

KEY STORY

China

Property

April sales soar in China's residential market.

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CHINA

Sector

Property

April sales soar in China's residential market.

Page 2

Property

In order that we do not miss out on any interesting names, we have performed a preliminary evaluation on the stocks that we do not cover.

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Update

China South Locomotive & Rolling Stock Corp (HOLD/HK\$3.70/Fair: HK\$3.70)

Management releases relative downbeat guidance at analyst meeting. Re-enter at HK\$3.10, which offers a more attractive risk/reward profile.

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Technical Analysis

H-share Index: Upside Bias

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HONG KONG

Market Commentary

Daphne (210) would continue to ride on the news of CMHK (941) buying a 12% stake in a Taiwan company.

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SINGAPORE

Results

Hongguo Int'l Holdings (HOLD/S\$0.16/Fair: S\$0.16)

1Q09: Net profit falls 34% yoy. Inventory level drops to a more normal level. Margins set to recover in 2H09.

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Update

COSCO Corporation (S) (SELL/S\$1.10/Fair: S\$0.89)

Possibly more order cancellation/delay. Share price is at 24% premium to our fair price. Downgrade to SELL.

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THAILAND

Results

Precious Shipping (SELL/Bt13.70/Fair: Bt10.00)

1Q09: Earnings fall 16.5% yoy on lower freight rates and higher operating expenses. Share price at 37.0% premium to fair price. Downgrade to SELL.

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Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8426.7	2.6	5.0	5.1	(4.0)
S&P 500	907.2	3.4	5.8	7.7	0.4
FTSE 100	4243.2	(0.0)	2.1	5.3	(4.3)
AS30	3846.0	2.9	4.2	4.7	5.1
CSI 300	2714.3	3.5	5.5	5.6	49.3
FSSTI	2028.7	5.6	9.5	11.4	15.2
HSI	16381.1	5.5	7.4	12.6	13.9
JCI	1788.1	3.4	13.5	19.2	31.9
KLCI	1009.4	1.9	1.7	11.3	15.1
KOSPI	1397.9	2.1	3.2	8.9	24.3
Nikkei 225	8977.4	1.7	1.5	2.6	1.3
SET	506.3	3.0	6.8	13.5	12.5
TWSE	6330.4	5.6	7.6	14.5	37.9
BDI	1806	1.1	(1.8)	19.9	133.3
CPO (RM/mt)	2710	4.3	1.7	28.1	66.3
Nymex Crude (US\$/bbl)	54	2.4	8.6	3.7	22.1

Source: Bloomberg

Top BUYs/SELLs

Ticker	Current Price (Icy)	Target Price (Icy)	Pot. +/- (%)
Top BUYs			
China Coal	1898 HK	7.53	8.80 16.9
China Life	2628 HK	28.70	31.30 9.1
China Railway	390 HK	5.60	6.00 7.1
Maanshan Iron	323 HK	3.65	4.50 23.3
PetroChina	857 HK	7.41	7.80 5.3
Zijin Mining	2899 HK	6.20	7.15 15.3
Advanced Info	ADVANC TB	80.00	94.47 18.1
Quality Houses	QH TB	1.10	1.28 16.4
Top SELLs			
China Cosco	1919 HK	7.07	4.00 (43.4)
Harbin Power	1133 HK	6.30	4.50 (28.6)
Parkson Retail	3368 HK	10.78	5.15 (52.2)
S'pore Airlines	SIA SP	11.20	8.20 (26.8)
STX Pan Ocean	STX SP	13.80	4.35 (68.5)
Amata Corp	AMATA TB	4.06	2.11 (48.0)

Key Assumptions

GDP (% yoy)	2008	2009F	2010F
US*	1.1	(2.5)	1.9
Euro Zone*	0.7	(3.1)	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	1,480	1,774
Copper* (US\$/MT)	6,884	3,719	4,361
Gold Price London* (US\$/ounce)	873	934	967
Iron Ore* (US\$/dmtu)	153	102	96
CPO (US\$/MT)	818	520	685
BDI	6,338	2,500	1,500

* Bloomberg

Source: UOB, UOB Kay Hian

Corporate Events

	Venue	Beg	Close
Sino-Ocean Land Corporate Roadshow*	Singapore	8 May	8 May
Hyflux Corporate Roadshow*	Kuala Lumpur	12 May	12 May

* by invitation only

Property

Soaring April sales

China's residential market recorded very strong sales last month. Most of the cities even saw higher sales than that in 4M07. We expect May sales to remain strong but be careful due to the volatile data ahead.

