UOBKayHian

Regional Morning Notes

Tuesday, April 28, 2009

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Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8025.0	(0.6)	2.3	3.2	(8.6)
S&P 500	857.5	(1.0)	3.0	5.1	(5.1)
FTSE 100	4167.0	0.3	4.4	6.9	(6.0)
AS30	3690.0	0.6	(0.9)	2.1	0.8
CSI 300	2513.3	(2.3)	(7.2)	0.6	38.3
FSSTI	1818.6	(1.8)	(3.0)	4.2	3.2
HSI	14840.4	(2.7)	(5.8)	5.1	3.1
JCI	1576.1	(1.0)	(5.2)	7.7	16.3
KLCI	980.1	(1.3)	1.2	10.7	11.8
KOSPI	1339.8	(1.1)	0.3	8.3	19.2
Nikkei 225	8726.3	0.2	(2.2)	1.2	(1.5)
SET	475.0	0.2	1.9	7.8	5.6
TWSE	5705.1	(3.0)	(1.3)	5.8	24.3
BDI	1839	(1.8)	5.9	9.6	137.6
CPO (RM/mt)	2758	3.5	6.7	30.1	69.2
Nymex Crude (US$/bbl)	50	(0.2)	7.6	(4.5)	12.2

Source: Bloomberg

Top BUYs/SELLs

	Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)
Top BUYs				
China Coal	1898 HK	6.44	8.50	32.0
China Life	2628 HK	26.60	31.30	17.7
China Railway	390 HK	5.29	5.90	11.5
Maanshan Iron	323 HK	3.12	4.50	44.2
Sinopec	386 HK	5.84	6.60	13.0
Zijin Mining	2899 HK	6.04	7.15	18.4
DBS Group	DBS SP	8.98	10.55	17.5
Advanced Info	ADVANC TB	78.00	101.73	30.4
Quality Houses	QH TB	1.05	1.28	21.9
Top SELLs				
Harbin Power	1133 HK	5.89	4.50	(23.6)
Parkson Retail	3368 HK	9.08	5.15	(43.3)
S'pore Airlines	SIA SP	10.12	8.20	(19.0)
STX Pan Ocean	STX SP	13.28	4.35	(67.2)
Amata Corp	AMATA TB	3.70	2.11	(43.0)

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 *	(USc/dmtu)	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
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*

Strategy

Assessing the impact of swine flu epidemic

The impact of swine flu on stock markets depends on how things develop over the next 1-2 weeks. If the number of swine cases grows rapidly, the sell-off will intensify. In the medium term, we believe that the rally in pharmaceutical and healthcare related stocks in the region is not sustainable.

Event. Concerns over the swine flu reported in Mexico, Canada and the US sent stock markets in the region sharply lower yesterday. Pharmaceutical and healthcare related stocks went up sharply while aviation, retail and meat processing stocks were hit. Although the infection has reportedly caused more than 1,600 illnesses and over 160 deaths in Mexico, there had been 41 cases of confirmed swine flu in the US, 26 in Mexico and six in Canada, two in the UK and one in Spain as of April 27. Also, the swine flu cases outside Mexico appeared to be milder than those in Mexico, and none had been fatal.

Our view. As of April 27, the situation of swine flu appeared to be better than that of SARS reported in Asia in 2003 because of the following reasons:

- Although the situation in Mexico is very severe, the cases reported outside Mexico appear to be much milder. No deaths have been reported so far.
- According to some reports, Tamiflu and some other antiviral drugs work against swine flu; in 2003, no drugs were effective in dealing with SARS.
- The virus causing swine flu was identified at the beginning of the outbreak and an effective vaccine is likely to come out in a few months. In 2003, the virus was unknown when the outbreak started, which caused very severe impact on stock markets.
- With the experience with SARS and bird flu in Asia, scientists and governments should be able to handle the epidemic more effectively.

However, stock markets are sensitive and we should not under-estimate the impact of swine flu. Also, we believe that many investors are prepared to take profits even without the swine flu given the hefty gains since early March. The outlook for the market will depend on the situation over the next 1-2 weeks. If the number of swine flu cases grows explosively over the next 1-2 weeks and the flu spreads rapidly to more countries, the sell-off will intensify; if the number of cases does not grow rapidly over the next 1-2 weeks, the fear of swine flu is likely to subside.

In terms of the impact on stocks, we have the following observations:

- Impact on the pharmaceutical and healthcare related stocks, particularly those produce Chinese herbal medicines, is short-lived. This is due to the fact that many pharmaceutical stocks in the region do not have strong R&D and therefore produce either Chinese herbal medicines or OTC drugs such as antibiotics. These stocks are unlikely to benefit from swine flu in the medium term. In our view, only pharmaceutical stocks with strong R&D will grow in the medium to longer term.
- Impact on aviation, tourism and retail stocks is also short-lived. While the sectors on average dropped 30% during SARS, they recovered strongly post-SARS as the governments took aggressive measures to revive consumer sentiment and support industries hurt by SARS.

REGIONAL

Strategy

Beneficiaries Of Swine Flu Outbreak

China/ Hong Kong

Company	Stock code (HK)	Last price (HK$)	FY09 PE (x)
China Pharmaceutical	1093	4.30	6.2
Tong Ren Tang	8069	9.10	9.0
Guangzhou Pharmaceutical	874	3.22	15.0
Sino Biopharm	1177	1.52	9.2
Shandong Xinhu	719	1.58	n.a.

Source: Bloomberg

Indonesia

Company	Stock code (IJ)	Last price (Rp)	FY09 PE (x)
Kalbe Farma	KLBF	870	11.4
Tempo Scan Pacific	TSPC	530	7.5

Source: Bloomberg

Malaysia

Company	Stock code (MK)	Last price (RM)	FY09 PE (x)
Top Glove*	TOPG	6.15	13.5
Hartalega*	HAER	3.64	8.1
Kossan Rubber*	KRI	3.18	10.3

Based on consensus forecasts
Source: Bloomberg

Singapore

Company	Stock code (SP)	Last price (S$)	FY09 PE (x)
Medtecs	MED	0.08	n.a.

Source: Bloomberg

Thailand

Company	Stock code (TB)	Last price (Bt)	FY09 PE (x)
Thai Union Frozen	TUF	20.00	8.01

Source: Bloomberg

Losers Of Swine Flu Outbreak

China/ Hong Kong

Company	Stock code (HK)	Last price (HK$)	FY09 PE (x)
Cathay Pacific	293	8.42	n.a.
China Eastern	670	1.29	n.a.
China Southern	1055	1.88	41.4
Air China	753	3.49	25.6
Global Biochem	809	1.04	4.1
China Yurun	1068	9.0	11.2
Shangri-La Asia	69	10.7	23.8
HK & Shanghai Hotels	178	2.64	13.0
Lifestyle	1212	7.28	13.6

Source: Bloomberg

Analyst

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Performance Of Pharmaceutical Stocks In HK/China Post-SARS

	Stock Code	3 Dec 02 Share Price (HK$)	SARS Market Bottom On 25 Apr 03 Share Price	Chg (%)	Chg in 6 mths (%)	Chg in 12 mths (%)	Chg. In 24 mths (%)
Hang Seng Index		**10,227.01**	**8409.01**	**(17.8)**	**39.7**	**44.3**	**64.8**
China Pharmaceutical	1093	1.37	2.025	47.8	25.9	24.7	(19.5)
Guangzhou Pharmaceutical	874	1.86	1.87	0.5	8.3	0.0	23.0
Extrawekk Pharmaceutical	858	0.22	0.157	(28.3)	58.0	87.9	17.2
Shandong Xinhu	719	1.67	1.66	(0.6)	15.1	0.0	(22.3)
Tong Ren Tang	8069	8.50	12.8	50.6	12.1	32.4	14.1
Lee's Pharmaceutical	8221	0.39	0.33	(15.4)	7.6	(24.2)	(49.4)
Jilin Province	8049	0.30	0.21	(30.0)	71.4	19.0	(19.5)
China Medical	8120	0.23	0.23	2.2	(2.2)	(13.0)	(44.3)
				1.0	24.5	15.9	(12.6)

Source: Bloomberg

Performance Of Retail And Aviation Stocks In HK/China Post-SARS

	Stock Code	3 Dec 02 Share Price (HK$)	SARS Market Bottom On 25 Apr 03 Share Price	Chg (%)	Chg in 6 mths (%)	Chg in 12 mths (%)	Chg. In 24 mths (%)
Hang Seng Index		**10227**	**8409**	**(17.8)**	**39.7**	**44.3**	**64.8**
Sa Sa	178	0.70	0.72	2.9	116.7	313.2	406.9
Luk Fook	590	0.83	0.54	(34.9)	103.7	164.8	390.7
Giordano	709	3.53	1.87	(47.0)	87.2	148.7	196.8
Cathay Pacific	293	11.75	8.5	(27.7)	61.8	71.2	73.5
China Eastern	670	1.08	0.74	(31.5)	70.3	118.9	83.8
China Southern	1055	1.55	0.99	(36.1)	91.3	133.3	56.1
				(29.1)	88.5	158.4	201.3

Source: Bloomberg

Recommendations. The outlook for stock markets in the region depends on how things develop over the next 1-2 weeks. We recommend investors taking a wait-and-see strategy. If the number of swine flu cases grows explosively, we believe that there will be more momentum in healthcare and pharmaceutical stocks in the near term while aviation, retail and meat processing will suffer more. In contrast, if the number of cases does not grow rapidly, the fears will subside rapidly. In the right-hand column, we have highlighted the major beneficiaries and losers of swine flu in the region assuming the situation intensifies. In the medium term, we believe that the rally in low quality pharmaceutical and healthcare stocks in the region is unlikely to be sustainable. We recommend investors using the rally as an opportunity to sell into strength. Additionally, the impact on the tourism, retail and aviation stocks should be short-lived. We will use the sell-off as an opportunity to buy stocks with strong fundamentals.

What defensive stocks can we buy? We believe the following two groups of stocks will benefit from the weakened market sentiment:

- **Life insurance**. The epidemic will likely result in higher health consciousness and more demand for protection. As such, demand for life insurance policies will increase, which benefits life insurance companies such as China Life and Ping An Insurance.
- **Infrastructure**. This sector will not suffer much if the epidemic intensifies. In deed, the governments may spend more so as to offset the negative impact of the epidemic. We like companies such as China Railway Group and CSR Times Electric.

Indonesia

Company	Stock code (IJ)	Last price (Rp)	FY09 PE (x)
Ramayana Lestari Sentosa	RALS IJ	460	8.0
Matahari Putra Prima	MPPA IJ	570	16.6
Mitra Adi Perkasa	MAPI IJ	290	4.0

Source: Bloomberg

Malaysia

Company	Stock code (MK)	Last price (RM)	FY09 PE (x)
Genting	GENT	4.60	16.6
Resorts World	RNB	2.39	12.8
MAS	MAS	3.02	48.7
Airasia	AIRA	1.14	10.4

Source: Bloomberg

Singapore

Company	Stock code (SP)	Last price (S$)	FY09 PE* (x)
SIA	SIA	12.12	53.6
S'pore Airport	SATS	1.28	8.8
Ascott REIT	ART	0.49	15.2
CDL H Trust	CDREIT	0.535	6.5

**FY10 PE for SIA & S'pore Airport*

Source: Bloomberg

Thailand

Company	Stock code (TB)	Last price (Bt)	FY09 PE (x)
Charoen Pokphand Foods	CPF	3.26	7.71

Source: Bloomberg, Setsmart

Aviation – Airlines

Risk premium to rise for airlines

Sector Events

The World Health Organization issued a global level 4 pandemic alert following the spread of swine flu from Mexico to North America. Confirmed fatalities had risen to over 160 as of Monday vs 68 last Saturday. Meanwhile, the Hong Kong Airport Authority (HKAA) also announced a HK$450m relief package for 63 airlines that it will involve a 10% reduction in landing charges and deferral of rentals for airline lounges till the end of 2009.

Sector Impact

Airline stocks will be the first to be hit by a steep fall in air travel. If this persists, airline engineering stocks like SIA Engineering and ST Engineering will also be affected by lower maintenance revenue.

The extent to which air travel will be affected will depend on:

A) World Health Organization's (WHO) rating on the pandemic alert level. Current level stands at 4 with 5- 6 signifying widespread human infection and

B) The degree and extent of travel alerts issued by nations (currently applicable to Mexico).

- During the Severe Acute Respirtory Syndrome (SARS) outbreak in 2003, passenger traffic fell by 44-60% for two consecutive months for Cathay Pacific and Singapore Airlines (SIA). Traffic rebounded following an effective containment of the outbreak, via isolation. WHO experts have indicated that the present swine flu virus has a shorter incubation period, thus isolation efforts could potentially be less effective.
- We have modelled a scenario where passenger traffic falls by the same rate and period as during SARS. Our assumptions are as follows:

Impact On SIA And Cathay Pacific on 2009 Earnings

	SIA	Cathay
Decline in pax traffic for two months	-50%	-50%
Subsequent pax traffic decline	-11%	-4.5%
Net change in pax traffic for 2009	-20.0%	-12.5%
Total capacity cuts	-14.5%	-7.0%
Change in Pax yield	-17%	-18.4%
(as per previous assumptions)		
Estimated impact on net profit	-$300m	-HK$2.5b

Source: UOB Kay Hian

- This is a simple base case scenario, which assumes that airlines will cut capacity further to meet the anticipated decline in traffic and that yields do not decline further. Even under such benign assumptions both SIA and Cathay Pacific are expected to go into the red. The significance of this will be greater for Cathay Pacific as it requires the operating cash flow to fund aircraft deliveries. SIA will be less affected. However, if the outbreak persists, its ability to sell and leaseback aircraft will be severely curtailed, thus affect cash flow.

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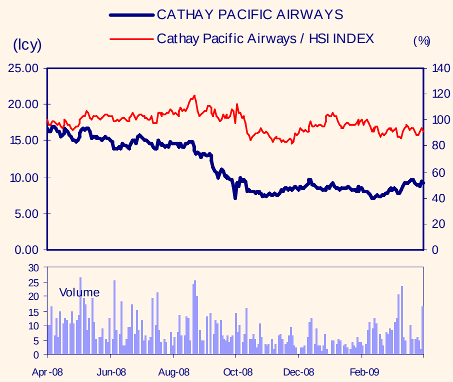
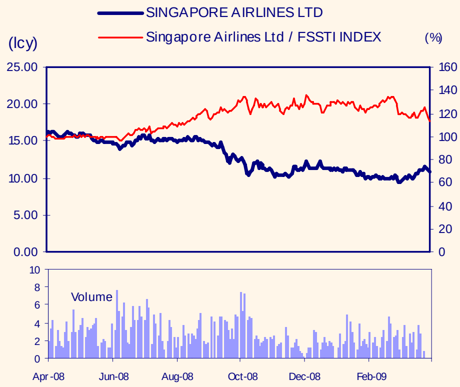
Aviation - Airlines

UNDERWEIGHT

Price Chart



Source: Bloomberg



Source: Bloomberg

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Valuation/ Recommendation.

