

KEY STORY

China

Banking

China takes first step in the long road to Rmb globalisation. Maintain MARKET WEIGHT.

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China Yurun (Under Review/HK\$9.44)

Product scandal will have negative impact on sales and earnings. Suspend coverage.

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CHINA

Sector

Banking

China takes first step in the long road to Rmb globalisation. Maintain MARKET WEIGHT.

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Results

China COSCO (SELL/HK\$6.34/Fair: HK\$4.00)

2008: Net profit below expectations, dragged by provision and FFA.

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China Life Insurance (BUY/HK\$27.35/Target: HK\$31.30)

1Q09: Results up 55% yoy, earnings in full recovery mode. Maintain BUY with target price of HK\$31.30.

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Global Biochem (SELL/HK\$1.38/Fair: HK\$0.65)

2008: Results miss estimates with net profit down 34%. Outlook remains clouded given drop in product prices and intense competition.

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Jiangxi Copper (HOLD/HK\$8.84/Fair: HK\$10.00)

1Q09: Improvement in qoq performance and a new team installed to manage hedging risks prompt us to upgrade the stock from SELL to HOLD.

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Shenji Group Kunming Machine (HOLD/HK\$4.38/Fair: HK\$4.58)

2008: In-line results. However, positives are priced in with no near-term catalyst. Downgrade from BUY to HOLD.

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Tianjin Port Development (SELL/HK\$2.06/Fair: HK\$1.05)

2008: Disappointing net profit. Maintain SELL.

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ZTE Corporation (HOLD/HK\$28.15/Fair: HK\$27.00)

1Q09: Profit up 29.2%. Downgrade to HOLD due to uncertainty over overseas sales and valuation.

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Update

China Yurun (Under Review/HK\$9.44)

Product scandal will have negative impact on sales and earnings. Suspend coverage.

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Towngas China (SELL/HK\$1.88/Fair: HK\$1.70)

Proposed disposal of LPG will improve earnings stability and quality. Maintain SELL on rich valuation.

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HONG KONG

Update

Pacific Basin Shipping (HOLD/HK\$4.24/Fair: HK\$3.20)

Continues to lock in more revenue in 1Q09 amid challenging global economic outlook.

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Market Commentary

"Buy and hold" strategy is not recommended for an equally-weighted IPO portfolio.

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Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	7957.1	0.9	(2.1)	2.3	(9.3)
S&P 500	851.9	1.0	(1.5)	3.5	(5.7)
FTSE 100	4018.2	(0.3)	(0.9)	1.7	(9.4)
AS30	3695.8	1.9	(0.8)	5.1	1.0
CSI 300	2593.6	0.7	(3.5)	5.8	42.7
FSSTI	1860.0	0.9	(1.7)	9.0	5.6
HSI	15214.5	2.3	(2.4)	9.4	5.7
JCI	1592.7	(1.4)	(2.0)	10.9	17.5
KLCI	978.6	1.0	1.8	11.5	11.6
KOSPI	1368.8	0.9	2.4	12.0	21.7
Nikkei 225	8847.0	1.4	1.0	4.2	(0.1)
SET	466.1	1.2	2.9	6.4	3.6
TWSE	5875.2	(0.2)	(2.0)	12.1	28.0

BDI	1897	1.5	18.3	7.0	145.1
CPO (RM/mt)	2621	0.4	2.0	26.8	60.8
Nymex Crude (US\$/bbl)	50	0.2	(1.2)	(7.9)	11.5

Source: Bloomberg

Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs			
China Coal	1898 HK	6.69	8.50 27.1
China Life	2628 HK	27.35	31.30 14.4
China Railway	390 HK	5.25	5.90 12.4
Maanshan Iron	323 HK	3.23	4.50 39.3
Sinopec	386 HK	5.94	6.60 11.1
Zijin Mining	2899 HK	5.81	7.15 23.1
DBS Group	DBS SP	9.03	10.55 16.8
Advanced Info	ADVANC TB	77.50	101.73 31.3
Quality Houses	QH TB	0.97	1.28 32.0
Top SELLs			
Harbin Power	1133 HK	6.16	3.50 (43.2)
Parkson Retail	3368 HK	9.68	5.15 (46.8)
S'pore Airlines	SIA SP	10.82	8.20 (24.2)
STX Pan Ocean	STX SP	14.56	4.35 (70.1)
Amata Corp	AMATA TB	3.64	2.52 (30.8)

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	8.3
Brent Crude Oil (US\$/bbl)	100	55	65
Aluminium* (US\$/MT)	2,623	1,509	1,795
Copper* (US\$/MT)	6,884	3,621	4,341
Gold Price London* (US\$/ounce)	873	933	959
Iron Ore* (US\$/dmton)	153	107	97
CPO (US\$/MT)	818	520	685
BDI	6,338	2,500	1,500

* Bloomberg

Source: UOB, UOB Kay Hian

Corporate Events

	Venue	Beg	Close
CapitaLand Luncheon Presentation*	Singapore	27 Apr	27 Apr
Comba Corporate Roadshow	Taiwan	28 Apr	29 Apr
Quality Houses Luncheon Presentation*	Thailand	30 Apr	30 Apr
Yangzijiang Shipbuilding Presentation*	Singapore	30 Apr	30 Apr
Kerry Properties Presentation	via videoconference	30 Apr	30 Apr
Sino-Ocean Land Corporate Roadshow*	Singapore	8 May	8 May

* by invitation only

Friday, April 24, 2009

MALAYSIA**Update****IJM Plantations (HOLD/RM2.42/Fair: RM2.05)****Page 26**

Potentially higher market ranking with landbank expansion into Sumatra.
New landbank with planted area will provide cash flow for development.

SINGAPORE**Results****Keppel Corp (SELL/S\$6.02/Fair: S\$4.80)****Page 28**

1Q09: Backward looking. Contract wins ytd are low and share price is 25% above our fair price. Maintain SELL.

THAILAND**Update****Thai Union Frozen Products (BUY/Bt19.80/Target: Bt27.00)****Page 30**

1Q09 results likely to benefit from manageable inventory, lower interest rate, a weak baht and low tuna cost.

Banking

China takes first step in the long road to Rmb globalisation

In boosting Hong Kong as a global settlement centre for the Rmb, China aims to make the Rmb an international settlement currency for trade. We expect Hong Kong banks to be the winners and Chinese banks to lose in the long term.

Sector Events

Five Chinese cities to participate in pilot settlement programme. China's State Council is planning to launch a pilot programme allowing five cities to conduct foreign trade using the Renminbi (Rmb). Shanghai, Guangdong cities of Zhuhai, Shenzhen, Dongguan and Guangzhou will be the first group of cities to participate in the programme. This follows closely after China established Rmb650b worth of bilateral swap agreements with various countries.

Sector Impact

To reduce reliance on the US dollar and risk of its depreciation. Reducing the risk from exchange rate fluctuations will also be a top priority for China as it is already restructuring its foreign reserves portfolio by reducing the duration of its US treasury portfolio.

Increasing the scope of Rmb bonds. Allowing a greater supply of Rmb-denominated bonds in Hong Kong will increase the demand for the Rmb, thereby boosting the liquidity of its bonds in the secondary market and ultimately increase the Rmb deposit base in Hong Kong.

Chinese banks would be affected in the long term on reduced settlement income. On average, settlement fees currently account for 20% of fee income and 9% of net profit for the banks under our coverage. As the Rmb becomes increasingly used as the currency for settlement, Chinese banks will see stagnant growth in settlement fees.

Hong Kong banks to capitalise on higher fee income. We believe Hong Kong banks, particularly those with China-based parents, stand to benefit from increased settlement fees.

Recommendation

The winners – Hong Kong banks

BOCHK (2388 HK). We believe BOCHK will be the top beneficiary of the Rmb trading settlement given its strong parental support in Bank of China, which holds a 66.1% stake. Besides, BOCHK is the only Rmb-clearing Hong Kong bank and the biggest player in providing remittance services of Rmb settlement in Hong Kong at the moment.

Sector Valuation

Stock	Rec.	Price 23 Apr 09 (HK\$)	Net Profit			PE			PB			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	6.27	28,393	22,286	23,152	9.8	13.5	14.5	1.9	1.8	1.6	20.1	327,317	4.3
CMB	BUY	14.92	20,927	21,555	24,853	13.0	9.4	9.2	2.6	2.1	1.7	20.8	264,264	3.5
ICBC	HOLD	4.38	110,841	102,089	115,341	11.8	12.9	11.4	2.2	2.0	1.8	19.4	1,477,100	4.7
BOC	SELL	2.89	64,360	52,488	68,058	10.3	12.6	9.7	1.3	1.4	1.3	14.6	912,909	6.1
CCB	HOLD	4.38	92,642	85,936	105,461	10.0	10.7	8.7	2.0	1.6	1.4	20.7	1,076,140	3.7

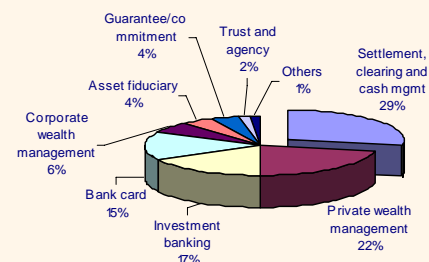
Source: Respective companies, UOB Kay Hian

CHINA

Banking

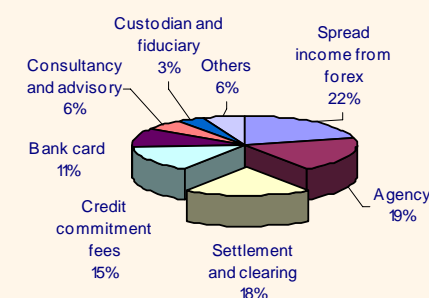
MARKET WEIGHT

ICBC Fee Income Breakdown



Source: ICBC, UOB Kay Hian

BOC Fee Income Breakdown



Source: BOC, UOB Kay Hian

Analyst

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This shows its trading and banking systems are well-equipped to support further Rmb development. Assuming BOCHK can get at least 40% of the market share in the new Rmb trade settlement business of an initial size of around HK\$200b and a 0.5% transaction fee each for a two-way transaction, it could generate an additional fee income of HK\$400m.

Bank of East Asia (23 HK). Through many years of excellent corporate relationships built with China, BEA has expanded aggressively with a loans CAGR of 68% in FY05-08. However, its dependence on high-cost funding in China has always been management's concern. Hence, BEA China's target is to absorb its own Rmb deposits instead of inter-bank borrowings. Post-Rmb trade settlement in the territory, BEA is able to absorb deposits not only in China but in Hong Kong as well. Furthermore, being the first to apply for Rmb bond offering, the bank hopes to be among the first batch of lenders. From this, we can see the strong bonding BEA has established in China.

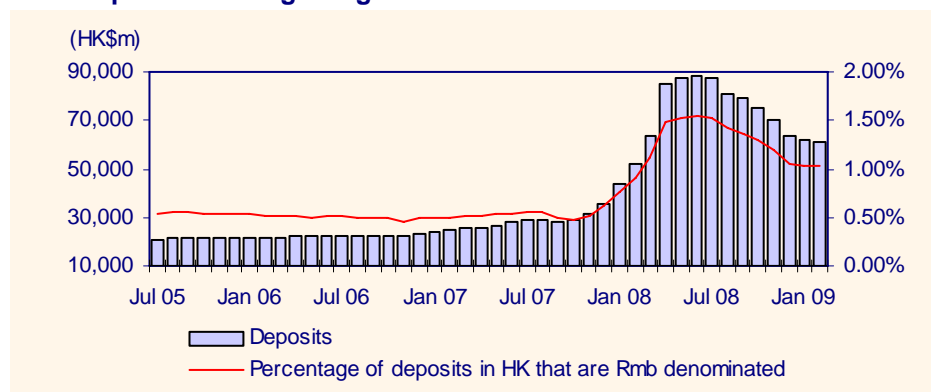
The losers – Chinese banks

While Chinese companies will benefit from Rmb settlement, Chinese banks will however be affected by reduced settlement fees. As over 90% of trade is currently conducted using foreign currencies, the migration towards using Rmb as settlement currency will reduce settlement and clearing fees for Chinese banks.

On average, settlement fees account for 20% of total fee income and about 9% of net profit for the banks under our coverage. In the short term, we do not expect settlement fees of Chinese banks to be significantly affected as the US\$ will likely remain the currency of choice for trade settlement. However, in the long term, we expect a slowdown in the growth of settlement fees, particularly with the more prevalent use of the Rmb as a global settlement currency.

Although fee income growth for trade settlement may stagnate in the long term, there will be marginal negative impact on the bottom line of banks. Even in the worst-case scenario where settlement fees disappear altogether (a near impossible scenario), net profit of banks will only decline by an average of 10% over the long term.

