

### KEY STORY

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### MALAYSIA

#### Results

**AMMB Holdings (HOLD/RM2.43/Fair: RM2.30) Page 11**  
3QFY09: Net profit of RM248m, +25.4% yoy, on lower provision and higher Islamic income. Results above expectation.

### SINGAPORE

#### Results

**China Milk Products (BUY/S\$0.415/Target: S\$0.53) Page 13**  
3QFY09: Demand to fall on weak sentiment in dairy industry.

**DBS Group Holdings (BUY/S\$8.39/Target: S\$10.55) Page 15**  
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**Trump Dragon Distillers (BUY/S\$0.265/Target: S\$0.32) Page 17**  
1HFY09: Profit below expectation; gross margin under pressure in FY09.

#### Update

**Beauty China (BUY/S\$0.40/Target: S\$0.53) Page 19**  
4Q08 net profit hurt by slower sales and impairment loss. We lower our earnings forecasts and target price.

### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7850.4	(1.0)	(5.2)	(5.2)	(10.6)
FTSE 100	4189.6	(0.3)	(2.4)	1.0	(5.5)
AS30	3496.7	1.1	2.6	0.1	(4.4)
CSI 300	2399.1	3.5	7.2	20.5	32.0
FSTI	1705.6	1.2	(0.6)	(1.4)	(3.2)
HSI	13554.7	2.5	(0.7)	2.3	(5.8)
JCI	1338.7	1.0	(0.9)	(1.8)	(1.2)
KLCI	909.8	1.7	3.4	1.5	3.8
KOSPI	1192.4	1.1	(1.5)	5.0	6.0
Nikkei 225	7779.4	1.0	(2.1)	(5.5)	(12.2)
SET	445.8	1.2	2.8	2.4	(0.9)
TWSE	4592.5	2.8	2.7	5.5	0.0
BDI	1908.0	(4.1)	16.2	116.6	146.5
CPO (RM/mt)	1932.0	(0.6)	5.7	(1.6)	18.5
Nymex Crude (US\$/bbl)	37.5	10.4	(6.6)	(0.7)	(15.9)

Source: Bloomberg

### Top BUYs/SELLs

Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)	
<b>Top BUYs</b>				
China Life	2628 HK	23.45	36.00	53.5
China Mobile	941 HK	74.70	95.00	27.2
China Petroleum	386 HK	4.41	6.93	57.1
China Railway	390 HK	4.80	5.90	22.9
China Shenhua	1088 HK	17.84	23.00	28.9
Maanshan Iron	323 HK	2.89	3.70	28.0
Bumi Resources	BUMI IJ	740	1,010	36.5
Public Bank	PBK MK	9.10	10.90	19.8
DBS Group	DBS SP	8.39	10.98	30.9
Indofood Agri	IFAR SP	0.62	0.80	29.0
SingTel	ST SP	2.51	2.95	17.5
Advanced Info	ADVANC TB	77.00	101.00	31.2
Quality Houses	QH TB	0.88	1.49	69.3
<b>Top SELLs</b>				
Aluminum Corp	2600 HK	4.33	3.00	(30.7)
Parkson Retail	3368 HK	6.80	4.89	(28.1)
Wharf Hldg	4 HK	17.14	14.60	(14.8)
S'pore Airlines	SIA SP	10.60	9.70	(8.5)
S'pore Exchange	SGX SP	5.12	3.00	(41.4)
Amata Corp	AMATA TB	3.76	2.52	(33.0)

### 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\$/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
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

*Monday, February 16, 2009***THAILAND****Results**

**Thai Oil Plc (HOLD/Bt26.25/Fair: Bt27.0- UNDER REVIEW) Page 21**  
2008: Net profit dives 99% yoy on massive impact from inventory loss.  
Our fair price and earnings are under review for a downgrade.

**Update**

**Bumrungrad Hospital (HOLD/Bt22.50/Fair: Bt21.05) Page 23**  
BH's exposure to the global recession may cap share price upside.

**PTT Aromatics and Refining (SELL/Bt10.20/Fair: Bt8.10) Page 25**  
Can PTTAR service its debt? As of now, yes. Worst case, PTT can step in to support.

## Golden Eagle

2008 results may be surprising; 2009 growth could moderate

We maintain our positive view of Golden Eagle's 2009 sales as more newly-opened stores mature. We cut 2009-10 EPS forecasts by 7-14% on slower SSS growth. Maintain BUY with a new target price of HK\$5.66.

### Corporate Events

**2008 earnings could increase 41% on 22% SSS growth.** Golden Eagle will release its 2008 annual results by mid-Mar 09. According to our monthly monitoring efforts and surveys, same-store-sales (SSS) growth for Golden Eagle is expected to reach 22% yoy in 2008, a deceleration from 25.8% yoy in 2007 and 28.0% yoy in 1H08 due to China's deteriorating economy. We expect its gross sales and net profit to grow 28% yoy and 41% yoy respectively in 2008.

**Why record-high single-digit SSS growth is possible in 2009.** For department store operators in big cities, this spring feels like winter. In Shanghai, customers are reluctant to open their wallets despite Parkson's "70% off" promotions at its Huaihai store. Consumers' purchasing power has been exhausted due to aggressive promotional activities during the Chinese New Year (CNY) holiday. However, we expect Golden Eagle to see 8.8% SSS growth in 2009. Golden Eagle's sales growth in 2009 could be higher than peers' for two reasons: a) six of the existing 11 stores opened in 2007 and 2008 and have not reached maturity yet, implying stronger SSS growth potential, b) the Group has captured the leading position in second- and third-tier cities and faces less competition there.

**Earnings in 2009 are visible.** a) We do not expect commission rates (20.6% in 2008) to decline significantly in 2009, b) There is more room for cost savings in 2009, which will lift margin, c) The company's heavy financial burden will ease in 2009 as convertible bonds will be due in Oct 09. Golden Eagle's finance cost on its convertible bonds reached Rmb80.5m in 2008, and d) the Group may close underperforming stores eg the Xian Guomao store.

### SSS Growth Trend

	2006	2007	1H08	2008	2009
Nanjing Xinjiekou Store	16.3%	27.0%	22.7%	14.0%	7.2%
Nantong Store	7.0%	3.7%	8.0%	5.0%	4.5%
Yangzhou Store	28.6%	29.4%	26.1%	22.0%	15.0%
Suzhou Store	16.5%	10.9%	18.9%	20.0%	8.0%
Xuzhou Store	40.9%	38.2%	32.5%	26.0%	12.2%
Xi'an Guomao Store	100.0%	-10.0%	-14.8%	-12.0%	-18.0%
Xi'an Gaoxin Store	n/a	221.0%	97.8%	72.0%	26.0%
Nanjing Zhujiang Store	n/a	n/a	n/a	n/a	22.0%
Taizhou Store	n/a	n/a	85.4%	62.7%	23.0%
<b>Golden Eagle's SSS</b>	<b>22.5%</b>	<b>25.8%</b>	<b>28.0%</b>	<b>21.5%</b>	<b>8.8%</b>
<b>Parkson's SSS</b>	<b>17.1%</b>	<b>18.4%</b>	<b>14.4%</b>	<b>12.6%</b>	<b>4.50%</b>

Source: Golden Eagle, UOB Kay Hian

## CHINA

### Golden Eagle (3308 HK)

#### BUY

Current Price: HK\$4.19

Target Price: HK\$5.66

(Previous: HK\$6.25)

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	2,169
Market Cap (HK\$m)	7,408
(US\$m)	956

Major Shareholders (%)	
HUNG WANG	74.88
JP Morgan Chase & Co.	5.03

Book NTA per Share (Rmb)	0.72
ROE (%)	28.8
Net Cash per Share (Rmb)	0.51

Results Due	
Interim	September
Final	April

### Price Chart



Source: Bloomberg

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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	900	466	232	0.13	-5%	28.8	18.0	0.06	1.32
2007	1,108	749	386	0.21	66%	17.3	10.4	0.04	0.90
2008F	1,422	906	545	0.30	41%	12.3	9.5	0.10	2.20
2009F	1,650	1,011	584	0.32	7%	11.4	8.1	0.11	2.35
2010F	1,918	1,132	719	0.40	23%	9.3	6.7	0.14	2.90

Consensus Net Profit – FY08: HK\$549m  
 – FY09: HK\$606m

**Stock Impact**

**Base-case scenario**

Due to decreasing consumer confidence and the uncertain macro-economy, we lower our net profit forecasts by 7% from Rmb630m to Rmb584Rmb for 2009 and 14% from Rmb835 to Rmb719m for 2010. Our earnings estimates imply a growth of 7% in 2009 and 23% in 2010, based on an assumed SSS growth of 8.8% for 2009 and 12% for 2010 and an addition of two new stores in 2009.

**Worst-case scenario**

Net profit could increase 2% in 2009 and 15% in 2010. For 1H09, SSS could record low single-digit growth due to decreasing consumer confidence and the effect of aggressive promotional activities during CNY. Our sales forecasts are based on our assumption that sales growth of most stores could remain stagnant, except for the flagship store, Yancheng store, Yangzhou store and Xi'an Gaoxin store.

**Valuation/Recommendation**

Based on our base-case earnings forecasts, Golden Eagle is trading at 11.0x 2009 PE and 8.8x 2010 PE, slightly above its Hong Kong peers' average. Long-term investors should accumulate the stock upon share price weakness in the next few months, when negatives for 1H09 are fully priced in. Our new DCF-based (WACC = 11.5%; terminal growth = 3%) target price is HK\$5.66 (from HK\$6.25 previously), which implies 2009 11.0x PE and 35% upside from the current level. Under the worst-case scenario, our DCF (WACC = 11.5%; terminal growth = 2%) suggests a target price of HK\$3.98, implying 12.6x 2009 PE. **Reiterate BUY.**

**Department Store Peers Valuation Comparison**

Ticker	Name	Market Cap (HK\$m)	Price (HK\$)	P/S	P/B	FY07 PE	FY08 PE	FY09 PE
3308 HK	Golden Eagle	7,408	4.19	5.25	4.21	12.03	12.27	11.44
3368 HK	Parkson	19,026	6.8	5.61	5.54	14.99	19.40	16.65
825 HK	New World	4,907	2.91	3.26	1.19	10.03	9.21	7.48
848 HK	Maoye	3,803	0.74	1.77	n.a.	6.52	5.99	4.83
1212 HK	Lifestyle	9,498	5.68	2.85	1.89	8.05	9.39	9.06
1833 HK	Intime	3,570	2.04	3.15	0.98	6.34	7.17	8.21
<b>Average</b>				<b>3.65</b>	<b>2.76</b>	<b>9.66</b>	<b>10.57</b>	<b>9.61</b>

Source: Golden Eagle, UOB Kay Hian

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	900	1,108	1,422	1,703	2,024
EBIT	402	679	831	919	1,050
Pre-tax Profit	362	598	742	824	1,017
Net Profit	232	386	545	605	763

**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	1,228	1,886	1,612	2,101	2,632
Total Assets	3,015	3,927	4,921	5,763	6,515
Current Liabilities	1,222	1,717	2,369	2,674	3,017
Long-Term Liabilities	797	820	844	0	0
Shareholder Funds	949	1,336	1,644	3,012	3,406
Total Equity & Liabilities	3,015	3,927	4,921	5,763	6,515

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	499	885	611	881	1,020
Investing	8	(192)	(1,415)	(387)	(261)
Financing	372	(44)	490	(832)	(15)
Net Cash In/(Out) Flow	880	649	(314)	(339)	745
Begin Cash & Cash Equiv.	220	1,099	1,748	1,434	1,095
End'g Cash & Cash Equiv.	1,099	1,748	1,434	1,095	1,840

**Scenario Analysis**

	Base-case	Worst-case
<b>Target price (HK\$)</b>	<b>5.66</b>	<b>3.98</b>
EPS growth		
2009F	7.0%	2.0%
2010F	23.0%	15.0%
<b>Stores Additions</b>		
2009F	2	0
2010F	1	0
<b>SSS Growth</b>		
2009F	8.8%	3.0%
2010F	12.0%	5.0%
<b>EBIT Margin</b>		
2009F	61	58
2010F	59	56

Source: UOB Kay Hian

## Technical Analysis

Shanghai A-share Index: 2436

Last Friday, the index closed at 2436 on very high turnover of Rmb19.86b, well above the 15-day moving average of Rmb13.85b. The close is not far from our target of 2450 which we forecast on 5 Feb 09.

