

KEY STORY

China

Sinofert (SELL/HK\$4.22/Fair: HK\$3.80) Page 13
Gross margin could be squeezed by still high import potash prices and lower domestic potash prices. Downgrade to SELL.

Singapore

CapitaLand (BUY/\$2.36/Target: S\$2.80) Page 17
4Q08: Rights issue overhang is out of the way.

CapitaMall Trust (SELL/\$1.45/Fair: S\$1.52) Page 19
Equity fund raising via the proposed 9-for-10 rights issue is expensive with 2009 DPU diluted by 37.6%.

Thailand

Energy and Petrochemical Page 23
PTTEP, BANPU, SPC and BCP are trading at 29-69% below replacement values. Current share prices build in Dubai oil at US\$40/bbl.

REGIONAL

Sector

Dry Bulk Shipping Page 3
The BDI surges, driven by supportive policies and confidence.

CHINA

Sector

Property Page 5
Relatively low sales due to seasonal effect.

Steel Page 7
Weekly: Stronger rise in long steel prices supports Maanshan Iron, our top 12-month steel pick. Trading SELL in view of outperformance.

Update

Chalco (SELL/HK\$4.36/Fair: HK\$3.00) Page 9
China's historically high level of idle capacity will dampen aluminium price rise. Maintain SELL.

China Resources Land (BUY/HK\$9.14/Target: HK\$11.60) Page 11
A comparison of four major property SOEs confirms our positive view on CRL as our top pick.

Sinofert (SELL/HK\$4.22/Fair: HK\$3.80) Page 13
Gross margin could be squeezed by still high import potash prices and lower domestic potash prices. Downgrade to SELL.

HONG KONG

Market Commentary

A 60% chance the Hang Seng Index could finish lower by end-09.

Technical Analysis

Lee & Man (2314): Heading towards resistance at HK\$4.75-5.00.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8270.9	(0.1)	4.2	(3.8)	(5.8)
FTSE 100	4307.6	0.4	5.6	(3.2)	(2.9)
AS30	3445.8	1.1	0.1	(6.4)	(5.8)
CSI 300	2296.7	2.7	11.6	19.7	26.3
FSSSTI	1682.3	(1.9)	(1.3)	(6.8)	(4.5)
HSI	13769.1	0.8	7.1	(4.2)	(4.3)
JCI	1342.2	(0.6)	2.4	(5.3)	(1.0)
KLCI	896.6	1.9	1.5	(2.4)	2.3
KOSPI	1202.7	(0.6)	4.9	1.8	7.0
Nikkei 225	7969.0	(1.3)	1.2	(9.8)	(10.1)
SET	444.4	2.5	1.5	(3.2)	(1.2)
TWSE	4494.6	0.5	5.5	0.6	(2.1)
BDI	1642.0	9.6	49.4	88.3	112.1
CPO (RM/mt)	1858.5	1.6	2.5	3.9	14.0
Nymex Crude (US\$/bbl)	39.7	(1.2)	(1.0)	(2.8)	(11.0)

Source: Bloomberg

Top BUYs/SELLs

Ticker	Current Price (1cy)	Target Price (1cy)	Pot. +/- (%)	
Top BUYs				
China Life	2628 HK	23.50	36.00	53.2
China Mobile	941 HK	75.75	95.00	25.4
China Petroleum	386 HK	4.64	6.93	49.4
China Railway	390 HK	4.82	5.90	22.4
China Shenhua	1088 HK	18.70	23.00	23.0
Maanshan Iron	323 HK	3.10	3.20	3.2
Bumi Resources	BUMI IJ	680.00	1,010.00	48.5
Public Bank	PBK MK	9.05	10.90	20.4
DBS Group	DBS SP	8.23	10.98	33.4
Indofood Agri	IFAR SP	0.62	0.80	30.1
SingTel	ST SP	2.43	2.95	21.4
Advanced Info	ADVANC TB	75.00	101.00	34.7
Quality Houses	QH TB	0.90	1.49	65.6
Top SELLs				
Aluminum Corp	2600 HK	4.36	2.50	(42.7)
Parkson Retail	3368 HK	6.65	4.89	(26.5)
Wharf Hldg	4 HK	17.80	14.60	(18.0)
S'pore Airlines	SIA SP	10.40	9.60	(7.7)
S'pore Exchange	SGX SP	5.20	3.00	(42.3)
Amata Corp	AMATA TB	3.80	2.52	(33.7)

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 * (US\$/dmton)	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

Tuesday, February 10, 2009

SINGAPORE**Results****CapitaLand (BUY/S\$2.36/Target: S\$2.80) Page 17**

4Q08: Rights issue overhang is out of the way.

Update**CapitaMall Trust (SELL/S\$1.45/Fair: S\$1.52) Page 19**

Equity fund raising via the proposed 9-for-10 rights issue is expensive with 2009 DPU diluted by 37.6%.

China XLX Fertiliser (BUY/S\$0.41/Target: S\$0.57) Page 21

Cut 2009-10 earnings forecasts by 18-21% based on lower sales growth assumptions amid droughts and bigger loss for methanol segment.

THAILAND**Sector****Energy and Petrochemical Page 23**

PTTEP, BANPU, SPC and BCP are trading at 29-69% below replacement values. Current share prices build in Dubai oil at US\$40/bbl.

Results**Total Access Communication (BUY/Bt29.75/Target: Bt34.29) Page 25**

4Q08: Results below expectation. However, share price seems to have over-reacted.

Dry Bulk Shipping

The BDI surges, driven by supportive policies and confidence

The Baltic Dry Index gained a whopping 53.5% last week on the back of rising freight rates in the Australia/China routes, ongoing restocking and improving confidence. The stimulus packages may continue to boost the dry bulk sector.

SECTOR REVIEW

The biggest gain in 24 years. Share prices of dry bulk stocks surged 7-24% as the Baltic Dry Index (BDI) leaped more than 50% last week. The BDI has risen for 14 consecutive days, driven by surging freight rates in the Australia/China routes, ongoing restocking and improving confidence.

Signs of restocking. There are signs of iron ore restocking amid a modest uptick in the Purchasing Manager Index (PMI), industrial production and power consumption data. The infrastructure-driven stimulus packages and the robust loans growth in January also boosted the iron ore traders' confidence.

SECTOR OUTLOOK

Short-term direction affected by "stimulus packages" + "confidence".

Steel demand revived. Steel demand in China saw a recovery in January, the first month-on-month increase since Jul 08. In the near term, Chinese steel traders may continue to stock up and import iron ore due to anticipation of a rebound in steel prices.

Loans growth in 1Q09. New loans growth in China may exceed market expectations in 1Q09, indicating higher-than-expected domestic investment. Infrastructure-related sectors such as steel may benefit from the improving domestic investment. More steel demand can help the dry bulk shipping sector.

Rising A-share market- positive impact on shipping sector. The Shanghai A-share and the BDI are highly correlated (correlation ratio is 0.8) while the A-share index is a leading indicator for the BDI. Since the A-share market is a proxy to confidence, stabilising the A-share market may boost confidence and hence investment. As such, the bottoming out/rising A-share market has a positive impact on the dry bulk shipping sector.

Headline numbers. Generally, investors are prepared for the upcoming poor economic data. Any better-than-expected headline numbers (such as PMI, FAI and industrial production) may boost investors' confidence.

Long-term fundamentals remain bleak. In spite of China's aggressive infrastructure-driven stimulus packages, the global macro economic picture remains bleak. The recent freight rates newsflow is good but the fundamental problems that had caused the BDI to collapse have not been solved yet. On the supply front, capacity oversupply in the coming years may restrain dry bulk freight rates and the BDI. Maintain **UNDERWEIGHT** on the sector.

Stock Prices vs Baltic Dry Index

	Ticker	Price @ 9 Feb 09	1W (%chg)	1M (%chg)	12M (%chg)	YTD (%chg)	12M Corr Ratio
China COSCO	1919 HK	5.71	22.8	(0.7)	(70.9)	5.9	0.96
China Shipping	1138 HK	8.64	16.8	1.3	(55.5)	12.2	0.96
Pacific Basin	2343 HK	4.94	20.5	11.0	(56.1)	40.3	0.96
STX PO	STX SP	11.56	9.9	4.5	(50.8)	28.4	0.96
Precious Shipping	PSL TB	13.1	23.6	13.9	(51.5)	20.2	0.91
Thoresen Thai	TTA TB	17.4	9.4	8.1	(53.6)	13.9	0.96
Malaysian Bulk	MBC MK	2.75	6.6	2.6	(29.5)	15.1	0.92
Courage Marine	CMG SP	0.135	8.0	(3.6)	(56.5)	3.8	0.97
Mercator Lines	MRLN SP	0.145	7.4	(3.3)	(65.9)	0.0	0.93
Sincere Nav	2605 TT	28.05	15.2	0.9	(45.7)	(6.5)	0.92
U-Ming	2606 TT	47	17.2	11.9	(41.1)	19.6	0.92
Baltic Dry Index	BDIY	1642	53.5	88.3	(74.2)	112.1	n.a.

Source: Bloomberg; UOB Kay Hian

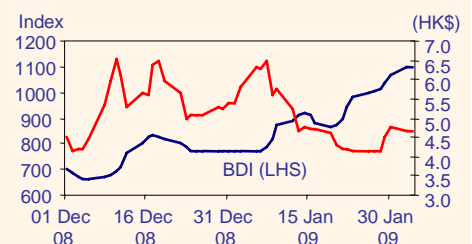
REGIONAL Dry Bulk Shipping UNDERWEIGHT

A-share vs BDI



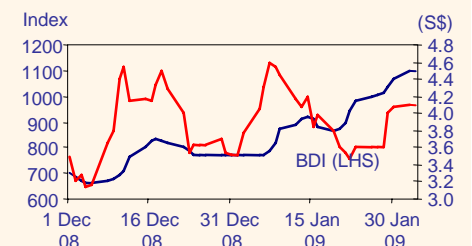
Source: Datastream

China COSCO vs BDI



Source: Datastream

Pacific Basin vs BDI



Source: Datastream

Analyst

Nancy Wei
☎ (65) 6539 8480
nancy.wei@uobkayhian.com

Stella Kei
☎ (852) 2826 1351
stella.kei@uobkayhian.com.hk

Esther Sim
☎ (65) 6539 8479
esthersim@uobkayhian.com

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Corporate Headlines

Precious profits. Precious Shipping's strategy of fixing ships on long-term charters continues to pay dividends with a 34% jump in 4Q08 net profit to US\$35m.

Hanjin Shipping's profit soars. Despite the downturn in freight rates in 4Q08, Hanjin Shipping's net profit jumped 123% yoy to Won321.4b in 2008.

Baltic Freight Indices

	Index	1W (% chg)	1M (% chg)	12M (% chg)	YTD (%chg)
Baltic Dry Index	1,642	53.5	88.3	(74.2)	112.1
Baltic Capesize	2,999	51.4	113.3	(65.7)	124.3
Baltic Panamax	1,251	57.4	138.3	(77.9)	124.2
Baltic Supramax	854	66.8	116.2	(77.8)	102.9
Baltic Handysize	404	34.7	47.4	(78.7)	43.8

Source: Bloomberg; UOB Kay Hian

1-Year Time Charter rates (US\$/day)

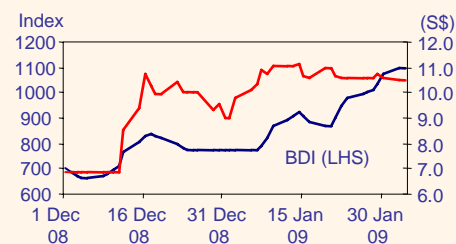
Vessels	Rate	1W	1M	3M	6M	Ytd
Capesize	27,000	20,750	17,500	13,500	85,000	15,000
Panamax	16,000	12,000	11,375	13,250	67,000	10,750
Handymax	12,500	10,500	9,500	10,500	52,500	9,500
Movement	Rate	1W %	1M %	3M %	6M %	YTD %
Capesize	27,000	30.1	54.3	100.0	(68.2)	80.0
Panamax	16,000	33.3	40.7	20.8	(76.1)	48.8
Handymax	12,500	19.0	31.6	19.0	(76.2)	31.6

Source: Clarksons, UOB Kay Hian

Capesize. The capesize market saw a leap in rates last week, with average earnings jumped 86.6% woy to US\$28,832/day. The forward market has been pushing up the spot. The Atlantic front-haul market has pulled both Transatlantic and Pacific round voyages up.