Rmb Deposits in Hong Kong



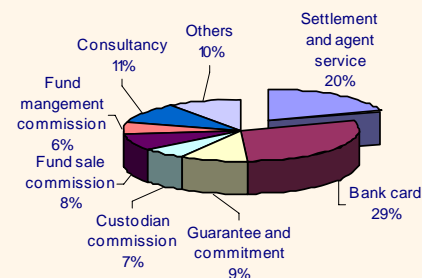
Source : CEIC, UOB Kay Hian

Sector Valuation

Company	Rec.	Price 23 Apr 09 (HK\$)	Net Profit			PE			P/B			ROE	Market Cap	Yield
			2008 (HK\$m)	2009F (HK\$m)	2010F (HK\$m)	2008 (x)	2009F (x)	2010F (x)	2008 (x)	2009F (x)	2010F (x)	2008 (%)	(HK\$m)	2008 (%)
BEA	Not Rated	17.88	39	2,096	2,537	765.1	15.5	13.8	1.0	1.0	0.9	0.1	32,923	1.4
BOCHK	Not Rated	10.60	3,343	8,865	12,135	33.6	12.1	9.3	2.3	1.3	1.2	3.8	112,072	2.5
HSBC	Not Rated	51.25	44,599	53,232	68,939	15.3	13.1	11.6	1.0	1.1	1.0	5.1	213,457	8.9
StanChart	Not Rated	112.50	26,537	19,721	21,920	7.9	10.8	10	1.2	1.3	1.2	15.3	881,747	4.7

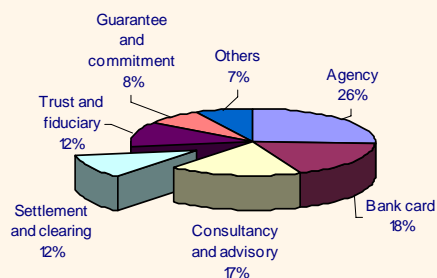
Source: Bloomberg

BoCom Fee Income Breakdown



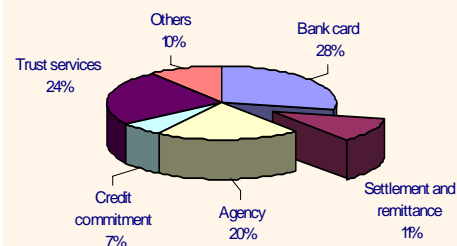
Source: BoCom, UOB Kay Hian

CCB Fee Income Breakdown



Source: CCB, UOB Kay Hian

CMB Fee Income Breakdown



Source: CMB, UOB Kay Hian

China COSCO

2008: Net profit below expectations, dragged by provision and FFA

CCH's 2008 net profit declined 40% yoy, lower than expectations. The disappointing results were mainly due to provision and FFA loss.

2008 Results

Year to 31 Dec(Rmbm)	2H07	2H08	yoy % chg	2007	2008	yoy % chg
Revenue	64,488	60,390	(6.4)	112,233	130,872	16.6
COGS	(48,928)	(57,924)	18.4	(87,287)	(109,081)	25.0
Gross profit	15,560	2,466	(84.2)	24,945	21,791	(12.6)
Operating profit	15,383	(4,505)	n.a	24,094	14,443	(40.1)
Profit before tax	16,918	(4,083)	n.a	26,113	15,670	(40.0)
Taxation	(3,533)	934	n.a	(4,826)	(2,963)	(38.6)
Net profit	12,254	(3,505)	n.a	19,482	11,617	(40.4)
Recurrent net profit	9,493	1,526	(83.9)	15,137	14,575	(3.7)
EPS (Rmb)	1.37	(0.34)	n.a	2.18	1.14	(47.9)
Profitability (%)						
Gross margin	24.1	4.1	(20.0)	22.2	16.7	(5.6)
Operating margin	23.9	(7.5)	(31.3)	21.5	11.0	(10.4)
Net margin	19.0	(5.8)	(24.8)	17.4	8.9	(8.5)

Source: China COSCO, UOB Kay Hian

Results

China COSCO's (CCH) 2008 revenue rose 16.6% yoy to Rmb130.9b but net profit declined 40.4% yoy to Rmb11.6b, lower than our forecast and market consensus. The net profit plunge was due to the provision of onerous contracts (Rmb5.2b) and the loss of freight forward agreement (Rmb4.1b). Excluding exceptionals, recurrent net profit was down 3.7% yoy to Rmb14.6b in 2008.

For 2H08, CCH posted a net loss of Rmb3.5b, which implied a very difficult time for the container and dry bulk shipping business since 3Q08.

Stock Impact

CCH has covered only 18.4% of its dry bulk shipment revenue days in 2009 with average TCE of approximately US\$35,000 (vs average TCE of US\$52,403 in 2008). That means, the earnings visibility is low and its earnings are more vulnerable to declining dry bulk freight rates.

Dry bulk shipping and container shipping accounted for 88% of CCH's total turnover. However, given the imbalance between the supply and demand of shipping capacity as well as the weakening demand for shipments, CCH's shipping volume and freight rates are expected to decline in 2009.

Earnings Revision

In light of the lower-than-expected net profit, we cut our net profit forecasts by 87% and 54% for 2009 and 2010 respectively.

Valuation/Recommendation

CCH's dividend payout ratio was maintained at 25.5% in 2008. The stock is trading at 1.1x 2010 P/B (historical average of 1.9x P/B). After the recent liquidity-driven share price rally, we regard its valuation as demanding. Maintain SELL.

CHINA

China COSCO (1919.HK)

SELL

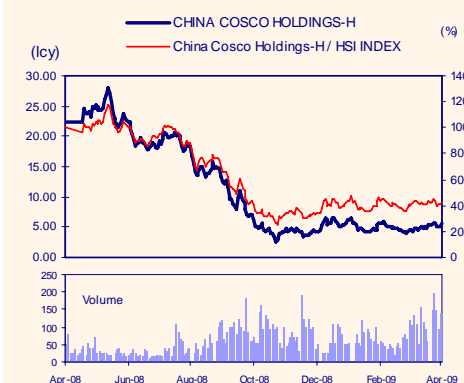
Current Price: HK\$6.34

Fair Price: HK\$4.00

Sector	Transport
52-Wk Avg Daily Vol. ('000)	59,444
Market Cap (HK\$m)	16,696
(US\$m)	2,141
Major Shareholders (%)	
COSCO Group	53.64
Book NTA per Share (RMB)	4.6
ROE (%)	23.4
Net Cash per Share (RMB)	Net cash

Results Due	
Interim	August
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 (%)
2006	78,856	14,911	8,292	1.04	(4.2)	5.4	1.7	0.19	3.3
2007	112,233	28,226	19,482	2.18	109.5	2.6	3.5	0.20	3.6
2008	130,872	18,163	11,617	1.14	(47.9)	4.9	7.6	0.29	5.2
2009F	95,471	4,423	564	0.06	(95.1)	101.2	17.7	0.01	0.2
2010F	83,942	4,804	1,367	0.13	142.2	41.8	17.3	0.03	0.6

Consensus Net Profit – FY08: Rmb17,103m
– FY09: Rmb3,442m

Profitability and margins are dwindling. CCH's margins have been contracting on all fronts. Gross margin fell by 20ppt while operating and net margins turned negative in 2H08. The margin deterioration was due to the higher operating costs and loss of FFA. Since freight rates are expected to fall, margins may continue to decline in the next two years.

Summary Of Segment Results

Rmbm	2H07	2H08	yoy % chg	2007	2008	yoy % chg
Turnover						
Container shipping	24,862	20,303	(18)	45,786	43,803	(4)
Dry bulk shipping	32,460	32,278	(1)	53,385	71,611	34
Logistics	6,682	7,219	8	12,155	14,313	18
Container terminal	199	316	59	389	612	57
Container leasing	933	900	(4)	1,885	1,757	(7)
Inter-segment	(646)	(626)	(3)	(1,366)	(1,224)	(10)
Total	64,488	60,390	(6)	112,232	130,872	17
Operating profit						
Container shipping	1,042	(711)	n.a.	1,656	292	(82)
Dry bulk shipping	13,944	(4,458)	n.a.	21,489	12,642	(41)
Logistics	108	131	21	276	380	38
Container terminal	180	150	(17)	344	338	(2)
Container leasing	568	442	(22)	976	909	(7)
Others & unallocated	(459)	(60)	(87)	(647)	(118)	(82)
Total	15,383	(4,506)	n.a.	24,094	14,443	(40)
Operating margin (%)						
Container shipping	4.2	-3.5		3.6	0.7	
Dry bulk shipping	43.0	-13.8		40.3	17.7	
Logistics	1.6	1.8		2.3	2.7	
Container terminal	90.9	47.4		88.5	55.2	
Container leasing	60.9	49.1		51.8	51.8	
Total	23.9	-7.5		21.5	11.0	

Source: China COSCO, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2006	2007	2008	2009F	2010F
Turnover	78,856	112,233	130,872	95,471	83,942
EBIT	10,763	24,094	14,443	1,075	1,783
Pre-tax Profit	11,483	26,113	15,670	1,504	2,463
Net Profit	8,292	19,482	11,617	564	1,367
EPS (Rmb)	1.04	2.18	1.14	0.06	0.13

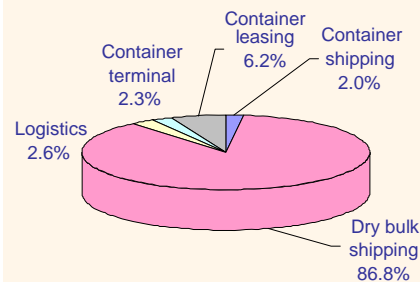
Balance Sheet

Year to 31 Dec (Rmbm)	2006	2007	2008	2009F	2010F
Current Assets	25,828	54,558	44,156	16,803	11,444
Total Assets	81,709	117,360	118,413	99,718	99,214
Current Liabilities	25,135	43,178	28,565	28,658	27,684
Long-Term Liabilities	13,168	17,025	27,602	23,975	20,638
Shareholders' Funds	34,719	46,600	52,492	47,085	50,893
Total Equity & Liabilities	81,709	117,360	118,413	99,718	99,214

Cash Flow

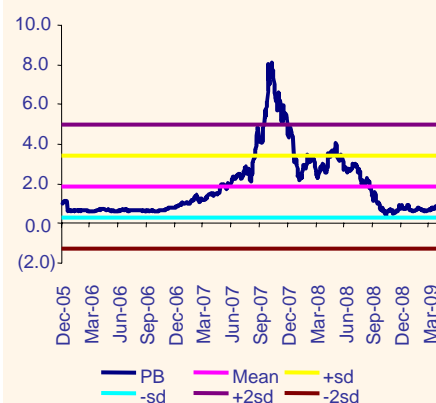
Year to 31 Dec (Rmbm)	2006	2007	2008	2009F	2010F
Operating	10,696	24,157	25,391	6,771	8,151
Investing	(1,119)	(20,456)	(22,560)	(15,009)	(9,847)
Financing	(10,982)	23,709	(7,519)	(17,290)	(1,456)
Net Cash Inflow/(Outflow)	(1,406)	27,410	(4,688)	(25,528)	(3,153)
Begin Cash & Cash Equiv.	12,421	10,912	37,625	31,582	5,326
End'g Cash & Cash Equiv.	10,912	37,595	31,582	5,326	1,237

Operating Profit Breakdown In 2008



Source: China COSCO, UOB Kay Hian

P/B



Source: Bloomberg, UOB Kay Hian

China Life Insurance

1Q09: Results up 55% yoy, earnings in full recovery mode

1Q09 net profit came in at Rmb5.4b, up 55% yoy. Strong growth was underpinned by MTM gains on trading portfolio as stock market recovered. Affirms our view that earnings are now in full recovery mode.

Results

Year to 31 Dec	1Q09 (Rmbm)	yoy % chg	Remarks
Net premium income	103,429	1.8	Flat premium growth largely due to restructuring of premium composition toward higher-margin agency-driven products
Net investment inc.	11,672	(22.7)	Due to decrease in interest income from debt investments
Fair value gains	841	-	MTM gains on trading portfolio as stock market recovered in 1Q09
Increase of insurance reserves	(56,883)	29.7	Due to increase in renewal business
Policyholder dividends	(2,906)	138.0	Increased policyholder dividends on recovery in capital markets
Net Profit	5,387	55.1	Recovery in capital markets reversed fair value investment gains achieved in 1Q08

Source: UOB Kay Hian

Stock Impact

China Life Insurance (China Life) reported a strong set of 1Q09 results, with net profit rising 55% yoy to Rmb5.4b. The results are reported under PRC GAAP and cannot be directly translated into IFRS. Thus, it is difficult to extrapolate interim results from China Life's reported 1Q09 numbers.

Not surprisingly, China Life reported a strong turnaround in its investment portfolio, reporting a fair value gain of Rmb841m for 1Q09 vs a loss of Rmb5.5b for 1Q08. The strong turnaround was underpinned by the 26% rise in the A-share market this year. However, investment income fell noticeably by 22.7% yoy, on what we believe to be lower interest income from China Life's bond portfolio. This caused China Life's annualised investment yield to decline to 4.22%, down from 4.96% for 2008.

China Life demonstrated exceptional cost control as administrative expenses saw flat growth yoy. Policy surrenders also decreased 24.3%, reflecting China Life's strong product mix and insulation to movements in capital markets. Insurance reserves increased 29.7% even as premium growth remained stagnant, largely due to an increase in renewal business, which does not count toward new premium growth.

Earnings Risk

The key risks facing China Life continues to be the performance of the A-share market and a prolonged period of low interest rates.

