

KEY STORY

China

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Quality commercial property play with strong net cash position.

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Quality commercial property play with strong net cash position.

HONG KONG

Update

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INDONESIA

Strategy

Voting and investing for the election Page 15
Election fever is on, and the campaign season is the best time to buy. We highlight several trading ideas for the election period.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7850.4	0.0	(5.1)	(5.2)	(10.6)
FTSE 100	4134.8	(1.3)	(4.0)	(0.3)	(6.8)
AS30	3461.3	(1.0)	0.5	(1.0)	(5.4)
CSI 300	2462.2	2.6	7.2	23.7	35.5
FSSSTI	1680.7	(1.5)	(0.1)	(2.9)	(4.6)
HSI	13455.9	(0.7)	(2.3)	1.5	(6.5)
JCI	1342.0	0.2	(0.0)	(1.6)	(1.0)
KLCI	907.2	(0.3)	1.2	1.2	3.5
KOSPI	1175.5	(1.4)	(2.3)	3.5	4.5
Nikkei 225	7750.2	(0.4)	(4.0)	(5.8)	(12.5)
SET	446.6	0.2	0.5	2.6	(0.7)
TWSE	4591.3	(0.0)	2.2	5.2	0.0
BDI	1846	(3.2)	1.7	109.5	138.5
CPO (RM/mt)	1974.0	2.0	6.2	8.3	21.1
Nymex Crude (US\$/bbl)	37.2	(0.7)	(5.9)	2.0	(16.5)

Source: Bloomberg

Top BUYs/SELLs

	Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs				
China Life	2628 HK	23.45	36.00	53.5
China Mobile	941 HK	73.85	95.00	28.6
China Petroleum	386 HK	4.41	6.93	57.1
China Railway	390 HK	4.97	5.90	18.7
China Shenhua	1088 HK	17.40	23.00	32.2
Maanshan Iron	323 HK	2.99	3.70	23.7
Bumi Resources	BUMI IJ	730	1,010	38.4
Public Bank	PBK MK	9.10	10.90	19.8
DBS Group	DBS SP	8.20	10.98	33.9
Indofood Agri	IFAR SP	0.60	0.80	33.3
SingTel	ST SP	2.49	2.95	18.5
Advanced Info	ADVANC TB	77.50	101.00	30.3
Quality Houses	QH TB	0.88	1.49	69.3
Top SELLs				
Aluminum Corp	2600 HK	4.36	3.00	(31.2)
Parkson Retail	3368 HK	6.75	4.89	(27.6)
Wharf Hldg	4 HK	17.38	14.60	(16.0)
S'pore Airlines	SIA SP	10.44	9.70	(7.1)
S'pore Exchange	SGX SP	5.09	3.00	(41.1)
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\$/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
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

Tuesday, February 17, 2009

SINGAPORE**Sector****Property - Residential****Page 17**

Early signs of recovery in the mass- and mid-tier segments.

Update**SIA Engineering (BUY/S\$1.97/Target: S\$2.45)****Page 19**

FY10 earnings to decline 16.0%.

Singapore Airlines (SELL/S\$10.44/Fair: S\$9.70)**Page 21**

Buying time. A step in the right direction.

THAILAND**Results****Sino-Thai Engineering & Construction (SELL/Bt3.30/Fair: Bt2.89)****Page 23**

4Q08: Results were better than expectation but downgrade to SELL due to expensive valuation at 25x 2009 PE.

Thoresen Thai Agencies (SELL/Bt16.30/Fair: Bt13.80)**Page 25**

1QFY09: More upside in short-term share price if the BDI continues to rally. Our fundamental view remains SELL on vessel oversupply concerns.

Update**Ticon Industrial Connection (SELL/Bt6.55/Fair: Bt4.40)****Page 27**

TICON's occupancy rate falls to a historic low. If it is unable sell its assets into TFUND, its 2009 profit will plunge 60% from the consensus.

Dry Bulk Shipping

The BDI loses steam, dragged by the capesize market

The Baltic Dry Index rose 16% last week but lost steam and fell 4% on Friday. As steel prices have been softening, the capesize market may be dragged down.

SECTOR REVIEW

The BDI lost steam. The Baltic Dry Index (BDI) increased 16.2% week-on-week (wow) last week but share prices of most dry bulk stocks retreated. After rising for 17 consecutive days, the BDI dropped 4% last Friday, dragged down by the Brazil/China routes capesize market.

Restocking and steel prices. The Chinese steel traders imported iron ore, expecting a rebound in steel prices. However, the bounce in steel prices did not sustain last week. As a result, the dry bulk freight rates also lost steam in light of less capesize market activities last Friday.

SECTOR OUTLOOK

Steel prices softening. Steel prices in China dropped 2-4% wow last week, the first wow decline since Dec 08. In our view, the fundamentals of steel industry or underlying steel demand are ultimately determined by a recovery in end-user demand.

The Australian iron ore producers chartered in vessels aggressively. China iron ore import has been one of the swing factors for the BDI. China customs announced that China imported 32.65mt of iron ore in Jan 09, -11.5% yoy and -5.4% mom. China iron ore import did not register a robust growth in January but the BDI surged 38% mom in January.

The Australian iron ore producers (BHP and Rio Tinto) aggressively chartered in the capesize spot fixtures before the conclusion of iron ore negotiations (they anticipate iron ore trades to resume once the agreement is reached) which helped to boost the BDI. In May 08, these two companies chartered in 41% of total capesize vessels spot fixtures (vs historical average 19%) and the BDI reached a record high of 11,793 in the same month (Figure 2). In Jan 09, BHP, Rio Tinto and Vale chartered in 59.2% of total capesize vessels spot fixtures. The aggressive chartering by these three companies has boosted the BDI by 146% ytd.

Long-term fundamentals remain bleak. The global economic picture remains bleak. According to Clarksons, total bulk seaborne trade is expected to decline 4.2% yoy in 2009. On the supply side, even if 22.7m dwt vessels scrapping is factored in, total bulk fleet capacity is estimated to increase only 10% yoy this year. Maintain **UNDERWEIGHT** on the sector.

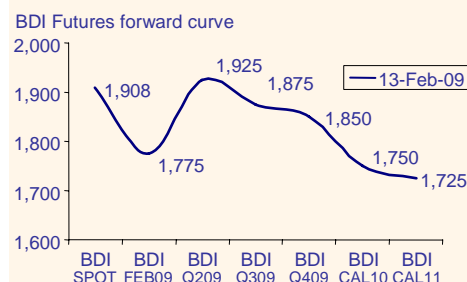
Stock Prices vs Baltic Dry Index

		Price @	1W	1M	12M	YTD	12M	
	Ticker	16 Feb 09	(%chg)	(%chg)	(%chg)	(%chg)	Corr Ratio	
China	COSCO	1919 HK	4.99	(12.6)	5.9	(79.2)	(7.4)	0.96
China	Shipping	1138 HK	7.15	(17.2)	5.0	(70.5)	(7.1)	0.96
Pacific	Basin	2343 HK	4.10	(17.0)	3.0	(68.1)	16.5	0.97
STX	PO	STX SP	10.6	(8.3)	0.0	(65.2)	17.8	0.96
Precious	Shipping	PSL TB	13.60	3.8	23.6	(56.5)	24.8	0.93
Thoresen	Thai	TTA TB	16.30	(6.3)	4.9	(64.1)	6.7	0.96
Malaysian	Bulk	MBC MK	2.78	1.1	7.3	(34.4)	16.3	0.93
Courage	Marine	CMG SP	0.135	0.0	8.0	(63.0)	3.8	0.97
Mercator	Lines	MRLN SP	0.145	0.0	7.4	(70.7)	0.0	0.94
Sincere	Nav	2605 TT	26.00	(7.3)	10.2	(50.0)	(13.3)	0.92
U-Ming		2606 TT	44.70	(4.9)	11.9	(46.1)	13.7	0.93
Baltic Dry	Index	BDIY	1908	16.2	116.6	(74.1)	146.5	n.a.

Source: Bloomberg; UOB Kay Hian

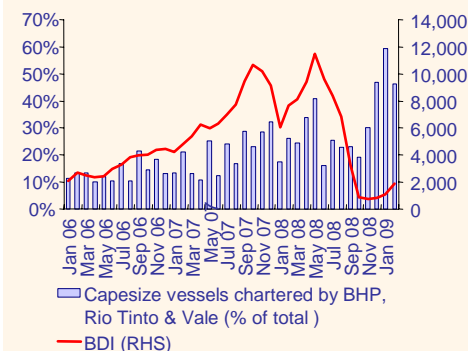
REGIONAL Dry Bulk Shipping UNDERWEIGHT

Figure 1: BDI Futures forward curve



Source: Imarex

Figure 2: Number of Capesize Vessels Chartering (Spot Fixtures)



Source: Clarksons, UOB Kay Hian

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Corporate Headlines

Korea Line profit fell 10%. Korea Line Corp's 2008 net profit fell 10.4% yoy to Won 367b (US\$261m) on a rise in non-operating expenses. However, the company managed to shrug off concerns about its financial viability and turned in healthier results than analysts had predicted.

Thoresen sinks. Thoresen Thai Agencies reported quarterly profit of Bt1.05b (US\$29.9m), -60.5% yoy. Revenue fell 10.4% to Bt7.3b while expenses grew 16.2% to Bt6.1b due to higher vessel operating expenses.

Baltic Freight Indices

(% chg	Index	1W	1M	12M	ytd
Baltic Dry Index	1,908	16.2	116.6	(74.1)	146.5
Baltic Capesize	3,335	11.2	78.9	(68.0)	149.4
Baltic Panamax	1,399	11.8	169.0	(79.3)	150.7
Baltic Supramax	1,190	39.3	196.0	(71.4)	182.7
Baltic Handysize	475	17.6	75.9	(76.6)	69.0

Source: Bloomberg; UOB Kay Hian

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

Vessel	Rate	1W	1M	3M	6M	ytd
Capesize	23,000	27,000	17,500	13,500	121,500	15,000
Panamax	14,250	16,000	11,500	14,500	68,500	10,750
Handymax	12,250	12,500	9,500	11,000	52,500	9,500
Movement	Rate	1W %	1M %	3M %	6M %	YTD %
Capesize	23,000	(14.8)	31.4	70.4	(81.1)	53.3
Panamax	14,250	(10.9)	23.9	(1.7)	(79.2)	32.6
Handymax	12,250	(2.0)	28.9	11.4	(76.7)	28.9

Source: Clarksons, UOB Kay Hian

Capesize. A bullish beginning to the week saw Pacific round voyage rates reached US\$50,000/day. However, sentiment changed rapidly mid-week as charterers temporised and pulled away leaving tonnage facing considerably weaker levels. Average earnings rose just 3.9% wow to US\$29,960/day.

Panamax. The paper market, spot and 1-year markets all went southward. Signs are that the stimulus package is helping the domestic Chinese economy, but the global mess is too prevalent for one or two countries to make any meaningful difference to the woes of world trade. Despite the downward turn end of the week, average earnings rose 28.0% wow to US\$9,678/day.

