

### KEY STORY

#### China

**Sinofert (SELL/HK\$3.24/Fair: HK\$2.90)**

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BCP's price reduction for exports to Brazil confirms a weakening of global potash prices. Maintain SELL with fair price cut from HK\$3.80 to HK\$2.90.

#### CHINA

##### Sector

##### Gas Distribution

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2008 preview: Earnings growth is still sustainable on huge demand potential. Maintain OVERWEIGHT and suggest BUY on Xinao Gas.

##### Oil & Gas

**Page 4**

Oil prices take a roller coaster ride in 2008, so oil majors' earnings are volatile.

##### Update

**China Dongxiang (BUY/HK\$2.58/Target: HK\$3.30)**

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2008 earnings could grow 45% yoy to Rmb1b. Earnings risk is on the upside. Maintain BUY.

**Sinofert (SELL/HK\$3.24/Fair: HK\$2.90)**

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#### MALAYSIA

##### Update

**Malayan Banking (SELL/RM4.82/Fair: RM4.25)**

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Issue price of the rights shares has been fixed at RM2.74/share, a 34.4% discount from the theoretical ex-rights price of RM4.17/share.

**Public Bank (HOLD/RM8.00(L)/RM7.90(F)/Fair: RM7.80)**

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Earnings downgraded on GDP contraction, margin squeeze and rising NPL. Dividend payout cut to preserve earnings to boost Tier-1 capital ratio.

#### SINGAPORE

##### Sector

##### Property - Residential

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Bi-weekly: Mass and mid-market base formation in progress.

#### THAILAND

##### Update

**Bangchak Petroleum (BUY/Bt7.15/Target: Bt12.80)**

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Management is extremely bullish on the company's outlook. The company will pay a bumper dividend (7% yield).

##### Technical Analysis

Siam Commercial Bank: Watch for an upside breakout.

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### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	6626.9	0.5	(6.2)	(19.9)	(24.5)
S&P 500	683.4	0.1	(7.0)	(21.4)	(24.3)
FTSE 100	3530.7	0.0	(7.8)	(18.0)	(20.4)
AS30	3111.7	(1.2)	(5.6)	(9.7)	(15.0)
CSI 300	2286.6	(0.8)	6.8	(0.4)	25.8
FSSTI	1513.1	(0.4)	(5.1)	(10.1)	(14.1)
HSI	11921.5	(2.4)	(6.9)	(13.4)	(17.1)
JCI	1286.7	(0.1)	0.1	(4.1)	(5.1)
KLCI	858.2	(1.3)	(3.6)	(4.3)	(2.1)
KOSPI	1055.0	(0.3)	(0.8)	(12.3)	(6.2)
Nikkei 225	7173.1	(3.5)	(5.2)	(10.0)	(19.0)
SET	419.5	0.6	(2.8)	(5.6)	(6.8)
TWSE	4653.6	0.4	2.1	3.5	1.4
BDI	2225	2.7	12.0	22.6	187.5
CPO (RM/mt)	1982	1.3	3.2	6.7	21.6
Nymex Crude (US\$/bbl)	46	1.0	14.5	16.2	3.1

Source: Bloomberg

### Top BUYs/SELLs

	Ticker	Current Price (1cy)	Target Price (1cy)	Pot. +/- (%)
<b>Top BUYs</b>				
China Life	2628 HK	21.30	30.50	43.2
China Mobile	941 HK	65.00	90.00	38.5
China Petroleum	386 HK	3.78	6.93	83.3
China Railway	390 HK	4.18	5.90	41.1
China Shenhua	1088 HK	13.96	23.00	64.8
Maanshan Iron	323 HK	2.28	3.70	62.3
Bumi Resources	BUMI IJ	780	1,010	29.5
DBS Group	DBS SP	6.90	10.55	52.9
Indofood Agri	IFAR SP	0.51	0.80	56.9
SingTel	ST SP	2.54	2.95	16.1
Advanced Info	ADVANC TB	82.00	101.73	24.1
Quality Houses	QH TB	0.74	1.28	73.0
<b>Top SELLs</b>				
Aluminum Corp	2600 HK	3.78	3.00	(20.6)
Parkson Retail	3368 HK	6.60	5.15	(22.0)
Wharf Hldg	4 HK	15.56	14.60	(6.2)
S'pore Airlines	SIA SP	9.90	9.70	(2.0)
S'pore Exchange	SGX SP	4.24	3.00	(29.2)
Amata Corp	AMATA TB	3.22	2.52	(21.7)

### 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\$/dmtu)	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

## Gas Distribution

2008 preview: Earnings growth story remains sustainable

*We expect city gas distributors to deliver sustainable earnings growth on strong gas sales growth and huge demand potential. Maintain OVERWEIGHT and suggest BUY on Xinao Gas.*

### Sector Events

Unlike other industries in China, which have been badly hit by the current economic turmoil and are likely to report significant earnings deterioration during the forthcoming results season, we believe city gas distributors will continue to deliver sustainable earnings growth as well as improvement in cash position. All these will be underpinned by:

- Continued volume growth in gas supply.** According to the National Development and Reform Commission, total natural gas (NG) supply volume reached 81.8bcm (b cubic metre), implying a continued 18% yoy growth since 2004. The contribution came from both domestic production (77.6b cubic metres) and import (4.2b cubic metres) respectively.
- NG demand remains insatiable.** According to our channel check with major Hong Kong-listed city gas distributors, the demand for NG remained strong due to its cost advantages and cleaner nature relative to other types of fuel. Even if some C&I users are cutting demand due to financial woes or slower production, they can be immediately replaced with new customers.
- Old building connections worked well.** Amid the property sales slowdown, Xinao Gas and China Gas shifted their strategy into old building connections and replacement of coal gas and LPG. Our channel check revealed satisfactory results from both companies.

### Sector Impact

**Solid earnings growth sustainable with improved cash position.** Based on the merits mentioned, we believe Hong Kong-listed city gas distributors will continue to be the most defensive and safe plays in the current recession.

- NG sales volume growth remains solid.** Amid the strong NG supply, we expect the five Hong Kong-listed gas distributors to see 22-50% NG sales volume growth this year, resulting in a sustainable top-line growth.
- Xinao Gas will continue to see "stale" connection income.** This is due to its strategy on old building connections. In fact, Xinao Gas had connected 285,158 new households in 1H08, up 26.4% yoy.
- Cash position to improve on organic growth story.** Both Xinao Gas and China Gas have slowed their pace in project acquisitions. This means lower capex requirement and improving cash positions. We forecast Xinao Gas will see its free cash flow turning positive to Rmb200m-300m in 2009 while China Gas currently has a total cash of Rmb3b, the highest in its history.

### Valuation/Recommendation

We maintain OVERWEIGHT rating on the domestic gas distribution sector given its promising volume growth and high earnings visibility. For the five Hong Kong-listed city gas distributors, we still prefer Xinao Gas and China Gas due to their full exposure to the fast-growing domestic gas market and thus, exceptional gas sales volume growth, sustainable earnings, cash position improvement as well as their cheapest valuations.

### CHINA

#### Gas Distribution

#### OVERWEIGHT

#### Xinao Gas (2688 HK)

##### BUY

Current Price: HK\$8.15  
Target Price: HK\$10.50

#### China Gas (384 HK)

##### BUY

Current Price: HK\$1.07  
Target Price: HK\$1.75

#### Hong Kong & China Gas (3 HK)

##### HOLD

Current Price: HK\$11.00  
Fair Price: HK\$11.90

#### Beijing Enterprises Holdings (392 HK)

##### SELL

Current Price: HK\$30.00  
Fair Price: HK\$22.90

#### Towngas China (1083 HK)

##### SELL

Current Price: HK\$1.44  
Fair Price: HK\$1.10

#### Analyst

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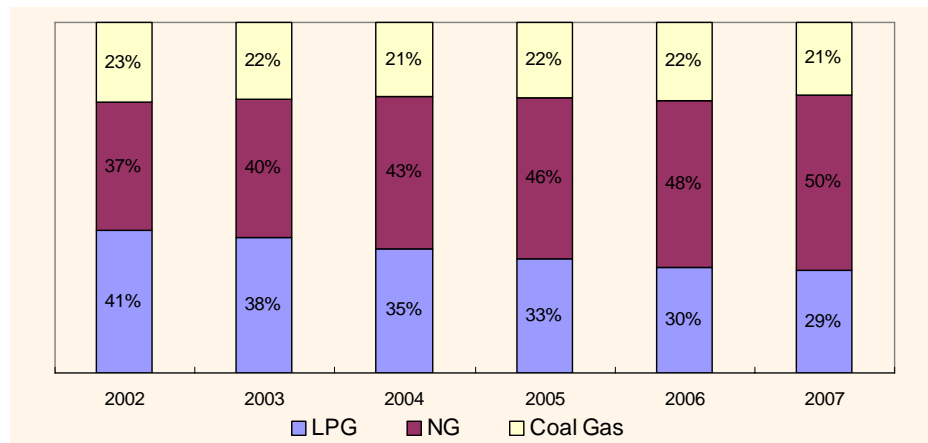
**Xiniao Gas (2688.HK/BUY/Target: HK\$10.50):** We view Xiniao Gas as the best in its class. Our earnings forecasts indicate 24% yoy and 22% CAGR earnings growth in 2008 and 2008-10 respectively, driven by its solid organic growth strategy. Meanwhile, the company has a long history of delivering better-than-expected growth in terms of gas sales volume and earnings, suggesting secured shareholder value. Our DCF-based target price of HK\$10.50 is based on 30-year tenure of most city gas projects and implies a 5% discount to its NAV/share and 12.3x 2009 PE. Maintain BUY.