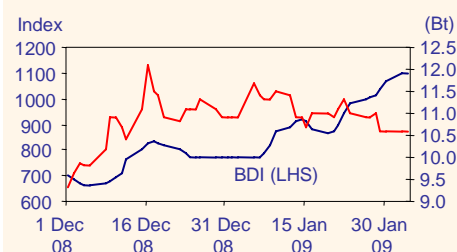
Panamax. All markets improved steadily, with interest in short periods of up to one year driving up spot sentiment. The period market was most active in the Pacific, and the difference to the spot market remains evident. Overall, average earnings rose 69.3% woy to US\$7,560/day.

STX PO vs BDI



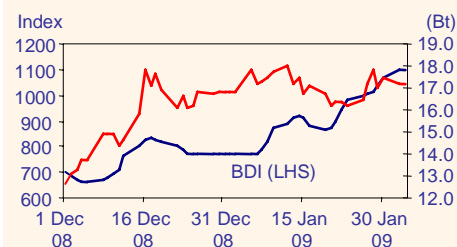
Source: Datastream

Precious Shipping vs BDI



Source: Datastream

Thoresen Thai vs BDI



Source: Datastream

Peer Comparison

Company	Ticker	Curr-ency	Price @ 9 Feb 09	Target/Fair Price	Rec	PE (x)			P/B (x)		
						2007	2008F	2009F	2007	2008F	2009F
Hong Kong											
China COSCO	1919 HK	HK\$	5.71	4.00	SELL	2.3	2.1	2.7	0.97	0.80	0.71
China Shipping	1138 HK	HK\$	8.64	11.80	BUY	5.6	4.1	4.3	1.57	1.25	1.07
Pacific Basin	2343 HK	HK\$	4.94	4.00	HOLD	2.1	1.7	3.4	1.15	0.75	0.62
Malaysia											
Malaysian Bulk Carriers	MBC MK	RM	2.75	n.a.	NR	5.0	6.8	11.3	1.49	1.41	1.45
Singapore											
Courage Marine	CMG SP	S\$	0.135	n.a.	NR	1.6	n.a.	n.a.	0.82	n.a.	n.a.
Mercator Lines	MRLN SP	S\$	0.145	n.a.	NR	1.8	1.5	2.1	0.47	0.38	0.38
STX P O	STX SP	S\$	11.56	9.00	HOLD	2.8	2.3	5.4	0.75	0.68	0.63
Taiwan											
Sincere Navigation	2605 TT	TWD	28.05	n.a.	NR	4.8	5.3	6.5	1.40	1.27	1.22
U-Ming Marine	2606 TT	TWD	47.00	n.a.	NR	4.5	3.9	9.9	1.63	1.36	1.42
Thailand											
Precious Shipping	PSL TB	Bt	13.10	8.30	HOLD	3.2	2.8	4.6	0.97	0.84	0.77
Thoresen Thai											
Agencies	TTA TB	Bt	17.40	11.50	SELL	2.3	1.3	n.a.	0.74	0.45	0.48
Average						3.3	3.2	5.6	1.09	0.92	0.88

Source: Bloomberg, UOB Kay Hian

Property

Relatively low sales due to seasonal effect

Despite the slow sales due to seasonal effect, we expect a moderate sales recovery in 2009 driven by enhanced housing affordability and improved sentiment on economic outlook on the back of the government's stimulus package.

Relatively low sales last week. Sales achieved by major cities last week were generally lower than the weekly average in Dec 08 by 30-50%. In our view, this is mainly due to the seasonal effect since January and February are normally low sales seasons. In particular, it was also the first week right after the Chinese New Year (CNY). On the other hand, by comparing with the sales in the week before the CNY, i.e. 19-25 Jan 09, overall sales last week were flat wow. In addition, compared with the sales in the first week after the last CNY, i.e. 18-24 Feb 08, overall sales last week were also in line yoy. Nonetheless, sales performances were varied among major cities. Cities in the Yangtze River Delta region, i.e. Shanghai, Nanjing and Hangzhou, reported weaker sales. Meanwhile, cities in the Pearl River Delta region, i.e. Shenzhen and Guangzhou, as well as Chongqing and Chengdu, in southwestern China outperformed the overall market.

Vanke's sales in Jan 09 beat the market. Vanke's January sales reached a gross floor area (GFA) 286,000sqm, or Rmb2.2b, up 24% and 19% yoy respectively. Meanwhile, Vanke also acquired one piece of land in Liwan District of Guangzhou last month. This is the first time the company has increased land reserves in Guangzhou since Jul 07.

Vanke's January sales outperformed the overall market. Despite the volatile sales performance of developers on a monthly basis, we believe leading property companies with diversified exposure to China have a clearer sales outlook and are also the market consolidators as they expand market share in the weak market.

2009 sales to increase about 10% yoy. Given the improved sentiment on the economic outlook in response to the government's stimulus package and substantially enhanced affordability after the 15-35% price decline in major cities and lower interest rates, we expect a moderate sales increase in 2009. Despite the property stock rally over the past few trading days, property stocks are trading at an average of 58% discount to NAV. We still see value in quality names, i.e. China Resources Land (1109 HK) and Shimao Property (813 HK).

Weekly Sales In Major Cities (2- 8 Feb)

Region	City	GFA ('000 sqm)	wow %	yoy %
Pan-Bohai Rim	Beijing	88	2	14
	Tianjin	71	23	0
	Qingdao	301	(11)	-
Yangtze River Delta	Shanghai	156	(2)	(41)
	Suzhou	217	459	197
	Nanjing	32	(68)	(55)
	Hangzhou	19	(33)	(54)
	Ningbo	30	(29)	-
South China	Shenzhen	94	108	224
	Guangzhou	155	30	-
	Dongguan	35	14	-
	Xiamen	105	141	-
	Fuzhou	58	38	-
Central China	Wuhan	87	0	13
	Changsha	122	(2)	-
Southwest China	Chongqing	283	51	52
	Chengdu	227	40	-
	Kunming	59	(37)	-

Source: Soufun, UOB Kay Hian

CHINA

Property

MARKET WEIGHT

Analyst

Johnson Hu, CFA
 ☎ (8621) 5404 7225 ext 806
johnson.hu@uobkayhian.com

Sylvia Wong
 ☎ (852) 2236 6793
sylvia.wong@uobkayhian.com.hk

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Weekly Primary Contracted Sales Volume (GFA) In Major Cities

('000sqm)	Beijing	wow % chg	Shanghai	wow % chg	Shenzhen	wow % chg	Guangzhou	wow % chg	Tianjin	wow % chg	Chongqing	wow % chg
6-Jul	166	-31	319	19	58	-24	38	-25	96	-24	209	-5
13-Jul	122	-27	242	-24	48	-16	59	54	96	0	178	-15
20-Jul	138	14	262	8	54	11	44	-25	99	4	223	25
27-Jul	105	-24	285	9	58	8	56	26	82	-17	268	20
Jul total	584	-34	1,187	-20	257	-16	197	-29	405	-17	1,239	46
3-Aug	129	23	249	-13	73	26	64	14	78	-5	422	57
10-Aug	80	-38	235	-6	73	0	48	-25	66	-16	145	-66
17-Aug	78	-3	256	9	59	-19	49	3	68	3	138	-5
24-Aug	66	-16	267	5	57	-2	70	41	72	5	201	46
31-Aug	157	138	267	0	82	43	38	-46	84	17	176	-12
Aug total	423	-28	1,105	-7	280	9	269	37	319	-21	682	-45
7-Sep	77	-51	201	-25	75	-9	44	16	65	-22	172	-2
14-Sep	162	110	187	-7	87	16	55	24	53	-19	199	16
21-Sep	178	10	209	12	62	-28	60	10	104	97	194	-2
28-Sep	389	119	250	20	71	13	125	108	97	-7	323	66
Sep total	969	129	865	-22	308	10	284	6	329	3	953	40
5-Oct	169	-57	68	-73	47	-33	104	-17	32	-66	53	-84
12-Oct	249	47	278	310	118	150	245	136	94	190	234	341
19-Oct	196	-21	220	-21	94	-20	180	-26	107	14	155	-34
26-Oct	168	-14	200	-9	66	-30	119	-34	134	26	547	254
Oct total	783	-7	860	-6	340	10	629	23	428	30	1,384	44
2-Nov	213	27	169	-15	65	-1	103	-14	84	-37	559	2
9-Nov	378	77	215	27	125	92	144.	40.	119	41	443	-21
16-Nov	205	-46	256	19	137	9	128.	-12.	113	-5	189	-57
23-Nov	272	33	283	10	154	12	143	12	128	13	143	-24
30-Nov	213	-22	404	43	138	-10	171	20	110	-14	178	25
Nov total	1,129	44	1,206	40	573	69	616	-2	494	15	1,112	-20
7-Dec	204	-4	397	-2	139	0	174	2	97	-12	267	50
14-Dec	236	15	287	-28	185	33	166	-5	94	-3	260	-2
21-Dec	301	28	284	-1	165	-11	201	21	83	-12	239	-8
28-Dec	310	3	311	10	164	-1	182	-9	103	24	315	32
Dec total	1,168	3	1,417	17	729	27	486	-10	422	-15	1,261	13
4-Jan	199	-36	188	-39	135	-18	160	-12	75	-27	273	-13
11-Jan	227	14	278	48	157	16	192	20	98	31	262	-4
18-Jan	182	-20	274	-2	131	-16	162	-16	105	7	280	7
25-Jan	86	-53	160	-42	46	-65	120	-26	58	-45	187	-33
Jan total	579	-50	807	-43	394	-46	n.a.	n.a.	295	-30	878	-30
1-Feb	4	-96	20	-88	7	-84	10	-92	5	-92	40	-79
8-Feb	88	2216	156	697	94	1230	155	1435	71	1415	283	615

Source: Soufun, UOB Kay Hian

Valuation of China Property Plays

	Bloomberg Code	Rating	Share price 9 Feb 09 (HK\$)	----- EPS ----- 2008F (Rmb)	2009F (Rmb)	----- PE ----- FY08F (X)	FY09F (X)	----- Yield ----- FY08F (%)	FY09F (%)	NAV (HK\$)	Discount to NAV (%)
Agile	3383 HK	HOLD	3.45	1.36	0.47	1.9	5.6	11.5	7.6	9.20	(62.5)
China Overseas Land	688 HK	HOLD	10.66	0.68	0.82	14.0	11.6	1.7	2.4	12.70	(16.1)
China Resources Land	1109 HK	BUY	9.14	0.31	0.42	37.4	27.6	0.5	0.7	15.44	(40.8)
Greentown	3900 HK	SELL	2.98	0.48	0.89	4.7	2.5	5.4	7.6	11.21	(73.4)
Guangzhou R&F	2777 HK	HOLD	7.66	1.06	0.97	7.1	7.7	0.0	2.7	17.37	(55.9)
Hopson	754 HK	SELL	5.00	1.18	1.29	2.9	2.7	8.5	10.1	17.00	(70.6)
Poly HK	119 HK	BUY	1.63	0.06	0.24	34.4	9.2	2.3	2.3	7.33	(77.8)
Shanghai Forte Land	2337 HK	SELL	1.19	0.15	0.18	5.9	5.0	4.2	5.1	2.57	(53.7)
Shimao Property	813 HK	BUY	5.38	0.56	0.71	10.2	8.0	3.9	4.2	14.11	(61.9)
Sino-Ocean Land	3377 HK	HOLD	3.90	0.23	0.28	12.6	10.4	2.6	2.7	7.02	(44.4)

Source: UOB Kay Hian

Steel

Looking to lock in profit

Continuing strength in long steel prices helps to boost Maanshan Iron, our top steel pick. Maintain BUY with a 12-month target price of HK\$3.70, but we suggest a Trading SELL on the stock, which has outdone the other steel plays.