Peer Comparison

Company	Ticker	Currency	Price @ 16 Feb 09	Target/Fair Price	Rec	PE (x) 2007	PE (x) 2008F	PE (x) 2009F	P/B (x) 2007	P/B (x) 2008F	P/B (x) 2009F
Hong Kong											
China COSCO	1919 HK	HK\$	4.99	4.00	SELL	2.0	1.9	2.4	0.85	0.70	0.62
China Shipping	1138 HK	HK\$	7.15	11.80	BUY	4.6	3.4	3.6	1.30	1.04	0.88
Pacific Basin	2343 HK	HK\$	4.10	4.00	HOLD	1.8	1.4	2.8	0.95	0.62	0.51
Malaysia											
Malaysian Bulk	MBC MK	RM	2.78	n.a.	NR	5.1	6.9	11.4	1.51	1.42	1.47
Singapore											
Courage Marine	CMG SP	S\$	0.135	n.a.	NR	1.6	n.a.	n.a.	0.81	n.a.	n.a.
Mercator Lines	MRLN SP	S\$	0.145	n.a.	NR	1.8	1.5	2.1	0.46	0.38	0.31
STX P O	STX SP	S\$	10.60	9.00	HOLD	2.6	2.0	4.9	0.68	0.62	0.57
Taiwan											
Sincere Navigation	2605 TT	TWD	26.00	n.a.	NR	4.5	4.9	6.0	1.30	1.15	1.12
U-Ming Marine	2606 TT	TWD	44.70	n.a.	NR	4.2	3.7	9.5	1.55	1.29	1.35
Thailand											
Precious Shipping	PSL TB	Bt	13.60	8.30	HOLD	3.3	2.9	4.7	1.01	0.87	0.80
Thoresen Thai	TTA TB	Bt	16.30	13.80	SELL	2.1	1.2	12.8	0.69	0.42	0.41
Average						3.0	3.0	6.0	1.01	0.85	0.80

Source: Bloomberg, UOB Kay Hian

Steel

Rising stocks and iron ore talks to weigh on product prices

Steel prices pulled back last week after 11 weeks of steady rise. The rise in inventory and iron ore price talks will weigh on product prices in the coming weeks. Maintain BUY on Maanshan, but wait for better entry levels, given high price volatility.

Sector Events

Spot steel prices pulled back after 11 weeks of steady rises. Flat steel prices continued to underperform long steel prices. Hot rolled sheet (HRS) price, a benchmark for flat product price, dropped 4.2% wow while rebar and wire rod prices were down 2.9% and 3.3% wow respectively. Compared to the start of the year, long product prices gained 4.3%, outperforming flat products, which have lost most of its gains from the beginning of the year.

Key Steel Product Spot Prices

	(Rmb/tonne)*	1W %	1M %	3M %	6M %	Ytd
Steel Rebar 25mm	3854	(2.9)	2.2	0.1	(27.6)	4.3
Wire Rod 6.5mm	3830	(3.3)	1.6	(0.8)	(30.4)	4.3
HR Sheet 3mm	3982	(4.2)	(1.6)	39.7	(28.4)	1.1
CR Sheet 1mm	4642	(2.3)	0.7	11.9	(33.4)	2.5
Steel Plate 20mm	3896	(2.5)	1.5	11.3	(38.4)	4.7

* Price as at 13 Feb 09

Source: Bloomberg

Sector Impact

Key steel product prices corrected last week, driven by concerns of rising steel inventories and iron ore talks. Steel prices rose 3-5% on average one week before and after the Chinese New Year (CNY) on weak trading volume due to the festive season.

Steel inventories rose 47% since the start of CNY as steel traders stocked up steel products, expecting government infrastructure spending to drive up steel prices later on. But this will have a dampening effect on steel prices if end-user demand does not rise materially.

The weakness in product prices however is not a bad thing – for the time being. Industry specialists suggest that with iron ore talks pending, Chinese steel mills will find it hard to ask for at least a 30% fall in imported iron ore prices if steel product prices continue to rise.

Stock impact

If inventories continue to rise – which is likely as steel mills have seen utilisation rates going back up to 90% this month from 75% in mid-November – we should see this weighing on share prices of steel plays.

We have a **BUY** on **Magang** (323 HK), this being the best proxy to China's stimulus package, particularly the railway expansion initiative. But as we do not expect steel prices to rise meaningfully to support steel stocks, we are inclined to wait for the preferred better entry price of HK\$2.50.

We have a **HOLD** on **Angang Steel** (347 HK) with a fair price of HK\$7.96 and an entry price of HK\$7.00. **Chongqing Iron** (1053.HK) is also a **HOLD** with a fair price of HK\$2.31 and an entry price is HK\$1.80.

CHINA

Steel

MARKET WEIGHT

Angang Steel (347 HK)

HOLD

Current Price: HK\$7.88

Fair Price: HK\$7.96

Maanshan Iron & Steel (323 HK)

BUY

Current Price: HK\$2.99

Target Price: HK\$3.70

Chongqing Iron & Steel (1053 HK)

HOLD

Current Price: HK\$2.23

Fair Price: HK\$2.31

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China Steel Data

Steel Products Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Steel Rebar 25mm	3854	3970	3770	3850	5321	3696
Wire Rod 6.5mm	3830	3959	3770	3860	5503	3671
HR Sheet 3mm	3982	4155	4048	2850	5562	3938
CR Sheet 1mm	4642	4751	4609	4150	6968	4531
Steel Plate 20mm	3896	3994	3839	3500	6323	3720
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Steel Rebar 25mm	3854	(2.9)	2.2	0.1	(27.6)	4.3
Wire Rod 6.5mm	3830	(3.3)	1.6	(0.8)	(30.4)	4.3
HR Sheet 3mm	3982	(4.2)	(1.6)	39.7	(28.4)	1.1
CR Sheet 1mm	4642	(2.3)	0.7	11.9	(33.4)	2.5
Steel Plate 20mm	3896	(2.5)	1.5	11.3	(38.4)	4.7

Prices as at 13 Feb 09

Steel Inventory	(m tonnes)	1W	1M	3M	6M	Ytd
Steel Inventory	*10.4	9.4	6.3	6.3	7.4	5.8
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Steel Inventory	*10.4	10	66	64	40	78

Inventory level for the week ended 13 Feb 09

*Inventories at major steel markets

China Iron Ore Inventory	(m tonnes)	1W	1M	3M	6M	Ytd
Iron Ore Inventory Total	58.07	59.10	58.57	70.12	73.42	59.90
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Inventory Total	58.07	(1.7)	(0.9)	(17.2)	(20.9)	(3.1)

Inventory level for the week ended 13 Feb 09

China Iron Ore Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
China Iron Ore Shandong Zibo	850	850	870	830	1580	850
China Iron Ore Hebei Tangshan	870	870	850	770	1160	890
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
China Iron Ore Shandong Zibo	850	0.0	(2.3)	2.4	(46.2)	0.0
China Iron Ore Hebei Tangshan	870	0.0	2.4	13.0	(25.0)	(2.3)

Price as at 13 Feb 09

Import Iron Ore Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Iron Ore Qingdao	690	690	680	560	1400	630
Iron Ore Beilun	680	680	670	580	1380	630
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Qingdao	690	0.0	1.5	23.2	(50.7)	9.5
Iron Ore Beilun	680	0.0	1.5	17.2	(50.7)	7.9

Price for the week ended 13 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	2750	2425	2000	4200	2400
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Domestic scrap steel price	2750	0.0	13.4	37.5	-34.5	14.6

Price for the week ended 13 Feb 09

Coke Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Coke Taiyuan Price	1750	1750	1750	1150	2900	1550
Coke Export Tianjin	*^350	350	350	420	705	325
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Coke Taiyuan Price	1750	0.0	0.0	52.2	(39.7)	12.9
Coke Export Tianjin	*^350	0.0	0.0	(16.7)	(50.4)	7.7

Price as at 13 Feb 09

^Price for the week ended 13 Feb 09

*Price quoted in US\$/tonne

Source: Bloomberg

Remarks

Hot rolled dropped the most among steel prices.

Steel inventory rose 10% wow.

Iron ore at port dropped slightly for the week.

Spot iron ore prices were unchanged for the week

Import iron ore price were unchanged for the week.

Scrap steel price remained unchanged for the week.

Domestic and export coke prices remained unchanged for the week.

KWG Property

High-quality products but misplaced in a weak market

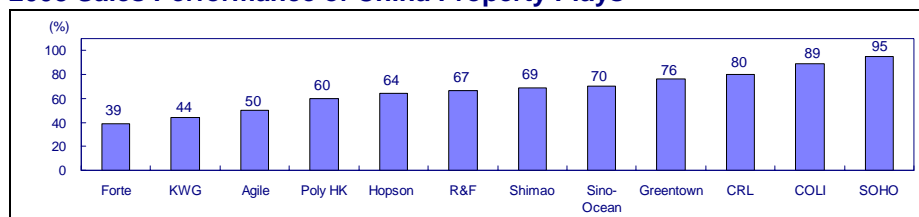
Despite its strong competency in making quality products and the prime location of its properties, we are cautious on KWG's expensive landbank acquisitions during the bull market of 2007. Meanwhile, we think its high-quality products are misplaced in suburban areas where it is difficult to ask for premium prices and it only achieves thin margins. Initiate coverage with a HOLD.

High-quality products. KWG's strong competency in property design and high-quality products distinguishes itself in Guangzhou's highly competitive property market. KWG has become a leading brand name in Guangzhou's high-end property segment.

Prime location of properties in new CBD of Guangzhou. KWG is one of the largest landlords in Pearl River New City, the new CBD of Guangzhou, with a landbank of 0.86m sqm GFA in the area.

Weak sales in 2008. It achieved property sales of only Rmb3.0b in 2008, representing 44% of its target of Rmb6.8b, one of the lowest in our research coverage.

2008 Sales Performance of China Property Plays



Source: UOB Kay Hian

Chengdu sales remain challenging. Hit by the earthquake, Chengdu residential market have seen sluggish sales since May 08. In 2008, Chengdu's primary housing sales slumped 45% yoy. We expect it will take time for sales to recover there. As Chengdu accounts for 17% of KWG's total NAV and three projects- Emerald, Chengdu Cosmos and Wanjing Feng will be launched this year, the lacklustre market could drag down its performance in 2009.

Expensive landbank acquisitions in the bull market of 2007. From early-07 to early-08, KWG has acquired Rmb9.8b of landbank with attributable GFA of 3.0m sqm, accounting for nearly 80% of its total attributable GFA of 3.8m sqm. We found that some of the land purchases were quite expensive during the bull market in 2007- Emerald and Cosmos project in Chengdu and Lie De Village project in Guangzhou. More importantly, KWG sticks to its high-quality strategy and offers fully-fitted properties to home buyers, but it is rather difficult to ask for premium prices in the weak property market. In particular, it normally achieves thin margins by providing fully-fitted products in suburban areas in Suzhou and Guangzhou. In our view, KWG might have misplaced its products amid the sharp slowdown in demand.