We are still bullish on the index. On the back of increasing turnover, the index sees no immediate signal to reverse until its width of the Bollinger Band reaches the reading of 40 (Chart 1). In other words, this implies more upside.

In fact, with the MACD of the index (Chart 2) still short of the 200 mark, the bias is on the upside.

Our roadmap for the index is for it to head towards the 200-day moving average at 2578 before a pullback. After the completion of a pullback, the index is expected to approach 2850 or 0.236x retracement level of the decline from the peak of 6429 (Chart 3).

### CHINA

#### Technical Analysis

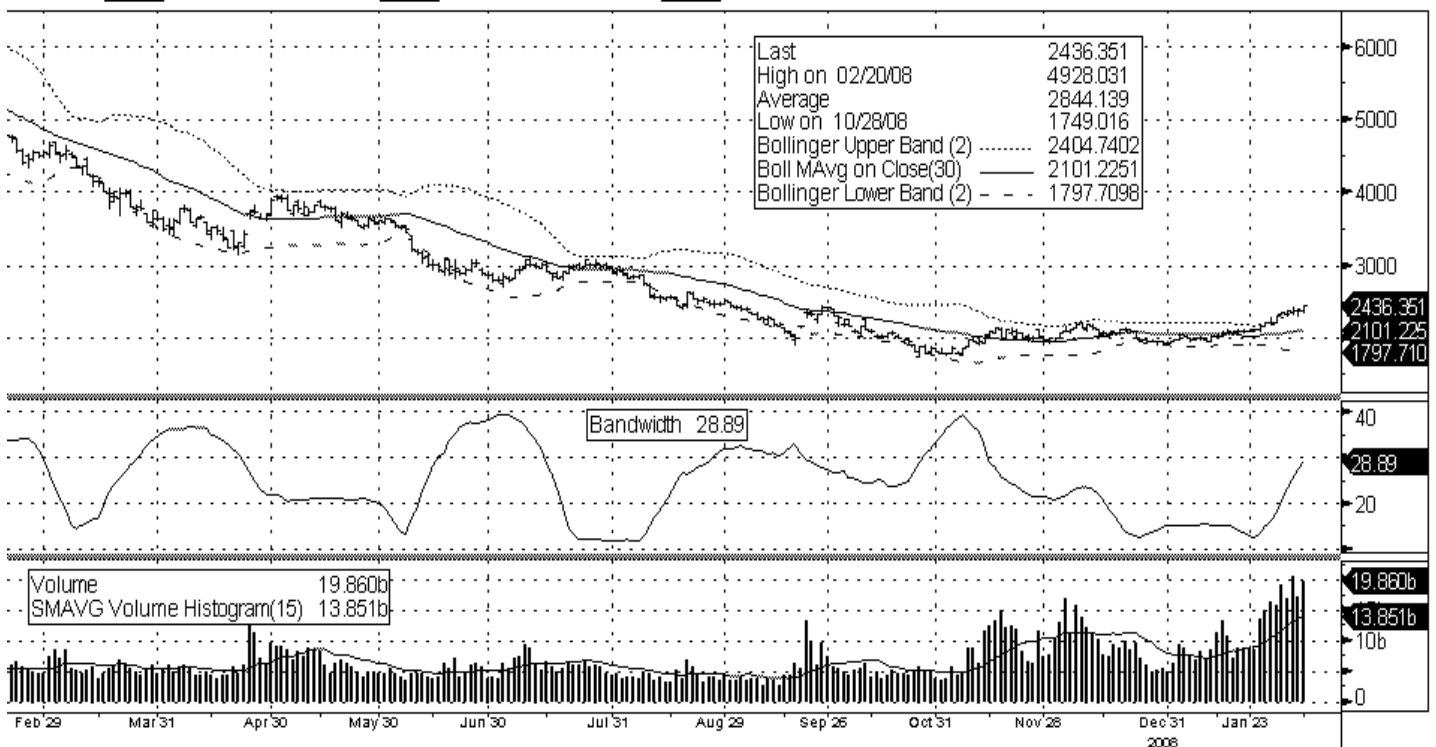
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**Chart 1: Band Width Of Shanghai A-share Index**



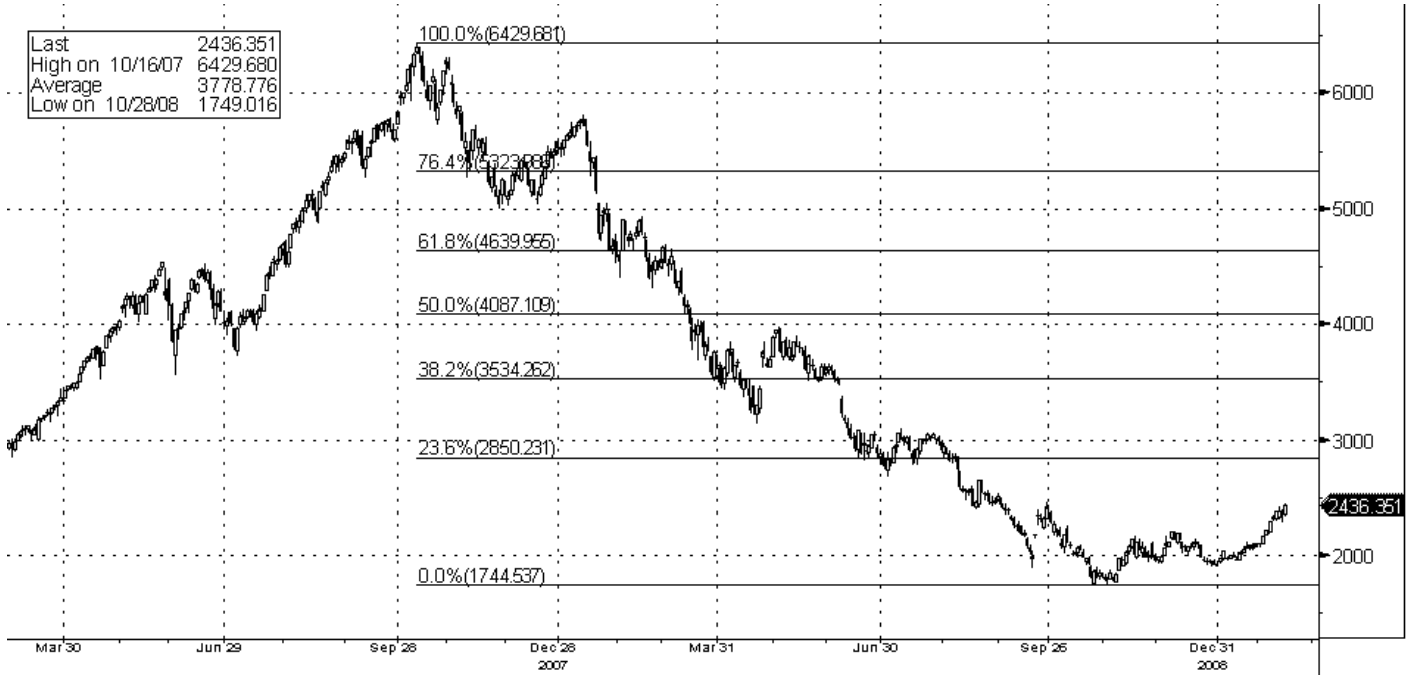
Source: Bloomberg

Chart 2: MACD Of Shanghai A-share Index



Source: Bloomberg

Chart 3: Retracement Levels Of Shanghai A-share Index



Source: Bloomberg

## Quantitative Analysis

Last Friday, Hang Seng Indexes Company Limited announced the results of its review of the Hang Seng Index for the period ended Dec 08.

There is no change to the constituents of the Hang Seng Index (HSI). The total number of constituents remains at 42. But the weightings of the constituents will change due to re-capping of HSBC to 15% and changes to the FAF. All changes will take effect 9 Mar 09 (Monday).

The FAF (free float-adjusted factor) represents the proportion of shares that is free floated as a percentage of the issued shares/H shares, rounded up to the nearest multiple of 5% for the index calculation and is updated half-yearly.

Assuming the rebalancing has been undertaken on 11 Feb 09, the weighting of HSBC (5) will return to the cap at 15%.

As for Constructions Bank (939) and Bank of China (3988), their weightings will rise because of an increase in their FAFs as a consequence of the recent shedding of lock-up shares in these banks by shareholder(s) who individually or collectively represent more than 5% of the shareholdings as lock-up periods expire.

The weightings of HSBC will increase by 3.67ppt to 15%, Constructions Bank from 5.91% to 8.01%, and Bank of China by 1.87ppt to 4.19%.

In terms of sector, the finance sector will account for 46.5% of the weighting of the HSI, an increase of 5.6ppt.

### Comments:

- With reference to the descending order of the percentage change in weighting as shown in the table below, we recommend a speculative buy on HSBC, Constructions Bank and Bank of China but speculative sell on CMHK (941)
- As the finance sector accounts for almost 50% of the index weighting, finance stocks will be the limelight of the stockmarket. Somehow, the index could be manipulated by the hefty buying and selling of financial stocks.
- On the other hand, the chances of financial stocks being added into the index in future index reviews should be slim given that the finance sector accounts for almost 50% of the weighting of the index.

## HONG KONG

### Quantitative Analysis

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Monday, February 16, 2009

Weightings of the constituents of Hang Seng Index in descending order of change assuming the index rebalancing has been undertaken on 11 Feb 09.