Sector Events

Spot long steel product prices rose more than those of flat steel prices in the first week of trading after the Chinese New Year (CNY) – the 11th week of steady rises. Rebar price rose 4.5% w/w and wire rod rose 4.2%, as traders continue to re-stock in anticipation of orders coming through from China's stimulus package.

Key Steel Product Spot Prices

	(Rmb/tonne)*	1W %	1M %	3M %	6M %	Ytd
Steel Rebar 25mm	3970	4.5	5.3	7.8	-26.0	7.4
Wire Rod 6.5mm	3959	4.2	5.1	7.4	-30.1	7.9
HR Sheet 3mm	4155	3.9	2.0	32.5	-27.7	5.5
CR Sheet 1mm	4751	2.0	2.3	13.4	-32.7	4.9
Steel Plate 20mm	3994	5.1	4.3	9.4	-37.8	7.4

* Price as at 6 Feb 09
Source: Bloomberg

Sector Impact

Prices of all major steel categories rose in the first trading week after the CNY. But as China's Rmb4 trillion package will benefit long steel more than flat steel, prices of rebars and wire rods have continued to outperform those of hot-rolled and cold-rolled sheets since the start of 2009.

Long steel product prices are driven by two factors. One, expectations arising from Beijing's infrastructure spending, which will create demand for rebars and wire rods used in construction. Checks by our infrastructure analyst Mark Po reinforce our view that infrastructure builders are receiving more contracts from Beijing faster than the market has expected.

Two, steel prices are boosted by steel traders' restocking of long steel products as traders expect government infrastructure spending to drive up steel prices later on.

Stock impact

We upgraded **Maanshan Iron & Steel** (Magang) on 13 January as we consider it the best 12-month proxy to China's stimulus package, particularly the railway expansion initiative. Several super-budge houses are slowly but surely coming into our view as well, explaining why Magang has outshone Angang Steel (Angang) and Chongqing Iron & Steel (Chonggang).

Yesterday, it rose 7.3% as a US broker finally switched to our view, bringing Magang's cumulative rise after the CNY to 37%, the highest among steel stocks.

We still like Magang on a 12-month basis, and has raised its target price to HK\$3.70, based on 0.9x its 2009F book value.

In the short-term, however, we do not think steel prices can continue to rise if the expectations of higher end-user demand are slow to materialise.

We have a **HOLD** call on **Angang** with a fair price of HK\$7.96. Again, given its strong show, we suggest a Trading SELL, with an entry price of HK\$7.00.

CHINA

Steel

MARKET WEIGHT

Angang Steel (347 HK)

HOLD

Current Price: HK\$8.64

Fair Price: HK\$7.96

Maanshan Iron & Steel (323 HK)

BUY

Current Price: HK\$3.10

Target Price: HK\$3.70

(Previous: HK\$3.20)

Chongqing Iron & Steel (1053 HK)

HOLD

Current Price: HK\$2.23

Fair Price: HK\$2.31

Analyst

Foo Choy Peng

☎ (852) 2236 6798

choypeng.foo@uobkayhian.com.hk

Kenneth Li

☎ (852) 2236 6757

kenneth.li@uobkayhian.com.hk

	Last Price (HK\$)	Price change (%)			
		1D	5D	8D	1M
Magang	3.10	7.3	24.0	36.6	13.6
Angang	8.64	2.4	21.3	34.0	4.1
Chonggang	2.23	2.8	15.5	26.0	0.0

China Steel Data

Steel Products Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Steel Rebar 25mm	3970	3799	3771	3683	5361	3696
Wire Rod 6.5mm	3959	3799	3767	3687	5660	3671
HR Sheet 3mm	4155	4000	4075	3135	5747	3938
CR Sheet 1mm	4751	4660	4643	4190	7056	4531
Steel Plate 20mm	3994	3800	3830	3652	6425	3720
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Steel Rebar 25mm	3970	4.5	5.3	7.8	-26.0	7.4
Wire Rod 6.5mm	3959	4.2	5.1	7.4	-30.1	7.9
HR Sheet 3mm	4155	3.9	2.0	32.5	-27.7	5.5
CR Sheet 1mm	4751	2.0	2.3	13.4	-32.7	4.9
Steel Plate 20mm	3994	5.1	4.3	9.4	-37.8	7.4

Prices as at 6 Feb 09

Steel Inventory	(tt tonnes)	1W	1M	3M	6M	Ytd
Steel Inventory	*324	311	298	343	341	292
Change	(tt tonnes)	1W %	1M %	3M %	6M %	Ytd %
Steel Inventory	*324	4.1	8.4	(5.8)	(5.2)	10.8

Inventory level for the week ended 23 Jan 09 *Include inventories in Shanghai, Beijing, Wuhan and Guangzhou market

China Iron Ore Inventory	(m tonnes)	1W	1M	3M	6M	Ytd
Iron Ore Inventory Total	58.34	58.67	59.90	70.98	73.17	59.90
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Inventory Total	58.34	(0.6)	(2.6)	(17.8)	(20.3)	(2.6)

Inventory level for the week ended 6 Feb 09

China Iron Ore Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
China Iron Ore Shandong Zibo	850	870	850	870	1580	850
China Iron Ore Hebei Tangshan	870	850	890	590	1180	890
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
China Iron Ore Shandong Zibo	850	-2.3	0.0	-2.3	-46.2	0.0
China Iron Ore Hebei Tangshan	870	2.4	-2.3	47.5	-26.3	-2.3

Price as at 6 Feb 09

Import Iron Ore Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Iron Ore Qingdao	690	680	630	540	1400	630
Iron Ore Beilun	680	680	635	520	1380	630
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Qingdao	690	1.5	9.5	27.8	-50.7	9.5
Iron Ore Beilun	680	0.0	7.1	30.8	-50.7	7.9

Price for the week ended 6 Feb 09

China Crude Steel Output	(m tonnes)	1W	1M	3M	6M	Ytd
Dec Crude Steel Output	37.8	n.a.	35.2	39.6	46.9	40.6
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Dec Crude Steel Output	37.8	n.a.	7.4	(4.5)	(19.4)	(6.9)

China Scrap Steel price	(m tonnes)	1W	1M	3M	6M	Ytd
Domestic scrap steel price	2750	2700	2400	2050	4185	2400
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Domestic scrap steel price	2750	1.9	14.6	34.1	-34.3	14.6

Price for the week ended 6 Feb 09

Coke Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Coke Taiyuan Price	1750	1750	1700	1350	3050	1550
Coke Export Tianjin	*^350	350	335	500	715	325
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Coke Taiyuan Price	1750	0.0	2.9	29.6	-42.6	12.9
Coke Export Tianjin	*^350	0.0	4.5	-30.0	-51.1	7.7

Price as at 6 Feb 09

^Price for the week ended 6 Feb 09

*Price quoted in US\$/tonne

Source: Bloomberg

Remarks

Long steel prices continued to outperform flat steel prices.

Steel inventory rose 4.1% wow.

Iron ore at port dropped slightly for the week.

Spot iron ore price was mixed, with Tangshan and Zibo prices going in opposite directions.

Import iron ore price gained slightly for the week in Qingdao.

Scrap steel price rose 2% wow.

Domestic and export coke prices remained unchanged.

Chalco

Too much optimism

Chalco's sharp rebound after its profit warning in end-January cannot be sustained. China's record 33% idle capacity and all-time high global inventories will see to that. Maintain SELL.

Corporate Events

Chalco's share price has rebounded sharply after its profit warning on 29 January on optimism that the global stimulus packages will raise demand for base metals.

Stock Impact

While the stimulus theme will continue to play out, we cannot see aluminium and Chalco partaking in a sustained rise because of two dampeners: all-time high inventories at the London Metal Exchange (LME) and the record 33% of idle capacity in China.

LME inventories at all-time high. Aluminium inventories at LME rose to a record of 2.87m tonnes. Since Jan 07, inventories have risen by 3.5x. Such is the pace of build-up such that producers and traders are now looking for alternative locations to store the metal and offering cash incentives to customers to use it as fears escalate that inventories will hit 4m tonnes this year. This will rule out any nice recovery in aluminium prices.

Idle capacity of 33% in China. Metal consultancy Antaika has estimated that total idle capacity of aluminium in China amounted to around 33% by the end of 2008. Re-starting idle capacity in China is often a swift process. Yesterday, reports suggested that tariff cuts have already prompted some smelters in Inner Mongolia, Ningxia and Qinghai to re-start some idle capacity. In other words, output can rise easily to offset any price rises, thus delaying the consolidation process.

China's Idle Capacity

m tonne	Aluminium	Copper	Steel
Total capacity by end 2008	20.2	4.6	650
2008F output	13.6	3.8	498
Idle capacity	6.6	0.8	152
Idle capacity % of total capacity	33%	17%	23%

Source: Antaika, CISA, UOB Kay Hian

Betting on zinc, copper and aluminium – in that order – will be the best way to play that fiscal stimulus theme. Aluminium, being the most abundant metal in the Earth's crust, is often the last to perform in a commodity upcycle or economic recovery. This is self-evident in the recent rebound in commodity prices with nickel, copper, zinc and aluminium bouncing back 28%, 24%, 11% and 10% respectively. Also, in the commodity boom from 2003 to 2008, aluminium underperformed copper and zinc because of its abundant supply and shorter supply response.

CHINA

Chalco (2600 HK)

SELL

Current Price: HK\$4.36

Fair Price: HK\$3.00

(Previous: HK\$2.50)

Sector	Metal
52-Wk Avg Daily Vol. (m)	56.6
Market Cap (HK\$m)	121,098
(US\$m)	15,525

Major Shareholders (%)	
Aluminum Corp of China	41.8

Book NTA per Share (Rmb)	4.28
ROE (%)	19.9
Net Debt per Share (Rmb)	1.1

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

Price Chart



Source: Bloomberg

Analyst

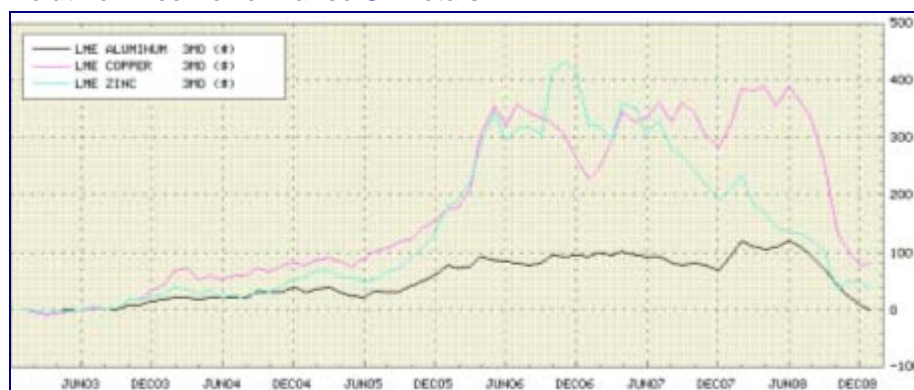
Foo Choy Peng
 ☎ (852) 2236 6798
 choypeng.foo@uobkayhian.com.hk

Karen Li
 ☎ (852) 2236 6749
 karen.wy.li@uobkayhian.com.hk

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	64,827	21,349	11,842	1.04	62.9	4.2	4.9	0.19	4.4
2007	76,180	19,376	10,245	0.82	(20.9)	5.4	5.7	0.33	7.5
2008F	58,652	7,835	639	0.05	(94.2)	81.3	15.4	0.01	0.4
2009F	46,339	8,119	660	0.05	3.4	78.7	15.0	0.01	0.4
2010F	68,822	10,752	2,307	0.17	249.4	22.5	11.4	0.05	1.3

Consensus Net Profit – FY08: Rmb2249.5m
 – FY09: Rmb2527.0m

Relative Price Performance Of Metals



Source: Bloomberg

Chalco struggling to break-even. In our recent discussion with Chalco, we noted that the domestic aluminium price of around Rmb12,200/tonne is still below its unit cost of Rmb15,000/tonne while that of alumina is around its break-even level of Rmb2,200/tonne. This suggests that our 2009 earnings forecast of Rmb660m is at risk. Unless aluminium price rebounds to Rmb17000/tonne or unit cost falls by 30%, Chalco can hardly restore its profitability.