CHINA

KWG Property (1813 HK)

INITIATE WITH HOLD

Current Price: HK\$1.75

Fair Price: HK\$2.10

Sector	Property
52-Wk Avg Daily Vol. ('000)	10,500
Market Cap (HK\$m)	4,541
(US\$m)	583
Major Shareholders (%)	
Kong Jianmin	66.1
Book NTA per Share (Rmb)	3.55
ROE (%)	10.1
Net Cash per Share (Rmb)	1.30

Results Due

Interim Sept

September

Final

March

Price Chart



Source: Bloomberg

Analyst

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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	655	292	157	9.0	18.0	19.4	20.8	0.0	0.0
2008	3,868	4,333	2,683	120.2	1235.8	1.5	0.9	17.4	10.0
2009F	1,913	861	447	17.2	(85.7)	10.2	10.6	4.3	2.5
2010F	3,821	1,183	617	23.8	38.1	7.4	8.5	5.9	3.4
2011F	6,566	1,843	985	38.0	59.6	4.6	5.9	9.5	5.4

Consensus Net Profit – FY08: Rmb973m
– FY09: Rmb1,104m

KWG's Landbank Acquisitions Since 2007

Projects	Date	Location	Stake	Attri. GFA (sqm)	Attri. land costs (Rmbm)	Land cost (Rmb/sqm)	Develop. costs (Rmb/sqm)	Estimated ASP 09 (Rmb/sqm)	Gross margin
Yang Cheng Lake Project	Jan-07	Suzhou	100%	619,800	1,265	2,041	5,125	5,500	17%
City Island (Weitang)	Feb-07	Suzhou	100%	131,050	500	3,815	6,160	6,500	14%
Kehui Development Center	Feb-07	Guangzhou	100%	250,000	45	180	4,730	7,000	42%
Waterfront Mansion	Jul-07	Guangzhou	100%	208,000	392	1,885	4,397	5,500	29%
Emerald (Plot 3)	Jul-07	Chengdu	65%	25,670	131	5,115	9,815	10,000	12%
Chengdu Cosmos (Plot 9-10)	Jul-07	Chengdu	65%	349,479	2,210	6,324	11,020	11,000	8%
Lie De Village	Sep-07	Guangzhou	33%	163,769	1,532	9,353	18,653	19,000	14%
Wanjing Feng (Plot 6,7)	Oct-07	Chengdu	100%	460,230	790	1,717	5,770	6,500	22%
Qiandeng Project	Oct-07	Suzhou	100%	124,950	188	1,505	4,832	5,000	15%
Hainan Project	Dec-07	Hainan	100%	226,100	319	1,410	4,960	6,000	30%
J2-2	Dec-07	Guangzhou	50%	61,625	312	5,000	14,300	19,000	37%
Shunyi Project	Jan-08	Beijing	100%	425,000	1,980	4,659	8,550	9,000	15%
Total				3,045,674	9,664				

Source: KWG, UOB Kay Hian

Guangzhou residential market is the key for KWG. We estimate Guangzhou will contribute 53% of KWG's sales and more than 80% of earnings in 2009. After about a 30% price drop from the peak in Oct 07 and more than a year of correction, Guangzhou residential market shows early signs of recovery with sales picking up since mid-08. Nonetheless, we believe it may take a longer time for sales of high-end properties to recover as they are more driven by investment demand which has slowed down amid the economic downturn. If Guangzhou housing sales recover earlier than expected, it will be a strong catalyst for KWG.

Initiate with HOLD. Our fair price of HK\$2.10 is based on a 55% discount to its end-08 NAV of HK\$4.67/share, in line with the sector's average NAV discount. We think it is justified to apply a sector average NAV valuation on this stock given its quality products, prime landbank in CBD of Guangzhou but mid-sized and expensive landbank. Entry price is HK\$1.50.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	655	3,868	1,913	3,821	6,566
EBIT	295	4,339	874	1,207	1,876
Pre-tax Profit	280	4,322	812	1,123	1,771
Net Profit	158	2,684	447	617	985
EPS (Rmb cents)	9.1	47.7	8.8	26.7	29.9

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	2,991	13,172	16,344	16,815	16,987
Total Assets	4,406	18,975	22,775	24,930	27,094
Current Liabilities	2,112	6,618	6,929	7,369	7,319
Long-Term Loans	1,191	2,445	5,600	6,820	8,234
Shareholders' Funds	987	8,534	8,869	9,331	10,070
Total Equity & Liabilities	4,406	18,975	22,775	24,930	27,094

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	(305)	(1,467)	(4,583)	818	1,196
Investing	(287)	(2,205)	(484)	(1,534)	(1,733)
Financing	1,183	6,253	3,368	1,396	1,691
Net Cash Inflow	592	2,581	(1,699)	680	1,154
Beginning Cash	213	804	3,289	1,590	2,269
Ending Cash	804	3,385	1,590	2,269	3,423

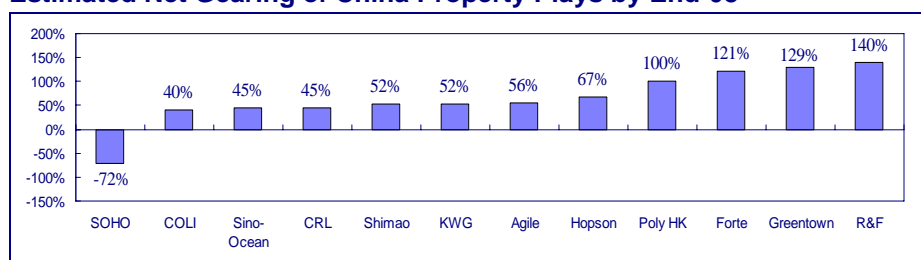
SOHO China

Quality commercial property play with strong cash position

We initiate coverage of SOHO China with BUY rating. We believe SOHO's strong net cash position makes the company one of the most defensive plays in the sector, while potential landbank acquisitions will be stock catalysts. In addition, we also favor this counter for its excellent track record in property sales and the prime locations of its properties. Our target price of HK\$4.30 is based on a 20% discount to its current NAV of HK\$5.40.

Strongest net cash position in the sector. SOHO's net cash position of Rmb10.7b at end-08 represents a net cash-to-equity ratio of 72%. In our view, it will be a consolidator in the property sector by acquiring low-cost landbanks amid the market correction. The potential landbank acquisitions and NAV accretions are expected to be stock catalysts for SOHO.

Estimated Net Gearing of China Property Plays by End-08



Source: UOB Kay Hian

Prime location of commercial properties. SOHO pursues a city-centric strategy with most of its projects located within the CBD or the third ring road of Beijing, including Sanlitun SOHO, Guanghualu SOHO, Chaoyangmen SOHO and Beijing SOHO Residences.

Excellent track record in sales. SOHO is well-known for its excellent sales in Beijing and China. Its project sales have ranked among the highest achieved in the Beijing property market over the past six years. In 2008, SOHO achieved sales of Rmb7.6b, up 118% yoy, the highest within our research coverage.

Sales Ranking of SOHO's Projects in Beijing Property Market

Year	Ranking	Project	GFA Sold (sqm)	Average Price (Rmb/sqm)	Total Sales Value (Rmb m)
2008	No.1	Sanlitun SOHO	146,498	49,417	7,240
2007	No.6	Guanghualu SOHO	57,778	35,961	2,078
2006	No.3	Chaowai SOHO	86,172	31,088	2,679
2005	No.1	SOHO(Jianwai & Shangdu)	154,049	21,692	3,342
2004	No.2	Jianwai SOHO	190,118	17,404	3,309
2003	No.1	Jianwai SOHO	165,447	16,990	2,811

Source: Soufun, UOB Kay Hian

CHINA

SOHO China (410 HK)

INITIATE WITH BUY

Current Price: HK\$3.02
Target Price: HK\$4.30

Sector	Property
52-Wk Avg Daily Vol. ('000)	10,400
Market Cap (HK\$m)	15,801
(US\$m)	2,039

Major Shareholders (%)	
Pan Zhang Xin	64.01

Book NTA per Share (Rmb)	2.76
ROE (%)	24.9
Net Cash per Share (Rmb)	2.25

Results Due	
Interim Sept	September
Final	March

Price Chart



Source: Bloomberg

Analyst

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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	1,740	812	341	9.1	80.6	33.2	19.1	0.00	0.0
2008	6,954	3,789	1,966	47.7	424.2	6.3	1.1	0.10	3.3
2009F	3,144	1,008	462	8.8	(81.5)	34.2	5.3	0.08	2.6
2010F	7,719	2,686	1,399	26.7	202.7	11.3	4.8	0.10	3.3
2011F	7,887	3,148	1,563	29.9	11.7	10.1	5.3	0.10	3.3

Consensus Net Profit – FY08: Rmb735m
– FY09: Rmb1,935m

Tuesday, February 17, 2009

Differentiation of SOHO's properties relative to Grade A offices mitigates adverse impact of economic slowdown. Despite the prime locations of SOHO's projects, the rentals for its office space are normally US\$0.7/sqm/day, much lower than the average rental of about US\$1.2/sqm/day for Grade A office space in Beijing. SOHO's commercial properties mainly cater to local companies instead of multinational companies. As a result, SOHO's rentals have proved to be resilient compared with those of grade A offices. According to management, the current occupancy rates of its two completed projects, Jianwai SOHO and Chaowai SOHO, are holding at around 90%.

Nearly 70% of 2009 sales revenue locked in. Due to the strong sales from the Sanlitun Project last year, we estimate that SOHO has locked in around 68% of its total estimated revenue for 2009, the highest in our coverage universe.

Uncertainty of injection of Qianmen Project. This is a top-end retail project located south of Tian An Men, the heart of Beijing. It was scheduled to be injected into the listed company after the IPO, but it is still awaiting the government's approval mainly due to the issue of foreign investment on domestic company, as well as protection of ancient architecture in the Qianmen area. We estimate the NAV of the Qianmen Project is around Rmb10.7b, or Rmb2.05/share, but we have not factored this into our NAV and earnings estimates due to the timing uncertainty of this acquisition.

Other risk factors include: Non-diversified client base, slowdown in demand for commercial properties and lumpy earnings due to limited project pipeline.

Initiate with BUY and target price of HK\$4.30. Our target price is based on a 20% discount to NAV vs the sector's 55% discount to NAV on average. We believe the lower NAV discount is justified given: a) its strong net cash position which will go towards supporting potential NAV-accretive acquisitions, b) its proven track record in property sales and c) the prime locations of its commercial properties.

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	1,740	6,954	3,144	7,719	7,887
EBIT	793	3,762	965	2,623	3,056
Pre-tax Profit	787	3,757	855	2,466	2,865
Net Profit	341	1,966	462	1,399	1,563
EPS (Rmb cents)	9.1	47.7	8.8	26.7	29.9

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	7,631	21,386	29,154	29,604	31,900
Total Assets	8,430	23,458	30,860	31,927	35,080
Current Liabilities	6,039	7,685	15,494	15,115	15,145
Long-Term Loans	800	1,000	500	1,000	3,000
Shareholders' Funds	1,360	14,456	14,499	15,376	16,415
Total Equity & Liabilities	8,430	23,458	30,860	31,927	35,080

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	(790)	1,982	(344)	(6,496)	(2,385)
Investing	(42)	(1,382)	(503)	(617)	(857)
Financing	604	12,392	1,081	(23)	1,477
Net Cash Inflow	(228)	12,991	234	(7,136)	(1,766)
Beginning Cash	1,310	1,081	13,749	13,983	6,847
Ending Cash	1,081	14,072	13,983	6,847	5,081

Meadville Holdings

Clear order visibility from top customers

Outlook for Meadville Holdings is more certain than its regional peers' given its large exposure to China's leading telecommunications equipment providers and expanding overseas customer base. Maintain BUY.

Corporate Events

Weak demand for electronic products further affected Meadville Holdings' (Meadville) PCB and laminate demand in 4Q08. Some of the Group's customers are concentrating on clearing inventory in channel and cutting back orders in November and December. We believe 4Q08 is a barely profitable quarter for Meadville. The company has implemented a series of cost-controlling initiatives, such as headcount reduction by 2,000 workers, wage cuts and temporary shutdown of two manufacturing facilities.

Strong client base. Meadville has established long-term relationships with leading Chinese telecoms equipment makers, including Huawei, ZTE and Fiberhome. Meadville is one of the 3G plays in China given its high exposure to Chinese communications equipment and handset manufacturers. Huawei and ZTE were Meadville's No. 1 and No. 4. customers respectively in 1H08. Both have asked Meadville to reserve capacity for upcoming TD-SCDMA orders. The growth in order inflows from Chinese telecoms equipment makers more than offsets the decline in orders from overseas customers. The Group is considering reopening one production facility in Suzhou given strong inflow from Chinese telecoms equipment makers.

