# UOBKayHian

## Regional Morning Notes

**Friday, March 13, 2009**

## KEY STORY

**China**

**Banking** — Page 10

Increasing policy risk as bondholders could share bailout pain. Maintain MARKET WEIGHT.

**Singapore**

**Suntec REIT (BUY/S$0.495/Target: S$0.630)** — Page 22

Share price has factored in potential risk factors after correcting 25% since our last report.

**Thailand**

**BEC World (SELL/Bt19.00/Fair: Bt14.70)** — Page 24

No catalyst to drive share price in the near term. With rich valuations, BEC is vulnerable to a sell-down as economic outlook worsens.

## REGIONAL

### Sector

**Plantation 1** — Page 2

Most speakers are not bullish on price given the uncertain demand. A wider range of CPO price forecasts from RM1,400/tonne to RM2,310/tonne.

**Plantation 2** — Page 4

Sharp drop in inventory to 1.56m tonnes on strong domestic demand and lower production. Inventory level lower than expected.

## CHINA

### Economics

**Jan-Feb 09 Industrial Production** — Page 6

Slower industrial production reflects weak exports.

**Feb 09 Money Supply** — Page 8

Strong credit growth but bulk of new loans have yet to take effect on economy.

**Jan-Feb 09 Retail Sales** — Page 9

Retail sales moderate on slower income growth but property-related sales rebound.

### Sector

**Banking** — Page 10

Increasing policy risk as bondholders could share bailout pain. Maintain MARKET WEIGHT.

**Power Equipment** — Page 12

2008 results preview: The delayed product delivery by end-08 is just the start of falling thermal equipment sales. Maintain UNDERWEIGHT.

### Update

**China BlueChem (BUY/HK$3.63/Target: HK$4.30)** — Page 14

Net profit is expected to grow 8% yoy in 2008. 2009 earnings will be driven by higher urea prices but ethanol price remains an overhang.

### Results

**SOHO China (BUY/HK$2.73/Target: HK$4.05)** — Page 16

2008: Results below expectation due to higher LAT provision, but strong landbank growth on the back of rich cash is catalyst in 2009.

## HONG KONG

### Results

**Swire Pacific (HOLD/HK$45.75/Fair: HK$44.24)** — Page 18

2008: Profit above all expectations due to a disposal gain but the highlight is the generous dividend which suggests confidence in earnings outlook.

## INDONESIA

### Sector

**Banking** — Page 20

Maintain MARKET WEIGHT but our top pick is only Bank Rakyat Indonesia.

## SINGAPORE

### Update

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Share price has factored in potential risk factors after correcting 25% since our last report.

## THAILAND

### Update

**BEC World (SELL/Bt19.00/Fair: Bt14.70)** — Page 24

No catalyst to drive share price in the near term. With rich valuations, BEC is vulnerable to a sell-down as economic outlook worsens.

## Key Indices

| Key Indices | Prev Close | 1D % | 1W % | 1M % | YTD % |
|---|---|---|---|---|---|
| DJIA | 7170.1 | 3.5 | 8.7 | (9.6) | (18.3) |
| S&P 500 | 750.7 | 4.1 | 10.0 | (10.1) | (16.9) |
| FTSE 100 | 3712.1 | 0.5 | 5.2 | (11.7) | (16.3) |
| AS30 | 3190.4 | (0.3) | 1.3 | (8.8) | (12.8) |
| CSI 300 | 2215.7 | (0.2) | (3.9) | (7.6) | 21.9 |
| FSSTI | 1493.5 | (0.8) | (1.7) | (12.4) | (15.2) |
| HSI | 12001.5 | 0.6 | (1.7) | (11.5) | (16.6) |
| JCI | 1310.4 | (0.3) | 1.6 | (2.1) | (3.3) |
| KLCI | 838.4 | (1.4) | (3.3) | (7.9) | (4.4) |
| KOSPI | 1128.4 | 0.1 | 6.6 | (5.4) | 0.3 |
| Nikkei 225 | 7198.3 | (2.4) | (3.2) | (7.5) | (18.8) |
| SET | 415.0 | 0.2 | (0.5) | (6.9) | (7.8) |
| TWSE | 4754.7 | (0.1) | 2.5 | 3.5 | 3.6 |
| BDI | 2201 | (3.1) | 1.6 | 10.7 | 184.4 |
| CPO (RM/mt) | 2052 | 2.6 | 5.2 | 6.0 | 25.9 |
| Nymex Crude (US$/bbl) | 47 | 11.1 | 7.8 | 38.4 | 5.4 |

*Source: Bloomberg*

## Top BUYs/SELLs

| | Ticker | Current Price (lcy) | Target Price (lcy) | Pot. +/- (%) |
|---|---|---|---|---|
| **Top BUYs** | | | | |
| China Life | 2628 HK | 22.60 | 30.50 | 35.0 |
| China Mobile | 941 HK | 65.85 | 90.00 | 36.7 |
| China Petroleum | 386 HK | 3.87 | 6.93 | 79.1 |
| China Railway | 390 HK | 4.31 | 5.90 | 36.9 |
| China Shenhua | 1088 HK | 14.70 | 23.00 | 56.5 |
| Zijin Mining | 2899 hk | 4.48 | 5.90 | 31.7 |
| Bumi Resources | BUMI IJ | 790 | 1,010 | 27.8 |
| DBS Group | DBS SP | 6.90 | 10.55 | 52.9 |
| Indofood Agri | IFAR SP | 0.58 | 0.80 | 37.9 |
| SingTel | ST SP | 2.44 | 2.95 | 20.9 |
| Advanced Info | ADVANC TB | 81.00 | 101.73 | 25.6 |
| Quality Houses | QH TB | 0.74 | 1.28 | 73.0 |
| **Top SELLs** | | | | |
| Aluminum Corp | 2600 HK | 3.90 | 3.00 | (23.1) |
| Parkson Retail | 3368 HK | 6.61 | 5.15 | (22.1) |
| Wharf Hldg | 4 HK | 16.00 | 14.60 | (8.8) |
| S'pore Exchange | SGX SP | 4.28 | 3.00 | (29.9) |
| Amata Corp | AMATA TB | 3.10 | 2.52 | (18.7) |

## 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 * | (USc/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 |

# Plantation 1

## Price to weaken on mismatch of demand and supply in 2H

*Speakers are not bullish on price given the uncertain demand and potential higher soybean planting acreage as the US dollar continues to strengthen. A wider range of CPO price forecast from RM1,400/tonne to RM2,310/tonne.*

**REGIONAL**

**Plantation**

**OVERWEIGHT**

**Analyst**

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### Inventory Down On Higher Domestic Intake

| Speaker | Organisation | Price Forecast (RM/tonne) | Key Factors |
|---|---|---|---|
| Harald Sauthoff | Cognis Deutschland | 1,400-2,200 | Demand sluggish |
| Richard Kastilani | Tropical Oil Products | 1,550-2,000 | Palm oil production in 2H |
| Anne Frick | Prudential Bache Commodities | 1,700-2,300 | Soybean production and domestic usage |
| James Fry | LMC International | 1,400-1,500 | Indian demand |
| Thomas Milke | Oil World | 2,310 | Demand destruction and lower crude oil price |
| Dorab Mistry | Godrej International | 1,500-2,100 | Indian demand |
| **Average** | | **1.400-2,310** | **Range too wide** |

*Source: Respective speakers*

### Key Events

**Key highlights from Palm & Lauric Oils Conference (POC), 11-12 Mar 09.**

### Sector Impact

**Price to peak 1H.** The main conclusion from the POC would be that the current price of RM1,900-RM2,000/tonne could be the peak for crude palm oil in 2009. In 2H, some speakers commented that CPO price could correct to as low as RM1,400-RM1,500/tonne on the back of: a) stronger palm oil production, b) sharper decline in demand as emerging markets start to feel the economic slowdown, and c) US soybean planting acreage could be at a record. The main variance to our view is the potential slower Indian demand for palm oil.

**The most bullish outlook** came from Mr Thomas Mielke of *OIL WORLD Publications* with an average CPO cif Rotterdam of US$640/tonne in Jan/Jun 09. The bullishness is based on lower availability of soybean oil and sharp decline of palm oil inventory. Most bearish paper was James Fry who came out the most accurate forecast for 2008. James Fry remained bearish and he is looking at CPO price to range from RM1,400/tonne to RM1,500/tonne for 2009 due to world recession and that energy price will fall further.

**Key variance on view is on Malaysian palm oil production for 2009.** The key divergence in view between the bull and bear speakers is the production from Malaysia. Ms Anne, Mr Thomas and Mr Dorab are of the view that Malaysian production would be flat or at most a very marginal increase but the other school of thought believes that Malaysian production will increase by 2-3%. Based on our assumption, we are looking at flat production given: a) tree stress, b) lack of fertiliser and c) growth from Sabah to plateau as the oil palm trees are at prime age, which is at high but flat production growth.

**Crude oil still play a role in CPO price.** Although, the recent price behaviour suggested that CPO could have decoupled from crude oil price, most speakers think that crude oil still play a key role. This is due to the energy element in the use of edible oils. Most significant impact would be on soybean oil and rapeseed oil, which will also directly determine the direction of CPO price. The above price forecasts are mainly based on crude oil price of US$40-US$50/bbl.

### Theoretical Vegetable Oil Price Simulation vs NYMEX Crude Oil

| NYMEX Crude Oil (US$/bbl) | Crude Palm Oil (US$/tonne) | CDSBO FOB S. Am (US$/tonne) | CBOT Bean Oil (US¢/bushel) |
|---|---|---|---|
| 30 | 400 | 520 | 26 |
| 40 | 450 | 620 | 30 |
| 50 | 550 | 720 | 35 |
| 60 | 620 | 800 | 39 |

*Source: Tropical Oil Products*

**Most drastic change is Indian demand outlook.** As we highlighted in our email yesterday, the most significant change would be the Indian demand outlook. Mr Dorab Mistry of Godrej International Ltd is concerned about the estimated higher demand (+3.9% yoy) from India being too optimistic given that a) over the last six weeks, the economic scenario in India is deteriorating, especially after the Mumbai attack on 26 Nov 08 and b) political instability after the India General Election in Apr 09.

### Recommendation

**Maintain OVERWEIGHT.** We remain bullish on the plantation sector but are now more selective on stock picks. We still recommend Singapore-listed stocks for exposure to the plantation sector given their good age profile and the incoming mature acreage would support their growth. Top picks: Wilmar (Target: S$3.50), Indofood Agri (Target: S$0.80) and Golden Agri (Target: S$0.33).

### Regional Peer Comparison

| | Bloomberg Ticker | Rec | Year End | Share 12 Mar 09 | Target Price | Market Cap | EPS 2008 | EPS 2009F | EPS 2010F | PE 2008F | PE 2009F | PE 2010F | ROE | P/ NTA | Div Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (RM) | (RM) | (RMm) | (sen) | (sen) | (sen) | (x) | (x) | (x) | (%) | (x) | (%) |
| Sime Darby | SIME MK | SELL | 09/08 | 5.35 | 5.50 | 32,151 | 58.4 | 41.4 | 48.5 | 9.2 | 12.9 | 11.0 | 18.0 | 1.5 | 9.2 |
| IOI Corp | IOI MK | SELL | 06/08 | 3.74 | 2.55 | 23,004 | 36.3 | 22.8 | 29.8 | 10.3 | 16.4 | 12.6 | 27.7 | 2.8 | 4.5 |
| KL Kepong | KLK MK | BUY | 06/08 | 10.00 | 8.80 | 10,675 | 97.5 | 79.2 | 98.5 | 10.3 | 12.6 | 10.1 | 19.9 | 2.0 | 5.0 |
| Asiatic | ASP MK | SELL | 12/08 | 3.98 | 3.70 | 3,012 | 49.3 | 30.8 | 47.8 | 8.1 | 12.9 | 8.3 | 16.9 | 1.3 | 3.5 |
| IJMP | IJMP MK | HOLD | 03/08 | 2.02 | 2.05 | 1,295 | 20.2 | 14.1 | 20.0 | 10.0 | 14.3 | 10.1 | 20.6 | 1.7 | 5.9 |
| **Malaysia-average** | | | | | | | | | | **9.6** | **13.9** | **11.2** | | **1.7** | |
| | | | | (S$) | (S$) | (S$m) | (US¢) | (US¢) | (US¢) | (x) | (x) | (x) | (%) | (x) | (%) |
| Wilmar Int'l | WIL SP | BUY | 12/08 | 3.02 | 3.50 | 19,285 | 21.0 | 17.7 | 20.6 | 9.4 | 11.1 | 9.6 | 17.6 | 2.2 | 0.9 |
| Golden Agri | GGR SP | BUY | 12/08 | 0.27 | 0.33 | 2,644 | 3.6 | 3.0 | 4.4 | 4.8 | 5.8 | 3.9 | 34.9 | 0.4 | 5.8 |
| Indofood | IFAR SP | BUY | 12/08 | 0.580 | 0.80 | 840 | 7.1 | 5.6 | 9.5 | 5.3 | 6.7 | 4.0 | 10.6 | 1.3 | 0.0 |
| First Res | FR SP | HOLD | 12/08 | 0.265 | 0.39 | 389 | 4.7 | 3.4 | 4.9 | 3.7 | 5.1 | 3.5 | 29.6 | 0.8 | 0.0 |
| **Singapore-average** | | | | | | | | | | **8.1** | **9.7** | **7.7** | | **1.2** | |
| | | | | (Rp) | (Rp) | (Rpb) | (Rp) | (Rp) | (Rp) | (x) | (x) | (x) | (%) | (x) | (%) |
| Astra Agro | AALI IJ | BUY | 12/08 | 12,450 | 13,700 | 19,606 | 1,671 | 1,242 | 1,960 | 7.5 | 10.0 | 6.4 | 57.1 | 3.9 | 5.0 |
| London Sumatra | ISIP IJ | BUY | 12/07 | 3,175 | 3,325 | 4,333 | 649 | 429 | 677 | 4.9 | 7.4 | 4.7 | 30.8 | 1.9 | 0.0 |
| Sampoerna Agro | SGRO IJ | BUY | 12/07 | 1,170 | 1,180 | 2,211 | 250 | 193 | 282 | 4.7 | 6.0 | 4.1 | 22.9 | 1.5 | 1.8 |
| Bakrie Sumatera | UNSP IJ | SELL | 12/07 | 305 | 250 | 1,155 | 134 | 62 | 98 | 2.3 | 4.9 | 3.1 | 13.7 | 0.6 | 3.0 |
| **Indonesia-average** | | | | | | | **27,304.7** | | | | **6.1** | **8.7** | **5.6** | | **2.0** |

*Source: Respective companies, Bloomberg*

# Plantation 2

## Inventory fall sharper than expected

*Inventory as at end-February was lower than expected, a strong support to CPO price, and should keep price above RM1,900/tonne. But increasingly we see rising concern on potential slowdown in demand from China and India.*

**Inventory Down on Higher Domestic Intake**

| | | Feb 09 | yoy (%) | mom (%) | Remark |
|---|---|---|---|---|---|
| CPO Production | (tonnes) | 1,186,501 | (3.4) | (10.7) | Wet weather delayed harvest and transport |
| Palm Oil Stocks | (tonnes) | 1,561,151 | (19.0) | (14.7) | Increase in domestic consumption and slight drop in CPO imports |
| Palm Oil Exports | (tonnes) | 1,256,782 | 18.0 | (7.2) | Mom dropped as expected on lower exports to EU, Ukraine and India; exports to China doubled mom |
| CPO Price | (RM/tonne) | 1,895.0 | (45.9) | 3.1 | Price supported by expectation of low inventory |
| FFB Yield | (tonnes/ha) | 1.30 | (8.5) | (15.0) | Wet weather and tree stress |

*Source: Malaysian Palm Oil Board, UOB Kay Hian*

### Sector Events

**Sharp drop in palm oil inventory.** Palm oil inventory totalled 1.56m tonnes (-15% mom, or 268,206 tonnes) in Feb 09. The fall was sharper than expected.

