UOBKayHian

Regional Morning Notes

Friday, February 06, 2009

KEY STORY

China

Power Equipment Page 3

Further drop in thermal equipment investment is still not fully expected by the market. Maintain UNDERWEIGHT.

Lee and Man Paper (BUY/HK$3.83/Target: HK$4.42) Page 5

Upgrade to BUY given positive PMI, industry consolidation and improvement in the credit market. Pair trade opportunity between Lee and Man Paper and Nine Dragons Paper.

Indonesia

Bumi Resources (BUY/Rp500/Target: Rp1,010) Page 11

Share price has plunged more than 90% in less than a year. It is now the cheapest coal stock in the Asia-Pacific region.

Thailand

Strategy Page 19

ADVANC, BANPU, MAJOR, BCP, BAY and CPALL will show positive earnings growth in 2009 amid negative earnings growth.

CHINA

Sector

Power Equipment Page 3

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Lee and Man Paper (BUY/HK$3.83/Target: HK$4.42) Page 5

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China Dongxiang (BUY/HK$2.30/Target: HK$3.30) Page 7

Same-store sales growth remained steady at 19% in Jan 09 vs our assumption of 3% for full-year 2009. Maintain BUY.

INDONESIA

Sector

Coal Page 9

Initiate coverage on the sector with an OVERWEIGHT rating. We recommend BUY on BUMI & ITMG.

Update

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Indo Tambangraya Megah (BUY/Rp9,750/Target: Rp12,900) Page 13

Owned by Thai-listed Banpu, it produces coal that is of the highest quality. It has prudent management and modest expansion plans.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8063.1	1.3	-1.1	-9.9	-8.1
FTSE 100	4228.9	0.0	0.9	-7.7	-4.6
AS30	3372.6	-0.3	-2.6	-8.6	-7.8
CSI 300	2151.0	-0.7	5.2	10.7	18.3
FSSTI	1704.6	-0.2	-3.5	-10.9	-3.2
HSI	13178.9	0.9	0.2	-15.0	-8.4
JCI	1328.1	0.6	0.3	-7.5	-2.0
KLCI	880.0	0.4	0.0	-4.6	0.4
KOSPI	1177.9	-1.5	1.0	-1.4	4.8
Nikkei 225	7949.7	-1.1	-3.7	-12.5	-10.3
SET	433.4	0.1	-0.4	-8.4	-3.7
TWSE	4363.3	-0.6	2.8	-7.7	-5.0
CPO	1828.5	3.1	-1.5	6.2	12.2
BDI	1316.0	14.6	27.0	70.5	70.0

Source: Bloomberg

UOBKH Top BUYs/SELLs

	Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)
Top BUYs				
China Life	2628 HK	22.65	36.00	58.9
China Mobile	941 HK	72.25	95.00	31.5
China Petroleum	386 HK	4.41	6.93	57.1
China Railway	390 HK	4.66	5.90	26.6
China Shenhua	1088 HK	18.22	23.00	26.2
Maanshan Iron	323 HK	2.89	3.20	10.7
Bumi Resources	BUMI IJ	550.00	1,010.00	83.6
Public Bank	PBK MK	8.85	10.90	23.2
DBS Group	DBS SP	8.67	10.98	26.6
Indofood Agri	IFAR SP	0.58	0.80	37.9
SingTel	ST SP	2.52	2.95	17.1
Advanced Info	ADVANC TB	75.00	101.00	34.7
Quality Houses	QH TB	0.88	1.49	69.3
Top SELLs				
Aluminum Corp	2600 HK	3.87	2.50	(35.4)
Parkson Retail	3368 HK	6.80	4.89	(28.1)
Wharf Hldg	4 HK	17.66	14.60	(17.3)
S'pore Airlines	SIA SP	11.06	9.60	(13.2)
S'pore Exchchange	SGX SP	5.09	3.00	(41.1)
Amata Corp	AMATA TB	3.78	2.52	(33.3)

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$/bbl)	100	55	65
Aluminium *	(US$/MT)	2,623	1,857	2,238
Copper *	(US$/MT)	6,8834	3,922	4,816
Gold Price London *	(US$/ounce)	873	867	901
Iron Ore *	(USc/dmtu)	153	107	99
CPO	(US$/MT)	818	520	685
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*

SINGAPORE

Update

THAILAND

Results

Power Equipment

Dampening thermal equipment investment not fully in the price

The government's recent spending plans suggest a 35% yoy decrease in thermal equipment investment, which is still not fully expected by the market. Maintain UNDERWEIGHT.

Sector Events

a) **A flat Rmb580b spending plan focusing on new energy and power grids.** The National Energy Bureau of China (NEB) recently announced a Rmb580b spending plan in the domestic power sector, similar to a total investment of Rmb576b last year. The NEB also pointed out: a) optimising the power plant structure and promote the development of new energy and b) boosting the upgrading and construction of power grids and facilitating long-distance power transmission.

b) **The revitalisation plan for equipment manufacturers reiterates the same story.** The media recently reported that the revitalisation plan for equipment manufacturers has been basically approved by the government. In our view, this plan just reinforces the importance of the new energy development and ultra-high voltage transmission line (for long-distance power transmission) construction.

Sector Impact

Unfortunately, thermal equipment investment will continue to decrease. Given the government's strong support on new energy development and power grid construction, we estimate the total investment on these areas would increase strongly by 25% and 50-100% respectively this year. The flat Rmb580b total investment plan in the power sector implies a significant 35% fall in traditional thermal plant investment, which we had already explained in our previous reports. We revise down our forecasts for new thermal capacity to 45GW and 40GW from 50GW and 45GW respectively in 2009-10, down by 32-40% from 66GW in 2008, suggesting a significant downtrend in output delivery for the top three power equipment companies, given that thermal equipment remains a major source of profit for them.

FAI In Power Sector

Rmbb	2007	2008	2009F
Total Investment	549	576	580
-Power grid	245	288	360
yoy (%)		18	25
-Power plants	304	288	220
yoy (%)		(11)	(23)
-Thermal plants (yoy,%)		(22)	(35)
-Nuclear plants (yoy,%)		72	
-Wind plants (yoy,%)		88	

Source: CEC, UOB Kay Hian

Our channel checks reinforce our view of declining product delivery and that new orderbooks will drop dramatically, going forward. According to our recent communication with Shanghai Electric, there have been order withdrawals since end-08 and it will continue to increase significantly this year, reducing realisable equipment output to about 15-16GW, down by 35-40% yoy from 25-26GW in 2008. New orderbooks, in our view, will definitely not continue the robust trend. Thus, we estimate an 80% plunge in new orders in 2009.

China

Power Equipment

UNDERWEIGHT

Harbin Power (1133. HK)

SELL
Current Price: HK$5.99
Fair Price: HK$3.50

Shanghai Electric (2727. HK)

SELL
Current Price: HK$2.64
Fair Price: HK$1.40

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Earnings Revision

a) We trim Harbin Power's net profit forecasts by 9% and 7% respectively for 2009-10 to factor in our lower power capacity output forecasts.

b) For Shanghai Electric, we also expect lower sales volume from its electromechanical and heavy machinery divisions given the sluggish outlook for property construction and economic growth. We revise down its net profit forecasts by 9% and 22% respectively for 2008-09.

Valuation/Recommendation

Consensus too high, we expect increasing risks of missing consensus. Although the market has gradually expected an industry downtrend for the power equipment sector, we think they do not fully understand the severity of the challenges, going forward. This can be evidenced by nearly flat Bloomberg net profit consensus, which is about 50-64% higher than our forecast for 2009. The overly optimistic earnings consensus may result in either a further de-rating of the sector or increasing risks of missing consensus for Hong Kong-listed power equipment companies.

Maintain UNDERWEIGHT and suggest SELL into strength. The share prices of both Harbin Power and Shanghai Electric have generally outperformed the broad market over the last three months, which we attributed to a much deeper share price correction last year. Given the grim outlook of the industry, we believe it is a good time to take profit. Maintain UNDERWEIGHT on the sector and SELL recommendation for both Harbin Power and Shanghai Electric. We derived our fair price from a P/B valuation approach based on historical average P/B during their downcycle (1995-2002).

Harbin Power: We derived our fair price of HK$3.50 from a 0.42x FY09 P/B, which is the average historical P/B for both Harbin Power and its major peer, Dongfang Electric. Maintain SELL.

Shanghai Electric: Our fair price of HK$1.40 is based on blended P/B of 0.46x FY09 P/B (60% derived from historical average P/B for Harbin Power and Dongfang Electric and 40% from its machinery peer, Kunming Machine Tool, based on its revenue exposure). Maintain SELL.

Historical P/B

	1995	1996	1997	1998	1999	2000	2001	2002
Harbin Power	0.52	0.57	0.42	0.25	0.18	0.15	0.40	0.29
Dongfang Electric	0.86	1.10	0.46	0.18	0.21	0.14	0.59	0.41
Kunming Machine Tool	0.45	0.54	0.32	0.14	0.23	0.46	1.15	0.75

Source: Bloomberg

New Power Capacity Forecast

	Total	yoy % chg	Thermal	yoy % chg
98	23	30	17	29
99	21	(7)	14	(22)
00	21	(4)	14	4
01	19	(6)	16	11
02	18	(7)	12	(20)
03	30	67	24	95
04	43	45	40	64
05	87	101	62	56
06	107	22	93	50
07	103	(3)	85	(8)
08	85	(17)	66	(22)
09F	65	(24)	45	(32)

Source: CEIC, UOB Kay Hian

EPS Consensus vs Our Forecasts

Consensus :	**2008F**	**2009F**
Harbin Power	0.90	0.82
Shanghai Electric	0.22	0.21
Our forecasts		
Harbin Power	0.82	0.49
Shanghai Electric	0.20	0.14
Consensus vs our forecasts:		
Harbin Power	9%	64%
Shanghai Electric	10%	50%

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Stock	Rec	Price 05 Feb 09 (HK$)	Net Profit 2007 (Rmbm)	Net Profit 2008F (Rmbm)	Net Profit 2009F (Rmbm)	EPS 2007 (Rmb)	EPS 2008F (Rmb)	EPS 2009F (Rmb)	PE 2007 (x)	PE 2008F (x)	PE 2009F (x)	ROE 2007 (%)	Market Cap (HK$m)	Yield 2007 %
Harbin Power	SELL	5.99	1,528	1,134	681	1.12	0.82	0.50	4.8	6.6	11.0	18	4,050	2.1
Shanghai Electric	SELL	2.64	2,815	2,523	1,739	0.24	0.20	0.14	10.2	12.0	17.4	10	7,850	3.5

Source: Company data, UOB Kay Hian

Lee and Man Paper

Laggard within the commodity sector

We are turning more positive on Lee & Man Paper (L&M) given positive PMI, industry consolidation and improvement in the credit market. We also suggest a pair trade between L&M and Nine Dragons Paper.