During the SARS period, the valuation of both SIA and Cathay Pacific fell to 0.9x P/B. SIA already trades below this valuation level. However we believe the current conditions are even more challenging. The airline industry is facing an unprecedented systemic risk which could lead to more airline bankruptcies if traffic slows down further. We downgrade Cathay Pacific to SELL from HOLD with a fair price of HK$6.90 based on a 10% discount to 2008 NTA. Our earlier traffic growth assumption of just a 4.5% decline in traffic could be unsustainable. In a move that underscores the seriousness of this, the HKAA had announced significant cost-cutting measures.

We will also review our recommendation on aircraft maintenance, repair and overhaul companies, SIA Engineering and ST Engineering if the outbreak worsens.

Indices And Share Price Performances

	Bloomberg Code	Price @ 27 Apr 09	% Price Change 5D	1M	3M	6M	YTD
FSSTI	FSSTI Index	1,818.61	(3.0)	4.2	3.0	9.1	3.2
BBG AP Airlines Index	BPRAIRL Index	114.16	(6.4)	(0.7)	6.8	11.3	2.1
AirAsia	AIRA MK	1.14	(2.6)	18.1	28.8	3.6	31.8
Cathay Pacific	293 HK	8.42	(7.3)	(0.7)	(0.9)	(8.5)	(3.4)
Japan Airlines	9205 JP	191.00	(4.1)	(8.7)	(5.5)	(7.4)	(10.8)
Malaysian Airline	MAS MK	3.02	(5.0)	4.9	6.3	2.4	(1.3)
SIA	SIA SP	10.12	(5.6)	(0.6)	(10.4)	(6.3)	(10.1)
SIA Engrg	SIE SP	1.89	(4.1)	6.2	(6.9)	(4.5)	(5.5)
ST Engrg	STE SP	2.55	1.2	3.2	8.1	22.0	7.6
Thai Airways	THAI TB	12.10	15.2	32.2	70.4	60.3	56.1

Source: Bloomberg

Peer Comparison

Company	Stock Code	Curr	Price @ 27 Apr 09	Target/Fair Price	Rec	Market Cap (US$m)	PE (x) 2008	PE (x) 2009F	PE (x) 2010F	PB (x) 2008	PB (x) 2009F	PB (x) 2010F
SINGAPORE												
SIA	SIA SP	S$	10.12	8.20	SELL	8,024.0	11.3	53.6	24.2	0.89	0.82	0.79
SIA Engrg	SIE SP	S$	1.89	2.45	BUY	1,361.5	8.0	9.0	8.0	1.73	1.67	1.63
ST Engrg	STE SP	S$	2.55	2.82	BUY	4,940.8	15.6	14.3	13.8	4.67	4.43	4.26
HONG KONG												
Cathay Pacific	293 HK	HK$	8.42	6.90	SELL	4,273.9	n.a.	40.7	20.0	0.66	0.75	0.68
MALAYSIA												
AirAsia	AIRA MK	RM	1.14	n.a.	NR	751.9	n.a.	10.4	8.7	1.66	1.30	1.03
Malaysian Airline	MAS MK	RM	3.02	n.a.	NR	52.2	20.7	48.7	19.2	1.22	1.16	1.10
THAILAND												
Thai Airways	THAI TB	Baht	12.10	n.a.	NR	579.7	n.a.	53.5	7.4	0.45	0.40	0.38
JAPAN												
Japan Airlines	9205 JP	Yen	191	n.a.	NR	5,403.1	n.a.	n.a.	50.2	1.74	1.72	1.53
AVERAGE (Excl SIE & STE)							**16.0**	**41.4**	**21.6**	**1.10**	**1.02**	**0.92**

Source: Bloomberg, UOB Kay Hian

Dry Bulk Shipping

Bi-weekly: BDI rebounds but loses steam last Friday

The BDI was boosted by the reviving grain and iron ore shipments, increasing spot fixtures from the Australian miners and improving futures market. However, the BDI lost steam last Friday after rising for nine consecutive days.

Sector Review

BDI climbed on more grain and iron ore shipments. The Baltic Dry Index (BDI) rose to a one-month high last Thursday on the back of more South American grain cargoes and more iron ore shipments to China. However, the BDI lost steam on Friday as more tonnage became available. The BDI has risen 26.7% over the past two weeks but share price performance of dry bulk stocks remained mixed.

Rising iron ore stockpiles. As of 24 April, Chinese ports' iron ore inventory edged up 0.9% wow to 69.1mt. Meanwhile, China's steel prices largely remained flat last week.

Sector Outlook

The dry bulk shipping sector is increasingly affected by China's economy and China's demand for commodities. With China's GDP growth (6.1% in 1Q09) registering a sharp sequential rebound coupled with the real estate sector showing signs of recovery, the dry bulk shipping sector saw demand-side fundamentals improving. However, the supply-side fundamentals remain dim since the outstanding orderbook for the global dry bulk fleet was 69.8% of the existing fleet.

Demand-side Positives

New loans to exceed Rmb8 trillion. The Vice-Chairman of the China Banking Regulatory Commission, Cai Esheng, expects China's new loans to exceed Rmb8 trillion in 2009, implying a robust 57% yoy growth, according to *Shanghai Securities News*. In our view, the robust loans growth represents improving confidence and strong domestic investment. Infrastructure-related and dry bulk shipping sector may benefit from the reviving domestic investment.

China to import 59% of total iron ore seaborne trade. The dry bulk shipping sector is increasingly affected by China's rising demand for commodities. According to Clarksons, China is expected to import 468mt (vs 443mt in 2008) of iron ore in 2009, accounting for 59% (2008: 52.5%) of total iron ore seaborne trade.

Rising A-share and improving PMI. The Shanghai A-share and the BDI are highly correlated while the A-share index is a leading indicator for the BDI. The rising A-share market may boost confidence and hence, investment.

China's PMI and steel demand are also highly correlated. The PMI in March rebounded to 52.4, the fifth consecutive recovery since last November, and bodes well for China's steel demand. Therefore, the rising A-share market and the PMI rebound may have a positive impact on the dry bulk shipping sector.

Stock Prices vs Baltic Dry Index

	Ticker	Price @ 27 Apr 09	2W (%chg)	1M (%chg)	12M (%chg)	YTD (%chg)	12M Corr Ratio
China COSCO	1919 HK	6.17	5.7	8.4	(73.9)	14.5	0.98
China Shipping	1138 HK	8.18	0.9	(1.1)	(69.4)	6.2	0.97
Pacific Basin	2343 HK	3.77	(3.3)	(5.8)	(73.2)	7.1	0.98
STX PO	STX SP	13.28	7.1	24.3	(63.4)	47.6	0.97
Precious Shipping	PSL TB	12.50	5.0	20.4	(51.8)	13.8	0.97
Thoresen Thai	TTA TB	16.30	5.8	24.4	(62.3)	6.7	0.98
Malaysian Bulk	MBC MK	2.97	(8.9)	(2.3)	(30.3)	24.3	0.92
Courage Marine	CMG SP	0.16	3.2	23.1	(62.4)	23.1	0.98
Mercator Lines	MRLN SP	0.14	0.0	0.0	(61.6)	(3.4)	0.97
Sincere Nav	2605 TT	31.20	(3.9)	3.0	(42.4)	4.0	0.95
U-Ming	2606 TT	57.30	2.3	6.9	(42.6)	45.8	0.95
Baltic Dry Index	BDIY	1,873	26.7	6.5	(79.6)	142.0	n.a.

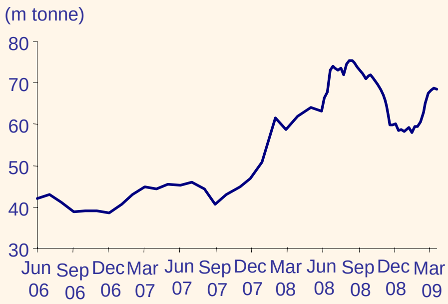
Source: Bloomberg; UOB Kay Hian

REGIONAL

Dry Bulk Shipping

UNDERWEIGHT

Chinese Ports Iron Ore Stockpiles



Source: Bloomberg; UOB Kay Hian

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Supply-side Negatives

Scrapping numbers exceeded 2008 level but still not enough. According to Clarkson Research, the volume of demolished bulkers in 1Q09 reached 99 units (2008: 93 units), aggregating 4.08m dwt. The 99 vessels were made up of five capesizes, 13 post-panamaxes, eight handymaxes and 73 handysize bulkers. Clarkson also forecasts scrapping to reach 22.7m dwt while new-vessel deliveries to reach 63.2m in 2009. That means the imbalance demand/supply capacity remains unchanged even though the dry bulk vessels scrapping numbers have seen a whopping surge this year.

Corporate Headlines

China COSCO FY08 profit dropped 40%. China COSCO's net profit plunged 40% yoy to Rmb11.6b in 2008 due to the provisions for contracts and the loss of freight forward agreement.

China Shipping Development 1Q09 net profit plunged 81% yoy to Rmb319m. The company expects 1H09 earnings to decline more than 50%.

Baltic Freight Indices

(% chg	Index	2W	1M	12M	ytd
Baltic Dry Index	1,873	26.7	6.5	(79.6)	142.0
Baltic Capesize	2,494	23.2	13.6	(81.6)	86.5
Baltic Panamax	1,662	45.3	8.9	(82.1)	197.8
Baltic Supramax	1,435	24.5	(0.1)	(72.8)	240.9
Baltic Handysize	692	9.0	(6.2)	(74.0)	146.3

Source: Bloomberg; UOB Kay Hian

1-Year Time Charter rates (US$/day)

Vessel	Rate	2W	1M	3M	6M	ytd
Capesize	21,500	19,750	19,000	18,500	15,000	15,000
Panamax	14,250	12,500	14,000	11,500	15,000	10,750
Handymax	13,000	11,000	12,250	9,500	14,000	9,500
Movement	**Rate**	**2W %**	**1M %**	**3M %**	**6M %**	**YTD %**
Capesize	21,500	8.9	13.2	16.2	43.3	43.3
Panamax	14,250	14.0	1.8	23.9	(5.0)	32.6
Handymax	13,000	18.2	6.1	36.8	(7.1)	36.8

Source: Clarksons, UOB Kay Hian

Capesize. Platts reported that BHP chartered in 13 Capesize ships for a total of 2.2mt of iron ore shipment in a week. BHP's move has boosted freight rates. Also, the transatlantic trade has seen more activity after the rail strike in Colombia was resolved. Average earnings rose 15.8% wow to US$19,987/day. However, sentiment changed last Thursday and earnings began to soften slightly.

Panamax. More grain and coal shipments from South America and India have fuelled demand for tonnage. Atlantic mineral trades and coal demand from China supported the freight rates. However, approaching holidays in Asia led some anxious owners to seek cover. Average earnings rose 16.0% wow to US$8,971/day.

A-share vs BDI

Source: Bloomberg; UOB Kay Hian

Iron Ore Seaborne Trade

% of total	2006	2007	2008	2009F
China	**45.1**	**49.0**	**52.5**	**59.0**
Japan	18.6	17.8	16.7	15.3
S. Korea	6.1	5.9	5.9	5.6
Germany	6.2	5.9	5.1	4.5
France	2.7	2.5	2.2	1.5
Italy	2.5	2.2	1.9	1.6
UK	2.3	2.3	1.8	1.5
Taiwan	2.1	2.0	1.9	1.7
Others	14.4	12.5	12.1	9.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Clarksons; UOB Kay Hian

Peer Comparison

Company	Ticker	Currency	Price @ 27 Apr 09	Fair Price	Rec	PE (x) 2008	PE (x) 2009F	PE (x) 2010F	P/B (x) 2008	P/B (x) 2009F	P/B (x) 2010F
Hong Kong											
China COSCO	1919 HK	HK$	6.17	4.00	SELL	4.8	98.4	40.6	1.06	1.18	1.09
China Shipping	1138 HK	HK$	8.18	4.85	SELL	4.5	11.7	12.8	1.14	1.09	1.03
Pacific Basin	2343 HK	HK$	3.77	3.20	HOLD	2.0	10.8	n.a.	0.67	0.65	0.71
Malaysia											
Malaysian Bulk Carriers	MBC MK	RM	2.97	n.a.	NR	16.1	16.9	12.4	1.68	1.66	1.57
Singapore											
Courage Marine	CMG SP	S$	0.16	n.a.	NR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mercator Lines	MRLN SP	S$	0.14	n.a.	NR	1.5	2.2	4.7	0.37	0.31	0.31
STX P O	STX SP	S$	13.28	4.35	SELL	3.7	50.9	n.a.	0.83	0.82	1.22
Taiwan											
Sincere Navigation	2605 TT	TWD	31.20	n.a.	NR	6.1	7.3	6.5	1.49	1.34	1.21
U-Ming Marine	2606 TT	TWD	57.30	n.a.	NR	4.7	13.0	20.8	1.84	1.90	1.91
Thailand											
Precious Shipping	PSL TB	Bt	12.40	8.30	HOLD	2.6	4.3	27.4	0.80	0.73	0.73
Thoresen Thai Agencies	TTA TB	Bt	16.30	13.80	SELL	1.2	12.8	n.a.	0.42	0.41	0.41
Average						**4.7**	**22.8**	**17.9**	**1.03**	**1.01**	**1.02**

Source: Bloomberg, UOB Kay Hian

Consumer

Swine flu epidemic - trading strategy

Share price correction of the consumer sector begun yesterday with only single-digit decrease. Some consumer stocks dropped as much as over 30% during SARS. Hence, we should not take this epidemic lightly.

Sector Event

More possible swine flu cases surfaced from Canada to New Zealand and the US had declared a public health emergency. Mexico, the outbreak's epicentre with more than 100 suspected deaths, cancelled some church services and closed markets, schools and restaurants. Few people ventured to the streets, and some wore surgical face masks. Canada became the third country to confirm cases in six people, including some students who — like some New York City spring-breakers — got mildly ill in Mexico. Countries across Asia promised to quarantine feverish travellers returning from flu-affected areas. Japan's cabinet held a special meeting to prioritise the production of a new vaccine. Health authorities across Asia tried to assure their nationals, saying they have sufficient inventories of anti-flu drugs to handle an outbreak. Joseph Domenech, chief of animal health service at U.N. Food and Agriculture Agency in Rome, said all indications were that the virus is being spread through human-to-human transmission.

Our View

While some believe the swine flu to be milder than the Severe Acute Respiratory Syndrome (SARS) with no death outside Mexico, we do not rule out the likelihood of swine flu triggering the same kind of damage and fear to the public. The share price correction of the consumer sector had begun yesterday with only single-digit decrease. Some consumer stocks dropped as much as over 30% during SARS. Hence, we should not take this epidemic lightly.