**Comparison**

(Rmbm)	Xiniao Gas	China Gas	BEHL	HKCG	Towngas China
Gas sales volume (2008F-10F % CAGR)	30	50	18	20	20
Penetration (%)	24	18	60	40	40
ROE (2008F)	13	4	6	11	4
Cash on hand (2008F) (HK\$b)	2.3	3.0	9.8	8.8	1.0
P/E (FY09)	9.5	5.9	16.6	16.7	11.2

Note: all figures refer to mainland gas market  
Source: UOB Kay Hian

**Residential City Gas Consumption By Fuel Type**



Note: adjusted by fuel type  
Source: CEIC

**Peer Comparison**

Company	Ticker	Rec	Price 6 Mar 09 (HK\$)	Net Profit			EPS			PE			ROE 2007 (%)	Market Cap (HK\$m)	Yield 2007 (%)
				2007 (HK\$m)	2008F (HK\$m)	2009F (HK\$m)	2007 (HK\$)	2008F (HK\$)	2009F (HK\$)	2007 (x)	2008F (x)	2009F (x)			
Xiniao Gas*	BUY	2688.HK	8.15	508	634	763	0.51	0.64	0.77	14.3	11.4	9.5	10.9	8277	1.4
China Gas*	BUY	384.HK	1.07	190	120	663	0.06	0.04	0.18	16.9	28.7	5.9	4.4	3938	1.1
BEHL	SELL	392.HK	30.00	1,438	1,953	2,054	1.67	1.71	1.80	18.0	17.5	16.6	4.6	34168	2.6
HKCG	HOLD	3.HK	11.00	9,270	3,642	3,989	1.53	0.60	0.66	7.2	18.3	16.7	31.0	66656	3.2
Towngas China	SELL	1083.HK	1.44	145	273	256	0.08	0.14	0.13	17.6	10.5	11.2	2.3	2877.6	0.0

\* China Gas' fiscal year ends at 31 March, Xiniao's financials are in Rmb.  
Source: Respective companies data, UOB Kay Hian

**NG Supply and Demand**

(m cubic metre)	Demand	yoy (%)	Supply	yoy (%)
86	13,760	6	13,760	6
87	13,890	1	13,890	1
88	14,360	3	14,260	3
89	15,030	6	15,049	5
90	15,250	2	15,298	1
91	15,890	1	15,490	4
92	15,880	2	15,790	0
93	16,760	6	16,765	6
94	17,342	5	17,559	3
95	17,741	2	17,947	2
96	18,488	12	20,114	4
97	19,544	13	22,703	6
98	20,257	3	23,279	4
99	21,494	8	25,198	6
00	24,505	8	27,200	14
01	27,430	12	30,329	12
02	29,184	8	32,661	6
03	33,910	7	35,015	16
04	39,670	18	41,460	17
05	46,763	19	49,320	18
06	56,141	19	58,553	20
07	67,300	18	69,311	20
08F	80,760	20	81,800	18
09F	96,912	20	99,807	20
10F	116,294	20	119,769	20

Source: CEIC, UOB Kay Hian

## Oil & Gas

2008: What a year!

*Oil prices take a roller coaster ride in 2008, so oil majors' earnings are volatile. For 2008, Sinopec and PetroChina are likely to see net profit fall 54% and 4% yoy respectively while CNOOC's is set to grow 55%.*

### Sector Events

Oil majors will announce 2008 results in late March and early April. We summarise key sector events in 2008 as follows:

- Oil price crashed in 4Q08 after setting a record high in July. WTI crude price dropped to US\$59/bbl in 4Q08, down from US\$98/bbl, US\$123/bbl and US\$118/bbl in the first three quarters of the year.
- China initiated refined oil price reforms in Dec 08. The new mechanism, which is based on crude cost plus a reasonable margin, marks the re-rating of refining industry, in our view.
- China's oil production grew 2.3% in 2008 while oil imports increased 9.6%. That said, China's reliance on oil imports has increased further. Natural gas remained a bright spot in the industry, with gas consumption in 2008 increasing 18% yoy to 81.8bcm.
- Demand for chemicals and refined products peaked in 2Q08 and 3Q08. Consumption of these products showed weakness in 4Q08. As a reflection of slower growth in the economy, inventory build-up and low utilisation were seen at the end of 2008.

### Sector Impact

For the exploration & production segment, earnings peaked in 2Q08 and 3Q08 because of record high oil prices. For refiners, 2Q08 was the worst quarter by the same token. But margin started to show an improvement in 3Q08 after a refined oil price hike in late June. 4Q08 was the best quarter for refiners, with oil prices crashing to below US\$60/bbl, but it was the worst quarter for oil producers.

**PetroChina — Profit not much affected due to integrated structure.** Two factors will bring down PetroChina's profitability: cost hikes and refined product price cuts. One potential earnings downside risk is that refining capacity expansion could outpace crude production growth. We estimate 4Q08 EPS at Rmb0.25/share, taking full-year EPS to Rmb0.77/share, a 4% drop yoy. Refining margin is expected to reach about US\$15/bbl in 4Q08.

**Sinopec — 4Q08 is the best quarter.** There were a few negatives for Sinopec in 2008. In 1H08, refining segment suffered a huge deficit. In 2H08, refining margin improved but demand for refined products and petrochemicals stayed weak. But overall, 4Q08 was a good quarter for Sinopec in, and we expect refining margin to have stayed above US\$20/bbl in the quarter. In 2008, we expect Sinopec's earnings to have dropped 54% to Rmb0.30/share from Rmb0.65/share in 2007.

**CNOOC — Earnings peaked in 2Q-3Q08.** As a pure upstream play, CNOOC's earnings are negatively correlated to oil prices. With an average oil price of US\$100/bbl in 2008, we expect CNOOC's profit to grow 55% to Rmb1.09/share in 2008 from Rmb0.70/share in 2007. Earnings started to drop significantly in 4Q08, with oil prices falling below US\$60/bbl.

## CHINA

### Oil & Gas

## OVERWEIGHT

### PetroChina (857 HK)

#### BUY

Current Price: HK\$5.12

Target Price: HK\$8.82

### Sinopec (386 HK)

#### BUY

Current Price: HK\$3.78

Target Price: HK\$6.93

### CNOOC (883 HK)

#### HOLD

Current Price: HK\$6.03

Fair Price: HK\$6.85

### Analyst

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Company	Rec.	Ticker	Price 06 Mar 09 (HK\$)	Net Profit			EPS			PE			ROE 2007 (%)	Market Cap (Rmb b)	Yield 2007 (%)
				2007 (Rmbm)	2008F (Rmbm)	2009F (Rmbm)	2007 (Rmb)	2008F (Rmb)	2009F (Rmb)	2007 (x)	2008F (x)	2009F (x)			
PetroChina	BUY	857.HK	5.12	145,625	140,188	108,926	0.80	0.77	0.60	5.7	5.9	7.6	22.1	937.1	7.8
Sinopec	BUY	386.HK	3.78	56,533	26,279	67,840	0.65	0.30	0.78	5.0	10.8	4.2	19.3	327.7	5.1
CNOOC	HOLD	883.HK	6.03	31,258	48,524	25,410	0.70	1.09	0.57	7.6	4.9	9.3	23.3	271.6	4.1

**Earning Revision**

We are bearish on petrochemicals for the whole of 2009, although sales will pick up in 2H09, thanks to numerous stimulus packages. Margins will remain slim because of a low utilisation rate and severe market competition. We therefore cut the EBIT of Sinopec's chemical segment to Rmb4.2b in 2009 from Rmb13.3b in 2007 and Rmb9.6b in 2008. Correspondingly, we lower Sinopec's net profit by 20% to Rmb67.8b from Rmb81.5b for 2009. We leave PetroChina's and CNOOC's earnings unchanged.

**Recommendation**

From an earnings perspective, Sinopec will be the only one to book earnings growth in 2009. We expect its 1Q09 net profit to grow 7x. In the meantime, PetroChina and CNOOC are expected to see their net profits drop 25% and 60% correspondingly. Sinopec remains our top BUY.

Sinopec's earning risks will be a surge in oil prices and the government's reduction of refined product prices.

**PetroChina's Earnings Forecast and Valuation**

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	688,978	256,651	142,224	0.79	6.6	5.7	4.2	0.38	8.5
2007	835,037	263,210	145,625	0.80	0.2	5.7	4.1	0.35	7.8
2008F	956,283	269,772	140,188	0.77	(3.7)	5.9	4.1	0.34	7.5
2009F	806,588	233,650	108,926	0.60	(22.3)	7.6	5.0	0.26	5.9
2010F	889,522	278,403	133,485	0.73	22.5	6.2	4.3	0.32	7.2

Consensus Net Profit – FY08: Rmb124,454m  
– FY09: Rmb98,299m

**Sinopec's Earnings Forecast and Valuation**

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	1,061,741	116,474	53,603	0.62	31	5.3	4.2	0.15	4.6
2007	1,204,843	132,670	56,533	0.65	5	5.0	3.8	0.17	5.1
2008F	1,502,000	82,219	26,279	0.30	(54)	10.8	7.2	0.08	2.4
2009F	1,251,067	144,596	67,840	0.78	158	4.2	4.0	0.20	6.1
2010F	1,575,356	155,298	67,856	0.78	0	4.2	3.6	0.20	6.1

Consensus Net Profit – FY08: Rmb25,282m  
– FY09: Rmb48,559m

**CNOOC's Earnings Forecast and Valuation**

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	88,947	49,988	30,927	0.69	13.5	7.6	4.5	0.25	3.7
2007	90,724	48,573	31,258	0.70	1.1	7.6	4.6	0.28	4.1
2008F	129,351	73,241	48,524	1.09	55.2	4.9	3.1	0.33	4.7
2009F	78,312	51,075	25,410	0.57	(47.6)	9.3	4.4	0.17	2.5
2010F	92,426	65,052	33,768	0.76	32.9	7.0	3.4	0.23	3.3

Consensus Net Profit – FY08: Rmb45,531m  
– FY09: Rmb27,998m

## China Dongxiang

2008 earnings could grow 45%; earnings risk on the upside

China Dongxiang will release its 2008 results on 25 Mar 09. We expect a 45% yoy growth in net profit, driven by a 18% yoy same-store sales growth and an addition of more than 850 outlets (up 44%). Maintain BUY.

