

KEY STORY

China

Unemployment

Page 2

Unemployment could rise significantly in 2009; expect more measures to support consumption. Trading BUY for consumer plays.

Thailand

Strategy 2

Page 18

Three "dirt cheap" stocks with massive upside potential.

CHINA

Economics

Unemployment

Page 2

Unemployment could rise significantly in 2009; expect more measures to support consumption. Trading BUY for consumer plays.

Government Work Report

Page 4

Effects of the Rmb4 trillion stimulus package may be stronger than expected and more measures may be implemented in the future.

Sector

Property

Page 5

Comments on Premier Wen Jiabao's government report on the property sector.

Telecommunications

Page 7

2008 results preview: China Mobile continues to grow; China Telecom and China Unicom hurt by mobile substitution.

HONG KONG

Quantitative Analysis

Page 9

HSBC (5 HK) and Tracker Fund (2800 HK) rebalancing.

SINGAPORE

Results

Hongkong Land (HOLD/US\$1.84/Fair: US\$1.84)

Page 11

2008: Underlying profit dragged down by provision. Share price already discounted a 50% fall in office rent, hence upgrade to HOLD.

Update

Singapore Press Holdings (BUY/S\$2.47/Target: S\$3.90)

Page 13

Page counts point to advertising revenue contraction of 13% yoy in 2QFY09, in line with 1QCY09's GDP contraction forecasts of 8-12%.

THAILAND

Strategy 1

Page 15

Net profit turns into a loss of Bt21b in 4Q08 from a profit of Bt75b in 3Q08. We are forecasting net profit growth of -7.2% with downward bias.

Strategy 2

Page 18

Three "dirt cheap" stocks with massive upside potential.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	6594.4	(4.1)	(8.2)	(18.2)	(24.9)
S&P 500	682.6	(4.3)	(9.3)	(19.3)	(24.4)
FTSE 100	3529.9	(3.2)	(9.9)	(16.5)	(20.4)
AS30	3148.8	0.7	(4.5)	(7.6)	(14.0)
CSI 300	2304.9	0.9	5.2	3.0	26.8
FSSTI	1518.6	(1.7)	(6.1)	(11.5)	(13.8)
HSI	12211.2	(1.0)	(5.3)	(10.6)	(15.1)
JCI	1288.1	(0.1)	(0.2)	(4.6)	(5.0)
KLCI	869.2	0.3	(2.7)	(3.1)	(0.9)
KOSPI	1058.2	(0.1)	0.3	(12.6)	(5.9)
Nikkei 225	7433.5	2.0	(0.3)	(8.0)	(16.1)
SET	417.1	(0.2)	(3.4)	(6.1)	(7.3)
TWSE	4637.2	2.1	2.6	3.7	1.0
BDI	2167	4.0	11.1	44.7	180.0
CPO (RM/mt)	1955	1.3	1.5	6.9	19.9
Nymex Crude (US\$/bbl)	44	(3.8)	(3.4)	6.1	(2.1)

Source: Bloomberg

Top BUYs/SELLs

	Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)
Top BUYs				
China Life	2628 HK	21.80	30.50	39.9
China Mobile	941 HK	66.45	90.00	35.4
China Petroleum	386 HK	3.90	6.93	77.7
China Railway	390 HK	4.30	5.90	37.2
China Shenhua	1088 HK	14.36	23.00	60.2
Maanshan Iron	323 HK	2.37	3.70	56.1
Bumi Resources	BUMI IJ	770	1,010	31.2
Public Bank	PBK MK	8.15	10.90	33.7
DBS Group	DBS SP	7.04	10.55	49.9
Indofood Agri	IFAR SP	0.52	0.80	55.3
SingTel	ST SP	2.54	2.95	16.1
Advanced Info	ADVANC TB	80.50	101.73	26.4
Quality Houses	QH TB	0.73	1.28	75.3
Top SELLs				
Aluminum Corp	2600 HK	3.92	3.00	(23.5)
Parkson Retail	3368 HK	6.86	5.15	(24.9)
Wharf Hldg	4 HK	16.12	14.60	(9.4)
S'pore Airlines	SIA SP	9.86	9.70	(1.6)
S'pore Exchange	SGX SP	4.29	3.00	(30.1)
Amata Corp	AMATA TB	3.20	2.52	(21.3)

Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.3	(2.0)	1.8
Euro Zone*	0.7	(2.2)	0.8
Japan*	(0.7)	(4.9)	0.7
Singapore	1.2	(4.0)	4.0
Malaysia	5.1	0.9	4.0
Thailand	2.6	(1.6)	4.3
Indonesia	6.0	3.6	n.a.
Hong Kong	2.5	(4.0)	0.5
China	9.0	7.1	8.0
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,642	2,010
Copper* (US\$/MT)	6,884	3,734	4,618
Gold Price London* (US\$/ounce)	873	963	978
Iron Ore* (US\$/dmton)	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

Unemployment

Unemployment could double in 2009

The global recession and domestic economic slowdown has hit China's job market severely. In particular, migrant workers suffer the most as most work in export-oriented factories and construction sectors - the two areas that are most affected. We try to quantify the impact of the economic slowdown on the job market. Our focus is on migrant workers. We will also depict the general picture of the migrant workers' job market.

Yangtze River and Pearl River delta provide more than 60% of migrant worker's wage income. China's two most export-oriented areas, Yangtze River and Pearl River delta, are the main sources of migrant workers' wage income, both providing some 30% of the total wages of migrant workers. As a result, the sharp slowdown in the economy in the two areas has resulted in the bulk of migrant workers being laid off. The manufacturing (most are export-oriented) and the construction sector contributes 40% and 25% respectively of the total wages of migrant workers.

14m migrant workers could be laid off this year. According to our analysis, a 1-ppt drop in exports could lead to 230,000 job losses. If exports growth slowdown by 22ppt from 17% in 2008 to -5% in 2009, this could mean 5m job losses. As for the impact of a slowdown in the construction sector on employment, we expect employment of migrant workers to contract by 20% in 2009 or 6.4m jobs will be lost. For the other sectors, the economic slowdown may cut another 3m jobs. In total, 14m jobs may be lost.

Estimated Job Loss

Sector	Job loss
Export	5m
Construction	6.4m
Others	3m
Total	14.4m

Source: UOB Kay Hian

In addition, 22m people may enter the labour market in 2009. This includes 6m graduates, 7m new migrant workers, and new urban work force and the unemployed totalling 9m. Overall, some 36m people may need a job in 2009.

We need to gauge how many additional jobs can be created from the Rmb4t stimulus package to see how many people may be unemployed in 2009.

7.8m new jobs may be created from the stimulus package.

- For new railway investment, there may be Rmb300b more investment in 2009. This may create 3m jobs.
- For expressway investment, there could be Rmb100b investment in 2009 and this may add 1.8m jobs.
- For low-cost housing, additional investment could be Rmb200b and this may create 2m jobs.

New Possible Jobs From The Stimulus Package

Sector	New jobs created
Railway	3m
Expressway	1.8m
Low cost housing	2m
Others	1m
Total	7.8m

Source: UOB Kay Hian

CHINA

Economics

Analyst

Irene Gu

☎ (8621) 54047225 ext. 816

irene.gu@uobkayhian.com

Therefore, new investments in the above sectors are expected to create 6.8m jobs. We do not know if the investment in other sectors can create how many new jobs but it could probably be less than those in the above-mentioned sectors. Let us assume the rest of the new investments may add 1m new jobs. As such, there can be some 7.8m new jobs created from the Rmb4t stimulus package. We would like to emphasise that jobs created by an increase in infrastructure is unsustainable as once these projects are completed, there will be no more jobs available.

Unemployment to double in 2009. In the past ten years, the economic growth generated 8m-11m new jobs each year. It is estimated that the demand for employees may contract by one-third this year from 11m last year. Therefore, we assume the economic growth can generate 8m jobs this year (without the stimulus package). Adding the 7.8m new jobs created by the stimulus package, there could be 15.8m new jobs in 2009. Subtracting it from 36m people looking for jobs, about 20m people will not have jobs in 2009. This figure is doubled if that in the past few years. The unemployed population in urban areas was 8.4m in 2008 and reported unemployment rate was 4.2% (total urban area workforce is around 200m). As such, unemployment rate in urban areas could rise significantly to 7-10% this year.