Near-term share price impact. Under the consumer sector, hotels and retailers will probably see as much as around 20-30% share price decline during the epidemic. They suffered only single-digit share price drop yesterday. Should the epidemic aggravates in the coming weeks, we expect more downside for these two groups. Food and beverage (F&B) and restaurants are expected to see as much as 10-20% share price decline. **For trading purpose, we would switch out of the consumer sector as their share prices have not dropped much (only single-digit). We recommend bottom-fishing consumer stocks when they fall by an accumulated 20-30% from their levels last Friday.**

In the longer term, focus on fundamentals. While we expect more downside in the near term, **we recommend investors to focus on the fundamentals of the specific consumer stocks as well as long-term economic outlook.** Current share prices of most consumer stocks are much higher than pre-SARS levels, thanks to the strong consumption boom in China and improving fundamentals.

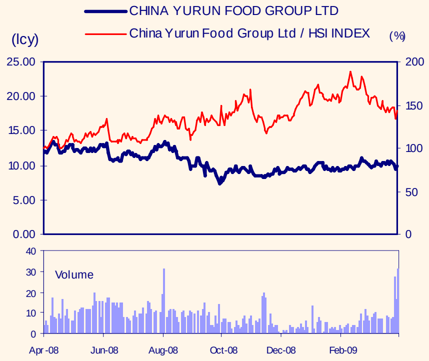
China Yurun and People's Food. China Yurun's (1068 HK; BUY; Target HK$13.70) share price dropped 10% yesterday. People's Food (PFH SP; BUY; Target: S$0.88) and Henan Shuanghui (000895 CH; NOT RATED) fell 4% and 3% respectively. Meanwhile, China Yurun and People's Food reported there was no case of their livestock being infected with swine flu. In fact, China Yurun and People's Food source all of their live pigs in China. Hence, their hog supplies are not inflicted with swine flu for the time being. For China Yurun, management has revealed that its operating performance is unaffected by unfavourable news last week associated with the harmful chemical Celenbuterol. As a result, we have decided to resume coverage for China Yurun as well as our BUY rating. However, we expect share prices will continue to be under pressure. Nonetheless, **we believe another 20% decline in share prices will trigger a BUY signal as People's Food's share price plunged not more than 10% during the SARS period.**

CHINA

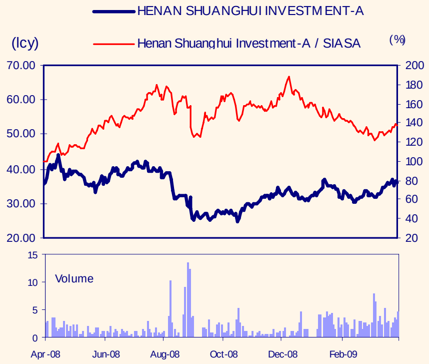
Consumer

UNDERWEIGHT

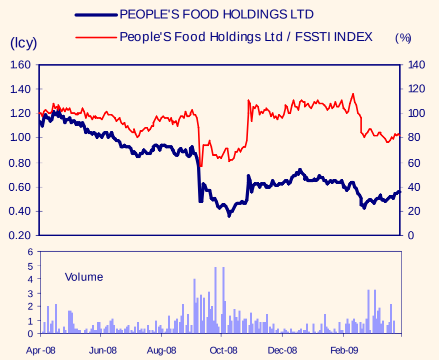
Price Chart



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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China Consumer Sector – Potential Downside

Company	Stock Code	Market Cap (US$m)	Closing Price 24 Apr 09 (HK$)	Closing Price 27 Apr 09 (HK$)	Share Price Change 27 Apr 09 vs 24 Apr 09 (%)	Closing Price 3 Mar 03 (HK$)	Lowest Price 3 Mar 03 to 30 Apr 03 (HK$)	Downside During SARS (%)
Food & Beverage								
TINGYI	322 HK	6,531	9.06	9.01	(0.6)	1.88	1.41	(25.0)
TSINGTAO BREWERY	168 HK	3,906	18.20	18.00	(1.1)	4.83	4.48	(7.3)
CHINA MENGNIU DAIRY	2319 HK	2,817	13.98	13.04	(6.7)	n.a.	n.a.	n.a.
UNI-PRESIDENT CHINA	220 HK	1,477	3.18	3.00	(5.7)	n.a.	n.a.	n.a.
CHINA FOODS LTD	506 HK	1,361	3.78	3.58	(5.3)	1.61	1.55	(3.8)
CHINA HUIYUAN JUICE	1886 HK	1,088	5.74	5.26	(8.4)	n.a.	n.a.	n.a.
VITASOY INTL HOLDINGS	345 HK	468	3.57	3.51	(1.7)	1.80	1.55	(13.9)
DYNASTY FINE WINES	828 HK	215	1.34	1.25	(6.7)	n.a.	n.a.	n.a.
KINGWAY BREWERY	124 HK	205	0.93	0.83	(10.8)	0.78	0.60	(24.1)
Weighted Average (F&B)					**(3.1)**			**(16.7)**
Hotels								
SHANGRI-LA ASIA LTD	69 HK	4,363	11.72	10.70	(8.7)	5.60	4.28	(23.7)
HK & SHANGHAI HOTELS	45 HK	1,140	6.09	5.70	(6.4)	3.68	2.80	(23.8)
REGAL HOTELS INTL	78 HK	209	1.60	1.49	(6.9)	0.62	0.52	(16.1)
Weighted Average (Hotels)					**(8.2)**			**(23.4)**
Department Stores								
PARKSON RETAIL GROUP	3368 HK	3,444	9.54	9.08	(4.8)	n.a.	n.a.	n.a.
LIFESTYLE INTL HLDGS	1212 HK	1,679	7.80	7.28	(6.7)	n.a.	n.a.	n.a.
GOLDEN EAGLE RETAIL	3308 HK	1,470	6.44	6.27	(2.6)	n.a.	n.a.	n.a.
INTIME	1833 HK	569	2.52	2.48	(1.6)	n.a.	n.a.	n.a.
Weighted Average (Department Stores)					**(4.5)**			**n.a.**
Media								
TELEVISION BROADCASTS	511 HK	1,630	28.85	26.60	(7.8)	23.95	22.60	(5.6)
Retailing & Cosmetics								
PORTS DESIGN LIMITED	589 HK	858	11.86	10.90	(8.1)	n.a.	n.a.	n.a.
GIORDANO	709 HK	308	1.60	1.55	(3.1)	2.40	1.86	(22.5)
SA SA INTERNATIONAL	178 HK	472	2.65	2.64	(0.4)	0.91	0.72	(20.9)
GLORIOUS SUN	393 HK	279	2.04	2.01	(1.5)	1.86	1.61	(13.4)
Weighted Average (Retailing & Cosmetics)					**(4.4)**			**(19.4)**
Restaurants								
CAFE DE CORAL	341 HK	1,091	15.22	14.80	(2.8)	4.90	4.30	(12.2)
Jewellery								
CHOW SANG SANG HLDG	116 HK	380	4.89	4.54	(7.2)	1.13	1.07	(5.8)
LUK FOOK HOLDINGS INTL	590 HK	144	2.27	2.12	(6.6)	0.76	0.54	(28.9)
Weighted Average (Jewellery)					**(7.0)**			**(4.0)**
General Merchandise Stores/Convenience Stores								
LIANHUA SUPERMARKET	980 HK	730	9.10	8.95	(1.6)	n.a.	n.a.	n.a.
AEON STORES HK	984 HK	335	10.00	9.71	(2.9)	2.30	1.54	(33.0)
CONVENIENCE RETAIL	8052 HK	170	1.80	1.75	(2.8)	1.96	1.65	(15.8)
Weighted Average (GMS/CS)					**(2.1)**			**(27.3)**
Meat Processors								
CHINA YURUN FOOD	1068 HK	1,778	10.02	9.00	(10.2)	n.a.	n.a.	n.a.
PEOPLE'S FOOD	PFH SP	386	S$0.53	S$0.51	(3.8)	S$0.90	S$0.82	(9.4)
Weighted Average (Meat)					**(9.0)**			**(9.4)**

Source: Bloomberg, UOB Kay Hian

China Shipping Container Lines

1Q09: Worse-than-expected earnings; tough outlook

CSCL posted a disappointing net loss of Rmb1.2b in 1Q09 due to margins contraction. We forecast CSCL to register a net loss in the next two years.

1Q09 Results (PRC GAAP)

Year End 31 Mar (Rmbm)	1Q08	1Q09	yoy % chg
Sales	10,804	4,530	(58.1)
Less: sales allowance and discounts			
Net Sales	10,804	4,530	(58.1)
Less: Cost of sales	(9,715)	(5,755)	(40.8)
Sales taxes	(70)	(46)	(34.5)
Gross profit	1,019	(1,271)	n.a.
Add: Other operating income	13	5	(61.9)
Impairment loss on assets	(14)	0	n.a.
General & admin. expenses	(128)	(108)	(15.6)
Financial expenses	(253)	(23)	(90.7)
Operating profit	637	(1,398)	n.a.
Add: Non-operating income	3	8	159.2
Less: Non operating expense	(0)	(0)	(18.0)
Total profit	640	(1,390)	n.a.
Less: Income tax	(123)	177	n.a.
Less: Minority interest	(6)	1	n.a.
Net profit	**510**	**(1,213)**	**n.a.**
Profitability (%)			
Gross margin	9.5	-28.3	
Operating margin	5.9	-31.2	
Net margin	4.8	-27.0	

Source: CSCL, UOB Kay Hian

Results

Net loss of Rmb1,213m in 1Q09, worse than expectations. China Shipping Container Lines' (CSCL) total revenue dropped 58% yoy to Rmb4,530m and net loss rose to Rmb1,213m (2H08: net loss of Rmb594m), below our forecasts and consensus. The disappointing results were due to the worsening negative gross margin.

Stock Impact

CSCL's sharply deteriorating top-line implies the company is facing pressure on freight rates amid declining cargo volume. CSCL's gross margin of -28.3% in 1Q09 also means a very tough time for the container shipping business. We maintain a cautious outlook on the container shipping sector because:

a) The global economy may not recover in the near term,

b) The weakening external demand from the US and the EU (revenue generated from Transpacific and Europe/Mediterranean lanes accounted for 63.2% of CSCL's total revenue in 2008), and

c) Overcapacity – new-vessel deliveries will remain at a high level in 2009-11.

Therefore, we expect CSCL to continue to post a net loss in the next two years.

CHINA

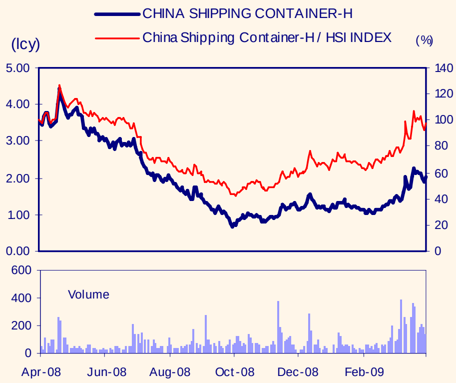
China Shipping Container Lines (2866 HK)

SELL

Current Price: HK$1.82
Fair Price: HK$0.68

Sector	Transport
52-Wk Avg Daily Vol. ('000)	77,991
Market Cap (H-share) (HK$m)	6,827
(US$m)	875
Major Shareholders (%)	
China Shipping Group	49
Book NTA per Share (Rmb)	2.7
ROE (%)	0.2
Net Debt per Share (HK$)	Net cash
Results Due	
Interim	August
Final	March

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	39,072	5,743	3,230	0.34	271	4.7	1.5	0.04	2.2
2008	34,756	1,717	43	0.00	(99)	433.5	11.9	0.00	0.0
2009F	29,972	63	(1,952)	(0.17)	n.a.	n.a.	463.0	0.00	0.0
2010F	30,730	2,016	(175)	(0.02)	(91)	n.a.	16.9	0.00	0.0
2011F	33,309	3,389	995	0.09	n.a.	18.7	11.2	0.02	0.9

Consensus Net Profit – FY09: -Rmb1,572m
– FY10: -Rmb348m

Unfavourable demand/supply balance. According to Clarkson Research, the global container fleet capacity will grow 12% but demand will decline 3% in 2009, which means an oversupply of 15%. Also, as at Apr 09, the outstanding orderbook for the global container fleet was 40.9% of the current fleet. Over the next few years, we will see high levels of deliveries. In our view, CSCL may continue to faces pressure on freight rates amid the declining cargo volume.

Valuation/Recommendation

The stock is trading at 0.63x 2010F P/B (historical average of 1.0x P/B). Our fair price of HK$0.68 is equivalent to 0.24x 2010F P/B as CSCL is expected to post a net loss in the next two years. Also, the container shipping sector is still in a downcycle. CSCL's valuations are demanding. **SELL.**

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	39,072	34,756	29,972	30,730	33,309
EBIT	4,384	367	(1,449)	344	1,559
Pre-tax Profit	3,836	65	(1,805)	(160)	924
Net Profit	3,230	43	(1,952)	(175)	995
EPS (Rmb)	0.34	0.00	(0.17)	(0.02)	0.09

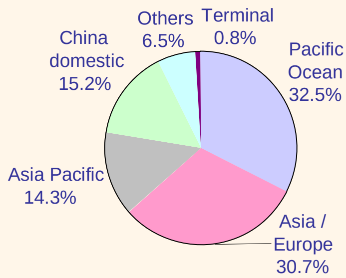
Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	21,882	14,796	9,163	9,760	10,943
Total Assets	51,925	49,717	47,114	52,013	57,621
Current Liabilities	7,172	9,137	7,145	7,761	5,915
Long-Term Loans	9,784	8,842	10,182	14,641	21,100
Shareholders' Funds	34,970	31,738	29,786	29,611	30,606
Total Equity & Liabilities	51,925	49,717	47,114	52,013	57,621

Cash Flow

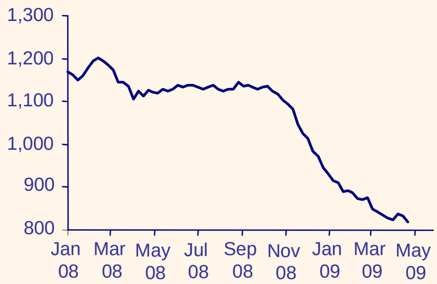
Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	6,345	3,125	(809)	2,022	3,423
Investing	(6,058)	(8,965)	(1,677)	(1,677)	(1,677)
Financing	13,006	1,117	(3,177)	318	(755)
Net Cash Inflow/(Outflow)	13,294	(4,722)	(5,663)	662	991
Begin Cash & Cash Equiv.	2,916	16,398	11,676	6,013	6,675
End'g Cash & Cash Equiv.	16,209	11,676	6,013	6,675	7,667

Revenue Breakdown by Market



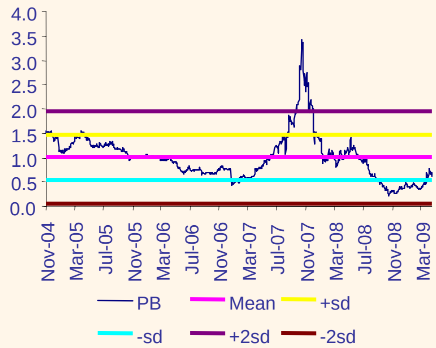
Source: CSCL, UOB Kay Hian

China Containerized Freight Index



Source: Shanghai Shipping Exchange

P/B



Source: Bloomberg, UOB Kay Hian

Greentown China Holdings

2008: Underperforming sales and stretched balance sheet

Greentown reported weaker-than-expected 2008 results, mainly due to declining gross margin and loss provision on projects. Slow sales and stretched balance sheet are the key concerns. Maintain SELL.