	Short Name	----- Weighting (%) -----		
		Before	After	Change
5 HK Equity	HSBC HLDGS PLC	11.33	15.00	3.67
939 HK Equity	CHINA CONST BA-H	5.91	8.01	2.10
3988 HK Equity	BANK OF CHINA-H	2.32	4.19	1.87
330 HK Equity	ESPRIT HLDGS	1.37	1.39	0.02
1199 HK Equity	COSCO PAC LTD	0.27	0.25	-0.02
2038 HK Equity	FOXCONN INTL HLD	0.19	0.17	-0.02
494 HK Equity	LI & FUNG LTD	1.22	1.19	-0.03
293 HK Equity	CATHAY PAC AIR	0.32	0.29	-0.03
551 HK Equity	YUE YUEN INDUS	0.31	0.28	-0.03
83 HK Equity	SINO LAND CO	0.52	0.47	-0.05
144 HK Equity	CHINA MERCHANT	0.52	0.47	-0.05
291 HK Equity	CHINA RES ENT	0.46	0.41	-0.05
17 HK Equity	NEW WORLD DEV	0.61	0.55	-0.06
2600 HK Equity	ALUMINUM CORP-H	0.56	0.50	-0.06
4 HK Equity	WHARF HLDG	0.75	0.68	-0.07
66 HK Equity	MTR CORP	0.82	0.74	-0.08
2388 HK Equity	BOC HONG KONG HO	0.97	0.88	-0.09
23 HK Equity	BANK EAST ASIA	0.94	0.85	-0.09
12 HK Equity	HENDERSON LAND D	0.93	0.84	-0.09
101 HK Equity	HANG LUNG PROPER	1.06	0.96	-0.10
688 HK Equity	CHINA OVERSEAS	1.42	1.29	-0.13
19 HK Equity	SWIRE PACIF 'A'	1.37	1.24	-0.13
700 HK Equity	TENCENT HOLDINGS	1.52	1.38	-0.14
3 HK Equity	HONG KG CHINA GS	1.56	1.41	-0.15
2318 HK Equity	PING AN INSURA-H	1.68	1.52	-0.16
762 HK Equity	CHINA UNICOM HON	1.74	1.57	-0.17
1088 HK Equity	CHINA SHENHUA -H	1.96	1.78	-0.18
6 HK Equity	HONG KG ELEC	1.97	1.78	-0.19
11 HK Equity	HANG SENG BK	2.23	2.02	-0.21
3328 HK Equity	BANK OF COMMUN-H	2.38	2.15	-0.23
388 HK Equity	HONG KONG EXCHNG	2.35	2.12	-0.23
386 HK Equity	CHINA PETROLEU-H	2.37	2.14	-0.23
13 HK Equity	HUTCHISON WHAMPO	2.67	2.42	-0.25
267 HK Equity	CITIC PACIFIC	0.55	0.30	-0.25
1 HK Equity	CHEUNG KONG	2.97	2.69	-0.28
2 HK Equity	CLP HLDGS LTD	3.00	2.71	-0.29
16 HK Equity	SUN HUNG KAI PRO	3.18	2.88	-0.30
883 HK Equity	CNOOC LTD	4.20	3.80	-0.40
857 HK Equity	PETROCHINA CO-H	4.33	3.92	-0.41
1398 HK Equity	IND & COMM BK -H	5.23	4.73	-0.50
2628 HK Equity	CHINA LIFE-H	5.56	5.03	-0.53
941 HK Equity	CHINA MOBILE	14.38	13.00	-1.38

Source: Hang Seng Indexes Company Ltd, UOB Kay Hian

## Bank Danamon

FY08: Strong headwinds ahead

*Rising credit risk and tight liquidity may cause the bank to scale back its expansion plan..*

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Net Interest Income	2,395	(6.7)	9,658	19.2	2008: Growth driven by loans expansion 4Q08: Loans growth was flat and margin contracted
Non-Interest Income	(74)		635	(38.4)	2008: No gain in marketable securities holding as in FY07 4Q08: No forex gain as seen in 3Q08
Gross Income	2,321	(16.8)	10,293	12.7	
Non-Interest Expenses	(1,506)	(5.7)	(5,892)	28.3	2008: Expanded into mass market business
Pre-provision Profit	815	(31.6)	4,401	(3.1)	
Provisions	(1,047)	291.7	(1,819)	78.4	4Q08: Around Rp800b provisions to cover losses from derivatives contract exposure (see our note dated 26 Jan 09)
Non-oprtg Income	94	78.3	95		
			(146.0)		
Tax	(84)	13.3	(272)	77.7	
Minority Interest	(11)	(96.2)	(876)	(16.1)	
Net Profit	(233)	(138.6)	1,530	(27.7)	In line with the bank's guidance.

### Results

The bank released its 2008 financial statements which are in line with the guidance given by the management in late-Jan 09 (see our note on Danamon dated 26 Jan 09). However, we are rather concerned on several key items.

- Rising NPL and the drop in loan loss coverage.** NPL rose to 2.4% in 4Q08 from 2.1% in 3Q08, mainly due to the deterioration in its SME and commercial loans portfolios. However, the rising bad loans was not covered by equal provisions in 4Q08 as shown by the drop in loan loss coverage of 102.5% as of 31 Dec 08 from 130.2% in 3Q08.
- Exposure to foreign currency forward contracts with customers** (see our note on Danamon dated 26 Jan 09). If the Rupiah continues to depreciate, the bank may still have to make more provisions for its outstanding foreign currency forward contracts with customers until all the contracts expire in Jul 09. As of 11 Feb 09, the outstanding contracts had marked-to-market value of US\$49m with total provision of only US\$7m.
- Plan to call US\$300m sub-debt.** The bank chooses to call its US\$300m subordinated debt due in Mar 09. Currently, it has about US\$406m in cash and committed lines. The bank said it has no plans in the near future to have new sub-debt issuance nor equity raising, i.e. rights issue.

## INDONESIA

### Bank Danamon (BDMN IJ)

#### HOLD

Current Price: Rp2,225

Fair Price: Rp3,100

Sector	Banking
52-Wk Avg Daily Vol. ('000)	5,207
Market Cap (Rpb)	11,227.4
(US\$m)	946.2

Major Shareholders (%)	
Asia Financial (Indonesia)	67.9

Book NTA per Share (Rp)	2,047
ROE (%)	14.3
Net Debt per Share (Rp)	na

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Pre-Provision Profit (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (x)	BPS (Rp)	PB (x)	DPS (Rp)	Yield (%)
2006	3,498	1,325	268.0	(34.2)	8.3	1,825	1.2	203	9.1
2007	4,540	2,117	420.6	57.0	5.3	2,086	1.1	132	5.9
2008	4,401	1,530	303.2	(27.9)	7.3	2,047	1.1	210	9.4
2009F	4,722	2,008	398.9	31.6	5.6	2,350	0.9	153	6.9
2010F	5,093	2,480	492.8	23.5	4.5	2,747	0.8	199	9.0

Consensus Net Profit – FY08: Rp2,063.4b  
 – FY09: Rp2,386.7b

**Stock Impact**

With tight liquidity, especially after it repaid its US\$300m sub-debt, and considering the unfavourable economic condition which may increase credit risk, the bank chooses to hold back its business expansion and strengthen its liquidity position. It expects loans growth of below 10% with the focus on resilient, high-yield mass-market business.

The bank also decided to re-focus on traditional banking activities and discontinue dealing with complex derivatives trading. This may reduce future fee-based income, but the effect should be limited. The fee income from the derivatives trading was about 12% of total fee income of Rp2.1 trillion in 2008, or about 3% of the bank's net interest income.

We expect the bank to maintain its high provision level this year to recover the adequate level of loan loss coverage and to cover additional marked-to-market losses from its outstanding foreign currency forward contracts with customers should the rupiah continues to depreciate.

**Earnings Revision**

No change to our earnings forecasts.

**Valuation/Recommendation**

While the bank current trades at an attractive valuation at FY09F P/B of slightly below 1x, much lower than its 5-year average P/B of around 2.7x, we do not expect the share price to outperform in the near term given the concerns over a sluggish economic outlook. Any negative newsflow will trigger a wave of sell-offs under the current fragile market sentiment. Maintain HOLD with an entry price at Rp2,150.

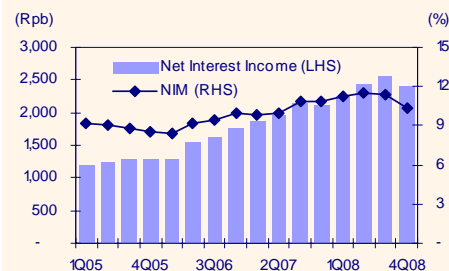
**Profit and Loss**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Net Interest Income	6,238	8,103	9,658	10,451	11,543
Non-Interest Income	1,108	1,030	635	605	679
Gross Income	7,346	9,133	10,293	11,057	12,222
Non-Interest Expenses	(3,848)	(4,593)	(5,892)	(6,335)	(7,129)
Pre-provision Profit	3,498	4,540	4,401	4,722	5,093
Provisions	(1,026)	(1,020)	(1,819)	(1,596)	(1,239)
Non-operating Income	(369)	(207)	95	(55)	(61)
Minority Interests	(126)	(153)	(272)	(142)	(175)
Tax	(652)	(1,044)	(876)	(921)	(1,138)
Net Profit	1,325	2,117	1,530	2,008	2,480

**Balance Sheet**

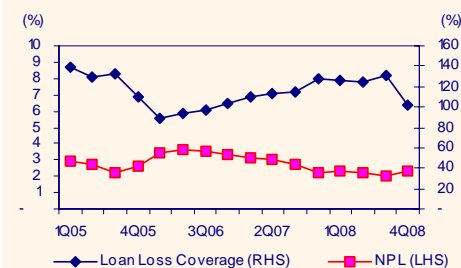
Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Government Bonds	18,702	15,808	13,083	8,316	6,020
Gross Loans	42,981	53,330	66,898	72,275	79,335
Total Assets	82,073	89,410	107,268	110,964	122,294
Customer Deposits	54,194	57,804	73,969	78,844	86,729
Shareholders' Equity	9,442	10,833	10,579	11,997	13,910

**Net Interest Income and Net Interest Margin**



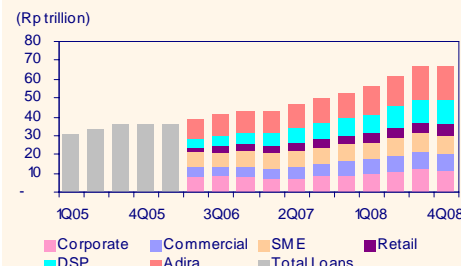
Source: Bank Danamon, UOB Kay Hian

**NPL and Loan Loss Coverage**



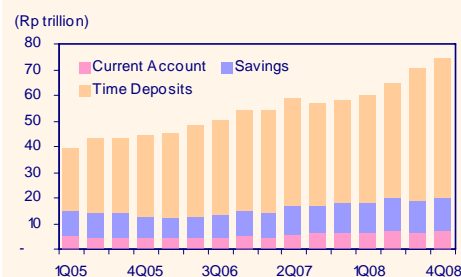
Source: Bank Danamon, UOB Kay Hian

**Loans Breakdown**



Source: Bank Danamon, UOB Kay Hian

**Deposit Breakdown**



Source: Bank Danamon, UOB Kay Hian

## AMMB Holdings

3QFY09: Earnings momentum to ease in 2H09

Results were above expectation, driven by lower provision and higher Islamic banking earnings. Asset quality continued to improve with lower gross and net NPL of 5.2% and 2.7% respectively.