Corporate Events

The commodity plays reacted positively to China's latest PMI. Shares of both L&M and Nine Dragons Paper (ND) had underperformed the recent rally and, in our view, the underperformance is unjustified. Papermaking, Printing, Stationeries & Sporting Goods (PPSSG) industry is one of the five industries whose indices were greater than 50%, up from 42.4% in Dec 08. PPSSG is also one of the seven industries with a PMI (New Orders) greater than 50%, up from 43.6% in Dec 08.

Smurfit Stone (Smurfit) (SSCCQ US) filed for US Chapter 11 bankruptcy protection in Jan 09 as it looks to restructure a heavy debt amid a global credit freeze. Smurfit is the world's third-largest containerboard manufacturer with an annual capacity of 6.77 tonnes, just 0.03m smaller than ND. Smurfit's bankruptcy protection indicates that both ND and L&M will not only benefit from an industry consolidation in China, but also consolidation globally. Despite the difficult macroeconomic environment, both ND and L&M are strong players, which are squeezing the competition and gaining market share. Compared to their global peers, both ND and L&M are expected to receive support from China's government given their leading position in the industry.

The Federal Reserve Board released the latest Senior Loan Officer Opinion Survey on Bank Lending Practices recently. The net fractions of respondents reportedly having tightened their lending policies on all major loan categories generally edged down slightly or remained unchanged. About 65% of the domestic banks in the US have reportedly tightened their lending standards on commercial and industrial loans to large and middle-market firms over the past three months. This percentage was down from the reported tightening in the October survey but still above the previous peaks reported in 1990 and 2001. We believe that this is a sign of improvement in the US credit market. As indicated by the Ted spread and OIS spread, the credit market is easing somewhat. Improvement in the credit market is the catalyst to the highly geared companies, including ND and L&M.

Risks

Further margin erosion, increasing finance cost and liquidity risk.

Valuation/Recommendation

Upgrade to BUY. We prefer L&M as it is trading at low valuation in terms of P/B compared to other paper manufacturers globally. L&M is now trading at 6.4x FY09 PE and 4.2x FY10 PE. Our target price for L&M is HK$4.42, which is based on 5x FY10 PE. L&M underperformed ND since Nov 08, given limited newsflow. ND is now trading slightly above the fair price of HK$2.10 and L&M looks more attractive. We also suggest a pair trade between L&M (long) and ND (short).

L&M was loss-making in November and December as the Group incurred higher cost raw materials. According to management, the inventory level remains healthy, shorter than 10 days and the Group's paper machines are running at over 95% utilisation. The Group resumed normal profit in late-Jan 09. L&M's revolving trade-related banking facilities are only subject to annual review and that short-term liquidity risk is not high. The Group only requires small amount of syndicated loan in FY09 and FY10. L&M targets to reduce the net gearing ratio from 86% in FY08 to 65% each in FY09 and FY10.

CHINA

Lee and Man Paper (2314.HK)

UPGRADE TO BUY

Current Price: HK$3.83
Target Price: HK$4.42

Sector	Industrials
52-Wk Avg Daily Vol. (m)	4.4
Market Cap (HK$m)	4,356
(US$m)	558.5
Major Shareholders (%)	
Lee Family	63.3
Book NTA per Share (HK$)	7.1
ROE (%)	19.7
Net Debt per Share (HK$)	6.1
Results Due	
Interim	December
Final	July

Price Chart

Source : Bloomberg

Analyst

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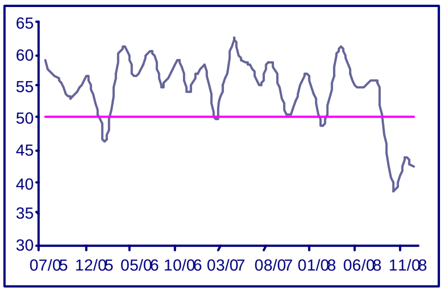
Year to 31 Mar	Turnover (HK$m)	EBITDA (HK$m)	Net Profit (HK$m)	EPS (HK¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (HK¢)	Yield (%)
2007	5,161	1,132	1,010	100.7	62.1	3.8	25.5	36.0	9.5
2008	8,996	1,810	1,441	127.2	26.3	3.0	14.3	26.0	6.9
2009F	9,071	1,261	672	59.1	(53.5)	6.4	6.8	5.0	1.3
2010F	10,919	1,677	1,017	89.4	51.3	4.2	5.1	10.0	2.6
2011F	12,103	2,057	1,387	121.9	36.3	3.1	3.8	27.0	7.1

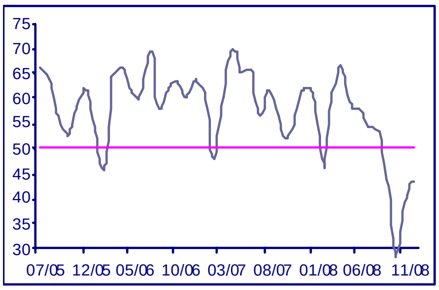
Consensus Net Profit – FY09:HK$853m
– FY10:HK$1,003m

PMI – PPSG (Jul 05-Dec 08)



Source: CEIC, UOB Kay Hian

PMI (New Orders) – PPSG (Jul 05-Dec 08)



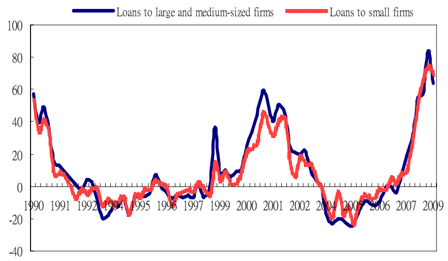
Source: CEIC, UOB Kay Hian

Global Ranking

Ranking	Company Name	Capacity (m tonnes)
1	International Paper	10+
2	Nine Dragons	6.8+
3	Smurfit Stone	6.77
4	Smurfit Kappa Group	5.98
5	Lee & Man Paper	3.76
6	Koch Industries	3.52
7	Temple-Inland	3.29
8	Oji Paper	2.76

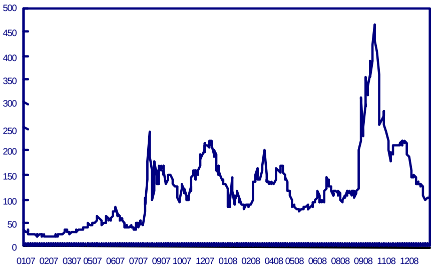
Source: Bloomberg, UOB Kay Hian

Senior Loan Officer Opinion Survey



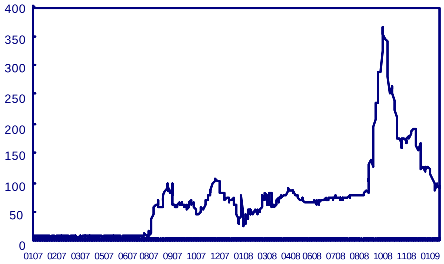
Source: Bloomberg, UOB Kay Hian

TED Spread



Source: Bloomberg, UOB Kay Hian

OIS Spread



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Price (LC)	PE(x) FY08F	PE(x) FY09F	PB (x)
Lee & Man Paper	2314 HK	3.83	6.0	4.0	0.5
Nine Dragons Paper	2689 HK	2.31	8.8	7.0	0.8
Weyerhaeuser	WY US	28.25	(35.3)	(20.7)	0.8
International Paper	IP US	11.36	5.81	10.7	0.6
UPM	UPM1V FH	7.41	14.8	12.4	0.6
Daio Paper	3880 JP	855	23.4	-	0.9

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Mar (HK$m)	2007	2008	2009F	2010F	2011F
Turnover	5,161	8,996	9,071	10,919	12,103
EBIT	980	1,542	953	1,349	1,717
Pre-tax Profit	1,041	1,499	720	1,092	1,492
Net Profit (Rmb)	1,010	1,441	672	1,017	1,387

Balance Sheet

Year to 31 Mar (HK$m)	2007	2008	2009F	2010F	2011F
Current Assets	3,040	5,736	6,251	6,890	7,682
Total Assets	9,845	17,015	18,100	19,013	19,832
Current Liabilities	1,748	4,371	5,066	5,017	4,698
Long-Term Liabilities	1,526	4,599	4,601	4,602	4,603
Shareholder Funds	6,571	8,045	8,433	9,393	10,529
Total Equity & Liabilities	9,845	17,014	18,100	19,013	19,832

Cash Flow

Year to 31 Mar (HK$m)	2007	2008	2009F	2010F	2011F
Operating	787	(90)	1797	1955	1,568
Investing	(1,368)	(4,335)	(1,236)	(649)	(259)
Financing	699	4516	524	(948)	(989)
Net Cash In/(Out) Flow	119	90	1085	358	320
Begin Cash & Cash Equiv.	109	228	318	1,404	1,761
End'g Cash & Cash Equiv.	228	318	1,404	1,761	2,081

China Dongxiang

January SSS growth at 19%; probable slowdown is overdone

China Dongxiang (CDX) is our top pick for consumer stocks as it is more likely to weather the current economic uncertainties and prosper over the longer term. Its valuation has factored in the worst-case scenario.

