

### KEY STORY

#### Indonesia

**Bank Mandiri (SELL/Rp2,175/Fair: Rp1,900) Page 21**  
 2008: Net profit is in line with expectation but NPL is higher in 4Q08. Challenging near-term outlook. Downgrade to SELL.

#### CHINA

##### Sector

**Property Page 3**

1Q09: Sales surge and housing inventory drops.

##### Results

**China Coal Energy (BUY/HK\$5.72/Target: HK\$8.50) Page 5**  
 2008: A good bet on China's recovery story. Raise target price to HK\$8.50.

**CNOOC (HOLD/HK\$7.68/Fair: HK\$6.85) Page 7**  
 2008: Net profit grows 42% yoy, driven by higher crude price and strong production growth. Maintain HOLD on valuation concern.

**Datang International Power (BUY/HK\$3.41 /Target: HK\$4.10) Page 9**  
 2008: Net profit better than expected and dividend payout further surprise the market on the upside. Maintain BUY.

**Lianhua Supermarket (SELL/HK\$8.84/Fair: HK\$7.85) Page 11**  
 2008: Results slightly above consensus, but gross margin growth not sustainable.

**China Unicom (SELL/HK\$8.28/Fair: HK\$7.10) Page 13**  
 2008: High capex will erode earnings further in the near term.

##### Update

**Chalco (HOLD/HK\$4.45/Fair: HK\$4.60) Page 15**  
 The worst is over. Upgrade to HOLD.

#### INDONESIA

##### Results

**Bakrie Sumatera Plantations (SELL/Rp310/Fair: Rp250) Page 17**  
 2008: Results are below our and market expectations on higher forex losses and net losses in subsidiaries.

**Bank Central Asia (HOLD/Rp3,100/Fair: Rp3,300) Page 19**  
 2008: Net profit was above expectations on soaring forex gain and lower effective tax rate. Maintain HOLD due to premium valuation.

**Bank Mandiri (SELL/Rp2,175/Fair: Rp1,900) Page 21**  
 2008: Net profit is in line with expectation but NPL is higher in 4Q08. Challenging near-term outlook. Downgrade to SELL.

**Bank Negara Indonesia (HOLD/Rp720/Fair: Rp800) Page 23**  
 2008: Results are largely in line. Several key indicators are improving, but still weaker compared with that of closest peers. Maintain HOLD.

**Sampoerna Agro (BUY/Rp1,270/Target: Rp1,350) Page 25**  
 2008: Net profit more than doubles to Rp439.5b on higher CPO prices and sales volume. Results are in line with our expectation.

#### MALAYSIA

##### Sector

**Banking Page 27**

Feb 09: Loan growth decelerates as business loan slows. Household loan is expected to slow down as unemployment rate rises.

### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7608.9	1.2	(0.7)	7.7	(13.3)
S&P 500	797.9	1.3	(1.0)	8.5	(11.7)
FTSE 100	3926.1	4.3	0.4	2.5	(11.5)
AS30	3532.3	(0.6)	0.4	7.1	(3.5)
CSI 300	2507.8	0.9	2.3	17.2	38.0
FSSTI	1700.0	1.6	(0.4)	6.6	(3.5)
HSI	13576.0	0.9	(2.4)	6.0	(5.6)
JCI	1434.1	1.1	1.9	11.6	5.8
KLCI	872.6	0.4	(0.6)	(2.0)	(0.5)
KOSPI	1206.3	0.7	(1.3)	13.5	7.3
Nikkei 225	8109.5	(1.5)	(4.5)	7.1	(8.5)
SET	431.5	0.4	(1.5)	(0.0)	(4.1)
TWSE	5210.8	0.1	(0.6)	14.3	13.5
BDI	1615	(1.9)	(8.1)	(18.7)	108.7
CPO (RM/mt)	2113	0.2	(0.1)	9.9	29.6
Nymex Crude (US\$/bbl)	49	(1.7)	(7.5)	9.1	9.5

Source: Bloomberg

### Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
<b>Top BUYs</b>			
China Life	2628 HK	25.70	31.30 21.8
China Mobile	941 HK	67.50	85.00 25.9
China Railway	390 HK	4.53	5.90 30.2
China Shenhua	1088 HK	17.46	21.90 25.4
Sinopec	386 HK	4.96	6.60 33.1
Zijin Mining	2899 HK	5.52	7.15 29.5
Bumi Resources	BUMI IJ	820	1,010 23.2
DBS Group	DBS SP	8.45	10.55 24.9
Indofood Agri	IFAR SP	0.60	0.80 34.5
SingTel	ST SP	2.53	2.95 16.6
Advanced Info	ADVANC TB	82.75	101.73 22.9
Quality Houses	QH TB	0.81	1.28 58.0
<b>Top SELLs</b>			
Harbin Power	1133 HK	5.04	3.50 (30.6)
Parkson Retail	3368 HK	7.84	5.15 (34.3)
S'pore Airlines	SIA SP	10.00	8.20 (18.0)
STX Pan Ocean	STX SP	10.02	4.35 (56.6)
Amata Corp	AMATA TB	3.10	2.52 (18.7)

### Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.1	(2.5)	1.8
Euro Zone*	0.7	(2.8)	0.6
Japan*	(0.6)	(5.8)	0.4
Singapore	1.2	(4.0)	4.0
Malaysia	4.6	-1	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	6.5	8.00
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,595	1,947
Copper* (US\$/MT)	6,884	3,719	4,505
Gold Price London* (US\$/ounce)	873	936	982
Iron Ore* (US\$/dmtu)	153	108	101
CPO (US\$/MT)	818	520	685
BDI	6,338	2,500	1,500

\* Bloomberg  
 Source: UOB, UOB Kay Hian

### Corporate Events

	Venue	Beg	Close
AMMB Company Visit	Malaysia	1 Apr	1 Apr
Inspur Corp Roadshow	Hong Kong	2 Apr	3 Apr
Wasion Gp Corp Roadshow	Hong Kong	7 Apr	8 Apr

*Wednesday, April 01, 2009***SINGAPORE****Update****ST Engineering (BUY/S\$2.46/Target: S\$2.82)****Page 29**

Size matters. Impressive takeaways from analyst briefing.

**THAILAND****Update****LPN Development (BUY/Bt2.62/Target: Bt2.96)****Page 31**

Pace of sales, rejection rate and inventory level are on track so far. LPN trades at 3.7x 2009F PE and 0.8x P/B with dividend yield of 14%.

## Property

### 1Q09: Sales surged and housing inventories declined

1Q09 sales recorded strong rebound yoy and were even close to those in 1Q07. Meanwhile, housing inventories dropped from the peak and inventory turnover also improved. Strong sales remain the key catalyst in the sector.

**Sales surged in Mar 09.** The overall sales last month in major cities soared by about 80% mom and 130% yoy. Meanwhile, the total sales of major cities in 1Q09 were about 60-70% higher yoy. Moreover, we are somewhat surprised to see that the sales have been close to those in 1Q07, a golden period in China's residential market. Among the major cities, secondary cities, i.e. Chongqing, Tianjin and Chengdu, outperformed the overall market with sales surpassing those in 1Q07 while the primary cities, i.e. Beijing, Shanghai and Shenzhen were about 10% lower than those in 1Q07.

**Beijing:** Primary sales rose 75% mom or 80% yoy in March. The sales of ordinary houses were solid as the transactions from subsidised housing declined from half of the total in 4Q08 to around 10% in 1Q09.

**Shanghai:** Total sales in 1Q09 only increased by 2% yoy, but it was only modestly lower than the high level of 10% in 1Q07.

**Shenzhen:** The city showed strong sales recovery in 1Q09 from the low base during the same period last year. Meanwhile, it was only 7% lower than those in early-07.

**Chongqing:** The city recorded one of the best performances in 1Q09. Total residential sales reached 4.46m sqm in 1Q09, the largest sales volume among major cities. Meanwhile, ytd sales were 66% higher yoy as well as 55% higher than that in 1Q07.

**Housing inventories declined and inventory turnover improved.** The housing inventories of major cities dropped 7-17% by end-March from the peak in 4Q08. Shenzhen saw the greatest inventory decline by 17% on the back of strong sales recovery and limited increase in new supply. More importantly, the average inventory turnover of major cities has seen significant enhancement from more than one-and-a-half-years during the peak in 4Q08 to nearly one year currently, if based on the sales over the past half a year.

### Inventory Turnover To Pick Up

(Months)	Peak 08	Current 1	Current 2
Beijing	22.3	20.8	17.4
Shanghai	6.6	5.8	5.9
Shenzhen	19.6	15.6	9.6
Chongqing	14.0	13.0	10.0
Hangzhou	21.9	18.3	16.9
Average	16.9	14.7	11.9

Note: Inventory turnover of current 1 is based on 2008 sales while current 2 is based on sales over the past half a year.

Source: Soufun, UOB Kay Hian

**Expect sales remain strong in 2Q09.** We believe the sales recovery would be maintained on the back of: a) improved market sentiment on home purchase, b) strong pent-up demand emerging after substantial price cuts, and c) continuously improving economic outlook in the second quarter to support confidence on consumption.

We expect the share price performance of stocks in the property sector to remain resilient in 2Q09 on the back of strong sales performance from the market as well as listed companies. Apart from our top picks of Guangzhou R&F (2777 HK) and CRL (1109 HK), investors should look at the laggards catching up, i.e. KWG (1813 HK), Shimao Property (813 HK) and Poly HK (119 HK) on the back of strong sales recovery in the Pearl River Delta region as well as sales improvement in the overall market.

## CHINA

### Property

## MARKET WEIGHT

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### Primary Sales In Major Cities

	Mar 09 ('000 sqm)	MoM%	YoY%	1Q09 ('000 sqm)	2008 YoY%	07 YoY%
Beijing	1,216	75	79	2,480	30	(9)
Shanghai	2,182	86	21	4,154	2	(10)
Shenzhen	773	58	307	1,654	219	(7)
Tianjin	1,141	102	114	1,993	70	35
Nanjing	765	82	92	1,637	56	n.a.
Hangzhou	449	165	191	750	37	7
Wuhan	1,207	111	167	2,056	55	(17)
Chongqing	1,983	21	138	4,460	66	55
Chengdu	1,099	7	61	2,728	66	14

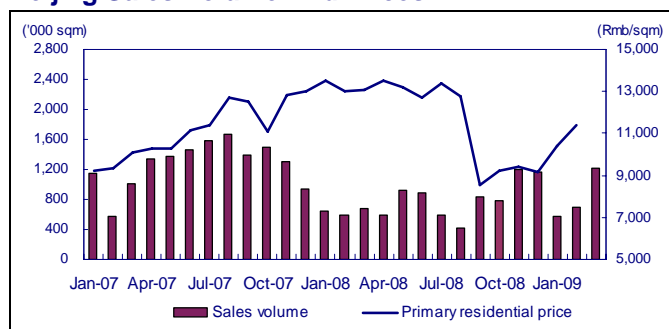
Source: Soufun, UOB Kay Hian

### Decline In Housing Inventories In Major Cities

(m sqm)	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Decline from the peak (%)
Beijing	16.9	18.6	18.6	19.2	19.2	18.8	18.1	17.9	(7)
Shanghai	6.7	7.1	7.9	8.4	8.6	8.4	7.8	7.6	(12)
Shenzhen	5.6	6.4	6.1	6.7	6.4	6.2	5.6	5.3	(17)
Chongqing	13.0	13.8	14.5	14.7	14.7	14.6	13.8	13.6	(7)
Hangzhou	2.9	3.3	3.7	4.0	4.1	3.9	3.8	3.4	(17)

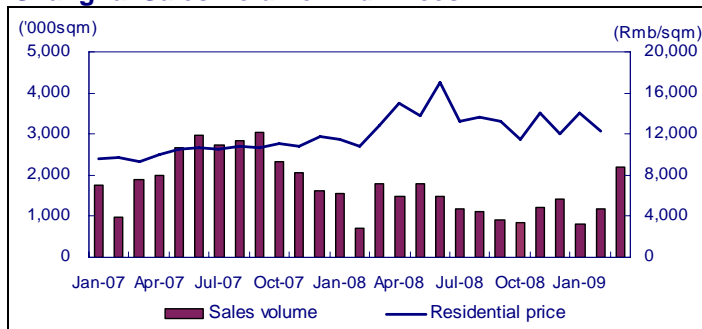
Source: Soufun, UOB Kay Hian

### Beijing Sales Volume And Prices



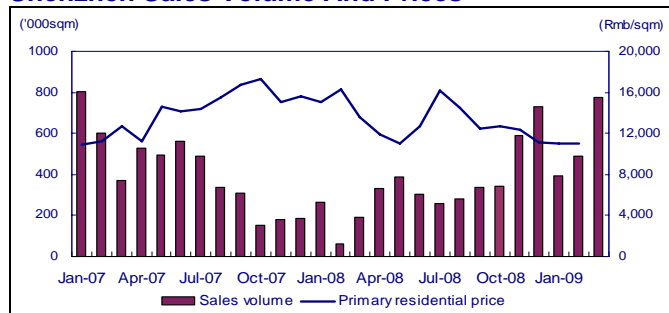
Source: Soufun, UOB Kay Hian

### Shanghai Sales Volume And Prices



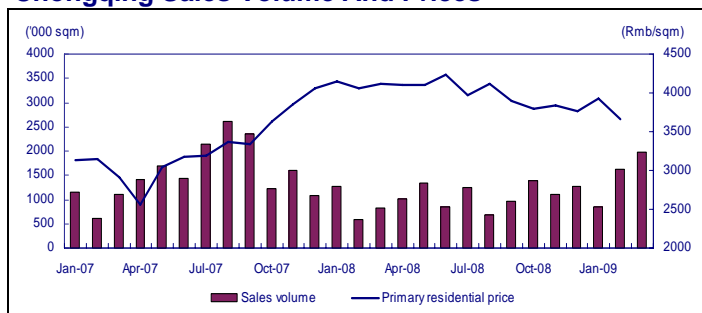
Source: Fangdi.com, Soufun, UOB Kay Hian

