

### KEY STORY

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Continuous sales improvement is a strong catalyst.

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#### CHINA

##### Sector

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##### Update

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**China Railway Group (BUY/HK\$4.14/Target: HK\$5.90)** Page 17  
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#### HONG KONG

##### Results

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#### INDONESIA

##### Economics

**Feb 09 Consumer Price Index** Page 21  
Annual inflation rate falls further to 8.6% in Feb 09. The central bank may continue with its rate cut.

#### SINGAPORE

##### Results

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2008: Results are in line with our expectation. Gross margin is expected to weaken in 1Q09 as fertiliser inventory is carried over from 2008.

##### Update

**Ascendas REIT (BUY/S\$1.24/Target: S\$1.92)** Page 24  
Key takeaways from luncheon presentation.

#### THAILAND

##### Results

**Hemaraj Land and Development (SELL/Bt0.50/Fair: Bt0.40)** Page 26  
4Q08: Weak results due to a plunge in land sales and extra losses. Prospects look gloomy. Maintain SELL.

**Ticon Industrial Connection (SELL/Bt5.80/Fair: Bt4.40)** Page 28  
4Q08: Profit fell by 32% yoy. Dismal outlook as occupancy rate hits historical low. 2009 profit will plunge 60% if asset sale does not take place.

### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	6763.3	(4.2)	(4.9)	(14.8)	(22.9)
S&P 500	700.8	(4.7)	(5.7)	(15.1)	(22.4)
FTSE 100	3625.8	(5.3)	(5.8)	(11.1)	(18.2)
AS30	3203.8	(2.8)	(3.0)	(7.1)	(12.4)
CSI 300	2164.7	1.1	(10.2)	2.6	19.1
FSSTI	1533.4	(3.9)	(6.0)	(10.4)	(13.0)
HSI	12317.5	(3.9)	(6.5)	(3.6)	(14.4)
JCI	1256.1	(2.3)	(4.3)	(3.7)	(7.3)
KLCI	876.6	(1.6)	(1.3)	(0.4)	(0.0)
KOSPI	1018.8	(4.2)	(7.3)	(12.4)	(9.4)
Nikkei 225	7280.2	(3.8)	(1.3)	(7.0)	(17.8)
SET	416.5	(3.5)	(4.2)	(3.3)	(7.4)
TWSE	4425.8	(2.9)	(1.2)	1.2	(3.6)
BDI	2014.0	1.4	(3.4)	83.3	160.2
CPO (RM/mt)	1923.0	0.1	0.7	3.6	18.0
Nymex Crude (US\$/bbl)	40.1	(10.4)	4.3	0.0	(10.1)

Source: Bloomberg

### Top BUYs/SELLs

	Ticker	Current Price (1cy)	Target Price (1cy)	Pot. +/- (%)
<b>Top BUYs</b>				
China Life	2628 HK	20.70	30.50	47.3
China Mobile	941 HK	65.35	90.00	37.7
China Petroleum	386 HK	3.85	6.93	80.0
China Railway	390 HK	4.14	5.90	42.5
China Shenhua	1088 HK	14.26	23.00	61.3
Maanshan Iron	323 HK	2.15	3.70	72.1
Bumi Resources	BUMI IJ	7.20	1,010	40.3
Public Bank	PBK MK	8.50	10.90	28.2
DBS Group	DBS SP	7.41	10.55	42.4
Indofood Agri	IFAR SP	0.47	0.80	70.2
SingTel	ST SP	2.48	2.95	19.0
Advanced Info	ADVANC TB	81.50	101.73	24.8
Quality Houses	QH TB	0.74	1.28	73.0
<b>Top SELLs</b>				
Aluminum Corp	2600 HK	3.55	3.00	(15.5)
Parkson Retail	3368 HK	6.12	5.15	(15.8)
Wharf Hldg	4 HK	16.10	14.60	(9.3)
S'pore Airlines	SIA SP	9.87	9.70	(1.7)
S'pore Exchange	SGX SP	4.27	3.00	(29.7)
Amata Corp	AMATA TB	3.30	2.52	(23.6)

### Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.3	(2.0)	1.8
Euro Zone*	0.7	(1.8)	0.8
Japan*	(0.7)	(2.9)	n.a.
Singapore	1.2	(4.0)	4.0
Malaysia	5.1	0.9	4.0
Thailand	4.2	0.5	4.3
Indonesia	6.0	3.6	n.a.
Hong Kong	2.2	(0.8)	1.5
China	9.0	7.1	8.0
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,689	2,077
Copper* (US\$/MT)	6,884	3,744	4,596
Gold Price London* (US\$/ounce)	873	968	987
Iron Ore* (US\$/dmu)	153	107	99
CPO (US\$/MT)	818	520	685
BDI	6,338	2,500	1,500

\* Bloomberg

Source: UOB, UOB Kay Hian

### Corporate Events

	Venue	Beg	Close
Bumi Resources Roadshow	Singapore	12 Mar	13 Mar
Fushan Energy Roadshow	Hong Kong	3 Mar	4 Mar

## Dry Bulk Shipping

Bi-weekly: Cyclone and floods in Western Australia hamper iron ore exports

*The BDI lost steam last week as cyclone threats and heavy rains in Western Australia reduced cargo shipments to China.*

### SECTOR REVIEW

**Iron ore exports hampered by poor weather.** The Baltic Dry Index (BDI) increased 4.1% over the past two weeks but share prices of dry bulk stocks retreated. Last week, cyclone threats and heavy rains in Western Australia (WA) led Rio Tinto and BHP to halt operations at iron ore mines and delay shipments to China. The BDI declined for four consecutive days before edging up 1.8% on last Friday, mainly boosted by the Handymax market.

**Lower commodities demand and prices.** Given the slow consumer demand, commodities prices in China continued to decline. Coal prices fell 0.4% wow last week. Steel prices in China also dropped 2-6% wow, the third consecutive week of decline, highlighting the weak demand and overbuilt inventory by traders. Low commodity demand weighs on the dry bulk shipping sector.

### SECTOR OUTLOOK

**Sluggish downstream demand.** Underlying steel demand is ultimately determined by consumer demand. Property inventory in China is still hovering at a high level. Our Greater China property research team forecasts China's real estate (accounts for about 50% of China's steel demand) to remain sluggish in the near term, thus restraining China's commodity demand. Also, after weeks of restocking, steel inventory has exceeded 2008's peak. Coupled with the sluggish downstream demand, iron ore and steel demand may remain weak in the near term. This may in turn constrain dry bulk shipping freight rates.

**Steel mills cut production.** Steel prices in China are higher than those of imports from Russia and Ukraine as their currencies have depreciated more than 30% over the past six months. This may encourage steel imports and hence, weaken iron ore demand from China. In light of softening steel prices and weakening consumer demand, some steel mills have cut their production again.

**Long-term fundamentals remain dim.** The dry bulk shipping sector has been hampered by weak demand and vessel overcapacity. Scrapping has been on the rise significantly since Oct 08 with total dry bulk fleet capacity shrinking by 0.6m dwt in February. However, on the demand front, total bulk seaborne trade is expected to decline by 0.9% yoy in 2009. We have factored in Clarkson's higher estimate of 22.7m dwt of scrapping in 2009 in our dry bulk shipping demand-supply model. Nonetheless, with global fleet growth of 8.5% in 2009 vs a demand contraction of 0.9%, there would still be an imbalance between supply and demand. We maintain **UNDERWEIGHT** on the dry bulk shipping sector.

### Stock Prices vs Baltic Dry Index

	Ticker	Price @ 2 Mar 09	2W (%chg)	1M (%chg)	12M (%chg)	YTD (%chg)	12M Corr Ratio
China COSCO	1919 HK	4.07	(18.4)	(12.5)	(82.7)	(24.5)	0.97
China Shipping	1138 HK	5.62	(21.4)	(24.1)	(77.4)	(27.0)	0.97
Pacific Basin	2343 HK	3.46	(15.6)	(15.6)	(74.0)	(1.7)	0.97
STX PO	STX SP	7.8	(26.4)	(25.9)	(74.5)	(13.3)	0.97
Precious Shipping	PSL TB	9.80	(27.9)	(7.5)	(65.0)	(10.1)	0.95
Thoresen Thai	TTA TB	11.40	(30.1)	(27.1)	(73.9)	(25.4)	0.97
Malaysian Bulk	MBC MK	2.83	1.8	11.0	(31.3)	18.4	0.94
Courage Marine	CMG SP	0.125	(7.4)	0.0	(65.8)	(3.8)	0.97
Mercator Lines	MRLN SP	0.12	(17.2)	(11.1)	(72.1)	(17.2)	0.96
Sincere Nav	2605 TT	25.55	(3.4)	4.9	(52.3)	(14.8)	0.93
U-Ming	2606 TT	43.90	(1.8)	9.5	(48.4)	11.7	0.93
Baltic Dry Index	BDIY	1,986	4.1	80.7	(73.9)	156.6	n.a.

Source: Bloomberg; UOB Kay Hian

## REGIONAL

## Dry Bulk Shipping UNDERWEIGHT

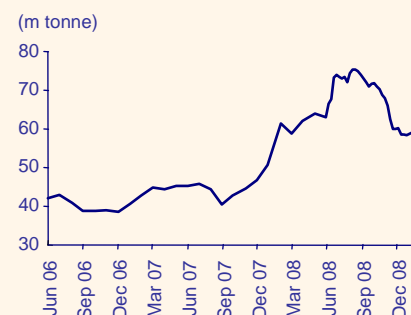
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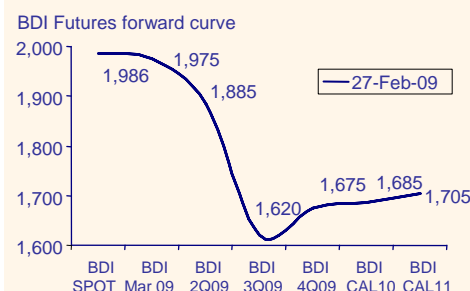
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### Chinese Ports Iron Ore Stockpiles



Source: Bloomberg; UOB Kay Hian

### BDI Futures Forward Curve



Source: Imarex

**Corporate Headlines**

**STX Pan Ocean expects a profit as rates emerge.** STX Pan Ocean expects to return to profitability in 2Q09 as China's economic stimulus efforts help to boost rates. The company also expects to meet a target of US\$6.6b in sales this year.

**Precious Shipping says a third of global ships to be scrapped** within the next two years as trade collapses amid a global recession and tighter credit.

**Baltic Freight Indices**

(% chg	Index	2W	1M	12M	ytd
Baltic Dry Index	1,986	4.1	80.7	(73.9)	156.6
Baltic Capesize	2,963	(11.2)	45.6	(70.6)	121.6
Baltic Panamax	1,542	10.2	162.2	(78.4)	176.3
Baltic Supramax	1,529	28.5	232.4	(69.3)	263.2
Baltic Handysize	628	32.2	121.9	(72.5)	123.5

Source: Bloomberg; UOB Kay Hian

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

Vessel	Rate	2W	1M	3M	6M	ytd
Capesize	23,000	23,000	20,750	8,000	110,000	15,000
Panamax	14,500	14,250	12,000	10,750	62,500	10,750
Handymax	13,000	12,250	10,500	9,750	52,500	9,500
Movement	Rate	2W %	1M %	3M %	6M %	YTD %
Capesize	23,000	0.0	10.8	187.5	(79.1)	53.3
Panamax	14,500	1.8	20.8	34.9	(76.8)	34.9
Handymax	13,000	6.1	23.8	33.3	(75.2)	36.8

Source: Clarksons, UOB Kay Hian

**Capesize.** Capesize market was quiet. The number of spot fixtures decreased significantly last week. The Capesize market has been awash with rumours, much revolving around Rio Tinto's force majeure declaration. The question is how long this will last and whether others take the opportunity to push the market down. Average earnings fell by 19% w/w to US\$29,277/day.

**Panamax.** The Pacific spot market softened early last week, but firmed again last Thursday. Time charter rates are still trading at a substantial premium to the spot rates. The 1-2 year market is extremely quiet though and with longer term FFAs only showing a shallow upward curve to 2012, charterers are not rushing to charter-in. Average earnings declined 3.6% w/w to US\$10,141/day.