Corporate events

The criteria under which we pick the stock is based on the principle of "survival of the fittest". Given the slowing economy, it is unrealistic to expect Chinese consumer companies to repeat the strong growth they achieved over the past few years. The key is to pick stocks which: a) are more likely to weather the economic uncertainty and prosper over the longer term; and b) trade at cheap valuations, unless one assumes the Chinese economy will never recover. As such, we like CDX and rate it a BUY, as it is the only company under our coverage that has comprehensive and precise contingent plans to cope with the change in demand.

Experience in handling the downcycle. Key management members of CDX, e.g. its chairman Mr. Chen and the CEO Mr. Qin, are all alumni of Li Ning, who have substantial experience in managing under downcycle conditions. In contrast, the management of other consumer companies are still pursuing "go-go" strategies for expansion.

Flexible supply chain. CDX receives orders from distributors only 4-5 months ahead of selling seasons vs six months for others. After receiving orders from distributors, the Group would have produced three-quarters of the ordered amount only to contracted manufacturers, leaving the rest to be made and delivered to distributors later. With its IT system linked to over half of distributors' stores, CDX can monitor the movement in retail inventory daily and adjust the product mix promptly in response to demand. All of the above measures have helped to mitigate inventory risk. As a result, CDX's inventory and receivable days were shorter than its peers.

Working Capital Days of CDX in 1H08

	(a) Inventory days	(b) Debtor days	(c) Creditor days	(a)+(b)-(c) Cash recovery days
China Dongxiang	47	23	78	(8)
Li Ning	62	47	74	35
Anta	54	18	41	31
Xtep	58	44	40	62
Hongxing	35	52	33	54

Source: respective companies

Focus on product design. To maintain sustainable growth, CDX focuses more on product design. By 3Q09, the Group will launch a series of new products designed by the Phenix team in Japan.

Flexible store opening plan and more room for outlet additions. The Group plans to add 600-700 new stores in each of the coming three years. Actually, the store opening plan is open-ended and ready for change. For 2009, around half of the planned new stores (>300) have been confirmed by far. The Group is ready to slash the number of new stores contingent on sales momentum. We see tremendous potential for store additions for Kappa, given its small retail network relative to others. As at end-08, there were only 2,800 Kappa outlets in China vs 4,500 for Nike and adidas and 6,200 for Li Ning. 40% of Kappa stores are located in more than 30 Tier-1 cities with the remaining 60% in 650 Tier-2 and Tier-3 cities.

CHINA

China Dongxiang (3818 HK)

BUY

Current Price: HK$2.30
Target Price: HK$3.30

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	19,810
Market Cap (HK$m)	13,031
(US$m)	1,671
Major Shareholders (%)	
Chen Yihong	51.9
Book NTA per Share (HK$)	1.13
ROE (%)	23.6
Net Cash per Share (HK$)	1.07
Results Due	
Interim:	Sep
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	859	396	306	0.071	-	28.5	15.5	-	-
2007	1,711	742	689	0.149	110.3	13.5	8.3	-	-
2008F	3,244	1,143	1,002	0.176	18.3	11.4	5.4	0.071	3.5
2009F	3,918	1,336	1,134	0.200	13.2	10.1	4.6	0.080	4.0
2010F	4,580	1,645	1,337	0.236	18.0	8.6	3.7	0.094	4.7

Consensus Net Profit – FY08 : Rmb930m
– FY09: Rmb1,173m

**Core net profit*

Newer stores imply stronger SSS growth potential. We assume SSS growth to slow from 17% in 2008 to 3% in 2009. We believe our assumption is conservative as a significant portion of Kappa stores in China are new stores which have not matured yet and tend to deliver higher growth. As at end-08, 1,900 out of the 2,800 stores were opened for over a year and hence can be used as data points for estimating SSS growth. For these 1,900 outlets, over 800 were only opened for less than two years. Sales momentum has remained intact so far. SSS growth remained at 19% yoy in Jan 09 (seasonally adjusted for Chinese New Year) vs our assumed 3% SSS growth for full-year 2009.

Substantial cash reserve. As at end-08, CDX had Rmb6b (>HK$1/share) of net cash. The Group managed to generate sufficient free cash flow every year, e.g. we estimate 2008 FCF at Rmb800m (80% of net profit). The budgeted annual capex for 2009-10 is only Rmb100-150m. CDX's management showed greater conservativeness than before in M&As. The financial reserve should be sufficient to see the Group through the winter.

Stock Impact

Base-case scenario. We maintain our estimate of a 13% yoy and 18% yoy net profit growth for 2009 and 2010 respectively, based on an assumed 3% SSS growth and an addition of 650 outlets p.a.

Worst-case scenario. Net profit could increase 2% in 2009 and drop 10% in 2010. For 1H09, sales have largely been locked in by orders from distributors. The 30% yoy growth in orderbook was triggered by the opening of 300 stores, which have been confirmed so far. Assuming distributors could not sell all the products they ordered, they would slash orders for 2H09. In this case, the Group would provide 3ppt additional discount to distributors. Our profit forecasts are based on an assumed store additions of 300 in 2009 and no store additions in 2010, 0% SSS growth and a 2-3ppt p.a. drop in EBIT margin in 2009-10.

Risks

Macroeconomic risk. If the Chinese economy suffers a hard landing in 2009, CDX could miss our earnings forecasts under the base case. However, we believe our worst-case scenario should reflect a severe economic slowdown.

Valuation/Recommendation

Based on our base-case earnings estimates, the stock is trading at 10.1x 2009 PE (5.6x ex-cash 2009 PE). We have a base-case target price of **HK$3.30** based on DCF (WACC: 14%; terminal growth: 3%). Under the worst-case scenario, the stock is trading at 11.2x 2009 PE and 6.2x 2009 ex-cash PE. Our worst-case target price is set at **HK$2.20** based on DCF (WACC: 3%; terminal growth: 0%). The risk-reward profile is favourable to investors given the limited downside. **Maintain BUY.**

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	859	1,711	3,244	3,918	4,580
EBIT	386	725	1,115	1,293	1,588
Pre-tax Profit	372	771	1,226	1,416	1,725
Net Profit	306	689	1,002	1,134	1,337

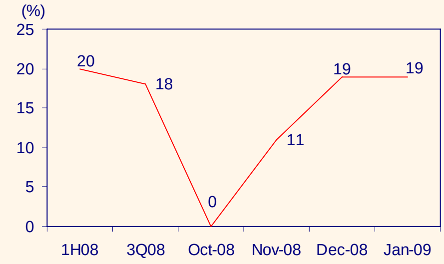
Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	506	5,815	7,003	7,614	8,489
Total Assets	851	6,223	7,721	8,429	9,387
Current Liabilities	238	315	798	790	889
Long-Term Loans	3	-	-	-	-
Shareholders' Funds	308	5,902	6,739	7,455	8,314
Total Equity & Liabilities	851	6,223	7,721	8,429	9,387

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	348	656	928	1,172	1,362
Investing	(342)	(271)	(199)	(140)	(140)
Financing	229	4,651	(182)	(417)	(478)
Net Cash Inflow/(Outflow)	236	5,036	547	616	744
Begin Cash & Cash Equiv.	39	275	5,311	5,858	6,474
End'g Cash & Cash Equiv.	275	5,311	5,858	6,474	7,218

SSS Growth Of Kappa China



Source: China Dongxiang

Total No. Of Stores At End-08

	2008F
Opened for >3 years	437
Opened for 2-3 years	701
Opened for 1-2 years	807
Opened for <1 year	850
Total no. of stores	2,795

Source: China Dongxiang

Distribution Of Kappa's Outlets

	As a % of total
1st-tier cities	40
2nd-tier cities	28
3th-tier cities	32
Total	100

Source: China Dongxiang

Scenario Analysis

	Base-case	Worst-case
Target price	HK$3.30	HK$2.20
EPS growth		
2009F	13%	2%
2010F	18%	-10%
Store additions		
2009F	650	300
2010F	650	0
SSS growth		
2009F	3%	0%
2010F	3%	0%
EBIT margin		
2009F	33.0% (-1.4 ppt)	32.5% (-1.9 ppt)
2010F	34.7% (+1.7 ppt)	29.2% (-3.3 ppt)

Source: UOB Kay Hian

Coal

Negative news masks good company fundamentals

Initiate coverage on coal sector with OVERWEIGHT rating. Unfavourable news on coal and global economy has dragged down coal stocks. We believe thermal coal prices have bottomed out and recommend BUY on BUMI and ITMG.

Sector Events

Strong company fundamentals eclipsed by negative news. Negative news of coal prices and the deteriorating global economy has brought down the prices of coal stocks significantly, but the strong fundamentals of Indonesia's coal sector and mining companies have been ignored. Share prices of the four largest coal stocks in Indonesia have fallen by 57-94% in the last six months, while the Indonesian stock market has declined by only 44% in the corresponding period. We initiate coverage on the sector with an OVERWEIGHT rating.

Coal prices bottoming out. We believe coal prices have bottomed out. In Nov-Dec 08, major coal buyers from power generation companies in Japan and Australia signed coal contracts for US$75-80/tonne for delivery in 2009. These transactions provide one of the most important benchmark prices for coal mining companies in Asia in determining coal prices for 2009. Newcastle benchmark coal prices are holding steady at US$83/tonne and are generally viewed as the fundamental floor price for the spot market. We have trimmed our coal price forecasts to US$80 (-38% yoy) for 2009 and US$75 (-6% yoy) for 2010, down from an average of US$129 (+93% yoy) in 2008 and US$67 (+37% yoy) in 2007.