**Day 1 of Palm Oil Conference.** Fewer speakers wanted to commit to price forecasts on the back of demand concern.

### Sector Impact

**Production to pick up but still low.** Crude palm oil (CPO) production would be higher in Mar 09 after the 11% drop in February. But the increase would be less than 10% on a slower pick-up in Sabah.

**Price supported by low inventory level.** CPO price has been staying firmly above RM1,900/tonne for the past two weeks, supported by fresh buying due to concern over February's slowdown in production and declining palm oil stock level. Other factors include with higher export performance during the first 10 days of Mar 09, higher soya bean prices on strong demand for spot supplies to meet export commitments and firmer corn prices lifted by more robust energy markets.

**Grim mood at Palm Oil Conference (POC).** Palm Oil Conference (POC) 2009 attracted fewer participants (1,200 pax vs 1,700 pax in 2008) and the mood of the speakers and participants was much grimmer. Fewer speakers were willing to commit to price forecasts and of the six papers presented, only one gave the price forecast for 2009: RM1,400-2,200/tonne (wider range compared with that in 2008) with an average of RM1,750. This is close to our expectation of RM1,800/tonne.

Key news updates from POC Day 1:

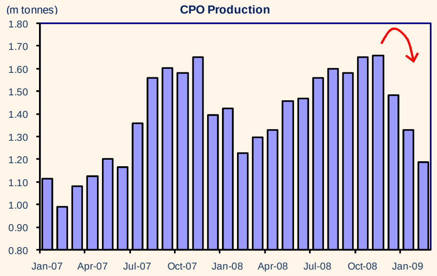
- **Indonesian production in Feb 09 was down** by close to 20% mom and inventory also experienced a sharp declined. No data is available from Indonesia yet.
- **Rising concern on potentially lower demand from India.** Walking around in the conference and exhibition areas, we hear rising concern of potentially lower demand from India due to its good domestic oil crop harvest. This is a key factor to watch and we are gathering more information.

## REGIONAL

## Plantation

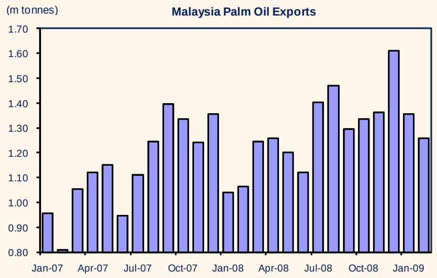
## OVERWEIGHT

**Mar 09 Production Unlikely to Pick Up Strongly**



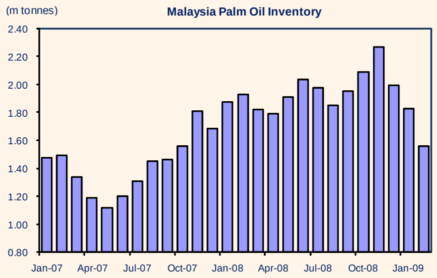

***Source: MPOB***

**Exports Still Higher Yoy**




***Source: MPOB***

**Inventory Back to Oct 07 Level**




***Source: MPOB***

**Analyst**

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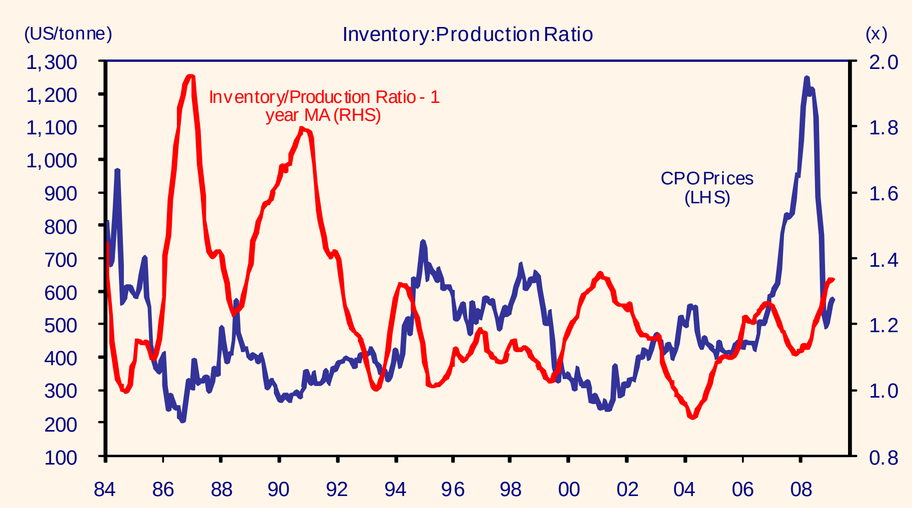
### Recommendation

**Maintain OVERWEIGHT.** For exposure to the plantation sector, we prefer Singapore-listed stocks after the stronger price rallies in Malaysia and Indonesia. Top picks: Indofood Agri and Golden Agri.

### Inventory: Production Ratio Indicating Turnaround In CPO Price




*Source: MPOB, UOB Kay Hian*

### Peer Comparison

| | Bloomberg Ticker | Rec | Year End | Share 11 Mar 09 (RM) | Target Price (RM) | Market Cap (RMm) | EPS 2008F (sen) | EPS 2009F (sen) | EPS 2010F (sen) | PE 2008F (x) | PE 2009F (x) | PE 2010F (x) | ROE (%) | P/NTA (x) | Div Yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sime Darby | SIME MK | SELL | 09/08 | 5.55 | 5.50 | 33,353 | 58.4 | 41.4 | 48.5 | 9.5 | 13.4 | 11.5 | 18.0 | 1.5 | 8.8 |
| IOI Corporation | IOI MK | SELL | 06/08 | 3.76 | 2.55 | 23,127 | 36.3 | 22.8 | 29.8 | 10.4 | 16.5 | 12.6 | 27.7 | 2.8 | 4.5 |
| KL Kepong | KLK MK | BUY | 06/08 | 10.00 | 8.80 | 10,675 | 97.5 | 79.2 | 98.5 | 10.3 | 12.6 | 10.1 | 19.9 | 2.0 | 5.0 |
| Asiatic | ASP MK | SELL | 12/08 | 4.04 | 3.70 | 3,058 | 49.3 | 30.8 | 47.8 | 8.2 | 13.1 | 8.5 | 16.9 | 1.4 | 3.5 |
| IJMP | IJMP MK | HOLD | 03/08 | 2.05 | 2.05 | 1,314 | 20.2 | 14.1 | 20.0 | 10.1 | 14.5 | 10.3 | 20.6 | 1.7 | 5.9 |
| **Malaysia-average** | | | | | | | | | | **9.8** | **14.1** | **11.4** | | **1.7** | |
| | | | | **(S$)** | **(S$)** | **(S$m)** | **(US¢)** | **(US¢)** | **(US¢)** | **(x)** | **(x)** | **(x)** | **(%)** | **(x)** | **(%)** |
| Wilmar Int'l | WIL SP | BUY | 12/08 | 3.03 | 3.50 | 19,349 | 21.0 | 17.7 | 20.6 | 9.4 | 11.1 | 9.5 | 17.6 | 2.2 | 0.9 |
| Golden Agri | GGR SP | BUY | 12/08 | 0.27 | 0.33 | 2,693 | 3.6 | 3.0 | 4.4 | 4.8 | 5.9 | 3.9 | 34.9 | 0.4 | 5.7 |
| Indofood | IFAR SP | BUY | 12/08 | 0.555 | 0.80 | 804 | 7.2 | 5.6 | 9.5 | 5.0 | 6.4 | 3.8 | 10.6 | 1.3 | 0.0 |
| First Resources | FR SP | HOLD | 12/08 | 0.270 | 0.39 | 396 | 4.7 | 3.4 | 5.0 | 3.7 | 5.1 | 3.5 | 29.6 | 0.8 | 0.0 |
| **Singapore-average** | | | | | | | | | | **8.0** | **9.7** | **7.7** | | **1.2** | |
| | | | | **(Rp)** | **(Rp)** | **(Rpb)** | **(Rp)** | **(Rp)** | **(Rp)** | **(x)** | **(x)** | **(x)** | **(%)** | **(x)** | **(%)** |
| Astra Agro | AALI IJ | BUY | 12/08 | 12,600 | 13,700 | 19,842 | 1,671 | 1,242 | 1,960 | 7.5 | 10.1 | 6.4 | 57.1 | 3.9 | 5.0 |
| London Sumatra | ISIP IJ | BUY | 12/07 | 3,200 | 3,325 | 4,367 | 649 | 429 | 677 | 4.9 | 7.5 | 4.7 | 30.8 | 1.9 | 0.0 |
| Sampoerna Agro | SGRO IJ | BUY | 12/07 | 1,120 | 1,180 | 2,117 | 250 | 193 | 282 | 4.5 | 5.8 | 4.0 | 22.9 | 1.4 | 1.9 |
| Bakrie Sumatera | UNSP IJ | SELL | 12/07 | 305 | 250 | 1,155 | 134 | 62 | 98 | 2.3 | 4.9 | 3.1 | 13.7 | 0.6 | 3.0 |
| **Indonesia-average** | | | | | | | | | | **6.1** | **8.7** | **5.6** | | **2.0** | |

*Source: Respective companies, Bloomberg, UOB Kay Hian*

# Jan-Feb 09 Industrial Production

Industrial production slows down and may not recover before 1H09

CHINA

Economics

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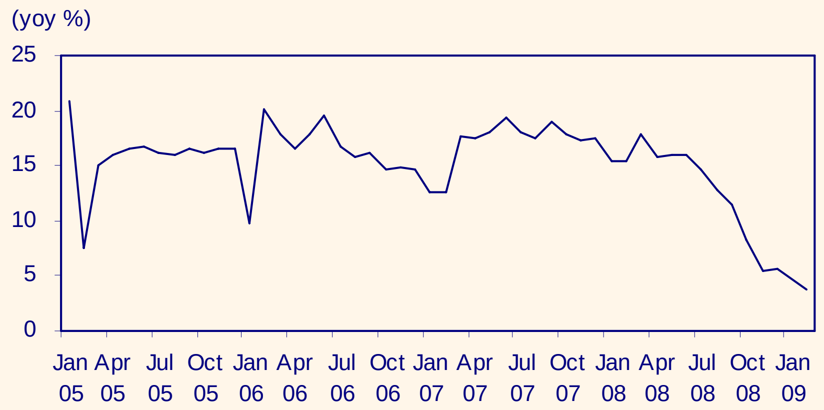
**DATA RELEASED (Value added of industry in Jan-Feb 09)**: +3.8% yoy
**PREVIOUS DATA (Value added of industry in Dec 08)**: +5.7% yoy

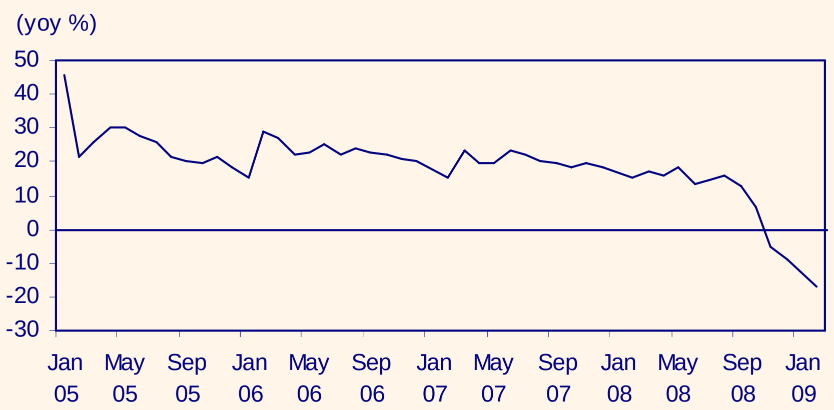
**Industrial production slowed down again on weak exports after a short rebound in Dec 08.** China's value added of industry came in below expectation of 6%, rising 3.8% yoy in Jan-Feb 09. The slowdown is attributable to sluggish exports as delivery value of exports by industrial enterprises plunged 17.1% yoy. (Dec 08: -8.8% yoy) On a comparable basis, value added of industry rose 5.2% yoy (as Feb 08 has 29 days and Feb 09 has 28 days), still lower than the 5.7% in Dec 08. For Feb 09, after adjusting for the number of working days, value added of industry may have grown 7% yoy. Considering the low base in Feb 08 due to the severe snowstorm, the actual growth could be close to that of Dec 08. Therefore even for February, there is no recovery in industrial production.

**Value Added Of Industry**




*Source: CEIC*

**Delivery Value For Exports**




*Source: CEIC*

**Government stimulus package stimulates steel and cement production.** Thanks to an acceleration in government spending, particularly railway investment, production of steel and cements rebounded. However, as the downstream demand for property investment was still weak, the acceleration in production may lead to rising inventory again, which would put downward pressure on prices. Non-ferrous metal output continued to fall on the back of excess capacity and weak downstream demand. Automobile production showed signs of stabilizing, with demand boosted by government measures.