**Peer Comparison**

Company	Ticker	Currency	Price @ 2 Mar 09	Target/Fair Price	Rec	PE (x)			P/B (x)		
						2007	2008F	2009F	2007	2008F	2009F
<b>Hong Kong</b>											
China COSCO	1919 HK	HK\$	4.07	4.00	SELL	1.6	1.5	1.9	0.69	0.57	0.51
China Shipping	1138 HK	HK\$	5.62	11.80	BUY	3.6	2.7	2.8	1.02	0.81	0.69
Pacific Basin	2343 HK	HK\$	3.46	3.20	HOLD	1.5	1.8	9.9	0.80	0.61	0.60
<b>Malaysia</b>											
Malaysian Bulk	MBC MK	RM	2.83	n.a.	NR	6.1	11.8	14.6	1.50	1.49	1.49
<b>Singapore</b>											
Courage Marine	CMG SP	S\$	0.125	n.a.	NR	2.1	n.a.	n.a.	0.72	n.a.	n.a.
Mercator Lines	MRLN SP	S\$	0.12	n.a.	NR	1.5	1.3	1.8	0.37	0.31	0.25
STX P O	STX SP	S\$	7.80	4.35	SELL	1.8	2.1	28.8	0.49	0.47	0.46
<b>Taiwan</b>											
Sincere Navigation	2605 TT	TWD	25.55	n.a.	NR	4.4	4.8	5.8	1.28	1.13	1.10
U-Ming Marine	2606 TT	TWD	43.90	n.a.	NR	4.2	3.7	9.5	1.52	1.27	1.34
<b>Thailand</b>											
Precious Shipping	PSL TB	Bt	9.85	8.30	HOLD	2.4	2.1	3.4	0.73	0.63	0.58
Thoresen Thai	TTA TB	Bt	11.50	13.80	SELL	1.5	0.8	9.1	0.49	0.30	0.29
<b>Average</b>						<b>2.8</b>	<b>3.2</b>	<b>8.0</b>	<b>0.87</b>	<b>0.75</b>	<b>0.72</b>

Source: Bloomberg, UOB Kay Hian

## Coal

Pending resource tax to weigh on share prices

*Coal shares plunged 6-8% yesterday, hurt by the deadlock in coal price talks and the fall in overseas prices. A 5-8% rise is likely. We like China Shenhua and China Coal, but their short-term share prices may weaken.*

### Sector Events

Chinese coal shares were dragged down yesterday by the ongoing deadlock in contract price talks and the sharp pullback in NEWC coal prices.

### Sector Impact

Assuming price parity between domestic and NEWC coal prices, China's spot coal prices may fall 10% to test Dec 08's low before a potential price recovery in 2H09. The low may come as we hear more details about a revamped resource tax in this week's sitting of the National People's Congress (NPC).

Still, we believe our forecast of a 5-8% contract price hike to Rmb500/tonne remains feasible. We continue to favour contract plays to spot plays, with China Shenhua and China Coal as our top sector picks.

Yesterday's fall in share prices was due partly to a rumour attributed to the industry regulator, the National Development and Research Commission (NDRC). In a news flash, sina.com quoted unnamed sources in the NDRC as suggesting no coal price rise for independent power producers (IPP) as a compromise to the deadlock.

Coal miners and IPPs we spoke to said they were unaware of the latest NDRC rumour. Until now, the contract price is a matter of negotiation between the coal plays and IPPs. But when both parties fail to agree, Beijing will step in and play mediator.

In the coal market, Qinghuangdao (QHD) coal price, a domestic benchmark, was 7% off its recent peak. Coal stockpiles at QHD port, a barometer of domestic supply-demand dynamics, stabilised, after a seven-week inventory build-up, as the Shanxi mine accident prompted local governments to undertake safety checks, thereby tightening coal supply.

While the domestic market appears to have stabilised, investors are worried by the sharper-than-expected 14% wow fall in NEWC coal prices to US\$65.3/tonne, dragged down by seasonal weakness and ongoing international price talks. As a negotiating tactic, China's IPPs have resorted to purchasing coal overseas, inevitably dragging down domestic coal prices.

Assuming price parity between domestic and international coal prices, we estimate spot coal prices could fall 10% to test Dec 08's low of Rmb510/tonne. Our forecast of a 5-8% contract price hike to Rmb500/tonne remains viable, as the gap between spot and contract prices is still high at 24%. Normally, the gap is 5-10%.

We maintain our Rmb500/tonne contract price and Rmb550/tonne average coal price in 2009. With a low-base selling price, China Shenhua and China Coal could manage a 5-10% contract price hike and gain market share amid closure of small coal mines.

## CHINA

### Coal

## OVERWEIGHT

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	Share price		Rec	TP	PE		P/B		EV/tonne	ROE		ROA		Dividend Yield	
	Ticker	LC			FY08F	FY09F	FY08F	FY09F		US\$	FY08F	FY09F	FY08F	FY09F	FY08F
China Shenhua	1088HK	14.26	BUY	23.00	8.55	8.31	1.83	1.60	7.68	21.37	19.25	10.73	9.47	4%	4%
China Coal Energy	1898HK	4.43	BUY	8.00	6.61	7.26	0.91	0.83	3.72	13.69	10.70	8.92	6.80	5%	4%
Yanzhou Coal	1171HK	4.19	HOLD	7.00	2.93	4.60	0.55	0.51	4.77	29.73	15.26	24.07	12.47	10%	5%
Hidili	1393HK	1.85	HOLD	3.00	2.93	3.61	0.57	0.51	1.77	19.55	8.77	16.14	7.31	9%	7%

Source: Bloomberg, UOB Kay Hian

**Valuation/Recommendation**

We maintain our BUY rating on China Shenhua (Target: HK\$23.00) and China Coal (Target: HK\$8.00). However, there is no rush to buy as the pending new resource tax regime, which will shift from being volume-based to price-based and will likely be nailed down in the NPC sitting, would weigh on both counters. We lower our entry level to HK\$14 and HK\$4 for China Shenhua and China Coal respectively on weak market sentiment.

**Highlights of NEWC and QHD px and inventory**

Date	Qinghuangdao coal inventory	QHD Coal price - incl VAT				NEWC Coal price	Px diff (QHD vs NEWC) - excl VAT
	Total	> 6000kcal		5500kCal		6500kCal	
	m tonnes	Rmb/t	US\$/t	Rmb/t	US\$/t	US\$/t	
26/10/2008	7.972	955	139	850	124	96.0	28%
2/11/2008	8.615	910	133	808	118	100.8	17%
9/11/2008	9.107	880	129	780	114	104.0	10%
16/11/2008	9.226	790	116	710	104	97.5	5%
23/11/2008	9.137	690	101	580	85	85.7	4%
30/11/2008	8.452	690	100	580	84	78.2	13%
7/12/2008	8.630	650	94	530	77	76.1	10%
14/12/2008	7.877	590	86	510	74	78.3	-3%
21/12/2008	6.567	625	91	595	87	77.8	4%
28/12/2008	6.252	625	91	590	86	80.6	0%
4/1/2009	5.236	640	94	600	88	79.2	1%
11/1/2009	4.943	633	92	598	87	81.4	-3%
18/1/2009	5.470	633	93	598	87	81.5	-3%
25/1/2009	5.470	-	-	-	-	88.2	-3%
1/2/2009	6.160	630	92	595	87	83.2	-5%
8/2/2009	7.056	610	89	578	85	78.2	-2%
15/2/2009	7.383	595	87	570	83	80.3	-7%
22/2/2009	7.601	593	87	560	82	76.3	-3%
1/3/2009	7.669	593	87	558	82	65.3	13%

Source: CCTD, GlobalCoal, UOB Kay Hian

## Infrastructure Construction

### Railway FAI remains strong

Our recent discussions with the management of leading infrastructure construction companies confirm that orders inflow remains strong. Their shares are trading at a more reasonable valuation. Maintain OVERWEIGHT.

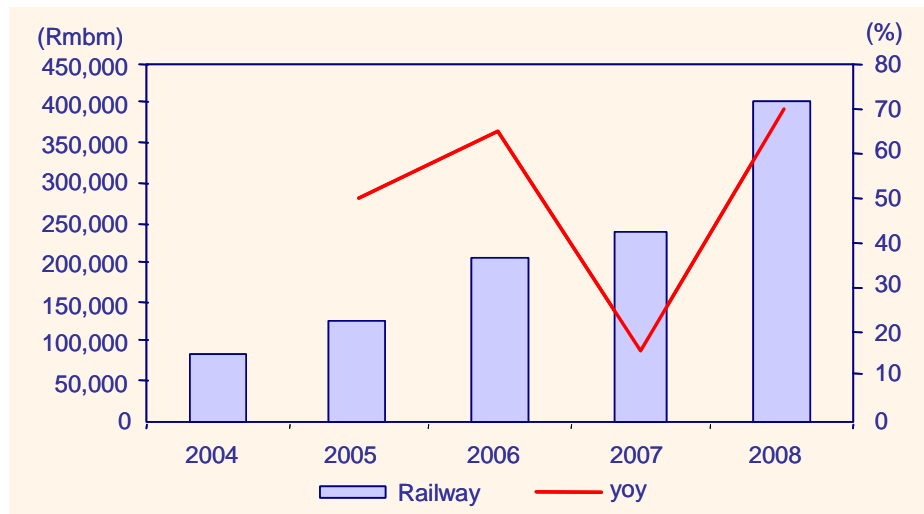
#### Sector Events

Last week, we visited the infrastructure construction companies and related plays - including China Communications Construction (CCC) (1800 HK), China Railway Construction (CRC) (1186 HK), China Railway Group (CRG) (390 HK), CNBM (3323 HK), Sinoma (1893 HK) and China Automation Group (CAG) (569 HK). Management of infrastructure-related companies remain positive on the outlook given increasing investment in infrastructure projects by China's government, especially railways, better cost environment as well as improvement in the credit market in China.

Share prices of CCC, CRC and CRG saw significant corrections given weak market sentiment, concerns over their overseas operations and potential margin squeeze by the Ministry of Railway (MOR). The valuation of the sector has become more reasonable and we view this as a good re-entry opportunity. We upgrade CCC and CRC to BUY given strong support from China's government in overseas expansion, strong orders inflow, and lower cost pressure. Potential upward revision of the government's budgets for infrastructure projects is near-term share price catalyst to the sector.

**Orders inflow remains strong.** FAI in the railway sector rose 69.9% yoy in 2008, higher than overall FAI growth of 26.1%, and reached Rmb 402b (Rmb330b for infrastructure and the rest for procurement of trains and upgrading). The MOR's budgets for infrastructure construction and train procurement will increase by 81.8% yoy to Rmb600b and 38.9% yoy to Rmb100b respectively in 2009. Management of CCC, CRC and CRG also remain positive on orders inflow for 2009 and 2010 given increasing investment by the government in the railway sector. Strong orders inflow from railway sector has been reported, ytd. CRG announced Rmb69b new rail orders ytd, CRC and CCC respectively released Rmb50b and Rmb5.9b of new railway orders. Railway construction is a key area in the government's stimulus package. It is possible that China's government will revise up the budgets for infrastructure construction to boost the local economy if the macro environment becomes worse than expected.

#### FAI in Railway



Source: CEIC, UOB Kay Hian

### CHINA

#### Infrastructure Construction

### OVERWEIGHT

#### China Communications Construction (1800 HK)

#### UPGRADE TO BUY

Current Price: HK\$7.19  
Target Price: HK\$10.08

#### China Railway Construction (1186 HK)

#### UPGRADE TO BUY

Current Price: HK\$9.20  
Target Price: HK\$12.50  
(Previous: HK\$10.20)

#### China Railway Group (390 HK)

#### BUY

Current Price: HK\$4.14  
Target Price: HK\$5.90

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**Better cost environment.** China's government is focusing more on the execution of the projects to boost local economy and is not squeezing the construction companies and their suppliers. The margin pressure from the MOR is not as heavy as what some investors expect. The lower raw material prices, especially steel, is positive to construction companies. Steel prices, on average fall about 30% yoy and the cost pressure will ease somewhat. Apart from lower raw material prices, the loosening monetary policy is also positive to the sector. The construction companies have been given larger banking facilities, which will be sufficient to cover their capex and working capital requirements.

**Risk of overseas exposure is controllable.** The new orders inflow in China is strong enough to offset the impact of the slow growth in oversea markets on CCC and CRC. Both CCC and CRC will concentrate on the government-funded overseas projects and the risk is controllable. Despite the difficult macro environment, new orders inflow from overseas markets is satisfactory for both CCC and CRC. CRC won Rmb12b contract for the construction of a railway in Saudi Arabia in Feb 09. CCC is in discussions with potential clients for US\$8b worth of opportunities for its port machinery division. The potential breakthrough at the machinery division is a near-term catalyst to CCC's share price.

**Recommendation.**

**CCC.** Some negatives have been priced in after the recent correction and CCC's valuation looks more attractive. We believe CCC's FY08 results could be close to consensus forecast. The strong orders inflow from railway construction and better cost environment support CCC's strong earnings growth in FY09 and FY10. Upgrade to BUY with a target price of HK\$10.08.

**CRC.** We downgrade CRC and adjusted our target price downward in Nov 09 given the suspension of the project in Nigeria. We now upgrade our recommendation from HOLD to BUY due to the clarification on the project in Nigeria and strong support by China's government in bidding for overseas projects. The strong orders inflow also supports our positive view. We raise our target price to HK\$12.50 based on 2009 EV/EBITDA of 11.0x, in line with our target EV/EBITDA for CRG.