Strong sales in Apr 09. Overall sales in major cities last month increased by 9% mom and more than doubled yoy. Meanwhile, 4M09 sales also jumped 84% yoy. To our surprise, compared with the same period in 2007, 4M09 sales were even higher in most major cities. Chongqing and Tianjin's sales in were even higher in 4M09 than that of 4M07 by 71% and 46% respectively. In terms of regional sales, Yangtze River Delta (i.e. Shanghai, Hangzhou and Nanjing) and Southwest China (i.e. Chongqing and Chengdu) outperformed the national market.

Beijing: Despite the consecutively moderate decline on wow basis, overall sales last month still increased by 23% mom or 87% yoy, outperforming the other primary cities.

Shanghai: April sales rose modestly by 7% mom but 4M09 sales were close to that during the same period in 2007.

Hangzhou: It was one of the best performing cities by recording a 48% increase mom. The monthly sales volume of about 0.66m sqm was the second highest since 2007.

Chongqing: On the back of the Spring Real Estate Fair, the monthly sales of 2.7m sqm was the highest among major cities and also hit a new record since 2007.

Sales decline during Labour Day week within our expectation. Overall sales last week slipped by 17% wow. As we pointed out before the holiday, we expected the sales to drop during the week of 1 May holiday mainly due to: a) sales to turn a little soft after some cities reported record high weekly sales in one year and b) similar sales decline seen during 1 May holiday last year. Nonetheless, on yoy basis, overall contracted sales last week were still higher than the previous Labour Day holidays. In terms of sales subscriptions, Beijing saw volume decline while sales of Nanjing and Hangzhou soared yoy.

Sales Subscriptions Of Three Cities During Labour Day Holidays

	1-3 May 09 (Units)	1-3 May 08 (Units)	yoy %
Beijing	612	860	(29)
Nanjing	1013	677	50
Hangzhou	838	210	299

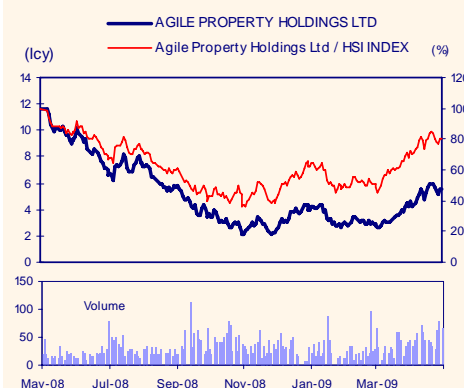
Source: Soufun, UOB Kay Hian

We expect sales to remain relatively strong in May but be careful of the volatile weekly sales. We believe the sales in May would continue to be supported by increasing launch of new units. On the other hand, we would like to remind investors of the volatile weekly sales ahead. In particular, we expect sales to face a seasonal slowdown in June. Any lower-than-expected sales data could trigger profit-taking in the sector.

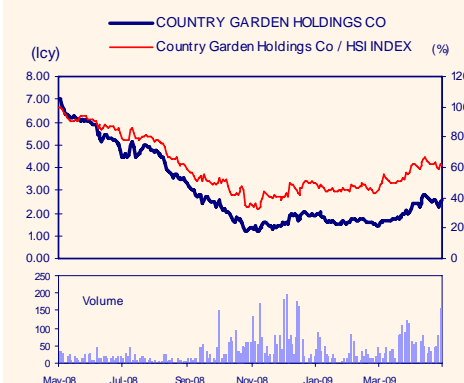
In terms of stock picks, we continue to favour high beta stocks in the sector's rally. The quality private companies, i.e. Guangzhou R&F(2777 HK) and Agile (3383 HK) remain our stock picks in the medium term while some sector laggards, i.e. Country Garden(2007 HK), could catch up.