More measures to boost consumption expected. The rise in unemployment rate could lead to a 5ppt drop in consumer spending in 2009. This calls for more aggressive government measures to boost consumption given the sluggish external demand. We believe there is much potential for consumption to be boosted due to the relative low consumption ratio (less than 50% in 2008). Government measures to boost consumption could fall into two categories:

a) Boosting income growth through giving more support to SMEs which were treated unfairly in the past, and encouraging individuals to set up their own businesses. For instance, some local governments are encouraging banks to give loans to those who wish to set up their own business and allowing start-ups to operate in their homes (thus no need to pay office rent).

The government may also cut personal income tax to boost income growth. In the short term, the threshold for income tax may be raised while in the longer term, a more comprehensive reform on personal income tax could be launched to further reduce tax burden.

b) Strengthening consumer confidence by improving social welfare through more government spending on education and healthcare.

Implications for the stock market. Consumer stocks have been laggards in recent months because of the concern about rising unemployment affecting consumer spending. Given the attractive valuation, we believe it is time to accumulate them as the government is likely to launch measures to boost consumer spending. Following is the list of our preferred consumer stocks.

Peer Comparison

Company	Stock Code	Rec	Target Price (HK\$)	Current Price (HK\$)	Market Cap (HK\$m)	PE (x)			ROE (%) 2008F
						2008F	2009F	2010F	
China Dongxiang	3818 HK	BUY	3.30	2.61	14,788	13.1	11.5	9.8	22.2
Golden Eagle	3308 HK	BUY	5.66	4.33	7,655	12.7	11.9	9.5	28.9
Daphne	210 HK	BUY	2.80	1.37	2,244	4.9	4.5	3.6	34.8
Dynasty Fine Wine	828 HK	BUY	1.41	1.14	1,419	8.7	8.0	6.9	6.9
China Yurun	1068 HK	BUY	12.5	9.51	14,561	13.4	11.9	10.1	19.8
Ports Design	589 HK	BUY	9.60	8.50	4,768	9.7	8.9	7.8	42.7
People's Food	PFH SP	BUY	S\$0.88	S\$0.545	S\$610	4.4	3.9	3.5	14.2

Source: UOB Kay Hian

Economics

More supportive measures expected to ensure 8% growth

Although Premier Wen Jiabao did not announce a new stimulus package in the working report, which may be a disappointment to the market, it does not mean less support from the government. Based on some key numbers in the working report, we believe the government will put more efforts into boosting the economy. More importantly, the government is probably moving in the right direction.

8% GDP target. The government still targets 8% Gross Domestic Product (GDP) growth for 2009. This should boost market sentiments as it implies Beijing may make more effort to boost economic growth. In a press conference held on 6 March, the National Development and Reform Commission (NDRC) governor remarked that the government stimulus package was a flexible one and spending could be scaled up if necessary. As we expect economic growth to be below 8% in 1H09, more supportive measures could be announced after 1Q09 economic data is released.

Rmb908b central government investment in 2009. The government has indicated that all the Rmb1.2 trillion of the Rmb4 trillion stimulus it will finance are incremental. Of the Rmb1.2 trillion, Rmb104b was invested by end-08, Rmb488b will be allocated in 2009 (from Rmb420b to Rmb908b in 2009) and Rmb589b is the increment allocated for 2010. This suggests most of the projects in the Rmb4 trillion stimulus package may be new projects (excluding the Rmb1 trillion for post-earthquake reconstruction efforts). As such, the effect of the stimulus package on the economy may be stronger than expected.

Total budget for fiscal spending: Rmb7.6 trillion. The 2009 budget is an indication of the government's effort to improve China's social security system. Also, the new version of the Rmb4 trillion package is more supportive of consumption. We believe the improvement in social welfare can effectively reduce household savings and boost consumption. Prior to the market reforms started in the 1990s, when free education, healthcare and housing were made available to urban residents, household savings/disposable income in urban areas was less than 15%. Today, that figure is 10ppt higher. Consumption could be the only growth engine behind China's superlative growth in the foreseeable future.

Government Budget - Fiscal Spending

Items	2008 Expenditure (Rmbb)	2009 Budget (Rmbb)	2009 Budget /2008 Actual
Agriculture	472	578	122%
Education	894	1095	122%
Health care	283	342	120%
Social welfare and employment	677	833	123%
Environmental protection	143	175	122%
Defense	418	481	114%
General affairs	832	932	111%
Transport	270	417	154%
Reserve on material such as grain, oil etc	197	250	127%
Mining, electricity& IT	259	262	101%
Public security	404	487	120%
Foreign affairs	24	27	112%
Urban and rural social affairs	400	471	118%
Earthquake reconstruction	77	118	154%
Finance	110	47	42%
Interest payment on public debt	140	151	107%
Provisions		104	
Others	303	400	131%
Total	6,243	7,624	122%

Source: MoF

Rmb5 trillion as bottom line for new loans. People's Bank of China (PBOC) has explained that the Rmb5 trillion new loans should be the bottom line. Credit expansion is necessary to secure an 8% economic growth this year. PBOC will encourage banks to give more loans to small and mid-sized enterprises to prevent more bankruptcies.

CHINA

Economics

Analyst

Irene Gu
 ☎ (8621) 54047225 ext. 816
 irene.gu@uobkayhian.com

Change in Rmb4 trillion Package

Sector	New Version	Old Version	Change
Low cost housing	400	280	+120
Infrastructure in rural area	370	370	0
Infrastructure in urban area	1500	1800	-300
Education, medicare and other social affairs	150	40	+110
Environmental protection	210	350	-140
Innovation and technical upgrading	370	160	+210
Earthquake reconstruction	1000	1000	0

Source: MoF

Property

Premier Wen Jiabao's government report on the property sector

Following Premier Wen's government report, we expect local governments to introduce more property-related policies, but the subsidised housing segment remains quite challenging. ACCUMULATE on improved property fundamentals.

Key highlights of Premier Wen's report are as the followings:

- a) **Policy actions:** To take more active and effective policies to stabilise market confidence and expectation.
- b) **Second home policies:** Qualified second ordinary home buyers will enjoy the same preferential policies as the first home.
- c) **To support the stimulus policies issued by local governments.**
- d) **Subsidised housing:** Reiterate the implementation on subsidised housing construction. The central government will provide Rmb34.0b of financial subsidy to local governments for low-rent housing construction. Some local governments may be selected for trial on using part of public housing fund in economy housing construction. Meanwhile, the government will develop public rental housing.

What policies could be expected

Further relaxation on second homes. The statement on "qualified" second ordinary homes is unclear at the moment. The Central government had stated that second ordinary house can enjoy the same preferential policies as the first home provided that home buyers' current home sizes are below the local average. Is this just a reiteration of old policy? Or should "qualified" be interpreted as *all* second homes which qualify as ordinary houses will enjoy the same preferential policies as first homes? Despite the ambiguity, we found the implementation to be varied among banks and cities. Our channel checks show that some banks in major cities have started to loosen their mortgage policies for second homes now. We expect the relaxation of policies for second home to be a trend. This should boost the sales of mid- to high-end properties and secondary housing transactions.

Offering permanent residence incentive to home buyers. So far, some cities have introduced the offer of permanent residence permit as an incentive for home buyers, i.e. Chengdu, Hangzhou, Xiamen, Shijiazhuang and Hefei. We expect more secondary cities to release similar policies. Nonetheless, so far the local governments of primary cities, i.e. Beijing, Shanghai and Shenzhen, have expressed no intention to introduce this incentive due to the overcrowded city environment or concern with the policy mainly benefitting the rich. Although the Guangdong provincial government said "cities are flexible to introduce this policy", we still do not expect Shenzhen to follow in near term.

Income tax rebate scheme for home purchase? This is a powerful policy. Shanghai had introduced this policy from 1998-2003, and it had proven to be very effective in driving up housing sales. Indeed, Chengdu has offered income tax rebate of up to Rmb100,000 for home buyers immediately after the Sichuan earthquake in May 08. Nonetheless, there no more cities are allowed to introduce similar policies by now. For example, Chongqing announced its plan to launch this policy in Dec 08, but so far the message on implementation is quite confusing. Some media reports suggest that the central government has suspended the execution of this policy in Chongqing, but the local government has denied these reports. It is interesting that the Secretary of the Communist Party of Shenzhen recently backed this policy and stated that it is useful for research. We believe the central government is evaluating the effect of announced policies before introducing more aggressive ones to stimulate the housing market.

CHINA

Property

MARKET WEIGHT

Analyst

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

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

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We cannot rule out the issuance of this policy, but we expect this policy will likely be implemented at the regional level instead of nationwide. Meanwhile, we believe the income tax rebate scheme may apply only to the first ordinary housing purchase instead of luxury houses.

