

### KEY STORY

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**Plantation** Page 3  
The sector outperforms regional markets on the back of steady CPO price recovery. Top performers: Astra Agro, Asiatic and KL Kepong.

#### China

**Banking** Page 5  
March new loans could reach Rmb1.5 trillion to fuel momentum. Maintain MARKET WEIGHT.

**China Railway Group (BUY/HK\$4.79/Target: HK\$5.90)** Page 12  
An improvement in sentiment is expected to clear concern over the Group's mining and property divisions. Maintain BUY.

#### Thailand

**Total Access Communication (BUY/Bt26.00/Target: Bt33.82)** Page 20  
Satisfactory 1Q09 results expected. Recent share price correction (for the wrong reason) puts DTAC at cheap valuations.

### REGIONAL

#### Sector

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#### CHINA

#### Sector

**Banking** Page 5  
March new loans could reach Rmb1.5 trillion to fuel momentum. Maintain MARKET WEIGHT.

#### Results

**China Communications Services (BUY/HK\$4.86/Target: HK\$5.50)** Page 6  
2008: Telco opex and overseas business will be long-term growth drivers. Margin is still a concern.

**China Power International (HOLD/HK\$1.62/Fair: HK\$1.70)** Page 8  
2008: Net loss of Rmb684m and no dividends. No catalyst and still waiting for Wu Ling acquisition. HOLD maintain on fair valuation.

**Hidili Industry (HOLD/HK\$2.70/Fair: HK\$2.90)** Page 10  
2008: Headwinds ahead as coking coal prices are about to move down.

#### Update

**China Railway Group (BUY/HK\$4.79/Target: HK\$5.90)** Page 12  
An improvement in sentiment is expected to clear concern over the Group's mining and property divisions. Maintain BUY.

### HONG KONG

#### Sector

**Consumer** Page 14  
Multiple-entry visas and e-channels are steps towards borderless travel between Shenzhen and Hong Kong. These will increase arrivals by 22% p.a.

### INDONESIA

#### Results

**Kalbe Farma (BUY/Rp630/Target: Rp970)** Page 16  
2008: In-line results. Revise down earnings estimates on sluggish consumer health sales outlook but valuation remains attractive. Reiterate BUY.

### Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7978.1	2.8	0.7	18.0	(9.1)
S&P 500	834.4	2.9	0.2	19.1	(7.6)
FTSE 100	4125.0	4.3	5.1	13.8	(7.0)
AS30	3622.2	2.7	1.0	14.2	(1.0)
CSI 300	2576.4	1.1	3.9	20.3	41.7
FSSTI	1803.3	5.9	2.5	18.0	2.4
HSI	14522.0	7.4	2.9	20.7	0.9
JCI	1499.7	2.6	5.6	18.6	10.6
KLCI	905.1	2.4	2.2	4.2	3.2
KOSPI	1277.0	3.5	2.7	24.5	13.6
Nikkei 225	8719.8	4.4	1.0	20.6	(1.6)
SET	443.0	3.0	0.8	7.2	(1.6)
TWSE	5473.8	3.0	1.6	23.4	19.2
BDI	1538	(2.3)	(10.3)	(23.6)	98.7
CPO (RM/mt)	2155	1.8	3.5	12.0	32.2
Nymex Crude (US\$/bbl)	53	8.8	(3.1)	31.1	18.0

Source: Bloomberg

### Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
<b>Top BUYs</b>			
China Life	2628 HK	27.00	31.30 15.9
China Mobile	941 HK	68.30	85.00 24.5
China Railway	390 HK	4.79	5.90 23.2
China Shenhua	1088 HK	18.72	21.90 17.0
Sinopec	386 HK	5.47	6.60 20.7
Zijin Mining	2899 HK	5.71	7.15 25.2
Bumi Resources	BUMI IJ	900	1,010 12.2
DBS Group	DBS SP	9.00	10.55 17.2
Indofood Agri	IFAR SP	0.64	0.80 25.0
SingTel	ST SP	2.55	2.95 15.7
Advanced Info	ADVANC TB	82.00	101.73 24.1
Quality Houses	QH TB	0.88	1.28 45.5

<b>Top SELLs</b>			
Harbin Power	1133 HK	5.48	3.50 (36.1)
Parkson Retail	3368 HK	7.74	5.15 (33.5)
S'pore Airlines	SIA SP	10.56	8.20 (22.3)
STX Pan Ocean	STX SP	10.52	4.35 (58.7)
Amata Corp	AMATA TB	3.16	2.52 (20.3)

### 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	-1-1	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\$/dmu)	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
Inspur Corp Roadshow	Hong Kong	2 Apr	3 Apr
Wasion Gp Corp Roadshow	Hong Kong	7 Apr	8 Apr

**MALAYSIA****Update****Berjaya Sports Toto (BUY/RM4.64/Target: RM5.50)****Page 18**

Milking the cash cow.

**THAILAND****Update****Total Access Communication (BUY/Bt26.00/Target: Bt33.82)****Page 20**

Satisfactory 1Q09 results expected. Recent share price correction (for the wrong reason) puts DTAC at cheap valuations.

## Plantation

Steady CPO price supports stock performance

The sector has outperformed regional markets, led by Indonesia-listed Astra Agro Lestari and Malaysia-listed Asiatic Development and KL Kepong. Strong performance supported by steady CPO price recovery.

### Plantation Sector Outperforms Regional Bourses

	Price 31 Mar 09	Price 31 Dec 08	1Q09 % chg	% chg Since Upgrade
<b>Malaysia</b>	<b>(RM)</b>	<b>(RM)</b>		
Asiatic	4.28	3.54	20.9	25.1
KL Kepong	10.60	8.90	19.1	26.2
Sime Darby	5.70	5.20	9.6	(9.7)
IJM Plantations	2.09	1.94	7.7	11.2
IOI Corp	3.80	3.56	6.7	17.3
<b>Singapore</b>	<b>(S\$)</b>	<b>(S\$)</b>		
Golden Agri	0.28	0.24	17.0	37.5
Wilmar	3.17	2.79	13.6	12.8
Indofood Agri	0.60	0.53	12.3	(4.8)
First Resources	0.30	0.32	(6.3)	(20.3)
<b>Indonesia</b>	<b>(Rp)</b>	<b>(Rp)</b>		
Astra Agro Lestari	14,100	9,800	43.9	72.0
Lonsum	3,300	2,925	12.8	15.8
Bakrie Sumatera	310	260	19.2	(7.5)
Sampoerna Agro	1,270	1,190	6.7	2.4
<b>Benchmark</b>				
KLCI	873	877	(0.5)	(3.5)
FSSTI	1,700	1,762	(3.5)	(9.8)
JCI	1,434	1,355	5.8	7.0
CPO Spot Price	2,113	1,630	29.6	28.9

Source: Bloomberg

### Key Events

1Q09 performance.

### Sector Impact

**Strong CPO price recovery in 1Q09.** The crude palm oil (CPO) price recovery was stronger than expected in 1Q09. CPO spot price closed at RM2,113/tonne as at 31 Mar 09, up 29.6% ytd. The strong price recovery was due to the following: a) supply concern on Argentina's soybean production due to droughts and demonstrations by farmers against high export tax, and b) sharper-than-expected decline in palm oil inventory.

### Best managed company turned in best share performance in the region.

The plantation sector has outperformed the regional markets, led by the strong CPO price recovery on supply concern. Being the largest listed plantation company and the best managed plantation company in Indonesia, Astra Agro Lestari (AALI) turned in the best share performance in the region, jumping 43.9% in 1Q09 and outperforming its regional peers.

**Take profit on Astra Agro Lestari (AALI)** and accumulate after the share price has corrected. However, we recommend investor take profit on AALI due to the rally in share price recently and it will be a good opportunity to accumulate the stock once the share price has corrected. We believe the stock is trading at a premium to Indonesia's sector average due to its strong balance sheet, net cash position and the fact that it is the best managed company in Indonesia.

**Weighting down new planting in Indonesia.** Several companies have slowed down their new planting compared with 2008 due to the following factors: a) tight liquidity, b) higher cost of money from banks and cost of converting cash due to unfavourable global market conditions, and c) fall in commodity prices in 4Q08. Our latest checks with companies reveal that the new planting targets for 2009 are likely to be in the range of 5,000-20,000ha vs 20,000-40,000ha over the last three years.

## REGIONAL Plantation OVERWEIGHT

### Steady CPO Price Recovery



Source: Bloomberg

### Analyst

Regional Research Team  
research@uobkayhian.com

**Drop in visibility.** Due to demand concern and tight credit market, the visibility of edible oil demand is declining. Size of order is shrinking substantially and order visibility is low as importers are holding back forward purchases on uncertain demand momentum.

**1H09 price support to come from low inventory.** We believe 1H09 prices would be better compared with that of 2H09 due to the low inventory as a result of lower supply and better demand from India and Europe. Price weakness is likely to set in in 2H09 as supply will peak when oil palm trees enter the peak production months. There could be cut-backs in Indian imports (stocking up in 1H09 in expectation of potential re-introduction of import duty).