Sector Impact

Indonesia is world's largest thermal coal exporter. Indonesia is the world's largest exporter of thermal coal, accounting for about 28.6% of 2007 global seaborne coal exports. Bumi Resources (BUMI) and Indo Tambangraya Megah (ITMG) are Indonesia's largest coal exporters, accounting for the biggest share of export sales. About 80% of their coal output is exported to Asia, the largest coal market in the world which accounts for 61% of global consumption. Indonesian coal companies will benefit from their close proximity to the world's largest coal consumers. Indonesia exports mainly thermal coal to power generation companies, whose demand is more resilient to the economic downturn compared with the demand for coking coal.

Valuation/Recommendation

Bumi Resources (BUY/Target: Rp1,010). BUMI is now the cheapest coal stock in the Asia-Pacific region after its share price fell about 94% from the peak. The fall in price is due to debt problems at its holding company and acquisitions that may ultimately be rejected by regulators or minority shareholders. BUMI is trading at 2009 PE of only 1.1x, a steep discount to the Indonesian coal sector's average of 4.7x and Asia-Pacific regional average of 8.7x, mainly due to corporate governance concerns. Our target price of Rp1,010, based on implied steeply-discounted 2009 PE of 2.2x and P/BV of 0.8x, takes into account the Bakrie group's higher risk premium. Our target price is still at an 80% discount to our conservative valuation of BUMI's coal reserves based on three-year DCF and residual reserves estimated at Rp5,036/share.

Indo Tambangraya Megah (BUY/Target: Rp12,900). ITMG's coal boasts one of the highest standards among Indonesia's listed companies. The stock is trading at a higher 2009 PE of 3.6x and P/BV of 1.4x, but still below the Indonesian coal sector's 4.7x PE and 1.6x P/BV. We rank management highly for its transparency and good corporate governance. Thus, ITMG deserves a higher valuation of 4.7x 2009 PE, implying a target price of Rp12,900 or share price upside of about 32%.

INDONESIA

Coal

OVERWEIGHT

Analyst

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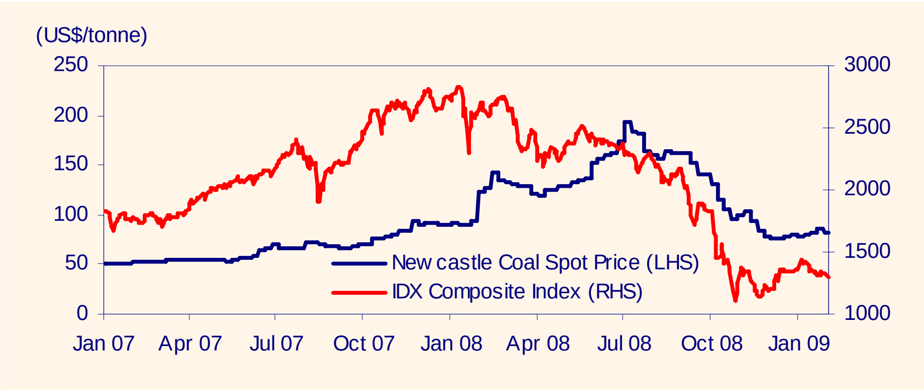
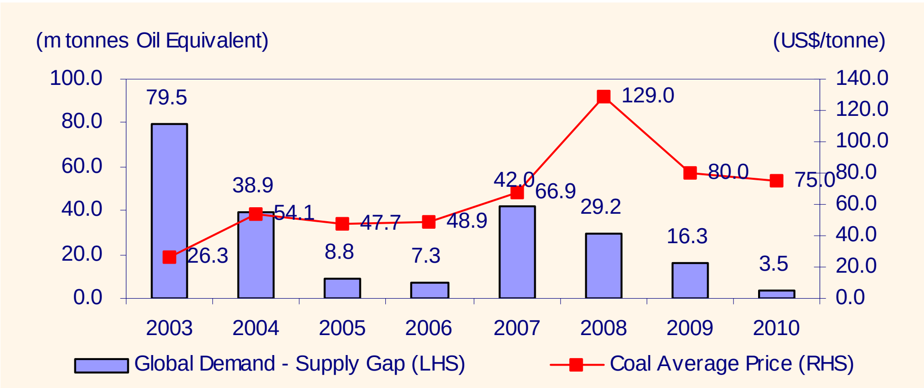
Valuation is undemanding as the stock is trading at a discount to the regional coal industry's FY09 PE of 8.7x.

Coal Price Vs Stock Market Trend



Source: Bloomberg

Global Demand-Supply Gap Vs Global Coal Prices



Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Country	Ticker	Currency	Price	Market Cap (US$m)	---- P / BV ---- 2008F (x)	2009F (x)	EV/EBITDA 2008F (x)	2009F (x)	------ PE ------ 2008F (x)	2009F (x)
Bumi Resources	Indonesia	BUMI IJ	Rp	500	827.8	0.5	0.4	2.1	1.6	1.4	1.1
Tambang Batubara Bukit Asam*	Indonesia	PTBA IJ	Rp	7,350	1,445.0	4.0	2.8	5.3	3.5	8.9	6.1
Indo Tambangraya Megah	Indonesia	ITMG IJ	Rp	9,750	940.0	1.7	1.4	2.3	2.0	4.7	3.6
Adaro Energy*	Indonesia	ADRO IJ	Rp	770	2,101.5	1.7	1.2	9.3	3.2	21.0	5.8
Indonesia Sector Average						**2.1**	**1.6**	**5.8**	**2.8**	**11.8**	**4.7**
Rest of World											
Straits Asia Resources*	Singapore	SAR SP	SG$	0.93	670.5	2.8	1.8	3.8	1.8	9.0	3.5
Singapore Sector Average						**2.8**	**1.8**	**3.8**	**1.8**	**9.0**	**3.5**
Felix Resources*	Australia	FLX AU	AU$	8.10	2,506.0	2.2	2.0	3.2	6.5	5.2	11.5
Macarthur Coal*	Australia	MCC AU	AU$	2.62	875.4	0.7	0.7	2.5	2.8	3.8	4.3
Centennial Coal*	Australia	CEY AU	AU$	2.62	1,532.4	1.4	1.3	3.1	3.8	5.6	7.8
Gloucester Coal*	Australia	GCL AU	AU$	3.33	428.2	1.8	1.5	2.3	2.7	3.4	4.1
Australia Sector Average						**1.7**	**1.5**	**3.0**	**4.8**	**5.0**	**8.7**
Banpu PCL	Thailand	BANPU TB	Bt	222.0	1,725.1	1.5	1.3	5.8	5.1	6.6	6.5
Thailand Sector Average						**1.5**	**1.3**	**5.8**	**5.1**	**6.6**	**6.5**
China Shenhua Energy	China	1088 HK	HK$	17.40	7,626.0	2.5	2.2	8.0	7.3	11.8	11.5
China Coal Energy	China	1898 HK	HK$	5.99	3,172.2	1.4	1.3	4.9	5.1	10.2	12.0
Hidili Ind Int Development	China	1393 HK	HK$	2.71	719.9	1.0	0.9	3.0	5.3	4.8	10.0
Yanzhou Coal	China	1171 HK	HK$	5.47	1,381.5	0.8	0.7	2.5	3.9	3.4	5.8
China Sector Average						**2.0**	**1.8**	**6.4**	**6.3**	**10.1**	**10.9**
Average Sectors						**1.9**	**1.6**	**5.5**	**5.1**	**9.1**	**8.7**

**Bloomberg consensus*
Source: Bloomberg, UOB Kay Hian

Bumi Resources

Boasts strong coal assets but grossly undervalued

After its share price plunged more than 90% in less than a year, BUMI is simply irresistible at current levels. One of the world's largest thermal coal exporters is now the cheapest coal stock in the Asia-Pacific region.

Corporate Events

Indonesia's largest coal mining company. Many investors have a love-hate relationship with Bumi Resources (BUMI). Some are upset that its share price has plunged more than 90% in less than a year, making it a stock many hate to love. For others, BUMI has become simply irresistible, making it one of the most heavily traded stocks in Indonesia. From a valuation perspective, however, this stock is a very attractive and compelling BUY for long-term investors. One of the key strengths is that BUMI is the largest coal mining company in Indonesia in terms of production capacity, coal reserves and coal resources. It has two mining subsidiaries, Kaltim Prima Coal and Arutmin Indonesia, and is one of the world's largest exporters of thermal coal. With coal reserves of about 2,904m tonnes, BUMI could sustain another 50 years of production at the current rate.

Three acquisitions for US$557m. BUMI acquired three companies for about US$557m, or Rp2,412b, to be paid over a period of 2-3 years. BUMI may have difficulty getting approval from its minority shareholders but management believes these transactions are separate and immaterial, and thus do not require minority shareholders' approval. At this stage, the Capital Market and Financial Institution Supervisory Agency is of the view that BUMI has not violated any regulations related to the acquisitions.

Increased debts over the next three years. If the acquisitions clear regulatory checks and minority shareholders' approval, they will cost a total of US$557m, which will be paid over a period of two to three years. We expect net gearing to increase to 59.9% in 2008 from 1.7% in 2007, on the assumption that total debts will increase threefold, or US$307m, to US$1,168m. We assume total debts to increase 19.0%, or US$221m, in 2009 but net gearing to decline to 47.3% due to increased equity and higher cash from the coal mining operations. While we expect total debts to increase 20.5%, or US$285m, in 2010, net gearing should moderate to 41.1% in 2010.

Good survival track record. Insufficient disclosure of information on the acquisitions has sparked corporate governance concerns. However, the shareholders of the Bakrie Group still appear to be wealthy and politically well-connected. The Group should have sufficient resources and clout to emerge unscathed from the adversities, as they have done over the last decade.