Book value has been underestimated. Meadville owns 22.2% of Guangdong Shengyi (600183 CH), the second-largest laminate manufacturer in China. Based on the last traded price, the market value of Meadville's stake in Guangdong Shengyi is HK\$1.6b, which is about 114% (2 standard deviations above the average of 67.2%) of Meadville's market capitalisation. The market value of Meadville's stake in Guangdong Shenyi is about HK\$0.85/share vs its share price of HK\$0.75.

Slowing down capacity expansion. A previous key concern had been high net gearing. The firm has also lengthened debt maturity, refinancing its short-term loans with syndicated loans in Jul 08, and now 27% of its long-term debt is due in 2011 and the balance in 2012. The firm will delay capacity expansion. Capex will be reduced from the planned HK\$1.2b to HK\$500m in 2009.

Stock Impact

Given more conservative sales assumptions, we cut our 2008, 2009 and 2010 turnover forecasts by 13.1%, 20.9% and 20.8% respectively. Our 2008, 2009 and 2010 net profit estimates were cut by 35.6%, 37.5% and 34.5% respectively.

Earnings Risks

Sector de-rating and massive economic slowdown in China, as well as pricing competition from overseas players.

HONG KONG

Meadville Holdings (3313 HK)

BUY

Current Price: HK\$0.75

Target Price: HK\$1.16

(Previous: HK\$3.08)

Sector	Technology
52-Wk Avg Daily Vol. (m)	1.2
Market Cap (HK\$m)	1,964.0
(US\$m)	251.8
Major Shareholders (%)	
Tang Hsiang Chien	71.9
Book NTA per Share (Rmb)	1.23
ROE (%)	21.4
Net Debt per Share (Rmb)	1.3
Results Due	
Interim	September
Final	February

Price Chart



Source : Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	3,140	615	320	0.16	(66.3)	4.7	4.0	0.00	10.4
2007*	4,490	910	342	0.17	6.8	4.4	9.9	0.06	9.5
2008F*	5,073	1,062	395	0.20	15.6	3.8	9.4	0.05	10.2
2009F*	5,640	1,199	466	0.23	17.9	3.2	5.8	0.08	7.6
2010F	6,490	1,343	573	0.29	23.1	2.6	4.9	0.12	7.8

Consensus Net Profit – FY08: Rmb512.0m – FY09: Rmb386m * Including non-cash charges of HK\$52.3m, HK\$254.5m and HK\$17.3m in 2006, 2007 and 2008.

price has corrected by 21.9% over the last three months and we believe the current price has factored in most of the recent negative developments. We see limited downside risk at the current level as the market value of Meadville's stake in Guangdong Shenyi is larger than its market capitalisation. We set our new target price at HK\$1.16 based on 5x 2009 PE, which is about 40% discount to the industry average of its subsidiaries and its peers. Maintain BUY.

Key Customers (1H08)

Rank	Customer
1	Hauwei
2	Apple
3	Ericsson
4	ZTE
5	Nokia

Source: Meadville, UOB Kay Hian

Market Value of Meadville's Stake In Guangdong Shenyi (as % Of Meadville's Market Cap)



Source: Bloomberg, UOB KAY Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	3,140	4,490	5,073	5,640	6,490
EBIT	615	910	1,062	1,199	1,343
Pre-tax Profit	434	523	580	685	840
Net Profit	320	342	395	466	573

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	1,829	2,559	2,187	2,930	3,826
Total Assets	4,438	7,619	8,305	9,179	10,167
Current Liabilities	2,737	2,596	2,910	3,296	3,716
Long-Term Liabilities	967	2,559	2,665	2,789	2,940
Shareholder Funds	734	2,464	2,730	3,093	3,509
Total Equity & Liabilities	4,438	7,619	8,305	9,179	10,166

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	508	1,182	1,401	1,223	1,349
Investing	(683)	(1,387)	(1,400)	(500)	(493)
Financing	184	1,828	(246)	(237)	(245)
Net Cash In/(Out) Flow	9	1,623	(246)	486	611
Begin Cash & Cash Equiv.	159	167	1,790	1,545	2,031
End'g Cash & Cash Equiv.	167	1,790	1,545	2,031	2,642

Technical Analysis

HSBC (5 HK): HK\$59.00

The recent selling climax of HSBC resulted in a major low of HK\$54.90 on the weekly chart. Since then, the weekly turnover has been relatively low. This is typical of a consolidation pattern.

With the weekly MACD now in the significantly oversold zone, we expect increasing odds for a breakout on the upside when the consolidation pattern is completed.

HONG KONG

Technical Analysis

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Chart 1: Weekly Slow Stochastics of HSBC



Source: HKETnet

Nevertheless, a successful breakout from the consolidation pattern on the weekly chart depends on a meaningful penetration of the downtrend resistance line on the daily chart (Chart 2). The penetration should be confirmed by a breaching of the horizontal resistance line by the stock's Slow Stochastics on the daily chart. Otherwise, the consolidation would likely linger for some time.

If the stock does make a breakout on rising volume from the consolidation pattern, we expect the stock to head towards the downside gap area on the daily chart. The stock will at least head towards HK\$63.35. If this resistance is broken, the stock is well-positioned to rise to HK\$67 in the longer term.

Chart 2: Price Chart of HSBC



Source: HKETnet

Strategy

Campaign period is the best time to buy

We believe the outcome of the elections should be good for the stock market, and the campaign period is the best time to BUY. We highlight trading ideas for the upcoming volatile market during the election period.

General elections in April. Election fever is in the air. You know that the election campaign has gained momentum when Indonesian politicians start bickering among themselves, and hostility intensifies. With the general election fast approaching on 9 Apr, political parties have stepped up their campaign and promotional activities in the last few weeks. More promotion banners, flags and posters have appeared in public places, as well as advertisements on radio, TV and prints. At this stage, only small political meetings are allowed. Large political rallies are permitted only from 17 Mar during the “open” campaign period for a period of only two weeks. This will be followed by a one-day cooling off period before the election. Results should be announced by 12 May, and swearing-in of new parliament members five months later on 1 Oct 09.

There may be two rounds of presidential election. The presidential election is scheduled on 8 Jul. Although still squabbling among themselves now, the respective political parties must nominate their candidates by 9 Jun. After which, the presidential campaign is for a period of about three weeks from 12 Jun to 5 Jul, with a two-day cooling off period prior to the election. Results should be announced by 25 Jul. If no candidate wins with a minimum 50% of votes, a second presidential election will be conducted on 8 Sep 09, during the Muslim fasting month of Ramadan, although this date seems like it can be changed. And the new president is expected to be inaugurated one month later on 20 Oct.

Large, rowdy political rallies. As the third largest democracy in the world, Indonesia has a total of 147m voters, bigger than the combined population (of 95m) of its neighboring countries of Thailand, Malaysia and Singapore. So during the “open” campaign period, large political rallies may attract sizeable crowds in major cities. These boisterous gatherings can often become rather large, noisy and rowdy. Inevitably, there could be some violent clashes between the over-exuberant fans with opposing party members and security personnel. However, the security forces are well-prepared, and should be capable of managing such crowds as they did in the previous elections. Hence, we do not expect serious problems in the elections that would have a serious impact on the stock market.

Traumatic political transformation. Since the Asian Financial Crisis in 1997/98, Indonesia went through a rather traumatic transformation process from an “autocratic and centralised” system under former-president Soeharto, to the current “democratic and decentralised” government under the democratically-elected President Susilo Bambang Yudhyono (SBY). The current government has also demonstrated good macroeconomic management and improved the overall investment climate.

Ideal BUY opportunity. In the previous presidential election in Jul 04, President Susilo Bambang Yudhyono won only 34% of votes and Megawati 26%, which required a second round of elections in Sep. SBY finally won with 61% vs Megawati’s 39%. With a clear winner in the elections, the stock market rose sharply by about 50% from a low of 668 in May 04 prior to the elections, to 1,000 by end-2004. Currently, SBY is the leading contender to win the next presidential election for his second and final five-year term. His victory should be well received by the local and foreign investment community. And we expect the market to rally strongly if he wins the election either in 8 Jul or 8 Sep 09. We believe the campaign period will be an ideal period to increase exposure to Indonesian stocks.

INDONESIA Strategy



Source: Indonesian Media

Analyst

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Banking on election. The upcoming election has brought preliminary positive developments for the banking sector. Keen to win the elections, SBY and his government has cut fuel prices, which lowered inflationary pressures and allowed Bank Indonesia to slash interest rates to spur economic growth. Indonesian banks will benefit from lower cost of funds, but many banks will not expand their loan portfolio despite the low interest rate environment due to higher credit risk and tight liquidity during the economic downturn. Our top picks are the bigger, defensive banking stocks **BBCA (BUY/Target: Rp3,000)**, and **BBRI (BUY/Target: Rp6,800)** which is a leader in the resilient Micro & SME (MSME) segment.

Strong local demand for coal. To reduce energy cost and lower inflation, the government plans to build new coal-fired power plants to meet expected increase in demand of electricity. Construction is currently underway at 35 sites across Indonesia. A proposed domestic market obligation regulation for local producers would push up local prices of low grade coals and narrow the gap with higher grade coals. Indonesian coal producers are set to benefit from stronger domestic coal demand. BUMI's recent acquisition of coal mine Pendopo E.B with some 687m tonnes of lignite or low grade coal can meet demands and obligations for the local market. **BUMI (BUY/Target: Rp1,010)** has good upside potential as it is still one of the cheapest coal stock in the region. **ITMG (BUY/Target: Rp12,900)** is a defensive coal company that has good management, and produces good quality coals.

Stimulus package benefits construction and cement. To boost its popularity, the current administration of SBY has proposed a Rp71 trillion (US\$6.2b) fiscal stimulus package of which some Rp10 trillion is earmarked for infrastructure projects. State-owned construction company **WIKA (BUY/Target: Rp260)** and state-owned cement company **SMGR (BUY/Target: Rp4,300)** should benefit from increased government spending on infrastructure projects

Election spending for consumer and retail sector. Election spending is expected to boost the consumer and retail sector as the election can drag on until 3Q09. Political parties have allocated significant budgets for election campaigns to mobilise huge crowds necessary to win the election. Retail companies will face new challenges due to a weaker economy ahead. We recommend **RALS (BUY/Target: Rp1,000)** for its strong balance sheet, sound track record for surviving the previous financial crisis, and its attractive valuation. **MPPA (SELL/Entry: Rp440)** is likely to face more challenges as it faces tight liquidity and has demanding valuation. We are positive on consumer product and pharmaceutical producer **KLBF (BUY/Target: Rp1,160)** due to its resilient consumer market focus under the current conditions.

Investing for the Election

Company	Code	Rec	Market Cap. (Rpb)	Price 13 02 09 (Rp)	Target Price (Rp)	EPS			PE			ROE (%)
						2007 (Rp)	2008F (Rp)	2009F (Rp)	2007 (x)	2008F (x)	2009F (x)	
BANKING												
Bank Central Asia	BBCA	BUY	65,335.8	2,650	3,000	183	213	254	14.5	12.4	10.4	23.3
Bank Rakyat Indonesia	BBRI	BUY	54,564.7	4,425	6,800	404	473	646	11.0	9.4	6.8	26.6
COAL MINING												
Bumi Resources	BUMI	BUY	14,164.9	730	1,010	511	371	492	1.4	2.0	1.5	106.5
Indo Tambangraya Megah	ITMG	BUY	11,299.3	10,000	12,900	n.a.	2,457	2,587	n.a.	4.1	3.9	19.1
CEMENT												
Semen Gresik	SMGR	BUY	21,353.5	3,600	4,300	299	301	323	12.0	11.9	11.1	29.3
CONSTRUCTION												
Wijaya Karya	WIKA	BUY	1,198.5	205	260	45	24	33	4.5	8.5	6.3	15.3
RETAIL												
Matahari Putra Prima	MPPA	SELL	2,497.3	520	550	41	41	55	12.7	12.7	9.5	6.7
Ramayana Lestari Sentosa	RALS	BUY	3,249.4	460	1,000	52	56	66	8.9	8.2	6.9	17.9
CONSUMER												
Kalbe Farma	KLBF	BUY	6,906.1	680	1,160	70	69	86	9.7	9.8	7.9	22.1

Source: UOB Kay Hian

Election Effect on Stock Market



Source: Bloomberg

Property - Residential

Early signs of recovery in the mass- and mid-tier segments

The property stocks are deep in value, trading at early-05 levels while the strong take-up rates for Caspian and Alexis suggest base formation above the 2006 levels for the mass market and mid-tier segments.