**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 also because incoming mature acreage would support 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 1 Apr 09 (RM)	Target Price (RM)	Market Cap (RMm)	EPS			PE			ROE (%)	P/NTA (x)	Div Yield (%)
							2008 (sen)	2009F (sen)	2010F (sen)	2008 (x)	2009F (x)	2010F (x)			
Sime Darby	SIME MK	SELL	09/08	5.75	5.50	34,554	58.4	41.4	48.5	9.8	13.9	11.9	18.0	1.6	8.5
IOI Corporation	IOI MK	SELL	06/08	3.90	2.55	23,990	36.3	22.8	29.8	10.7	17.1	13.1	27.7	3.0	4.4
KL Kepong	KLK MK	BUY	06/08	10.70	8.80	11,422	97.5	79.2	98.5	11.0	13.5	10.9	19.9	2.2	4.7
Asiatic	ASP MK	SELL	12/08	4.30	3.70	3,255	49.3	30.8	47.8	8.7	14.0	9.0	16.9	1.4	3.3
IJM Plantations	IJMP MK	HOLD	03/08	2.14	2.05	1,372	20.2	14.1	20.0	10.6	15.2	10.7	20.6	1.8	5.6
<b>Malaysia-average</b>						<b>74,592.8</b>				<b>10.2</b>	<b>14.7</b>	<b>11.9</b>		<b>1.8</b>	
				(S\$)	(S\$)	(S\$m)	(US cent)	(US cent)	(US cent)	(x)	(x)	(x)	(%)	(x)	(%)
Wilmar Int'l	WIL SP	BUY	12/08	3.15	3.50	20,115	21.0	17.7	20.6	9.8	11.7	10.0	17.6	2.3	0.8
Golden Agri	GGR SP	BUY	12/08	0.28	0.33	2,853	3.5	2.9	4.3	5.2	6.3	4.3	34.9	0.3	5.8
Indofood	IFAR SP	BUY	12/08	0.60	0.800	869	7.4	5.8	9.8	5.3	6.8	4.0	10.5	1.3	0.0
First Resources	FR SP	HOLD	12/08	0.29	0.390	426	4.9	3.5	5.1	3.9	5.4	3.7	29.6	0.8	0.0
<b>Singapore-average</b>						<b>24,262.5</b>				<b>8.5</b>	<b>10.2</b>	<b>8.1</b>		<b>1.2</b>	
				(Rp)	(Rp)	(Rpb)	(Rp)	(Rp)	(Rp)	(x)	(x)	(x)	(%)	(x)	(%)
Astra Agro	AALI IJ	BUY	12/08	14,550	13,700	22,913	1,671	1,242	1,956	8.7	11.7	7.4	57.1	4.5	5.2
London Sumatra	ISIP IJ	BUY	12/07	3,300	3,350	4,503	680	380	545	4.9	8.7	6.1	33.7	1.4	0.0
Sampoerna Agro	SGRO IJ	BUY	12/08	1,350	1,350	2,552	233	159	204	5.8	8.5	6.6	22.9	1.6	1.6
Bakrie Sumatera	UNSP IJ	SELL	12/07	315	250	1,193	46	42	63	6.9	7.5	5.0	13.7	0.6	2.9
<b>Indonesia-average</b>						<b>31,160.3</b>				<b>7.5</b>	<b>10.6</b>	<b>7.0</b>		<b>2.0</b>	

Source: Respective companies, Bloomberg

## Banking

March new loans could reach Rmb1.5 trillion to fuel momentum

New loans could reach Rmb1.5 trillion for March with the proportion of discounted bills possibly falling to 15%. Such robust loan growth would fuel upward momentum for banking shares in the near term.

### Sector Events

**March new loan growth reported to exceed Rmb1 trillion.** Following new loan growth of Rmb1.6 trillion in January and Rmb1.02 trillion in February, Caijing reported new loan growth for March could be as high as Rmb1.5 trillion. The proportion of discounted bills will also be likely to drop substantially, possibly to as low as 15% of total loans, compared to 38% and 44% for January and February.

### Sector Impact

**Surprisingly strong loan growth to propel upward momentum...** ICBC (1398 HK) could see Rmb310b of new loans in March, of which only around Rmb33b is expected to be discounted bills. Bank of China (3988 HK) could see Rmb226b of new loans for the month with Rmb26b of bills. China Construction Bank (939 HK) could see Rmb170b of additional loans with Rmb30b of discounted bills. Finally, BoCom (3328 HK) could see Rmb74b of new loans for the month with Rmb12b of discounted bills. Assuming that the big four (excluding Agricultural Bank of China) account for 50% of loan growth, it implies total new loan growth of Rmb1.5 trillion for March.

Such surprising credit growth will undoubtedly fuel the current upward momentum of the banking sector by boosting confidence that the government's fiscal stimulus package is indeed taking effect. Strong credit growth will also mean that NPL formation will be manageable for the year.

**...but without a doubt, loan growth will fall in 2Q09.** Loan growth of such a magnitude in March will certainly catch the eye of regulators, who will look to contain the newfound euphoria. While it is unlikely that a loan quota will be implemented for the year, the People's Bank of China (PBOC) may adjust its rate setting policy for the interbank and repo markets or raise the required reserve ratio. Also, with loan growth possibly hitting Rmb4.1 trillion for 1Q09 alone (82% of full-year target of Rmb5 trillion), banks themselves will undoubtedly reign in lending from 2Q09.

### Earnings Risk

Primary risk is severe asset quality deterioration.

### Recommendation

Such robust loan growth will almost certainly fuel the upward momentum towards Chinese banks. In the short term, we continue to like ICBC due to its industry-low LDR of 56.4% and superb asset quality. CMB continues to remain very attractive as it has lagged behind its peers. However, given the strong appreciation in shares in such a short time, the shares will be vulnerable to profit-taking risk nearing 1Q09 results, as numbers are expected to be disappointing for the period due to NIM compression and rising provisions.

### Sector Valuation

Stock	Rec	Price 2 Apr 09 (HK\$)	Net Profit			PE			P/B			ROE 2008 (%)	Market Cap (HK\$m)	Yield 2008 (%)
			2008 (Rmbm)	2009F (Rmbm)	2010F (Rmbm)	2008 (x)	2009F (x)	2010F (x)	2008 (x)	2009F (x)	2010F (x)			
BoCom	SELL	5.74	28,393	22,286	23,152	8.3	11.5	11.1	1.7	1.6	1.4	20.1	327,317	4.3
CMB	BUY	14.52	20,927	21,555	24,853	9.2	8.9	7.7	2.5	2.1	1.6	20.8	264,264	3.5
ICBC	HOLD	4.10	110,841	102,089	115,341	11.1	12.1	10.7	2.1	1.9	1.7	19.4	1,477,100	4.7
BOC	SELL	2.67	64,360	52,488	68,058	9.5	11.6	9.0	1.2	1.3	1.2	14.6	912,909	6.1
CCB	HOLD	4.59	92,642	85,936	105,461	10.4	11.2	9.2	2.1	1.7	1.5	20.7	1,076,140	3.7

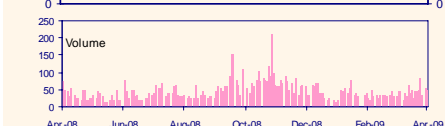
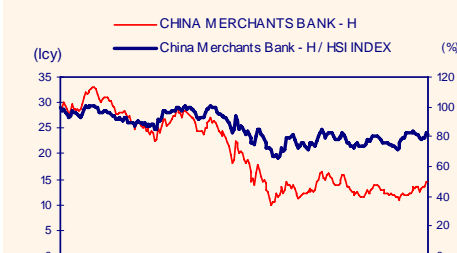
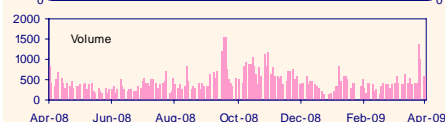
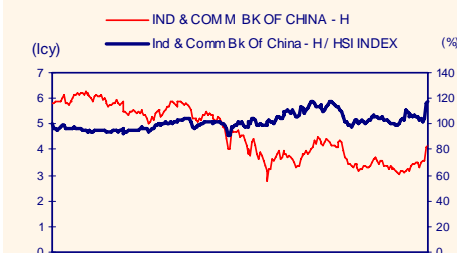
Source: Company data, UOB Kay Hian

## CHINA

### Banking

## MARKET WEIGHT

### Price Chart



Source: Bloomberg

### Analyst

Nan Sheng  
 ☎ (8621) 54047225 ext. 809  
 nan.sheng@uobkayhian.com

## China Communications Services

2008: Telco opex and overseas business will be long-term drivers, margin is still a concern

2008 results slightly missed our estimates due to higher-than-expected opex in 2H08. As a leading specialised service provider for telecoms operators, CCS is set to capture increasing telecoms capex and opex. Maintain BUY.

### 2008 Results

(Rmbm)	2008	2007	yoy chg	UOBKH est.	Diff	Remarks
Revenue	32,470.6	23,538.4	37.9%	30,850.5	5.3%	Boosted by 2H08 strong telco capex
Gross Profit	5,300.8	4,064.7	30.4%	5,080.5	4.3%	
Pre-tax Profit	1,733.0	1,644.3	5.4%	1,854.8	-6.6%	
Net income	1,316.3	1,167.2	12.8%	1,372.3	-4.1%	Higher-than-expected 2H08 SG&A
Gross Margin	16.3%	17.3%	-0.9ppt	16.5%	-0.1ppt	2H08 improved 1.0ppt hoh to 16.7%
Net margin	4.1%	5.0%	-0.9ppt	4.4%	-0.4ppt	

Source: CCS, UOB Kay Hian

### Results

Revenue was 5.3% above our estimate as strong telco capex growth in 2H08 drove China Communications Services' (CCS) telecoms infrastructure services (TIS) income. Profit was 4.1% below estimate due to slightly lower gross margin and higher-than-expected SG&A costs. DPS was Rmb0.0913 with payout ratio remaining at 40%.