CHINA Property OVERWEIGHT

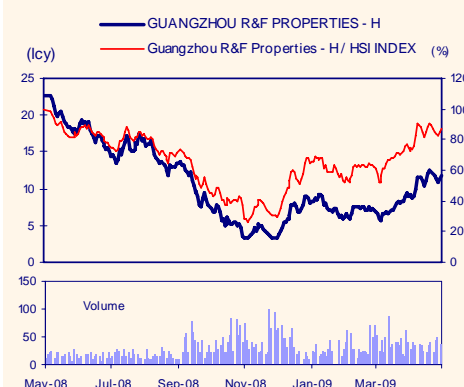
Price Chart



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

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Apr 09 Primary Sales In Major Cities

	Apr 09 ('000 sqm)	mom %	yoy %	4M09 ('000 sqm)	2008 yoy %	2007 yoy %
Beijing	1,653	23	87	4,265	71	5
Shanghai	2,470	7	68	6,755	21	2
Shenzhen	728	(10)	118	2,419	184	5
Tianjin	1,031	(17)	119	3,123	90	46
Nanjing	902	8	123	2,606	79	n.a.
Hangzhou	651	48	182	1,392	79	32
Wuhan	1,007	(5)	189	2,914	74	(19)
Chongqing	2,700	27	166	7,305	97	71
Chengdu	1,139	3	52	3,870	62	19

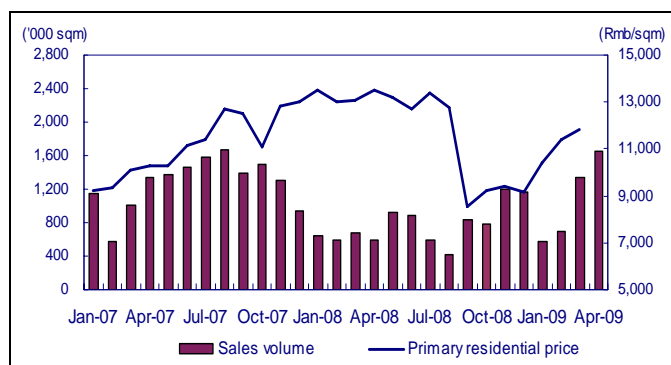
Source: Soufun, UOB Kay Hian

Weekly Sales In Major Cities (27 April – 3 May)

Regions	Cities	GFA ('000 sqm)	wow %	% change vs weekly avg Mar 09	yoy %
Pan-Bohai Rim	Beijing	346	(8)	20	136
	Tianjin	149	(44)	(45)	55
	Qingdao	132	4	7	
Yangtze River Delta	Shanghai	514	(30)	(1)	52
	Suzhou	106	(47)	4	
	Nanjing	251	17	38	219
	Hangzhou	198	(7)	76	360
	Ningbo	127	(15)	30	
South China	Shenzhen	185	4	1	71
	Guangzhou	286	16	10	
	Dongguan	131	(19)	1	
	Fuzhou	114	(4)	17	
Central China	Wuhan	210	(22)	(28)	144
	Changsha	356	(2)	(1)	
Southwest China	Hefei	161	(35)	(23)	
	Chongqing	832	(27)	76	277
	Chengdu	291	(2)	15	53