**Output Of Major Industrial Goods**

| (yoy % chg) | Nov 08 | Dec 08 | Jan-Feb 09 |
|---|---|---|---|
| Coal | 5.2 | (1.3) | 3.6 |
| Cement | 2.8 | 3.5 | 17 |
| Crude steel | (12.4) | (10.5) | 2.4 |
| Steel products | (11) | (1.7) | 3.1 |
| Automobiles | (15.9) | (18.9) | (1.7) |
| Power | (9.6) | (7.9) | (3.7) |
| Non-ferrous metals | (4.3) | (2.3) | (9.5) |

*Source: CEIC*

**Industrial production could continue to be weak given the gloomy exports outlook in 1H09.** It is still uncertain whether exports can recover in 2H09. However, with government-sponsored projects rolling over and revival plan for the ten industries to be implemented in 2H09, industrial production could recover by then.

# Feb 09 Money Supply

Robust credit expansion

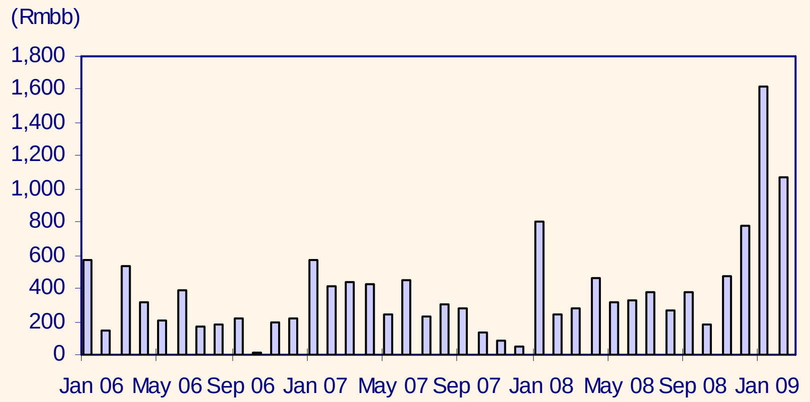
| | |
|---|---|
| **DATA RELEASED (M1 in Feb 09)**: | +10.9% yoy |
| **DATA RELEASED (M2 in Feb 09)**: | +20.5% yoy |
| **DATA RELEASED (Loan in Feb 09)**: | +24.2% yoy |
| **DATA RELEASED (Deposit in Feb 09)**: | +23% yoy |
| **PREVIOUS DATA (M1 in Jan 09)**: | +6.7% yoy |
| **PREVIOUS DATA (M2 in Jan 09)**: | +18.8% yoy |
| **PREVIOUS DATA (Loan in Jan 09)**: | +21.3% yoy |
| **DATA RELEASED (Deposit in Jan 09)**: | +23% yoy |

**M2 accelerated on credit easing, but difference with M1 suggests inactive economy.** M2 growth accelerated in Feb 09 to 20.5% yoy from 18.8% yoy in Jan 09 on the back of another month of astonishing credit expansion. It was driven by a large increase in corporate time deposits, suggesting the increased money supply has yet to be injected into real economy. M1 growth jumped to 10.9% yoy in Feb 09 from 6.7% in Jan 09, indicating firms' cash position improved thanks to extremely robust credit expansion. However, there is still a big difference between M1 and M2 growth, suggesting the economy is still inactive.

**Bank lending has yet to be used on real economy.** Loans growth accelerated to 24.2% as new loans surged to Rmb1.1 trillion in Feb 09, Rmb827.3b more than in Feb 08. New loans to non-financial institutions totalled Rmb1.03 trillion, with short-term loans of Rmb158.2b and medium- to long-term loans of Rmb367.8b. Discounted bills amounted to Rmb487b, accounting for 45.5% of new loans. The strong growth in corporate time deposits shows that increased bank lending has yet to be used on actual investments (such as infrastructure projects). As exports have fallen more than expected, we expect PBOC (People's Bank of China) to continue the credit easing in the near term.

**Big proportion of discounted bills again implies smaller actual loan demand.** The high percentage of discounted bills once again tells us banks are placing risk management at the forefront. Another consideration of banks is to lend as much as possible at the lowest level of risk (discounted bills), which can then be rolled over into actual credit loans later in the year should risks decline. On the corporate side, demand for discounted bills should remain strong in the short term as there will be abundant demand for cheap working capital financing (at rates of SHIBOR + 50/70bp). Corporates also anticipate further interest-rate cuts and are planning to lock in longer-term loans once rates come down.

**New Loans**

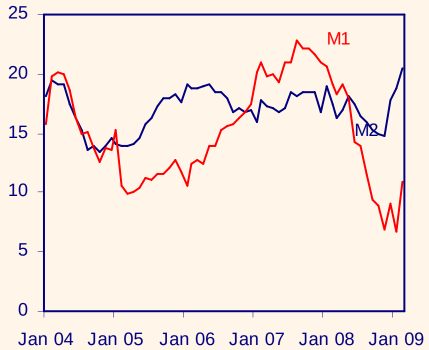



*Source: CEIC*

## CHINA

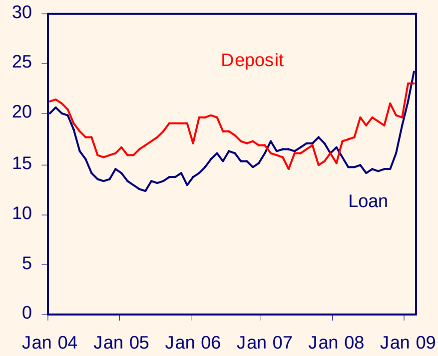
## Economics

**Money Supply**




*Source: CEIC*

**Loans and Deposits**




*Source: CEIC*

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# Jan-Feb 09 Retail Sales

## Property-related sales rebound amid recovering housing sales

**DATA RELEASED (Retail sales in Jan-Feb 09)**: + 15.2%yoy
**PREVIOUS DATA (Retail sales in Dec 08)**: +19% yoy

**Retail sales moderated on slower income growth.** China's retail sales growth moderated to 15.2% yoy (consensus: 17.3%) in Jan-Feb 09 (Dec 08: +19%) on the back of slower income growth and a deteriorating labour market. In real terms, retail sales grew 15.5% in 2M09 vs 17.8% in Dec 08. Retail sales in rural area outperformed (+17%) that in urban area (+14%), suggesting government measures to boost rural consumption such as subsidies to rural households to buy home appliances are taking effect.

**Property-related sales rose on rebound in housing sales.** Sales of property-related items such as furniture and building & decoration materials rose strongly in 2M09 attributable to a rebound in property sales. This shows property sales have a strong impact on consumption and if it can stabilise in the coming months, it could lend further support to consumption. Sales of department store goods such as garments, cosmetics and jewellery showed moderation as the effect of promotion slackens. Meanwhile, the economic slowdown has resulted in less demand for petroleum and related products. Sales of home appliances improved, thanks to government measures to support rural consumption.

**Consumption would soften further, more supportive measures needed.** We expect consumption to slow down further in the coming months as the impact of a deterioration in the labour market fills in. Staple goods could outperform discretionary goods. Property-related sales would improve if property sales stabilise. We believe the government needs to adopt more measures to boost domestic consumption to cushion the worse-than-expected external demand in order to ensure an 8% GDP growth. Measures may include cutting personal income tax, improving social welfare to enhance consumer confidence and encouraging consumer loans.

### Retail Sales of Above Designate Size Enterprises

| (yoy % chg) | Nov 08 | Dec 08 | Jan-Feb 09 |
|---|---|---|---|
| Grain and Oil | 6 | 9 | 16 |
| Garments | 25 | 27 | 17 |
| Meat, Poultry & Egg | 25 | 27 | 12 |
| Cultural & Office Goods | 13 | 1 | 8 |
| Sport & Recreational Goods | 5 | (4) | 14 |
| Daily Use Goods | 11 | 11 | 12 |
| Home Appliances | 8 | (5) | 3 |
| Cosmetics | 16 | 25 | 15 |
| Gold, Silver, Jewelry | 31 | 20 | 16 |
| Automobile | 8 | 19 | 9 |
| Petroleum & Related Product | 21 | 12 | 1 |
| Communication Appliance | (5) | (8) | (9) |
| Property-related sales | | | |
| Building Material | (33) | (30) | 22 |
| Furniture | 16 | 6 | 27 |

*Note: Above designate size enterprises' refers to enterprises with total annual sales value of above Rmb5m*
*Source: National Bureau of Statistics of China*

## CHINA

## Economics

### Retail Sales


*Source: CEIC*

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# Banking

Increasing policy risk as bondholders could share bailout pain

*US Congress is considering tapping into the vast US bond market to share bailout burden. Holders of US bank bonds could face reduced face value. Downgrade BOC to SELL on highest exposure among Chinese banks.*

**Sector Events**

**Rising policy risk as US government may ask debt holders to help shoulder burden of bailout.** Members of the US congress have proposed tapping into the huge US bond market to help bailout the ailing US banking system. Yields on bank debt have skyrocketed to trade at 3.65% more than industrial companies' debt. The bond market is an attractive target for lawmakers as the four largest US banks alone have US$1t of debt and senior bond holders have been largely unaffected by the financial crisis.

**Sector Impact**

There is certainly the possibility that US lawmakers may ask bondholders to accept reduced interest rates or lower face values, as a reduction in debt value will help boost capital adequacy ratios for the banks. Due to the likelihood of such an event, we have studied the implications of reduced face value for US financial bonds. Using the Big Four US banks as an example, if regulators impose a 30% writedown of face value for bonds, it would equate to US$300b of additional funds for the four banks. That amount would be more than the US$250b of funds currently pledged by regulators for nine US banks and 40% of the US$750b slated under TARP. This would seem a more-than-adequate amount to us. Citigroup's subordinated debt is currently trading at 70 cents to the dollar. Senior bonds, while still at risk, would likely be subject to less of a discount.

**Bank of China – most at risk due to large foreign exposure.** At the end of 1H08, the most recent available data, Bank of China (BOC) had Rmb369,769m of bonds issued by financial institutions, both domestically and internationally. Using the percentage of assets that are US denominated as a guide (19%), we estimate BOC has at most Rmb70b of bonds issued by US banks. The actual figure will likely be less as banks have been reducing their US exposure. Assuming such bonds receive a 30% haircut, it would imply an impairment charge of Rmb21b. Such a scenario would be devastating for BOC as it would slash our 2009 net profit forecast by 32% to Rmb34.2b. Tier 1 and CAR would decline by 30bp to 9.06% and 11.18% respectively. We have lowered our NTA per share by HK$0.09 to HK$1.72.

**ICBC – limited impact due to low foreign exposure.** We estimate that ICBC currently holds approximately US$5b (Rmb34b) of bonds issued by US financial institutions. Using our assumption of a 30% haircut, ICBC stands to lose Rmb10b. As a result, 2009 earnings would fall by 8%, Tier 1 and CAR would only decline by 10bp to 10.27% and 11.92% respectively, nowhere near as devastating as the potential impact on BOC. ICBC's NTA per share would fall by HK$0.04 to HK$2.11 per share after fully reflecting US financial-institution bond exposure.

**China Construction Bank – also expect limited impact.** We estimate that China Construction Bank (CCB) also has roughly the same exposure compared to ICBC at US$5b. Assuming a 30% haircut, 2009 net profit would fall by 9%, Tier 1 and CAR would decline by 15bp to 10.52% and 12.78% respectively. NTA per share would fall by HK$0.05 to HK$2.35.

**China Merchants Bank – the least expected impact amongst banks under our coverage.** We estimate China Merchants Bank (CMB) to have only roughly Rmb5b worth of exposure to bonds issued by US banks. Assuming a 30% haircut on face value of such bonds, 2009 net profit would only fall by 5.2%, Tier 1 and CAR would only decline by 10bp to 8.57% and 10.04% respectively. NTA per share would fall by HK$0.12 to HK$6.79.

**CHINA**

**Banking**

**MARKET WEIGHT**

**China Merchants Bank (3968 HK)**

**BUY**
**Current Price: HK$12.38**
**Target Price: HK$14.46**
**(Previous: HK$14.88)**

**Bank of Communications (3328 HK)**

**SELL**
**Current Price: HK$4.56**
**Fair Price: HK$3.67**
**(Previous: HK$3.82)**

**Industrial and Commercial Bank of China (1398 HK)**

**HOLD**
**Current Price: HK$3.19**
**Fair Price: HK$3.38**
**(Previous: HK$3.45)**

**China Construction Bank (939 HK)**

**HOLD**
**Current Price: HK$3.89**
**Fair Price: HK$3.76**
**(Previous: HK$3.85)**

**Bank of China (3988 HK)**

**DOWNGRADE TO SELL**
**Current Price: HK$2.22**
**Fair Price: HK$1.81**
**(Previous: HK$2.10)**

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**Bank of Communications – relatively large exposure in relation to its size.** We estimate Bank of Communications (BoCom) to have roughly US$2.5b (Rmb17b) of bonds issued by US banks. Applying a 30% haircut implies a 17% decrease in 2009 net profit. Tier 1 and CAR would fall by 28bp to 9.42% and 12.47% respectively. NTA per share would fall by HK$0.11 to HK$3.56.

### Earnings Risk

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

### Recommendation

While this scenario involving a haircut on the face value of bonds issued banks has not been confirmed, we do believe the event is becoming increasingly likely. However at this stage, we will not be cutting our 2009 earnings estimates for our banks, but we have reduced our NTA per share for all the banks under our coverage.

**Downgrade BOC to SELL.** We downgrade BOC to sell as it is the most heavily exposed to US bank bonds and stands to lose the most in the event that the haircuts take place. We have lowered BOC's NTA per share to HK$1.72 per share to fully factor in provisioning for the remaining carry value of US sub-prime MBS, Alt-A and non-agency backed MBS, as well as US financial-institution bond exposure. We also shift our valuation methodology to NTA-based and downgrade BOC to SELL with a new fair price of HK$1.81 reflecting 1.05x 2009 P/B. While earnings estimates are not changed, our NTA per share has fully factored in the potential downside posed by BOC's exposure to US assets.

**Recommendations unchanged for other banks.** We have revised down slightly our target/fair prices for the other banks under our coverage, but not to the extent that will warrant any change in ratings. We set a new target price of HK$14.46 for CMB, reflecting 2.1x 2009 P/NTA, maintain BUY. For ICBC, we set a new fair price of HK$3.38, reflecting 1.57x 2009 P/NTA, maintain HOLD. For China Construction Bank (CCB), we have a new fair price of HK$3.76, reflecting 1.6x 2009 P/NTA, maintain HOLD. We maintain SELL on BoCom with a new fair price of HK$3.67, reflecting 1.03x 2009 P/NTA. CMB continues to be our top pick in the sector given its high provisioning (over 150%) and its low exposure to bonds issued by US financial institutions.