### 3Q0FY09 Results

Year end 31 Mar	3Q09 (RMm)	yoy (%)	qoq (%)	Remarks
Net-Interest Income	442.7	(5.3)	(3.4)	Lower interest income and NIM
Islamic Banking Fee	143.8	16.3	(2.4)	
Non-Interest Income	302.2	(3.6)	103.6	Include one-off disposal gains of RM95.5m
Operating Income	888.7	(1.8)	17.8	
Overhead Expenses	(400.9)	4.4	1.8	Higher insurance claims
Operating Profit	487.7	(6.4)	35.3	
Loan Loss Provision	(142.8)	(26.9)	311.7	Improved credit risk and NPL collection
Net Income	248.0	25.4	7.7	Up yoy on higher Islamic banking fees and lower provision

Key Ratio (%)	FY08	2QFY09	3QFY09	Remarks
Net Interest Margin	2.33	2.45	2.31	Lower cost of funds on OPR reduction in Nov 08
Gross NPLs	6.4	5.6	5.2	Consumer default rate declined
Gross Loans Growth (annualised)	8.2	8.5	7.4	Driven by higher business loans growth 11.1% ytd vs consumer's 2.2% ytd
Loans Loss Coverage	67.3	74.5	77.5	
ROE	11.2	12.7	13.4	

Source: AMMB, UOB Kay Hian

### Results

AMMB's 3QFY09 net profit rose 25.4% yoy to a record RM248.0m. Results were above our and market expectations. Non-interest income doubled to RM302.2m qoq on one-off equity gains of RM95.5m. This was partly offset by higher loan loss provision of RM142.8m (2QFY09: RM34.7m).

Loans grew 5.0% ytd, driven by strong business loans growth while consumer loans was up a marginal 2.2% ytd, supported by hire-purchase (+1.7% ytd) and mortgages (+1.4%).

### Stock Impact

**Asset quality continued to improve.** Net NPL continued to improve to 2.7% as at Dec 08 vs 4.0% a year ago, underpinned by improved credit control, collections and recoveries management. Loan loss coverage also increased from 68.9% to 77.5%, in line with management guidance.

**Maintain FY09 earnings growth target.** Management maintained earnings growth target of 30% for FY09. Going forward, management reckons it will be tougher years with an expected much lower GDP growth of -0.5 to +0.5% (2QFY09: 3%) for Malaysia.

## MALAYSIA

### AMMB Holdings (AMM MK)

#### HOLD

Current Price: RM2.43

Fair Price: RM2.30

Sector	Bank
52-Wk Avg Daily Vol. ('000)	5,578
Market Cap (RMm)	6,616.8
(US\$m)	1,836.0

Major Shareholders (%)	
Australia & New Zealand Grp	19.2
AmCorp Group	17.7

Book NTA per Share (RM\$)	2.07
ROE (%)	11.2

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Mar	PBT (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	PB (x)	DPS (sen)	Yield (%)
2007	(84.6)	(282.5)	(10.4)	n.m.	n.m.	1.4	0.0	0.0
2008	1,194.4	668.5	24.6	n.m.	9.9	0.9	0.0	0.0
2009F	1,064.1	752.2	30.3	23.6	8.8	0.9	7.0	2.9
2010F	1,079.7	789.6	31.8	5.0	8.4	0.8	7.0	2.9
2011F	1,199.6	877.2	35.4	11.1	7.5	0.7	8.0	3.3

Consensus Net Profit – FY09: RM782.6m  
 – FY10: RM717.2m

**Earnings Revision**

Despite the stronger results, we are maintaining our earnings forecasts in view of the earnings risks posed by the slower economic growth and potential deterioration in asset quality.

**Valuation/Recommendation**

**Maintain HOLD.** Based on sustainable ROE of 13%, payout ratio of 35% and long-term growth rate of 6.0%, our fair value is RM2.30. Entry price at RM2.00.

**Income Statement: Quarterly**

<b>Year to 31 Mar (RMm)</b>	<b>3Q08</b>	<b>4Q08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>
Net-Interest Income	472.7	432.2	434.5	458.4	442.7
Islamic Banking Fee	123.7	136.8	124.7	147.3	143.8
Non-Interest Income	327.8	260.7	220.0	148.5	302.2
Total Operating Income	924.2	829.6	779.2	754.2	888.7
Overhead Expenses	(414.6)	(457.6)	(417.6)	(393.8)	(400.9)
Operating Profit	509.6	372.0	361.6	360.4	487.7
Loan Loss Provision	(183.9)	(63.4)	(87.9)	(34.7)	(142.8)
PBT	325.7	308.6	273.6	325.7	344.9
Net Income	197.8	217.5	202.9	230.2	248.0
<b>Key Analysis (%)</b>					
Net Interest Margin	2.65	2.35	2.32	2.45	2.31
Gross NPLs	8.2	6.8	6.4	5.9	5.5
Gross Loans Growth	1.8	2.6	1.2	4.1	1.0
Loans Loss Coverage	68.9	67.3	72.3	74.5	77.5
Cost/Income Ratio	44.9	55.2	53.6	52.2	45.1
ROE	14.1	13.4	11.3	12.7	13.4

**Income Statement**

<b>Year to 31 Mar (RMm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Net Interest Income	1,372.1	1,630.6	1,687.3	1,780.2	1,954.8
Islamic Banking Fee	506.1	517.2	563.7	614.5	688.2
Non-Interest Income	1,150.0	1,218.8	914.3	1,012.8	1,126.7
Operating Income	3,028.3	3,366.6	3,165.3	3,407.4	3,769.7
Overhead Expenses	(1,356.8)	(1,552.3)	(1,679.5)	(1,851.6)	(2,029.7)
Operating Profit	1,671.4	1,814.3	1,485.8	1,555.9	1,740.0
Loan Loss Provision	(1,757.1)	(619.9)	(421.7)	(476.1)	(540.4)
Net Income	(282.5)	668.5	752.2	789.6	877.2
<b>Key Analysis (%)</b>					
Net Interest Margin	1.99	2.22	2.21	2.22	2.30
Gross NPLs	6.6	3.8	3.7	4.5	5.3
Gross Loans Growth	7.7	8.2	7.0	5.0	6.0
Loans Loss Coverage	56.6	67.3	67.5	60.6	55.4
Cost/Income Ratio	44.8	46.1	53.1	54.3	53.8
ROE	(5.8)	11.2	10.2	9.9	10.1

**Balance Sheet**

<b>Year to 31 Mar (RMb)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2010F</b>
Net Loans	47.6	52.5	56.2	59.0	62.4
Customer Deposit	(42.4)	(47.8)	(51.6)	(55.7)	(60.2)
Shareholder's Fund	4.8	7.2	7.5	8.4	9.1
Total Assets	79.0	83.2	87.0	92.5	98.5

## China Milk Products

3QFY09: Demand to fall on weak sentiment in dairy industry

China Milk (CMilk) reported 3QFY09 net profit of Rmb119.1m, +1.9% yoy. We expect lower sales volume of semen and embryo products, and a slump in raw milk price in 2009. Maintain BUY but cut target price to S\$0.53.

### 3QFY09 Results

Year to 31 Dec	3QFY09 (Rmbm)	yoy % chg	Remarks
Turnover	177.2	25.9	Organic growth in line with herd size, and higher raw milk price
EBITDA	157.3	27.6	Lower raw material costs and operating expenses
Profit Before Tax	119.1	1.9	Fair value loss of Rmb8.1m in derivative financial instruments, vs Rmb24.6m gain in 3QFY08
Net Profit	119.1	1.9	
EPS (Rmb¢)	16.1	1.9	
<b>SEGMENT BREAKDOWN</b>			
Raw Milk	42.1	50.6	ASP up 19.8%, volume up 25.7%
Bull Semen	114.8	19.3	Higher volume
Cow Embryos	20.3	22.7	Higher volume

Source: CMilk, UOB Kay Hian

### Results

CMilk reported 3QFY09 net profit of Rmb119.1m, up 1.9% yoy.

Revenue increased 25.9% yoy to Rmb177.2m mainly due to the organic growth which was in line with the growth in the company's herd size, as well as a 20% increase in the selling price of raw milk.

### Sales volume and ASP by product

	Sales Volume			ASP		
	3QFY09	3QFY08	% chg	3QFY09	3QFY08	% chg
Raw milk (tonnes)	13,187	10,487	25.7	3,192	2,666	19.8
Bull Semen (straws)	1,640,000	1,375,000	19.3	70.0	70.0	0.0
Cow Embryos (straws)	8,100	6,600	22.7	2,500	2,500	0.0

Source: CMilk, UOB Kay Hian

### Stock Impact

According to industry sources, raw milk price in some northern China regions has plunged by as much as 70% yoy recently. For example, in Feb 09, raw milk price in Hulunbeier, a city in Inner Mongolia, has retreated to around Rmb1,000/tonne vs over Rmb3,000/tonne in 4Q08. We believe the slump in raw milk price is due to the downturn in the domestic dairy market, as well as the sluggish sales of downstream dairy processors.

## SINGAPORE

### China Milk Products (CMILK SP)

#### BUY

Current Price: S\$0.415  
Target Price: S\$0.53  
(Previous: S\$0.72)

Sector	Food
52-Wk Avg Daily Vol. ('000)	3,195
Market Cap (S\$m)	306.52
(US\$m)	218.94

Major Shareholders (%)	
Liu Shuqing	43.7

Book NTA per Share (Rmb)	2.89
ROE (%)	30.4
Net Cash per Share (Rmb)	1.30

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Mar	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2007	442.9	415.0	378.5	10.5	24.3	3.9	2.9	5.0	2.5
2008	546.8	512.1	480.6	13.3	27.0	3.1	2.2	0.0	0.0
2009F	619.1	500.0	351.5	9.7	-26.9	4.3	2.3	4.8	2.3
2010F	670.8	499.6	350.6	9.7	-0.3	4.3	2.3	4.7	2.3
2011F	858.5	658.9	490.4	13.6	39.9	3.1	1.6	6.6	3.3

Consensus Net Profit – FY08: Rmb507.5m  
-- FY09: Rmb544.0m

Monday, February 16, 2009

CMilk's raw milk sales from 2009 onwards are likely to decline, triggered by lower raw milk selling price. Besides, we expect the sales volume of its bull semen and cow embryo to also shrink because the low raw milk price and high feed costs will force many dairy farmers and farms to reduce their dairy cattle herds, which will in turn drag down the demand for semen and embryo products.