### Corporate Events

**Earnings up 45% to Rmb1b driven by Kappa China.** China Dongxiang (Dongxiang) is going to release its 2008 results on 25 Mar 09. We expect net profit to have increased 45% yoy to about Rmb1b in 2008, with the strong growth of the Kappa China business offsetting a minor loss from the newly-acquired Phenix business in Japan. We project Kappa sales in China to have grown 54% yoy to Rmb2.53b in 2008, driven by 18% same-store sales (SSS) growth and an addition of more than 850 outlets to 2,800. This, together with the revenue contribution from Phenix, would lift Dongxiang's by 90% yoy to Rmb3.24b in 2008.

**Margin for main business remained steady.** We expect Kappa China to maintain a flat gross margin and EBIT margin growth for 2008. The brand's retail inventories and discounts, despite slight increases, remained at healthy levels, making extra rebates to distributors unnecessary. However, the consolidation of Phenix into Dongxiang could drag down the Group's EBIT margin by 5ppt yoy.

**Phenix's loss has narrowed.** Management targets to narrow Phenix's loss to less than Rmb20m. Due to effective restructuring and cost control, eg outsourcing production to China, the Group has exceeded its target. Acquiring Phenix can be regarded as a research and development (R&D) investment. The Group has been launching Kappa products developed by Phenix in China since 3Q09.

**Sales momentum to remain robust for 2009.** According to our recent channel checks, Kappa's sales through and orderbook growth has remained intact ytd. SSS grew 19% in Jan 09 on a seasonally-adjusted basis. Distributors are keen to open new stores and increase orders. After seeing a 30-40% yoy growth in orderbook for 1Q-2Q09, Kappa is expected to record more than 10% yoy growth in 3Q09 (3Q09 trade fair will be held on 10-15 Mar 09). We project Kappa's sales to grow more than 20% yoy in 2009.

**Greater potential for store openings.** The robust sales growth for Kappa will be driven by store opening. In each of the coming years, the Group plans to add at least 650 outlets on top of the 2,800 as at end-08. We believe the plan is attainable. Distributors are enthusiastic about opening Kappa outlets compared with other brands, given Kappa's higher per-store profitability. First, Kappa's popularity and the brand's better supply chain ensure strong sales through for distributors. Second, the brand's smaller number of stores relative to other brands and its exclusive distribution rights prevent competition, underscoring higher profitability for distributors.

**Retail discount has limited impact on margins.** Like most sportswear brands, Kappa outlets saw a slight increase in inventories, but the inventory-to-sales ratio remained at healthy level of 4-5x, much lower than that of other brands. The magnitude of retail discounts also increased 2-3ppt to an average of 17%. However, distributors still enjoyed much higher margins from running Kappa outlets compared with other brands. As such, distributors would not ask for too much rebate from Kappa. To be conservative, we assume a 1-2ppt yoy drop in EBIT margin for 2009.

## CHINA

### China Dongxiang (3818 HK)

#### BUY

Current Price: HK\$2.58

Target Price: HK\$3.30

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	19,810
Market Cap (HK\$m)	14,618
(US\$m)	1,874

Major Shareholders (%)	
Chen Yihong	51.98

Book NTA per Share (HK\$)	1.13
ROE (%)	23.6
Net Cash per Share (HK\$)	1.07

Results Due	
Interim:	Aug
Final:	Mar

#### Price Chart



Source: Bloomberg

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit* (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	859	396	306	0.071	-	31.9	19.0	-	-
2007	1,711	742	689	0.149	110.3	15.2	10.1	-	-
2008F	3,244	1,143	1,002	0.176	18.3	12.8	6.6	0.071	3.1
2009F	3,918	1,336	1,134	0.200	13.2	11.3	5.6	0.080	3.5
2010F	4,580	1,645	1,337	0.236	18.0	9.6	4.6	0.094	4.2

Consensus Net Profit – FY08: Rmb1,100m  
 – FY09: Rmb1,280m

\*Core net profit

**Stock Impact**

We maintain our estimate of 13% and 18% net profit growth for 2009 and 2010 respectively, based on assumptions of 3% SSS growth and addition of 650 outlets p.a. Our worst-case scenario suggests flat profit growth for 2009 and a 10% earnings drop for 2010, based on a 2-3ppt p.a. drop in EBIT margin and zero store addition for next year. However, we see a remote probability for the worst-case scenario, which factors in a collapse of the Chinese economy.

**Earnings Risk**

Margin risk remains the greatest uncertainty for sportswear companies. If sales through slowed sharply in a short period as a result of the deterioration of the economy, distributors need to cut prices to clear inventories. They would ask for bigger wholesale discounts or rebates to offset the retail discounts, which would translate into lower margins for brand owners. Based on our findings from recent channel checks, we believe the margin risk for Dongxiang is the lowest among listed Chinese sportswear companies.

**Valuation/Recommendation**

Based on our base-case earnings estimates, the stock is trading at 11.3x 2009F PE (6.2x ex-cash 2009F PE). We have a base-case target price of **HK\$3.30** based on DCF valuation (WACC = 14%; terminal growth = 3%). In the worst-case scenario, the stock is trading at 12.6x 2009F PE and 7.5x 2009F ex-cash PE. Our worst-case target price is set at **HK\$2.20** based on DCF valuation (WACC = 3%; terminal growth = 0%). Risk-reward balance is favourable to buyers given the limited downside. **Maintain BUY.** The catalyst will be a probable special dividend for 2008.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	859	1,711	3,244	3,918	4,580
EBIT	386	725	1,115	1,293	1,588
Pre-tax Profit	372	771	1,226	1,416	1,725
Net Profit	306	689	1,002	1,134	1,337

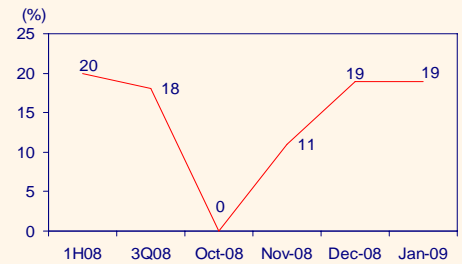
**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	506	5,815	7,003	7,614	8,489
Total Assets	851	6,223	7,721	8,429	9,387
Current Liabilities	238	315	798	790	889
Long-Term Loans	3	-	-	-	-
Shareholders' Funds	308	5,902	6,739	7,455	8,314
Total Equity & Liabilities	851	6,223	7,721	8,429	9,387

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	348	656	928	1,172	1,362
Investing	(342)	(271)	(199)	(140)	(140)
Financing	229	4,651	(182)	(417)	(478)
Net Cash Inflow/(Outflow)	236	5,036	547	616	744
Begin Cash & Cash Equiv.	39	275	5,311	5,858	6,474
End'g Cash & Cash Equiv.	275	5,311	5,858	6,474	7,218

**SSS Growth of Kappa China**



Source: China Dongxiang

**Total No. of Stores at end-08**

	Store no. 2008F	Store add 2009F
Kappa	2,800	650
Erke	3,824	600
Xtep	4,881	500
Nike	5,000	500
Anta	5,667	800
Adidas	5,900	500
Li Ning	6,200	800

Source: Various Companies, UOB Kay Hian

**Store Profitability of Major Brands**

	Monthly revenue per store (Rmb'000)	Monthly revenue per sqm (Rmb)	Net margin (%)
Kappa	180	2,250	>10
Li Ning	140	1,750	5-6
Adidas	300	2,300	6-8
Erke	300	23,00	6-8

Source: Distributors, store managers

**Scenario Analysis**

	Base-case	Worst-case
Target price	HK\$3.30	HK\$2.20
EPS growth 2009F	13%	2%
2010F	18%	-10%
Store additions 2009F	650	300
2010F	650	0
SSS growth 2009F	3%	0%
2010F	3%	0%
EBIT margin 2009F	33.0% (-1.4 ppt)	32.5% (-1.9 ppt)
2010F	34.7% (+1.7 ppt)	29.2% (-3.3 ppt)

Source: UOB Kay Hian

## Sinofert

### Vulnerable to weakening potash prices

Since we downgraded Sinofert on 9 Feb 09, stock price has dropped 23%. BPC's price reduction for exports to Brazil reconfirms the downtrend of potash prices. Maintain SELL with fair price cut from HK\$3.80 to HK\$2.90.

#### Corporate Events

**BCP cuts export prices to Brazil by 25%, implying reversal of global potash prices.** BCP recently announced its intention to cut its export potash prices to Brazil, the world's third-largest potash consumer following China and India, by US\$250/tonne to US\$750-765/tonne (including cost and freight, CFR). BCP's export price to Brazil was US\$600-610/tonne in Mar 08, and was raised to US\$1,000-1,010/tonne in Jul 08 before the price cut. The price cut could signify a reversal of international potash prices, as Brazil is one of the drivers of the spot market for potash. Though producers have managed to defend pricing at the nominal US\$1,000/tonne (CFR) level, only a small share of global potash sales, say <5%, was done at the US\$1,000/tonne price, while the de facto average price on the market has been at the US\$600-650/tonne level since Aug 08. The weaker potash price was jointly caused by the breakdown of potash price discipline among major suppliers and weakening global demand.

