UOBKayHian

Regional Morning Notes

Thursday, May 07, 2009

KEY STORY

China

Golden Eagle (BUY/HK$6.66/Target: HK$8.80) **Page 9**

After bottoming out in 1Q09, sales growth is set to pick up towards year-end. Raise target price from HK$6.58 to HK$8.80 based on higher 2010 profit.

Malaysia

Rummaging through the M&A and alpha play haystack **Page 11**

Easing global risk premiums could reward some potential alpha, M&A and laggard plays such as BToto, Resorts and KLCC Prop.

Singapore

Market valuations in the first year of rebound **Page 17**

Expect short-term pullback although FSSTI still has a 33% upside to our long-term target of 2,900. Top slice leading index cyclicals and re-enter at lower levels.

Oversea-Chinese Banking Corp (SELL/S$6.80/Fair: S$7.00) **Page 19**

1Q09: Non-recurrent boost from life insurance.

CHINA

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1Q09: Good paying-user growth but pick-up in profit has yet to come.

Update

China Automation Group (BUY/HK$2.46/Target: HK$3.00) **Page 5**

Share placing and subscription for long-term benefits.

China Railway Construction (BUY/HK$11.14/ Target: HK$13.50) **Page 7**

With share price significantly underperforming its peers and rising market liquidity, CRC is likely to catch up.

Golden Eagle (BUY/HK$6.66/Target: HK$8.80) **Page 9**

After bottoming out in 1Q09, sales growth is set to pick up towards year-end. Raise target price from HK$6.58 to HK$8.80 based on higher 2010 profit.

MALAYSIA

Strategy

Rummaging through the M&A and alpha play haystack **Page 11**

Easing global risk premiums could reward some potential alpha, M&A and laggard plays such as BToto, Resorts and KLCC Prop.

Results

Hong Leong Bank (SELL/RM5.70/Fair: RM4.64) **Page 13**

3QFY09: Net profit of RM207m (+0.7%yoy, -19.8% qoq) due to lower revenue from all segments and qoq was also hit by higher provisions.

Hong Leong Financial Group (SELL/RM5.10/Fair: RM3.80) **Page 15**

3QFY09: Net profit of RM132m (-1.0% yoy, -18.2% qoq). In-line results. Lower earnings due to smaller contribution from commercial bank.

SINGAPORE

Strategy

Market valuations in the first year of rebound **Page 17**

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Results

Oversea-Chinese Banking Corp (SELL/S$6.80/Fair: S$7.00) **Page 19**

1Q09: Non-recurrent boost from life insurance.

United Overseas Bank (NOT RATED/S$14.88) **Page 21**

1Q09: Muted increase in NPL ratio, rebuilds Tier 1 CAR.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8512.3	1.2	4.0	6.7	(3.0)
S&P 500	919.5	1.7	5.3	10.1	1.8
FTSE 100	4396.5	1.4	7.3	10.1	(0.8)
AS30	3840.1	(0.6)	4.9	5.3	4.9
CSI 300	2765.0	1.4	9.8	7.3	52.1
FSSTI	2179.0	5.0	20.5	20.9	23.7
HSI	16834.6	2.5	15.7	12.8	17.0
JCI	1798.3	1.5	9.4	20.6	32.7
KLCI	1024.0	1.5	6.0	11.3	16.8
KOSPI	1393.5	(0.3)	4.0	7.2	23.9
Nikkei 225	8977.4	1.7	1.5	2.6	1.3
SET	523.1	3.3	10.1	18.2	16.3
TWSE	6566.7	2.9	17.3	17.7	43.0
BDI	2065	8.9	16.5	39.0	166.8
CPO (RM/mt)	2814	(1.2)	4.7	23.9	72.6
Nymex Crude (US$/bbl)	56	4.6	10.5	10.4	26.3

Source: Bloomberg

Top BUYs/SELLs

	Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)
Top BUYs				
China Coal	1898 HK	8.21	8.80	7.2
China Life	2628 HK	29.00	31.30	7.9
China Railway	390 HK	5.72	6.00	4.9
Maanshan Iron	323 HK	3.89	4.50	15.7
Zijin Mining	2899 HK	6.22	7.15	15.0
Advanced Info	ADVANC TB	78.75	94.47	20.0
Quality Houses	QH TB	1.10	1.28	16.4
Top SELLs				
China Cosco	1919 HK	7.80	4.00	(48.7)
Harbin Power	1133 HK	6.94	4.50	(35.2)
Parkson Retail	3368 HK	11.40	5.15	(54.8)
S'pore Airlines	SIA SP	12.34	8.20	(33.5)
STX Pan Ocean	STX SP	14.20	4.35	(69.4)
Amata Corp	AMATA TB	4.14	2.11	(49.0)

Key Assumptions

GDP (% yoy)		2008	2009F	2010F
US*		1.1	(2.5)	1.9
Euro Zone*		0.7	(3.3)	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	1,773
Copper *	(US$/MT)	6,884	3,754	4,400
Gold Price London *	(US$/ounce)	873	934	968
Iron Ore *	(USc/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
FSLT & PST Combined Luncheon Presentation*	Singapore	14 May	14 May
EcoGreen Corporate Roadshow *	Shanghai	14 May	15 May

** by invitation only*

THAILAND

Results

Thai Union Frozen Products (BUY/Bt22.00/Target: Bt27.00) **Page 23**

1Q09: Strong earnings boosted by manageable inventory, a weak baht and stable tuna cost. 2009 outlook will remain promising.

Update

Sino-Thai Engineering & Construction (SELL/Bt3.80/Fair: Bt3.47) **Page 25**

STEC's main task is to win the second contract of the Purple Line and to acquire more projects.

Alibaba.com

1Q09: Good paying-user growth but pick-up in profit has yet to come

Alibaba.com sustained Gold Suppliers net additions growth in 1Q09 and earnings pick-up should follow in the next few quarters. Still, high valuation and gloomy macro condition hinder a BUY. Upgrade to HOLD.

1Q09 Results Review

(Rmbm)	1Q09	4Q08	1Q08	qoq % chg	yoy % chg	Remarks
Turnover	806.6	805.9	680.1	0.1	18.6	
Intl' Marketplace	505.6	489.1	464.2	3.4	8.9	
China Marketplace	301.1	316.8	215.9	(5.0)	39.4	Qoq drop due to seasonality and launch of Ali-advance
Gross Profit	697.8	687.6	601.2	1.5	16.1	
Operating Profit	276.7	177.1	311.9	56.2	(11.3)	
Net Income	253.4	199.4	300.7	27.1	(15.7)	
Gross Margin	86.5%	85.3%	88.4%	1.2ppt	-1.9ppt	Less training activity in 1Q09
EBIT Margin	34.3%	22.0%	45.9%	12.3ppt	-11.5ppt	Lower opex due to seasonalit
Net Margin	31.4%	24.7%	44.2%	6.7ppt	-12.8ppt	

Source: Alibaba.com, UOB Kay Hian

Results

Alibaba.com's (Alibaba) 1Q09 revenue was in line with our expectations with net income down 15.7% yoy to Rmb253.4m as a result of margin erosion due to its '2009 investment strategy'. Still, seasonality issues actually helped Alibaba.com improve EBIT margin by 12.3ppt qoq to 34.3% in 1Q09.

For paying subscribers growth, Gold Suppliers (GS) net adds remained strong as the effect of a 60% fee cut carries on to 1Q09. With the company introducing mobile China Trustpass (CTP) as a free value-added service (VAS) in 1Q09, CTP net adds was also strong in the quarter.

Stock Impact

Management still guiding full-year EBIT margin close to 4Q08 level. Management indicates strong improvement in 1Q09 margin was due to seasonality. With increasing number of staff (Alibaba.com added 700 headcount qoq with most hiring in March) and a much higher portion of a US$30m marketing spending to be utilised over the next three quarters, management reiterates full-year EBIT margin should be close to 4Q08 level.

70,000-80,000 GS target should arrive much faster. Management's previous guidance suggested total GS subscribers should reach 70,000-80,000 by end-11. With strong GS net add momentum since the 60% price cut, management sees net adds normalising over the next few quarters and may only require half of the time to achieving the goal.

International Trustpass (ITP) to upgrade to GS International Version in 2H09. The company will upgrade its existing ITP subscribers to GS International version in 2H09 and the annual fee will rise from US$589 to US$2,999 (similar to the GS starter pack) in the future. With ITP contributing less than 2% of total revenue, the change will not bring a material impact in the near term.

Ali-advance improves keyword selling but price has yet to improve. Seasonality and keyword bidding switched from fixed-fee to pay-per-click (ppc) Ali-advance model in Mar 09 caused Alibaba.com to record a 5.0% qoq decline in CTP revenue in 1Q09. Management said keyword adoption has significantly improved after the change, and they see the ppc rate improvement will help lift CTP's VAS income in the long run.

CHINA

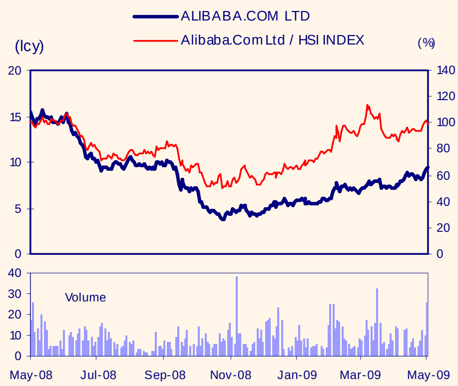
Alibaba.com (1688 HK)

UPGRADE TO HOLD

Current Price: HK$10.24
Fair Price: HK$9.00
(Previous: HK$4.50)

Sector	Internet
52-Wk Avg Daily Vol. (m.)	8.5
Market Cap (HK$m)	51,796
(US$m)	6,641
Major Shareholders (%)	
Alibaba.com Corporation	72.8
Book NTA per Share (HK$)	1.12
ROE (%)	28.1
Net Cash per Share (HK$)	1.49
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	2,163	1,015	679	0.14	n.a.	64.6	39.7	n.a.	0.0
2008	3,001	1,448	1,205	0.24	69.2	38.2	26.9	n.a.	0.0
2009F	3,655	1,192	883	0.17	(26.8)	52.2	31.7	n.a.	0.0
2010F	5,093	1,763	1,322	0.26	49.6	34.9	20.1	n.a.	0.0
2011F	7,111	2,548	1,919	0.38	45.0	24.1	12.6	n.a.	0.0

Consensus Net Profit – FY09: Rmb 948.4m
– FY10: Rmb 1,266.6m

Earnings Revision

Although the impact from the GS price cut and introduction of mobile CTP on subscriptions growth may normalise over the next few quarters, we have slightly raised the annual paying subscribers growth target to reflect the strong 1Q09 momentum (see summary). On the other hand, a higher increasing rate of paying subscribers will also drag down the average revenue per customer (ARPC) due to a lower VAS penetration among new users. After incorporating the changes, we raise our 2009 and 2010 net profit forecasts by 5.2% and 10.2% respectively.

Valuation/Recommendation

With the company's deferred revenue recognition method different from major Internet players, we believe valuation based on cash flow rather than PE multiple may capture our long-term view on the company better. After switching the valuation method, our fair value based on DCF model with 15.0% WACC and 3.0% terminal growth rises from HK$4.50 to HK$9.00, implying 45x 2009F pre-share-based compensation EPS. Although we see Alibaba.com's '2009 investment strategy' already created positive results on the subscriptions growth, it is still too early to switch to a BUY recommendation at the moment since the share price has already reached our target and macro uncertainty has still not faded away yet. Therefore, we upgrade Alibaba.com to HOLD with entry price at HK$7.20.

