

KEY STORY

China

1Q09 GDP **Page 2**
 GDP growth of 6.1% is in line with expectation; looking for further improvement in later quarters. We continue to see upside in China stocks.

Angang Steel (BUY/HK\$9.50/Target: HK\$12.40) **Page 8**
 Early signs of end-user demand returning. Upgrade to BUY with target price of HK\$12.40.

Maanshan Iron & Steel (BUY/HK\$3.33/Target: HK\$4.50) **Page 12**
 Orders from Beijing's stimulus initiative showing early results. Raise target price to HK\$4.50.

Indonesia

Cement **Page 16**
 As expected, Indonesian cement sales fell 12.5% yoy in Mar 09. Maintain BUY on Gresik for its cheapest valuation and best growth potential.

CHINA

Economics

1Q09 GDP **Page 2**
 GDP growth of 6.1% is in line with expectation; looking for further improvement in later quarters. We continue to see upside in China stocks.

Results

China Mengniu Dairy (SELL/HK\$12.42/Fair: HK\$8.89) **Page 4**
 2008: Net loss of Rmb949m. Expensive valuation and too much uncertainties in 2009.

Daphne International Holdings (BUY/HK\$2.10/Target: HK\$3.80) **Page 6**
 2008: Results beat expectation with net profit up 28% yoy. Despite a flat SSS for 1Q09, earnings will be driven by store additions.

Update

Angang Steel (BUY/HK\$9.50/Target: HK\$12.40) **Page 8**
 Early signs of end-user demand returning. Upgrade to BUY with target price of HK\$12.40.

Lenovo (SELL/HK\$2.26/Fair: HK\$1.83) **Page 10**
 Our channel checks suggest Lenovo's 1Q09 operating performance is far below expectations. Downgrade to SELL.

Maanshan Iron & Steel (BUY/HK\$3.33/Target: HK\$4.50) **Page 12**
 Orders from Beijing's stimulus initiative showing early results. Raise target price to HK\$4.50.

Technical Analysis

H-share Index **Page 14**
 Not yet a bull market rally until wave 4 overlaps wave 1.

INDONESIA

Sector

Cement **Page 16**
 As expected, Indonesian cement sales fell 12.5% yoy in Mar 09. Maintain BUY on Gresik for its cheapest valuation and best growth potential.

SINGAPORE

Update

Pacific Shipping Trust (BUY/US\$0.17/Target: US\$0.22) **Page 18**
 CSAV renegotiates charter rates. Reduce DPU forecasts by 15-21% and cut target price by 27% to US\$0.22. Negatives are priced in.

THAILAND

Strategy

Page 20
 Political risks have subsided in the short term but long-term conflicts remain.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8125.4	1.2	3.7	12.6	(7.4)
S&P 500	865.3	1.6	4.9	14.8	(4.2)
FTSE 100	4053.0	2.1	3.1	4.9	(8.6)
AS30	3725.6	0.9	2.1	9.8	1.8
CSI 300	2687.1	0.0	6.7	15.7	47.8
FSSTI	1891.8	(0.7)	6.0	21.3	7.4
HSI	15583.0	(0.6)	4.4	21.0	8.3
JCI	1625.1	2.0	9.0	23.9	19.9
KLCI	961.3	0.5	4.7	14.2	9.6
KOSPI	1336.7	0.3	1.5	14.9	18.9
Nikkei 225	8755.3	0.1	(1.8)	10.1	(1.2)
SET	453.0	(0.2)	1.6	7.3	0.7
TWSE	5997.2	2.1	5.8	19.0	30.6

BDI	1604	4.6	9.6	(22.1)	107.2
CPO (RM/mt)	2505	1.7	10.3	24.1	53.7
Nymex Crude (US\$/bbl)	50	1.5	1.2	5.6	12.1

Source: Bloomberg

Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs			
China Coal	1898 HK	7.33	8.50 16.0
China Life	2628 HK	27.95	31.30 12.0
China Mobile	941 HK	74.15	85.00 14.6
China Railway	390 HK	5.17	5.90 14.1
China Petroleum	386 HK	5.93	6.60 11.3
Zijin Mining	2899 HK	6.39	7.15 11.9
DBS Group	DBS SP	9.27	10.55 13.8
SingTel	ST SP	2.58	2.95 14.3
Advanced Info	ADVANC TB	76.50	101.73 33.0
Quality Houses	QH TB	0.93	1.28 37.6
Top SELLs			
Harbin Power	1133 HK	6.76	3.50 (48.2)
Parkson Retail	3368 HK	9.50	5.15 (45.8)
S'pore Airlines	SIA SP	10.88	8.20 (24.6)
STX Pan Ocean	STX SP	12.96	4.35 (66.4)
Amata Corp	AMATA TB	3.26	2.52 (22.7)

Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.1	(2.5)	1.9
Euro Zone*	0.7	(3.0)	0.5
Japan*	(0.6)	(6.0)	0.2
Singapore	1.2	(7.5)	4.0
Malaysia	4.6	(2.5)	3.2
Thailand	2.6	(5.2)	4.5
Indonesia	6.0	3.6	4.8
Hong Kong	2.5	(4.0)	3.5
China	9.0	6.5	8.30
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,515	1,795
Copper* (US\$/MT)	6,884	3,627	4,341
Gold Price London* (US\$/ounce)	873	919	950
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
Hyflux Luncheon Presentation*	Singapore	20 Apr	20 Apr
SPC Luncheon Presentation*	Singapore	21 Apr	21 Apr
CapitaLand Luncheon Presentation*	Singapore	27 Apr	27 Apr

* by invitation only

1Q09 GDP

GDP growth in line; looking for further improvement ahead

GDP growth slowed to 6.1% in 1Q09, but will pick up in the coming quarters, which is good for the stock market. We continue to see upside in the HSCEI and like stocks that will benefit from an economic recovery.

DATA RELEASED (GDP in 1Q 09)	+ 6.1% yoy
PREVIOUS DATA (GDP in 4Q 08)	+ 6.8% yoy
DATA RELEASED (CPI in Mar 09)	-1.2% yoy
PREVIOUS DATA (CPI in Feb 09)	-1.6% yoy
DATA RELEASED (FAI in Jan-Mar 09)	+ 28.6% yoy
PREVIOUS DATA (FAI in Jan-Feb 09)	+26.5% yoy
DATA RELEASED (IP in Mar 09)	+ 8.3% yoy
PREVIOUS DATA (IP in Jan-Feb 09)	+3.8% yoy
DATA RELEASED (Retail Sales in Mar 09)	+ 14.7% yoy
PREVIOUS DATA (Retail Sales in Jan-Feb 09)	+15.2% yoy

GDP growth decelerated to 6.1% yoy, the lowest yoy growth since quarterly GDP data started in 1992. However, the economy is expanding at 5.8% qoq annualised from a mere 2.2% qoq annualise in 4Q08. In terms of growth breakdown, consumption contributed 4.3ppt, which accounts for 70% of GDP growth. Investment contributed 2.0ppt, below previously anticipated. This is mainly because of firms' de-stocking at the beginning of the year. Not surprisingly, net exports contributed a negative growth to GDP, which dragged GDP growth down by 0.2ppt.

Main Economic Indicators

(yoy % chg)	1Q09	4Q08	3Q08	2Q08	1Q08	4Q07	3Q07	2Q07
	Mar 09	Jan-Feb 09	Dec 08	Nov 08	Oct 08	Sep 08	Aug 08	Jul 08
GDP	6.1	6.8	9.0	10.1	10.6	11.3	11.5	12.6
FAI	30.2	26.5	22.3	24.1	24.3	29.0	28.1	29.2
Retail Sales	14.7	15.2	19.0	20.8	22.0	23.2	23.2	23.3
Exports	-17.1	-21.1	-2.8	-2.2	19.2	21.5	21.1	26.9
Imports	-25.1	-34.2	-21.3	-17.9	15.6	21.3	23.1	33.7
Value Added of Industry	8.3	3.8	5.7	5.4	8.2	11.4	12.8	14.7
CPI	-1.2	-0.3	1.2	2.4	4.0	4.6	4.9	6.3
PPI	-6	-4.5	-1.1	2.0	6.6	9.1	10.1	10.0

Source: CEIC, UOB Kay Hian

Industrial output and power demand improved consecutively from January to March, suggesting the economy bottoming out from end-08. Industrial production accelerated to 8.3% in March from a disappointing 3.8% in Jan-Feb 09. Power demand fell 2.0% yoy in March, but it has improved a lot from falling 5.5% in Jan-Feb 09. Worth noting is that there has been a strong rebound in electricity consumption in coastal areas in March on a mom basis. For Jiangsu, Zhejiang and Guangdong province, mom growth was between 20% and 30%, outperforming the country's average of 17%. This is an encouraging sign as the coastal areas were the most heavily hit at end-08.