### Sensitivity Analysis

| | | | Assuming 30% Haircut | | |
|---|---|---|---|---|---|
| (Rmbb) | Estimated Exposure | Estimated Loss | As % of Shareholder's Equity (%) | Revised Net Profit | Change (%) |
| BOC | 70 | 21 | 4.4 | 32.4 | (32.0) |
| CMB | 5 | 1.5 | 1.8 | 20.4 | (5.2) |
| ICBC | 34 | 10.2 | 1.7 | 85.2 | (8.0) |
| CCB | 34 | 10.2 | 2.1 | 82.6 | (9.0) |
| BoCom | 17 | 5.1 | 3.5 | 18.5 | (17.0) |

*Source: UOB Kay Hian*

### Peer Comparison

| Stock | Rec | Price 12 Mar 09 (HK$) | Net Profit 2008F (Rmbm) | Net Profit 2009F (Rmbm) | Net Profit 2010F (Rmbm) | PE 2008F (x) | PE 2009F (x) | PE 2010F (x) | P/B 2008F (x) | P/B 2009F (x) | P/B 2010F (x) | ROE 2007 (%) | Market Cap (HK$m) | Yield 2007 (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BoCom | SELL | 4.56 | 25,797 | 22,286 | 23,152 | 7.9 | 9.2 | 8.8 | 1.3 | 1.2 | 1.1 | 18.3 | 264,935 | 3.3 |
| CMB | BUY | 12.38 | 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 | 3.19 | 106,359 | 92,476 | 118,853 | 9.0 | 10.4 | 8.1 | 1.6 | 1.5 | 1.3 | 16.2 | 1,323,290 | 3.4 |
| BOC | SELL | 2.22 | 63,978 | 50,054 | 61,262 | 7.9 | 10.1 | 8.3 | 1.1 | 1.0 | 0.9 | 13.0 | 840,437 | 3.9 |
| CCB | HOLD | 3.89 | 92,677 | 79,816 | 101,290 | 8.8 | 10.3 | 8.1 | 1.7 | 1.6 | 1.3 | 18.4 | 933,739 | 5.6 |

*Source: Respectively companies data, UOB Kay Hian*

# Power Equipment

## 2008 results preview: The start of dampening thermal equipment sales

*Hong Kong-listed power equipment companies have seen a delay in product delivery due to slowing demand, which we believe is just the start of dampening thermal equipment sales. Maintain UNDERWEIGHT.*

### Sector Events

a) **Lower power output figures from IPPs.** Recently, CR Power (836.HK) reported a 2.9% yoy decrease in net power generation volume in 2M09. Meanwhile, based on our communication with Datang Power, total power generation volume was down by 7% yoy during the same period. The deteriorating power output figures was based on a strong 25-33% yoy increase in power capacity for both companies, suggesting significantly reduced utilisation rate.

b) **Significant decrease in thermal equipment orders and delayed equipment delivery in 4Q08.** Our recent channel checks with the top three power equipment companies revealed two major takeaways: a) thermal equipment orders dropped significantly; and b) there have been some delays in product delivery since end-08 and they expect it to continue to increase significantly this year.

### Sector Impact

**Obviously, it is just the start of an industry downtrend.** From the events mentioned, we have two major findings: a) the three power equipment companies started to feel the pain in 4Q08 and b) we found significant drop in power plant utilisation and severe overcapacity problem in the power industry. Therefore, it is not difficult to conclude that there is an industry downcycle. Currently, we maintain our forecast for new thermal capacity to 45GW and 40GW from 50GW and 45GW respectively for 2009-10, down by 32-40% from 66GW in 2008, suggesting a significant downtrend in output delivery for the top three power equipment companies given that thermal equipment remains a major source of profit for them.

| (Rmb) | A month ago | | Now | |
|---|---|---|---|---|
| **Bloomberg Consensus:** | **2008F** | **2009F** | **2008F** | **2009F** |
| Harbin Power | 0.90 | 0.82 | 0.87 | 0.76 |
| Shanghai Electric | 0.22 | 0.21 | 0.21 | 0.198 |
| **Our Forecasts** | | | | |
| Harbin Power | 0.82 | 0.49 | 0.82 | 0.49 |
| Shanghai Electric | 0.20 | 0.14 | 0.20 | 0.14 |
| **Consensus vs. Our Forecasts:** | | | | |
| Harbin Power | 9% | 64% | 5% | 55% |
| Shanghai Electric | 10% | 50% | 5% | 41% |

*Source: Bloomberg, UOB Kay Hian*

### Valuation/Recommendation

**Consensus still too high, we expect risks of missing consensus and further de-rating.** We noticed the earnings downgrades among analysts recently, which can be evidenced by an approximate 5-7% decrease in consensus earnings estimates from *Bloomberg* for 2008-09. However, we still think the market does not fully understand the severity of the challenges this year. The *Bloomberg* consensus only suggests about 6-12% yoy net profit decrease for this year, which is unjustifiable given our 32% yoy decrease in newly built thermal power capacity. We continue to believe the overly optimistic earnings consensus may result in either a further de-rating of the sector or increasing risks of missing consensus for Hong Kong-listed power equipment companies this year.

**China**

**Power Equipment**

**UNDERWEIGHT**

**Harbin Power (1133 HK)**

**SELL**

**Current Price: HK$4.40**
**Fair Price: HK$3.50**

**Shanghai Electric (2727 HK)**

**SELL**

**Current Price: HK$1.91**
**Fair Price: HK$1.40**

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**Maintain UNDERWEIGHT.** The share prices of both Harbin Power and Shanghai Electric have dropped by 65-73% since we initiated coverage with SELL rating in May 08 for both companies. Currently we cannot find any positives to change our view of a downside trend of the industry. Maintain UNDERWEIGHT on the sector and SELL recommendation for both Harbin Power and Shanghai Electric. We derived our fair price from a P/B valuation approach based on historical average P/B during their downcycle (1995-2002).

**Harbin Power:** Given 80% of its revenue being contributed by thermal equipment sales, Harbin Power is the most vulnerable to the slowdown in thermal equipment demand. We derived our fair price of HK$3.50 from a 0.42x FY09 P/B, which is the average historical P/B for both Harbin Power and its major peer, Dongfang Electric. Maintain SELL.

**Shanghai Electric**: Despite 60% of its revenue coming from power equipment sales, which will be affected by shrinking thermal equipment demand, we believe its other business segments like electromechanical and heavy machinery divisions will also inevitably be affected by the economic recession. Our fair price of HK$1.40 is based on blended P/B of 0.46x FY09 P/B (60% derived from historical average P/B for Harbin Power and Dongfang Electric and 40% from its machinery peer, Kunming Machine Tool, based on its revenue exposure). Maintain SELL.

**Historical P/B**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Harbin Power | 0.52 | 0.57 | 0.42 | 0.25 | 0.18 | 0.15 | 0.40 | 0.29 |
| DongfangElectric | 0.86 | 1.10 | 0.46 | 0.18 | 0.21 | 0.14 | 0.59 | 0.41 |
| KunmingMachine Tool | 0.45 | 0.54 | 0.32 | 0.14 | 0.23 | 0.46 | 1.15 | 0.75 |

*Source: Bloomberg*

**New Power Capacity Forecast**

| (GW) | Total | yoy % chg | Thermal | yoy % chg |
|---|---|---|---|---|
| 1998 | 23 | 30 | 17 | 29 |
| 1999 | 21 | (7) | 14 | (22) |
| 2000 | 21 | (4) | 14 | 4 |
| 2001 | 19 | (6) | 16 | 11 |
| 2002 | 18 | (7) | 12 | (20) |
| 2003 | 30 | 67 | 24 | 95 |
| 2004 | 43 | 45 | 40 | 64 |
| 2005 | 87 | 101 | 62 | 56 |
| 2006 | 107 | 22 | 93 | 50 |
| 2007 | 103 | (3) | 85 | (8) |
| 2008 | 85 | (17) | 66 | (22) |
| 2009F | 65 | (24) | 45 | (32) |

*Source: CEIC, UOB Kay Hian*

**Utilisation Forecasts**

| Hours | All Plants | yoy % chg | Thermal Plants | yoy % chg |
|---|---|---|---|---|
| 1996 | 5033 | n/a | 5418 | n/a |
| 1997 | 4765 | (5) | 5114 | (6) |
| 1998 | 4501 | (6) | 4811 | (6) |
| 1999 | 4393 | (2) | 4719 | (2) |
| 2000 | 4517 | 3 | 4848 | 3 |
| 2001 | 4588 | 2 | 4899 | 1 |
| 2002 | 4860 | 6 | 5272 | 8 |
| 2003 | 5245 | 8 | 5767 | 9 |
| 2004 | 5455 | 4 | 5991 | 4 |
| 2005 | 5425 | (1) | 5865 | (2) |
| 2006 | 5198 | (4) | 5633 | (4) |
| 2007 | 5011 | (4) | 5316 | (6) |
| 2008F | 4677 | (6) | 4911 | (8) |
| 2009F | 4420 | (6) | 4515 | (8) |

*Source: CEIC, UOB Kay Hian*

**Peer Comparison**

| Stock | Rec | Price 12 Mar 09 (HK$) | Net Profit 2007 (Rmbm) | Net Profit 2008F (Rmbm) | Net Profit 2009F (Rmbm) | EPS 2007 (Rmb) | EPS 2008F (Rmb) | EPS 2009F (Rmb) | PE 2007 (x) | PE 2008F (x) | PE 2009F (x) | ROE 2007 (%) | Market Cap (HK$m) | Yield 2007 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Harbin Power | SELL | 4.40 | 1,528 | 1,134 | 681 | 1.12 | 0.82 | 0.50 | 3.6 | 4.9 | 8.1 | 18 | 6,059 | 2.8 |
| Shanghai Electric | SELL | 1.91 | 2,815 | 2,523 | 1,739 | 0.24 | 0.20 | 0.14 | 7.4 | 8.7 | 12.6 | 10 | 23,848 | 4.8 |

*Source: Respectively companies data, UOB Kay Hian*

# China BlueChem

## Recovery in urea prices spurs earnings

*China BlueChem's net profit could grow 8% yoy in 2008. 2009 earnings will be driven by higher urea price due to removal of price cap and reduction of export tariff. Methanol price will remain an overhang. Maintain BUY.*

**Corporate Events**

**An expected 8% yoy profit growth for 2008.** China BlueChem (CBC) will announce its 2008 results on 27 March. We expect net profit to grow 8% yoy to Rmb1.56b, driven by higher urea prices. We estimate its ASP for urea to increase from around Rmb1,600/tonne in 2007 to Rmb1,700/tonne in 2008. Although 2H08 saw a sharp drop in methanol prices, we estimate the Group's ASP for methanol to remain flat at around Rmb2,200/tonne.

**2009 earnings will be driven by urea prices.** The Group could realise a higher urea ASP for 2009, due to: a) the removal of urea price cap, and b) higher export prices, a result of a reduction in export tariff and a rebound in international urea prices. First, with the ceiling price of Rmb1,725/tonne removed, the Group could enjoy higher urea prices in the high seasons. For instance, it is selling urea at Rmb1,850-1,900/tonne. In low seasons, the Group could realise higher prices via exports, given that export tariff during the period was lowered from 185% to 10% and that international urea prices rebounded from US$200/tonne to US$300/tonne. The Group exported 95,000 tonnes of urea at an average price of Rmb1,780-1,800/tonne from Dec 08 to Jan 09.

**Urea price underpinned by sustained high coal cost and industry consolidation.** We expect urea price in China to remain steady in 2009, supported by sustained strong coal prices and industry consolidation. Unlike thermal coal, prices of anthracite coal in China rebounded modestly from Rmb900-1,000/tonne to over Rmb1,000/tonne due to the shutdown of small mines in Shangxi province. The sustained strong price of anthracite coal price could support urea price. Given the high coal price, industry's average cost for urea is high at Rmb1,600-1,700/tonne, laying the floor for urea price.

**Methanol price in China bottoming out.** Methanol prices in China and Asia rebounded from a trough of Rmb1,500/tonne and Rmb155/tonne to Rmb1,800/tonne and US$190/tonne respectively, owing to the capacity shutdown of high-cost producers in China, Europe, the US and other regions. Despite the recent rebound, methanol price in China remains below industry-average cost of >Rmb2,000/tonne. As such, over half of the 27m tonnes of methanol capacity in China have shut down. China has postponed or indefinitely suspended 22m tonnes of planned methanol capacity addition. Another 17m tonnes of Chinese methanol output was due to start in 2009-10, but could now either be temporarily delayed or held off indefinitely.

**Imported methanol has modest impact on China.** It is worrying that the ramp-up of low-cost methanol capacity in the Middle East will flood China with cheap methanol, dampening the product's prices in the country. According to industry source, this scenario is unlikely to occur, given the high cost to deliver methanol from Middle East to China. Assuming a cost of US$120/tonne (cash cost plus finance cost) for Middle Eastern methanol producers, we estimate a breakeven selling price of Rmb1,600/tonne in China after taking into account such items as freight cost, 5.5% import tariff, 17% VAT, transportation cost, handling fees and distributors' profit.

**CHINA**

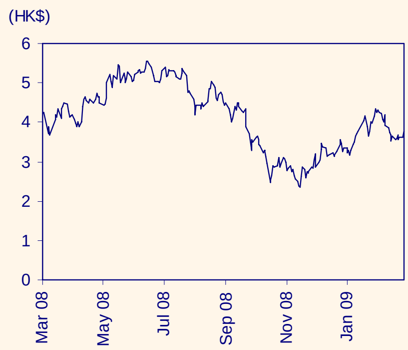
**China BlueChem (3983 HK)**

**BUY**

**Current Price: HK$3.63**
**Target Price: HK$4.30**

| | |
|---|---|
| Sector | Fertiliser |
| 52-Wk Avg Daily Vol. ('000) | 13,700 |
| Market Cap (HK$m) | 16,734 |
| (US$m) | 2,145 |
| Major Shareholders (%) | |
| CNOOC | 61.6 |
| Book NTA per Share (HK$) | 1.86 |
| ROE (%) | 20.4 |
| Net Cash per Share (HK$) | 0.16 |
| Results Due | |
| Interim: | Sep |
| Final: | Apr |

**Price Chart**




*Source: Bloomberg*

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| Year to 31 Dec | Turnover (Rmbm) | EBITDA (Rmbm) | Net Profit (Rmbm) | EPS (HK$) | EPS Growth (%) | PE (x) | EV/ EBITDA (x) | DPS (HK$) | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2006 | 3,466 | 1,674 | 1,068 | 0.314 | (0.2) | 10.1 | 8.2 | 0.138 | 4.3 |
| 2007 | 4,340 | 2,117 | 1,448 | 0.314 | 0.0 | 10.1 | 6.0 | 0.080 | 2.5 |
| 2008F | 5,372 | 2,615 | 1,560 | 0.338 | 7.7 | 9.4 | 4.5 | 0.086 | 2.7 |
| 2009F | 6,208 | 2,448 | 1,459 | 0.317 | (6.4) | 10.1 | 4.9 | 0.081 | 2.5 |
| 2010F | 7,181 | 2,993 | 1,616 | 0.351 | 10.7 | 9.1 | 3.9 | 0.089 | 2.8 |

*Consensus Net Profit – FY08: Rmb1,600m*
*– FY09: Rmb1,710m*

**Phosphorous fertiliser business could start contribution from 2Q09.** In Nov 08, CBC announced to acquire 83.17% stake in DYK Chemical (a 500,000-tonne producer of MAP/DAP with 77.75m tonnes of $P_2O_5$ reserve) and 100% stake in ZHJ Mining (a phosphate mining company with 85.18m tonnes of $P_2O_5$ reserve). The deals have been approved by shareholders and the State-owned Asset Supervision Committee, and are expected to complete by end-Mar 09. We estimate the two companies to contribute Rmb127m and Rmb132m to CBC's bottom line in 2009 and 2010 respectively.