Revised Assumptions Summary

Subscribers	2009F	2010F	2011F
GS	**36,000**	**39,600**	**43,560**
previous	25,000	30,000	36,000
CTP	**120,000**	**138,000**	**142,140**
previous	100,000	115,000	118,450
ITP	**4,500**	**4,725**	**4,962**
previous	4,200	4,410	4,631
ARPC (Rmb)			
GS	**35,249**	**31,034**	**31,371**
previous	37,483	36,078	33,332
CTP	**3,150**	**3,150**	**3,174**
previous	3,200	3,305	3,400
ITP	**2,860**	**6,183**	**11,080**
previous	2,860	2,950	2,979

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	2,163	3,001	3,655	5,093	7,111
EBIT	1,149	1,416	1,037	1,553	2,254
Net Profit	679	1,205	883	1,322	1,919
Net Profit (Pre-SBC)	831	1,415	1,119	1,595	2,288

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	5,567	7,121	8,406	10,970	14,365
Total Assets	6,053	7,893	9,675	12,451	16,006
Current Liabilities	2,370	2,818	3,524	4,746	6,134
Long-Term Liabilities	70	106	143	200	260
Shareholder Funds	3,613	4,968	6,008	7,505	9,611
Total Equity & Liabilities	6,053	7,893	9,675	12,451	16,006

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	1,409	1,581	1,611	2,569	3,367
Investing	(102)	(3,102)	(1,189)	(1,070)	(1,245)
Financing	2,627	(79)	0	0	0
Net Cash In/(Out) Flow	3,934	(1,600)	423	1,499	2,122
Begin Cash & Cash Equiv.	438	4,321	2,689	3,082	4,552
End'g Cash & Cash Equiv.	4,321	2,689	3,082	4,552	6,646

China Automation Group

Share placing and subscription for long-term benefits

CAG will issue 86m new shares to raise HK$193.32m for potential acquisitions. We expect the company to benefit in the long term and raise our target price to HK$3.00 based on peers' 14x forward PE. Maintain BUY.

Corporate Events

Placement of existing 126m shares. China Automation Group (CAG) and its management have entered into a share placing and subscription agreement. Management, which currently owns 544m shares, representing 59.84% of existing issued share capital, has agreed to place up to 126m of its existing shares to outside investors. The shareholding of the management would shrink to 45.98% upon the completion of the placement.

Subscription for new 86m shares. Management has also agreed to subscribe for up to 86m new shares issued by the company. The issue of new shares will raise CAG's total outstanding number of shares from 909.2m to 995.2m. Management's stake in the company will also increase to 50.64% after the completion of the subscription.

Price set at HK$2.30. Both the placing the subscription prices are set at HK$2.30/share, reflecting a discount of 12.21% to the previous closing price of HK$2.62. The company intends to use the net proceeds of the subscription, estimated at HK$193.32m, for potential acquisition or investment opportunities in the railway-related business.

Changes In Shareholding Structure

	Current		After Placing		After Subscription	
	# of shares	%	# of shares	%	# of shares	%
Management	544,004,541	59.84	418,004,541	45.98	504,004,541	50.64
Public shareholders						
Placees	-	-	126,000,000	13.86	126,000,000	12.66
Others	365,167,459	40.16	365,167,459	40.16	365,167,456	36.70
Total	**909,172,000**	**100.00**	**909,172,000**	**100.00**	**995,172,000**	**100.00**

Source: CAG, UOB Kay Hian

Stock Impact

Three target companies on the radar. CAG has been screening three acquisition targets and is doing due diligence on them. All three companies are in the urban railway-related industry, two of which are mainly engaged in delivering railway transport signalling systems, while the other one is a solutions provider primarily specialising in software design. If CAG finally decides to acquire all three targets, it will need about Rmb200m, which is roughly equal to the net proceeds of the subscription.

Funds raised for long-term benefits. We do not expect the potential acquisitions to have a material and substantial impact on CAG's 2009 earnings even if the company could carry them out smoothly and realise the acquisitions this year. Thus, the major direct effect of the placing and subscription on 2009 could be a 9% EPS dilution. However, the acquisitions are likely to benefit the company in the longer term, likely from 2010 onwards.

CHINA

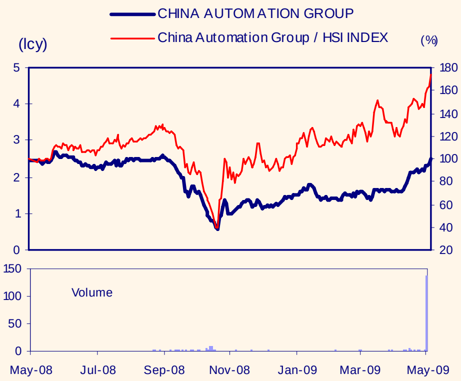
China Automation Group (569 HK)

BUY

Current Price: HK$2.46
Target Price: HK$3.00
(Previous: HK$2.66)

Sector	Instruments-Controls
52-Wk Avg Daily Vol. ('000)	1,491
Market Cap (HK$m)	2,236.9
(US$m)	288.6
Major Shareholders (%)	
Consen Investments Holdings	59.8
Book NTA per Share (Rmb)	0.61
ROE (%)	20.4
Net Cash per Share (Rmb)	0.22
Results Due	
Interim	June
Final	December

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (¢)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (¢)	Yield (%)
2007	403.4	105.4	99.9	14.1	16.8	15.4	17.6	2.7	1.2
2008	861.7	208.3	149.2	16.6	17.5	13.1	8.9	3.5	1.6
2009F	1029.4	256.2	188.4	18.9	14.1	11.5	7.2	3.8	1.7
2010F	1285.7	321.4	237.9	23.9	26.3	9.1	5.8	4.8	2.2
2011F	1550.3	386.4	283.8	28.5	19.3	7.6	4.8	5.7	2.6

Consensus Net Profit – FY09: Rmb204.3m
– FY10: Rmb270.5m

In addition, CAG's successful acquisition of Beijing Jiaoda Microunion (BJM) serves as strong evidence of the company's superior ability to identify quality acquisition targets and leverage on the synergy to expand business and boost earnings.

CAG is financially healthy and held a net cash position of Rmb197.7m as at 31 Dec 08. Thus, the company has sufficient internal funds to meet its debt obligations and working capital needs, and the funds raised though the subscription in question will be used solely for potential acquisitions.

Valuation/Recommendation

It is too early for us to evaluate the long-term effect of the potential acquisitions on CAG. Thus, taking into account only the dilution effect, we have revised down our EPS estimates for 2000-11 by an average of 8.4%. We are nonetheless upbeat about CAG's prospects and expect the potential acquisitions to enhance the company's presence in the railway sector. CAG's global peers are trading at 14x forward PE. Using this as a benchmark, we have raised our target price from HK$2.66 to HK$3.00. Maintain BUY.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	403.4	861.7	1,029.4	1,285.7	1,550.3
EBIT	102.8	198.4	245.1	307.9	371.7
Pre-tax Profit	99.7	190.0	233.2	296.1	359.9
Net Profit	99.9	149.2	188.4	237.9	283.8

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	636.3	1,047.7	1,316.3	1,620.2	2,015.7
Total Assets	683.1	1,488.3	1,778.0	2,089.6	2,488.7
Current Liabilities	119.8	396.7	428.1	549.5	721.5
Long-Term Liabilities	0.0	0.0	0.0	0.0	0.0
Shareholder Funds	563.3	989.9	1,310.5	1,500.8	1,727.8
Total Equity & Liabilities	683.1	1,488.3	1,778.0	2,089.6	2,488.7

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	35.1	2.4	191.2	186.4	211.6
Investing	(19.2)	(299.2)	(32.2)	(21.3)	(18.1)
Financing	247.2	307.5	132.3	(47.6)	(56.8)
Net Cash In/(Out) Flow	263.1	10.7	291.3	117.5	136.8
Begin Cash & Cash Equiv.	76.2	301.7	308.9	543.6	664.7
End'g Cash & Cash Equiv.	301.7	308.9	543.6	664.7	971.2

China Railway Construction

Strong order flow in 2009

China Railway Construction (CRC) underperformed its peers since our sector upgrading in early-March. CRC is likely to catch up given rising market liquidity. Maintain BUY.

Corporate Event

CRC's management reaffirmed a strong new order flow in 2009 and gross margin expansion trend at its post-results conference call. We believe management's guidance of Rmb260b turnover in 2009 looks conservative. We believe CRC has cleared its books and will have a low base to start with in 2009.

Exceptional items in 2008. CRC's operating performance in 2008 was distorted by several exceptional items including: a) forex loss of Rmb845m, b) a provision of Rmb538m for its property business, and c) realised loss of Rmb1.1b incurred from the snowstorms and Sichuan earthquake. The losses are non-recurrent and the CRC's core operation is stronger than expectations. According to management, the Group made enough provisions for property projects in 2008 and no more write-off or provision is required in 2009 unless the economic environment deteriorates further.

Growth momentum remains strong. Management is guiding for total new contracts of Rmb322b in 2009. However, new contracts signed in 1Q09 were up 74% yoy to Rmb128b, or about 40% of CRC's full-year target. The Group's guidance looks overly conservative.

We also believe that further margin improvement should be achievable given low raw material prices, efficiency gains and possible cost compensation from the MOR for the under-budgeted railway projects.

Management guided SG&A expense-to-sales ratio in 2009 will be stable compared with 2008's. We believe the ratio may also fall given the economy of scale.

Expansion into other businesses. CRC will expand into other businesses, including expressway BOT/BT and mining industry. Currently, the major BOT/BT projects are still in the parent company and those projects are cash-flow positive. CRC is also actively looking for opportunities to partner with mining companies, both domestically or overseas, or investing directly in mining projects, on the back of the recent sharp drop in commodity prices, thus lower valuation for some of the mining projects

Earnings Revision/Risk

We raise our FY09 net profit forecast by 10% after a 26% upward revision in top-line and a 0.2ppt cut in gross margin. We fine-tune FY10 net profit by 1.6% despite a 33% upward revision in turnover as we revise down gross margin by 0.4ppt. The risks are a substantial increase in raw material prices, MOR's delay in procurement and a massive slowdown in the economy.

CHINA

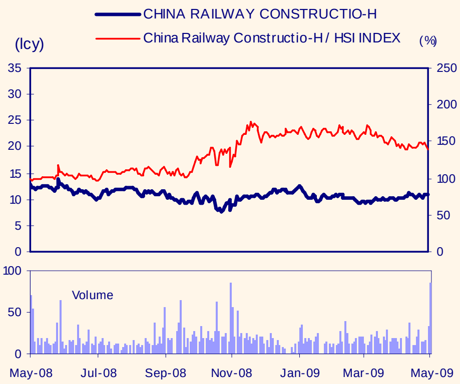
China Railway Construction (1186 HK)

BUY

Current Price: HK$11.14
Target Price: HK$13.50
(Previous: HK$12.50)

Sector	Industrials
52-Wk Avg Daily Vol. (m)	18.1
Market Cap (HK$m)	23,129.9
(US$m)	2,965.4
Major Shareholders (%)	
CRCCG	63.3
Book NTA per Share (Rmb)	2.9
ROE (%)	13.8
Net Cash per Share (Rmb)	2.4
Results Due	
Interim	September
Final	April

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	171,997	7,162	2,301	0.19	-	-	-	0.00	0.0
2008	219,410	8,177	3,643	0.29	58.4	34.3	9.4	0.10	0.9
2009F	265,157	12,150	5,932	0.48	62.8	20.5	8.6	0.14	1.3
2010F	326,580	15,394	8,125	0.66	37.0	15.0	6.7	0.20	1.8
2011F	387,151	17,338	9,243	0.75	13.8	13.2	5.7	0.22	2.0

Consensus Net Profit – FY08: Rmb6,126m
– FY09: Rmb8,055m

Valuation/Recommendation. We lift our target price from HK$12.50 to HK$13.50, based 11x 2009 EV/EBTIDA, in line with our target EV/EBITDA for China Railway Group (CRG). The revision is due to an upward adjustment in our earnings forecasts for 2009. CRC underperformed its peers and the market in the recent rally and is one of the worst performers in the HSI H-share Index. Given rising market liquidity, we expect CRC to catch up. CRC is now trading at 20.5x 2009 PE and 15.0x 2010 PE compared with CRG's 19.2x and China Communications Construction's 16.7x. Among the three major construction companies, only CRC has a net cash position. The ex-cash 2009 PE is about 13x. Potential asset injection and the resumption of Nigeria project are near-term share price catalysts. Maintain BUY.