**Breakdown of potash price discipline among major suppliers.** BPC, formed by three large potash fertiliser producers in Russia and former Soviet Union countries - Uralkali, Belaruskali and Silvinit, is one of the world's largest potash suppliers. It, together with Canadian Canpotex (formed by PotashCorp, Mosaic and Agrium) jointly controls 70% of global potash output (35.5m tonnes). Due to the high industry concentration and strong demand (a result of the biofuel fever), the two companies in combination with Middle Eastern and European producers, raised potash prices from less than US\$200/tonne in 2005 to US\$1,000/tonne in 2008. However, the outbreak of the global financial turmoil slashed their bargaining power. Initially, they wanted to cut production to maintain prices at high levels, but this strategy did not seem to work, as evidenced by the price cuts by BPC. It cannot be ruled out that Canpotex will also cut prices to secure market share.

**Weakened global demand.** Global demand for potash fertilisers has dropped significantly from the peak in 2008, because the oil price slump has turned the biofuel boom into gloom. Adding to the demand destruction is the fall in international grain prices and the still high potash prices. Encouraged by Brazilian price cuts, some countries will ask for lower prices. For example, India will start to negotiate potash import prices with international suppliers by end-Mar 09 and its offer price for 2009 is estimated at US\$200/tonne vs US\$625/tonne for 2008. We believe India will secure a modest cut in prices for 2009 potash import, reinforcing the downcycle of potash prices.

**China will not allow import potash price hikes this year.** China's representatives, Sinochem (Sinofert's parent company) and CNAMP, have been in potash import negotiations with BPC since Feb 09. The Chinese government wants a price cut, but BPC has asked for a US\$200/tonne price hike. The talks could have two outcomes: a) the contract will be concluded in 2H09 with a flat or lower import price, b) the contract will not be concluded for this year due to the dispute between China and the supplier. First, China has 5m-6m tonnes of potash inventories (2m tonnes at Sinofert, 1m tonnes at CNAMP and more than 2m tonnes at producers/retailers), which together with 4m tonnes of domestic production should be enough to meet consumption this year. Due to the high prices, China's consumption of potash dropped more than 30% to 7m-8m tonnes in 2008 and is expected to drop further. As such, China does not need to import potash for 2009.

## CHINA

### Sinofert (297 HK)

#### SELL

Current Price: HK\$3.24

Fair Price: HK\$2.90

(Previous: HK\$3.80)

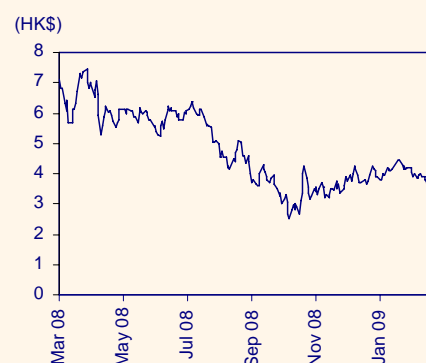
Sector	Fertiliser
52-Wk Avg Daily Vol. ('000)	13,710
Market Cap (HK\$m)	22,701
(US\$m)	2,910

Major Shareholders (%)	
Sinochem	52.79

Book NTA per Share (HK\$)	2.14
ROE (%)	21.2
Net Debt per Share (HK\$)	0.64

Results Due	
Interim:	Sep
Final:	Mar

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield (%)
2006	21,127	1,162	898	0.155	7	21.0	19.2	0.023	0.7
2007	29,437	2,213	1,490	0.248	61	13.0	18.4	0.028	0.9
2008F	47,905	2,899	1,945	0.278	12	11.7	8.2	0.042	1.3
2009F	56,496	2,491	1,953	0.279	0	11.6	8.6	0.042	1.3
2010F	62,271	2,630	2,020	0.288	3	11.2	7.7	0.043	1.3

Consensus Net Profit – FY08: 2,323m  
 – FY09: 2,810m

**Sinochem and CNAMP remain the main uncertainty in negotiations.**

The Chinese government wants farmers and agricultural producers to have a price cut for potash imports. However, its representatives, Sinochem and CNAMP, may not share the same view. With their large high-cost potash inventories on hand, they would not want a significant drop in import potash prices, which means massive inventory losses. As such, the two groups may ask for a flat price for 2009 imports. If the Chinese government exerts pressure on them, a cut in import price is still possible.

**Potash prices in China have dropped from peak.** Due to weak demand and dumping of small traders and domestic producers, prices of potassium chloride (KCl) in China have dropped from the peak of over Rmb5,000/tonne in 3Q08 to Rmb4,300-4,600/tonne. Even so, Sinofert insisted on a price of Rmb4,600-4,700/tonne. As such, the Group's potash sales remained sluggish. We estimate sales volume for potash to drop 30% yoy and 5% yoy to 4m tonnes in 2008. As potash prices in China are still high, the weakening of demand and ramp-up of new potash capacity in China will exert downward pressure on domestic potash prices.

**Stock Impact**

**Cut 2010 net profit forecast by 9%.** We assume China's potash import prices will remain flat at US\$600-650/tonne in 2009. For 2010, we assume a 9% yoy drop in potash prices in China. Given the substantial high-cost potash inventories, the Group's margin will be dragged down by the drop in potash price. As such, we cut our 2010 net profit forecast by 9% yoy to Rmb2.02b. Our 2009-10 earnings forecasts are more than 30% lower than consensus for the street is still expecting a US\$100-200/tonne increase in potash import prices for 2009.

**Earnings Risk**

If the magnitude of demand destruction from high potash prices exceeds our expectation, Sinofert's profit would be lower than our estimates.

**Valuation/Recommendation**

**Maintain SELL on Sinofert.** Sinofert is trading at 11.7x 2009F PE vs 7-8x for global peers (eg PotashCorp, Mosaic), 5x for China XLX and 10x for China BlueChem. Given the premium valuation and the looming risk from the potash business, we maintain SELL on Sinofert. We cut our fair price estimate for the Group from HK\$3.80 to HK\$2.90 based on 10x 2010x PE. Near-term catalysts include the setting of a lower potash import price for India.

**Prefer China BlueChem and China XLX.** We prefer leading urea producers like China BlueChem and China XLX, because urea prices, unlike the still high potash prices, have adjusted to more reasonable levels and have stabilised.

**Profit & Loss**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Turnover	21,127	29,437	47,905	56,496	62,271
EBIT	1,093	2,050	2,640	2,210	2,326
Pre-tax Profit	1,004	1,010	2,674	2,685	2,776
Net Profit	898	1,490	1,945	1,953	2,020

**Balance Sheet**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Current Assets	8,425	12,181	16,378	17,405	18,101
Total Assets	10,509	23,346	27,619	28,778	29,572
Current Liabilities	4,354	8,724	11,200	10,653	9,942
Long-Term Loans	1,584	2,181	2,181	2,181	1,912
Shareholders' Funds	4,348	12,202	13,954	15,616	17,342
Total Equity & Liabilities	10,509	23,346	27,619	28,778	29,572

**Cash Flow**

Year to 31 Dec (HK\$m)	2006	2007	2008F	2009F	2010F
Operating	1	(1,104)	1,883	2,613	1,265
Investing	(310)	(9,188)	(101)	234	169
Financing	319	11,277	(303)	(2,057)	(2,059)
Net Cash Inflow/(Outflow)	10	986	1,479	790	(625)
Begin Cash & Cash Equiv.	67	79	1,065	2,544	3,334
End'g Cash & Cash Equiv.	79	1,065	2,544	3,334	2,709

**China's Potash Supply-Demand (m tonnes)**

	2007	2008
Inventory at year beginning	3.4	4.0
Production	3.6	3.5
Import	9.0	5.5
Consumption	12.0	7.5
Inventory at year-end	4.0	5.0

Source: Industry source, UOB Kay Hian

## Malayan Banking

Rights shares fixed at RM2.74/share

Issue price of the rights shares has been fixed at RM2.74/share, a 34.4% discount from the theoretical ex-rights price of RM4.17/share. Maybank's net asset per share and EPS will be diluted by 10% and 31% respectively.

### Corporate Events

**Rights share price fixed at RM2.74/share.** The issue price of the rights shares has been fixed at RM2.74/share. The issue price of RM2.74 represents a discount of 34.4% from the theoretical ex-rights price of RM4.17/share and a discount of 43.2% to the closing price of RM4.82 as at 5 Mar 09.

Maybank has received undertakings from Permodalan Nasional Berhad (PNB) and certain unit trust funds managed by Amanah Saham Nasional Berhad, to subscribe for their respective entitlements totaling approximately 55.7% of the proposed rights issue and to apply for excess allocation of 20%. Maybank also received a letter of undertaking from the Employees Provident Fund (13.7%) to subscribe for its entitlement. Based on these, Maybank's proposed rights issues are approximately 89.4% taken up.

### Stock Impact

**Dilution to NAV per share and EPS.** Based on the rights price, this exercise would be NAV/share and EPS dilutive. Based on its NAV as at Jun 08 and our earnings forecast, NAV/share is expected to be diluted by 10% from RM3.95/share to RM3.54/ share. Based on our FY10 earnings forecast of RM2.8b, EPS is expected to be diluted by 31% from 58 sen to 40 sen.

**Strengthening core capital ratio.** After the proposed rights issue, Maybank's core capital ratio and risk weighted capital ratio will improve from 8.13% and 13.54% (as at Dec 08) to 11.01% and 16.42%, respectively. The capital ratio might not be sustained given the potential impairment loss for its investment in Bank Internasional Indonesia and MCB Bank, likely to be book in 4QFY09.

### Earnings Revision

We are maintaining our earnings forecast.

### Valuation/Recommendation

Based on the ex-right price of RM4.17 and the diluted NAV/share and EPS, Maybank is trading at P/B of 1.18x and FY10 PE of 10.4x, vs pre-rights levels at 1.23x P/B and PE of 8.2x respectively.