### Stock Impact

We remain upbeat on CBC given its unrivalled cost leadership in China. The Group is one of the lowest-cost producers for urea and methanol in China. It is expected to capture a larger share in the two markets in the upcoming industry consolidation. We maintain our net profit forecasts for 2009-10 at Rmb1.459b and Rmb1.616b respectively. Beyond 2010, earnings will be driven by the launch of the new 600,000-tonne methanol project and 60,000-tonne POM projects. Adding to earnings growth will be a potential new urea project in Shanxi and M&As.

### Earnings Risk

The fluctuation in methanol prices could affect CBC's profit. We estimate a 1% drop in methanol price would slash the Group's bottom line by 0.75%.

### Valuation/Recommendation

The stock is trading at 10.1x 2009F and 9.1x 2010F PE, compared with 13x and 12x for regional peers. Maintain BUY with a target price of HK$4.30 based on 12x 2009F PE. Catalysts will include the launch of new projects or potential new acquisitions, such as the Sino-Arabic Chemical Fertiliser (SACF), one of the largest compound fertiliser producers in Asia with a 1.2m-tonne capacity. Apart from this, CBC's parent company has the right to import potash fertilisers directly from Germany to China.

### Profit & Loss

| Year to 31 Dec (Rmbm) | 2006 | 2007 | 2008F | 2009F | 2010F |
|---|---|---|---|---|---|
| Turnover | 3,466 | 4,340 | 5,372 | 6,208 | 7,181 |
| EBIT | 1,159 | 1,517 | 1,923 | 1,620 | 1,989 |
| Pre-tax Profit | 1,795 | 1,546 | 1,958 | 1,662 | 2,032 |
| Net Profit | 1,068 | 1,448 | 1,560 | 1,459 | 1,616 |

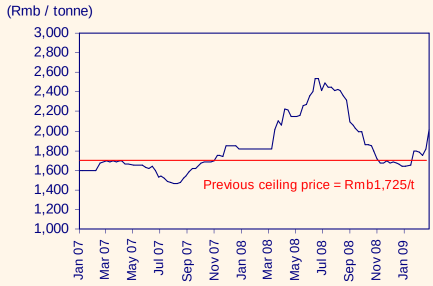
### Balance Sheet

| Year to 31 Dec (Rmbm) | 2006 | 2007 | 2008F | 2009F | 2010F |
|---|---|---|---|---|---|
| Current Assets | 2,780 | 3,712 | 4,587 | 4,598 | 5,098 |
| Total Assets | 9,111 | 9,698 | 10,875 | 12,362 | 13,862 |
| Current Liabilities | 1,498 | 863 | 1,220 | 1,601 | 1,807 |
| Long-Term Loans | 385 | 180 | 180 | 180 | 180 |
| Shareholders' Funds | 6,709 | 8,086 | 8,712 | 9,774 | 11,018 |
| Total Equity & Liabilities | 9,111 | 9,698 | 10,875 | 12,362 | 13,862 |

### Cash Flow

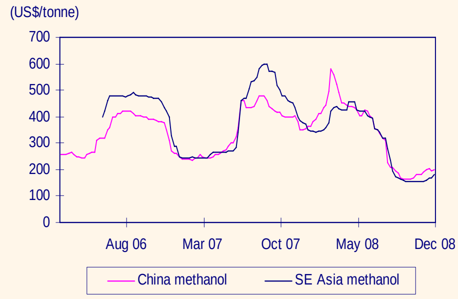
| Year to 31 Dec (Rmbm) | 2006 | 2007 | 2008F | 2009F | 2010F |
|---|---|---|---|---|---|
| Operating | 1,765 | 2,010 | 2,505 | 2,425 | 2,559 |
| Investing | (1,275) | (260) | (961) | (2,256) | (1,956) |
| Financing | (161) | (1,019) | (477) | (403) | (378) |
| Net Cash Inflow/(Outflow) | 330 | 731 | 1,067 | (234) | 225 |
| Begin Cash & Cash Equiv. | 1,720 | 2,049 | 2,781 | 3,847 | 3,613 |
| End'g Cash & Cash Equiv. | 2,049 | 2,781 | 3,847 | 3,613 | 3,838 |

### Urea Ex-factory Price In China



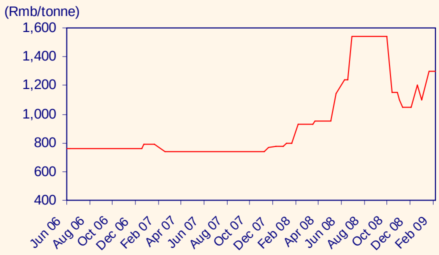

*Source: www.ampcn.com*

### Methanol Price In China And SE Asia



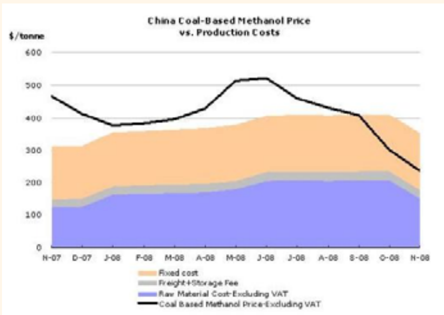

*Source: Bloomberg*

### Anthracite Coal Price In China




*Source: www.cctd.com.cn*

### Methanol Production Cost In China




*Source: CBI China*

### Estimates Of Import Methanol Price

| | US$ |
|---|---|
| Cost | 120 |
| Freight and port fee | 30 |
| CIF price at China port | 150 |
| 5.5% import tariff & 17% VAT | 185 |
| Handling fees, transport & others | 50 |
| Total | 235 |
| @ Rmb6.84/US$ | Rmb1,600 |

*Source: UOB Kay Hian*

# SOHO China

## 2008: Strong landbank growth to be catalyst

*2008 earnings are below our estimates mainly due to higher taxes, i.e. LAT provision. Still, we view the potential materialisation of landbank acquisitions on the back of strong net cash as the stock catalyst in 2009.*

### 2008 Results

| Year to 31 Dec | 2008 (Rmbm) | 2007 (Rmbm) | yoy % chg | Remarks |
|---|---|---|---|---|
| Turnover | 3,121.4 | 6,953.6 | (55.1) | Less GFA booking |
| Gross Profit | 1,543.9 | 3,796.9 | (59.3) | |
| Operating costs | (691.4) | (465.0) | 48.7 | |
| Pre-tax Profit | 1,149.2 | 3,756.8 | (69.4) | |
| LAT | (477.0) | (909.1) | (47.5) | Equivalent to 15% of revenue |
| Income Tax | (249.0) | (860.3) | (71.1) | |
| Net Profit | 399.1 | 1,965.7 | (79.7) | |
| Gross Margin (%) | 49.5 | 54.6 | (5.1) | |

*Source: UOB Kay Hian*

### Results

2008 net profit was Rmb399m, below our estimate of Rmb462m and much lower than the market consensus of Rmb735m. The lower-than-expected earnings were mainly due to higher LAT provision and income tax. The LAT of Rmb477m was equivalent to 15% of 2008 sales revenue and much higher than our estimate of Rmb220m.

### Stock Impact

It recorded strong contracted sales of Rmb7.7b, up 92% yoy. The average selling price (ASP) of Rmb48,718 represented a 36% yoy increase. Among the presales of three projects, Sanlitun SOHO registered contracted sales of Rmb6.9b, accounting for 90% of total sales. We estimate Rmb4.5b, or 65% of Sanlitun's presales, to be booked in 2009 and the rest in 2010.

### Earnings Revision

Making more conservative estimates of the delivery schedule of the Sanlitun project, we revise down revenue booking estimates for this project by Rmb1.0b and Rmb582m in 2009 and 2010 respectively. As a result, 2009 and 2010 earnings estimates are lowered accordingly by 15% and 12% respectively.

### Valuation/Recommendation

The stock is trading at a 50% discount to current NAV of HK$5.40, slightly higher than the sector average of a 55% discount to NAV. We revise down our target price from HK$4.30 to HK$4.05 by widening the NAV discount from 20% previously to 25%. The strong net cash position and potential NAV-accretive acquisitions remain strong catalysts. Maintain BUY.

## CHINA

## SOHO China (410 HK)

## BUY

**Current Price: HK$2.73**
**Target Price: HK$4.05**
**(Previous: HK$4.30)**

| | |
|---|---|
| Sector | Property |
| 52-Wk Avg Daily Vol. ('000) | 10,799 |
| Market Cap (HK$m) | 14,283 |
| (US$m) | 1,843 |
| | |
| Major Shareholders (%) | |
| Pan Zhang Xin | 64.01 |
| | |
| Book NTA per Share (Rmb) | 2.67 |
| ROE (%) | 2.81 |
| Net Cash per Share (Rmb) | 1.08 |
| | |
| Results Due | |
| Interim Sept | September |
| Final | March |

**Price Chart**


*Source: Bloomberg*

**Analyst**

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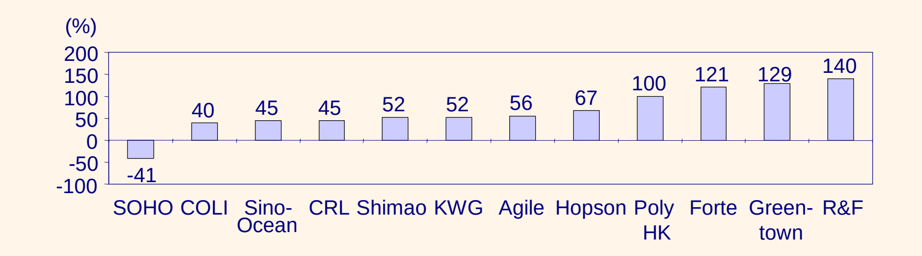
| Year to 31 Dec | Turnover (Rmbm) | EBITDA (Rmbm) | Net Profit (Rmbm) | EPS (Rmb¢) | EPS Growth (%) | PE (*) | EV/ EBITDA (*) | DPS (Rmb¢) | Yield (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | 6,954 | 3,789 | 1,966 | 47.7 | 424.2 | 5.7 | 0.7 | 10.0 | 3.7 |
| 2008 | 3,121 | 1,327 | 399 | 7.6 | (84.0) | 35.8 | 6.5 | 10.0 | 3.7 |
| 2009F | 6,661 | 2,520 | 1,183 | 22.6 | 196.5 | 12.1 | 3.0 | 10.0 | 3.7 |
| 2010F | 7,305 | 2,902 | 1,366 | 26.1 | 15.5 | 10.5 | 3.8 | 10.0 | 3.7 |
| 2011F | 2,455 | 1,116 | 372 | 7.1 | (72.8) | 38.4 | 12.9 | 6.0 | 2.2 |

*Consensus Net Profit – FY09: Rmb1,935m*
*– FY10: Rmb1,982m*

**Strongest net cash position in the sector.** SOHO held a net cash position with Rmb5.7b by end-08, representing a net cash to equity ratio of 41%. In the presales of Sanlituan project, 40% of clients paid without the need for mortgage and the rest is subjected to a 50% downpayment for the commercial properties. As SOHO allows buyers of the Sanlitun project to pay off the downpayment by up to five months, it has to wait until the completion of the properties to collect the mortgages from banks. Hence, the presale proceeds of Rmb6.9b from the project have not been fully reflected in the cash account. We estimate Rmb2.0b out of total presale deposit of Rmb2.6b as at end-08 to come from Sanlituan project. By fully factoring in the sales proceeds, the net cash to equity ratio could reach 70%.

**Estimated Net Gearing of China Property Plays by End-08**




*Source: UOB Kay Hian*

**Landbank acquisitions should be strong catalysts.** SOHO China recently formed a strategic partnership with BOC Beijing Branch and was granted a credit facility of Rmb10.0b which can be used in the next few years. The funding shows SOHO's willingness to expand its landbank in 2009. With its strong cash position, SOHO will be a consolidator by sourcing low-cost landbank in the land market slump.

**Sales to slow down in 2009 after record project sales in Sanlitun project last year.** Due to the slowdown in sales of top-end properties, particularly commercial properties, SOHO could rake in contracted sales of Rmb5.7b in 2009, about 26% lower than the Rmb7.7b in 2008. Our ASP estimates for its project sales in 2009 have factored in 15-20% price cuts from the current selling prices.

**Nearly 65% of 2009 sales revenue locked in.** The Sanlitun project recorded strong presales of Rmb6.9b last year, but we revise down the revenue booking estimate on this project from Rmb5.5b to Rmb4.5b for 2009 based on a more conservative estimate for the delivery schedule. We estimate SOHO has locked in about 65% of the total revenue for 2009.

