

KEY STORY

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2008 EPS cut by 38% to Rmb0.74 to factor in huge potential asset impairment. Consensus numbers too upbeat. Maintain SELL.

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Balance of risks has turned more negative. Downgrade the sector to UNDERWEIGHT.

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Update

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SINGAPORE

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Demand continues to soften on weak exports.

THAILAND

Sector

Banking Page 20
Balance of risks has turned more negative. Downgrade the sector to UNDERWEIGHT.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	6930.4	0.1	0.8	(12.7)	(21.0)
S&P 500	721.4	0.2	1.2	(13.5)	(20.1)
FTSE 100	3693.8	(0.6)	1.3	(12.8)	(16.7)
AS30	3199.1	1.8	2.3	(7.5)	(12.6)
CSI 300	2220.4	(0.9)	(2.8)	(4.2)	22.2
FSSTI	1505.5	1.3	(2.5)	(10.7)	(14.5)
HSI	11930.7	2.0	(3.2)	(9.8)	(17.1)
JCI	1314.5	1.1	3.9	(0.8)	(3.0)
KLCI	850.4	(0.6)	(2.1)	(4.9)	(3.0)
KOSPI	1127.5	3.2	6.4	(4.4)	0.3
Nikkei 225	7376.1	4.6	1.2	(4.3)	(16.7)
SET	414.4	(0.7)	(0.8)	(6.0)	(7.9)
TWSE	4760.0	1.9	4.8	6.6	3.7
BDI	2271	(1.2)	9.0	10.5	193.4
CPO (RM/mt)	2052	2.6	5.2	6.0	25.9
Nymex Crude (US\$/bbl)	42	(7.4)	(6.7)	17.8	(5.1)

Source: Bloomberg

Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs			
China Life	2628 HK	22.20	30.50 37.4
China Mobile	941 HK	65.40	90.00 37.6
China Petroleum	386 HK	3.90	6.93 77.7
China Railway	390 HK	4.37	5.90 35.0
China Shenhua	1088 HK	15.04	23.00 52.9
Zijin Mining	2899 HK	4.50	5.90 31.1
Bumi Resources	BUMI IJ	790	1,010 27.8
DBS Group	DBS SP	6.90	10.55 52.9
Indofood Agri	IFAR SP	0.56	0.80 42.9
SingTel	ST SP	2.45	2.95 20.4
Advanced Info Quality Houses	ADVANC TB QH TB	80.00 0.73	101.73 1.28 27.2 75.3
Top SELLs			
Aluminum Corp	2600 HK	3.99	3.00 (24.8)
Parkson Retail	3368 HK	6.60	5.15 (22.0)
Wharf Hldg	4 HK	16.14	14.60 (9.5)
S'pore Exchange	SGX SP	4.32	3.00 (30.6)
Amata Corp	AMATA TB	3.16	2.52 (20.3)

Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.1	(2.0)	1.9
Euro Zone*	0.7	(2.2)	0.7
Japan*	(0.7)	(5.9)	0.6
Singapore	1.2	(4.0)	4.0
Malaysia	4.6	(2.5)	3.2
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	8.00
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,612	1,955
Copper* (US\$/MT)	6,884	3,629	4,412
Gold Price London* (US\$/ounce)	873	947	991
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

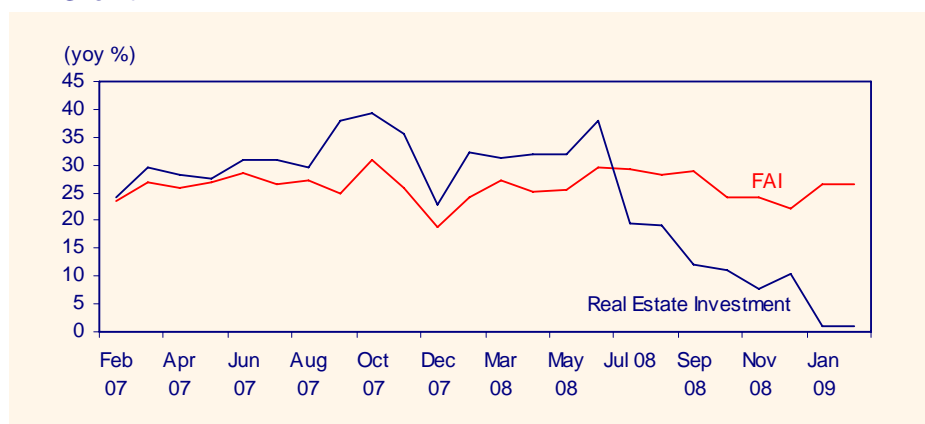
Jan-Feb 09 Fixed-Asset Investment

FAI remains robust on acceleration in government-funded projects

DATA RELEASED (FAI in Jan-Feb 09): +26.5% yoy
PREVIOUS DATA (FAI in Jan-Dec 08): +26.1% yoy

Fixed-Asset Investment (FAI) remained strong on acceleration in government's investment. China's FAI climbed 26.5% yoy (consensus: 22.5%) in 2M09 from 26.1% yoy in 2008. This was attributable to an acceleration in government projects which surged 40% yoy from 30% in 2008. Investments in local government projects remained flat at 25%. This indicates local governments have not started their aggressive investment plans due to stressed fiscal positions. Real estate investment continued to moderate to 1% yoy in 2M09 from 10.4% yoy in Dec 08.

FAI Growth



Source: National Bureau of Statistics of China

Accelerating infrastructure led investment growth. Investment in railways soared 210% yoy in 2M09. Investment in coal mining rebounded to 60% yoy in 2M09 from 35% in 11M08. Investment in non-ferrous metal increased 47% in 2M09 but investment in ferrous metals rose only 5% yoy. Investment in petroleum and national gas extraction fell 13.8% yoy. The sluggish exports have resulted in a sharp slowdown in investments by Hong Kong, Macao and Taiwan enterprises (account for 4.3% of total FAI) to 1% in 2M09 vs 16.7% in 2008.

Limited room to increase investments. Investment growth is expected to remain strong in the coming months as suggested by the 88% surge in investment in newly-started projects in 2M09. Government spending could boost investment growth in the months ahead, however, we believe there is limited room for the government to increase its spending on investment to spur the economy. Except for railways, toll roads, airports and ports are less profitable projects as these infrastructure would be in excess capacity in an economic downturn. Therefore, if there are further stimulus plans from the government, it would be for consumption and not investment.

CHINA

Economics

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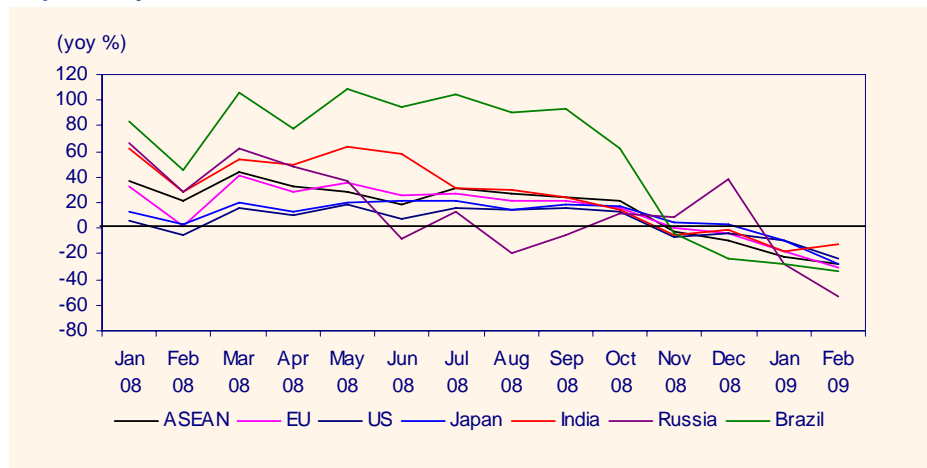
Feb 09 Trade Surplus

Exports slump 21% yoy in 2M09 and may continue to be weak

DATA RELEASED (Trade Surplus in Feb 09):	US\$4.8b	-44% yoy
DATA RELEASED (Exports in Feb 09):		-25.7% yoy
DATA RELEASED (Imports in Feb 09):		-24.1% yoy
PREVIOUS DATA (Trade Surplus in Jan 09):	US\$39.1b	+100% yoy
PREVIOUS DATA (Exports in Jan 09):		-17.5% yoy
PREVIOUS DATA (Imports in Jan 09):		-43.1% yoy

Exports fell 21.1% in Jan-Feb 09 on weak demand and strong Rmb. China's exports declined 25.7% yoy in Feb 09, much worse than consensus forecast of -1%. Imports dropped 24.1% yoy (consensus: -20%). Trade surplus narrowed to US\$4.8b in February from US\$39.1b in January. In the first two months of 2009, exports and imports fell 21.1% and 34.2% yoy respectively. The sharp decline in exports could be attributable to: a) a sharp deterioration in the economies of emerging markets since end-08, and b) the significant devaluation in some regional currencies such as the South Korean Won and Indian rupee make Chinese products less competitive.