### Stock Impact

CCS' income growth in 2009 will likely be supported by telcos' capex hikes. Based on telcos' latest budget, it will increase 31.7% yoy to Rmb389b. With telco capex probably peaking in 2009, management believes the business process outsourcing (BPO) segment will serve as a growth driver after 2009 as telcos' opex will increase together with future subscriber growth, and intensified competition among telcos will stimulate demand for outsourcing services.

In addition, management sees the government's resource sharing policy as a positive for CCS as telcos will increase demand for independent parties to construct and maintain network infrastructure. Moreover, overseas business development will serve as an additional growth driver. With all these, management expects CCS' revenue growth to stay at 15% CAGR over the next three years and earnings growth to be in the low double digits.

### Earnings Revision

We raise our 2009 revenue forecast by 2.6% after assuming higher telco capex assumptions but earnings will likely be lifted only 2.6% after we tone down gross margin to flat yoy given management's expectation of pricing pressure under intense competition and a poor macro environment.

### Recommendation

With the street just beginning to factor in telcos' capex hikes, CCS is likely to see some re-rating even though the company exhibited some margin pressure in 2H08. Given its laggard performance vs ZTE's (+16% vs +40% since Mar 09), we prefer CCS to ZTE at the moment. Maintain BUY and we raise our target price to HK\$5.50 based on 16x 2009F PE.

## CHINA

### China Communications Services (552 HK)

### BUY

Current Price: HK\$4.86  
Target Price: HK\$5.50  
(Previous: HK\$5.30)

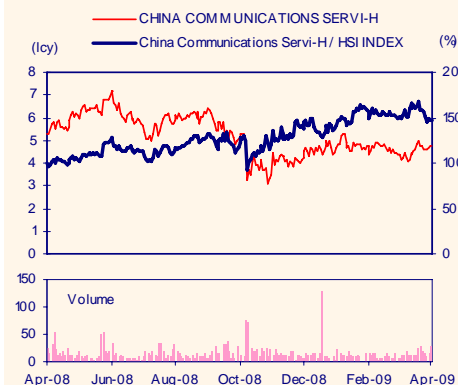
Sector	Telecom
52-Wk Avg Daily Vol. (m.)	14.4
Market Cap (HK\$m)	30,555
(US\$m)	3,943

Major Shareholders (%)	
China Telecom Group	52.6
China Mobile Group	8.8
China Unicom Group	4.1

Book NTA per Share (HK\$)	2.8
ROE (%)	13.5
Net Cash per Share (HK\$)	1.4

Results Due	
Interim	September
Final	April

### Price Chart



Source: Bloomberg

### Analyst

Victor Yip  
☎ (852) 2826 1392  
victor.yip@uobkayhian.com.hk

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2007	23,538	2,107	1,167	0.21	6.5	20.0	12.4	0.07	1.6
2008	32,471	1,897	1,316	0.24	12.8	17.7	12.6	0.09	2.1
2009F	39,144	2,857	1,724	0.30	23.5	14.3	7.9	0.12	2.8
2010F	42,309	3,158	1,940	0.34	12.5	12.7	6.9	0.13	3.1
2011F	46,357	3,355	2,091	0.36	7.8	11.8	6.2	0.14	3.4

Consensus Net Profit – FY09: Rmb1,752m  
-- FY10: Rmb1,926m

**CITCC helped diversify customer base.** Management indicates the CITCC acquisition helped CCS to capture more businesses from northern China and improve revenue mix. In 2008, 48.9% of CITCC's revenue came from China Mobile and China Unicom. In addition, CITCC's overseas reach also enabled CCS to achieve over 50% overseas revenue growth in 2008. The company will continue to explore additional overseas opportunities with a focus on Africa, the Middle East, Latin America, South-east Asia and the Hong Kong/Macau market.

**Largest TIS provider in China.** The company believes CCS is the largest TIS provider in China with a 45-50% market share. CCS owns six of the eight largest telecoms network design houses (except China Mobile owns the second and China Unicom owns the third). Management sees the company's expertise and competitive pricing as major reasons for China Mobile and China Unicom to continue using their services. CCS has a 75%, 28% and 15% market share in China Telecom's, China Mobile's and China Unicom's construction projects.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	23,538	32,471	39,144	42,309	46,357
EBIT	1,599	1,809	2,306	2,557	2,728
Pre-tax Profit	1,644	1,733	2,322	2,613	2,816
Net Profit	1,167	1,316	1,724	1,940	2,091

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	16,728	21,836	24,893	26,497	28,555
Total Assets	21,840	27,459	30,532	32,398	34,684
Current Liabilities	12,189	15,315	17,019	17,310	17,931
Long-Term Liabilities	13	31	31	31	31
Shareholder Funds	9,561	11,991	13,342	14,898	16,526
Total Equity & Liabilities	21,840	27,459	30,532	32,398	34,668

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	1,664	1,950	2,204	2,143	2,124
Investing	(5,183)	(44)	(441)	(525)	(502)
Financing	1,989	(12)	(1,027)	(1,190)	(1,076)
Net Cash In/(Out) Flow	(1,530)	1,894	737	428	547
Begin Cash & Cash Equiv.	8,164	6,632	8,527	9,263	9,692
End'g Cash & Cash Equiv.	6,632	8,527	9,263	9,692	10,238

**Peer Valuations**

Company	Ticker	Price @ 2 Apr 09 (LC)	Market Cap (US\$m)	----- PE (x) -----		
				2008	2009F	2010F
<b>Telecom Equipment Manufacturers</b>						
Cisco Systems	CSCO US	17.46	101,914	11.3	14.0	14.7
Ericsson	ERICB SS	71.70	28,545	15.8	16.1	12.9
Juniper Networks	JNPR US	15.78	8,239	13.4	19.2	15.4
Nokia	NOK1V FH	9.43	47,691	7.2	14.2	10.7
ZTE Corp	763 HK	33.80	6,816	23.7	18.0	15.8
<b>Average</b>				<b>14.3</b>	<b>16.3</b>	<b>13.9</b>
<b>Constructions Service Provider</b>						
China Comm. Const.	1800 HK	9.15	17,502	19.2	14.9	12.0
China Railway Const	1186 HK	10.06	17,216	27.4	18.5	14.1
China Railway Grp.	390 HK	4.79	16,608	39.1	16.4	12.2
Dycom Industries	DY US	5.90	233	7.9	15.1	11.5
<b>Average</b>				<b>23.4</b>	<b>16.2</b>	<b>12.4</b>
<b>Overall Average</b>				<b>17.9</b>	<b>16.3</b>	<b>13.3</b>
China Comm. Svcs.	552 HK	4.86	3,943	17.7	14.3	12.7

Source: Bloomberg, UOB Kay Hian

## China Power International

2008: Net loss of Rmb684m, waiting for Wu Ling acquisition

China Power reported a net loss of Rmb684m due to a surge in coal price and finance costs. Proposed Wu Ling acquisition, if finalised, will be near-term earnings catalyst. Maintain HOLD. Prefer China Resources Power.

### 2008 Results

Year to 31 Dec	1H08 (Rmbm)	yoy % chg	Remarks
Turnover	9,632	63	Driven by a) 37% growth in net generation volume and b) power tariff hikes in 2H08
Fuel cost	(7,056)		Substantial coal price increase
Impairment on fixed assets	(349)	n.a.	Shut down small generation units of Shentou Power plants
Operating costs	(9,300)	72	Driven by a 34.5% yoy increase in unit fuel cost
Operating loss	(30_)	-	Higher fuel and depreciation costs
			Driven by the following: a) a series of interest rate hikes and b) ceasing interest capitalisation of new power plants
Finance cost	(630)	240	Due to a) reduced profit from associated Changshu power company and b) Changed Shanghai Power, which incurred a net loss, from associate to available-for-sale investment
Losses of associates	(43)	9	Increase in fuel and finance costs and impairment loss
Profit before taxation	(690)	n.a.	
Net loss	(684)	n.a.	
Basic EPS (Rmb/sh)	(0.19)	n.a.	
Dividend	-	n.a.	

Source: UOB Kay Hian

### Results

China Power International (China Power) reported a net loss of Rmb684m due to a surge in fuel and finance costs and impairment loss on fixed assets. This is 20% below market expectation and 12% higher than our forecast. Excluding impairment loss, net loss was Rmb295m, equivalent to a basic loss per share of Rmb0.08. 2008 net generation volume rose 37% yoy to 33.9b kWh.

Unlike Datang Power and Huaneng Power, the company did not declare dividends this year.

### Stock Impact

**Fuel cost.** China Power's unit fuel cost was up 35% yoy last year, in line with our forecast. This year, we built into our model an 18% yoy unit fuel cost decline for the company (vs 20-24% for its peers) due to its relatively smaller amount of unit fuel cost increase (vs 40-48% for Datang, Huaneng and CR Power).

**Utilisation hours.** China Power's average utilisation has been relatively defensive (down modestly by 1-3% yoy) due to its relatively lower power tariffs, despite reduction in utilisation for Yaomeng and Shentou power plants due to extra repair and maintenance works and plant shutdown. This year, we expect utilisation for its old generation units to be less affected by the weak power demand situation while its newly commenced power plant, with relatively higher power tariffs, will see relatively weak utilisation. We forecast its old generation units to see 3-5% yoy utilisation downgrades, while new plants will see 8% yoy utilisation decrease, in line with the industry norm.