CHINA

China Life Insurance (2628 HK)

BUY

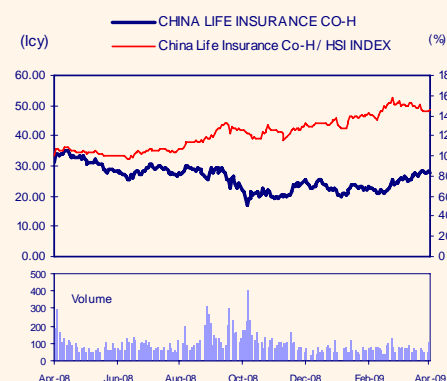
Current Price: HK\$27.35

Target Price: HK\$31.30

Sector	Insurance
52-Wk Avg Daily Vol. (m)	82.5
Market Cap (HK\$m)	758,764
(US\$m)	97,277
Major Shareholders (%)	
China Life Insurance (Group)	68.4
Book NTA per Share (Rmb)	6.39
ROE (%)	11.0

Results Due	
Interim	August
Final	April

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Net Earned Premium (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmbm)	EPS Growth (%)	PE (x)	P/EV (x)	DPS (Rmb)	Yield (%)
2007	111,404	44,982	38,879	1.38	94.8	17.9	2.8	0.42	1.7
2008	140,331	24,395	21,125	0.75	-45.7	33.0	2.9	0.22	0.9
2009F	168,504	30,332	25,965	0.92	22.9	26.8	2.6	0.28	1.1
2010F	200,875	37,737	31,928	1.13	23.0	21.8	2.2	0.34	1.4
2011F	239,560	45,493	38,037	1.35	19.1	18.3	1.8	0.40	1.6

Consensus Net Profit – FY09: Rmb26,840m
 – FY10: Rmb32,296m

Recommendation

China Life's 1Q09 results reaffirm our view that earnings are undergoing a very strong recovery this year following a lacklustre year in 2008 caused by the steep plunge in the stock market. One area of concern is the 22.7% decline in net investment income. However, net income is likely to stabilise as the full impact of the People's Bank of China's series of rate cuts in 4Q08 have been fully reflected in 1Q09. On the other hand, the recovery in capital markets will underpin a sharp turnaround in fair value gains due to MTM gains on China Life's trading portfolio.

Although premium growth was largely flat on a yoy basis, the structure of premium growth was much healthier in 1Q09 as China Life focused on its agency-driven products and shifted away from bancassurance. A shift in premium structure towards regular premium products will also result in a greater contribution to China Life's embedded value. However, China Life does not disclose its embedded value in its quarterly reports.

We continue to remain positive on Chinese life insurers as we believe strong earnings growth will continue as life insurers rebound from their dismal 2008 figures. China Life is trading at 2.7x 2009 P/EV and 26.8x 2009 PE. While we continue to like China Life and maintain our BUY rating, we slightly favour Ping An (2.3x 2009 P/EV, 21.4x PE) on cheaper valuations. China Life continues to be the most defensive life insurer in China due to its pure domestic exposure and dominant rural business. Thus, it commands premium valuations in times of turmoil. However, with the Chinese life insurance sector in full recovery mode and many of the previous headwinds having subsided, Ping An may narrow its valuation gap with China Life.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
NEP	111,404	135,169	168,504	200,875	239,561
Net Investment inc	44,020	44,050	34,973	44,370	56,031
Total expenses	(146,390)	(144,235)	(177,491)	(220,359)	(267,443)
Net profit	38,879	21,414	25,965	31,928	38,031
EPS	1.42	0.75	0.92	1.13	1.31

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Investment Assets	850,209	879,239	1,306,325	1,592,419	1,926,161
Total Assets	929,421	1,044,828	1,397,776	1,691,525	2,034,201
Total Liabilities	727,328	863,255	1,198,678	1,450,522	1,731,151
Equity	205,500	181,573	198,253	239,979	301,761

Global Bio-chem

2008: Disappointing results again, outlook remains clouded

Global Bio-chem's (GBC) 2008 results missed expectation with net profit down 34% yoy due to hike in corn cost. We cut 2009-10 EPS forecasts by 27-29% on lower product prices. Maintain SELL.

2008 Results

Year to 31 Dec	2007 (HK\$m)	2008 (HK\$m)	yoy % chg	Remarks
Turnover	6,797	8,810	30	Higher ASPs, sales volume growth
Gross profit	1,596	1,751	10	
EBITDA	1,739	1,537	(12)	Drop in gross margin
EBIT	1,361	1,064	(22)	
Pre-tax profit	1,095	704	(36)	
Tax	(115)	(31)	(73)	
Net profit	943	622	(34)	
EPS (HK\$)	0.407	0.268	(34)	
Gross margin (%)	23.5	19.9	-3.6ppt	Hike in corn cost
EBITDA margin (%)	25.6	17.4	-8.1ppt	
EBIT margin (%)	20.0	12.1	-7.9ppt	
Pre-tax margin (%)	16.1	8.0	-8.1ppt	
Net margin (%)	13.9	7.1	-6.8ppt	

Source: Global Bio-chem

2008 Results

Despite a 30% yoy growth in turnover, net profit dropped 34% yoy to HK\$622m in 2008 due to a hike in corn cost.

Gross margin and EBIT margin fell 3.6ppt yoy and 7.9ppt yoy to 19.9% and 12.1% respectively.

Once again, the Group had negative free cash flow of HK\$600m last year (operating cash flow: HK\$600m, capex: HK\$1.2b).

Financials deteriorated further with net debt soaring 45% yoy to HK\$4.03b and interest coverage dropped from 5.1x to 3x.

Due to worsening financial position and poor results, the Group cut dividend by 17% yoy to HK2.5 cents/share (interim: HK1.5 cents, final: HK1.0 cents).

Stock Impact

We expect the Group's profit to be squeezed by a slump in lysine prices and the rebound in corn prices this year. Prices of lysine and protein lysine dropped from Rmb14,000/tonne and Rmb8,000/tonne in Sep 08 to Rmb10,000/tonne and Rmb6,000/tonne recently, hit by weakened demand and intense competition. Due to the depreciation of the Korean Won, Korean lysine suppliers aggressively cut prices to capture market share in Asia. The newly-launched polyols project will not contribute significantly to profit. We project net profit to drop 22% yoy in 2009 and remain flat in 2010-11.

CHINA

Global Bio-chem (809.HK)

SELL

Current Price: HK\$1.38

Fair Price: HK\$0.65

(Previous: HK\$2.10)

Sector	Agriculture
52-Wk Avg Daily Vol. ('000)	4,820
Market Cap (HK\$m)	3,200
(US\$m)	410

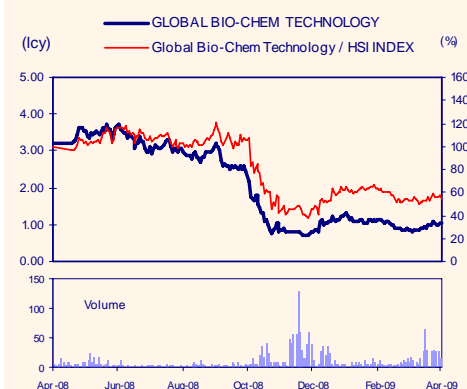
Major Shareholders (%)	
Liu Xiaoming	15.49

Book NTA per Share (HK\$)	3.03
ROE (%)	9.0
Net Debt per Share (HK\$)	1.74

Results Due

Interim:	Sep
Final:	Apr

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (HK\$)	Yield (%)
2007	6,797	1,739	943	0.407	88	3.4	4.1	0.030	2.2
2008	8,810	1,537	622	0.268	(34)	5.1	4.2	0.025	1.8
2009F	8,093	1,375	483	0.208	(22)	6.6	4.4	0.023	1.6
2010F	8,285	1,439	502	0.217	4	6.4	4.3	0.024	1.7
2011F	8,356	1,503	513	0.221	2	6.2	4.2	0.024	1.8

Consensus Net Profit – FY08: HK\$663m
– FY09: HK\$767m

Earnings Risk

Any further drop in lysine prices would substantially hurt the Group's earnings. On the other hand, corn prices are still high. If corn prices increase, the Group's profit would also be dampened.

Valuation/Recommendation

We remain bearish on GBC given the Group's weak financial position, the inability to pass through the cost hike under intense competition, as well as the upward pressure on corn prices. The stock is trading at 6.6x 2009F PE, much higher than 3.5x for Xiwang Sugar and 2.6x for Luzhou Chemical. Maintain SELL with a fair price of HK\$0.65 based on 3x 2010F PE, on a par to its domestic peers.

Profit & Loss

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	6,797	8,810	8,093	8,285	8,356
EBIT	1,361	1,064	909	936	953
Pre-tax Profit	1,095	704	585	612	629
Net Profit	943	622	483	502	513

Balance Sheet

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	4,666	5,304	5,457	5,502	5,374
Total Assets	13,398	15,442	15,196	15,737	16,259
Current Liabilities	3,264	5,297	7,007	7,059	7,078
Long-Term Liabilities	3,141	2,123	160	160	160
Shareholder Funds	6,463	7,388	7,448	7,897	8,354
Total Equity & Liabilities	13,398	15,442	15,196	15,737	16,259

Cash Flow

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	486	600	1,407	1,307	1,390
Investing	(610)	(1,200)	(661)	(958)	(1,159)
Financing	516	87	(373)	(385)	(387)
Net Cash In/(Out) Flow	392	(513)	373	(35)	(157)
Begin Cash & Cash Equiv.	1,630	2,022	1,509	1,882	1,847
End'g Cash & Cash Equiv.	2,022	1,509	1,882	1,847	1,690

Jiangxi Copper

Moves to improve management of hedging risk

Improvement in qoq results and move to strengthen hedging risk management have prompted us to upgrade the stock to a HOLD - despite dismal 1Q09 results and 1H09 profit warning.

1Q09 Results (Based on PRC accounting standards)

Year to 31 Dec	1Q09 (Rmbm)	yoy % chg	qoq % chg	Remarks
Turnover	9,886	(28.0)	(20.5)	Fall in product prices
Gross profit	401	(83.5)	(59.0)	Use of high-cost COGS
Operating profit	204	(89.4)	n.a.	
Pre-tax Profit	208	(89.2)	n.a.	Rise in investment income
Net Profit	152	(89.3)	n.a.	
Margins (%)				
Gross	4.1	(13.6)	(3.8)	
Operating	2.1	(12.0)	18.3	
Net	1.5	(8.8)	12.9	

Source: Jiangxi Copper

Results

Jiangxi Copper's (JC) net profit fell 90% yoy to Rmb152m – only 12% of the full-year consensus estimate of Rmb1.3b – based on PRC accounting standards. It issued a profit warning that its 1H09's net profit will fall by > 50% if product prices fail to rise substantially in 2Q09.

Stock Impact

After falling by as much as 3.6% at one point in morning trade because of the dismal results triggered by a 54% yoy fall in copper price to US\$3495/tonne, and a profit warning, JC's share price ended yesterday 2.7% higher.

The rebound reflects investors' confidence in improving copper fundamentals. JC - which is the most obvious copper play listed in Hong Kong - is seen by investors as the best bet on industrial metal, regardless of its inept hedging history.

Qoq improvement. JC's improving quarterly performance reflects improving copper fundamentals and no hedging loss. After losing Rmb1.4b in 4Q09 largely because of wrong bets on the direction of copper through derivatives, it turned around in 1Q09.

Quarterly Results (Based on PRC accounting standards)

Year to Dec	1Q08	2Q08	3Q08	4Q08	1Q09
Gross margin	18%	12%	12%	8%	4%
Operating margin	14%	14%	9%	-16%	2%
Net margin	10%	10%	6%	-11%	2%

Source: Jiangxi Copper

CHINA

Jiangxi Copper (358 HK)

UPGRADE TO HOLD

Current Price: HK\$8.84

Fair Price: HK\$10.00

(Previous: HK\$6.40)

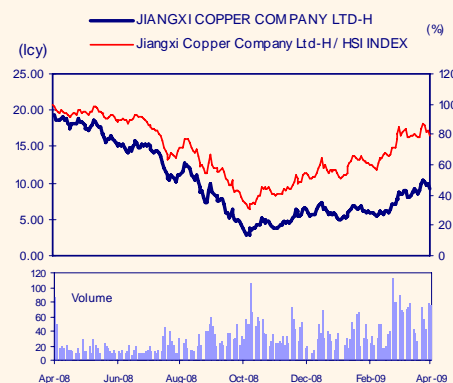
Sector	Metal
52-Wk Avg Daily Vol. (m)	30.8
Market Cap (HK\$bm)	57.6
(US\$b)	7.4

Major Shareholders (%)	
Jiangxi Copper Corporation	42.4

Book NTA per Share (Rmb)	6.87
ROE (%)	10.8
Net Debt per Share (Rmb)	0.20

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

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (Rmb)	Yield (%)
2007	43,169	6,523	4,534	1.54	(5.2)	5.1	5.7	0.30	3.9
2008	53,693	3,765	2,285	0.76	(50.8)	10.3	7.8	0.08	1.0
2009	29,050	2,550	1,137	0.38	(50.2)	20.7	12.1	0.09	1.2
2010F	29,932	2,768	1,278	0.42	12.4	18.4	11.2	0.11	1.4
2011F	32,026	3,148	1,520	0.50	18.9	15.5	9.8	0.13	1.6

Consensus Net Profit – FY08: Rmb1,310.5m
– FY09: Rmb1,795.7m

Even without the Rmb147m gain from the derivatives taken out in 4Q08 and unwound in 1Q09, it would still be an improvement on a qoq basis.

New hedging team installed. The company has recently taken two moves to try to improve the management of its hedging policy. It has installed a new team to run its hedging department, headed by the Director of Finance, Gan Chengjiu. Independent sources said the old team was replaced partly because of the derivative losses of Rmb1.3b incurred last year, although management officially said it was a routine personnel transfer. (It ought to have made robust hedging gains last year – especially in 4Q08 when copper prices fell by more than 40% - but ended up with losses of about Rmb1.4b). JC has also appointed one of its executive directors to head a new risk management unit to co-ordinate its hedging policy with the new team.

Stronger copper price assumption. Spot copper price has risen 42% ytd mainly because of re-stocking by China's end-users and the State Reserve Bureau (SRB). We think the re-stocking by end-users has ended, which can be seen by the disappearance of the premium of China's spot copper price to that of the London Metal Exchange. It has fallen about 5.5% in a matter of days on rumours that the SRB is selling recently acquired stockpiles to dampen prices to try and buy back at lower prices (SRB is reportedly trying to buy up to 500,000 tonnes of copper).