Policies benefit developers. We expect more cities to allow flexibility in land premium payment, deferment of LAT payment, lowered operating costs (i.e. urban infrastructure fees) and relaxation of the 70/90 rule.

Funding of subsidised housing

According to the central government's planning, about Rmb900b is needed in the next three years, or Rmb300b each year, for construction of 2m units of low-rent housing, 4m units of economy housing and 2.2m units of upgrading housing in forestry, mining and rural areas. Despite the massive planning of local governments, there is no detailed breakdown on the funding of subsidised housing. We estimate it would need Rmb75b per year for low-rent housing, Rmb150b per year for economy housing and Rmb75b for upgrading housing in forestry, mining and rural areas.

Low-rent housing: Governments are the main sponsors of low-rent housing construction.

- a) **Central government's subsidy:** Rmb34.0b of financial subsidy has been announced.
- b) **Land premium:** The Central government requires local governments to spend 10% of annual net income of land sales on low-rent housing. According to the Ministry of Land and Resources, the total national land premium was around Rmb960b in 2008, down 26% yoy. We estimate the land premium to record another 30% decrease in 2009 due to further land price weakness and a severer slowdown in land purchases by developers this year. We assume the net margin on land sales is around 40%. As a result, the net income of land sales in 2009 is around Rmb270b, and 10% of this is equivalent to Rmb27b. Hence, the total available funding for low-rent housing is around Rmb61b, below our estimated budget of Rmb75b.

Economy housing: Developers are the main builders for economy housing. Hence, there is no detailed subsidy breakdown on the construction. We believe it is quite challenging to achieve the economy housing construction target. The balance sheets of developers remain tight for participating in new projects. Commercial banks would be willing to support these projects given the low operation risks, and the central government has also announced the availability of a 10% discount on commercial lending rates for economy housing projects, but developers will have to provide 30% of total investment capital on their own. In addition, the thin margins from economy housing could deter many developers.

On the other hand, despite our scepticism regarding the governments' implementations, we expect the heightened emphasis by local governments on economy housing could dampen housing price in suburban areas, but we think its impact on mid- to high-end properties located in urban areas is limited.

Accumulate China property stocks in ensuing market weakness. Overall, the government's tone is within market expectation. Apart from the expectation of government policies, we believe the fundamentals of property sector have improved on the back of continuous strong sales performance in physical market, enhanced housing affordability with substantially lowered housing prices, credit relaxation by the central government and improved visibility on the China economy with the government's stimulus policies. We suggest investors **ACCUMULATE** quality property stocks, like **CRL (1109 HK/NOT RATED)** and **Sino-Ocean (3377 HK/BUY/Target: HK\$5.05)**, while **Guangzhou R&F (2777 HK/BUY/Target: HK\$8.41)** and **Shimao (813 HK/BUY/Target: HK\$6.40)** are our high beta stock picks.

Telecommunications

2008: CMHK continues to grow; CT and CU hurt by mobile substitution

We expect only China Mobile to post earnings growth in 2008 and peers to see slight earnings decline due to restructuring and competition. Maintain BUY on China Mobile due to its defensive earnings and dividend yield.

Sector Events

Chinese telecommunications operators will announce 2008 annual results in late March. We expect strong subscription growth and operating efficiency improvement to help China Mobile (CMHK) achieve 29.3% yoy earnings growth. In contrast, both China Telecom (CT) and China Unicom (CU) are likely to report earnings decline due to intensified mobile substitution. In addition, PHS fixed-asset impairment will create an extra impact on CT's and CU's reported earnings. (For CU, the disposal gain from its CDMA business could counter the impact of the asset write-down).

China Mobile 2008 Results Preview

(Rmbm)	2008F	2007	yoy % chg	4Q08F	yoy % chg	qoq % chg
Turnover	409,738	356,959	14.8	108,342	10.0	3.2
EBITDA	217,810	193,745	12.4	58,613	7.6	6.7
Net Profit	112,553	87,062	29.3	29,963	10.2	8.0
EBITDA Margin	53.2%	54.3%	-1.1ppt	54.1%	-1.2ppt	1.7ppt
Net Margin	27.5%	24.4%	3.1ppt	27.7%	0.1ppt	1.2ppt
Total subs (m)	457.3	369.3	23.8	457.3	23.8	4.8

Source: China Mobile, UOB Kay Hian

With CMHK's strong mobile subscription growth (7.3m/month) in the year, we expect the company to deliver 14.8% revenue growth in 2008, while increasing competition will drag down its EBITDA margin slightly by 1.1ppt. On the other hand, increasing economies of scale and reduction of profit tax rate will enable net profit to grow 29.3% yoy to Rmb112.5b. Under 43% full-year dividend payout guidance, we estimate CMHK's 2008 final dividend at HK\$1.40/ share.

China Telecom 2008 Results Preview

(Rmbm)	2008F	2007	yoy % chg	4Q08F	yoy % chg	qoq % chg
Operating Revenue	182,889	175,362	4.3	48,538	9.8	8.0
EBITDA	79,557	85,974	(7.5)	13,396	(30.9)	(38.8)
Net Profit	6,617	23,702	(72.1)	-10,613	(295.0)	(288.7)
Adj. Net Profit	19,852	22,517	(11.8)	2,622	(51.8)	(53.4)
EBITDA Margin	43.5%	49.0%	-5.5ppt	27.6%	-16.3ppt	-21.1ppt
Adj. Net Margin	10.9%	12.8%	-2.0ppt	5.4%	-6.9ppt	-7.1ppt
Fixed-line subs. (m)	208.35	220.33	(5.4)	208.35	(5.4)	(2.2)
Mobile subs. (m)	27.91	n.a.	n.a.	27.91	n.a.	(4.0)
Broadband subs (m)	44.27	35.65	24.2	44.27	24.2	5.0%

Note: Adj. net profit excludes one-off charges due to PHS fixed-asset impairment

Source: China Telecom, UOB Kay Hian

For CT, the solid growth of its Internet Broadband business should help offset mobile substitution effect and achieve 1.0% organic revenue growth, while the incorporation of the CDMA business in 4Q08 will contribute another 3.3% revenue growth. For EBITDA margin, we expect increasing competition and certain one-off charges related to the handover of the CDMA network to drag down CT's 4Q08 EBITDA margin by 16.3ppt yoy, dragging down 2008 EBITDA margin to 43.5%. For earnings, we expect CT's recurring earnings to drop 11.8%, while a possible PHS fixed-asset impairment will further drag down reported earnings by 72.1% yoy. Since the PHS fixed-asset impairment would not create any negative impact on CT's cash flow, we expect the company to maintain HK\$0.085/share final dividend in 2008.

CHINA

Telecommunications

MARKET WEIGHT

Analyst

Victor Yip

☎ (852) 2826 1392

victor.yip@uobkayhian.com.hk

China Unicom 2008 Results Preview

(Rmbm)	2008F	2007	yoy % chg
Operating Revenue	148,888	150,576	(1.1)
EBITDA	69,488	73,518	(5.5)
Net Profit	35,811	19,655	82.2
Adj. Net Profit	13,641	16,670	(18.2)
EBITDA Margin	46.7%	48.8%	-2.2ppt
Adj. Net Margin	9.2%	11.7%	-2.5ppt
Fixed-line subs. (m)	100.1	110.8	(9.6)
Mobile subs. (m)	133.4	120.6	10.6
Broadband subs (m)	25.4	19.8	28.6

Note: Adj. net profit excludes one-off charges due to PHS fixed-asset impairment and CDMA asset disposal.

Source: China Unicom, UOB Kay Hian

For CU, we expect a decline in fixed-line user numbers and intensified competition to lead to a 1.1% revenue decline in 2008. In addition, the severe operating environment will cause CU's EBITDA margin and recurring net margin to decline by 2.2ppt and 2.5ppt respectively. With the one-off disposal gain from the CDMA business and impairment charges arising from PHS fixed asset write-off, we expect CU to record a Rm30b one-off gain in 2008, thus boosting reported net income by 82.2%. However, with a huge capex plan ahead, CU is likely to increase the final dividend by only 5% to Rmb0.21/share.

Stock Impact

We expect intensified competition from the roll-out of 3G services and the poor macro-economy to create a negative impact on telcos' earnings in 2009. With its better operating leverage, CMHK will likely be the only Chinese telco to report earnings growth in 2009, while pressure from increasing operating costs and finance charges will drag down CT's and CU's earnings in 2009.

What to look out for? We expect telcos' management teams to provide guidance on key issues during the results briefing, including 3G business development plans, future capex budgets, dividend policies and updates on asymmetric policy development.