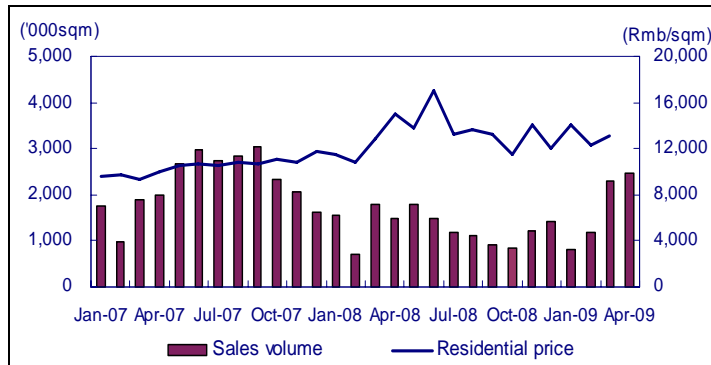
Source: Soufun, UOB Kay Hian

Beijing Primary Sales Volume And Prices



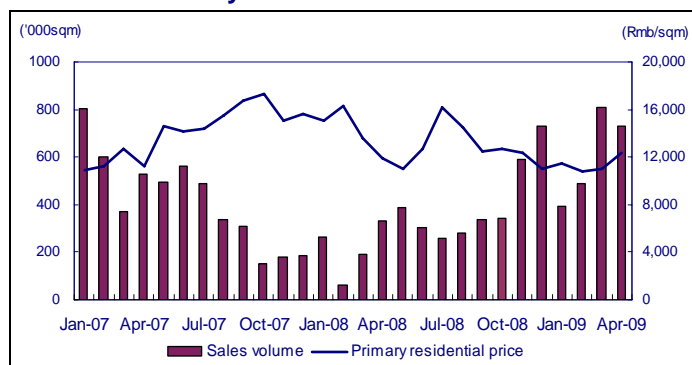
Source: Soufun, UOB Kay Hian

Shanghai Primary Sales Volume And Prices



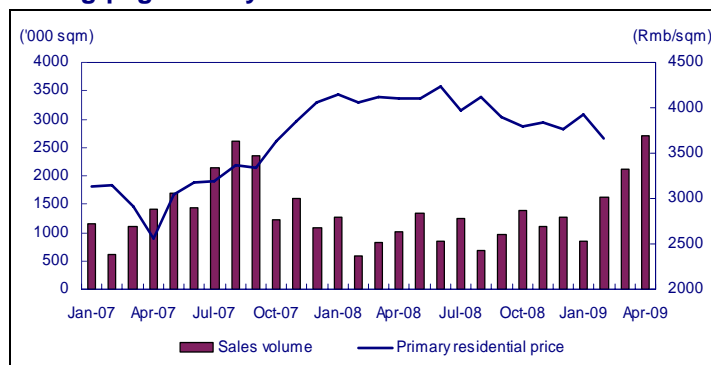
Source: Fangdi.com, Soufun, UOB Kay Hian

Shenzhen Primary Sales Volume And Prices



Source: Shenzhen Real Estate Bureau, UOB Kay Hian

Chongqing Primary Sales Volume And Prices



Source: Soufun, UOB Kay Hian

Property

Scanning through the underdogs

A preliminary evaluation on the companies that we do not cover throws up Country Garden and Shui On Land as two interesting counters. Still upside on the popular names if the housing market is close to the bottom as we believe.

Sector Events

Of the names that we do not cover. Liquidity has been chasing the mainland developers. In order that we do not miss out on any interesting names, we have scanned through the sector and extracted the essential information on the 14 (of the total 26, but accounting for only 28% of aggregate market cap) companies that we do not cover. We focus on the following parameters for a preliminary evaluation of these stocks.

a) Geographical breakdown of lanbank. Activities have continued to be strong in southern China, particularly in Guangzhou and Shenzhen, reassuring our view that the Pearl River Delta region will lead the country in this sector recovery. We also like Shanghai because it has the lowest inventory, equivalent to five months of sales, in China. Shanghai's property market will also directly benefit from the development of the city into an international financial centre.

Geographical Breakdown Of Landbank In Terms of GFA (%)

	Landbank under dev (sqm)		Other Pearl River Delta (ex-Shenzhen & Guangzhou)			Total southern China & Shanghai	Yangtze River Delta (ex-Shanghai)	Beijing	Other Bohai Rim & Northeast	Western & Central Region	Total
	Guangzhou	Shenzhen	Shanghai	Shenzhen	Shanghai						
Beijing Capital	3.7					-	5	9	39	47	100
Beijing North Star	5.3					-		19		81	100
CC Land	9.2					-				100	100
Coastal Greenland	3.0		6		5	11	7	18	15	49	100
Country Garden	44.0	7	36			43	25		12	20	100
Franshion	0.9		15	6	66	86				14	100
Guangzhou Investment	3.5	100				100					100
New World China	26.9	12	15		4	30		7	21	42	100
Shenzhen Investment	10.4		50	16		66	17		1	16	100
Shui On Land	9.1		17		23	40			20	40	100
Sinolink World	0.1			33	67	100					100
SPG Land	3.5		4		15	19	64			17	100
SRE Land	2.0		18		30	48			52		100
Tian An China	5.9	8	26	7	16	57	33		8	2	100