Looking forward, we expect the economy to continue to improve. Investment contribution will increase because of firms' restocking and the kicking in of new projects. Consumption growth should remain resilient as we believe the government will continue to introduce stimulus policies to boost domestic private consumption should consumption growth cannot sustain.

GDP Forecast In 2009

(yoy % chg)	1Q09	2Q09F	3Q09F	4Q09F	2009F
GDP	6.1	6.1	6.9	7.3	6.5

Source: UOB Economic-Treasury Research

CHINA

Economics

Sector Rating

Sector	Rating
Agriculture	Overweight
Banking	Market Weight
Construction	Overweight
Energy	Overweight
Food & Beverage, Tobacco	Underweight
Gas Distribution	Overweight
Insurance	Overweight
Materials	Market Weight
Power	Market Weight
Property, Conglomerates	Market Weight
Retail	Market Weight
Technology Equipment	Underweight
Telecommunications	Market Weight
Transport	Underweight
Utilities	Market Weight

Source: UOB Kay Hian

Top Picks Among Cyclical Plays

Company Name	Price (HK\$)	Target/Fair Price (HK\$)
China Coal Energy (1898)	7.33	8.50
China Shenhua Energy (1088)	21.95	Under Review
Guangzhou R&F (2777)	12.22	14.00
CR Land (1109)	13.74	13.90
Shimao (813)	7.97	8.50
Maanshan Steel (323)	3.33	4.50
Angang Steel (347)	9.5	12.40
Sinopec (0386)	5.93	6.60
PetroChina (857)	6.83	7.80

Source: UOB Kay Hian

Analyst

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Property investment was better than expected. Property investment accelerated to 7.2% yoy in March from 1% in 2M09. Although the property investment in coastal areas contracted, investment activity in middle and western China were much better. Property-related sales such as furniture (+24% yoy in 1Q09) and building material (+20% yoy in 1Q09) performed well.

Property Investment Growth in March

	yoy % chg
Eastern area	(0.1)
Middle area	13
Western area	11.3

Source: CEIC

Stock ideas. We believe GDP growth hit bottom in 1Q09 and will gradually trend higher from 2Q09 onwards. For the full year, we are looking for a 6.5% growth, assuming no further stimulus measures from the government. As the government is likely to launch measures to stimulate private consumption some time in 2Q or 3Q, there is room for us to raise the growth target. This should be constructive to the stock market. In our view, China stocks are at an early stage of a cyclical recovery and there will be more gains from now till the end of this year, although a pullback is possible in the near term after the recent hefty gains. We are reviewing to upgrade our HSCEI year-end target, which currently stands at 9,500. We continue to like companies that are geared to an economic recovery. Among the cyclical plays, our top picks include Maanshan Steel, Angang Steel, China Coal Energy, China Shenhua, Sinopec, PetroChina, Shimao, Guangzhou R&F and China Resources Land.

China Mengniu Dairy

2008: Net loss of Rmb949m; expensive valuation

China Mengniu recorded a net loss of Rmb949m in 2008, in line with our estimate and consensus. The company is facing too much uncertainties in 2009, such as sales recovery and raw material prices. Maintain SELL.

2008 Results

(Rmb m)	2007	2008	yoy % chg	Remarks
Sales	21,318	23,865	11.9	Sales dropped significantly in 2H08 due to milk incident although sales surged 36.5% in 1H08
COGS	(16,515)	(19,196)	16.2	
Gross profit	4,804	4,669	(2.8)	Raw milk price hike in 1Q08 and increasing milk safety measures cost
Selling Expenses	(3,302)	(4,428)	34.1	Increasing promotion expenses
Admin Expenses	(462)	(622)	34.7	extra admin expenses due to milk quality scandal
Other operating expenses	(22)	(876)	3,913.2	destroy contaminated inventories
Operating profit	1,116	(1,134)	(201.6)	Milk quality scandal
Finance Cost	(50)	(39)	(21.3)	Low finance cost in 1H08
Profit before tax	1,130	(1,089)	(196.4)	
Tax	(22)	161	(845.5)	Tax compensation from local government
Net profit	936	(949)	(201.4)	Record loss due to milk quality scandal

Source: China Mengniu Dairy, UOB Kay Hian

Stock Impact

A loss at Rmb949m in 2008. Due to the milk quality scandal, China Mengniu Dairy (China Mengniu) had to recall and destroy contaminated inventories, which resulted in a net loss of Rmb949m in 2008. That implies Mengniu would have chalked up a Rmb1.8b loss due to the melamine scandal.

Sales in 2H08 was hurt significantly. Sales in 2H08 dropped from Rmb11,297m to Rmb10,163m. We believe the OMP incident in Feb 09 affected its gross profit significantly. Although Milk Deluxe only accounted for less than 10% of its total sales, we believe decreasing sales in Milk Deluxe would affect its gross profit by more than 30%. We check with some supermarket chains which confirmed sales in Milk Deluxe reduced significantly in 1Q09 due to the OMP incident.

High advertising expense will erode its profit in 2009. China Mengniu has to put in more effort on its sales campaign to restore consumer confidence for its products. Otherwise, its sales could not recover to 2007 level. For raw milk quality issues, Mengniu has to spend more on advertising activities to demonstrate its product safety. For Milk Deluxe product, Mengniu has to launch advertising campaign to prove its high quality.

CHINA

China Mengniu Dairy (2319 HK)

SELL

Current Price: HK\$12.42
Fair Price: HK\$8.89
(Previous: HK\$7.05)

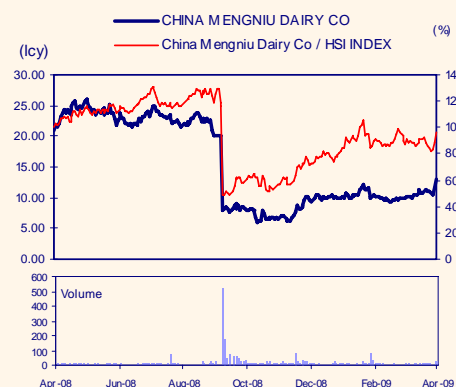
Sector	Food & Beverage
52-Wk Avg Daily Vol. ('000)	13,892
Market Cap (HK\$m)	19,396
(US\$m)	2,502

Major Shareholders (%)	
UBS AG	11.28
YINNIU Milk Industry	8.49
JINNIU Milk Industry	7.93

Book NTA per Share (HK\$)	3.24
ROE (%)	(21.2)
Net Cash per Share (HK\$)	0.95

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	21,318	1,567	936	0.66	23.5	16.7	11.3	0.13	1.20
2008	23,865	(599)	(949)	(0.64)	(197.3)	(17.1)	(32.1)	0.00	0.00
2009F	24,808	1,865	804	0.51	(180.6)	21.3	10.9	0.00	0.00
2010F	30,700	2,256	984	0.63	22.4	17.4	8.7	0.13	1.15
2011F	37,014	2,704	1,099	0.70	11.6	15.6	7.2	0.14	1.29

Consensus Net Profit – FY08: HK\$535.6m
– FY09: HK\$838.8m

High finance cost would reduce its EPS by more than 12% in 2009. Mengniu's bank loans surged from Rmb263m in 2007 to Rmb1,729m in 2008. Although Mengniu has Rmb3b cash on hand as at end-08, short-term payables reached Rmb2.4b. We estimate finance cost would reach more than Rmb95m in 2009, which will reduce its EPS by more than 12% in 2009.

Raw milk prices could surge in 2H09. As raw milk prices plunged significantly in 1H09, many dairy farmers sold their cows to slaughterhouses. In Ningxia province, the number of cows fell more than 20,000 in 1Q09. In Liaoning province, many dairy farmers confirmed they will sell their cows to slaughterhouses due to a hike in corn price and bean pulp price in March. It is highly likely raw milk supply will be in shortage which will affect dairy companies' gross margin.

Earnings Revision

We lift our 2009 net profit forecast from Rmb509m to Rmb804m due to better-than-expected sales in 2H08. However, it is too early to tell whether Mengniu's sales will recover in 2009. Also, it is highly likely its gross margin will be affected by a raw milk hike in 2H09.

Valuation/Recommendation

Expensive valuation. Mengniu is trading at 21.3x 2009 PE, much higher than its Hong Kong peers' average of 17.1x. Furthermore, it is highly likely that Mengniu **will not propose any dividends** in 2009 due to a lack of cash.