## CHINA

### China Power International (2380 HK)

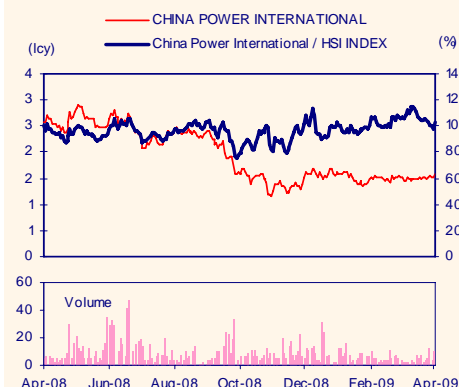
### HOLD

Current Price: HK\$1.62

Fair Price: HK\$1.70

Sector	Power
52-Wk Avg Daily Vol. (m)	8.2
Market Cap (HK\$m)	5,841
(US\$m)	754
Major Shareholders (%)	
CPI Group	55.38
Book NTA per Share (Rmb)	2.1
ROE (%)	(8)
Net Debt per Share (Rmb)	2.6
Results Due	
1H	Sep
Final	Apr

### Price Chart



Source: Bloomberg

### Analyst

Yan Shi  
 ☎ (8621) 5404 7225 ext. 804  
 yan.shi@uobkayhian.com

Regional Research Team  
 research@uobkayhian.com

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	5,949	1,385	592	0.16	(26)	9.1	8.7	0.07	4.5
2008	9,641	734	(684)	(0.19)	(215)	n.a.	15.2	0.00	0.0
2009F	11,188	1,977	420	0.12	(161)	12.8	5.1	0.05	3.2
2010F	12,299	2,109	549	0.15	31	9.8	4.3	0.06	4.2
2011F	13,245	2,378	789	0.22	44	6.8	3.3	0.09	6.0

Consensus Net Profit – FY09: Rmb606m  
 – FY10: Rmb753m

**Wu Ling Power acquisition.** China Power's planned acquisition of a 63% stake in Wu Ling Power (Wu Ling) is still pending. The major obstacle currently remains financing problems. The company wishes an equity financing, but it seems quite difficult given the recent poor equity market conditions.

China Power entered into a Memorandum of Understanding (MOU) with parent company, CPI Group, in May 08 to acquire a 63% stake in Wu Ling, which would diversify the coal cost risk and improve earnings stability.

**Gearing.** China Power's gearings ratio surged to 142% in 2008 from 82% a year earlier due to heavier new capacity investment. This tends to place more pressure on a 100% debt financing for Wu Ling acquisition. Total planned capex for 2009 is Rmb1.6b.

**Valuation/Recommendation**

We maintain our earnings forecasts and HOLD rating. Entry price at below HK\$1.40. We believe China Power will not be the biggest beneficiary of the significant fall in coal prices this year given its low efficiency. The acquisition of Wu Ling, if it materialises, will help improve its earnings stability and warrant a re-rating. We prefer China Resources Power (836 HK, BUY/Target: HK\$17.70) for power exposure in China.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	5,949	9,641	11,188	12,299	13,245
EBIT	925	(64)	1,083	1,199	1,451
Pre-tax Profit	661	(690)	505	665	963
Net Profit	592	(684)	420	549	789

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	2,581	3,936	5,331	6,138	7,027
Total Assets	22,950	22,432	25,770	26,267	26,759
Current Liabilities	3,403	4,266	6,036	6,632	7,051
Long-Term Liabilities	8,367	10,024	8,739	8,334	7,960
Shareholder Funds	11,135	8,142	10,979	11,303	11,769
Total Equity & Liabilities	22,950	22,432	25,770	26,267	26,759

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Pre-tax profit	660.9	(690)	(451)	(1,707)	(1,875)
Depreciation	460.1	798	1,392	1,904	1,921
Change in working capital	(157.1)	(733)	(232)	1	(116)
Operating cash flow	661.6	197	827	584	325
Investing Cash flow	(3,871.5)	(1,575)	(12,671)	(12,671)	(295)
Financing Cash flow	2,963.9	1,191	12,148	12,560	238
Net cash flow	(245.9)	513	304	472	268

## Hidili Industry

Headwinds ahead as coking coal prices are about to move down

We turn positive on coking coal on China's infrastructure story. But Hidili is vulnerable to softer steel demand in 2Q09, which will drag down coking coal prices. Maintain HOLD and look for better entry levels below HK\$2.20.

### 2008 Results

Year to 31 Dec	2008 (Rmbm)	yoy % chg	2H08 (Rmbm)	hoh % chg	Remarks
Turnover	2,488	139	1,298	9	Higher volume & ASP
Operating profit	1,098	74	515	(12)	Higher distribution costs
Pre-tax Profit	1,065	80	505	(10)	Lower finance costs
Net Profit	1,003	76	469	(12)	High effective tax rate
	(%)	ppt chg	(%)	ppt chg	
Gross margin	62.1	(3)	59	(6)	
Operating margin	44.1	(16)	42	(8)	
Net margin	40.3	(14)	36	(9)	

Source: Hidili, UOB Kay Hian

### Results

- Net profit rose 76% yoy to Rmb1b, within consensus forecast. Turnover rose 139% to Rmb2.5b, 12% above forecast.
- Earnings fell in 2H08, dragged down by coking coal price meltdown and volume shortfall.
- Raw coal output amounted to 2.8mt, with realised coking coal price of Rmb1332/tonne (+104%) and unit cost of Rmb517/tonne (+110%).

### Stock Impact

With the deterioration in steel demand, Hidili reduced its coal output target to 3.2mt (+14% yoy) from 4.5mt previously. Management highlighted headwinds six months down the road as softening steel demand since mid-March will exert pressure on coking coal prices.

Meanwhile, Hidili has put on hold mergers and acquisitions (M&A) and has declared no dividend to conserve cash for working capital and capex. But if the credit market and cash flow improve, it will look to acquire 10 coal mines for Rmb1.5b-2.0b and resume its target dividend policy of 20-30% payout ratio.

### Earnings Revision

We cut 2009 and 2010 earnings forecasts by 25% and 11% respectively to reflect lower coal output target. Our 2009 price assumptions for coking coal and coke are Rmb900/tonne (vs spot: Rmb960/tonne) and Rmb1200/tonne (vs spot: Rmb1280/tonne) respectively. A 1% change in coking coal and coke prices would affect 2009 earnings by 1.1% and 0.9% accordingly.

## CHINA

### Hidili Industry (1393 HK)

#### HOLD

Current Price: HK\$2.70

Fair Price: HK\$2.90

(Previous: HK\$3.00)

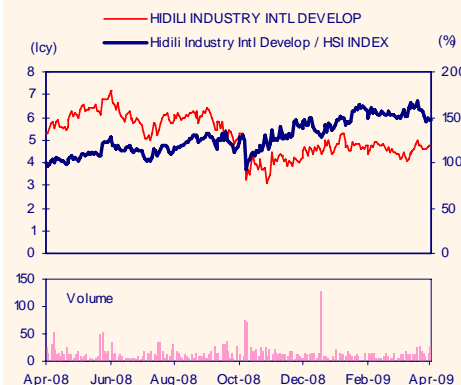
Sector	Coal
52-Wk Avg Daily Vol. ('000)	22,498
Market Cap (HK\$m)	5,562
(US\$m)	718

Major Shareholders (%)	
Mr. Xian Yang	53.28

Book NTA per Share (Rmb)	2.83
ROE (%)	17.2
Net Debt per Share (Rmb)	0.26

Results Due	
1H: Apr	Final: Oct

### Price Chart



Source: Bloomberg

### Analyst

Karen Li  
 ☎ (852) 2236 6749  
 karen.wy.li@uobkayhian.com.hk

Foo Choy Peng  
 ☎ (852) 2236 6798  
 choypeng.foo@uobkayhian.com.hk

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2007	1,043	687	570	0.37	396.4	6.1	5.0	0.08	3.7
2008	2,488	1,209	1,003	0.49	31.3	4.6	3.4	-	-
2009F	1,852	899	694	0.34	(30.8)	6.7	3.8	0.08	3.7
2010F	2,959	1,588	1,245	0.60	79.3	3.7	2.4	0.15	6.7
2011F	4,687	2,439	1,991	0.97	59.9	2.3	1.4	0.24	10.7

Consensus Net Profit – FY09: Rmb618m  
 –FY10: Rmb798m

**Valuation/Recommendation**

We turn positive on coking coal – a raw material for steel making – on China's infrastructure story. Our steel analysts expect China's stimulus package to contribute significantly to steel demand in 2H09. However, in the nearer term, the counter will be vulnerable to pullbacks in coking coal prices in 2Q09 as de-stocking by steel mills is underway. Maintain HOLD with a lower fair price of HK\$2.90.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	1,043	2,488	1,852	2,959	4,687
EBIT	631	1,098	747	1,407	2,236
Pre-tax Profit	592	1,065	729	1,387	2,217
Net Profit	570	1,003	694	1,245	1,991

**Balance Sheet**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	4,352	1,994	3,199	3,483	4,854
Total Assets	7,041	7,286	8,101	9,104	10,673
Current Liabilities	2,020	1,359	1,352	1,397	1,467
Long-Term Liabilities	-	-	200	220	220
Shareholder Funds	5,008	5,839	6,503	7,437	8,930
Total Equity & Liabilities	7,041	7,286	8,101	9,104	10,673

**Cash Flow**

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	443	723	569	913	1,346
Investing	(2,581)	(282)	(1,000)	(900)	(400)
Financing	4,499	(971)	16	(303)	(534)
Net Cash In/(Out) Flow	2,360	(530)	(415)	(290)	412
Begin Cash & Cash Equiv.	201	2,561	2,031	1,616	1,326
End'g Cash & Cash Equiv.	2,561	2,031	1,616	1,326	1,738

## China Railway Group

### Diminishing non-core risks

We believe it is time to be more positive on CRG's non-construction businesses. The valuation gap between CRG and China Railway Construction is expected to narrow. Maintain BUY.