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	171,997	219,410	265,157	326,580	387,151
EBIT	7,162	8,177	12,150	15,394	17,338
Pre-tax Profit	3,788	4,568	7,441	10,191	11,593
Net Profit	2,301	3,643	5,932	8,125	9,243

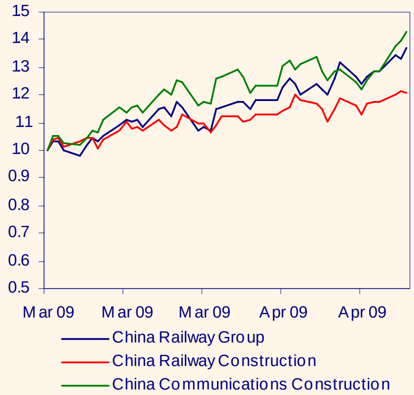
Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	129,576	186,507	211,018	246,064	288,642
Total Assets	156,878	220,102	254,428	294,680	339,902
Current Liabilities	138,142	158,069	187,251	220,655	258,533
Long-Term Loans	13,678	14,259	14,707	15,209	15,747
Shareholders' Funds	5,058	47,774	52,470	58,816	65,622
Total Equity & Liabilities	156,878	220,102	254,428	294,680	339,902

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	9,736	13,293	13,567	15,904	18,999
Investing	(12,797)	(11,231)	(14,000)	(10,000)	(7,903)
Financing	7,930	(3,961)	1,755	(5,076)	1,278
Net Cash Inflow/(Outflow)	4,869	(1,898)	1,322	828	12,373
Begin Cash & Cash Equiv.	13,478	18,347	16,449	17,771	18,599
End'g Cash & Cash Equiv.	18,347	16,449	17,771	18,599	30,972

Relative Share Price Performance



Source: Bloomberg

Golden Eagle

Sales growth is recovering from a bottom in 1Q09

Department stores' sales have bottomed out in 1Q09 and recovered in April. We raise our 2009-11 net profit forecasts by 6-8% based on higher same-store sales growth and contribution from new stores. Upgrade target price to HK$8.80.

Corporate Events

SSS growth improved in April. Same-store sales (SSS) growth for Golden Eagle rose from 9.4% in Marc09 to 15% in April, beating market expectation. Most stores performed very well and recorded double-digit sales growth in April. Some old stores maintained steady sales growth, and some two-year-old stores had stronger growth, such as Xian Gaoxin store (46%), Kunming store (75%) and Zhujiang store (50%) in April. A couple of new stores, such as Zhuangjiang store and Kunming store, are getting more mature and sales improved significantly in first four months of 2009.

Individual Store Sales Growth (Jan-Apr 09)

(%)	Overall	Xinjiekou store	Xuzhou store	Yangzhou store	Taizhou store	Gaoxin store	Xian store	Kunmin	Zhujiang store	Nantong store
2008	25.8	14.3	26.8	21.7	59.4	77.4	-12.6	n.a.	4.5	21.0
Jan & Feb 09	14.0	4.5	15.0	12.5	25.0	55.0	100.0	50.0	-2.0	26.0
March 09	9.4	0.0	9.8	10.0	38.5	42.0	73.0	43.0	-10.0	15.0
1Q09	12.7	3.0	13.5	12.0	28.0	51.0	95.0	49.0	-5.0	23.0
April 09	15.0	6.0	16.0	10.0	70.0	46.0	75.0	50.0	-3.6	14.0

Source: Golden Eagle, UOB Kay Hian

Sales performance continues to lead peers. According to our industry sources, other department stores, such as Intime and New World, also saw a sales rebound in April from March, but Golden Eagle's sales continued to outperform other Hong Kong-listed department stores.

Same-Store Sales Growth Comparison

Company	2007	Jan - Sep 08	4Q08	Jan-Feb 09	March 09	April 09
Golden Eagle (3308 HK)	25.8%	20%	14%	14%	9%	15%
Parkson (3368 HK)	19.6%	14.4%	7-8%	10%	n.a.	n.a.
Intime (1833 HK)	17.2%	13%	n.a.	11%	9%	10%
Maoye (848 HK)	n.a.	5.4%	n.a.	0%	0%	0%

Source: Golden Eagle, UOB Kay Hian

Most A-share retailers released better-than-expected 1Q09 results. Most A-share listed retailers recorded high single-digit or low double-digit sales growth. The average sales growth in 1Q09 for 37 A-share listed retailers reached 7.1%, which was much better than 3.1% in 4Q08. It seems that sales growth had bottomed in 1Q09.

Stock impact

Lift our SSS growth forecast for Golden Eagle. We lift Golden Eagle's 2009 SSS growth from 10% to 14% due to better-than-expected sales in 1Q09 and April. Despite the weakened consumer sentiment, retailers managed to achieve strong sales via cutting prices. As such, department stores, which derive revenue from charging sales-based concessionaire fee to retailers, could still achieve sales growth. Furthermore, consumer sentiment in China has improved recently. With the stimulus package coming onstream, sales could continue to recover towards year end.

CHINA

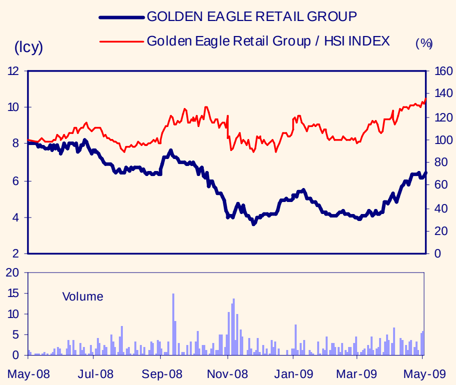
Golden Eagle (3308 HK)

BUY

Current Price: HK$6.66
Target Price: HK$8.80
(Previous: HK$6.58)

Sector	Consumer
52-Wk Avg Daily Vol. ('000)	2,127
Market Cap (HK$m)	11,780
(US$m)	1,519
Major Shareholders (%)	
HUNG WANG	74.88
JP Morgan Chase & Co.	5.03
Book NTA per Share (Rmb)	0.92
ROE (%)	36.5
Net Cash per Share (Rmb)	1.12
Results Due	
Interim	September
Final	April

Price Chart



Source : Bloomberg

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Year to 31 Dec	Turnover (Rmbm)	EBITDA (Rmbm)	Net Profit (Rmbm)	EPS (Rmb)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Rmb)	Yield (%)
2007	1,108	749	386	0.21	66%	27.5	16.7	0.04	0.57
2008	1,432	923	618	0.34	60%	17.2	12.3	0.30	3.95
2009F	1,739	1,054	718	0.40	16%	14.8	10.7	0.20	2.60
2010F	2,023	1,195	862	0.47	20%	12.3	9.0	0.24	3.13
2011F	2,360	1,336	963	0.53	12%	11.0	8.1	0.24	3.13

Consensus Net Profit – FY09: HK$616m
– FY10: HK$752m

Raise 2009-11 EPS forecasts by 6-8%. Based on higher SSS growth assumption, we raise Golden Eagle's EPS forecasts by 6% for 2009, 6.5% for 2010 and 8% for 2011. Upside to our earnings forecasts could come from potential M&As. It is highly likely that the two good-quality department stores of Nanjing Xinbai (Orient Department Store and Wufu Xinbai Store) will be injected into Golden Eagle in 2H09 after the restructuring of Nanjing Xinbai.

Earnings Risk

Discounting. In some cases, the Group would need to share with retailers part of the expenses arising from product discounting. This could slightly hurt its margins. However, given its strong position in the local markets, most of the relevant expenses would be borne by retailers.

New store in Shanghai. A new store will be opened in Shanghai on 28 May. The market remains negative on the store due to its historical poor sales performance. However, we are optimistic of its sales performance due to its attractive location and new market positioning.

Convertible bonds. The Group issued a tranche of zero-coupon convertible bonds (CBs) worth HK$1b due Oct 11. With Rmb2b of cash on hand, the Group wants to redeem the CBs. However, if the CB holders choose to convert all the CBs at the conversion price of HK$6.42/share upon maturity, the Group will need to issue 155.8m new shares (8.8% of existing share capital).

Valuation/Recommendation

Based on our earnings forecasts, Golden Eagle is trading at 14.8x 2009 PE and 12.3x 2010 PE, lower than its Hong Kong peers' average of 16.5x and 14.3x respectively. We remain positive on the stock due to its sustainable sales growth, strong market position and potential asset injections. We raise our target price from HK$6.58 to HK$8.80 based on 16.5x 2010 PE. **Reiterate BUY.**

Profit & Loss

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Turnover	1,108	1,432	1,739	2,023	2,360
EBIT	679	926	1,018	1,150	1,285
Pre-tax Profit	598	844	958	1,150	1,285
Net Profit	386	618	718	862	963

Balance Sheet

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Current Assets	1,886	2,272	2,341	2,841	3,486
Total Assets	3,927	4,771	5,097	5,763	6,583
Current Liabilities	1,717	3,023	2,251	2,545	2,919
Long-Term Liabilities	820	0	0	0	0
Shareholder Funds	1,336	1,694	2,781	3,140	3,571
Total Equity & Liabilities	3,927	4,771	5,097	5,763	6,583

Cash Flow

Year to 31 Dec (Rmbm)	2007	2008	2009F	2010F	2011F
Operating	885	1,042	770	1,043	1,216
Investing	(192)	(515)	(583)	(443)	(450)
Financing	(44)	(235)	(90)	(126)	(151)
Net Cash In/(Out) Flow	649	293	98	474	615
Begin Cash & Cash Equiv.	1,099	1,748	2,041	2,138	2,613
End'g Cash & Cash Equiv.	1,748	2,041	2,138	2,613	3,228

Key Assumptions & Forecast Change

Old	2009F	2010F	2011F
SSS growth (%)	9.6	13.0	14.1
Net profit (Rmbm)	678	809	897
EPS (Rmb)	0.37	0.45	0.49
EPS – fully diluted (Rmb)	0.34	0.41	0.45
New			
SSS growth (%)	14.4	13.8	14.1
Net profit (Rmbm)	718	862	963
EPS (Rmb)	0.40	0.47	0.53
EPS – fully diluted (Rmb)	0.36	0.44	0.49

Source: UOB Kay Hian

Strategy

Rummaging through the M&A and alpha play haystack

Although the KLCI appears toppish, easing global risk premiums could reward some potential alpha, M&A and laggard plays. Companies identified are BToto, Resorts World, as well as O&G companies.

Market Events

Merger and acquisition (M&A) activities could be picking up in the months to come as lower risk premiums and the possibility of rising asset values, amid a growing sense of global financial stability, could prompt potential acquirers to commit to making acquisitions, or controlling shareholders to privatise undervalued companies. Falling risk premiums in emerging markets, as proxied by the JP Morgan Emerging Bond Market Index, brings positive implication to the KLCI (see chart on RHS).

In Malaysia, M&A activities for the quarter kicked off with Sime Darby's recent offer for Ramunia's assets and liabilities at 1.6x trailing P/B.

Alpha plays should also gain more prominence and outperform the market as many local funds are cash-flush and underweight in equities, and thus, are actively shopping for event-driven ide**as.**

Impact

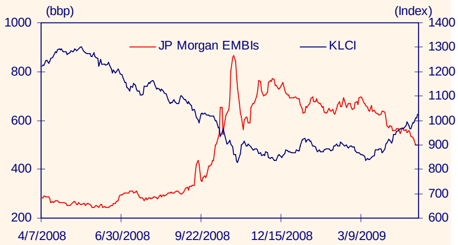
Potential winners and sub-themes under the M&A theme are Resorts World (BUY) and plantation companies such as KLK (HOLD) and IOI (SELL) as potential acquirers; and PLUS (NOT RATED) and KNM (NOT RATED) as potential privatisation candidates (see table overleaf for a list of our thematic candidates). Resorts could provide the most exciting upside, capitalising on casino operations put up for sale by many ailing US casino operators. Hypothetically, a US$1b acquisition at a 8x EV/EBITDA price tag could raise Resorts' earnings by 15-20%. For example, it seems some smaller US casino operations may be available for sale at around 7x EV/EBITDA.

