UOBKayHian

Regional Morning Notes

Thursday, May 14, 2009

KEY STORY

China

Coal — Page 4

Recharging the coal price rally. Maintain OVERWEIGHT and raise target prices.

Singapore

Wilmar International (BUY/S$4.40/Target: S$4.80) — Page 16

1Q09: Net profit of US$380m, +11% yoy on improved margins from merchandising and processing of palm and laurics. Results above expectation.

CHINA

Economics

Apr 09 Retail Sales And Industrial Production — Page 2

Retail sales firm but industrial production slows.

Sector

Coal — Page 4

Recharging the coal price rally. Maintain OVERWEIGHT and raise target prices.

HONG KONG

Results

HK Exchanges and Clearing (HOLD/HK$109.80/Fair: HK$116.00) — Page 6

1Q09: Net profit down 49% yoy but share price has gone up 48% ytd as ADT surges from HK$42.8b in Dec 08 to HK$83b so far in May 09.

Update

NWS (BUY/HK$13.80/Target: HK$15.85) — Page 8

Key beneficiary of the government's additional spending on water industry. The Group's core businesses can weather the difficult macro environment.

Pacific Basin Shipping (HOLD/HK$4.41/Fair: HK$3.20) — Page 10

Placement of 174.7m new shares at HK$4.36/share.

SINGAPORE

Results

China Hongxing Sports (SELL/S$0.195/Fair: S$0.10) — Page 12

1Q09: Net profit halved by sales decline and margin erosion. Outlook remains challenging given slow sales and inventory glut. Maintain SELL.

Li Heng Chemical Fibre Technologies (BUY/S$0.245/Target: S$0.29) — Page 14

1Q09: In line; expect better results from 2Q09 onwards.

Wilmar International (BUY/S$4.40/Target: S$4.80) — Page 16

1Q09: Net profit of US$380m, +11% yoy on improved margins from merchandising and processing of palm and laurics. Results above expectation.

THAILAND

Strategy — Page 18

For those who believe the market rally will continue – stock selection.

Results

Land and Houses (SELL/Bt4.24/Fair: Bt3.52) — Page 20

1Q09: Soft sales and weaker gross margin. 1H09 results will be unimpressive coming from last year's high base. LH is about to lose its leadership position.

Key Indices

Key Indices	Prev Close	1D %	1W %	1M %	YTD %
DJIA	8284.9	(2.2)	(2.7)	2.8	(5.6)
S&P 500	883.9	(2.7)	(3.9)	2.9	(2.1)
FTSE 100	4331.4	(2.1)	(1.5)	8.7	(2.3)
AS30	3842.5	(0.5)	0.1	3.9	5.0
CSI 300	2814.0	0.9	1.8	5.1	54.8
FSSTI	2185.3	0.3	0.3	15.2	24.1
HSI	17059.6	(0.5)	1.3	9.5	18.6
JCI	1851.3	0.5	2.9	17.9	36.6
KLCI	1022.8	(0.0)	(0.1)	7.2	16.7
KOSPI	1414.5	0.8	1.5	5.4	25.8
Nikkei 225	9340.5	0.5	4.0	5.6	5.4
SET	552.7	1.5	9.2	21.8	22.8
TWSE	6485.1	0.8	(1.2)	10.1	41.3
BDI	2332	3.5	12.9	57.8	201.3
CPO (RM/mt)	2853	0.0	1.4	18.9	75.0
Nymex Crude (US$/bbl)	58	(1.4)	3.0	15.9	30.1

Source: Bloomberg

Top BUYs/SELLs

	Ticker	Current Price (lcy)	Target Price (lcy)	Pot. +/- (%)
Top BUYs				
China Life	2628 HK	28.10	31.30	11.4
China Railway	1186 HK	10.36	13.50	30.3
Maanshan Iron	323 HK	4.13	4.50	9.0
Petrochina	857 HK	8.40	9.80	16.7
Zijin Mining	2899 HK	6.63	7.15	7.8
Advanced Info	ADVANC TB	77.00	94.47	22.7
Quality Houses	QH TB	1.20	1.33	10.8
Top SELLs				
China Cosco	1919 HK	7.97	4.00	(49.8)
Harbin Power	1133 HK	6.92	4.50	(35.0)
Parkson Retail	3368 HK	11.00	7.00	(36.4)
S'pore Airlines	SIA SP	12.12	8.20	(32.3)
STX Pan Ocean	STX SP	14.60	4.35	(70.2)
Amata Corp Pub	AMATA TB	4.52	2.11	(53.3)