Valuation/Recommendation

Chalco is our top SELL pick, being the most likely commodity play to make losses in 2008 and 2009 and one of most expensive global aluminium counters. With its low earnings visibility, PB is a better valuation yardstick. For those who believe in a sustainable price recovery of aluminium, the aluminium titan Alcoa, which trades at 30% below Chalco in terms of PB, offers better investment value. Maintain SELL with a fair price of HK\$3.00, based on 0.6x 2008 PB.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	64,827	76,180	58,652	46,339	68,822
EBIT	17,668	14,909	2,430	2,332	4,630
Pre-tax Profit	17,124	14,409	931	962	3,361
Net Profit	11,842	10,245	639	660	2,307

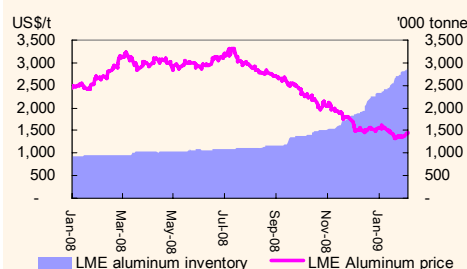
Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	27,123	26,211	33,883	27,568	29,926
Total Assets	81,942	94,338	116,222	112,121	115,388
Current Liabilities	23,672	18,832	26,510	23,284	26,050
Long-Term Liabilities	8,806	14,168	27,964	26,566	25,238
Shareholder Funds	44,796	57,944	58,295	58,757	60,372
Total Equity & Liabilities	81,942	94,338	116,222	112,121	115,388

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	14,147	10,177	7,274	6,805	6,755
Investing	(10,708)	(7,188)	(19,365)	(7,722)	(6,725)
Financing	(1,271)	(5,265)	21,969	(2,434)	(2,816)
Net Cash In/(Out) Flow	2,168	(2,276)	9,878	(3,351)	(2,785)
Begin Cash & Cash Equiv.	7,815	9,983	7,707	17,584	14,234
End'g Cash & Cash Equiv.	9,983	7,707	17,584	14,234	11,449

LME Aluminium Inventory & Price



Source: Bloomberg

Chalco's Unit Price and Cost

Rmb/t	Aluminium	Alumina
ASP	12,300	2,200
Unit cost	15,000	2,200
Unit cash cost	12,000	1,800

Source: Chalco, UOB Kay Hian

China Resources Land

Our top pick among state-owned property plays

A comparison of the four major property SOEs under our research coverage, i.e. CRL, COL, Sino-Ocean and Poly HK, confirms our positive view on CRL. We reiterate BUY on CRL.

Corporate Events

Achieved 2008 sales target. China Resources Land (CRL) recorded contracted sales of Rmb7.9b in 2008, achieving the sales target of Rmb7.5b and beating the sector's sales completion ratio of about 80%. Meanwhile, it represents a 41% yoy increase, ahead of its state-owned peers.

2008 Sales of SOE Property Plays

	2008 Sales (Rmbb)	2008 Target (Rmbb)	2007 Sales (Rmbb)	YoY (%)	Target Achieved (%)
CRL	7.9	7.5	5.6	41	105
Sino-Ocean	7.0	7.0	6.2	13	100
COLI	24.0	26.1	21.8	10	92
Poly HK	3.0	4.0	2.3	33	75

Source: Respective companies, UOB Kay Hian

High earnings locked-in ratio in 2009. Thanks to the presales of the Hangzhou MIXC project with total proceeds of Rmb2.6b and Dalian Project with Rmb800m, as well as other projects' presales in 2008 and 2007, CRL has locked in presales of about Rmb6.0, or 50% of sales revenue to be booked in 2009. Meanwhile, we estimate rental income will account for 20% of CRL's total earnings in 2009, the highest among the four major state-owned enterprises (SOE). As a result, we estimate CRL has locked in 60% of its earnings in 2009, higher than the earnings locked-in ratio of 35% for COLI, 50% for Sino-Ocean and 30% for Poly HK.

Stock Impact

Low net gearing. By consolidating the asset injection completed in 2H08 and strong sales in the second half, we estimate CRL's net gearing to have declined from 55% in 1H08 to 45% by end-08. This is at the low end of the 45-70% range for SOEs and much lower than the sector's net gearing of 70%.

More diversification in 2009. Among the four SOEs, COLI and CRL are diversified in sales and earnings contributions, while Sino-Ocean and Poly HK focus more on Pan-Bohai Rim and Southwest China respectively. There is concern over CRL's exposure to Beijing and Chengdu, both of which recorded weak 2008 sales performances, with primary housing sales dropping 40% and 45% yoy respectively. In 2008, despite the challenging sales environment in Beijing and Chengdu where CRL used to focus in, the project sales outside these two markets contributed more than 60% of total sales. We expect CRL to be more diversified in sales and earnings. We estimate Beijing's and Chengdu's sales contributions to account for less than 40% in 2009. Meanwhile, the earnings contribution in these two markets will drop from 66% in 2008 to 28% in 2009. We believe leading developers with diversified exposure will outperform the overall market in sales in a weak market. This has been proven by the strong sales of Vanke, Poly Real Estate, COLI and CRL in 2008.

CHINA

China Resources Land (1109.HK)

BUY

Current Price: HK\$9.14

Target Price: HK\$11.60

Sector	Property
52-Wk Avg. Daily Vol. (m)	19.2
Market Cap (HK\$m)	43,091
(US\$m)	5,525

Major Shareholders (%)	
China Resources Holdings	67.5

Book NTA per Share (HK\$)	6.07
ROE (%)	8.5
Net Debt per Share (HK\$)	2.71

Result Due	
Interim	September
Final	March

Price Chart:



Analyst

Johnson Hu, CFA
 ☎ (8621) 5404 7225 ext 806
 johnson.hu@uobkayhian.com

Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK¢)	Yield (%)
2006	3,937	1,530	859	27.6	11.5	33.1	32.2	5.1	0.6
2007	5,681	2,952	1,431	39.8	44.2	23.0	18.3	7.4	0.8
2008F	8,301	2,508	1,323	30.7	(22.8)	29.7	23.0	6.1	0.7
2009F	13,676	4,101	2,071	44.0	43.0	20.8	14.5	8.8	1.0
2010F	19,995	6,359	3,471	73.7	67.6	12.4	9.7	14.7	1.6

Consensus Net Profit – FY08: HK\$1,754
 -- FY09: HK\$2,690

Contracted Sales Breakdown

(%)	2007	2008F	2009F	2010F
Beijing	47	22	27	25
Chengdu	22	10	11	12
Shanghai	10	12	12	14
Shenzhen	0	0	12	5
Tianjin	0	0	2	3
Xianmen	0	0	2	3
Hangzhou	0	36	4	0
Wuxi	8	3	2	2
Dalian	0	2	5	7
Shenyang	0	0	1	2
Wuhan	10	0	4	5
Hefei	4	3	3	1
Suzhou	0	8	3	4
Ningbo	0	3	6	8
Changsha	0	0	2	3
Chongqing	0	0	4	5
Mianyang	0	0	0	1
Total	100	100	100	100

Operating Profit Breakdown

(%)	2007	2008F	2009F	2010F
Beijing	54	49	14	24
Chengdu	28	17	14	16
Shanghai	10	23	16	18
Shenzhen	0	0	15	9
Tianjin	0	0	0	1
Xianmen	0	0	0	0
Hangzhou	0	0	20	0
Wuxi	0	7	1	1
Dalian	0	0	5	6
Shenyang	0	0	1	1
Wuhan	4	0	2	2
Hefei	4	5	1	1
Suzhou	0	0	4	5
Ningbo	0	0	5	8
Changsha	0	0	1	2
Chongqing	0	0	1	6
Mianyang	0	0	0	0
Total	100	100	100	100

Source: CRL, UOB Kay Hian

Valuation/Recommendation

Valuations are more attractive than COLI's. We think CRL and COLI are more comparable. CRL's 40% discount to NAV is only slightly higher than that of Sino-Ocean but much higher than COLI's 15% discount to NAV. We believe the valuation gap between the two leading property plays should narrow given CRL's diversified exposure, high locked-in ratio of earnings and strong balance sheet.

Valuations of SOE

	Stock Code	Rating	Share price 9 Feb 09 (HK\$)	Target Price (HK\$)	NAV (HK\$)	NAV (%)
China Overseas Land	688 HK	HOLD	10.66	9.55	12.70	(16.1)
China Resources Land	1109 HK	BUY	9.14	11.60	15.44	(40.8)
Poly HK	119 HK	BUY	1.63	2.20	7.33	(77.8)
Sino-Ocean Land	3377 HK	HOLD	3.90	3.50	7.02	(44.4)

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Turnover	3,937	5,681	8,387	14,895	24,304
EBIT	1,509	2,924	2,509	4,616	7,508
Pre-tax Profit	1,333	2,771	2,290	4,317	7,121
Net Profit	859	1,431	1,343	2,399	4,060
EPS (HK\$ cents)	27.6	39.8	31.2	50.9	63.1

Balance Sheet

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Current Assets	16,959	33,502	48,673	52,083	60,091
Total Assets	26,739	47,485	66,355	70,133	78,553
Current Liabilities	8,182	9,874	13,533	17,068	19,639
Long-Term Loans	6,158	12,722	17,810	15,974	18,370
Shareholders' Funds	11,513	22,129	32,219	34,138	37,387
Total Equity & Liabilities	26,739	47,485	66,355	70,133	78,553

Cash Flow

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Operating	(2,665)	(6,097)	(10,963)	665	(2,407)
Investing	(551)	(411)	(3,151)	(16)	4
Financing	4,289	7,667	15,623	(604)	2,516
Net Cash Inflow	1,072	1,159	1,509	45	113
Begin Cash & Cash Equiv.	1,997	3,358	4,517	6,026	6,070
End'g Cash & Cash Equiv.	3,069	4,517	6,026	6,070	6,183

Sinofert

Potash margin to drop in 2009; market is over-optimistic

Still high import potash price and weaker domestic potash price could erode Sinofert's gross margin. We cut our 2009 and 2010 net profit estimates by 30% and 28% respectively. Downgrade to SELL with fair price of HK\$3.80.

Corporate Events

China potash price remained weak. Driven by a higher import potash fertiliser price, potassium chloride (KCl) price in China rose from Rmb3,000/tonne at the beginning of 2008 to a peak of Rmb5,000/tonne before dropping to Rmb4,000-4,400/tonne. Due to the high prices, China's consumption of potash fertiliser dropped over 30% yoy to 8m tonnes in 2008. To save costs, compound fertiliser producers shifted from potash to urea. Furthermore, the high potash price discouraged farmers from using potash fertiliser. Despite the drop in overall potash prices in China, Sinofert insisted on a price of Rmb4,600-4,700/tonne. Due to the higher-than-market prices of its products, the Group's potash sales dropped in 2008. We estimate the Group's sales volume for potash fertilisers dropped 30% yoy to 4m tonnes in 2008. According to industry sources, China had a total of 4m tonnes of potash fertiliser inventory as at end-08, and we estimate Sinofert accounted for 1.5-2.0m tonnes.

International potash prices remained firm due to strong supply discipline. International potash price remained high at US\$900/tonne. Major suppliers, including Potash Corp., BPC and K+S, have announced plans to cut production by at least 3m tonnes for 2009 (7.5% of world supply). They have asked for a US\$200/tonne price increase for sales to China, based on the rationale that China's import price of US\$600/tonne is well below international spot price of US\$900/tonne. However, according to industry sources, the Chinese government wants a cut in import potash price. This year, China is not in a hurry to finalise the import contract for two reasons: a) it has sufficient potash inventory (4m tonnes, enough for half a year), and b) domestic output is expected to grow from 3.3m tonnes in 2008 to 4m tonnes in 2009. Given the huge gap between both parties' expectations, we expect the import contract to be concluded only in mid-09 without an increase in the price of imported potash.