Large plantation companies like IOI Corp and KLK are constantly trying to expand their plantation landbank, but their chances of 'quick wins' are slimmer as asking prices for plantation land and companies are still steep.

MALAYSIA

Strategy

Risk Aversion and KLCI



Source: Bloomberg

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Potential M&A and Privatisation Candidates

	Market cap (RMb)	P/BV (x)	P/E (x)	Potential catalysts or comments
Potential Acquirers				
Resorts World	14.8	1.76	22.9	Expansion opportunity with US casino assets (eg MGM Mirage) up for sale. Its cash pile of RM4.5b provides Resort with the financial means to make earnings-enhancing acquisitions.
Carlsberg (M)	1.1	2.36	14.4	Identified two rivals as purchasing opportunities to expand its market share in the region. The company has cash reserves of RM227m to acquire suitable targets.
KLK	12.0	2.18	14.6	Expansion of upstream operations, ie, landbank acquisition in Indonesia. As for downstream operations, consolidation in China and Europe offers opportunities for organic and M&A growth. Potential to gear up as FY09F gearing is 26.8%.
IOI Corp	27.1	3.50	16.0	Potential expansion of upstream operations via landbank acquisition in Malaysia and Indonesia.
Acquisition Targets				
SP Setia	3.7	1.82	18.7	There has been speculation that PNB, the 32.9% shareholder of SP Setia, may seek control of SP Setia, as part of PNB's plan to combine all of its property subsidiaries for listing. However, such a possibility may not materialise in the short term due to SP Setia's pricey valuations, and it would still take a while longer before market sentiment improves sufficiently to justify the listing of a property stock.
Privatisation Candidates				
KNM	2.9	1.57	8.2	Controlling shareholder has indicated his intention to privatise subject to funding availability.
PLUS	15.9	2.80	14.7	Privatising the highway and capping toll rates could boost the government's popularity.

Source: Bloomberg, UOB Kay Hian

Among the potential alpha plays is BToto which remains our favourite play on potential hefty cash distribution, as parent company BLand may require cash to redeem RM882m of secured exchangeable bond (plus accrued interest). BLand has a debt-to-equity ratio of 57% and was in a cash flow deficit (RM162m for 9MFY09). In theory, it is able to immediately distribute effectively 73 sen net DPS from retained earning plus treasury shares.

Finally, laggards are starting to catch up as the KLCI continued to advance and trading volume remained robust. Most of the laggards, defined as stocks that trade well below their respective 52-week highs, are found among the small-mid caps. O&G stocks hog the list of notably cheap laggards (in PE or P/B terms), including KNM (NOT RATED) and Coastal Contract (NOT RATED). Other notable cheap small-midcaps are Hap Seng Plantations (NOT RATED) and Sunway City (NOT RATED).

Selected Laggards (trading below 52-week high)

Bloomberg Ticker	Stock	Mkt Cap (RMm)	Share Price (RM)	P/BV (x)	Fwd PE (x)	From 52w (High/Low) Chg (%)	Chg (%)
	Big Cap with market cap >RM1.5b						
KNM MK	KNM	2,885	0.73	1.57	7.4	(68.9)	126.6
Axiata	Axiata	20,099	2.38	1.17	12.5	(54.6)	64.0
MMC MK	MMC Corp	5,603	1.84	0.92	8.4	(50.8)	93.7
ASP MK	Asiatic	3,739	4.94	1.59	13.2	(42.6)	90.0
IOI MK	IOI Corp	27,402	4.40	3.5	17.4	(42.5)	111.5
BL MK	BERJAYA LAND	3,825	3.34	0.74	25.1	(41.9)	16.8
KLK MK	KLK	11,956	11.20	2.81	16.0	(38.5)	65.9
SRWE MK	Sarawak Energy	3,253	2.13	1.13	11.0	(35.5)	35.7
HAPL MK	Hap Seng Plant	1,624	2.03	0.98	8.5	(35.4)	62.4
	Small and Mid Cap (Market Cap >RM500m but <RM1.5b) trading at <8x prospective PE						
SSB MK Equity	SOUTHERN STEEL	684	1.63	0.88	4.6	(58.8)	66.3
PETR MK Equity	PETRA PERDANA	580	1.95	1.07	5.0	(55.8)	74.1
SGB MK	SCOMI GROUP BHD	506	0.50	0.55	4.5	(53.3)	94.1
AMRB MK	ALAM MARITIM RES	517	1.05	1.39	5.3	(50.2)	101.9
WCT MK	WCT	1,451	1.88	1.25	11.8	(49.7)	103.2
IJMP MK	IJM Plant	1,564	2.44	1.90	15.2	(39.0)	90.6
COAS MK	COASTAL CONTRACT	551	1.56	1.79	5.8	(37.6)	97.5
WSC MK	Wah Seong	1,156	1.71	1.42	10.2	(30.9)	72.7
SCITY MK	Sunway City	1,057	2.25	0.60	7.2	(30.6)	60.7

Source: Bloomberg, UOB Kay Hian

PLUS one of our top privatisation candidates. PLUS' chances of being privatised have risen after the National Front component party MCA followed up to opposition party DAP's call for the government to privatise PLUS and suspend scheduled toll rate hikes. However, the potential upside to PLUS is limited as the shares are trading at the notional RM3.30/share privatisation price tag, which is close to the consensus DCF value for the company.

Construction companies continue to ride on the good newsflow on mega projects. On Monday, the RM1.3b tunnel works portion of the Pahang-Selangor interstate water transfer project was formally awarded to a consortium in which IJM has a 20% stake, and more recently, a unit of the Ministry of Finance has reportedly invited local contractors to submit their interest to participate in the extension/upgrading of the LRT, which is estimated to be worth RM6b-7b. However, much of such newsflow has been factored into share prices, and given our misgivings on the government's ability to execute the projects, we continue to advocate selling on strength.

Recommendation

Making hay while the sun still shines. While we remain cautious of global economic fundamentals, positive market sentiment and momentum could still provide some trading opportunities for selected alpha plays and laggards. Our favourites are Resorts (M&A) and BToto (cash distribution play).

Hong Leong Bank

3QFY09: Asset quality deteriorating

Results were above expectation but asset quality deteriorated in 3Q and leading indicators for growth in the bank moderated significantly over the last two quarters.

3QFY09 Results

Year to 30 Jun (RMm)	2Q09	qoq	yoy	Remarks
Net Interest Income	328.0	(9.7)	(5.7)	Lower interest margin and loan contraction
Islamic Banking	34.5	(10.1)	(14.2)	
Non-Interest Income	128.6	(21.0)	(11.4)	A loss of RM15.9m from the sales of derivatives & lower forex gain
Operating Revenue	491.0	(13.0)	(7.9)	
Operating Expenses	(218.1)	0.3	1.8	
Loan Loss Provision	(28.3)	10.4	(32.1)	Qoq higher due to higher SP and lower bad debt recovery
Net Income	206.5	(19.8)	0.7	Included contribution from Bank of Chengdu Ltd
Key Analysis (%)	**3Q08**	**2Q09**	**3Q09**	
Net Interest Margin	2.10	1.96	1.73	Margin compressed due to OPR cut
Gross NPLs	2.8	2.4	2.5	Due to consumer related loan, i.e. auto, personal loan & credit card
Gross Loans Growth	2.6	(1.0)	(2.1)	Lower trade facilities as corporate and commercial segment slowed down
Loans Loss Coverage	99.5	106.7	104.3	Ranked Top 3 among local banks

Source: HLB, UOB Kay Hian

Results

Hong Leong Bank's (HLB) 3QFY09 net profit was flat yoy but down 19.8% qoq to RM206.5m. The results were above our expectations.

Lower qoq due mainly to lower revenue from all segments and higher provisions as NPLs increased.

Loan growth contracted for two consecutive quarters, led by substantial weakness in corporate and commercial loans, auto loans and credit card receivables.

Stock Impact

Loan growth behind expectation. Ytd, HLB's total outstanding loan contracted by 2.3%. This is significantly behind our expectation of 5% for FY09. The decline was significant for corporate and commercial loan as the lower business trade volume affected the utilisation of trade-related facilities. For the consumer segment, auto loan is down by 1.9% ytd. The pick-up in consumer loan growth is expected in the coming quarters as HLB is now one of the more aggressive players in mortgage loan markets.

Asset quality deteriorating. The stress sign on asset quality starts in 3Q with higher non-performing loans. Gross NPL was up from 2.4% in 2Q to 2.5% and absolute NPLs were up by RM31.4m just in 3QFY09. This could be just the beginning for deterioration in asset quality, which we expect could be more severe in 2H09 when unemployment tick-up.

Strong capital base. The Group's capital position strengthens with core capital and risk-weighted capital ratio at 15.20% and 15.26%, up from 13.47% and 13.81% respectively in the previous quarter.

MALAYSIA

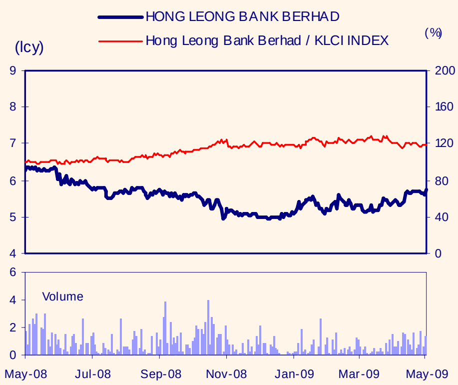
Hong Leong Bank (HLBK MK)

SELL

Current Price: RM5.70
Fair Price: RM4.64

Sector	Bank
52-Wk Avg Daily Vol. ('000)	872
Market Cap (RMm)	9,006.6
(US$m)	2,549.1
Major Shareholders (%)	
Tan Sri Quek Leng Chan	64.2
Employees Provident Fund	9.6
Book NTA per Share (RM)	3.55
ROE (%)	13.4
Results Due	
1Q: Nov	2Q: Feb
3Q: May	Final: Aug

Price Chart



Source: Bloomberg

Analyst

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Year to 30 June	PBT (RM m)	Net Profit (RM m)	EPS (sen)	EPS Growth (%)	PE (x)	PB (x)	DPS (sen)	Yield (%)
2007	856.6	619.1	39.2	12.6	14.5	2.0	24.0	4.2
2008	1,010.1	741.9	47.0	19.8	12.1	1.8	24.0	4.2
2009F	1,051.7	787.4	49.8	6.1	11.4	1.6	24.0	4.2
2010F	1,008.3	754.9	47.7	(4.2)	11.9	1.5	24.0	4.2
2011F	1,107.8	829.5	52.5	9.9	10.9	1.4	24.0	4.2

Consensus Net Profit – FY09: RM805.8m
– FY10: RM771.4m

Earnings Revision

Earnings are under revision.

Valuation/Recommendation

Maintain **SELL**. At current price of RM5.70, HLB is trading at a FY10 PE of 11.9x and P/BV of 1.8x.