Exports By Destination



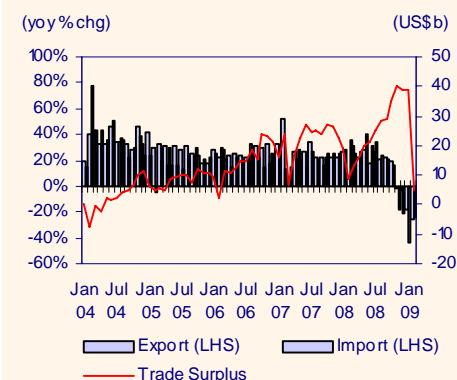
Source: CEIC

Exports of traditional goods outperformed total exports. In 2M09, there were smaller declines in exports of traditional goods such as footwear (-2.3% yoy), garments (-11%) and toys (-17.1%) as overseas consumers shift to these low-end products. Exports of electronics & machinery dropped 22% while exports of steel fell 34%. Exports of ordinary trade (-32.5% yoy in Feb 09) dropped more than that of processing trade exports (-23% yoy in Feb 09). This shows China's competitiveness still lies in those low-end products which are exported through processing trade.

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Economics

External Trade

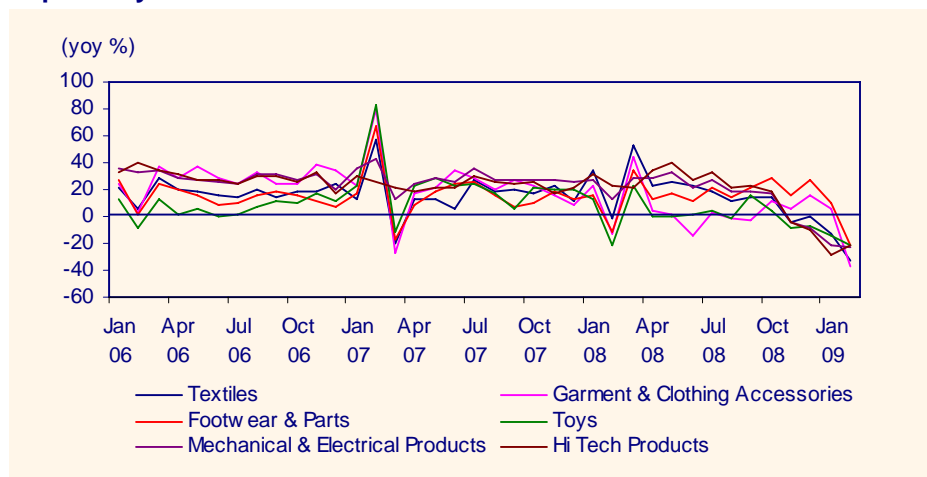


Source: CEIC

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Exports By Goods



Source: CEIC

Falling import prices triggered demand for primary goods. The sharp decline in global commodity prices triggered China's demand for primary goods. Also, with de-stocking by firms coming to the end, demand for primary goods rebounded. Import of iron ore increased 6% in volume in February (-11.2% in Jan 09) but import of refined oil contracted 6% in volume (-26% in Jan 09).

Exports could remain weak and more help from the government expected. With the global economy dipping into deeper recession going ahead, China's exports would continue to be weak in the coming months. It is not certain whether it can recover in 2H09. One problem with China's exports is that many small and medium-sized exporters got bankrupt because of stressed cash position partly due to the domestic tightening last year. Therefore, the government should do something to help the SMEs survive. As the government is expected to further raise the export tax rebate, the Rmb may not be depreciated at this juncture. However, the government has not said it will not depreciate the Rmb as it last done so in 1998.

Banking

2008: A year of divergence between the two halves

A 216bp cut in benchmark lending rate will have a mild impact on NIM and credit costs are expected to rise as banks raised coverage ratio to 130%. However, asset quality should remain stable in 4Q08.

Sector Events

Rate cuts will moderately drive down NIM for 2008. Following the 216bp cut in benchmark lending rate, net interest margin (NIM) for banks will undoubtedly be affected in 2H08. However, as the rate cuts were mostly in 4Q08, we believe any NIM contraction should be mild for the last quarter, with the full impact to be felt in 2009.

Credit costs will rise as banks raised coverage ratio to 130% by end-08. We expect sector earnings to slow noticeably in 4Q08 as banks raised their coverage ratios up to 130% to meet CBRC requirements. We believe NPL formation for 4Q08 stabilised after a mild upswing in September and October.

Sector Impact

We do not expect any major asset-quality deterioration in 4Q08 as the banks under our coverage were not heavily exposed to exporters that went bankrupt late last year due to the global financial crisis. Widespread corporate bankruptcies also did not materialise, contrary to expectations by some in the market. Despite stable NPL levels, credit costs will rise as banks increased their coverage ratios to at least 130%. This will be a positive development as it will create a comfortable cushion for Chinese banks to guard against a sudden rise in bad loans.

Earnings Risks

The primary risk for the banking sector continues to be a severe deterioration in asset quality.

Recommendation

Performance for banks in 4Q08 will largely be dictated by credit cost increases due to higher provisioning. We believe ICBC and CMB will see the least increase in credit cost due to their higher provisioning at the beginning of 4Q08.

Industrial and Commercial Bank – mild uptick in credit costs. We expect credit costs for ICBC to increase 14bp to 0.70% for 2008. As the PBOC began aggressively cutting interest rates in late-08, we expect a mild NIM contraction of 15bp from 1H08. We forecast 2008 net profit at Rmb106,359m or EPS of Rmb0.32, +30.5% yoy. Going forward, the potential sell-down by Goldman Sachs is the largest overhang for ICBC. With its solid fundamentals, we believe ICBC will offer compelling value if its share price is depressed in the event of a sell-down.

Sector Valuation

Stock	Rec.	Price 11 Mar 09 (HK\$)	Net Profit			PE			PB			ROE 2007 (%)	Market Cap (HK\$m)	Yield 2007 (%)
			2008F (Rmbm)	2009F (Rmbm)	2010F (Rmbm)	2008F (x)	2009F (x)	2010F (x)	2008F (x)	2009F (x)	2010F (x)			
BoCom	SELL	4.52	25,797	22,286	23,152	9.5	11.0	10.6	1.3	1.2	1.1	18.3	264,935	3.3
CMB	BUY	12.30	20,927	21,555	24,853	7.8	7.6	6.6	2.1	1.8	1.4	20.8	231,993	4.0
ICBC	HOLD	3.23	106,359	92,476	118,853	9.1	10.5	8.3	1.6	1.5	1.3	16.2	1,323,290	3.4
BOC	HOLD	2.18	63,978	50,054	61,262	7.8	10.0	8.1	1.1	1.0	0.9	13.0	840,437	3.9
CCB	HOLD	3.92	92,677	79,816	101,290	8.9	10.3	8.1	1.8	1.6	1.3	18.4	933,739	5.6

Source: Respectively companies data, UOB Kay Hian

CHINA

Banking

MARKET WEIGHT

China Merchants Bank (3968 HK)

BUY

Current Price: HK\$12.30
Target Price: HK\$14.88

Bank of Communications (3328 HK)

SELL

Current Price: HK\$4.52
Fair Price: HK\$3.82

Industrial and Commercial Bank (1398 HK)

HOLD

Current Price: HK\$3.23
Fair Price: HK\$3.45

China Construction Bank (939 HK)

HOLD

Current Price: HK\$3.92
Fair Price: HK\$3.85

Bank of China (3988 HK)

HOLD

Current Price: HK\$2.18
Fair Price: HK\$2.10

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*Thursday, March 12, 2009***China Merchants Bank – earnings to be hurt by WLB impairment charge.**

Due to CMB's high prevailing coverage ratio, it will see the least increase in credit costs, increasing by 2bp yoy to 0.70%. We are also expecting a 30bp NIM contraction from 1H08. However, the largest impact will come with impairment charges related to Wing Lung Bank (WLB). We expect CMB to record a Rmb4b impairment charge related to WLB for 2008, thus reducing net income to Rmb20,927m or Rmb1.42/share, up 37.3% for the year. We have also taken into account an additional impairment charge of Rmb8b that will be directly written off from equity.