**Peer Comparison**

	Rec	Market Cap (US\$m)	Net Profit (Rmbm)				EPS (Rmb)				PE (x)				Yield (%) 2008F	ROE (%) 2007
			2007	2008F	2009F	2010F	2007	2008F	2009F	2010F	2007	2008F	2009F	2010F		
CCC	BUY	4,030	6,032	6,352	8,759	11,169	0.41	0.43	0.59	0.75	15.9	15.1	10.9	8.6	1.2	15.7
CRC	BUY	2,449	2,301	3,861	5,417	8,254	0.19	0.31	0.44	0.67	44.9	26.1	18.6	12.2	0.7	-
CRG	BUY	2,233	2,411	1,118	5,820	7,756	0.11	0.05	0.27	0.36	33.3	71.7	13.8	10.3	0.3	7.7

Source: UOB Kay Hian

## Power

2M09 power demand improves, but remains weak

Local press reported a 4.1% yoy decrease in power demand in the first two months of this year, suggesting continued weak power demand. Maintain MARKET WEIGHT.

### Sector Events

**Power demand up by 15% yoy in mid-Feb 09, but down by 4.1% yoy, in 2M09.** According to media reports, total power demand had rebounded sharply by 15% in mid-Feb 09. Because of this, combined with a 13% yoy decrease in power output, a 4.1% yoy decrease in power output was reported for Jan-Feb 09.

### Sector Impact

**A little improvement, but still weak.** The impressive power demand figures in Feb 09 are not convincing as they have been distorted by two factors – the Lunar New Year holiday and the snowstorm. The 4.1% fall in yoy power output in 2M09, if it is true, is more meaningful. Based on the figure, we found a slight improvement in power demand when compared with a 7% power demand decrease in Nov-Dec 08. We think it is mainly due to production resuming in many companies due to restocking of many industrial goods, particularly for the steel industry.

However, it is too early to confirm a sustainable improvement in power demand. For example, the steel industry saw prices weaken again but inventory went up substantially, suggesting continued weak demand. We still maintain our 2% power demand forecast for this year.

### Recommendation

Maintain **MARKET WEIGHT** for the power sector. We continue to prefer well-integrated power companies — CR Power and Datang Power — with their better earnings visibility and lower coal cost risks in the longer term. Maintain BUY for both stocks with a DCF-based target price of HK\$17.70 (WACC=9.6%, g=3%) and HK\$4.90 (WACC=8.5%, g=3%) respectively.

## CHINA

### Power

## MARKET WEIGHT

### CR Power (836 HK)

#### BUY

Current Price: HK\$14.20

Target Price: HK\$17.70

### Datang Power (991 HK)

#### BUY

Current Price: HK\$3.10

Target Price: HK\$4.90

### Huaneng Power (902 HK)

#### SELL

Current Price: HK\$5.02

Fair Price: HK\$4.70

### Huadian Power (1071 HK)

#### SELL

Current Price: HK\$1.70

Fair Price: HK\$1.50

### China Power (2380 HK)

#### HOLD

Current Price: HK\$1.44

Fair Price: HK\$1.70

### Analyst

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## Peer Comparison

Company	Ticker	Rec.	Price 2 Mar 09 (HK\$)	Net Profit			EPS			PE			ROE 2007 (%)	Market Cap (HK\$m)	Yield 2007 (%)
				2007 (Rmbm)	2008F (Rmbm)	2009F (Rmbm)	2007 (Rmb)	2008F (Rmb)	2009F (Rmb)	2007 (x)	2008F (x)	2009F (x)			
Datang Power	991 HK	BUY	3.10	3,406	510	3,169	0.29	0.04	0.27	10.3	79.5	12.8	13	11,734	4.8
CR Power	836 HK	BUY	14.20	3,161	563	4,132	0.80	0.14	1.01	17.8	103.6	14.0	17	58,319	1.8
Huaneng Power	902 HK	SELL	5.02	6,161	(3,979)	2,281	0.51	(0.33)	0.19	8.8	n/a	24.6	12	15,3438	6.0
Huadian Power	1071 HK	SELL	1.70	1,197	(1,362)	116	0.20	(0.23)	0.02	7.7	n/a	77.3	6	2,433	4.1
China Power	2380 HK	HOLD	1.44	592	(782)	403	0.16	(0.22)	0.11	8.1	n/a	15.2	6	5,191	4.8

CR Power's financials are in HK\$

Source: Respective companies, UOB Kay Hian

## Property

Continuous sales improvement is a strong catalyst

The overall February sales beat market expectation. We expect sales to continue to improve in the next few months on the back of substantial decrease in prices from the peak, improved housing affordability, and government policies.

**Strong sales growth in February.** The overall sales in major cities were around 50% higher mom on the back of continuous rebound of weekly sales and seasonal low sales in January due to the Chinese New Year. Among major cities, Tianjin and Chongqing saw the strongest sales growth last month. Although overall sales were moderately lower than those in Dec 08, one of the strongest months for sales in 2H08, the sales of major cities still rose around 20% yoy in the first two months.

**Beijing:** The sales of subsidised housing declined from 18% of total housing transactions in Jan 09 to less than 10% of total sales last month. Excluding the transactions from subsidised housing, we estimate Beijing's primary residential sales to surge 50% mom in Feb 09.

**Shanghai:** It recorded a 52% sales increase mom in February, but ytd sales were modestly lower yoy.

**Shenzhen:** It posted the strongest yoy increase over the past two months among major cities. With the substantial average price drop by 30-40% from the peak, this is a sign of sales recovery in the market.

**Chengdu:** The city also registered strong sales rebound last month after the market's correction for nearly one year since the Sichuan earthquake in May 08.

### Feb 09 Sales In Major Cities

	Feb 09 ('000 sqm)	mom %	% change vs Dec 08	YTD Sales yoy
Beijing	752	32	(36)	7
Shanghai	1,212	52	(14)	(12)
Shenzhen	502	28	(31)	172
Tianjin	596	108	41	38
Nanjing	421	(7)	(35)	33
Hangzhou	203	54	6	(15)
Chongqing	1,702	102	35	37
Chengdu	1,031	72	45	70

Source: Soufun, UOB Kay Hian

**We expect sales to continue to improve over the next few months.** We believe the sales recovery will continue to be supported by: a) substantial lowered property prices from the peak, b) strong pent-up demand emerging after more than one year of wait-and-see by home buyers, c) improved affordability on the back of government policies and interest rate cuts, and d) improved market sentiment on China's economy with the government's stimulus policies.

**Listed companies' sales performances are likely to outperform the market.** After posting strong sales figures in Jan 09 by China property companies, two companies have thus far also announced their Feb 09 sales data. Guangzhou R&F reported that its total contract sales in 2M09 was Rmb36.3b, up 81% yoy. Meanwhile, Shimao's ytd contract sales nearly tripled that of last year. We expect major listed property plays to report strong sales performance in Feb 09 and continue to expand their market share amid a market consolidation.

**Housing inventories saw decline over the past two months.** The housing inventories in major cities dropped 6-16% from the peak over the past 2-3 months. Shenzhen saw the greatest inventory decline by 16% on the back of strong sales recovery and limited increase in new supply.

## CHINA

### Property

### MARKET WEIGHT

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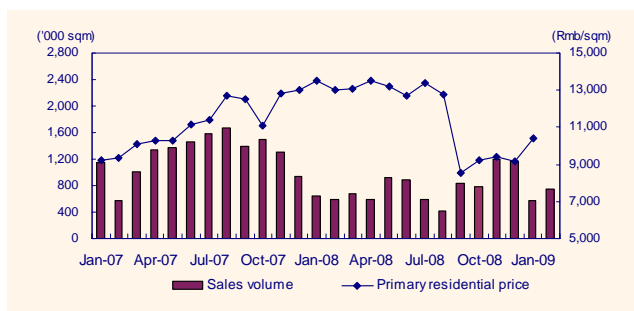
Change Of Housing Inventories In Major Cities

	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Decline from the peak %
Beijing	16.9	18.6	18.6	19.2	19.2	18.8	18.1	-6
Shanghai	6.7	7.1	7.9	8.4	8.6	8.4	7.8	-9
Shenzhen	5.6	6.4	6.1	6.7	6.4	6.2	5.6	-16
Chongqing	13.0	13.8	14.5	14.7	14.7	14.6	13.8	-6
Hangzhou	2.9	3.3	3.7	4.0	4.1	3.9	3.8	-7

Source: Soufun, UOB Kay Hian

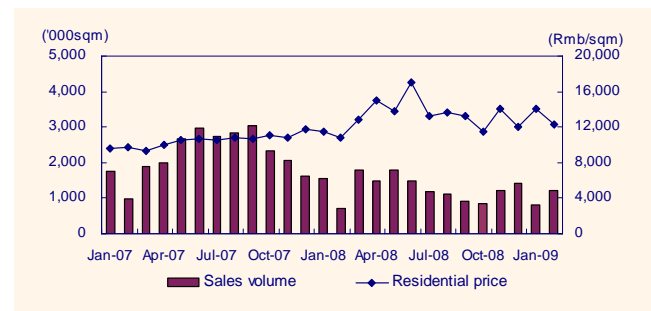
**Accumulate property stocks.** We expect the potential catalysts to be: a) strong sales reported by developers as well as the market in the next few months, b) more policy issues after the annual meeting of the National People's Congress, and c) strong new loan growth to support further increase in liquidity and corporate financing, which also benefit major listed property companies. It is worth noting that we expect most property plays' 2008 results to be below the street's estimates, but this is widely expected in the market, in our view. We recommend investors to accumulate property stocks amid the market's correction. Our top stock picks are CRL(1109 HK) and Sino-Ocean(3377 HK), while Shimao is a high beta stock pick for bolder investors.

Beijing Sales Volume And Prices



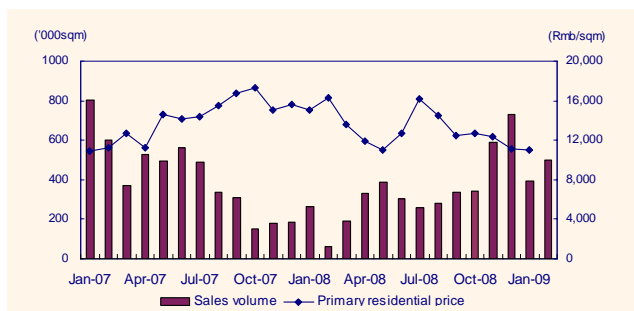
Source: Soufun, UOB Kay Hian

Shanghai Sales Volume And Prices



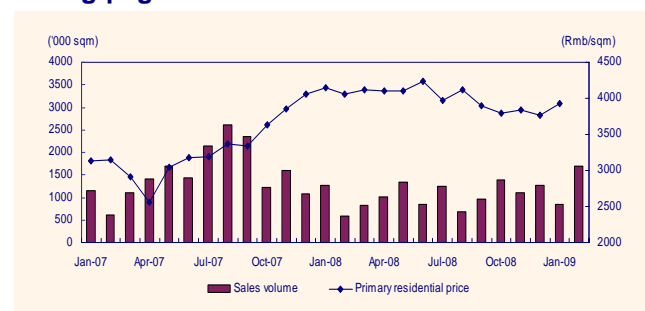
Source: Fangdi.com, Soufun, UOB Kay Hian

Shenzhen Sales Volume And Prices



Source: Shenzhen Real Estate Bureau, UOB Kay Hian

Chongqing Sales Volume And Prices



Source: Soufun, UOB Kay Hian

Peer Comparison

	Bloomberg Code	Rating	Share price 2 Mar 09 (HK\$)	EPS 2008F (Rmb)	EPS 2009F (Rmb)	PE FY08F (X)	PE FY09F (X)	Yield FY08F (%)	Yield FY09F (%)	NAV (HK\$)	Discount to NAV (%)
Agile	3383 HK	SELL	2.65	1.36	0.47	1.9	5.6	11.5	7.6	9.20	(71.2)
China Overseas Land	688 HK	HOLD	9.85	0.68	0.82	14.0	11.6	1.7	2.4	12.70	(22.4)
China Resources Land	1109 HK	BUY	8.16	0.31	0.42	37.4	27.6	0.5	0.7	15.44	(47.2)
Greentown	3900 HK	SELL	2.23	0.48	0.89	4.7	2.5	5.4	7.6	11.21	(80.1)
Guangzhou R&F	2777 HK	BUY	5.63	1.06	0.97	7.1	7.7	0.0	2.7	17.37	(67.6)
Hopson	754 HK	SELL	2.98	1.18	1.29	2.9	2.7	8.5	10.1	17.00	(82.5)
KWG	1813 HK	HOLD	1.36	0.18	0.25	10.7	7.4	2.1	3.0	4.84	(71.9)
Poly HK	119 HK	BUY	1.55	0.06	0.24	34.4	9.2	2.3	2.3	7.33	(78.9)
Shanghai Forte Land	2337 HK	SELL	1.00	0.15	0.18	5.9	5.0	4.2	5.1	2.57	(61.1)
Shimao Property	813 HK	BUY	3.88	0.56	0.71	10.2	8.0	3.9	4.2	14.11	(72.5)
Sino-Ocean Land	3377 HK	BUY	3.48	0.23	0.29	12.6	9.8	2.6	2.7	7.22	(51.8)
SOHO	410 HK	BUY	2.33	0.09	0.31	32.2	9.4	2.5	3.1	5.45	(57.2)
Average						14.5	8.9	3.8	4.3		(63.7)

Source: UOB Kay Hian

## Steel

Weekly: Steel stocks trading below mean P/B

Prices of steel stocks have plunged on lack of end-user demand. However, inventory build-up has slowed for the first time this year, which should point to smaller falls in steel prices. **TRADING Buy for Angang and BUY for Maanshan.**

### Sector Events

- Inventory restocking appears to be easing, as total stocks of traders grew just 2.8% wow, the slowest pace so far this year.
- Steel prices fell for the third straight week, but the pace of decline slowed.