Sector Events

The Urban Redevelopment Authority (URA) released data on uncompleted homes in January. The number of units launched increased 30% mom (-50% yoy) to 204 and the number of units sold dropped 32% mom (-66% yoy) to 107. While the sales volume remained low in January, the sales volume in February will register a strong rebound with the successful launches of the Caspian and Alexis projects improving the home-buying sentiment in the mass- and mid-market segments.

Sector Impact

- Developers shift focus into mass market and mid-tier segment.** The number of units sold in the mid-tier segment (Rest of Core Region) jumped 48% mom to 49. The number of units sold in the mass market segment (Outside Central Region) also increased 32% mom to 45. Sales in the high-end segment (Core Central Region) saw a 80% mom drop to 13 units. Developers have shifted their focus to the mass market and mid-tier segments, with the number of mass market and mid-tier units sold in Jan 09 making up 42% and 46% of all units sold respectively. Sales in the mid-tier segment and mass market segment were boosted by sales of 16 units at Nova 88 at a median price of S\$947psf and 14 units at The Aristo @ Amber at a median price of S\$990psf.
- Early signs of base formation in mass and mid-tier segments reaffirm deep value in stocks.** The launch of 712-unit 99-year leasehold Caspian project early this month was met with an overwhelming response with 460 units sold to date (65% take-up) at ASP of S\$580-600psf. Preview sales of the 293-unit Alexis at Alexandra Road started on 12 February and 85% of the development has been sold at prices ranging from S\$850 to S\$1,100psf. The current selling prices for Caspian and Alexis are still 27-60% above the comparable 2006 average resale price levels of S\$454psf for LakeHolmz and S\$587psf for The Anchorage respectively. We view the strong take-up rates for Caspian and Alexis as good data points that suggest base formation for the developer sales in the mass and mid-tier segments at significantly above 2006 resale price levels, implying deep value in the property stocks which are trading at early-05 levels.
- Mass-market segment supported by the public housing market.** The mass market segment proxy index fell by 5.9% qoq in 4Q08, outperforming the 6.2% qoq slide in the mid-tier segment proxy index and the 6.5% qoq decline in the high end segment proxy index. On the other hand, public housing prices advanced by 1.5% qoq to an all time high of 139.4 points during the quarter as indicated by the Housing and Development Board (HDB). We believe that the robust public housing market will lend support to the private mass market segment.

Valuation/Recommendation

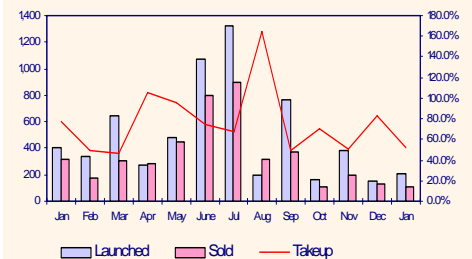
Among the developers in our coverage, Allgreen Properties (AG SP/BUY/RNAV: S\$1.41/Target: S\$0.85) and City Developments (CIT SP/BUY/RNAV: S\$10.19/Target: S\$8.15) are the key beneficiaries of the increased sales momentum and the improved home-buying sentiment in the mass and mid-market segments.

SINGAPORE

Property - Residential

OVERWEIGHT

Monthly Take-up Of New Homes



Source: URA, UOB Kay Hian

Price Comparison for Selected Projects (with 3 or more units sold)

Project	Jan-09			Dec-08	
	Units Sold	Median (\$\$psf)	mom chg	Units Sold	Median (\$\$psf)
Newton Edge	4	1207	0.6%	43	1200
Nova 88	16	947	(4.1%)	10	988
RV Suites	3	545	(16.7%)	4	654
Ricchezza	4	712	(2.6%)	6	731
Rosewood Suites	3	545	(16.7%)	4	654
The Aristo @ Amber14	990	990	(1.2%)	9	1002

Source: URA, UOB Kay Hian

Price Level History (Average \$\$psf)

Project	Caspian	Alexis
Current	580-600	850-1100
Comparable Completed Project	LakeHolmz	The Anchorage
2005	447	541
2006	454	587
2007	523	887
2008	604	984
1Q08	613	1054
2Q08	599	962
3Q08	599	914
4Q08	-	891

Source: URA, UOB Kay Hian

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Tuesday, February 17, 2009

Selected Project Units Sold In January

Project	Street	Locality	Launched (units)	Sold (units)	Median (\$psf)	Lowest (\$psf)	Highest (\$psf)	Comments
Vida	Peck Hay Road	High	0	1	1,850	1,850	1,850	Highest psf and Above 1500 psf
Icon	Gopeng Street	High	0	1	1,519	1,519	1,519	Above 1500 psf
Nova 88	Bhamo Road	Mid	40	16	947	807	1,018	Highest sales volume
The Aristo @ Amber	Amber Road	Mid	10	14	990	913	1,119	Top 5 by sales volume
Palmera Residence	Lorong N Telok Kurau	Mass	38	11	759	650	911	Top 5 by sales volume
The Lucent	Lorong N Telok Kurau	Mass	21	8	805	750	865	Top 5 by sales volume
Ricchezza	Lorong M Telok Kurau	Mass	0	4	712	706	714	Top 5 by sales volume
Teresa Villas	Bukit Teresa Close	Mid	0	1	354	354	354	Lowest psf

Source: URA, UOB Kay Hian

Monthly Take-up Of New Homes By Sub-segment

	Launched	Region breakdown			mom change			Sold	Region breakdown			mom change			Takeup		
		High	Mid	Mass	High	Mid	Mass		High	Mid	Mass	High	Mid	Mass	High	Mid	Mass
Jan	410	34.4	9.0	56.6	-42.9	-68.6	186.4	316	33.2	16.8	50.0	-40.0	-8.6	119.4	74.5	143.2	68.1
Feb	343	9.0	31.2	59.8	-78.0	189.2	-11.6	170	20.6	37.6	41.8	-66.7	20.8	-55.1	112.9	59.8	34.6
Mar	642	16.8	21.8	61.4	248.4	30.8	92.2	301	28.9	30.2	40.9	148.6	42.2	73.2	80.6	65.0	31.2
Apr	271	4.8	4.4	90.8	-88.0	-91.4	-37.6	284	8.5	13.4	78.2	-72.4	-58.2	80.5	184.6	316.7	90.2
May	476	38.0	37.4	24.6	1292.3	1383.3	-52.4	453	36.4	22.1	41.5	587.5	163.2	-15.3	91.2	56.2	160.7
June	1069	20.7	57.2	22.1	22.1	243.8	101.7	801	20.6	56.8	22.6	0.0	355.0	-3.7	74.7	74.3	76.7
Jul	1322	9.9	42.0	48.1	-40.7	-9.3	169.5	897	9.3	30.7	60.1	-49.7	-39.6	197.8	63.4	49.5	84.7
Aug	194	42.3	52.6	5.2	-37.4	-81.6	-98.4	320	33.1	34.7	32.2	27.7	-59.6	-80.9	129.3	108.8	1030.0
Sep	767	33.6	48.2	18.1	214.6	262.7	1290.0	376	18.6	59.6	21.8	-34.0	101.8	-20.4	27.1	60.5	59.0
Oct	159	46.5	13.8	39.6	-71.3	-94.1	-54.7	112	12.5	24.1	63.4	-80.0	-87.9	-13.4	18.9	122.7	112.7
Nov	382	52.4	21.7	25.9	170.3	277.3	57.1	192	32.8	14.6	52.6	350.0	3.7	42.3	31.5	33.7	102.0
Dec	157	4.5	72.0	23.6	-96.5	36.1	-62.6	131	48.9	25.2	26.0	1.6	17.9	-66.3	914.3	29.2	91.9
Jan	204	0.0	43.1	56.9	-100.0	-22.1	213.5	107	12.1	45.8	42.1	-79.7	48.5	32.4	n.a.	55.7	38.8

Source: URA, UOB Kay Hian

Stress Test Scenarios

	Capita Land	City Developments	Keppel Land	Guoco Land	Wheelock	Wing Tai	Allgreen	Ho Bee	SC Global
Share Price (S\$)	2.74	5.42	1.43	1.06	0.945	0.74	0.475	0.345	0.48
RNAV (S\$)	3.49	10.19	4.14	2.53	2.23	2.13	1.41	1.37	1.00
Assumptions (%)	Decline from End-07 Level								
Singapore residential	(40)	(3)	(8)	(5)	(9)	(17)	(12)	(16)	(20)
Singapore office	(40)	(3)	(8)	(15)	(3)	(5)	(5)	(6)	(4)
Singapore retail	(40)	(5)	(3)	(2)	-	(3)	(2)	(9)	-
China	(40)	(8)	-	(6)	(17)	-	(2)	(2)	-
Vietnam	(40)	(2)	-	(9)	(3)	-	-	(1)	-
Listed investments	(70)	(9)	(6)	(5)	(5)	(9)	(5)	-	(2)
Asset Write-down (Dev't Pty)	(1)	(1)	(1)	(7)	-	(4)	(4)	(10)	(14)
Asset Write-down (Inv't Pty)	(11)	-	(7)	(3)	(11)	(9)	(15)	(5)	(1)
Deferred payment Scheme	(1)	(3)	(2)	(4)	(3)	(3)	(3)	(9)	(19)
Total	(41)	(27)	(51)	(49)	(48)	(42)	(56)	(48)	(60)
Stressed RNAV(S\$)	2.05	7.42	2.04	1.28	1.15	1.24	0.62	0.72	0.40
Share Price Discount/Premium (%)	33.8	(27.0)	(30.0)	(17.1)	(18.0)	(40.1)	(23.1)	(51.8)	19.7

Source: UOB Kay Hian

SIA Engineering

FY10 earnings to decline 16.0%

We lower our target price from \$3.00 to \$2.45 as earnings estimate is cut following SIA's plan to ground 17 aircraft. We however maintain our Buy recommendation on the stock

Impact of SIA grounding 17 aircraft

	FY09F	FY10F
Aircraft Maintenance		
No of aircraft	129	112
Rev per aircraft(\$)	5.6	5.6
Engine Maintenance		
Rev per aircraft(\$)	1.89	1.89
Net Impact on Revenue S(\$m)		-127.3

Source: SIA Engineering, UOB Kay Hian

Corporate Events

Singapore Airlines (SIA) announced the grounding of 17 aircraft effective Apr 09. We had previously assumed that in the worst-case scenario, five aircraft could be grounded and the net impact of such a move would be a \$15.6m reduction in net profit assuming a 50% operating leverage, ie assuming that 50% of costs are variable. Under the present scenario, with 17 aircraft being grounded, SIA Engineering's (SIAEC) top-line revenue would fall by \$127.0m in FY09 and net profit would fall to \$207.7m from an earlier estimate of \$263m after including savings from Job Credit initiatives announced in Budget 2009.

Stock Impact

We have assumed a worst-case scenario where all segments of maintenance business would be affected by the grounding of aircraft, including engine maintenance. We have also assumed that SIA grounds the aircraft for the full year.