### Corporate Events

**Hidden assets.** In line with other construction companies, China Railway Group (CRG) is involved in other businesses such as property and mining to reduce dependence on construction. CRG has been aggressively expanding in the property development business in recent years and intends to expand further in the future. Meanwhile, CRG is also tapping the metals mining business with gold, copper and coal mines in domestic and overseas markets. The diversification is a concern for investors given the sharp falls in commodity prices last year and the correction in China's property market. We believe it is time to take a more positive stance on CRG given an improvement in sentiment on commodity plays and China property plays. We believe the market has concentrated on CRG's construction business and placed little value on the other businesses.

**Sizeable mining assets.** CRG has acquired controlling equity stakes in five mines (one gold mine in Inner Mongolia, two copper and cobalt mines in Congo, and two coal mines in Inner Mongolia). The gold mine's reserves total about 800,000 tonnes with an average composition of 5.05gramme/tonne ore. The ore reserves in the other two mines amount to 27.55m tonnes, with copper at 850,000 tonnes and cobalt at 110,000 tonnes. Currently, the gold mine is still in the prospecting stage and the copper and cobalt mines are also in the exploratory stage. The coal mines in Inner Mongolia have coal reserves of about 1b tonnes. CRG signed a joint venture (JV) agreement to establish a joint stock limited company Societe par Actions a Responsabilitie (SAR) to invest in copper and cobalt mines. CRG owns a 33% stake, the largest. Congo Mining will transfer the relevant mining rights to the JV. The preliminary proven copper reserves under the SAR are about 10m tonnes and the cobalt reserves are about 0.42m tonnes. The full capacity is about 220,000 tonnes/year, with a higher proportion of copper than cobalt. The SAR's copper reserves are similar to Jiangxi Copper's (358 HK) 10m tonnes but its production capacity will be larger than Jiangxi Copper's current output of 170,000 tonnes/year.

**Property division.** The latest rally in mainland developers shows that confidence is fast returning to the property market. Sales volume growth in 1Q09 was surprisingly strong, not just 60-70% higher yoy in major cities but also close to levels recorded in 2007, a boom year for the sector. The series of supporting policies boosts demand that is evidently still strong, particularly as flats have become more affordable after the price decline. Our property analysts expect the sales momentum to continue in the next couple of months and market attention has now turned to the cheaper second- and third-tier developers. We expect the market to start looking at the value of CRG's portfolio of landbank across China. CRG has total landbank of 9.2m<sup>2</sup> with an attributable landbank (GFA) of 16.1m m<sup>2</sup> as at Jun 08.

### CHINA

#### China Railway Group (390 HK)

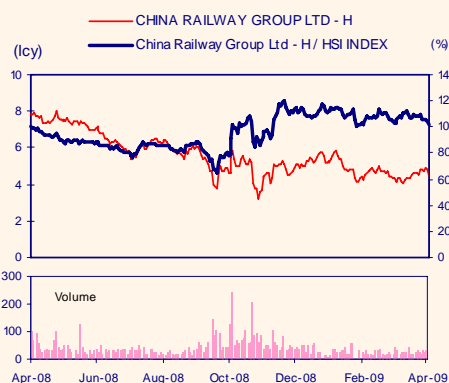
#### BUY

Current Price: HK\$4.79

Target Price: HK\$5.90

Sector	Industrials
52-Wk Avg Daily Vol. (m)	38.7
Market Cap (HK\$m)	22,944
(US\$m)	2,942
Major Shareholders (%)	
CRECG	58.3
Book NTA per Share (Rmb)	2.60
ROE (%)	7.8
Net Cash per Share (Rmb)	0.90
Results Due	
Interim	September
Final	April

#### Price Chart



Source : Bloomberg

#### Analyst

Mark Po, CFA

(852) 2236 6794

mark.po@uobkayhian.com.hk

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2006	153,568	5,526	2,046	0.16	0.0	27.2	-	0.00	0.0
2007	173,751	5,183	2,411	0.11	(29.2)	38.4	9.2	0.00	0.0
2008F	222,982	9,173	1,118	0.05	(53.6)	82.8	17.1	0.01	0.2
2009F	286,507	13,581	5,758	0.27	414.9	15.9	9.1	0.08	1.9
2010F	357,563	16,550	7,695	0.36	33.6	11.9	7.5	0.11	2.6

Consensus Net Profit – FY08: Rmb1,649m  
– FY09: Rmb5,514m

**Outperforms others in terms of order inflow.** Investment in railway infrastructure is expected to reach Rmb600b in 2009, up from Rmb330b in 2008. CRG outperforms its peers, China Railway Construction (CRC) (1186 HK) and China Communications Construction (CCC) (1800 HK) in new order inflow. New order inflow in 2008 topped Rmb400b. China's fixed asset investment (FAI) increased 26.5% (+26.1% in 2008) yoy in Jan-Feb 09, mainly driven by strong growth of central government projects that soared 40% yoy from 30% in 2008. FAI in the railway sector increased 210% yoy and reached Rmb34b in the same period. The latest newsflow confirms our view that FAI in the railway sector remains strong and CRG has also reported an 80% yoy increase in new order inflow to Rmb90b in Jan-Feb 09.

**Earnings Risks**

Potential risks are higher-than-expected prices of raw materials, especially steel, cancellation of preferential tax treatment and extreme weather conditions.

**Valuation/Recommendation**

Maintain BUY. Our target price of HK\$5.90 is based on 11X EV/EBTIDA and mining assets only account for a minimal portion as we expect CRG's mining assets to make a meaningful contribution only from 2010 onwards. We did a quick calculation, and based on EV/reserves, CRG's mining assets should be worth HK\$0.80/share. CRG is now trading at 15.9x 2009 PE and 11.9x 2010 PE, which looks more reasonable compared with CRC's 18.5X FY09 PE and CCC's 14.9x FY09 PE.

**Profit & Loss**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Turnover	153,568	173,751	222,982	286,507	357,563
EBIT	5,526	5,183	9,173	13,581	16,550
Pre-tax Profit	3,387	3,277	2,044	8,547	11,567
Net Profit	2,046	2,411	1,118	5,758	7,695

**Balance Sheet**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Current Assets	117,932	172,097	159,284	194,337	243,096
Total Assets	143,093	215,023	206,956	250,859	297,066
Current Liabilities	117,509	136,484	132,169	167,539	206,453
Long-Term Liabilities	18,585	23,285	23,422	27,924	29,830
Shareholder Funds	6,999	55,254	51,365	55,396	60,782
Total Equity & Liabilities	143,093	215,023	206,956	250,859	297,065

**Cash Flow**

Year to 31 Dec (Rmbm)	2006	2007	2008F	2009F	2010F
Operating	8,528	565	(18,747)	5,795	7,796
Investing	(8,633)	(16,279)	(1,908)	(19,086)	(7,147)
Financing	13,707	43,030	(13,336)	6,140	902
Net Cash In/(Out) Flow	13,602	27,316	(33,991)	(7,151)	1,551
Begin Cash & Cash Equiv.	3,738	17,340	44,656	10,666	3,514
End'g Cash & Cash Equiv.	17,340	44,656	10,666	3,514	5,065

## Consumer

### Borderless consumer market

*Multiple-entry visas and e-channels are steps towards borderless travel between Shenzhen and Hong Kong. These will increase arrivals by 22% p.a. More cities in Guangdong are expected to follow, fuelling the momentum.*

#### Sector Events

**Multiple-entry visas = more visitor arrivals.** From 1 April, about 2.2m Shenzhen residents with permanent residence permits can apply for 12-month Hong Kong multiple-entry visas at a cost of Rmb100 each in an expansion of the Individual Visit Scheme (IVS). Previously, Shenzhen residents with permanent residence permits can apply for visas that allow two entries to Hong Kong within three months or a year. In addition, visitors from Shenzhen without permanent residency permits may apply for single-entry visas from 1 May. This could bring another 7.0m Shenzhen residents to Hong Kong. The number of visitor arrivals from Mainland China to Hong Kong was 16.9m in 2008. The number of arrivals for Shenzhen residents visiting Hong Kong in 2008 was about 6.0m, accounting for 36% of total arrivals.

**Exclusions.** More than 120,000 permanent residents will not be included in the programme. They are mostly officials such as department-level chiefs at governmental institutions, senior executives at financial institutions and managers of state-owned enterprises.

**Attracting only "better-quality" visitors.** The implementation of the new measures does not mean every permanent resident in Shenzhen would be eligible because there are requirements involving age, identity and employment status. This is to ensure only "better-quality" travellers come to Hong Kong.