2008 Results

	2008 (Rmbm)	2007 (Rmbm)	yoy % chg	Remarks
Turnover	6,635.4	5,738.8	15.6	35.7% growth of GFA booked
Gross Profit	1,869.6	2,063.6	(9.4)	
Exceptional gains	297.0	150.8	n.a.	Mainly boosted by forex gains
Revaluation gains	(275.2)	16.7	(1747.9)	Loss provision on projects
Pre-tax Profit	1,195.7	1,735.5	(31.1)	
LAT	(346.0)	(416.9)	(17.0)	5.2% of 2008 sales revenue
Income Tax	(283.1)	(313.0)	(9.6)	
Net Profit	540.3	923.4	(41.5)	
Net Profit (Ex EI)	525.7	830.7	(36.7)	
Gross Margin (%)	27.8	36.1	(8.3)	Lower ASP

Source: UOB Kay Hian

Results

Greentown China Holdings' (Greentown) 2008 net profit dropped 41% to Rmb540m, below our estimate of Rmb733m and market consensus of Rmb901m. The poorer-than-expected results were mainly due to declining gross margin and fair value provision on a few projects.

Stock Impact

Gross margin plunged in 2008. Gross margin declined sharply from 36.1% in 2007 to 27.8% in 2008 mainly due to the following: a) change of sales mix with lower contribution from villa projects and high-end projects in Shanghai, b) 15.1% yoy fall in average selling prices (ASP), and c) thin margins achieved on Ningbo Crown Project and Ningbo Research & Development Park Project, mainly due to high acquisition cost and being a price-capped project respectively.

Loss provision on projects. Greentown also made a loss of Rmb274m from fair value revaluations on a few projects, including New Jiangwan City in Shanghai (Rmb148m) and Sheration Hotel (Rmb53m). Greentown recently switched New Jiangwan City with Qianjiang New City in Hangzhou with Wharf (4 HK).

We estimate 2009 contracted sales at Rmb17.0b. Greentown achieved total contracted sales of Rmb15.0b in 2008. Management estimates the total GFA available for sale at 3.1m sqm in 2009, much higher than the 2.1m sqm in 2008. Nonetheless, the company achieved contracted sales of only Rmb2.58b in 1Q09. We conservatively estimate Greentown's 2009 sales to increase 13% yoy to Rmb17.0b. Thus, the company secured only 15% of our 2009 sales estimate, underperforming its peers' average locked-in sales ratio of about 30% in 1Q09.

CHINA

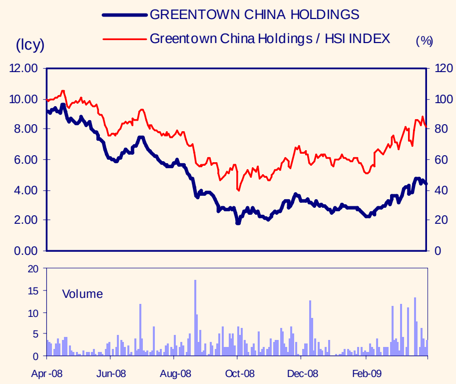
Greentown China Holdings (3900.HK)

SELL

Current Price: HK$4.13
Fair Price: HK$3.50
(Previous: HK$3.80)

Sector	Property
52-Wk Avg. Daily Vol. ('000)	2,618
Market Cap (HK$m)	6,288
(US$m)	806
Major Shareholders (%)	
Song Weiping	36.5
Book NTA per Share (HK$)	5.39
ROE (%)	6.62
Net Debt per Share (HK$)	9.60
Result 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 (*)	EV/ EBITDA (*)	DPS (Rmb¢)	Yield (%)
2007	5,739	2,002	923	63.2	(27.2)	6.7	5.8	32.0	8.1
2008	6,635	1,660	540	35.0	(41.5)	11.5	10.4	28.8	7.3
2009F	7,971	1,674	754	49.5	41.4	8.1	11.6	28.8	7.3
2010F	9,264	2,125	932	61.2	23.6	6.6	10.3	28.8	7.3
2011F	11,471	2,583	1,021	67.1	9.6	6.0	9.6	28.8	7.3

Consensus Net Profit –FY09: Rmb1,154m
– FY10: Rmb1,504m

The most stretched balance sheet. Net gearing remained tight at 142% by end-08, the highest in the sector. We expect the recent repurchase of a US$400m bond and a refinancing deal via a trust to reduce net gearing slightly to 138%.

On the other hand, we estimate total 2009 capex at Rmb18.0b, including outstanding land premium payment of Rmb6.0b, construction costs of Rmb9.0b and other operating costs of Rmb3.0b, which is higher than our estimated contracted sales of Rmb17b. We expect net gearing to be above 150% in 2009.

To adjust development and completion schedule. Greentown slashed the 2009 new-started areas from 7.8m sqm in mid-08 to 2.14m sqm, which is also about 29% lower yoy. Meanwhile, it also trimmed the 2009 completion area to 1.3m sqm vs 2.2m sqm previously.

Earnings Revision

Due to the lower-than-expected gross margins and higher sales and administrative costs, we conservatively revise down Greentown's net profit by 26% to Rmb754m for 2009 and 29% to Rmb932b for 2010.

Valuation/Recommendation

We lower Greentown's NAV by 13% from HK$10.80 to HK$9.37 due to higher-than-expected net debt of Rmb14.2b by end-08 vs our previous estimate of Rmb12.4b. The stock is trading at a 56% discount to NAV. We trim our target price by 8% from HK$3.80 to HK$3.50, based on a 62% discount to current NAV, which is also lower than the sector average of a 40% discount on the back of its highest net gearing in the sector and poor sales performance.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	5,739	6,635	7,971	9,264	11,471
EBIT	1,953	1,597	1,596	2,032	2,472
Pre-tax Profit	1,736	1,196	1,131	1,501	1,869
Net Profit	923	540	754	932	1,021
EPS (Rmb cents)	63.2	35.0	49.5	61.2	67.1

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	30,324	39,278	43,401	48,441	54,402
Total Assets	32,866	42,815	47,791	53,500	60,128
Current Liabilities	13,972	22,876	21,285	24,113	27,262
Long-Term Loans	7,248	7,385	13,361	15,365	17,670
Shareholders' Funds	8,108	8,209	8,612	9,193	9,864
Total Equity & Liabilities	32,866	42,815	47,791	53,500	60,128

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	(5,145)	(2,154)	(235)	(425)	(593)
Investing	(1,386)	(2,120)	(105)	(121)	(139)
Financing	6,159	2,895	1,169	806	832
Net Cash Inflow/(Outflow)	(372)	(1,379)	829	260	101
Begin Cash & Cash Equiv.	3,249	2,877	1,498	2,327	2,587
End'g Cash & Cash Equiv.	2,877	1,498	2,327	2,587	2,688

Harbin Power

2008: Net profit down 32% yoy; more challenges ahead

Net profit dropped 32% yoy, 13% below consensus and 7% below our forecast. Despite continued raw material cost pressure, we expect output to plummet by 30% this year due to weak demand from IPPs. Maintain SELL.

2008 Results

	2008 (Rmbm)	2007 (Rmbm)	yoy % chg	Remarks
Turnover	29,904	27,649	8.2	Driven by: a) a flat thermal equipment sales and b) 32% yoy higher hydro equipment sales
COGS	25,896	23,321	11.1	Due to rising material cost, particularly steel
Gross profit	4,007	4,328	(7.4)	
Gross margin (%)	13.4	15.7	(14.4)	Due to rising material cost, particularly steel
SG&A expenses	2,653	2,450	8.3	Due to higher revenue
Finance cost	195	155	26.0	Due to: a) rising interest rate and b) foreign exchange loss
Profit before tax	1,573	2,116	(25.6)	
Taxation	290	331	(21.6)	Due to lower pre-tax income
Net profit	1,042	1,528	(31.8)	
EPS (Rmb/sh)	0.76	1.12	(31.8)	
DPS (Rmb/sh)	0.08	0.09	(17.6)	

Source: UOB Kay Hian

Results

Harbin Power's top line growth 8% yoy in 2008 while it disappointed the market with a 32% yoy fall in net profit, due largely to rising material cost. Basic EPS was Rmb0.76, 13% and 7% below market consensus and our forecast of Rmb0.87 and Rmb0.82 respectively.

The company declared a DPS of Rmb0.075/share, representing a payout ratio of 10%.

Stock Impact

Despite the poor financial results, we believe Harbin Power will remain more vulnerable to power equipment demand destruction and rising steel cost, given its highest revenue exposure into tradition thermal equipment with low margin vs peers.

Thermal equipment – biggest victim of lower domestic demand. Thermal equipment sales (which accounted for 69% of Harbin Power's total revenue) was flat at Rmb20,493m. This year, we expect a 30% fall in thermal equipment sales due to severe overcapacity problem in the domestic power industry.

Hydro equipment – steady growth under government support. Unlike thermal equipment, Harbin Power's hydro equipment sales surged 32% yoy. Going forward, we expect a 10-15% yoy increase in hydro equipment sales in 2009-10, given the government's support for clean energy development. However, it cannot offset slowing thermal equipment sales given its revenue exposure of only 10%.

CHINA

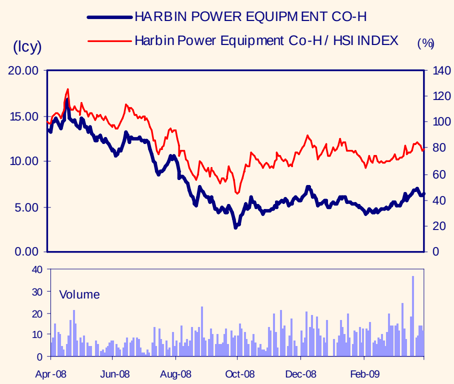
Harbin Power (1133 HK)

SELL

Current Price: HK$5.89
Fair Price: HK$4.50
(Previous: HK$3.50)

Sector	Power equipment
52-Wk Avg Daily Vol. (m)	8.7
Market Cap (HK$m)	8,109.4
(US$m)	1,039.7
Major Shareholders (%)	
Harbin Power Group	50.9
Book NTA per Share (Rmb)	6.9
ROE (%)	10.9
Net cash per Share (Rmb)	1.8
Results Due	
Interim	August
Final	March

Price Chart



Source : Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	27,649	2,480	1,528	1.12	49.1	4.8	2.4	0.09	1.6
2008	29,904	1,921	1,042	0.76	(31.8)	7.1	5.6	0.09	1.7
2009F	22,663	1,623	662	0.48	(36.5)	11.1	5.1	0.05	0.9
2010F	22,409	1,643	654	0.48	(1.1)	11.3	4.8	0.05	0.9
2011F	22,750	1,696	667	0.48	2.0	11.0	4.8	0.05	0.9

Consensus Net Profit – FY09:Rmb1,026m
– FY10:Rmb1,072m

We believe Harbin Power's poor financial results are just a early Two catalysts are driving PetroChina's share price in the short term. The NDRC raised fuel price on Mar 25, which is triggering a re-rating for refining industry. Owning of approximately 35% of China's total refining capacity, PetroChina will benefit from this re-rating. Another catalyst is oil price strength recently. Benchmark WTI has risen to US$47/bbl in Mar for US$42/bbl in Jan and we expect this momentum to continue for a while.

Margin deterioration still on the way. Harbin Power's gross margin dipped 2.25ppt to 13.4% in 2008, largely due to sky-high steel prices in mid-08. However, we believe it is just an early reflection of margin deterioration of the company given that most of the raw materials should be purchased 6-12 months in advance.

Strong orders on hand may not be realised. Harbin Power's total orders on hand amounted to Rmb91.5b, representing three times that of 2008 revenue. However, since at least 50% of the thermal equipment orders has not been approved by the government, we believe the orders may not be fully realised over the next few years and there will be increasing delays in product delivery, going forward.

Valuation/Recommendation

Consensus still too high, we expect risks of missing consensus and further de-rating. Given our view of significant demand reduction for thermal equipments and margin deterioration this year, we believe the nearly flat earnings forecast from *Bloomberg* consensus is totally unjustifiable and expect continued risks of missing consensus and de-rating. Maintain SELL with a fair price of HK$4.50, based an on industry average 0.5x 2010 P/B.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	27,649	29,904	22,663	22,409	22,750
EBIT	2,014	1,527	1,176	1,156	1,169
Pre-tax Profit	2,116	1,573	1,077	1,067	1,082
Net Profit	1,528	1,042	662	654	667
EPS (Rmb)	1.12	0.76	0.48	0.48	0.48

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	38,219	44,116	34,514	34,891	35,881
Total Assets	42,090	47,919	41,378	42,105	43,553
Current Liabilities	27,904	30,497	23,422	23,236	23,633
Long-Term Liabilities	5,774	8,901	7,647	7,828	8,132
Shareholder Funds	8,412	9,568	10,309	11,041	11,788
Total Equity & Liabilities	42,090	48,967	41,378	42,105	43,553

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	3,560	(738)	2,224	1,286	1,241
Investing	(1,010)	(1,007)	(344)	(435)	(445)
Financing	974	420	(362)	(191)	(194)
Net Cash Inflow	3,524	(1,325)	1,518	660	602

Industrial & Commercial Bank of China

1Q09: Improving asset quality to lower credit costs for the year

ICBC continues to report improving asset quality with declines in both NPL balance and ratio. Surge in credit costs will no longer be major concern for 2009. Upgrade to BUY on solid outlook for the next three quarters.

Results

Year to 31 Dec	1Q09 (Rmbm)	yoy % chg	Remarks
Net interest income	57,748	(12.9)	NII fell as successive rounds of interestrate cuts over 4Q08 took full effect in 1Q09
Net fee and commission income	13,548	9.7	
Net operating income	72,630	(4.3)	
Provision for impairment	(4,203)	(50.4)	Provisions for loans and investments decreased
Net Profit	35,153	6.2	Net income increased due to lower provisioning
Financial Indicators (qoq changes unless stated otherwise)			
CIR	25.87	-397bp	Strong cost control
NPL ratio	1.97	-32bp	Ratio continued to decline on stable NPL balance
NPL balance	102,650m	-1.8%	NPL balance declined on strong loan growth
Coverage Ratio	132.02	+200bp	Rate rose from 130% for end-08
NIM	2.30	-65bp	NIM contracted by about 65bp
Tier 1	9.97	-78bp	Tier-1 ratio fell due to high loan growth

Source: UOB Kay Hian

Stock Impact

Earnings increase driven by lower provisioning. Industrial & Commercial Bank of China (ICBC) reported a net profit of Rmb35.15b, up 6.2% yoy, which beat market expectations. The increase in earnings on a yoy basis despite net interest margin (NIM) compression and the high base in 1Q08 was mostly due to reduced provision charges on loans and investments. Impairment charges on loans dropped 31% yoy to Rmb3.9b and impairment charges on investments fell 90% yoy to Rmb278m. Due to lower provisions, coverage ratio remained largely flat qoq at 132%. The provision ratio for ICBC's subprime-related investments increased to 73.1%, with an impairment allowance of US$1.81b on US$2.48b worth of investments.