Earnings Risk/Valuation

These measures will result in a 15.6% decline in EPS for FY10. We have not assumed any further cuts in capacity, nor have we assumed any impact from SIAEC's new hangar in the Philippines, which will come on stream in 3QFY09.

Recent budget initiatives aimed at promoting and lowering the costs of maintenance operations, including zero-rating GST for approved parts and services, could lower costs, which will enhance Singapore's status as a leading maintenance, repair and overhaul (MRO) centre and benefit SIAEC in the long run.

We had previously valued the company on a DDM basis, given the fact earnings were resilient and that the company increased dividend payout. We have however cut our dividend estimates for FY10 and FY11 from 23 cents to 19 and 20 cents respectively in view of the earnings revision.

SINGAPORE

SIA Engineering (SIE SP)

BUY

Current Price: S\$1.97

Target Price: S\$2.45

(Previous: S\$3.00)

Sector Aviation
Bloomberg SIE SP
Website

52-Wk Avg Daily Vol. ('000) 433
Market Cap (S\$m) 2210
(US\$m) 1456.5

Major Shareholders (%)
Singapore Airlines 80.7

Book NTA per Share (S\$) 1.03
ROE (%) 22.0
Net Cash per Share (S\$) 0.26

Results Due
1Q: Jun 2Q: Sep
3Q: Dec Final: Mar

Price Chart



Source: Bloomberg

Analyst

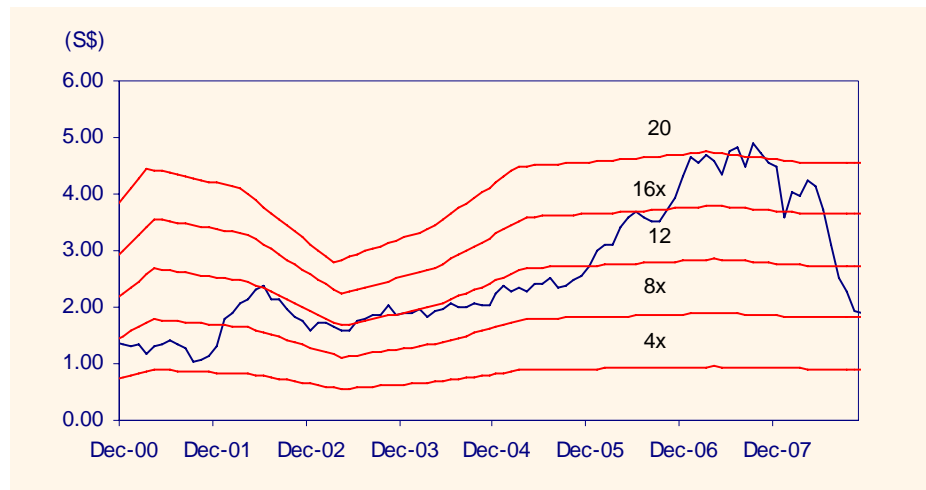
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Year to 31 Mar	Revenue (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (S¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (S¢)	Yield %
2007	977.4	136.5	242.1	23.0	2.2	8.9	16.0	12.0	5.9
2008	1,009.6	142.4	253.8	23.7	3.1	8.6	15.4	20.0	9.7
2009F	1,025.1	131.6	246.1	22.8	(3.7)	8.6	16.6	20.0	10.2
2010F	956.5	106.7	207.7	19.3	(15.6)	10.2	20.5	19.0	9.7
2011F	1,023.1	129.1	232.5	21.6	11.9	9.1	16.9	20.0	10.2

Consensus Net Profit – FY09 : \$248.9
– FY10 : \$239.4

We now value the company on a PE basis, according the stock a 12x PE rating on the average of FY10 and FY11 earnings and lower our target price to \$2.45 from \$3.00. We believe this is a reasonable multiple, given that SIAEC still commands a monopolistic revenue base from line maintenance and captive market for the Asia-Pacific MRO business. Maintain BUY.

1-Year Forward PE Band



Source: SIAEC

Profit & Loss

Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2011F
Revenue	977	1,010	1,025	956	1,023
EBITDA	136.5	142.4	131.6	106.7	129.1
Pre-tax Profit	271.0	285.5	277.1	236.3	265.0
Net Profit	242.1	253.8	246.1	207.7	232.5

Balance Sheet

Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2010F
Current Assets	609	674	685	668	701
Total Assets	1,315	1,414	1,492	1,511	1,573
Current Liabilities	292	251	274	246	271
Non-current Liabilities	13	22	22	24	27
Shareholders' Funds	997	1,125	1,180	1,220	1,251
Total Equity & Liabilities	1,315	1,414	1,492	1,511	1,573

Cash Flow

Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2011F
Operating	145	92	112	94	110
Investing	28	53	62	67	77
Financing	(272.2)	(105.3)	(198.4)	(188.0)	(176.8)
Net Cash In/(out) flow	(98.7)	39	(25.1)	(27.0)	11
Begin Cash & Cash Equiv.	501	400	437	412	386
End'g Cash & Cash Equiv.	400	437	412	386	398

Singapore Airlines

Buying time; a step in the right direction

Decommissioning 17 of its 118 aircraft instead of reducing flights suggests that SIA is positioning for a prolonged slowdown.

Corporate Events

Singapore Airlines (SIA) announced plans to ground 17 aircraft out of its total fleet of 118 passenger aircraft (by end-March). This will translate into capacity cuts of 11%. Management also warned that 2009 would be a difficult year and that it is in talks with unions to encourage early retirement.

January load factors, released after yesterday's market close, showed a 6.9% cut in passenger traffic and a 14% cut in cargo traffic.

Stock Impact

Not since SARS has SIA taken such drastic measures. The company could have simply cut flight frequencies and achieved a similar capacity cut. But it appears that the measure is aimed at reducing staff costs if the slowdown prolongs. This comes as a surprise given that SIA would benefit by almost \$100m from the Jobs Credit incentives announced in Budget 2009. Clearly, SIA is taking a pre-cautionary move in view of falling traffic. We have assumed these measures would last throughout the financial year and would translate into a 15% cut in cargo capacity, 13% cut in cargo traffic, 9% cut in passenger capacity and 8% cut in passenger traffic for 2010. About 70% of SIA's costs are variable. Depreciation, leases and insurance are fixed costs and we also assume that 30% of staff costs are fixed. After adjusting for lower fuel intake, lowered fuel costs and cost savings from the Budget 2009 initiatives, we lower our 2009 net profit forecast to S\$599.0m from S\$692.0m.

Operating Assumptions

(yoy %)	2008	2009F	2010F	2011F
Pax capacity	1.2	4.0	(9.0)	4.5
Pax traffic	2.6	1.2	(8.0)	3.5
Pax load factor (%)	80.3	75.9	75.9	74.8
Pax yield	12.1	11.3	10.6	10.6
Pax unit cost/ASK	8.4	8.8	8.1	8.7
Pax breakeven LF	69.4	77.8	76.5	81.7
Cargo capacity	(0.8)	(1.0)	(15.0)	5.0
Cargo traffic	(0.5)	(7.5)	(13.0)	2.0
Cargo load factor (%)	62.0	62.2	58.2	59.5
Cargo yield	38.4	38.7	39.0	38.0
Jet kerosene (US\$)	99.0	94.7	79.5	70.0

Source: SIA, UOB Kay Hian

SINGAPORE

Singapore Airlines (SIA SP)

SELL

Current Price: **S\$10.44**

Fair Price: **S\$9.70**

Sector	Aviation
52-Wk Avg Daily Vol. ('000)	2538
Market Cap (S\$m)	12387
(US\$m)	8268

Major Shareholders (%)	
Temasek	54.3

Book NTA per Share (S\$)	11.28
ROE (%)	14.6
Net Cash per Share (S\$)	3.94

Results Due	
1Q: Jun	2Q: Sep
3Q: Dec	Final: Mar

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2007	14,494.4	2,687.8	1,707.8	172.6	69.6	6.05	5.9	100.0	9.0
2008	15,972.5	3,655.8	2,049.4	168.5	(2.4)	6.20	4.4	100.0	9.0
2009F	15,143.8	2,443.3	914.7	76.2	(54.8)	13.71	6.8	60.0	5.7
2010F	13,040.8	2,258.2	598.7	49.4	(35.2)	21.15	6.9	40.0	3.8
2011F	13,474.5	2,469.0	824.7	67.8	37.4	15.39	6.2	60.0	5.7

Consensus Net Profit – FY08: \$1147.1m
 – FY09: \$1032.4m

Earnings Risk

This is a bold but a drastic move. Aside from the obvious cost savings, SIA is taking the lead and cutting capacity on expectations that competitors could follow suit. It remains to be seen if that would be the case. Meanwhile, there is a certain degree of operational risk with such severe cutbacks, especially if rivals do not match the capacity cuts. Its future market share in premier traffic could also be at risk. In addition, we have assumed yields will remain unchanged from our previous assumptions but yields could fall. That said, a major uncertainty is now out of the way. Even with these cuts, we still expect SIA to be profitable, but free cash flow generated is expected to be negative to the tune of S\$163m in 2010.

The main risk to our assumptions is future capacity adjustment. We have assumed that this would be maintained throughout the year. SIA could ramp up capacity over a span of 2-4 months, if the traffic environment improves.

Valuation/Recommendation

The market has not reacted negatively to this development, viewing it as a necessary step in the right direction. We concur, however, we still think a discount to book value is warranted given the macro risk. SIA obviously believes this is going to be a long-drawn affair given its decision to ground aircraft. We had earlier pared down dividend estimates for 2009-11. We now revise our 2010 payout from 50 cent to 40 cents per share. We maintain our SELL recommendation on the stock and S\$9.70 fair price on the stock, but would be less negative on the stock below S\$10.00.

Profit & Loss

Year to 31 Dec (S\$m)	2007	2008	2009F	2010F	2011F
Turnover	14,494.4	15,972.5	15,143.8	13,040.8	13,474.5
EBIT	1,314.4	2,124.5	974.2	723.1	990.4
Pre-tax Profit	1,863.6	2,547.2	1,159.7	768.2	1,048.1
Net Profit	2,128.8	2,049.4	914.7	598.7	824.7

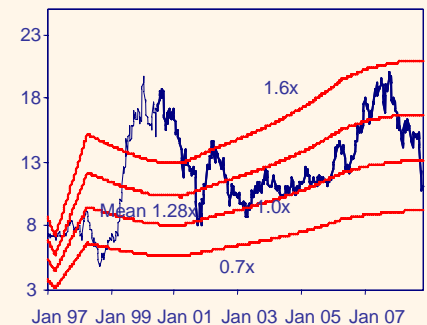
Balance Sheet

Year to 31 Dec (S\$m)	2007	2008	2009F	2010F	2011F
Current Assets	8,248.8	8,313.3	8,155.4	3,755.2	4,767.6
Total Assets	25,992.0	26,515.3	26,254.6	23,679.0	25,400.6
Current Liabilities	5,258.4	5,957.8	6,858.6	5,397.1	5,625.4
Long-Term Loans	1,805.8	1,599.2	1,475.8	1,382.4	1,272.1
Shareholders' Funds	15,100.0	15,125.2	12,774.8	13,060.1	14,618.5
Total Equity & Liabilities	25,992.0	26,515.3	26,254.6	23,679.0	25,400.6

Cash Flow

Year to 31 Dec (S\$m)	2007	2008	2009F	2010F	2011F
Operating	3,163.5	4,269.4	2,978.1	2,714.0	3,017.7
Investing	(278.0)	(1,301.1)	(1,613.8)	(2,031.1)	(1,956.2)
Financing	(816.0)	(2,832.3)	(1,348.8)	(845.6)	(621.1)
Net Cash In/(out flow)	2,069.5	136.0	15.6	-162.6	440.4
Effect of FX Changes	(117.0)	(110.7)	(100.0)	(100.0)	(100.0)
Begin Cash & Cash Equiv.	3,141.2	5,093.7	5,119.0	5,034.6	4,772.0
End'g Cash & Cash Equiv.	5,093.7	5,119.0	5,034.6	4,772.0	5,112.4

Price to Book



Source: SIA, UOB Kay Hian

Sino-Thai Engineering & Construction

4Q08: Satisfactory results but share price is at a premium

4Q08 results confirmed our belief that STEC's margins should turn around this year. However, share price is at a 14% premium to our TP due to speculation that it may win the Purple Line contract. Downgrade to SELL.