**Maintain SELL.** Maybank's share price performance will be limited by the following: a) concern over impairment losses, with the quantum still unknown to the market, and b) lower dividend payout. Also, its share price and valuation could be more attractive after the rights issues.

## MALAYSIA

### Malayan Banking (MAY MK)

#### SELL

Current Price: RM4.82

Fair Price: RM4.25

Sector	Banking
52-Wk Avg Daily Vol. ('000)	4,755
Market Cap (RM m)	23,527
(US\$m)	7,495.8

Major Shareholders (%)	
Amanah Saham Bumiputra	44.7
Employee Provident Fund	10.8

Book NTA per Share (RM)	4.33
ROE (%)	15.2

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

### Price Chart



Source : Bloomberg

### Analyst

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Year to 30 Jun	Pre-tax Profit (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	P/B (x)	DPS (sen)	Yield (%)
2007	4,363.7	3,178.4	82.6	11.0	5.8	1.2	80.0	15.7
2008	4,086.1	2,928.2	60.0	(27.4)	8.0	1.3	52.5	10.3
2009F	3,329.9	2,423.3	49.6	(17.2)	9.7	1.2	30.0	5.9
2010F	3,877.1	2,833.7	58.1	16.9	8.3	1.1	35.0	6.9
2011F	4,755.7	3,492.6	71.6	23.3	6.7	1.0	40.0	7.8

Consensus Net Profit – FY09: RM2,452.6m  
 – FY10: RM2,419.3m

Impact of Rights Issue

	Audited @ 30 Jun08 (RMm)	Min Scenario <sup>1,2</sup> (RMm)	Max Scenario <sup>1,3</sup> (RMm)
Share capital	4,881	7,078	7,127
Total Reserves	14,421	17,978	18,240
Share premium	2,097	5,896	6,157
<b>Shareholders' funds</b>	<b>19,302</b>	<b>25,056</b>	<b>25,366</b>
Number of Shares	4,881	7,078	7,127
<b>NA per Share (RM)</b>	<b>3.95</b>	<b>3.54</b>	<b>3.56</b>
<b>Impact on NA</b>		<b>-10.4%</b>	<b>-9.9%</b>
<b>Impact on capital</b>			
Tier 1 capital	16,930	22,926	23,236
Tier 2 capital	11,984	11,984	11,984
Total capital	28,915	34,910	35,221
<b>Capital Ratios:</b>			
Core capital	8.13%	11.01%	11.16%
Risk-weighted capital	13.54%	16.43%	16.58%
<b>Right Issues Pricing:</b>			
No of New Shares (m)		2,197	2,245
Issue Price (RM/share)		2.74	2.74
<b>Current Share Price (RM/share)</b>	<b>4.86</b>		
Discount to current price		-43.6%	-43.6%
<b>Ex Price (RM/share)</b>		<b>4.17</b>	<b>4.17</b>
Right Issue Price Discount		-34.3%	-34.3%
<b>Earnings Impact</b>			
FY10F UOBKH's Earnings	2,833.7		
EPS	0.58	0.40	0.40
% chg		-31%	-32%
<b>PE (x)</b>	<b>8.4</b>	<b>10.4</b>	<b>10.5</b>
<b>P/B (x)</b>	<b>1.23</b>	<b>1.18</b>	<b>1.17</b>

Note: (1) incorporating all acquisitions and issuance of all new capital.

(2) Assumes none of the outstanding ESOS of 33.7m new shares be exercised

(3) Assumes entire unexercised ESOS fully exercised prior to the entitlement date.

Source: Maybank, UOB Kay Hian

Financial Statement

Year to 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Net Interest Income	5,132.9	5,426.8	5,595.1	5,973.4	6,398.7
Islamic Banking Fee	857.6	964.6	1,041.8	1,146.0	1,329.3
Non-Interest Income	2,863.1	3,238.9	2,703.0	3,102.9	3,464.1
Total Operating Income	8,853.6	9,630.3	9,339.9	10,222.2	11,192.1
Overhead Expenses	(3,788.8)	(4,255.1)	(5,058.7)	(5,399.2)	(5,910.0)
Operating Profit	5,064.8	5,375.1	4,281.2	4,823.1	5,282.1
Loan Loss Provision	(694.5)	(1,288.2)	(1,031.2)	(1,026.0)	(606.4)
PBT	4,363.7	4,086.1	3,329.9	3,877.1	4,755.7
Net Income	3,178.4	2,928.2	2,423.3	2,833.7	3,492.6
<b>Key Analysis (%)</b>					
Net Interest Margin	2.37	2.31	2.21	2.18	2.21
Gross NPLs	5.7	3.9	4.0	4.5	4.4
Gross Loans Growth	7.0	16.1	14.0	5.0	6.0
Loans Loss Coverage	80.3	99.2	97.9	93.9	98.1
Cost/Income Ratio	42.8	44.2	54.2	52.8	52.8
ROE	17.6	15.2	12.1	13.1	14.8

Balance Sheet

Year to 30 Jun (RMb)	2007	2008	2009F	2010F	2011F
Net Loans	140.9	164.8	169.0	177.1	187.6
Customer Deposit	(163.7)	(187.1)	(202.1)	(216.2)	(233.5)
Shareholder's Fund	19.2	19.3	20.9	22.8	24.7
Total Assets	256.7	269.1	277.7	291.9	309.8

## Public Bank

### Volume growth to drive earnings in 2009

We downgrade Public Bank from BUY to HOLD as it is fully valued on the back of an earnings downgrade from an EPS of 65.8 sen and 80.2 sen for 2009 and 2010 to 57.0 sen and 72.0 sen respectively.

### Corporate Events

Earnings estimates and recommendation downgraded.

### Stock Impact

**Heightened earnings risk.** We have cut our earnings forecasts by 12.9% and 10.3% to RM2,011.6m and RM2,541.5m for 2009 and 2010 respectively after taking into consideration the following:

- a) **Lower loan growth target on lower GDP forecast.** We revise down our loan growth expectation from 7% and 12% for 2009 and 2010 to 6% and 10% respectively to factor in lower GDP growth forecast of -2.5% for 2009, down from 0.9%.
- b) **Higher NPL.** Non-performing loan (NPL) formation has escalated for two consecutive quarters, from 0.1% in 2Q08 to 0.6% in 4Q08. In our forecasts, we factor in higher loan loss provisions on the back of an increase in new NPLs.
- c) **Lower non-II.** We are now expecting a sharper decline in non-interest income (non-II) due to a fall in the number of new fund launches and lacklustre unit trusts sales.

**Lower dividend payout to preserve cash.** Dividend payout ratio is likely to be reduced to 60-70% for 2009 and 2010 so as to boost core Tier-1 capital. Although Public Bank has a high Tier-1 capital ratio of 8.3%, its core Tier-1 capital ratio was 6.5% as at end-Dec 08. Thus, dividend yield is likely to drop from 7-8% to 5-6%.

**Expensive valuation.** Trading at 3.0x P/BV (vs sector's 1.3x and regional peers' 0.6-2.0x), Public Bank is one of the most expensive banking stocks in the region. Although Public Bank's good asset quality remains intact with higher ROE, the stock's premium valuation could contract in tandem with its peers' if NPLs accelerate as economic growth contracts further.

### Earnings Revision

We have cut our earnings forecasts by 12.9% and 10.3% to RM2,011.6m and RM2,541.5m for 2009 and 2010.

### Valuation/Recommendation

**Downgrade to HOLD from BUY.** Based on ROE of 20% and payout ratio of 70% (revised down from 85%), we derive a fair value of RM7.80 based on the Gordon Growth model. Thus, we downgrade Public Bank from BUY to HOLD for its relatively high dividend yield of 5-6%. Entry price is RM7.00.

## MALAYSIA

### Public Bank (PBK MK/PBKF MK)

### DOWNGRADE TO HOLD

**Current Price: RM8.00(L)/RM7.90(F)**  
**Fair Price: RM7.80**  
**(Previous: RM10.90)**

Sector	Bank
52-Wk Avg Daily Vol. ('000)	2,772
Market Cap (\$m)	28,785
(US\$m)	87,748

Major Shareholders (%)	
Tan Sri Dato' Dr. Teh Hong Piow	24.2

Book NTA per Share (RM)	2.60
ROE (%)	23.1

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

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Pre-Tax Profit (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	PB (x)	DPS (sen)	Yield (sen)
2007	3,003.6	2,123.9	60.2	20.7	13.5	4.2	75.0	9.2
2008	3,379.2	2,581.2	73.1	21.5	11.1	4.1	55.0	6.7
2009F	2,811.1	2,011.6	57.0	(22.1)	14.3	4.0	40.0	4.9
2010F	3,530.0	2,541.5	72.0	26.3	11.3	3.8	50.0	6.1
2011F	3,982.2	2,880.6	81.6	13.3	10.0	3.7	55.0	6.7