### Shenzhen Sales Volume And Prices



Source: Shenzhen Real Estate Bureau, UOB Kay Hian

### Chongqing Sales Volume And Prices



Source: Soufun, UOB Kay Hian

### Peer Comparison

	Bloomberg Code	Rating	Share price 31 Mar 09 (HK\$)	EPS 2008F (Rmb)	EPS 2009F (Rmb)	PE FY08F (X)	PE FY09F (X)	Yield FY08F (%)	Yield FY09F (%)	NAV (HK\$)	Discount to NAV (%)
Agile	3383 HK	HOLD	4.42	1.36	0.48	2.9	8.1	7.7	5.1	9.20	(52.0)
China Overseas Land	688 HK	HOLD	12.20	0.45	0.68	24.0	15.9	1.1	1.5	12.44	(1.9)
China Resources Land	1109 HK	BUY	12.16	0.42	0.40	25.9	26.7	1.0	1.0	16.33	(25.5)
Greentown	3900 HK	SELL	3.45	0.48	0.89	6.4	3.4	3.9	5.6	11.21	(69.2)
Guangzhou R&F	2777 HK	BUY	9.02	1.06	0.86	7.5	9.3	0.0	2.5	17.37	(48.1)
Hopson	754 HK	SELL	5.15	1.18	1.29	3.9	3.5	6.4	7.6	17.00	(69.7)
KWG	1813 HK	HOLD	2.24	0.17	0.24	11.7	8.3	2.2	3.2	4.84	(53.7)
Poly HK	119 HK	BUY	1.89	0.06	0.24	26.1	7.0	2.6	2.6	6.47	(70.8)
Shanghai Forte Land	2337 HK	SELL	1.27	0.04	0.12	28.1	9.1	1.8	1.8	2.45	(48.2)
Shimao Property	813 HK	BUY	6.79	0.56	0.71	10.7	8.5	3.7	4.0	14.11	(51.9)
Sino-Ocean Land	3377 HK	BUY	5.10	0.31	0.28	14.6	16.1	1.7	1.8	7.25	(29.7)
SOHO	410 HK	BUY	3.12	0.08	0.23	36.3	12.0	3.6	3.6	5.40	(42.2)

Source: Respective companies, UOB Kay Hian

## China Coal Energy

2008: Volume uncertainty subdued

Growth profile is now clearer, with 77% of contract sales sealed on upbeat price guidance despite a temporary operating slippage, which should hurt sentiment. Maintain BUY with a higher target price of HK\$8.50.

### 2008 Results

Year to 31 Dec	2008 (Rmbm)	yoy % chg	4Q08* (Rmbm)	qoq % chg	yoy % chg	Remarks
Turnover	50,993	43	9,288	(40)	7	Higher ASP (+23%), vol (+8%)
Operating profit	11,399	27	1,492	(52)	(26)	Dragged by investment loss
Net Profit	7,141	19	1,034	(53)	(33)	Lower effective tax rate
Core net profit	8,196	64	1,261	(46)	(17)	Excludes investment loss
		<b>(%) ppt chg</b>		<b>(%) ppt chg</b>	<b>ppt chg</b>	
Gross margin	26.6	0.9	44	(21)	(37)	
Operating margin	22.4	(2.9)	16	(4)	(7)	
Net margin	14.0	(2.9)	11	(3)	(7)	
Core net margin	16.1	2.1	14	(1)	(4)	

\* China GAAP

Source: China Coal Energy, UOB Kay Hian

### Results

- Stripping out Rmb1.4b loss on COSCO A-shares, core net profit of Rmb8.2b rose 64% yoy, 5% above our forecast.
- Turnover rose 43% to Rmb51b, within our expectation.
- Core net margin improved by 2ppt on lower SG&A, finance cost and effective tax rate.
- For 2008, coal output was 91.5mt, vs China Shenhua's 185.7mt.

### Stock Impact

China Coal Energy (ChinaCoal) announced lower operating targets for coal output and a delay in its Heilongjiang coal chemical project due to lower internal rate of return (IRR). However, not all news is bad. Management has outlined a clearer growth profile, which effectively removes the operating uncertainty surrounding the coal talks.

For example, it has revealed that 77% of its coal sales have been locked in this year. As with Shenhua, ChinaCoal is upbeat on new contract prices signed, but did not give precise numbers under an agreement with power plants.

For 2009, it expects to add 6mt of coal (+7%) against 17mt previously, but has guided an encouraging growth profile of 30% growth in 2010-11 from four greenfield coal mines.

### Earnings Revision

We raise our 2009 and 2010 earnings forecasts by 6% and 61% to reflect better margins and the new growth profile. Our earnings model has incorporated a rumoured 5% resource tax from 2009 onwards. Should Beijing delay or announce a lower resource tax rate later in the year, ChinaCoal's earnings could rise 21% to Rmb8.5b.

## CHINA

### China Coal Energy (1898 HK)

#### BUY

Current Price: HK\$5.72

Target Price: HK\$8.50

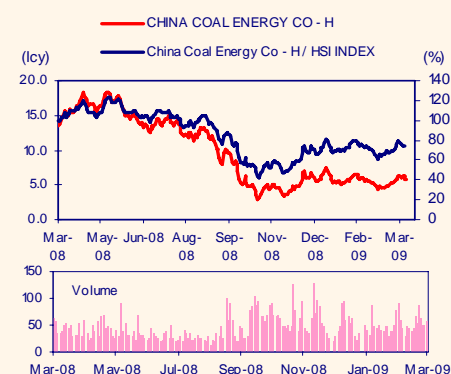
(Previous: HK\$8.00)

Sector	Coal
52-Wk Avg Daily Vol. (m)	43.9
Market Cap (HK\$m)	113,584
(US\$m)	14,656
Major Shareholders (%)	
China Coal Group	57.2
Book NTA per Share (Rmb)	4.4
ROE (%)	12.2
Net Cash per Share (Rmb)	1.99

#### Results Due

1Q: Apr	2H: Sep
3Q: Oct	Final: Mar

### Price Chart



Source: Bloomberg

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	35,641	10,226	6,020	0.51	31.6	10.9	10.8	0.15	2.7
2008	50,993	12,773	7,141	0.54	5.0	10.4	8.6	0.15	2.8
2009F	52,247	12,985	7,034	0.53	(1.5)	10.5	9.0	0.16	2.9
2010F	73,033	21,306	11,786	0.89	67.6	6.3	5.5	0.27	4.8
2011F	75,308	22,666	12,626	0.95	7.1	5.9	4.8	0.29	5.1

Consensus Net Profit – FY09: Rmb8,463m;  
 – FY10: Rmb8,953m

**Valuation/Recommendation**

ChinaCoal is a good bet in the event of a better-than-expected economic recovery in China due to its higher sensitivity to coal prices. A 1% change in coal price will move 2009 earnings by 4.3%, against 1.1% for Shenhua and 3.2% for Yanzhou Coal.

Do be warned that the counter is vulnerable to negative newsflows on softer power demand in late-March and potential policy intervention over contract price talks, which will likely come through in weeks.

Maintain BUY with a higher target price of HK\$8.50, based on a conservative long-term coal price assumption of Rmb300/tonne (vs spot: Rmb560/tonne).

Near-term catalysts include robust Purchasing Manager Index data due this weekend, improving monthly operating data and sequential power demand recovery.

**Long Term Coal price assumptions (Rmb/tonne)**

WACC	200	250	300	350	400	450	500	550
10%	6.5	7.9	9.2	10.5	11.8	13.1	14.4	15.7
11%	6.4	7.7	8.9	10.2	11.5	12.8	14.1	15.3
12%	6.3	7.5	8.7	10.0	11.2	12.5	13.7	15.0
13%	6.1	7.3	8.5	9.8	11.0	12.2	13.4	14.6
14%	6.0	7.2	8.4	9.5	10.7	11.9	13.1	14.2
15%	5.9	7.0	8.2	9.3	10.5	11.6	12.8	13.9
16%	5.8	6.9	8.0	9.1	10.2	11.3	12.5	13.6
17%	5.6	6.7	7.8	8.9	10.0	11.1	12.2	13.3
18%	5.5	6.6	7.6	8.7	9.8	10.8	11.9	13.0

Source: UOB Kay Hian

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	35,641	50,993	52,247	73,033	75,308
EBIT	9,000	11,399	10,941	17,951	19,007
Pre-tax Profit	8,356	10,512	10,441	17,394	18,566
Net Profit	6,020	7,141	7,034	11,786	12,626

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	23,238	51,052	50,040	60,240	68,737
Total Assets	52,799	88,184	101,644	116,638	125,140
Current Liabilities	10,635	12,744	14,945	18,627	19,466
Long-Term Liabilities	8,963	10,194	11,417	12,787	10,229
Shareholder Funds	27,332	58,542	68,069	76,319	85,157
Total Equity & Liabilities	52,799	88,184	101,644	116,638	125,140

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	5,032	8,961	8,290	13,431	17,621
Investing	(17,487)	(33,989)	(15,611)	(8,233)	(3,757)
Financing	(1,689)	31,692	938	(1,127)	(6,231)
Net Cash In/(Out) Flow	(14,144)	6,664	(6,383)	4,072	7,634
Begin Cash & Cash Equiv.	18,224	4,080	10,744	4,361	8,432
End'g Cash & Cash Equiv.	4,080	10,744	4,361	8,432	16,066

## CNOOC

2008: Results in line; upbeat production growth in later years

Benefitting from high crude oil price and strong production growth, net profit grew 42% yoy, in line with consensus. Production growth outlook for later years is upbeat. Maintain HOLD mainly on valuation concern.

### Results

Year to 31 Dec	2008 (Rmbb)	2007 (Rmbb)	yoy % chg	Remarks
Oil & gas sales	100.8	73.0	38.1	Boosted by higher crude price and strong production growth
Operating expenses	(9.9)	(8.0)	23.8	Higher service fees and higher raw material prices
Production taxes	(4.9)	(3.5)	40.0	Production grew 14%
Special oil gain levy	(16.2)	(6.8)	137.5	Average oil price increased 35%
Depreciation	(10.0)	(7.9)	26.6	
Operating profit	53.9	41.2	30.8	
Finance cost	(0.4)	(2.0)	(80.5)	No fair value losses of CB
Profit before tax	57.9	43.3	33.7	
Net profit	44.4	31.3	42.0	
EPS	0.99	0.72	37.5	

Source: CNOOC; UOB Kay Hian

### Results

Net profit in 2008 grew 42% to Rmb44.4b, in line with market consensus. Oil and gas sales increased 38%, benefitting from a 35% increase in realised oil price and 14% net production increase. CNOOC proposed a full-year dividend of HK\$0.40/share, which is consistent with its historical payout ratio of 35%.

### Stock Impact

We assume oil price of US\$55/bbl for 2009. Based on this assumption, net profit is expected to drop 42.4% yoy to Rmb25.4b in 2009. Given the weak earnings outlook, share price will hardly be able to perform well in the coming months.

Oil price movements are positive for CNOOC. We believe oil prices bottomed out in Dec 08 and Jan 09. As a pure upstream company, CNOOC is the most leveraged to oil prices. Therefore, we believe earnings should test the bottom in 1Q09. The company should record qoq earnings growth in 2Q09.

On the production front, CNOOC is reliable given its solid track record, so there should not be much downside risk from production at this stage. As for margins, we are also comfortable with management's effective cost control measures. Production expenses are expected to remain flat in 2009 vs 2008.

### Earnings Risk

Oil prices remain the biggest risk for CNOOC. Net profit of Rmb25.4b in 2009 is based on an average of US\$55/bbl. The variance from this oil price assumption may lead to a change in earnings.

## CHINA

### CNOOC (883 HK)

### HOLD

Current Price: HK\$7.68

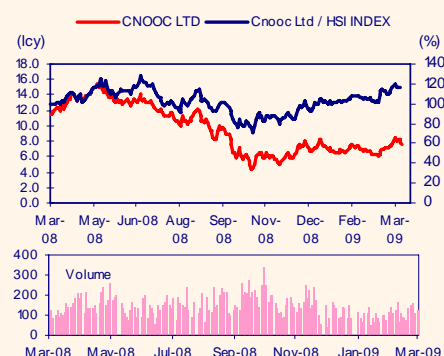
Fair Price: HK\$6.85

Sector	Oil & Gas
52-Wk Avg Daily Vol. (m)	138m
Market Cap (HK\$b)	343.1
(US\$b)	44.0
Major Shareholders (%)	
National Offshore	64.4
Book NTA per Share (Rmb)	3.6
ROE (%)	27.7
Net cash per share (Rmb)	0.13

### Results Due

Interim	August
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 (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	90,724	48,573	31,258	0.72	1.1	9.4	5.9	0.28	4.2
2008	125,977	82,169	44,375	0.99	37.5	6.9	3.9	0.35	5.2
2009F	78,312	51,075	25,410	0.57	(42.4)	11.8	5.7	0.17	2.5
2010F	92,426	65,052	33,768	0.76	32.9	8.9	4.4	0.23	3.4
2011F	107,169	80,065	42,488	0.95	25.8	7.1	3.6	0.29	4.2

Consensus Net Profit – FY09: Rmb26,963m  
 – FY10: Rmb34,904m

**Valuation/Recommendation**

Share price has remained strong recently, driven by the oil price rally. But valuation is demanding at this stage (1.9x P/B and 11.8x forward PE). We maintain our HOLD rating on CNOOC. Current share price implies a long-term oil price of US\$75/bbl, which is way too high compared with current spot price of US\$50/bbl. Our entry price for CNOOC is HK\$6.00.