2008 Results

Consolidated Year to 31 Dec	4Q08 (Btm)	yoy % chg	2008 (Btm)	yoy % chg	Remarks
Sales	3,706	(2.8)	14,590	(15.6)	Fewer new contracts signed.
Gross profit	137	244.2	512	70.1	Benefit from lower steel and diesel prices.
EBITDA	229	773.5	752	47.7	Tight control over SG&A.
Pre-tax Profit	92	147.2	161	474.4	
Tax	(4)	33.3	(8)	(33.3)	
Net Profit	69	137.7	178	709.1	Gain on sales of a subsidiary.
Net Profit (Ex EI)	78	142.2	136	467.6	
EPS (Bt)	0.07	142.5	0.15	650.0	
Gross margin (%)	3.7%		3.5%		
EBITDA margin (%)	6.2%		5.2%		
Net margin (%)	1.9%		1.2%		

Source: UOB Kay Hian

Results

STEC reported satisfactory results. Although, 2008 sales are in line with our expectation, net profit is 22% better than our forecast. This is due to lower than expected SG&A expenses as most expenses were provided for in previous quarters. Therefore, EBITDA margin improved. Lower prices of steel and diesel also aided STEC's margin in 2H08.

Stock Impact

As steel and diesel prices remain low, we expect STEC would be able to maintain its gross margins in 1Q09 as in 4Q08. With the completion of the zero-gross-margin Rail Link Project (ALP) in 1Q09, we expect STEC's margin to normalise, exceeding 5% from 2Q09 onwards. We therefore expect STEC to be able to finish 2009 with a 5% gross margin.

However, STEC's top line performance remains in question. Due to the scarcity of public and private works, the company since Sept 08 was able to sign only two new contracts worth Bt1.1b in Jan 09. We therefore forecast lower sales and net profit for the company this year, despite improved margins.

The company has submitted bids for the second and third contracts of the Purple Line (worth Bt12b and Bt8b respectively) of which results will be known at end Feb 09 and in 2Q09. Due to its low orderbook (Bt12b), the Purple Line contracts are vital to STEC's top and bottom line performance. We would wait and see whether the company is able to win any Purple Line contracts before making adjustments to our forecasts.

THAILAND

Sino-Thai Engineering & Construction (STEC TB)

DOWNGRADE TO SELL

Current Price: Bt3.30

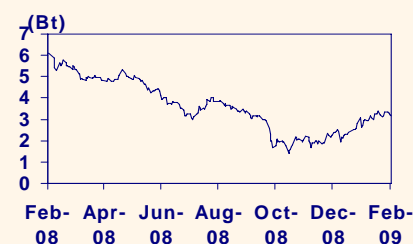
Fair Price: Bt2.89

Sector	Contractor
52-Wk Avg Daily Vol. ('000)	14,801
Market Cap (Btb)	3.9
(US\$m)	111.3
Major Shareholders (%)	
Charnvirakul Family	23.6
Book NTA per Share (Bt)	3.7
ROE (%)	4.3
Net Debt per Share (Bt)	0.1

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	17,282	509	22	0.02	101.23	177.93	3.28	0.00	0.0
2008	14,590	752	178	0.15	709.09	21.99	2.94	0.00	0.0
2009F	7,080	738	154	0.13	(13.40)	25.39	0.61	0.00	0.0
2010F	12,000	999	379	0.32	145.80	10.33	0.11	0.00	0.0
2011F	13,440	1,223	374*	0.32	(1.20)	10.46	0.12	0.16	4.8

Consensus Net Profit – FY09: Bt267m * End of the tax shield
 – FY10: Bt404m

Earnings Revision/Risk

Unless the company is able to secure some Purple Line contracts, we still maintain our forecasts.

Valuation/Recommendation

Despite satisfactory results, its share price has enjoyed a good run recently on speculation that STEC may win the second Purple Line contract due to its family links with politicians within the current government. For the time being STEC is trading at a 14% premium to our target price of Bt2.89 based on a 0.93x P/B. It also trades at an expensive 2009 PE of 25x. **Downgrade to SELL.**

Profit & Loss

Year to Dec 31 (Bt m)	2007	2008	2009F	2010F	2011F
Turnover	17,282	14,590	7,080	12,000	13,440
EBIT	51	269	233	451	568
Pre-tax Profit	16	203	160	385	511
Net Profit	22	178	154	379	374
EPS (Bt)	0.0	0.2	0.1	0.3	0.3

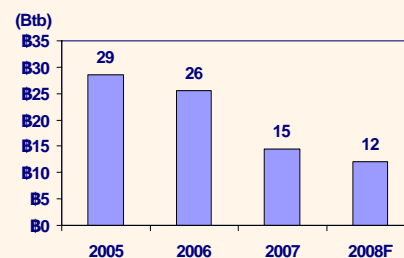
Balance Sheet

Year to Dec 31 (Bt m)	2007	2008	2009F	2010F	2011F
Current Assets	9,610	8,319	6,229	7,947	8,113
Assets Total A	14,027	12,405	10,353	12,398	13,318
Current Liabilities	9,673	7,647	5,499	7,163	7,706
Long-Term Loans	1,234	769	744	645	447
Shareholders' Funds	3,893	4,441	4,595	4,974	5,349
Total Equity & Liabilities	14,027	12,405	10,353	12,398	13,318

Cash Flow

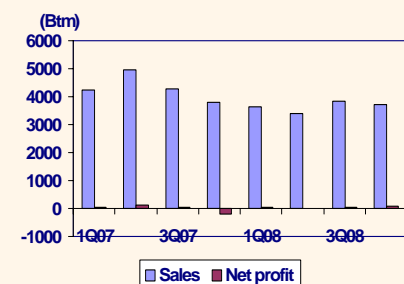
Year to Dec 31 (Bt m)	2007	2008	2009F	2010F	2011F
Operating	1,894	(165)	2,478	644	1,023
Investing	496	478	(227)	(559)	(1,316)
Financing	(2,626)	(409)	(631)	100	24
Net Cash Inflow/(Outflow)	(236)	(96)	1,619	185	(269)
Beginning Cash & Cash Equiv.	1,306	1,070	974	2,593	2,778
Ending Cash & Cash Equiv.	1,070	974	2,593	2,778	2,509

STEC's Orderbook



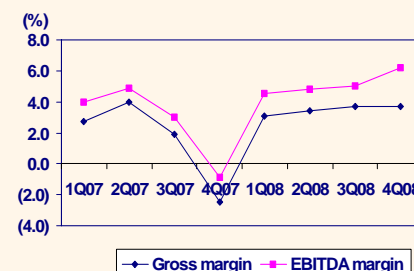
Source: STEC and UOB Kay Hian

Sales and Net Profit



Source: STEC

Gross and EBITDA Margin



Source: STEC

Valuation

Method	Results	Remarks
P/B approach	Bt2.89	Likely valuation
Stress P/B	Bt2.84	Unlikely as it is not going into bankruptcy

Source: UOB Kay Hian

P/B of STEC



Source: Bloomberg, UOB Kay Hian

Thoresen Thai Agencies

1QFY09: Weak earnings; fundamental view remains SELL.

Earnings fell 65% yoy on lower dry bulk shipping freight rates. We expect freight rates to be soft as new vessel supply floods the market from 2H09 onwards, although dry bulk shipping stocks are good short-term trading plays.

1QFY09 Results

Year to 30 Sep	1QFY09 (Btm)	yoy % chg	1QFY08 (Btm)	qoq % chg	Remarks
Total Revenue	7,300.45	(10.39)	8,147.05	(27.06)	Lower freight rates.
EBITDA	1,545.04	(50.86)	3,143.92	(47.08)	
PBT	1,092.07	(60.43)	2,759.79	(53.15)	Lower earnings.
Tax	(41.37)	(58.46)	(99.58)	(51.24)	
Net Profit	897.13	(65.25)	2,581.85	(56.37)	Higher minority interest.
Net Profit (ex EI)	322.76	(86.92)	2,466.66	(84.82)	Gain on repurchase and cancellation of convertible bonds.
EPS (Bt)	1.39	(65.25)	4.01	(56.37)	
EBITDA Margin (%)	21.16	(45.16)	38.59	(27.44)	Lower earnings and forex gain.
Revenue Breakdown					
Shipping	4,844.82	(25.53)	6,505.68	(39.64)	Lower dry bulk shipping freight rates.
Offshore service	1,574.22	44.32	1,090.82	(8.51)	
Service & com	172.94	26.81	136.37	1.49	
Others	708.47	71.06	414.17	669.71	

Source: TTA, UOB Kay Hian

Results

Thoresen Thai Agencies (TTA) reported a net profit of Bt897m (-65.3% yoy; -56.4% qoq) for 1QFY09. Included in the earnings are a foreign exchange gain of Bt29m and a gain on the repurchase and cancellation of TTA's convertible bonds of Bt545m. The decline in earnings is mainly due to a fall in dry bulk shipping freight rates as mirrored in the Baltic Dry Index (BDI), which plunged 25% from 3,025 to 774 during 1QFY09.

Stock Impact

In our report dated 2 Feb 09, we said dry bulk shipping stocks would likely see a sharp rally if the Baltic Dry Index (BDI) continued to head north. Between mid-Jan and mid-Feb 09, TTA's share price rallied 11.3% as the BDI surged from 868 to 2,055 over 17 consecutive days on higher iron ore shipments to China before trending down for the past two days. Dry bulk shipping stocks remain good trading stocks in the short term if the BDI continues its rally. However, freight rates are likely to remain soft as the market faces vessel oversupply from 2H09 onwards.

Thailand

Thoresen Thai Agencies (TTA TB)

SELL

Current Price: Bt16.30

Fair Price: Bt13.80

(Previous: Bt11.50)

Sector Marine
52-Wk Avg Daily Vol. ('000) 20,755
Market Cap (Btm) 10,492.0
(US\$m) 328.0

Major Shareholders (%)
Thai NVDR Ltd 23.0
State Street Bank & Trust Co 7.4

Book NTA per Share (Bt) 39.2
ROE (%) 43.7
Net Cash per Share (Bt) 7.9

Results Due

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

Price Chart



Source: Bloomberg

Analyst

Thailand Research Team
research@uobkayhian.com

Year to 30 Sep	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Bt)	Yield (%)
2007	21,319	6,841	4,962	7.7	41.7	2.1	1.5	1.65	10.11
2008	35,382	11,508	8,776	13.6	76.9	1.2	0.9	3.32	20.35
2009F	24,691	3,507	817	1.3	(90.7)	12.8	2.9	0.32	1.95
2010F	20,258	2,087	(366)	(0.6)	n.m.	(28.7)	4.8	n.m.	n.m.
2011F	23,434	3,511	1,413	2.2	n.m.	7.4	2.9	0.55	3.37

Consensus Net Profit – FY09: Bt2,431.2m
– FY10: Bt1,540.1m

Earnings Risk

Based on our quarterly estimates of vessel deliveries, 2H09 will see a sharp influx of newbuilds into the dry bulk shipping market. A significant portion of 2010 deliveries could be delayed or cancelled in view of the current global credit crunch and the recent collapse in vessel values. Shipping rates would likely be soft in 2H09 before they get better in 2010 (if a significant portion of 2010 deliveries are cancelled or delayed). We forecast the BDI to be 2500 in 2009 and 1500 in 2010 before finding relief in 2011. Since freight rates have collapsed by over 90% from their peak in May 08, TTA may face the risk of margin compression in its chartered-in fleet due to the mismatch of earlier locked-in, high ship charter-in costs vs currently low ship charter-out rates. The other risk is the risk of default by its charterers.