NIM compression in line with CCB. Although ICBC did not disclose its NIM for 1Q09, we estimate NIM at 2.30% for the quarter, reflecting a drop of 65bp qoq, which is comparable to China Construction Bank's (CCB) 68bp compression.

Asset quality continued to improve and will remain strong for the full year. ICBC's non-performing loan (NPL) balance continued to decline in 1Q09, dropping 1.8% to Rmb102,650m. With the domestic economy appearing to be bottoming out on the back of record loan growth, it is becoming increasingly likely that asset quality will remain healthy for the full year.

CHINA

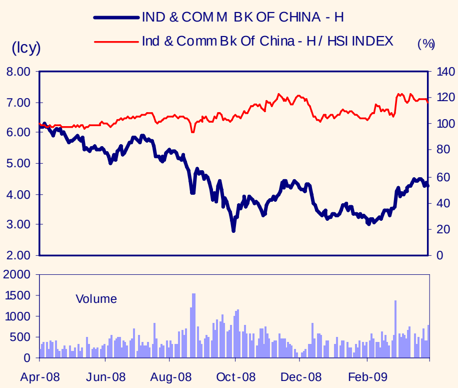
Industrial & Commercial Bank of China (1398 HK)

UPGRADE TO BUY

Current Price: HK$4.02
Target Price: HK$4.75
(Previous: HK$4.05)

Sector	Banking
52-Wk Avg Daily Vol. (m)	465
Market Cap (HK$m)	1,370,780
(US$m)	175,741
Major Shareholders (%)	
Ministry of Finance	35.3
Huijin	35.3
Book NTA per Share (Rmb)	1.78
ROE (%)	19.43
Results Due	
Interim	August
Final	March

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Operating Income (Rmbm)	PPOP (Rmbm)	Net Profit (Rmbm)	EPS (Rmbm)	EPS Growth (%)	PE (x)	P/B (x)	DPS (Rmb)	Yield (%)
2007	256,029	152,768	82,968	0.24	28.8	14.8	2.23	0.28	7.7
2008	310,195	198,860	110,841	0.33	36.9	10.8	2.01	0.16	4.6
2009F	289,692	180,030	116,293	0.35	4.2	10.4	1.81	0.17	4.8
2010F	329,403	208,026	123,289	0.37	6.0	9.8	1.65	0.18	5.1
2011F	361,683	220,610	133,438	0.40	8.2	9.1	1.51	0.20	5.5

Consensus Net Profit – FY09: Rmb110,403m
– FY10:Rmb125,346m

Earnings Risk

Primary risks are worse-than-expected asset quality deterioration and worse-than-expected NIM compression.

Valuation/Recommendation

Forecasts raised on reduced NPL formation; upgrade to BUY. As the economy appears to be bottoming out, driven by the massive stimulus package and record loan growth, it is very unlikely that asset quality will deteriorate this year. We believe NPL balance will continue to decline for 2Q-3Q09 before possibly seeing a very mild rebound. For the full year, NPL balance is likely to remain flat at the 1Q09 figure of Rmb102.7b. Although ICBC held back on its impairment charges in 1Q09, the charges will pick up over the next three quarters as ICBC increases its coverage towards the China Banking Regulatory Commission's (CBRC) recommended level of 150%. We also factor in an NIM compression of 60bp as we expect NIM to recover over the next three quarters as discounted bills (making up 30% of new loans in 1Q09) migrate into actual credit loans.

In aggregate, we raise our 2009 and 2010 net profit by 15% and 7% respectively to Rmb116b and Rmb123b. Given the recent pullback in share prices, we believe ICBC will offer attractive value once the temporary share-sale overhang subsides. Therefore, we upgrade the stock from HOLD to BUY with a revised target price of HK$4.75, reflecting 2.15x 2009 P/NTA and 12.3x 2009 PE. In arriving at our target price, we assume a leverage ratio of 16x for our sustainable ROE of 18.5%. ICBC is trading at 1.83x 2009 P/NTA and 10.4x 2009 PE.

Possible sell-down by strategic shareholders to be short-term overhang. On 28 April, 7.1b ICBC shares will become eligible for sale (638m shares held by American Express Co, 3.2b held by Allianz and 3.3b held by Goldman Sachs).

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Net interest income	224,465	263,037	236,364	267,563	289,928
Operating expenses	(103,261)	(111,335)	(109,662)	(121,377)	(141,073)
Pre-provision profit	152,768	198,860	180,030	208,026	220,610
Net profit	82,968	110,841	116,293	123,289	133,438

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Cash and Balance with Central Banks	1,141,461	1,693,024	1,336,367	1,425,281	1,605,755
Total Gross Loans	3,821,126	4,245,679	5,027,338	5,654,870	6,371,080
Total Assets	8,683,396	9,757,146	10,597,344	11,774,828	13,199,897
Deposits	5,109,200	5,660,462	6,326,390	6,898,413	8,223,446
Total Liabilities	8,139,740	9,150,516	9,926,672	11,039,014	12,392,286
Total Shareholder's Equity & Liabilities	8,683,396	9,757,146	10,597,344	11,774,828	13,199,897

Ping An Insurance

1Q09: Earnings a disappointment, but to improve from 2Q09

1Q09 net profit down 72% yoy on huge one-time expense related to Xuji Group acquisition. Expect earnings to recover from 2Q09 but shares will be under substantial short-term selling pressure. Maintain BUY.

Results

Year to 31 Dec	1Q09 (Rmbm)	yoy % chg	Remarks
Net premium income	29,651	20.0	Driven by sales of agency products and bancassurance products
Investment income	5,449	(31.8)	Decreased due to lower bond yields caused by interest rate cuts over 4Q08
Total income	38,590	8.5	
Claims, benefits and expenses	(27,611)	29.1	Went up due to high premium growth for 1Q09 and under-reserving for 2008
G&A expense	(5,969)	24.0	Due to Xuji Group acquisition
Net Profit	1,986	(72.0)	

Source: UOB Kay Hian

Stock Impact

Ping An Insurance's (Ping An) 1Q09 results were disappointing as net profit fell 72% yoy. Despite Ping An's high base of Rmb7.1b for 1Q08, earnings for 1Q09 were nevertheless surprisingly low on higher-than-expected G&A expenses and a higher tax charge.

Total investment income declined 31.8% yoy to Rmb5.45b, largely due to lower interest income from bonds. The decline in net interest income was likely offset by fair value gains on Ping An's trading portfolio as the A-share market was up by close to 30% for 1Q09.

Charges for policyholder reserves were also up 29% yoy as an increase in premium growth led to higher growth in reserves. We also attribute the increase to under-reserving last year.

A 40% rise in commission expenses was largely due to the higher proportion of bancassurance products sold in 1Q09 as well as strong sales at Ping An's agency business.

Earnings Risk

A-share market volatility and prolonged period of low interest rates.

Recommendation

1Q09 results were disappointing and will disappoint the market. Ping An provided few details in its 1Q09 report and the lack of disclosure makes it difficult to pinpoint the drivers that caused unexpected rises in G&A expenses. We attribute the increase in expenses to Ping An's acquisition of Xuji Group, thereby making it a one-off expense.

CHINA

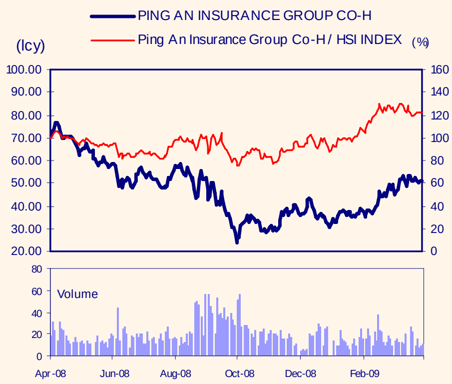
Ping An Insurance (2318 HK)

BUY

Current Price: HK$49.70
Target Price: HK$50.10
(Previous: HK$57.75)

Sector	Insurance
52-Wk Avg Daily Vol. (m)	18.9
Market Cap (HK$m)	335,145
(US$m)	42,967
Major Shareholders (%)	
HSBC	16.80
Book NTA per Share (Rmb)	11.30
ROE (%)	0.03
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	73,606	22,004	18,688	2.50	138.4	17.9	2.2	0.50	0.9
2008	90,218	(2,979)	268	0.04	-98.6	1248.2	2.7	0.01	0.0
2009F	121,255	15,055	12,868	1.72	4701.5	26.0	2.3	0.61	1.1
2010F	150,361	19,468	16,937	2.27	31.6	19.8	1.9	0.79	1.4
2011F	183,996	23,617	20,547	2.75	21.3	16.3	1.5	0.97	1.8

Consensus Net Profit – FY09: Rmb14,768m
– FY10: Rmb17,219m

Nevertheless, we revise down our 2009 net profit estimate by 22% and 2010 net profit forecast by 23% to factor in higher-than-expected G&A expenses. The impact on embedded value will be much more muted as we expect Ping An's EV/share to decline only 6% to Rmb19.44/share. We lower our target price to HK$50.10, reflecting 2.3x 2009 P/EV and 26.2x 2009 PE, but maintain our BUY recommendation.

Despite the weak 1Q09 results, we remain positive on Ping An's full-year prospects as we believe the spike in G&A expenses will be one-time in nature, and Ping An's quarterly performance will begin to improve from 2Q09 onwards as it posted very weak results for the last three quarters of 2008 at Rmb2.39b, (Rmb7.95b) and (Rmb1.27b) respectively.

Given the weak results, Ping An's shares will be under substantial short-term selling pressure as investors will undoubtedly be disappointed. However, we believe Ping An shares will offer attractive value again after the larger-than-expected pullback and initial negative reactions subside. Meanwhile, we prefer China Life as it has proven that its earnings are on track for a strong recovery in 2009.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Net earned premiums	73,606	90,218	121,255	150,361	183,996
Net Investment income	15,257	18,629	21,655	29,760	36,804
Net profit	18,688	268	12,868	16,684	20,269
EPS	2.54	0.04	1.75	2.27	2.76

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Investment Assets	511,825	530,290	588,902	712,790	869,321
Total Assets	691,298	766,072	866,777	999,342	1,163,617
Total Liabilities	577,447	651,206	743,426	865,009	1,015,950
Equity	113,851	114,066	122,430	133,275	146,450

Shimao Property

2008: Lower profit due to completion delays but strong ytd sales

Shimao's 2008 results were lower than our estimates and consensus due to delays in project bookings, but better-than-expected ytd sales should be a catalyst. Maintain BUY.

2008 Results

	2008 (Rmbm)	2007 (Rmbm)	yoy % chg	Remarks
Property	6,244.10	8,631.30	(27.7)	Lower GFA booked
Hotel	771.20	565.98	36.3	New hotel contribution
Rental Income	180.10	78.60	129.1	
Turnover	7,196.30	9,275.92	(22.4)	
Gross Profit	3,232.0	3,960.2	(18.4)	
Other gains	319.4	2,769.4	(88.5)	Less revaluation and disposal gains
Pre-tax Profit	1,785.5	5,608.0	(68.2)	
LAT	(520.5)	(754.3)	(31.0)	8.3% of 2008 property sales revenue
Income Tax	(404.7)	(680.3)	(40.5)	
Net Profit	860.3	4,173.8	(79.4)	
Gross Margin (%)	44.9	42.7	2.2	

Source: UOB Kay Hian

Results

Shimao Property's (Shimao) 2008 net profit came up to Rmb841m. Excluding the loss on revaluation of investment properties, adjustment of goodwill and depreciation of hotels, the underlying 2008 core profit declined 39% yoy to Rmb1.1b, much lower than our estimate of Rmb1.72b and market consensus of Rmb2.35b. The lower-than-expected earnings were mainly due to completion delays, which lead to a 22% yoy decline in top-line growth to Rmb7.2b, about 32% lower than our estimate of Rmb10.6b.

Stock Impact

Strong ytd sales. Shimao reported stronger-than-expected ytd contracted sales of Rmb6.6b as at 24 April, representing 44% of 2009 sales target of Rmb15b, one of the highest locked-in sales figures in the sector. The strong sales remains the major catalyst for this counter.

Net gearing declined on the back of share placement. Shimao's net gearing stood at about 66% as of end-08. We estimate the share placement involving Rmb1.94b should reduce net gearing to 52%. Management projected 2009 total capex at Rmb12.0b, including outstanding land premium payment of Rmb2.5b, construction costs of Rmb6.0b and other expenditure of Rmb3.5b. With contracted sales estimated at Rmb15.0b, a positive net operating cash inflow can be expected this year and thereby help maintain a healthy balance sheet.

CHINA

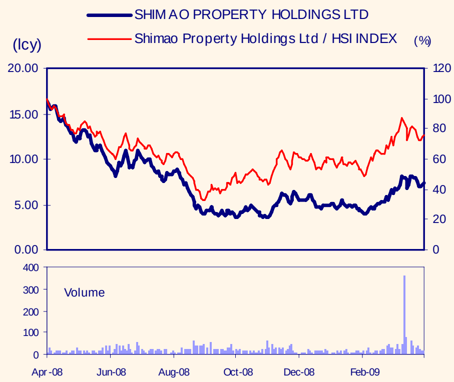
Shimao Property (813.HK)

BUY

Current Price: HK$6.98
Target Price: HK$8.00
(Previous: HK$8.50)

Sector	Property
52-Wk Avg. Daily Vol. (m)	19.2
Market Cap (HK$m)	27,113
(US$m)	3,476
Major Shareholders (%)	
Hui Wing Mau	55.2
Book NTA per Share (HK$)	5.77
ROE (%)	27.3
Net Debt per Share (HK$).	2.20
Result 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	9,276	5,898	4,092	1.27	49.0	5.7	5.8	0.31	4.0
2008	7,196	2,187	841	0.26	(79.9)	26.5	18.2	0.12	1.6
2009F	12,184	3,229	1,462	0.42	65.6	16.0	12.7	0.13	1.7
2010F	15,022	4,409	2,178	0.62	45.6	11.0	9.7	0.19	2.4
2011F	18,479	5,595	2,800	0.79	28.5	8.6	7.9	0.24	3.1

Consensus Net Profit – FY09: Rmb2,642m
– FY10: Rmb3,000m

Margin would remain high in the sector on the back of strategic exposure to Yangtze River Delta (YRD) region. In 2008, Shimao's gross margin continued to improve from 42.7% in 2007 to 44.9%, at the high end of the sector range. We estimate average housing prices in YRD region have fallen by 15-20% from the peak in 2007, less than the 20-40% price drop in the Pearl River Delta region and the 20-30% decline in Beijing. Thanks to its strategic focus on the region, which accounts for more than 70% of its total NAV, the resilient price performance in YRD should allow Shimao to be relatively defensive in margins. Shimao's gross margin could reach 39% and 41% in 2009 and 2010 respectively.