**Key indicators are in line with expectation.** Total production increased 14.0% to 195.4mmboe. The company recorded an organic reserve replacement ratio (RRR) of 111% in 2008. Realised oil price increased 34.9% to US\$89.4/bbl in 2008 and oil sales grew 13.4% to 152.7mmbbl. As a result, CNOOC paid a special oil gain tax of Rmb16.2b (equivalent to US\$15.6/bbl). Natural gas price rose 16.1% to US\$3.83 per thousand cubic feet and natural gas sales increased 14.7% to 39.8mmboe.

**Capex growth remains strong in 2009.** Earlier this month, PetroChina (0857 HK; BUY/Target: HK\$7.80) and Sinopec (0386 HK; BUY/Target: HK\$6.60) announced that they will cut spending on exploration and production (E&P) mainly because of weak oil prices. In contrast, CNOOC expects its capex to grow 19% to US\$6.76b from US\$5.68 in 2007. The capex will focus on oil & gas field development, including 10 new projects that will come into production in 2009.

**Production outlook is upbeat.** CNOOC maintains its previous production guidance of 225-231mmboe unchanged, which represents 15-18% yoy growth. It also expects its RRR to exceed 100% in 2009. In terms of production in 2011-15, the company is also upbeat, expecting a CAGR of 6-10%.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	90,724	125,977	78,312	92,426	107,169
EBIT	41,199	53,865	33,582	44,018	55,350
Pre-tax Profit	43,311	57,880	33,434	44,431	55,905
Net Profit	31,258	44,375	25,410	33,768	42,488
EPS (Rmb)	0.72	0.99	0.57	0.76	0.95

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	55,732	63,770	75,523	84,518	104,081
Total Assets	179,793	206,668	250,667	286,758	331,660
Current Liabilities	21,402	18,799	16,682	18,005	19,419
Long-Term Liabilities	24,077	27,632	25,737	26,737	27,737
Shareholder Funds	134,315	160,237	208,248	242,016	284,504
Total Equity & Liabilities	179,793	206,668	250,667	286,758	331,660

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Pre-tax Profit	43,311	57,880	33,434	44,431	55,905
Depreciation	7,374	10,057	17,493	21,033	24,715
Change in working capital	3,183	(6,633)	4,497	(721)	(865)
Capex	(26,862)	(35,140)	(46,278)	(48,129)	(50,054)
Net cashflow	9,128	20,593	1,951	6,781	17,284

## Datang International Power

2008: Net profit better than expected

Datang reported better-than-expected results mainly due to one-off gain. It declared a DPS of Rmb0.11/share, which surprised the market on the upside. Maintain BUY.

### 2008 Results

Year to 31 Dec	2008 (Rmb m)	yoy % chg	Remarks
Turnover	36,835	12.4	Driven by 7% yoy increase in on-grid power generation volume growth and tariff hikes in 2H08
Operating costs	33,906	36.5	Mainly due to higher costs and depreciation
Fuel cost	22,507	47.5	Driven by sky-high coal prices last year
Operating profit	2,930	(63.0)	Mainly due to higher coal prices
Associates	428	153.3	Due to earnings contribution from Tashan Coal
Gain from investment securities	894	-	Disposal of securities of Daqin Railway Due to higher series interest rate hike and more debt financing last year
Finance cost	3,665	77.7	
Pre-tax profit	612	(89.9)	
Taxation	72	(95.2)	
Net profit	761	(78.6)	
EPS-basic (Rmb/share)	0.06	(80.6)	
DPS-(Rmb/share)	0.11		

Source: UOB Kay Hian

### Results

Datang International Power (Datang) reported a net profit of Rmb761m for 2008, down 79% yoy but 49% higher than the net profit of Rmb510 previously warned by the Group earlier this year and 288% higher than consensus forecast of Rmb196m. The major discrepancy was the one-off gain from the disposal of securities of Daqin Railway. Excluding such one-off gain, Datang could merely breakeven.

What surprised us is that Datang declared a final DPS of Rmb0.11/share, implying a dividend yield of 3.4%. Management further guided a stable future dividend payout, regardless of whether the Group is profitable or not, suggesting secured shareholder value.

### Stock Impact

**Contract coal price may be finalised in the near term.** During the analyst meeting, management guided that the negotiations on contract coal price may be finalised in the near term with a flat contract price. To factor in this, we built into our model a unit fuel cost of Rmb158/MWh, down by about 20% yoy and basically in line with the contract price set in 2008.

**Utilisation hours continue to trend lower.** Datang's utilisation hours dropped 11% yoy in 2008 due to weak demand. Management guided a continued weak utilisation in 1Q09. We built into our model a 6% utilisation downtrend for this year.

## CHINA

### Datang International Power (0991HK)

#### BUY

Current Price: HK\$3.41

Target Price: HK\$4.10

(Previous: HK\$4.90)

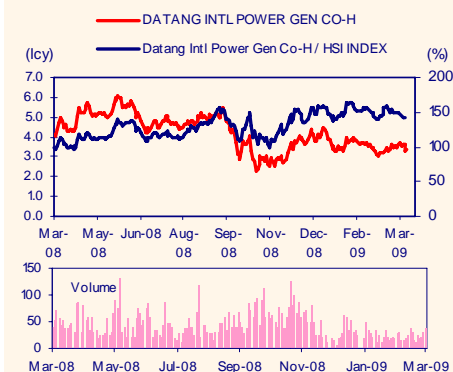
Sector Power  
Bloomberg 991 HK  
Reuters 0991.HK  
Website www.dtpower.com

52-Wk Avg Daily Vol. (m) 40.9  
Market Cap (HK\$m) 39,075  
(US\$m) 5,010

Book NTA per Share (HK\$) 2.6  
ROE (%) 13.0  
Net Debt per Share (HK\$) 2.6

Results Due August  
Interim March  
Final

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	32,829	11,863	3,406	0.29	(46)	11.3	8.7	0.14	4.4
2008	36,836	10,657	761	0.06	(78)	50.5	10.9	0.11	3.4
2009F	43,754	12,661	2,550	0.22	235	15.1	9.5	0.11	3.3
2010F	48,361	13,239	2,358	0.20	(8)	16.3	8.7	0.10	3.0
2011F	53,839	14,211	2,887	0.25	25	13.3	7.8	0.12	3.7

Consensus – FY09: Rmb2,920m  
– FY10: Rmb3,602m

**Coal mine projects on track.** Datang's coal mine project is currently progressing smoothly. Tashan Coal Mine is expected to produce 15m tonnes of coal this year from 10m tonnes a year earlier and Yuzhou Coal Mine has achieved 6m tonnes of coal output. We believe this could help Datang to alleviate its coal cost pressure this year.

**Earnings Revision/ Recommendation**

Based on our revised unit fuel cost forecast, we revise Datang's net profit estimates downward by 18% each for 2009 and 2010. Our new NAV/share is HK\$4.70. Maintain BUY with our DCF-based target price lowered to HK\$4.10 (WACC=8.5%, g=3%) from HK\$4.90 previously, representing 16.0x 2009 PE.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	32,829	36,836	43,754	48,361	53,839
EBIT	6,933	4,498	5,433	5,157	5,773
Pre-tax Profit	5,837	612	3,886	4,151	5,146
Net Profit	3,406	761	2,550	2,358	2,887
EPS (Rmb)	0.29	0.06	0.22	0.20	0.25

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	11,509	15,240	16,233	9,857	16,066
Total Assets	121,773	157,392	168,504	181,849	185,570
Current Liabilities	41,632	53,576	44,016	47,196	50,383
Long-Term Loans	45,901	73,171	88,187	94,094	93,635
Shareholders' Funds	29,598	25,990	31,495	32,319	32,798
Total Equity & Liabilities	121,773	157,392	168,504	181,849	185,570

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	10,512	11,287	13,752	15,222	16,457
Investing	(25,729)	(19,921)	(14,921)	(6,246)	(6,996)
Financing	14,418	8,760	4,686	(4,194)	(3,922)
Net Cash Inflow	(799)	127	3,517	4,783	5,539
Begin Cash & Equiv.	4,451	3,649	3,776	7,292	12,075
End'g Cash & Equiv.	3,649	3,776	7,292	12,075	17,614

## Lianhua Supermarket

2008: Slightly above consensus; gross margin growth unsustainable

2008 results are slightly above expectation with net profit up 44.7% yoy. Although its gross margin improved from 13% in 2007 to 13.6% in 2008, we believe the growth is not sustainable. Maintain SELL.

### 2008 Results

(Rmbm)	2007	2008	% chg	Remark
Sales	18,087	20,702	14.46	Driven by 8.3% SSS growth and 464 new stores
Gross profit	2,349	2,806	19.46	Gross margin increased 0.6%
Other revenue	1,620	1,886	16.43	Contributed by suppliers
Other income	638	248	-61.19	Gain dropped on trading of financial assets
Selling Expenses	(3,462)	(4,069)	17.53	Labour cost surged 18.5%
Operating profit	417	359	-13.91	Other income dropped
Profit before tax	585	593	1.30	
Tax	(205)	(131)	-36.11	
Effective tax rate	-34.98%	-22.06%	-12.92	Decreased statutory tax rate
Net profit	268	388	44.74	Low tax rate and decreasing MI

Source: UOB Kay Hian

### Results

**Net profit rose 44.7% yoy** to Rmb388m in 2008, slightly higher than market expectation. A final dividend of Rmb0.15 has been proposed, bringing the full-year payout ratio to 40%, in line with that of 2007.

**Sales revenue surged 14.5% yoy.** Sales growth in 2008 was underpinned by 8.3% same store sales (SSS) growth, which was lower than the 10.5% SSS growth in 2007. SSS growth improved by 7.8%, 9.5% and 6.5% at hypermarkets, supermarkets and convenience stores respectively.

### Stock impact

**Low single-digit sales growth in 2009.** Although sales in 2008 surged 14.5%, we believe the growth was contributed by higher inflation and would not be sustainable. Top-line growth dropped from 19.77% in 1H08 to 9.7% in 2H08 due to weaker inflation. In January and February, sales recorded negative growth. It is highly likely that the negative sales growth could expand in 1H09.

**Gross margin will go down in 2009.** In 2008, average selling prices (ASP) were lifted by high food price inflation. As most stores are located in eastern China where competition is intense, Lianhua will likely have to reduce its ASPs to attract more customers and maintain its competitive ability. We forecast its gross margin could decrease from 13.6% in 2008 to 13.2% in 2009.

## CHINA

### Lianhua Supermarket (980 HK)

### SELL

**Current Price: HK\$8.84**

**Fair Price: HK\$7.85**  
**(Previous: HK\$9.10)**

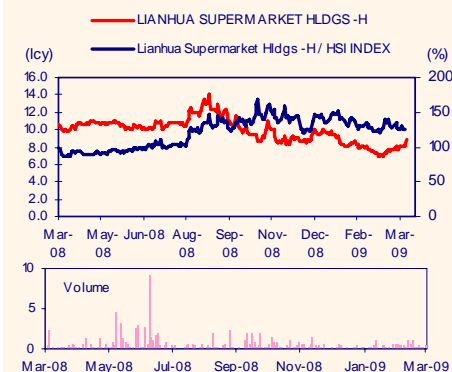
Sector	Consumer
52-Wk Avg Daily Vol. ('000)	474
Market Cap (HK\$m)	5,498
(US\$m)	705

Major Shareholders (%)	
Shanghai Friendship Group	34.03
SI Commercial Network	21.17
Mitsubishi Corp	6.74

Book NTA per Share (Rmb)	3.71
ROE (%)	13.43
Net Cash per Share (Rmb)	10.55

Results Due	
Interim	September
Final	April

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	18,087	1,020	268	0.431	11.1	18.4	0.2	0.180	2.27
2008	20,702	1,022	388	0.624	44.7	12.7	-1.4	0.250	3.15
2009F	22,861	1,142	442	0.710	13.7	11.2	-2.3	0.249	3.13
2010F	25,425	1,199	461	0.741	4.4	10.7	-3.1	0.245	3.08
2011F	27,838	1,319	505	0.812	9.5	9.8	-3.3	0.268	3.37

Consensus Net Profit – FY09: HK\$396m  
– FY10: HK\$453m

**Earnings Revision**

We lift our net profit forecast by 3% in 2009 and 1.4% in 2010 due to better-than-expected sales in 2008 and more new franchise stores opening in 2009. However, we believe Lianhua's strong sales growth and high gross margin in 2008 is not sustainable.