**Profit & Loss**

| Year to 31 Dec (Rmbm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Turnover | 6,954 | 3,121 | 6,661 | 7,305 | 2,455 |
| EBIT | 3,762 | 1,285 | 2,457 | 2,810 | 984 |
| Pre-tax Profit | 3,757 | 1,149 | 2,299 | 2,618 | 739 |
| Net Profit | 1,966 | 399 | 1,183 | 1,366 | 372 |
| EPS (Rmb cents) | 47.7 | 7.6 | 22.6 | 26.1 | 7.1 |

**Balance Sheet**

| Year to 31 Dec (Rmbm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Current Assets | 21,386 | 24,498 | 26,963 | 28,907 | 29,845 |
| Total Assets | 23,458 | 26,071 | 29,718 | 32,519 | 34,650 |
| Current Liabilities | 7,685 | 8,847 | 13,786 | 13,688 | 13,947 |
| Long-Term Loans | 1,000 | 3,000 | 1,000 | 3,000 | 5,000 |
| Shareholders' Funds | 14,456 | 13,988 | 14,648 | 15,491 | 15,340 |
| Total Equity & Liabilities | 23,458 | 26,071 | 29,718 | 32,519 | 34,650 |

**Cash Flow**

| Year to 31 Dec (Rmbm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Operating | 1,982 | (5,689) | 2,649 | (1,914) | (1,765) |
| Investing | (1,382) | 34 | (1,182) | (857) | (1,193) |
| Financing | 12,392 | 1,815 | (756) | 1,477 | 1,478 |
| Net Cash Inflow | 12,991 | (3,840) | 710 | (1,295) | (1,480) |
| Begin Cash & Cash Equiv. | 1,081 | 13,749 | 9,909 | 10,619 | 9,324 |
| End'g Cash & Cash Equiv. | 14,072 | 9,909 | 10,619 | 9,324 | 7,844 |

# Swire Pacific

## 2008: A sturdy performance

*The results show a solid business (except for CX) with the highlight on the generous final dividend that shows management's confidence in earnings outlook. Our rating reflects the cyclical nature of Swire's businesses and our view that Swire faces less downside than peers should the stock market weakens.*

**2008 Results**

| Year to 31 Dec | 2007 (HK$m) | 2008 (HK$m) | Yoy % chg | Remarks |
|---|---|---|---|---|
| Property investment | 4,040 | 5,012 | 24 | Deep into the positive reversion cycle |
| Property development | (33) | 198 | n.a. | |
| Beverages | 483 | 510 | 6 | 17% volume growth in Greater China, flat in US |
| Marine services | 1,503 | 1,750 | 16 | Increase in charter rates and high utilisation |
| Trading & industrial | 135 | 38 | (72) | Hampered by fall in motor and apparel sales |
| Sales of assets | 1,354 | 1,721 | 27 | Sold 50% stake in Swire SITA in Sep |
| Hotels and others | 6 | (86) | n.a. | |
| Head office exp | (169) | (167) | (1) | |
| Net interest exp | (493) | (912) | 85 | Higher debt level |
| | 6,826 | 8,064 | 18 | |
| Associates | | | | |
| Aviation | 3,422 | (2,776) | n.a. | Heavy losses at CX |
| Others | 730 | 829 | 14 | Growth mainly from beverages, cans and paint |
| Profit before tax | 10,978 | 6,117 | (44) | |
| Taxation | (568) | (688) | 21 | |
| Minorities | (127) | (136) | 7 | |
| Underlying net profit | 10,283 | 5,293 | (49) | |
| Headline net profit | 26,260 | 5,908 | (78) | Hefty revaluation surplus in 2007 |

*Source: UOB Kay Hian*

### Results

**Surpassing all expectations.** Swire announced an underlying net profit of HK$5,293m, beating our forecast of HK$3,555m and possibly all market expectations of HK$3.0b-3.7b after incorporating Cathay Pacific's (CX) actual numbers released on Wednesday. The discrepancy was due to a HK$1,721m gain made on the disposal of a 50% stake in a waste management business.

**CX was behind core profit decline.** Stripping out this and the HK$1,078m gain made in 2007, core net profit would have declined 61% to HK$3,572m, quite close to our estimate. The heavy profit drop was blamed on the attributed HK$3.5b losses from CX. Taking CX out from both years, ex-CX profit would have grown by a mild 9% as interest charges escalated. Contributions to the ex-CX underlying profit: 45% property, 21% marine services, 11% beverages and trading & industrial and 22% disposal gains.

**The best part was dividend payout.** Final dividend was cut by only 36% to HK$1.48, meaning full-year DPS was only down 26% yoy to HK$2.38. This was equivalent to a 101% payout on the recurrent earnings, an unprecedented level, reflecting confidence in the earnings outlook

**Strong rental income.** Gross rental income went up by 23% to HK$6,833m, mainly on positive rental reversion as the newly-completed One Island East contributed only about HK$100m, or 1.5%, to total. One Island East is now 94% leased and the other office space almost 100%. Spot rents have come down: One & Two Pacific Place from HK$100 psf last October to HK$80 psf now, and Island East from HK$35 psf to the low 30s.

**Mixed results from other divisions.** Beverage reported a 15% profit growth, driven by a 17% volume growth in Greater China. High raw material costs continued to affect margin. Swire Pacific Offshore had another record year with profit up 20%, driven by an average 18% increase in charter rates and a high 91% (from record 94% in 1H08) utilisation. Attributable profit from the trading & industrial division fell 5% as the declines in motor and apparel sales were partly offset by improved profits from beverage cans and paints.

**HONG KONG**

**Swire Pacific (19 HK)**

**HOLD**

**Current Price: HK$45.75**
**Fair Price: HK$44.24**
**(Previous: HK$44.52)**

| | |
|---|---|
| Sector | Property |
| 52-Wk Avg Daily Vol. ('m) | 3.3 |
| Market Cap (HK$m) | 68,835 |
| (US$m) | 8,825 |
| Major Shareholders (%) | |
| John Swire & Sons | 32.0 |
| Book NTA per Share (HK$) | 89.98 |
| ROE (%) | 3.9 |
| Net Debt per Share (HK$) | 20.51 |
| Results Due | |
| 1H: Aug | 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 (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | 21,553 | 6,663 | 8,988 | 5.925 | 4.1 | 7.7 | 14.9 | 3.300 | 7.2 |
| 2008 | 24,670 | 8,976 | 5,293 | 3.497 | -48.3 | 13.1 | 11.0 | 2.380 | 5.2 |
| 2009F | n.a. | 7,527 | 6,325 | 4.204 | 20.2 | 10.9 | 13.2 | 2.380 | 5.2 |
| 2010F | n.a. | 7,602 | 7,297 | 4.850 | 15.4 | 9.4 | 13.0 | 2.450 | 5.4 |
| 2011F | n.a. | 7,602 | 7,738 | 5.143 | 6.0 | 8.9 | 13.0 | 2.570 | 5.6 |

*Consensus Net Profit – FY09: HK$6,655m – FY10: HK$7,607m*

**Gearing manageable.** Net debt rose 34% to HK$31b, mainly due to the HK$8b spent on developing rental properties in Hong Kong and China, lifting gearing from 17% to 23%. Management is not inclined to undertake any new investment in this environment. The biggest capex going forward will be for the property division: HK$6b this year and HK$4.9b in 2010, mainly for projects in China. Gearing is likely to go up to a manageable 30% by end-09.

### Stock Impact

**Results already reflected in afternoon session.** Swire rose 3% yesterday, adequately reflecting the somewhat pleasing results, especially the generous final dividend, in our opinion. In any case, the share was sold down prior to the announcement, and we do not see much downside for now, though upside is still capped by the cyclical nature of Swire's businesses.

### Earnings Revision

**Profit forecasts subject to heavy revisions.** We have incorporated our revised CX forecasts in our model. Suffice to say, there could be substantial revisions to our numbers, especially with the unpredictability of CX's performance. We expect rental income to continue to rise (9%) this year, but to start to fall (-5%) in 2010 as although Swire is expanding its rental portfolio, the new completions will be mainly in China, and their rental income will not fill up the gap left by the falling rents in Hong Kong. Moreover, it has taken longer than expected to fill up the retail space at Sanlitan in Beijing due to the economic slowdown in China. We expect contribution from Swire Pacific Offshore to start falling this year on a combination of lower utilisation and charter rates, and the decline will accelerate in 2010 when existing contracts expire.

### Valuation/Recommendation

**Why HOLD not SELL?** There are two reasons: a) our forward NAV for Swire is HK$71.36 (fine-tuned from HK$70.59). Applying the 38% average trough discount to NAV, our target is HK$44.24. b) Swire has been sold down and is only trading 11% above its bottom last October, when its closest peer, Wharf, was 34% above its recent bottom. There is comparatively less downside on Swire should the stock market weakens. For those who favour the book value approach, Swire is now trading at 0.5x end-08 BV of HK$89.98, close to the 0.4x all-time low. Our entry price is HK$37.60.

**The biggest risk.** The biggest overhang on the Group right now is the possibility of a cash call by CX. But we expect Swire's prudent management to have taken that into consideration when it decided on the rather generous final dividend. The share buyback programme continued in 2008 when HK$563m was spent to buy 10m "A" shares at between HK$43.10 and HK$76.00, and a further HK$85m was used to purchase "B" shares.

### Profit & Loss

| Year to 31 Dec (HK$m) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Turnover | 21,553 | 24,670 | n.a. | n.a. | n.a. |
| EBIT | 7,319 | 8,976 | 7,527 | 7,602 | 7,231 |
| Pre-tax Profit | 10,978 | 6,117 | 7,194 | 8,104 | 8,508 |
| Net Profit | 10,283 | 5,293 | 6,325 | 7,297 | 7,738 |

### Balance Sheet

| Year to 31 Dec (HK$m) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Current Assets | 11,037 | 13,641 | 12,959 | 14,255 | 14,825 |
| Total Assets | 189,431 | 198,076 | 173,076 | 156,076 | 157,477 |
| Current Liabilities | (11,957) | (11,857) | (11,620) | (11,852) | (12,919) |
| Long-Term Liabilities | (22,826) | (31,521) | (32,467) | (32,791) | (31,152) |
| Shareholder Funds | 135,517 | 135,387 | 111,549 | 95,198 | 99,067 |
| Total Equity & Liabilities | (189,431) | (198,076) | (173,076) | (156,076) | (157,477) |

### Cash Flow

| Year to 31 Dec (HK$m) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Operating | 6,596 | 8,626 | 7,177 | 7,252 | 6,881 |
| Investing | (11,520) | (10,124) | (6,121) | (5,218) | (4,532) |
| Financing | 6,879 | 1,971 | (1,201) | (3,187) | (1,754) |
| Net Cash In/(Out) Flow | 1,955 | 473 | (145) | (1,153) | 595 |
| Begin Cash & Cash Equiv. | 1,687 | 3,642 | 4,115 | 3,970 | 2,817 |
| End'g Cash & Cash Equiv. | 3,642 | 4,115 | 3,970 | 2,817 | 3,411 |

**Appraised NAV**

| | HK$m | HK$m |
|---|---|---|
| Investment properties | | |
| Office | 42,565 | |
| Retail | 37,202 | |
| Residential | 5,777 | |
| Others | 1,721 | |
| | | 87,264 |
| Properties under development | | |
| Hong Kong | 955 | |
| China | 8,900 | |
| | | 9,855 |
| Properties for sale | | 1,028 |
| Hotels | | 1,305 |
| Overseas properties | | 588 |
| Aviation | | |
| Cathay Pacific | 11,375 | |
| HAECO | 3,793 | |
| Hactl | 1,750 | |
| | | 16,918 |
| Beverages | | 6,419 |
| Marine | | 12,185 |
| Trading and industrial | | 2,695 |
| Net debts | | (30,864) |
| | | **107,394** |
| **NAV per share** | | **71.36** |

*Source: UOB Kay Hian*

# Banking

## Resilient under challenging situation

*We maintain MARKET WEIGHT on the sector as we believe the sector is resilient enough to face difficult year ahead and the Indonesian economy is better positioned than most of the regional peers. Our top pick in the sector is only Bank Rakyat Indonesia given the current market pessimism.*

### Sector Events

**Economy slowed down but still better than most regional peers.** Indonesia's GDP is expected to grow 3.6% yoy this year compared with a contraction in most of its regional peers. Declining exports will be the primary cause of the slowdown. Nevertheless, as the portion of total exports to total GDP is relatively low at below 30%, the negative impact of exports contraction will be cushioned by resilient domestic consumption, government spending driven by expenditure by the central and regional governments, and election-related spending by political parties.

### Country Comparison

| Country | GDP Growth 2009 (% yoy) | Total Exports-to-GDP (%) | Private Consumption-to-GDP (%) |
|---|---|---|---|
| Singapore | (4.0) | 185.0 | 38.6 |
| Hong Kong | (4.0) | 166.0 | 59.0 |
| Malaysia | (2.5) | 94.3 | 50.0 |
| Thailand | (1.6) | 60.0 | 52.0 |
| China | 7.1 | 33.0 | 35.5 |
| Indonesia | 3.6 | 26.4 | 58.0 |

*Source: UOB Kay Hian, UOB Economic-Treasury Research*

**Banking sector: challenging situation, but is resilient.** Indonesian banks are not spared from the negative impact of the global economic slowdown, but we believe their performance will remain healthy. The central bank expects the sector's loans growth to slow to 15.6% yoy in 2009 from 30.5% in 2008, and NPL to rise to around 5% from 3.2% as of end-08. There are some factors that may support this relatively healthy performance.

First, tight liquidity in global financial markets is a blessing for Indonesian banks, especially major banks, as local companies are back seeking onshore funds. Second, there is still potential loan demand from certain segments, namely, infrastructure projects, micro and small enterprises, and companies serving domestic markets. Third, the expectation of relatively moderate formation of NPL is based on more prudent banking management in lending as well as proactive action from bankers to restructure credits affected by the global crisis. Lastly, most major banks have piled up enough provision in anticipation of worsening loan quality, taking the opportunity of strong top-line performance in 2008 driven by robust loans growth.

### Stock Impact

Taking into account the slower credit growth and rising NPL, we are revising our earnings estimates for banks under coverage. We are also incorporating the de-rating of global banking valuation due to market pessimism. Based on our new assessment, our top pick is Bank Rakyat Indonesia which has one of the most solid fundamentals and attractive valuations.