Loan Growth Driven Mainly By Consumer Segments

Year to 30 Jun	FY06 (RMb)	FY07 (RMb)	FY08 (RMb)	3Q09 (RMb)	Ytd growth (%)	3-yr CAGR (%)
Total	29.5	32.5	35.4	34.6	(2.3)	5.4
Non-Consumer	11.7	12.1	12.9	11.3	(11.9)	(1.0)
Consumer	17.8	20.4	22.6	23.3	3.1	9.3
Mortgage	10.6	12.1	13.3	13.8	4.1	9.4
Personal Uses	1.4	2.1	2.4	2.6	8.4	23.2
Credit card	1.2	1.7	1.9	2.0	3.1	18.1
Auto	4.7	4.5	5.0	4.9	(1.9)	1.5

Source: HLB

Financial Statement: Quarterly

Year to 30 Jun (RMm)	3Q08	4Q08	1Q09	2Q09	3Q09
Net Interest Income	347.7	351.7	357.0	363.2	328.0
Islamic Banking	40.2	40.2	43.5	38.3	34.5
Non-Interest Income	145.0	94.5	149.6	162.6	128.6
Operating Revenue	532.9	486.4	550.1	564.2	491.0
Operating Expenses	(214.3)	(229.8)	(217.3)	(217.4)	(218.1)
Operating Profit	318.6	256.6	332.8	346.8	272.9
Loan Loss Provision	(41.7)	(72.3)	(11.2)	(25.6)	(28.3)
Net Income	205.1	134.1	241.7	257.4	206.5
Key Analysis (%)					
Net Interest Margin	2.10	2.00	1.95	1.96	1.73
Gross NPLs	2.8	2.4	2.3	2.4	2.5
Gross Loans Growth	2.6	1.8	1.2	(1.0)	(2.1)
Loans Loss Coverage	99.5	103.8	109.0	106.7	104.3
ROE	16.7	10.7	18.6	19.2	15.0

Financial Statement

Year to 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Net Interest Income	1,169.1	1,379.2	1,467.2	1,526.3	1,637.2
Islamic Banking	143.8	160.0	168.0	171.4	188.5
Non-Interest Income	455.2	479.1	448.0	477.6	501.0
Operating Revenue	1,768.2	2,018.3	2,083.3	2,175.3	2,326.7
Operating Expenses	(748.0)	(848.8)	(892.1)	(982.3)	(1,063.7)
Operating Profit	1,020.2	1,169.6	1,191.1	1,193.0	1,263.1
Loan Loss Provision	(161.8)	(159.5)	(139.4)	(184.7)	(155.3)
PBT	856.6	1,010.1	1,051.7	1,008.3	1,107.8
Net Income	619.1	741.9	787.4	754.9	829.5
Key Analysis (%)					
Net Interest Margin	1.83	1.93	1.97	1.98	2.01
Gross NPLs	3.2	2.3	2.3	2.4	2.0
Gross Loans Growth	10.2	10.2	5.0	4.0	6.0
Loans Loss Coverage	86.6	103.8	118.1	129.5	162.5
ROE	13.8	15.3	14.8	13.3	13.7

Balance Sheet

Year to 30 Jun (RMb)	2007	2008	2009F	2010F	2011F
Net Loans	31.7	34.5	36.7	38.0	40.2
Customer Deposit	(56.7)	(62.5)	(67.6)	(70.9)	(75.2)
Shareholder's Fund	4.6	5.1	5.5	5.8	6.2
Total Assets	71.4	77.5	80.1	84.0	89.1

Consumer NPL Rising – Stress Sign Emerging

	FY08 (RMb)	3QFY09 (RMb)	ytd chg (%)
Total	**0.84**	**0.87**	**2.9**
Non-Consumer	**0.49**	**0.46**	**(4.2)**
Consumer	**0.35**	**0.40**	**12.7**
Mortgage	0.23	0.25	8.3
Personal Uses	0.04	0.04	8.3
Credit card	0.03	0.03	21.2
Auto	0.06	0.07	29.5

Source: HLB

Uptick Credit Card And HP Default Rate

	FY08 (%)	3QFY09 (%)	ytd chg (bp)
Total NPL	**2.4**	**2.5**	**12.7**
Non-Consumer	**3.8**	**4.1**	**32.9**
Consumer	**1.6**	**1.7**	**14.6**
Mortgage	1.7	1.8	7.0
Personal Uses	1.7	1.7	(0.1)
Credit card	1.5	1.8	26.1
Auto	1.1	1.5	35.7

Source: HLB

Hong Leong Financial Group

3QFY09: Commercial bank under stress

Weaker quarterly performance due mainly to lower contribution from commercial banking and stockbroking divisions. Higher NPL resulted in higher provisioning and this could be just the beginning of deterioration.

3QFY09 Results

Year to 30 Jun	3QFY09 (RMm)	Yoy Chg (%)	Qoq Chg (%)	Remarks
Revenue	**525.8**	**(8.6)**	**(12.2)**	Lower contribution from banking and stockbroking divisions
Banking	461.0	(13.5)	(22.4)	Margin compress after 3 OPR cut and losses from sales of derivatives and lower forex gain
Securities & AM	12.6	(15.9)	17.6	Lower volume
Insurance	29.2	(3.8)	(8.5)	
Pre-tax profit	**271.8**	**(4.3)**	**(20.6)**	
Banking	268.8	(3.0)	(21.0)	Higher provisioning as NPL increased
Securities & AM	0.1	(96.9)	253.8	
Insurance	10.0	1.2	(28.1)	Lower claim

Source: HLFG, UOB Kay Hian

Results

Hong Leong Financial Group (HLFG) reported a net profit of RM132m, -1.0% yoy and -18.2% qoq. The results were within our expectation.

Weaker performance in 3Q was due mainly to lower contributions from banking and stockbroking divisions. Banking division was hit by lower net interest margin after two Overnight Policy Rate cuts in Jan-Mar 09, loan book contraction as trade facilities were down significantly. Qoq, it was also hit by higher provisions.

Contributions from other divisions are not very significant to HLFG, which contributed about 4-5% of the Group's pre-tax profit.

Stock Impact

Unlikely to see a pick-up in 4QFY09. Earnings momentum is likely to be declining on the back of: -

1. **Banking division under earnings stress as loan book contracted**, margin compressed and higher provision required for deteriorating asset quality. As highlighted in Hong Leong Bank's result note, the leading indicators for growth in the bank moderated significantly over the last two quarters.
2. **Securities and Asset Management (AM) to stabilise** with trading volume picking up significantly since Mar 09. But this is rather small to offset the contraction in the banking division.

Earnings Revision

No change to our earnings forecasts.

MALAYSIA

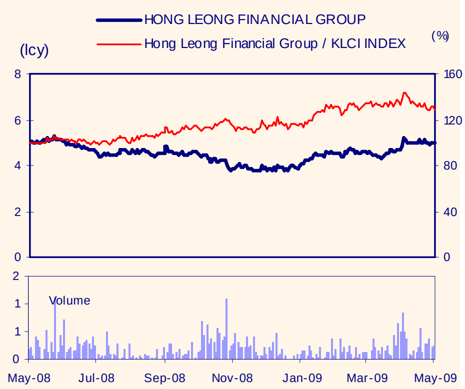
Hong Leong Financial Group (HLFG MK)

SELL

Current Price: RM5.10
Fair Price: RM3.80

Sector	Bank
52-Wk Avg Daily Vol. ('000)	189
Market Cap (RMm)	5,369.1
(US$m)	1,519.6
Major Shareholders (%)	
Tan Sri Quek Leng Chan	78.8
Book NTA per Share (RM$)	3.69
ROE (%)	13.9
Results Due	
1Q: Nov	2Q: Feb
3Q: May	Final: Aug

Price Chart



Source: Bloomberg

Analyst

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Year to 30 Jun	PBT (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	PB (x)	DPS (sen)	Yield (%)
2007	985.7	488.0	46.4	19.0	11.0	1.6	23.0	4.5
2008	1,120.2	548.7	52.1	12.4	9.8	1.5	23.0	4.5
2009F	1,114.7	553.9	52.6	0.9	9.7	1.4	23.0	4.5
2010F	1,110.7	545.9	51.9	(1.5)	9.8	1.3	23.0	4.5
2011F	1,308.9	694.5	66.0	27.2	7.7	1.2	23.0	4.5

Consensus Net Profit – FY09: RM546.7m
– FY10: RM583.7m

Valuation/Recommendation

Maintain **SELL**. We are expecting net profits of RM553.9m, RM545.9m and RM694.5m for FY09, FY10 and FY11 respectively. Based on sustainable ROE of 15%, payout ratio of 45% and long-term growth rate of 6.0%, we derived a fair value of RM3.80 for HLFG.

Income Statement: Quarterly

Year to 30 Jun	3Q08 (RMm)	4Q08 (RMm)	1Q09 (RMm)	2Q09 (RMm)	3Q09 (RMm)
Net Interest Income	351.9	342.7	359.9	365.2	334.6
Non-Interest Income	183.3	178.0	167.3	195.2	156.7
Operating Revenue	535.2	520.7	527.2	560.4	491.3
Operating Expenses	(249.8)	(231.5)	(243.7)	(249.8)	(248.9)
Operating Profit	285.4	289.2	283.6	310.6	242.4
Loan Loss Provision	(41.7)	(73.2)	(11.2)	(25.6)	(29.1)
PBT	283.9	256.2	310.1	342.2	271.8
Net Income	133.3	144.4	147.3	161.4	132.0
Key Analysis (%)					
Net Interest Margin	1.99	1.83	1.85	1.85	1.66
Gross NPLs	1.5	2.4	2.4	2.4	2.5
Gross Loans Growth	2.6	2.5	1.1	(0.9)	(2.0)
Loans Loss Coverage	185.3	103.8	109.0	106.7	104.4
Cost/Income Ratio	43.4	41.3	42.7	41.7	47.3
ROE	13.3	14.1	14.1	15.1	11.9

Financial Statement

Year to 30 Jun (RMm)	2007	2008	2009F	2010F	2011F
Net Interest Income	1,167.1	1,381.3	1,481.7	1,491.2	1,701.3
Non-Interest Income	677.2	684.1	668.9	740.5	817.1
Operating Revenue	1,844.3	2,065.4	2,140.6	2,231.7	2,518.4
Operating Expenses	(838.9)	(944.8)	(1,028.6)	(1,109.3)	(1,228.1)
Operating Profit	1,005.5	1,120.6	1,122.0	1,122.3	1,290.3
Loan Loss Provision	(163.6)	(160.5)	(179.7)	(201.3)	(171.1)
PBT	985.7	1,120.2	1,141.7	1,110.7	1,308.9
Net Income	488.0	548.7	553.9	545.9	694.5
Key Analysis (%)					
Net Interest Margin	1.59	1.82	1.84	1.75	1.89
Gross NPLs	3.1	2.3	2.3	2.3	2.3
Gross Loans Growth	10.3	8.8	4.0	4.5	6.0
Loans Loss Coverage	86.6	103.8	121.8	128.6	139.8
Cost/Income Ratio	42.2	42.5	44.3	45.8	45.3
ROE	13.6	13.9	13.0	12.0	14.4

Balance Sheet

Year to 30 Jun (RMb)	2007	2008	2009F	2010F	2011F
Net Loans	32,151	35,091	36,845	38,404	40,629
Customer Deposit	56,096	62,062	65,785	69,732	73,916
Shareholder's Fund	3,766	4,108	4,413	4,647	4,986
Total Assets	77,187	83,601	88,912	93,904	99,715

Strategy

Market valuations in the first year of rebound

Expect short-term pullback although FSSTI still has a 30% upside to our long-term target of 2900. Top slice leading index stocks and re-enter at lower levels.

Will history repeat itself? During the Asian financial crisis (AFC), the Straits Times Index's (FSSTI) P/B bottomed at 0.70x in early-Sep 98. By early-Jan 99 (four months later), the index had doubled with its P/B at 1.40x. After a 3-month breather, the market continued its uptrend to a P/B of 2.40x by end-99. In a span of 15 months, the FSSTI more than trebled. The FSSTI's NAV deteriorated by a mere 11% during this period.

Market has rallied 50% from its recent low… This time round, the FSSTI bottomed at 0.82x P/B on 9 March. It has since rallied 50% with is current P/B at 1.32x. Should the FSSTI reach 1.40x P/B in the near term, same as AFC scenario, this would imply a 6% upside from here (yesterday's FSSTI close: 2,179) or a target of circa 2,300.

…. and will likely take a breather. The FSSTI's long-term P/B mean is 1.76x (1993-2009). This implies a long-term fair level circa 2,900. While there is still some 33% upside to this long-term valuation, we expect the market to take a breather to assess macro-economic data points before the next leg up.