Its move is unlikely to succeed as BHP Billiton has warned that its copper output in Chile will fall by 30% for the year ending June because of lower ore grades and electrical faults. The 30% cut amounts to about 360,000 tonnes, about the estimated surplus in 2009. Its supply cut should help to support copper prices at the current level of about US\$4,550/tonne.

Valuation/Recommendation

We raise our 2009 copper price assumption by about 4.7% to US\$4,420, triggering a 27% rise in our 2009 net earnings (a 1% rise in copper price will lift net earnings by 5.8%).

Rating raised to HOLD and fair price to HK\$10. Stronger copper prices, moves to improve its hedging risk strategies, and the qoq results improvement lead us to raise the stock from SELL to HOLD.

We raise the fair value of the stock to HK\$10, or about 1.15x 2010 P/B of Rmb7.62 - 15% lower than the P/B of 1.33x in a recovery phase to reflect a management discount until there is further strong evidence that the new hedging team performs. We recommend an entry price of about HK\$8.50.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	43,169	53,693	29,050	29,932	32,026
EBIT	5,921	3,563	1,804	1,974	2,327
Pre-tax Profit	5,509	2,998	1,543	1,735	2,062
Net Profit	4,534	2,285	1,137	1,278	1,520

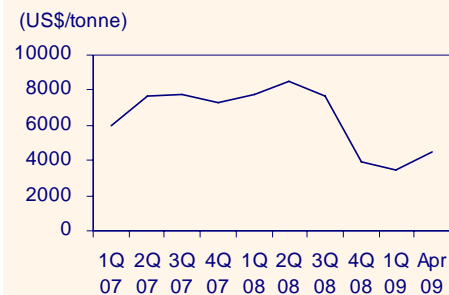
Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	20,790	18,092	17,576	18,685	20,397
Total Assets	35,131	34,505	35,255	37,130	38,936
Current Liabilities	14,100	8,163	7,789	8,648	9,266
Long-Term Liabilities	811	147	177	212	233
Shareholder Funds	19,544	20,752	21,657	22,616	23,756
Total Equity & Liabilities	35,131	34,505	35,255	37,130	38,936

Cash Flow

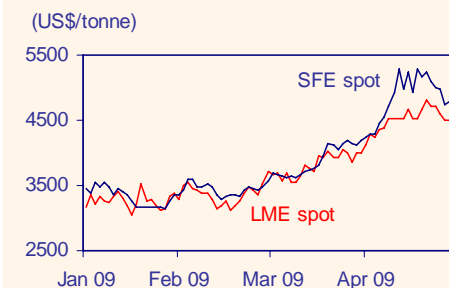
Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	1,586	7,486	946	1,921	1,787
Investing	(3,136)	(4,825)	(1,872)	(1,410)	(754)
Financing	3,605	(1,784)	258	212	(210)
Net Cash In/(Out) Flow	2,055	876	(669)	723	823
Begin Cash & Cash Equiv.	2,055	876	(669)	723	823
End'g Cash & Cash Equiv.	3,068	3,945	3,276	4,000	4,822

Copper Price Recovering



Source: Bloomberg

Shanghai Copper Premium Disappears



Source: Bloomberg

Risks

Further margin erosion, sector de-rating and massive economic slowdown in China.

Valuation / Recommendation

After the share price rally, KM is now trading at 8.7x 2009 PE and 7.4x 2009 PE. Given its better product mix, KM continues to outperform its peers during the downturn. **Downgrade KM from BUY to HOLD** based on its current valuation and our view that positives have somewhat been priced in. There is no near-term catalyst. We set our new fair price at HK\$4.58 at 10x 2009 PE, about 50% discount to the industry average of 20x. Re-entry at HK\$3.70.

Peer Comparison

Company	Ticker	Price (LC)	----- PE (x) -----		P/B (x)
			09F	10F	
Kunming Machine	300 HK	4.38	8.7	7.4	2.1
Shenyang Machine Tool	000410 CH	7.4	110.4	50.7	3.2
Qinchuan Machinery	000837 CH	6.88	24.2	17.2	2.9
Qinghai Huading	600243 CH	6.91	-	-	2.7
Tianma Bearing	002122 CH	33.87	26.1	20.8	8.8
Huadong Automation	002248 CH	20.7	29.5	22.1	4.9

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	1,260	1,523	1,235	1,478	1,760
EBIT	298	321	227	263	321
Pre-tax Profit	297	319	223	263	323
Net Profit	241	277	195	230	282

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	1,171	1,319	1,337	1,761	2,144
Total Assets	1,765	1,910	1,939	2,265	2,654
Current Liabilities	742	793	661	777	911
Long-Term Loans	153	85	90	96	103
Shareholders' Funds	869	1,031	1,188	1,391	1,638
Total Equity & Liabilities	1,765	1,910	1,939	2,264	2,654

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	316	112	131	297	360
Investing	(46)	(80)	(37)	(40)	(43)
Financing	(67)	(120)	(68)	(31)	(40)
Net Cash Inflow/(Outflow)	203	(88)	26	225	277
Begin Cash & Cash Equiv.	207	410	321	347	572
End'g Cash & Cash Equiv.	410	321	347	572	849

Tianjin Port Development

2008: Disappointing net profit; maintain SELL

TPD's 2008 net profit plunged 45.8% yoy to HK\$130m, well below our forecast and market consensus. Its margins, ROE and ROA fell sharply and remain the lowest among peers. Unattractive valuation. Maintain SELL.

2008 Results

(HK\$m)	2H07	2H08	yoy % chg	2007	2008	yoy % chg
Revenue	621	637	2.5	1,194	1,259	5.5
Gross profit	293	230	(21.3)	596	531	(10.9)
Operating profit	140	2	(98.8)	270	181	(33.1)
Taxation	(23)	(11)	(52.5)	(47)	(50)	6.9
Net profit	123	(10)	n.a.	240	130	(45.8)
Recurrent net profit	112	17	(84.6)	230	115	(49.8)
EPS (HK\$)	0.069	(0.006)	n.a.	0.135	0.073	(45.8)
Profitability (%)						
Gross margin	47.1	36.2	(10.9)	49.9	42.2	(7.7)
Operating margin	22.5	0.3	(22.2)	22.6	14.4	(8.3)
Net margin	19.7	(1.6)	(21.4)	20.1	10.3	(9.8)
Net margin (Recurrent)	18.0	2.7	(15.3)	19.3	9.2	(10.1)

Source: TPD, UOB Kay Hian

Results

Tianjin Port Development (TPD) 2008 revenue rose 5.5% yoy to HK\$1,259m but net profit dropped 45.8% yoy to HK\$130m, well below our forecast and market expectations. The disappointing net profit figure was mainly due to: a) margin erosion, and b) provision for impairment losses on financial assets (HK\$25m). Excluding exceptionals, net profit was down 49.8% yoy to Rmb115m in 2008.

For 2H08, core net profit plunged 84.6% yoy to HK\$17m. While 4Q09 was the worst quarter for port operators last year, the port companies under our coverage registered a net profit decline of about 11-85% yoy in 2H08. Among those companies, TPD saw the steepest decline during the period.

Stock Impact

Falling margins and profitability. In light of the higher proportion of empty boxes amid weakening external demand, TPD's margins, ROE and ROA have been declining on all fronts. Gross, operating and net margins contracted by 10.9ppt, 22.2ppt and 21.4ppt respectively in 2H08. ROE also deteriorated from 7.5% in 2007 to 3.7% in 2008.

Earnings Revision

Given the worse-than-expected margins and net profit, we cut our net profit forecasts by 48% and 38% for 2009 and 2010 respectively.

Valuation/Recommendation

The stock is trading at 38.8x 2009 PE (historical average of 27.5x PE) and 1.0x 2009 P/B (historical average of 1.96x P/B), at a premium over its peers' average P/B. Its valuation appears unattractive. Maintain SELL. The key risk to our recommendation is the merger with Tianjin Port Holdings (600717.SS).

CHINA

Tianjin Port Development (3382.HK)

SELL

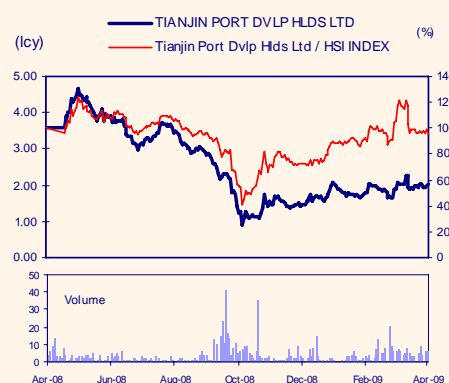
Current Price: HK\$2.06

Fair Price: HK\$1.05

Sector	Transport
52-Wk Avg Daily Vol. ('000)	3,637
Market Cap (HK\$m)	3,681
(US\$m)	472
Major Shareholders (%)	
Tianjin Development	67.3
Book NTA per Share (HK\$)	1.9
ROE (%)	3.7
Net Debt per Share (HK\$)	0.64

Results Due	
Interim	September
Final	April

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (HK\$)	Yield (%)
2006	1,036	316	304	0.20	52.0	10.3	8.9	0.03	1.3
2007	1,194	373	240	0.13	-32.6	15.3	25.4	0.05	2.6
2008	1,276	296	236	0.07	-45.8	28.3	20.4	0.03	1.5
2009F	1,213	186	184	0.05	-27.1	38.8	25.0	0.02	1.0
2010F	1,235	187	229	0.08	48.7	26.1	26.5	0.03	1.5

Consensus Net Profit – FY08: HK\$232m
– FY09: HK\$178m

Average container charges dragged by empty boxes. As a result of higher proportion of empty and domestic boxes, average container handling charges/TEU declined to HK\$279. Total container throughput remained flat at 2.77m TEUs. As such, TPD's container handling revenue (61.4% of its total turnover) edged down 2.2% yoy to HK\$773m.

Container Handling Business

Group (ex. Alliance)	2007	2008	% yoy
Throughput (m TEUs)	2.76	2.77	0.0
Revenue (HK\$m)	791.0	773.2	(2.2)
Avg. Unit Price (HK\$)	286.4	279.0	(2.6)

Source: TPD, UOB Kay Hian

Bulk cargo revenue boosted by average unit price. In 2008, revenue generated from bulk cargo (36.7% of TPD's total turnover) rose 19.8% yoy to HK\$462.6m, driven by volume growth in imported grains and rising average handling charges. However, given the abolishment of the export rebate for certain steel products coupled with weakening steel demand, we expect steel handling volume to continue to decline this year.

Bulk Cargo Handling Business

	2007	2008	% yoy
Throughput (m tones)	13.0	13.1	0.0
Revenue (HK\$m)	386.2	462.6	19.8
Avg. Unit Price (HK\$)	29.7	35.3	18.9

Source: TPD, UOB Kay Hian

Market share has been rising. TPD's container handling market share in Tianjin climbed to 51.7% after the acquisition of Alliance was completed in 2008. Going forward, TPD's market share will continue to rise in the next two years because Euroasia is expected to commence operations by the end of 2009 or early 2010.

Profit & Loss

Year to 31 Dec (HK\$m)	2006	2007	2008	2009F	2010F
Turnover	1,036	1,194	1,276	1,213	1,235
EBIT	231	270	279	180	183
Pre-tax Profit	341	288	288	231	295
Net Profit	304	240	236	184	229

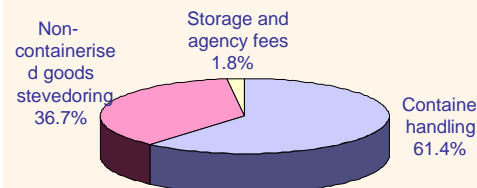
Balance Sheet

Year to 31 Dec (HK\$m)	2006	2007	2008	2009F	2010F
Current Assets	1,010	592	886	963	944
Total Assets	3,527	3,907	5,208	5,510	5,882
Current Liabilities	525	123	473	1,164	1,397
Long-Term Liabilities	-	390	1,000	500	500
Shareholder Funds	2,998	3,390	3,735	3,846	3,985
Total Equity & Liabilities	3,527	3,907	5,208	5,510	5,882

Cash Flow

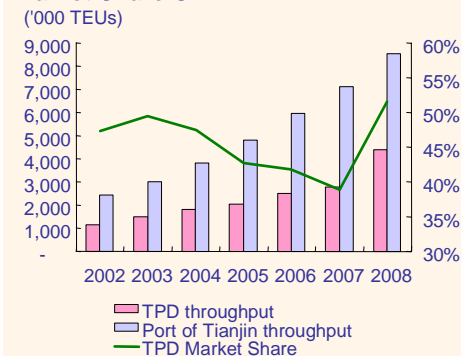
Year to 31 Dec (HK\$m)	2006	2007	2008	2009F	2010F
Operating	291	322	322	291	313
Investing	(693)	(1,027)	(970)	(150)	(300)
Financing	1,046	173	896	(36)	(44)
Net Cash In/(Out) Flow	644	(532)	248	105	(31)
Begin Cash & Cash Equiv.	48	692	160	408	514
End'g Cash & Cash Equiv.	692	160	408	514	482

Revenue Breakdown (TPD)



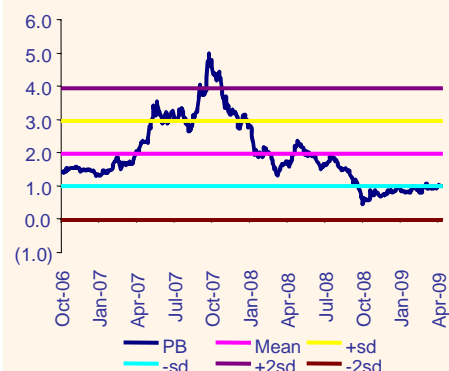
Source: TPD, UOB Kay Hian

Market Share Of TPD



Source: TPD, UOB Kay Hian

P/B



Source: Bloomberg, UOB Kay Hian

ZTE Corporation

Downgrade due to overseas sales uncertainty and valuation

Concern over near-term overseas sales and recent share price rally prompt us to downgrade our recommendation, but the tough environment provides good opportunity for ZTE to increase its overseas penetration.