Also, its FY08 P/B of 3.0x is much higher than most of F&B players'. Due to the quality issue, huge financing cost burden, sales uncertainty and expensive valuation, this stock is not worth buying at this stage. **Maintain SELL.** We recommend investors buy stocks with high margins, high dividend yields, cheap valuations and a more defensive nature, such as **China Foods (506 HK)** and **Dynasty (828 HK)**.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	21,318	23,865	24,808	30,700	37,014
EBIT	1,116	(1,134)	1,865	1,631	1,983
Pre-tax Profit	1,130	(1,089)	1,067	1,372	1,739
Net Profit	936	(949)	804	984	1,099
EPS (Rmb)	0.66	(0.64)	0.51	0.63	0.70

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	3,764	5,102	5,552	6,525	7,038
Total Assets	9,681	11,315	12,785	14,819	16,629
Current Liabilities	3,363	5,766	6,293	7,192	8,067
Long-Term Liabilities	3,847	6,577	7,087	8,014	8,787
Shareholder Funds	5,112	4,465	5,319	6,303	7,204
Total Equity & Liabilities	9,681	11,315	12,785	14,818	16,628

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	2,058	587	1,574	2,131	2,483
Investing	(1,770)	(776)	(1,330)	(1,595)	(1,915)
Financing	340	1,315	198	15	(600)
Net Cash In/(Out) Flow	628	1,126	443	551	(32)
Begin Cash & Cash Equiv.	1,180	1,757	2,883	3,325	3,876
End'g Cash & Cash Equiv.	1,757	2,883	3,325	3,876	3,844

Margin

Margin (%)	2007	2008	yoy % chq
GP margin	22.53	19.57	(2.97)
OP margin	5.23	(4.75)	(9.99)
OP margin, excl other income	4.77	(5.27)	(10.04)
NP margin	4.39	(3.97)	(8.36)
NP margin, excl other income	3.93	(4.49)	(8.42)
Selling / Turnover	15.49	18.55	3.07
Advertising / Turnover	7.20	9.30	2.10
Admin / Turnover	2.17	2.61	0.44
Other operating expenses/ Turnover	0.10	3.67	3.57

Source: China Mengniu Dairy, UOB Kay Hian

Segment Revenue

Segment Revenue (Rmb m)	2007	2008	yoy % chq
Liquid Milk	19,149	21,068	10.0
Ice Cream	1,992	2,627	31.9
Other dairy products	177	170	(4.0)
Sub-total	21,318	23,865	11.9

Source: China Mengniu Dairy, UOB Kay Hian

Segment Profit

Segment Net Profit (Rmb m)	2,007	2,008	yoy % chq
Liquid Milk	1,250	(602)	(148.2)
Ice Cream	85	(220)	(357.6)
Other dairy products	(32)	(91)	183.7
Sub-total	1,303	(912)	(170.0)

Source: China Mengniu Dairy, UOB Kay Hian

Margin By Segment

Segment Net Profit Margin (%)	2007	2008	yoy % chq
Liquid Milk	6.53	(2.86)	(9.38)
Ice Cream	4.28	(8.36)	(12.64)
Other dairy products	(18.03)	(53.27)	(35.25)

Source: China Mengniu Dairy, UOB Kay Hian

Earnings Breakdown

(Rmbm)	1H07	2H07	1H08	2H08
P&L Statement				
Sales	10,021	11,297	13,702	10,163
COGS	(7,570)	(8,945)	(10,398)	(8,798)
Gross profit	2,451	2,352	3,304	1,365
Other income	32	66	83	40
Selling Expenses	(1,659)	(1,643)	(2,288)	(2,140)
Admin Expenses	(214)	(248)	(327)	(296)
Other operating expenses	(15)	(6)	(29)	(847)
Operating profit	595	521	743	(1,878)
Interest Income	20	24	17	38
Finance Cost	(30)	(21)	(14)	(25)
Share gain/loss from associate	4	17	4	25
Profit before tax	589	541	750	(1,839)
Tax	(15)	(7)	(62)	224
Effective Tax Rate	2.53%	1.25%	8.28%	0.00%
Net profit	485	451	583	(1,532)

Source: China Mengniu Dairy, UOB Kay Hian

Daphne International Holdings

2008: Resilient amid tough times

Daphne posted better-than-expected 2008 results, with net profit up 28% yoy. While 1Q09 SSS remained flat, 2009 earnings will be driven by store openings. The Group's exposure to low-end market offers defensiveness. Maintain BUY.

2008 Results

Year to 31 Dec (HK\$m)	2007	2008	yoy chg (%)	Comment
Daphne	2,562	3,626	42	8.2% SSS growth, addition of 548 stores
Shoebox	300	617	106	22.6% SSS growth, addition of 279 stores
Sportswear	284	399	41	
Licensed brands	-	4	n.a.	
OEM business	708	642	(9)	
Turnover	3,854	5,289	37	
Daphne	442	632	43	
Shoebox	14	52	271	
Sportswear	26	3	(87)	Heavy discounting
Licensed brands	-	(5)	n.a.	New business
OEM business	38	20	(48)	Hike in raw materials
EBIT	520	703	35	
Profit before taxation	530	666	26	
Net profit	384	493	28	
EBIT margin	13.5	13.3	-0.2 ppt	
Daphne	17.2	17.4	0.2 ppt	Higher ASP
Shoebox	4.7	8.5	3.8 ppt	Higher ASP, economies of scale
Sportswear	9.3	0.8	-8.4 ppt	Heavy discounting
Licensed brands	n.a.	(111.6)	n.a.	New business
OEM business	5.4	3.1	-2.3 ppt	Hike in raw materials

Source: UOB Kay Hian

Results

Daphne. The brand saw a remarkable sales slowdown in 2H08. Same-store sales (SSS) growth fell from 16% in 1H08 to 8% yoy for 2008, implying flat SSS in 2H08. Despite the discounting, both ASP and EBIT margin increased.

Shoebox. As a new brand, Shoebox demonstrated stronger resilience. SSS growth held up well at 23% in 2008 vs 29% in 1H08. EBIT margin soared due to improved economies of scale. The number of stores increased from 270 to 616 as at end-08, reaching the critical mass for a chain of footwear stores.

Sportswear. The sportswear distribution business was hard hit by intense competition and rampant discounting, which ate up almost all the profit.

Licensed footwear brands. The Group licensed two footwear brands since 2Q08 – Arezzo and Sofft, with 11 stores as at end-08. The new business was loss making last year.

Inventory dropped in 2H08. Inventory days dropped from 180 days in mid-08 to 171 days, reflecting the improved supply chain management.

Net profit up 28% yoy. Results beat both our forecasts and consensus due to stronger-than-expected sales growth. Dividend was HK5.5cents for 2008 (interim: 2.5 cents, final: 3.0 cents), or a payout ratio of 18% vs 21% in 2007.

CHINA

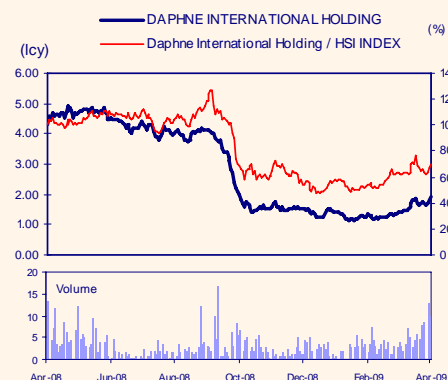
Daphne International Holdings (210 HK)

BUY

Current Price: HK\$2.10
Target Price: HK\$3.80
(Previous: HK\$4.30)

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	2,810
Market Cap (HK\$m)	3,440
(US\$m)	453
Major Shareholders (%)	
Chang Wen I	26.54
Book NTA per Share (HK\$)	1.10
ROE (%)	30.5
Net Debt per Share (HK\$)	0.07
Results Due	
Interim:	Sep
Final:	Apr

Price Chart



Source: Bloomberg

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Year to Dec 31	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield (%)
2007	3,854	638	384	0.235	32	8.9	5.5	0.050	2.4
2008	5,289	795	493	0.301	28	7.0	4.4	0.055	2.6
2009F	5,929	848	516	0.315	5	6.7	4.1	0.058	2.7
2010F	6,633	1,000	615	0.376	19	5.6	3.5	0.069	3.3
2011F	7,855	1,215	762	0.465	24	4.5	2.9	0.085	4.1

Consensus Net Profit – FY08: HK\$514m
 – FY09: HK\$616m

2009 Outlook

Focus on Daphne and Shoebox. The Group will shift its focus from other businesses to its two core brands – Daphne and Shoebox. The sportswear distribution business will be disposed or terminated gradually. In addition, the Group will not aggressively develop its business for licensed footwear brands this year. For the OEM segment, it will allocate more capacity for the production of its own-brands. Self-production ratio increased from 30% to 40% in 2008, and is expected to rise further to 45%.

Daphne will penetrate further into small cities. As a low-end footwear brand with ASP of less than Rmb200/pair, Daphne should be less vulnerable in an economic downturn. In 1Q09, the brand saw flat SSS. To be conservative, we assume Daphne's SSS to drop 2% in 2009. Store additions (especially in smaller cities) will be the main growth driver. The Group plans to add 350 Daphne outlets in 2009, mainly in smaller cities. For profitability, we assume Daphne's EBIT margin to drop 2ppt in 2009.