High-beta cyclicals have been the major outperformers. In the current market rally, high-beta cyclicals have significantly outperformed the FSSTI (+50% since 9 March)- conglomerate (+64%), finance (+79%), offshore & marine (+84%), shipping (+72%) and supply chain (+62%). Conversely, defensive sectors such as healthcare (+24%), land transport (+2%), media (+24%) and telecommunications (+13%) underperformed. The aviation sector (+26), despite being a cyclical sector, underperformed the FSSTI because its valuations were not cheap to begin with.

Top slice leading index cyclicals and re-enter at lower levels. While some leading US and China macro-economic indicators are bottoming and pointing to restocking, the jury is still out on the final demand recovery. The global economic recovery in the next two years will likely be U-shaped instead of V-shaped. Given the sharp rally in the Singapore stock market over the last two months, investors should consider locking in some gains in leading index stocks and re-enter at lower levels on market pullback.

Our technical analysis concurs. K Ajith, our Singapore technical analyst, concurs with our fundamental view. The FSSTI has been rallying for five consecutive days. From a low of 1,790 seven days ago, the index has thus far rallied to 2179, which is marginally above a 38% fibonacci retracement/ resistance level. Furthermore, the index faces trend-line resistance at about 2200. This would be the most significant resistance from March's lows and the odds of a pullback are high. The 100-day price oscillator indicator is now at an even higher overbought level than it was during the super bullish 2007 period.

SINGAPORE

Strategy

Large Cap Cyclicals

NAME	TICKER	Beta (x)	Share Price	% Chg Since 9 Mar
DBS	DBS SP	1.05	11.74	82
CapitaLand	CAPL SP	1.29	3.08	73
City Devts	CIT SP	1.15	7.50	84
Cosco Corp	COS SP	1.50	1.20	77
F & N	FNN SP	1.06	3.13	68
Golden Agri	GGR SP	1.21	0.48	92
Keppel Corp	KEP SP	1.27	6.90	69
NOL	NOL SP	1.50	1.51	48
Noble	NOBL SP	2.02	1.58	55
Olam	OLAM SP	1.20	2.00	74
OCBC	OCBC SP	0.92	6.80	72
SCI	SCI SP	1.22	3.20	56
Semb Marine	SMM SP	1.51	2.55	89
SGX	SGX SP	1.27	7.30	82
UOB	UOB SP	0.95	14.88	81
Wilmar	WIL SP	1.08	3.70	29

Source: Bloomberg

Analyst

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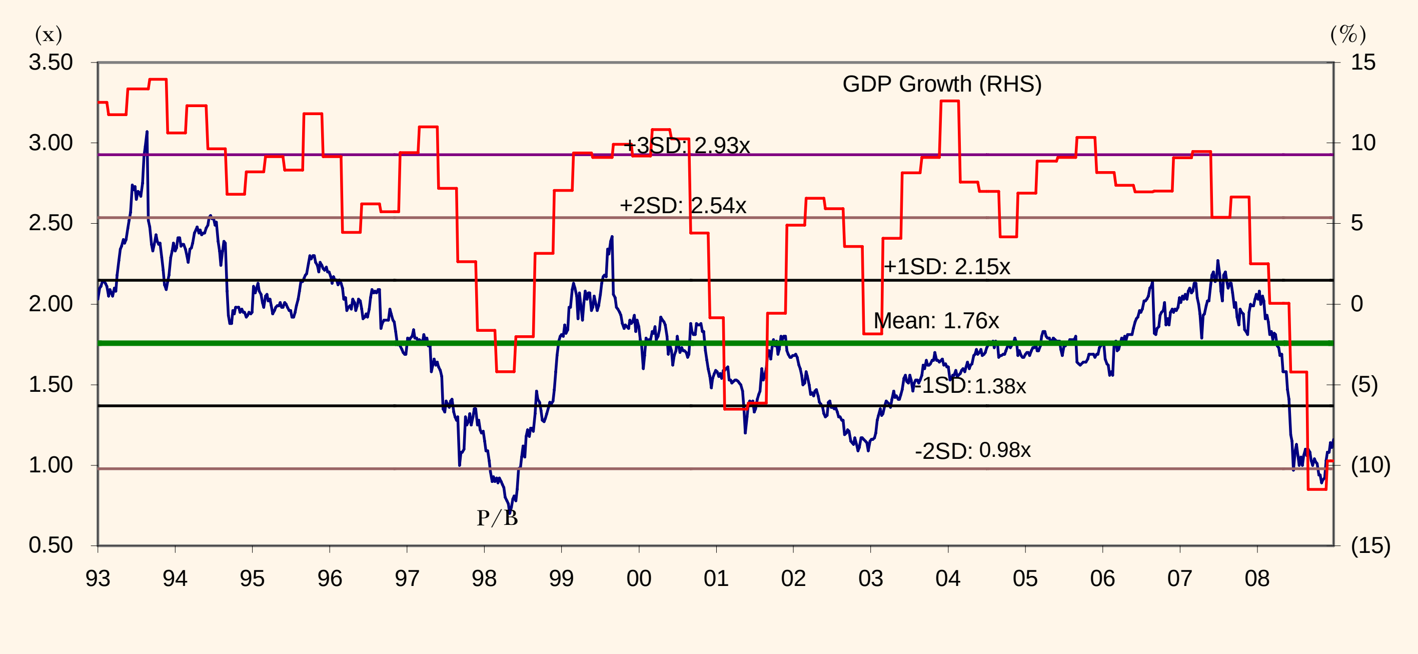
FSSTI's P/B vs Singapore's GDP Growth



Source: UOB Kay Hian

Sectoral Performance (% chg)

Sector	6M	3M	1M	Since 9 Mar 09
FSSTI	**20**	**27**	**18**	**50**
UOBKH Universe	21	25	18	45
Aviation	10	13	9	26
Conglomerate	37	52	20	64
Finance	23	36	29	79
Healthcare	(13)	16	7	24
Land Transport	(1)	(3)	3	2
Media	(10)	8	10	24
O&M	32	56	21	84
Plantation	59	26	18	41
Property	22	48	16	73
REITs	(14)	13	6	34
Shipping	33	18	17	72
Supply Chain	60	39	20	62
Technology	17	41	34	54
Telecoms	17	9	12	13
S-shares	3	3	20	53
Others	11	6	13	15

Source: UOB Kay Hian

Oversea-Chinese Banking Corp

1Q09: Non-recurrent boost from life insurance

The increase in NPLs was smaller than expected. However, results were boosted by non-recurrent gains from life insurance business in Malaysia. Downgrade to SELL as share price has surged too fast and too soon.

Results

Net profit of S$545m in 1Q09 was significantly above our forecast of S$299m and consensus estimate of S$335m. However, the results were largely boosted by non-recurrent items from insurance arm Great Eastern Holdings.

Financial Performance

	1Q08	2Q08	3Q08	4Q08	1Q09
Net Interest Income (S$m)	639	679	684	783	740
yoy change (%)	25.8	21.7	20.8	27.7	15.8
Fees & Commissions (S$m)	212	202	199	159	155
yoy change (%)	19.1	-6.9	-5.7	-21.3	-26.9
Insurance (S$m)	24.0	62.0	177.0	145.0	297.0
yoy change (%)	-79.1	-55.1	43.9	-26.4	1137.5
Net Profit (S$m)	623	426	402	301	545
Cost/Income Ratio (%)	41.8	45.4	43.6	44.4	30.7

Source: OCBC

Loans & Advances

	1Q08	2Q08	3Q08	4Q08	1Q09
Customer Loans (S$m)	73,977	76,989	79,925	79,808	78,815
yoy change (%)	20.2	20.9	20.2	11.9	6.5
Customer Deposits (S$m)	92,867	92,371	94,678	94,078	92,401
yoy change (%)	19.1	12.3	10.5	6.0	-0.5
Loans/Deposits Ratio (%)	79.7	83.3	84.4	84.8	85.3
Net Interest Margin (%)	2.17	2.24	2.18	2.47	2.42

Source: OCBC

Sustainable margins. Loans contracted 1.2% qoq but were 6.5% higher yoy to S$78.8b. Loans to Building & Construction have started to taper off, declining 2.8% qoq. Singapore dollar-denominated loans contracted 3.6% qoq. Net interest margin was maintained at an attractive 2.42%. Net interest income expanded 16.0% yoy to S$740m, primarily due to the expansion of credit spreads for corporate loans. There is less room for upside going forward after four quarters of efforts to reprice corporate loans.

One-off non-recurrent boost. Fees & commissions declined 2.5% qoq to S$155m. The only area of improvement was investment banking, rebounding from a low base to S$13m. Profit from life insurance more than doubled on a sequential basis to S$266m. Great Eastern booked non-recurring profit of S$180m from valuation surplus for its Malaysia insurance business after implementation of Risk Based Capital framework starting Jan 09. OCBC also benefitted from trading gains of S$87m from foreign exchange, compared to losses of S$17m in 4Q08.

SINGAPORE

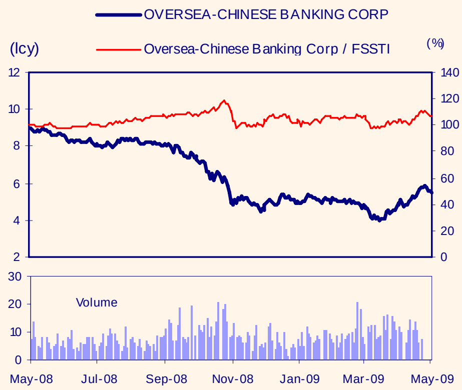
Oversea-Chinese Banking Corporation (OCBC SP)

DOWNGRADE TO SELL

Current Price: S$6.80
Fair Price: S$7.00
(Previous: S$5.27)

Sector	Banking
52-Wk Avg Daily Vol. ('000)	8,167
Market Cap (S$m)	20,104.1
(US$m)	13,595.8
Major Shareholders (%)	
Lee Foundation	19.2
Book NAV per Share (S$)	4.75
ROE (%)	9.9
Net Debt per Share (S$)	n.a.
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Total Income (S$m)	PPOP (S$m)	Net Profit (S$m)	EPS (S ¢)	EPS Growth (%)	PE (x)	DPS (¢)	Div Yield (%)
2007	4,281	2,555	2,071	65.9	3.9	10.3	28.0	4.1
2008	4,427	2,526	1,752	54.7	(17.0)	12.4	28.0	4.1
2009F	4,760	3,036	1,750	53.1	(2.9)	12.8	28.0	4.1
2010F	4,814	2,985	1,873	58.1	9.5	11.7	28.0	4.1
2011F	5,035	3,124	2,031	63.2	8.7	10.8	28.0	4.1

Consensus Net Profit – FY09: S$1,222m
– FY10: S$1.446m

Successes at cost cutting. Staff costs were reduced by 4.8% qoq due to control on headcount and salary increases and cash grants from the government's job credit scheme. Other operating expenses were cut by 18.0% qoq with reduction in business promotions and travel expenses. Cost-to-income ratio fell from 42% in 1Q08 to 30.7% in 1Q09. Management estimated positive impact from job credit scheme at S$20m per year with full impact to be felt starting 2Q09.

Asset Quality

	1Q08	2Q08	3Q08	4Q08	1Q09
NPL Ratio (%)	1.6	1.4	1.3	1.5	1.8
Coverage Ratio (%)	115.3	121.9	127.8	125.0	109.5
Tier-1 CAR (%)	12.8	12.3	14.4	14.9	15.1
Total CAR (%)	13.5	13.6	14.7	15.1	15.8

Source: OCBC

Overseas markets caused increases in NPLs. NPL ratio has edged slightly higher from 1.5% to 1.8% due to large corporations and medium-sized enterprises in manufacturing, building & construction and general commerce sectors for overseas markets. NPL ratio for Singapore remains relatively unchanged at 0.9% but increased from 3.3% to 3.6% for Malaysia. More significant increase in NPLs was seen for Indonesia and China. Two large accounts in the Building & Construction segment were classified as new NPLs under sub-standard category. OCBC booked specific provision of S$88m for loans in 1Q09, much lower than S$159m in 4Q08.

OCBC made allowance of S$94m for its corporate CDOs in 1Q09 and has fully written down its entire portfolio of ABS and corporate CDOs. There will not be any further negative impact from CDOs.