Stock Impact

Gross margin for potash fertiliser could drop in 2009. Given the weak domestic potash fertiliser prices and the continued high import prices, Sinofert's gross margin could drop from 11% in 2008 to 6% in 2009, based on an assumed average selling price (ASP) of Rmb4,400/tonne and import price of US\$600/tonne. We believe Sinofert would need to slightly reduce selling prices if it wants to clear out its potash inventories given the weak demand for its products in China.

Sales volume for potash fertilisers could decline. We assume sales volume for potash fertilisers to drop 5% yoy to 3.8m tonnes in 2009, due to the expected delay in the conclusion of the potash import contract between China and its overseas suppliers.

Cut 2009 and 2010 earnings forecasts by 30% and 28%. We cut our forecasts on Sinofert's 2009 and 2010 net profit by 30% and 28% to Rmb1.95b and Rmb2.23b respectively, based on lower ASP and sales volume for potash fertilisers. Our earnings forecasts for 2009-10 are some 30% lower than consensus estimates. The discrepancy between our and consensus assumptions mainly lies in ASP and sales volume of potash fertiliser.

CHINA

Sinofert (297 HK)

DOWNGRADE TO SELL

Current Price: HK\$4.22

Fair Price: HK\$3.80

(Previous: HK\$4.80)

Sector	Fertiliser
52-Wk Avg Daily Vol. ('000)	13,710
Market Cap (HK\$m)	29,567
(US\$m)	3,791
Major Shareholders (%)	
Sinochem	52.79
Book NTA per Share (HK\$)	2.14
ROE (%)	21.2
Net Debt per Share (HK\$)	0.64
Results Due	
Interim:	Sep
Final:	Mar

Price Chart



Source: Bloomberg

Analyst

Ken Lee

(852) 2236 6760

ken.lee@uobkayhian.com.hk

Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield (%)
2006	21,127	1,162	898	0.155	7	27.3	24.4	0.023	0.5
2007	29,437	2,213	1,490	0.248	61	17.0	22.8	0.028	0.7
2008F	47,905	2,899	1,945	0.278	12	15.2	10.3	0.042	1.0
2009F	56,496	2,491	1,953	0.279	0	15.1	11.1	0.042	1.0
2010F	63,997	2,858	2,227	0.318	14	13.3	9.2	0.048	1.1
Consensus Net Profit		- FY08: 2,512m							
		- FY09: 3,148m							

Earnings Risk

If the magnitude of demand destruction, a result of higher potash price relative to that of other fertilisers, exceeds our expectation, Sinofert's profit would turn out to be lower than our estimates.

Valuation/Recommendation

Based on our new earnings forecasts, Sinofert is trading at 15.1x 2009F PE, well above domestic peers' 12.9x and global peers' 6.7x. Downgrade from BUY to SELL with fair price cut from HK\$4.80 to HK\$3.80 based on 12x 2010x PE. Catalysts include the conclusion of China's 2009 potash import contract without an increase in potash price and the results announcement expected in Mar 09.

Peer Comparison

Company	Stock code	2007	PE (x) 2008F	2009F	ROE (%) 2007
Sinofert	297.HK	17.0	15.2	15.1	21.2
China BlueChem	3983.HK	11.6	9.9	10.3	20.4
China XLX	CXLX.SP	5.9	5.9	7.3	51.9
<i>Domestic peers</i>					
HUBEI YIHUA CH-A	000422.CH	17.2	14.9	13.7	23.8
SHANDONG HUALU-A	600426.CH	21.6	16.3	14.5	17.2
SHANXI LANHUA-A	600123.CH	18.6	9.2	9.9	21.4
SICHUAN LUT-A	000912.CH	14.5	14.8	15.2	20.1
HEBEI CANGZHOU-A	600230.CH	41.9	14.1	10.7	8.5
LIUZHOU CHEMICAL	600423.CH	19.7	16.5	13.7	12.7
Average		18.2	14.3	12.9	17.3
<i>Int'l peers</i>					
AGRIUM INC	AGU US	4.4	4.6	5.6	20.4
POTASH CORP SAS	POT US	8.3	8.1	6.8	65.9
K+S AG	SDF GR	13.2	7.3	6.7	n.a.
YARA INTL ASA	YAR NO	4.2	4.2	7.9	33.1
Average		7.5	6.0	6.7	39.8

Source: The Companies, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Turnover	21,127	29,437	47,905	56,496	63,997
EBIT	1,093	2,050	2,640	2,210	2,554
Pre-tax Profit	1,004	1,010	2,674	2,685	3,062
Net Profit	898	1,490	1,945	1,953	2,227

Balance Sheet

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Current Assets	8,425	12,181	16,378	17,405	18,512
Total Assets	10,509	23,346	27,619	28,778	29,995
Current Liabilities	4,354	8,724	11,200	10,653	10,153
Long-Term Loans	1,584	2,181	2,181	2,181	1,912
Shareholders' Funds	4,348	12,202	13,954	15,616	17,550
Total Equity & Liabilities	10,509	23,346	27,619	28,778	29,995

Cash Flow

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Operating	1	(1,104)	1,883	2,613	1,276
Investing	(310)	(9,188)	(101)	234	214
Financing	319	11,277	(303)	(2,057)	(2,061)
Net Cash Inflow/(Outflow)	10	986	1,479	790	(571)
Begin Cash & Cash Equiv.	67	79	1,065	2,544	3,334
End'g Cash & Cash Equiv.	79	1,065	2,544	3,334	2,764

Market Commentary

A 60% chance the Hang Seng Index to finish lower by end-09

(%)	1991-2000	Average 2001-2008	1990-2008
January	-1.1	-0.9	-1.0
February	6.8	-0.2	3.7
March	0.1	-4.2	-1.8
April	1.2	3.5	2.2
May	3.3	-0.1	1.8
June	0.3	-0.6	-0.1
July	1.4	1.9	1.6
August	-0.8	0.0	-0.5
September	0.7	-1.6	-0.3
October	4.2	0.5	2.6
November	0.1	3.2	1.5
December	4.5	0.3	2.7

Source: UOB Kay Hian

Based on past performance (see table), we had stated on 5 Jan 09 that the Hang Seng Index (HSI) was unlikely to see the January effect this year. The 7.7% drop in the HSI in Jan 09 proves that our forecast was spot on.

We have compiled the January monthly changes and the corresponding yearly changes of the HSI from 1991 to 2008.

	Jan Change (%)	Yearly Change (%)
1991	7.2	42.1
1992	7.1	28.3
1993	4.3	115.7
1994	-3.4	-31.1
1995	-10.4	23.0
1996	12.8	33.5
1997	-1.0	-20.3
1998	-13.7	-6.3
1999	-5.4	68.8
2000	-8.4	-11.0
2001	6.7	-24.5
2002	-5.9	-18.2
2003	-0.7	34.9
2004	5.7	13.2
2005	-3.6	4.5
2006	5.9	34.2
2007	0.7	39.3
2008	-15.7	-48.3
2009	-7.7	n.a.

Source: UOB Kay Hian

The above table shows that for the six out of 10 years that had the January effect, the HSI landed in negative territory. In other words, there is a 60% chance the HSI would close lower in 2009.

Nonetheless, we do not rule out the possibility of the HSI re-visiting previous highs before closing lower by end-09.

Meanwhile, we suggest the following trading tactics to capitalise on the corrective rallies in 2009:

- If you have bought in early-February, take profit by the end of the month.
- Buy in early-April and sell in May.
- Buy in early-July and take profit by the end of the month.
- With the best risk-reward ratio, you can buy in early-October and sell in Dec 09.

HONG KONG

Market Commentary

Analyst

Barole Shiu, CMT

☎ (852) 22366716

barole.shiu@uobkayhian.com.hk

Technical Analysis

Lee & Man Paper (2314): HK\$4.37

Since bouncing off the low of HK\$1.52 on 28 Oct 08, Lee & Man Paper has been unfolding higher highs and higher lows. At this juncture, we have not detected any immediate sign of reversal.

First, we do not see a negative divergence of RSI of the stock at this stage. Second, on balance volume (OBV) of the stock has not reached its previous high levels in Aug 08.

Given the above positive technicals, we expect the stock to re-test the resistance at HK\$4.75-5.00. Note that HK\$4.75 is the previous high while HK\$5.00 is the psychological barrier.

HONG KONG Technical Analysis

Analyst

Barole Shiu, CMT
 ☎ (852) 22366716
 barole.shiu@uobkayhian.com.hk

Chart 1: OBV and RSI of Lee & Man Paper



Source: HKETnet

CapitaLand

4Q08: Rights issue overhang is out of the way

The rights issue enhances CapitaLand's financial flexibility to weather the downturn and take advantage of opportunities. The move is supported by the major shareholder by undertaking to fully subscribe the issue.

4Q08 Results

Year to 31 Dec	4Q08 (S\$m)	yoy % chg	2008 (S\$m)	yoy % chg	Remarks
Turnover	703.7	(46.9)	2,752.3	(27.4)	Slower sales in Australia&China
EBITDA	280.0	(51.6)	1,895.6	(19.6)	
Pre-tax Profit	125.3	(86.2)	1,697.2	(50.4)	
Tax	28.3	(64.1)	235.8	(12.0)	
PATMI	78.0	(88.4)	1,260.1	(54.3)	Reduced fair value gains, lower development profits
PATMI (Excl'd Reval)	144.2	(47.2)	1,039.6	(39.1)	
EPS (¢)	2.8	(88.3)	44.7	(54.7)	
EBITDA Margin (%)	39.8		68.9		

Source: CapitaLand, UOB Kay Hian

Results

CapitaLand reported 4Q08 PATMI of S\$78m, down 88% yoy, bringing the full-year profit to S\$1.26b, down 54% yoy. Excluding fair value losses/gains, the fourth quarter and full-year PATMI would have been S\$144.2m and S\$1.04b, respectively. The bulk of the S\$66.2m of revaluation losses in 4Q08 came mainly from Japan, Australia and UK. Overseas operations accounted for 60% of EBIT and China operations dominated the bulk 40% of earnings by strategic business units, mainly due to the realisation of divestment gains from Capital Tower Beijing and Raffles City integrated developments.

Excluding revaluation gains, 2008 PATMI is line with our expectation, representing 103% of our full-year forecast of S\$1,010.5m (95% of consensus' S\$1,088.7m). CapitaLand also announced a 1-for-2 rights issue to raise S\$1.84b. The rights issue price of S\$1.30/share is at a 45% discount to the closing price of S\$2.36/share. It proposed a total dividend of 7 cents/share, taking into consideration the enlarged share base due to the rights issue.

Stock Impact

- **Rights issue overhang is out of the way.** Previously, the market had already factored in the potential dilutive effects of the rights issue, with CapitaLand's share price falling 20% from S\$3.02 to S\$2.36 in the period after the rumour of a rights issue surfaced. With the formal announcement of the rights issue yesterday, the share price will no longer be bogged down by any market rumours.
- **Strong support from major shareholder.** In support of the rights issue, Temasek Holdings, a major shareholder of CapitaLand has entered into sub-writing agreement with the Joint Lead Managers and Joint Underwriters (DBS, J. P. Morgan and Merrill Lynch) and has undertaken to subscribe for its pro rata entitlement of rights shares. This represents a vote of confidence from Temasek Holdings.

SINGAPORE

CapitaLand (CAPL SP)

BUY

Current Price: S\$2.36

Target Price: S\$2.80

(Previous: S\$3.70)

Sector	Property
52-Wk Avg Daily Vol. ('000)	15,503
Market Cap (S\$m)	6,663.4
(US\$m)	4,458.0

Major Shareholders (%)	
Temasek Hdlgs	41.7

Book NTA per Share (S\$)	3.57
ROE (%)	12.2
Net Debt per Share (S\$)	1.98

Results Due

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

Price Chart



Source: Bloomberg

Analyst

Vikrant Pandey
 ☎ (65) 6419 3696
 vikrant@uobkayhian.com

Mark Lin
 ☎ (65) 6419 3696
 marklin@uobkayhian.com

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	3,792.7	3,868.6	2,759.3	93.9	169.6	2.4	3.2	15.0	7.5
2008	2,752.3	1,895.6	1,260.1	42.9	(54.3)	5.3	6.5	7.0	3.5
2009F	2,513.8	1,055.3	553.1	18.8	(56.1)	12.0	11.6	6.0	3.0
2010F	2,882.7	1,182.5	657.9	22.4	19.0	10.1	10.4	7.0	3.5
2011F	3,382.0	1,280.6	771.8	26.3	17.3	8.6	9.6	7.0	3.5

Consensus Net Profit – FY09: S\$663.6m
 -- FY10: S\$708.5m

- Rights issue will enhance financial flexibility.** CapitaLand is well-capitalised with cash reserves of S\$4.2b, healthy gearing of 0.47x, interest cover of 5.0x and average debt maturity of 4.4 years. Post-rights issue, the proforma net debt-to-equity ratio of the Group is expected to improve to 0.28x with proforma cash of S\$6.02b, thereby further enhancing its financial capacity to take advantage of arising opportunities. CapitaLand's financial position stands out in comparison with regional peers.