CMilk commenced its milk processing business in Dec 08, and was nominated the sole supplier of dairy products for the Heilongjiang Provincial Government and its affiliates. The company also plans to market its own brand, Yinluo, in other northeastern China provinces. We expect CMilk's milk processing segment to make tangible contribution starting from Apr 09.

### Earnings Revision

We have cut our net profit forecasts for FY09-11 by 28.5%, 38.9%, and 24.5% respectively to factor in the lower raw milk selling price and contraction in sales volume of bull semen and cow embryos.

### Valuation/Recommendation

Our DCF-based target price is revised down to S\$0.53, implying 5.5x FY10F PE. Maintain BUY.

### Profit & Loss

Year to 31 Mar (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	442.9	546.8	619.1	670.8	858.5
EBIT	404.5	495.1	474.5	460.1	612.5
Pre-tax Profit	404.5	495.1	474.5	460.1	612.5
Net Profit	378.5	480.6	351.5	350.6	490.4

### Balance Sheet

Year to 31 Mar (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	1,795.3	1,816.1	1,993.8	2,225.7	2,606.7
Total Assets	2,496.6	2,893.5	3,249.0	3,669.1	4,211.5
Current Liabilities	183.6	121.6	125.5	195.1	247.0
Long-Term Liabilities	960.2	953.3	953.3	953.3	953.3
Shareholder Funds	1,352.9	1,818.6	2,170.2	2,520.8	3,011.2
Total Equity & Liabilities	2,496.6	2,893.5	3,249.0	3,669.1	4,211.5

### Cash Flow

Year to 31 Mar (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	371.4	402.9	282.3	296.9	481.2
Investing	(162.4)	(306.9)	(234.8)	(212.1)	(196.4)
Financing	1,078.7	(3.7)	(35.2)	(35.1)	(49.0)
Net Cash In/(Out) Flow	1,287.6	92.3	12.4	49.7	235.8
Begin Cash & Cash Equiv.	443.7	1,731.4	1,736.7	1,749.1	1,798.8
End'g Cash & Cash Equiv.	1,731.4	1,736.7	1,749.1	1,798.8	2,034.6

## DBS Group Holdings

4Q08: Asset quality healthy with only muted increase in NPLs

We see improvements in fundamentals in generating cost savings from streamlining operations and de-risking the balance sheets. Muted increase in NPL ratio provides assurance that asset quality remains healthy.

### Results

#### Financial Performance

	4Q07	1Q08	2Q08	3Q08	4Q08
Net Interest Income (S\$m)	1,059	1,057	1,058	1,071	1,115
yoy change (%)	13.6	8.5	3.0	2.2	5.3
Non-Interest Income (S\$m)	474	506	559	327	360
yoy change (%)	(6.7)	(10.9)	6.7	(33.1)	(24.1)
Net Profit (S\$m)	491	603	652	379	295
Cost/Income Ratio (%)	42.3	42.0	42.5	41.3	47.8

Source: DBS

#### Loans & Advances

	4Q07	1Q08	2Q08	3Q08	4Q08
Customer Loans (S\$m)	106,344	113,624	117,844	126,893	125,841
yoy change (%)	24.9	22.7	21.6	22.7	18.3
Customer Deposits (S\$m)	145,368	150,558	150,390	158,340	163,359
yoy change (%)	19.1	18.6	13.7	18.2	12.4
Loans/Deposits Ratio (%)	73.2	75.5	78.4	80.1	77.0
Net Interest Margin (%)	2.11	2.09	2.04	1.99	2.04

Source: DBS

4Q08 results are in line with the trading update given during its 1-for-2 rights issue.

**Growing in Singapore.** Loans and advances contracted 0.7% qoq to S\$128.4b. DBS trimmed its exposure to the manufacturing sector (-6.7% qoq). On a geographical basis, loans expanded for Singapore (+2.4% qoq) but contracted for Hong Kong (-4.0% qoq) and Greater China (-4.3% qoq). Loans/deposits ratio thus tapered off slightly from 76.6% in 3Q08 to 74.5% in 4Q08. Being conservative is a virtue at this stage of the economic cycle.

Net interest income grew 5.3% yoy and 4.1% qoq to S\$1115m. Net interest margin improved from 1.99% in 3Q08 to 2.04% in 4Q08 due to wider credit spreads for corporate and SME loans, which more than offset the impact of lower interest rates in the interbank market.

**Market-sensitive activities affected.** Fee & commission dropped 16.8% qoq and 30.6% yoy to S\$263m as expected. There were lower contributions from wealth management (the market was affected by Lehman-linked structured products) and loans-related (softening in loans syndication activities). Trading income of S\$144m was offset by losses of S\$169m from financial instruments.

Allowances were S\$316m for the quarter. Specific allowances of S\$224 were due to SME and private banking loans in Singapore and Hong Kong. There were no further provisions for CDOs as existing provisions are adequate. One-off items include S\$45m charge for organisational restructuring (retrenchment in 4Q08), S\$47m impairment charge for investment in TMB Bank and S\$29m write-off for a technology project.

## SINGAPORE

### DBS Group Holdings (DBS SP)

#### BUY

Current Price: S\$8.39  
Target Price: S\$10.55  
(Previous: S\$10.98)

Sector	Banking
52-Wk Avg Daily Vol. ('000)	8,715
Market Cap (S\$m)	19,141.3
(US\$m)	12,680.6

Major Shareholders (%)	
Temasek Holdings (Pte) Ltd	27.9

Book NAV per Share (S\$)	10.14
ROE (%)	10.1
Net Debt per Share (S\$)	n.a.

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Total Income (S\$m)	PPOP (S\$m)	Net Profit (S\$m)	EPS (S ¢)	EPS Growth (%)	PE (x)	DPS (¢)	Div Yield (%)
2007	6,163	3545	2,278	141	13.9	5.9	80	9.5
2008	6,053	3398	1,929	101	(28.6)	8.3	65	7.7
2009F	6,132	3509	1,549	62	(38.7)	13.6	56	6.7
2010F	6,567	3767	2,083	85	37.0	9.9	56	6.7
2011F	6,956	3999	2,539	104	23.0	8.0	56	6.7

Consensus Net Profit – FY09: S\$1768.4m  
– FY10: S\$2130.1m

DBS's tier-1 CAR has improved from 9.7% in 3Q08 to the current 12.2% after raising S\$4b from a 1-for-2 rights issue. The company declared a dividend of 14 cents/share for 4Q08, representing annualised yield of 6.7%.

#### Asset Quality

	4Q07	1Q08	2Q08	3Q08	4Q08
NPL Ratio (%)	1.1	1.0	1.4	1.3	1.5
Coverage Ratio (%)	135	138	116	123	114
Tier-1 CAR (%)	8.9	9.2	10.0	9.7	12.2
Total CAR (%)	13.4	13.4	13.8	13.4	16.2

Source: DBS

#### Stock Impact

**Asset quality remained healthy.** NPL ratio inched up slightly from 1.3% to 1.5%. The increase in NPL came mainly from Singapore and Hong Kong, and from the manufacturing and general commerce industries. Investors should be reassured as asset quality remained healthy due to strong corporate and household balance sheets despite the on-going recession.

**Restructuring and reorganisation.** DBS has streamlined its operations in Singapore and Hong Kong for greater efficiency. Enterprise Banking (SME business), Corporate & Investment Banking and Global Transaction Services were combined into Institutional Banking Group. Credit, market and operational risks are now monitored by a unified risk management department. The savings from a 6% reduction in headcount is expected from 1Q09 onwards. Most of the cuts were in senior positions with 25% of Managing Directors made redundant.

**De-risking the business.** Risk-weighted assets declined 3.9% to S\$182.7b. DBS has managed down trading positions, including those involving credit default swaps used primarily to hedge structured investment products.

#### Earnings Revision

We assumed NPL ratio will hit 5% by end-10. Our earnings model has imputed allowance for credit losses of 120bp in 2009 and 80bp in 2010.

#### Valuation/Recommendation

DBS is a high-beta play on an eventual economic recovery. Our target price for DBS is S\$10.55 based on P/B of 1.01x derived from Gordon Growth Model (ROE: 12.5%, payout ratio: 45%, required return: 8.2% and constant growth: 2.5%).

#### Profit & Loss

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Net Interest Income	4,108	4,301	4,616	4,919	5,158
Non Interest Income	2,055	1,752	1,516	1,648	1,798
Net Profit	2,278	1,929	1,549	2,083	2,539
EPS (cents)	141	101	62	85	104

#### Balance Sheet

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Loans & Advances	106,344	125,841	128,320	134,591	142,850
Total Assets	233,591	256,718	270,779	282,775	298,166
Deposits & Savings A/C	145,368	163,359	169,992	178,300	189,241
Borrowings	10,153	9,723	9,723	9,723	9,723
Shareholders' Funds	20,481	19,819	24,330	24,848	25,822
Total Equity & Liabilities	233,591	256,718	270,779	282,775	298,166

## Trump Dragon Distillers

1HFY09: Profit below expectation; gross margin under pressure in FY09

Demand for liquor products is set to fall due to the current economic slowdown. Trump Dragon delivered a net profit of Rmb62.6m in 1HFY09, below market expectations.

### Highlights – 1HFY09 Results

(Rmb '000)	1HFY08	1HFY09	Change (%)	Remark
Revenue	355,079	404,083	13.80%	Driven by 2.9% sales volume growth and 5% ASP increase
<b>Gross profit</b>	<b>133,899</b>	<b>135,603</b>	<b>1.27%</b>	Decrease in high-margin product sales
Selling expenses	(46,174)	(41,710)	-9.67%	Decrease in A&P expenses
Admin expenses	(7,671)	(17,423)	127.13%	Foreign exchange loss & professional fees
<b>Profit before tax</b>	<b>79,884</b>	<b>72,939</b>	<b>-8.69%</b>	
Tax	(17)	(10,334)	60688.24%	End of tax honeymoon period
<b>Net profit</b>	<b>79,867</b>	<b>62,605</b>	<b>-21.61%</b>	

Source: Trump Dragon Distillers, UOB Kay Hian

### Results

1HFY09 sales volume increased 6.8% from 10,269 tonnes in 1HFY08 to 10,965 tonnes in 1HFY09 and revenue surged 13.8% yoy.

Net profit dropped 21.6% yoy due to a decreasing gross margin in 1HFY09. Demand for liquor products, especially for premium products, went down due to the deteriorating economy.

### Stock Impact

Trump Dragon's earnings are below market expectations as its product mix was changed and average selling prices (ASP) fell in 1HFY09. Due to the deteriorating economy in 2008, demand for premium liquor dropped significantly in Henan. The company had to launch new premium products with low prices instead. Although the total sales volume of premium products climbed 31%, ASP declined 20% in 1HFY09, resulting in a fall in gross margin from 59.4% in 2QFY08 to 51.3% in 2QFY09.