**INDONESIA**

**Banking**

**MARKET WEIGHT**

**Bank Central Asia (BBCA IJ)**

**DOWNGRADE TO HOLD**
**Current Price: Rp2,800**
**Fair Price: Rp3,000**

**Bank Negara Indonesia (BBNI IJ)**

**DOWNGRADE TO HOLD**
**Current Price: Rp690**
**Fair Price: Rp800**
**(Previous: Rp1,100)**

**Bank Rakyat Indonesia (BBRI IJ)**

**BUY**
**Current Price: Rp4,075**
**Target Price: Rp5,500**
**(Previous: Rp6,800)**

**Bank Danamon (BDMN IJ)**

**DOWNGRADE TO SELL**
**Current Price: Rp2,500**
**Fair Price: Rp2,400**
**(Previous: Rp3,100)**

**Bank Mandiri (BMRI IJ)**

**DOWNGRADE TO HOLD**
**Current Price: Rp1,850**
**Fair Price: Rp1,900**
**(Previous: 2,100)**

**Analyst**

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| Stock | Rec | Price 11 Mar 09 (Rp) | Market Cap (Rpb) | Net Profit 2007 (Rpb) | Net Profit 2008F (Rpb) | Net Profit 2009F (Rpb) | PE 2007 (x) | PE 2008F (x) | PE 2009F (x) | P/B 2007 (x) | P/B 2008F (x) | P/B 2009F (x) | ROE 2008F (%) | Yield 2008F (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| BBCA | HOLD | 2,800 | 68,344 | 4,489 | 5,225 | 6,218 | 15.4 | 13.2 | 11.1 | 3.4 | 3.0 | 2.6 | 24.0 | 3.3 |
| BBNI | HOLD | 690 | 10,435 | 898 | 1,287 | 1,893 | 11.7 | 8.2 | 5.6 | 0.6 | 0.7 | 0.6 | 8.2 | 4.3 |
| BBRI | BUY | 4,075 | 49,746 | 4,838 | 5,614 | 6,577 | 10.4 | 8.9 | 7.6 | 2.6 | 2.3 | 2.0 | 27.4 | 4.8 |
| BDMN | SELL | 2,500 | 12,489 | 2,117 | 1,530 | 1,923 | 5.9 | 8.2 | 6.6 | 1.2 | 1.2 | 1.1 | 14.3 | 8.4 |
| BMRI | HOLD | 1,850 | 38,287 | 4,346 | 5,246 | 5,680 | 8.8 | 7.3 | 6.8 | 1.3 | 1.2 | 1.1 | 17.2 | 5.7 |

*Source: Bloomberg, UOB Kay Hian*

**Bank Rakyat Indonesia: Maintain BUY on solid fundamentals and attractive valuation.** We like Bank Rakyat for its niche in micro & SME loans (MSME) which accounts for around 80% of its loan book. Focus on MSME provides lucrative net interest margin of above 10%. It has the widest network in Indonesia which provides opportunity to grow business from the untapped markets. Loan quality remains strong with NPL ratio of below 3% while NPL coverage is a robust 200%. Its ROE of 28.3% is the highest in the industry. We are revising down our 2009 net profit estimate by 17% assuming loans growth of 15% and NPL of 3.5%. It has premium valuation with 2009 PE of 7.6x and P/B of 2.0x considering its high profitability level, but still lower than BBCA's 2009F PE of 11.1x and P/B of 2.6x. Our new target price of Rp5,500, represents 2009F PE of 10.3x and P/B of 2.7x, and provides 35% upside from current price.

**Bank Central Asia: Downgrade to HOLD due to rich valuations.** It is no doubt that Bank Central Asia has the soundest fundamentals among other local banks, supported by its excellent transactional banking business, management's prudent risk management, and abundant liquidity which are very valuable during crisis times. Even with low lending activities (LDR of 54.7%), the company can generate ROE of almost 25%. It has the lowest NPL of only 0.6x with strong loan loss coverage of 352% which provide more than enough cushion to rising NPL. However, we believe market has factored in these facts on its valuation with 2009F PE of 11.1x and P/B of 2.6x, the highest among peers. We are maintaining our earnings estimates and fair price of Rp3,000 which represents 2009F PE of 11.9x and P/B of 2.8x. We are highly recommending investors to collect Bank Central Asia should the price falls below Rp2,500

**Bank Mandiri: High forex loans exposure increases credit risk. Downgrade to HOLD.** The weakening rupiah in the past few months may trouble customers who borrowed in foreign currency, thus increasing credit risk for banks. As of end-08, Bank Mandiri's exposure to forex loans was around 23% of total loans, the highest among peers. We are assuming a 100bp rise in NPL in 2009, which will drag down 2009 net profit estimate by 15%. Our new fair price of Rp1,900 reflects 2009F PE of 6.9x and P/B of 1.1x. Downgrade to HOLD with entry price of Rp1,580.

**Bank Negara Indonesia: Downgrade to HOLD on higher provisioning risk.** Among peers, Bank Negara has weaker NPL coverage level of only 100.5%. The bank has just restructured its board of management, so its track record in straightening out the mounting NPL problem is yet to be proven. We are revising down our 2009 net profit estimates by 35% assuming NPL rises to 8.5% in 2009 from 7.0% as of 30 Sep 08, and slightly higher NPL coverage level of 104%. We arrive at new fair price of Rp800, or 2009F PE of 6.5x and P/B of 0.7x. Downgrade to HOLD with entry price of Ro620.

**Bank Danamon: Tight liquidity and fiercer competition will affect business expansion in longer term. Downgrade to SELL.** Bank Danamon with core business in motorcycle financing may face difficult times in 2009. Motorcycle sales in Jan 09 declined 22% yoy, showing that consumers may delay the purchasing of secondary goods to anticipate a bleak economic outlook. The threat of a weakening purchasing power may also increase the NPLs. Its rising exposure to micro lending will face more competition. Bank Rakyat will start lending to traders in traditional wet markets, the same segment that Danamon is focusing on. We believe Bank Rakyat tries to steal some market share, taking the opportunity of Danamon's tight liquidity situation that limits its expansion. Bank Rakyat also benefits from lower cost structure supported by its better funding mix so that it can offer better pricing than Danamon. Compared to peers that set loans growth target of 10-15% in 2009, Danamon targets only 8%. We lower our 2009 net profit estimate by 5%. We also reduce our fair price to Rp2,400, or 2009F PE of 6.3x and P/B of 1.0x. Downgrade to SELL with entry price of Rp1,900.

**Sector Comparison (as of 30 Sep 08)**

| Stock | NPL (%) | NPL Coverage (%) | NIM (%) | ROE (%) | CAR (%) | LDR (%) |
|---|---|---|---|---|---|---|
| BBCA | 0.6 | 351.8 | 6.2 | 24.9 | 16.0 | 54.7 |
| BBNI | 7.0 | 100.5 | 6.0 | 6.9 | 13.9 | 74.6 |
| BBRI | 2.9 | 200.5 | 10.9 | 28.3 | 13.5 | 86.4 |
| BDMN | 2.4 | 102.5 | 11.1 | 21.6 | 13.4 | 87.9 |
| BMRI | 4.9 | 138.8 | 5.3 | 18.1 | 17.0 | 66.4 |

*Source: Respective companies, UOB Kay Hian*

# Suntec REIT

## Sensible conclusions from sensitivity analysis

*Share price has factored in potential risk factors after correcting 25% since our last report. A successful refinancing ahead of maturity, possibly within 1H09, could provide catalyst for the stock.*

**Corporate Events**

We highlighted the risks for Suntec REIT (SUN) relating to lumpy refinancing and lease renewals in 2009 in our results note dated 28 Jan 09. SUN's share price had corrected 25% since our last report to close at S$0.495 yesterday.

We believe the depressed share price has factored in potential risk factors. Thus, the present weakness is a good opportunity to accumulate the stock.

**Stock Impact**

**Refinancing in progress.** Management is in discussions with bankers on refinancing S$700m Commercial Mortgage Backed Securities (CMBS) due Dec 09. We understand management intends to complete the refinancing ahead of maturity, possibly within 1H09.

The probability of successful refinancing is high, in our view, due to the following:

- SUN's current gearing of 34.3% is in line with industry average.
- The CMBS is secured by Suntec City Mall and Suntec Office Towers, valued at S$3.9b in Dec 08. The loan-to-value ratio (LTV) is only 0.18x, well within the 50-60% required by most banks. SUN could utilise just one property, either Suntec City Mall or Suntec Office Towers, as collateral for the refinancing. This provides greater financial flexibility.
- SUN raised S$787.5m in 2008 despite the turmoil in the credit market. In particular, the S$400m club deal was secured in Oct 08, a period of extreme volatility and uncertainty following the collapse of Lehman Brothers.
- SUN is not at risk of breaching any loans covenants. Besides the CMBS, all other borrowings are on an unsecured basis. Its current interest coverage is 3.8x, well within the requirement of 1.5-2.0x.
- SUN does not have any refinancing requirement in 2010. The next refinancing is S$132.5m medium term notes due Feb 11 and S$400m unsecured club loan due Jun 11.

**Working on lease renewals.** Leases for 28.2% of office space and 38.8% of retail space will expire in 2009. SUN will benefit from positive rental reversion for office space as the average rent for leases expiring in 2009 is S$5.42psf pm. We have assumed average occupancy tapering to 82% for the office portfolio (previous: 90%) and 90% for the retail portfolio (unchanged) by 2Q11 in our base-case scenario to factor in the risks of tenants downsizing and business failures. Management will provide more updates on leases renewed in the upcoming results briefing in Apr 09.

**Benefitting from improved connectivity to Suntec City.** Accessibility to Suntec City will improve as it will be served by the Esplanade and Promenade MRT stations when the new Circle Line is ready in 2010.

**SINGAPORE**

**Suntec REIT (SUN SP)**

**BUY**

**Current Price: S$0.495**
**Target Price: S$0.630**
**(Previous: S$1.070)**

| | |
|---|---|
| Sector | REITs |
| 52-Wk Avg Daily Vol. ('000) | 6,992 |
| Market Cap (S$m) | 781.5 |
| (US$m) | 510.2 |
| Major Shareholders (%) | |
| Morgan Stanley Group | 6.2 |
| Asean Investments Corp | 5.1 |
| Book NTA per Share (S$) | 1.98 |
| ROE (%) | 3.0 |
| Net Debt per Share (S$) | 1.16 |
| Results Due | |
| 1Q: May | 2Q: Aug |
| 3Q: Nov | Final: Feb |

**Price Chart**


*Source: Bloomberg*

**Analyst**

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| Year to 31 Dec | Turnover (S$m) | EBIT (S$m) | Net Income (S$m) | EPU (¢) | EPU Growth (%) | PE (x) | DPU (¢) | Yield (%) |
|---|---|---|---|---|---|---|---|---|
| 2007 | 190.3 | 129.6 | 87.6 | 5.4 | 2.7 | 9.2 | 8.2 | 16.5 |
| 2008* | 294.5 | 214.0 | 74.9 | 5.1 | (6.3) | 9.8 | 13.3 | 26.9 |
| 2009F | 246.7 | 188.5 | 131.6 | 8.0 | 57.9 | 6.2 | 11.0 | 22.2 |
| 2010F | 204.3 | 154.6 | 89.0 | 5.1 | (36.3) | 9.7 | 7.8 | 15.7 |
| 2011F | 170.0 | 128.1 | 62.9 | 3.4 | (32.4) | 14.4 | 4.9 | 9.8 |

*Consensus Net Profit – FY09: S$138.6m*
*– FY10: S$127.4m*

**15-month period ending Dec 08.*

**Sensitivity analysis.** We assume retail occupancy will taper to 90% (unchanged) and rental will drop 15% (previous: 11%). Our base-case assumptions: office occupancy of 82% (previous: 90%) and office rentals taper off to S$4.80psf pm for Suntec Office Towers (previous: S$7.00psf pm) and S$4.08psf pm for Park Mall (previous: S$5.95psf pm). Current depressed share price has factored in our extreme worst case of a 77.8% correction in rentals and a decline in average occupancy to 76%.

Average office occupancy for Downtown Core troughed at 84.3% in 3Q09 after the Asian financial crisis and 80.2% in 1Q04 after SARS (source: URA).

### Target Price (S$)

| Office Rental | Correction | Average Office Occupancy | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (S$psf) | From Peak | 76% | 78% | 80% | 82% | 84% | 86% | 88% | 90% |
| 10.00 | -44.4% | 0.83 | 0.85 | 0.86 | 0.88 | 0.90 | 0.91 | 0.93 | 0.94 |
| 9.00 | -50.0% | 0.78 | 0.79 | 0.80 | 0.82 | 0.83 | 0.85 | 0.86 | 0.87 |
| 8.00 | -55.6% | 0.72 | 0.73 | 0.74 | 0.76 | 0.77 | 0.78 | 0.79 | 0.81 |
| 7.00 | -61.1% | 0.66 | 0.67 | 0.68 | 0.70 | 0.71 | 0.72 | 0.73 | 0.74 |
| 6.00 | -66.7% | 0.61 | 0.61 | 0.62 | **0.63** | 0.64 | 0.65 | 0.66 | 0.67 |
| 5.00 | -72.2% | 0.55 | 0.56 | 0.56 | 0.57 | 0.58 | 0.59 | 0.60 | 0.60 |
| 4.00 | -77.8% | 0.49 | 0.50 | 0.50 | 0.51 | 0.52 | 0.52 | 0.53 | 0.54 |

*Source: UOB Kay Hian*

### 2011 DPU (cents)

| Office Rental | Correction | Average Office Occupancy | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (S$psf) | From Peak | 76% | 78% | 80% | 82% | 84% | 86% | 88% | 90% |
| 10.00 | -44.4% | 6.32 | 6.43 | 6.53 | 6.64 | 6.75 | 6.86 | 6.97 | 7.08 |
| 9.00 | -50.0% | 5.91 | 6.00 | 6.10 | 6.20 | 6.30 | 6.40 | 6.50 | 6.60 |
| 8.00 | -55.6% | 5.49 | 5.58 | 5.67 | 5.76 | 5.85 | 5.94 | 6.02 | 6.11 |
| 7.00 | -61.1% | 5.08 | 5.16 | 5.24 | 5.32 | 5.39 | 5.47 | 5.55 | 5.63 |
| 6.00 | -66.7% | 4.67 | 4.74 | 4.81 | **4.87** | 4.94 | 5.01 | 5.07 | 5.14 |
| 5.00 | -72.2% | 4.26 | 4.31 | 4.37 | 4.43 | 4.49 | 4.54 | 4.60 | 4.66 |
| 4.00 | -77.8% | 3.84 | 3.89 | 3.94 | 3.98 | 4.03 | 4.08 | 4.12 | 4.17 |

*Source: UOB Kay Hian*

Our RNAV for SUN is S$0.70/share based on cap rates of 4.5% for Suntec City, 5.6% for Park Mall, 6.4% for Chijmes and 4.4% for One Raffles Quay.

### Earnings Revision

We have assumed the CMBS is refinanced at an interest rate of 4.8% in our earnings forecast (previous: 4.5%).

### Valuation/Recommendation

Our target price is S$0.63 based on a two-stage dividend discount model (required rate of return: 9.0%, terminal growth: 2.5%).