**Valuation/Recommendation**

Based on our earnings forecasts, Lianhua is trading at 11.2x 2009F PE and 10.7x 2010F PE, higher than its Hong Kong peers' average of 9.5x and 7.8x respectively. However, its sales growth and net margin are always lower than that of its Hong Kong peers, such as Beijing Jiangkelong (814 HK) and Wumart (8277 HK). Our DCF-based (WACC=11%; terminal growth=3%) fair price is HK\$7.85, which implies 9.9x 2009F PE and 11.2% downside from the current level. **Maintain SELL.**

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	18,087	20,702	22,861	25,425	27,838
EBIT	548	509	596	597	655
Pre-tax Profit	585	593	662	672	735
Net Profit	268	388	442	461	505

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	7,816	9,740	10,482	11,590	12,615
Total Assets	11,542	13,701	14,364	15,672	16,919
Current Liabilities	8,882	10,757	11,574	12,522	13,366
Long-Term Liabilities	0	0	0	0	0
Shareholder Funds	2,239	2,490	2,271	2,579	2,925
Total Equity & Liabilities	11,542	13,701	14,364	15,672	16,919

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	3,023	2,292	1,975	1,730	1,567
Investing	(276)	(503)	(545)	(596)	(649)
Financing	(105)	(137)	(171)	(153)	(159)
Net Cash In/(Out) Flow	2642	1652	1260	981	758
Begin Cash & Cash Equiv.	2,062	4,703	6,356	7,616	8,597
End'g Cash & Cash Equiv.	4,703	6,356	7,616	8,597	9,355

**Ratios**

Margin (%)	2007	2008	Chg (%)
GP margin	12.99%	13.55%	0.57%
OP margin	2.31%	1.74%	-0.57%
OP margin, excl other income and revenue	-10.18%	-8.57%	1.61%
NP margin	1.48%	1.88%	0.39%
NP margin, excl other income	-2.88%	-0.40%	2.49%
Selling / Turnover	19.14%	19.66%	0.51%
Admin / Turnover	2.01%	2.05%	0.04%

Source: Lianhua, UOB Kay Hian

**Segmental Revenue**

(Rmb m)	2007	2008	Chg (%)
Supermarkets	7,017	7,514	7.08%
Hypermarkets	10,856	13,160	21.22%
Convenience Stores	1,643	1,711	4.14%
Other operations	190	203	7.05%
Sub-total	19,706	22,588	14.62%

Source: Lianhua, UOB Kay Hian

**Segmental Results**

(Rmb m)	2007	2008	Chg (%)
Supermarkets	184	220	19.50%
Hypermarkets	(243)	85	n/a
Convenience Stores	45	27	-40.59%
Other operations	4	14	243.19%
Sub-total	(10)	346	n/a

Source: Lianhua, UOB Kay Hian

**Segmental ROA**

	2007	2008	Chg (%)
Supermarkets	4.89%	5.63%	0.74%
Hypermarkets	-4.49%	1.13%	5.61%
Convenience Stores	13.69%	7.29%	-6.40%
Other operations	5.99%	18.78%	12.78%

Source: Lianhua, UOB Kay Hian

## China Unicom

2008: High capex will erode earnings further in near term

EBITDA margin was 1.5ppt below expectation while higher-than-expected capex investments would further delay earnings rebound. Prefer China Mobile to China Unicom for its earnings visibility. Maintain SELL.

### 2008 Results

Year to 31 Dec (Rmbm)	2008	2007	yoy % chg	Remarks
Operating Revenue	148,020	149,170	-0.8	Mobile/fixed-line mix: 44.1%/55.9%.
EBITDA	66,948	71,618	-6.5	
EBITDA Margin	45.2%	48.0%	-2.8ppt	
Reported Net Profit	33,912	21,437	58.2	Rmb26.1b disposal gain, Rmb1.4b CDMA 9M08 profit
Adj. Net Profit	14,332	15,209	-5.8	
Mobile EBITDA Margin	41.1%	44.4%	-3.3ppt	
Fixed-line EBITDA Margin	47.0%	48.6%	-1.6ppt	

Source: China Unicom, UOB Kay Hian

### Results

China Unicom's (CU) 2008 revenue was in line with our forecast. Mobile revenue went up 4.3% and fixed-line income declined 4.3%. EBITDA margin was 1.5ppt below forecast and recurring net profit declined 5.8%. CU posted Rmb11.8b PHS asset (vs Rmb8b est) write-offs in the same period. DPS was maintained at Rmb0.20.

For the mobile business, 4Q08 and 2008 average revenue per user (ARPU) stabilised at Rmb42.3 while valued-added services (VAS) income rose 20.2% yoy, contributing 25.6% (+4.6ppt) of segmental operating revenue.

For the fixed-line business, voice revenue fell 12.3% mainly due to mobile substitution. On the other hand, income from the Internet Broadband and data business grew 23.9% as a result of increasing customers. However, Broadband ARPU dropped 6.2% to Rmb65.2 due to intensified competition and also because new subscribers are relatively low-end compared with existing customers.

### Stock Impact

With increasing competition ahead and peers' utilization of handset subsidies to attract mid- to high-end mobile users, we expect CU's EBITDA margin to decline further to 42.8% in 2009 even though CU will also put in similar efforts.

In addition, a higher-than-expected capex budget (Rmb110b vs Rmb75b estimate; even management said Rmb10b is moved from construction in progress) will also increase the company's need for additional financing. The resulting impact on increasing depreciation and finance costs will further delay CU's earnings rebound.

### Earnings Revision

We trim our 2009 and 2010 earnings forecasts by 13% and 26% respectively, mainly due higher capex assumptions (Rmb110b and Rmb80b for 2009 and 2010 respectively).

## CHINA

### China Unicom (762 HK)

### SELL

Current Price: HK\$8.28

Fair Price: HK\$7.10

Sector	Telecom
52-Wk Avg Daily Vol. (m)	35.3
Market Cap (HK\$m)	196,546
(US\$m)	25,198

Major Shareholders (%)	
China Unicom Group	71.3
Telefonica S.A.	5.5

Book NTA per Share (Rmb)	10.0
ROE (%)	7.4
Net Debt per Share (Rmb)	0.4

Results Due	
Interim	August
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 (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2007	150,687	71,618	19,920	0.93	n.a.	7.8	2.4	0.20	2.8
2008	148,906	67,835	33,913	1.43	89.7	5.0	3.4	0.20	2.8
2009F	158,729	67,884	11,666	0.49	(65.6)	14.7	4.2	0.20	2.8
2010F	164,023	68,823	9,404	0.40	(19.4)	18.2	4.3	0.20	2.8
2011F	174,410	74,976	10,293	0.43	9.5	16.6	3.8	0.20	2.8

Consensus Net Profit – FY08: Rmb11,508m  
 – FY09: Rmb11,221m

**Valuation/Recommendation**

With share price rebounding 18% in Mar-09, the poor results are likely to trigger a near-term correction. Although we understand CU's huge capex investment is worthwhile for long-term growth prospects, it will create huge short-term earnings pressure. We continue prefer China Mobile to CU due to the former's earnings visibility, but signs of improving high-end mobile user ratio could be a trigger for us to turn positive on CU. Maintain SELL with HK\$7.10 fair price based on 12.5x 2009F PE.

**China Unicom Segment Performance Indicators**

	2008	2007	yoy chg
Mobile subs (m)	133.4	120.6	10.6%
ARPU (Rmb)	42.3	45.7	-7.4%
Fixed-line subs (m)	100.1	110.8	-9.6%
ARPU (Rmb)	38.2	41.4	-7.7%
Broadband subs (m)	25.4	19.8	28.6%
ARPU (Rmb)	65.2	69.5	-6.2%

Source: China Unicom, UOB Kay Hian

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	150,687	148,906	158,729	164,023	174,410
EBIT	25,968	20,157	17,319	15,143	15,822
Pre-tax Profit	26,535	35,715	14,956	12,213	13,543
Net Profit	19,655	33,913	11,666	9,404	10,293

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	32,175	36,120	25,819	31,485	31,614
Total Assets	334,087	344,924	378,255	409,456	416,700
Current Liabilities	124,046	125,219	98,540	97,759	98,490
Long-Term Liabilities	18,086	7,997	50,463	64,058	58,234
Shareholder Funds	178,512	206,710	224,031	242,298	254,398
Total Equity & Liabilities	334,087	344,924	378,255	409,456	416,700

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	66,481	57,330	69,160	71,472	79,901
Investing	(44,563)	(25,001)	(110,005)	(80,000)	(67,000)
Financing	(29,805)	(35,070)	44,568	13,785	(13,568)
Net Cash In/(Out) Flow	(7,887)	(2,741)	3,723	5,257	(667)
Begin Cash & Cash Equiv.	19,866	11,979	9,238	12,961	18,219
End'g Cash & Cash Equiv.	11,979	9,238	12,961	18,219	17,552

**Capex Budget**

Rmbb	2009F	2008	yoychg
3G	38.7	-	n.a.
GSM	23.7	32.9	-28.1%
Fixed-line	0.7	0.7	-4.0%
Broadband & Data	18.0	9.0	98.9%
VAS Platforms	3.0	4.1	-27.3%
IT Systems	4.0	2.4	66.6%
Infrastructure & Transport Net	19.7	18.2	8.3%
Others	2.2	3.0	-27.8%
<b>Total</b>	<b>110.0</b>	<b>70.5</b>	<b>56.1%</b>

Source: China Unicom, UOB Kay Hian

## Chalco

The worst is over

Sharp price fall should have already reflected 2008's dismal results and 1Q09 profit warning. Guidance on lower cost and modest price recovery prompt us to upgrade the stock to a HOLD.

### Corporate Events

Management yesterday guided that the unit cost of producing aluminium should fall at least 10% in 2009. If the 2009 average domestic price of aluminium does not fall below Rmb13,000, Chalco should see a modest recovery this year.

### Stock Impact

Chalco fell more than 15% in three trading days on news of its exceedingly poor 2008 results (-99.9% to Rmb9.3m) and 1Q09 profit warning, making it the worst performer among commodity stocks in the past week.

We believe the market has digested the bad news and think the worst is over for the country's largest aluminum producer. There are a few hopeful signs. Management guided that the loss in 1Q09 should be smaller than the loss of Rmb2.5b (including about Rmb1b in inventory impairment loss) in 4Q08.

Based on our back-of-envelope calculation on an output of 750,000 tonnes in 1Q09, and a 3.4% qoq drop in the domestic spot aluminium price, we estimate 1Q09 loss will be under Rmb400m.

Looking ahead, management indicated that the unit cost of production for aluminium should fall at least 10% to about Rmb12,000/tonne. (SGA expenses will add another Rmb1,000/tonne.) This should come largely from lower power rates (38% of COGS) and alumina price (40% of COGS). In the longer term, Beijing wants to link power rates to aluminium prices to control output, which should help crimp output.

Thanks to Beijing's build-up of 590,000 tonnes of aluminium stockpiles, China's prices have risen about Rmb13,500/tonne from a low of Rmb11,400/tonne in January. Beijing is committed to buying 1m tonnes of aluminium stockpiles altogether.

### Earnings Risks

China's idle capacity is high, at 44% in end-February. If prices climb above Rmb14,000/tonne on a sustained basis, output can restart quickly to dampen prices. Already, Henan province has ordered some smelters that enjoy preferential power rates to restart capacity to increase employment.

### Valuation/Recommendation

Based on management guidance on lower cost and the modest price recovery and concern about idle capacity, we raise our 2009 earnings estimate by 12% to Rmb745m and our 2010 earnings estimate by 2% to Rmb2,343m. We value the stock at 1x P/B - a valuation that reflects modest recovery - giving it a fair value of HK\$4.60. Upgrade it to HOLD.

## CHINA

### Chalco (2600 HK)

### UPGRADE TO HOLD

Current Price: HK\$4.45

Fair Price: HK\$4.60

(Previous: HK\$3.00)

Sector	Metal
52-Wk Avg Daily Vol. (m)	56.6
Market Cap (HK\$b)	92.9
(US\$m)	13.7
Major Shareholders (%)	
Aluminum Corp of China	41.8
Book NTA per Share (Rmb)	4.07
ROE (%)	0.02
Net Debt per Share (Rmb)	3.1

### Results Due

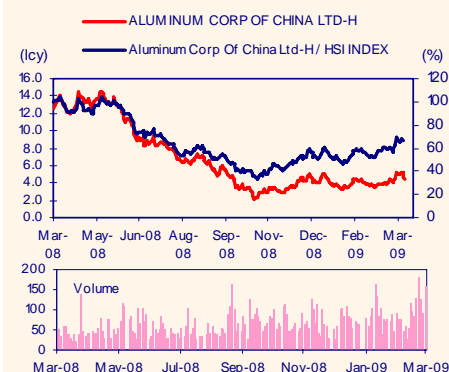
1Q: Apr

2H: Aug

3Q: Oct

Final: Mar/Apr

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	85,199	20,454	10,753	0.84	(18.9)	4.7	5.6	0.33	8.4
2008	76,726	7,156	9	0.00	(99.9)	5,747.2	19.2	0.05	1.3
2009F	46,643	8,321	745	0.06	7,968.6	71.2	15.7	0.02	0.4
2010F	69,012	10,886	2,343	0.17	214.7	22.6	12.1	0.05	1.3
2011F	86,446	12,851	3,569	0.26	52.3	14.9	10.2	0.08	2.0

Consensus Net Profit – FY09: Rmb438m  
– FY09: Rmb3419m

**Profit & Loss**

<b>Year to 31 Dec (Rmbm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Turnover	85,199	76,726	46,643	69,012	86,446
EBIT	15,794	1,823	2,534	4,763	6,376
Pre-tax Profit	14,992	125	1,085	3,415	5,200
Net Profit	10,753	9	745	2,343	3,569

**Balance Sheet**

<b>Year to 31 Dec (Rmbm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Current Assets	30,275	42,487	35,967	39,040	40,932
Total Assets	105,848	135,528	121,338	125,315	128,131
Current Liabilities	23,542	38,451	29,603	33,439	35,056
Long-Term Liabilities	17,460	36,133	34,326	32,610	30,979
Shareholder Funds	60,688	54,998	51,394	53,034	55,532
Total Equity & Liabilities	105,848	135,528	121,338	125,315	128,131

**Cash Flow**

<b>Year to 31 Dec (Rmbm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Operating	11,050	4,909	8,303	7,201	8,419
Investing	(7,188)	(19,675)	(7,720)	(6,724)	(7,004)
Financing	(5,265)	28,985	(3,145)	(3,478)	(3,707)
Net Cash In/(Out) Flow	(1,404)	14,218	(2,562)	(3,001)	(2,292)
Begin Cash & Cash Equiv.	9,983	8,580	22,798	20,236	17,235
End'g Cash & Cash Equiv.	8,580	22,798	20,236	17,235	14,943

## Bakrie Sumatera Plantations

2008: Disappointing results on higher forex losses

Net profit declined 16% yoy due to substantial jump in forex losses. Results are below our expectation and market consensus. Maintain SELL.