Consensus Net Profit – 2009F: RM2,365.8m  
 – 2010F: RM2,553.4m

### Public Bank Trading at High Premium

Company	Bloomberg Ticker	Price @ 4 Mar 09	Local Curr	Mkt Cap (US\$m)	--- PE (x) --- FY09F	--- FY10F	PB (x)	ROE (%)	Div Yield (%)
<b>Singapore:</b>									
DBS	DBS SP	7.19	S\$	10,586.0	11.4	8.3	0.65	9.6	8.7
OCBC	OCBC SP	4.25	S\$	8,575.3	11.5	8.8	0.95	11.8	6.6
UOB	UOB SP	9.14	S\$	8,988.9	8.6	7.8	1.03	12.6	8.1
<b>China:</b>									
BOC	3988 HK	2.16	HK\$	112,109	7.9	6.3	1.07	14.0	5.3
BoCom	3328 HK	4.70	HK\$	35,038	6.4	5.2	1.43	18.2	6.0
CCB	939 HK	3.96	HK\$	120,178	8.5	7.1	1.71	18.4	5.0
CMB	3968 HK	12.00	HK\$	30,871	6.3	5.3	2.00	24.8	2.6
ICBC	1398 HK	3.18	HK\$	174,134	8.5	6.7	1.61	16.2	4.7
<b>Hong Kong:</b>									
BEA	23 HK	14.72	HK\$	3,175	12.1	10.6	0.73	0.1	1.7
BOC HK	2388 HK	7.15	HK\$	9,742	7.4	6.0	0.80	17.4	12.9
HANG SENG	11 HK	81.00	HK\$	19,957	11.4	10.1	3.00	26.1	7.8
HSBC	5 HK	44.20	HK\$	69,178	7.4	5.5	0.74	5.2	11.3
SCB	2888 HK	73.35	HK\$	17,925	6.4	5.2	0.81	15.9	7.3
<b>Indonesia:</b>									
BCA	BBCA IJ	2575	Rp	5,284	10.1	8.8	2.83	23.3	3.8
BK DANAMON	BDMN IJ	2625	Rp	1,102	6.6	5.3	1.25	14.3	8.0
BK MANDIRI	BMRI IJ	1800	Rp	3,132	5.4	4.9	1.30	15.6	5.8
BK NEGARA	BBNI IJ	700	Rp	890	4.2	3.1	0.72	5.6	4.2
BK RAKYAT	BBRI IJ	3925	Rp	4,028	6.1	5.1	2.35	26.6	5.0
<b>Malaysia:</b>									
AMMB	AMM MK	2.44	RM	1,790	7.7	6.9	0.89	11.2	2.5
BUMIPUTRA	BCHB MK	6.50	RM	6,267	12.4	10.6	1.34	11.9	7.7
HONG LEONG	HLBK MK	5.30	RM	2,257	10.6	11.1	1.47	15.3	4.5
MAYBANK	MAY MK	4.84	RM	6,366	8.9	7.7	1.17	15.2	7.2
PUBLIC BK	PBK MK	8.20	RM	7,804	14.4	11.4	2.89	27.3	6.7
<b>Thailand:</b>									
BANGKOK BK	BBL TB	71.50	Bt	3,784	7.3	6.6	0.78	11.9	4.2
BK AYUDHYA	BAY TB	8.65	Bt	1,457	9.2	7.5	0.62	6.0	3.5
KASIKORNBK	KBANK TB	42.00	Bt	2,787	8.4	6.9	0.88	14.4	4.8
KRUNG THAI	KTB TB	4.08	Bt	1,265	6.6	5.4	0.44	12.3	7.4
SIAM COMM	SCB TB	53.00	Bt	3,654	9.6	8.2	1.15	19.1	3.8
<b>Average:</b>					<b>8.6</b>	<b>7.2</b>	<b>1.31</b>	<b>15.0</b>	<b>6.0</b>

Source: UOB Treasury-Economic Research

### Key Ratio

Year to 31 Dec (%)	2007	2008	2009F	2010F	2011F
Net Interest Margin	2.11	2.11	1.88	1.98	2.01
Gross NPLs	1.4	1.0	1.2	1.2	1.2
Gross Loans Growth	19.7	19.1	6.0	10.0	15.0
Loans Loss Coverage	119.5	159.7	169.1	168.0	165.2
Cost/Income Ratio	33.1	31.2	33.3	32.6	32.8
ROE	23.1	27.3	20.9	25.6	28.2

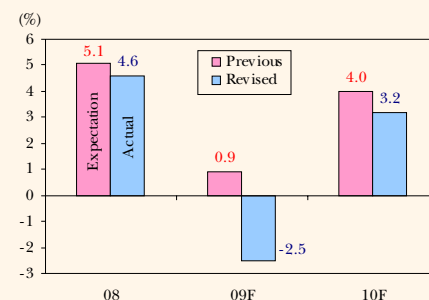
### Profit & Loss

Year to 31 Dec (RMm)	2007	2008	2009F	2010F	2011F
Net-Interest Income	3,244	3,727	3,605	4,048	4,530
Islamic Banking Fee	478	558	581	668	708
Non-Interest Income	1,389	1,454	1,201	1,366	1,500
Operating Income	5,111	5,739	5,386	6,082	6,738
Overhead Expenses	(1,694)	(1,791)	(1,795)	(1,981)	(2,207)
Operating Profit	3,418	3,948	3,592	4,101	4,531
Loan Loss Provision	(419)	(581)	(795)	(586)	(565)
Net Income	2,124	2,581	2,012	2,541	2,881

### Balance Sheet

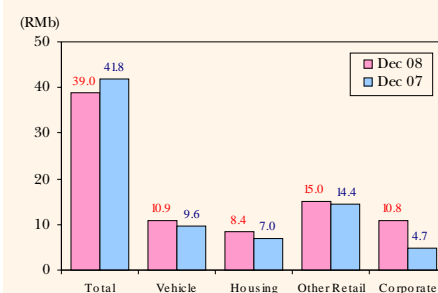
Year to 31 Dec (RMb)	2007	2008	2009F	2010F	2011F
Net Loans	99.3	118.4	124.9	137.6	158.3
Customer Deposit	(138.8)	(162.3)	(175.3)	(194.5)	(219.8)
Shareholder's Fund	9.3	9.5	9.7	10.1	10.3
Total Assets	174.2	196.2	204.8	223.0	248.3

### Lower GDP Forecast



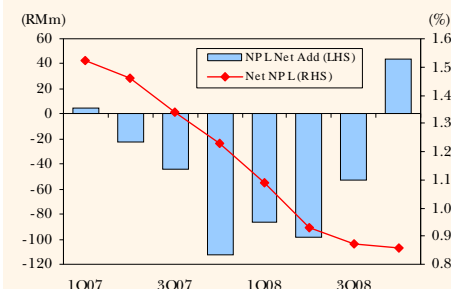
Source: UOB Treasury-Economic Research

### Fall in Approved Loans in 2008 Would Lead to Slower Growth in 2009



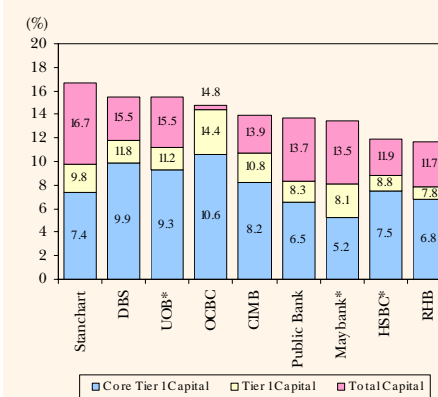
Source: Public Bank

### Rise in New NPLs



Source: Public Bank

### Capital Ratio



Source: Respective companies, UOB Kay Hian

## Property - Residential

Bi-weekly: Mass and mid-market base formation in progress

*The favourable response to the Double Bay Residences and The Mercury projects builds on the sales momentum that gathered pace last month. More such transactions could potentially act as a re-rating catalyst for the sector.*

### Share Price Performance

The Real Estate & Development Index (FSTREH) decreased by 4.3% in the past week, faring marginally better than the Straits Times Index (FSSTI), which was down 5.1%. On a quarterly basis, the top performers were Allgreen Properties (+1.3%) and Wing Tai (-0.7%); laggards were SC Global (-40.0%) and City Developments (-18.9%).

### Sector and Corporate News

- **Little provisioning in 2008; Bulk of provisions expected this year.** With the exception of MCL Land which wrote down US\$180m for its development properties and United Overseas Land which took a fair value loss of S\$106m for its investment properties, most developers made small or no provisions for their Singapore landbank and investment properties. SC Global made an allowance for foreseeable losses of S\$30.0m related to its sites at Ardmore Park and Sentosa Cove sites, Allgreen Properties made provisions of S\$24.6m for its residential properties and Ho Bee reported S\$2.3m loss arising from the net change in fair value of investment properties and write-down of development properties. We expect most developers to book the bulk of the Singapore asset write-downs and revaluation losses this year.
- **Minimal impact from the bi-annual Development Charge revision.** The government announced a steep decrease of 15% on average for non-landed residential use properties compared to a 6% average decline in Sep 08 as part of its bi-annual revision to the development charges. It will apply to development applications where Provisional Permission (PP) or second and subsequent extension to the PP is issued on or after 1 Mar 09. We believe that the revision is expected to have minimal impact on the developers as the PP for most planned projects was obtained last year when there was a huge rush to obtain permission after the government announced the inclusion of bay windows and planter boxes in the GFA computation. Also, most developers had stocked up their inventory levels during the boom period and are not expected to go for any further en-bloc acquisitions in the near term.
- **Sales momentum picking up in the mass and mid-market segments.** Supported by the successful launches of Caspian and Alexis projects and the re-launch of The Quartz project, developers have sold more than 1,000 units last month alone or nearly a quarter of the full-year developer sales last year. The attractive pricing, design and location drove the demand for these projects with Housing and Development Board (HDB) upgraders in the vicinity accounting for majority of the purchases.

### Worth a look

- Building on the sales momentum, developer sales this month is off to a good start with the Double Bay Residences and The Mercury projects receiving good responses to the private preview last week despite the macro-economic headwinds. The UOL Group sold over 80 units out of the 250 units released at its 99-year leasehold Double Bay Residences project located near Simei MRT at ASP of S\$600-650psf. Over at the River Valley estate, the preview sales of the 67-unit freehold The Mercury project in Shanghai Road saw a take-up rate of more than 60% at ASP of over 1,040psf. More such transactions would help in restoring the home buying sentiment and lead to the base formation in the mass and mid-market segments, which in turn could potentially act as a re-rating catalyst for the sector.