Stock Impact

OCBC's Tier 1 CAR remains robust at 15.1%. Thus, it is unlikely to need recapitalisation via a rights issue.

Earnings Revision

We have revised our assumptions based on trends in NPL ratio over the last two quarters, which were lower than our expectations. We have assumed NPL ratio will hit 4.2% by end-2010 (previous: 6%). Our earnings model has imputed allowance for credit losses of 95bp in 2009 (previous: 135bp) and 70bp in 2010 (previous: 95bp).

Valuation/Recommendation

We raise our fair price by 32.8% to S$7.00 (previous: S$5.27) based on P/B ratio of 1.29x derived from the Gordon Growth Model (ROE: 11.0%, payout ratio: 45%, required return: 8.0% and constant growth: 4.0%). The strong results were boosted by non-recurrent items. Downgrade to SELL as the share price has surged too fast and too steep.

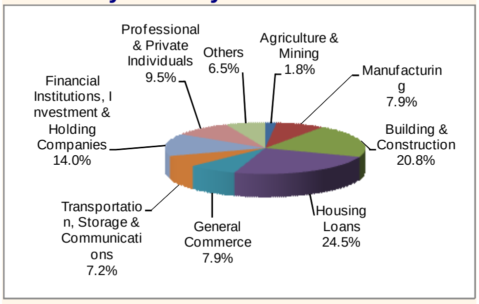
Profit & Loss

Year to 31 Dec (S$m)	2007	2008	2009F	2010F	2011F
Net Interest Income	2,244	2,785	2,961	3,070	3,218
Non Interest Income	2,036	1,642	1,799	1,744	1,817
Net Profit	2,071	1,752	1,750	1,873	2,031
EPS (cents)	66	55	53	58	63

Balance Sheet

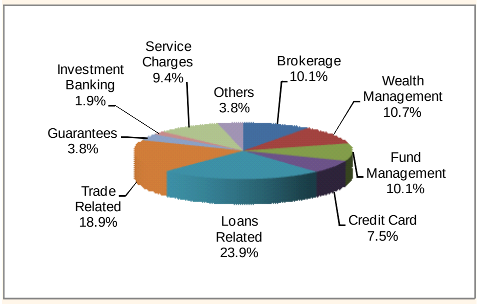
Year to 31 Dec (S$m)	2007	2008	2009F	2010F	2011F
Loans & Advances	71,316	79,808	80,399	84,328	89,503
Total Assets	174,607	181,385	183,391	191,620	201,583
Customers' Deposits	88,788	94,078	94,258	98,865	104,931
Borrowings	4,970	6,010	5,000	5,000	5,000
Shareholders' Funds	15,677	15,874	16,928	17,864	18,957
Total Equity & Liabilities	174,608	181,385	183,391	191,620	201,583

Loans By Industry



Source: OCBC

Segmental Breakdown – Fees & Commissions



Source: OCBC

United Overseas Bank

1Q09: Muted increase in NPL ratio, rebuilds Tier 1 CAR

Growth in net interest income from wider credit spreads in corporate loans. A timely boost to Tier 1 CAR reduces risk of equity fund raising.

Results

Net profit of S$409m in 1Q09 (-22.7% yoy) was below consensus estimate of S$426m. Consensus estimate could be too high due to expectations of further expansion in net interest margin.

Financial Performance

	1Q08	2Q08	3Q08	4Q08	1Q09
Net Interest Income (S$m)	852	874	893	957	949
yoy change (%)	11.8	14.8	25.1	28.8	11.4
Non-Interest Income (S$m)	414	551	320	391	434
yoy change (%)	-3.9	2.8	-18.6	-26.4	4.8
Net Profit (S$m)	528	601	474	332	408
Cost/Income Ratio (%)	39.3	36.4	41.5	39.4	35.5

Source: UOB

Loans & Advances

	1Q08	2Q08	3Q08	4Q08	1Q09
Customer Loans (S$m)	94,373	97,395	100,433	99,840	99,660
yoy change (%)	19.4	18.1	17.9	7.7	5.6
Customer Deposits (S$m)	109,580	109,004	113,123	118,171	119,357
yoy change (%)	9.9	4.3	7.9	10.5	8.9
Loans/Deposits Ratio (%)	86.1	89.3	88.8	84.5	83.5
Net Interest Margin (%)	2.20	2.23	2.21	2.45	2.41

Source: UOB

Maintaining lucrative margins. Loans were flat qoq but +5.9% yoy at S$102.0b. Growth came from housing loans (+7.7% yoy) and loans to private individuals (+12.9% yoy). Net interest margin was unchanged at an attractive 2.41%. However, the company says it has started to experience lower average loan spread for some overseas centres, such as Thailand where the market has become more competitive. Net interest income was flat qoq but increased 11.4% yoy to S$949m.

Benefitting from companies restructuring and refinancing. Fees & commissions rebounded 5.0% qoq to S$240m due to a huge jump in loan-related activities (debt-equity swaps, rights issues and commitment fees). There was, however, weakness for credit card due to seasonal factors. UOB booked gains of S$98m for financial instruments and available-for-sale assets, compared with S$45m for 4Q08.

Reducing costs. Staff costs dropped 5.5% qoq due to lower headcount and cash grants from the government's job credit scheme. Other operating expenses fell 9.7% qoq with reduction in revenue- related and IT-related expenditure. Cost-to-income ratio improved from 39.4% to 35.5%.

SINGAPORE

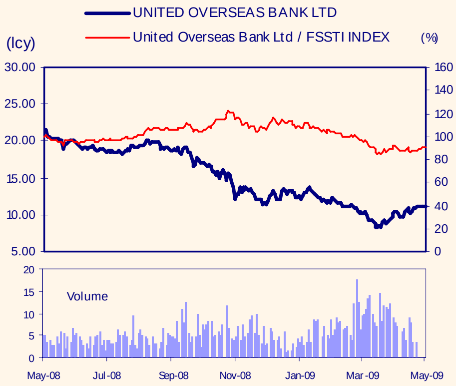
UOB (UOB SP)

NOT RATED

Current Price: S$14.88

Sector	Banking
52-Wk Avg Daily Vol. ('000)	5,508
Market Cap (S$m)	20,146.4
(US$m)	13,623.9
Major Shareholders (%)	
Wee Investments	7.5
Wah Hin & Co	5.4
Book NAV per Share (S$)	9.37
ROE (%)	12.2
Net Debt per Share (S$)	n.a.
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

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jonathankoh@uobkayhian.com

Year to 31 Dec	Total Income (S$m)	PPOP (S$m)	Net Profit (S$m)	EPS (S ¢)	EPS Growth (%)	PE (x)	DPS (¢)	Div Yield (%)
2006	4,837	3,088	2,570	165.2	48.6	9.0	81.2	5.5
2007	4,872	2,843	2,109	136.0	(17.7)	10.9	73.7	5.0
2008	5,250	3,189	1,937	125.0	(8.1)	11.9	60.0	4.0

Consensus Net Profit – FY09: S$1,525m
– FY10: S$1,715m

Asset Quality

	1Q08	2Q08	3Q08	4Q08	1Q09
NPL Ratio (%)	1.6	1.5	1.5	2.0	2.1
Coverage Ratio (%)	117.5	127.7	127.3	106.4	104.9
Tier-1 CAR (%)	9.9	10.2	11.2	10.9	12.3
Total CAR (%)	14.3	14.4	15.5	15.3	17.3

Source: UOB

Conservative provisioning. UOB made specific provision of S$169m, similar to last quarter's. It also built a buffer with general provision of S$174m. NPL ratio increased only marginally from 2.0% in 4Q08 to 2.1% in 1Q09. Management commented there is no major sign of deterioration. However, it did admit to writing-off one bad loan in Malaysia.

We believe the government's Special Risk-Sharing Initiative (SRI) has helped reduce NPL formation for SME loans. Management expects draw-down of loans under SRI starting 2Q09.

Stock Impact

Adequate capital. Tier 1 CAR improved from 10.9% in 4Q08 to 12.3% in 1Q09, above regulatory requirement of 6%. This was achieved through reduction of risk-weighted assets (technicalities in computation due to transition to Basel 2) and higher retained earnings. There was also an S$218m increase in available-for-sale reserves.

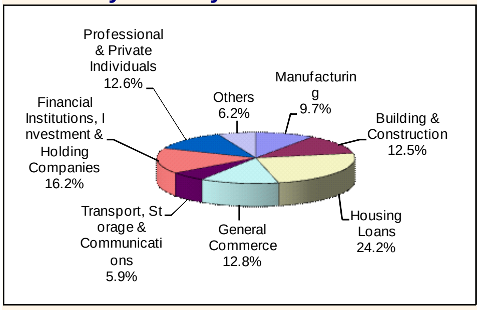
Profit & Loss

Year to 31 Dec (S$m)	2006	2007	2008
Net Interest Income	2,710	2,980	3,575
Non-Interest Income	2,127	1,892	1,675
Net Profit	2,570	2,109	1,937
EPS (cents)	165	136	125

Balance Sheet

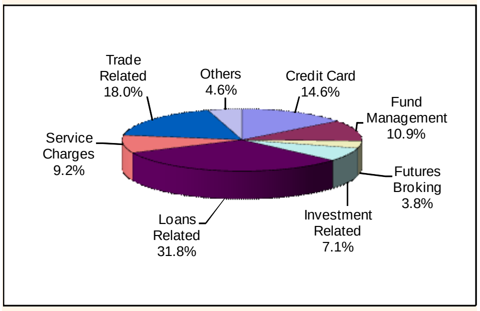
Year to 31 Dec (S$m)	2006	2007	2008
Loans & Advances	76,875	92,669	99,840
Total Assets	161,311	174,952	182,941
Deposits & Savings A/C	95,552	106,967	118,171
Borrowings	6,596	6,666	6,246
Shareholders' Funds	16,791	17,330	15,573
Total Equity & Liabilities	161,312	174,951	182,941

Loans By Industry



Source: UOB

Segmental Breakdown – Fees & Commissions



Source: UOB

Thai Union Frozen Products

1Q09: Sterling results

1Q09 net profit surged 13% yoy, boosted by a weaker baht, stable tuna cost and efficient cost control. 2009 outlook remains promising. Valuation is attractive, at a five-year P/B low of 1.35x and a dividend yield of 6-7%.

1Q09 Results

Year to 31 Dec (Btm)	1Q08	4Q08	1Q09	% yoy	% qoq	Remark
Sales	15,416	18,409	17,666	14.6	(4.0)	Higher sales for most products
Gross Profit	1,608	2,137	2,137	32.9	-	Weaker baht, lower tuna cost
SG&A	(1,323)	(1,673)	(1,372)	3.7	(18.0)	Efficient cost control
Operating Profit	284	764	464	168.9	(39.3)	Low SG&A expenses
FX Gain (loss)	444	(66)		127	(71.4)	(5.0)
Net profit	578	307	653	13.0	112.7	
Avg. Bt/US$	32.23	34.86	35.39	9.8	1.52	
Gross margin (%)	10.43	11.60	12.10			
Net margin (%)	3.75	1.67	3.69			

Source: UOB Kay Hian

Thai Union Frozen (TUF) posted a strong net profit of Bt653m in 1Q09, up 13% yoy and 113% qoq. The sterling performance was mainly supported by the following: a) a weaker baht, b) no mark-down in buffer stock, c) more stable raw material costs, and d) efficient cost control.

Stock Impact

- **Continued sales growth.** Sales in US dollar and Thai baht terms improved 4.4% yoy and 14.6% yoy respectively. Most products showed positive sales growth, especially canned pet food (+18.7% yoy), sardine/mackerel products (+32.5% yoy) and other seafood products (+46.7% yoy). Markets with major exposure to this growth were Japan and the EU, with contributions rising 43.5% and 20.4% yoy respectively.
- **Widen margins.** Gross margins recovered from 10.43% in 2008 to 12.10%, thanks to the stabilisation of the baht and tuna raw material cost. Average tuna cost in 1Q09 was US$1,128/ton vs US$1,513/ton in 1Q08. General cost deflation and efficient cost control helped keep SG&A expenses well under control at 7.8% vs 8.6% in 2008.
- **Strong financial position.** Operating cash flow continued to expand (Bt2.7b) on a significant reduction in inventory. The reduction of short-term debts also restored gearing to 0.86x vs 1.09x in 2008.