According to sina.com, CMHK may launch a semi fixed-line service using the TD-SCDMA platform in the near term. The company may also give additional guidance regarding the services.

For CU, the company is reported to be finalising terms with Apple regarding the introduction of iPhone into the Chinese market. We expect management to provide more details such as revenue share and subsidy ratio during the meeting.

Valuation/ Recommendation

We expect CMHK's figures to be broadly in line with our forecasts, while CT's and CU's earnings may show a significant deviation from estimates due to PHS fixed-asset impairment charges. Going forward, we see share price catalysts such as better-than-expected subscription and usage figures, while a rather soft asymmetric policy will be positive for CMHK, and a strong asymmetric policy will be positive for CT and CU. Maintain BUY on CMHK with a HK\$90.00 target price, based on 13.5x 2009F PE.

Valuation

Company	Ticker	Rec	Price (HK\$)	Target Price	EPS (Rmb)			PE (x)			Yield (%)		
			05 Mar 09	(HK\$)	2007	2008F	2009F	2007	2008F	2009F	2007	2008F	2009F
China Mobile	941.HK	BUY	66.45	90.00	4.35	5.61	5.79	13.3	10.3	10.0	3.2	4.2	4.3
China Telecom	728.HK	HOLD	2.66	2.76	0.28	0.26	0.19	8.3	9.0	12.5	3.2	3.2	3.2
China Unicom	762.HK	SELL	7.58	7.10	0.75	0.57	0.52	8.8	11.5	12.8	3.1	3.2	3.4

Source: Bloomberg, UOB Kay Hian

Quantitative Analysis

HSBC (5 HK) and Tracker Fund (2800 HK) rebalancing

Despite the Hang Seng Index Company announcing on 13 February that there will be no change in the constituents, rebalancing would still have to be conducted for the current 42 constituents on 9 March (next Monday).

To provide some insight into the rebalancing process, we have recalculated the weightings of the HSI constituent stocks, assuming the rebalancing had been undertaken yesterday. With reference to Table 1, the weighting change highlights a re-capping of HSBC to 15%, and changes in FAF (Free-float Adjustment Factors) for five constituents, which include China Construction Bank (939 HK), BOC (3988 HK), Esprit (330 HK), Li & Fung (494 HK) and Citic Pacific (267 HK).

Undoubtedly, the highlight of the upcoming rebalancing would be HSBC (5 HK). According to Bloomberg, the weighting of HSBC in the index as of yesterday was 9.4%. The number of shares used for the calculation of weighting of HSBC in the index has been 5,888m.

Assuming the rebalancing was undertaken yesterday, HSBC would resume the capped weighting of 15%. That said, the free-float adjusted and weighting-capped market cap of HSBC would be HK\$479,034m at HK\$44.80 per share. This translates into 10,692m shares to be in the index for the weighting calculation exercise beginning next week.

As we know, Tracker Fund (2800 HK) uses the Hang Seng Index as the benchmark. Based on the market cap of HK\$26,549m of the fund and assuming the purchase price is HK\$44.80 (yesterday's closing price), the Tracker Fund alone needs to purchase 33m shares of HSBC from the market to rebalance its portfolio against the Hang Seng Index benchmark.

HONG KONG

Quantitative Analysis

Analyst

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

Friday, March 06, 2009

Table 1: Weightings Of Constituents Of Hang Seng Index After Rebalancing

	Name	Price	FAF	Freefloat Adj Mkt Cap (HK\$m)	Wtg Before Capping	Adj & Capped Mkt Cap (HK\$m)	Adj Weight
5 HK	HSBC HLDGS PLC	44.8	100	544,077	16.7%	479,034	15.0%
939 HK	CHINA CONST BA-H	4.0	30	270,301	8.3%	270,301	8.5%
2628 HK	CHINA LIFE-H	21.8	100	162,218	5.0%	162,218	5.1%
1398 HK	IND & COMM BK -H	3.2	55	145,723	4.5%	145,723	4.6%
3988 HK	BANK OF CHINA-H	2.2	90	149,152	4.6%	149,152	4.7%
3328 HK	BANK OF COMMUN-H	4.6	60	64,211	2.0%	64,211	2.0%
388 HK	HONG KONG EXCHNG	56.9	100	61,111	1.9%	61,111	1.9%
11 HK	HANG SENG BK	79.5	40	60,797	1.9%	60,797	1.9%
2318 HK	PING AN INSURA-H	38.4	55	54,039	1.7%	54,039	1.7%
2388 HK	BOC HONG KONG HO	7.0	35	25,718	0.8%	25,718	0.8%
23 HK	BANK EAST ASIA	14.1	100	23,528	0.7%	23,528	0.7%
2 HK	CLP HLDGS LTD	53.9	75	97,268	3.0%	97,268	3.0%
6 HK	HONG KG ELEC	46.0	65	63,814	2.0%	63,814	2.0%
3 HK	HONG KG CHINA GS	11.3	60	45,273	1.4%	45,273	1.4%
16 HK	SUN HUNG KAI PRO	59.1	60	90,854	2.8%	90,854	2.8%
1 HK	CHEUNG KONG	60.5	60	84,007	2.6%	84,007	2.6%
688 HK	CHINA OVERSEAS	10.9	50	44,334	1.4%	44,334	1.4%
101 HK	HANG LUNG PROPER	14.4	50	29,887	0.9%	29,887	0.9%
12 HK	HENDERSON LAND D	25.0	50	26,834	0.8%	26,834	0.8%
83 HK	SINO LAND CO	6.0	50	14,537	0.4%	14,537	0.5%
941 HK	CHINA MOBILE	66.5	30	399,797	12.3%	399,797	12.5%
857 HK	PETROCHINA CO-H	5.3	100	110,980	3.4%	110,980	3.5%
883 HK	CNOOC LTD	6.3	40	112,209	3.4%	112,209	3.5%
13 HK	HUTCHISON WHAMPO	38.3	50	81,644	2.5%	81,644	2.6%
386 HK	CHINA PETROLEU-H	3.9	100	65,444	2.0%	65,444	2.0%
1088 HK	CHINA SHENHUA -H	14.4	100	48,804	1.5%	48,804	1.5%
762 HK	CHINA UNICOM HON	7.6	30	54,048	1.7%	54,048	1.7%
330 HK	ESPRIT HLDGS	40.9	95	48,376	1.5%	48,376	1.5%
700 HK	TENCENT HOLDINGS	47.4	55	46,856	1.4%	46,856	1.5%
19 HK	SWIRE PACIF 'A'	46.3	100	41,928	1.3%	41,928	1.3%
494 HK	LI & FUNG LTD	18.2	70	46,301	1.4%	46,301	1.4%
66 HK	MTR CORP	16.3	25	23,126	0.7%	23,126	0.7%
4 HK	WHARF HLDG	16.1	50	22,196	0.7%	22,196	0.7%
17 HK	NEW WORLD DEV	6.5	65	16,278	0.5%	16,278	0.5%
2600 HK	ALUMINUM CORP-H	3.9	100	15,460	0.5%	15,460	0.5%
144 HK	CHINA MERCHANT	13.6	45	14,810	0.5%	14,810	0.5%
291 HK	CHINA RES ENT	11.0	50	13,188	0.4%	13,188	0.4%
267 HK	CITIC PACIFIC	7.6	30	8,292	0.3%	8,292	0.3%
293 HK	CATHAY PAC AIR	7.6	30	9,003	0.3%	9,003	0.3%
551 HK	YUE YUEN INDUS	15.4	40	10,171	0.3%	10,171	0.3%
1199 HK	COSCO PAC LTD	5.9	50	6,623	0.2%	6,623	0.2%
2038 HK	FOXCONN INTL HLD	2.5	30	5,381	0.2%	5,381	0.2%
Sum				3,258,600	100.0%	3,193,557	

Source: Bloomberg

Hongkong Land

2008: Time for a breather

Earnings are not the crucial factor, but where office rents are heading. Already discounting a 50% fall in rents from the peak, downside is limited for now. The upgrade partly reflects our view that there is more downward pressure on the other landlords.