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Turnover	539.6	(33.5)	2,931.4	50.4	Higher CPO ASP and sales volume during 2008
Gross Profit	189.6	(28.9)	1,022.0	52.5	
Operating Profit	157.0	(15.6)	759.7	55.4	
Pre-tax Profit	(325.2)	n.a.	279.8	(18.7)	Posted pre-tax losses in 4Q08 on higher forex losses and losses at subsidiaries.
Net Profit	(278.0)	n.a.	173.6	(16.0)	
<b>Margins</b>					
Gross Margin	35.1	2.3	34.9	0.5	
Operating Margin	29.1	6.2	25.9	0.8	
Net Margin	n.a.	n.a.	5.9	(4.7)	

Source: Bakrie Sumatra Plantations, UOB Kay Hian

### Results

**Lower-than-expected net profit.** Bakrie Sumatera Plantations (UNSP) reported a lower-than-expected net profit of Rp174b in 2008 on the back of the following: a) higher forex losses to Rp243b in 2008 from Rp80b in 2007, and b) losses of Rp79b from subsidiaries. Revenue, however, jumped 50% yoy to Rp2,931b thanks to the higher average selling prices (ASP) (+21% yoy) and sales volume (+29% yoy) of crude palm oil (CPO). Results are below our expectation and market consensus. The discrepancy in our forecast can be mainly attributable to higher forex losses, higher interest expenses and net losses at subsidiaries.

**Higher debt-to-equity ratio.** Due to an 18% yoy rise in total debt, while total cash declined 3.1% yoy, net gearing increased from 50.1% in 2007 to 60.5% in 2008. In line with higher gearing level, debt-to-equity ratio also went up to 0.75x in 2008 from 0.65x in 2007.

**Reducing fertiliser consumption to improve efficiency.** To improve cost efficiency, UNSP plans to lower fertiliser usage from the normal 6-7kg of fertiliser per tree per year to 3-4 kg. The company mentioned that fertiliser accounted for about 40% of the company's total production cost and plans to reduce fertiliser usage to lower CPO production cost.

### Earnings Revision

We fine-tune our earnings model to incorporate higher interest expenses and lower other income for 2009 and 2010. Moreover, we lower our CPO sales volume assumption for 2010 by 6% while maintaining our CPO sales assumption for 2009. As such, we trim our net profit forecasts by 33% to Rp159.2b for 2009 and by 36% to Rp238.4b for 2010.

## INDONESIA

### Bakrie Sumatera Plantations (UNSP IJ)

#### SELL

Current Price: Rp310

Fair Price: Rp250

Sector	Plantation
52-Wk Avg Daily Vol. ('000)	72,202
Market Cap (Rpb)	1,174.3
(US\$m)	101.7

Major Shareholders (%)	
Bakrie & Brothers	45.4

Book NTA per Share (Rp)	524
ROE (%)	7.1
Net Debt per Share (Rp)	395

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

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Turnover (Rpb)	EBITDA (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rp)	Yield (%)
2007	1,949.0	653.0	206.6	55	(26.5)	5.7	4.1	9	3.0
2008	2,931.4	933.6	173.6	46	(16.0)	6.8	2.9	7	2.2
2009F	1,935.7	649.5	159.2	42	(8.3)	7.4	4.1	6	2.0
2010F	2,205.6	726.9	238.4	63	49.7	4.9	3.7	9	3.0
2011F	2,324.9	777.4	262.4	69	10.1	4.5	3.4	10	3.4

Consensus Net Profit – FY09: Rp173.5b  
 – FY10: Rp241.3b

**Valuation/Recommendation**

**Maintain SELL despite attractive valuation.** Maintain SELL with fair price of Rp250 based on 6.0x 2009 PE for small-cap and upstream plantation companies. Though UNSP is trading at the cheapest 2009 PE of 7.4x, compared with 2009 PE of 11.4x and 8.7x for its peers AALI and LSIP respectively, we remain cautious due to its rising debt level and lower cash position. Entry price is Rp200.

**Profit & Loss**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Turnover	1,949.0	2,931.4	1,935.7	2,205.6	2,324.9
Gross Profit	670.0	1,022.0	653.5	749.5	802.2
Operating Profit	488.9	759.7	465.7	533.4	574.2
Pre-tax Profit	343.9	279.8	241.3	356.4	391.5
Net Profit	206.6	173.6	159.2	238.4	262.4

**Balance Sheet**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Current Assets	904.0	746.4	953.3	1,055.3	701.9
Total Assets	4,310.9	4,700.3	4,644.0	4,782.8	4,395.7
Current Liabilities	449.8	501.5	359.0	372.6	331.1
Total Liabilities	1,474.5	1,727.6	1,655.5	1,578.1	1,009.5
Shareholders' Equity	2,385.2	2,470.2	2,629.5	2,832.1	3,055.2
Total Equity & Liabilities	4,310.9	4,700.3	4,644.0	4,782.8	4,395.7

**Cash Flow**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Cash Flow from Operations	321.1	501.3	147.4	347.7	400.6
Cash Flow from Investments	(2,249.0)	(470.6)	26.5	(221.3)	(194.9)
Cash Flow from Financing	2,204.1	(41.8)	(161.2)	(114.9)	(569.2)
Change in Cash	276.2	(11.1)	12.8	11.5	(363.5)
Begin Cash & Cash Equiv	87.2	363.4	352.3	365.1	376.5
Ending Cash & Cash Equiv	363.4	352.3	365.1	376.5	13.0

## Bank Central Asia

2008: Above expectation, but fairly valued

Net profit in 2008 was above our and consensus expectations on soaring forex gain and lower effective tax rate. We raise 2009-10 earnings estimates and fair price but maintain HOLD due to premium valuation.

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Net Interest Income	3,804	19.6	12,356	29.0	Boosted by robust loan growth and higher NIM
Non-Interest Income	1,256	37.7	3,878	36.3	Strong growth in forex income due to rupiah's fluctuation
Gross Income	5,060	23.6	16,234	30.7	
Pre-provision Profit	3,158	24.3	9,409	43.8	
Provisions	(1,121)	223.2	(1,741)	728.6	Strengthening loan loss coverage
Non-oprt Income	1	(95.1)	52	(25.9)	
Tax	(261)	(59.4)	(1,944)	1.6	Lower effective tax rate
Net Profit	1,777	13.2	5,776	28.7	
Loan	112,784	6.9	112,784	36.9	
Deposit	209,529	8.6	209,529	10.8	
Net Interest Margin	7.7	0.9	6.5	0.5	
Cost to Income Ratio	37.8	(1.9)	41.9	(5.3)	
LDR	53.8	(0.9)	53.8	10.3	
Gross NPL	0.6	0.0	0.6	(0.2)	
Loan Loss Coverage	408.5	56.7	408.5	156.7	
Demand Dpst/Ttl Dpst	24.4	0.3	24.4	1.2	
Saving Dpst/Ttl Dpst	50.3	(2.4)	50.3	0.2	
Time Dpst/Ttl Dpst	25.3	2.1	25.3	(1.4)	

Source: Bank Central Asia, UOB Kay Hian

### Results

**Net profit was above expectations due to soaring forex gain and lower effective tax rate.** Bank Central Asia's (BBCA) net profit rose 28.7% yoy to Rp5.8 trillion in 2008, above our expectation of Rp5.2 trillion and consensus' Rp5.3 trillion. The stronger-than-expected results were due to the following: a) soaring forex gain of Rp469b in 4Q08 vs average of Rp70b/quarter in 1Q-3Q08 as the bank benefitted from higher spread from forex transactions amid fluctuations in the rupiah, and b) lower effective tax rate of 25% vs 30% thanks to incentives given to listed companies with free float of over 40%.

**Higher provisioning level, took opportunity of strong core operational performance.** Management took the opportunity of robust pre-provision profit growth of 43.8% yoy to increase its provisioning level. Provisioning expenses jumped 728.6% yoy to Rp1.7 trillion, even though non-performing loans (NPL) fell 0.2% from a year ago to only 0.6% as of 31 Dec 08. This has caused NPL

## INDONESIA

### Bank Central Asia (BBCA IJ)

#### HOLD

Current Price: Rp3,100

Fair Price: Rp3,300

(Previous: Rp3,000)

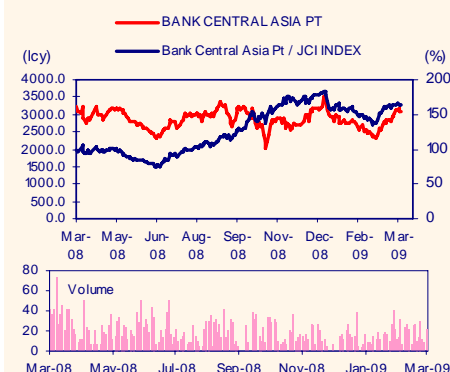
Sector	Banking
52-Wk Avg Daily Vol. ('000)	18,468
Market Cap (Rpb)	76,430.5
(US\$m)	6,618.8

Major Shareholders (%)	
Farrallon Capital Management LLC	51.2

Book NTA per Share (Rp)	944
ROE (%)	26.4
Net Debt per Share (Rp)	n.a.

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Pre-Provision Profit (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (x)	BPS (Rpb)	P/B (x)	DPS (Rp)	Yield (%)
2006	6,593	4,243	172	17.9	18.0	733	4.2	72	2.3
2007	6,541	4,489	182	5.8	17.0	829	3.7	86	2.8
2008	9,409	5,776	234	28.7	13.2	944	3.3	91	2.9
2009F	9,905	6,326	257	9.5	12.1	1,076	2.9	106	3.4
2010F	10,738	7,271	295	14.9	10.5	1,236	2.5	128	4.1

Consensus Net Profit – FY09: Rp5,813.2b  
 – FY10: Rp6,860.4b

coverage ratio to jump to 408.5% from 251.8% a year ago and 351.8% in the previous quarter. However, about Rp500b of the provisions was dedicated to one loan account in the toll road business which was in the special mention category as of end-08 and could be in the NPL category in 1Q09. The bank has made 100% provisions for this account. Should this account be downgraded to the NPL category, NPL coverage will fall to about 235%, still one of the highest in the industry.

**Preparing for the worst.** In the face of a sluggish economic outlook, the bank is focusing on three areas: a) maintaining liquidity; it had loan-deposit ratio of only 53.8% with secondary reserves at about 17.5% of total assets, b) maintaining solid capital base; its capital adequacy ratio (CAR) stood at 15.8% with tier-1 CAR at 14.5%, higher than the minimum requirement of 8%, and c) maintaining resilient and profitable business model to protect capital; the bank will continue with its prudent risk management practice and expand its transactional banking franchise value which could reduce the negative effect of slower lending activities.

**Earnings Revision**

We raise our 2009 and 2010 net profit forecasts by 2% to reflect a lower tax rate.

**Valuation/Recommendation**

We believe BBKA has the most sound fundamentals among local banks due to its excellent transactional banking business, prudent risk management and abundant liquidity, all of which are valuable in a crisis. However, considering BBKA's premium valuation with 2009 PE and P/B of 12.1x and 2.9x respectively, we maintain our HOLD call. We increase BBKA's fair price to Rp3,300, taking into account earnings revision and higher profitability outlook by assuming higher ROE of 25%, up from 24% previously. We recommend collecting BBKA shares again should the price fall below Rp2,750.

**Profit & Loss**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Net Interest Income	9,460	9,579	12,356	13,664	14,903
Non-Interest Income	2,248	2,846	3,878	3,760	4,236
Gross Income	11,708	12,425	16,234	17,424	19,139
Non-Interest Expenses	(5,115)	(5,884)	(6,826)	(7,519)	(8,401)
Pre-provision Profit	6,593	6,541	9,409	9,905	10,738
Provisions	(585)	(210)	(1,741)	(1,526)	(1,105)
Non-operating Income	58	70	52	55	61
Tax	(1,824)	(1,912)	(1,944)	(2,109)	(2,424)
Net Profit	4,243	4,489	5,776	6,326	7,271

**Balance Sheet**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Government Bonds	49,139	46,778	39,811	29,838	24,795
Gross Loans	61,422	82,389	112,784	127,820	153,438
Total Assets	176,799	218,005	245,570	270,388	298,602
Customer Deposits	152,736	189,172	209,529	230,459	253,505
Shareholders' Equity	18,067	20,442	23,279	26,534	30,478

## Bank Mandiri

2008: Results in line, but near-term outlook still challenging

Net profit in 2008 is in line with expectation but there is a pick-up in NPL in 4Q08. Challenging near-term outlook could raise NPL further this year. Downgrade to SELL.

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Net Interest Income	4,276	6.8	15,285	19.5	Driven by business expansion
Non Interest Income	1,531	36.1	4,654	37.4	Strong administration fee income growth
Gross Income	5,807	13.2	19,939	23.3	
Pre-provision Profit	3,156	12.5	10,505	32.1	
Provisions	(796)	(15.7)	(2,595)	49.2	Accommodating rising NPL in 4Q08 and strengthening NPL coverage
Non-opt Income	(6)	(107.0)	158	31.3	
Minority Interests	(0)	(97.4)	(2)	96.9	
Tax	(994)	63.4	(2,753)	38.6	
Net Profit	1,360	1.2	5,313	22.2	
Loan	174,498	7.2	174,498	26.0	
Deposit	289,112	17.8	289,112	16.9	
Net Interest Margin	5.8	(0.2)	5.4	0.3	
Cost to Income Ratio	46.1	1.0	47.0	(4.4)	
LDR	60.4	(6.0)	60.4	4.4	
Gross NPL	5.3	0.5	5.3	(3.3)	
Loan Loss Coverage	127.1	(11.7)	127.1	18.1	
Demand Dpst/Ttl Dpst	23.9	0.8	23.9	(3.2)	
Saving Dpst/Ttl Dpst	32.8	(2.7)	32.8	(1.7)	
Time Dpst/Ttl Dpst	43.3	1.9	43.3	4.9	

Source: Bank Mandiri, UOB Kay Hian

### Results

**Net profit is in line with expectation.** Bank Mandiri (BMRI) reported 2008 net profit of Rp5.3 trillion, slightly above our estimation of Rp5.2 trillion. The 22.2% yoy growth in net profit was a result of strong growth in net interest income and fee-based income. At the same time, the bank managed to control its expenses as shown by lower cost to income ratio of 47% compared with 51% a year ago.