For FY10, we maintain our positive view on Trump Dragon due to its intact fundamentals. In 2009, companies with a keen focus on consumers' needs and the ability to meet these demands will emerge as winners. In 1QFY09, the company launched three new regular product series to replace the lower-priced regular product series to meet market demand. Although the continuous drought in China will have a negative impact on the company's raw materials, management said it is too early to evaluate how gross margin will be affected. In our view, Trump Dragon's capacity will be unchanged as the government has ample wheat inventory to meet the market's demand. However, gross margin is expected to drop further by 5% in FY10 due to raw material price hikes.

## SINGAPORE

### Trump Dragon Distillers (TDDH SP)

#### BUY

**Current Price: S\$0.265**  
**Target Price: S\$0.32**  
**(Previous: S\$0.36)**

Sector	Food & Beverage
52-Wk Avg Daily Vol. ('000)	1,277
Market Cap (S\$m)	166
(US\$m)	110

Major Shareholders (%)	
FENG GAO	56.00
CIM XIII LTD	7.92

Book NTA per Share (Rmb)	0.46
ROE (%)	49.0
Net Cash per Share (Rmb)	0.30

Results Due	
1Q: November	2Q: February
3Q: May	Final: August

### Price Chart



Source: Bloomberg

### Analyst

Singapore Research Team  
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Year to 30 Jun	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2007	539.4	86.0	85.9	13.7	98.9	8.8	6.8	0.0	0.0
2008	717.3	150.6	140.8	22.5	64.0	5.4	3.9	0.0	0.0
2009F	785.5	144.6	134.5	21.5	(4.5)	5.6	4.0	2.2	0.4
2010F	889.2	164.6	151.5	24.2	12.6	5.0	3.5	2.4	0.4
2011F	1124.9	228.6	200.0	32.0	32.0	3.8	2.5	3.2	0.5

Consensus Net Profit – n/a

**Earnings Revision**

We lower our earnings forecast by 11% in FY09 from Rmb149m to Rmb135m and 36% in FY10 from Rmb206m to Rmb152m, reflecting significant dips in margin and a fall in demand for premium products.

**Earnings Risks**

**Macroeconomic risk.** If the domestic economy does not turn around in 2010, Trump Dragon could miss our earnings forecasts as demand for premium products is set to continue dropping. The deteriorating economy will also hit consumer confidence in future.

**Valuation/Recommendation**

Trump Dragon is trading at 5.6x FY09 PE, which is much lower than its domestic peers'. Volume will be the key growth engine for the food and beverage sector in FY09. We maintain our positive view on Trump Dragon due to its defensive, strong sales volume growth and cheap valuation. Long-term investors should accumulate the stock upon share price weakness in the next few months. **Reiterate BUY.**

**Peer Comparison**

Security	TICKER	Name	FY07 PE	FY08 PE	FY09 PE	P/B	
000568	CH Equity	000568	Luzhou Laojiao	42.38	23.25	18.76	12.12
000799	CH Equity	000799	Jiuguijiu	38.28	n/a	n/a	4.14
000858	CH Equity	000858	Wuliangye	46.95	36.12	27.53	7.21
200596	CH Equity	200596	Gujinggongjiu	24.70	n/a	n/a	0.99
200869	CH Equity	200869	Changyu	22.87	16.38	13.44	6.55
600059	CH Equity	600059	Guyulongshan	39.66	30.68	25.16	2.94
600197	CH Equity	600197	Yilite	29.49	n/a	n/a	3.51
600365	CH Equity	600365	Tongpu	n/a	113.80	47.42	4.16
600519	CH Equity	600519	Guizhou Maotai	40.81	25.69	20.59	14.03
600559	CH Equity	600559	Yufeng	89.59	35.90	20.24	4.48
600702	CH Equity	600702	Tuopai	72.68	n/a	n/a	1.74
600779	CH Equity	600779	Shuijingfang	37.85	22.69	17.58	5.82
600809	CH Equity	600809	Shanxi Fenjiu	17.72	23.73	17.27	4.93
THBEV	SP Equity	THBEV	Thai Beverage	11.08	11.22	10.59	2.08
TDDH	SP Equity	TDDH	Trump Dragon	4.26	5.40	5.60	2.09
<b>Average</b>			<b>37.02</b>	<b>31.35</b>	<b>20.38</b>	<b>5.12</b>	

Source: Bloomberg, UOB Kay Hian

**Profit & Loss**

Year to 30 Jun (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	539.4	717.3	940.4	1202.3	1502.8
EBIT	85.0	150.9	160.2	224.6	291.2
Pre-tax Profit	86.0	150.6	160.0	224.6	291.4
Net Profit	85.9	140.8	148.8	206.6	254.9
EPS (Rmb)	0.14	0.23	0.24	0.33	0.41

**Balance Sheet**

Year to 30 Jun (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	141.8	347.0	735.9	941.9	1179.3
Total Assets	188.9	396.9	811.1	1038.4	1303.6
Current Liabilities	70.0	109.7	157.5	195.4	226.1
Long-Term Liabilities	0.0	0.0	0.0	0.0	0.0
Shareholder Funds	118.9	287.2	653.7	843.0	1077.5
Total Equity & Liabilities	188.9	396.9	811.1	1038.4	1303.6

**Cash Flow**

Year to 30 Jun (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	61.4	155.3	122.5	190.9	229.5
Investing	(52.2)	(5.5)	(18.8)	(30.3)	(40.3)
Financing	19.3	38.7	205.3	(18.3)	(22.8)
Net Cash In/(Out) Flow	28.4	189.3	310.9	144.5	168.7
Begin Cash & Cash Equiv.	10.6	39.0	228.3	539.2	683.7
End'g Cash & Cash Equiv.	39.0	228.3	539.2	683.7	852.3

**Margin and Total Sales**

Margin (%)	1HFY08	1HFY09	% chg
GP margin	37.71%	33.56%	-4.15%
OP margin	22.69%	18.33%	-4.36%
OP margin, excl other income	22.55%	18.09%	-4.46%
NP margin	22.49%	15.49%	-7.00%
NP margin, excl other income	22.49%	15.46%	-7.03%
Selling expense / Turnover	13.00%	10.32%	-2.68%
Admin expense / Turnover	2.16%	4.31%	2.15%

Total Sales Volume (tonnes)	1HFY08	1HFY09	% chg
Premium	817	1,073	31.33%
Regular	9,276	9,892	6.64%

Total Sales Volume (tonnes)	2QFY08	2QFY09	% chg
Premium	500	635	27.00%
Regular	5,502	5,543	0.75%
Overall ASP / kg (Rmb)	36	38	5.04%
Premium	194	155	-20.14%
Regular	21	24	12.62%

Source: Trump Dragon Distillers, UOB Kay Hian

## Beauty China

4Q08 net profit hurt by slower sales and impairment loss

Beauty China (BCH) released a profit warning for its upcoming 4Q08 results. We trim our earnings forecasts and lower target price to S\$0.53, which still offers a 31% price upside. Maintain BUY.

### Corporate events

BCH warned that its upcoming 4Q08 results might be worse than that of 4Q07 due to a slowdown in its branded business and additional provisions for the impairment of trade receivables.

### Stock Impact

Retail sales for cosmetics products grew 18.5% yoy in 4Q08, down from 28.9% yoy in 3Q08. In line with the slowdown in the consumer market, BCH's branded business also came under pressure. Same-store sales (SSS) growth for both of BCH's brands slid in 4Q08. Therefore, turnover for the branded business in 4Q08 might jstay flat as that in 4Q07.

### SSS Growth For BCH's Brands

	1Q08	2Q08	3Q08	4Q08F
Colour Zone	9%	13%	7%	Low to middle-single-digit
CharmingLady	11%	24%	15%	Over 10%

Source: Beauty China, UOB Kay Hian

Network expansion was on track in FY08, adding some 290 and 160 new points-of-sale (POS) for Colour Zone and CharmingLady, bringing the total POS to 1,800 and 440 respectively. However, considering the weak end-demand, BCH might slow down its store roll-out plan in FY09, especially in 1H09. This will drag down the company's turnover growth momentum.

Trade receivable turnover days extended from 89 days in 3Q08 to over 100 days in 4Q08 as more distributors required a longer credit period. BCH started to encounter some collection problems in 4Q08.

### Earnings Revision

In our last update, we mentioned the company had some receivable problems and we believed it might make some impairment provision. It seems the situation is much worse. Therefore, we lower our net profit forecasts for FY08-10 by 3-8% respectively to reflect the credit risk.

### Valuation/Recommendation

In line with our revised earnings forecasts, we lower our target price from S\$0.70 to S\$0.53. The stock is now trading at 3.7x FY09F PE, which is not demanding. Moreover, the overall outlook for BCH is not all gloomy as the recent rapid oil price decline may lift the company's gross margin by 1-2ppt in FY09. The recent cooperation with JO Cosmetics will enhance the company's R&D capability and its customer base as well. **Maintain BUY.**

## SINGAPORE

### Beauty China (BCH SP)

#### BUY

Current Price: S\$0.40

Target Price: S\$0.53

(Previous: S\$0.70)

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	726
Market Cap (S\$m)	142.6
(US\$m)	94.4

Major Shareholders (%)	
Hon Wai Wong	38.57

Book NTA per Share (HK\$)	2.07
ROE (%)	28.9
Net Cash per Share (HK\$)	0.73

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

Singapore Research Team  
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Year to	Turnover	EBITDA	Net Profit	EPS	EPS Growth	PE	EV/ EBITDA	DPS	Yield
31 Dec	(HK\$m)	(HK\$m)	(HK\$m)	(HK¢)	(%)	(x)	(x)	(HK¢)	(%)
2006	466.6	151.3	134.7	39.4	22.9	5.1	2.7	3.0	4.4
2007	632.6	194.3	161.9	47.3	20.1	4.2	2.5	3.0	1.5
2008F	772.4	218.1	177.3	49.8	5.2	4.0	1.9	5.0	2.5
2009F	820.9	234.7	191.8	53.8	8.2	3.7	1.3	5.4	2.7
2010F	940.4	268.7	220.2	61.8	14.8	3.2	1.1	6.2	3.1

Consensus Net Profit – FY09: HK\$227.0m  
– FY10: HK\$262.7m

Monday, February 16, 2009

**Profit & Loss**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Turnover	466.6	632.6	772.4	820.9	940.4
EBIT	135.2	165.4	182.5	197.0	225.4
Pre-tax Profit	134.7	161.9	177.3	191.8	220.2
Net Profit	134.7	161.9	177.3	191.8	220.2

**Balance Sheet**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Current Assets	478.6	496.4	669.2	806.6	984.7
Total Assets	525.1	902.9	1137.1	1313.8	1525.6
Current Liabilities	94.3	212.0	178.6	182.7	196.3
Long-Term Liabilities	0.0	0.0	108.0	108.0	108.0
Shareholder Funds	430.9	690.9	850.5	1023.1	1221.3
Total Equity & Liabilities	525.1	902.9	1137.1	1313.8	1525.6

**Cash Flow**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Operating	91.8	106.4	163.2	211.5	220.7
Investing	(28.3)	(263.0)	(97.0)	(77.0)	(77.0)
Financing	(27.8)	69.6	40.3	(19.2)	(22.0)
Net Cash In/(Out) Flow	35.7	(87.0)	106.4	115.3	121.7
Begin Cash & Cash Equiv.	241.6	278.0	191.2	297.7	413.0
End'g Cash & Cash Equiv.	278.0	191.2	297.7	413.0	534.7

## Thai Oil Plc

FY08: Huge inventory loss hit 4Q08 earnings

Huge inventory loss led to a net loss of Bt9.3b in 4Q08. Our fair price and earnings are under review for further downgrade.