Valuation/Recommendation

Maintain BUY. TUF is one of the few stocks that will show positive earnings growth of 8% for 2009 vs about 4% for the other three Thai food stocks. It is trading at a five-year low average P/B and PE. At this price, the stock is attractive given its strong dividend yield of 6-7%. The stock trades at 7.78x 2009F PE, a 34% discount to its global peers' average. Our target price is Bt27.00, pegged at 10x 2009F PE, and offers 23% upside to its current price.

THAILAND

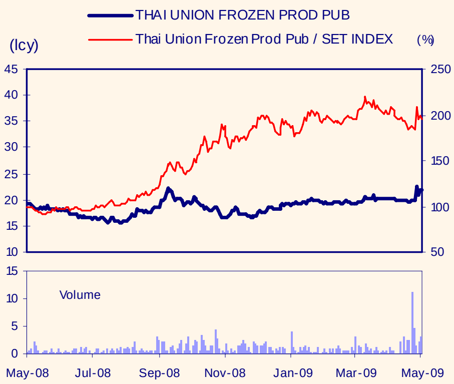
Thai Union Frozen Products (TUF TB)

BUY

Current Price: Bt22.00
Target Price: Bt27.00

Sector	Food Beverage
52-Wk Avg Daily Vol. ('000)	1,058
Market Cap (Btm)	19,253.1
(US$m)	547.4
Major Shareholders (%)	
Mr. KRAISORN CHANSIRI	9.08%
Book NTA per Share (Bt)	18.38
ROE (%)	14.3
Net Debt per Share (Bt)	18.9
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Bt)	Yield (%)
2007	55,507	3,639	1,823	2.07	(4.66)	10.62	4.36	1.04	4.72
2008	69,048	4,226	2,200	2.49	20.07	8.83	3.82	1.26	5.72
2009F	76,093	4,805	2,377	2.69	8.04	8.17	3.33	1.35	6.13
2010F	83,703	5,189	2,601	2.95	9.43	7.45	3.06	1.47	6.68
2011F	92,910	5,402	2,786	3.15	7.09	6.98	2.94	1.58	7.18

Consensus Net Profit – FY09: Bt2,594 m
– FY10: Bt2,885m

New event. For its main US brand, "Chicken of the Sea", TUF is planning to relocate its American Samoa processing plant to Georgia state in order to ensure long-term profitability. The new plant is expected to be up and running on 1 Oct 09 and is expected to have an annual capacity of 4m cases. TUF would use cash for the investment, and would also spend another Bt1.2b-1.4b ($34.2m-39.9m) this year on boosting efficiency and building more cold storage facilities. The acquisition will benefit TUF in the long term. Management is targetting annual revenue growth of 10-12% over the next four years, forecasting revenue of $3.0b by 2012, on the back of acquisitions.

Profit & Loss

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

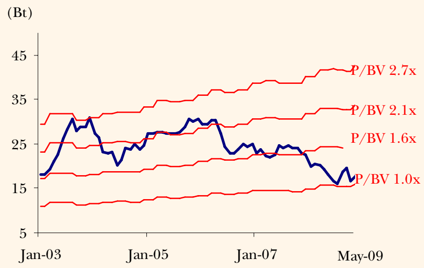
Balance Sheet

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

Cash Flow

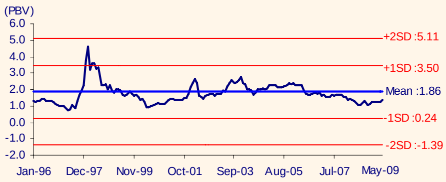
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	(330)	(233)	2,419	2,670	5,801
Investing	(2,694)	(1,796)	(1,323)	(1,368)	(1,375)
Financing	3,144	2,100	(1,050)	(1,272)	(4,371)
Net Cash In/out flow)	120	71	46	30	55
Begin Cash & Cash Equiv.	365	485	557	603	633
End'g Cash & Cash Equiv.	485	557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

TUF: Historical P/B



Source: Setsmart

TUF: P/B (x) & Standard Deviation



Source: Setsmart, UOB Kay Hian

Sensitivity Analysis

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

Source: UOB Kay Hian

Key Assumptions

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

Source: UOB Kay Hian

Sino-Thai Engineering & Construction

Vital for STEC to win more projects

Due to its small orderbook, it is vital for STEC to win the Purple Line contract and to acquire more projects. Otherwise, the company may have to downsize. Maintain SELL.

Corporate Events

Due to the domestic political turmoil and global economic slump, public and private projects have been delayed or suspended. Sino-Thai Engineering & Construction (STEC) is facing difficulties in clinching new projects. Year to date, the company has signed an agreement for a new project worth Bt509m and has a Bt200m flyover contract waiting to be signed. Excluding projects realised in 1Q09, we estimate STEC's orderbook at Bt9.7b, accounting for 6.7 months of last year's turnover. To boost its orderbook this year, STEC can rely on only one project, the Bt12b second contract of the Purple Line which is waiting for bidding. If STEC does not win this project and is not able to sign more new contracts, it may be forced to downsize. Management hopes to win the project.

Stock Impact

STEC has an edge on the second contract of the Purple Line as it involves an elevated part that runs over a river. STEC will soon complete the Airport Rail Link (ARL) project, which involves an elevated structure. All the equipment can be used for the new project. Still, it is uncertain if STEC will win the project. Even if it does win the contract, the contribution will only kick in next year. Thus, we have not factored the impact of the project into our forecasts.

Although there is less contribution from the loss-ridden ARL as it is nearing completion, STEC's margin may not improve much due to a fall in contributions from new projects. Thus, we expect STEC to achieve only 4.7% gross margin this year, down from our original forecast of 5.0%.

Due to the small orderbook, we expect STEC to report a weak performance in 1Q09. Gross margin will not improve much in this quarter but will gain momentum from 2Q09 onwards when there is less contribution from ARL.

Earnings Revision/Risk

With about Bt9.7b orderbook left plus additional small projects signed this year, our Bt7.1b sales forecast looks conservative. Thus, we raise our 2009 sales and net profit estimates to Bt8.5b (+20%) and Bt163m (+6%) respectively. Our fair price based on 0.9x PBV is revised up to Bt3.47 (+20%).

THAILAND

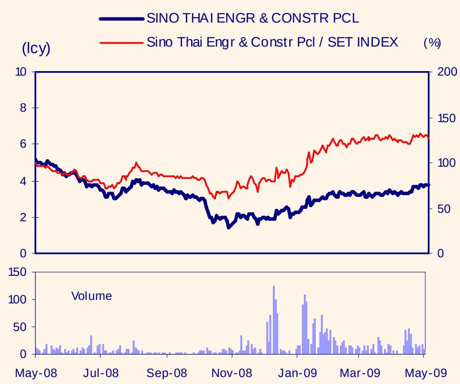
Sino-Thai Engineering & Construction (STEC TB)

SELL

Current Price: Bt3.80
Fair Price: Bt3.47

Sector	Contractor
52-Wk Avg Daily Vol. ('000)	14,600.1
Market Cap (Btb)	4.5
(US$m)	128.2
Major Shareholders (%)	
Charnvirakul Family	23.6
Book NTA per Share (Bt)	3.7
ROE (%)	4.3
Net Debt per Share (Bt)	0.1
Results Due	
1Q: May	2Q: Aug
3Q: Nov	Final: Feb

Price Chart



Source: Bloomberg

Analyst

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Year to 31 Dec	Turnover (Btm)	EBITDA (Btm)	Net Profit (Btm)	EPS (Bt)	EPS Growth (%)	PE (x)	EV/ EBITDA (x)	DPS (Bt)	Yield (%)
2007	17,282	509	22	0.02	101.23	204.89	4.45	0.00	0.0
2008	14,590	752	178	0.15	709.09	25.32	3.73	0.00	0.0
2009F	8,496	747	163	0.14	(8.63)	27.71	3.48	0.00	0.0
2010F	12,000	999	379	0.32	132.96	11.90	2.25	0.00	0.0
2011F	13,440	1,223	374*	0.32	(1.20)	12.04	2.03	0.16	4.2

Consensus Net Profit – FY09: Bt267m
-- FY10: Bt390m

** End of the tax shield*

Valuation/Recommendation

Despite our earnings upgrade, we maintain SELL on STEC due to the uncertainty of its winning the second contract of the Purple Line and its small orderbook. In addition, the stock is trading at an 8% premium to our fair price of Bt3.47 and at an expensive 2009 PE of 27x. We may revise up our forecasts if STEC wins the Purple Line contract or acquire new contracts.

Profit & Loss

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Turnover	17,282	14,590	8,496	12,000	13,440
EBIT	51	269	241	451	568
Pre-tax Profit	16	203	169	385	511
Net Profit	22	178	163	379	374
EPS (Bt)	0.0	0.2	0.1	0.3	0.3

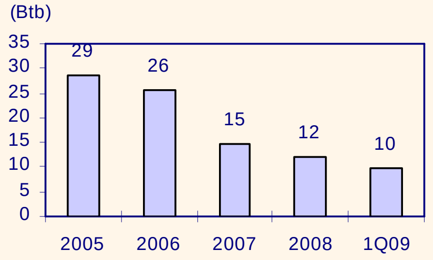
Balance Sheet

Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Current Assets	9,610	8,319	6,673	7,956	8,121
Total Assets	14,027	12,405	10,797	12,407	13,326
Current Liabilities	9,673	7,647	5,934	7,163	7,706
Long-Term Loans	1,234	769	744	645	447
Shareholders' Funds	3,893	4,441	4,604	4,983	5,357
Total Equity & Liabilities	14,027	12,405	10,797	12,407	13,326

Cash Flow

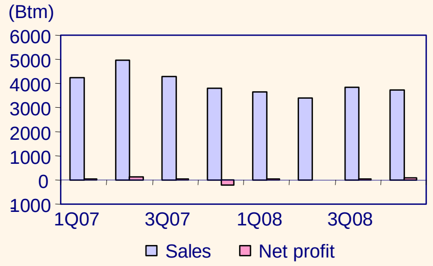
Year to 31 Dec (Btm)	2007	2008	2009F	2010F	2011F
Operating	1,894	(165)	919	653	835
Investing	496	478	(227)	(559)	(1,316)
Financing	(2,626)	(409)	(631)	100	24
Net Cash Inflow/(Outflow)	(236)	(96)	61	194	(457)
Beginning Cash & Cash Equiv.	1,306	1,070	974	1,035	1,229
Ending Cash & Cash Equiv.	1,070	974	1,035	1,229	772

STEC's Orderbook



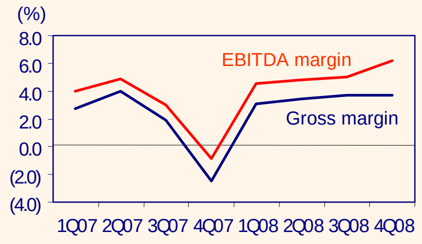
Source: STEC, UOB Kay Hian

Sales and Net Profit



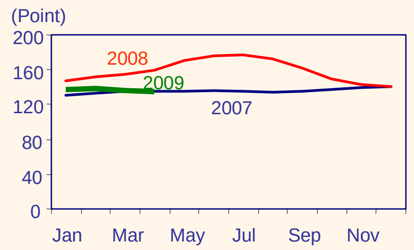
Source: STEC

Gross and EBITDA Margin



Source: STEC

Construction Price Index



Source: Ministry of Commerce

Valuation

Method	Results	Remarks
P/B approach	Bt3.47	Likely valuation
Stress P/B	Bt2.84	Unlikely as it is not going into bankruptcy

Source: UOB Kay Hian

http://research.uobkayhian.com

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