2008 Results

Year to 31 Dec	2007 (US\$m)	2008 (US\$m)	yoy % chg	Remarks
Revenue				
Rental income	441	574	30	Positive rental reversions
Service income	98	105	7	Inflationary
Property trading	395	344	(13)	Mainly contributions from MCL Land
	933	1,022	10	
Cost of sales	(442)	(574)	30	Included US\$180m write-down at MCL
Other income	1	1	33	
Administrative expenses	(52)	(53)	2	
	440	396	(10)	
Net finance charges	(50)	(45)	(11)	Lower interest charges
Associates	24	81	239	Higher sales volume
	414	433	5	Boosted by higher ASP &
Tax	(56)	(81)	44	Fair value gain on investments
Minority interests	(13)	24	(289)	
Net profit	345	375	9	

Source: UOB Kay Hian

Results

Earnings dragged down by provision. Hongkong Land reported underlying net profit of US\$375m, below consensus' US\$461m and our US\$471m, representing a 9% yoy growth. The shortfall was due to a US\$140m write-down on residential developments at the 77%-held MCL Land (MCL SP).

Ex-provision, profit above expectations. In fact, taking out this write-down, underlying net profit would be US\$515m, above expectations, and ironically also due to higher development profits earned by MCL Land.

Cut in final dividend. Final DPS was cut from US\$0.09 to US\$0.07. Together with the higher interim dividend, full-year DPS was flat at US\$0.13.

Rental income was up 30%, slightly behind our projected 32%, to US\$574m as the rental portfolio moved further into the positive reversion cycle. Average office rents in Hong Kong were 34% higher and 10% for retail rents. Management said both office and retail sectors started to weaken in 4Q08. Office vacancy was 2.6% at end-08, from 2.0% a year ago. We estimate vacancy has only crept to 3.2% at present, but it is on a steady uptrend.

Valuation of rental portfolio was down 4% yoy to US\$14,525m, compared to the 11% increase recorded in 1H08, meaning the overall value fell 13% in 2H08. As a result, net revaluation deficit of US\$486m was recorded for the year, against last year's US\$2,488m surplus, and largely explained the headline net loss of US\$109m from 2007's US\$2,840 profit.

Stock Impact

No impact on share price. Hongkong Land's earnings are backward-looking, and hence the results alone should not have a lingering impact on share price.

SINGAPORE

Hongkong Land (HKL SP)

UPGRADE TO HOLD

Current Price: US\$1.84

Fair Price: US\$1.84

(Previous: US\$1.87)

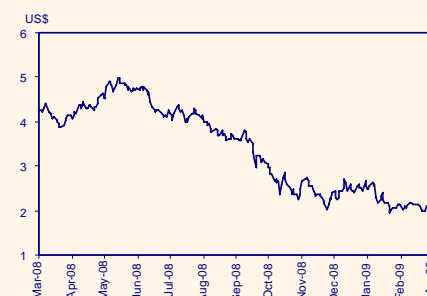
Sector	Property
52-Wk Avg Daily Vol. ('m)	4.4
Market Cap (HK\$m)	32,278
(US\$m)	4,138
Major Shareholders (%)	
Jardine Strategic	48.6
Book NTA per Share (US\$)	5.03
ROE (%)	3.2
Net Debt per Share (US\$)	1.16

Results Due

1H: Aug

Final: Mar

Price Chart



Source: Bloomberg

Analyst

Singapore Research Team
research@uobkayhian.com

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 (%)
2007	933	440	345	0.150	36.9	12.2	15.3	0.130	7.1
2008	1,022	397	375	0.163	8.7	11.3	17.0	0.130	7.1
2009F	721	545	555	0.243	48.6	7.6	12.4	0.130	7.1
2010F	672	498	446	0.198	(18.3)	9.3	13.5	0.130	7.1
2011F	598	422	378	0.168	(15.1)	10.9	16.0	0.130	7.1

Consensus Net Profit – FY09: US\$673m
– FY10: US\$633m

Earnings Revision

Prudent forecasts. We have incorporated conservative assumptions in our model, explaining the discrepancies between our and the consensus profit forecasts. For 2009, we have assumed 30% of the buyers at One Central (97% of the 796 units presold) in Macau will default. For 2010, we have used prudent average selling prices for the two Hong Kong residential projects.

Rental income growth till 1H09. We expect rental income to continue to rise in 1H09 but the uptrend will start to reverse in 2H09. We are looking for rental income to grow another 5% this year, but fall 7% in 2010, followed by another 13% in 2011. Completion of Marina Bay Financial Centre (Singapore) P1 in 2010 will slow down the rental income decline somewhat.

Dividend likely to stay flat. Despite the chunky residential profits in the coming two years and the comfortable US\$2.6b net debt level (or 23% gearing), we do not expect management to raise the dividend level.

Valuation/Recommendation

Maintaining target hence upgrade to HOLD. We have been maintaining a very bearish view on Central office outlook, expecting rents to fall 50% from the peak. Based on this, our fair price for Hongkong Land is US\$1.84 (40% discount on our fine-tuned forward NAV of US\$3.07). While share price could weaken further due to a) overshooting or b) office rental falling sharper than expected, we have decided to keep our base-case assumptions and hence price target at this stage. Rather than continuing to hammer on Hongkong Land (i.e. we grade from SELL to HOLD), we should turn our attention to the more viable SELL within the sector.

Expecting more downside on other landlords. The table on the right is simple, but telling. We have been saying property counters will fall further from their October low. As the highlighted column shows, Hongkong Land has indeed met our expectation, but not the others. We agree that Central office rents are now facing more downward pressure than rents in other segments, but in the past, Central rents always led in down cycles, and the downturn will eventually ripple throughout Hong Kong. It is a matter of time when the other landlords will follow Hongkong Land's footstep to test new low. SELL Wharf (Fair: HK\$14.60), Hysan (Fair: HK\$7.57), and Great Eagle (Fair: HK\$8.45).

Profit & Loss

Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Turnover	933	1,022	721	672	598
EBIT	440	396	545	498	422
Pre-tax Profit	414	433	656	525	445
Net Profit	345	375	555	446	378

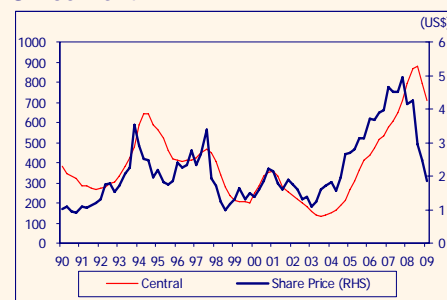
Balance Sheet

Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Current Assets	2,413	2,247	2,122	2,356	2,615
Total Assets	18,414	17,875	15,750	15,250	15,707
Current Liabilities	(843)	(822)	(1,070)	(1,156)	(1,294)
Long-Term Liabilities	(3,394)	(3,624)	(3,325)	(3,159)	(3,096)
Shareholder Funds	11,833	11,313	8,165	7,018	7,228
Total Equity & Liabilities	(18,414)	(17,875)	(15,750)	(15,250)	(15,707)

Cash Flow

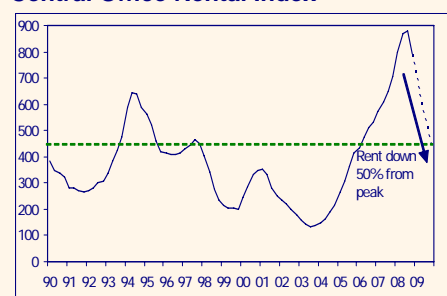
Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Operating	404	531	478	526	368
Investing	(166)	(156)	(175)	(196)	(202)
Financing	(299)	(361)	(292)	(381)	(412)
Net Cash In/(Out) Flow	(61)	14	11	(51)	(246)
Begin Cash & Cash Equiv.	1,164	1,103	1,117	1,128	1,077
End'g Cash & Cash Equiv.	1,103	1,117	1,128	1,077	831

Hongkong Land Share Price vs Central Office Rent



Source: Bloomberg, UOB Kay Hian

Central Office Rental Index



Source: Jones Lang LaSalle, UOB Kay Hian

Share Price Performance

	Peak	Oct 08 low	1-week
Great Eagle	(74)	30	(8)
Hongkong Land	(65)	(9)	(10)
Hysan	(57)	4	(5)
Swire	(60)	13	(3)
Wharf	(66)	35	(4)

Source: Bloomberg

Singapore Press Holdings

2QFY09 will likely see advertising revenue contraction of 13%

UOB Kay Hian's page counts point to 13% advertising revenue contraction in 2QFY09, in tandem with a sharp GDP contraction. Share price weakness on release of results in April would be a good buying opportunity.

Event

UOB Kay Hian's page counts of *The Strait Times* point to deeper advertising revenue (AR) contraction of 13% yoy registered by Singapore Press Holdings (SPH) in 2QFY09 (Dec 08 to Feb 09) than 1QFY09's (Sep to Nov 08) 9% contraction. Recruitment ad volume contracted by 35% yoy while classified and display ad volumes fell by 10% yoy. This sharp AR contraction is in line with Singapore's anticipated GDP contraction of 8-12% in 1QCY09 (advance GDP estimate to be announced in April).