### Key Steel Products - Spot Prices

	(Rmb/tonne)*	1W %	1M %	3M %	6M %	Ytd
Steel Rebar 25mm	3561	(2.1)	(6.3)	(0.6)	(29.1)	(3.7)
Wire Rod 6.5mm	3524	(2.0)	(7.2)	(1.0)	(30.1)	(4.0)
HR Sheet 3mm	3719	(1.8)	(7.0)	4.2	(27.9)	(5.6)
CR Sheet 1mm	4150	(6.3)	(10.9)	(0.7)	(36.0)	(8.4)
Steel Plate 20mm	3570	(2.5)	(6.1)	1.7	(39.2)	(4.0)

Price as at 27 Feb 09

Source: Bloomberg

### Sector Impact

Key steel product prices corrected for the third consecutive week as inventories reached an all-time high of 11.3m tonnes. But the pace of inventory build-up slowed. Total inventories rose 2.8% wow, the slowest rise since Jan 09.

The rapid stock build-up suggests we are coming to the end of the restocking phase. End-user demand has yet to come back strongly – which did not surprise us as the bulk of the Rmb4 trillion package will filter down to mills only by 2H09. But Beijing is trying to spend about Rmb580b to get demand moving in 2Q09.

From Nov 08, traders' inventory restocking triggered a rise in steel prices, prompting small steel mills to reopen idle capacity. The country's average utilisation rate thus rose from 75% in mid-November to 90% by early-February. Steel prices have corrected 6-11% in the past month, raising talk of mill closures once again, especially if we see a drop of another 10% in steel prices from current levels. As indications of the current weak demand, Tangshan spot iron ore price and Qingdao sport iron ore import price dropped 5% and 6% respectively. This will likely be positive for the industry as production cuts by small steel mills will reduce supply and lead to stronger steel prices.

Declining steel prices and rising inventories are not all bad news for the Chinese steel industry. China is in talks with the three big ore suppliers on the new iron ore prices. Falling prices and rising inventories mean weak steel demand, and will increase China's bargaining power in the ore talks. China has raised its price cut demand from 30% to 40%.

### Stock Impact

**Angang Steel (HOLD)** - which has the highest beta of 1.5 among the three steel stocks - is below our entry level of HK\$7.00. We believe a trading opportunity exists for Angang as it is now trading at 0.7x FY09F P/B, which is below its 1x P/B since listing. Potential catalysts for the stock will be further evidence of slower stock build-up and news of production cuts.

Maintain **BUY** on **Magang** (323 HK), this being the best proxy to China's stimulus package, particularly the railway expansion initiative. The Rmb1.7b write-down in its 2008 profit warning was due mainly to its iron ore inventories, but it will help Magang to start with a low base in 2009. The stock is now trading at 0.54x FY09F P/B, below its 0.7x average forward P/B since listing.

**Chongqing Iron** (1053.HK) - a **HOLD** on a fundamental basis – also offers trading opportunities, given its current price of HK\$1.58. Entry price is HK\$1.80.

## CHINA

### Steel

## MARKET WEIGHT

### Angang Steel (347 HK)

#### HOLD

Current Price: HK\$6.31

Fair Price: HK\$7.96

### Maanshan Iron & Steel (323 HK)

#### BUY

Current Price: HK\$2.15

Target Price: HK\$3.70

### Chongqing Iron & Steel (1053 HK)

#### HOLD

Current Price: HK\$1.58

Fair Price: HK\$2.31

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Valuation

	Tickers	Price @ 2 March 09 (HK\$)	Target/Fair Price (HK\$)	Rating	08E PE (x)	09E PE (x)	09E P/B (x)	Yield (%)
Angang	347 HK	6.31	7.96	HOLD	11.6	8.4	0.70	2.7
Magang	323 HK	2.15	3.70	BUY	17.8	5.7	0.54	1.6
Chonggang	1053 HK	1.58	2.31	HOLD	5.7	4.2	0.41	5.8

Source: UOB Kay Hian

China Steel Data

Steel Products Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Steel Rebar 25mm	3561	3637	3799	3582	5024	3696
Wire Rod 6.5mm	3524	3595	3799	3561	5042	3671
HR Sheet 3mm	3719	3788	4000	3569	5159	3938
CR Sheet 1mm	4150	4427	4660	4180	6482	4531
Steel Plate 20mm	3570	3661	3800	3512	5867	3720
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Steel Rebar 25mm	3561	(2.1)	(6.3)	(0.6)	(29.1)	(3.7)
Wire Rod 6.5mm	3524	(2.0)	(7.2)	(1.0)	(30.1)	(4.0)
HR Sheet 3mm	3719	(1.8)	(7.0)	4.2	(27.9)	(5.6)
CR Sheet 1mm	4150	(6.3)	(10.9)	(0.7)	(36.0)	(8.4)
Steel Plate 20mm	3570	(2.5)	(6.1)	1.7	(39.2)	(4.0)

Prices as at 27 Feb 09

Steel Inventory	(m tonnes)	1W	1M	3M	6M	Ytd
Total Steel Inventory	*11.3	11.0	7.0	5.8	7.5	5.8
Rebar Inventory	*4.2	4.1	2.4	1.6	2.6	1.7
Hot-Rolled Inventory	*2.8	2.7	1.7	1.6	1.8	1.5
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Total Steel Inventory	*11.3	2.8	61.4	94.8	50.7	94.8
Rebar Inventory	*4.2	2.4	75.0	162.5	61.5	147.1
Hot-Rolled Inventory	*2.8	3.7	64.7	75.0	55.6	86.7

Inventory level for the week ended 27 Feb 09

\*Inventories at major steel markets

China Iron Ore Inventory	(m tonnes)	1W	1M	3M	6M	Ytd
Iron Ore Inventory Total	59.31	59.41	58.34	68.82	71.99	59.90
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Inventory Total	59.31	(0.2)	1.7	(13.8)	(17.6)	(1.0)

Inventory level for the week ended 27 Feb 09

China Iron Ore Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
China Iron Ore Hebei Tangshan	770	810	850	680	1100	890
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
China Iron Ore Hebei Tangshan	770	(4.9)	(9.4)	13.2	(30.0)	(13.5)

Price as at 27 Feb 09

Import Iron Ore Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Iron Ore Qingdao	650	690	680	600	1350	630
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Iron Ore Qingdao	650	(5.8)	(4.4)	8.3	(51.9)	3.2

Price for the week ended 27 Feb 09

China Scrap Steel price	(m tonnes)	1W	1M	3M	6M	Ytd
Domestic scrap steel price	2750	2750	2700	1950	4225	2400
Change	(m tonnes)	1W %	1M %	3M %	6M %	Ytd %
Domestic scrap steel price	2750	0.0	1.9	41.0	-34.9	14.6

Price for the week ended 24 Feb 09

Coke Spot Price	(Rmb/tonne)	1W	1M	3M	6M	Ytd
Coke Taiyuan Price	1800	1800	1750	1050	2750	1550
Change	(Rmb/tonne)	1W %	1M %	3M %	6M %	Ytd %
Coke Taiyuan Price	1800	0.0	2.9	71.4	(34.6)	16.1

Price as at 27 Feb 09

Source: Bloomberg

Remarks

Major steel prices declined last week, but the pace of decline is slowing down.

Total inventories up 2.8% wow.

Iron ore inventory at port dropped 0.2% wow.

Tangshan spot iron ore price dropped 4.9% wow.

Qingdao import iron ore price dropped 5.8% wow.

Scrap steel price remained unchanged.

Coke price remained unchanged.

## China Communications Construction

Profitability is set to improve

China Communications Construction's (CCC) valuation looks more attractive after a recent share price correction. The potential breakthrough at port machinery division is a near-term catalyst. Upgrade to BUY.

### Corporate Events

We had an update with CCC's management last week. The Group's management is positive about the near-term outlook given the strong orders from railway construction, more favourable cost environment, and potential breakthrough in port machinery division.

**New orders inflow remains robust.** Given China's spending boom in the railway industry, we believe CCC will receive substantial orders inflow from railway construction in 2009 and 2010, given potential capacity constraints at both China Railway Group (CRG) (390 HK) and China Railway Construction (CRC) (1186 HK). CCC recently won 27% of the contract value of the Lanzhou-Chongqing highspeed railway line, which is a good sign. The Group also guided close to 100% yoy growth in railway construction contracts for FY09.

Regarding port construction, management re-iterated that the investment in port construction is unlikely to decline substantially in 2009 and 2010 as some local port construction initiatives will still provide opportunities for CCC. The facilities upgrading and terminal specialisation will become the drivers of the port construction industry in China. China's government also announced a mega dry bulk port project in southern Tianjin (South Port) with an area of 220km<sup>2</sup> as part of the "dual port" mode for Tianjin. The industrial zone will develop petrochemical, metallurgy, machinery manufacturing, and logistics. Investors for the project consist of the Dagang government, Tianjin Development Zone, Tianjin Port and CCC (probably around a 20% stake). The capital is Rmb3b and phase one investment would cost around Rmb10b. This is positive for CCC's construction and dredging orders. CCC will continue to focus on government-funded overseas port projects, which currently include projects in Africa and the Middle East. The risk of the government-funded overseas port projects is much lower.

**Better cost environment.** The major challenge for CCC in 1H08 was the hikes in raw material prices as the Group was unable to pass on the increase in costs to customers. CCC reported a set of disappointing 1H08 results, which was the result of high material prices and difficulties in immediate pass-on cost increases. The margin pressure on the Group began to ease off as raw material prices softened. Steel prices on average fall about 30% yoy, which is positive to CCC's construction and port machinery divisions. We expect 2009 gross margin for CCC's infrastructure construction business to improve from 6.8% in 2008 to 7.0% in 2009. The Group also made some progress in collecting escalating income from clients in 2H08. Apart from lower raw material prices, the loosening monetary policy is also positive to the Group, given its high gearing level. The Group has been given a larger banking facility, which will be sufficient to cover its capex and working capital requirements.

### CHINA

#### China Communications Construction (1800 HK)

#### UPGRADE TO BUY

Current Price: HK\$7.10

Target Price: HK\$10.08

Sector	Industrials
52-Wk Avg Daily Vol. (m)	5.3
Market Cap (HK\$m)	31,431.7
(US\$m)	4,029.7

Major Shareholders (%)	
CCCC	70.1

Book NTA per Share (Rmb)	3.1
ROE (%)	15.7
Net Debt per Share (Rmb)	0.8

Results Due	
Interim	September
Final	April

#### 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	114,881	7,225	3,199	0.29	29.2	22.2	8.3	0.01	0.1
2007	150,601	10,496	6,032	0.41	39.5	15.9	6.4	0.09	1.2
2008F	196,847	12,704	6,352	0.43	5.3	15.1	8.2	0.09	1.2
2009F	248,618	17,319	8,759	0.59	37.9	10.9	7.1	0.12	1.7
2010F	305,757	21,428	11,169	0.75	27.5	8.6	5.4	0.15	2.1

Consensus Net Profit – FY08: Rmb6,248m  
– FY09: Rmb8,488m

**Potential breakthrough at machinery division.** To further expand its market coverage, CCC has been very aggressive in targeting newer markets, such as offshore heavy-duty machinery and steel structure products for steel bridges & offshore wind-farm platforms. CCC expects turnover from these newer products to account for 20-30% of its total turnover at the port machinery division in the next couple of years. CCC's total backlog at port machinery division currently stands around US\$4-5b. The Group is in discussions with potential clients for US\$8b worth of opportunities. The potential breakthrough at the machinery division is a near-term catalyst to CCC's share price.

**Impact on stock**

Our FY08 net profit forecast is adjusted downward by 2.7% as we expect the Group to clear its book and to have a new base to start in 2009.

**Risks**

Further margin erosion, sector de-rating and massive economic slowdown in China.

**Valuations**

Some negatives have been priced in after the recent correction and CCC's valuation looks more attractive. We believe the Group's FY08 results could be close to consensus forecast. The strong orders inflow from railway construction and better cost environment support strong earnings growth in FY09 and FY10. Upgrade to BUY with a target price of HK\$10.08.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	114,881	150,601	196,847	248,618	305,757
EBIT	7,225	10,496	12,704	17,319	21,428
Pre-tax Profit	5,514	9,623	10,100	13,937	17,779
Net Profit	3,199	6,032	6,352	8,759	11,169

**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	89042	102749	119024	144762	188162
Total Assets	126952	167397	194214	230389	269871
Current Liabilities	75966	93586	115250	141492	168432
Long-Term Liabilities	19161	28666	30672	33598	37204
Shareholder Funds	31825	45145	48292	55299	64234
Total Equity & Liabilities	126952	167397	194214	230389	269870

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	5,560	4,229	5,194	14,559	18,164
Investing	(8,368)	(15,963)	(11,758)	(11,670)	(7,092)
Financing	22,877	3,537	2,601	(2,201)	(3,350)
Net Cash In/(Out) Flow	20,069	(8,197)	(3,963)	688	7,721
Begin Cash & Cash Equiv.	10,826	30,895	22,698	18,735	19,423
End'g Cash & Cash Equiv.	30,895	22,698	18,735	19,423	27,144

## China Railway Construction

Overseas exposure is no longer a concern

The major project in Nigeria is likely to resume in the near term. Overseas exposure is no longer a concern to China Railway Construction (CRC). Upgrade to BUY.