### 2008 Results

(Btm)	2008	2007	yoy % chg	Remarks
Turnover	399,125	261,051	53%	Higher average oil price
Cost of Sales	393,772	235,450	67%	
Gross Profit	5,353	25,601	(79%)	Huge impact from inventory loss of Bt11.2b despite higher GRM at US\$6.4/bbl vs US\$5.8/bbl in 2007
SG&A	1,012	925	9%	
Operating profit	1,890	26,535	(93%)	
Interest expense	2,116	1,726	23%	
Tax	786	5,290	(85%)	
Net loss on crack spread swap	3,825	908	321%	
Net foreign exchange rate loss	899	-1,546	(158%)	
Net Profit	224	19,118	(99%)	Huge inventory loss despite the net profit from subsidiaries at Bt4.3b
EPS (Bt)	0.11	9.37	(99%)	
Gross Margin (%)	1.3%	9.8%	(8%)	
Net Margin (%)	0.1%	7.3%	(7%)	

Source: TOP, UOB Kay Hian

### Results

Thai Oil Plc (TOP) reported 2008 net profit of Bt0.2b, down 99% yoy. 4Q08 net loss of Bt9.3b wiped out 9M09 net profit of Bt8.6b.

- Huge inventory loss of Bt11.2b. Oil price dropped from US\$96/bbl to US\$36/bbl in 2008, causing a huge stock loss.
- Lower contribution from the petrochemical and lube base oil businesses.
- Forex loss of Bt0.9b.
- Higher GRM at US\$6.4/bbl vs US\$5.8/bbl in 2007.
- Higher production volume of 276kbd vs 216kbd in 2007 due to capacity expansion in 4Q07.

We are forecasting Dubai oil price at US\$50/bbl vs US\$36/bbl as at end-08, hence we do not expect an inventory loss in 2009. However, business outlook for 2009 does not look promising as surplus supply from India (Reliance) and China will hit overall 2009 GRM. TOP will pay a final dividend of Bt1.00/share (3.8% yield), bringing full-year dividend to Bt2.75/share (10.5% yield).

### Earnings Revision

**Fair price and earnings under review for possible downgrade.** Our fair price is Bt27/share (0.8x 2009F P/B despite the attractive dividend yield, the stock is trading near its fair value). TOP is trading well below the replacement value (Bt71/share) and at a 37% discount to regional refiners'. However earnings are vulnerable with negative bias. We are revising our fair price and earnings for a possible downgrade as GRM outlook is expected to deteriorate. The key catalysts are petroleum demand recovery and a delay in upcoming refinery projects.

## THAILAND

### Thai Oil Plc (TOP TB)

#### HOLD

Current Price: Bt26.25

Fair Price: Bt27.0

Sector	Energy
52-Wk Avg Daily Vol. ('000)	10,441
Market Cap (Btm)	51,001
(US\$m)	1,457

Major Shareholders (%)	
PTT Plc	49.1%

Book NTA per Share (Bt)	28.9
ROE (%)	0.4
Net Debt per Share (Bt)	19.3

#### 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	261,051	29,956	19,118	9.4	15.2	2.8	2.7	3.5	13.3
2008	399,125	8,939	224	0.1	(98.8)	239.1	10.4	4.5	10.5
2009F	236,634	25,178	9,009	4.4	3921.8	5.9	2.7	1.3	5.0
2010F	159,322	26,020	11,053	5.4	22.7	4.8	2.1	1.6	6.2
2011F	179,138	25,981	11,103	5.4	0.5	4.8	1.6	1.6	6.2

Consensus Net Profit – FY09: B8,549m  
 – FY10: Bt9,889m

**Domestic oil demand expected to be flat, thank to lower oil price**

We expect the gasoline and diesel oil demand to be flat in 2009. The higher demand from lower price will be offset by a lower economic growth. However, the significant weakening in demand will occur in jet fuel as the number of flights is cut and tourist arrivals decline. However, the additional supply from PTTAR and BCP's capacity expansion in 1Q09 and will negatively impact Thai Refinery with an increase in exports. TOP's management expects the exports portion will increase from 15-20% to 20-25% in 2009. The export price will be lower than the local price as the freight cost is about US\$1.5/bbl.

**High dividend yield is a plus**

TOP will pay a final dividend of Bt1.00/share (3.8% yield), bringing the full-year dividend to Bt2.75/share (10.5% yield). TOP's payout ratio is set at at least 25%. Currently, TOP has a strong cash flow and no major investment projects. Hence, the company can maintain the same payout ratio for the time being. We expect TOP will pay a dividend of Bt1.3/share in 2009 (5.0% yield).

**Profit & Loss**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	261,051	399,125	236,634	159,322	179,138
EBIT	24,990	2,791	18,939	19,635	19,449
Pre-tax Profit	23,263	672	16,981	18,658	18,743
Net Profit	19,118	224	9,009	11,053	11,103

**Balance Sheet**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	62,599	54,599	83,716	97,566	111,520
Total Assets	136,570	132,841	159,390	170,524	181,616
Current Liabilities	32,237	30,273	36,333	36,421	36,416
Long-Term Liabilities	32,496	38,988	49,108	49,108	49,108
Shareholder Funds	71,837	63,580	73,949	84,995	96,093
Total Equity & Liabilities	136,570	132,841	159,390	170,524	181,616

**Cash Flow**

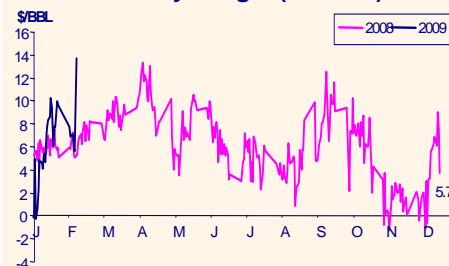
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	22,702	8,441	45,304	20,604	20,971
Investing	(17,177)	(9,641)	(3,672)	(3,672)	(3,672)
Financing	(8,294)	5,003	7,417	(3,316)	(3,331)
Net Cash In/(Out) Flow	(2,769)	3,803	49,049	13,616	13,968
Begin Cash & Cash Equiv.	6,982	4,213	8,016	57,065	70,681
End'g Cash & Cash Equiv.	4,213	8,016	57,065	70,681	84,649

**Gross Refinery Margin Assumptions**

Key Assumptions	2009F	2010F
Refining Capacity (bpd)	275,000	275,000
Singapore Refining Margin (US\$/bbl)	4.0	4.0
TOP Refining Margin (US\$/bbl)	4.2	4.2

Source: UOB Kay Hian

**Gross Refinery Margin (US\$/bbl)**



Source: Reuters

**Asia-Pacific Refinery Comparables**

Company	PE (x) 2009F	P/B (x) 2009F	Yield (%) 2009F
Thai Oil ***	6.19	0.76	7.39
SK Holdings	8.39	N.A.	1.81
S-Oil	9.48	1.89	8.08
GS Holdings Singapore Petroleum ***	7.70	N.A.	3.41
Caltex Australia	11.73	0.97	4.58
Reliance Industries	14.01	1.95	0.97
PTT ***	6.74	1.09	5.72
PTTAR ***	N.A.	0.49	2.70
Pakistan State Oil	N.A.	0.73	31.68
Shell Refining	12.46	1.37	6.31
AVERAGE	9.85	1.15	7.20
TOP vs REGIONAL	(37.2%)	(34.4%)	2.7%

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

## Bumrungrad Hospital

Limited upside as BH is exposed to the global recession

Although BH's share price had a good run recently, it is expected to be capped due to a weak performance in 2009. At current prices, we prefer BGH to BH.

### Events

BH's management expects flat sales growth in 2009, the result of a 2% annual price increase and the return of patients volume in 2H09 as the economy improves. We, however, believe the weakening global economy may last into 2010, impacting BH which derives 54% of its revenue from foreign patients. Expatriates and domestic patients are expected to decline as international firms trim their operations in Thailand while locals are forced to save more. We therefore maintain our 2009 conservative forecasts that its sales and net profit will decline 4% and 6% respectively.

### Stock Impact

Although the company has seen a drop in fly-in customers since 4Q08, volume from expatriates has remained firm. This, however, is not sustainable as many foreign companies have closed down in Thailand.

Domestic patients, which have so far supported BH's revenue, are expected to decline in 2H09 as the economic slump gathers momentum. They may not be able to afford the first-class medical bill at BH. Domestic patients may look for second-class private hospitals or state hospitals to reduce medical costs.

Despite the less intensity cases from fly-in customers, EBITDA margin in 2009 is expected to be flat at 24%, the same as in last year. The annual price increase of 2% and tight control over staff and utilities costs will help maintain BH's margins this year.

We expect BH's 4Q08 sales to be lower qoq due to lesser fly-in patients during the airport closure amid intensified political conflicts. Foreign OPD and IPD volumes of foreign patients are expected to decline 6% and 4-5% respectively. However, 4Q08 EBITDA margin is expected to be the same as in 3Q08 at 23% due to its focus on intensity and cost control. Net profit is expected to be lower qoq.

### Risks

Our forecasts are lower than consensus as we take a more conservative approach and assume BH could achieve only one-third of our previous estimate in foreign patient volume.

### Recommendation

Although share price has moved up slightly to above our fair price of Bt21.05, further upside is limited due to the weakening performance in 2009. Maintain HOLD with entry price at below Bt17. At current price levels, we prefer BGH which still offers a 40% upside and provide more domestic exposure.

## THAILAND

### Bumrungrad Hospital (BH TB)

#### HOLD

Current Price: Bt22.50

Fair Price: Bt21.05

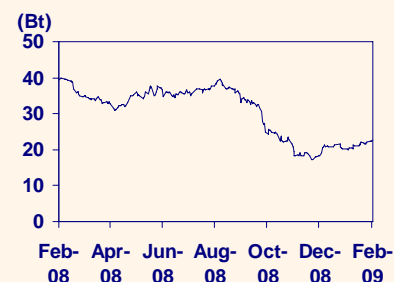
Sector	Healthcare
52-Wk Avg Daily Vol. ('000)	644.8
Market Cap (Btb)	16.4
(US\$m)	466.4

Major Shareholders (%)	
Bangkok Insurance	13.2
Sinsabatawee	8.7

Book NTA per Share (Bt)	6.0
ROE (%)	40.2
Net Debt per Share (Bt)	1.7

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 (%)
2006	7,769	1,845	1,096	1.5	4.4	14.9	9.3	0.8	3.3
2007	8,455	1,980	1,605	2.2	45.7	10.2	8.9	0.8	3.6
2008F	8,389	1,983	1,085	1.5	(32.3)	15.1	9.0	0.7	3.3
2009F	8,075	1,906	1,017	1.4	(6.3)	16.1	9.3	0.7	3.1
2010F	8,720	2,093	1,200	1.6	17.9	13.7	8.5	0.8	3.7

Consensus Net Profit – FY08: Bt1,161m  
 – FY09: Bt1,108m

\* On a fully-diluted basis, EPS of 2008, 2009 and 2010 is Bt1.3, Bt1.2 and Bt1.4 respectively.