Earnings Revision

We maintain our earnings estimates.

Valuation/Recommendation

The rights issue further enhances CapitaLand's financial flexibility to weather the weak property market conditions and take advantage of arising opportunities. We lower our 2009 RNAV by 24% to S\$3.49, factoring in the dilution from the rights issue. Maintain BUY with the rights-adjusted target price of S\$2.80 (previous: S\$3.70) pegged at a 20% discount to 2009 RNAV of S\$3.49. The rights-adjusted target price offers a 40% upside from the theoretical ex-rights price of S\$2.01.

Segmental EBIT Breakdown

	4Q08 (\$m)	% Chg	FY08 (\$m)	% Chg
Residential Singapore	50.0	(67.8)	175.0	(43.3)
China	34.7	(65.2)	883.4	119.0
Commercial	9.2	(96.9)	395.6	(78.9)
Retail	43.9	(65.7)	298.6	0.3
Serviced Residence	38.5	(64.2)	132.2	60.8
Financial Services	13.8	(25.5)	90.4	29.6
Others	45.0	(79.2)	238.3	(55.1)
Total	235.0	(77.0)	2,213.5	(42.1)

Source: CapitaLand, UOB Kay Hian

Profit & Loss

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Turnover	3,792.7	2,752.3	2,513.8	2,882.7	3,382.0
EBIT	3,824.0	2,213.5	1,019.4	1,146.7	1,244.7
Pre-tax Profit	3,420.5	1,697.2	632.2	759.4	875.0
Net Profit	2,759.3	1,260.1	553.1	657.9	771.8

Balance Sheet

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	10,262.8	9,544.6	9,480.9	9,920.4	9,999.6
Total Assets	26,603.0	26,275.9	26,478.6	27,241.4	27,640.4
Current Liabilities	5,142.3	4,692.8	4,178.8	4,479.5	4,988.8
Long-Term Liabilities	8,833.6	8,403.0	8,650.2	8,550.2	7,750.2
Shareholder Funds	9,940.9	10,681.7	11,100.1	11,600.9	12,215.5
Total Equity & Liabilities	26,603.0	26,275.9	26,478.6	27,241.4	27,640.4

Cash Flow

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Operating	555.2	1,170.0	475.1	907.0	1,012.2
Investing	37.5	(936.4)	326.6	164.6	(1,317.4)
Financing	1,082.3	(387.5)	(416.8)	(671.9)	(676.8)
Net Cash In/(Out) Flow	1,671.1	(127.6)	384.9	399.6	(982.1)
Begin Cash & Cash Equiv.	2,684.9	4,356.0	4,228.4	4,613.3	5,012.9
End'g Cash & Cash Equiv.	4,356.0	4,228.4	4,613.3	5,012.9	4,030.8

Stress Test

Share Price (S\$)	2.01
RNAV (S\$)	3.49

Assumptions (%)	Decline from End-07 Level	
Singapore residential	(40)	(3)
Singapore office	(40)	(3)
Singapore retail	(40)	(5)
China	(40)	(8)
Vietnam	(40)	(2)
Listed investments	(70)	(9)
Asset Write-down (Dev't Pty)		(1)
Asset Write-down (Inv't Pty)		(11)
Deferred payment Scheme		(1)
Total		(41)

Stressed RNAV (S\$)	2.05
Share Price Discount/Premium (%)	(1.8)

Source: CapitaLand, UOB Kay Hian

RNAV

Asset Valuation	Cap. Value (\$m)
Surplus/ (deficit) to book of investment properties (1)	63.43
NPV of Development Profits (2)	1,541.3
NPV of ION Orchard (3)	255.6
NPV of China malls (4)	93.0
NPV of India malls (5)	120.0
Net gain from the sale of inv properties (6)	110.1
Contribution from Fund Management business (7)	844.0
Surplus/ (deficit) to book for listed subsidiary/associates (8)	(254.5)
Writedowns/Defaults (9)	(116.8)
Net Book Value (10)	10,323.1
Proceeds from potentially dilutive shares (11)	2,417.5
RNAV	15,276.9
Fully diluted no. of shares	4,379.7
Fully diluted RNAV per share	
S\$ (1+2+3+4+5+6+7+8+9+10+11)	3.49

Source: CapitaLand, UOB Kay Hian

P/NTA for CapitaLand



Source: Bloomberg

CapitaMall Trust

Expensive to replace debt with equity

We find equity fund raising via the proposed 9-for-10 rights issue expensive with 2009 DPU diluted by 37.6% with only marginal improvement to gearing. Downgrade to SELL due to limited upside and intense uncertainty.

Corporate Events

The transaction: CapitaMall Trust (CMT) has announced a fully underwritten renounceable 9-for-10 rights issue at the issue price of S\$0.82/share, which represents a discount of 43.4% to its last closing price of S\$1.45/share and a discount of 47.1% to adjusted NAV of S\$1.55.

Use of proceeds: The proposed rights issue will raise S\$1.23b, which will be utilised to repay borrowings of S\$956.2m due this year. The balance could be used for enhancement works at Jurong Entertainment Centre and The Atrium.

Impact on gearing: Management estimated that the rights issue will reduce gearing from 43.2% to 29.1%. The reduced gearing will allow CMT to secure future debt financing at more competitive terms.

Implications for dividends. The rights units will be entitled to distribution for 1Q09. CMT reiterated its commitment to maintain payout ratio at 100%.

Support from sponsor. Capitaland has provided undertaking to fully subscribe for its allotment of 29.7% and is committed to subscribe up to 60% of the rights units. Capitaland's stake in CMT will increase to 44.1% if it subscribes for 60% of the rights units.

Whitewash resolution. The Securities Industry Council (SIC) has granted a waiver for Capitaland to make a mandatory takeover offer for CMT on 3 Feb 09. The waiver is conditional on approval by independent unitholders at the EGM to be held on 2 Mar 09.

Unitholders voting in favour of the whitewash resolution will forgo their rights to receive a mandatory offer from Capitaland at the highest price paid in the preceding six months. The rights issue is subject to and contingent upon the passing of the whitewash resolution.

Source: CapitalMall Trust

Stock Impact

A high price to pay. CMT has proceeded with the rights issue despite clarification by the **Monetary Authority of Singapore (MAS)** on aggregate leverage. We also find it puzzling that Baa1-rated sister REIT CapitaCommercial Trust has completed debt refinancing while A2-rated CMT chooses the path of a dilutive rights issue.

Bankers could have turned more cautious towards companies with higher gearing. CMT's current gearing of 43.2% is above the industry average of 34.3% for Singapore REITs. The untimely change at CMT's top management does not help either. The 9-for-10 rights issue also does not create enough headroom for debt for CMT to embark on another sizeable acquisition.

SINGAPORE

CapitaMall Trust (CT SP)

DOWNGRADE TO SELL

Current Price: S\$1.45

Fair Price: S\$1.52

(Previous: S\$1.84)

Sector	REITs
52-Wk Avg Daily Vol. ('000)	5,583
Market Cap (S\$m)	2,416.9
(US\$m)	1,617.0

Major Shareholders (%)	
Capitaland	29.7
NTUC FairPrice Co-operative	6.9

Book NTA per Share (S\$)	2.21
ROE (%)	5.5
Net Debt per Share (S\$)	1.79

Results Due	
1Q: Apr	2Q: Jul
3Q: Oct	Final: Feb

Price Chart



Source: Bloomberg

Analyst

Jonathan Koh
 ☎ (65) 6539 1026
 jonathankoh@uobkayhian.com

Year to 31 Dec	Turnover (S\$m)	EBIT (S\$m)	Net Income (S\$m)	EPU (¢)	EPU Growth (%)	PE (x)	DPU (¢)	Yield (%)
2007	431.9	260.2	226.8	14.4	23.7	10.1	10.3	7.1
2008	510.9	307.6	213.0	12.8	(10.9)	11.3	11.3	7.8
2009F	537.7	321.3	245.3	7.7	(39.6)	18.8	9.3	6.4
2010F	494.4	293.7	219.2	6.9	(10.9)	21.1	8.4	5.8
2011F	475.4	281.6	207.0	6.5	(5.8)	22.4	8.0	5.5

Consensus Net Profit – FY08: S\$233.4m
 – FY09: S\$234.0m

Earnings Revision

Assuming the rights issue is approved by unitholders and completed, our 2009 DPU forecast will be diluted by 37.6% from 14.9 cents to 9.3 cents.

Valuation/Recommendation

Downgrade to SELL due to limited upside potential. We are concerned that the rights issue is dilutive to unitholders' interest. Our fair price is S\$1.52 (S\$1.19 ex-rights) based on a dividend discount model (required rate of return: 9.0%, terminal growth: 2.5%).

Profit & Loss

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Turnover	431.9	510.9	537.7	494.4	475.4
Net Property Income	287.8	341.1	357.7	328.9	316.3
EBIT	260.2	307.6	321.3	293.7	281.6
Net Profit	226.8	213.0	245.3	219.2	207.0
EPU (S cents)	14.4	12.8	7.7	6.9	6.5
DPU (S cents)	10.3	11.3	9.3	8.4	8.0

Balance Sheet

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	79.9	187.1	173.0	136.1	105.5
Total Assets	5957.3	7509.0	7493.9	7457.8	7428.0
Current Liabilities	267.8	811.3	141.0	129.7	124.7
Long-Term Liabilities	1892.9	1911.9	1361.9	1361.9	1361.9
Shareholder Funds	3721.8	4079.6	5276.9	5244.1	5211.2
Total Equity & Liabilities	5957.3	7509.0	7493.9	7457.8	7428.0

Cash Flow

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Operating	308.1	353.7	323.9	299.5	292.9
Investing	(382.8)	(1039.6)	0.0	0.0	0.0
Financing	96.4	785.3	(334.1)	(335.2)	(323.0)
Net Cash In/(Out) Flow	21.7	99.4	(10.2)	(35.7)	(30.1)
Begin Cash & Cash Equiv.	47.2	68.9	168.4	158.1	122.4
End'g Cash & Cash Equiv.	68.9	168.4	158.1	122.4	92.3

China XLX Fertiliser

2009 earnings could be affected by drought

We cut our forecasts on XLX's 2008, 2009 and 2010 net profit by 6%, 21% and 18%, based on bigger-than-expected loss for methanol segment and lower sales volume amid drought. Valuation remains attractive. Maintain BUY.

Corporate Events

Urea price rebounded after Chinese New Year. Urea price in China dropped from over Rmb2,000/tonne in 3Q08 to Rmb1,600-1,700/tonne in 4Q08, due to the seasonal effect, as well as the imposition of a 150% special export tariff on urea and a drop in international urea prices which shut Chinas' profit window for urea exports. However, this did not affect XLX's average selling price (ASP) for urea significantly. Unlike other urea producers that sold urea at an ex-factory price of over Rmb2,000/tonne, XLX complied with last year's Rmb1,725/tonne. After the Chinese New Year, urea price in Henan province rebounded to Rmb1,800/tonne, driven by strong seasonal demand for spring fertilisation. Given that the Chinese government scrapped the urea price cap on 25 Jan 09, XLX could enjoy higher urea prices in peak seasons. We assume urea ASP will remain at Rmb1,700/tonne.