Monthly Page Counts

	Recruit	yoy%	Classified	yoy%	Display	yoy%	Total	yoy%
Sep-07	411	0	910	14	2,644	(1)	3,965	2
Oct-07	400	13	923	18	2,769	3	4,092	7
Nov-07	357	4	1,105	41	2,838	(1)	4,300	8
Dec-07	290	4	832	10	2,854	1	3,976	3
Jan-08	439	10	914	18	2,733	1	4,086	6
Feb-08	332	10	734	27	2,320	2	3,386	7
Mar-08	439	(6)	985	14	2,984	(3)	4,408	0
Apr-08	412	4	925	17	2,534	(0)	3,871	4
May-08	414	(5)	960	16	2,906	(4)	4,280	(0)
Jun-08	329	(27)	822	(6)	2,815	0	3,966	(4)
Jul-08	355	(17)	899	(0)	2,773	(0)	4,027	(2)
Aug-08	408	(3)	922	4	2,650	(3)	3,980	(2)
Sep-08	365	(11)	785	(14)	2,558	(3)	3,708	(6)
Oct-08	303	(24)	799	(13)	2,740	(1)	3,842	(6)
Nov-08	275	(23)	823	(26)	2,778	(2)	3,876	(10)
Dec-08	172	(41)	684	(18)	2,518	(12)	3,374	(15)
Jan-09	219	(50)	619	(32)	2,348	(14)	3,186	(22)
Feb-09	292	(12)	920	25	2,204	(5)	3,416	1
Jan + Feb09	511	(34)	1,539	(7)	4,552	(10)	6,602	(12)

Source: UOB Kay Hian

Stock Impact

We tweak our FY09 AR contraction assumption from 9% to 11%. Factoring Singapore's recent corporate tax reduction of 1ppt, we lower our earnings forecasts for SPH marginally by 2%. Our target price has been lowered by 7% to S\$3.90, based on sum-of-the-parts valuation.

AR will likely make a comeback towards end-09. We expect SPH's AR to recover towards end-09 with the opening of Singapore's first Integrated Resort (IR). This will be followed by the opening of Singapore's second IR in 2010. As experienced during the Asian Financial Crisis, SPH's AR rebounded with a vengeance after the crisis (SPH's newspaper & magazine revenue up 25% yoy in FY00), albeit boosted by the dot-com bubble. This time round, AR will likely make a strong comeback on the back of Singapore's two IRs.

SINGAPORE

Singapore Press Holdings (SPH SP)

BUY

Current Price: S\$2.47

Target Price: S\$3.90

(Previous: S\$4.20)

Sector	Media
52-Wk Avg Daily Vol. ('000)	5,332
Market Cap (S\$m)	3,932.6
(US\$m)	2,534.3

Major Shareholders (%)
No substantial shareholders

Book NTA per Share (S\$)	1.24
ROE (%)	20.8
Net Cash per Share (S\$)	0.16#

Results Due

1Q: Jan	2Q: Apr
3Q: Jul	Final: Oct

Price Chart



Source: Bloomberg

Analyst

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

Year to 31 Aug	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2007	1,160.2	506.0	499.1	31.1	15.9	7.9	7.3	26.0	10.5
2008	1,301.0	582.7	437.4	27.2	(12.6)	9.1	6.3	27.0	10.9
2009F	1,334.9	535.6	360.0	22.4	(17.7)	11.0	6.9	25.0	10.1
2010F	1,394.7	563.5	440.0	27.4	22.2	9.0	6.5	28.0	11.3
2011F	1,264.7	460.0	378.0	23.5	(14.1)	10.5	8.0	24.0	9.7

Consensus Net Profit – FY09: S\$401.5m
– FY10: S\$396.4m

Includes short-term investment of S\$537.2m as of Nov 08

Valuation/Recommendation

A buying opportunity and FY09 DPS could surprise on the upside. SPH is now trading at annual net dividend yield of 10-11% for FY09 and FY10. While we forecast a lower DPS of 25 cents (10.1% yield) for FY09 compared with 27 cents in FY08, a recent meeting with SPH's management pointed to the strong likelihood of FY09 DPS being maintained at 27 cents (10.9% net yield). Maintain BUY.

SOTP Valuation

(S\$m)	Valuation Yardstick	S\$m	Per Sh (S\$)
Core Business:			
Newspaper Business	DCF at 7.5% WACC	4,233.6	2.63
Non-Core Businesses:			
M1 (14%)	Market Value	207.4	0.13
Paragon Shopping Mall	Market Value	2,000.0	1.24
Sky@eleven	Market Value	191.0	0.12
Property - Others	Market Value	15.0	0.01
Add: Cash & Invsts (ex MI1)	Estimated	319.6	0.20
Less: Total Debt	As of end-1QFY09	(724.4)	(0.45)
Net Revalued Assets		6,242.2	3.88
Share Capital (m)		1,608.4	
SOTP/share (S\$)		3.88	

Source: UOB Kay Hian

Profit & Loss

Year to 31 Aug (S\$m)	2007	2008	2009F	2010F	2011F
Turnover	1,160.2	1,301.0	1,334.9	1,394.7	1,264.7
EBIT	454.9	520.8	467.6	493.5	390.0
Pre-tax Profit	576.3	522.0	427.0	520.5	450.0
Net Profit	499.1	437.4	360.0	440.0	378.0

Balance Sheet

Year to 31 Aug (S\$m)	2007	2008	2009F	2010F	2011F
Current Assets	1,126.0	1,138.3	1,251.7	1,248.3	1,250.3
Total Assets	3,138.4	3,150.7	3,262.1	3,258.7	3,260.6
Current Liabilities	340.1	367.4	407.4	447.4	487.4
Long-Term Loans	671.8	682.0	801.4	771.4	741.4
Shareholders' Funds	2,123.1	2,088.9	2,040.8	2,027.3	2,019.4
Total Equity & Liabilities	3,138.3	3,150.6	3,262.1	3,258.7	3,260.6

Cash Flow

Year to 31 Aug (S\$m)	2007	2008	2009F	2010F	2011F
Operating	56.9	24.4	3.5	6.6	12.0
Investing	16.2	64.9	(139.6)	(80.0)	0.0
Financing	(32.3)	(0.4)	129.4	(20.0)	(20.0)
Net Cash In/out flow)	40.8	88.9	(6.7)	(93.4)	(8.0)
Begin Cash & Cash Equiv.	81.4	122.1	211.0	204.3	111.0
End'g Cash & Cash Equiv.	122.1	211.0	204.3	111.0	103.0

Strategy 1

4Q08 net profit turns into loss; 2008 net profit down 4.3% yoy

Disastrous 4Q08 earnings. In Thailand, the stocks under our coverage reported a total net profit of Bt279.6b in 2008, down 4.3% yoy. Excluding financial stocks, earnings fell 29.8% yoy. 4Q08 earnings were catastrophic, turning from a net profit of Bt74.6b in 3Q08 to a loss of Bt21.3b.

Sectors whose profits turned into losses in 4Q08:

- **The energy sector was largely hurt by refineries' poor performances. Refineries have been incurring losses since 3Q08 but the losses widened in 4Q08.** Inventory losses enlarged to negative US\$22-39/bbl from US\$12/bbl in 3Q08. Operating GRM averaged US\$3.8/bbl in 4Q08 vs US\$5.8/bbl in 3Q08. PTT, PTTAR, TOP, BCP and IRPC saw massive losses.
- **Petrochemical firms also turned in losses due to inventory losses and lower margins (-10% qoq).** Utilisation rate was reduced to 70% in 4Q08 from 85% in 3Q08.
- **Construction material firms mainly SCC and SCCC were hit by lower cement demand -10% yoy.** Retail cement price remained flat yoy. SCC's performance was also hurt by inventory loss in both petrochemical and paper business and lower margins.
- **Industrial estate saw net profit decline 38% yoy in 4Q08 as demand began to decline in 2H08** from weak private investment and political turmoil in the country.
- **Residential property developers' 4Q08 net profits saw a pronounced decline of 14.3% qoq.** However, 2009 profits were up 66% mainly due to business tax savings and healthy demand in 1H08 and transfer of condominiums bought 18 months ago.
- **Banking sector's 4Q08 net profits declined 44% qoq from weaker loan growth and higher provisions.**
- **Telecos' net profits were dragged down by provisions on DPC at ADVANC and losses at THCOM, SHIN and TRUE.** Top-line growth was hurt by political turmoil that culminated in an airport closure lasting 10 days, leading to a collapse in international calls.
- **Contractors' earnings were mixed.** ITD performed poorly due to losses on its overseas contracts. CK's core operation remained in the red but its bottom line was boosted by dividend and equity income from its subsidiaries and associates. STEC saw a big margin improvement because of the lower costs of construction materials.