To slash completion areas in 2009. Shimao has slashed its 2009 completion areas from 3.4m sqm in mid-08 to 1.4m sqm. One of the key reasons for the sharp downward revision in the development and completion schedule is mainly due to the company's move to reduce its inventories rather than build up new inventories.

Earnings Revision

In the light of the slowdown in the development and completion schedule, we cut our top-line estimates by 12% and 11% for 2009 and 2010 respectively. We also lift operating expenditure forecasts by Rmb281m and Rmb283m for the next two years. As a result, we slash 2009 earnings by 33% to Rmb1.46b and 2010 net profit by 23% to Rmb2.18b.

Valuation/Recommendation

The stock is trading at a 49% discount to current NAV of HK$13.61, vs the sector average of a 40% discount to NAV. Due to its weaker-than-expected 2008 results and slowdown in completion schedule, we revise down Shimao's target price by 6% from HK$8.50 to HK$8.00, based on a 40% discount to NAV. With the poorer-than-expected results, we expect a near-term correction of the stock. Nonetheless, we still favour this stock for its stronger-than-expected property sales and improved balance sheet.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	9,276	7,196	12,184	15,022	18,479
EBIT	5,878	2,163	3,201	4,376	5,557
Pre-tax Profit	5,608	1,786	2,799	3,927	5,054
Net Profit	4,092	841	1,462	2,178	2,800
EPS (Rmb cents)	127.4	25.6	42.4	61.7	79.3

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	17,542	21,699	25,887	30,453	36,017
Total Assets	39,271	46,481	51,974	58,060	65,461
Current Liabilities	8,435	14,944	13,844	16,557	19,966
Long-Term Loans	10,384	10,895	14,336	16,057	17,983
Shareholders' Funds	18,448	18,696	21,657	23,182	25,142
Total Equity & Liabilities	39,271	46,481	51,974	58,060	65,461

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	(1,387)	(4,250)	(817)	1,425	1,753
Investing	(6,361)	(925)	(2,077)	(2,285)	(2,513)
Financing	6,395	2,393	3,357	1,301	1,350
Net Cash Inflow	(1,353)	(2,782)	462	442	589
Beginning Cash	5,950	4,596	1,814	2,277	2,719
Ending Cash	4,596	1,814	2,277	2,719	3,308

Shimao Current NAV

	Current NAV	% of NAV
Development properties:		
Shanghai	5,832	10%
Kunshan	3,118	5%
Suzhou	2,539	4%
Changshu	2,380	4%
Changzhou	2,652	5%
Xuzhou	1,872	3%
Nanjing	1,539	3%
Taizhou	652	1%
Hangzhou	4,805	8%
Shaoxing	2,689	5%
Ningbo	2,001	3%
Jiaxing	1,461	3%
Wuhu	1,041	2%
Wuhan	3,787	7%
Fuzhou	1,374	2%
Shenyang	3,504	6%
Dalian	2,733	5%
Harbin	2,030	4%
Yantai	812	1%
Develop. NAV	46,820	81%
Investment properties:		
Shanghai	6,772	12%
Beijing	1,543	3%
Changshu	223	0%
Nanjing	728	1%
Shaoxing	1,036	2%
Wuhu	384	1%
Fuzhou	217	0%
Wuhan	240	0%
IP NAV	11,143	19%
Subtotal	57,963	100%
Shanghai Shimao	2,611	
Net debt	(10,682)	
Land premium	(7,400)	
Total NAV	42,492	
NAV (Rmb/share)	12.04	
NAV (HK$/share)	13.61	

Source: UOB Kay Hian

Yanzhou Coal

1Q09: Spot price plays unlikely to outperform

Profit warning of 60% fall in 1H09 earnings suggests consensus estimates are too high. Spot prices are unlikely to recover sharply, so Yanzhou Coal - a spot price play - will not outperform. Maintain HOLD with a higher fair price.

1Q09 Results

(PRC GAAP) Year to 31 Dec	1Q09 (Rmbm)	yoy % chg	qoq % chg	2008 (Rmbm)	yoy % chg	1Q09 Remarks
Turnover	4,432	(21)	(22)	26,124	57	ASP - 11% and Vol -12%
Gross profit	2,074	(38)	50	13,016	55	Unit cost +30%
Operating profit	1,150	(46)	(550)	8,876	81	Higher SG&A
Pre-tax Profit	1,151	(46)	(550)	8,869	95	Lower other income
Net Profit	831	(48)	n.a.	6,484	101	4Q08 Loss: Rmb162m
Net Profit (IFRS)				6,489	101	
Gross margin (%)	47	(13)	23	50	(1)	Higher policy costs
Net margin (%)	19	(10)	22	25	5	Higher effective tax rate

Source: Yanzhou Coal, UOB Kay Hian

Results

- 1Q09 net profit was Rmb831m, only 19% of 2009 consensus forecast, on a 21% fall in turnover.
- 2008 net profit of Rmb6.5b was within earlier guidance.
- Final dividend of Rmb0.4/share implies a consistent payout ratio of 30%.

Stock Impact

Yanzhou Coal's 1Q09 results were 24% below consensus despite a sharp rebound from a loss in 4Q08, hurt by one-off land subsidence and policy cost. The earnings disappointment came from higher-than-expected unit cost increase (+30%) and weak coal sales as demand generally remained weak and contract price talks are yet to be settled.

On the upside, with limited downside on spot coal prices - thanks to supply cutbacks – management insisted on a positive contract price hike and may resort to selling more on the spot market if power producers refuse to accept a higher contract price. But this is unlikely to outweigh the impact of a 7% cut in sales target and higher policy cost this year. The company warned of a 60% fall in 1H09 earnings - far exceeding consensus forecast of -35%.

Earnings Revision

We cut our 2009 earnings forecast by 9% to reflect higher unit cost and lower sales volume assumptions, but raise our 2010 earnings estimate by 7% on a potential 10% coal price recovery. Our benchmark coal price assumptions for 2009-10 remain at Rmb550/tonne and Rmb600/tonne respectively. Yanzhou Coal's 2009-10 earnings will move by 3.3% and 2.6% respectively on a 1% change in coal price. We forecast its breakeven coal price to be Rmb309/tonne.

CHINA

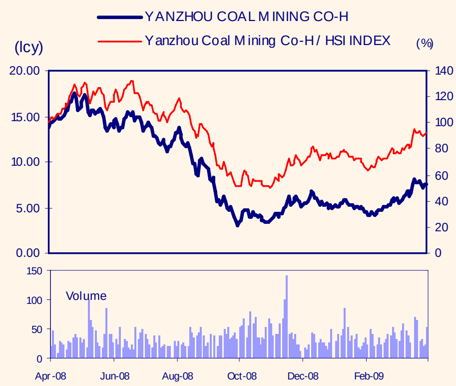
Yanzhou Coal (1171 HK)

HOLD

Current Price: HK$7.12
Fair Price: HK$8.10
(Previous: HK$7.00)

Sector	Coal
52-Wk Avg Daily Vol. ('000)	34,544
Market Cap (HK$m)	60,079
(US$m)	7,752
Major Shareholders (%)	
Yankuang Group	52.9
Book NTA per Share (Rmb)	3.47
ROE (%)	24.30
Net Cash per Share (Rmb)	1.66
Results Due	
1Q: Apr	2Q: Aug
3Q: Oct	Final: Apr

Price Chart



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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	14,561	5,822	3,230	0.66	37.8	9.4	8.4	0.17	2.7
2008	24,394	10,060	6,489	1.32	98.4	4.8	4.5	0.40	6.4
2009F	17,406	6,380	3,593	0.73	(44.6)	8.6	6.7	0.22	3.5
2010F	21,238	9,113	5,490	1.12	52.8	5.6	4.4	0.33	5.3
2011F	22,355	9,698	5,782	1.18	5.3	5.3	3.8	0.35	5.6

Consensus Net Profit – FY09: Rmb4370.7m;
– FY10: Rmb4069.8m

Valuation/Recommendation

Yanzhou Coal is more a spot price play, considering its flat volume profile and high spot exposure. But any benefits of price recovery will be offset by its weak cost control and potential volume risk.

We continue to prefer contract plays for volume and price security. As spot coal prices will remain depressed this year on uncertain economic prospects, it is too early to switch from contract plays to spot plays. ChinaCoal and Shenhua remain our top picks as the 2009 contract price to be signed may surprise the market on the upside.

Maintain HOLD. We raised our fair price to HK$8.10 on lower risk premium (from 14.9% to 13%) and same long-term coal price assumption of Rmb300/tonne.

Life-of-mine Valuation

	Long-Term Coal price assumptions (Rmb/tonne)							
WACC	200	250	300	350	400	450	500	550
9.0%	7.3	8.0	8.7	9.4	10.1	10.8	11.5	12.2
10.0%	7.1	7.8	8.5	9.2	9.9	10.6	11.3	12.0
11.0%	7.0	7.7	8.4	9.0	9.7	10.4	11.1	11.7
12.0%	6.9	7.6	8.2	8.9	9.5	10.2	10.8	11.5
13.0%	6.8	7.4	8.1	8.7	9.3	10.0	10.6	11.3
14.0%	6.7	7.3	7.9	8.6	9.2	9.8	10.4	11.0
15.0%	6.6	7.2	7.8	8.4	9.0	9.6	10.2	10.8
16.0%	6.5	7.1	7.7	8.3	8.9	9.4	10.0	10.6
17.0%	6.4	7.0	7.6	8.1	8.7	9.3	9.8	10.4
18.0%	6.3	6.9	7.4	8.0	8.5	9.1	9.7	10.2

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	14,561	24,394	17,406	21,238	22,355
EBIT	4,571	8,904	4,803	7,337	7,728
Pre-tax Profit	4,543	8,865	4,789	7,321	7,711
Net Profit	3,230	6,489	3,593	5,490	5,782

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	9,908	14,994	17,020	20,236	23,630
Total Assets	26,187	32,339	34,755	39,067	43,432
Current Liabilities	4,099	5,297	5,186	5,626	5,908
Long-Term Liabilities	258	176	202	233	268
Shareholder Funds	21,418	26,755	29,270	33,113	37,161
Total Equity & Liabilities	26,187	32,339	34,755	39,067	43,432

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	4,559	7,095	5,434	6,735	7,491
Investing	(3,791)	(2,091)	(2,435)	(3,000)	(3,060)
Financing	(1,019)	(922)	(664)	(1,207)	(1,266)
Net Cash In/(Out) Flow	(251)	4,082	2,335	2,528	3,165
Begin Cash & Cash Equiv.	4,716	4,425	8,440	10,775	13,303
End'g Cash & Cash Equiv.	4,425	8,440	10,775	13,303	16,468

Market Commentary

Avoid China East Air

HONG KONG

Market Commentary

Analyst

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In case of unusual financial conditions or other abnormal circumstances that may lead to the termination of listing or any situation causing difficulties for investors to exercise reasonable judgment on the prospects of a company and thus may hurt the interests of investors, the company may be subject to Special Treatment. In the extreme case, a company listed as a "Special Treatment" (ST) stock may signal special alert to the risks of listing suspension.

Due to limitations on the transactions and trading price of ST shares, all ST stocks are ineligible for inclusion in any index. However, once a stock is no longer classified as ST, it will be deemed eligible for index inclusion.

Hang Seng Indexes Company Limited announced yesterday that China East Air (670), representing H-shares, and China East Air (600115), representing A-shares, will be removed from the Hang Seng China AH Index Series (China AH Series) because China East Air (600115) of the captioned company has been classified as an ST stock" in Apr 09. Thus, the stock will no longer be included in the China AH Index Series. The change will take effect on 11 May 09 (Monday).

The China AH Index Series was launched on 9 Jul 07.

The China AH Series includes the Hang Seng China AH Premium Index (AH Premium Index). It also includes three price indices, namely the Hang Seng China AH (A+H) Index (AH (A+H) Index), the Hang Seng China AH (A) Index (AH (A) Index) and the Hang Seng China AH (H) Index (AH (H) Index), which comprises the largest and most liquid mainland China companies with both A-share and H-share listings (AH companies).

While the AH Premium Index measures the absolute price premium (or discount) of A-shares over H-shares for AH Companies, the price indices are designed to reflect their price performances in the mainland China and Hong Kong stock markets.

Following this constituent change, the number of constituent stocks in the China AH Series will decrease to 41 from 42.

Comment:

It is not uncommon to remove a constituent from an index because of thin trading, small market cap, delisting of the stock, trading suspension for a long period or privatisation. Among these, the frequent reasons are thin trading and small market cap.

The past has proven that a stock removed from an index due to thin trading or small market cap often only suffered from short-term selling.

However, the deletion of the China East Air (670) and its counterpart A-share stock (600115) from the China AH Series on the basis of the Special Treatment status mentioned above should not be treated lightly.

China East Air is labeled an ST stock because Shanghai Stock Exchange believes this stock has potential trading risk because it has distressed financial status or is showing abnormalities.

It is believed investors would respond more negatively to this ST status rather than thin trading or small market cap. This should put heavy selling pressure on China East Air in both the Hong Kong stock market and the Shanghai Stock Exchange until we see turnaround signals from the operations of China East Air. **Avoid China East Air.**

Current weightings of Hang Seng China AH Index Constituents

A-shares	H-shares	Company	Weighting in (%) AHXAH
600874	1065	Tianjin Capital	0.09
600115	0670	China East Air	0.16
601727	2727	SH Electric	0.56
600029	1055	China South Air	0.49
600362	0358	Jiangxi Copper	0.77
601588	0588	Beijing N Star	0.29
601808	2883	China Oilfield	0.65
600027	1071	Huadian Power	0.41
600332	0874	Guangzhou Pharm	0.08
601866	2866	CSCL	0.61
600685	0317	Guangzhou Ship	0.19
601005	1053	Chongqing Iron	0.11
600875	1072	Dongfang Elec	0.57
600188	1171	Yanzhou Coal	0.72
601919	1919	China COSCO	1.62
601991	0991	Datang Power	1.73
600548	0548	Shenzhenexpress	0.13
601111	0753	Air China	0.65
601857	0857	PetroChina	7.09
601600	2600	CHALCO	2.10
600028	0386	Sinopec Corp	4.99
601899	2899	Zijin Mining	1.42
601898	1898	China Coal	1.63
600026	1138	China Ship Dev	0.67
600011	0902	Huaneng Power	1.52
601998	0998	CITIC Bank	1.22
601333	0525	Guangshen Rail	0.69
600600	0168	Tsingtao Brew	0.45
601988	3988	Bank of China	7.51
600808	0323	Maanshan Iron	0.50
601766	1766	CSR	0.82
601088	1088	China Shenhua	4.75
600377	0177	Jiangsu Express	0.36
600036	3968	CM Bank	5.99
601390	0390	China Railway	1.91
601328	3328	Bankcomm	7.03
601939	0939	CCB	11.49
601398	1398	ICBC	8.73
601186	1186	China Rail Cons	1.62
601628	2628	China Life	8.35
600585	0914	Anhui Conch	1.42
601318	2318	Ping An	7.93
Total			**100.00**

Source: Bloomberg, UOB Kay Hian

Banking

Liberalisation disappointing, no change to strategic shareholding

The anticipated financial liberalisation announcement did not see relaxation of foreign ownership limit on commercial banks but allow greater operational flexibility and branches for foreign banks, only a minor negative for locals.