**Slightly worse loan quality in 4Q08.** We noticed an increase in non-performing loan (NPL) ratio to 5.3% from 4.9% in 3Q08, mainly contributed by the corporate segment. NPL coverage also decreased to 127.1% from 138.8% in the previous quarter. Management has hinted that a major deterioration in loan quality is unlikely in 1Q09 based on its review so far.

## INDONESIA

### Bank Mandiri (BMRI IJ)

### DOWNGRADE TO SELL

Current Price: Rp2,175

Fair Price: Rp1,900

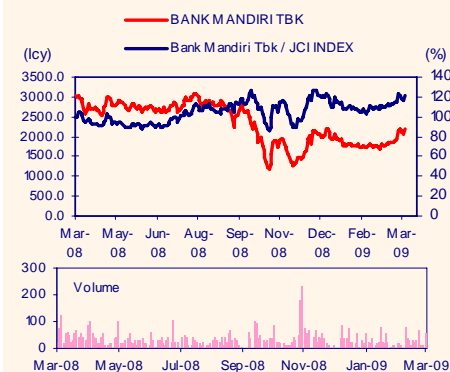
Sector	Banking
52-Wk Avg Daily Vol. ('000)	34,771
Market Cap (Rpb)	45,467.7
(US\$m)	3,937.5

Major Shareholders (%)	
The Republic of Indonesia	67.5

Book NTA per Share (Rp)	1,460
ROE (%)	17.8
Net Debt per Share (Rp)	n.a

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

### Price Chart



Source: Bloomberg

### Analyst

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Year to 31 Dec	Pre-Provision Profit (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (%)	BPS (Rp)	P/B (x)	DPS (Rp)	Yield (%)
2006	6,216	2,421	117	301.3	18.6	1,269	1.7	15	0.7
2007	7,952	4,346	209	79.5	10.4	1,409	1.5	70	3.2
2008	10,505	5,313	254	21.3	8.6	1,460	1.5	187	8.6
2009F	11,391	5,680	274	7.7	7.9	1,676	1.3	126	5.8
2010F	11,977	7,036	339	23.9	6.4	1,867	1.2	137	6.3

Consensus Net Profit – FY09: Rp5,311.9b  
 – FY10: Rp6,096.3b

**Plan to reduce dividend payout ratio to maintain strong capital base.**

BMRI intends to ask for a lower dividend payout ratio at its next shareholders' meeting from a normal payout ratio of 50%. This is to protect its capital adequacy level during unfavourable economic conditions and to accommodate future business expansion. Its capital adequacy ratio (CAR) was 15.7% as of end-08, with tier-1 CAR of 11.1%. The bank is targeting to have total CAR of 12-15% in 2009. We believe the bank will not take the option of equity raising given the tight government budget. Another option to preserve capital adequacy level is to decelerate loan expansion.

**Earnings Revision/Risk**

No change in our earnings estimates for BMRI. Earnings downside risk lies in lower-than-expected loan expansion and worsening asset quality.

**Valuation/Recommendation**

Management has hinted that a major deterioration in loan quality is unlikely in 1Q09, but with the challenging near-term outlook, NPL could rise during the year. The rebound in BMRI's share price recently should also be a good opportunity to take profit on the stock. Downgrade to SELL with entry price of Rp1,580.

**Profit & Loss**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Net Interest Income	10,345	12,786	15,285	17,148	18,494
Non-Interest Income	2,733	3,389	4,654	4,250	4,675
Gross Income	13,078	16,175	19,939	21,398	23,169
Non-Interest Expenses	(6,862)	(8,222)	(9,434)	(10,007)	(11,193)
Pre-provision Profit	6,216	7,952	10,505	11,391	11,977
Provisions	(3,505)	(1,740)	(2,595)	(3,375)	(2,023)
Non-operating Income	120	120	158	100	100
Minority Interests	(1)	(1)	(2)	(1)	(1)
Tax	(409)	(1,986)	(2,753)	(2,435)	(3,016)
Net Profit	2,421	4,346	5,313	5,680	7,036

**Balance Sheet**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2009F
Government Bonds	90,648	89,466	88,259	88,159	86,806
Gross Loans	117,671	138,530	174,498	192,398	217,855
Total Assets	267,517	319,086	358,439	398,512	436,383
Customer Deposits	205,708	247,355	289,112	318,346	350,181
Shareholders' Equity	26,341	29,244	30,514	34,772	38,729

## Bank Negara Indonesia

2008: Several key indicators are improving

Top-line performance was progressing in line with business expansion, but the need to improve fundamentals in the face of unfavourable conditions reduced bottom line profitability level. Maintain HOLD.

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Net Interest Income	2,749	8.5	9,912	32.7	Boosted by robust loan growth and higher NIM
Non-Interest Income	969	11.7	3,549	(14.1)	Absence of gain from marketable securities holdings in 2007
Gross Income	3,718	9.3	13,461	16.1	
Non-Interest Expenses	(1,920)	10.5	(7,228)	(5.2)	Effort from management to control expenses
Pre-provision Profit	1,799	8.0	6,233	57.0	
Provisions	(1,101)	(0.2)	(4,359)	61.2	Strengthening NPL coverage
Non-operating Income	32	n.m	58	(72.9)	
Minority Interests	2	n.m	(3)	(10.4)	
Tax	(342)	111.2	(706)	21.9	
Net Profit	390	(1.8)	1,222	36.1	
Loan	111,994	4.8	111,994	26.3	
Deposit	163,164	13.9	163,164	11.6	
Net Interest Margin	6.4	0.0	5.8	0.9	
Cost to Income Ratio	42.9	1.5	44.5	(20.7)	
LDR	68.6	(6.0)	68.6	8.0	
Gross NPL	5.0	(2.0)	5.0	(3.5)	
Loan Loss Coverage	101.0	0.5	101.0	29.1	
Demand Dpst/Ttl Dpst	25.8	1.1	25.8	(3.6)	
Saving Dpst/Ttl Dpst	32.1	(2.3)	32.1	(0.8)	
Time Dpst/Ttl Dpst	42.1	1.2	42.1	4.4	

Source: Bank Negara Indonesia, UOB Kay Hian

### Results

**Net profit soared 36.1% yoy, driven by business expansion and cost efficiency.** Bank Negara Indonesia (BNI) reported 2008 net profit of Rp1.2 trillion, up 36.1% yoy, which is in line with our expectation. Pre-provision profit grew by a strong 57.0% yoy, thanks to robust loan expansion which drove net interest income to grow 32.7% yoy and cost efficiency measures taken by management which reduced operating expenses.

**Improving fundamentals.** Management took the opportunity of strong top-line performances to increase its provisioning level. Non-performing loan (NPL) coverage ratio improved to 101.0% compared with only 71.9% a year ago. NPL ratio fell to 5.0% vs 8.5% as of end-07, partly caused by the settlement of some NPLs in addition to write-offs.

## INDONESIA

### Bank Negara Indonesia (BBNI IJ)

#### HOLD

Current Price: Rp720  
Fair Price: Rp800

Sector	Banking
52-Wk Avg Daily Vol. ('000)	33,327
Market Cap (Rpb)	10,997.2
(US\$m)	952.8
Major Shareholders (%)	
The Republic of Indonesia	76.4
Book NTA per Share (Rp)	1,010
ROE (%)	7.5
Net Debt per Share (Rp)	n.a.

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Pre-Provision Profit (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (%)	BPS (Rp)	P/B (x)	DPS (Rp)	Yield (%)
2006	3,980	1,926	145	36.1	5.0	1,114	0.6	53	7.4
2007	3,971	898	59	(59.5)	12.2	1,127	0.6	63	8.8
2008	6,233	1,222	80	36.1	9.0	1,010	0.7	29	4.1
2009F	6,367	1,893	124	54.9	5.8	1,112	0.6	42	5.9
2010F	7,201	2,229	146	17.7	4.9	1,224	0.6	62	8.6

Consensus Net Profit – FY09: Rp1,909.5b  
– FY10: Rp2,762.0b

**Possible cut in dividend payout ratio.** Business expansion reduced the bank's capital adequacy ratio (CAR) to 13.5% as of end-08 compared with 15.7% a year before. To accommodate business expansion while maintaining an adequate capital level, management will propose a lower dividend payout ratio to shareholders. The bank will not undertake capital raising through a right issue nor sub-debt issuance.

**Valuation/Recommendation**

Though BBNI has weaker fundamentals compared with that of its closest peers, we believe the market has priced in this factor. It is trading at 2009 PE and P/B of 5.8x and 0.6x respectively, the lowest compared with peers. Maintain HOLD with entry price of Rp620.

**Profit & Loss**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Net Interest Income	7,377	7,467	9,912	10,557	11,968
Non-Interest Income	2,861	4,130	3,549	3,671	4,144
Gross Income	10,238	11,597	13,461	14,228	16,112
Non-Interest Expenses	(6,258)	(7,626)	(7,228)	(7,861)	(8,911)
Pre-provision Profit	3,980	3,971	6,233	6,367	7,201
Provisions	(1,319)	(2,704)	(4,359)	(3,708)	(4,066)
Non-operating Income	179	213	58	55	61
Minority Interests	(3)	(4)	(3)	(7)	(8)
Tax	(911)	(579)	(706)	(814)	(959)
Net Profit	1,926	898	1,222	1,893	2,229

**Balance Sheet**

Year to 31 Dec (Rpb)	2006	2007	2008	2009F	2010F
Government Bonds	41,227	36,701	34,655	29,728	26,755
Gross Loans	66,460	88,651	111,994	131,651	155,139
Total Assets	169,416	183,342	201,741	211,338	232,340
Customer Deposits	135,797	146,189	163,164	176,888	194,577
Shareholders' Equity	14,794	17,220	15,431	16,982	18,696

## Sampoerna Agro

2008: Results are in line with our expectation

Net profit surged 104% yoy in 2008 on higher CPO ASP and higher sales volume. Results are in line with our expectation. Maintain BUY.

### 2008 Results

Year to 31 Dec	4Q08 (Rpb)	qoq % chg	2008 (Rpb)	yoy % chg	Remarks
Turnover	429.6	19.3	2,288.1	43.1	Higher CPO ASP and sales volume
Gross Profit	76.1	(20.5)	773.8	56.5	
Operating Profit	41.5	(52.7)	611.5	51.2	
Pre-tax Profit	50.1	(48.7)	631.8	102.6	Higher pre-tax profit on lower interest expenses and higher interest income
Net Profit	40.0	(37.0)	439.5	104.3	
<b>Margins</b>					Lower margin in 4Q08 due to higher cost and fall in CPO prices
Gross Margin	17.7	(8.9)	33.8	2.9	
Operating Margin	9.6	(14.7)	26.7	1.4	
Net Margin	9.3	(8.3)	19.2	5.8	

Source: Sampoerna Agro, UOB Kay Hian

### Results

Sampoerna Agro (SGRO) reported its net profit increased 104% yoy to Rp439.5b due to the higher average selling prices (ASP) and sales volume of crude palm oil (CPO), as well as other income of Rp20.3b in 2008 vs expenses of Rp92.6b in 2007. Revenue jumped 43% yoy. However, quarterly net profit fell 37% qoq on higher cost despite revenue growth of 19.3% qoq in 4Q08. Results are in line with our expectation.

**Lower margin in 4Q08.** Due to the fall in CPO prices as well as higher costs, gross margin declined to 17.7% in 4Q08. However, on a yearly basis, the company posted a slight improvement in margin to 33.8% in 2008 even though pure plantation companies suffered from high costs, such as fertiliser and transport costs. As a result of lower interest expenses (-70.5% yoy) and higher interest income (+69.8% yoy), net margin improved to 19.2% in 2008.

**Strong balance sheet with net cash position.** SGRO managed to increase its net cash position by 76% yoy to Rp425.7b in 2008 thanks to a 40% yoy increase in total cash following sturdy financial results while maintaining total debt at Rp217.0b.

### Stock Impact

**New planting of 5,000ha and CPO production growth of 5% yoy in 2009.** After SGRO increased its new planted area by about 12,000ha in 2008 to 90,055ha, it targetted new planting of 5,000ha in 2009. Meanwhile, despite expectation of lower fresh fruit bunch (FFB) yield due to additional mature area, we expect CPO production to increase 5% yoy in 2009.