**Shenzhen residents will be able to go through e-channels.** To cope with the upsurge in traffic from Shenzhen to Hong Kong, the Shenzhen municipal government has already opened more counters for immigration applications and checks and beefed up security at crossings. The Hong Kong SAR Immigration will start registering Shenzhen residents for e-channels in May and June to ease the expected congestions on the Hong Kong side. It is expected that Shenzhen permanent residents can start using e-cards in 2H09.

**What is e-channel?** E-channel is an automated passenger clearance system by which Hong Kong permanent residents aged 11 or above holding smart identity cards can perform self-service departure clearance. To enter the e-channel, people just have to insert their smart identity cards with the side bearing the arrow and chip into card readers. After entering the e-channel, travellers just need to place their thumbs flat in the centre of scanners. After fingerprint verification, they can leave the e-channel. The e-channel system deploys fingerprint verification technology for authenticating a traveller's identity.

**More relaxation in the foreseeable future.** Shenzhen Mayor Xu Zongheng had said at this year's National People's Congress session in Beijing that Shenzhen non-permanent residents would also be allowed to visit Hong Kong with unlimited passes within a year from 1 May, as agreed by the top leaders of Guangdong province and Hong Kong earlier in March. We expect the continual relaxation of travel restrictions between Shenzhen and Hong Kong to pave the way for borderless travel between Shenzhen and Hong Kong

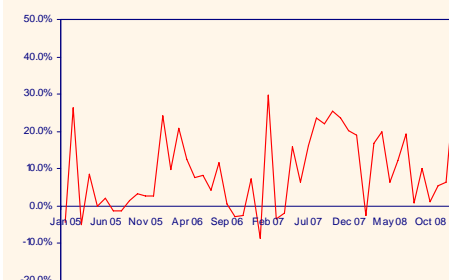
**More cities in the pipeline.** Meanwhile, Henry Tang Ying-yen, Hong Kong SAR chief secretary, is proposing Hong Kong multiple-entry visas to be granted to people in more cities (Dongguan, Zhuhai, Foshan and Guangzhou) in Guangdong province.

## HONG KONG

### Consumer

## UNDERWEIGHT

#### Yoy Growth in Visitor Arrivals from Mainland China to Hong Kong



Source: HKTB, UOB Kay Hian

#### Total Spending by Mainland Visitors

Period	Overnight (HK\$m)	yoy % chg	Same-day In-town (HK\$m)	yoy % chg
2003	29,799.73	+ 14.4	3,578.09	+ 79.3
2004	33,941.01	+ 13.9	4,641.54	+ 29.7
2005	36,569.73	+ 7.7	5,626.65	+ 21.2
2006	39,679.33	+ 8.5	7,926.04	+ 40.9
2007	47,215.30	+ 19.0	11,711.97	+ 47.8

Source: HKTB, UOB Kay Hian

#### Spending Pattern of Mainland Overnight Visitors (2007)

Category	(HK\$m)	% of total
Shopping	34,266.60	72.6
Hotel Bills	5,009.61	10.6
Meals Outside Hotels	4,537.33	9.6
Entertainment	888.19	1.9
Tours	278.02	0.6

Source: HKTB, UOB Kay Hian

#### Analyst

Tommy Ho  
 ☎ (852) 2236 6797  
 tommy.ho@uobkayhian.com.hk

**Sector Impact**

**New policy will increase visitor arrivals from China by 22%.** Will the new initiatives add an extra 9.2m arrivals or more (2.2m permanent residents in Shenzhen and 7.0m non-permanent residents in Shenzhen) to Hong Kong? Last year, we had forecast the pilot scheme started at the end of last year for allowing the organisation of group tours to Hong Kong for non-Guangdong residents in Shenzhen to increase arrivals by 13.5%, or 2.3m p.a. The actual increase in the first two and a half months in 2009 was 12.3% yoy. Note that the pilot scheme covers 5.8m eligible people. Thus, some eligible people do not travel under the pilot scheme. While it is difficult to estimate the addition of arrivals for this new policy, our gross estimate of about 40% of 9.2m Shenzhen residents travelling one more time to Hong Kong looks reasonable. This will add 3.7m arrivals p.a. to Hong Kong, or 22% of total visitor arrivals from China to Hong Kong last year.

**Tax and small portable consumer goods make the difference between Hong Kong and China.** While the whole consumer market will benefit from more spending by Mainland visitors, major beneficiaries will be companies with a high proportion of sales attributed to Mainland travellers. They include **Sa Sa International (178 HK/HOLD/Fair: HK\$2.30), Luk Fook Holdings (590 HK/BUY/Target: HK\$5.60), Chow Sang Sang (116 HK/NOT RATED) and Oriental Watch (398 HK/NOT RATED).** They have a high proportion of sales from Mainland visitors (about 50%). They also display the same characteristics: they sell small portable consumer goods that are much cheaper than equivalent items sold in China or not available in China (eg cosmetics, beauty products, jewellery and luxury watches) due to value added tax, luxury sales tax and import tariffs. According to Sa Sa, imported cosmetics sold in Hong Kong are about 10-50% cheaper than that sold in department stores in China due to value added tax (17%), import tariffs (10-40%) and luxury sales tax (10-30%).

**Recommendation**

As the aforesaid retailers sell discretionary products, they have been affected by the economic downturn. However, we are optimistic on their long-term prospects in view of the continual relaxation of travel restrictions for Mainland Chinese coming to Hong Kong. Sa Sa is trading at 13x ex-exceptional FY08 PE with an 8% dividend yield. Chow Sang Sang is trading at 5x FY08 PE with a 7% dividend yield. Luk Fook is trading at 3x FY08 PE with a 12% dividend yield. Oriental Watch is trading at 2x FY08 PE with a 9% dividend yield. In the longer term, these groups should be able to deliver earnings that are higher than their peaks in FY08.

**Hong Kong Consumer Stocks**

	Rating	Market Cap (US\$m)	FY08 PE (x)	FY09 PE (x)	FY10 PE (x)
SA SA INTERNATIONAL (178)	HOLD	438	13.4	13.1	12.5
CHOW SANG SANG (116)	NOT RATED	341	5.2	6.3	5.9
LUK FOOK HOLDINGS (590)	BUY	128	3.4	3.6	3.7
ORIENTAL WATCH (398)	NOT RATED	42	2.4	2.8	3.3

Source: Bloomberg, UOB Kay Hian

**Spending Pattern of Same-day In-town Visitors (2007)**

Category	(HK\$m)	% of total
Shopping	11,741.14	86.2
Hotel Bills	108.92	0.8
Meals Outside Hotels	847.09	6.2
Others	918.14	6.7

Source: HKTB, UOB Kay Hian

## Kalbe Farma

2008: Expect slower sales growth but valuation still attractive

*KLBF's results were in line with our expectation. We are revising down our earning estimates on sluggish consumer health sales outlook. Despite this, valuation remains attractive. Maintain BUY.*

### 2008 Results

Year to 31 Dec	2007 (Rpb)	2008 (Rpb)	yoy % chg	Remarks
Sales	7,005	7,877	12.5	As expected
Gross profit	3,552	3,804	7.1	Slower margin due to rising raw material prices
Operating profit	1,129	1,143	1.2	
Pretax Profit	1,159	1,178	1.7	
Net profit	706	707	0.2	
Gross margin (%)	50.7	48.3		
Operating margin (%)	16.1	14.5		
Pretax margin (%)	16.5	15.0		
Net margin (%)	10.1	9.0		

Source: Kalbe Farma, UOB Kay Hian

### Results

**Results within expectation.** Kalbe Farma (KLBF) reported 2008 net profit of Rp707b vs our expectation of Rp705b. The slight difference from our estimation was mainly due to higher-than-expected forex gain because of the depreciation of the rupiah.

**Sales grew 12.5% yoy.** The sales growth was driven by strong performance from the distribution & packaging division (+24.5% yoy), followed by nutritional products (+20.5% yoy) and ethical drugs (18.0% yoy). This offset the sluggish sales for consumer health products, which fell by 11.2% yoy as the Group's energy drink division was hit by tight competition from similar products and substitutes such as bottled tea, vitamin drinks, and sports drinks. Distribution & packaging division was the major contributor to KLBF's total sales (27.6%), followed by ethical drugs (27.1%), nutritional products (24.5%) and consumer health products (20.9%).

**Cost pressure.** Unfortunately, KLBF's healthy top-line performance was not reflected on its bottom-line profit as it had to face rising raw material prices, especially in 1H08 when commodity prices peaked before easing in 2H08. There was also pressure from the rupiah's depreciation to gross margin in 4Q08, which caused gross margin to drop to 48.3% as of end-08 from 49.0% in the previous quarter.

### Stock Impact

**Sluggish sales of consumer health products expected to continue in 2009.** We are revising down our consolidated sales growth estimate from 13.6% yoy previously to 11.0% yoy in 2009 as we see no improvement in the sales of consumer health products so far with a weak outlook for consumer purchasing power. Sales growth will be driven by "more essential products", ethical drugs and nutritional products (baby milk, baby biscuits, pregnancy nutrition, and clinical foods). KLBF is currently the national leader in the ethical drug, pregnancy nutrition, baby biscuits and clinical foods.