## SINGAPORE

### Property – Residential

## OVERWEIGHT

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**Action/Recommendation**

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

**Share Price Performance**

	Bloomberg Code	Price @				% Price Change		
		6 Mar 09	5D	1M	3M	6M	YTD	
FSSTI	FSSTI Index	1,513.1	(5.1)	(11.8)	(8.8)	(41.2)	(14.1)	
FTSE ST Real Estate Index	FSTRE Index	294.1	(6.1)	(8.9)	(10.6)	(49.3)	(20.8)	
FTSE ST Real Estate & Dev Index	FSTREH Index	297.8	(4.3)	(6.6)	(11.9)	(45.6)	(20.8)	
CapitaLand	CAPL SP	1.86	(6.1)	(4.9)	(8.0)	(45.4)	(27.8)	
City Devt	CIT SP	4.26	(11.3)	(20.7)	(18.9)	(53.0)	(33.1)	
Keppel Land	KPLD SP	1.19	(8.5)	(13.8)	(11.9)	(65.8)	(30.0)	
GuocoLand	GUOL SP	1	(3.8)	(5.7)	(13.0)	(48.2)	(12.3)	
Allgreen	AG SP	0.385	(2.5)	(14.4)	1.3	(46.5)	(10.5)	
Ho Bee	HOBEE SP	0.3	(6.3)	(11.8)	(10.4)	(53.8)	(21.1)	
Wing Tai	WINGT SP	0.67	(8.2)	(5.6)	(0.7)	(41.3)	(19.3)	
Wheelock	WP SP	0.87	(4.9)	(9.4)	(6.5)	(25.6)	(16.3)	
SC Global	SCGD SP	0.315	(14.9)	(37.6)	(40.0)	(58.3)	(41.7)	

Source: UOB Kay Hian

**Stress Test Scenarios**

	Capita Land	City Developments	Keppel Land	Guoco Land	Wheelock	Wing Tai	Allgreen	Ho Bee	SC Global	
Share Price (S\$) as of 11 Jan 09	1.86	4.26	1.19	1.00	0.87	0.67	0.39	0.30	0.32	
RNAV (S\$)	3.49	10.19	4.14	2.53	2.23	2.13	1.41	1.37	1.00	
<b>Assumptions (%)</b>	<b>Decline from end-07 level</b>									
Singapore residential	-40	-3	-8	-5	-9	-17	-12	-16	-17	-20
Singapore office	-40	-3	-8	-15	-3	-5	-6	-5	-5	-4
Singapore retail	-40	-5	-3	-2	-	-3	-2	-9	-1	-
China	-40	-8	-	-6	-17	-	-2	-2	-	-
Vietnam	-40	-2	-	-9	-3	-	-1	-	-	-
Listed investments	-70	-9	-6	-5	-5	-9	-5	-	-	-2
Asset Write-down (Devt Pty)	-	-1	-1	-1	-7	-	-4	-4	-10	-14
Asset Write-down (Invnt Pty)	-	-11	-	-7	-3	-11	-9	-15	-5	-1
Deferred payment Scheme	-	-1	-3	-2	-4	-3	-3	-3	-9	-19
<b>Total</b>	<b>-41</b>	<b>-27</b>	<b>-51</b>	<b>-49</b>	<b>-48</b>	<b>-42</b>	<b>-56</b>	<b>-48</b>	<b>-60</b>	
Stressed RNAV(S\$)	2.05	7.42	2.04	1.28	1.15	1.24	0.62	0.72	0.4	
Share Price	(9.2)	(42.6)	(41.8)	(21.8)	(24.5)	(45.8)	(37.7)	(55.5)	(21.4)	
Discount/Premium (%)										

Source: UOB Kay Hian

## Bangchak Petroleum

Better product quality will lead to higher GRM and utilisation rate

*BCP is transforming from a simple refinery into a complex refinery. We like BCP for its strong 2009 earnings, positive fundamental change after PQI project and high dividend yield. Reiterate BUY.*

### Corporate Events

We attended Bangchak Petroleum's (BCP) analyst meeting. The company is a Thai refinery with a 12% market share. Unlike other refiners, BCP's management is optimistic about 2009's earnings. BCP has hedged 40% of the total volume of its refined products at a gross refinery margin (GRM) of above US\$8/bbl. According to BCP, if GRM remains at US\$4/bbl for the rest of the year, the company will be able to achieve 2009 GRM of US\$6.40/bbl. We are more cautious than BCP because of the additional supply of close to 1.8m bbl/day coming in this year. We forecast BCP's GRM at US\$6.00/bbl for 2009. The commercial run of the Product Quality Improvement (PQI) project has been delayed to 2Q09 from 1Q09.

### Stock Impact

The PQI project is a positive structural change for BCP as it upgrades BCP's product from fuel oil to diesel oil and gasoline, which are higher value-added products. The delay in the commercial run to 2Q09 will have a small negative impact but earnings will be supported by locked-in sales at high GRM at a higher utilisation rate. The utilisation rate will increase from 74kbd to 90kbd (+22%) in 2009.

Despite the depressed refinery business outlook, BCP is in a better position than its domestic and regional peers for the following reasons: a) no exposure to the petrochemical business, b) higher value-added products after PQI project run (diesel oil from 35% to 52% and gasoline from 18% to 25%), and c) its own marketing business is a key distribution arm. Moreover, BCP will pay a final dividend of Bt0.5/share (7% yield). The high dividend yield is expected to continue in 2009 to reach 11%.

### Earnings Revision/Risk

We revise up our 2009 earnings forecast to Bt2.9b, up 40% from our previous forecast due to an increase in BCP's 2009 GRM assumption to US\$6.00/bbl from US\$4.00/bbl. We have factored the delay in the PQI project into our assumptions. For 2010, we are still cautious on a GRM assumption at US\$4/bbl. The major risks for BCP are a cyclical downturn, a delay in the PQI project and lower domestic demand.

### Valuation/Recommendation

**Reiterate BUY.** Our target price is Bt12.8 (or 0.7x 2009 P/B). BCP is trading at 0.4x 2009 P/B vs peers' 0.6-1.0x, or at more than a 50% discount to regional refiners and 50% below the replacement value. BCP is attractive because of the refinery upgrade that will fundamentally change its business structure. The drawback is low liquidity.

## THAILAND

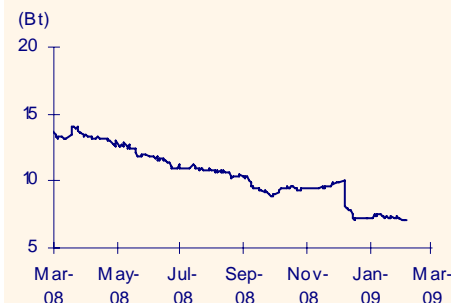
### Bangchak Petroleum (BCP TB)

#### BUY

**Current Price: Bt7.15**  
**Target Price: Bt12.80**  
**(Previous: Bt12.40)**

Sector	Energy
52-Wk Avg Daily Vol. ('000)	443
Market Cap (Btm)	8,002
(US\$m)	222
Major Shareholders (%)	
Siam DR	46.5
Book NTA per Share (Bt)	16.6
ROE (%)	-3.8
Net Debt per Share (Bt)	12.5
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Bt)	Yield (%)
2007	94,979	3,909	1,764	1.58	671.8	4.5	3.2	0.3	4.2
2008	129,042	1,445	-750	-0.67	(142.5)	-10.7	15.2	0.5	7.0
2009F	149,147	5,963	2,915	2.60	288.7	2.7	3.5	0.8	10.9
2010F	134,232	5,273	2,491	2.23	(14.6)	3.2	3.5	0.7	9.3
2011F	122,454	5,744	2,535	2.13	(4.1)	3.4	2.9	0.6	9.0

Consensus Net Profit – FY09: Bt3,131m  
 – FY10: Bt3,180m

**Profit & Loss**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	94,979	129,042	149,147	134,232	122,454
EBIT	3,267	785	4,602	3,849	4,264
Pre-tax Profit	2,773	5	3,782	3,114	3,622
Net Profit	1,764	(750)	2,915	2,491	2,535

**Balance Sheet**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	23,865	14,665	18,693	18,382	17,171
Total Assets	44,978	42,540	46,849	46,592	45,249
Current Liabilities	13,434	8,091	8,907	8,207	7,618
Long-Term Liabilities	10,320	14,686	15,838	14,537	12,009
Shareholder Funds	21,224	19,763	22,103	23,847	25,622
Total Equity & Liabilities	44,978	42,540	46,849	46,592	45,249

**Cash Flow**

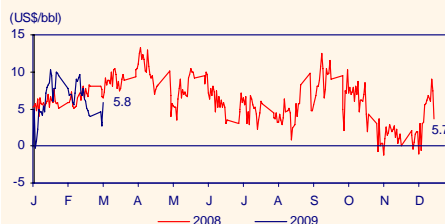
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	4,360	(1,394)	3,568	4,690	4,639
Investing	1,261	(7,735)	(1,641)	(1,477)	(1,347)
Financing	(1,876)	4,361	278	(2,048)	(3,289)
Net Cash In/(Out) Flow	3,745	(4,768)	2,205	1,165	3
Begin Cash & Cash Equiv.	2,705	6,450	1,682	3,887	5,052
End'g Cash & Cash Equiv.	6,450	1,682	3,887	5,052	5,055

**GRM Assumptions**

Key Assumptions	2008	2009F
Refining Capacity (bpd)	74,200	90,000
Singapore Refining Margin (US\$/bbl)	6.1	4.0
BCP Refining Margin (US\$/bbl)	1.0	6.0