## INDONESIA

### Sampoerna Agro (SGRO IJ)

#### BUY

Current Price: Rp1,270  
Target Price: Rp1,350

Sector	Plantation
52-Wk Avg Daily Vol. ('000)	5,690
Market Cap (Rpb)	2,400.3
(US\$m)	207.9

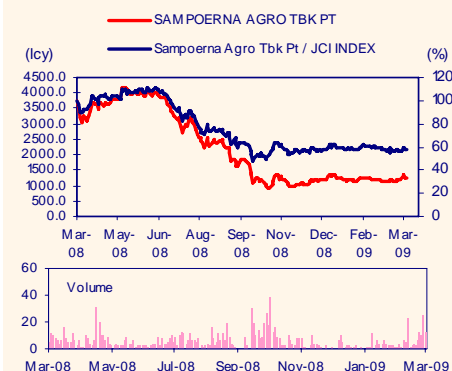
Major Shareholders (%)	
Sampoerna Agri Resources	71.8

Book NTA per Share (Rp)	819
ROE (%)	29
Net Cash per Share (Rp)	225

#### Results Due

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

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Turnover (Rpb)	EBITDA (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rp)	Yield (%)
2007	1,598.9	559.7	215.1	114	44.3	11.2	4.3	21	1.7
2008	2,288.1	694.7	439.5	233	104.3	5.5	3.5	43	3.4
2009F	1,684.3	552.3	299.8	159	(31.8)	8.0	4.3	32	2.5
2010F	2,061.4	683.9	385.1	204	28.5	6.2	3.5	41	3.3
2011F	2,110.0	711.8	404.8	214	5.1	5.9	3.4	43	3.4

Consensus Net Profit – FY09: Rp251.9b  
– FY10: Rp314.4b

**To finish construction of mills in 2H09.** SGRO does not plan to build new CPO mills in 2009 due to the current unfavourable market conditions of tight liquidity and higher cost of financing. The CPO mills in Sumatera are expected to have a capacity of 60 FFB tonnes/hour and a PKO mill, which commenced construction in mid-08, has a daily capacity of 150 tonnes.

### Earnings Revision

We trim our net profit forecast by 18.0% to Rp299.8b for 2009 and by 27.7% to Rp385.1b for 2010 on the back of a 3-10% decline in CPO production assumptions. We also fine-tune our profit margin assumptions.

### Valuation/Recommendation

With a sturdy balance sheet and net cash position as of 2008, we maintain our BUY recommendation with a target price of Rp1,350, based on 2009 PE of 8.5x for mid-cap and upstream players. SGRO is trading at 8.0x 2009 PE, which is cheaper than the Indonesian sector average of 10.3x 2009 PE.

### Profit & Loss

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Turnover	1,598.9	2,288.1	1,684.3	2,061.4	2,110.0
Gross Profit	494.4	773.8	558.7	694.1	716.4
Operating Profit	404.4	611.5	440.2	540.6	554.4
Pre-tax Profit	311.8	631.8	422.2	542.3	570.2
Net Profit	215.1	439.5	299.8	385.1	404.8

### Balance Sheet

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Current Assets	942.3	803.6	615.5	752.7	910.8
Total Assets	2,088.0	2,156.2	2,234.6	2,573.2	2,859.5
Current Liabilities	374.5	354.0	243.9	296.2	297.0
Non Current Liabilities	220.6	223.9	201.6	179.9	141.4
Shareholder's fund	1,471.2	1,553.0	1,789.1	2,097.2	2,421.0
Total Equity and Liabilities	2,088.0	2,156.2	2,234.6	2,573.2	2,859.5

### Cash Flow

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Cash Flow from Operating	214.2	803.6	142.5	560.8	552.5
Cash Flow from Investing	(731.3)	(245.5)	(361.1)	(309.4)	(251.5)
Cash Flow from Financing	911.5	(374.2)	(117.0)	(124.0)	(125.2)
Net Cash Inflow/(Outflow)	394.5	184.0	(335.6)	127.3	175.8
Begin Cash & Cash Equiv.	64.2	458.7	642.7	307.1	434.4
Ending Cash & cash Equiv.	458.7	642.7	307.1	434.4	610.2

## Banking

More weakness ahead

Loan growth decelerated further due to slower business loan. Household loan, mainly supported by mortgage loan is expected to slow down as unemployment increase. Do not foresee any share price catalyst for banks.

### Slower Loan Growth In Feb 09

(%)	Dec 08	Jan 09	Feb 09	Remarks
Total	12.8	11.7	10.9	2-consecutive months of slowdown
Non Household	16.6	14.2	12.5	Significant slowdown in loan to manufacturing sector
Household	9.7	9.6	9.7	Supported by mortgages and auto loan
Total Deposit	11.9	9.2	8.3	Could be a stressful sign of consumer expenditure
Loan-Deposit	74.7	74.5	74.7	Ample liquidity for government to tap for fiscal pump-priming
Net NPL	2.2	2.2	2.2	Yet to see, but sign of pick up in housing and auto NPL
RWCR	12.7	12.6	13.0	Capitalisation remains strong

Source: Bank Negara Malaysia

### Sector Events

Feb 09 loan growth decelerated to 10.9% vs 11.7% in Jan 09. Weaker growth was reflected by slower business loan growth of 12.5% as a result of the sharp fall in manufacturing loan (+1.6% yoy in Feb 09 vs 6.2% yoy in Jan 09). Household loan growth picked up marginally to 9.7% on the back of better mortgages and auto loan demand. Loan applications picked up in Feb 09 but do not expect this to be translated into growth as banks are tightening their credit requirements. Loan applications and disbursement are still in the downtrend (see table on the next page).

Total deposits declined marginally by RM0.2b in Feb 09 (vs Jan 09: +RM4.4b), due partly to net foreign outflows during the month.

After the reduction of the Overnight Policy Rate to 2.00% on 24 Feb 09, the average base lending rate declined to a historic low of 5.53% as at 15 Mar 09 (vs end-Feb 09 of 5.89%). The average lending rate decreased to a historic low of 5.49% as at end-Feb 09 (vs Jan 09: 5.77%).

The banking system remains sound, with the risk-weighted capital ratio and core capital ratio improving to 13.0% and 11.1% respectively. The net non-performing loans (NPLs) amounted to RM15.8b, a slight increase from RM15.6b as at end-Jan 09. Net NPL ratio remained unchanged at 2.2% of total net loans.

### Sector Impact

**Slower loan growth on the back weak GDP growth.** We are expecting slower sector loan growth of 4-5% on the back of our GDP growth forecast of -1.0 to 1.0% for 2009. The weakness will be more significant in 2H09 as we expect sharper weakness in household loan as unemployment increase.

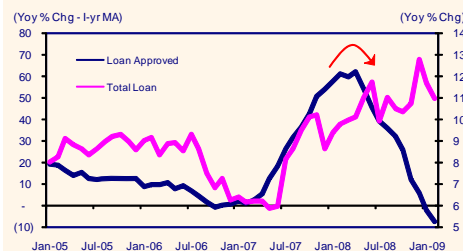
**Uptick in household NPLs.** Despite the stable NPL ratio, we start seeing weakness in mortgages and auto loan default rate. This was also highlighted by Bank Negara Malaysia (BNM) during the annual analyst briefing. However, we are expecting sharper business NPLs due to the default of SME loans as exports weakened significantly late-08. SMEs in Malaysia are mainly export-oriented industries.

## MALAYSIA

### Banking

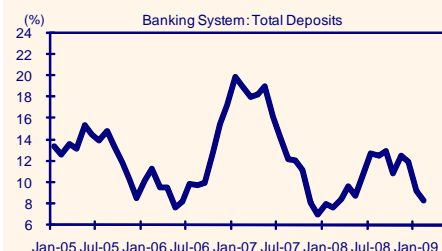
## UNDERWEIGHT

### Indicator Pointing To Slower Loan Growth



Source: Bank Negara Malaysia, UOB Kay Hian

### Softening Deposit Growth Could Be An Early Sign Of Consumer Financial Stress



Source: Bank Negara Malaysia, UOB Kay Hian

### Ample Liquidity For Government To Tap



Source: Bank Negara Malaysia, UOB Kay Hian

### Analyst

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**Earnings Revision**

Maintain earnings forecasts. For 2009, we expect bank loans to grow 4-5% vs 10% for 2008 and the banking sector's net profit to decline by 12% in 2009 and 9% in 2010.

**Recommendation**

Maintain **UNDERWEIGHT** in anticipation of more negative newsflow and higher earnings downside risk. For those who have to invest in Malaysian banks, **HOLD Public Bank (Fair: RM6.88/Entry: RM6.20)**, which has more resilient earnings, and **Bumiputra-Commerce Holdings (BCHB) (Fair: RM6.05/Entry: RM5.45)** as its investment bank could potentially benefit from a pick-up in the bond market after BNM stepped in to guarantee the issuance.

**Bank - Leading Indicators**

(Yoy % Change)	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09
<b>Overall</b>								
Loan applications	11.9	25.5	(4.4)	(7.9)	(32.6)	(18.8)	(21.0)	4.8
Loan Approvals	2.3	15.8	(1.2)	(14.4)	(44.0)	(23.7)	(35.6)	(15.9)
Loan disbursements	(4.9)	14.9	9.1	8.2	7.5	4.8	(10.0)	(5.7)
Chag in loan outstanding	9.9	11.0	10.6	10.3	10.7	12.8	11.7	10.9
<b>Business</b>								
Loan applications	(0.2)	48.4	(15.7)	(2.5)	(49.2)	(33.7)	(21.1)	11.5
Loan Approvals	(19.5)	26.7	(14.3)	(26.4)	(64.5)	(37.9)	(50.9)	(29.2)
Loan disbursements	(7.0)	21.0	8.7	16.5	9.1	3.0	(14.2)	(9.2)
Chag in loan outstanding	9.4	11.4	9.5	8.8	7.8	13.2	11.8	9.8
<b>SMEs</b>								
Loan applications	6.6	(1.5)	2.5	(8.7)	(35.7)	(18.1)	(29.3)	(17.3)
Loan Approvals	5.0	(20.3)	(30.4)	(12.6)	(29.2)	4.3	(45.1)	(19.2)
Loan disbursements	25.2	16.6	18.1	11.4	(3.4)	8.2	(13.9)	(17.5)
Chag in loan outstanding	12.0	13.2	11.2	10.5	10.2	9.4	3.6	(0.6)
<b>Households</b>								
Loan applications	26.4	(0.8)	11.2	(13.3)	(1.6)	3.2	(20.8)	(1.5)
Loan Approvals	30.6	3.5	15.6	(0.8)	6.9	2.3	(18.1)	(0.8)
Loan disbursements	1.2	1.7	10.1	(9.4)	3.7	9.3	-	2.5
Chag in loan outstanding	8.8	8.7	9.1	8.9	9.0	9.1	9.1	9.1

Source: Bank Negara Malaysia

**Peer Comparison**

Bloomberg Ticker	Rec	Last Year	Target Price (RM)	Price 31 Mar 09 (RM)	----- EPS -----			----- PE -----			DPS (sen)	Yield (%)	ROE (%)	P/BV (x)	
					2008 (sen)	2009F (sen)	2010F (sen)	2008 (x)	2009F (x)	2010F (x)					
AFG	AFG MK	SELL	Mar 08	1.48	1.69	20.0	18.7	24.8	8.4	9.0	6.8	4.0	2.4	16.8	0.9
AMMB	AMM MK	SELL	Mar 08	1.92	2.61	27.6	29.0	32.2	9.4	9.0	8.1	6.0	2.9	11.2	1.0
BCHB	BCHB MK	HOLD	Dec 08	6.05	6.85	54.6	52.5	61.2	12.6	13.0	11.2	25.0	3.6	11.9	1.4
HLFG	HLFG MK	SELL	Jun 08	3.60	4.68	52.1	52.6	51.9	9.0	8.9	9.0	23.0	4.9	13.9	1.1
HL Bank	HLBK MK	SELL	Jun 08	4.64	5.35	47.0	49.8	47.8	11.4	10.7	11.2	24.0	4.5	15.3	1.4
Maybank	MAY MK	SELL	Jun 08	3.33	3.86	60.0	49.6	58.1	6.4	7.8	6.6	52.5	13.6	15.2	0.9
Public	PBK MK	HOLD	Dec 08	6.88	7.55	73.1	57.0	72.0	10.3	13.3	10.5	75.0	9.9	27.4	2.7
RHB Cap	RHB MK	SELL	Dec 08	2.8	3.54	48.7	35.1	41.4	7.3	10.1	8.6	13.6	3.8	14.1	1.0
<b>Sector</b>							<b>9.3</b>	<b>10.6</b>	<b>9.1</b>				<b>7.2</b>	<b>15.0</b>	<b>1.3</b>

Source: Respective companies, Bloomberg, UOB Kay Hian

## ST Engineering

Size matters; impressive takeaways from analyst briefing

*STE exudes confidence in its aerospace operations at a plant visit.*

### Corporate Events

ST Engineering (STE) hosted an analyst briefing on its aerospace operations and provided a tour of its hangar at Paya Labar. STE appeared more upbeat than during the results briefing and we left the meeting with the impression that ST Aerospace's (ST Aero) sheer size would give it a competitive advantage and economies of scale, leading to better margins. The highlights are as follows:

- Orderbook only reflects confirmed orders.** STE reiterated that its orderbook of S\$10.6b only reflects confirmed orders and excludes general trade agreements (GTA). It also does not include regular scheduled maintenance, repair and overhaul (MRO) and local defence maintenance contracts. Of the S\$10.6b, \$3.6b (S\$3.49b in 2008) will be recognised in 2009. STE's orderbook provides earnings visibility for the next 2-3 years and reduces the risk of earnings volatility, aside from cost factors. On top of that, STE leverages on the advance payment it receives from customers, which can range as high as 10%.
- ST Aerospace ranked No. 1 MRO operator by *Overhaul & Maintenance* magazine for past six years.** ST Aero has the largest capacity in the world with hangars in Singapore, the US, Panama and China, with total capacity for 25 wide-bodied and 43 narrow-bodied aircraft. Capacity utilisation is greater than 90% at the US and Singapore hangars. Nine of the world's top 13 commercial airlines are ST Aero's customers, including FedEx, British Airways, Lufthansa Group, Air France KLM Group and other American airlines. This is significant as most of these airlines have in-house MRO capabilities but choose to outsource to ST Aero. This highlights the growing trend towards outsourcing. ST Aero managed to grow its top-line by 5.6% in 2008, a commendable performance considering record airline bankruptcies and grounding of aircraft.
- 2009 will be lacklustre, but improvement in operating efficiency should generate earnings growth.** Team SAI, an industry expert, has revised down global MRO growth to US\$45.5b, offering growth of just 1% for 2009. Even assuming that ST Aero manages to gain market share, 2009 is unlikely to see significant top-line growth. However, margins are likely to improve over 2009 because of lower depreciation and improved learning curve on prototype passenger to freighter conversions (PTF). Pre-tax profit (PBT) at ST Aero fell 20% yoy in 2008 due mainly to initial losses associated with Boeing 757 and 767 PTFs and \$14.8m provisions for doubtful debts and a weaker US dollar. ST Aero has a S\$726m contract to convert 87 aircraft for FedEx.