UOBKH Portfolio Net Profit

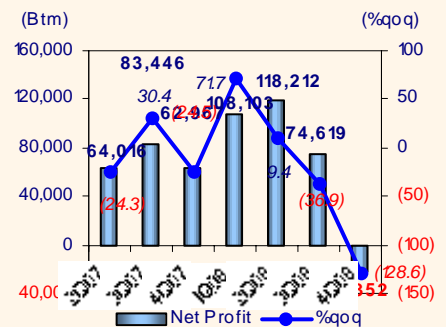
Net Profit (Btm)	3Q08	4Q08	yoy % chg	qoq % chg	2007	2008	yoy % chg
BANK	20,509	11,502	(234.7)	(43.9)	7,926	78,183	886.4
CON MATERIALS	6,655	(2,803)	(145.3)	(142.1)	33,582	19,944	(40.6)
COMMERCE	2,306	2,404	12.4	4.3	5,962	9,806	64.5
TELECOM	6,528	(470)	(106.2)	(107.2)	27,289	28,319	3.8
ENERGY	28,628	(33,818)	(182.4)	(218.1)	175,501	107,037	(39.0)
MEDIA & PUBLISH	1,142	1,067	8.9	(6.6)	4,592	4,729	3.0
FINANCE	1,648	1,219	(39.0)	(26.0)	6,622	6,338	(4.3)
PROP-Residential	2,744	2,349	14.3	(14.4)	6,052	10,016	65.5
PROP-Industrial	995	963	(38.0)	(3.2)	4,206	3,861	(8.2)
CONTRACTOR	(1,737)	(191)	(31.5)	89.0	1,048	(1,933)	(284.4)
PETROCHEMICAL	5,202	(3,573)	(143.1)	(168.7)	19,512	13,282	(31.9)
UOBKH	74,619	(21,352)	(133.9)	(128.6)	292,293	279,582	(4.3)
UOBKH (Ex Fin)	52,462	(34,073)	(149.0)	(164.9)	277,745	195,061	(29.8)

Source: UOB Kay Hian

THAILAND

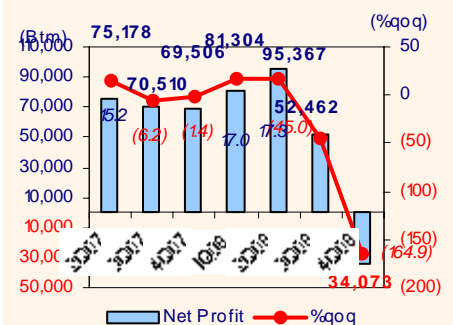
Strategy 1

UOBKH Portfolio Net Profit



Source: UOB Kay Hian

UOBKH Portfolio Net Profit (ex Fin)



Source: UOB Kay Hian

Analyst

Veena Naidu
 ☎ (662) 659 8300
 veena@uobkayhian.com

For 2009, we are forecasting net profit growth of -7.2% with downward bias. 2009 earnings outlook is vulnerable to further downgrade depending on the severity of the economic downturn globally and in Thailand. National Economic and Social Development Board (NESDB) is forecasting Gross Domestic Product (GDP) growth of -1 to 0%. UOB Kay Hian is forecasting -1.6% GDP growth for 2009. 4Q08 GDP shrank 4.3% yoy and 6.1% qoq.

Sectors whose earnings are likely to be revised down:

- **Banking sector.** We are forecasting loan growth at -1.4% for 2009. However, annualised loan growth ytd is -18% or -1.5% in Jan 09.
- **Energy sector.** We forecast Dubai crude at US\$50/bbl for 2009. Ytd Dubai crude is at US\$41/bbl.
- **Property sector.** We expect housing demand to fall 20% and net margin to decline 2-3ppt. If the unemployment situation deteriorates, there is a possibility of severe demand destruction for housing.
- **Construction & Materials.** We forecast cement demand to decline 15% in 2009. However, the situation could be worse if government expenditure is not able to compensate for loss of demand in the private sector.

We remain defensive and expect the SET Index to fall below 400 in the near term. Our top picks are ADVANC, QH and MAJOR.

UOBKH Portfolio Net Profit Growth

(%)	2005	2006	2007	2008	2009F
BANK	15.5	(40.8)	(84.5)	886.3	(14.6)
CON MATERIALS	(10.6)	(8.1)	0.7	(40.6)	(8.6)
COMMERCE	8.3	33.3	(14.0)	43.6	3.5
TELECOM	(13.9)	(31.6)	32.9	6.4	13.6
ENERGY	32.2	15.3	10.0	(42.3)	5.3
MEDIA & PUBLISH	30.8	52.5	19.4	3.0	(9.8)
FINANCE	(1.0)	(31.2)	31.2	(4.0)	(15.2)
HEALTHCARE	21.1	28.3	17.8	0.1	(5.7)
PROPERTY	13.6	(58.7)	96.6	(8.6)	(12.4)
PETROCHEMICAL	39.2	6.2	(34.4)	(41.0)	
OTHER	22.7	(34.5)	20.8	42.1	(63.2)
UOBKH	19.0	(9.0)	(2.5)	(6.6)	(7.2)
UOBKH (Ex Financial)	20.9	1.8	12.3	(29.8)	(4.3)
UOBKH (Ex Enegy)	11.4	(25.7)	(15.7)	43.1	(14.2)

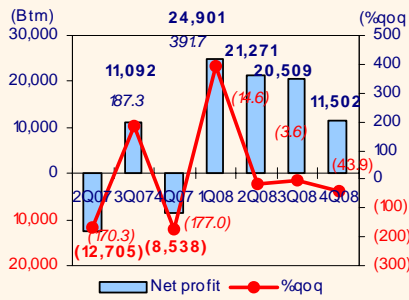
Source: UOB Kay Hian

UOBKH Top BUYs/SELLs

	Ticker	Rec	Current Price TB	Target Price TB
Advanced Info Service	ADVANC TB	BUY	80.50	101.73
Quality Houses	QH TB	BUY	0.73	1.28
Major Cineplex Group	MAJOR TB	BUY	6.35	9.11
Amata Corporation	AMATA TB	SELL	3.22	2.52