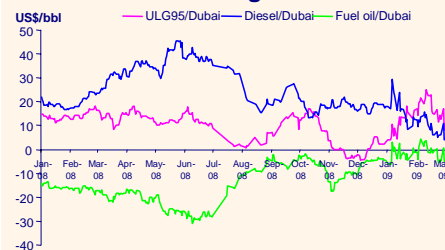
Source: UOB Kay Hian

**Gross Refinery Margin**



Source: Reuters

**Refined Product Margin**



Source: BCP

**Asia-Pacific Refinery Comparables**

Name	PE (x) 2009F	P/BV (x) 2009F	Yield (%) 2009F
Bangchak			
Petroleum ***	2.75	0.39	10.9
PTT	6.56	0.90	5.71
PTT Aromatics & Refining	n.a.	0.42	3.03
Thai Oil	5.70	0.70	7.64
SK Holdings	6.34	n.a.	2.36
S-Oil	8.42	1.68	8.84
GS Holdings	6.57	0.75	3.88
Singapore			
Petroleum	6.89	0.64	8.10
Caltex Australia Ltd	6.66	0.86	7.49
Reliance Industries	11.77	1.63	1.15
Pakistan State Oil	n.a.	0.93	13.73
Shell Refining	9.78	1.40	4.97
<b>AVERAGE</b>	<b>7.10</b>	<b>0.93</b>	<b>6.52</b>
<b>BCP vs Regional</b>	<b>(67.4%)</b>	<b>(61.3%)</b>	<b>73.6%</b>

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

## Technical Analysis

SCB: Bt56

On 23 February when the SET Index was at 434.67, we had forecast that at the minimum, the SET would have to test the psychological support of 400. The index had a pullback when it touched a low of 408. As of last Friday, it closed higher at 419.51.

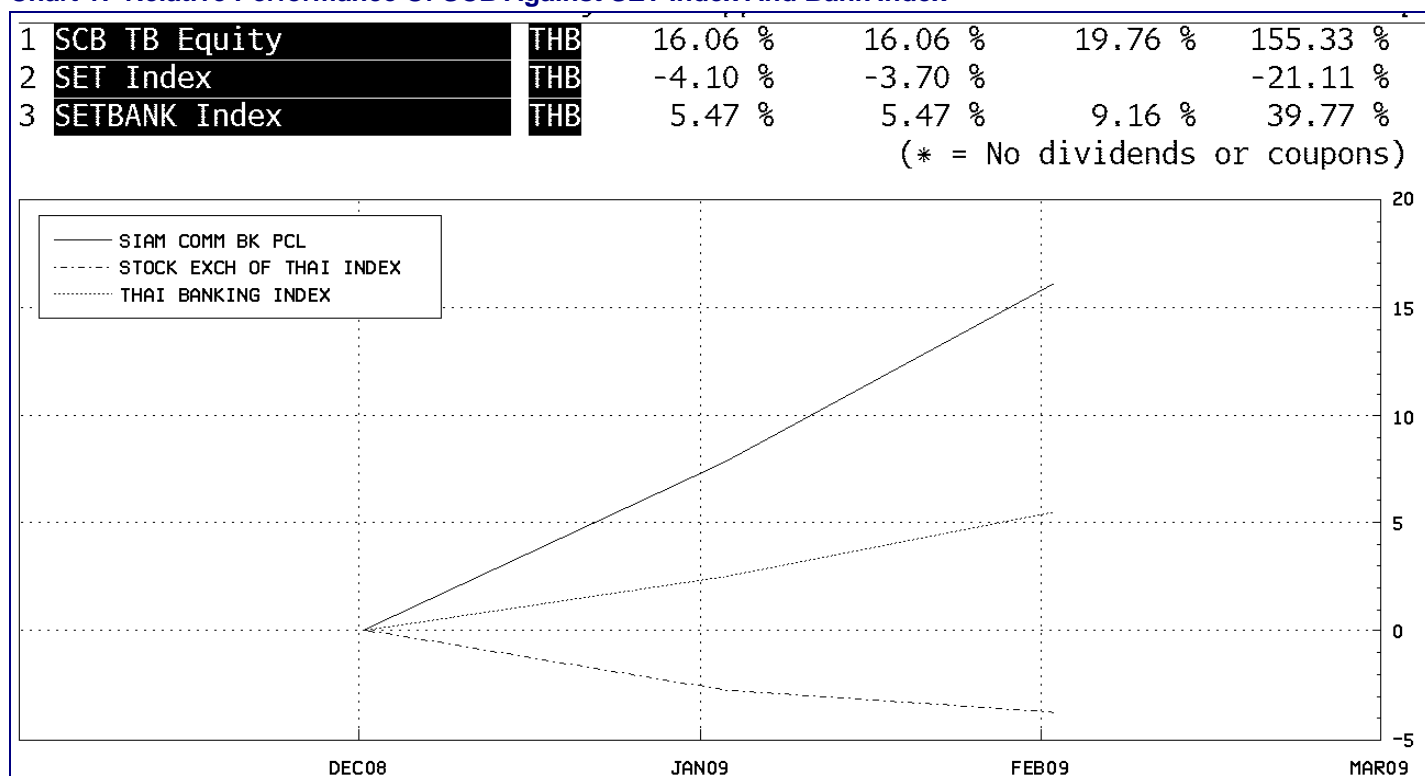
With reference to Chart 1, Siam Commercial Bank (SCB) has outperformed the SET Index and the SETBank Index by 20.16ppts and 10.59ppts respectively, ytd.

### THAILAND Technical Analysis

Analyst

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Chart 1: Relative Performance Of SCB Against SET Index And Bank Index



Source: Bloomberg

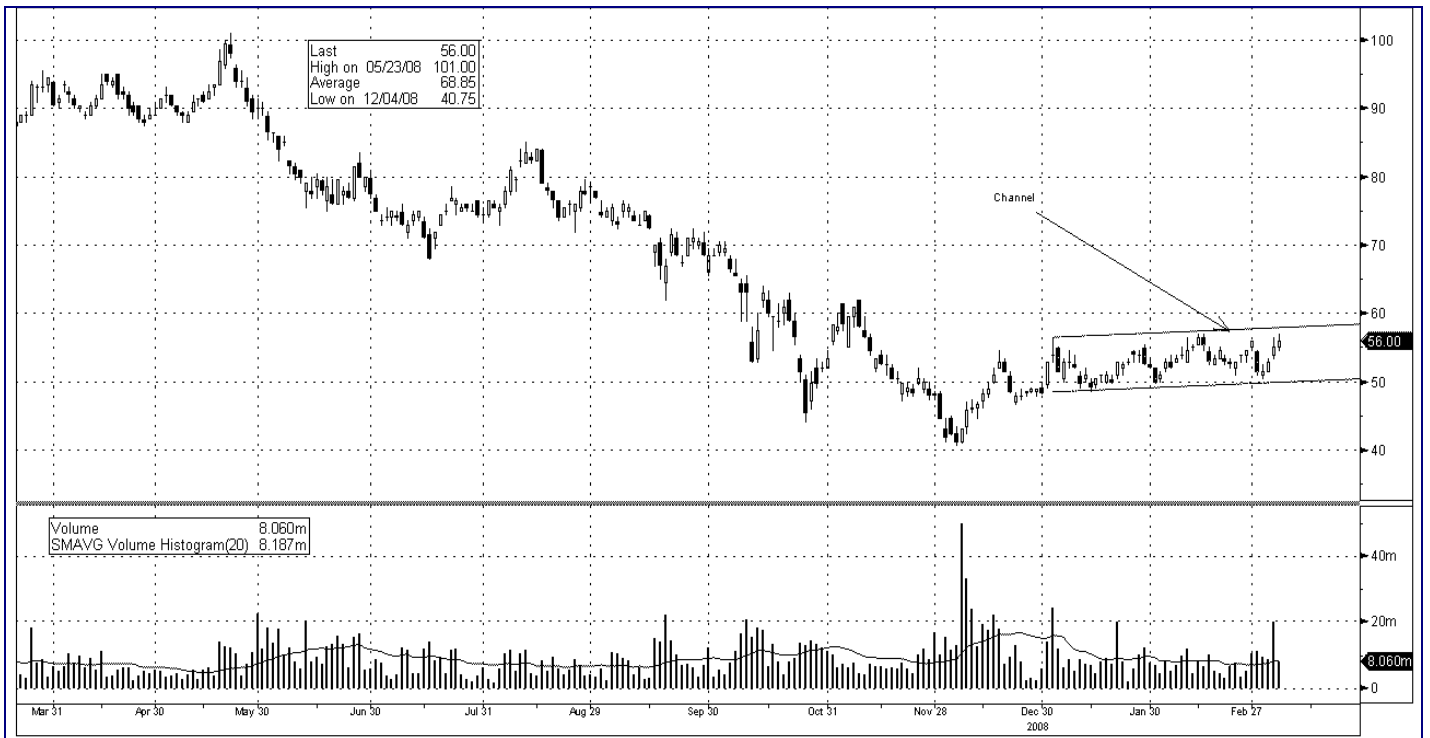
Regarding SCB, it has been trading in a parallel channel between Bt48.75 and Bt57 since 6 Jan 09 (see Chart 2). As a matter of fact, the index is currently very near to the Upper Bollinger Band at Bt56.50 and the channel top of Bt57.

Based on the RSI of the SET Index, the consolidation of the index is set to linger for awhile. If we believe SCB will continue to outperform the market and the banking sector's index in the near future, SCB is likely to have an upside breakout from Bt57.

Such breakout should pave the way for the stock to head towards Bt62-64 area. Bt62 was the prior high while Bt64 is the 0.38x retracement level of the decline from the peak of Bt101.

If the breakout fails, we expect the stock to turn south again to test the support at the channel bottom near Bt48.75.

Chart 2: SCB Channel



Source: Bloomberg

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