### Corporate Event

We had detailed discussions with CRC's management regarding the Group's overseas exposure, new orders inflow and growth outlook. CRC's management clarified the current situation of the Lagos-Kano Railway Modernization Projects. We believe that the Nigerian government will resume construction of the Lagos-Kano Railway Modernization Project in the near term as China's government will provide funding for the project. The Nigerian government is reviewing the proposal from CRC and the whole project will divide it into several phases. Despite the downsizing of the project, resuming construction of the project is positive to CRC and the sector. The original total contract value is US\$8.3b, which represents 13.85% of CRC's total outstanding contract value as at 30 Sep 08. Management mentioned that there is no need for revising down the total contract value of Kagos-Kano Railway project for its order backlog.

Regarding the overseas exposure, in line with China Communications Construction (1800 HK), CRC will continue to focus on government-funded overseas port projects, which currently include projects in Africa and the Middle East. The risk of the government-funded overseas projects is much lower. CRC also won Rmb12b contract for the construction of a 18km railway in Saudi Arabia. The track is due to open in Oct 10.

**To catch up with CRG.** Given its leading position, CRC will be one of the biggest beneficiaries of the booming investment in railway infrastructure by the Chinese government. Investment in railway infrastructure is expected to reach Rmb600b in 2009, from Rmb330b in 2008. CRC's new orders inflow (also reached Rmb400b) in 2008 was slightly lower than CRG's new orders inflow. The new orders inflow in China is strong enough to offset the impact of the slow grow in oversea markets.

**Margin trend.** Based on our discussions with management of the infrastructure construction companies, China's government is focusing on the execution of the projects to boost local economy and the margin pressure from the government is not keen. The lower raw material prices, such as steel prices, is positive to construction companies, including CRC. CRC admitted that the property division is likely to perform weaker than management expectation in 2009. However, the overall impact is expected to be less than market expectation. Management also believes that the risk of slower cash payment from customers and rising inventory write-offs is low. Apart from lower raw material prices, the loosening monetary policy is also positive to the Group given its high gearing level. The Group has not been given a larger banking facility, which will be sufficient to cover its capex and working capital requirements.

### Risks

The potential risks are higher-than-expected raw material prices, especially steel, cancellation of preferential tax treatment, volatile exchange rate movement, and cancellation of projects.

## CHINA

### China Railway Construction (1186 HK)

### UPGRADE TO BUY

Current Price: HK\$9.20  
Target Price: HK\$12.50  
(Previous: HK\$10.20)

Sector	Industrials
52-Wk Avg Daily Vol. (m)	30.1
Market Cap (HK\$m)	19,101.9
(US\$m)	2,449.0

Major Shareholders (%)	
CRCCG	63.3

Book NTA per Share (Rmb)	-
ROE (%)	-
Net Cash per Share (Rmb)	-

Results Due	
Interim	September
Final	April

### 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	153,610	4,617	1,213	0.09	0.0	-	-	0.00	0.0
2007	171,997	7,162	2,301	0.19	96.5	44.9	-	0.00	0.0
2008F	199,265	9,488	3,861	0.31	67.8	26.1	9.9	0.06	0.7
2009F	210,151	11,921	5,417	0.44	40.3	18.6	7.8	0.13	1.4
2010F	245,695	15,989	8,254	0.67	52.4	12.2	5.7	0.20	2.2

Consensus Net Profit – FY08: Rmb3,894m  
– FY09: Rmb6,022m

**Valuation/Recommendation.** We downgraded our recommendation and target price on CRC in Nov 09 given the suspension of the project in Nigeria. We now upgrade our recommendation from HOLD to BUY due to the clarification on the project in Nigeria and strong support by China's government in bidding for overseas projects. The strong orders inflow also supports our positive view. We raise our target price to HK\$12.50 based on 2009 EV/EBITDA of 11.0x, in line with our target EV/EBITDA for CRG.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	153,610	171,997	199,265	210,151	245,695
EBIT	4,617	7,162	9,488	11,921	15,989
Pre-tax Profit	2,098	3,788	4,947	6,946	10,590
Net Profit	1,213	2,301	3,861	5,417	8,254

**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	102,053	129,576	169,392	162,156	181,773
Total Assets	124,550	156,878	199,311	201,081	223,958
Current Liabilities	103,940	138,142	157,053	154,674	171,396
Long-Term Loans	17,972	13,678	13,738	14,094	14,471
Shareholders' Funds	2,637	5,058	28,520	32,312	38,090
Total Equity & Liabilities	124,550	156,878	199,311	201,081	223,957

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	6,560	9,736	9,421	12,249	13,905
Investing	(4,287)	(12,797)	(13,637)	(14,000)	(10,000)
Financing	1,927	7,930	2,864	(9,878)	(6,893)
Net Cash Inflow/(Outflow)	4,200	4,869	(1,352)	(11,629)	(2,989)
Begin Cash & Cash Equiv.	9,278	13,478	18,347	16,996	5,367
End'g Cash & Cash Equiv.	13,478	18,347	16,996	5,367	2,378

## China Railway Group

Railway FAI remains strong

China Railway Group's (CRG) top and bottom lines growth is supported by strong FAI in the railway sector. Maintain BUY.

### Corporate Events

**Outperforms others in terms of orders inflow.** According to our discussion with the management, there is no material change in the Group's fundamentals. CRG's forex loss issue and involvement in other businesses such as mining and property only create short-term uncertainty to investors. CRG's core competency in the railway infrastructure construction area is intact and it will be one of the biggest beneficiaries of the booming investment in railway infrastructure by China's government. Investment in railway infrastructure is expected to reach Rmb600b in 2009, up from Rmb330b in 2008. CRG outperforms its peers, China Railway Construction (CRC) (1186 HK) and China Communications Construction (CCC) (1800 HK) in new order inflow. New order inflow in 2008 reached over Rmb400b. Among the new orders inflow, 90% is infrastructure. Within infrastructure, over 50% is railway while 10% is highway. According to management, the Group's margin in 4Q08 was higher than 1Q-3Q08, which implied a margin improvement in 4Q08. CRG also announced Rmb69b new railway orders, ytd.

**More room for an improvement in operating efficiency.** CRG has total in excess of 270,000 employees, including 120,000 professionals. Among the three largest listed construction companies, CRG has reported the lowest productivity. The room for an improvement in operating efficiency is huge. The project management is not the bottleneck to CRG given the size of its workforce. CRG is making efforts to straighten up its project management structure by assigned mid-level project managers to on-site jobs and relieve capacity pressure due to the ramping up of railway projects. CRG's technology and employees will be deployed fairly quickly to cope with accelerating railway project start-ups.

**Divergence is not justified.** There is a divergence between the performances of CRG's H- and A-shares. CRG's H-share discount has widened to over 30% (vs an average of 13.8%) since Dec 07. According to management, the impact of the BT/BOT projects has been over-estimated by some investors. Losses from BT/BOT projects are much less than over Rmb500m estimated by some investors.

### Earnings Risks

Potential risks are higher-than-expected prices of raw materials, especially steel, cancellation of preferential tax treatment, and extreme weather conditions.

### Recommendation

CRG issued a profit warning for its FY08 results in late-Jan 09 that net profit will be less than 50% of the Rmb3,163m achieved in FY07 (under PRC GARRP). The decline in net profit is a result of a considerable forex loss in respect of the Group's H-share listing proceeds. The total forex loss is about Rmb3-4b, which implies a forex loss of Rmb1b-2b in 4Q08.

## CHINA

### China Railway Group (390 HK)

#### BUY

Current Price: HK\$4.14

Target Price: HK\$5.90

Sector	Industrials
52-Wk Avg Daily Vol. (m)	42.9
Market Cap (HK\$m)	17,418.6
(US\$m)	2,233.2
Major Shareholders (%)	
CRECG	58.3
Book NTA per Share (Rmb)	2.60
ROE (%)	7.8
Net Cash per Share (Rmb)	0.90
Results Due	
Interim	September
Final	April

### Price Chart



Source : Bloomberg

### Analyst

Mark Po, CFA

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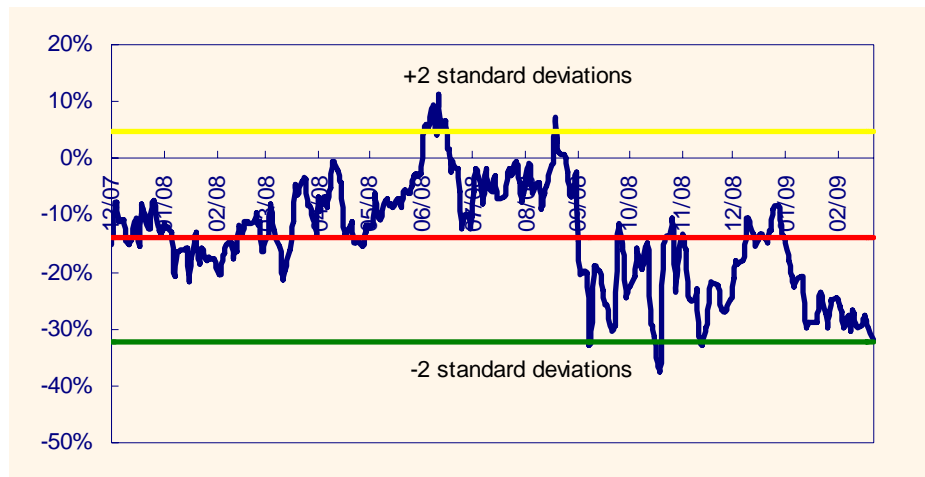
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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	153,568	5,526	2,046	0.16	0.0	24.6	-	0.00	0.0
2007	173,751	5,183	2,411	0.11	(29.2)	34.7	9.2	0.00	0.0
2008F	222,982	9,173	1,118	0.05	(53.6)	71.7	17.1	0.01	0.3
2009F	286,507	13,581	5,758	0.27	414.9	13.8	9.1	0.08	2.2
2010F	357,563	16,550	7,695	0.36	33.6	10.3	7.5	0.11	3.0

Consensus Net Profit – FY08: Rmb1,649m  
– FY09: Rmb5,484m

Due to the profit warning, CRG has underperformed other railway-related Plays, including CRC, China South Locomotive & Rolling Stock (CSLR) (1766 HK), and Times Electric (3898 HK). After the correction, CRG is now trading at 13.8x FY09 PE and 10.3x FY10 PE, which look more reasonable.

**Discount Between CRG's H- And A-shares**



Source: Bloomberg, UOB Kay Hian

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	153,568	173,751	222,982	286,507	357,563
EBIT	5,526	5,183	9,173	13,581	16,550
Pre-tax Profit	3,387	3,277	2,044	8,547	11,567
Net Profit	2,046	2,411	1,118	5,758	7,695

**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	117,932	172,097	159,284	194,337	243,096
Total Assets	143,093	215,023	206,956	250,859	297,066
Current Liabilities	117,509	136,484	132,169	167,539	206,453
Long-Term Liabilities	18,585	23,285	23,422	27,924	29,830
Shareholder Funds	6,999	55,254	51,365	55,396	60,782
Total Equity & Liabilities	143,093	215,023	206,956	250,859	297,065

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	8,528	565	(18,747)	5,795	7,796
Investing	(8,633)	(16,279)	(1,908)	(19,086)	(7,147)
Financing	13,707	43,030	(13,336)	6,140	902
Net Cash In/(Out) Flow	13,602	27,316	(33,991)	(7,151)	1,551
Begin Cash & Cash Equiv.	3,738	17,340	44,656	10,666	3,514
End'g Cash & Cash Equiv.	17,340	44,656	10,666	3,514	5,065

## Pacific Basin Shipping

2008: Earnings declined 13% yoy, worse than expectations

Pacific Basin's FY08 net profit was below market consensus by 18%, due to one-off charges. Earnings and profitability of the stock are expected to deteriorate significantly in the coming years. Cut target price to HK\$3.20.

### 2008 Results

(US\$m)	2007	2008	yoy % chg	Remarks
Revenue	1,177	1,691	44	Driven by more revenue days and higher freight rates
Gross profit	700	909	30	Higher bunker costs
Operating profit	489	431	(12)	Dragged down by one-off termination payments and provision for onerous charter contracts etc. (US\$138m)
Profit before tax	473	412	(13)	
Taxation	(1)	(4)	307	Higher effective tax rate
<b>Net profit</b>	<b>472</b>	<b>409</b>	<b>(13)</b>	
EPS (US\$)	0.30	0.24	(19)	
DPS (US\$)	0.16	0.10	(35)	
<b>Profitability (%)</b>				
Operating margin	69.8	47.4	-22.4ppt	Margin contraction due to higher bunker costs and charter-hire expenses
Net margin	67.4	45.0	-22.4ppt	

Source: Pacific Basin, UOB Kay Hian

### Results

Pacific Basin's (PB) 2008 total revenue rose 44% yoy to US\$1,691m but net profit decreased by 13% yoy to US\$409m. The results were worse than market consensus and our forecasts - mainly due to the one-off charges. However, stripping out the US\$138m one-off charges (one-off termination payments, provision for onerous charter contracts, impairment for vessels to be sold and net mark-to-market impairment of an equity investment), net profit was up 16% yoy.