Source: Respective companies, UOB Kay Hian

Other Vital Statistics

Stock	Ticker	4 May 09		Avg. daily vol (3m) HK\$m	Book value HK\$	PB x	Avg PB (4-yr) x	Share price based on		Share price increase		
		Share price HK\$	Mkt cap HK\$b					avg. PB HK\$	Beta	Gearing %	1m %	3m %
Beijing Capital	2868 HK	1.76	3.6	11.1	2.1	0.8	1.5	3.24	1.3	76.9	5	132
Beijing North Star	588 HK	1.83	15.9	10.1	2.8	0.7	1.2	3.43	1.4	51.4	8	74
CC Land	1224 HK	3.32	7.1	67.1	4.3	0.8	1.3	5.66	1.7	11.1	49	159
Coastal Greenland	1124 HK	0.41	1.1	1.3	1.2	0.3	0.9	1.08	1.3	94.8	(4)	55
Country Garden	2007 HK	2.95	48.3	86.0	1.2	2.5	4.3	5.04	0.9	45.6	22	103
Franshion	817 HK	2.29	19.9	25.3	1.7	1.3	1.8	3.08	1.4	59.6	5	53
Guangzhou Investment	123 HK	1.31	9.3	91.7	2.0	0.6	0.8	1.71	1.3	31.4	39	111
New World China	917 HK	3.32	12.7	10.4	7.8	0.4	0.6	4.73	1.6	33.2	9	94
Shenzhen Investment	604 HK	2.47	7.9	36.1	3.2	0.8	1.0	3.31	1.6	66.3	9	109
Shui On Land	272 HK	3.74	15.7	92.1	4.3	0.9	1.6	6.80	1.4	43.6	10	119
Sinolink World	1168 HK	0.72	2.4	6.2	1.3	0.5	1.1	1.49	1.0	Net cash	11	60
SPG Land	337 HK	1.54	1.6	4.1	3.2	0.5	1.7	5.49	1.6	33.1	17	97
SRE Land	1207 HK	0.71	2.0	15.2	2.3	0.3	1.2	2.72	1.2	53.4	(3)	78
Tian An China	28 HK	2.78	4.2	4.4	6.5	0.4	1.0	6.22	1.0	0.2	7	70

Source: Respective companies, Bloomberg, UOB Kay Hian

b) Comparing current valuation to the past. Apart from Country Garden and Franshion, all the stocks are trading at below book value. However, before we can say whether they are cheap or not, we need to take into consideration how they used to trade in the past. The highlighted column in the previous table shows the potential share price level based on the average PB ratio for the past four years.

CHINA

Property

OVERWEIGHT

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c) **Other considerations** include market cap, daily trading volume (we tend to avoid the illiquid counters), gearing ratio as well as recent share price performance.

Our verdict. Two stocks fulfil the above three criteria: Shui On Land and Country Garden. SRE also looks interesting although it is much smaller and comparatively illiquid.

Of the names that we cover. The 12 mainland developers under our coverage collectively accounts for 72% of the total market cap of the sector. These stocks are generally recognised to be of better quality, as reflected in their generally higher PB ratio. Apart from China Overseas Land and Sino Ocean Land, these stocks are still trading below the level as implied by their historical PB ratio.

New targets. As sales volume has continued to be strong in 2Q and that our view that the mainland housing market has bottomed or is very close to the bottom is fast becoming a reality, we have applied a narrower target discount to NAV, making reference to the historical average, to calculate our new set of targets.

Revised Target Discount To NAV

	Old %	New %	NAV HK\$
Agile	(30)	(15)	9.20
China Overseas Land	(10)	5	12.44
China Resources Land	(15)	0	16.80
Greentown China	(65)	(61)	11.21
Guangzhou R&F	(20)	(9)	17.61
Hopson	(65)	(50)	14.04
KWG Property	(57)	(25)	4.76
Poly HK	(55)	(45)	6.47
Shanghai Forte Land	(60)	(39)	2.45
Shimao	(40)	(15)	13.61
Sino-Ocean Land	(20)	0	7.25
SOHO China	(20)	(15)	5.40

Source: UOB Kay Hian

Valuation Of China Property Companies

Stock	Ticker	4 May 09		Target price HK\$	Mkt cap HK\$b	Avg. daily volume (3m) HK\$m	Book value HK\$	PB x	Avg PB (4 yr) X	Beta	Gearing %	Share price increase	
		Share price HK\$	Rating									1m %	3m %
Agile	3383 HK	6.76	BUY	7.82	24.4	141.3	3.5	1.9	3.3	1.7	50.9	31	155
China Overseas Land	688 HK	14.96	HOLD	13.06	122.1	446.8	4.2	3.5	3.5	1.1	56.5	14	52
China Resources Land	1109 HK	15.06	BUY	16.80	71.1	184.4	7.8	1.9	2.1	1.1	43.0	12	85
Greentown China	3900 HK	4.79	SELL	4.40	7.4	10.8	5.2	0.9	2.5	1.3	93.6	14	115
Guangzhou R&F	2777 HK	14.28	BUY	16.03	46.0	300.3	4.6	3.1	4.7	1.8	126.0	24	154
Hopson	754 HK	6.86	SELL	7.02	10.1	72.7	13.7	0.5	2.0	2.0	64.0	10	130
KWG Property	1813 HK	3.53	HOLD	3.55	9.2	43.8	3.2	1.1	1.9	1.7	52.5	38	160
Poly Hong Kong	119 HK	2.74	BUY	3.55	5.2	3.4	3.2	0.9	1.0	1.0	93.6	24	77
Shanghai Forte Land	2337 HK	1.66	SELL	1.50	4.2	7.2	2.0	0.8	1.7	1.2	88.4	8	66
Shimao Property	813 HK	9.59	BUY	11.60	33.9	192.1	5.7	1.7	2.7	1.5	66.3	22	147
Sino Ocean Land	3377 HK	6.43	BUY	7.25	30.0	111.8	3.7	1.7	1.7	1.4	37.8	11	85
SOHO China	410 HK	3.94	BUY	4.60	20.4	46.2	2.7	1.5	1.9	1.0	(40.2)	3	69