### SINGAPORE

#### ST Engineering (STE SP)

#### BUY

Current Price: S\$2.46

Target Price: S\$2.82

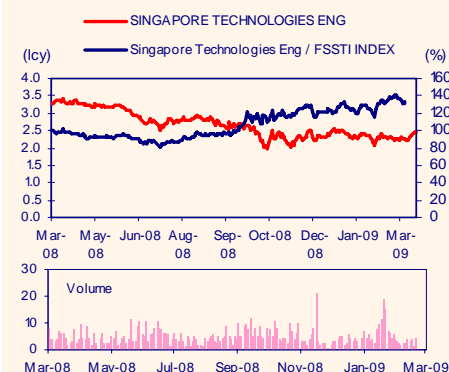
Sector: Aviation  
Bloomberg: STW SP  
Website: www.stengg.com

52-Wk Avg Daily Vol. ('000): 4646  
Market Cap (S\$m): 7385  
(US\$m): 4858.6

Book NTA per Share (S\$): 0.49  
ROE (%): 30.0  
Net cash per Share (S\$): 0.14

Results Due  
1Q:May 3Q:Nov  
2Q:Aug 4Q:Dec

#### Price Chart



Source: Bloomberg

#### Analyst

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Year to 31 Dec	Turnover (S\$m)	EBITDA (S\$m)	Net Profit (S\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (S\$)	Yield (%)
2007	5051.0	684.4	503.5	16.9	12.0	14.5	10.9	16.9	6.9
2008	5344.5	672.3	473.6	15.8	(6.5)	15.6	11.1	15.8	6.4
2009F	5575.9	779.8	514.5	17.2	8.6	14.3	9.6	16.0	6.5
2010F	5918.2	787.5	535.8	17.9	4.2	13.8	9.5	16.0	6.5
2011F	6040.2	817.7	565.0	18.9	5.5	13.0	9.1	16.0	6.5

Consensus Net Profit: - FY09: S\$473.9  
- FY10: S\$502.4

Six of these were delivered in 2008 and another 10-12 would be delivered in 2009. If all else remains constant, just the improvement in learning curve on this would generate earnings growth for the division.

**20% of customer base is defence-related.** ST Aero is unique in the MRO space as it has exposure to both commercial and defence MRO. The Group also recently announced that it has secured certification for Chinook helicopters. With this certification, ST Aero will be able to perform maintenance checks for Singapore's fleet of Chinook helicopters.

**Stock Impact/Recommendation**

We are positive on ST Aero's long-term outlook and have revised up STE's 2010 and 2011 net profit by 2%. The company has demonstrated its ability to grow revenue in an extremely difficult year and is now a top-tier MRO operator. With increased economies of scale, we expect margins to improve in the coming years. Our sum-of-the-parts value on STE accords a 16x PE on ST Aero. We believe this multiple is justified for a global MRO operator. Our target price of \$2.82 is based on 16.5x PE, the middle of the PE band. At \$2.45, the stock offers 6.5% dividend yield and is seen as having low credit risk given its Aaa rating. We reiterate our BUY recommendation and target price.

**Sum-of-the-parts Valuation**

(2009 & 2010 PBT)	PE	PBT	PATMI	Market Cap
Aerospace	16.0	313.4	251.8	4028.6
Land Systems	17.5	118.7	96.17	1680.9
Electronics	14.0	123.1	97.6	1366.7
Marine	14.0	84.2	68.9	964.8
Others	14.0	13.0	10.8	151.5
		652.5	525.2	8192.5
No. of shares				2996.0
<b>SOTP per share</b>				<b>\$2.73</b>

Source: UOB Kay Hian

**Profit & Loss**

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Turnover	5,051.0	5,344.5	5,575.9	5,918.2	6,040.2
EBIT	684.4	667.8	779.8	787.5	817.7
Pre-tax Profit	638.1	540.7	639.6	667.9	703.1
Net Profit	503.5	473.6	514.5	535.8	565.0

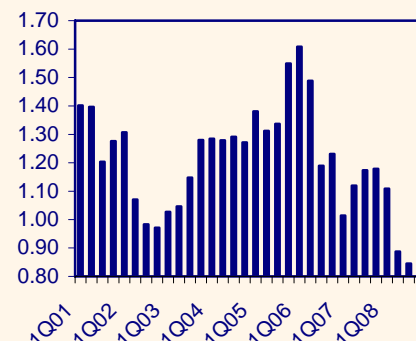
**Balance Sheet**

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	3,951.4	3,839.0	4,161.5	4,505.5	4,700.9
Total Assets	6,043.3	5,992.8	6,238.2	6,573.1	6,789.2
Current Liabilities	3,751.4	3,321.7	3,622.8	3,835.2	3,910.3
Long-Term Liabilities	2.7	289.2	289.2	289.2	289.2
Shareholder Funds	1,632.5	1,580.4	1,665.3	1,741.8	1,853.5
Total Equity & Liabilities	6,043.3	5,992.8	6,238.2	6,573.1	6,789.2

**Cash Flow**

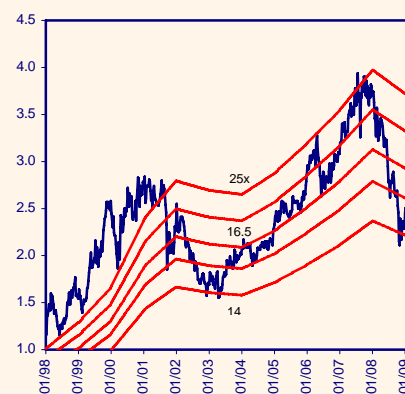
Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Operating	661.3	455.8	533.9	495.4	532.2
Investing	6.1	(10.5)	91.0	94.8	64.9
Financing	(513.0)	(543.1)	(573.7)	(577.7)	(569.3)
Net Cash In/(Out) Flow	154.4	(97.8)	51.2	12.5	27.8
Begin Cash & Cash Equiv.	(12.9)	(6.5)	(6.5)	(6.5)	(6.5)
End'g Cash & Cash Equiv.	1,141.3	1,282.8	1,178.5	1,223.2	1,229.2

**Price/Order book**



Source: ST Engineering, UOB Kay Hian

**PE Band**



Source: UOB Kay Hian

## LPN Development

Performance remains on track

About 83% of 2009 target sales of Bt8b are in hand, ensuring at least a Bt1b profit this year. Pace of sales, rejection rate and inventory level are so far on track. LPN trades at 3.7x 2009F PE, 0.8x P/B and dividend yield of 14%.

### Corporate Events

LPN targets 2009 sales of Bt8b (+14% yoy), of which Bt6.6b (83%) are already in hand. However, amid weak demand, LPN needs to lower its estimate gross margin on new projects by 2-3ppt to 28% (2008: 31%) and increase marketing/promotion expenses from 0.75% of presales to 1%.

Presales stood at Bt1.5b ytd. So far, it has an average 331 visitors per week (2008: 348) and sales of 91 units per week (2008: 109). LPN targets 2009 presales at Bt10b from the launch of 6-8 projects worth a total of Bt10b-12b.

Rejection rate has increased slightly to the current 10.7% (2008: 8.3%). But inventory level has gradually declined from Bt1.3b in Jul 08 to Bt725m in Dec 08 and Bt507m in Mar 09.

### Stock Impact

We are satisfied with the pace of sales, which has significantly improved from 30-40 units/week in Dec 08 to 105 units/week in Mar 09. Its latest project, Ville Ram Indra-Laksi II, launched at end-Feb 09, has already achieved presales of 40%. Rejection rate though has increased to 10.7% but it is still lower than the industry's average of over 20%. We are amazed with its ability to control inventory level and LPN expects to clear its inventory by mid-09. Its presales target of Bt10b seems aggressive and it is highly dependent on the launch of new projects.

Given that the majority of this year's top-line is already in hand, we estimate at least Bt1b of net profit (-13%yoy), in line with consensus. Nevertheless, we doubt its ability to maintain momentum. LPN targets to grow its top-line by no less than 10% p.a. or Bt8.8b next year. But it currently has only Bt2.4b of sales in hand to be realised in 2010 and around Bt3.4b worth of units available for sale which is insufficient to boost 20(2008: 348) 10 sales to reach its target. Hence, it is very crucial for LPN to quickly launch new projects over the next six months in order to sustain its profitability over the next two years.

We already assume the worst where LPN is unable to launch any new project from now. Hence, we forecast its 2010 net profit at Bt626m (-40% yoy). However, we are ready to upgrade its 2010-11 earnings if it can develop any new projects on top of what it has on hand. It plans to launch Pongpetch II worth Bt1.5b in 2Q09.

### Recommendation

Based on 2009 forecast, LPN trades at cheap valuations of 3.7x 2009F PE and 0.8x P/B with 14% dividend yield. Its 2H08 DPS of Bt0.27 (10% yield) will go ex on 8 April. Even if LPN will not launch any new project from now, its valuations remain reasonable at 6x 2010F PE, 0.8x P/B with 8% dividend yield. Maintain BUY.

## THAILAND

### LPN Development (LPN TB)

#### BUY

Current Price: Bt2.62

Target Price: Bt2.96

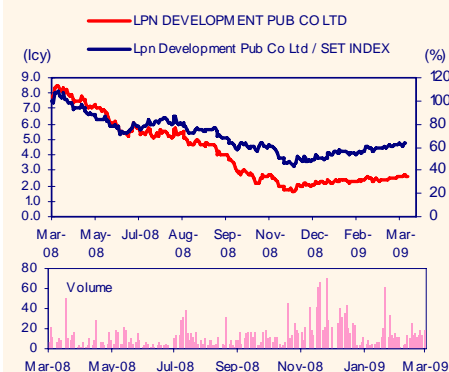
Sector	Property
52-Wk Avg Daily Vol. ('000)	12,073
Market Cap (Btm)	3,864.5
(US\$m)	110.4

Major Shareholders (%)	
Thai NVDR	23.1

Book NTA per Share (Bt)	3.04
ROE (%)	29.0
Net debt/share (Bt)	0.61

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)	P/B (x)	EV/EBITDA (x)	DPS (Bt)	Yield (%)
2007	6,754	1,612	928	0.63	21.3	4.2	1.01	3.2	0.32	12.2
2008	7,232	1,682	1,206	0.82	30.0	3.2	0.86	2.8	0.42	16.0
2009F	6,674	1,423	1,053	0.71	(12.7)	3.7	0.79	2.1	0.36	13.6
2010F	4,587	807	626	0.42	(40.6)	6.2	0.77	3.1	0.21	8.1
2011F	3,247	494	412	0.28	(34.1)	9.4	0.76	3.0	0.14	5.3

Consensus Net profit --FY09: B1,034m  
 -- FY10: Bt943m

**Profit & Loss**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	6,754	7,232	6,634	4,539	3,190
EBIT	1,647	1,717	1,483	873	567
Pre-tax Profit	1,644	1,707	1,483	873	567
Net Profit	928	1,206	1,053	626	412
EPS (Bt)	0.63	0.82	0.71	0.42	0.28

**Balance Sheet**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	5,676	7,228	4,939	5,007	3,856
Total Assets	7,176	8,846	6,826	6,975	5,824
Current Liabilities	2,828	3,812	1,835	1,885	635
Long-Term Loans	501	531	0	0	0
Shareholders' Funds	3,827	4,485	4,978	5,077	5,176
Total Equity & Liabilities	7,176	8,847	6,826	6,975	5,824

**Cash Flow**

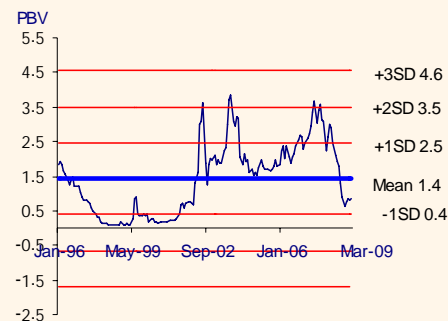
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	79	936	3,163	1,093	1,345
Investing	100	(1,087)	(95)	(102)	(20)
Financing	439	336	(1,800)	-	-
Net Cash In/out flow)	180	185	649	464	1,012
Begin Cash & Cash Equiv.	275	455	640	1,289	1,753
End'g Cash & Cash Equiv.	455	640	1,289	1,753	2,765

**Project Summary**

(Btm)	Project Launch	Sold (%)	Dec08	Complete
Place:Thapra	1,500	2Q06	91	1Q08
Town:Bodindej	2,800	1Q07	93	2Q08
Ville: Laksi	1,300	3Q07	97	4Q08
Ville:Pongpetch	1,350	3Q07	98	1Q09
Town:Rattana	1,550	4Q07	57	2Q09
Suite:Pinklao III	1,300	4Q07	100	3Q09
Town:Ram 26	1,350	1Q08	76	2Q09
Ville-Rama XIII	2,300	1Q08	64	3Q09
Place: Rama IX	2,600	2Q08	71	4Q09
Ville: Bangk	300	4Q08	70	2Q10
Ville: Laksi ph II	700	1Q09	40	2Q10
Place: Rama IX	2,600	3Q09	n.a.	2010
Ville:Pongpetch phII	1,500	2Q09	n.a.	3Q10

Source: LPN

**LPN: P/B & Standard Deviation**



Source: SETSMART, UOB Kay Hian

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