Valuation/Recommendation

TTA's current share price is trading at an 18% premium to our revised fair value of Bt13.80 (based on a 0.35x 2010 P/B). We maintain our **SELL** recommendation.

With the global dry bulk shipping fleet growth projected at 11% and 19% for 2009 and 2010 respectively, far exceeding our tonne-mile demand growth expectation of -0.9% for 2009 and 3.3% for 2010, dry bulk shipping rates would likely be soft as strong vessel deliveries hit the market in 2009/10. However, we would revisit our view should vessel scrapping and order cancellation rise sharply, which would redress the potential oversupply situation.

Over the last three months, there is an increase in scrapping activity, with scrapping posting a historic high of 2.4m dwt in Dec 08. Should this pick up substantially and coupled with order cancellations, the dry bulk shipping sector may stage a strong return.

Profit & Loss

Year to 30 Sep (Btm)	2007	2008	2009F	2010F	2011F
Turnover	21,319	35,382	24,691	20,258	23,434
EBIT	5,060	9,457	1,620	591	2,676
Pre-tax Profit	5,197	9,437	1,487	304	2,150
Net Profit	4,962	8,776	817	(366)	1,413

Balance Sheet

Year to 30 Sep (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	7,863	18,480	22,316	20,812	19,599
Total Assets	28,144	42,143	45,392	48,632	52,825
Current Liabilities	4,482	5,284	7,940	7,395	6,426
Long-Term Loans	7,645	7,644	7,204	10,844	14,484
Shareholders' Funds	15,116	25,022	25,634	25,360	26,419
Total Equity & Liabilities	28,144	42,143	45,392	48,632	52,825

Cash Flow

Year to 30 Sep (Btm)	2007	2008	2009F	2010F	2011F
Operating	6,861	11,340	2,704	1,130	2,248
Investing	(4,366)	(6,281)	(2,160)	(6,240)	(6,240)
Financing	(99)	2,613	5,388	4,186	2,389
Net Cash In/out flow)	2,396	7,672	5,932	(924)	(1,604)
Begin Cash & Cash Equiv.	1,372	3,745	11,528	17,460	16,536
Adjustments	(23)	111	-	-	-
End'g Cash & Cash Equiv.	3,745	11,528	17,460	16,536	14,932

Ticon Industrial Connection

If unable to sell assets into TFUND, earnings will plunge 60%

TICON's occupancy rate falls to its historic low as 70% of its tenants are in the troubled electronics/auto business. In the worst case, if TICON is unable to sell its assets into TFUND, its 2009 profit will plunge 60% from consensus.

Corporate Events

Our recent visit has shown that things have turned from bad to worse. We downgrade Ticon Industrial Connection (TICON) to SELL based on several reasons. a) 70% of its tenants are in the electronics/electrical as well as auto business, which have been hard hit by the global financial crisis. Thus far, their capacity utilisation has reduced by half. Hence, TICON sees an abnormally high contract cancellation rate of 2-3 factories per month, up from 2-3 factories per quarter during normal time. b) Weak demand and high cancellation rate have led to a plunge in TICON's total occupancy rate to a historic low of 79% at end-08 (1997: 86%). c) Negative sentiments have also put pressure on its asset value. The profit from the recent sale of assets into TFUND REIT in Dec 08 has been squeezed as TICON was forced to sell such assets at a discount amid weak demand. In the worst case, TFUND may not be able to raise funds to buy TICON's assets, which will cause TICON's 2009 profit to collapse 60% from the consensus.

Stock Impact

Demand for rental factories has been weak over the past two years but demand for rental warehouses has come in better than expected. TICON signed 27-28 of new rental factory contracts per year in 2007 and 2008, down from 45 in 2006 and 60 in 2005. On the other hand, it signed 12 new warehouse contracts in 2007 and 20 in 2008. Management expects the demand for rental factories to remain weak but interests in rental warehouses are still healthy, mainly from local customers such as major discount stores (Carrefour and Makro) as well as food companies.

We slash 4Q08 earnings forecast from Bt702m to Bt500m (-34% yoy). The recent capital increase of TFUND in Dec 08 was short of expectation. TFUND could raise only Bt2.16b to buy from TICON 46 units of factories/ warehouses, down from the original acquisition plan of 50 units of factories/ warehouses worth Bt2.58b. Also, gross margin from asset sales was squeezed to 40% from almost 50% during 2005-07. Hence, 2008 profit is likely to come in at Bt711m (-33% yoy).

For 2009, we assume TICON to sign around 38 contracts (-20% yoy). We still include sale of assets into TFUND of around Bt2.0b but at a lower gross margin of around 38%. Hence, its net profit for 2009 is likely to drop by around 4% yoy to Bt682m (EPS Bt1), 16% lower than the consensus. However, if we opt for the worst-case scenario in which TFUND will stop buying assets from TICON this year, its EPS will drop by 60%.

Recommendation

We downgrade TICON to SELL. Apart from a weak core rental business, major downside risk is the likelihood that TFUND will not be able to raise new funds to buy assets in the midst of the global financial crisis. In case TFUND manages to raise only half of the funds it obtained in 2008 to buy assets, TICON's profit will drop by 30%, causing its PE to move up to almost 10x. In the worst case, TFUND will stop buying assets from TICON, which will cause TICON's profit to plunge 60% and hence its PE will surge to 16x with a decline in its yield to only 5%. It is highly likely that TFUND will face difficulty in raising new funds. Recently CPNRF, Thailand's top REIT, has again announced the postponement of its plan to raise funds to buy assets from CPN. It has been four straight years (since 2006) that CPNRF is unable to raise additional funds.

THAILAND

Ticon Industrial Connection (TICON TB)

DOWNGRADE TO SELL

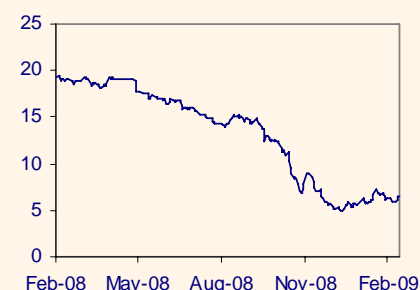
Current Price: Bt6.55

Fair Price: Bt4.40

(Previous: Bt5.65)

Sector	Property
52-Wk Avg Daily Vol. '000	982.2
Market Cap (Btm)	4,303.4
(US\$m)	123.0
Major Shareholders (%)	
Rojana Industrial Park	21.8
Book NTA per Share (Bt)	7.5
ROE (%)	22.6
Net debt/share (Bt)	4.7
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		EPS		EV/			
			Profit (Btm)	EPS (Bt)	Growth (%)	PE (x)	EBITDA (x)	P/B (x)	DPS (Bt)	Yield (%)
2006	2,964	1,585	869	1.30	28.0	5.1	4.2	0.93	1.20	18.3
2007	3,200	1,656	1,063	1.59	22.3	4.1	4.3	0.88	1.20	18.3
2008F	3,080	1,379	711	1.06	(33.1)	6.2	5.8	0.87	0.81	12.4
2009F	2,916	1,274	682	1.02	(4.1)	6.4	6.3	0.84	0.77	11.8
2010F	3,072	1,319	730	1.09	7.0	6.0	6.3	0.81	0.82	12.5

Consensus Net profit – FY08: Bt856m
 – FY09: Bt814m

Over the past six months, TICON's foreign holding has already plunged to 33% from 40% in Oct 08. Amid such concern, there is still room for further sell-offs by foreign investors. Moreover, after the existing shareholders have already received the free 5-year warrants (one for every three shares held) since end-Jan 09, we do not see any incentive for them to hold on to TICON's shares.

Valuation

TICON's average low-range PE during 2002-4 before it opted for assets monetisation via TFUND REIT stood at 11x. Assuming the worst case, its EPS will come in at around Bt0.40. Hence, we arrive at our new fair price of Bt4.40 pegged on PE of 11x. P/B and yield on share price of Bt4.40 are 0.6x and 6%, respectively.

To cut back on investment

TICON's debt to equity ratio stood at 1.2x at end-08 (after selling assets into TFUND REIT). Amid the gloomy outlook, TICON has to scale down its investment from Bt2.5b in 2008 to around Bt1.6b-1.7b in 2009. Of the total, around 70% will be used to develop warehouse for rents, the area with healthy demand. Given soft demand for factory, it is unnecessary to buy additional land for factory development this year. In case it is unable to raise funds from selling assets, TICON will have to put some investments on hold, particularly with its high gearing.

Profit & Loss

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Turnover	2,964	3,200	3,080	2,916	3,072
EBIT	1,467	1,567	1,262	1,172	1,247
Pre-tax Profit	1,258	1,357	1,064	970	1,029
Net Profit	869	1,063	711	682	730
EPS (Bt)	1.3	1.6	1.1	1.0	1.1

Balance Sheet

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Current Assets	1,353	588	556	715	851
Total Assets	9,538	9,683	10,909	11,421	12,224
Current Liabilities	1,080	1,072	1,650	1,700	1,750
Long-term Loans	3,620	3,434	3,750	4,000	4,500
Shareholders' Funds	4,543	4,852	4,959	5,172	5,425
Total Equity & Liabilities	9,538	9,683	10,909	11,422	12,225

Cash Flow

Year to 31 Dec (Btm)	2006	2007	2008F	2009F	2010F
Operating	1,333	1,243	1,171	1,002	1,051
Investing	(2,309)	(1,050)	(1,577)	(622)	(938)
Financing	2,008	(947)	344	(220)	23
Net Cash Inflow/(Outflow)	1,032	(754)	(61)	160	136
Begin Cash & Cash Equiv.	257	1,289	535	474	633
End'g Cash & Cash Equiv.	1,289	535	474	633	769

Portfolio: Factories And Warehouses

(sqm)	2005	2006	2007	2008
Leased	329,325	344,943	353,705	382,886
Pre-leased	65,725	77,225	70,575	69,645
Available	35,150	67,550	92,070	118,615
Development	150,015	226,848	538,129	408,253
Total TICON	580,215	716,566	1,054,479	979,399
Occupancy %	91.8	90.1	82.2	79.2

TFUND	89,900	184,007	286,482	395,100
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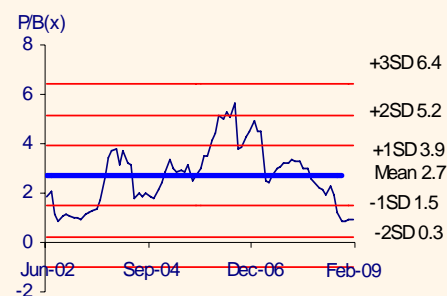
Source: TICON

Sensitivity Analysis (with or without asset sales)

2009	EPS (Bt)	PE x	P/B x	Yield %
Base case	1.0	6.6	0.8	11
<i>(Proceeds from assets sale are equal to 2008's)</i>				
50% sale	0.7	9.4	0.9	8
<i>(Proceeds from assets sale halve 2008's)</i>				
Worst case	0.4	16.4	0.9	5
<i>(No asset is sold into TFUND)</i>				

Source: UOB Kay Hian

TICON's Share Price And Standard Deviation



Source: SETSMART, UOB Kay Hian

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