## INDONESIA

### Kalbe Farma (KLBF IJ)

#### BUY

Current Price: Rp630

Target Price: Rp970

(Previous: Rp1,160)

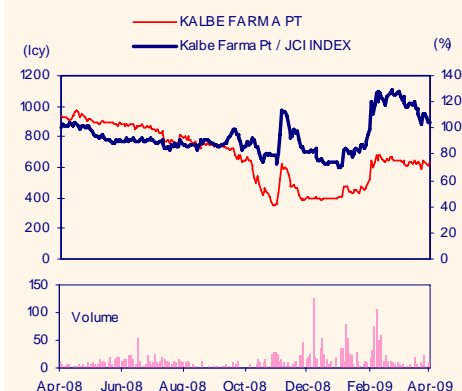
Sector	Pharmaceutical
52-Wk Avg Daily Vol. ('000)	11,893
Market Cap (Rpb)	6,398.3
(US\$m)	556.9

Major Shareholders (%)	
Gira Sole Prima	9.5
Santa Seha Sanadi	9.0

Book NTA per Share (Rp)	356.7
ROE (%)	20.2
Net Debt (Cash) per Share (Rp)	90.2

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

### Price Chart



Source: Bloomberg

### Analyst

Yap Swie Cu  
 ☎ (62 21) 2557 8805  
 yapswiecu@uobkayhian.com

Year to 31 Dec	Turnover (Rpb)	Operating Profit (Rpb)	Net Profit (Rpb)	EPS (Rp)	EPS Growth (%)	PE (x)	ROE (%)	DPS (Rp)	Yield (%)
2007	7,005	1,129	706	69.5	4.3	9.1	22.1	10.0	1.6
2008	7,877	1,143	707	69.6	0.2	9.1	20.2	10.0	1.6
2009F	8,740	1,282	774	76.2	9.5	8.3	19.5	10.4	1.7
2010F	10,000	1,478	868	85.5	12.2	7.4	18.6	11.4	1.8
2011F	11,350	1,694	1,042	102.6	20.0	6.1	18.9	12.8	2.0

Consensus Net Profit – FY09: Rp745.8b  
 – FY10: Rp887.8b

**Margins will likely be maintained on relatively stable commodity prices and currency.** As we expect commodity prices and the rupiah to be relatively stable this year, we assume margin to be maintained at around the 2008 level.

**Earnings Revision**

We adjust our net profit estimates downward by 11.8% and 14.4% for 2009 and 2010 respectively, mainly to account for the slower sales growth assumption.

**Valuation/Recommendation**

KLBF is trading at an attractive 2009 PE of 8.3x compared with a five-year average PE of 14.7x. Closest local peer Tempo Scan Pacific (TSPC) is trading at 2009 consensus PE of 6.9x, but it has a lower ROE of 14.7% compared to KLBF's 20.2%. Regional peers with similar profitability level, such as Guangzhou Baiyushan Pharma (000522 CH) and Jiangsu Kanion Pharmaceutical (600557 CH) are trading at 2009 PE of 27.3x and 25.1x. We also like KLBF's strong balance sheet position with net cash/equity ratio of 25.3%. Our revised target price of Rp970 represents 2009 PE of 12.7x. Maintain BUY.

**Profit & Loss**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Turnover	7,005	7,877	8,740	10,000	11,350
Gross Profit	3,552	3,804	4,227	4,848	5,518
Operating Profit	1,129	1,143	1,282	1,478	1,694
Pre-tax Profit	1,159	1,178	1,293	1,454	1,731
Net Profit	706	707	774	868	1,042
Gross Margin (%)	50.7	48.3	48.4	48.5	48.6
Operating Margin (%)	16.1	14.5	14.7	14.8	14.9
Net Margin (%)	10.1	9.0	8.9	8.7	9.2

**Balance Sheet**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Current Assets	3,760	4,168	4,749	5,497	6,619
Total Assets	5,138	5,704	6,323	7,166	8,397
Current Liabilities	755	1,250	1,125	1,128	1,347
Total Debt	314	406	162	185	210
Total Liabilities	1,122	1,359	1,236	1,252	1,486
Shareholders' Equity	3,387	3,622	4,299	5,051	5,963

**Cash Flow**

Year to 31 Dec (Rpb)	2007	2008	2009F	2010F	2011F
Cash Flow from Operations	368	696	820	676	1,071
Cash Flow from Investments	(212)	(238)	(320)	(373)	(423)
Cash Flow from Financing	(301)	(252)	(289)	(17)	(20)
Change in Cash	(145)	205	211	286	627

## Berjaya Sports Toto

### Milking the cash cow

Market leader in the number forecast operator sector, operating under Section 5 of the Pool Betting Act, 1967.

**Oligopolistic cash cow.** The three profitable number forecast operators (NFOs), including Berjaya Sports Toto Berhad (BToto), are operating in an oligopoly under strict government regulations, which deters aggressive marketing. This has minimised competition and mitigated margin compression. Business is conducted in cash terms and 97% of costs are variable. The only factor that can compress or enhance margin is the "luck factor", which is basically out of the control of each NFO. Thus, the business model generates surplus cash annually and returns the surplus to shareholders via dividend payouts at a rate of at least 75% net dividend payout ratio.

**High dividend yield – Is it sustainable?** We forecast dividend payouts of 32 sen, 33 sen and 35 sen for FY09, FY10 and FY11 respectively. This translates into a gross dividend yield of 7.0-7.6%. We believe the high dividend yield is sustainable as it requires minimal capex (less than RM17m p.a.) for its operations. In addition, net total cash flow is forecast to remain positive at RM9m-11m in FY09-11, coupled with cash position in excess of RM100m.

**Possibility of special dividend.** The parent company of BToto, Berjaya Land (B-Land), reported a negative cash flow of RM162m for 9MFY09. In addition, there is the probability that holders of its 8% nominal value five-year secured exchangeable bonds worth RM900m could opt for early redemption by 15 Aug 09. This has raised the possibility of BToto being called upon to pay out more via special dividend to rescue its parent.

**What should we do if this happens?** Assuming declaration of a special dividend of 50 sen, BToto will need to fund about RM470m. It would need to borrow to fund this special dividend, pushing its debt/equity ratio up from 62% to 170%. At 170% debt/equity ratio, the Group will become vulnerable to external shocks such as regulatory risks. We recommend investors take profit when the share price rallies in response to such news.

**Initiate coverage with BUY recommendation.** We have valued BToto at RM5.50 based on DCF supplemented by a dividend discount model (DDM). Our target price implies FY10 and FY11 PEs of 16.8x and 16.1x respectively, still lower than the average PE of 17.8x since 1995. We like the stock due to its decent dividend yield and resilient earnings.

## MALAYSIA

### Berjaya Sports Toto (BST MK)

#### INITIATE WITH BUY

Current Price: RM 4.64

Target Price: RM5.50

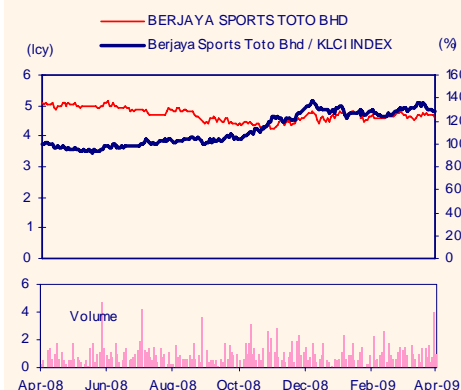
Sector	Gaming
52-Wk Avg Daily Vol. ('000)	933
Market Cap (RM\$m)	6,268.8
(US\$m)	1,740.1

Major Shareholders (%)	
Berjaya Land	49.8

Book NTA per Share (RM\$)	NA
ROE (%)	90.3
Net Cash per Share (RM\$)	(0.08)

Results Due	
1Q: Sep	2Q: Dec
3Q: Mac	Final: Jun

#### Price Chart



Source: Bloomberg

#### Malaysia Research Team

research@uobkayhian.com

Year to 30 Apr	Turnover (RMm)	EBITDA (RMm)	Net Profit (RMm)	EPS (RM)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (sen)	Yield (%)
2007	3,034.4	559.8	376.6	29.1	(23.1)	15.9	9.9	45.0	9.7
2008	3,277.8	525.8	348.7	27.6	(5.2)	16.8	10.6	35.0	7.5
2009F	3,477.3	581.6	400.9	31.7	15.0	14.2	9.3	32.0	6.9
2010F	3,538.0	591.7	412.9	32.7	3.0	13.8	8.9	33.0	7.1
2011F	3,643.3	609.5	432.5	34.2	4.8	13.2	8.5	35.0	7.5

Consensus Net Profit – FY09: RM415.6m  
– FY10: RM437.0m

*Friday, April 03, 2009*
**Profit & Loss**

<b>Year to 30 Apr (RMm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Turnover	3,034.4	3,277.8	3,477.3	3,538.0	3,643.3
EBIT	547.4	510.8	567.5	575.3	593.2
Pre-tax Profit	545.8	502.6	557.5	566.4	593.4
Net Profit	376.6	348.7	400.9	412.9	432.5
EPS (sen)	29.1	27.6	31.7	32.7	34.2

**Balance Sheet**

<b>Year to 30 Apr (RMm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Current Assets	420.4	220.9	234.0	249.0	264.1
Total Assets	1,213.2	1,024.2	1,038.6	1,054.3	1,067.6
Current Liabilities	374.0	394.3	406.5	419.4	432.9
Long-Term Loans	360.0	237.5	117.5	(2.5)	(123.5)
Shareholders' Funds	418.3	330.7	557.2	661.5	766.8
Total Equity & Liabilities	1,213.2	1,024.2	1,038.6	1,054.3	1,067.6

**Cash Flow**

<b>Year to 30 Apr (RMm)</b>	<b>2007</b>	<b>2008</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Operating	447.5	344.9	445.1	459.0	470.4
Investing	468.2	72.8	(3.1)	(2.1)	(2.6)
Financing	(1336.7)	(538.0)	(433.2)	(445.8)	(457.0)
Net Cash In/out flow)	(421.0)	(120.3)	8.8	11.1	10.9
Begin Cash & Cash Equiv.	659.7	246.9	126.6	135.4	146.5
End'g Cash & Cash Equiv.	238.8	126.6	135.4	146.5	157.4

## Total Access Communication

Satisfactory 1Q09 results expected

Share price has collapsed for the wrong reason. Despite cut in earnings, DTAC remains cheap at 9.6x FY09F PE and 3.6x FY09F EV/EBITDA. Aim for 30% upside.