**Profit & Loss**

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Turnover	7,769	8,455	8,389	8,075	8,720
EBIT	1,606	1,644	1,550	1,439	1,580
Pre-tax Profit	1,501	2,023	1,450	1,342	1,492
Net Profit	1,096	1,605	1,085	1,017	1,200

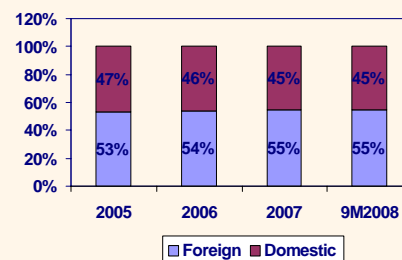
**Balance Sheet**

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Current Assets	1,629	1,417	1,279	873	1,027
Total Assets	6,623	7,466	8,246	8,209	8,983
Current Liabilities	1,572	1,782	1,833	1,830	2,227
Long-Term Liabilities	335	443	470	475	781
Shareholder Funds	3,629	4,349	4,823	5,252	5,899
Total Equity & Liabilities	6,623	7,466	8,246	8,209	8,983

**Cash Flow**

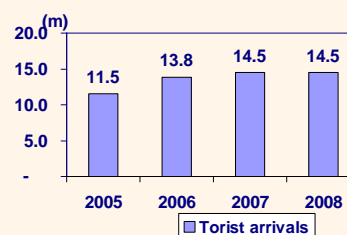
Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Operating	1,531	1,656	1,746	1,191	1,532
Investing	(634)	(1,371)	(1,527)	(576)	(958)
Financing	(577)	(599)	(278)	(1,001)	(473)
Net Cash In/(Out) Flow	320	(314)	(60)	(386)	102
Begin Cash & Cash Equiv.	544	864	550	490	104
End'g Cash & Cash Equiv.	864	550	490	104	206

**Proportion Of Foreign vs Domestic Revenues**



Source: BH

**Tourist Arrivals**



Source: Bank of Thailand

**Valuation**

Method	Results	Remarks
DCF	Bt21.05	Likely valuation
Stress P/B	Bt3.39	Unlikely as it is not going into bankruptcy
Z-score test	5.25	Score is in safe position

Source: UOB Kay Hian

**Regional Comparison**

Company	---PE (x)---		P/B (x)	ROE (%)	Yield (%)
	09F	10F			
<b>Thailand</b>					
BGH	12.5	12.4	1.7	13.9	3.7
BH	16.1	13.7	3.1	20.2	3.1
KH	11.7	10.7	2.5	23.3	5.0
<b>Singapore</b>					
Parkway	15.2	14.1	1.0	9.3	3.7
Raffles	12.1	11.3	1.6	13.7	3.7
Thomson	10.2	10.5	1.2	11.5	4.9
<b>Malaysia</b>					
KPJ	7.0	6.1	1.0	13.8	7.1
TMC	45.6	20.5	2.6	4.9	0.5
Faber	1.2	3.6	0.9	16.1	4.4

Source: UOB Kay Hian

## PTT Aromatics and Refining

Commercial run during a downturn is very bad timing

PTTAR currently has enough cash flow to service its debt if GRM remains above US\$2/bbl. Worst case, we expect PTT to step in and support it financially.

### Corporate Events

There are fears in the market of PTTAR's financial status following the latest downgrade in its national long-term rating by Fitch from "A(tha)" to "A-(tha)" due to the deterioration in the company's credit profile. The rating downgrade reflects a material weakening in PTTAR's financial leverage and a worse-than-expected earnings growth.

### Stock Impact

The market is concerned about PTTAR's ability to pay interest expenses and its debt obligations. We analyse PTTAR's cash flow projection and conclude that PTTAR will be able to meet its debt obligations. Our cash flow assumptions are based on the following:

- GRM at US\$4/bbl vs US\$6.1/bbl in 2008,
- Paraxylene-condensate spread US\$300/ton vs US\$390/ton in 2008, and
- Benzene-condensate spread at US\$40/ton vs US\$200/ton in 2008.

This will enable PTTAR to have a positive EBITDA of Bt10b in 2009 vs total debt obligations of Bt4b-5b. In our opinion, GRM has to be below US\$2/bbl, with paraxylene-condensate spread declining to below US\$160/ton to put PTTAR in the position of not being able to pay its debts. Benzene-condensate spread is currently at a negative US\$20/ton.

Second, PTT (major shareholder) has a track record of assisting its associates (Thai Oil, Thai Olefin and ATC) during their financial difficulties in 2001-02 by pumping in cash via rights issues or providing longer-term supply credit. If PTTAR is financially stressed and in the worst-case scenario, we believe PTT will eventually have to bail out the company. However, at the current price levels of its products, the company will be able to meet the debt obligations through internally generated funds.

Fundamentally, we remain bearish on the petrochemical sector. The downturn cycle in petrochemical has just begun. The negative spread margin in benzene products (30% of total products) will hit PTTAR hard. PTTAR's new petrochemical plant (AR3) is completed and has started the commercial run. This will increase aromatic production from 1.19m tons/year to 2.26m tons/year. The investment cost for the aromatics plant is about US\$938m. We expect the new petrochemical plant will record a net loss of about Bt2.0b in 2009 due to poor spread margin in benzene products and high depreciation cost of Bt1.3b. Moreover, the new plant has higher raw material costs (has to be imported as local supply is not sufficient). Raw material costs account for about 70% of the total cost. Imported condensate costs more than local condensate cost.

### THAILAND

#### PTT Aromatics and Refining (PTTAR TB)

#### SELL

Current Price: Bt10.20

Fair Price: Bt8.10

(Previous: Bt10.60)

Sector	Energy
52-Wk Avg Daily Vol. ('000)	18,961
Market Cap (Btm)	29,488
(US\$m)	843
Major Shareholders (%)	
PTT	48.7
Book NTA per Share (Bt)	22.6
ROE (%)	26.3
Net Debt per Share (Bt)	10.4

#### Results Due

1Q: May

3Q: Nov

2Q: Aug

Final: Feb

#### Price Chart



Source: Bloomberg

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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 (%)
2006	248,585	16,624	13,248	4.68	N.A.	2.2	3.5	n.a.	n.a.
2007	253,709	26,800	18,018	6.08	29.9	1.7	2.2	2.5	24.5
2008F	339,955	(3,910)	(8,816)	(2.97)	(148.9)	n.a.	n.a.	0.0	0.0
2009F	208,363	11,090	2,937	0.99	66.7	10.3	5.3	0.3	2.9
2010F	206,420	13,391	4,740	1.60	61.4	6.4	4.4	0.5	4.7

Consensus Net Profit – FY08: Bt-3,979m  
- FY09: Bt5,812m

For the refinery business, 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. IEA forecasts additional refinery supply of 1.8m bbl/day for 2009, while consumption is expected to drop 0.5m bbl/day. The improvement in 2009's refinery earnings from lower inventory loss in 2008 is not enough to compensate the massive downside risks in the petrochemical sector.

**Earnings Revision**

We cut our 2009 net profit forecast by 58% to Bt2.9b. Our new forecast assumes utilisation rate declining from 80% to 70%. Benzene spread assumption is cut from US\$200/tonne to US\$40/tonne for 2009. Additional supply amid weakening demand will hit petrochemical spread significantly starting late-08 into FY10.

**Valuation/Recommendation**

**Maintain SELL.** We cut our fair price from Bt10.60 to Bt8.10/share, based on 0.4x FY09F P/B, the lowest P/B recorded by ATC (before merger with RRC) in FY01-02. PTTAR still has a high leverage of 1.6x vs peers' 0.5x. The stock is not cheap given the rising business and financial risks.

**Profit & Loss**

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Turnover	248,585	253,709	339,955	208,363	206,420
EBIT	13,401	23,214	(7,908)	6,667	8,785
Pre-tax Profit	11,586	22,035	(11,001)	3,468	5,590
Net Profit	13,248	18,018	(8,816)	2,937	4,740

**Balance Sheet**

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Current Assets	44,308	48,449	64,003	51,573	56,772
Total Assets	114,097	131,218	159,514	147,029	152,160
Current Liabilities	22,827	31,538	43,335	27,382	26,924
Long-Term Liabilities	35,616	31,171	56,486	57,017	57,867
Shareholder Funds	55,654	68,509	59,693	62,630	67,370
Total Equity & Liabilities	114,097	131,218	159,514	147,029	152,160

**Cash Flow**

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Operating	16,540	19,051	(12,668)	16,657	10,417
Investing	(11,443)	(14,032)	(16,830)	(4,455)	(4,620)
Financing	5,105	(12,457)	27,500	0	(0)
Net Cash In/(Out) Flow	10,202	(7,438)	(1,998)	12,202	5,797
Begin Cash & Cash Equiv.	N.A.	10,202	2,764	766	12,968
End'g Cash & Cash Equiv.	10,202	2,764	766	12,968	18,765

**GRM and Aromatics Assumptions**

Key Assumptions	2009F	2010F
Refining Capacity (bpd)	145,000	145,000
Aromatic Capacity (bpd)	135,000	135,000
PTTAR Refining Margin (US\$/bbl)	4.0	4.0
Paraxylene – condensate (US\$/tonne)	300	320
Benzene – condensate (US\$/tonne)	40	100

Source: UOB Kay Hian

**Earnings Revision**

(Btm)	2009F	2009F
Net Profit	6,964	2,937
EPS (Bt)	2.35	0.99
Sales	323,017	208,363
EBITDA	15,796	11,090
	(29.8%)	

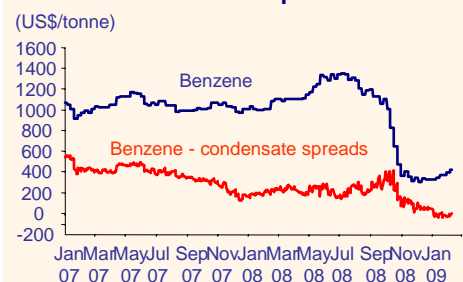
Source: UOB Kay Hian

**Gross Refinery Margin**



Source: Reuters

**Benzene-Condensate Spreads**



Source: Datastream

**Stress Test- ATC Trades At Only 0.1 P/B**



Source: Bloomberg

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