Shoebox – the next Daphne. SSS growth remained at double digits in 1Q09. The new brand will serve as the primary growth propeller. Given that the pilot operations had completed successfully in 2007, the Group started to aggressively add outlets since 2008. At end-08, there were 616 Shoebox outlets in China. This year, it plans to open 250 outlets in large cities. The expansion of outlet network means better economies of scale and hence higher margins. Management targets to raise EBIT margin from 8.5% to 10%. To be conservative, we assume a flat margin for 2009.

Flat earnings in 2009 before recovering in 2010-11. We project net profit to grow 5% in 2009, 19% in 2010 and 24% in 2011. To factor in the macro headwind, we assume negative SSS growth and margin erosion in 2009. We expect a strong earnings recovery in 2010-11.

Earnings Risk

We believe the uncertain economic outlook represents the greatest risk for the Group. If the economy deteriorates substantially going forward, the Group's earnings would turn out lower than our expectation.

Valuation/Recommendation

Despite an over-60% surge in share price ytd, Daphne is trading at 6.7x 2009 PE vs 10x for regional peers. We believe the share price has factored in a potential profit drop. Risk-reward balance favours buyer. Maintain BUY with a 12-month target price of HK\$3.80 based on 10x 2010 PE, the average one-year forward PE for regional peers.

Profit & Loss

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	3,854	5,289	5,929	6,633	7,855
EBIT	537	675	705	831	1,017
Pre-tax Profit	530	666	696	830	1,027
Net Profit	384	493	516	615	762

Balance Sheet

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	1,634	2,147	2,338	2,669	3,395
Total Assets	2,362	2,962	3,214	3,591	4,339
Current Liabilities	954	1,054	973	837	948
Long-Term Loans	-	-	-	-	-
Shareholders' Funds	1,373	1,855	2,204	2,715	3,351
Total Equity & Liabilities	2,362	2,962	3,214	3,591	4,339

Cash Flow

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	243	170	554	634	572
Investing	(184)	(189)	(207)	(205)	(200)
Financing	(78)	(15)	(79)	(316)	(133)
Net Cash Inflow/(Outflow)	(19)	(34)	268	113	239
Begin Cash & Cash Equiv.	149	182	148	416	529
End'g Cash & Cash Equiv.	182	148	416	529	768

SSS Growth

	2006	2007	1H08	2008
Daphne	3.0	8.8	16.3	8.2
Shoebox	5.0	11.0	29.1	22.6

Source: Daphne

ASP Change

	2007	2008	% chg
Daphne	180	190	5.6
Shoebox	116	118	1.7

Source: Daphne

Number of Stores

	2007	2008	Add
Daphne	2,301	2,849	475
Shoebox	346	616	270
Sportswear	139	166	27
Others	-	11	11

Source: Daphne

Key Assumptions

	2008	2009	2010	2011
SSS growth				
Daphne	8.2	(2)	0	8
Shoebox	22.6	0	8	15
Sportswear		0	0	0
Others		0	0	0

No. of stores

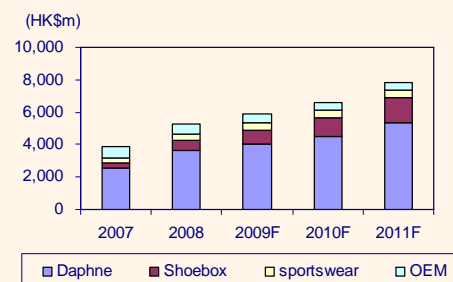
Daphne	2,849	3,199	3,549	3,899
Shoebox	616	866	1,116	1,366
Sportswear	166	166	166	166
Others	11	11	11	11

EBIT margin

Daphne	17.4	15.5	16.2	16.5
Shoebox	8.5	8.5	8.5	8.5
Sportswear	0.8	0.5	0.5	0.5
Others	(112)	0.0	0.0	0.0

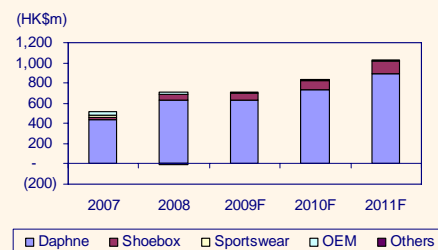
Source: Daphne

Turnover by Segment



Source: Daphne, UOB Kay Hian

EBIT by Segment



Source: Daphne, UOB Kay Hian

Angang Steel

Early signs of end-user demand returning

Upgrade stock to BUY with early signs of end-user demand returning. Company still expects relatively weak product prices in 2Q09 but stronger prices in 3Q09 when China's macroeconomic picture should improve materially.

Corporate Event

Angang Steel's (Angang) management indicated in Hong Kong yesterday there are some early signs that Beijing's stimulus package is beginning to filter down to steel mills. There is, however, downside risk of serious over-capacity in hot-rolled coil capacity.

2008 Results

(Rmbm)	2007	2008	yoy % chg	Remarks
Revenue	65,294	78,985	21.0	ASP up about 20%
COGS	(50,795)	(70,839)	39.5	Impairment loss, iron ore, coking coal price spike
Gross profit	14,499	8,146	(43.8)	
Operating profit	11,057	4,461	(59.7)	Rise in SGA expenses
Net profit	7,534	2,993	(60.3)	

Source: Angang Steel

Stock Impact

Hot money inflows have pushed the share prices of Angang Steel (+20% in 1M) and other metal stocks sharply higher, and a sharp pullback is likely. However, end-user demand from Beijing's stimulus package is finally filtering through now and possibly more strongly by 3Q09 – as management of steel companies expect. This should sustain the rally in steel stocks.

We see further price catalysts for Angang coming from:

- **Early signs of end-user demand.** Without giving specific numbers, management said end-user demand has come through from the white goods, auto, and infrastructure sectors as a result of Beijing's Rmb 4t package. Angang's view was confirmed in a separate analyst meeting by Maanshan Iron and Steel management.
- **A smaller loss in 1Q09.** There should be a qoq improvement in operations over 4Q08, when it lost a whopping Rmb5.3b. Management indicated the one-off start-up cost of about Rmb2.1b for its new Bayuquan mill and Rmb2b impairment loss – will be out of the way in 1Q09, which should improve the operating performance sequentially.
- **Dividend payout ratio to stay at about 50%.** Management reassured investors that it has no intention of cutting the dividend payout ratio of 50%.
- **Estimated 12-18% volume growth to cushion weak steel prices.** The mill targets to sell 17m to 18m tonnes of steel product this year, which should help to negate the expected fall in revenue arising from a likely fall of about 15% in its 2009 average selling price (ASP).

CHINA

Angang Steel (347 HK)

UPGRADE TO BUY

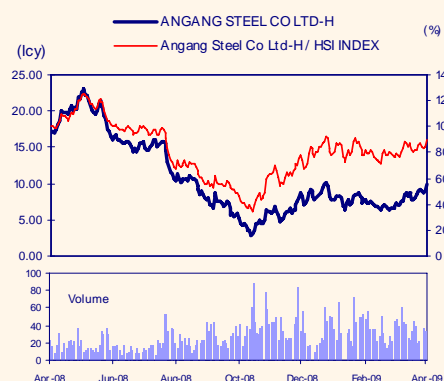
Current Price: HK\$9.50

Target Price: HK\$12.40

(Previous: HK\$7.96)

Sector	Metal
52-Wk Avg Daily Vol. (m)	27.1
Market Cap (HK\$b)	75.7
(US\$b)	9.8
Major Shareholder (%)	
Angang Group	67.3
Book NTA per Share (Rmb)	7.32
ROE (%)	5.7
Net Debt per Share (HK\$)	3.50
Results Due	
Interim	August
Final	April

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	65,294	15,417	7,534	1.12	(6.2)	7.5	5.0	0.55	6.6
2008	78,985	9,050	2,993	0.41	(63.1)	20.2	9.5	0.21	2.5
2009F	80,374	9,715	3,127	0.43	4.5	19.3	8.3	0.22	2.6
2010F	101,074	14,743	6,630	0.92	112.0	9.1	5.3	0.46	5.5
2011F	114,189	17,943	8,926	1.23	34.5	6.8	4.1	0.62	7.4

Consensus Net Profit – FY08: Rmb2844m
 – FY09: Rmb4728m

An exciting M&A story from 2010. Beijing last month singled out Angang as one of three major steel mills to get financial and policy support for taking over smaller mills so that by 2011, its capacity will reach 50m tonnes. We expect the pace of consolidation to speed up from 2010, by which time about 20% of the country's obsolete capacity (120m tonnes) will be removed.

Key Risk: Huge surplus in HRC capacity threatens flat product prices

A big surplus is building up in China's hot-rolled coil (HRC) capacity, which has pushed spot prices to below unit costs. The average HRC spot price today is about Rmb3,350 vs the unit cost of about Rmb3,500. Estimates put China's HRC capacity at 250-300m tonnes, and demand at 150-200m tonnes. Unless end-user demand is revived strongly, prices will remain weak for flat prices. Angang's 2009 HR coil output should account for 37% of its total output this year.