1Q09 Results

Year to 31 Dec (Rmbm)	1Q09	1Q08	yoy % chg	Remarks
Revenue	11,670.2	8,644.5	35.0%	Intl. sales down 10% and contribution do 40%
Gross Profit	4,012.8	3,061.4	31.1%	
Pre-tax Profit	165.1	120.6	36.9%	Strict cost control, but net financing cost Rmb393m, including Rmb200 forex loss
Net income	78.7	60.9	29.2%	
Gross Margin	34.4%	35.4%	-1.0ppt	High tax rate due to seasonality, with 16-annual target
Pre-tax Margin	1.4%	1.4%	-	
Net Margin	0.7%	0.7%	-	Selling margin improved 2.2ppt to 13.0%

Source: ZTE, UOB Kay Hian

Results

Net profit up 29.2%. The 35% rise in revenue was mainly driven by equipment and handset orders from domestic operators. In the overseas markets, sales in developed Asian countries showed a considerable decline while sales in other markets remained stable.

Overall gross margin remained stable at a level that is still 2.7ppt above our annual margin assumption, with the carrier network segment showing the largest decline of 5ppt yoy to 37.5%. Effective cost control and increasing economies of scale helped ZTE keep its pre-tax and profit margins stable even as it incurred a significant increase in finance charges.

Stock Impact

Management expects new 3G orders and recognition of unfinished contracts to enable ZTE to report strong domestic sales growth in the rest of the year.

Tough market provides opportunity for penetrating developed markets. We believe the near-term overseas sales growth will depend on the recovery of the global economy and operators' willingness to spend. Management indicates it will step up efforts to explore the US and European markets and plans to achieve breakthroughs and obtain significant orders in the region. National Development Bank's US\$15b credit facilities for vendor financing may help ZTE achieve the goal in the current tough market.

A significant decline in forex, including the euro and rupee, caused ZTE to post Rmb200m forex loss and finance cost to increase 113% to Rmb393m. Management expects forex rate to stabilise for the rest of the year and thereby help control the finance cost.

Earnings Revision

Maintain our forecasts but adjust our per share data correspondingly to reflect the three-for-10 bonus share issue.

CHINA

ZTE Corporation (763 HK)

DOWNGRADE TO HOLD

Current Price: HK\$28.15

Fair Price: HK\$27.00

(Previous: HK\$25.40)

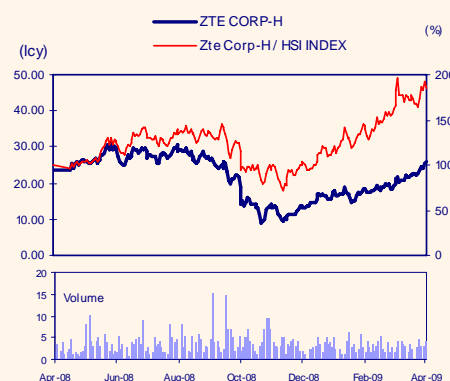
Sector	Telecom
52-Wk Avg Daily Vol. (m.)	3.3
Market Cap (HK\$m)	55,699
(US\$m)	7,187

Major Shareholders (%)	
Zhongxingxin	35.1

Book NTA per Share (HK\$)	7.8
ROE (%)	10.9
Net Debt per Share (HK\$)	0.0

Results Due	
Interim	Aug
Final	Mar

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	34,777	2,646	1,252	0.72	52.7	34.1	26.4	0.14	0.6
2008	44,293	3,591	1,660	0.95	32.6	25.7	19.2	0.30	1.2
2009F	56,863	4,494	2,128	1.22	28.2	20.1	15.1	0.37	1.5
2010F	65,176	5,379	2,662	1.48	21.6	16.5	12.4	0.44	1.8
2011F	76,276	6,519	3,431	1.85	24.6	13.2	10.2	0.55	2.3

Consensus Net Profit – FY09:Rmb2,238m
 – FY10:Rmb2,591m

Recommendation

With its pricing advantage and strong domestic sales, ZTE has proven it can outperform global peers in the tough economic environment (Nokia and Ericsson reported 26.7% and 35.0% sales decline in 1Q09). However, given the uncertainty in overseas market development and significant rally in share price recently, we downgrade our recommendation to HOLD with a fair value of HK\$27.00 based on 19.5x 2009F PE (average of global peers), which implies a 26.2% discount to our HK\$36.60 DCF fair value (10.5% WACC and 2.0% terminal growth). Our entry price is HK\$24.50.

Peer Comparison

Company	Price (LC) (LC)	Market Cap (US\$m)	PE (x)		
			2008F	2009F	2010F
APPLE INC	121.51	108,376	23.3	23.0	20.2
CISCO SYSTEMS INC	17.44	101,798	11.3	14.0	14.8
ERICSSON LM-B SHS	76.90	29,823	16.9	17.7	13.9
MOTOROLA INC	5.66	12,885	209.6	n.a.	24.8
NOKIA OYJ	11.66	57,021	8.9	18.2	13.2
JUNIPER NETWORKS INC	18.79	9,811	16.0	24.7	19.2
		Average	47.7	19.5	17.7
ZTE CORP-H	28.15	7,187	19.7	20.0	17.6
CHINA COMM SERVI-H	4.62	3,441	17.5	13.8	12.3

Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	34,777	44,293	56,863	65,176	76,276
EBIT	2,032	2,933	3,737	4,524	5,582
Pre-tax Profit	1,728	2,263	2,931	3,675	4,749
Net Profit (Rmb)	1,252	1,660	2,128	2,662	3,431

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	32,293	44,050	51,979	53,938	58,987
Total Assets	40,978	52,229	63,383	65,201	71,559
Current Liabilities	22,743	31,360	35,259	34,831	39,093
Long-Term Liabilities	2,085	4,807	7,068	6,716	5,532
Shareholder Funds	12,137	14,250	16,651	19,843	22,257
Total Equity & Liabilities	40,978	52,229	63,383	65,201	71,559

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	(342)	2,687	2,098	1,987	2,767
Investing	(1,656)	(1,857)	(1,542)	(1,510)	(1,510)
Financing	4,157	4,473	2,234	118	(2,200)
Net Cash In/(Out) Flow	2,159	5,303	2,790	595	(943)
Begin Cash & Cash Equiv.	4,142	6,310	11,613	14,403	14,998
End'g Cash & Cash Equiv.	6,310	11,613	14,403	14,998	14,055

China Yurun

Suspend coverage due to product scandal

Yurun's canned meat was reported to have a harmful chemical. Until we have more reliable information to gauge the potential damage, our previous rating and earnings forecasts should not be relied on. Suspend coverage.

Corporate Events

On 23 April, the local media reported that the chemical Celenbuterol (CLE) was found in the "canned meat" (one of the HTMP products) produced by China Yurun's (Yurun) Fuyang, Anhui plant. All the canned meat produced by this plant has been recalled and nobody has been found to be suffering after consuming the product.

Stock Impact

Investigation of all categories of products is likely as raw materials were polluted. As CLE can improve the lean meat percentage and help animals grow faster, some farmers illegally use the CLE as feedstock for pigs. As pork was the major raw material for producing chilled pork, frozen pork and processed meat (HTMP and LTMP products), and the source of contamination was found at the point of raw meat collection, our concern has expanded to all products produced by Yurun instead of just HTMP products. We expect a major food safety and quality investigation into pork and processed meat products by the relevant government authorities to be launched, as the Chinese government has raised food quality requirements after the milk scandal in 2008. More product quality problems are likely to surface in the near term.

Sales under pressure as consumer confidence needs time to recover. Although only one category of HTMP products has been found to be tainted with CEL and sales of HTMP products accounted for less than 2% of total sales for Yurun in 2008, we believe this scandal will hurt Yurun's sales as consumer confidence in all of Yurun's HTMP products is likely to be hurt. As such, consumers will lower their consumption of Yurun's products and might switch to products from other companies, which will have a negative impact on Yurun's sales in the long term.

Increased operation cost will squeeze margins. It is reported that several supermarkets have started to check other categories of products produced by Yurun and to require distributors to offer quality assurance documents issued by government authorities. We expect this to increase Yurun's operating cost as it will face higher inspection cost. Moreover, Yurun will have to step up efforts in advertising and promotion activities in order to boost sales, preserve reputation and protect market share. The higher marketing expenses will further squeeze operating margins in 2009 and 2010.

CHINA

China Yurun (1068 HK)

UNDER REVIEW

Current Price: HK\$9.44

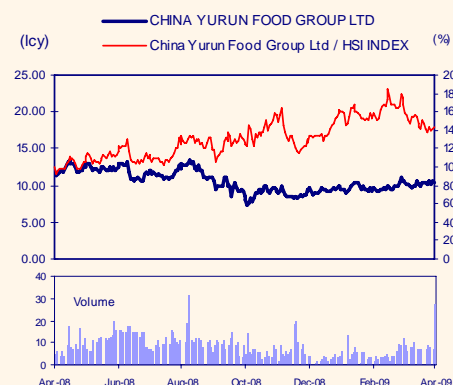
Sector	Consumer
52-Wk Avg Daily Vol. ('000)	7,906
Market Cap (HK\$m)	14,454
(US\$m)	1,853

Major Shareholders (%)	
Mr. Zhu Yicai	44.06%

Book NTA per Share (Rmb)	3.42
ROE (%)	21.7
Net Debt per Share (Rmb)	0.59

Results Due	
Interim: Sep	Final: Mar

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK¢)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS ((HK¢)	Yield (%)
2007	8,635	945	859	58.4	76.4	18.2	18.4	15.6	1.5
2008	13,024	1,304	1,138	74.4	27.3	14.3	14.5	19.0	1.8
2009F	14,794	1,496	1,253	81.9	10.1	13.0	13.0	20.5	1.9
2010F	17,356	1,820	1,451	94.8	15.8	11.2	11.5	23.7	2.2
2011F	19,770	2,082	1,601	104.7	10.4	10.2	9.8	26.2	2.5

Consensus Net Profit – FY09: Rmb1,329.0m
 – FY10: Rmb1,571.5m

Valuation/Recommendation

Share price fell 6% yesterday following reports of the CLE scandal. We have suspended coverage of China Yurun. Until we have more reliable information to gauge the potential damage, our previous rating and earnings forecasts should not be relied on.

Profit & Loss

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	8,635	13,024	14,794	17,356	19,770
EBIT	871	1,174	1,328	1,584	1,819
Pre-tax Profit	912	1,238	1,392	1,648	1,883
Net Profit	859	1,138	1,253	1,451	1,601

Balance Sheet

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	3,406	3,256	2,783	1,657	2,259
Total Assets	6,377	8,321	9,343	10,600	11,959
Current Liabilities	1,043	2,018	2,133	2,301	2,460
Long-Term Liabilities	1,004	1,068	1,035	1,035	1,035
Shareholder Funds	4,331	5,235	6,175	7,263	8,464
Total Equity & Liabilities	6,377	8,321	9,343	10,599	11,959

Cash Flow

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	748	1,004	1,181	1,425	1,606
Investing	(1,315)	(1,259)	(1,363)	(2,463)	(863)
Financing	1,569	(503)	(405)	(318)	(357)
Net Cash In/(Out) Flow	1,002	(757)	(587)	(1,356)	386
Begin Cash & Cash Equiv.	844	1,966	1,209	622	(734)
End'g Cash & Cash Equiv.	1,966	1,209	622	(734)	(348)

Towngas China

Positive on disposal of LPG; but rich valuation

Towngas China has proposed to sell its LPG business, which we believe is positive for the company given the thin margin and high APS volatility. Maintain SELL with fair price raised to HK\$1.70.

Corporate Event

Towngas China has proposed to sell its 70%-owned Panva LPG to Panriver Investment for HK\$414.2m (subject to adjustments; original cost was HK\$245.4m). After the disposal, the company will become a pure city piped-gas play, like Xiniao Gas (2688 HK). The disposal is subject to approvals from the EGM and relevant government authorities.

Stock Impact

Disposal of LPG will improve earnings stability and quality. We believe the disposal is definitely positive for the company given that:

- a) **LPG margins are thin.** In 2006-08, the company's LPG business generated net margin of -1% to -1.5%.
- b) **LPG prices unstable.** LPG prices are usually associated with international oil prices. Last year, retail LPG price dropped by around 20% to Rmb5,000/ton from Rmb6,000/ton.

Obviously, the risk/reward balance for LPG business is very low. Meanwhile, given 62% of Towngas' revenue is in the LPG business, we believe the disposal of the LPG business will greatly reduce the company's earnings uncertainty and improve its stability. The disposal also allows the company to focus on the highly profitable city piped-gas distribution and therefore improving its operational efficiency.

Earnings Risk

Limited impact. Despite significant top-line exposure, we believe earnings contribution from LPG should be limited. The only exception is the 20% earnings contribution in 2008, due largely to relatively higher retail LPG prices and a sharper decline in wholesale LPG price. In our earnings forecasts, we conservatively estimate a 0% net margin from LPG business. Therefore, the disposal has no impact on the company's recurring earnings.