Bank of China – continues to be weighed down by foreign exposure.

Among Chinese banks, BOC has the largest exposure to US structured products. The carrying value of MBS, Alt-A and non-agency backed mortgages still totalled about Rmb61b. We also expect a moderate pick-up in credit costs to 0.60%. Net income for the year is projected at Rmb63,978m or Rmb0.25/share, up 13.7% yoy.

China Construction Bank – earnings to be pulled down by higher credit costs.

We expect a 30bp rise in credit costs for CCB for 2008 due to its lower coverage ratio. NIM is expected to contract 10bp from 3Q08 to 3.20%. We project net profit for 2008 at Rmb92,677, or Rmb.40/share, up 31% yoy. Near-term overhang will be the possibility of another sell-down by Bank of America in May.

Bank of Communications – most sensitive to rise in credit costs, BoCom

is the most exposed to a rise in credit costs due to its low level of provisioning. We expect 2008 net profit at Rmb25,797m, or Rmb0.52/share, up 23.5% yoy. Net profit growth will be lowered by the estimated 50bp rise in credit costs to 1.13% in order for BoCom to bring its coverage ratio up to 130%. We are also expecting a 30bp contraction in NIM in 4Q08.

China Shipping Development

Coastal bulk rate declines 39% yoy. Downgrade to SELL

China Shipping Development has concluded the domestic COA for 2009. Freight rates for coastal coal and bulk have declined 39.2%. We cut our earnings forecasts and target price.

Corporate Events

China Shipping Development (CSD), the largest coastal coal shipping company in China, has completed the signing of a majority of domestic coastal contracts of affreightment (COA) for 2009. Rates for domestic bulk shipping have dropped by about 39.2% yoy in 2009 mainly due to the declining dry bulk freight rates and the decreasing shipping volume since 2H08. General terms of the COA contracts are as follows:

Freight volume. CSD's aggregate freight volume under the COA contracts amounts to about 58.65mt, representing 67.7% of the total domestic bulk shipping volume of 86.57mt in 2008.

Freight rate. CSD's average standard freight rate under the COA contracts has dropped by about 39.2% yoy in 2009.

Stock Impact

Coastal bulk revenue to drop more than 40%. Income generated from coastal bulk freight transport (domestic coal and domestic bulk) accounted for about 48% of CSD's total revenue in 2008. With the newly-signed COA contracts, CSD's income from domestic coastal bulk freight transport may plunge by more than 40% yoy in 2009. Coastal bulk revenue is expected to account for about 44% of CSD's total revenue in 2009.

Oil shipping business is steadier. Compared with coal shipping, oil shipping rates are more stable. We forecast domestic oil shipping and international oil shipping rates to decline 10-24% in 2009, translating into a 16% decline in oil shipping revenue.

Although CSD is stilling negotiating other COA contracts for 2009, we forecast the average freight rate for domestic bulk shipping rates to decline 40% yoy. Therefore, income from coastal bulk freight transportation is expected to drop significantly in 2009.

Earnings Revision

To reflect the declining revenue from the shipping business and from its jointly-controlled entities, we slash CSD's FY09 net profit forecast by 39% and FY10's by 31%.

Valuation/Recommendation

The stock is trading at 6.9x 2009F PE and 0.9x 2009F P/B. We downgrade the stock from BUY to SELL, and cut our fair price from HK\$11.80 to HK\$4.85, based on 0.7x 2009F P/B (above -1 sd P/B). Our fair price also reflects the company's dominant position in the domestic dry bulk shipping market and higher earnings visibility than other international dry bulk shipping companies.

CHINA

China Shipping Development (1138 HK)

DOWNGRADE TO SELL

Current Price: HK\$6.50

Fair Price: HK\$4.85

(Previous: HK\$11.80)

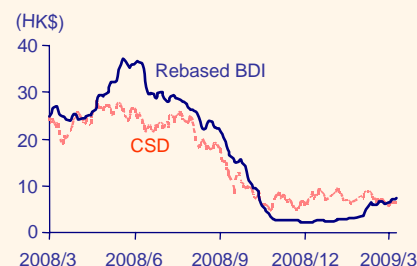
Sector	Transport
52-Wk Avg Daily Vol. ('000)	13,163
Market Cap (H-share) (HK\$m)	8,424
(US\$m)	1,080

Major Shareholders (%)	
China Shipping Corp	46

Book NTA per Share (Rmb)	4.83
ROE (%)	31.6
Net Debt per Share (HK\$)	0.96

Results Due	
Interim	Aug
Final	Mar

Share Price vs Rebased BDI



Source: Bloomberg

Analyst

Stella Kei

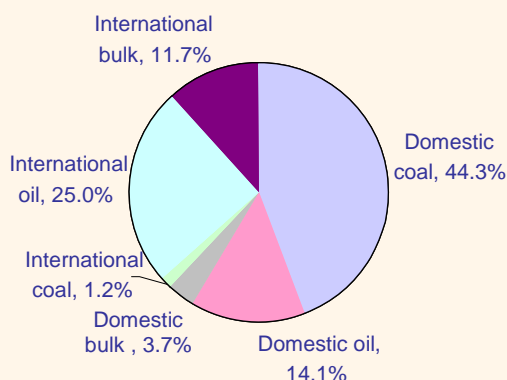
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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	9,204	4,527	2,758	0.83	2	6.9	5.0	0.30	5.3
2007	12,395	6,828	4,546	1.37	65	4.2	3.3	0.51	9.0
2008F	16,701	8,925	5,789	1.72	26	3.3	2.2	0.64	11.2
2009F	11,519	5,265	2,752	0.81	(53)	7.0	3.7	0.30	5.3
2010F	12,159	5,582	2,894	0.85	5	6.7	3.2	0.32	5.6

Consensus Net Profit – FY08: Rmb5,911m
– FY09 : Rmb3,472m

Revenue Breakdown



Source: CSD, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	9,204	12,395	16,701	11,519	12,159
EBIT	3,338	5,335	6,903	3,394	3,584
Pre-tax Profit	3,293	5,328	7,422	3,621	3,859
Net Profit	2,758	4,546	5,789	2,752	2,894
EPS (Rmb)	0.83	1.37	1.72	0.81	0.85

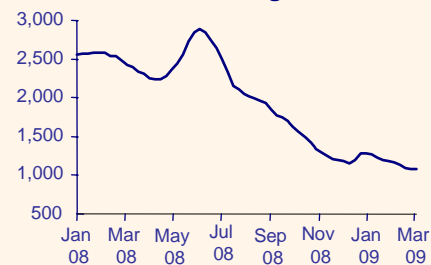
Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	2,313	2,438	5,108	4,789	5,874
Total Assets	17,000	23,607	26,875	27,074	28,636
Current Liabilities	2,653	1,766	1,274	1,204	1,220
Long-Term Loans	1,741	5,769	5,443	5,116	4,789
Shareholders' Funds	12,605	16,072	20,158	20,754	22,627
Total Equity & Liabilities	17,000	23,607	26,875	27,074	28,636

Cash Flow

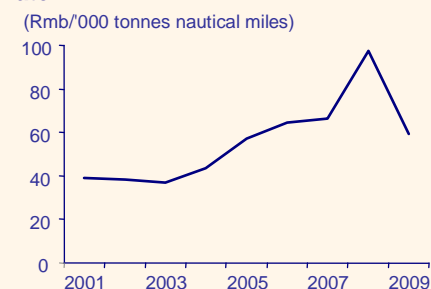
Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	3,171	5,602	6,366	4,223	4,190
Investing	(4,183)	(6,924)	(2,000)	(2,000)	(2,000)
Financing	388	1,927	(1,649)	(2,295)	(1,163)
Net Cash Inflow/(Outflow)	(623)	605	2,717	(71)	1,026
Begin Cash & Cash Equiv.	1,099	475	1,080	3,797	3,726
End'g Cash & Cash Equiv.	475	1,080	3,797	3,726	4,752

China Coastal Bulk Freight Index



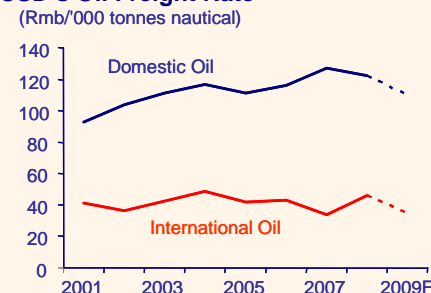
Source: Shanghai Shipping Exchange

CSD's Domestic Coal Contract Freight Rate



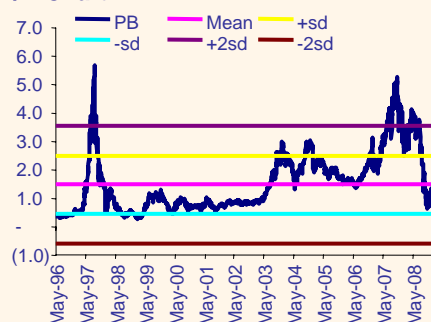
Source: CSD, UOB Kay Hian

CSD's Oil Freight Rate



Source: CSD, UOB Kay Hian

P/B Chart



Source: Bloomberg, UOB Kay Hian

PICC Property & Casualty

Premium growth in February stronger than expected

February premiums rose 24.4% yoy, exceeding expectations despite CNY in February last year. Auto sales drove the growth. We expect a premium growth of 10% for 2009. Maintain HOLD.