Sector Events

The key liberalisation measures announced by Bank Negara Malaysia (BNM):

Issuance of New Licences

- Up to two new Islamic banking licences will be offered in 2009 to foreign players
- Up to two new commercial banking licences will be offered in 2009 to foreign players that will bring in specialised expertise
- Up to three new commercial banking licences will be offered in 2011 to world-class banks that can offer significant value propositions to Malaysia;
- Up to two new family takaful licences will be granted in 2009

Increase Foreign Equity Limits

- Increased foreign equity limit of up to 70% for:
  - Islamic banks
  - Investment banks
  - Insurance companies and takaful

Operational Flexibilities

- Locally-incorporated foreign commercial banks can establish up to ten microfinance branches.
- Locally-incorporated foreign commercial banks in Malaysia will be allowed to establish up to four new branches in 2010 based on a distribution ratio of 1 (market centre): 2 (semi-urban): 1 (non-urban).

Sector Impact

Disappointing as investors were hoping for a relaxation of commercial banks' foreign ownership.

New players for niche market. The two new commercial licences for foreign players are unlikely to impact the local players. The newcomers are likely to target underserved segments, i.e. high net worth clients looking for more complicated and comprehensive private banking services which are currently offered from Singapore. The mass market is already well covered by the existing 22 commercial banks and 17 Islamic banks. Among the 13 foreign banks, only the Top 5 are very active and significant, i.e. Citibank, HSBC Bank, OCBC Bank, Standard Chartered Bank and UOB Bank.

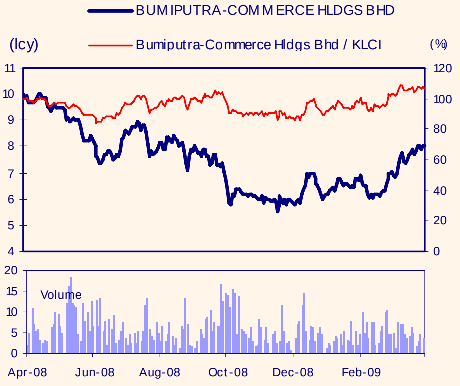
Local banks are beefing up their competitiveness too. Local banks also have showed improvement in efficiency and competitiveness. Key local players have been increasing their market share, with the greatest improvement coming from Public Bank and Bumiputra-Commerce Holdings (BCHB).

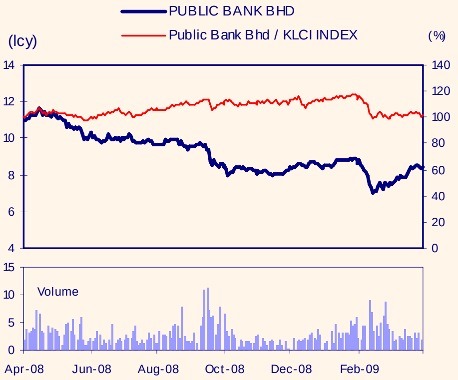
MALAYSIA

Banking

UNDERWEIGHT

Price Chart





Source: Bloomberg

Analyst

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Recommendation

Maintain **UNDERWEIGHT**. Sell into strength as we do not foresee any catalysts to drive the sector, and there are still downside risks to earnings. For those who have to invest in Malaysian banks, **HOLD Public Bank (PBK MK/Fair: RM6.88/Entry: RM6.20)**, which has more resilient earnings, and **Bumiputra-Commerce Holdings (BCHB MK/Fair: RM6.05/Entry: RM5.45)** as its investment bank could potentially benefit from a pick-up in the bond market after BNM stepped in to guarantee new bond issuances.

Local Market Is Well Covered

Commercial Banks		***Investment Banks***
Conventional	**Islamic**	
Local Ownership		
Affin Bank Berhad	Affin Islamic Bank Berhad	Affin Investment Bank Berhad
Alliance Bank Malaysia Berhad	AmIslamic Bank Berhad	Alliance Investment Bank Berhad
AmBank (M) Berhad	Bank Islam Malaysia Berhad	AmInvestment Bank Berhad
CIMB Bank Berhad	Bank Muamalat Malaysia Berhad	Aseambankers Malaysia Berhad
EON Bank Berhad	CIMB Islamic Bank Berhad	CIMB Investment Bank Berhad
Hong Leong Bank Berhad	EONCAP Islamic Bank Berhad	Hwang-DBS Investment Bank Berhad
Malayan Banking Berhad	Hong Leong Islamic Bank Berhad	KAF Investment Bank Berhad
Public Bank Berhad	RHB ISLAMIC Bank Berhad	Kenanga Investment Bank Berhad
RHB Bank Berhad	Maybank Islamic Berhad	MIDF Amanah Investment Bank Berhad
	Alliance Islamic Bank Berhad	MIMB Investment Bank Berhad
	Public Islamic Bank Berhad	OSK Investment Bank Berhad
Foreign Ownership (100% owned but incorporated locally)		Public Investment Bank Berhad
The Royal Bank of Scotland	Al Rajhi Banking & Investment Corporation	RHB Investment Bank Berhad
Bangkok Bank	Asian Finance Bank	Southern Investment Bank Berhad
Bank of America	Kuwait Finance House	ECM Libra Investment Bank Berhad
Bank of China	Standard Chartered Saadiq Berhad	
Bank of Tokyo-Mitsubishi UFJ	HSBC Amanah Malaysia Berhad	
Citibank Berhad	OCBC Al-Amin Bank Berhad	
Deutsche Bank		
HSBC Bank		
J.P. Morgan Chase Bank		
OCBC Bank		
Standard Chartered Bank		
The Bank of Nova Scotia		
United Overseas Bank		

Source: Bank Negara Malaysia

Peer Comparison

Company	Bloomberg Ticker	Rec	Price @ 27 Apr 09	Target Price	Mkt Cap (RMm)	PE (x) 2008	PE (x) 2009F	PE (x) 2010F	PB (x)	ROE (%)	ROA (%)	Div Yield (%)
Malaysia:												
PUBLIC BK	PBK MK	HOLD	8.45	6.88	29,845	11.6	14.8	11.7	3.1	27.4	1.4	8.9
BUMIPUTRA	BCHB MK	HOLD	8.00	6.05	28,625	14.7	15.2	13.1	1.7	11.9	1.0	3.1
AFG	AFG MK	SELL	2.05	1.48	3,174	10.2	10.9	8.3	1.1	16.8	1.4	2.1
AMMB	AMM MK	SELL	3.04	1.92	8,278	11.0	10.5	9.4	1.1	11.2	0.8	2.9
HLEONG Bank	HLBK MK	SELL	5.65	4.64	8,928	12.0	11.3	11.8	1.5	15.3	1.0	4.2
HL Financial Grp	HLFG MK	SELL	4.94	3.80	5,201	9.5	9.4	9.5	1.2	13.9	0.7	4.7
MAYBANK	MAY MK	SELL	4.46	3.30	31,566	10.8	13.0	11.1	1.3	15.3	1.1	7.1
RHB Cap	RHBC MK	SELL	4.10	2.80	8,829	8.4	11.7	9.9	1.1	14.1	1.0	3.3

Source: Respective companies, Bloomberg, UOB Kay Hian

China XLX

1Q09: Net profit up 29% qoq; the worst is over

China XLX (XLX) posted better-than-expected 1Q09 results with net profit up 29% qoq. The launch of a new plant, rebound in urea and methanol prices and softening of coal prices will boost profit from 2Q09. Maintain BUY.

1Q09 Results

Year to 31 Dec	1Q08 (Rmbm)	4Q08 (Rmbm)	1Q09 (Rmbm)	yoy % chg	qoq % chg	Remarks
Urea	300	322	311	4	(3)	
Methanol	54	35	27	(50)	(23)	Drop in ASP
Compound fertiliser	127	81	104	(18)	28	Drop in ASP
Others	1	26	38	-	47	
Turnover	**482**	**445**	**480**	**(0)**	**8**	
Urea	111	39	65	(41)	69	Rebound in urea price
Methanol	18	(9)	(9)	(148)	(5)	
Compound fertiliser	27	29	(4)	(116)	(114)	
Others	(1)	24	38	n.a.	61	
Gross profit	**154**	**83**	**91**	**(41)**	**10**	
Operating profit	123	42	69	(44)	64	
Pre-tax Profit	119	33	69	(42)	107	
Net Profit	**113**	**46**	**59**	**(48)**	**29**	
EPS	0.113	0.046	0.059	(48)	29	
Gross Margin (%)	32	19	19	-13ppt	0ppt	
Urea	37	12	21	-16ppt	9ppt	Rebound in urea price
Methanol	33	(26)	(32)	-65ppt	-6ppt	Drop in methanol price
Compound fertiliser	21	36	(4)	-25ppt	-40ppt	Provision of inventory
EBIT Margin (%)	25.5	9.4	14.3	-11.2ppt	4.9ppt	
Pre-tax Margin (%)	24.6	7.5	14.4	-10.2ppt	6.9ppt	
Net Margin (%)	23.4	10.3	12.3	-11.1ppt	2ppt	

Source: China XLX

1Q09 Results

Net profit beat our estimate to reach Rmb59m in 1Q09, +29% qoq from Rmb46m in 4Q08 but -48% yoy from Rmb113m in 1Q08.

Margin improvement for urea. Gross margin for urea rebounded from a trough of 12% in 4Q08 to 21% in 1Q09 (although still lower than 37% in 1Q08). This was due to rebound in urea price from Rmb1,670/tonne in 4Q08 to Rmb1,718/tonne in 1Q09. Adding to the margin improvement is the reduction in unit cost from Rmb1,468/tonne in 4Q08 to Rmb1,357/tonne in 1Q09, a result of technological upgrade.

Methanol segment is still loss making. Despite the rebound in methanol price from the trough of Rmb1,400/tonne at end-08 to Rmb2,000/tonne now, methanol ASP for 1Q09 was only Rmb1,488/tonne, vs Rmb1,727/tonne in 4Q08, given the high base in Oct 08. The segment was still loss making in 1Q09.

Compound fertiliser segment plagued by inventory provision. Due to a one-off provision of Rmb17m for high-cost phosphate inventories, gross margin for compound fertiliser segment dropped to -3.7% in 1Q09 from 36% in 4Q08 and 21% in 1Q08.

SINGAPORE

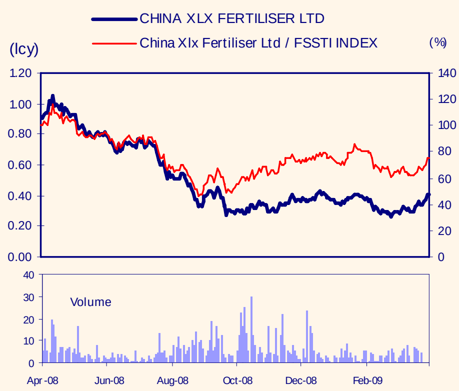
China XLX (CXLX SP)

BUY

Current Price: S$0.375
Target Price: S$0.57

Sector	Fertiliser
52-Wk Avg Daily Vol. ('000)	3,120
Market Cap (S$m)	375
(US$m)	272
Major Shareholders (%)	
Mr. Liu Xingyu	34.3
Book NTA per Share (S$)	0.26
ROE (%)	27.4
Net Debt per Share (S$)	0.03
Results Due	
Interim:	Sep
Final:	Apr

Price Chart



Source: Bloomberg

Analyst

Singapore Research Team
research@uobkayhian.com

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit* (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	1,541	389	317	0.350	117	5.4	5.6	0.063	3.4
2008	2,085	452	346	0.346	(1)	5.4	5.5	0.080	4.3
2009F	2,161	467	281	0.281	(19)	6.7	5.2	0.076	4.1
2010F	2,519	556	358	0.358	27	5.2	3.8	0.082	4.4
2011F	2,549	565	372	0.372	4	5.0	3.2	0.086	4.6

Consensus Net Profit – FY09 : Rmb262m
– FY10: Rmb363m

Stock Impact

We believe the worst for XLX is over, because: a) the removal of price cap on urea and a rebound in urea prices (Rmb1,800/tonne now) will allow the Group to achieve higher urea price, b) anthracite coal price in Henan is declining with the resumption of production of small mines in Shanxi (from a peak of Rmb1,300/tonne to Rmb1,200/tonne), c) methanol prices have rebounded to Rmb2,000/tonne in tandem with oil & gas prices, and d) the one-off provision for phosphate inventories in 1Q09.

Furthermore, the third plant has started operations in mid-Apr 09. Management expects the new plant to achieve optimal operation in 2H09. Urea unit cost for the new plant is expected at Rmb50/tonne, below that of the two old plants (Rmb1,357/tonne in 1Q09). This means lower average cost for urea production.

The Group is seeking the possibility of using the new technology to produce urea from thermal coal with the launch of a greenfield project. Furthermore, it is looking for M&A opportunities for upstream assets – coal mines. According to management, the Group has net debt of Rmb480m (33% of equity), implying further room for gearing up.

Earnings Risk

Fluctuations in methanol price would affect XLX's profit. We estimate a 1% drop in methanol price would lead to a 0.4% drop in XLX's bottom line.