Anthracite coal price rebounded at end-08. After falling from over Rmb1,500/tonne in Oct 08 to Rmb950/tonne in Nov 08, anthracite coal price in Shanxi has rebounded to Rmb1,000-1,100/tonne since Dec 08. It is because the provincial government of Shanxi requires small coal mines with less than 300,000-tonne capacity to shut down from Dec 08 till the end of the Chinese People's Political Consultative Conference (CPPCC) and National People Congress (NPC) meetings expected in Mar 09. Anthracite coal price is expected to return to Rmb900-1,000/tonne in 2Q09 after the resumption of production at small coal mines in Shanxi. We assume gross margin for urea to rebound from 12% in 3Q-4Q08 to 22% in 2009.

2008 sales volume met target without inventory pile-up. According to industry sources, the Group produced over 700,000 tonnes of urea last year, meeting its target. Though distributors shied away from stocking up in 4Q08 in view of inventory risk amid falling urea prices, XLX achieved satisfactory sales during the period with only a few days of inventory. It is because in Nov-Dec 08, the Group guaranteed a steady per-tonne profit for distributors by adjusting ex-factory prices in line with the movements in wholesales prices post sales. This did not significantly affect urea ASP for 4Q08, as urea prices stabilised at Rmb1,600-1,700/tonne during the period.

New plant to ramp up production in mid-09. The construction of a new plant is going smoothly. Building construction has been completed and machinery and equipment are being installed. The new plant could be up and running in 2Q09. The launch of the new plant could add 400,000 tonnes to the existing capacity of 680,000 tonnes, raising the total number to 1.08m tonnes.

Drought could affect urea demand. Northern China (Henan, Hebei, Shandong, northern Anhui, Shanxi and Shaanxi) have been facing severe droughts since Dec 08. This could adversely affect demand for fertilisers in the coming spring sowing season, if the droughts do not ease in the coming month. It is due to two reasons: a) spring sowing requires multiple rounds of fertilisation. The weeks following the initial fertilisation (end-February) come the second round of fertilisation. If the sprouts fail to grow or die due to lack of water, further fertilisation would not be needed; b) water is required for fertiliser (especially urea) to dissolve in soil. To factor in the droughts, we now assume the utilisation of the new plant to be 90% by end-09 vs 100% previously.

SINGAPORE

China XLX Fertiliser (CXLX SP)

BUY

Current Price: S\$0.41

Target Price: S\$0.57

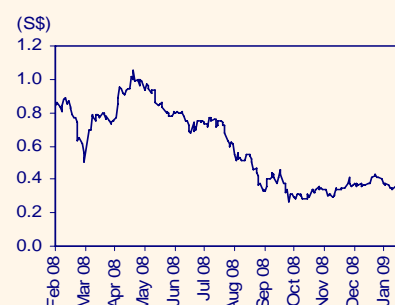
Sector	Fertiliser
52-Wk Avg Daily Vol. ('000)	9,950
Market Cap (S\$m)	410
(US\$m)	297

Major Shareholders (%)	
Mr. Liu Xingyu	34.3

Book NTA per Share (S\$)	0.26
ROE (%)	51.9
Net Debt per Share (S\$)	0.03

Results Due	
1Q: May	Interim: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

Singapore Research Team
research@uobkayhian.com

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit* (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	890	214	129	0.161	88.2	12.7	10.0	-	-
2007	1,541	389	317	0.350	116.8	5.9	6.1	0.063	3.1
2008F	2,167	477	345	0.345	(1.3)	5.9	5.0	0.076	3.7
2009F	2,161	467	281	0.281	(18.6)	7.3	5.1	0.076	3.7
2010F	2,519	556	358	0.358	27.3	5.7	3.7	0.079	3.8

Consensus Net Profit – FY08 : Rmb353m
– FY09: Rmb358m

Loss for methanol segment. The methanol price in China dropped from Rmb3,000/tonne (including a 17% VAT) in 3Q08 to a trough of Rmb1,600/tonne in Jan 09 before rebounding to Rmb1,800/tonne. As methanol price has dropped below XLX's unit cost of Rmb2,000/tonne, the Group has started to record a loss from the methanol segment since 4Q08. We estimate the Group's methanol business will see a loss of Rmb12m in each of 2008 and 2009, assuming an ASP of Rmb1,700-1,800/tonne.

Stock Impact

Base-case scenario. We cut our forecasts for 2008, 2009 and 2010 net profit by 6%, 21% and 18% respectively, based on the following: a) larger-than-expected loss from the methanol segment, and b) lower sales volume growth amid the severe droughts in northern China (the main market for XLX). This is our base-case scenario based on a urea ASP of Rmb1,700/tonne for 2009-10, as well as a methanol ASP of Rmb1,550/tonne (ex-VAT) for 2009 and Rmb1,650/tonne for 2010.

Best-case scenario. Under the best-case scenario, we assume urea ASP to remain at the current Rmb1,800/tonne for 2009-10, driven by strong demand and the removal of official ceiling prices. Meanwhile, we assume methanol ASP to increase to Rmb1,650/tonne for 2009-10. In this case, we forecast XLX's net profit to grow 3% in 2009 and 25% in 2010.

Worst-case scenario. Under the worst-case scenario, we assume urea ASP for 2009 to drop to Rmb1,550/tonne. Meanwhile, we assume methanol ASP (ex-VAT) to remain at Rmb1,550/tonne for 2009-10. In this case, we expect the Group's net profit to drop 48% yoy in 2009 and grow 24% yoy in 2010.

Earnings Risks

Fluctuations in urea and coal prices would affect the company's margin for urea. The fluctuations in the prices of potash and phosphorous fertilisers would also affect the margin for compound fertilisers.

Valuation/Recommendation

Though we have lowered our earnings estimates for XLX, we remain upbeat on the Group, due to the brighter outlook amid industry consolidation and cheap valuation. Based on our new profit forecasts under the base-case scenario, the stock is trading at 7.3x 2009F PE vs domestic peers' 12.9x and global peers' 6.7x. Under the base-case scenario, we have a 12-month target price of S\$0.57 (39% upside) based on 8x 2010F PE. Our 8x 2009 target PE suggests a target price of S\$0.71 and S\$0.35 under the best-case and worst-case scenarios, implying an upside of 73% and downside of 15%. **Maintain BUY** given the favourable risk-reward profile.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	890	1,541	2,167	2,161	2,519
EBIT	171	343	390	351	429
Pre-tax Profit	152	333	364	321	409
Net Profit	129	317	345	281	358

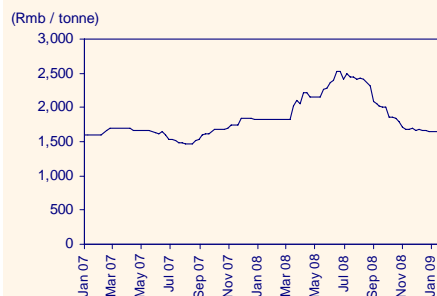
Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	362	810	771	755	820
Total Assets	579	1,832	2,407	2,574	2,593
Current Liabilities	392	571	473	435	415
Long-Term Loans	120	90	488	488	245
Shareholders' Funds	67	1,156	1,432	1,637	1,918
Total Equity & Liabilities	579	1,832	2,407	2,574	2,593

Cash Flow

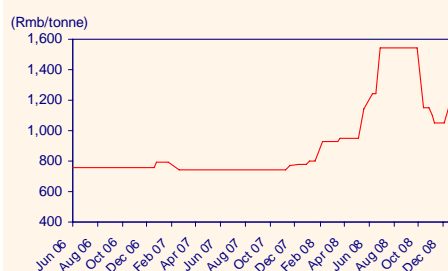
Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	252	308	387	401	474
Investing	(253)	(613)	(700)	(300)	(80)
Financing	112	654	521	(126)	(396)
Net Cash Inflow/(Outflow)	111	349	207	(25)	(2)
Begin Cash & Cash Equiv.	75	155	504	264	239
End'g Cash & Cash Equiv.	155	504	264	239	237

Urea Price in Henan Province



Source: www.ampcn.com

Anthracite Coal Price in Shanxi



Source: www.cctd.com.cn

Scenario Analysis

	Worst-case	Base-case	Best-case
Target price (S\$)	0.35	0.57	0.71
EPS growth			
2009F	(48)	(19)	3
2010F	24	27	25
PE (x)			
2009F	11.4	7.3	5.8
2010F	9.2	5.7	4.6
Urea ASP (Rmb/t)			
2009F	1,550	1,700	1,800
2010F	1,550	1,700	1,800
Methanol ASP (Rmb/t)			
2009F	1,550	1,550	1,650
2010F	1,550	1,650	1,550

Source: UOB Kay Hian

Energy and Petrochemical

PTTEP, BANPU, SPC and BCP are trading at 29-69% below replacement values

Our top picks, PTTEP, BANPU, SPC and BCP, are based not just on discounts to replacement values but also on a more resilient business outlook and strong business structure.

Sector Events

Thailand's energy sector index declined 62% and the petrochemical sector index fell 71% from the peak in 2008. The current energy stock prices reflect a deep earnings recession ahead. Since earnings will remain weak, we have calculated the replacement values of energy stocks under our coverage to give investors an idea of how steep the current discounts are on share price vs replacement values.

Sector Impact

We still maintain our Dubai crude oil price at US\$50/bbl for 2009 and US\$60/bbl for 2010. We believe long-term investors should look at energy firms that are trading at distressed values. Most Thailand-listed energy companies have low gearing with strong balance sheets amid the gloomy economic conditions.

1) Oil and Gas business – PTTEP TB (BUY/Target: Bt121)

The correlation between PTTEP's earnings and Dubai oil price is 95%. Every US\$10/bbl change in oil price will affect PTTEP's earnings by 17%. Assuming Dubai oil price of US\$50/bbl, PTTEP's target price is Bt121, based on DCF valuation and using WACC of 12.5%. If oil price averages US\$40/bbl in 2009, PTTEP's earnings will decline 17%, lowering our target price to Bt100. Thus, the current share price has built oil price of US\$40/bbl into PTTEP's earnings. If you believe oil is not going below US\$40/bbl, PTTEP offers good value at the current price. The stock is trading well below the replacement value of Bt158. We have calculated replacement value of PTTEP from its proven reserves of 1,100 mboe multiplied by US\$13/bbl minus net debt. The US\$13/bbl is derived from the last purchase price of PTTEP's assets in Australia. **PTTEP is in a net cash position.**

We prefer PTTEP to PTT as PTT is exposed to the weakening petrochemical sector while PTTEP offers better value even though it is trading below its replacement value.

2) Coal business - BANPU TB (BUY/Target: Bt266)

BANPU will be one of the few listed Thai stocks that will show positive earnings growth of 13% in 2009. More than 60% of its 2009 earnings have been secured as 52% of total sales volume is committed at high coal prices with steady earnings contributions from the electricity business (BLCP power plant, RATCH). Coal price is stabilising at US\$75-85/tonne. BANPU's replacement value is Bt326, calculated by multiplying its proven reserves of 305m tonnes by US\$4.5/tonne minus net debt. This is a stock with strong management capabilities and positive earnings growth amid declining corporate earnings and trades below replacement value. **Net debt to equity ratio of BANPU is low at 0.13x.**

THAILAND

Energy

MARKET WEIGHT

PETROCHEMICAL

UNDERWEIGHT

Sensitivity of Oil Prices to PTTEP's 2009 Earnings

2009F Dubai oil (US\$/bbl)	2009F EPS (Bt)	Net profit % chg	Implied Target price (bt)
30	6.52	(26)	89
40	7.33	(17)	100
50	8.91	0	121
60	10.47	18	142
70	11.29	27	153

Source: UOB Kay Hian

Sensitivity of Oil Prices to PTT's 2009 Earnings

2009F Dubai oil (US\$/bbl)	2009F EPS (Bt)	Net profit % chg	Implied Target price (bt)
30	15.1	(24)	136
40	17.6	(12)	158
50	20.0	0	180
60	22.4	12	202
70	24.8	24	223

Source: UOB Kay Hian

Analyst

Chollawit Winitchai
☎ (662) 659-8306
chollawit@uobkayhian.co.th

Veena Naidu
☎ (662) 659-8300
veena@uobkayhian.co.th

3) Refinery business - SPC SP (BUY/Target: S\$3.10) and BCP TB (BUY/Target: Bt12.4) are our top picks

Inventory loss and a decline in gross refining margin (GRM) hit 2008 earnings. According to 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. The surge in GRM since January should provide a trading opportunity in the refinery sector. However, for 2009, we are still worried that surplus supply from India (Reliance) and China will hit overall 2009 GRM.