Corporate Events

PICC announced 2M09 premium income of Rmb20,707.3b, +11.9% yoy. Premium income for February was Rmb7,223m, up 24.4% yoy.

Stock Impact

Although we had expected premium growth to be high for February on a yoy-basis due to Chinese New Year falling in February last year, the figure came in higher than expected. We believe growth was driven by strong auto sales which grew 25% yoy as government incentives led consumers to buy automobiles with small engine displacements. Despite the government incentives, we expect auto sales to slow as the year progresses, dragged down by weak economic growth. However, we continue to believe a premium growth of 10% is achievable for PICC this year.

Earnings Risk

Performance of the A-share market and continued expense overrun leading to an underwriting loss for the year.

Recommendation

We expect PICC's fundamentals to begin to improve this year, allowing the company to report an underwriting profit for the first time since 1H07. The stabilising A-share market could be another catalyst to significantly boost PICC's earnings. However, we believe current share price has factored in the visible improvements in company fundamentals as well as the improvement in the outlook for the P&C sector. We continue to favour life insurers such as China Life and Ping An. Maintain HOLD with fair price of HK\$3.65. Suggest entry levels at below HK\$3.20.

CHINA

PICC Property & Casualty (2328.HK)

HOLD

Current Price: HK\$3.91

Fair Price: HK\$3.65

Sector	Insurance
Bloomberg	2328.HK
Reuters	2328.HK
Website	www.picc.com.cn

52-Wk Avg Daily Vol. (m)	43.0
Market Cap (HK\$m)	43,564.4
(US\$m)	5,585.1

Major Shareholders (%)	
PICC	69.0

Book NTA per Share (Rmb)	2.34
ROE (%)	11.5

Results Due	
Interim	August
Final	April

Price Chart



Source: Bloomberg

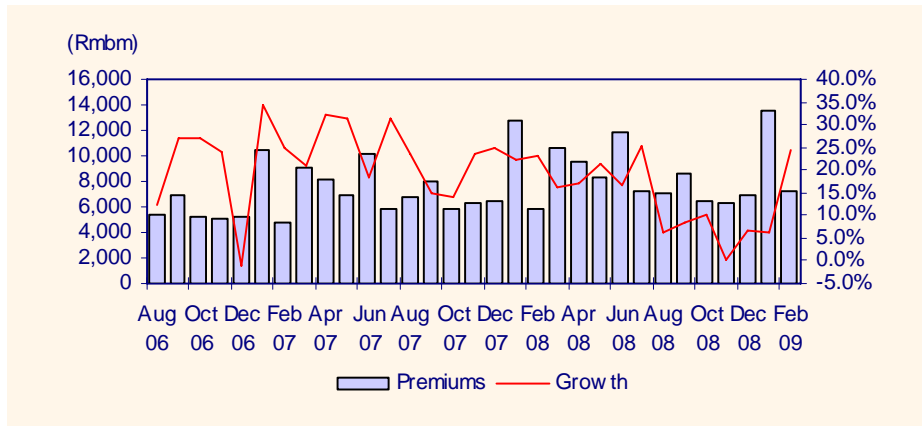
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Year to 31 Dec	Net Earned Premium (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmbm)	EPS Growth (%)	PE (x)	P/B (x)	DPS (Rmb)	Yield (%)
2006	55,616	3,932	2,214	0.20	112	17.7	1.9	0	0
2007	68,728	4,453	2,988	0.27	34.9	13.1	1.5	0	0
2008F	79,335	(1,702)	(1,285)	(0.12)	(143.0)	n.a	1.5	0	0
2009F	93,128	2,606	1,968	0.18	253.2	19.3	1.4	0	0
2010F	107,965	3,534	2,668	0.24	35.6	13.9	1.3	0	0

Consensus Net Profit – FY08: Rmb150.6m
 – FY09: Rmb2,077.4m

Monthly Premiums



Source: CIRC, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Net earned premiums	55,616	68,728	79,335	93,128	107,965
Underwriting profit	604	(1,427)	(4,535)	891	1,126
Net profit	2,214	2,988	(1,285)	1,968	2,668
EPS	0.199	0.268	(0.115)	0.177	0.239

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Total Assets	106,124	134,265	146,863	169,790	191,254
Total Liabilities	85,397	108,187	122,070	143,029	161,824
Equity	20,727	26,078	24,793	26,761	29,429

Jiangxi Copper

2008 and 2009 consensus estimates still too high

2008 EPS forecast cut by 38% to Rmb0.74 – 34% lower than consensus estimate - to factor in potentially huge asset impairment charge. Nasty surprise is in store during the results announcement due 31 March. Maintain SELL.

Corporate Events

We re-worked our 2008 numbers to take into account a potentially huge asset impairment charge of about Rmb2.2b – the first time China's largest copper producer will need to make a substantial write-down for raw material inventories in six years.

Stock Impact

Several A-share listed copper companies have had to make provisions for asset impairment for copper raw materials, prompting us to re-work our 2008 earnings numbers for Jiangxi Copper.

We expect it to provide for impairment loss of about 90,000 tonnes of copper raw materials, triggered by the 50% qoq collapse in copper prices in 4Q08. Copper price averaged US\$7,684 in 3Q08 and US\$3,958 in 4Q08, a drop of 48%.

The 48% drop in copper price suggests that it would have to provide for US\$335m or Rmb2.2b for impairment loss for the copper inventories at end-Dec 08.

Earnings Revision

Taking the Rmb2.2b into account, we cut our 2008 net profit forecast by 38% to Rmb2,225m, throwing up an EPS of Rmb0.74. This puts our 2008 net profit and EPS estimates the third lowest on the street - and 34% below consensus estimate.

We raise our 2009 net profit forecast by 5.6% to Rmb878m mainly because we cut our unit cost assumption for sulphuric acid by 10% to Rmb339/tonne from 2008's level. Despite this, our 2009 net profit forecast is still 30% below the consensus number of Rmb1,240m.

Are we being too downbeat about Jiangxi Copper amid the steady copper prices? No!

In our 2009 earnings model, we have built in a 2009 copper price assumption of US\$1.9/lb – while the ytd spot price is US\$1.50. The 2008 average was about US\$3.2/lb. In other words, we expect stronger prices in the coming months, as China's spending on the power grids should stimulate copper demand.

On the London Metal Exchange (see chart on next page), we note that inventories are beginning to fall, albeit slightly, providing a modicum of support for copper prices.

Valuation/Recommendation

We expect Jiangxi Copper's PE to deteriorate from 7.3x in 2008 to 18.4x in 2009 - which is unattractive next to Freeport McMoran's improvement from 78x in 2008 to 14x in 2009, or Southern Copper's 26.4x in 2008 and 13.7x in 2009.

Maintain SELL, but with a higher fair price of HK\$4.60, which is benchmarked at 0.6x of Freeport McMoran's 2008 PB of 2.2x.