### Stock Impact

The Baltic Dry Index (BDI) and freight rates have plunged more than 83% from the peak. Over the coming two years, freight rates are expected to continue to decline in light of the worsening global economy and vessel capacity over-supply.

### Earnings Revision

We trim our earnings forecast by 76% and 105% for 2009-10 to reflect the declining freight rates amid the worsening global economy and vessels capacity over-supply in the next two years.

### Valuation/Recommendation

After lowering our earnings forecasts, we also cut our target price from HK\$4.00 to HK\$3.20, which is based on 0.55x 2009 P/B. The stock is currently trading at 0.6x 2009 P/B (vs its historical average of 1.9x P/B).

**Maintain HOLD.**

## HONG KONG

### Pacific Basin Shipping (2343.HK)

#### HOLD

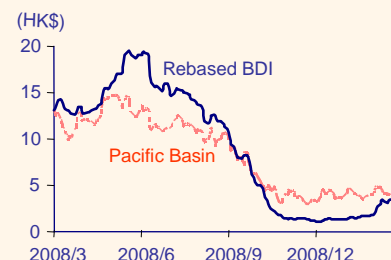
Current Price: HK\$3.46

Fair Price: HK\$3.20

(Previous: HK\$4.00)

Sector	Transport
52-Wk Avg Daily Vol. ('000)	19,053
Market Cap (HK\$m)	6,029
(US\$m)	773
Major Shareholders (%)	
JPMorgan	7.8
Book NTA per Share (US\$)	0.77
ROE (%)	33.6
Net Cash per Share (US\$)	Net cash
Results Due	
Interim	August
Final	March

### Share Price vs Rebased BDI



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (US\$)	EPS Growth (%)	PE (X)	EV/EBITDA (x)	DPS (US\$)	Yield (%)
2006	620	169	110	0.08	(28.0)	5.3	5.8	0.06	13.4
2007	1,177	526	472	0.30	260.5	1.5	4.0	0.16	35.0
2008	1,691	471	409	0.24	(19.1)	1.8	4.0	0.10	22.8
2009F	856	145	78	0.04	(81.5)	9.9	4.4	0.02	4.2
2010F	605	63	(8)	(0.00)	NM	NM	12.4	0.00	0.0

Consensus Net Profit – FY08: US\$498m  
– FY09: US\$107m

**Declining revenue days and freight rates.** PB has a core handysize fleet of 68 vessels (22 owned and 46 long-term chartered), a handymax fleet of 16 vessels (two owned and 14 long-term chartered). To manage its risk profile and maintain earnings visibility, PB has covered 60% of its handysize days at an average rate of US\$16,950/day (-42% yoy) and 123% of its handymax days at US\$30,000/day (-33% yoy) in 2009. However, with the declining revenue days and freight rates, we forecast PB's net profit to decline extensively in 2009 and post losses in 2010.

**Lower future charter expenses.** Charter expenses will decrease substantially in 2009-10 as PB made one-off payments to the shipowners in order to decrease its future charter expenses. After the adjustments, operating leases for the handysize are US\$10,130/day in 2009 (vs US\$16,290 in 2008), which is still lower than the time charter earnings (TCE) of US\$16,950/day.

**Profitability and margins are deteriorating.** PB's ROE contracted from 54% in 2007 to 34% in 2008 while ROA also shrank from 29% to 18% over the same period. In light of the declining freight rates and higher operating expenses, PB's margins have been deteriorating on all fronts. Net profit margin declined from 67.4% in 2007 to 45.0% in 2008. We believe the profitability and margins will deteriorate further due to the decreasing freight rates in the coming years.

**Dry bulk shipping sector outlook.** The dry bulk shipping sector has been hampered by weak demand and vessel overcapacity. On the demand front, total bulk seaborne trade is expected to decline -0.9% yoy in 2009. Nonetheless, with global fleet growth of 8.5% in 2009 vs a demand contraction of -0.9%, supply-demand imbalance will remain.

**Profit & Loss**

Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Turnover	620	1,177	1,691	856	605
EBIT	135	489	431	101	15
Pre-tax Profit	111	473	412	78	(9)
Net Profit	110	472	409	78	(8)
EPS (US\$)	0.08	0.30	0.24	0.04	(0.00)

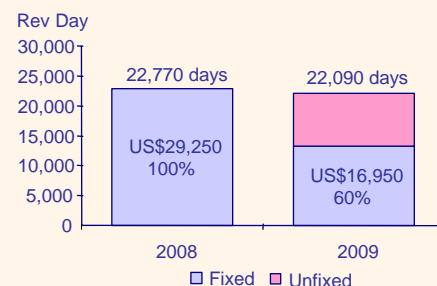
**Balance Sheet**

Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Current Assets	126	821	1,329	1,151	918
Total Assets	920	1,654	2,331	2,232	2,183
Current Liabilities	107	150	297	161	135
Long-Term Loans	328	637	815	775	761
Shareholders' Funds	485	867	1,219	1,296	1,287
Total Equity & Liabilities	920	1,654	2,331	2,232	2,183

**Cash Flow**

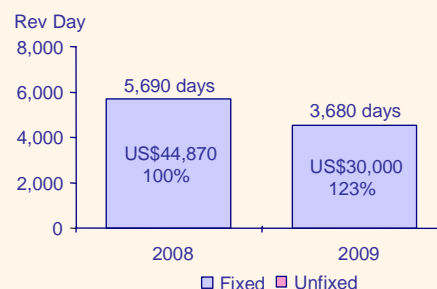
Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Operating	148	314	459	75	26
Investing	(241)	102	(245)	(225)	(291)
Financing	74	170	111	96	(26)
Net Cash Inflow/(Outflow)	(19)	586	325	(54)	(291)
Begin Cash & Cash Equiv.	81	63	649	1,023	969
End'g Cash & Cash Equiv.	63	649	974	969	678

**Earnings Coverage – Handysize**



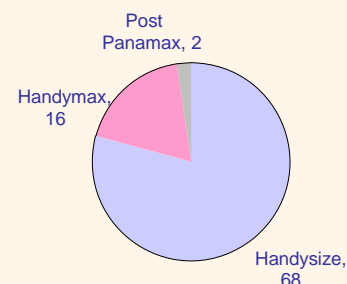
Source: PB, UOB Kay Hian

**Earnings Coverage – Handymax**



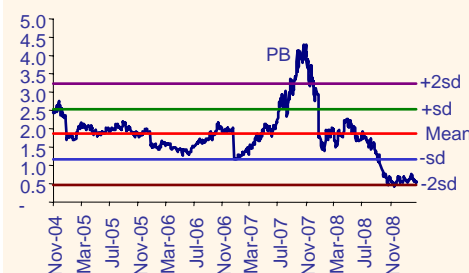
Source: PB, UOB Kay Hian

**Dry Bulk Fleet – 86**



Source: PB, UOB Kay Hian

**P/B Chart**



Source: Bloomberg, UOB Kay Hian

## Economics

### Feb 09 Consumer Price Index

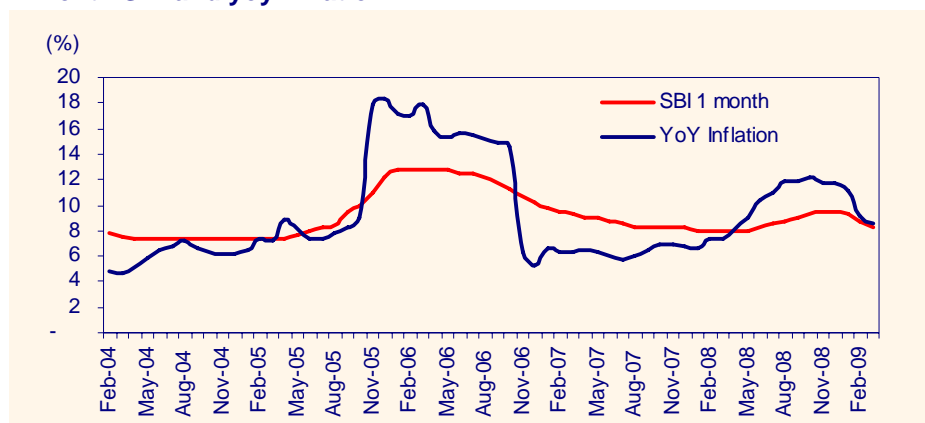
Annual inflation falls further to 8.6% in Feb 09. The decline in inflation rate, the urgency to bolster economic growth and aggressive rate cuts by global peers may cause the central bank to continue with its rate cut.

#### Highlights

Consumer Price Index (CPI) was 0.21% mom in Feb 09, lower than the 0.65% in Feb 08. This has caused annual inflation to fall further to 8.6% compared with 9.2% in Jan 09. The rise in Feb 09 CPI was driven by higher prices of foodstuff, especially rice, and clothing.

The central bank has aggressively cut its benchmark rate by 125bp in the past three months in the light of fading inflationary pressure and the urgency to boost economic growth as the elections approach. Large rate cuts by its global peers may push the central bank to continue easing its monetary policy.

#### 1-month SBI and yoy inflation



Source: Bank Indonesia, Central Bureau of Statistics

#### Inflation By Category

(%)				Contribution to
	mom	ytd	yoy	mom inflation
<b>General Index</b>	<b>0.21</b>	<b>0.14</b>	<b>8.60</b>	<b>0.21</b>
Foodstuff	0.95	1.71	13.06	0.20
Prepared Food, Beverages, Cigarette and Tobacco	0.91	1.87	11.25	0.16
Housing, Water, Electricity, Gas & Fuel	0.28	0.22	9.26	0.07
Clothing	2.85	3.42	8.30	0.20
Health	0.17	0.54	6.14	0.01
Education, Recreation & Sports	0.04	0.15	5.76	0.00
Transport, Communication and Finance	-2.43	-4.89	1.59	-0.43

Source: Central Bureau of Statistics

## INDONESIA

### Economics

#### Consumer Price Index

#### Analyst

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## First Resources

2008: Results in line with our expectation

2008 results are in line with our expectation. The higher net profit was mainly due to higher CPO ASP, CPO volume and gross margin improvement despite higher financial charges.

### 2008 Results

Year to 31 Dec	2007 (Rpb)	2008 (Rpb)	yoy % chg	Remarks
Turnover	1,691.4	2,782.9	64.5	Higher CPO sales volume (+25.3% yoy) and CPO ASP (+31.1% yoy)
Pre-tax Profit	890.7	1,622.0	82.1	
Reported Net Profit	431.3	1,091.8	153.2	
Adjusted Net Profit*	343.6	832.3	142.3	
Margins				
Gross Margin	54.7	66.9	12.2	Despite higher cost, ex-mill cash cost for nucleus CPO maintained at US\$200/tonne
EBITDA Margin	53.1	64.3	11.3	
Reported Net Margin	25.5	39.2	13.7	

\* Exclude changes in fair value of biological assets  
Source: First Resources, UOB Kay Hian

### Results

First Resources' (FR) net profit surged 153.2% yoy to Rp1,091.8b in 2008, thanks to higher crude palm oil (CPO) sales volume and CPO average selling prices (ASP), as well as a gross margin improvement that offset a rise in financial charges. Underlying net profit, which excludes gains from changes in the fair values of biological assets (net of tax), went up by 142.3% yoy to Rp832.3b. 4Q08 net profit increased 48% yoy, but went down 13% qoq due to a substantial fall in international CPO prices during the period. Results are in line with our expectation.

**Higher financial charges.** Due to marked-to-market losses on cross currency swap of Rp165b to swap principal and interest for FR's Rupiah bond, as well as losses from forex translation of Rp186b offsetting gains from the repurchase of FR's US-dollar notes of Rp69b, the company incurred a substantial increase in net financial charges to Rp459.8b in 2008 from Rp134.2b in 2007. Meanwhile, as a result of lower cash and a slight increase in interest-bearing debt, net gearing level increased from 13% in 2007 to 22% in 2008.

### Stock Impact

**Lower quarterly gross margin on FFB purchase and lower CPO ASP.** The company managed to increase gross margin to 64.3% in 2008 from 53.1% in 2007, thanks to its ability to maintain ex-mill cash cost of production for nucleus CPO at US\$200/tonne in 2008. However, quarterly gross margin gradually declined from 73% in 1Q08 to 61% in 4Q08 due to a fall in CPO prices and the higher value of fresh fruit bunch (FFB) purchases, as well as a rise in other production costs. Gross margin is expected to decline in 1Q09 as fertiliser inventory is carried over from 2008.