Source: UOB Kay Hian

Our picks. Our three top picks continue to be Guangzhou R&F, Agile and Shimao because we like their landbank, products and brand. SOHO China, which has been lagging in this rally, is also worth a look.

China South Locomotive & Rolling Stock Corp

Weak demand for freight wagon remains a concern

Management's downbeat guidance confirms our view that market consensus for 2009 looks too optimistic. We still suggest investors to wait for better re-entry points. Maintain HOLD.

Corporate Events

Unlike other railway related plays such as China Railway Group and Zhuzhou Times Electric, China South Locomotive & Rolling Stock Corp's (CSLR) management released relative downbeat guidance at post-results analyst meeting. In line with our expectations, the weak demand for freight wagon has a negative impact on the Group's operating performance in 2009. We still believe that market consensus for 2009 profit looks too optimistic. Re-enter CSLR at HK\$3.10 which offers a better risk/reward profile.

Slowdown in demand for freight wagons remains a risk. Due to the economic slowdown in China, freight transport in volume terms fell 5.4% yoy in Jan-Feb 09. CSLR's management admitted that the decline in demand for freight wagon is likely to impact its operating performance in 2009. The Ministry of Railway (MOR) is likely to invite tenders to supply freight wagons in the near term. However, the procurement value is likely to drop 20% yoy.

Sales of locomotives, multiple units and rapid transit vehicle are expected to report a strong growth in 2009. Sales of passenger carriage will resume growth in 2009 after three years of decline. However, the decline in sales of freight wagons is expected to put pressure on overall profitability.

The decline in demand for freight wagon in 2009 has been factored into our earnings forecast. Our 2009 net profit forecast is lower than consensus. Management suggests gross margin at around 16.5% in 2009. Market still expects a 1ppt gross margin improvement in FY09.

Early stage of the railway and rapid transit equipment cycle. Investment in railway equipment is estimated at Rmb353.5b for 2006-10, or Rmb70.7b p.a., up 272.1% from the capex in 2001-05. The planned capex will go towards improving railway vehicles and not conventional trains as China aims to upgrade its railways. In the 11th Five-year Plan, investment in rapid transit systems in China could amount to Rmb400b-600b.

CSLR will be a major beneficiary of the investment boom in China's railway and rapid transit industry. CSLR's management believes the Group is at an early stage of a railway and rapid transit equipment cycle in China and the high growth phase of the Group is expected to start in 2010. Based on our forecasts, CSLR's net profit is likely to grow at a CAGR of 27.7% in 2008-11.

Earnings Revision/Risk

We fine-tune our FY09 and FY10 net profit forecasts, adjusting them upward by 0.1% and 1.3% respectively. The risks are substantial increase in raw material prices, MOR's delay in procurement and a massive slowdown in the economy.

CHINA

China South Locomotive & Rolling Stock Corp (1766 HK)

HOLD

Current Price: HK\$3.70

Fair Price: HK\$3.70

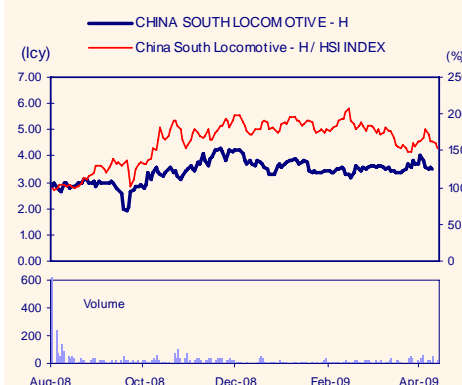
Sector Industrial
Bloomberg 1766 HK
Reuters 1766.HK
Website <http://www.csrgc.com.cn>