CHINA

Jiangxi Copper (358 HK)

SELL

Current Price: HK\$6.07

Fair Price: HK\$4.60

(Previous: HK\$4.00)

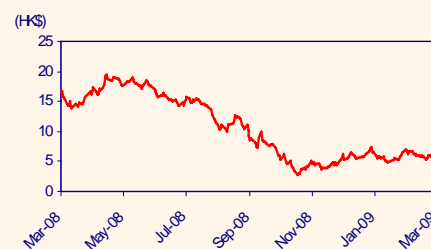
Sector	Metal
52-Wk Avg Daily Vol. (m)	10.5
H Share Market Cap (HK\$m)	8,422
(US\$m)	1,084

Major Shareholders (%)	
Jiangxi Copper Corporation	42.4

Book NTA per Share (Rmb)	6.00
ROE (%)	23.2
Net Debt per Share (Rmb)	1.71

Results Due	
1Q: Apr	2Q: Aug
3Q: Oct	Final: Mar/Apr

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2006	24,583	6,453	4,744	1.62	135.9	3.3	4.7	0.40	7.5
2007	41,281	5,783	4,145	1.40	(13.4)	3.8	5.5	0.30	5.6
2008F	42,194	3,994	2,225	0.74	(47.5)	7.3	6.4	0.18	3.4
2009F	22,200	2,353	878	0.29	(60.5)	18.4	9.1	0.07	1.4
2010F	24,351	2,763	1,067	0.35	21.5	15.2	8.1	0.09	1.6

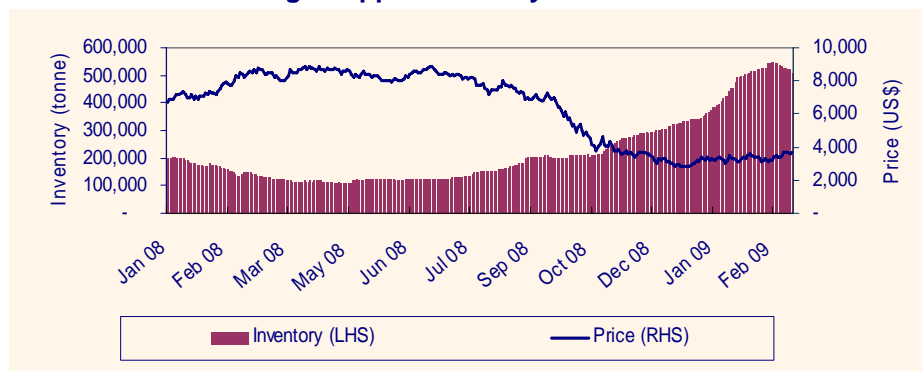
Consensus Net Profit – FY08: Rmb3,349m
 – FY09: Rmb1,240m

China's Copper Supply and Demand

m tonne	2004	2005	2006	2007	2008F	2009F*
Output	2.2	2.6	3.0	3.5	3.7	3.5
Net imports	1.1	1.1	0.6	1.4	1.4	1.3
Total supply	3.3	3.7	3.6	4.9	5.1	4.8
Consumption	3.4	3.8	4.0	4.6	4.8	4.6
Surplus/(Shortage)	(0.13)	(0.1)	(0.43)	0.30	0.29	0.15

Source: Antaika, UOB Kay Hian

London Metal Exchange Copper Inventory And Price



Source: Bloomberg

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	24,583	41,281	42,194	22,200	24,351
EBIT	5,917	5,181	3,409	1,703	2,065
Pre-tax Profit	5,731	4,941	3,019	1,191	1,447
Net Profit	4,744	4,145	2,225	878	1,067

Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	11,093	17,894	26,438	26,121	28,447
Total Assets	20,613	30,220	39,340	40,408	43,575
Current Liabilities	6,009	11,241	12,468	12,770	15,007
Long-Term Liabilities	1,205	402	462	555	666
Shareholder Funds	12,875	18,151	19,251	19,909	20,709
Total Equity & Liabilities	20,613	30,220	39,340	40,408	43,575

Cash Flow

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	994	845	3,403	6,607	1,599
Investing	(1,993)	(3,136)	(1,873)	(1,956)	(1,451)
Financing	858	4,030	5,958	1,055	1,263
Net Cash In/(Out) Flow	(142)	1,739	7,488	5,707	1,411
Begin Cash & Cash Equiv.	(142)	1,739	7,488	5,707	1,411
End'g Cash & Cash Equiv.	1,021	2,753	10,241	15,947	17,359

Technical Analysis

ZTE (763): HK\$26.70

ZTE has been trading in an uptrend after bouncing off its low of HK10.00 on 27 Oct 08.

The stock did see a sizeable correction on 16 Jan 09, marked (A) on the chart. That day, the stock opened at an intraday high beyond the upper Bollinger Band but closed near the intraday low in a long dark candlestick formation. The ensuing sell-down after the false breakout brought the stock to the Lower Bollinger Band before resuming its rally.

Take note that at (B), the stock has a false breakout similar to (A). With the added evidence of a negative divergence of RSI to the price action between (A) and (B), the stock is looking at a sizeable correction from (B).

If price action mirrors what happened at (A) last year, we expect the stock to initially test the support at the Middle Bollinger Band at HK\$25. If this support is breached, the next support is at the Lower Bollinger Band at HK\$22.

CHINA

Technical Analysis

Analyst

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Bollinger Band Of ZTE



Source: HKET Net

Cathay Pacific

2008: No surprises; cash call still a possibility

The market reacted favourably to the results that were within expectation. The decline in passenger and cargo yield was not particularly severe. We upgrade the stock to a HOLD.

2008 Results

Year to 31 Dec	2H08 (HK\$m)	yoy % chg	2008 (HK\$m)	yoy % chg	Remarks
Turnover	13,598	33.4	56,046	14.9	Higher due to surcharges
Operating profit	(7,325)	(261.0)	(7461)	(196.0)	mainly from MTM losses
Pre-tax profit	(9,105)	(283.6)	(9,671)	(221.0)	
Taxation	1,327	(267.0)	1,337	(267.3)	
Net profit	(8,002)	(280.1)	(8,558)	(222.0)	
EPS	(200.7)	(280.1)	(217.5)	(222.0)	
Passenger yield *			63.6	5.3	Due to surcharge
Cargo yield *			2.54	12.4	Due to surcharge

* HK cents

Source: UOB Kay Hian

Results

Full-year net loss came in at HK\$8.56b (-222.0%) vs our expectation of HK\$8.70b. This included HK\$7.88b in fuel mark-to-market derivatives losses, which the company announced in December, and a further HK\$1b of Cathay Pacific's (CX) share in Air China's mark-to-market losses. Adjusting for this and other items, core underlying loss was HK\$539m. Book value dropped to HK\$9.7 (-19.2%), while NTA dropped to HK\$7.73. Gearing rose to 66% from 29%.

Highlights

- No final dividend payout.** This was within expectations. Not surprisingly, the company said it was conserving cash.
- No rights issue.** This comes as a surprise but in a briefing, the company has indicated that remains an option and it is monitoring cash flow requirement closely. CX has also announced plans to dispose of five Boeing B777-200, not renew three operating leases and scale back deliveries if possible.
- US\$1.9b in unrealised hedging losses at US\$75/bbl average hedge.** As at end February, CX had US\$1.9b, or HK\$14.8b, in unrealised hedging losses with Brent at US\$45/bbl. This is based on forward hedges until 2011. Spread over three years, this would be HK\$4.9b, or about 12.5% of CX's 2008 fuel cost, excluding the latest hedging losses.
- Yields reclassified to include surcharges.** CX now recognises surcharges directly into revenue and with that, passenger yield rose to 63.6 HK cents (+5.3%) while cargo yield rose to 2.54 HK cents (+12.4%). Given that surcharge increased by HK\$10.9b (+110% yoy) in 2008, we estimate passenger yield ex surcharges would have declined by 9.2% to 50.8 HK cents in 2H08. Still, the 9% decline in yield is not as severe given the bleak macro environment in 2H08.

HONG KONG

Cathay Pacific (293 HK)

UPGRADE TO HOLD

Current Price: HK\$7.41

Fair Price: HK\$7.25

Sector Aviation
Bloomberg 293 HK
Website www.cathaypacific.com

52-Wk Avg Daily Vol. ('000) 38303
Market Cap (HK\$m) 30990
(US\$m) 4221.7

Book NTA per Share (HK\$) 7.7
ROE (%) na
Net Debt per Share (HK\$) 6.4

Results Due
Interim March
Final September

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net profit (HK\$m)	EPS (¢)	EPS growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield %
2007	75,358	12,570	7,023	115.7	(0.2)	6.4	3.5	84.0	11.3
2008	86,578	(2,718)	(8,558)	(217.7)	(288.1)	(3.4)	(20.0)	3.0	0.4
2009F	65,679	6,572	(501)	(12.7)	(94.2)	(58.2)	8.9	0.0	0.0
2010F	69,595	9,820	1,322	33.5	(363.6)	22.1	6.5	0.0	0.0
2011F	71,333	11,600	3,269	82.8	146.9	8.9	5.2	55.0	7.4

Consensus Net Profit – FY09 : HK\$149.3m
– FY10: HK\$2045.1m

Stock Impact/Earnings Risk

The stock price reacted favourably to the results, presumably relieved that there was no rights issue. We, however, maintain that despite the dilution aspect, a rights issue would be positive and lower the operational risk. CX has not ruled this out, but is potentially biding time to take advantage of improving cash flow from lower fuel costs. It could also explore a sale and leaseback option and, as the company stated, defer delivery or sell B777-200s. CX has indicated that cargo revenue remains weak and that front-end passenger revenue has collapsed. It has also indicated that arch rival Singapore Airlines (SIA) is benefitting from a staff subsidy of 15%. This is in reference to the Jobs Credit Scheme that would result in about \$300 savings.