Valuation/Recommendation

Steel companies' confirmation that end-demand is finally filtering through suggests we are seeing tentative signs of a recovery in the steel sector.

Key data points from home sales in major cities and auto sales in 1Q09 support their observations of an early-stage recovery. Our channel checks with Shanghai bankers confirmed that second-home mortgages could be as high as 80%, which will help to lift home sales further down the road.

Given these improving signs, we raise Angang to a BUY from HOLD, with a target price of HK\$12.40, based on a forward PB of 1.2x. This is the average PB for the three years to 2005, the years before a strong recovery in share price and operating performance from 2006.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	65,294	78,985	80,374	101,074	114,189
EBIT	11,275	4,575	5,073	9,935	154
Pre-tax Profit	10,382	3,847	4,141	8,810	11,871
Net Profit	7,534	2,993	3,127	6,630	8,926

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	30,951	22,800	37,985	46,844	53,567
Total Assets	87,381	94,826	106,323	117,636	126,785
Current Liabilities	20,811	24,149	23,863	28,821	31,542
Long-Term Liabilities	12,443	17,706	27,711	28,999	29,669
Shareholder Funds	54,127	52,971	54,748	59,815	65,426
Total Equity & Liabilities	87,381	94,826	106,323	117,635	126,636

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	6,573	14,079	5,080	10,555	14,696
Investing	(18,027)	(35,336)	(7,993)	(23,227)	(25,421)
Financing	17,730	16,498	18,751	18,511	16,785
Net Cash In/(Out) Flow	6,276	(4,759)	15,838	5,839	6,060
Begin Cash & Cash Equiv.	1,480	7,733	2,974	18,812	24,651
End'g Cash & Cash Equiv.	7,733	2,974	18,812	24,651	30,712

Lenovo

Unfavourable risk/reward profile

Our channel checks suggest Lenovo's 1Q09 operating performance is far below expectations. IDC shipment figures also indicate that Lenovo is under heavy margin pressure. Downgrade to SELL.

Corporate Events

Profitability was under heavy pressure. According to IDC, global PC shipments were down 7.1% yoy in 1Q09. Low-cost portable PCs continued to be the growth driver for the PC industry in most regions. Lenovo's market share was flat at 7.0%. IDC's shipment indicates that Lenovo was under heavy pressure on profitability in 1Q09 given the decline in ASPs and rigid cost structure. Compared to its peers, including Acer, HP and Dell, Lenovo has a higher operating expense ratio. The rigid cost structure implies that Lenovo's profitability is more vulnerable to top-line growth. Our channel checks also suggest that Lenovo's 1Q09 operating performance is far below expectations.

Limited exposure to consumer segment. Lenovo is a latecomer to the consumer PC market and it started to ship netbook in Sep 08. HP, Dell, Acer and Austek are becoming more and more aggressive in their efforts to grow their market share in the consumer segment, given softer demand in the corporate segment. Lenovo has to put more resources into sales and marketing to drive volume shipment growth for its consumer products, which will put pressure on its profitability as the company is a latecomer to the personal PC market. It is difficult for Lenovo to reduce the expenses/revenue ratio in the near term as it has limited exposure to the growing segment.

Behind the curve in launching new products. Intel has promoted its Consumer Ultra Low Voltage (CULV) platform heavily through substantial price cuts. Acer announced the ultraportable "Timeline series based on CULV platform. HP and Dell are close to launching new products based on CULV platform. However, we have not seen signs of Lenovo developing products based on CULV platform. It is highly likely that Lenovo will become a latecomer again in launching new products.

Stock Impact

We forecast Lenovo to report net losses of HK\$1,981m and HK\$705m for FY09 and FY10, given the margin pressure and impact of dis-economies of scale. Lenovo's gross margin is estimated to fall 4.5pt to 10.4% in FY09 and improved slightly by 0.6pt to 11.0% in FY10.

Risks

A massive slowdown in global IT spending, further margin erosion, sector de-rating and massive economic slowdown in China.

CHINA

Lenovo (992 HK)

DOWNGRADE TO SELL

Current Price: HK\$2.26

Fair Price HK\$1.83

(Previous: HK\$2.40)

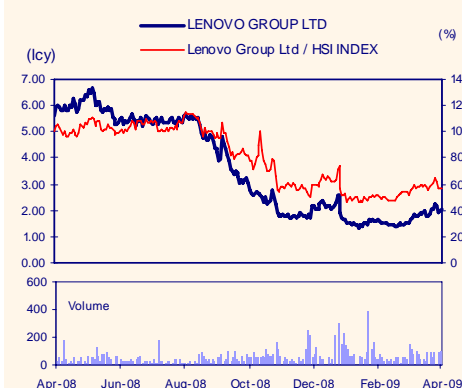
Sector	Technology
52-Wk Avg Daily Vol. (m)	54.6
Market Cap (HK\$m)	20,817.7
(US\$m)	2,686.1

Major Shareholders (%)	
Legend Holdings	45.1

Book NTA per Share (HK\$)	1.3
ROE (%)	35.7
Net Cash per Share (HK\$)	0.7

Results Due	
Interim	December
Final	June

Price Chart



Source : Bloomberg

Analyst

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Year to 31 Mar	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (HK¢)	Yield (%)
2007	109,031	1,749	1,257	14.6	635.1	15.5	13.2	5.2	2.3
2008	127,542	4,374	3,777	43.8	200.5	5.2	8.5	15.8	7.0
2009F	121,601	(676)	(1,981)	(21.4)	-	-	-	3.2	1.4
2010F	118,020	181	(705)	(7.6)	-	-	93.3	3.0	1.3
2011F	130,853	2,830	1,906	20.6	-	11.0	4.9	6.2	2.7

Consensus Net Profit – FY09: HK\$(810m)
 – FY10: HK\$552m

Valuation/Recommendation

We believe it is too early to turn positive on Lenovo despite an improvement in sentiment. Limited exposure to consumer segment, behind the curve in launching new products, and rigid cost structure create concerns. We cut our fair price from HK\$2.40 to HK\$1.83 based on 1.9x FY09 P/B or 50% of the global average. The discount is justified as Lenovo has lower profitability given higher expenses to revenue ratio. Downgrade to SELL.

Peer Comparison

Company	Ticker	Price (LC)	----- PE (x) -----		PB (x)
			2009F	2010F	
Lenovo	992 HK	2.26	(32.2)	82.8	1.7
Dell	DELL US	10.2	9.7	8.3	4.6
HPQ	HPQ US	34.85	10.6	8.7	2.1
Acer	2353 TT	61.7	13.2	11.4	1.9
Apple	AAPL US	117.64	22.9	19.7	4.6
IBM	IBM US	98.85	10.9	10.0	9.8

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Mar (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	109,031	127,542	121,601	118,020	130,853
EBIT	1,196	3,758	(1,392)	(635)	1,914
Pre-tax Profit	1,205	4,000	(1,981)	(705)	1,906
Net Profit	1,257	3,777	(1,981)	(705)	1,906

Balance Sheet

Year to 31 Mar (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	23,816	36,470	30,913	29,087	34,117
Total Assets	42,400	55,927	50,790	49,089	54,195
Current Liabilities	27,434	35,010	33,432	32,499	36,029
Long-Term Loans	6,145	8,567	8,463	8,400	8,625
Shareholders' Funds	8,820	12,350	8,895	8,190	9,541
Total Equity & Liabilities	42,400	55,927	50,790	49,089	54,195

Cash Flow

Year to 31 Mar (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	4,442	7,467	(2,386)	(193)	4,171
Investing	(1,592)	(4,995)	2,753	(976)	(674)
Financing	(2,513)	1,927	(1,541)	(84)	(516)
Net Cash Inflow/(Outflow)	337	4,399	(1,174)	(1,254)	2,982
Begin Cash & Cash Equiv.	7,832	8,289	12,688	11,514	10,260
End'g Cash & Cash Equiv.	8,289	12,688	11,514	10,260	13,242

Maanshan Iron & Steel

Orders coming through finally!

Structural change in China's steel demand/supply dynamics favouring long steel producers and early signs of end-user demand coming through prompts us to upgrade Maanshan's target price to HK\$4.50.

Corporate Events

Maanshan Iron & Steel (Magang) management said in Hong Kong yesterday that:

- China's steel market has undergone a structural change favouring long steel producers; and
- The mill has started to receive orders from China's stimulus package and industries targeted for central government support.

2008 Results

Rmbm	2007	2008	yoy % chg	Remarks
Revenue	49,053	70,010	42.7	ASP up about 28%
COGS	(43,479)	(65,778)	51.3	Impairment loss, iron ore, coking coal price spike
Gross profit	5,574	4,232	(24.1)	
Operating profit	3,945	2,646	(32.9)	Rise in SGA expenses
Net profit	2,467	710	(71.2)	

Source: Maanshan Iron & Steel, UOB Kay Hian

Stock Impact

Magang's share price has rebounded 283% from its 52-week low, against 248% for Angang Steel. Traditionally, the latter is the market's darling but why has it under-performed Magang recently?