Figure 1: LPG Turnover and Net Profit

Year to 31 Dec	2007			2008		
	Towngas	LPG	% of total	Towngas	LPG	% of total
Turnover (HK\$m)	3,195	2,221	69.5	4,409	2,751	62.5
Net profit (HK\$m)	145	9.5	7.2	202	39.9	20.3
Net margin (%)	4.5	0.4	n.a.	4.6	1.5	n.a.

Source: Towngas, UOB Kay Hian

CHINA

Towngas China (1083 HK)

SELL

Current Price: HK\$1.88

Fair Price: HK\$1.70

(Previous: HK\$1.10)

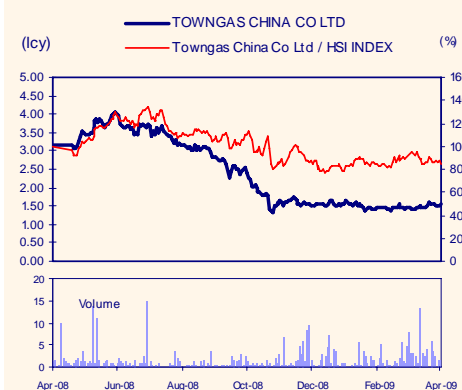
Sector	Gas Distribution
Bloomberg	1083 HK
Reuters	1083.HK
Website	http://www.towngaschina.com/

52-Wk Avg Daily Vol. (m)	1.5
Market Cap (HK\$m)	3,680.2
(US\$m)	474.9

Book NTA per Share (HK\$)	2.2
ROE (%)	3.1
Net Debt per Share (HK\$)	44.7

Results Due	
Interim	August
Final	March

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (HK\$m)	EBITDA (HK\$m)	Net Profit (HK\$m)	EPS (HK\$)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	DPS (HK\$)	Yield %
2007	3,195	501	145	0.08	n/a	22.5	9.2	0.00	0.0
2008	4,409	565	202	0.10	23.4	18.2	7.7	0.01	0.5
2009F	4,159	681	263	0.13	30.4	14.0	6.8	0.01	0.7
2010F	4,643	770	305	0.16	15.9	12.1	5.6	0.02	0.8
2011F	4,897	887	381	0.19	24.7	9.7	4.4	0.02	1.0

Consensus: net profit – FY09: HK\$266.7m
– FY10: HK\$331.9m

Recommendation /Valuation

Given the significantly reduced operational uncertainties associated with the LPG business disposal, we believe the company will no longer enjoy a discount valuation. Our new fair price is HK\$1.70, based on 13x FY09F PE. Maintain SELL.

Peer Comparison

Company	Price 23 Apr 09 (HK\$)	2008 (HK\$)	EPS 2009F (HK\$)	2010F (HK\$)	2008 (x)	PE 2009F (x)	2010F (x)	ROE 2008 (%)	Yield 2008 (%)
Xiniao Gas*	11.0	0.64	0.77	0.94	15.4	12.8	10.6	12.6	1.6
China Gas*	1.50	0.04	0.18	0.12	40.2	8.3	12.7	4.5	1.0
BEHL	34.5	2.00	1.94	2.14	17.2	17.8	16.16	6.7	1.9
HKCG	14.3	0.64	0.60	0.63	22.3	23.9	22.6	13.2	2.4
Towngas China	1.88	0.10	0.13	0.16	18.2	14.0	12.1	3.1	0.5

* China Gas fiscal year ends on 31 March. Xiniao's financials are in Rmb.

Source: Respective companies, UOB Kay Hian

Profit & Loss

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Turnover	3,195	4,409	4,159	4,643	4,897
EBIT	170	209	234	262	307
Pre-tax Profit	241	406	388	446	540
Net Profit	145	202	263	305	381

Balance Sheet

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Current Assets	1,383	1,611	2,143	2,720	3,350
Total Assets	9,115	10,387	10,556	11,195	11,880
Current Liabilities	1,069	1,372	1,443	1,598	1,721
Long-Term Liabilities	1,712	2,101	2,210	2,334	2,451
Shareholder Funds	6,335	6,912	6,903	7,263	7,709
Total Equity & Liabilities	9,115	10,387	10,556	11,195	11,880

Cash Flow

Year to 31 Dec (HK\$m)	2007	2008	2009F	2010F	2011F
Operating	343	426	419	487	547
Investing	(841)	(698)	(333)	(230)	(182)
Financing	622	326	191	106	92
Net Cash In/(Out) Flow	125	55	277	363	456
Begin Cash & Cash Equiv.	614	787	864	1,208	1,665
End'g Cash & Cash Equiv.	787	864	1,208	1,665	2,222

Pacific Basin Shipping

Continues to lock in more revenue amid challenging outlook

PB's 1Q09 trading update was in line with estimates. The company locked in more revenue days amid the volatile and challenging dry bulk market. The disposal of vessels may help to strengthen its balance sheet.

Corporate Events

According to Pacific Basin's (PB) 1Q09 trading update, it had a core handysize fleet of 61 vessels and a handymax fleet of 14 vessels, as of 23 Apr 09. To manage its risk profile and maintain earnings visibility amid the deteriorating global economy, PB has increased the forward coverage for its vessels in 2009 and 2010.

More revenue days fixed. PB secured a higher level of cargo cover to reduce the freight market exposure. As of Apr 09, it has covered 78% of its handysize days at an average rate of US\$15,430/day (US\$29,250/day in FY08) and 121% of its handymax days at US\$31,310/day (US\$44,870/day in FY08) in FY09. In light of the falling freight rates coupled with decreasing revenue days in FY09, we expect PB's turnover to post a significant decline in the next two years.

Declining average freight rates. The average time charter equivalent (TCE) rate for PB's handysize fleet of 61 vessels has dropped from US\$16,950/day to US\$15,430/day (-9% yoy) since 3 Mar 09. However, for the handymax segment, the average TCE rate for the handymax vessels has risen from US\$30,000/day to US\$31,310/day (+4% yoy) since 3 Mar 09.

Improve balance sheet by selling vessels. PB has completed the sale of five dry bulk vessels. One more vessel disposal is scheduled to be completed in 2Q9. The transaction will generate net disposal losses of US\$2.6m in 2009. However, this transaction may de-leverage PB's debt ratio, increase its net cash and hence, improve its balance sheet.

Company outlook. PB foresees a volatile and challenging dry bulk market throughout 2009, which will reflect seasonal swings in demand, possible further deterioration of the global economy and the negative impact of newbuilding deliveries. However, the industrialisation of China and India may lead a correction in the current supply/demand imbalance, and hence, support the dry bulk shipping market.

Dry bulk shipping supply/demand. The dry bulk shipping sector has been hampered by weak demand and vessel overcapacity. On the demand front, total bulk seaborne trade is expected to decline by 0.9% yoy in 2009. Nonetheless, with global fleet growth of 8.5% in 2009 vs a demand contraction of 0.9%, supply-demand imbalance will remain.

Valuation/Recommendation

The stock is trading at 12.1x 2009 PE (historical average of 5.2x PE) and 0.8x 2010 P/B (historical average of 1.8x P/B). Our fair price of HK\$3.20 is equivalent to 0.6x 2010 P/B. Maintain HOLD.

HONG KONG

Pacific Basin Shipping (2343 HK)

HOLD

Current Price: HK\$4.24

Fair Price: HK\$3.20

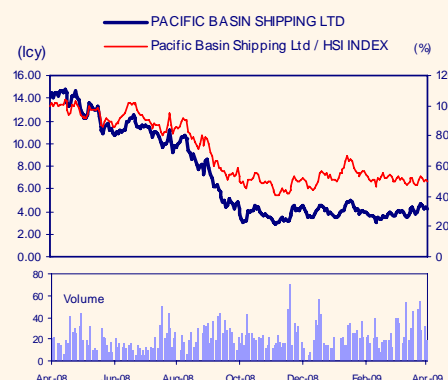
Sector	Transport
52-Wk Avg Daily Vol. ('000)	20,364
Market Cap (HK\$m)	6,029
(US\$m)	773

Major Shareholders (%)	
JPMorgan	7.8

Book NTA per Share (US\$)	0.7
ROE (%)	33.6
Net Cash per Share (US\$)	Net cash

Results Due	
Interim	August
Final	March

Price Chart



Source: Bloomberg

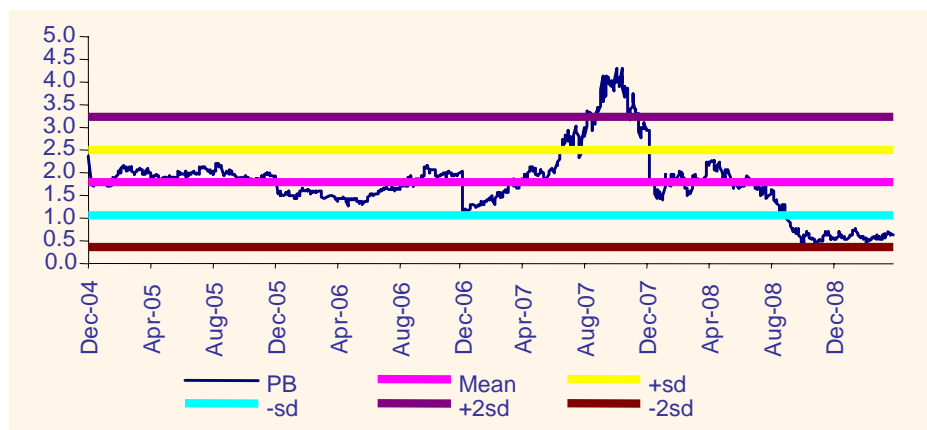
Analyst

Stella Kei
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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 (%)
2006	620	169	110	0.08	(28.0)	6.5	5.8	0.06	10.9
2007	1,177	526	472	0.30	260.5	1.8	4.0	0.16	28.6
2008	1,691	471	409	0.24	(19.1)	2.2	4.0	0.10	18.6
2009F	856	145	78	0.04	(81.5)	12.1	5.6	0.02	3.4
2010F	605	63	(8)	(0.00)	NM	NM	12.4	0.00	0.0

Consensus Net Profit – FY09: US\$80.4m
 – FY10: US\$2.5m

P/B Chart



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Turnover	620	1,177	1,691	856	605
EBIT	135	489	431	101	15
Pre-tax Profit	111	473	412	78	(9)
Net Profit	110	472	409	78	(8)
EPS (US\$)	0.08	0.30	0.24	0.04	(0.00)

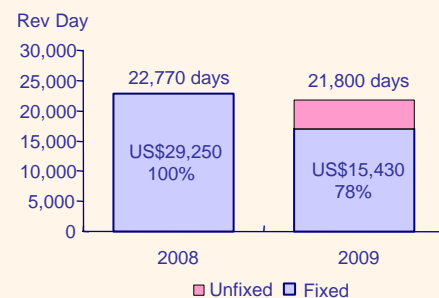
Balance Sheet

Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Current Assets	126	821	1,329	1,151	918
Total Assets	920	1,654	2,331	2,232	2,183
Current Liabilities	107	150	297	161	135
Long-Term Loans	328	637	815	775	761
Shareholders' Funds	485	867	1,219	1,296	1,287
Total Equity & Liabilities	920	1,654	2,331	2,232	2,183

Cash Flow

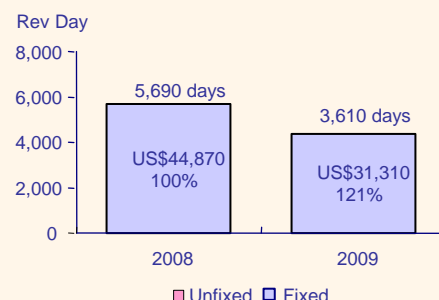
Year to 31 Dec (US\$m)	2006	2007	2008	2009F	2010F
Operating	148	314	459	75	26
Investing	(241)	102	(245)	(225)	(291)
Financing	74	170	111	96	(26)
Net Cash Inflow/(Outflow)	(19)	586	325	(54)	(291)
Begin Cash & Cash Equiv.	81	63	649	1,023	969
End'g Cash & Cash Equiv.	63	649	974	969	678

Earnings Coverage – Handysize



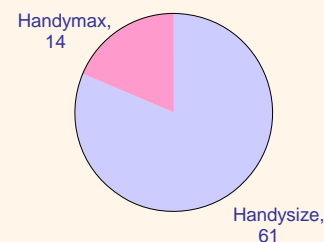
Source: PB, UOB Kay Hian

Earnings Coverage – Handymax



Source: PB, UOB Kay Hian

Dry Bulk Fleet – 75



Source: PB, UOB Kay Hian

Market Commentary

“Buy and hold“ strategy is not recommended for an equally-weighted IPO portfolio

The table below shows that if you have held the initial public offerings (IPO) of your portfolio companies with equal weightings since 30 Apr 08, you would have had realised on average a loss of 8.9% as of yesterday.

The main reason for the worse-than-expected performance of the IPO portfolio is undoubtedly market risk - we are still in a bear market.

However, you may have improved your IPO portfolio returns by reducing the stocks included in the IPO portfolio. Note that the number of stocks in the IPO portfolio below as of yesterday was 29.

“Diversification in the Chinese Stock Market“ written by Yexiao Xu of The University of Texas at Dallas in 2003 argues that a minimum of 20 stocks is enough to diversify 90% of total idiosyncratic risks.

Thus, we suggest investors do not blindly expand the number of IPO stocks just for the sake of diversification. Always limit your IPO portfolio to about 20 stocks.

Be selective in your IPO holdings and exercise stock rotation in your IPO portfolio. Based on the average positive returns of the stocks in the portfolio, we suggest you take profit whenever a stock in your IPO portfolio has gained 30%. A “Buy and hold “strategy is not recommended for an equally-weighted IPO portfolio.