Valuation/Recommendation

XLX is trading at 6.7x 2009F PE and 5.0x 2010F PE, much lower than the 12x and 9x for domestic peers. We remain upbeat on XLX given its strong position as an industry consolidator in the urea market in northern China. Maintain BUY with a target price of S$0.57 based on 8x 2010F PE.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	1,541	2,085	2,161	2,519	2,549
EBIT	343	372	351	429	434
Pre-tax Profit	333	350	317	400	412
Net Profit	317	346	281	358	372

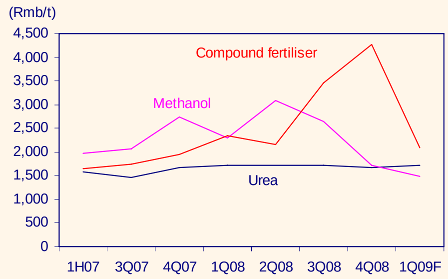
Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	810	792	821	957	968
Total Assets	1,832	2,482	2,330	2,591	2,886
Current Liabilities	571	489	435	415	420
Long-Term Loans	90	523	680	480	180
Shareholders' Funds	1,156	1,451	1,637	1,919	2,209
Total Equity & Liabilities	1,832	2,482	2,330	2,591	2,886

Cash Flow

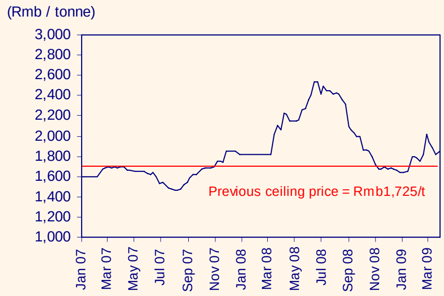
Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	308	370	398	474	503
Investing	(613)	(901)	(500)	(100)	(100)
Financing	654	224	27	(353)	(382)
Net Cash Inflow/(Outflow)	349	(307)	(75)	21	21
Begin Cash & Cash Equiv.	155	504	197	122	143
End'g Cash & Cash Equiv.	504	197	122	143	164

Product ASPs for China XLX



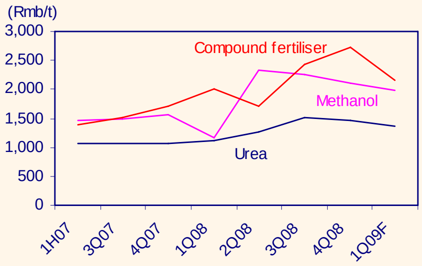
Sources: China XLX, UOB Kay Hian

Ex-factory Price of Urea in Henan



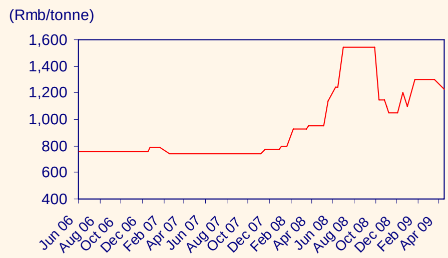
Sources: www.ampcn.com

Product Unit Cost for China XLX



Sources: China XLX, UOB Kay Hian

Anthracite Coal Price in Henan



Sources: www.cctd.com.cn

China Zaino

1Q09: Weak results but more positives ahead

Zaino's net profit fell 5% qoq and 4% yoy in 1Q09. We continue to like the stock despite the weak results as we see more positives ahead. Maintain BUY with target price raised to S$0.39.

1Q09 Results

	1Q09 (Rmbm)	4Q08 (Rmbm)	qoq (%)	1Q08 (Rmbm)	yoy (%)	Remarks
Turnover	603.4	615.3	(1.9)	506.1	19.2	Overall ASP up 38%
Gross Profit	175.8	205.7	(14.5)	161.9	8.6	
EBIT	135.8	132.8	2.3	129.7	4.7	
Net Profit	101.5	106.8	(5.0)	105.7	(4.0)	Tax rate increased from 19.6%in FY08 to 25% for FY09
EPS (Rmb cents)	10.75	11.3	(4.9)	13.2	(18.7)	
DPS (Rmb cents)	-	-	-	-	-	DPS of 8.8 cts FY08, implying10% dividend yield
Gross Margin (%)	29.1	33.4	(12.9)	32.8	(11.3)	
SEGMENT BREAKDOWN						
Backpack	414.1	420.5	(1.5)	343.2	20.7	Sales of both backpack and luggage affected by lower ASP
Luggage	189.3	194.7	(2.8)	162.9	16.2	

Source: China Zaino

Results

1Q09 Results

Zaino's 1Q09 sales was Rmb603.4m, +19.2% yoy but -1.9% qoq. 1Q09 sales accounted for 24% of our FY09 forecast. Net profit fell on both yoy and qoq basis due to: a) increase in effective tax rate from 19.6% in FY08 to 25% in FY09, and b) a fall in ASP, hence lower gross margin.

Stock Impact

Zaino's stock price has seen some recovery since last December. We believe this reflects investors' confidence in the recovery in China's economy as well as better expectation for China's retail sales industry. We believe all the negatives have already been factored in and the stock is undervalued.

Solid sales backed by low inventory level. Inventory turnover continued to trend down to 6.7 days in 1Q09 vs 7.7 days in FY08. Net cash increased from Rmb800m in FY08 to Rmb1015 in 1Q09 while gearing was kept low at less than 1%, which reflects the company's corporate governance ability. Management has confirmed no shares were pledged to the banks. The use of capex and other types of proceeds are within schedule. Zaino has always adhered to its strategy and capex plans since its listing. Some 32% of the IPO proceeds has been utilised so far and plans for this year are to construct new plants and expand its distribution network in 4Q09.

SINGAPORE

China Zaino (CZAI SP)

BUY

Current Price: S$0.19
Target Price: S$0.39
(Previous: S$0.21)

Sector	Retail
52-Wk Avg Daily Vol. (m)	1.271
Market Cap (S$m)	179.5
(US$m)	120.1
Major Shareholders (%)	
Chen xizhong	50.8
Book NTA per Share (Rmb)	0.231
ROE (%)	36.3
Results Due	
Interim	August
Final	March

Price Chart

Source: Bloomberg

Analyst

Singapore Research Team
research@uobkayhian.com

Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield (%)
2007	1,518.5	389.5	305.7	38.2	0.3	2.2	0.0	0.0	0.0
2008	2,249.4	519.4	412.0	46.0	20.3	1.9	0.0	8.8	9.3
2009F	2,468.7	565.4	417.1	44.1	(3.9)	1.9	0.0	8.8	9.3
2010F	2,674.1	639.8	469.9	49.7	12.6	1.7	0.0	9.9	10.5
2011F	2,979.1	698.1	511.3	54.1	8.8	1.6	0.0	10.8	11.4

Consensus Net Profit – FY09: 386.4m
– FY10: 448.2m

Besides Zaino's strong balance sheet and proven management skills, we notice that its trade receivable days has grown from 41 days in 2008 to 45 days in 1Q09 due to increased sales from the luggage sector that usually has a longer receivable turnover. In addition, a lower ASP and increased tax rate should affect 2009 net profit growth. Thus, we expect a flat earnings growth in 2009 but see an earnings recovery in 2010 onwards as new capacity will start to contribute from 1Q10.

Valuation/Recommendation

Maintain BUY and we raise our target price to S$0.39, based on the industry peers' average forward 2009F PE of 4.0x.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008F	2009F	2010F	2011F
Turnover	1,518.5	2,249.4	2,468.7	2,674.1	2,979.1
EBIT	383.9	513.8	557.0	627.6	683.0
Pre-tax Profit	382.7	512.4	556.1	626.5	681.8
Net Profit	305.7	412.0	417.1	469.9	511.3

Balance Sheet

Year to 31 Dec(Rmbm)	2007	2008F	2009F	2010F	2011F
Current Assets	391.9	1,176.9	1,501.8	1,830.4	2,281.5
Total Assets	461.1	1,299.4	1,675.9	2,062.4	2,528.3
Current Liabilities	156.7	164.3	207.0	207.0	255.5
Shareholders' Funds	304.4	1,135.1	1,469.0	1,855.4	2,272.8
Total Equity & Liabilities	461.1	1,299.4	1,675.9	2,062.4	2,528.3

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008F	2009F	2010F	2011F
Operating	270.8	286.4	620.4	274.8	704.3
Investing	(6.4)	(48.1)	(58.0)	(67.4)	(27.2)
Financing	(143.5)	322.2	(111.2)	(112.4)	(129.0)
Net Cash In/out flow)	154.3	589.1	476.7	124.4	580.3
Begin Cash & Cash Equiv.	5.7	160.0	800.4	1,277.1	1,401.5
End'g Cash & Cash Equiv.	160.0	749.1	1,277.1	1,401.5	1,981.9

Tisco Bank

Raise target price on more upbeat earnings forecast

We have become more upbeat on TISCO's business and earnings outlook following its strong 1Q09 operating performance. We raise our target price to Bt17. Maintain BUY.

Corporate Events

Tisco Bank (TISCO) reported a strong set of 1Q09 results, supported by strong revenue expansion. 1Q09 earnings accounted for 35% of our full-year forecast. We have become more upbeat on its business and earnings outlook following an analyst meeting. Thus, we raise our FY09 earnings forecast by 28% on better-than-expected NIM performance.

Stock Impact

Promising loan volume growth supported by both organic and inorganic growth. With a highly experienced management team, TISCO normally performs well during the crisis. Capitalising on its excellent risk control system, strong asset/liability management and long-term relationship with car dealers, the bank has been able to grow its business volume while other players are in retreat.

This is well reflected by a healthy 4% qoq organic loan growth achieved in 1Q09. Together with the inorganic growth (Primus acquisition), loans grew over 8% in the quarter while the market penetration rate of TISCO for HP climbed further to 13.4% in 1Q09 (vs 11.7% in 4Q08 and 9.8% in 1Q08). Business growth should remain reasonably strong in 2Q09, supported by the Motor Show in April. Despite the potential drop in business weakened by the political unrest, TISCO should be able to achieve our loan growth forecast of 11% in 2009.

Falling funding costs to support NIM. Falling interest rates provide a strong tailwind support to NIM, which widened over 60bp in 1Q09 on a rapid drop in funding costs (-70bp). The management has guided for a further decline in funding costs in 2Q09 from deposit re-pricing, providing additional room for NIM improvement in 2Q09. This is the area where we seem to have under-estimated the earnings resiliency of TISCO. In addition, according to the management, the acquired Primus HP loans are generating around 100bp higher yield than TISCO's.

Based on the impressive NIM performance in 1Q09, we have raised our NIM forecast to 4.1% (from 3.8% previously), resulting in a 16% increase in operating profit. With credit cost kept unchanged at 120bp, FY09 net profit forecast is raised by 28% to Bt1.67b.

Low cost-based operation - another key strength. TISCO's ability to control cost is very impressive. The strategy to pursue growth through strong relationships with car dealers and business partners (i.e. post offices as contact point for retail deposits) rather than aggressive branch expansion has allowed the bank to effectively control its operating expenses, especially on fixed costs. Cost/income has been kept well under control at around the 50-51% level since 2007 (47% in 1Q09), one of the best ratios among banks. Our projection assume cost/income ratio remaining low at 49-50% over the next two years. Its low cost-based operations will provide a good leverage to its bottom line and ROE, which is forecast to be healthy at 14% vs below 10% average for the sector.

THAILAND

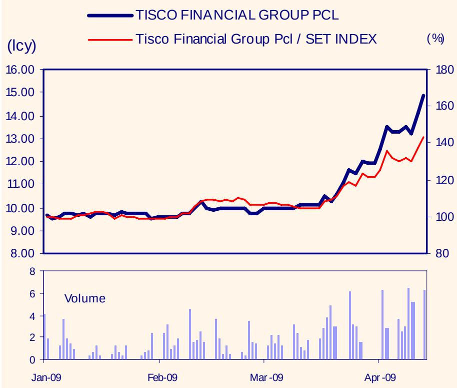
Tisco Bank (TISCO TB)

BUY

Current Price: Bt14.00
Target Price: Bt17.00
(Previous: Bt12.25)

Sector	Bank
52-Wk Avg Daily Vol. ('000)	2,695.6
Market Cap (Bt b)	10.2
(US$m)	286.8
Major Shareholders(%)	
State Street Bank and Trust	5.0
GSIC	1.4
Book NTA per Share (Bt)	15.9
ROE (%)	14.4
Results Due	
1Q: Apr	2Q: Jul
3Q: Oct	Final: Jan

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Pre-Provision Profit (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	DPS (Bt)	BV (Bt)	P/BV (x)	ROE (%)
2007	2,988	1,651	2.3	6.7	6.2	1.8	17.0	0.8	13.4
2008	3,062	1,720	2.4	4.2	5.9	1.0	15.9	0.9	14.4
2009F	3,702	1,675	2.3	(2.6)	6.1	0.9	17.0	0.8	14.0
2010F	3,822	1,719	2.4	2.6	5.9	0.9	18.2	0.8	13.5
2011F	4,032	1,879	2.6	9.3	5.4	1.0	19.6	0.7	13.7

Consensus Net Profit - FY09: Bt1,490m
- FY10: Bt1,497m

Earnings Revision

Since our last BUY note on the bank based on nearly 35% upside in January, TISCO's share price has significantly outperformed the market and overshot our target price by a large margin. Based on the strong 1Q09 operating performance, we have become more upbeat on the bank's business and earnings outlook. Hence, we revise our FY09 earnings estimate upward by 28% on significantly better net interest margin due to faster-than-expected fall in funding costs. Our FY09 earnings forecast is now Bt1.67b, almost 13% above the consensus.

Recommendation

Maintain BUY on TISCO and raise its target price to Bt17, pegged at 1x PB against 14% ROE, 13.25% COE and 6% long-term growth. In spite of such a strong advance in its share price over the last three months, further upside should be well supported by its strong earnings performance.

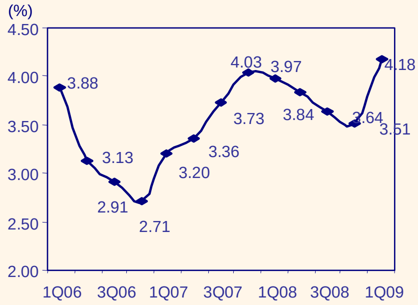
Profit & Loss

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2010F
Net interest income	3,488	4,162	5,033	5,203	5,544
Non-interest income	2,438	2,134	2,194	2,471	2,787
Total income	5,926	6,296	7,228	7,675	8,331
SG&A	(2,938)	(3,234)	(3,526)	(3,853)	(4,299)
Pre-provision profit	2,988	3,062	3,702	3,822	4,032
Provisions	(699)	(980)	(1,374)	(1,366)	(1,347)
Net profit	1,651	1,720	1,675	1,719	1,879
EPS (Bt)	2.3	2.4	2.3	2.4	2.6

Balance Sheet

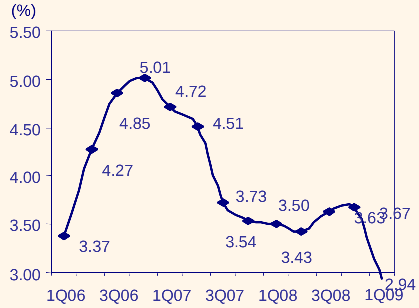
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2010F
Net loans	85,176	102,059	112,212	120,593	129,825
Deposits & Borrowing	76,464	105,490	108,231	117,215	127,027
Equity	12,374	11,536	12,334	13,216	14,236
Total assets	98,953	126,173	128,118	137,104	148,035

Spread



Source: TISCO, UOB Kay Hian

Average Funding Costs



Source: TISCO, UOB Kay Hian

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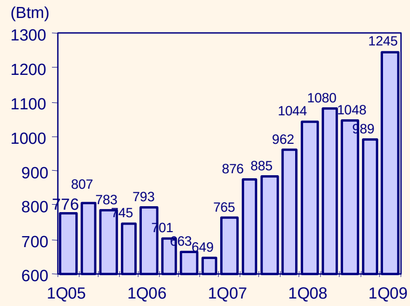
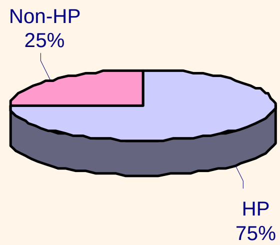


Source: TISCO, UOB Kay Hian

Loan Composition



Source: TISCO, UOB Kay Hian

http://research.uobkayhian.com

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