INDONESIA

Bumi Resources (BUMI IJ)

INITIATE WITH BUY

Current Price: Rp500
Target Price: Rp1,010

Sector	Coal
52-Wk Avg Daily Vol. ('000)	196,749
Market Cap (Rpb)	9,702.0
(US$m)	825.7
Major Shareholders (%)	
Bakrie & Brothers	15.7
Book NTA per Share (Rp)	718
ROE (%)	44.5
Net Debt per Share (Rp)	394
Results Due	
1Q: Apr	2Q: Aug
3Q: Oct	Final: Mar

Price Chart

Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (US$m)	EBITDA (US$m)	Net Profit (US$m)	EPS (US$)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (US$)	Yield (%)
2006	1,851.6	1,274.5	222.3	0.011	80.3	3.7	1.2	0.001	2.7
2007	2,265.5	504.7	789.0	0.041	254.9	1.0	2.9	0.008	19.8
2008F	3,483.4	1,094.8	606.8	0.031	(23.1)	1.4	1.3	0.006	14.7
2009F	4,270.9	1,436.2	804.3	0.041	32.6	1.0	1.0	0.008	19.5
2010F	4,264.1	1,581.1	864.7	0.045	7.5	1.0	0.9	0.009	20.9

Consensus Net Profit – FY08: US$630m
– FY09: US$483m

Valuation/Recommendation

Cheapest coal stock in the region. BUMI is the cheapest coal stock in the Asia-Pacific region after its share price fell by more than 90%. It is trading at 2009 PE of only 1.1x, a steep discount to the Indonesian coal sector average of 4.7x and Asia-Pacific average of 8.7x mainly due to corporate governance concerns. We initiate coverage with a BUY recommendation and target price of Rp1,010 based on implied 2009 PE of 2.2x and P/BV of 0.8x, which is a deep discount to market valuations in view of the Bakrie Group's higher risk premium.

Strong coal assets at discount to DCF and residual reserves valuation. BUMI has indisputable valuable assets of coal resources of 7,267m tonnes and reserves of 2,122m tonnes, or the equivalent of about 38 years of production. We value these assets based on a conservative three-year DCF valuation (2008-10) plus the value of BUMI's remaining coal reserves. For DCF valuation, we use WACC of 13.0% based on conservative risk premium of 6.5%, risk free rate of 13.0% and beta of 1.43. We value the remaining value of the coal reserves based on a conservative 50% saleable recovery rate on BUMI reserves and a conservative long-term average selling price (ASP) of US$56/tonne.

With this methodology and conservative assumptions, we arrive at a value of US$10.1b, or Rp5,036/share. In view of BUMI's higher risk premium, our target price of Rp1,010 is based on target 2009 PE of 2.2x, which is at a discount to its Indonesian average FY09 PE target of 4.7x. This target is still at an 80% discount to our conservative three-year DCF and residual reserves valuation.

Profit & Loss

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Turnover	1,851.6	2,265.5	3,483.4	4,270.9	4,264.1
Gross Profit	484.4	754.2	1,435.3	1,814.1	1,954.1
Operating Profit	323.0	406.3	973.5	1,294.3	1,412.1
Pre-tax Profit	224.9	854.9	949.6	1,276.7	1,372.5
Net Profit	222.3	789.0	606.8	804.3	864.7

Balance Sheet

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Total Assets	2,513.5	2,819.4	4,587.8	5,352.3	6,247.8
Total Liabilities	2,153.6	1,697.5	2,980.5	3,101.4	3,305.2
Shareholder's fund	359.9	1,122.0	1,607.4	2,250.9	2,942.6
Total Equity and Liabilities	2,513.5	2,819.4	4,587.8	5,352.3	6,247.8

Cash Flow

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Cash Flow from Operating	1,270.3	728.5	295.3	924.3	836.6
Cash Flow from Investing	(2,334.6)	(146.5)	(1,475.0)	(714.8)	(747.4)
Cash Flow from Financing	1,196.6	(503.5)	1,116.6	(90.2)	50.7
Change in Cash	132.3	78.5	(63.0)	119.3	139.9
Begin Cash & Cash Equiv.	57.2	189.5	268.0	205.0	324.3
End'g Cash & cash Equiv.	189.5	268.0	205.0	324.3	464.2

Indo Tambangraya Megah

Strong financials and modest expansion aspirations

Owned by Banpu PCL, ITMG produces coal that is of the highest quality. It has prudent management and modest expansion plans. Its acquisition and development ambitions should be within its means as it is in a net cash position.

Corporate Events

Owned by Thailand-listed Banpu PCL. Indo Tambangraya Megah (ITMG) is owned by Thailand-listed coal mining company Banpu PCL through the latter's wholly-owned Indonesia-based Centralink Wisesa International. Established in 1987 and listed in Dec 07, ITMG is an integrated coal mining company with mining, processing and logistic operations in Indonesia. ITMG has five affiliated companies, of which three are active operational coal mines: Indominco Mandiri (Indominco), Trubaindo Coal (Trubaindo) and Jorong Barutama Greston (Jorong). The other mines in Kitadin and Bharinto Ekatama (Bharinto) are expected to commence operation in 2009 and 1Q10 respectively.

Top quality coal. ITMG's coal is of the highest quality with an average calorific value of Rp6,230kcal/kg compared with 5,000-6,200kcal/kg for the other three major listed coal companies.

Prudent management with modest expansion plans. ITMG is one of the four largest coal stocks and top 30 largest stocks on Indonesia's stock exchange. Although ITMG has the lowest reserves of 11.8 years of production compared with 23.4 to 163.7 years for its peers, ITMG boasts prudent management and modest expansion plans. Its acquisition and development ambitions should be within its means as it is in an enviable net cash position while other mining companies are facing tight financial constraints amid the current credit crunch.

Higher earnings in 2009 on increase in sales volume and ASP. Net profit is likely to grow 5% yoy to US$246m in 2009 on assumption of modest sales growth and a 9.6 % rise in production volume. Although benchmark coal price could fall 38% yoy to US$80 in 2009, ITMG's coal average selling price (ASP) may inch up 2.5% to US$65.80 due to rising contract sales prices that lag spot prices by 1-2 years. We expect revenue to rise 13% yoy to US$1,407m in 2009. Net profit should fall 17% yoy to US$205m in 2010. This is based on our assumption of a 6% decline in benchmark coal price to US$75 in 2010 and a 16% decline in ITMG's ASP to US$55, on the back of a modest 5% growth in coal sales volume.

Valuation/Recommendation

Higher valuation for careful management and corporate governance. We initiate coverage on ITMG with a BUY recommendation and a target price of Rp12,900, which implies a higher valuation of 4.7x 2009 PE and P/BV of 1.8x in view of its careful management and corporate governance. The target price, a discount to the regional FY09 PE of 8.7x and P/BV of 1.6x, still offers 32% upside from the current price. This is a discount to our fair value estimate of Rp14,226, derived from our three-year DCF valuation and the value of ITMG's remaining coal reserves.

INDONESIA

Indo Tambangraya Megah (ITMG IJ)

INITIATE WITH BUY

Current Price: Rp9,750
Target Price: Rp12,900

Sector	Coal
52-Wk Avg Daily Vol. ('000)	1,864
Market Cap (Rpb)	11,0716.8
(US$m)	937.6
Major Shareholders (%)	
Centralink Wisesa International	77.6
Book NTA per Share (Rp)	5,468
ROE (%)	43.8
Net Cash per Share (Rp)	2,192
Results Due	
1Q: Apr	2Q: Aug
3Q: Oct	Final: Mar

Price Chart

Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (US$m)	EBITDA (US$m)	Net Profit (US$m)	EPS (US$)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (US$)	Yield (%)
2006	732.3	240.6	23.2	0.021	(68.9)	40.5	3.0	0.024	2.9
2007	771.8	148.8	56.8	0.050	144.3	16.6	4.9	0.058	6.9
2008F	1,245.1	333.7	234.0	0.207	312.2	4.0	2.2	0.104	12.4
2009F	1,406.8	352.7	246.3	0.218	5.3	3.8	2.1	0.109	13.1
2010F	1,229.2	290.5	204.9	0.181	(16.8)	4.6	2.5	0.091	10.9

Consensus Net Profit – FY08: US$206m
– FY09: US$257m

Profit & Loss

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Turnover	732.3	771.8	1,245.1	1,406.8	1,229.2
Gross Profit	186.6	207.3	429.5	472.5	370.3
Operating Profit	82.5	122.0	319.8	323.9	265.2
Pre-tax Profit	49.0	89.4	334.3	342.1	284.6
Net Profit	23.2	56.8	234.0	246.3	204.9

Balance Sheet

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Total Assets	541.1	787.1	923.1	1,073.9	1,122.9
Total Liabilities	413.7	319.35	323.2	350.8	297.4
Shareholder's fund	127.3	467.74	599.9	723.1	825.5
Total Equity and Liabilities	541.1	787.1	923.1	1,073.9	1,122.9

Cash Flow

Year to 31 Dec (US$m)	2006	2007	2008F	2009F	2010F
Cash Flow from Operating	269.5	84.3	230.6	276.3	238.1
Cash Flow from Investing	(516.8)	(90.8)	(99.1)	(77.8)	(56.7)
Cash Flow from Financing	216.1	176.3	(123.0)	(113.8)	(144.6)
Change in Cash	(31.2)	169.9	8.5	84.7	36.8
Begin Cash & Cash Equiv.	16.9	53.9	226.0	234.6	319.3
Ending Cash & cash Equiv.	53.9	226.0	234.6	319.3	356.0

CDL Hospitality Trusts

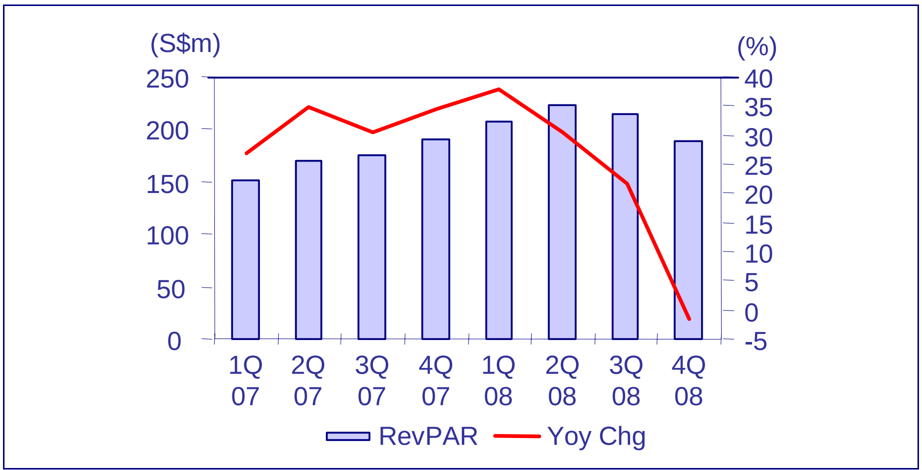
Reaching theoretical floor price of S$0.50

Downside risk is limited by base rent totalling S$46.4m. Assuming RevPAR drops below S$70 and CDREIT is receiving only base rent, DPU would decline to 3.4 cents, implying a target price of S$0.50, which provides a floor.