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
FSLT & PST Combined Luncheon Presentation*	Singapore	14 May	14 May
EcoGreen Corporate Roadshow *	Shanghai	14 May	14 May
EZRA Holdings Luncheon Presentation*	Singapore	18 May	18 May
Golden Agri Resources Corporate Roadshow*	Kuala Lumpur	18 May	19 May
Comba Telecom Corporate Roadshow*	Shanghai	20 May	20 May
Top Glove Corp Corporate Roadshow*	Singapore	20 May	20 May

** by invitation only*

Apr 09 Retail Sales and Industrial Prodution

Retail sales stronger than expected; industrial production slows

DATA RELEASED (Retail sales in Apr 09): + 14.8% yoy
PREVIOUS DATA (Retail sales in Mar 09): +14.7% yoy

DATA RELEASED (Value added of industry in Apr 09): +7.3% yoy
PREVIOUS DATA (Value added of industry in Mar 09): +8.3% yoy

Retail sales held firm. China's retail sales rose 14.8% yoy (consensus: 14.5%) in April (Mar 09: +14.7%). As CPI fell deeper in April, real growth of retail sales could be even stronger (+16.3% in Apr 09 vs +15.8% in Mar 09 in real terms). Several factors contribute to the solid growth:

a) Income growth remained respectable. According to the government, employment of migrant workers was better than expected. Also, the government has raised the pension for retirees.

b) Government measures to boost rural consumption worked and continued promotion by retailers was attractive. Retail sales in rural area (+16.7%) grew faster than in urban area (+13.9%). Sales of department store items like cosmetics and garments held firm on the back of promotions.

c) Rebound in property and automobile market drove up retail sales.

Retail sales growth could moderate in 2H09 due to a high base and it is also uncertain whether the impact of the government's stimulus measures can be sustained.

Industrial production slowed on weaker exports and excess capacity. Delivery value for exports slumped further by 14.3% yoy in April from 13.9% in March. There is severe excess capacity domestically as external demand and construction activity slowed. For instance, crude steel output dropped 4% as both domestic demand and exports deteriorated.

Why industrial production and power consumption are heading in different directions? Industrial production rose 7.3% but power consumption fell 3.5%. Why the different direction? There are several reasons:

a) Production of heavy industry is more affected. The five sectors which consume power most account for 50% of total power demand but only 30% of total industrial production. As these sectors slow down, power demand would look worse than industrial production.

b) Statistically, industrial production for the current year uses last year's capacity. During the economic downturn with excess capacity rising, industrial production numbers would overestimate output.

c) The monthly industrial production figures only include bigger firms but ignore SMEs. As bigger companies benefit more from the government's stimulus package, industrial production numbers can overestimate output on the whole.

Overall, we believe industrial production figures may overstate the true economic situation.

CHINA

Economics

Retail Sales

Source: CEIC

Analyst

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Retail Sales of Above Designate Size Enterprises

(yoy % chg)	Jan-Feb 09	Mar 09	Apr 09
Grain and Oil	16	n.a.	4.8
Garments	17	n.a.	14
Meat, Poultry & Egg	12	n.a.	6.5
Cultural & Office Goods	8	n.a.	1.9
Sport & Recreational Goods	14	n.a.	5
Daily Use Goods	12	n.a.	13.7
Home Appliances	3	n.a.	0.6
Cosmetics	15	n.a.	18.2
Gold, Silver, Jewelry	16	n.a.	10.4
Automobile	9	n.a.	18.5
Petroleum & Related Product	1	n.a.	0.3
Communication Appliance	-9	n.a.	-8.4
Property-related sales		n.a.	
Building Material	22	n.a.	10.8
Furniture	27	n.a.	22.8

Note: 'Above designate size enterprises' refer to enterprises with total annual sales value of above Rmb5m
Source: National Bureau of Statistics of China

Output Of Major Industrial Goods

(yoy % chg)	Jan-Feb 09	Mar 09	Apr 09
Coal	3.6	10.3	7.9
Cement	17	10.1	12.9
Crude steel	2.4	-0.3	-3.9
Steel products	3.1	1.2	2.6
Automobiles	-1.7	10.8	17.9
Power	-3.7	-1.3	-3.5

Source: National Bureau of Statistics of China

Coal

Recharging the coal price rally

Spot coal prices have been surprisingly resilient. Early signs of demand recovery and ongoing supply cutbacks should support coal prices. Maintain OVERWEIGHT, and upgrade Yanzhou Coal and Hidili from HOLD to BUY. (Please refer to our blue top "Recharging the coal price rally")

Industry Event

Spot coal prices in China are holding up well in a seasonally weak period as coal stockpiles at Qinghuangdao port – a barometer of China's supply/demand dynamics – continue to drop. As China's stimulus package is beginning to show results, our Chinese utility analysts have raised 2009 power demand forecast from 2% to 3%.

