)
Net revenue	1,339,691	1,444,460	1,545,837	272,836	326,500	(16.4)
Income tax						69.4%
Excise tax						15.1%
Customs						5.4%
Income from govt offices & SOEs						10.0%
Total revenue						100.0%

Total revenue include international trade, other taxes and other revenues
Source: Fiscal Policy Office, Revenue Department

Major declines were seen in the following:

- **Excise tax down 22% yoy, and**
- **Income from government offices and state enterprise down 27% yoy.**

For 2009, total budget is Bt1.8t with expected total revenue of Bt1.5t. However, with declining economic activities, the Fiscal Policy office is now indicating revenue collection via taxes could fall below target by Bt100b-150b. **The decline in revenue has prompted the government to introduce Bt270b credit facilities.**

Of the Bt270b approved on Tuesday, Bt200b would be short-term loans raised from local banks to help ease liquidity problems at 58 state enterprises. The Bt200b is a three-year credit facility with domestic banks for use by state-owned enterprises (SOE). This will help state agencies that have to retire previous borrowings and might need bridging loans.

The other Bt70b would be borrowed from abroad and allocated mainly for additional economic stimulus programmes, including infrastructure building projects. The foreign borrowings would likely come from the World Bank, the Asian Development Bank and the Japanese International Cooperation Agency.

THAILAND Strategy

Analyst

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Thursday, February 05, 2009

The decline in revenue will prevent the smooth roll-out of the recently-announced supplementary budget, hence the need for the Bt70b borrowings from overseas.

The government's new borrowings would raise public debt to Bt3.9t, representing 41% of Gross Domestic Product (GDP), up from Bt3.4t now, accounting for 37% of GDP. The Public Debt Management Office projects that in the worst-case scenario, public debt could be 43-44% of GDP if the economy does not grow at all and there is deflation this year.

On the fiscal stimulus, we are not too optimistic as it is very consumption-oriented with no measures to stimulate investment.

Since the new Democrat-led alliance formed a government in Dec 08, several measures have been announced to stimulate the economy. These include the following:

- **Bt 115b supplementary budget aimed at stimulating consumption of the low-income group. The free handouts to 9.3m low-income employees and 1.4m civil servants are very much dependent on revenue-side measures.**
- **Bt35b tax measures for the property sector are aimed at stimulating property sales.**
- **Tax incentives for the tourism sector and small and mid-sized enterprises (SME) at Bt3.5b.**
- **Anther Bt120b will be spent on supporting crop prices, funded by off-budget spending, but this will merely offset the fall in agricultural prices.**

All the measures combined are equivalent to about 2.0-2.2% of GDP. The supplementary budget is too dependent on revenue-side measures that may not materialise amid the fear of rising unemployment.

Some proposed new property tax measures have already been in the market for a while and the property tax incentives initiated 12 months ago have done little to boost 2008 property sales. It is simply a windfall for developers who can save up to 4.2% of sales. Other measures (higher mortgage taxable income) will not have much impact if the middle class refrains from spending amid weak market sentiments. In fact, the real catalyst to turn the property market around is improved consumer confidence and better economic conditions.

The Bt3.5b tax incentives for the SME and tourism sectors are too small to have a real impact. From the Bt120b earmarked for supporting crop prices, about Bt70b was already spent in 1H08 by the last government.

We are targetting SET Index to hit 550 by end-09. In the short term, the index will remain under pressure and could touch a low of 380 in 1H09. However, we are buyers of (ADVANC TB/BUY/Target: Bt101, +39%), (QH TB/BUY/Target: Bt1.49, +69%) and (MAJOR TB/BUY/Target: Bt920, +25%).

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