Corporate Event

CDL Hospitality Trusts' (CDREIT) share price dropped 8.5% yesterday to close at S$0.535. We believe the share price correction was triggered by concerns over a steep 28.9% yoy decline in RevPAR to S$144 in Jan 09, which was also 23.4% lower than RevPAR of S$188 in 4Q08. The weak RevPAR was caused by continued decline in visitor arrivals, which saw seven consecutive months of decline with a decrease of 4.3% yoy in Dec 08.

RevPAR and Yoy Change



Source: CDREIT, UOB Kay Hian

Stock Impact

Limited downside due to base rent. CDREIT has a high proportion of base rent to variable rent (approximately 40% of gross revenue), which provides earnings visibility. CDREIT is guaranteed at least S$46.4m of rental income annually based on lease structure in its portfolio of hotels. Assuming RevPAR drops below S$70 and CDREIT is receiving only base rent, DPU would decline to 3.4 cents, implying a distribution yield of 6.3% and a target price of S$0.50. We would therefore look to accumulate the stock, especially if it falls below S$0.50.

Impact Of Changes In 09-11 RevPAR Assumptions On Target Price

		Scenarios	
CDL Hospitality Trusts	Base Case	Asian Financial Crisis	SARS
Average Blended RevPAR 2009-11 (S$)	180	98	76
Target Price (S$)	1.29	0.72	0.55

Source: CDREIT, UOB Kay Hian

SINGAPORE

CDL Hospitality Trusts (CDREIT SP)

BUY

Current Price: S$0.535
Target Price: S$1.29

Sector	REITs
52-Wk Avg Daily Vol. ('000)	1,710
Market Cap (S$m)	436.1
(US$m)	290.1
Major Shareholders (%)	
Hospitality Hldgs P/L	38.1
Book NTA per Share (S$)	1.42
ROE (%)	6.9
Net Debt per Share (S$)	0.33
Results Due	
1Q: Apr	2Q: Jul
3Q: Oct	Final: Jan

Price Chart

Source : Bloomberg

Analyst

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Year to 31 Dec	Turnover (S$m)	EBIT (S$m)	Net Profit (S$m)	EPU (¢)	EPU Growth (%)	PE (x)	DPU (¢)	Yield (%)
2007	90.6	69.7	53.7	7.1	10.0	7.5	9.0	16.8
2008	114.7	91.5	78.4	10.3	45.0	5.2	10.6	19.8
2009F	100.1	80.2	68.3	8.2	(13.0)	6.5	8.6	16.1
2010F	101.0	80.9	69.2	8.3	1.0	6.4	8.6	16.1
2011F	105.1	84.4	72.7	8.6	4.5	6.2	8.9	16.6

Consensus Net Profit – FY09: S$67.7m
– FY10: S$67.3m

One of the least leveraged S-REITs. CDREIT has one of the lowest gearing of 18.2% among S-REITs. Interest coverage ratio was also healthy at 6.9x in 4Q08.

Earnings Revision

We are reviewing our earnings forecast.

Valuation/Recommendation

The concern over the reduction in payout ratio from 100% to 90% is overdone as CDREIT cannot further reduce its payout ratio without the Monetary Authority of Singapore (MAS) changing the current regulatory regime.

Maintain BUY as CDREIT's share price is close to our theoretical floor price of S$0.50.

Profit & Loss

Year to 31 Dec (S$m)	2007	2008	2009F	2010F	2011F
Turnover	90.6	114.7	100.1	101.0	105.1
EBIT	69.7	91.5	80.2	80.9	84.4
Pre-tax Profit	53.7	78.4	68.3	69.2	72.7
Net Profit	53.7	78.4	68.3	69.2	72.7
Income avail. for distribution	61.8	92.0	79.4	80.1	83.7
DPU (¢)	9.0	10.6	8.6	8.6	8.9
EPU (¢)	7.1	10.3	8.2	8.3	8.6

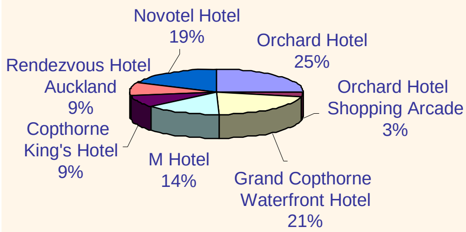
Balance Sheet

Year to 31 Dec (S$m)	2007	2008	2009F	2010F	2011F
Current Assets	28.0	20.3	23.7	25.2	22.5
Total Assets	1,656.9	1,501.6	1,652.5	1,654.0	1,651.4
Current Liabilities	67.6	45.6	51.0	55.0	55.0
Long-Term Liabilities	291.4	320.5	291.4	291.4	291.4
Shareholder Funds	1,325.5	1,176.7	1,333.1	1,331.6	1,329.0
Total Equity & Liabilities	1,656.9	1,501.6	1,652.5	1,654.0	1,651.4

Cash Flow

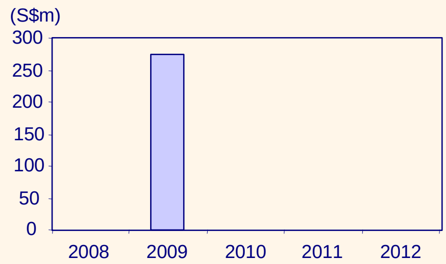
Year to 31 Dec (S$m)	2007	2008	2009F	2010F	2011F
Operating	78.8	106.9	90.1	90.8	91.4
Investing	(200.2)	(4.9)	(2.5)	(2.5)	(2.6)
Financing	118.7	(108.5)	(87.3)	(87.8)	(87.9)
Net Cash In/(Out) Flow	(2.7)	(6.5)	0.3	0.5	0.4
Begin Cash & Cash Equiv.	9.2	13.7	7.1	7.4	7.9
End'g Cash & Cash Equiv.	6.5	7.1	7.4	7.9	8.3

Rental Income by Property (FY08)



Source: CDREIT, UOB Kay Hian

Debt Maturity Profile (4Q08)



Source: CDREIT, UOB Kay Hian

CDL Hospitality Trust's Favourable Lease Structure

Hotel	Guaranteed Rent
Orchard Hotel	
Grand Copthorne	Fixed rent floor of S$26.4m
M Hotel	
Copthorne King's Hotel	
Novotel Clarke Quay	S$6.5m reserves to fund shortfall if annual rent is below S$6.5m
Rendezvous Hotel Auckland	Base rent of NZ$9.0m increases by 2.75% per year

Source: CDREIT, UOB Kay Hian

Li Heng Chemical Fibre Technologies

Fundamentals improving, but still too early to call a BUY

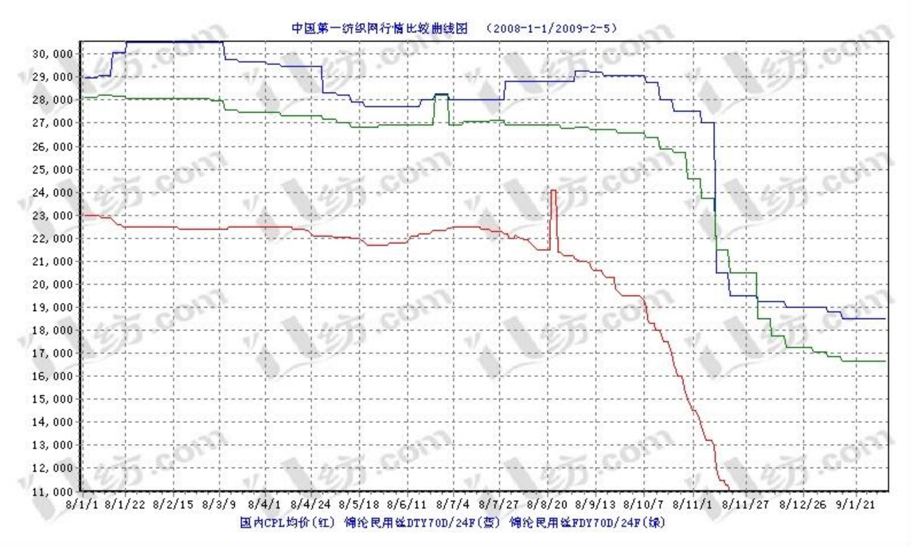
Li Heng is likely to record a net loss in 4Q08 due to a large FX loss. Industry fundamentals and sentiment are improving. Maintain HOLD with fair price revised down to S$0.22 based on 2.5x 2009 PE.