52-Wk Avg Daily Vol. (m) 29.7
Market Cap (HK\$m) 7,488.8
(US\$m) 960.1

Book NTA per Share (Rmb) 1.4
ROE (%) 13.6
Net Cash per Share (Rmb) 0.4

Results Due August
Interim April
Final

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	26,804	1,294	613	-	-	-	-	0.00	0.0
2008	35,093	2,325	1,384	0.12	-	28.8	12.8	0.03	0.9
2009F	42,927	3,275	1,767	0.15	27.6	21.9	11.7	0.04	1.2
2010F	52,313	4,248	2,341	0.20	32.5	16.6	8.6	0.05	1.5
2011F	62,601	5,122	2,911	0.25	25.2	13.2	6.1	0.05	1.6

Consensus Net Profit – FY09: Rmb1,958.4m
– FY10: Rmb2,509.2m

Valuation/Recommendation

Trading at 21.9x FY09 PE and 16.6x FY10 PE, CSLR is not particular cheap. However, it is also one of the few companies with growth visibility from now until 2012. We are at an early stage of the railway equipment cycle rather than an infrastructure cycle, implying higher PEs for railway equipment plays rather than infrastructure plays. Our fair price of HK\$3.70 is based of 22x 2009F PE, a 10% premium to our target PE for China's infrastructure companies. This premium is justified due to the higher technological and regulatory barriers in the China market and the much higher level of profitability. We suggest waiting for better re-entry points given the potential downside earnings surprise in 2009. Re-enter CSLR at HK\$3.10.

Potential catalyst. MOR placed Rmb39b orders to China Northern Locomotive and Rolling Stock (CNR) for the supply of 300-350km/h high-speed trains. The negotiation between MOR and CSLR is expected to finish in the near term, which is a near-term catalyst. Given the long lead time, the delivery of the high-speed trains should not have a major impact on CSLR's operating performance in 2009 and 1H10. Based on our understanding, core technology of CNR's 350km/h trains is still at the hands of Siemens. However, CSLR is developing its own technology domestically which will give the Group an edge in domestic maintenance and repairing.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	26,804	35,093	42,927	52,313	62,601
EBIT	640	1,658	2,288	3,097	3,905
Pre-tax Profit	948	1,931	2,464	3,265	4,059
Net Profit	613	1,384	1,767	2,341	2,911
EPS (Rmb)	0.57	0.12	0.15	0.20	0.25

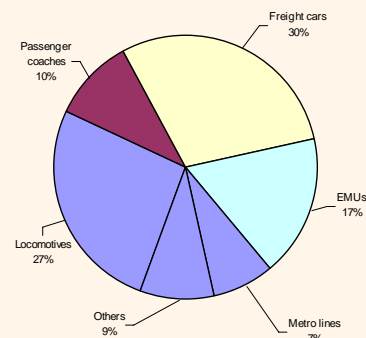
Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	21,791	31,088	32,763	39,388	47,422
Total Assets	32,691	45,516	52,638	61,421	71,418
Current Liabilities	21,683	23,652	28,852	35,081	41,909
Long-Term Loans	6,697	5,843	6,377	7,066	7,896
Shareholders' Funds	4,311	16,021	17,409	19,273	21,611
Total Equity & Liabilities	32,691	45,516	52,638	61,421	71,418

Cash Flow

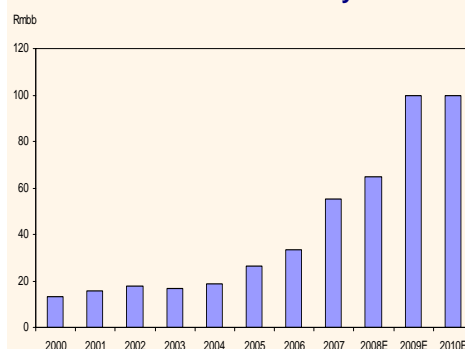
Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	1365	1365	3601	6294	4097
Investing	(2349)	(3049)	(3290)	(2282)	(1649)
Financing	2543	5818	(98)	(175)	416
Net Cash Inflow	1558	4133	213	3837	2865
Begin Cash & Equiv.	2550	4108	8241	8454	12293
End'g Cash & Equiv.	4108	8241	8454	12293	15158

2008 Revenue Breakdown



Source: CSLR, UOB Kay Hian

MOR Procurement of Railway Vehicles



Source: China Railway Yearbook, UOB Kay Hian

Technical Analysis

H-share Index: 9,641

In our last report on the H-share Index when it closed at 8,721, we had recommended investors buy at a lower level near 8,282.