## SINGAPORE

### First Resources (FR SP)

#### HOLD

Current Price: S\$0.30

Fair Price: S\$0.39

Sector	Plantation
52-Wk Avg Daily Vol. ('000)	7,057
Market Cap (S\$m)	440.5
(US\$m)	283.4

Major Shareholders (%)	
Eight Capital	73.3

Book NTA per Share (Rp)	2,789
ROE (%)	23
Net Debt per Share (Rp)	629

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Turnover (Rpb)	EBITDA (Rpb)	Net Profit (Rpb)*	EPS (Rp)*	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rp)	Yield (%)
2006	857.1	392.2	112.4	77	1,198.6	30.3	11.0	0	0.0
2007	1,691.4	855.7	343.6	234	205.7	9.9	5.1	0	0.0
2008	2,782.9	1,693.4	832.3	567	142.3	4.1	2.6	113	4.9
2009F	2,036.5	1,193.1	598.6	408	(28.1)	5.7	3.6	82	3.5
2010F	2,813.7	1,577.8	871.2	593	45.5	3.9	2.7	119	5.1

Consensus Net Profit – FY09: Rp456.4b  
– FY10: Rp582.5b

\* Exclude changes in fair value of biological assets

**Lower capex for 2009.** The company is expected to lower its capex in 2009, with priority given to infrastructure, immature plantations, maintenance of existing mills and checks on expenditure on non-plantation items.

**Earnings Revision**

We maintain our earning forecasts.

**Valuation/Recommendation**

Maintain HOLD with fair price of S\$0.39, pegged at 7x 2009F PE (small-cap, upstream player). This also implies target 2009 P/B of 0.8x (2009F ROE of 12.9%).

**Profit & Loss**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Turnover	857.1	1,691.4	2,782.9	2,036.5	2,813.7
Gross Profit	369.8	925.1	1,860.5	1,198.8	1,655.8
Operating Profit	323.8	829.1	1,578.7	1,032.4	1,406.5
Pre-tax Profit	502.7	890.7	1,622.0	872.7	1,270.0
Reported Net Profit	243.9	431.3	1,091.8	598.6	871.2
Adjusted Net Profit*	112.4	343.6	832.3	598.6	871.2

\*Exclude changes in fair value of biological assets

**Balance Sheet**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Current Assets	853.0	1,813.6	1,485.7	1,049.7	1,684.3
Total Assets	3,804.9	6,246.7	7,812.3	7,451.2	8,274.4
Current Liabilities	319.6	441.8	564.4	431.5	523.2
Total Liabilities	1,889.3	2,498.3	2,918.5	2,143.5	2,178.0
Shareholders' Equity	971.3	3,205.8	4,162.4	4,876.2	5,573.1
Total Equity & Liabilities	3,804.9	6,246.7	7,812.3	7,451.2	8,274.4

**Cash Flow**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Cash Flow From Operating	206.5	549.5	826.9	391.7	1,046.3
Cash Flow From Investing	(293.3)	(1,178.0)	(1,270.5)	(529.5)	(365.2)
Cash Flow From Financing	818.8	1,441.1	(22.3)	(170.2)	(151.4)
Net Cash Inflow/(Outflow)	732.0	812.6	(465.9)	(308.0)	529.7
Begin Cash & Cash Equiv.	13.5	745.5	1,558.1	1,092.1	784.1
Ending Cash & cash Equiv.	745.5	1,558.1	1,092.1	784.1	1,313.9

## Ascendas REIT

### Key takeaways from luncheon presentation

*Sustainable earnings in FY10 due to development projects and rental escalation from sale & leaseback properties. Portfolio not showing signs of stress despite turbulence. Pursuing growth through built-to-suit facilities.*

#### Corporate Events

We hosted a luncheon presentation by the management of Ascendas REIT (A-REIT) on 26 Feb 09. Key highlights:

**Sustainable earnings in FY10.** Management expects net property income to be maintained in FY10 with growth from completed development projects and rental escalation for sale & leaseback properties being offset by impact of lower occupancy. Development projects to be completed in FY10 include Phase 1 and multi-tenanted building at Plot 8 Changi Business Park and built-to-suit logistics facilities at Airport Logistics Park. About 32% of A-REIT's long-term leases come with rental escalation fixed at an average of 2% or pegged to Consumer Price Index (CPI) with floor at about 2%. Management expects occupancy to remain above 90% in FY10, barring unforeseen circumstances.

**Portfolio showing signs of strength.** Tenants have asked for termination or sub-letting for 75,000sf of space in the past two months, representing only 0.4% of portfolio NLA. Rentals overdue by more than two months are only S\$800,000, representing 0.2% of annualised gross revenue. 85% of collection is done via GIRO. A-REIT tracks its tenants by monitoring their quarterly results, ensuring lease managers visit tenants on a regular basis and utilising staff on-site to check traffic, headcount and usage of space.

**Growth via built-to-suit facilities.** A-REIT will continue to pursue growth through development projects on a built-to-suit basis, particularly for resilient sectors less affected by the economic slowdown.

**Resilience in business model.** Management sees resilience from the following: a) security deposits of 11 months for sale & leaseback properties, b) quality portfolio across six asset classes and well located near major highways or transport hubs, ensuring healthy demand, c) diversified base of 860 tenants with top-10 tenants accounting for only 26.8% of portfolio income.

Other highlights:

**Focus on occupancy retention.** Leases accounting for 14.7% of property income are up for renewal in FY10. Market gross rents have tapered off from S\$4.10psf to S\$3.50psf for science & business parks and from S\$3.45psf to S\$3.00psf for high-tech industrial buildings. There is room for positive rental reversion as passing rent for leases expiring in FY10 is S\$3.01psf for about 400,000sf space for science & business parks and S\$2.33psf for 500,000sf of high-tech industrial buildings. A-REIT's current priorities are occupancy and tenant retention.

**Weakness centred at flatted factories.** Half of the tenants at flatted factories are SMEs in traditional manufacturing, eg electronics and precision engineering, but this segment accounts for only 6% of total portfolio by value.

## SINGAPORE

### Ascendas REIT (AREIT SP)

#### BUY

Current Price: S\$1.24

Target Price: S\$1.92

Sector	REITs
52-Wk Avg Daily Vol. ('000)	4,749
Market Cap (S\$m)	2,081.4
(US\$m)	1,339.4

Major Shareholders (%)	
Ascendas P/L	22.7
Fidelity Management & Research	5.5

Book NTA per Share (S\$)	1.67
ROE (%)	7.9
Net Debt per Share (S\$)	1.35

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Mar	Turnover (S\$m)	EBIT (S\$m)	Net Income (S\$m)	EPU (¢)	EPU Growth (%)	PE (x)	DPU (¢)	Yield (%)
2007	283.0	187.2	148.4	11.5	6.8	10.7	12.8	10.3
2008	322.3	215.5	175.0	13.2	14.3	9.4	14.1	11.4
2009F	394.6	259.0	201.9	14.4	8.9	8.6	15.4	12.4
2010F	410.4	277.8	218.6	12.8	(10.7)	9.7	13.8	11.1
2011F	417.2	282.5	223.1	13.0	1.1	9.6	13.9	11.2

Consensus Net Profit – FY08: S\$198.1m  
 – FY09: S\$198.1m

**Bulk of logistics & distribution space on long-term leases.** Management does not expect the decline in Singapore's non-oil domestic export (NODX) to drastically affect the logistics & distribution centre segment as two-thirds of tenants are on long-term leases. Some 650,000sf of warehouse space will expire in FY10 (14% of segment), mainly from areas around Changi International Airport where demand is relatively healthy.

**Capital values held steady.** A-REIT will revalue its portfolio in Mar 09. Capital value is expected to hold up with only a marginal 3% decline in valuation on a portfolio-wide basis.

**Too early to acquire.** Management is open to M&A opportunities but does not want to buy into another set of problems. The company will apply the same stringent criteria it adopts when acquiring buildings. It will look beyond profit & loss into areas such as quality of tenants in terms of business model and financial stability, and alternative usage for buildings, and will apply a margin of safety when valuing assets. Management believes we are in early stages of the economic downturn and wants to remain cautious and patient.

**New supply mainly owner-occupied.** New supply representing 10% of total stock for industrial factory space will come on stream from 2009 to 2011. The bulk of new supply is owner-occupied. Projects slated for completion in 2010 and 2011 could be deferred if construction has not started.

**Potential New Supply**

('000sf)	Total New Supply	2009	2010	2011
Business & Science Park	6,090	2,970	2,335	785
% Pre-committed		39%	59%	90%
Industrial (Hi-Tech and Light Industrial)	19,615	9,931	9,437	247
% Pre-committed		54%	60%	100%
Distribution & Logistics	6,252	4,304	1,948	0
% Pre-committed		30%	63%	n.a.

Source: CBRE, URA, A-REIT

**Not compromising on payout ratio.** Management intends to maintain payout ratio at 100%.

**Valuation/Recommendation**

Our target price is S\$1.92 based on a dividend discount model (required rate of return: 9.0%; growth: 2.5%).

**Profit & Loss**

Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2011F
Turnover	283.0	322.3	394.6	410.4	417.2
Net Property Income	210.3	243.5	294.4	312.3	317.4
EBIT	187.2	215.5	259.0	277.8	282.5
Net Profit	163.8	175.0	201.9	218.6	223.1
EPU (S cents)	11.5	13.2	14.4	12.8	13.0
DPU (S cents)	12.8	14.1	15.4	13.8	13.9

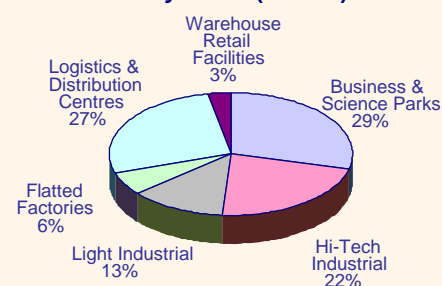
**Balance Sheet**

Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	26.7	25.4	29.7	46.4	55.3
Total Assets	3312.0	4205.2	4676.2	4839.0	4848.7
Current Liabilities	111.3	166.5	194.6	202.4	205.7
Long-Term Liabilities	1183.5	1559.9	1650.0	1800.0	1800.0
Shareholder Funds	1970.0	2438.0	2830.6	2835.6	2842.0
Total Equity & Liabilities	3312.0	4205.2	4676.2	4839.0	4848.7

**Cash Flow**

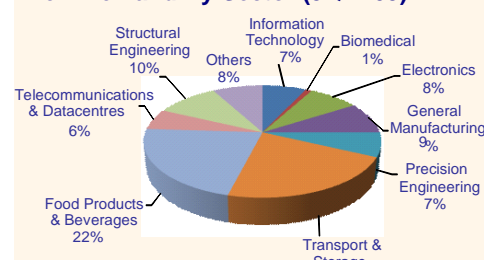
Year to 31 Mar (\$m)	2007	2008	2009F	2010F	2011F
Operating	207.9	224.9	651.8	297.3	333.7
Investing	(326.2)	(378.1)	(471.0)	(155.4)	(49.0)
Financing	118.8	153.8	(180.4)	(125.9)	(276.2)
Net Cash In/(Out) Flow	0.4	0.6	0.4	16.0	8.6
Begin Cash & Cash Equiv.	4.4	4.8	5.4	5.8	21.8
End'g Cash & Cash Equiv.	4.8	5.4	5.8	21.8	30.4

**Asset Class By Value (Dec 08)**



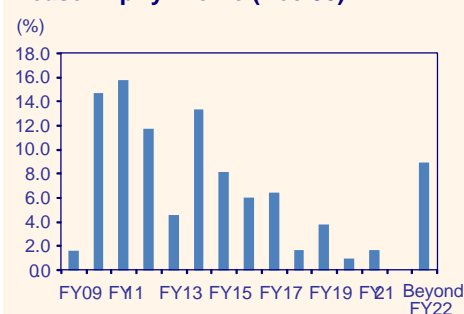
Source: A-REIT

**New Demand By Sector (3QFY09)**



Source: A-REIT

**Lease Expiry Profile (Dec 08)**



Source: A-REIT

## Hemaraj Land and Development

4Q08: Results plunge with extra losses; Outlook is gloomy

Weak results due to a plunge in land sales and extra losses. 2009 profit is likely to drop 30% amid weak sentiment and lack of new projects. Maintain SELL. Fair price of Bt0.4 is pegged to 0.45x P/B, -1SD from its 12-year mean.