Corporate Events

4Q08 sales to shrink along with falling prices. Li Heng will announce its 4Q08 results on 27 Feb 09. We expect 4Q08 revenue to decline 32.3% qoq to Rmb693.9m, in tandem with the sharp fall in the average selling prices (ASP) of nylon yarn. In 4Q08, ASPs of Li Heng's yarn products dropped from about Rmb33,000/tonne to a mere Rmb22,000/tonne. Sales volume, however, remained similar to that in good times, a sign of Li Heng's superior ability to secure orders when demand weakens.

Single-digit gross margin possible. While Li Heng has to keep about one month's inventory of raw materials, the prices of both nylon chip and nylon yarns are plunging. This means it is buying raw materials at higher historical prices but selling its products at lower current prices. This would severely erode profitability, so 4Q08 gross margin is likely to contract to about 7%.

Selling Prices of CPL and Nylon Yarns



Source: Webtextile

Likely to post net loss on large FX loss. Due to China's tight foreign exchange (FX) control, Li Heng could only convert its S$-denominated initial public offering (IPO) proceeds slowly and gradually to the Renminbi, and still has a balance of over S$80m to be converted. Since the Singapore dollar has depreciated during 2H08 against the Renminbi by as much as 10%, we expect the company to record an FX loss of more than Rmb30m in its 4Q08 P&L. As a result, Li Heng may record a net loss for 4Q08, which we estimate at Rmb6.7m.

SINGAPORE

Li Heng Chemical Fibre (LHCF SP)

HOLD

Current Price: S$0.26
Fair Price: S$0.22
(Previous: S$0.275)

Sector	Chemical
52-Wk Avg Daily Vol. ('000)	13,455
Market Cap (S$m)	442.0
(US$m)	315.7
Major Shareholders (%)	
Upperwin	42.2
Proud City	10.3
CIM XI	10.0
Book NTA per Share (Rmb)	2.10
ROE (%)	91.3
Net Cash per Share (Rmb)	1.11
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart

Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield (%)
2006	1,696.6	599.4	477.8	35.1	125.1	3.6	3.0	16.5	13.1
2007	2,758.1	973.5	905.1	66.5	89.4	1.9	1.9	0.0	0.0
2008F	3,690.7	1,054.1	816.5	50.0	(24.9)	2.5	1.7	16.9	13.3
2009F	3,791.6	972.7	716.3	42.1	(15.7)	3.0	1.9	8.4	6.6
2010F	4,881.2	1,241.2	934.4	55.0	30.5	2.3	1.5	11.0	8.7

Consensus Net Profit – FY08: Rmb921.1m
– FY09: Rmb759.6m

Stock Impact

Demand flowing back on bottoming prices. We believe the unfavourable 4Q08 results would exert pressure on Li Heng's share price in the short term. Looking forward, however, the selling prices of major raw materials and nylon products are likely to find a bottom. Seeing this trend, many downstream textile and garment producers have begun to placed more orders since mid-Jan 09. To fulfill the increased orders, Li Heng has set a full production schedule through end-Feb 09. It has even cancelled holidays and remained operating during the Spring Festival.

Margin recovering. The company's 2009 earnings are likely to be lower than that for 2008 mainly due to a 30% fall in ASP. Sales volume, on the other hand, is likely to be higher as Li Heng will be running at maximum utilisation rate based on a capacity of 16ktpa nylon yarns. Since selling prices are stabilising, margins are recovering rapidly. However, we do not expect gross margin to rebound to over 30% at the current price level. A margin of 20-25% seems more reasonable and achievable for 2009.

Earnings Revision

We have cut our earnings forecasts for 2008, 2009 and 2010 by 10.0%, 21.9% and 15.8% respectively to factor in lower selling prices and profitability.

Valuation/Recommendation

The recent developments – price stabilisation, demand recovery, stimulus policies such as a hike in textile export rebate, and even the rising Purchasing Managers' Index – suggest improvements in both fundamentals and sentiment in the textile industry. However, it is too early to upgrade Li Heng at this stage for two reasons: a) it takes time to see whether it is a real turnaround for the industry or a mere break during the downturn, and, b) the company will still see negative earnings growth in 2009. Thus, we maintain HOLD on Li Heng with fair price revised down to S$0.22 based on 2.5x 2009 PE. The entry price is S$0.18.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	1,696.6	2,758.1	3,690.7	3,791.6	4,881.2
EBIT	571.5	926.6	971.8	855.7	1,110.9
Pre-tax Profit	561.1	905.1	955.0	837.7	1,092.9
Net Profit	477.8	905.1	816.5	716.3	934.4

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	379.1	1,123.7	2,782.3	3,250.9	4,015.9
Total Assets	949.1	2,055.8	4,277.6	4,889.3	5,623.9
Current Liabilities	426.2	532.6	595.9	654.6	598.1
Long-Term Liabilities	80.0	0.0	0.0	0.0	0.0
Shareholder Funds	442.9	1,523.2	3,681.7	4,234.7	5,025.8
Total Equity & Liabilities	949.1	2,055.8	4,277.6	4,889.3	5,623.9

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	583.1	851.5	696.8	1,157.7	375.3
Investing	(425.3)	(390.7)	(727.4)	(169.4)	(54.2)
Financing	99.2	147.7	1,379.6	(163.3)	(143.1)
Net Cash In/(Out) Flow	257.0	608.6	1,348.9	825.0	178.0
Begin Cash & Cash Equiv.	81.2	80.5	689.1	2,038.0	2,863.0
End'g Cash & Cash Equiv.	80.5	689.1	2,038.0	2,863.0	3,041.0

Strategy

Positive earnings growth likely for six stocks amid negative earnings growth

The SET Index declined 2.73% in December to close at 437.69. The market has lost 50.50% of its value since Jan 08. One of the main concerns is poor earnings visibility over the next 12-15 months due to mounting concerns over global economic contraction, slowing exports and rising unemployment. For stocks under our coverage, we are forecasting -8% earnings growth in 2009.

Sectors that are hard hit:

- Finance: -44.5%
- Petrochemicals: -34%
- Banking: -14.6%
- Property: -13.8%

The numbers would have been worse if not for the energy sector's earnings growth forecast of +4.7%. We estimate Dubai crude at US$50/bbl vs US$36/bbl as at end-08. If Dubai averages below US$36/bbl as we move into 2009, the energy sector's earnings would have to be downgraded further.

We have done an exercise to identify stocks that will show positive earnings growth despite the gloomy earnings outlook for 2009. These stocks are ADVANC, BANPU, MAJOR, BCP, BAY and CPALL.

Advanced Info Service (ADVANC TB/BUY/Target: Bt101/+35.7%)

The stock is our top pick in the telecommunications sector. We like ADVANC because it is expanding its subscriber base by tapping demand in the provinces. Having the largest subscriber base with an extensive network gives ADVANC an edge over competitors in terms of services, net interconnection charge revenue and marketing campaigns. Non-voice revenue is expected to continue growing by 25% this year, accounting for 16% of service revenue (13% in 2008). The implementation of cost-cutting programmes will enable ADVANC to maintain EBTIDA margin at 43% in 2009. ADVANC's top-line and net profit are expected to grow 1.2% and 8.0%.

Banpu Public Company (BANPU TB/BUY/Target: Bt266/+18.8%)

2009 earnings growth remains intact at 13%. More than 60% of 2009 earnings are secured with 52% of total sales volume secured at high prices and steady earnings from electricity business (BLCP power plant, RATCH). Demand for BANPU's coal remains healthy, coming mainly from the power business, which accounts for 80% of total sales volume. Deals with power plants are more secure with lower counterparty risks (default risks). We favour BANPU for its solid fundamentals and management capabilities.

Bangchak Petroleum PCL (BCP TB/BUY/Target: Bt12.4/+71%).

Even though the outlook for the refinery business is under pressure, the change in the business structure (commercial run of the Product Quality Improvement project) and higher utilisation rate, up 29% yoy, should lift BCP's earnings in 2009. Moreover, BCP has already hedged 40% of the total volume of its refined product gross refining margin (GRM) at US$7-8/bbl. We expect BCP to achieve FY09 GRM of US$6-7/bbl vs market GRM of US$4/bbl. BCP's earnings will improve from net loss of Bt0.8b in 2007 to net profit of Bt2.1b in 2009.

THAILAND

Strategy

Growth (%) SECTOR	Net Profit (Btm) 2007	2008F	2009F	2010F
BANK	(84.5)	886.3	(14.6)	18.8
CONSTRUCTION MATERIALS	0.7	(41.2)	(7.2)	27.1
COMMERCE	(14.0)	26.8	15.6	8.7
TELECOMMUNICATIONS	35.5	14.0	4.7	16.0
ENERGY	10.0	(34.2)	6.4	24.2
MEDIA & PUBLISHING	19.4	3.3	(6.5)	3.7
FINANCE	31.2	3.3	(44.5)	16.6
HEALTHCARE	17.8	(3.9)	(2.9)	24.4
PROPERTY	97.1	(4.6)	(13.8)	8.6
PETROCHEMICAL	6.2	(4.0)	(34.0)	55.0
OTHER	20.9	41.5	(77.6)	(73.0)
UOBKH	(2.3)	0.6	(8.1)	20.9
UOBKH (Ex Financial)	12.5	(22.4)	(4.9)	21.6
UOBKH (Ex Enegy)	(15.4)	48.7	(16.9)	18.4

Source: UOB Kay Hian

Analyst

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Bank of Ayudhya Public Company (BAY TB/BUY/Target: Bt11.30/+27.7%).