The index fell to a low of 8,382 where it bounced off. The index gapped up yesterday to close higher at 9,641 in a long white candlestick formation on increasing volume.

Meanwhile, the index has surpassed our suggested resistance level at 9,447 and the 250-day moving average at 9,531.

Technically, the index should have two more upside gaps (one more runway gap and one exhaustion gap) before reversing.

Against this technical backdrop, the index sees increasing odds to head towards 10,263. Note that 10,263 equals the 0.618x Fibonacci Projection Level of the previous 6,404-9,447 advance.

H-share Index



CHINA

Technical Analysis

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Market Commentary

Caption

Through a wholly-owned subsidiary, China Mobile will pay about NT\$17.78b (about HK\$523m) to acquire a 12% stake in Taiwan-listed Far EasTone.

China Mobile said that completion of the deal would be subject to certain conditions, including the obtaining of all necessary regulatory approvals.

This acquisition is in line with Taiwan's policy of opening up to the mainland and in line with China's appetite to expand outside the mainland. The market is hopeful the deal would go through.

The success of the above deal in the politically-sensitive telecom sector could spur corporate deals in the other politically-sensitive sectors like the banking sector.

The announcement has sparked speculative buying interest not only on stocks listed in Taiwan but also Taiwanese stocks listed in Hong Kong on anticipation that these stocks would be M&A targets.

In the following two trading days of the above announcement, Taiwan stocks had a very strong performance.

We have short-listed the Hong Kong-listed Taiwan stocks with estimated PE for 2009 (table below) and those with positive 5-day price change as of yesterday.

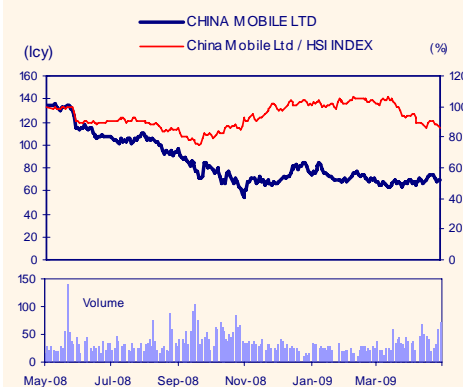
We suggest investors to switch from the value-overstretched Hong Kong-listed Taiwan stocks to those with PEs less than the HSI/HSCEI (the proxies of the Hong Kong market) and trade in shares as active as the overstretched Fubon Bank.

Among these stocks, there are only two which fulfill these two criteria-Daphne (210) and Asia Cement (743). However, we prefer Daphne to Asia Cement due to its lower PE vs the market, implying more room for price upside.

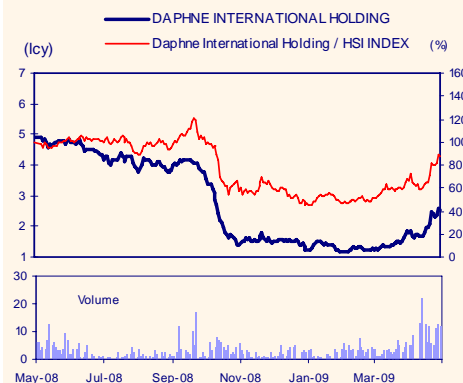
HONG KONG

Market Commentary

Price Chart



Source: Bloomberg



Source: Bloomberg

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Hong Kong-listed Taiwan Stocks

	SHORT_NAME	CUR_MKT_CAP	VOLUME_AVG_5D	EST_PE_CUR_YR
531 HK Equity	SAMSON HLDG LTD	2,377,611,000	1,788,300	2.52
3336 HK Equity	JU TENG INTL HDG	3,580,000,000	5,490,600	5.36
157 HK Equity	NATURAL BEAUTY	2,120,678,000	1,866,000	8.22
210 HK Equity	DAPHNE INTERNATI	4,799,025,000	8,531,800	9.42
743 HK Equity	ASIA CEMENT	10,520,250,000	8,987,000	12.58
HSCEI Index	HANG SENG CHINA ENT INDX			13.81
HSI Index	HANG SENG INDEX			14.50
151 HK Equity	WANT WANT CHINA	51,777,520,000	20,368,310	21.07
322 HK Equity	TINGYI HLDG CO	55,867,930,000	19,509,600	23.04
636 HK Equity	FUBON BANK	3,493,037,000	8,421,800	29.50
2038 HK Equity	FOXCONN INTL HLD	40,179,700,000	34,346,380	36.71

Source: UOB Kay Hian, Bloomberg