Stock Impact

Resilient domestic coal prices. China's spot coal prices have been more resilient than IPPs have expected. The benchmark coal prices (5500kCal) at Qinghuangdao port (QHD) have ranged from Rmb560-590/tonne since Feb 09, disappointing IPPs who are looking for spot prices to fall below Rmb500/tonne. The price strength is all the more remarkable as February to April are traditionally the weak months for coal, although NEWC coal prices, the regional benchmark, fell 18% to US$60-63/tonne during the same period, reverting the price gap (net of tax) between QHD and NEWC to a 22% premium from a 25% discount from last summer's high levels.

Supply discipline is key. While international prices are relatively weak, coal prices in China have held their ground - thanks to massive supply cutbacks in Shanxi and Henan. Together, the two provinces produce a third of the national output. For 3M09, China mined 602mt of coal, up 5.9% yoy. The two provinces jointly cut 26mt, offsetting the production growth of 31.5mt in Inner Mongolia. With Shanxi vowing to consolidate 60% of its coal mines within three years – it has demonstrated a political will through the supply cutbacks - supply discipline points to a coal price upside.

Expect 3% power demand growth. Our Chinese utility analysts have recently raised power demand forecast from 2% to 3%, given signs of demand recovery in energy-intensive industries such as steel (+2% yoy) and cement (+10% yoy). Despite a 3.8% fall in power output in 4M09, Beijing's aggressive stimulus package should drive a sharp recovery in 2H09, boding well for coal demand. The three sectors - power, steel and cement - collectively account for 86% of coal consumption.

Valuation/Recommendation

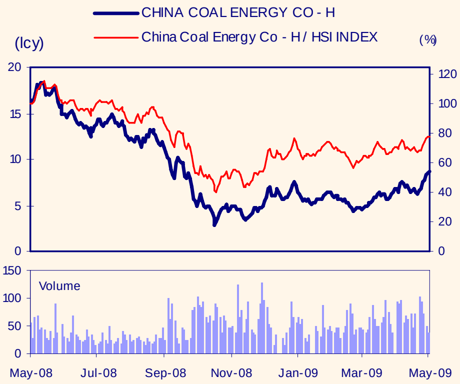
We raise our coal price assumptions to Rmb600/tonne for2009 and Rmb650/tonne for 2010 (vs spot: Rmb585/tonne) from Rmb550/tonne and Rmb600/tonne previously. Accordingly, we raise our long-term coal price assumption for thermal coal to Rmb400/tonne from Rmb300/tonne, and Rmb500/tonne from Rmb350/tonne for coking coal. We also lower our risk premium to reflect the gradually improving coal prospects. Upgrade Yanzhou Coal and Hidili from HOLD to BUY; maintain BUY on both China Shenhua and China Coal.

CHINA

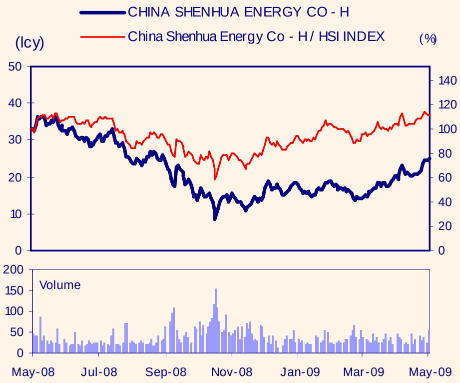
Coal

OVERWEIGHT

Price Chart



Source: Bloomberg



Source: Bloomberg

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	Ticker	Share price 13 May 09 LC	Rec	TP LC	PE FY09F	PE FY10F	PB FY09F	PB FY10F	EV/tonne US$	EV/EBITDA FY09F	EV/EBITDA FY10F	ROE FY09F	ROE FY10F	ROA FY09F	ROA FY10F	Dividend Yield FY09F	Dividend Yield FY10F
China Shenhua	1088 HK	24.00	BUY	31.00	14.8	11.6	2.8	2.5	11.4	10.8	7.7	19.2	21.1	9.4	10.0	2%	3%
China Coal Energy	1898 HK	8.41	BUY	11.30	12.9	8.3	1.5	1.3	6.3	10.9	6.9	11.6	16.0	7.7	10.3	2%	4%
Yanzhou Coal	1171 HK	9.01	BUY	10.80	10.9	6.5	1.1	1.0	7.6	7.8	4.8	12.3	18.1	10.3	15.3	3%	5%
Hidili	1393 HK	4.58	BUY	5.80	8.7	6.0	1.2	1.1	3.8	5.9	4.1	14.3	18.0	11.6	14.8	3%	4%

Source: Bloomberg, UOB Kay Hian