Thus, even though, **TOP TB (HOLD/Fair: Bt27) and PTTAR TB (SELL/Fair: Bt10.6)** are trading below replacement values, we believe it is too early to invest in these stocks for the long term.

The two stocks that we like in this sector are SPC and BCP as they are in a better position than their regional peers for the following reasons: a) no exposure to the petrochemical business, b) higher proportion of production volume in middle distillates (diesel and Jet oil), c) each has its own marketing business that is a key distribution arm. Moreover, SPC also has strong growth in exploration and production (E&P) sale volume amid low gearing while BCP has fully upgraded itself from simple to complex refinery after hedging 40% of the total volume of its refined oil produced at high GRM.

4) Petrochemical business

Despite the attractive valuations, we remain bearish on the petrochemical sector. The negative spread margin in Benzene products (33% of total products) will hard hit PTTAR. The recent spike in Ethylene price will not be sustainable as the surplus supply from Middle East (Saudi Arabia) will flood the market.

Energy and Petrochemical Stocks under Coverage

Stock	Rec	Share Price (Bt/share)	Target Price (Bt/share)	Book Value 2008F (Bt/share)	Net Debt (Cash)/Equity 2008F (x)	Replacement Value (Bt/share)	% Current Price vs Replacement Value
Oil & Gas							
PTTEP	BUY	97.00	121.00	40.55	(0.16)	158.00	61%
PTT	HOLD	155.00	180.00	141.58	0.34	250.00	62%
Coal							
BANPU	BUY	224.00	266.00	146.28	0.13	326.00	69%
Refinery							
SPC ***	BUY	S\$2.50	S\$3.10	S\$3.30	0.15	S\$7.00	36%
BCP	BUY	7.40	12.40	15.83	0.36	28.50	26%
PTTAR	SELL	9.90	10.60	22.27	0.66	37.00	27%
TOP	HOLD	24.20	27.00	32.56	0.40	71.00	34%
PETROCHEMICAL							
PTTCH	HOLD	30.25	42.00	69.17	0.09	63.00	48%

*** Singapore stock exchange
Source: UOB Kay Hian

Key Replacement Value Assumptions

1. Oil's proven reserve at US\$13/bbl
2. Coal reserves at US\$4.5/tonne
3. Complex Refinery capacity at US\$15,000/bbl
4. Ethylene cracker at US\$900/tonne
5. Aromatics capacity at US\$900/tonne
6. Coal-fired power plant at US\$1m/MW
7. Gas combine cycle power plant at US\$0.7m/MW
8. Cement capacity at US\$100/tonne
9. Exchange rate at Bt35/US\$
10. Other businesses estimated by book value

Total Access Communication

4Q08: Results weaker than expected

The lower-than-expected 4Q08 results points to a weak 2009 performance. Share price seems to have over-reacted as it has not factor in an improvement in 2H09 and the upcoming new 3G licence. Maintain BUY.

4Q08 Consolidated Results

Consolidated Year to 31 Dec	4Q08 (Bt)	yoy % chg	2008 (Bt)	yoy % chg	Remarks
Sales	16,392	(2.7)	67,695	3.2	Lower incoming calls & weak economy led to lower 4Q08.
Gross profit	5,072	(10.3)	23,051	10.4	
EBITDA	4,449	(13.2)	20,735	6.9	
Pre-tax Profit	1,718	(30.3)	10,205	10.3	Higher amort., employee-related & maintenance costs.
Tax	(464)	(35.0)	(3,126)	9.8	
Net Profit	1,244	(21.6)	9,329	59.7	Gain from DPC settlement.
Net Profit (Ex EI)	1,257	(28.8)	7,125	10.6	
EPS (Bt)	0.53	(23.2)	3.94	57.6	
Gross margin (%)	30.9		34.1		
EBITDA margin (%)	27.1		30.6		
Net margin (%)	7.5		13.9		

Source: UOB Kay Hian

Results

Total Access Communication (DTAC) reported weaker 4Q08 results due to lower number of incoming calls and a weakening economy. Higher amortisation, rising interconnection charge (IC), increase in employee-related expenses and computer maintenance costs hit 4Q08 EBITDA margin. However, the expanding subscriber base and better interconnection charge (IC) led to an increase in 2008 sales and net profit (ex- EI). Net profit was also boosted by an extraordinary gain from DPC settlement. In 4Q08, DTAC added 468,718 new subscribers, bringing its total subscribers to 18.7m. Both ARPU and MOU continued to decline.

Stock Impact

As the economy is expected to remain in doldrums in 1H09 and the company's plan to increase on-net call volume is likely to take time, we expect DTAC's performance in 1H09 to be weak. However, this should improve in 2H09 on the back of the government's stimulus package. In addition, its marketing campaigns to increase on-net calls are expected to bear fruit in 2H09.

Although amortisation expenses are expected to increase as the concession comes to an end, tight cost control and lower net IC expenses are expected to lift 2009 EBITDA margin to 32% from 31% last year. But 2009 net profit is still expected to decline 22% yoy. We forecast a dividend of Bt1.5/share in 2009.

DTAC's catalyst continues to be the new 3G licence on 2.1GHz. We expect the NTC will be able to issue new 3G licences and to arrange auctions in 2009 so that 3G investment could start and be ready for service in 2010. If so, DTAC's operating costs should drop substantially as revenue-sharing to the government will be reduced from the current 25% to 10-15%.

THAILAND

Total Access Communication (DTAC TB)

BUY

Current Price: Bt29.75
Target Price: Bt34.29
(Previous: Bt36.95)

Sector	Telecom
52-Wk Avg Daily Vol. ('000)	2,432.2
Market Cap (Btb)	70.4
(US\$b)	2.0

Major Shareholders (%)	
Telenor Asia	32.7
Thai Telco Holdings	32.6

Book NTA per Share (Bt)	25.1
ROE (%)	16.8
Net Debt per Share (Bt)	8.9

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

Price Chart



Source: Bloomberg

Analyst

Kowit Pongwinyoo
☎ (662) 659 8304
kowitz@uobkayhian.co.th

Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Bt)	Yield (%)
2007	65,590	19,405	5,841	2.6	22.4	11.5	4.3	0.8	2.6
2008	67,695	20,735	9,329*	3.9	52.4	7.6	4.0	1.5	5.0
2009F	66,761	21,396	7,275	3.1	(22.0)	9.7	3.8	0.9	3.1
2010F	67,816	21,584	7,495	3.2	3.0	9.4	3.3	0.9	3.2
2011F	70,582	22,537	7,768	3.3	3.6	9.1	2.8	1.0	3.3

Consensus Net Profit – FY09: Bt7,704m * Including extraordinary gain
–FY10: Bt8,094m

Earnings Revision

Due to lower-than-expected incoming call revenue and the weak economy, we revise down 2009 and 2010 sales forecasts by 4% and 8% to Bt66.8b and Bt67.8b, and trim net profit forecasts by 3% and 4% to Bt7.3b and Bt7.5b respectively. Our forecasts are lower than the consensus as DTAC is likely to be affected by the sluggish economy. We also cut our target price (based on DCF and a discount rate of 9.8%) by 7% to Bt34.29.

Recommendation

Despite the earnings cut, there is still a 15% upside to our target price. Valuation is also attractive as the stock is cheaper or at a par with regional peers' valuation. With healthy EBITDA and its low debt-to-equity ratio of 0.3x, the company is in a good position to pursue 3G expansion under 2.1GHz. **Maintain BUY.**

Profit & Loss

Year to Dec 31 (Btm)	2007	2008	2009F	2010F	2011F
Turnover	65,590	67,695	66,761	67,816	70,582
EBIT	11,580	12,028	11,723	11,419	11,873
Pre-tax Profit	8,648	12,413	9,737	10,028	10,992
Net Profit	5,841	9,329	7,275	7,495	7,768
EPS (Bt)	2.6	3.9	3.1	3.2	3.3

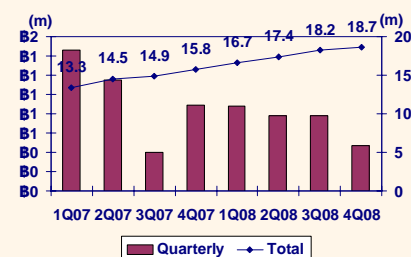
Balance Sheet

Year to Dec 31 (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	13,429	16,603	10,951	13,582	16,357
Total Assets	100,862	104,435	98,667	97,539	96,501
Current Liabilities	24,857	27,581	24,572	25,346	21,322
Long-Term Loans	23,753	16,975	12,170	4,952	2,415
Shareholders' Funds	51,849	59,450	61,533	66,845	72,364
Total Equity & Liabilities	100,862	104,435	98,667	97,539	96,501

Cash Flow

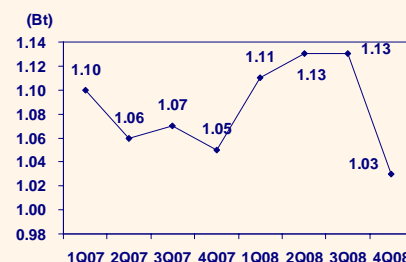
Year to Dec 31 (Btm)	2007	2008	2009F	2010F	2011F
Operating	19,085	19,675	16,320	18,102	18,646
Investing	(12,332)	(11,205)	(10,422)	(6,137)	(6,650)
Financing	(5,292)	(4,665)	(12,259)	(9,362)	(9,463)
Net Cash Inflow/(Outflow)	1,461	3,805	(6,362)	2,603	2,533
Beginning Cash & Cash Equiv.	1,816	3,277	7,082	720	3,323
Ending Cash & Cash Equiv.	3,277	7,082	720	3,323	5,857

Quarterly Number Of Subscribers



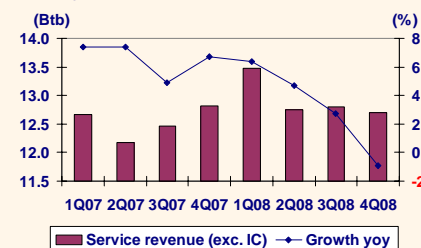
Source: DTAC

Quarterly RPM



Source: DTAC

Quarterly Service Revenue



Source: DTAC

Valuation

Method	Results	Remarks
DCF	Bt34.29	Likely valuation
Stressed P/B	Bt15.53	Unlikely as it is not going into bankruptcy
Z-score test	2.30	Due to low ROE and ROA but offset by support from Telenor.

Source: UOB Kay Hian

Regional Comparison

Company	EV/EBITDA (x)	PE (x)	P/B (x)	ROE (%)	Yield (%)
AIS	5.1	11.9	3.0	24.8	8.4
DTAC	3.8	9.7	1.1	12.1	3.1
SHIN	13.9	7.4	3.5	26.0	12.7
TRUE	4.7	na.	1.0	na.	0.0
Singtel	9.6	11.7	1.8	15.8	4.8
StarHub	6.8	11.5	28.6	267.9	8.7
MobileOne	5.3	9.6	5.8	63.8	8.6
Digi.Com	6.8	13.8	8.6	62.6	6.9
Telekom Mal	5.7	22.4	1.1	4.2	7.1
China Mobile	5.3	13.5	3.4	27.6	3.3
China Unicom	2.6	9.4	0.8	15.0	3.5
Bakrie	1.5	7.3	0.3	6.5	0.6
Bharti	8.4	14.6	4.0	31.6	1.5
Far Eas Tone	4.3	9.6	1.4	15.1	8.9
Taiwan Mobile	7.0	10.5	3.3	30.7	8.2
Globe	3.7	8.8	2.1	23.3	12.9
KT Freetel	3.7	11.2	1.1	10.5	2.6
SK Telecom	4.5	10.2	1.1	13.9	4.8

Source: UOB Kay Hian

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