IPOs

	Short Name	Listing Date	IPO Price	Last Price	Change Since Debut
8348 HK Equity	TIANJIN BINHAI-H	4/30/2008	1.98	0.85	-57.1%
848 HK Equity	MAOYE INTL HLDGS	5/5/2008	3.10	1.23	-60.3%
789 HK Equity	ARTINI CHINA	5/16/2008	2.22	0.41	-81.5%
743 HK Equity	ASIA CEMENT	5/20/2008	4.95	6.40	29.3%
8340 HK Equity	VINCO FINANCIAL	5/20/2008	0.25	0.14	-43.2%
1368 HK Equity	XTEP INTERNATIONAL	6/3/2008	4.05	2.60	-35.8%
832 HK Equity	CENTRAL CHINA	6/6/2008	2.75	1.43	-48.0%
3813 HK Equity	POU SHENG INTL	6/6/2008	3.05	0.77	-74.8%
968 HK Equity	LITTLE SHEEP	6/12/2008	3.18	3.18	0.0%
800 HK Equity	A8 DIGITAL MUSIC	6/12/2008	1.90	2.15	13.2%
2722 HK Equity	CHONGQING MACHIN	6/13/2008	1.30	0.99	-23.8%
691 HK Equity	CHINA SHANSHUI	7/4/2008	2.80	4.02	43.6%
623 HK Equity	SINOMEDIA HLDG	7/8/2008	2.63	1.74	-33.8%
756 HK Equity	TIANYI HOLDINGS	7/10/2008	0.63	0.80	27.0%
982 HK Equity	IONE HOLDINGS	7/14/2008	1.60	1.00	-37.5%
880 HK Equity	SJM HOLDINGS LTD	7/16/2008	3.08	2.21	-28.2%
887 HK Equity	EMPEROR WATCH &	7/21/2008	0.43	0.21	-51.9%
1766 HK Equity	CHINA SOUTH-H	8/21/2008	2.60	4.01	54.2%
963 HK Equity	BLOOMAGE BIOTE	10/3/2008	1.00	0.99	-1.0%
1387 HK Equity	RENHE COMMERCIAL	10/22/2008	1.13	1.50	32.7%
195 HK Equity	VITAR INTERNATIO	11/12/2008	2.10	2.30	9.5%
705 HK Equity	CVM MINERALS LTD	12/22/2008	1.05	0.85	-19.0%
852 HK Equity	STRONG PETROCHEM	1/12/2009	2.50	2.55	2.0%
750 HK Equity	CHINA SINGYES SO	1/13/2009	1.05	2.27	116.2%
246 HK Equity	REAL GOLD MINING	2/23/2009	6.25	5.70	-8.8%
794 HK Equity	COME SURE GROUP	2/26/2009	1.12	1.22	8.9%
841 HK Equity	ASIA CASSAVA	3/23/2009	1.02	1.25	22.5%
1008 HK Equity	CT HOLDINGS	3/30/2009	1.25	1.22	-2.4%
886 HK Equity	SILVER BASE GROU	4/8/2009	3.45	3.13	-9.3%
Average					-8.9%

Source: Bloomberg, UOB Kay Hian

HONG KONG

Market Commentary

Analyst

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IJM Plantations

Landbank expansion into Sumatra

Potentially higher market ranking with its landbank expansion into Sumatra. New landbank with planted area will provide cash flow for development. Lock in profit and buy back when share price weakens.

Corporate Events

- Expanding plantation landbank into South Sumatra for RM250,000 cash.
- Adding 10,252ha of new landbank (16% of existing landbank) with planted area of 1,300ha.
- RM160m capex earmarked for this development over the next five years.

Stock Impact

The announced purchase cost is only for the holding company. The actual purchase price for the landbank is still under negotiation. Assuming US\$1,100/ha for unplanted land (with HGU) and US\$6,000 for planted area, we estimate the final purchase price could be close to RM65m-70m.

Financing likely to come from bank borrowings. IJMP is currently in net cash position (2.9sen/share) but it needs to get bank financing for this purchase. At a gearing of 20%, IJMP can borrow up to RM150m to finance this purchase and for its development in East Kalimantan.

Planted area provides immediate cash flow. Based on the planted area of 1,300ha and assuming an oil yield of 3 tonnes/ha, it can bring in an annual operating cash flow of RM4.0m-4.5m.

Lower developmental cost. Based on the capex announced, the development cost for the next five years is about RM18,900/ha (or US\$5,250/ha), lower than the usual three-year developmental cost of US\$5,000-US\$5,500/ha. This implies some developmental work (likely to be basic infrastructure) has been done. Will the basic infrastructure in place, IJMP can kick off new planting soon.

Earnings Risk

No earnings impact. The planted area of 1,300ha is only about 5% of IJMP's planted area, and thus the contribution will not be significant.

Recommendation

IJMP is trading at 11.9x FY09F PE and 17.1x FY10F PE based on our EPS estimates of 20.3sen and 14.1sen for FY09 and FY10 respectively. It is thus the most expensive mid-sized plantation stock. After the recent strong price rebound, investor should lock in profit and re-enter when share price weakens. IJMP should be one of the long-term plantation holdings because we see great potential for it to move higher in terms of market ranking with 46,000ha of unplanted landbank and a strong management team to deliver strong production yield. Entry price is RM1.80.

MALAYSIA

IJM Plantations (IJMP MK)

HOLD

Current Price: RM2.42

Fair Price: RM2.05

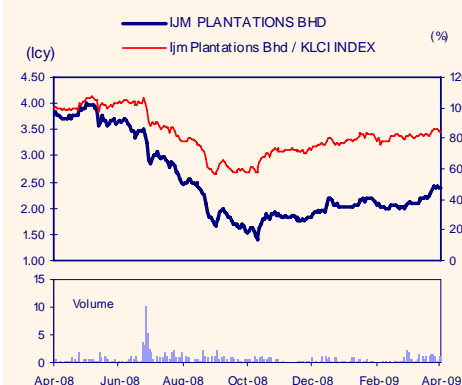
Sector	Plantation
52-Wk Avg Daily Vol. ('000)	710
Market Cap (RMm)	1,551
(US\$m)	428

Major Shareholders (%)	
IJM Corp	55.2
EPF	9.3

NTA per Share (RM)	1.29
ROE (%)	20.6
Net Cash per Share (sen)	2.9

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

Price Chart



Source: Bloomberg

Analyst

Malaysia Research Team
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Year to 31 Mar	Turnover (RMm)	EBITDA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (sen)	Yield (%)
2007	271.6	83.6	44.0	6.9	16.9	35.3	13.2	4.5	1.9
2008	478.1	206.1	142.1	22.2	223.3	10.9	4.8	12.0	5.0
2009F	493.7	189.7	129.8	20.3	(8.6)	11.9	5.5	12.0	5.0
2010F	412.6	141.3	90.5	14.1	(30.3)	17.1	7.3	12.0	5.0
2011F	540.8	196.3	128.0	20.0	41.5	12.1	5.3	12.0	5.0

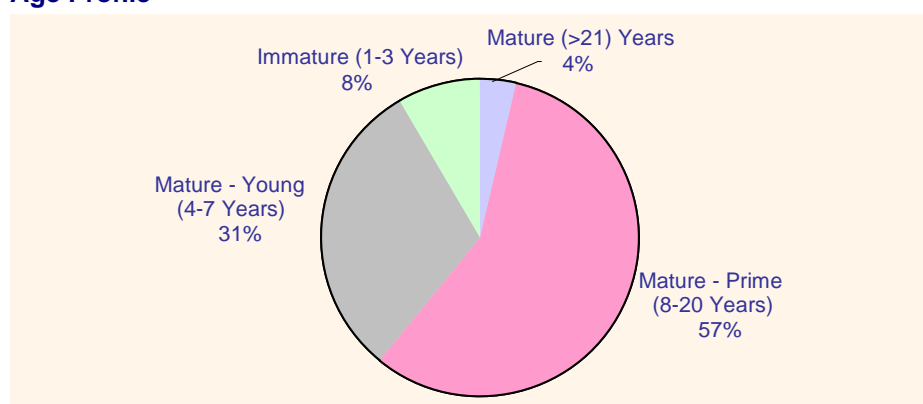
Consensus Net Profit – FY09: RM138.0m
– FY10: RM92.5m

IJMP's Plantation Land Profile

		FY07	FY08	FY09
Estates				
Oil Palm Area				
Mature (>21 Years)	Ha	-	366	900
Mature - Prime (8-20 Years)	Ha	11,876	15,264	14,447
Mature - Young (4-7 Years)	Ha	10,673	7,040	7,764
Immature (1-3 Years)	Ha	2,871	2,653	2,135
Total Planted Area		25,420	25,323	25,246
Productivity				
FFB Yield/Ha	tonne	22.4	25.1	26.0
Oil Extraction Rates	%	21.54	21.28	20.97
Production				
FFB Production	tonne	504,871	567,324	577,066
Crude Palm Oil	tonne	144,095	154,174	173,526

Source: IJMP

Age Profile



Source: IJMP

Profit & Loss

Year to 31 Mar (RMm)	2007	2008	2009F	2010F	2011F
Turnover	271.6	478.1	493.7	412.6	540.8
EBIT	63.9	190.4	172.0	120.9	172.8
Pre-tax Profit	56.4	190.0	173.2	120.6	170.6
Net Profit	44.0	142.1	129.8	90.5	128.0
EPS (sen)	8.8	22.3	20.3	14.2	20.0

Balance Sheet

Year to 31 Mar (RMm)	2007	2008	2009F	2010F	2011F
Current Assets	102.1	196.9	209.3	209.6	245.8
Total Assets	851.6	999.5	1,090.8	1,147.6	1,235.5
Current Liabilities	59.0	80.5	108.8	116.6	138.0
Shareholders' Funds	602.3	776.3	838.7	884.8	950.1
Total Equity & Liabilities	851.6	999.5	1,090.8	1,147.6	1,235.5

Cash Flow

Year to 31 Mar (RMm)	2007	2008	2009F	2010F	2011F
Operating	70.7	160.1	115.1	126.1	129.9
Investing	(32.8)	(55.9)	(48.0)	(53.0)	(63.0)
Financing	(26.8)	(58.6)	(89.5)	(51.3)	(64.7)
Net Cash In/(out flow)	11.1	45.6	(22.4)	21.8	2.2
Begin Cash & Cash Equiv.	42.7	53.8	99.4	77.1	98.8
End'g Cash & Cash Equiv.	53.8	99.4	77.1	98.8	101.1

Keppel Corporation

1Q09: Backward looking

1Q09: Good performance with net profit up 9% yoy, but results are backward looking. Contract wins ytd are low and share price is at a 25% premium to fair price. SELL.

1Q09 Results

Year to 31 Dec	1Q09 (\$m)	yoy % chg	Remarks
Turnover	2,978.0	35	Due to O&M and Infrastructure
EBITDA	355.5	21	Due to O&M and Infrastructure
Pre-tax Profit	400.3	9	Due to O&M and Infrastructure
Tax	(73.9)	33	Plus S\$14m tax write-back
MI	(41.0)	(16)	
Net Profit	285.3	9	
EPS (cents)	17.9	9	
EBITDA Margin (%)	11.9		
Segment Financials:			
O&M	181.5	38	Rolling larger O&M orderbook
Property	33.8	(33)	Poor property sales
Infrastructure	29.9	150	Contributions from Qatar EPC contracts
Investments (incl. SPC)	40.1	(41)	SPC hit by lower refining margin & impairment
Net Profit	285.3	9	Cushioned by O&M and Infrastructure

Source: Keppel, UOB Kay Hian

Results

- Net profit up 9% yoy on a) strong contributions from the offshore & marine (O&M) and infrastructure segments and b) S\$14m tax write-back following the reduction of Singapore corporate tax rate by 1 ppt to 17%.
- O&M net profit (net profit +38% yoy) benefitted from progressive completion of current orderbook plus some tax write-back.
- Lower property earnings were primarily due to Keppel Land (net profit -33%) on slower completion of several projects and weaker residential sales amid difficult market conditions.
- Infrastructure earnings (+150%) came in better than expected because of maiden engineering, procurement and construction (EPC) contributions from the Doha North Sewage Treatment and Water re-use plant project.
- Poor investment earnings (-41%) due to Singapore Petroleum Co's (SPC) weaker earnings on lower refining margins and an impairment charge relating to the Jeruk discovery.

Stock Impact

Low contract wins ytd. While 1Q09 posted a good performance, it was backward looking. Current orderbook stands at S\$9.5b with progressive deliveries into 2012. However, contract wins, the key share price catalyst, remain low at S\$315m ytd (2008 total: S\$5.2b). Globally, apart from Mermaid Drilling's tender rig KM-2, there have been no new rig orders ytd. Rig investment has been halted by the credit crunch and a collapse in oil prices.