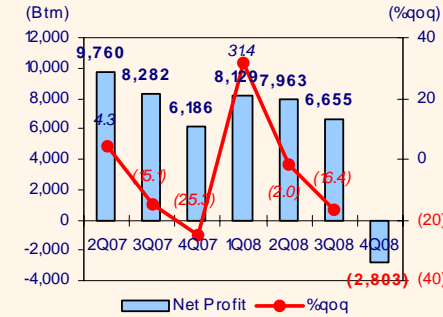
Source: UOB Kay Hian

Banking Sector Net Profit



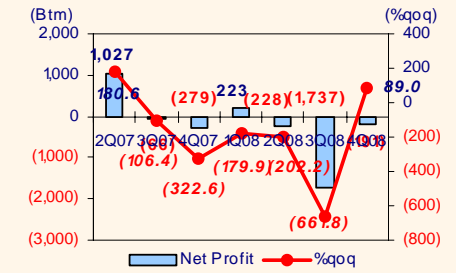
Source: UOB Kay Hian

Construction & Materials Sector Net Profit



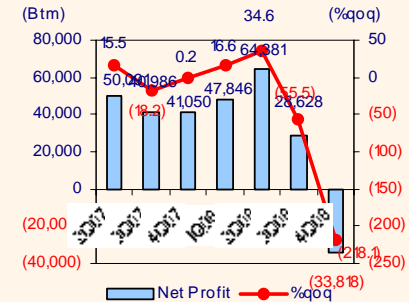
Source: UOB Kay Hian

Contractor Sector Net Profit



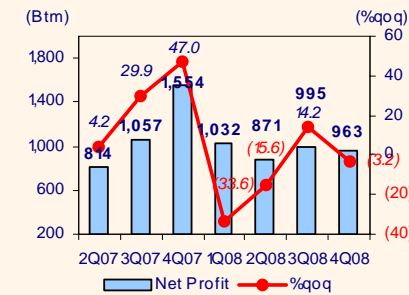
Source: UOB Kay Hian

Energy Sector Net Profit



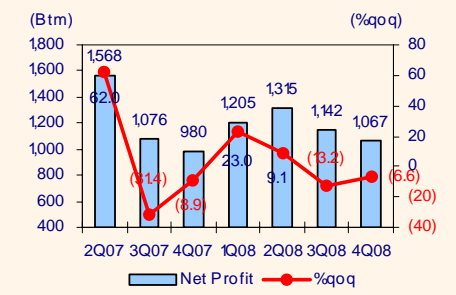
Source: UOB Kay Hian

Industrial Estate Sector Net Profit



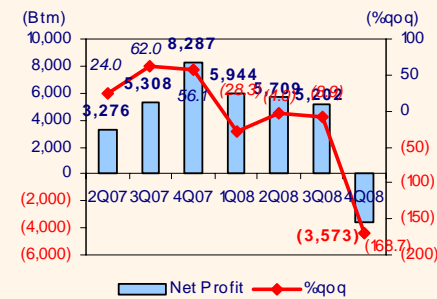
Source: UOB Kay Hian

Media Sector Net Profit



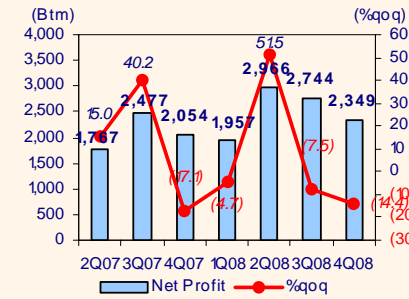
Source: UOB Kay Hian

Petrochemical Sector Net Profit



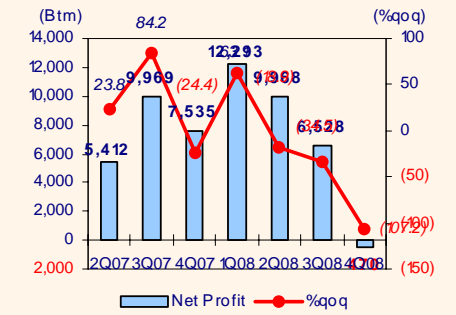
Source: UOB Kay Hian

Property Sector Net Profit



Source: UOB Kay Hian

Telecommunications Sector Net Profit



Source: UOB Kay Hian

Strategy 2

Three “dirt cheap” stocks with massive upside potential

We have done an exercise to find stocks that are “dirt cheap” and offer substantial upsides once the market turns. These stocks could outperform blue chip stocks due to its severely depressed share prices.

The stock picks are based on the following criteria:

- Chances of going bankrupt are minimal.
- The companies are major players in the banking, securities brokerage and property sectors with very strong domestic franchises.
- Industry market share is amongst the top five in Thailand over the last 10 years.
- Strong major shareholders who have been with the company since its inception.
- Possibility of becoming stronger (via bigger market share).
- Currently trading at a historical low on an absolute price basis and very close to historical lows on P/B and PE basis.

The three stocks that come out best on the above criteria are **Krung Thai Bank (KTB)**, **Quality House (QH)** and **Asia Plus Securities (ASP)**.

Krung Thai Bank (KTB)

- KTB is a state-owned bank in which the Ministry of Finance owns more than 50%.
- KTB is the second largest in terms of domestic lending and deposit market shares of 16% and 15% respectively.
- Its strength lies in government-related businesses including infrastructure lending and State Enterprise (SOE) financing.
- Capital position is ample at about 14% of risk assets.
- KTB is the processing bank for the government as it is the only service provider of on-line budget disbursement for the government. This has become a lucrative platform for fee income development in the long term.
- The bank also enjoys a large captive market from state deposits and government employee payrolls which provide KTB with a secure source of funding (around 30% of total deposit).
- The biggest worry with KTB is its lower-than-peers provisioning level at 43% for NPLs vs the industry’s average of 72%. We have adjusted KTB’s current BV of Bt9.04 to bring its provision level up to 70%. On adjustment, KTB’s BV will decline to Bt6.90 which is still 72% above its current share price. This indicates that the current share price is too severely depressed.
- The stock is currently trading at close to -3SD from its mean based on P/B. The stock is equally cheap on PE basis trading at close to -2SD from its mean.

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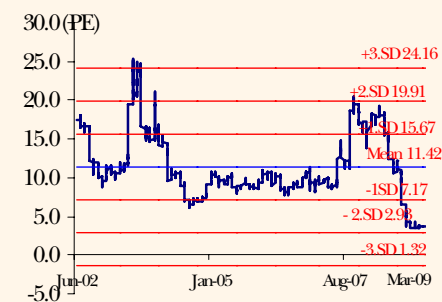
Strategy 2

KTB – PBV and Standard Deviation



Source: Set Smart

KTB – PE and Standard Deviation



Source: Set Smart

Analyst

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

QUALITY HOUSES (QH)

- a) QH is 22.6% owned by LH, Thailand's top housing developer, and 12.8% owned by Government of Singapore Investment Corp. QH has a market share of around 8-9% in the single detached housing market. It also has 27% stake in LH Bank, 30% in HMPRO and 25.7% in QHPF REIT.
- b) QH is the dominant market leader in the high-end housing segment where competition is now minimal and demand remains resilient.
- c) The launch of its new brand Casa targeting the mid-range segment for two years has enabled QH to successfully capture the mid range segment.
- d) Apart from being a leading housing developer, QH owns quality rental assets worth a combined value of around Bt5b in the CBD area comprising six service apartment buildings and three office buildings.
- e) The weak earnings prospects have resulted in a sharp contraction in QH's share price, leading it to trade at 0.6x P/B (-1SD from its mean P/B of 1.45x), the same level during the 2001 dot-com crisis, despite its stronger financial position, lower debt level and better product mix. Also, it trades at a 6x 2009 PE and a 8% yield.

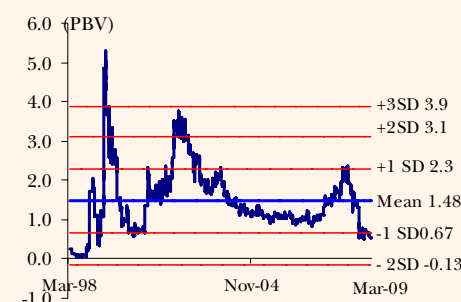
Asia Plus Securities (ASP)

- a) The third-largest securities brokerage firm in Thailand with a brokerage market share of about 5-6% vs the first and second-largest brokers Kim Eng Securities and BFIT with brokerage market shares of 8-10% and 6% respectively.
- b) Bangkok Bank is its largest shareholder with an equity stake of 8.71%. However, when the Sophonpanich's family (the owners of BBL) holdings are included, their total stake in ASP is 21.54%.
- c) Bangkok Bank has management control of the company and will continue to maintain its stake in ASP as the company is its main securities arm.
- d) ASP's strength lies in its strong local-investor market share. Local investors account for 80% of its brokerage market share.
- e) Strong cash flow position.
- f) The current price is now trading close to the historical low since its listing. The stock price is 51% below the BV of Bt1.60/share. Cash flow per share is Bt0.48.

Year to 31 Dec (Btm)	2008	2007	2006	2005
Cash and Cash Equivalents	1,005	799	822	1,137
Shareholders' Equity	3,382	3,752	3,771	3,836
Net Profit (Loss)	211	445	366	501
Total Basic EPS	0.10	0.22	0.18	0.25
Cashflow/share	0.48	0.38	0.39	0.54
BV/share	1.61	1.78	1.79	1.82
Brokerage market share	5.39	5.74	6.19	7.15

Source: Set smart

QH – PBV and Standard Deviation



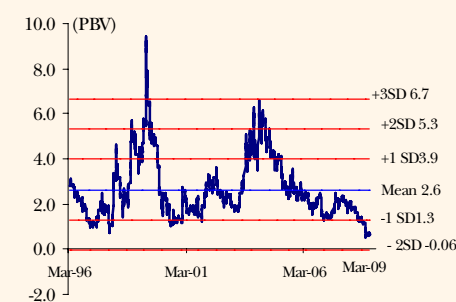
Source : Set Smart

QH – PE and Standard Deviation



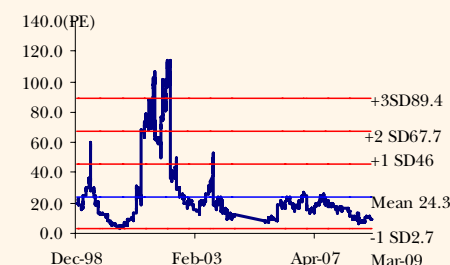
Source : Set Smart

ASP – PBV and Standard Deviation



Source : Set Smart

ASP – PE and Standard Deviation



Source : Set Smart

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