### Corporate Events

We believe the recent decline in Total Access Communication's (DTAC) share price due to Telenor's court case in Russia is an overreaction and for the wrong reason. **Telenor is committed to its investment in Thailand and the Russia court case will have no impact on the unit in Thailand.** Besides, it is a complicated issue and legal settlement may take years. Whatever damage, if any, will not spill over to the Thai unit.

However, in terms of operations, **the impact of the economic slowdown is less than management's original expectation.** 1Q09 sales and earnings are very satisfactory. Results will be announced on 29 April.

Thus, at the current share price, we believe DTAC offers good value with 30% upside to our target price of Bt33.82.

### Stock Impact

As mobile phones are considered a necessity, they are the last to be and the least affected by the slowdown. Thus, DTAC's 1Q09 sales are expected to improve from 4Q08, the worst quarter last year. Although we do expect a more negative impact on DTAC's sales in the following quarters as the economy continues to shrink, the government's stimulus package may help cushion the impact. Thus, we maintain our forecast of a 1.4% decline in sales in 2009.

DTAC is trying to correct its traffic management. DTAC has been slow to lower tariff rates of on-net calls in response to competitors' tactics. This resulted in the ballooning of interconnection charge (IC) payment to Bt240m in 4Q08 from Bt9m in 3Q08. **DTAC is promoting on-net calls to reduce off-net outgoing calls among its customers. However, this takes time and may not have any impact until 2Q09.** We therefore expect DTAC to still make a net payment of IC this year instead of a net gain as expected earlier.

Several measures have been implemented to reduce operating costs. In the near term, DTAC may face extra annual costs of Bt200m-300m relating to the moving of its new headquarters in May. This will increase expenses from 2Q09 onwards. We fine-tune DTAC's EBITDA margins in 2009 and 2010 to 30% and 31% respectively to incorporate higher costs.

### Earnings Revision

We maintain our sales forecasts, but the extra IC costs and relocating expenses prompt us to trim DTAC's net profits in 2009 and 2010 by 12% and 3% to Bt6.4b and Bt7.2b respectively. If we strip out extraordinary gain of Bt2.3b from 2008 earnings, 2009 net profit would decline only 8% yoy. Our target price is trimmed to Bt33.82 based on DCF valuation at a discount rate of 10%.

## THAILAND

### Total Access Communication (DTAC TB)

#### BUY

**Current Price: Bt26.00**  
**Target Price: Bt33.82**  
**(Previous: Bt34.29)**

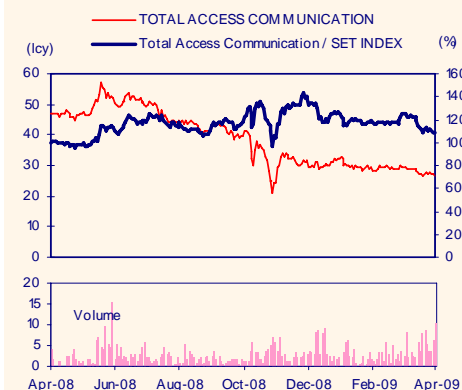
Sector	Telecom
52-Wk Avg Daily Vol. ('000)	2,649.9
Market Cap (Btb)	61.6
(US\$b)	1.7

Major Shareholders (%)	
Telenor Asia	32.7
Thai Telco Holdings	32.6

Book NTA per Share (Bt)	25.1
ROE (%)	16.8
Net Debt per Share (Bt)	8.9

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

### Price Chart



Source: Bloomberg

### Analyst

Kowit Pongwinyoo  
 ☎ (662) 659-8304  
 kowit@uobkayhian.co.th

Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Bt)	Yield (%)
2007	65,590	19,405	5,841	2.6	22.4	10.1	3.9	0.8	2.9
2008*	67,695	20,735	9,329	3.9	52.4	6.6	3.6	1.5	5.8
2009F	66,761	20,258	6,421	2.7	(31.2)	9.6	3.6	0.8	3.1
2010F	67,816	21,245	7,241	3.1	12.8	8.5	3.0	0.9	3.5
2011F	70,582	22,537	7,768	3.3	7.3	7.9	2.4	1.0	3.8

Consensus Net Profit – FY08: Bt6,694m  
 -- FY09: Bt7,227m

\* Including extraordinary gain.

**Recommendation**

**Maintain BUY.** We believe the recent share price correction is due to worries over the negative impact of Telenor's court case in Russia. As the court case may not end soon and is likely to fade away over time, investors may switch their focus to DTAC's good 1Q09 results and its ability to ride out the recession. The prospects of getting a new 3G licence at the end of this year will be an added bonus. At the current price, DTAC is attractive even when compared with regional peers. It trades at 9.6x FY09F PE and 3.6x FY09F EV/EBITDA, offering 30% upside to our NPV of Bt33.82.

**Profit & Loss**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	65,590	67,695	66,761	67,816	70,582
EBIT	11,580	12,028	10,585	11,079	11,873
Pre-tax Profit	8,648	12,413	8,599	9,689	10,992
Net Profit	5,841	9,329	6,421	7,241	7,768

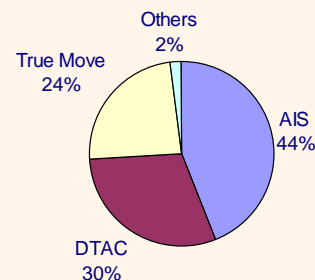
**Balance Sheet**

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	13,429	16,603	10,337	12,731	15,582
Total Assets	100,862	104,435	98,052	96,688	95,725
Current Liabilities	24,857	27,581	24,811	25,346	21,322
Long-Term Liabilities	23,753	16,975	12,170	4,952	2,415
Shareholder Funds	51,849	59,450	60,679	65,993	71,589
Total Equity & Liabilities	100,862	104,435	98,052	96,688	95,725

**Cash Flow**

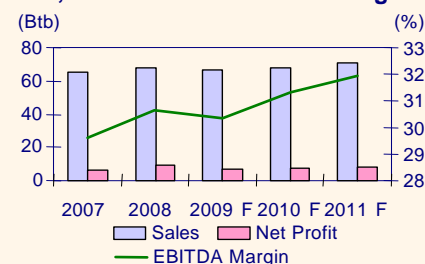
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	19,085	19,675	15,705	17,610	18,645
Investing	(12,332)	(11,205)	(10,422)	(6,137)	(6,650)
Financing	(5,292)	(4,665)	(12,259)	(9,106)	(9,386)
Net Cash In/(Out) Flow	1,461	3,805	(6,976)	2,367	2,609
Begin Cash & Cash Equiv.	1,816	3,277	7,082	106	2,473
End'g Cash & Cash Equiv.	3,277	7,082	106	2,473	5,081

**Market Share (2008)**



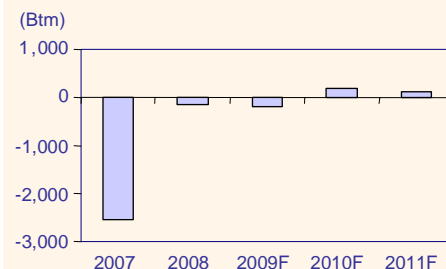
Source: AIS, DTAC, TRUE

**Sales, Net Profit and EBITDA Margin**



Source: DTAC, UOB Kay Hian

**Net IC Position**



Source: DTAC, UPB Kay Hian

**Peer Comparison**

Company	EV/EBITDA (x)	PE (x)	P/B (x)	ROE (%)	Yield (%)
AIS	5.0	13.0	3.3	25.4	7.7
DTAC	3.6	9.6	1.0	10.7	3.1
SHIN	10.4	8.8	1.1	12.6	17.1
TRUE	3.0	na.	0.4	0.3	0
Singtel	9.4	12.0	1.9	15.7	4.7
StarHub	6.4	10.6	24.3	261.9	9.0
MobileOne	5.1	9.2	5.4	61.5	8.7
Digi.Com	7.4	14.8	8.5	57.4	6.5
Telekom Mal	6.0	21.9	1.4	5.8	10.4
China Mobile	4.3	12.2	3.1	27.7	3.6
China Unicom	2.5	11.4	2.6	24.9	3.9
Bakrie	2.1	5.1	0.3	5.6	0.3
Bharti	8.3	14.5	4.0	31.7	1.0
Far EasTone	4.7	11.0	1.6	14.4	8.1
Taiwan Mobile	7.4	11.7	3.5	30.7	7.9
Globe	3.7	8.9	2.1	23.0	13.3
KT Freetel	3.5	10.6	1.0	10.4	2.6
SK Telecom	4.4	9.7	1.3	13.4	5.1

Source: Bloomberg, UOB Kay Hian

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