Recommendation

We are encouraged that the company is weighing the option of a rights issue. The 9% decline in passenger yield in 2H08 was not severe considering the macro environment and steep falls in global currencies against the US dollar-pegged Hong Kong dollar. Even so, we have also assumed that passenger yield would deteriorate further to 49.0 HK cents, leading to a minor loss in 2009, but remain operating cash flow-accretive. With most of the negatives out of the way, we await improvements in traffic numbers. The recent capacity cuts by Asian airlines should lead to capacity declines matching traffic declines by early-2Q09. We upgrade the stock to a HOLD with a fair price of HK\$7.25, approximating a 10% discount to forward 2009's NTA.

Operating Assumptions

	2008	2009F	2010F	2011F
Passenger Traffic growth (%)	11.2	-2.0	1.5	1.5
Cargo Traffic growth (%)	-0.7	-9.5	1.0	2.5
Pax Load Factor (%)	77.6	76.1	74.6	77.3
Pax Carried	24959	24659	25523	26161
Pax Yield (HK cents)*	53.4	49.0	51.0	51.0
Cargo Yield (HK cents)*	1.61	1.55	1.57	1.57

* Estimate. Before surcharges
Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	75,358	86,578	65,679	69,595	71,333
EBIT	8,796	(8,659)	1,080	4,474	7,223
Pre-tax Profit	8,009	(9,671)	(621)	1,770	3,974
Net Profit	7,023	(8,558)	(501)	1,322	3,269
EPS (HK¢)	178.3	(217.7)	(12.7)	33.5	82.8

Balance Sheet

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Current assets	33,907	28,058	27,015	32,781	30,443
Total assets	117,650	114,739	117,288	124,778	123,506
Current liabilities	27,394	35,011	30,887	25,284	26,639
Long Term Liabilities	39,529	41,283	45,870	55,681	48,934
Shareholders' Funds	50,549	38,325	40,353	43,636	47,755
Total equity & Liabilities	117,650	114,740	117,288	124,778	123,505

Cash Flow

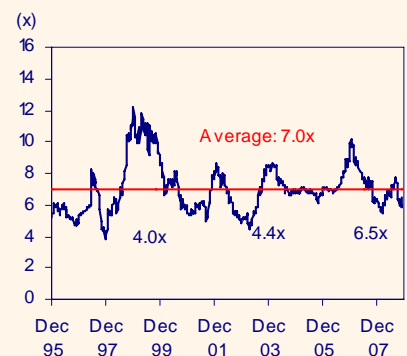
Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	13,168	1,746	7,566	7,198	6,663
Investing	(14,313)	(8,891)	(7,938)	(2,672)	(1,426)
Financing	2,009	1,137	4,514	(582)	(6,884)
Net Cash In/(out flow)	864	(6,007)	4,142	3,944	(1,647)
Effect of FX Changes	142	(50)	100	100	100
Begin Cash & Cash Equiv.	4,267	5,767	6,773	(4,866)	(1,726)
End'g Cash & Cash Equiv.	5,767	6,773	(4,866)	(1,726)	2,833

Price to NTA



Source: UOB Kay Hian

EV/EBITDAR



Source: UOB Kay Hian

Sun Hung Kai Properties

1HFY09: Disappointing 1H, but will be made up by strong 2H

The lower-than-expected 1H results will be more than compensated by the strong response to The Cullinan, which will be booked in 2H. However, SHKP's eagerness to sell this unique project suggests management is cautious about the residential outlook.

1HFY09 Results

Year to 30 Jun	1HFY08 (HK\$m)	1HFY09 (HK\$m)	yoy % chg	Remarks
Property dev	2,348	1,862	(21)	Mainly from Peak One
Rental income	2,355	2,923	24	Boosted by new properties
Hotel operation	165	119	(28)	Fewer US and European travellers
Other income	796	380	(52)	Affected by investment losses
Interest expenses	(358)	(256)	(28)	Lower interest rates
Operating profit	5,306	5,028	(5)	
Disposal gains	563	(40)	(107)	
Associates	1,429	451	(68)	Boosted by development profit last year
Profit before tax	7,298	5,439	(25)	
Tax	(934)	(764)	(18)	15.2% effective tax rate
Minorities	(164)	(140)	(15)	
Net profit	6,200	4,535	(27)	

Source: SHKP, UOB Kay Hian

Results

Results below expectations. Sun Hung Kai Properties' (SHKP) interim underlying net profit of HK\$4,535m, representing a 27% yoy fall, is below our expected HK\$4.7b and well below some street estimates of around HK\$5.5b. Despite the decline, interim DPS was maintained at HK\$0.80, a redeeming feature. We believe this generous payout was only made possible by the strong sales of The Cullinan earlier this month.

Reasons for the decline. The profit decline was because, apart from rental income, all divisions reported lower earnings. The major setbacks are property development, losses on investments, and lower disposal gains.

Revaluation deficit too low. Net revaluation deficit of HK\$3,843m was overly restrained, in our opinion, as it implied the value of SHKP's rental portfolio only fell by about 3% between Jun 08 and Dec 08, which was clearly understating. However, a higher and more realistic revaluation deficit would turn the headline net profit, which was already low at HK\$692m, into a loss.

Development profit came mainly from one project. Only HK\$1,782m development profit was generated in the period, 52% lower yoy as only one project in Hong Kong, the 0.6m sf Peak One P1, was completed. The decline in development margin from last year's 59% to 31% partly reflected the turn in the sector. We believe The Woodland P3 in Zhongshan, the only project completed in China, contributed a small loss.

Rental income boosted by new properties. Net rental income (including associates) was 24% higher at HK\$3.5b (53% retail and 30% office), boosted by additional income from the recently completed ICC P1, HarbourView Place and Millennium City P6. Excluding the fresh rental income, growth from the existing rental portfolio through rental reversion was in the mid-teens. Overall occupancy was maintained at 94% in the six months.

HONG KONG

Sun Hung Kai Properties (16 HK)

SELL

Current Price: HK\$59.20

Fair Price: HK\$50.32

Sector	Property
52-Wk Avg Daily Vol. ('m)	9.6
Market Cap (HK\$m)	151,848
(US\$m)	19,468
Major Shareholders (%)	
Kwok Family	42.02
Book NTA per Share (HK\$)	83.46
ROE (%)	6.0
Net Debt per Share (HK\$)	15.60

Results Due

1H: Mar

Final: Sept

Price Chart



Source: Bloomberg

Analyst

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Year to 30 Jun	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield (%)
2007	30,994	10,140	11,495	4.613	6.3	12.8	18.6	2.300	3.9
2008	24,471	10,640	12,186	4.800	4.1	12.3	17.7	2.500	4.2
2009F	n.a.	11,140	12,209	4.761	(0.8)	12.4	16.9	2.500	4.2
2010F	n.a.	11,640	11,411	4.450	(6.5)	13.3	16.2	2.500	4.2
2011F	n.a.	12,140	10,142	3.955	(11.1)	15.0	15.5	2.200	3.7

Consensus Net Profit – FY09: HK\$11,010m
– FY10: HK\$11,130m

Comfortable gearing. SHKP did not replenish any landbank in 1H, which makes sense as it is the wrong time to buy land when the downcycle has just started. Net debt has increased from HK\$33.5b to HK\$40.0b, and gearing from 15.3% to 18.6%, in the six months. Given there will be more cash inflow from The Cullinan this year, SHKP's funding position will stay comfortable.

Stock Impact

Negatives will be overshadowed. Even though the results were behind expectations, we believe any negative impact will be more than compensated by the strong sales of The Cullinan, which will ensure a satisfactory profit for the full year.

Earnings Revision

Earnings upgrade. Given the good response to The Cullinan, we expect SHKP to continue to sell enough units to avert a profit decline this year. Hence, we have raised our full-year FY09 underlying net profit from HK\$11b to HK\$12.2b. Being the Group's last lucrative project, it will be difficult to fill the profit gap left by The Cullinan (825 units with a total GFA of 1m sf, all-in development cost of HK\$6,000psf but selling at HK\$15,000-17,000psf) except when residential prices start to surge again.