### Profit & Loss

| Year to 31 Dec (S$m) | 2007 | 2008F* | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Turnover | 190.3 | 294.5 | 246.7 | 204.3 | 170.0 |
| Net Property Income | 140.6 | 219.5 | 179.3 | 144.7 | 117.2 |
| EBIT | 129.6 | 214.0 | 188.5 | 154.6 | 128.1 |
| Distributable Income | 112.6 | 223.2 | 180.8 | 135.9 | 89.0 |
| DPU (S cents) | 8.2 | 13.3 | 11.0 | 7.8 | 4.9 |

### Balance Sheet

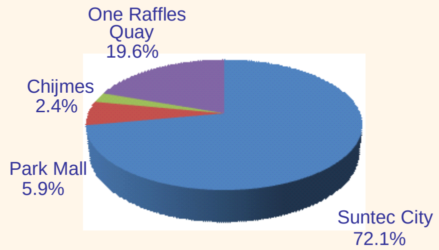
| Year to 31 Dec (S$m) | 2007 | 2008F* | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Current Assets | 29.8 | 66.5 | 64.3 | 63.9 | 65.4 |
| Total Assets | 4,599.6 | 5,431.6 | 4,844.0 | 3,735.7 | 3,281.9 |
| Current Liabilities | 120.4 | 894.5 | 149.9 | 147.5 | 146.2 |
| Long-Term Liabilities | 836.7 | 1,037.1 | 1,777.0 | 1,777.0 | 1,777.0 |
| Shareholder Funds | 3,608.3 | 3,456.0 | 2,868.7 | 1,757.9 | 1,300.0 |
| Total Equity & Liabilities | 4,599.6 | 5,431.6 | 4,844.0 | 3,735.7 | 3,281.9 |

### Cash Flow

| Year to 31 Dec (S$m) | 2007 | 2008F* | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Operating | 150.8 | 176.7 | 187.3 | 177.3 | 133.1 |
| Investing | (65.8) | (882.3) | (4.3) | (4.2) | (4.2) |
| Financing | (73.0) | 742.4 | (196.5) | (169.4) | (124.2) |
| Net Cash In/(Out) Flow | 12.0 | 36.8 | (13.4) | 3.7 | 4.8 |
| Begin Cash & Cash Equiv. | 5.2 | 17.3 | 54.1 | 40.6 | 44.3 |
| End'g Cash & Cash Equiv. | 17.3 | 54.1 | 40.6 | 44.3 | 49.1 |

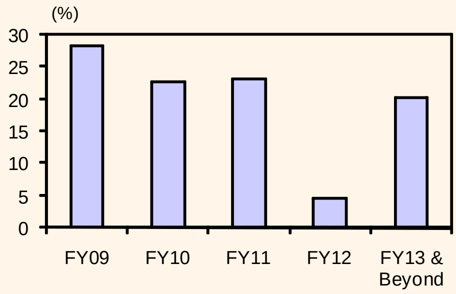
**15-month period ending Dec 08*

### Valuation By Property



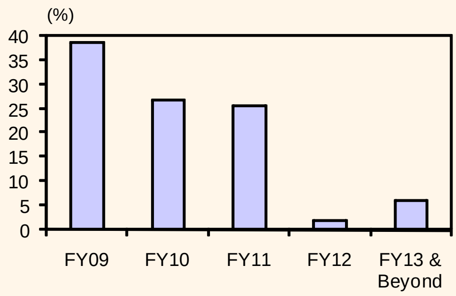

*Source: Suntec*

### Office Lease Expiry Profile



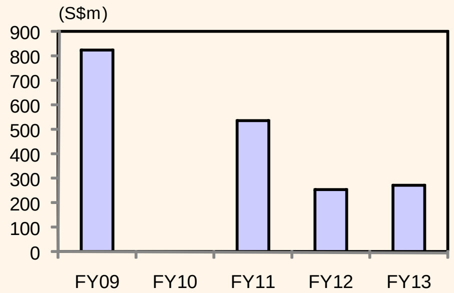

*Source: Suntec*

### Retail Lease Expiry Profile




*Source: Suntec*

### Debt Maturity Profile




*Source: Suntec*

# BEC World

## Vulnerable to a sell-down given its rich valuations

*No catalyst to drive its share price in the near term. With rich valuations at 16x FY09F PE and 5.4x P/B, BEC is vulnerable to a sell-down amid poor sentiments and deterioration in the global economic conditions. Downgrade to SELL*

**Corporate Events**

BEC World (BEC) is always regarded as a safe play given its strong market leadership, surplus cash, healthy operating cash flow, high dividend payment and over 40% ROE. Hence, its share price performance has been resilient despite the economic downturn. While SET and SETMEDIA had collapsed around 50% from their peaks in May 08, BEC's share price has fallen 38%. Year-to-date, it slipped only 4% ytd against a 6% decline in the SET and SETMEDIA.

However, as the macro outlook is deteriorating, it is unlikely that BEC's share price will hold at this level. Over the past three months, 2009 GDP growth forecast has been cut to 0% to -5%. With the correlation between adex growth and GDP at 80%, chances that adex will decline at a double-digit rate is high particular if it is still doom and gloom in the latter part of this year. Our 2009 net profit estimate of Bt2.36b (-18% yoy) is 15% below consensus as we assume a worst-case scenario that adex will fall 9-10%, similar to the decline at the height of the Asian financial crisis in 1998. Although BEC now trades at a low FY08 PE of 13x, it is still at a huge premium to SET PE of 10.7x. BEC also trades at a hefty P/B of about 5x, vs 4x in 1998. We downgrade BEC to SELL. Our new fair price of Bt14.7 is pegged to P/B of 4.2x, -2SD from its mean P/B of 6.6x.

**Stock Impact**

**Weak adex outlook.** Adex has turned sluggish in February, falling 6.2% to Bt6.3b after a brief pick-up of +4.5% in Jan 09 (due to a low base in Jan 08 when Thailand was mourning the death of the King's sister). For Jan-Feb 09, adex slipped 1.2%. Adex will remain weak throughout this year as major advertisers are hit by the economic crisis. Of the top 20 TV advertisers last year, 70% were foreign-owned consumer products firms, 7% were auto firms, 6% were from AIS and True Move, 4% from PTT, 3% from government agencies and 9% from Thai firms. Foreign-owned consumer products firms and auto firms are undoubtedly being hit hard by the global financial crisis so their adex budgets are highly likely to be slashed. Adex cuts by telecom firms AIS and TRUE, and PTT have already been announced. Government agencies will also reduce their adex budgets given the shortfall in their revenues.

**Ad spend share nearly reaches its last peak of 29-30%.** BEC's market share used to be at 29-30% before the emergence of TiTV in 2004. During 2004-6, its market share fell to 21-22%. After the closure of TiTV in 2007, its market share has gradually improved to the current 28%, only 2ppt away from its last peak.

**THAILAND**

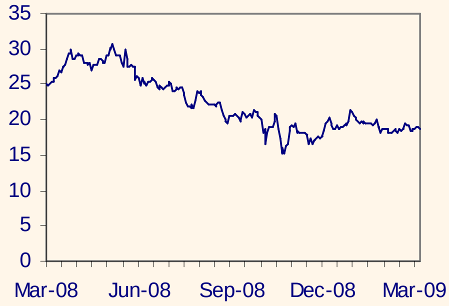
**BEC World (BEC TB)**

**DOWNGRADE TO SELL**

**Current Price: Bt19.00**
**Fair Price: Bt14.70**
**(Previous: Bt23.19)**

| | |
|---|---|
| Sector | Media |
| 52-Wk Avg Daily Vol. ('000) | 2,331.2 |
| Market Cap (Btm) | 38,000.0 |
| (US$m) | 1,085.7 |
| Major Shareholders (%) | |
| Maleenont family | 56.6 |
| Book NTA per Share (Bt) | 3.54 |
| ROE (%) | 42.37 |
| Net cash/share (Bt) | 2.21 |
| Results Due | |
| 1Q: May | 2Q:Aug |
| 3Q: Nov | Final: Feb |

**Price Chart**




*Source: Bloomberg*

**Analyst**

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| Year to 31 Dec | Turnover (Btm) | EBITDA (Btm) | Net Profit (Btm) | EPS (Bt) | EPS Growth (%) | PE (x) | EV/ EBITDA (x) | P/B (x) | DPS (Bt) | Div Yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 7,786 | 4,726 | 2,252 | 1.13 | 37.1 | 16.9 | 7.3 | 5.8 | 1.05 | 5.5 |
| 2008 | 8,798 | 5,589 | 2,875 | 1.44 | 27.7 | 13.2 | 6.0 | 5.4 | 1.30 | 6.8 |
| 2009F | 8,377 | 4,790 | 2,355 | 1.18 | (18.1) | 16.1 | 6.9 | 5.4 | 1.12 | 5.9 |
| 2010F | 8,994 | 5,181 | 2,596 | 1.30 | 10.2 | 14.6 | 6.3 | 5.2 | 1.23 | 6.5 |
| 2011F | 9,815 | 5,762 | 2,984 | 1.49 | 14.9 | 13.3 | 5.7 | 5.1 | 1.36 | 7.2 |

*Consensus Net profit – FY09: Bt2,794m*
*– FY10: Bt2,956m*

**Losing its momentum.** Prime-time utilisation rate hit its peak in 3Q08 at 805min/month and softened in 4Q08. Amid poor sentiments, BEC hopes only to maintain its prime-time ad revenue this year. BEC had made major ad rates adjustments over the past two years. A further hike in ad rates from this point will be in selective non-prime time programmes. It already raised ad rates for two popular variety shows, At Ten (new rate: Bt320k/min, +12%) and Strawberry Cheese Cake (new rate: Bt220k/min, +22%), effective Mar 09. BEC will focus more on reducing discounts and reshuffling programmes in order to raise effective ad rates.

**Consensus earning estimate optimistic.** We see consensus estimate for BEC's 2009 net profit of Bt2.8b (-3% yoy) is overly optimistic amid weak macro outlook. Chances are high that it will be revised down over the next six months as economic numbers are turning more sour.

**Recommendation**

We downgrade BEC to SELL. In normal times, BEC generally trades at a premium to the market. But amid poor sentiments and the deteriorating global economic conditions, BEC is vulnerable to a sell-down given its rich valuations at 16x FY09F PE and 5.4x FY09F PB. Our new fair price of Bt14.7 is pegged to P/B of 4.2x, -2SD from its mean P/B of 6.6x. Historically, BEC's P/B hit -2SD from its mean P/B twice- first in 1998 at the height of the Asian financial crisis, and second time in 2005 when it lost a substantial market share to TiTV.

**Profit & Loss**

| Year to 31 Dec (Btm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Turnover | 7,786 | 8,798 | 8,377 | 8,994 | 9,815 |
| EBIT | 3,328 | 4,237 | 3,483 | 3,838 | 4,375 |
| Pre-tax Profit | 3,354 | 4,210 | 3,483 | 3,838 | 4,375 |
| Net Profit | 2,252 | 2,875 | 2,355 | 2,596 | 2,984 |
| EPS (Bt) | 1.13 | 1.44 | 1.18 | 1.30 | 1.49 |

**Balance Sheet**

| Year to 31 Dec (Btm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Current Assets | 4,744 | 5,339 | 5,869 | 6,475 | 7,181 |
| Total Assets | 8,197 | 8,675 | 8,990 | 9,410 | 9,938 |
| Current Liabilities | 1,558 | 1,467 | 1,847 | 2,009 | 2,186 |
| Long-Term Loans | 0 | 0 | 0 | 0 | 0 |
| Shareholders' Funds | 6,500 | 7,073 | 6,994 | 7,238 | 7,572 |
| Total Equity & Liabilities | 8,197 | 8,675 | 8,990 | 9,410 | 9,938 |

**Cash Flow**

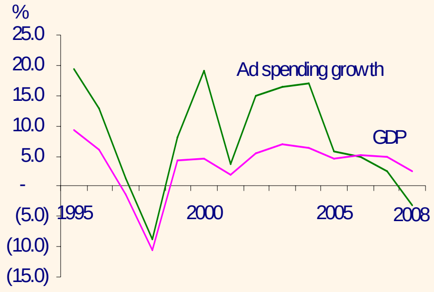
| Year to 31 Dec (Btm) | 2007 | 2008 | 2009F | 2010F | 2011F |
|---|---|---|---|---|---|
| Operating | 4,279 | 4,182 | 3,906 | 4,121 | 4,544 |
| Investing | (1,228) | (1,750) | (1,262) | (1,326) | (1,380) |
| Financing | (1,806) | (2,305) | (2,405) | (2,337) | (2,634) |
| Net Cash In/out flow) | 1,245 | 126 | 239 | 457 | 529 |
| Begin Cash & Cash Equiv. | 1,994 | 3,201 | 3,328 | 3,567 | 4,024 |
| End'g Cash & Cash Equiv. | 3,239 | 3,328 | 3,567 | 4,024 | 4,553 |

**Advertising Expenditure**

| | ----TV Adex--- | | ---Total Adex--- | |
|---|---|---|---|---|
| | Btm | % chg | Btm | % chg |
| **2006** | **53,296** | **6.5** | **89,840** | **5.0** |
| **2007** | **53,484** | **0.0** | **92,010** | **2.5** |
| 1Q08 | 11,778 | -7.7 | 20,687 | -3.7 |
| 2Q08 | 13,509 | +6.4 | 23,145 | +4.8 |
| 3Q08 | 13,246 | -4.7 | 22,729 | -4.2 |
| 4Q08 | 13,124 | -7.2 | 22,868 | -7.7 |
| **2008** | **51,136** | **-4.4** | **89,489** | **-2.8** |
| Jan-Feb09 | 7,710 | +4.6 | 12,775 | -1.2 |

*Source: Nielsen Media Research*

**Adex Growth vs GDP**




*Source: Nielsen Media Research, NESDB*

**Ad Spend Share**

| (%) | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Ch 3 (BEC) | 21 | 22 | 25 | 28 |
| Ch 5 | 17 | 16 | 17 | 20 |
| Ch7 | 28 | 28 | 27 | 31 |
| Ch9 (MCOT) | 14 | 14 | 14 | 18 |
| Ch11 | 2 | 3 | 2 | 4 |

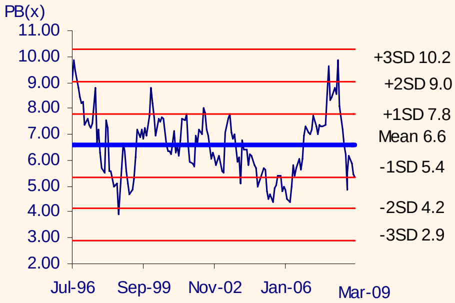
*Source: Nielsen Media Research*

**Audience Share**

| (%) | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Ch 3 (BEC) | 25 | 26 | 30 | 27 |
| Ch 5 | 8 | 7 | 7 | 7 |
| Ch7 | 42 | 41 | 42 | 44 |
| Ch9 (MCOT) | 10 | 10 | 9 | 9 |
| Ch11 | 3 | 3 | 2 | 4 |

*Source: Nielsen Media Research*

**BEC: P/B (x) & Standard Deviation**




*Source: SETSMART, UOB Kay Hian*

http://research.uobkayhian.com

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