This has more to do with the changing demand/supply dynamics in China than with Angang.

This year, the country is expected to see as much as 30mt of new flat steel capacity – Angang's forte – coming on stream and that has depressed the spot price of hot-rolled coil (HRC) to below unit cost. Magang and Angang's management estimated a surplus HRC capacity of about 100m tonnes this year.

On the other hand, China has crimped long steel capacity expansion in the past five years, so the surplus has been sharply lowered. Thus, ytd, the prices of long products such as re-bars and wire rods have fallen by <10% against 15% for HRC.

Beijing's Rmb 4t package will create direct demand for long steel products, so Magang will benefit more. Long products account for 50% of its product mix compared to Angang's 10%.

Management for the first time indicated that the mill is receiving orders from the government's stimulus package:

- Auto orders have risen to 50,000 tonnes in April from about 20,000 to 30,000 in 1Q09
- Orders for steel pipes will exceed one million tonnes for the first time; and
- Orders from white good makers are beginning to come through.

CHINA

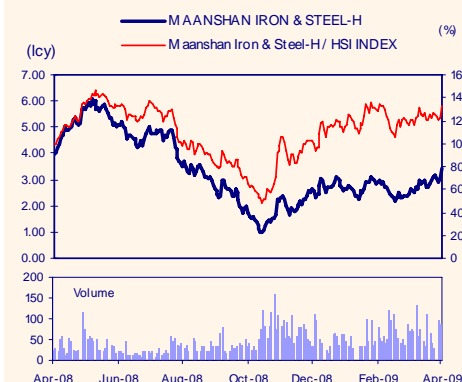
Maanshan Iron & Steel (323 HK)

BUY

Current Price: HK\$3.33
Target Price: HK\$4.50
(Previous: HK\$3.70)

Sector	Metal
52-Wk Avg Daily Vol. (m)	45
Market Cap (HK\$b)	34.5
(US\$b)	4.4
Major Shareholders (%)	
Magang Group Holding	50.47
Book NTA per Share (Rmb)	3.8
ROE (%)	2.9
Net Debt per Share (Rmb)	2.4
Results Due	
1Q: Apr	2H: Aug
3Q: Oct	Final: Apr

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	49,053	6,753	2,467	0.38	2.6	7.7	6.3	0.13	4.4
2008	70,010	6,697	710	0.10	(72.7)	28.2	5.5	0.00	0.0
2009F	57,998	7,467	1,406	0.21	97.9	14.3	4.6	0.06	2.0
2010F	67,862	8,796	2,787	0.41	98.2	7.2	3.7	0.14	4.8
2011F	71,955	9,864	3,492	0.45	11.4	6.5	3.1	0.22	7.5

Consensus Net Profit – FY09: Rmb1,093
 – FY10: Rmb2,396

More interestingly, Magang had recently signed its first contract to supply 1.1m tonnes of steel products to China Railway Materials Commercial Corporation (CRM), a large-scale centrally-owned enterprise which provides all materials for the transportation and construction of the railway system.

We believe in the coming months, Magang could sign similar contracts with other government-affiliated sourcing bodies, which could be potential catalysts for the stock price.

Management indicated that its long steel capacity is close to operating at capacity.

Furthermore, traders' steel inventory has been falling for five consecutive weeks since early March and is down 11% from the peak. In particular, long steel products used in construction are down 15% from the peak in mid-March. The falling steel inventory figures indicate that end-users are slowly digesting the inventories, as demand picks up gradually.

Valuation/Recommendation

We maintain our 2009 output forecast at 14.18mt as per management guidance but cut our 2009 earnings forecast by 30% to Rmb1,406m due to lower steel prices in 1Q09. However, we expect demand to continue to improve, driven by China's infrastructure construction stimulus package.

We continue to value Magang at 0.9x PB, but roll it to 2010's PB, throwing up a new target price of HK\$4.50, providing an upside of 33%.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	49,053	70,010	57,998	67,862	71,955
EBIT	3,497	2,132	2,801	4,030	4,998
Pre-tax Profit	2,788	806	2,007	3,925	4,896
Net Profit	2,467	710	1,406	2,787	3,492

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	23,057	19,387	17,517	21,571	24,221
Total Assets	70,915	66,284	64,946	69,458	72,494
Current Liabilities	25,450	18,526	15,352	17,248	17,527
Long-Term Liabilities	22,010	21,230	21,123	21,185	21,254
Shareholder Funds	23,455	26,527	28,471	31,024	33,711
Total Equity & Liabilities	70,915	66,284	64,946	69,457	72,492

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	3,625	8,388	7,537	9452	10,110
Investing	(7,156)	(3,321)	(5,643)	(6,159)	(6,838)
Financing	5,433	(5,113)	(1,429)	(680)	(1,359)
Net Cash In/(Out) Flow	1,901	(47)	465	2,614	1,913
Begin Cash & Cash Equiv.	3,630	5,524	5,437	5,445	7,979
End'g Cash & Cash Equiv.	5,524	5,437	5,902	8,059	9,892

Technical Analysis

H-share Index: 9,141

The shallow pullback of the H-share index enabled indices to bounce off from the 10-day moving average to retest the psychological barrier of 9,000, as we had suggested in our forecast in early April.

On wave count, the index is unfolding in the wave C of the larger wave 4. At yesterday's close of 9,141, the index had gone beyond the 0.38x retracement level of the decline from 14,783 to 4,792.

Further upside for wave 4 from here would be the 0.5x retracement level at 9,772, which is not far away from the critical bull-bear divide (250-day moving average currently situated at 9,702).

Nevertheless, given the emergence of negative divergence of the RSI of the index, 9,702-9,772 is likely to be a major top before the index turns southwards again. That is why we maintain that the index is still unfolding a corrective rally.

Our preferred view remains valid unless wave 4 is strong enough to overlap the end of wave 1 at 10,450.

According to the wave count rules, this is not acceptable. In other words, we have to relabel the wave in an acceptable way. Technically speaking, such overlapping often indicates that the bottoming process may have ended.

Retracement Levels of H-share Index



Source: HKETnet

CHINA

Technical Analysis

Analyst

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Divergence of RSI of H-share Index



Source: HKETnet

Cement

Weak March cement sales; maintain BUY on Gresik

Indonesian cement sales fell 12.5% yoy and 9.4% ytd in Mar 09, worse than the 4.5% yoy and 7.8% ytd declines in February. Maintain BUY on Gresik with higher target price on expectation of narrower valuation gap with regional peers.

Sector Events

Cement sales fell 12.5% yoy in Mar 09. As we had expected, cement consumption was sluggish with sales declines of 12.5% yoy and 9.4% ytd in Mar 09, worse than the 4.5% yoy and 7.8% ytd declines in February, despite improvement in sales on a mom basis. Indocement Tunggal Prakarsa (Indocement) and Holcim Indonesia (Holcim) saw sales improve in Mar 09, after negative growth in the past two months, while Semen Gresik (Gresik) maintains its relatively flat growth.

1Q09 cement sales in line with our forecast. Indonesian cement producers sold 8.2m tons of cement in the domestic market in 1Q09, about 24.1% of our 2009 forecast. We forecast a 10% decline for the full year of 2009 as we expect weaker demand given the laggard effects from last year's tight credit market and lower consumption growth.

Gresik remains market leader in cement. Gresik remains the market leader even though its market share fell to 45% in March from 46% in February, following stronger monthly sales for Indocement and Holcim. Both Indocement and Holcim expanded market share to 30% and 16% in March from 28% and 15% respectively in February, at the expense of Gresik and other small cement producers.

Stock Impact

Outlook for cement industry remains bleak as we expect average volume growth of -2% (vs +4-6% CAGR 2003-08) among the top three cement companies, and a flat growth in cement average selling prices (ASP). We believe it will come down to brand awareness among domestic consumers, ability to secure government-linked projects, and effective marketing distribution. Gresik is likely to maintain its dominance in the cement industry.

Potential positive surprise for cement industry. While we maintain our bearish view, there is still possible upside to our valuation. The government's plan to provide a massive stimulus package on infrastructure during this election year could cushion the impact of the decline in cement demand that we initially expected. We provide below the results of our sensitivity analysis that show how changes in assumptions, particularly in ASPs, could boost current earnings significantly.