Uncertainties on FY10 and FY11. None of the development profits from FY10 onwards has been secured, hence our forecasts will depend very much on SHKP's sales strategy going forward, in particular, whether the 250 units at The Cullinan that are retained for rental will eventually be sold.

Valuation/Recommendation

Share price will be dragged down by falling residential prices. As we expect residential prices to slide another 25% from here before bottoming, SHKP is still a SELL. SHKP's share price will not resume a steady uptrend till there are signs of property prices picking up, which we cannot see in the next six months. As 95% of the Group's assets are in Hong Kong and China properties, SHKP's NAV is particularly vulnerable in a property downturn. Although success in the sale of The Cullinan has alleviated earnings and funding concerns, we cannot help thinking management must be fairly cautious about the residential outlook given their willingness (target to sell 200 units up to Jun 09, but 300 have already been sold) to offload a unique and irreplaceable project in a weak market.

Maintain rating and target. Our fair price of HK\$50.32 is based on the trough discount of 38% to our end-09 NAV of HK\$81.60. Admittedly, ours is a bearish target. But with the macroeconomic conditions fast deteriorating, we expect developers to overshoot their fundamental fair level before rebounding.

Profit & Loss

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	30,994	24,471	n.a.	n.a.	n.a.
EBIT	11,609	11,163	14,111	13,264	12,162
Pre-tax Profit	13,626	13,994	14,530	13,600	12,142
Net Profit	11,495	12,186	12,209	11,411	10,142

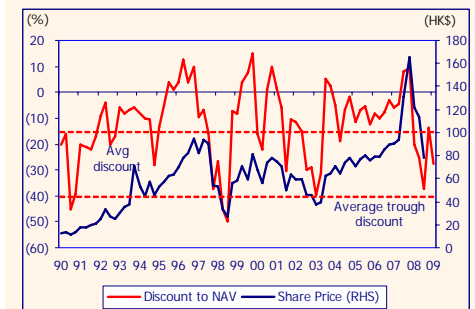
Balance Sheet

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	69,526	84,482	86,409	82,952	84,611
Total Assets	257,294	301,515	267,485	244,485	229,485
Current Liabilities	(18,859)	(19,594)	(19,267)	(19,460)	(20,628)
Long-Term Liabilities	(32,559)	(38,252)	(45,857)	(44,023)	(44,903)
Shareholder Funds	185,476	219,250	207,265	187,971	183,041
Total Equity & Liabilities	(257,294)	(301,515)	(267,485)	(244,485)	(229,485)

Cash Flow

Year to 30 Jun (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	3,256	(115)	7,105	6,395	5,755
Investing	127	(10,377)	(2,527)	(2,780)	(1,879)
Financing	(3,814)	9,901	(5,957)	(2,980)	(2,576)
Net Cash In/(Out) Flow	(431)	(591)	(1,379)	634	1,300
Begin Cash & Cash Equiv.	7,406	6,975	6,384	5,005	5,640
End'g Cash & Cash Equiv.	6,975	6,384	5,005	5,640	6,940

Historical Discount To NAV



Source: UOB Kay Hian

Li Heng Chemical Fibre Technologies

Demand continues to soften on weak exports

Li Heng's gross margin revisits single-digits given higher raw material prices and lower selling prices. Demand continues to be weak on dampened export markets. But we expect 2H09 to be better on favourable export policy.

Corporate Events

Selling prices drop further on weak exports. Along with the continued weakness in export markets, demand for nylon fibres from downstream textile and garment producers and exporters remains weak. Selling prices of major nylon products, therefore, dropped after a temporary rebound during late-January to early-February. Li Heng's average selling price (ASP) declined to around Rmb16,000/tonne in late-February, -10% mom.

Gross margin revisits single-digits due to higher raw material costs. During late-January to early-February when demand picked up and orders flowed in, many fibre makers increased output and procurement volume, which boosted the prices of raw materials. Li Heng's gross margin recovered to nearly 20% during that period but was dragged down again to merely single-digits as selling prices declined but prices of nylon chips rose. Li Heng's order flow, on the other hand, remains quite healthy, which enables the company to operate at near full capacity. The strong output would, to a great extent, help stabilise margins.

Another Rmb30m forex loss to be posted in 1Q09. In 4Q08, Li Heng recorded a net forex loss of Rmb48m arising from the depreciation of its S\$-denominated initial public offering proceeds against the Rmb. The company still has S\$80m deposits carried on its balance sheet based on an exchange rate of Rmb4.73/S\$. The current exchange rate is around Rmb4.4/S\$, hence we expect Li Heng to record another Rmb30m forex loss in 1Q09. The company plans to use the S\$80m to pay for its current and future dividends and thus does not intend to convert the money to Rmb. However, it is considering converting it to a third currency (such as the US\$) which has a more stable exchange rate in the short term.

Stock Impact

No sign of recovery in 1H09. We believe the current situation of rising raw material prices but falling nylon yarn prices could be temporary. The sluggish demand from end-customers would inevitably drag down raw material prices again. In the long run, these two prices would move in the same direction, and we believe the temporary mismatch would remain in 1H09 when garment producers and exporters place orders during periodical price bottoms, leading the fibre makers to build up stocks. For Li Heng, we expect its gross margin to stay in the range of single-digits to 15%, which, coupled with its fixed costs and large forex loss, would make the company to merely break even or make very thin profits for 1H09.

SINGAPORE

Li Heng Chemical Fibre (LHCF SP)

BUY

Current Price: S\$0.11

Target Price: S\$0.20

Sector	Chemical
52-Wk Avg Daily Vol. ('000)	12,552
Market Cap (S\$m)	187.0
(US\$m)	133.6

Major Shareholders (%)	
Upperwin	42.2
Proud City	10.3
CIM XI	10.0

Book NTA per Share (Rmb)	2.02
ROE (%)	32.9
Net Cash per Share (Rmb)	0.61

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

Price Chart



Source: Bloomberg

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (¢)	Yield (%)
2006	2,758.1	973.5	905.1	66.5	89.4	0.8	0.6	0.0	0.0
2007	3,700.9	1,047.6	814.5	49.8	(25.1)	1.1	0.5	19.0	35.4
2008F	2,812.2	456.2	259.8	15.3	(69.3)	3.5	1.3	3.1	5.7
2009F	3,331.9	605.4	373.6	22.0	43.8	2.4	0.9	4.4	8.2
2010F	4,463.8	843.7	493.5	29.0	32.1	1.8	0.7	5.8	10.8

Consensus Net Profit – FY08: Rmb599.7m
 -- FY09: Rmb919.7m

2H09 could be better. China is expected to further raise the export tax rebate to 17% to help the ailing export sectors. This will totally offset the 17% VAT for export goods and therefore lead to zero tax for exporters. Although such a measure is not likely to have substantial impact on exports given the weak external demand, it could help export-oriented sectors such as textiles and garments through increased export sales and hence improved cash flow. Li Heng could possibly see a better 2H09. In addition, we expect a lower forex loss in 2H09 as a result of the company's better management of its currency exposure, and this will help reduce the pressure on its bottom line.

Earnings Revision

We cut our net profit forecasts for 2009, 2010 and 2011 by 61.4%, 43.2% and 47.7% respectively to factor in lower selling prices and profitability.

Valuation/Recommendation

Maintain BUY with target price of S\$0.20 based on 0.5x P/B.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	2,758.1	3,700.9	2,812.2	3,331.9	4,463.8
EBIT	926.6	961.8	314.7	448.4	670.0
Pre-tax Profit	905.1	945.2	303.9	437.0	658.0
Net Profit	905.1	814.5	259.8	373.6	493.5

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	1,123.7	1,775.0	2,067.4	2,314.0	2,757.2
Total Assets	2,055.8	3,861.0	4,018.8	4,408.5	4,878.0
Current Liabilities	532.6	427.0	402.0	470.0	520.7
Long-Term Liabilities	0.0	0.0	0.0	0.0	0.0
Shareholder Funds	1,523.2	3,434.0	3,616.9	3,938.5	4,357.3
Total Equity & Liabilities	2,055.8	3,861.0	4,018.8	4,408.5	4,878.0

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	851.5	847.8	523.7	228.6	752.3
Investing	(390.7)	(1,198.1)	30.1	(301.6)	(189.3)
Financing	147.7	1,014.8	(78.0)	(32.0)	(74.7)
Net Cash In/(Out) Flow	608.6	664.5	475.8	(105.0)	487.2
Begin Cash & Cash Equiv.	80.5	689.1	1,302.5	1,778.4	1,673.4
End'g Cash & Cash Equiv.	689.1	1,302.5	1,778.4	1,673.4	2,160.7

Banking

Balance of risks turning more negative

Our recent visits to major economic agencies and companies in the real sector suggest that the magnitude of the economic contraction could be more severe than earlier expected. Therefore, we downgrade the sector to UNDERWEIGHT.