Even with a conservative loan growth assumption of 2.6% (vs management target of 6.0%), we still expect the bank to show a decent 17% earnings growth to Bt5.7b in 2009. In spite of the falling interest rate environment, the bank's net interest margin (NIM) is likely to hold firm at 3.9% (vs 4.2% target), thanks to the greater funding cost savings from the acquisition of GECAL. Fee income growth should also broadly outperform the sector on aggressive expansion of the retail banking business under the GE model. The single largest boost to earnings in 2009, however, will come from the absence of the massive Bt2.2b losses from collateralised debt obligations (CDO) incurred in 2008, now that the CDO have been fully provided for. At 0.6xBV, the market seems to value BAY without any expectation of future operational improvement to be gained from GE.

CP All Plc (CPALL TB/BUY/Target: Bt14/+25%).

The aggressive store expansion (450-500 new stores) and the de-consolidation of the loss-ridden hypermarket business in China will be the key factors driving earnings up by at least 20% (consensus) in 2009. The nature of the convenience store business, which focuses on food and small-ticket basic necessary items, will help cushion the impact of declines in sales and margins during the economic downturn.

Major Cineplex (MAJOR TB/Buy/Target: Bt9.11/+22.3%)

MAJOR, the largest cinema operator in Thailand with a 70% market share, is trading at distressed levels. Earnings growth is expected to turn around in 2009 given attractive movie line-ups and upfront fees from the opening of the new Ratanathibeth mall. MAJOR's share price has plunged to -2 standard deviations below its mean of 3.7x P/B. It is now trading merely at its book value, FY09 PE of 6x and EV/EBITDA of 3x, against a yield of 10-12%.

Refinery sector

The huge impact from inventory loss and lower GRM hit the 2008 earnings of refinery companies. Based on our oil price assumption of US$50/bbl vs oil price of US$36/bbl as at end-08, we do not expect an inventory loss in 2009. Thus, the average GRM of US$4/bbl will be enough to shift **Thai Oil PCL (HOLD/Fair: B27.0)** and **Aromatics and Refining (SELL/Fair: Bt10.6)** into positive earnings territory vs a massive net loss in 2008. (We expect PTTAR to report a net loss of Bt8.8b in 2008 and TOP to report a small net gain of Bt0.3b in 2008). Thus, despite positive earnings forecasts for TOP and PTTAR, we remain underweight on both stocks as our earnings forecasts are dependent on oil prices being higher than that recorded in 2008 while the petrochemical arms of both companies are at the beginning of a downturn.

Peer Comparison

		Price	Target Price	Upside	_EPS (Bt)_		2009 ESP	------ PE (x) -----		------ PB (x) -----		------- Yield (%)----		Market Cap	
	Rating	(Bt)	(Bt)	%	2008F	2009F	Growth%	2008F	2009F	2008F	2009F	2008F	2009F	(Btb)	US$m
BAY	BUY	8.85	11.3	27.68	0.84	0.94	11.5	10.5	9.4	0.6	0.6	3.7	3.7	51.5	1,470.6
CPALL	BUY	11.20	14.0	25.00	0.74	0.89	20.1	15.1	15.7	4.7	4.1	4.5	6.3	50.2	1,434.1
ADVANC	BUY	75.00	101.76	35.68	5.81	6.29	8.3	12.9	11.9	2.9	3.0	8.4	8.4	222.1	6,346.6
BANPU	BUY	224.00	266	18.75	33.59	37.95	13.0	7.4	6.8	1.4	1.2	5.1	5.8	60.9	1,739.2
BCP	BUY	7.25	12.4	71.03	-0.67	1.64	n.a.	n.a.	4.4	0.5	0.4	4.1	12.8	8.1	231.8
MAJOR	BUY	7.45	9.11	22.28	0.82	1.08	31.9	9.1	6.9	1.2	1.1	8.2	10.9	6.6	187.7

Source: Bloomberg, UOB Kay Hian

Precious Shipping

Good short-term trade on BDI rally

4Q08 net profit rose 95% yoy on higher lock-in charter rates. Good short-term trade on BDI rally.

4Q08 Results

Year to 31 Dec	Bt m 4Q08	yoy % chg	Bt m 2008	yoy % chg	Remarks
Turnover	2,219.5	16.5	8,535.8	17.1	Increase in average earnings per vessel day
EBITDA	1,541.6	262.9	6,053.2	57.0	
PBT	1,238.7	47.0	4,958.2	13.3	Lower depreciation and higher earnings
Tax	(11.3)	(94.7)	(21.4)	(90.1)	
MI	(0.3)	< (100)	1.7	< (100)	
Net Profit	1,227.1	94.6	4,938.6	18.8	
EPS (Bt)	1.2	94.6	4.7	18.8	
EBITDA Margin (%)	69.5		70.9		
Avg TC Rate per vessel day (US$)	16,325.0	15.5	16,489.0	25.4	

Source: PSL, UOB Kay Hian

Results

Precious Shipping (PSL) reported 4Q08 PATMI of Bt1,227.1m, up 95% yoy (-16% qoq) due to a 15% yoy increase in average earnings per vessel day. Results are in line with our expectations. Operating cost per vessel day rose 18% yoy to US$4,897 due to higher crew wages, drydocking and special survey expenses of older vessels.

Stock Impact

In our report dated 2 Feb 09, we said dry bulk shipping stocks would likely see a sharp rally if the Baltic Dry Index (BDI) continues to head north. PSL's share price rallied 12% yesterday as the BDI surged 15% on higher iron ore shipments to China. We do not expect strong shipping rates to be sustainable due to the expected sharp rise in vessel deliveries from 2H09 onwards.

As at end-Dec 08, PSL had locked in 61.0%, 32.5% and 18.8% of its 2009, 2010 and 2011 available vessel days respectively on long-term charter contracts. PSL's prudent strategy of locking its available vessel days on a 4-year rolling basis has allowed the Group to ride through the volatile nature of the spot market and partially cushioned its earnings against the current weak freight rate environment.

Earnings Revision

We expect dry bulk freight rates to remain soft as vessel oversupply kicks in from 2H09 onwards. About 40% and 68% of PSL's available vessel days for 2009 and 2010 have not been locked in with charter contracts; we lower our earnings forecasts by 10% and 34% respectively to reflect lower ship chartering rates.

THAILAND

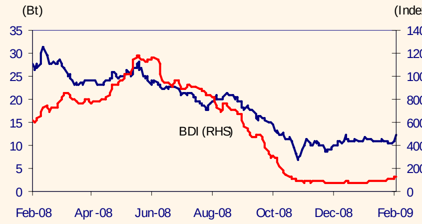
Precious Shipping (PSL TB)

HOLD

Current Price: Bt12.30
Fair Price: Bt8.30
(Previous: Bt9.30)

Sector	Marine
52-Wk Avg Daily Vol. ('000)	2,435
Market Cap (Btm)	12,786.1
(US$m)	366.0
Major Shareholders (%)	
Globex Corporation	25.1
Moinuddin Hashim Khalid	9.6
Shah Nishita	9.5
Book NTA per Share (Bt)	15.54
ROE (%)	32.7
Net Cash per Share (Bt)	2.51
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Bt)	Yield (%)
2007	9,033	6,569	4,156	4.10	11.9	3.0	1.6	2.56	20.8
2008	8,660	6,063	4,939	4.75	15.8	2.6	1.7	2.80	22.8
2009F	7,111	3,996	2,980	2.87	(39.7)	4.3	2.6	1.01	8.2
2010F	4,872	1,581	465	0.45	(84.4)	27.5	6.4	0.16	1.3
2011F	7,188	3,567	2,362	2.27	408.0	5.4	2.9	0.80	6.5

Consensus Net Profit – FY09: Bt2,911.2m
– FY010: Bt1,754.6m

Valuation/Recommendation

While the share price of PSL has collapsed 56% from its peak in May 08, we believe it is still too early to accumulate for long-term investment. Current share price is trading at a 48% premium to our revised fair value of Bt8.30 (based on 0.5x 2010 P/B). We are maintaining our **HOLD** recommendation for the time being because dry bulk shipping stocks are rallying in tandem with the current uptrend in the BDI. We see dry bulk shipping stocks as good short-term trading plays on the rising BDI. Our 12-month fundamental view on the dry bulk shipping sector however remains **UNDERWEIGHT**.

With the global dry bulk shipping fleet growth projected at 11% and 19% for 2009 and 2010 respectively, far exceeding our tonne-mile demand growth expectation of –0.9% for 2009 and 3.3% for 2010, dry bulk shipping rates would likely be soft as strong vessel deliveries hit the market in 2009/10. However, we would revisit our view should vessel scrapping and order cancellation rise sharply, which would redress the potential oversupply situation. Over the last three months, there is an increase in the scrapping activity, with scrapping posting a historic high of 2.4m dwt in Dec 08. Should this pick up substantially and coupled with order cancellations, the dry bulk shipping sector may stage a strong return.

Profit & Loss

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	9,033	8,660	7,111	4,872	7,188
EBIT	2,944	4,978	2,911	446	2,381
Pre-tax Profit	4,376	4,958	3,003	487	2,385
Net Profit	4,156	4,939	2,980	465	2,362

Balance Sheet

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	1,763	3,638	6,367	7,112	10,416
Total Assets	15,018	17,961	22,878	25,923	31,413
Current Liabilities	788	778	1,173	1,159	1,171
Long-Term Liabilities	165	1,005	4,067	7,505	10,888
Shareholder Funds	14,052	16,166	17,627	17,247	19,343
Total Equity & Liabilities	15,018	17,961	22,878	25,923	31,413

Cash Flow

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	4,760	6,355	4,066	1,600	3,548
Investing	(2,124)	(2,090)	(3,338)	(3,426)	(3,383)
Financing	(2,391)	(2,220)	1,808	2,593	3,116
Net Cash In/(Out) Flow	212	2,090	2,536	767	3,281
Begin Cash & Cash Equiv.	1,259	1,470	3,560	6,096	6,863
End'g Cash & Cash Equiv.	1,470	3,560	6,096	6,863	10,144

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