Sensitivity on Volume and Price

Company	Current assumption of -10% volume growth and 0% ASP growth		+10% chg in assumption to volume		+1% chg in assumption to ASP	
	Revenue (Rpb)	EPS (Rp)	Revenue (%)	EPS (%)	Revenue (%)	EPS (%)
Semen Gresik	11,369	356	+1.51	+2.28	+0.9	+3.0
Indocement	8,934	405	+0.65	+1.79	+0.9	+2.4
Holcim	4,313	35	+1.36	+1.44	+0.7	+5.7

Source: UOB Kay Hian

INDONESIA

Cement

MARKET WEIGHT

Semen Gresik (SMGR IJ)

BUY

Current Price: Rp4,250

Target Price: Rp4,950

(Previous: Rp4,300)

Indocement Tunggal Prakarsa (INTP IJ)

HOLD

Current Price: Rp5,600

Fair Price: Rp5,900

(Previous: Rp5,200)

Holcim Indonesia (SMCB IJ)

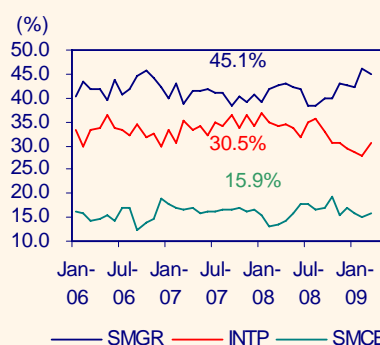
SELL

Current Price: Rp650

Fair Price: Rp490

(Previous: Rp390)

Market Share



Source: UOB Kay Hian

Analyst

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Friday, April 17, 2009

Valuation/Recommendation

Narrowing valuation gap with regional peers. Gresik's share price has increased 23% since our BUY recommendation on 17 Mar 09, but so have Indocement (+36%) and Holcim (+30%). Valuations of Indonesian cement stocks will likely be re-rated upwards as the valuation gap would narrow with other cement stocks in the region due to Indonesia's robust macroeconomic fundamentals and positive political outlook. Indonesian cement stocks are trading at average 2009 PE of 13.3x, a discount to the 16.4x regional average, while average EV/tonne of US\$85-105 is significantly below the replacement cost of US\$100-200. We have raised the target prices of Gresik (+15%), Indocement (+13%) and Holcim (+29%), but maintain our recommendations with Gresik remaining as our top BUY recommendation due to its cheapest valuation, best shareholder return and growth potential.

Cement Company Ratios

	Gresik	Indocement	Holcim
Current price (Rp)	4,250	5,600	650
Target price (Rp)	4,950	5,900	490
Recommendation	Buy	Hold	Sell
Price upside (%)	16	5	(25)
Bloomberg	SMGR IJ	INTP IJ	SMCB IJ
Market cap (Rpb)	24,915	20,615	4,981
Market cap (US\$m)	2,308	1,910	461
Ratios (%)			
Operating margin	24.2	23.7	16.8
Net margin	18.4	16.7	6.3
ROA	24.4	18.0	9.4
ROE	24.6	16.4	10.1
Dividend yield	6.2	1.6	-
Leverage (%)			
Total debt/total asset	9.1	0.4	48.8
Total debt/equity	12.4	0.5	135.3
Net debt (cash)/equity	(37.5)	(17.5)	87.3
Interest cover (x)	86.6	27.8	1.9

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Price Curr- ency	as of 16 Apr 09	Production Capacity (m tonnes)	EV/Ton (USD)	Market Cap (US\$m)	P/BV		EV/EBITDA		PE	
							2009F (x)	2010F (x)	2009F (x)	2010F (x)	2009F (x)	2010F (x)
Indonesia												
Semen Gresik	SMGR IJ	Rp	4,250	19	105	2,320	2.8	2.5	6.6	4.3	11.9	10.3
Indocement Tunggal Prakarsa	INTP IJ	Rp	5,600	17	97	1,897	2.1	1.8	6.6	7.2	13.8	11.3
Holcim Indonesia	SMCB IJ	Rp	650	9	82	458	1.8	1.6	6.7	8.4	18.4	16.4
Indonesia Sector Average				45		4,676	2.4	2.1	6.6	5.9	13.3	11.3
Rest of World												
Taiwan Cement*	1101 TT	NT\$	35.5	11	361	3,459	1.8	1.6	7.9	7.5	20.3	19.5
Asia Cement Corp*	1102 TT	NT\$	33.8	8	448	2,900	1.3	1.2	10.2	11.6	12.3	13.6
Chia Hsin Cement*	1103 TT	NT\$	16.6	20	22	357	0.6				15.9	13.9
Taiwan Sector Average				39		6,716	1.5	1.4	8.5	8.9	16.6	16.7
Siam Cement*	SCC TB	Bt	109.5	23	335	3,711	1.4	1.2	7.4	6.3	8.5	6.6
Siam City Cement*	SCCC TB	Bt	131.5	15	66	882	1.8	1.9	6.9	6.3	10.8	9.7
TPI Polene*	TPIPL TB	Bt	3.0	9	48	173	0.1	0.1	4.2	3.9	4.2	3.9
Thailand Sector Average				47		4,766	1.4	1.3	7.2	6.2	8.8	7.1
Lafarge Malayan Cement*	LMC MK	RM	4.5	13	91	1,069	1.2	1.2	7.8	6.7	13.2	12.6
Malaysia Sector Average				13		1,069	1.2	1.2	7.8	6.7	13.2	12.6
Holcim Philippines*	HLCM PM	PHP	3.2	9	62	426	1.1	1.1	5.9	9.3	9.3	8.6
Philippines Sector Average				9		426	1.1	1.1	5.9	9.3	9.3	8.6
Tangshan Jidong Cement Co-A*	000401 CH	Rmb	15.5	18	182	2,755	2.8	2.4	13.8	6.7	24.9	16.9
Anhui Conch Cement Co Ltd-A*	914 HK	Rmb	44.8	88	121	2,840	2.9	2.6	11.0	7.2	23.9	18.7
China National Building Material	3323 HK	Rmb	13.2	10	795	2,313	3.3	2.8	14.2	10.9	20.1	15.5
China Sector Average				138		8,802	2.9	2.6	12.3	7.8	22.8	16.8
Average Sectors						26,455	2.1	1.9	9.1	7.4	16.4	13.7

Source: Bloomberg, UOB Kay Hian

* Bloomberg consensus

Pacific Shipping Trust

CSAV renegotiates charter rates; negatives are priced in

CSAV indicates 30% reduction in charter rates with ship owners. We reduce DPU forecasts by 15-21% and cut target price by 27% to US\$0.22. That said, many negatives are priced in. Maintain BUY.

Corporate Events

Compania Sud Americana de Vapores S.A. (CSAV), one of the two charterers of Pacific Shipping Trust (PST), has indicated it would require ship owners to offer a temporary 30% reduction of charter hire payment as part of its restructuring plan to raise US\$750m. Part of the 30% reduction will be payment in kind eg shares.

Stock Impact

Based on a teleconference we had with PST's management yesterday, CSAV has been making charter payments on time. The 30% reduction of charter rates on two CSAV vessels is likely for 1-2 years. Earnings and DPU could be cut by 15-21% in 2009-11. The annualised yield is estimated to fall from 23.5% to 18.8%, or DPU of 4.0 US cents to 3.2 US cents. (Excluding charter contributions from the two vessels, DPU would be 1.8-2.0 US cents or 10-12% yield.) The outstanding loan for these two vessels is about US\$80m. For any significant reduction in charter rates, PST will need to consult its bankers.

The remaining 10 vessels in PST's fleet are chartered out to its sponsor, Pacific International Lines (PIL). There is no indication of charter renegotiation from its sponsor. PST expects PIL's performance to be better than peers' and does not expect its sponsor to be in financial difficulties. PIL's 2008 financial accounts are still pending filing with the Registrar of Companies and should be available in the next 1-2 months. Based on PIL's 2007 financial accounts, the company had a gross cash balance of US\$479.9m and a low net debt-to-equity of 17%.

Earnings Revision

We reduce both our earnings and DPU forecasts by 15-21%.

Valuation/Recommendation

Based on a revised DPU forecast of 3.2 US cents for 2010, PST still offers an attractive dividend yield of 18.9%. However, if one were to exclude the CSAV vessels' earnings completely, PST's 2010 DPU would be 1.9 US cents, or 11.1% yield.

A lot of negatives have been factored into its share price. We reiterate BUY on PST but reduce our target price from US\$0.30 to US\$0.22, based on discounted cash flow at a discount rate of 11% (US 5-year risk-free rate: 1.81%; market risk premium: 5.5%; annual vessel depreciation: 3.3%).