### 4Q08 Results

Year to 31 Dec	4Q08 (Btm)	yoy % chg	2008 (Btm)	yoy % chg	Remarks
Land sales	403	(56.8)	2,848	32.0	Land sales plunged in 4Q08 but 2008 sales were up thanks to 99% sales growth in 9M08
Recurring income	365	32.7	1,262	20.1	Rose smoothly
Condominium & others	(8)	(24.3)	382	(64.9)	Less condominium sales
Total revenue	760	(48.4)	4,492	(12.8)	
Gross profit	310	(47.1)	1,825	(14.8)	
EBIT	179	(59.4)	1,461	(8.0)	
Pre-tax & EI profit	139	(65.9)	1,324	(12.7)	
Net profit	76	(75.9)	1,342	15.3	4Q profit was lower than expected due to extra loss totalling Bt116m
Gross margin (%)					
-Land	33.6		43.4		Land gross margin fell in 4Q
-Recurring income	57.0		48.9		2007: 40.7%
Gross margin%	40.8		40.6		
SG&A/sales %	22.5		11.8		
Net margin%	10.0		29.9		2007: 22.6%

Source: HEMRAJ, UOB Kay Hian

### Results

Hemaraj Land and Development's (HEMRAJ) 4Q08 profit plunged to Bt76m due to the following: a) a sharp drop in land sales, b) no condominium sales, c) a fall in land sales gross margin, and d) the booking of extra losses (asset write-offs, provisions and divestment losses) worth Bt116m. 2008 profit of Bt1.34b (+15% yoy) was slightly below the consensus estimate due to losses in 4Q08.

### Stock Impact

2009 land sales are estimated to drop to 455 rai (-70% yoy), the same level as in 2001 (the dot-com crisis), and to stay flat thereafter. Also, sales of unsold units at The Park condominium will be spread out over 2009-10. Thus, 2009 net profit will drop 30% yoy. If land sales stay flat in 2010-11, earnings could drop 11% in 2010 and 18% in 2011 (with no condominium sales). Several major projects, eg the 660M IPP power plant joint venture with Glow Energy, SPP power plant and a new property project next to its office building UM Tower, will not come on stream over the next 3-5 years.

### Earnings Risks

Risks to our earnings estimates are the selling pace of remaining unsold units at The Park worth Bt1.2b. Luxurious condominiums that target foreign buyers are hard hit by the global downturn so the speed of sales can be slower than expected. Worse still, buyers may cancel contracts signed earlier, which will hinder HEMRAJ from clearing its sales backlog. The outlook of the industrial estate sector will continue to be gloomy as the global financial crisis will put a brake on the flow of new investment. Tracing back to the last Asian economic crisis, the value of investment applied for the Board of Investment's (BOI) privileges, which is one of the foreign direct investment (FDI) indicators, fell three years in a row in 1997-99. Capacity utilisation dropped to 57% in Jan 09, the lowest level since 1997. This will also hurt HEMRAJ's utilities and service income.

## THAILAND

### Hemaraj Land and Development (HEMRAJ TB)

### SELL

Current Price: Bt0.50

Fair Price: Bt0.40

Sector	Property
52-Wk Avg Daily Vol. ('000)	12,017.7
Market Cap (Btm)	4,690.8
(US\$m)	134.0

Major Shareholders (%)	
Horungruang Family	15.1

Book NTA per Share (Bt)	0.83
ROE (%)	14.89
Net debt/share (Bt)	0.27

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)	P/B (x)	DPS (Bt)	Yield (%)
2007	5,152	1,641	1,164	0.12	(1.01)	4.17	5.84	0.65	0.070	13.92
2008	4,492	1,447	1,342	0.14	18.03	3.53	5.92	0.60	0.070	14.04
2009F	4,050	1,313	993	0.10	(28.60)	4.95	6.62	0.57	0.041	8.27
2010F	3,505	1,140	887	0.09	(10.71)	5.54	7.66	0.55	0.036	7.21
2011F	2,777	959	724	0.07	(18.35)	6.79	9.16	0.53	0.029	5.89

Consensus Net Profit – FY08: Bt1,149m  
 – FY09: Bt1,114m

**Valuation/Recommendation**

Maintain SELL on HEMRAJ amid the weak operating environment. Our fair price of Bt0.4 is pegged to 0.45x P/B, -1SD from its 12-year mean. HEMRAJ has recently declared a DPS of Bt0.035 for 2H08, driving its 2008 full-year DPS to Bt0.07 with a yield of 14%. The high yield is unsustainable given the bleak outlook.

**Profit & Loss**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	5,152	4,492	4,050	3,505	2,777
EBIT	1,588	1,461	1,250	1,073	889
Pre-tax Profit	1,516	1,324	1,164	988	803
Net Profit	1,164	1,342	993	887	724
EPS (Bt)	0.12	0.14	0.10	0.09	0.07

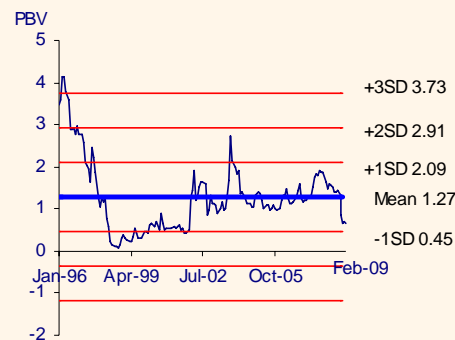
**Balance Sheet**

Year to 31 Dec (Btm)	2007	2,008	2009F	2010F	2011F
Current Assets	10,611	8,172	6,508	6,084	6,572
Total Assets	13,897	13,712	13,284	13,346	13,823
Current Liabilities	4,418	3,484	2,571	2,085	2,113
Long-Term Loans	1,585	1,853	1,853	1,853	1,853
Shareholders' Funds	7,077	7,754	8,389	8,895	9,297
Total Equity & Liabilities	13,897	13,712	13,284	13,346	13,823

**Cash Flow**

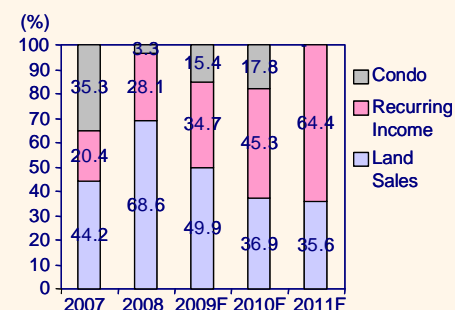
Year to 31 Dec (Btm)	2007	2,008	2009F	2010F	2011F
Operating	(78)	2,292	1,600	1,898	1,957
Investing	(1,052)	(363)	(1,925)	(1,438)	(952)
Financing	555	(1,572)	(500)	(381)	(322)
Net Cash In/out flow	(575)	357	(825)	79	683
Begin Cash & Cash Equiv.	1,150	574	932	107	186
End'g Cash & Cash Equiv.	574	932	107	186	869

**P/B & Standard Deviation**



Source: SETSMART, UOB Kay Hian

**Revenue Breakdown**



Source: HEMRAJ, UOB Kay Hian

## Ticon Industrial Connection

4Q08: Results down 32% yoy, within expectation

*Dismal outlook as occupancy rate hits its historical low. In the worst case, if TICON is unable to sell its assets into TFUND, its 2009 profit will plunge 60% from consensus.*

### 4Q08 Results

Year to 31 Dec	4Q08 (Btm)	yoy % chg	2008 (Btm)	yoy % chg	Remarks
Property sales	2,188	2.6	2,264	(7.8)	Modest yoy growth
Rental income	234	31.5	833	15.4	
Total revenue	2,435	5.1	3,224	0.8	
EBITDA	1,103	(16.3)	1,651	(13.3)	Margins of asset sale was squeezed
EBIT	1,048	(17.5)	1,433	(16.7)	Profit from sale of assets into TFUND REIT was lower yoy
Net profit	514	(32.6)	725	(31.8)	
Gross margin%					
-Property	40.8		40.9		Down from 47.3% in 2007
-Rental	73.5		74.8		Stable yoy
Overall gross margin%	43.9		49.1		Down from 53.3% in 2007
EBITDA margin%	45.3		51.2		
Net margin%	21.1		22.5		Down from 33.2% in 2007

Source: TICON, UOB Kay Hian

### Results

4Q08 profit of Ticon Industrial Connection (TICON) was in line with our estimate of Bt500m. Net profit declined 33% yoy because TICON's sale of assets (rental factories/warehouses) to TFUND REIT was less profitable than expected. 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, TICON achieved a net profit of Bt725m (-32% yoy), in line with our forecast but lower than consensus estimate by 15%.

### Stock Impact

Like other industrial estate companies, TICON is hurt by the downturn of two main sectors: electronics/electrical and automotive. Demand for new factories is weak while existing tenants whose capacity has already dropped by half have to cancel rental contracts. Hence, TICON's total occupancy rate has fallen to a historic low of 79% at end-08 (1997: 86%). Sale of asset into TFUND REIT, which is a major part of its business, looks vulnerable. The profit from the recent sale of assets into TFUND REIT in Dec 08 was 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 substantially.

### Earnings Estimate/Risk

This year, we assume TICON to sign around 38 new contracts, -20% from 47-48 contracts in 2008. We still include sale of assets into TFUND of around Bt2.0b but at a lower gross margin of around 38%. Net profit, therefore, is likely to drop by around 4% yoy to Bt682m (EPS Bt1.00), 14% lower than the consensus. However, if we opt for the worst-case scenario in which TFUND will stop buying assets from TICON, its 2009 EPS will drop by 60%.

## THAILAND

### Ticon Industrial Connection (TICON TB)

#### SELL

Current Price: Bt5.80

Fair Price: Bt4.40

Sector	Property
52-Wk Avg Daily Vol. '000	1,029.1
Market Cap (Btm)	3,876.3
(US\$m)	110.8

Major Shareholders (%)	
Rojana Industrial Park	21.8

Book NTA per Share (Bt)	7.4 0
ROE (%)	14.9
Net debt/share (Bt)	8.10

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

### Price Chart



Source: Bloomberg

### Analyst

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 wanidag@uobkayhian.co.th

Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	P/B (x)	DPS (Bt)	Yield (%)
2007	3,200	1,656	1,063	1.59	22.3	3.7	4.1	0.79	1.20	20.3
2008	3,224	1,540	725	1.08	(31.8)	5.5	5.8	0.80	0.80	13.5
2009F	3,001	1,295	682	1.02	(6.0)	5.8	5.9	0.77	0.72	12.2
2010F	3,072	1,318	730	1.09	7.1	5.4	6.1	0.74	0.76	12.9
2011F	3,170	1,315	775	1.15	6.2	5.1	6.3	0.70	0.80	13.6

Consensus Net profit – FY09: Bt795m  
 – FY10: Bt917m

**Recommendation**

Although TICON is paying a lower dividend of Bt0.80/share for 2008's weaker performance (down from an annual DPS of Bt1.20 per year during 2005-07), its yield at the current price remains high at 13.5%. Nevertheless, the high dividend is unsustainable. Apart from a weak core rental business, the 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. If TFUND stops buying assets from TICON, TICON's profit will plunge by 60% and hence its PE will surge to 16x, with a corresponding decline in its yield to only 5%.

**Maintain SELL**

We arrive at its fair price of Bt4.40 assuming the worst case EPS of Bt0.40 and pegging it at the average PE range low of 11x during 2002-4, the period before it opted for asset monetisation via TFUND REIT. P/B and yield corresponding to the share price of Bt4.40 are 0.6x and 6%, respectively.

**Reduce cash outflow**

TICON's debt-to-equity ratio stood at 1.1x at end-08. Amid the gloomy outlook, TICON needs to preserve cash. Firstly, it cut 2008 DPS to Bt0.80 (ex-dividend on May 6) from Bt1.20 per year during 2005-2007. To compensate for the lower dividend, it will issue one free warrant for every six common shareholders. Each warrant can buy one share within 2 years at an exercise price of Bt8.00/share. Subsequently, it plans to scale down its investment from Bt2.5b in 2008 to around Bt1.6-1.7b in 2009. Of the total, around 70% will be used to develop warehouse for rental, the area with healthy demand. Given the 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)	2007	2008	2009F	2010F	2011F
Turnover	3,200	3,224	3,001	3,072	3,170
EBIT	1,567	1,433	1,206	1,247	1,277
Pre-tax Profit	1,357	1,167	969	1,028	1,047
Net Profit	1,063	725	682	730	775
EPS (Bt)	1.6	1.1	1.0	1.1	1.2

**Balance Sheet**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	588	670	576	745	380
Total Assets	9,683	11,734	11,332	12,171	12,472
Current Liabilities	1,072	3,723	1,700	1,750	1,750
Long-term Loans	3,434	2,917	4,000	4,500	4,500
Shareholders' Funds	4,852	4,849	5,082	5,371	5,672
Total Equity & Liabilities	9,683	11,734	11,332	12,171	12,472

**Cash Flow**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	1,243	973	1,309	1,051	1,010
Investing	(1,050)	(2,384)	39	(941)	(900)
Financing	(947)	1,467	(1,445)	59	(474)
Net Cash Inflow/(Outflow)	(754)	56	(97)	169	(365)
Begin Cash & Cash Equiv.	1,289	535	591	494	663
End'g Cash & Cash Equiv.	535	591	494	663	298

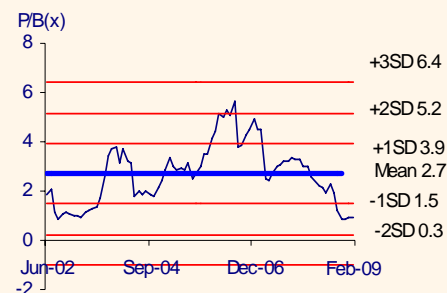
**Portfolio: Factories and Warehouses**

(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

**TICON's Share Price and Standard Deviation**



Source: SETSMART, UOB Kay Hian

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