Sector Events

Several economic indicators are suggesting that the severity of the current economic downturn could be much worse than anticipated. In January, exports collapsed 26.5%, Manufacturing Production Index (MPI) plunged 21.3%, industrial capacity utilisation dipped to multi-year low at 57%. Commercial bank credit fell 1.5% mom or 18% on an annualised basis. Our recent visit to the Fiscal Policy Office of the Ministry of Finance (MOF) has convinced us that the newly revised GDP growth forecast by the MOF to be released by the end of this month is likely to be worse than -1% to zero percent estimated by the National Economic and Social Development Board (UOB Economic Treasury Research has recently cut Thailand's GDP growth forecast from +0.5% to -1.6%).

All the above observations are negative for the outlook of the banking sector. With balance of risks having turned more negative, we see more downside risks to the sector's earnings due to slower loan growth and higher credit costs.

Sector Impact

More downside risks on 3-5% loan growth target by banks. Based on a rather optimistic GDP growth forecast ranging from zero percent to +2.0%, most banks have targeted their loan growth to be 3-5% in 2009. However, we see more downside risks to these loan growth guidelines. We continue to forecast loan growth to contract to around 2% in 2009. Our observations are:

- Loan growth momentum has already fallen sharply in January, contracting 1.5% mom (vs 1.7% growth in Dec 08).
- Excess capacity is rapidly building up in the economy now that the industrial capacity utilisation rate has fallen to only 57%, a record low in almost seven years. This will encourage both domestic and multinational corporations to scale back on their investment.
- The expected 12-15% plunge in exports will cripple loan demand for trade finance while the demand for working capital loan will collapse on the back of falling commodity prices.

Credit risk is creeping up. To reflect the increasingly bearish view on the economy, we decide to raise our provisioning assumption further to 110bp (vs 100bp previously and 79bp in 2008). This has resulted in a 36% yoy jump in the sector's provisions.

Credit Cost Revisions

%	2008	2009- Old	2009-New	bp. Chg.
BBL	0.56	0.70	0.70	-
KTB	1.02	1.20	1.35	0.15
KBANK	0.87	1.15	1.20	0.05
SCB	0.54	0.90	1.00	0.10
BAY	1.09	1.35	1.50	0.15
SCIB	0.34	0.75	0.75	-
TMB	1.20	1.20	1.20	-
SUM	0.79	1.00	1.10	0.10

Source: UOB Kay Hian

Earnings Revision

While we have largely maintained our based-line assumptions: loan growth at -1.5%, flat fee income and 10bp declining NIM, we have raised our credit cost assumption to 110bp (+10bp) for fear of worse-than-expected asset quality. This has resulted in a deeper earnings contraction of 20% in 2009 (vs -15% previously forecast).

THAILAND

Banking

DOWNGRADE TO UNDERWEIGHT

Bangkok Bank (BBL TB)

DOWNGRADE TO HOLD

Current Price: Bt72.50

Fair Price: Bt78.00

Krung Thai Bank (KTB TB)

DOWNGRADE TO SELL

Current Price: Bt4.12

Fair Price: Bt3.90

(Previous: Bt3.42)

Siam Commercial Bank (SCB TB)

DOWNGRADE TO SELL

Current Price: Bt53.50

Fair Price: Bt50.25

(Previous: Bt54.25)

Kasikorn Bank (KBANK TB)

DOWNGRADE TO SELL

Current Price: Bt41.00

Fair Price: Bt39.00

(Previous: Bt44.50)

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Earnings Revision

(Btm)	Old Forecast		New Forecast		Old/New % chg	
	2009F	2010F	2009F	2010F	2009F	2010F
BBL	18,632	20,683	19,088	21,584	2.4	4.4
KTB	6,964	8,431	6,918	9,563	(0.7)	(13.4)
KBANK	11,975	14,639	10,279	13,519	(14.2)	(7.7)
SCB	18,735	21,892	17,505	21,460	(6.6)	(2.0)
BAY	5,717	7,065	5,327	7,303	(6.8)	3.4
SCIB	2,648	3,509	2,648	3,509	0.0	0.0
TMB	2,135	3,122	1,460	2,951	(31.6)	(5.5)
SUM	66,806	79,341	63,224	79,889	(5.4)	(0.7)
% yoy	(15)	19	(20)	26		

Source: UOB Kay Hian

Recommendation

Bangkok Bank (BBL) - Downgrade to HOLD on slimmer upside. BBL remains our top pick in the current downturn due to its strong balance sheet, defensive quality (110% coverage ratio and sizeable excess reserves at roughly Bt26b). However, having rebounded 11% from this year's low, the equity now offers a smaller upside at less than 8% to our Bt78 fair price (pegged at 0.8x P/BV). We therefore downgrade the stock to HOLD with entry level below Bt65.

Krung Thai Bank (KTB) - Downgrade to SELL on provisioning overhang. Despite the depressed valuation, the bank's poor balance sheet quality (only 44% coverage ratio) is the largest concern during these tough times. Its bottom line will likely be under significant pressure from a sharp increase in credit cost. Downgrade to SELL with Bt3.90 fair price (reflecting 0.4x P/BV). Our entry price is below Bt3.50.

Kasikorn Bank (KBANK) - Downgrade to SELL on higher provisioning risk. KBANK is a fundamentally strong bank. Its emphasis on SME lending will provide a strong boost to its profitability in the long term. However, this could be a threat to its asset quality in the near term since SME is generally more vulnerable to the economic downturn. Apart from higher provisioning risk, the bottom line in the current year could also be held back by a strong rise in committed SG&A expenses related to its strategic investment programme (K-Transformation). Downgrade the stock to SELL with Bt39 fair price (pegged at 0.8x P/BV). Entry price is below Bt35.

Siam Commercial Bank (SCB) - Downgrade to SELL on high valuation risk. Structurally, overall, SCB is still the best all-rounded bank in our view (strong profitability track record, outstanding universal banking operation and progressive management). However, its current valuation of 1.3x PB is still a hefty 60% premium to the sector, making it more vulnerable to the deteriorating market sentiment caused by worsening economic situations both globally and domestically. Downgrade to SELL and recommend entry level at below Bt45.

Peer Comparison

Bank	Rec	Price	Target Price	%+/-	-----Net Profit (Btm)-----			-----PE (x)-----			-----P/B (x)-----			-----ROE (%)-----		
					2008	2009F	2010F	2008	2009F	2010F	2008	2009F	2010F	2008	2009F	2010F
BBL	HOLD	72.50	78.00	7.6	20,243	19,088	21,584	6.8	7.2	6.4	0.8	0.7	0.7	11.9	10.5	11.0
KTB	SELL	4.12	3.90	(5.3)	12,053	6,918	9,563	3.8	6.7	4.8	0.5	0.5	0.4	12.4	6.8	9.1
KBANK	SELL	41.00	39.00	(4.9)	15,333	10,279	13,519	6.4	9.5	7.2	0.9	0.8	0.8	14.4	8.8	10.9
SCB	SELL	53.50	50.25	(6.1)	21,414	17,505	21,460	8.4	10.3	8.4	1.4	1.3	1.2	17.9	13.3	15.0
BAY	BUY	8.55	10.10	18.1	4,896	5,327	7,303	10.6	9.8	7.1	0.6	0.6	0.6	6.0	6.1	8.0
SCIB	BUY	7.20	8.05	11.8	3,821	2,648	3,509	4.0	5.7	4.3	0.4	0.4	0.3	10.0	6.4	8.2
TMB	SELL	0.44	0.45	2.3	424	1,460	2,951	45.2	13.1	6.5	0.4	0.4	0.4	1.0	3.2	6.2
SUM								7.0	8.7	6.9	0.8	0.8	0.7	10.5	7.9	9.8

Source: UOB Kay Hian

Bank of Ayudhya (BAY TB)

BUY

Current Price: Bt8.55
Target Price: Bt10.10
(Previous: Bt11.30)

Siam City Bank (SCIB TB)

BUY

Current Price: Bt7.20
Target Price: Bt8.05

TMB Bank (TMB TB)

SELL

Current Price: Bt0.44
Fair Price: Bt0.45

Recommended Entry Level

	Target/Fair Price (Bt)	Entry Price (Bt)
BBL	78.00	65.00
KTB	3.90	3.50
KBANK	39.00	35.00
SCB	50.25	45.00

Source: UOB Kay Hian

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