SINGAPORE

Pacific Shipping Trust (PST SP)

BUY

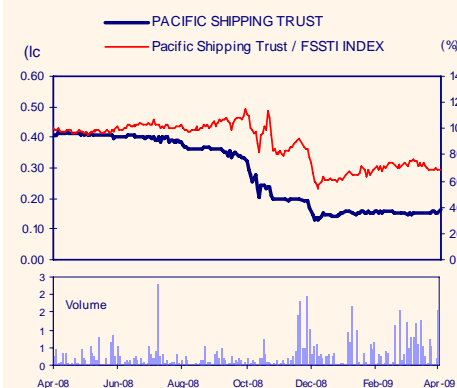
Current Price: US\$0.17
Target Price: US\$0.22
(Previous: US\$0.30)

Sector	Shipping
52-Wk Avg Daily Vol. ('000)	279
Market Cap (\$m)	150.5
(US\$m)	100.3
Major Shareholders (%)	
Pacific Int'l Lines	59.2%
Book NTA per Share (US\$)	0.38
ROE (%)	10.0
Net Debt per Share (\$)	0.37

Results Due

1Q: Apr	2Q: Jul
3Q: Oct	Final: Jan

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	EPS (US¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (US¢)	Yield (%)
2007	34.5	32.5	10.5	3.1	(7.6)	5.5	9.7	4.3	25.2
2008	44.6	40.6	18.3	4.6	47.2	3.7	7.8	4.1	24.0
2009F	57.7	49.1	21.3	3.6	(20.8)	4.7	6.4	3.3	19.7
2010F	56.2	47.5	20.8	3.5	(2.7)	4.8	6.7	3.2	18.9
2011F	56.0	47.1	21.3	3.6	2.6	4.7	6.7	3.2	19.1

Consensus Net Profit – FY09: US\$25.3m
 – FY10: US\$26.3m

For the period 25 Apr 06 to 31 Dec 06

Charter Rates (CSAV vessels pending rates adjustment)

No.	Vessel	Charterer	Year Built	Capacity (TEU)	Purchase Price (US\$m)	Charter Tenure (Years)	Daily Charter Rate (US\$)
1	Kota Kaya	PIL	2005	3,081	53.2	9	17,700
2	Kota Kado	PIL	2005	3,081	53.2	9	17,700
3	Kota Rancak	PIL	2005	943	23.6	10	7,600
4	Kota Rajin	PIL	2005	943	23.6	10	7,600
5	Kota Arif	PIL	1999	1,454	29.4	8	11,000
6	Kota Anggerik	PIL	1999	1,454	29.4	8	11,000
7	Kota Anggun	PIL	1999	1,454	29.4	8	11,000
8	Kota Azam	PIL	1999	1,454	29.4	8	11,000
9	Kota Nabil	PIL	2008	1,800	43.0	8	11,550
10	Kota Naga	PIL	2008	1,800	43.0	8	11,550
11	CSAV Laja	CSAV	2008	4,250	68.1	5	26,000 - 1st 2 yrs
12	CSAV Lauca	CSAV	2008	4,250	68.1	5	26,000 - 1st 2 yrs 25,500 - last 3 yrs

Source: PST, UOB Kay Hian

Profit & Loss

Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Turnover	34.5	44.6	57.7	56.2	56.0
EBIT	20.4	28.2	31.5	29.9	29.5
Pre-tax Profit	10.5	18.4	21.4	20.9	21.4
Net Profit	10.5	18.3	21.3	20.8	21.3
Distributable Profit	14.5	19.2	21.9	21.0	21.3

Balance Sheet

Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Current Assets	8.5	13.8	15.9	17.9	19.9
Total Assets	259.7	476.9	461.3	445.8	430.1
Current Liabilities	17.6	40.5	24.9	25.3	25.5
Long-Term Loans	97.3	212.9	195.5	177.9	159.9
Shareholders' Funds	144.8	223.5	240.8	242.6	244.8
Total Equity & Liabilities	259.7	476.9	461.3	445.8	430.1

Cash Flow

Year to 31 Dec (US\$m)	2007	2008	2009F	2010F	2011F
Operating	32.1	40.8	48.9	47.3	46.9
Investing	0.5	(223.2)	0.5	0.6	0.7
Financing	(32.9)	187.9	(47.3)	(45.9)	(45.5)
Net Cash In/(Out) Flow	(0.3)	5.4	2.1	2.0	2.0
Begin Cash & Cash Equiv.	8.6	8.4	13.8	15.9	17.9
End'g Cash & Cash Equiv.	8.4	13.8	15.9	17.9	19.9

Strategy

Political risks subside in the short term - target SET Index trading range is 450-480

The Thai government under Prime Minister Abhisit successfully dispersed the red shirt demonstrations and the two-day riots in the heart of Bangkok.

What are the consequences of the latest political unrests?

- Standard & Poor's has downgraded local currency rating from A to A- with a negative outlook. We expect more international credit rating agencies such as Moody's Investors and Fitch Ratings to follow.
- We expect tourist arrivals to decline further. In 2M09, tourist arrivals declined 20% yoy. In 2008, a total of 14.3m tourists entered Thailand. Tourism income accounts for 6-7% of Gross Domestic Product (GDP).
- Domestic confidence weakens further. In the past, domestic political problems have hurt domestic confidence more than global issues. Thailand's political upheaval started three years ago and has since then dragged down private consumption from a growth of 5-6% to 2%.

2H09 Political outlook

Although the government has come out on top of the situation and is functioning fully again, damage has already been done. The ASEAN summit was cancelled and riots broke out in the city. The latest series of events reconfirmed the underlying division in the society. The red shirt movement may retreat temporarily but will not die out. For the first time in Thailand, grassroots people took over or protested in front of provincial houses in 42 of the 76 provinces in Thailand.

This is not just a conflict of economic interest between the rich and the poor but rather a power struggle between the ruling elite class (the armed forces and the powerful government bureaucracy) and the grassroots people and the politicians who represent the poor. This conflict started in 1910, which led to a constitutional monarchy in 1932.

To end the conflict, the government must undertake political reforms, starting with the amendment of the 2007 constitution to make it more democratic. Is Abhisit the man to do it? The answer is NO. He is where he is today because of the strong support of the establishment and the military. They will not allow him to back down and give power to the opposition or the people. Thus, we can expect more political problems ahead. Although tension has eased in the short term, the political conflict will be protracted. Political analysts believe any form of political reform will take 8-10 years. We are now in the fourth year of this political conflict.

Stock market impact

Sectors that are hard hit are tourism, foreign direct investment, industrial estate and residential property sectors. We are forecasting an 8% decline in earnings for stocks under UOB Kay Hian's coverage, with banks, construction materials, property and petrochemicals taking the biggest hits as shown below. We remain comfortable with our sectors earnings forecasts and believe we are already conservative.

THAILAND

Strategy

Analyst

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Sector Net Profit Forecasts

Growth (%) SECTOR	Net Profit (Btm)			
	2006	2007	2008	2009F
BANK	(40.0)	(74.1)	481.0	(18.8)
CONSTRUCTION MATERIALS	(31.2)	31.2	(4.0)	(15.2)
COMMERCE	33.3	(14.0)	43.6	6.6
TELECOMMUNICATIONS	(31.6)	32.9	6.4	10.6
ENERGY	15.3	10.0	(42.3)	6.4
MEDIA & PUBLISHING	52.5	19.4	3.0	(9.8)
HEALTHCARE	28.3	17.8	0.1	(5.7)
PROPERTY	(13.9)	2.0	15.5	(23.3)
CONTRACTOR	(312.4)	120.4	(284.4)	95.0
PETROCHEMICAL	39.2	6.2	(34.4)	(42.0)
OTHER	(31.2)	16.5	39.1	(54.5)
UOBKH	(9.0)	(2.5)	(6.4)	(8.1)
UOBKH (Ex Financial)	1.8	12.2	(29.5)	(3.9)
UOBKH (Ex Energy)	(25.5)	(15.6)	42.8	(16.1)

Source: UOB Kay Hian

We are forecasting a 5.2% contraction in GDP for 2009 and 10.75% and 7.5% qoq contractions in 1Q09 and 2Q09 respectively.

Political conflict will continue but risks have been temporarily reduced with the failure of the recent demonstrations. Market sentiment will be determined more by global factors and liquidity inflows rather than domestic issues. Our target trading range for the Stock Exchange of Thailand (SET) this year is 450-480. But our earlier call of SET touching a low before hitting a high did not materialise.

Ytd, the market is down 4.10%, underperforming the region. From the December close of 449.96, SET has closed within the 430-440 range in the last three months. Below we list down stocks that could benefit further from liquidity inflows. These are high-beta stocks that offer high dividend yields with low P/BVs. We also recommend BUY on PTT and BANPU.

High-Beta Stocks, High Dividend Yields, Low P/Bvs

Stock	Current price (Bt)	FY08 DPS (Bt)	Yields (%)	XD-Date	FY09 P/BV (x)	Share price performance (%)		12-Month Beta
						YTD	Over the past month	
KTB	5.30	0.44	8.3	23 Apr	0.58	39.5	21.5	1.0
SCIB	9.05	0.70	7.7	30 Apr	0.46	28.4	21.5	1.2
TISCO	12.50	1.00	8.0	29 Apr	0.76	47.0	25.0	0.8
QH	0.95	0.08	8.4	4 May	0.70	1.1	28.4	1.8
AP	2.92	0.25	8.6	7 May	0.94	22.7	43.1	1.3

Source: UOB Kay Hian

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