SINGAPORE

Keppel Corp (KEP SP)

SELL

Current Price: S\$6.02

Fair Price: S\$4.80

(Previous: S\$4.50)

Sector	Conglomerate
52-Wk Avg Daily Vol. ('000)	8,457
Market Cap (\$m)	9,590.6
(US\$m)	6,362.8

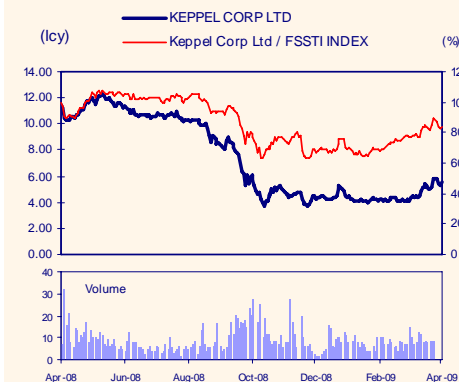
Major Shareholders (%)	
Temasek Hldgs (Pte) Ltd	21.7%

Book NTA per Share (\$)	3.00
ROE (%)	22.4
Net Cash per Share (\$)	0.11

Results Due

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

Price Chart



Source: Bloomberg

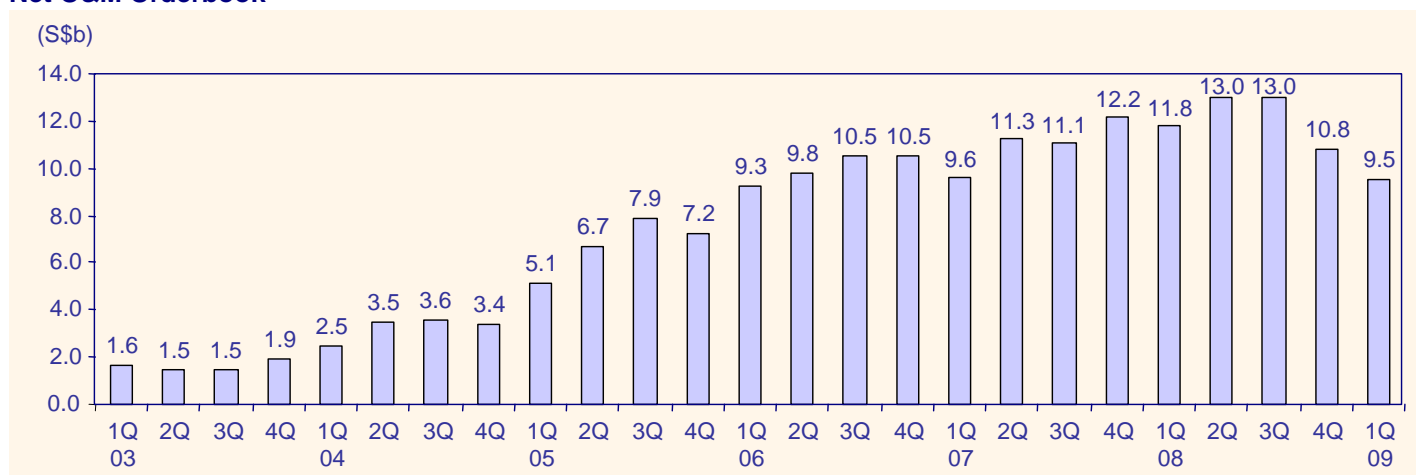
Analyst

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Year to 31 Dec	Turnover (\$m)	EBITDA (\$m)	Net Profit (\$m)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield (%)
2007	10,431.3	1,136.3	1,130.7	71.5	49.9	5.7	7.3	64.0	15.8
2008	11,805.4	1,151.2	1,098.0	69.0	(3.5)	5.9	7.2	35.0	8.7
2009F	9,108.8	1,034.9	920.0	57.8	(16.3)	7.0	8.0	28.0	6.9
2010F	8,116.4	922.6	860.0	54.0	(6.5)	7.5	9.0	26.0	6.4
2011F	7,840.4	841.7	780.0	49.0	(9.3)	8.3	9.9	24.0	5.9

Consensus Net Profit – FY08: S\$969.1m
 -- FY09: S\$898.1m

Net O&M Orderbook



Source: UOB Kay Hian

Valuation/Recommendation

We assume contract wins would average S\$2b in 2009 before recovering to S\$3b p.a. in 2010 and 2011, which is our long-term sustainable annual O&M contract win assumption. We raise our fair price from S\$4.50 to S\$4.80 based on our revised sum-of-the-parts (SOTP) valuation of S\$4.76/share. This has factored in the following: a) a higher target price of S\$2.10 for Keppel Land vs S\$1.60 previously, and b) a higher net cash level at the company level. Our SOTP valuation has imputed sustainable O&M contract wins of S\$3b p.a. in the longer term, which translates into an annual O&M net profit base of S\$250m. We value Keppel's shipyard business at a PE of 15.0x (i.e. pre-offshore oil & gas boom valuation) of this net profit base. Current share price is at a 25% premium to our fair price. Maintain SELL.

Profit & Loss

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Turnover	10,431.3	11,805.4	9,108.8	8,116.4	7,840.4
EBIT	1,010.6	1,012.1	894.9	782.6	701.7
Pre-tax Profit	2,121.2	1,609.4	1,274.9	1,232.6	1,201.7
Net Profit	1,130.7	1,098.0	920.0	860.0	780.0

Balance Sheet

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Current Assets	7,286.7	8,090.5	6,854.1	6,517.1	6,868.0
Total Assets	15,797.2	16,746.4	15,698.2	15,597.9	16,235.5
Current Liabilities	6,641.5	7,872.2	6,638.1	6,381.2	6,389.0
Long-Term Loans	2,272.2	1,731.5	1,744.6	1,714.8	1,685.0
Shareholders' Funds	5,204.7	4,596.2	5,070.1	5,516.0	6,193.5
Total Equity & Liabilities	15,797.2	16,746.4	15,698.2	15,597.9	16,235.6

Cash Flow

Year to 31 Dec (\$m)	2007	2008	2009F	2010F	2011F
Operating	1,697.3	2,046.8	559.3	590.2	655.4
Investing	(546.3)	(171.2)	32.2	32.2	32.2
Financing	(1,169.1)	(1,255.6)	(554.2)	(522.4)	(210.7)
Net Cash In/out flow)	(18.1)	620.0	37.3	100.1	476.9
Begin Cash & Cash Equiv.	1,615.2	1,597.1	2,217.1	2,254.5	2,354.5
End'g Cash & Cash Equiv.	1,597.1	2,217.1	2,254.5	2,354.5	2,831.5

SOTP Valuation

Listed Assets:	S\$m	Valuation Yardstick
Keppel Land	801	TP S\$2.10
K-Reit	192	TP S\$0.94
Keppel T&T	450	Mkt Price
SPC	734	TP S\$3.10
K1 Ventures	90	Mkt Price

Unlisted Assets:

O&M	3,750	15x NPAT S\$250m, (S\$3b contract wins p.a.)
Infrastructure	221	2x P/B
Keppel Bay	1,077	RNAV
Net Cash Co Level	265	
Total Value	7,580	

Share Cap (m) 1,593.
SOTP/Share (\$\$) 4.76

Source: UOB Kay Hian

Thai Union Frozen Products

1Q09 earnings to benefit from manageable inventory

With no mark-down in buffer stock this quarter, TUF's earnings will be promising in 1Q09. Valuation is attractive, trading at 5-year P/B low of 1.24x and dividend yield at 7%. Maintain BUY on strong fundamentals.

Corporate Events

Amid the gloomy economy and political strife, TUF has several positive catalysts. Low oil price and high fish catch have stabilised tuna cost at an average of US\$1,128/ton in 1Q09 vs US\$1,513/ton in 1Q08. Coupled with potential interest rate cuts and baht weakness, the baht has weakened 2% ytd to 35.6/US\$ which will help sales in baht terms. TUF expects flat sales at Bt18.5m in 1Q09 with a wider gross margin (+100bb) of 12-13%, supported by lower fleet maintenance and proactive cost control measures that keep SG&A expense low. With no mark-down in buffer stock this quarter, TUF can post a strong 1Q recurring profit growth (excluding forex gain) of over 20% qoq or Bt450m, in line with consensus.

Stock Impact

We expect sales to increase across all product categories, especially pet food, shrimp, cephalopod and new products like sardine and mackerel. Although TUF has a high exposure of sales in the US market (about 48% of total revenue), it is diversifying more to the new markets such as Asia, the Middle East, Russia and South Africa where sales growth is projected to exceed 50%. According to management, tuna cost is expected to remain at relatively low levels of US\$1,000-1,300/ton for the latter part in 2009. For the long term, we forecast Bt/US\$ at Bt35. TUF has a natural hedge as 65% of its cost is also in US\$. Every Bt1 depreciation against the US\$ will raise TUF's bottom line by 1.23%. The lower import rates will also benefit TUF and increase its export volume.

Earnings Revision/Risk

We maintain our earnings forecasts and target price. With clear earnings visibility, strong free cash flow and the management experienced in operating the business during a downturn, we believe TUF has the potential to deliver a consistent and relatively strong performance in the longer term. Key risks are: a) the volatility in oil price and fish catch which will impact tuna cost, and b) the stability of the baht against US\$.

Valuation/Recommendation

Maintain BUY. TUF is one of the few stocks that will show a positive earnings growth of 8% for FY09 vs an average 4% for the other three food stocks. It is trading at a five-year low average P/B and PE. At this price, we believe the stock looks attractive given its strong dividend yield of 7%. The stock trades at 7.28x FY09F PE, a 53% discount to its global peers' average. Our target price is Bt27.00, pegged at 10x FY09F PE, and offers a 36% upside to its current price.

THAILAND

Thai Union Frozen Products (TUF TB)

BUY

Current Price: Bt19.80

Target Price: Bt27.00

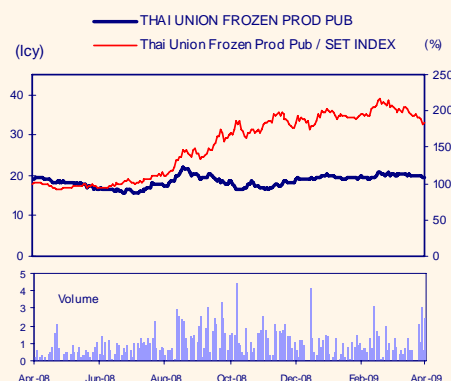
Sector	Food Beverage
52-Wk Avg Daily Vol. ('000)	948.96
Market Cap (Btm)	17,486.78
(US\$m)	491.61

Major Shareholders (%)	
Mr. KRAISORN CHANSIRI	9.08%

Book NTA per Share (Bt)	18.38
ROE (%)	14.3
Net Debt per Share (Bt)	18.9

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

Price Chart



Source: Bloomberg

Analyst

Thailand Research Team
 fl (662) 659-8301
 research@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	55,507	3,639	1,823	2.07	(4.66)	9.56	4.36	1.04	5.25
2008	69,048	4,226	2,200	2.49	20.07	7.95	3.82	1.26	6.36
2009F	76,093	4,805	2,377	2.69	8.04	7.36	3.33	1.35	6.80
2010F	83,703	5,189	2,601	2.95	9.43	6.72	3.06	1.47	7.44
2011F	92,910	5,402	2,786	3.15	7.09	6.28	2.94	1.58	7.96

Consensus Net Profit – FY09: Bt2,392m
 – FY10: Bt2,639m

Lower import tariff benefits TUF

Under the free trade pact, Japan-Thailand Economic Partnership Agreement (JTEPA), import tariff on frozen shrimps to Japan was cut from 5% to 0%. For the US market, the anti-dumping rate was dropped from 5.95% to 2.85% (the next review is in Sep 09). Since 2004, US Customs requires exporters subject to anti-dumping duties to post a bond covering the full amount as security against the risk of default. The lower import rates would benefit TUF and increase its export volume.

Profit & Loss

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	55,507	69,048	76,093	83,703	92,910
EBIT	2,661	3,226	3,744	4,047	4,186
Pre-tax Profit	2,081	2,591	3,046	3,280	3,528
Net Profit	1,823	2,200	2,377	2,601	2,786
EPS (Bt)	2.07	2.49	2.69	2.95	3.15

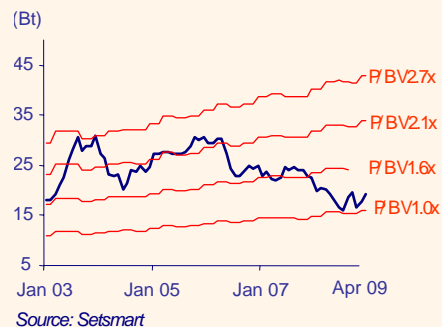
Balance Sheet

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	23,497	28,816	30,725	32,843	34,276
Total Assets	33,575	39,865	41,865	44,218	45,861
Current Liabilities	13,666	16,222	15,384	14,626	16,142
Long-Term Liabilities	4,962	6,616	6,588	6,462	3,292
Shareholders' Funds	14,570	16,231	19,102	22,354	25,664
Total Equity & Liabilities	33,576	39,865	41,865	44,218	45,861

Cash Flow

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	(330)	(233)	2,419	2,670	5,801
Investing	(2,694)	(1,796)	(1,323)	(1,368)	(1,375)
Financing	3,144	2,100	(1,050)	(1,272)	(4,371)
Net Cash In/out flow)	120	71	46	30	55
Begin Cash & Cash Equiv.	365	485	557	603	633
End'g Cash & Cash Equiv.	485	557	603	633	688

TUF: Historical P/B



TUF: P/B (X) & Standard Deviation



Sensitivity Analysis

Bt/US\$	% chg in 2009F net profits base case
39	4.90
38	3.68
37	2.45
36	1.23
Base case = 35	0.00
34	(1.23)
33	(2.45)
32	(3.68)

Source: UOB Kay Hian

Key Assumptions

	2008	2009F	2010F
Ending Exch Rate (Bt/US\$)	33.3	35.0	35.0
US\$ Sales Growth (%)	28.5	5.0	10.0
Bt Sales Growth (%)	24.4	10.3	10.0
Tuna Sales to total sales (%)	47.7	46.9	50.2
Frozen shrimp sales to total sales (%)	19.1	22.0	19.3
Avg. Raw Tuna Price (US\$/Ton)	1,585	1,250	1,300
Avg. Raw Shrimp Price (Bt/Kg)	114	125	129
Effective Tax Rate (%)	4.2	12.0	12.0

Source: UOB Kay Hian

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